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University of Oradea, Roamania  
Faculty of Economics  
University Street, no. 1 - 3  
410087, Oradea – România  
Phone: 04059408109 – Dean Faculty of Economics;  
Phone: 04059408247 – Journal of Faculty of Economics;  
Fax: 04059408409  
Site University of Oradea: <http://www.uoradea.ro>  
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# **INTERNATIONAL BUSINESS**

# THE PUBLIC CHOICE IN THE FIELD OF PUBLIC POLICY ACHIEVEMENT

**Abrudan Leonard Călin**

*Universitatea din Oradea, Facultatea de Științe Economice, Universității 3-5, labrudan@uoradea.ro, 0259408109*

*The subject of this paper consists of the dichotomy between keynesism and liberalism. In the paper will be mentioned authors same on one side and same on the other side. We didn't mean to be partizans neither of liberalism nor of interventionism, but to illustrate the alternatives that remain at the disposition of authorities in the process of implementing the public choice.*

*Keynesism, liberalism, public choice,*

The taxes and the fees are some efficient tools, in most cases, used by the authorities in order to influence the economy and the society. This fact is beyond doubt, but it is for sure, too, that they didn't always have this characteristic. There were some stages when the notion of perception was unknown and some other ones when it was the exclusive "prerogative" of the ones who were having the least contributive capacity. It was only in the modern period when the taxes and the fees were discovered as efficient tools of governmental interference.

In order to argue these assertions, we will make an appeal to the fiscal history, relatively recent, so as to throw some light on the aspects mentioned above. We will limit our return into history to the 18th century, in order not to dilute uselessly the sense of this approach, with some distant incursions in the Middle Ages or before that. Beginning with this period, there were identified some concrete preoccupations towards taxes and their role.

But before that, let's see what that public choice is. Better said, let's see, which is the entity using this prerogative. In order to be able to identify it, we will talk about a tandem of authors<sup>1</sup>- James Buchanan și Gordon Tullock – who, in their paper, interestingly titled *The Calculus of Consent: Logical Foundations of Constitutional Democracy* (1962), make a lot of statements according to which, in the society there constantly is a report between majority and minority, which is the basis of some cyclical negotiations (election campaigns, followed by voting). Although, the fact that the majority decides in a given system, is a widely acknowledged reality, in the case of government, things are significantly different. The minority decides. In the democratic countries, the minority is represented by the political class. We will not venture into discussions about the nature of the powers that coexist in a certain state at a certain moment, we will only say that the government decides, administrates and leads. These acts of the decidents subscribe the given warrant by the ones who have impelled them in the respective position.

At this point, we intervene with the specification that, not only in our country, several times after the installation of the government, this can be forced by the political situation to make decisions which are in profound antithesis with the desire of the majority. The problem of the governors is that, at the next scrutiny, the voters will sanction by their vote, the actions of the political minority, and not necessarily the digression from the promise. At this point we can discuss the problem of the decision taking cost and we enter the course of the present paper. The minority we are talking about is changed, by means of its acts and interventions, in a pragmatic majority which is in profound conflict with the above mentioned majority, called social.

Between these majorities, each constituted on a certain set of criterions, the negotiation steps of the election periods intervene, but also from the mandate period to the pragmatic component of the problem. The perpetual search between the two majorities gives birth to a fragile equilibrium which has a supporting point in the fiscal policy. Several times, the solving of a conflict, between the desire to continue the governing and the wishes of the social majority, is carried out in measures of fiscal policy.

In order to be correct, we have to say that the social problems cannot be solved only by fiscal policies, but we will not discuss some other types of policies because, in the interior of the fiscal system, there are a lot of methods, techniques and tools by which we can achieve the results desired by the social component.

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<sup>1</sup> Buchanan J. M., Gordon T. – *The Calculus of Consent: Logical Foundations of Constituional Democracy*, Liberty Fund, Inc.1999, Library of Economics and Liberty, 15.iulie.2007. <http://www.econlib.org/library/Buchanan/buchCv3c1.html>

We have earlier that one of the social equilibrium pillars is represented by the fiscal policy. Now we will go further on, being based on the ideas mentioned by the authors mentioned above, and we will say that the structure of the fiscal system is a result of the existent coincidences between the desires of the two majority types, on which the above assertions were based on. We say this because, in the relatively recent literature (Dixit and Londregan, 1996<sup>2</sup> and Ortuno 2003<sup>3</sup>) a new idea is underlined, which discourages the classical myth of the politician, who wants to maintain its position no matter of the costs, giving this a much higher political and social consciousness, in the sense that the pragmatic majority will make everything possible to put into practice the ideological component of the political doctrine.

Coming back to the decision-making costs, so to the course of the present paper, we have to mention the fact that some of these costs are significant, and we say this from the perspective of both components. In this moment we have to bring into discussion the notion of externality. The Externality, or in other words, the external effect, was defined in 1973 by James Meade, as follows: “*an external economy (or a diseconomy) is an event that gives a considerable benefit (or causes an appreciable damage) to a person or to a group of persons, when the respective persons were not in the parties which have given the entire consent at the making of decision or decisions by which, they arrived directly or indirectly, to the causing of the discussed event*”. We notice the fact that the discussion goes into another direction, towards the term “affecting”. That is somebody, one or more persons are affected by some decisions made by another person without consulting the direct or indirect affected ones.

Without discussing the semantics of the notion of externality, we will say only that we are interested in the nature of affecting: positive or negative. The effect produced by the implementation of decision or decisions was good for the affected ones or not?

By the help of this dichotomy we open the path towards the conclusion of this... The choice of the modalities by which the social and economical objectives are fulfilled and the public and private socio-economical costs are materialized as a negative externality at the level of the tax payer, so that the decision makers, the governors, have to choose public objectives and the sum of the tools by which the objectives are reached so as that the perception at the level of the social majority to be as good as possible. Taking into consideration the definition of the external effects, this perception will never be unanimously appreciative, but the public choice has to be oriented in such a way so as to provide as few as possible reasons of dissatisfaction from the ones who constitute the social majority.

Further on, we will try to find out which of the two main streams of economical thinking from the last part of the former century – the liberalism or the leadership - offers the best matrix for the public elections.

## **Interventionism or non-interventionism?**

The role of the state in economy was differently accepted by the economists along the historical periods. At the moment mentioned above (the 18<sup>th</sup> century), the most widely spread current, from the economical point of view, having deep roots in the effective history, was the liberalist one, of the authorities non-intervention in the economical field. The role of the public authorities was linked only to the maintenance of public order so as to have a good economical activity<sup>4</sup>. The dominant note of this French economist is the lack of any trace of fiscal taxation – he names them arbitrary taxes – and the treatment, without any preference from the state, of the ones who have economical activities.

Another relatively recent English author<sup>5</sup>, reveals two faces, two approaches of the liberalism. These are seen from the perspective of liberal tolerance with the modernist extension of unity in diversity. If at the beginnings, the author mentions, the liberal tolerance was manifested under the form of necessity of “the existence of a rational consensus”, context in which each of the society members, under the empire of rationality, was leading a consensual way of life, nowadays the problem is put in another register, so that the one in which there is a “*modus vivendi*” according to which every person can have his or her way of living without interfering negatively with the society. The entire new liberalism is nothing else but the adjustment of the doctrine in concordance with the

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<sup>2</sup> Dixit A., Londregan J. – *Redistributive politics and economic efficiency*, American Political Science Review 89 (4), p. 860; disponibil la <http://www.gmu.edu>

<sup>3</sup> Ortuno-Ortin I. – *Delegation and Polarization of Platforms in Political Competition*, (coautor), articol publicat în Economic Theory, 2003, disponibil la <http://merlin.fae.ua.es>

<sup>4</sup> Cadillac, E.B. de – *Le commerce et le gouvernement dans Oeuvres philosophiques de Cadillac*, Presses Universitaire de France, Paris, 1948, p. 314;

<sup>5</sup> John Gray – *The Two Faces of Liberalism*, Polirom Press, Iași, 2002, p.11;

existent necessities. Postmodernism has brought over a new wave in this field, the globalization, the division and the restructuring of the majority of structures on other criterions and matrixes determining a reconsideration of the liberal positions.

Our idea is that the fiscal system makes organically part of the first approach, the one which says that each of us has to manifest a certain tolerance of consensual type in this field of the public finances. The public benefit is the one which is above the components of the fiscal system and it cannot be only consensual.

Going on, we will discuss the economical doctrines from the historical point of view, at the end of it trying to draw a conclusion regarding the contest which takes place for almost a century between the two streams of economical approaches. Of course, we will make this from the perspective of fiscal implication of the ideas that are characteristics of interventionism or liberalism. We will try to approach the mentioned thematic from the chronological point of view as well as the other dimensions in part.

As we have already said, we will not return to the fiscal past, only to the 18<sup>th</sup> century, taking into consideration the weak concentration of ideas and debates in the fiscal field, anterior to the mentioned moment. Anyway, this is the period in which the two main doctrinarian orientations, mentioned above, have taken the measure of their governmental implication. Of course there was a big number of philosophers, believers and economists, which have been preoccupied by the fiscal part of the economic phenomenon along three centuries. We will not discuss about all these, but we will limit ourselves to the most important ones, from the perspective of the mentioned ideas and of their applicability.

Of course that all these great economists or philosophers mentioned as follows, did not treat the fiscal problem separately and exhaustively, but linked to the structure of their ideas, often revolutionary ones. We will try to divide the information as clearly as possible, but we will reveal a red guiding thread along this short passage of doctrinal fiscal history, thread which helps us to realize more easily about the major impact the ideas mentioned above had upon the philosophy of administration and of governing in general.

One of the persons giving a huge attention to this phenomenon, and the author of some other economical aspects, was Adam Smith (1723-1790). Even if he was an ardent supporter of the commercial freedom, he acknowledged the evident roles of the state and its clear responsibilities: national defence, justice, public papers, education, etc<sup>6</sup>. He noticed that in all these attributes the state cannot be substituted by any private instance (without any juridical connotation), because of the complex measures and of the huge dimensions of the supposed expenses<sup>7</sup>. With his characteristic Spartan efficiency, the Scottish Adam Smith notices that, in the field of justice, the expenses don't have to be supported by the community, but, if it is possible, by the parties implied in the processes. The juridical stamp taxes probably have, at their basis, the concept of this great economist.

Chronologically, we will mention in the following lines, a less known author, of French origin, named Frederic Bastiat (1801-1850), an extraordinary pamphleteer, but also, a theorist. Besides his first quality, we will stop at the second one, and we will say that he is considered to be a champion of harmony theorization. In fact, his most important paper is entitled "*Economic Harmonies*". In some other papers and articles which are not so important, Bastiat criticises the government in general, by means of satirical rhetoric. He wants a person to be willing to finance an award for the person who gives a definition that is "*good, simple and intelligent*" to this entity that is the government. As an answer he gives him the task some activities, mostly desires of the citizens of the country in which the respective government is. Being French, Bastiat does not belie himself and gives a lot of activities as tasks of the respective government, even if it is considered to be among the libertarians. The reason for bringing Bastias into discussion is that this pamphleteer produced a paper entitled "What Can Be Seen and What Cannot Be Seen", where he gives an example that synthesizes a theory of the forced opportunity cost: the owner of a shop (we bring his example in the present days for a better underlining of it) has a child who breaks a shop window by mistake. Bastiat poses the child of the owner, in this story, because the imputation of the broken window has no sense at all. What is seen, in short, is the putting in motion of the economy wheel, the glass has to be changed, the glazier will make a turnover, profit, etc. But what is not seen is at least as important as what is seen, that is to say, the fact that the allocation of an amount of money representing the value of the broken window could be done in another way if the owner hadn't been forced to make this expense. We can say the same thing about the amounts

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<sup>6</sup> Sintetizate în Văcărel I., Bistriceanu Gh. D., Anghelache G., Bodnar M., Bercea F., Moșteanu T., Georgescu F. – *Finanțe publice*, ediția a IV-a, Ed. Didactică și Pedagogică, București, 2003 p. 87;

<sup>7</sup> Smith A. – *Avuția națiunilor, cercetare asupra naturii și cauzelor ei*, Ed. Academiei Republicii Populare Române, București, 1965, p. 234 – 235;

of money destined for the payment of the taxes. The tax payers could allocate, for sure, these amounts in another way if they hadn't been taken by the entity named state.

Another important person, rather a political philosopher than an economist, was Alexis de Tocqueville (1805-1859), who opposes the idea of equality to the idea of freedom, which even if they are fundamental elements of democracy, they are absolutely antagonistic. The synthesis between the conformism of the public opinion and the bureaucratic centralism constitutes, for Tocqueville, the characteristic of democracy. From the perspective of our paper, the antagonism between the two categories is interesting from the fiscal point of view. We will not say nothing more than the fact that this author considers that equality of treatment inhibits freedom, taken strictly individually<sup>8</sup>.

Being inspired by Adam Smith, John Stuart Mill (1806 – 1873) considers that the only digression from the *laissez-faire* principle has to be the ones linked, mainly to education, but without any monopoly of the state in this field, some aspects linked to social protection, public services provider which could be not attractive for a certain private owner<sup>9</sup>.

Approximately in the same spirit as Tocqueville, another philosopher expresses himself, at the end of the 19<sup>th</sup> century, named Herbert Spencer. He does not treat evidently fiscal elements, but he has an interesting vision about the role of the state and of the position that, by the help of the freedom and liberty attributes, the citizens of a state can adopt in relationship with this. We will not insist more, we will only say that Herbert Spencer, by his ideas offers some explanations of the tax dodging from the individual physiology point of view. A term used by the author in his paper entitled "The Right to Ignore the State" is that of "Right to voluntary outlawry". In the fiscal field, we can think about the idea that the citizens who simply do not wish, do not have to be obliged to pay the taxes. Treating the problems on the two coordinates, we can say that from Spencer's point of view, the citizens should not wait for the state to decide what kind of governing manner to adopt, but to make an appeal to their individual freedom. Of course, we deal here with an extreme vision of the situation.

The classical liberalism begins to lose ground at the beginning of the 20<sup>th</sup> century, when Leon Walras (1834 – 1910), does not only acknowledge some roles of the state, but he also comes to the conclusion that "*an economical society could not function without the authorities to intervene in the order maintenance, ..., the carrying out of justice, the national defence and with the carrying out of different other things.*"<sup>10</sup>

We have to mention also the fact that Leon Walras is a member of the famous Austrian economical school, founded by Carl Menger, in the context of the Marginal Revolution in 1871. Stanley Jevons has also taken part of the marginalism trend. They begin to discuss things differently in comparison with the former economists, talking about the marginal character of the utility, with implications in the aggregate request.

All these opinions, as we have already said, were part of a larger list of conceptions, which limited the role of the state in economy to simple decorative roles. Towards the end of the 19<sup>th</sup> century, but mostly after the two decades of the former century, things started to have another shape, and these shapes contained other forms which to be closer to modernity from the fiscal point of view. The Great Crisis of overproduction which was between the third and fourth decade of the former century, provoked a lot of changes in the economical thinking at that time. This time, the economists "*... pronounce themselves in favour of this (of the state), for taking measures by the public authorities, capable of assuring the stop of the economical decline and the taking over of the economical growth, the absorption of millions of people who are unemployed, the sanitation of the public finances and of the currency, the reinforcement of the commerce, the enlargement of the commercial exchanges between the states, etc.*"<sup>11</sup>

The first person who put the problem in these terms was the great economist John Maynard Keynes, whose name is confounded with the interventionist theory. In order to obtain the wanted results, in the Keynesian vision, the state has to appeal to stabilizing, correcting and influencing tools, among which a leading place is that of the taxes and the budgetary and monetary measures<sup>12</sup>. During this period and under the influence of some Keynesian thinkers, new mechanism for the functioning of the economy have been conceived, mechanisms which should function both automatically like some built in stabilizers, according to Paul Samuelson<sup>13</sup> or, at the request of the authorities, for the neutralization of the factors with a disturbing potential. According to the same economist, there are three major directions in which the state should make its presence felt: public acquisitions, public transfers

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<sup>8</sup>Tocqueville A. – *Democracy in America*, available [http://xroads.virginia.edu/HYPER/DETOC/toc\\_indx.html](http://xroads.virginia.edu/HYPER/DETOC/toc_indx.html)

<sup>9</sup> Quotation taken from Văcărel I. coord. op.cit. p. 88;

<sup>10</sup> Quotation taken from Văcărel I. coord. op.cit. p. 88; after Walras L. *Elements d'économie politique pure*.p. 449;

<sup>11</sup> Văcărel I. coord. op.cit., p. 89;

<sup>12</sup> Văcărel I. coord. op.cit., p. 89;

<sup>13</sup> Samuelson P.A., Nordhaus W.D. – *Economical Policy*, Teora Press, Bucharest, 2001, p. 336;

under the face of their necessity and opportunity, as well as the changing of the drawing quotas closely related to the development level of the economy<sup>14</sup>.

We will stop here with the mentioning of the economists and philosophers who dealt with mentioned phenomenon and we will conclude that from an economy based on offer, things have developed towards an economy based on demand. By influencing the last one, some very spectacular results can be achieved on medium and long term, from the point of view of the economic results as well as from the perspective of the economic equilibrium.

In this respect, we can say that the state, by the system of public acquisitions, is one of the exponents of this demand. The two dimensions of implication of the state in economy are very important – the allocate one, in the sense of social transfers and strictly the fiscal one, by the taxes and the fees put by the state in the hands of the tax payers in different moments of the economical and social life.

Taking into consideration the theme of the present paper, we have to consider the taxation policy under two determining aspects: the economic one and the social one. The impossibility of a strict delimitation comes, first of all, from the social dimension of economy. We will never be able to theorize strictly the economy, and we will never be able to say that it has some components with no social implications. We will not talk about all the measures with economical character and their effects on the society, but we will refer strictly to the fiscal component of the economy.

The taxation policy has some attributions which make it one of the most important fields of the economy, from the social point of view. The taxes and fees are not liked by the majority of tax payers, but this fact does not hobble to provide the necessary resources for reaching a satisfaction level of needs being in a certain concordance with the expectations of the same tax payers. Besides this first effect of the taxation policy linked to the simple utilitarianism, there is a constructive dimension of the public finances. Constructive in the sense that, the effects of this dimension go beyond the simple satisfaction of the necessities and begin to compose another economical reality with indicators situated on other value levels, of course superior (in the case of a success).

In the case of allocations, there are some different approaches, according to their necessity and timeliness. We could say the same things about the fiscal measures, which should be seen in the same register. Related to the necessity of adopting communitarian policies in this field, it is useful to see their timeliness, too. There is no competition, or at least it should not be, between the two dimensions of the idea, but they have to intermingle harmoniously, even if some measures imposed by the adherence to the European Union can be more necessary that opportune. On the other hand, we deal with an outrun of necessity by timeliness.

We refer here to the adoption of some measures concerning the excises taken as a whole, which have not been obligatory to be taken in a relatively short horizon of time, but if they are applied, they will have a positive effect on the future purchasing power of the population in our country. We say that making a short comparative study between the Romanian economy and the Hungarian one. If an unpopular measure is postponed because of some simple politics reasons (of the party, to stay in governing position), eventually it will have to be implemented, and in the next moment some changes in the purchasing power will be felt, in a relatively short period of time, the tax payers being used to some prices (we maintain here the example of the excises) and suddenly they will be obliged to face some prices which are significantly bigger. From this point of view, in Romania things went relatively well, the adjustment being made gradually, without major shocks. It has been a difficult task, if taking into consideration the maintaining of the equilibrium between the two major dangers, an imminent one – inflation - , and another one with an incidence in the far future – the shocks in the field of the purchasing power.

What we want to underline here is the fact that the nature of taxation, even being an abstract one, allows concrete examples. Even if we might appear too optimistic, the configuration of the situation leads to such an image.

The complex nature of the fiscal phenomenon together with its abstract character, all of them corroborated with a unique dynamics, is possible to bring a certain state of confusion at the level of the tax payers and not only. In the former paragraph, we have given the excises as an example, but the direct taxes can have strong effects on the economy of a country, too. We will see which are the possibilities of influencing the social-economical activity by the direct taxes, on the first hand and then by the indirect ones. We will appeal to methods and statistics data which will help us distinguish the fiscal instruments that are more important from the point of view of the generated effects. In order not to make the present paper more difficult, we will talk about the same fiscal categories that we have used so far, the direct and indirect taxes and fees.

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<sup>14</sup> Idem, p. 364;



Taking into consideration what we said earlier, we distinguish the essence of the dilemma of the ones who have to solve the economical and social problems, existent at a given moment in a given society. We have seen that these problems are many and that they reside in the corroboration between the system of public needs and the one of the desideratum regarding the level of economical and social development. Going on, we will continue on two dimensions already settled, so that in a first phase we will discuss the perspective development of the direct taxes from their influencing nature, and in the second phase we will see, from the same point of view, which are the characteristics of the indirect drawings.

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# METHODS BY WHICH THE STATE CAN EXERCISE ITS PREROGATIVES AND FUNCTIONS

**Abrudan Leonard Călin**

*Universitatea din Oradea, Facultatea de Științe Economice, Universității 3-5, labrudan@uoradea.ro, 0259408109*

*In this paper we will discuss about the methods by which the state can make the public choice real and how different type of states manage to solve this item. Welfare state in opposition with the laissez-faire conception could guide to an interesting approach of the taxation problem.*

*Welfare state, instruments (by which the state could intervene in the process of taxation), self regulators*

We have seen that the philosophers and economists sustain the idea (some of them more and some of them less) that the state can intervene in the economic and social processes in order to adjust and stabilize them. No doubt that this entity, so many times disputed, has some tasks and functions to fulfill. In this respect, it has some instruments to work with, according to the governing doctrine in different situations. Here we have to say the fact that according to the doctrines which have been mentioned earlier, there are several senses of the state notion, each of them with its characteristics and according to the implication degree in the mentioned processes, using a bigger or smaller number of tools.

Appealing to some papers of economical policy, we will try to emphasize which governmental types are more often met and which are the characteristics of them. The government is absolutely clearly linked to the political factor, even though it takes decisions in the economic field, like the economy being linked to policy. The relationship between doctrine and administration is detected by Aurel Iancu in his work entitled "*Policy and Economy. Guide marks of a Superior Economic System*"<sup>15</sup> where he notices the fact that "... the political objectives are taken from the doctrine of the party... the administration not having the role of choosing, but mostly that of application." In the same context, the author mentions the fact that the choosing of the instruments does not have a political relevance, because there are predetermined sets of instruments which are used in some doctrinarian situations.

Regarding these types of doctrines, and respectively, the sets of instruments, we have to say that independent of these, the state has some functions to carry out. In the lines above, we have mentioned Bastiat, the pamphleteer and the theoretician, who wanted to exist an award for the person who could give a simple and correct definition of the government. In the same paper<sup>16</sup>, the author shows an entire list of requests belonging to the citizens of a state, in accordance with what they think the government should do, as an exponent of the state in a certain moment. Of course, it is not useful to adopt everything written in that article, because there are several specifications made, but we will only say that putting all the requests of the citizens in a hierarchical order, we will obtain the functions of the state. They are all the functions a state should carry out, no matter what political doctrine leads, in order to have a proper present and future.

Regarding these functions and roles of the state, in the paper that we have already mentioned, Aurel Iancu brings into discussion some types of state, named by him, archetypes:

- The protective state;
- The productive state;
- The bureaucratic state.

In the following lines, we will try to mention some of the characteristics of each type. But before doing this, it is necessary to say that as time passed they succeeded according to the orientations determined by the philosophical trends, being in an inherent succession.

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<sup>15</sup> Aurel Iancu – *Policy and Economy. Guide marks of a Superior Economic System.*, Expert Press, Bucharest, 2000, p. 59;  
<sup>16</sup> Bastiat F. – *What Is Seen and What Is Not Seen*, eseu publicat în *Selected Essays on Political Economy*, ed. Irvington-on-Hudson, NY. Disponibil la <http://www.econlib.org/library>

The same author gives definitions of each type. We will not reproduce all his assertions, but we will take out short passages which will help us to realize which the characteristics of each category are. In this direction we will approach all the four archetypes in the sense of their anterior enumeration. Thus, the protective state is, in the opinion of the above mentioned author, that state which fits best the definition of Adam Smith, regarding the so called “invisible hand”. A state which is concerned with the creation and the maintaining of a legal frame of the “*free relations of the market and without any risk*” without interfering in another way with the economical life. In this context, the state does not do anything else but it creates the general rules of the game, in order to create a climate of competition, which he, afterwards it protects in order to maintain their functionality and the functionality of the economical background. The liberal economists were the ones who imagined such a state and the ones who fought and are still fighting I this respect.

The productive state followed the protective state, in the moment when the people realized that they were facing a failure of the markets. It was the moment when people observed that *laissez-faire* is not a sufficient principle in the case of the human race which determined generally the character of the economic and social environment. The defective way in which the market mechanisms functioned, determined the appearance of some different kinds of errors which led to unwanted results. According to the author mentioned above, there are six such errors: the monopolies, the externalities – which have already been discussed, the public services and goods, the information and the transactions, the redistribution of the incomes, and the macro economical disorders. All these economical categories, with profound social implication determined the appearance of the so called “built-in stabilizer”, that is, the internal adjusting and stabilizing mechanisms of the process with a state contribution.

The third category is that of the state as a negotiator state. This has a more difficult task than the other ones, because it does not impose anything, but it always negotiates in the position of the mediator of processes or of conflicts between the possessors of the production factors. The author mentioned above mentions among these interests groups and private organizations. We will stick to this conception and we will remain only to the notion of owner of production factors. But, interesting at this author is, the perspective of the positions of the state in these processes. The state can be interested in negotiations, in fact it can be a part which is directly implied and interested, it can also have a neutral position, form which it mediates, arbitrates or moderates the negotiation processes between other parties. It can also try to attract the owners of the production factors in achieving some economical and political goals<sup>17</sup>. In the case of this category, the state has to be capable of giving up its purely decorative role imposed by the liberal principles and it also has to know how to draw, by his side, partners from the interior and from the exterior of the country, in achieving the goals from the governing program. What we have to keep in mind is the fact that, it relies on the agreement of the production factors possessors or of the groups of possessors factors of this kind.

The last state archetype is the bureaucratic one which, in its pure form, is characteristic of the classical socialist regimes, with a maximization of the state implication in economy, in fact with its union with the economic factors of decision. The social equality is a priority and in the name of this the state has the role of decision factor in the economical field. The social implications are evident, and the results are evident as well, for some economies in the Eastern part of Europe. The majority of these have been accustomed with the state matrix of the economic implication and the changes presumed by this, being difficult to achieve again the coordinates of the market economy.

A kind of state which is relatively different from the fourth one is the one of the welfare state, having an organization based on social-democratic doctrine that exists in the Northern countries of our continent. Here, the main concern of the state was to assure the equally allocation of the results between all the citizens of the respective states. Among all the functions of the state, the most important one was that of redistribution. The failure of this type of state appeared at the end of the ninth decade of the last century, when the first results appeared, being not according to the requests concerning the economical performances. The assistant character of this subtype of state determined the appearance of some social effects illustrated by voluntary unemployment, the lack of desire for work and some other effects.

If we have already mentioned the redistribution function of the state, it is the moment to talk about some other functions that the state has to have. But, before that, we will mention the fact that, the four state archetypes are not found anywhere in their pure forms. The form of existence of the state will always be a mixture between the four, an intersection of their characteristics.

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<sup>17</sup> Aurel Iancu – op.cit. p.71;

About the functions of the state, we will say that they are owned by the new idea of state, the modern type of state, which, as we have noticed before, it is a hybrid type. In the work entitled “*Economics and Public Finances*”, the author Nicolae Hoanta, underlines four functions of the state, as well, functions which have to be carried out in order that the political, economical and social objectives to be fulfilled. These four basic functions are:

- the allocation function;
- the distribution function;
- the stabilizing function;
- the regulation function.

We notice the fact that among these we discover the attributes of the first three archetypes, the protective state – the last function, the productive state – the first two, as well as the negotiator state – the third one.

Each of these functions has some characteristics, some results and some parameters.

The allocation function is claimed by the market deficiencies, from their incapacity to assure the optimal allocation. According to the above mentioned author, this is possible only when the costs are supported entirely by the producer, consumers and traders. In fact, this is not possible because of the dissonance between the common action and the option of the clandestine passenger. The last one will choose to enjoy the consumption of some goods and services without participating at their costs. This is the reason why for the presumptive entrepreneurs from the respective domains, things would unfavorably change. Thus, the state is forced by circumstances to accept the role of these entrepreneurs and the respective goods and services to gain public connotations.

In the case of the distribution function, things are a little bit more complicated, because this is made by the participation results of the production factors’ owners in the economic process. We have already said that it is somehow strange to give up a part of the results of your work, or, in other words, “*the result of the income distribution, of the wealth and of welfare may not be in accordance with what the society considers to be correct.*”<sup>18</sup>

The state’s function of stabilization derives from the necessity of smoothening the market’s failures, the prevention of these and from the attempt to appropriate the evolution of the optimum paretian phenomenon. As we have already noticed, the market cannot cover all the segments of goods and services demands necessary to the population of a state in a given circumstance. Because of this, it is necessary for the state to intervene in the regulation of the economical mechanisms.

The fourth function of the state, the regulating one, has the roots in the liberal conception of creating the legal background and the maintaining of this for the assurance of a certain correctness of the economical climate, for a good competition, with results in the near future. The regulation does not have to pass over some thresholds, considered to be significant, in order not to disturb the development of the economy. But, there are some other conceptions regarding the functions of the state, from the economical point of view. A group of authors, under the coordination of Gheorghe Manolescu, notices the fact that there are three economical functions of the state: the efficiency, the uprightness and the stability<sup>19</sup>. Making a certain rapport between these and the others mentioned above, we can use the term equivocal in order to describe the relationships between uprightness and distribution, between efficiencies and allocation, and the stabilization can be found in both visions. Probably, this group of authors considers the regulating function standing to reason. For accuracy we will mention the first approach and going on we will refer to this.

These functions result from the interpenetration of the generic types of the state, from the hybridization of the phenomenon and from the impurity, in the good sense, of this phenomenon. In order to manifest its prerogatives in the direction of fulfilling these functions, the state have different methods to obtain the anticipated results.

Nora Chiriță and Emil Scarlat in their book entitled “*Macro Economical Politics. Theory and Applications*”, in the chapters IV-IX, underline some instruments grouped in sets afferent to many economical orientations. From the paper’s perspective, two orientations are interesting for us: one towards demand, concretized in two sets of measures named fiscal policy and monetary policy, and the other one towards offer. Between these, the one which will gain a bigger interest will be the fiscal policy, with its tools by which it hints to give an impulse to the aggregate demand in the economy of a state in a certain moment.

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<sup>18</sup> idem, p. 80;

<sup>19</sup> Gh. Manolescu (coord.) – *Economical Politics. Concepts, Instrument and Experiences*. Economical Press, Bucharest, 1997, p 21;

There are three basic instruments by which the state can influence the aggregate demand: governmental purchases, social transfers and taxes. Initially, we will discuss each category, in order to see the particular elements of the intervention by their help, and then we will enlarge our approach, in the case of the taxes, where we will discuss the way in which they can stimulate the demand.

The governmental acquisitions, subject to so many suspicions, represent a modality by which the state tries to stimulate the demand of goods and services, as well as the production of these. In the theory, there is the notion of multiplication of these acquisitions, which refers to the mathematic way by which we obtain results, and which can be these, by applying this coefficient of multiplication to the entire amount of acquisitions. An American author names this multiplier *Cape Canaveral*, after the events that took place in that region, approximately forty years ago. Everybody knows the fact that the above mentioned name is linked to the spatial programs of the United States. This country is no part of the region that we study, but the example is too eloquent not to use it as an argument. Before beginning the American spatial program, Things were very peaceful in that part of Florida. But along with the steps made by NASA in order to create the necessary facilities, all this peacefulness was destroyed. Among all the sectors, the economical component was the mostly disturbed. Some jobs were created in the *Greenfield* manner, and this thing supported the appearance of some other economical activities proper to a community: shops, hotels, etc. These hinted the personnel involved in the NASA programs, in fact, the high incomes of this, but these also requested a relatively high number of qualified personnel. Everything started to look like a huge snowball, from the perspective of the number of persons who moved in the neighbourhood, fact that determined the appearance of a growing spiral line of incomes from economical activities. When if later this spiral line stopped growing, it still remained at its highest level. All these happened because the American government decided to make some investments in the area. We will not make some mathematical calculus, but we will focus upon the social transfers.

These represent the totality of the amounts paid by the state in order to fulfil its functions of income distribution. The liberals struggle against these transfers because they can easily induce an assisted behaviour among the hinted persons. One of the reasons because the so called *welfare-state* failed is this behaviour. The states which have been in this situation have benefit from a flowering economical position and as a consequence they promoted generous social program, and the results started to appear. The voluntary unemployment, on one hand, and the lack of interest towards work on the other hand are only two such results. The substitution effect between the supplementary incomes, significantly taxed, and the free time as an alternative, has been predictable. Although the social transfers, judiciously made, represent a good thing for a society. The children and the young persons need resources in order to prepare themselves for the work in the society, and the aged persons, who contributed to the prosperity of the community, need decent pensions and proper health care. All these can be achieved by transfers from the welfare produced by the ones involved in production. Besides the work schooling of the young persons and the rewards given for the effort made by the aged persons, the social transfers generate jobs in schools, universities and other educational facilities, as well as in clinics and hospitals.

These two means by which the state makes possible the growing of the demand and subsequently the growth of the aggregate offer are completed by fiscal drawings, which contribute significantly to the achieving of these goals.

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# LA CRISE ACTUELLE DES MARCHÉS FINANCIERS : L'IMPACT AU NIVEAU EUROPÉEN

Albulescu Claudiu Tiberiu

Universitatea Ecologică „Traian” Deva

Facultatea de economie și administrarea afacerilor

Aleea Muncii, Nr.3, Bl.E21, Ap.119, Deva, cod : 330094, Jud. Hunedoara

claudiual@yahoo.com

0743089759

***Abstract :** The causes of 2007's financial perturbations and mainly of the subprime crisis are well known at the beginning of 2008. Nevertheless, the specialists pay little attention to capital markets global crisis and to its consequences. In this study, we demonstrate that we are already in the middle of this crisis and that all financial markets, and in particular the European financial markets, have been affected. The impact of the crisis upon European countries is different highlighting the fact that the financial markets integration process is far from being completed. The effects of this crisis on the real economy are less obvious at present at European level, but the economic growth forecasts became pessimistic. The financial crisis consequences in respect of the real economy will depend on the recovery capacity of the United States economy.*

***Key words:** financial markets integration, global financial crisis, subprime crisis, stock prices*

## 1. Introduction

L'économie capitaliste, caractérisée par les droits de propriété privée et par la décentralisation des décisions, est procyclique et exposée aux spéculateurs financiers. Le capital financier dégage des profits dont une partie se cumule aux capitaux déjà existants. Cette logique d'accumulation est incontournable dans ce système, car si le capital ne peut plus s'accumuler, le système économique et financier entre dans une grave crise. C'est aussi le cas de la crise dite « *subprimes* » (prêts immobiliers à risque) de l'été 2007 aux Etats-Unis qui est le point de départ pour les turbulences qui ont suivi.

Un nombre important d'événements, devenus évidents vers la fin de 2006, ont annoncé la crise du système financier mondial : la dépréciation des actifs dénommés en dollars, la monétisation de la dette américaine, la dégradation rapide de la situation financière des banques, y inclus la baisse des réserves et les problèmes liés aux crédits hypothécaires. Entre 1997 et 2006, le prix des maisons a augmenté de 124% aux Etats-Unis, un pays avec une culture pour la consommation (The Economist, 2007).

La littérature de spécialité n'a pas consacré trop de place à la crise actuelle des marchés financiers. La majorité des articles se concentre sur la crise subprime et sur ses causes. Dans notre étude on montre qu'on vit une crise mondiale des marchés financiers qui a des répercussions graves au niveau européen. Pour cette étude on a utilisé la base des données *Infinancials* qui contient de statistiques pour plus de 20000 entreprises cotés et 18 secteurs, dans 45 pays sur tous les continents.

La structure de l'article est la suivante : on présente d'abord les turbulences financières de l'années 2007, en se concentrant sur la crise subprime et sur ses causes. Ensuite, on indique l'apparition de la crise des marchés financiers et son développement au niveau mondial, et on montre que plusieurs pays européens sont gravement touchés, dont la Roumanie se remarque. Les résultats financiers des compagnies cotés n'ont pas représenté un repère pour les investisseurs et l'impact de la crise sur les pays européens est différent. Le niveau d'intégration des marchés financiers européens montre que le processus d'intégration doit continuer. Parmi les pays européens on remarque la Roumanie et la Pologne qui sont les plus touchés par la crise et aussi la République Tchèque et le Luxembourg, qui sont parmi les moins affectés. Ensuite on présente les implications de cette crise et quelques possibles scénarios. Enfin, on conclut.

## 2. Les turbulences financières de 2007

Une crise financière peut être définie de plusieurs façons. Les crises financières les plus souvent rencontrées pendant les dernières années sont les crises de change et les crises bancaires. Une autre catégorie est représentée

par les crises de dette. Mais une *crise financière peut être définie aussi comme une crise qui touche les marchés boursiers, et les marchés des crédits d'un pays ou d'un groupe de pays*. Si une crise financière ne concerne pas dans un premier temps que les marchés financiers, son aggravation conduira à des effets néfastes sur l'économie réelle, entraînant une crise économique, voire une récession.

Même si Reinhart et Rogoff (2008), en regardant les prix des actifs, la croissance réelle et la dette publique, affirment qu'il y a une forte similitude entre la crise du subprime et les autres crises financières, on peut affirmer qu'il y a aussi quelques différences : les innovations financières (la titrisation et les dérivés de crédit) représentent un élément important dans la crise actuelle; la crise du subprime qui a débuté avec l'économie américaine, a détérioré la confiance des investisseurs au niveau global, et a donné naissance à une crise des marchés financiers au niveau mondial.

Le processus de titrisation est décrit par Durand (2007). Les banques constituent des «paquets» de crédits immobiliers plus ou moins risqués (dans une échelle qui va de meilleurs crédits aux plus susceptibles de défaillance – les subprimes) et en cèdent la propriété à des agents désireux de prendre ce risque, sous forme de titres négociables sur un marché (*mortgage backed securities*).

Les produits dérivés de crédit permettent aux banques de sortir de leur bilan une partie importante du portefeuille de crédits. Il y a plusieurs raisons pour cette démarche. Une première raison est une meilleure situation financière bilancielle, qui augmente la confiance des investisseurs. Un autre motif est l'arbitrage des taux, la banque tire profit de la différence entre les intérêts obtenus par les entités intermédiaires qui ont investi dans le portefeuille des créances de la banque – «*Special Purpose Vehicle* » (SPV) et les intérêts qui doivent être payés aux investisseurs, indirectement, par l'intermédiaire du même SPV (Léonard, 2008).

Les turbulences financières de l'année 2007 n'ont pas commencé avec la crise du subprime. Un premier phénomène de contagion concerne la baisse des prix des actions sur les marchés émergents en mai – juin 2006 (Mauro et Yafeh, 2007). De plus, la confiance des investisseurs a été négativement affectée par les turbulences des marchés financiers chinois de février – mars 2007. La crise des marchés de crédits hypothécaires aux Etats-Unis a ensuite suivi.

Les racines de la crise du subprime qui s'est matérialisée aux Etats-Unis l'année dernière se trouvent dans les années '90, quand un nombre important de crédits hypothécaires ont été attribués aux emprunteurs avec une mauvaise histoire concernant le remboursement. En 2006, les crédits subprime représentaient pas moins de 600 milliards de dollars, soit environ 20% de tous les prêts immobiliers accordés aux Etats-Unis (Lasserre, 2007). En 2007 le volume total des crédits subprime a été estimé à environ 13% du crédit total en cours, et à 1300 milliards de dollars (Banque de France, 2007).

Les problèmes du processus de régulation sont à leur tour une cause importante des crises récentes. Avec l'Accord de Bâle I, qui porte sur les fonds propres réglementaires, les établissements n'ont eu vraiment d'autre solution que de chercher par tous les moyens à « recharger » régulièrement leur actif par le biais de la vente d'une partie des crédits antérieurement consentis. Ni Bâle II, le nouvel accord dans le domaine, n'utilise la distribution extrême des pertes. La pratique des *stress-tests*, qui prend en compte les événements extrêmes, n'est pas couramment utilisée.

Les banques centrales ont été accusées elles aussi qu'elles ont favorisé l'apparition de la crise. « *Les banques centrales ont bel et bien une part essentielle de responsabilité dans les événements actuels* » (Durand, 2007). En fixant le niveau des taux d'intérêts, les banques centrales ont une lourde responsabilité dans l'extension du crédit.

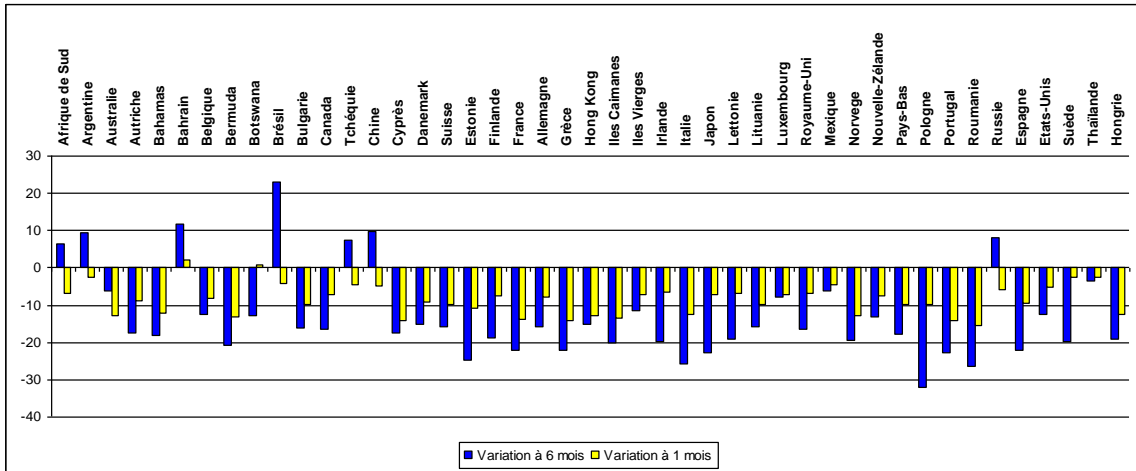
### **3. De la crise du subprime vers une crise globale des marchés financiers**

La crise financière globale a à la base le manque de confiance des investisseurs, le phénomène de contagion et de spéculation. La crise des subprimes aux Etats-Unis ne représente que l'élément déclencheur de la crise globale. Les spécialistes ne parlent pas souvent de la crise actuelle parce qu'ils sont confrontés à un paradoxe. Jusqu'à présent, les effets de la chute des prix de titres sont moins évidents que dans les situations précédentes de turbulence financière (Riskbank, 2007). Ces aspects sont remarqués aussi par les spécialistes de la Banque de France (Landau, 2007; Noyer, 2007). Quel que soit l'indicateur utilisé (niveau des *spreads* ou volatilité), le choc induit sur les marchés du crédit par les pertes enregistrées sur les prêts hypothécaires à risque (subprime) est sans précédent. Et cependant, ces pertes, tout en étant importantes et spectaculaires pour quelques institutions, ne semblent pas constituer un risque majeur pour la santé du système financier.

Nous considérons que la crise actuelle aura des effets significatifs sur le plan de l'économie réelle. Mais pour parler des effets, on va démontrer tout d'abord qu'il y a une crise financière globale. Comme dans l'analyse de

Balit Moussalli (2007) sur la crise asiatique, on va s'interroger qu'elles sont les pays touchés par la crise et pourquoi quelques pays sont moins affectés que les autres en se penchant sur les pays européens.

On place notre analyse au début du mois de février 2008. Pour démontrer que la crise financière a une ampleur mondiale et que la crise n'est pas encore finalisée, on a effectué deux types d'analyses. En observant la variation des prix des actions à six mois (6 février 2008 – 6 août 2007) et à un seul mois (qui correspond à la variation des prix pour 2008), on a travaillé avec la moyenne de ces variations pour tous les compagnies cotées (Figure 1) et aussi pour les dix plus grandes entreprises cotées de chaque pays<sup>20</sup>.

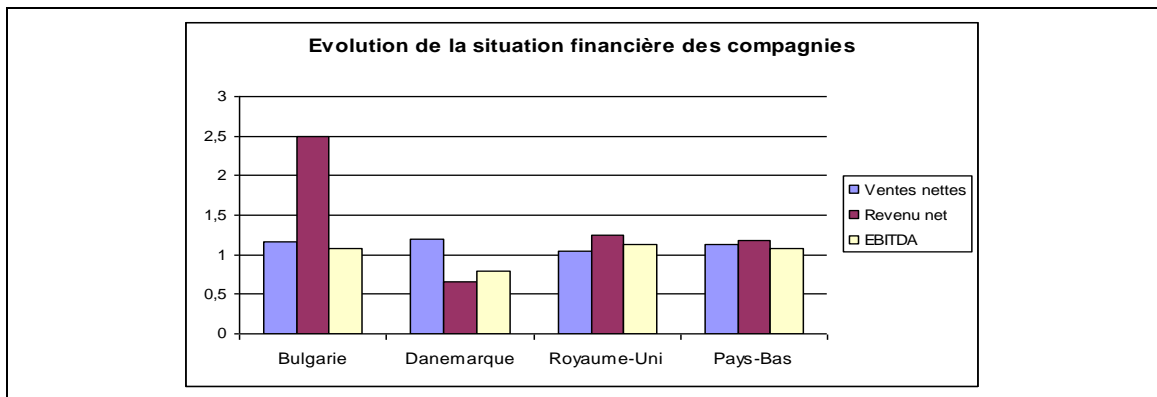


Source : construit avec les données INFINANCIALS

Figure 1 : L'évolution des prix des actions du total des compagnies cotées

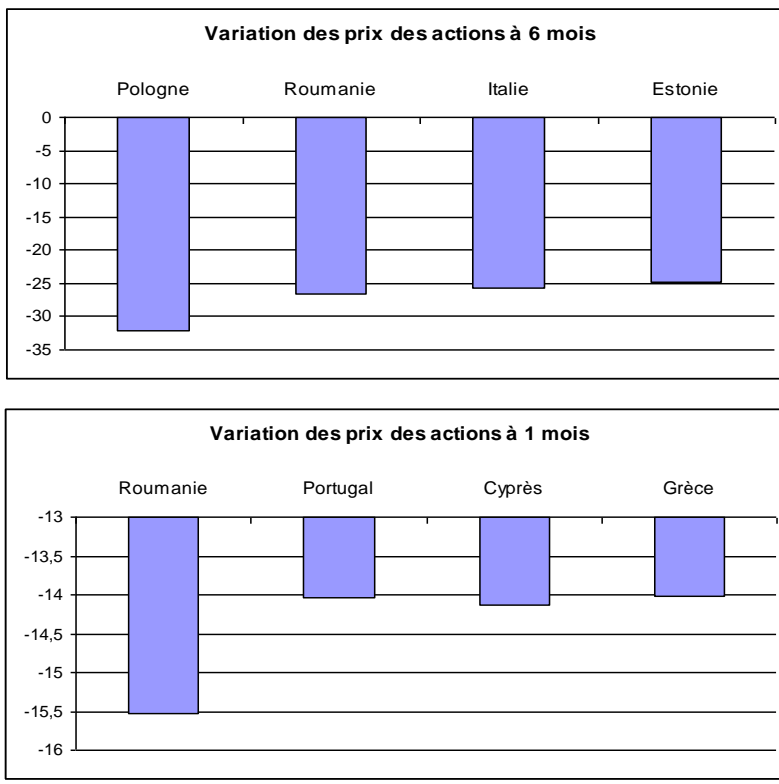
La Figure 1 montre qu'à quelques exceptions (les pays émergents : Brésil, Argentine, Chine) les prix des actions ont baissé entre 10% et 30% à six mois. Les pays européens se remarquent parmi les plus touchés par la. La variation des prix pour l'année 2008 montre elle aussi que les places boursières les plus affectées sont celles de la Roumanie, Portugal, Chypre, France et Grèce. La baisse des prix est arrivée à 15% en Roumanie pour le début de l'année 2008.

Ensuite, on a essayé de trouver une relation entre l'évolution des prix et la situation économique et financière des compagnies européennes. Comme indicateurs, on a retenu les ventes nettes, le revenu net et le profit opérationnel (EBITDA). On a comparé l'évolution de la situation financière des compagnies (le rapport 2006-2005) avec la variation des prix des actions (Figure 2). Si au niveau européen les prix des actions des compagnies cotées en Roumanie, Pologne, Italie, Estonie, Portugal et Grèce on connu une évolution négative dans le dernier semestre, on voit que les plus faible résultats financiers ont été enregistrés par les compagnies bulgares, danoises, anglaises et néerlandaises.



<sup>20</sup> On n'a pas présenté les résultats de la deuxième analyse dans cet article mais on affirme que les résultats ne sont pas significativement différents par rapport au total des compagnies cotées.





Source : construit avec les données *INFINANCIALS*

**Figure 2 : L'évolution de la situation financière et l'évolution des prix des actions, pour les pays dont les compagnies sont en moyenne moins performantes**

On peut conclure que la crise financière a touché tous les pays européens. Il n'y a pas une relation entre l'évolution des prix des actions et la situation financière des entreprises. Apparemment, ni la situation macroéconomique n'a influencé l'impact de la crise. Par exemple, la Roumanie, le pays dont le marché financier a connu les turbulences les plus importantes, a enregistré une croissance économique significative et une baisse de l'inflation dans les dernières années. C'est aussi le cas de la Pologne.

Il y a des spécialistes qui considèrent que la situation aura une tournure favorable pour 2008 mais il y a aussi des économistes qui affirment le contraire. Par exemple, Buitier (2007) observe quelques signes qui indiquent une stabilisation économique : les grandes banques commerciales ont introduit dans leurs bilans les éléments hors bilan, risqués, et elles sont devenues plus conscientes des risques encourus. De l'autre côté, les spécialistes du GEAB (2008) prévoient que l'économie américaine va entrer en récession en septembre 2008 et cette situation aura un impact négatif sur les économies européens aussi.

Personnellement on considère que la crise est loin d'être finie. Cette crise des marchés financiers a été déjà suivie par des turbulences importantes sur les marchés d'échange. La propagation de la crise au niveau global représente donc un grand motif d'inquiétude.

#### 4. Conclusions

La première grande crise financière du 21<sup>ème</sup> siècle est caractérisée par des instruments ésotériques, des régulateurs méconnaissants et des investisseurs nerveux (Reinhart et Rogoff, 2008). Les autorités acceptent avec difficulté de reconnaître l'apparition de la crise et interviennent trop tard, et de façon indécise. Les turbulences récentes ont aussi souligné le potentiel de *spillover* parmi les marchés financiers des différents pays (de Rato, 2007).

Dans cette étude on a mis l'accent sur la propagation de la crise et non pas sur les causes de la crise. Les conclusions de l'étude sont les suivantes :

- Tous les pays et tous les secteurs ont été touchés par la crise. Si la variation des prix à six mois nous montre qu'il y a quelques pays émergents qui ont enregistré une faible évolution positive des prix des actions des compagnies, la variation des prix en 2008 nous montre que la crise a des effets négatifs dans tous les pays.
- Les pays émergents ont été moins touchés par la crise, même si la situation financière des leurs compagnies n'est pas la plus favorable. Les pays européens, ayant en moyenne la meilleure situation financière en 2006, sont gravement affectés.
- Il n'y a pas une relation entre l'impact de la crise des marchés financiers et les fondamentaux microéconomiques des compagnies. Apparemment, il n'y existe pas non plus une relation entre la propagation de la crise et les fondamentaux macroéconomiques des années précédant la crise (les économies européennes ont connu une période de baisse de la volatilité de l'activité économique et de stabilité des prix dans les dernières années).
- La confiance des investisseurs représente le principal élément de propagation de la crise financière.

Il reste à découvrir d'autres éléments qui aident les décideurs à comprendre le phénomène de contagion dans le cas de la crise récente des marchés financiers. Le fait que cette choque symétrique a eu un impact différent parmi les pays européens relève un processus d'intégration des places financières européens qui est loin d'être fini.

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# CONSIDERATIONS ON COMMERCIAL GLOBALIZATION (I – THE DYNAMICS OF THE COMMERCIAL FLOWS: EVOLUTIONS AND STRUCTURAL MODIFICATIONS)

**Bădulescu Daniel**

*University of Oradea, Faculty of Economics, Str. Universității nr. 1, 410087-Oradea, E-mail: badulescu@rdslink.ro, Phone: 0259/408410*

*Abstract:*

*Following the WW II, the global economic evolution is more and more marked by the relevant dynamic of the commercial trades that had become the core of the economic development both for the developed countries and for the emerging economies. The average annual growth rhythm of the international goods trade was practically double in comparison with that of the production (real GDP), both for the developed and for the developing countries. Thus, between 1960 and 2005, the rate of the commercial trades in the global GDP increased from 24% to 46%, practically doubling in the 45 years.*

*Key words: globalization, commerce, evolution*

Following the WW II, the global economic evolution is more and more marked by the relevant dynamic of the commercial trades that had become the core of the economic development both for the developed countries and for the emerging economies. The average annual growth rhythm of the international goods trade was practically double in comparison with that of the production (real GDP), both for the developed and for the developing countries. The dynamic of the international trade has systematically exceeded the dynamic of the GDP (see table no. 2.1):

**Table no. 2.1. The comparative evolution of the real GDP and the international goods trade**

Categories of countries	Annual growth rhythm for the real GDP			Annual growth rhythm for the international goods trade		
	1987-1996	1997-2006	2006	1987-1996	1997-2006	2006
World total	3,3%	3,9%	4,4%	6,6%	6,9%	8%
Developed countries (the USA, Euro area, Japan, others)	3%	2,7%	3%	6,6%	5,7%	7%
Emerging and developing countries	3,9%	5,3%	6%	6,8%	9,1%	9,9%

Source: data of the National Bureau for Economic Research, [www.nber.org](http://www.nber.org)

As we can note, the average annual growth rhythm of the international goods trade was practically double in comparison with that of the production (real GDP), both for the developed and for the developing countries, of course, in what the latter are concerned, it is with the emerging economies that these growths are higher. This high elasticity of the trades as compared with the global production is checked both for the period 1820-1913 (considering only the highly industrialised countries) and after 1950. The sole exception goes for the period between the wars when international trades grew approximately three times less than production. For the ensemble of the trades, the rapport between the global commerce and the global GDP came to 46% in 2005, as compared with 8% in 1950 (*World Development Indicators 2004*, <http://web.worldbank.org/>). In certain fields, as electronics for instance, this rate exceeds 50%, which means that half of the global production of electronic goods is subject to the international trade.

The dynamics of the commercial trades is not a recent phenomenon, their boom beginning together with the industrial revolution. Thus, on a long term, the average annual growth rhythm of the commercial flows had been fairly high even in the previous periods: the growth of the annual volume of exports with the main industrialised countries was 4.2% between 1820 and 1870 and 4% between 1870 and 1989 (Maddison, p. 75).

The analysis of the comparative rhythms of evolution for the two indicators (GDP and global commerce) has to be completed with the analysis of the commerce contribution to the growth of the world GDP.

The following chart synthesises data concerning the rate of the international commerce in the GDP of 5 countries, between 1870 and 1995:

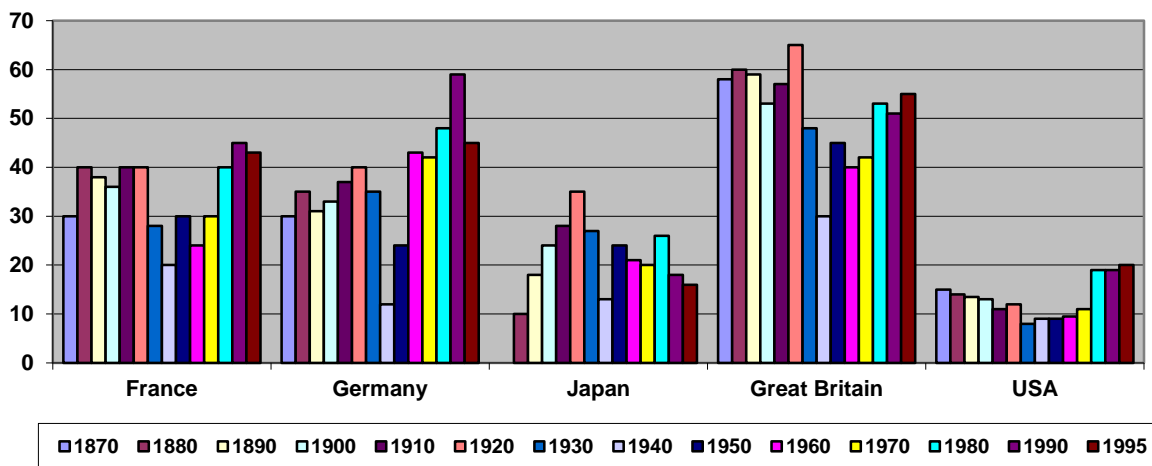


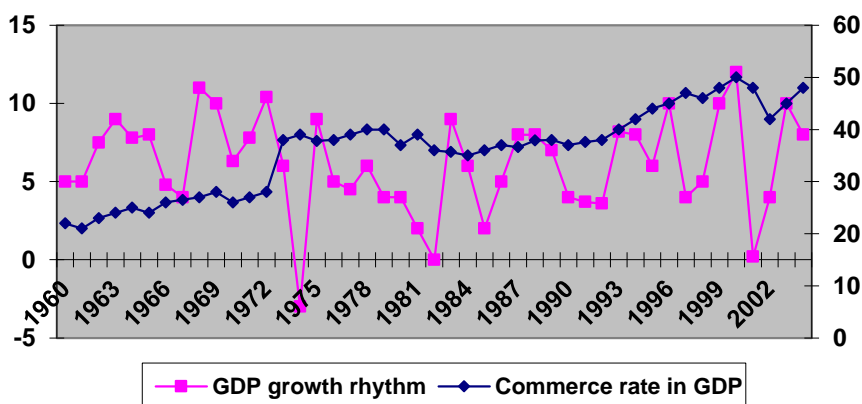
Figure no 2.1. The evolution of international trade rate in the GDP of some countries, 1870-1995, in %

Source: Held, D. et al., *op. cit.*, p.191 and 204

As one can notice on a long term the evolution of the rate of the commerce in the GDP did not face major changes. Thus, between 1960 and 2005, the rate of the commercial trades in the global GDP increased from 24% to 46%, practically doubling in the 45 years. Nevertheless, in the case of the industrialized countries in Europe, Japan and North America, the evolution has fluctuated in the past century: the report between exports and GDP was 22% in 1913, the year preceding WWI, decreasing to 15% in the decade 1950-1960, to then come to 22% in 1973, 30% in 1990 and 36% in 2004 (*World Development Indicators* 2004).

This phenomenon is obviously stimulated by the general trend of liberalization of industrial trades that followed the end of the WWII. This made the subject of multilateral negotiations within GATT (Rainelli 2003). Starting with the first rounds of negotiations organized in Geneva and Annecy at the end of the 1940s, the average customs taxes on imports from the industrialized countries dropped 10 times, getting from 40% to 4% in 2000 (Adda, p.68). The liberalization of the trades was also stimulated by establishing the Common European Market and by various projects of customs unifications or regional agreements of free trade launched afterwards (such as Mercosur, which regroups Brazil, Argentina, Uruguay and Paraguay in Latin America and NAFTA, which unites the United States, Canada and Mexico in North America). It has finally extended, since the beginning of the 1980s, towards the developing countries under the effect of the liberalisation policies imposed by the IMF and the World Bank within the management of the debt crises.

The following figure synthesises the evolution between 1960-2004, of the two indicators mentioned, the average annual growth rhythm of the GDP and the contribution of the international trade to the formation of the world GDP.

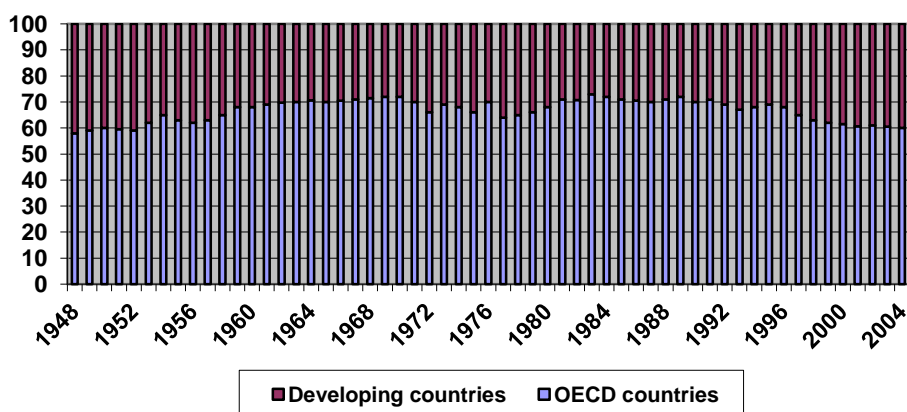


**Figure no. 2.2. Dynamic of the international commerce, 1960-2004, in %**

Note: the values for the GDP growth rhythm correspond to the scale on the left while those for International commerce rate in the GDP correspond to the one on the right

Source: produced by the author on the basis of data available in *World Development Indicators* and *Global Economic Prospects*

As stated, the global commerce has become a propellant of development in all the countries of the world. Between 1990 and 2003, the number of countries with an international commerce exceeding a third of their GDP raised from 90 to 125, and the number of countries for which the contribution of the international commerce to the GDP exceeds 50% raised from 54 to 92 (*World Development Indicators*, 2004, p. 306). Commerce remains confined to a small number of countries (the G7 countries concentrate 42% of the global commerce), while the rate of the 150 developing countries to the global commerce stayed stable at 40% all along the after-war period. The evolution of the rate of the developed countries and of the developing ones to the global commerce is presented in the figure beneath:



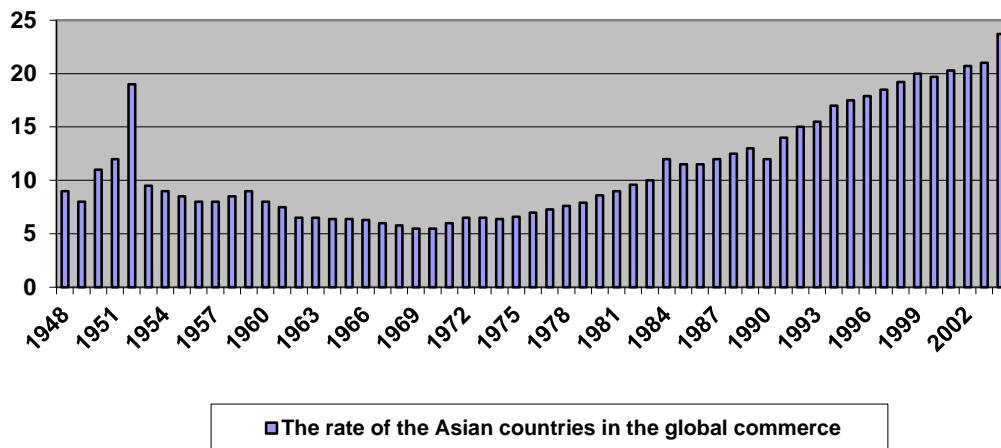
**Figure no. 2.3. Evolution of the developed countries rate and of the developing countries rate in the global commerce**

Source: produced by the author on the basis of the data available in *World Development Indicators* 2004 and *Global Economic Prospects*, <http://econ.worldbank.org/>

After 1995, the rate of the developing countries has an ascendant tendency as a result of the policies of economic liberalisation in favour of the economic openness. The countries with the highest level of commercial openness<sup>21</sup>

<sup>21</sup> the sum of commercial flows as share to GDP

are also the ones best integrated in the globalisation, having a diversified and dynamic economy that attracts foreign investment flows. That holds true mainly for the Asian countries, whose commercial openness ranges between 100% (Thailand, Philippines, and Taiwan) and 300% (Singapore and Hong Kong). The figure below shows the evolution of the rate of the Asian countries in the global commerce:



**Figure no. 2.4. The growth of the rate of the Asian countries in the global commerce, 1948-2004, in %**

Source: produced by the author on the basis of the data available in *World Development Indicators 2004* and *Global Economic Prospects*

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# CONSIDERATIONS ON COMMERCIAL GLOBALIZATION (II – SPECIALIZATION AND COMPETITION – DEFINING FEATURES OF THE RECENT EVOLUTIONS)

Bădulescu Daniel

University of Oradea, Faculty of Economics, Str. Universităţii nr. 1, 410087-Oradea, E-mail: badulescu@rdslink.ro, Phone: 0259/408410

*Abstract: There are three big tendencies identified in the commerce of manufactured products along the past decades. The first refers to the regional polarization of the international commerce. The second big tendency is the shift of the gravity centre of the international commerce from the Atlantic towards the Pacific, which triggers the increase of the power of the Far East and of its privileged connections with the North American market, to the detriment of the Western Europe. The third major tendency regards the regionalisation of the rapport centre-periphery, in other words the formation of specific zones of influence of each of those three major world economic powers (the US, the EU and Japan), respectively the Latin America, the Far East and South Asia, the Eastern Europe, the Near East and Africa for the EU.*

*Key words: globalization, commerce, evolution*

## 1. The role of the competition and of complementarities in the international commerce

While the expansion of the international commerce and its role for the economic growth are not recent phenomena, the after-war period brings a series of qualitative and structural changes in what the international trades are concerned. Whereas until the 18<sup>th</sup> century the freight capitalism based its expansion on the exploitation of the geographical differences in prices, on the disparities of rarity in various regions of the world, once the industrial revolution occurred and the importance of the productive capital increased, the essential variable is not space anymore, already about to be surrendered, but time, the work time more precisely, a fundament of value in the classical view (Adda, p. 63).

In the era of industrial capitalism, the profits do not derive mostly from the rarity disparities, but from the differences in production costs, which relate essentially to the differences in production time and in the salaries expressed in national currency. From a debate centred on the natural assets (agricultural, mining) and the factorial ones (labour, capital), the step is made towards the debate based on productive and effective structures. The prevalence of the competition principle, long hidden under the approaches in terms of international division of labour, now brings into first position the analysis of the determiners of the competitiveness. This leads to the emphasis on the quality of international specialisation, assessed not only by comparison with the conditions of the offer but also considering their adaptation to the global demand. It thus outlines the decisive nature of the state's intervention in promoting strategic activities for the development of the economies on a long term.

The international trade undergoes the interplay of two contrary principles: the specialisation principle, which generates complementarities, and the competition principle. The former made the object of several famous theoretical studies within the classic and then neoclassic school, forming the basis or the concept of the international division of work. The latter comes to remind us that it is primarily the battlefield of a fight of everybody against each, attempting to appropriate the best remunerated segments of production. The international specialisation is not, by and large, more than "the *a posteriori* penalty for these commercial fights, an outcome permanently revived by the consequences of the competitive play" (Adda, p. 64).

Nevertheless, the trade of complementarities has not vanished. It regards mostly the products of the soil and of the mines, for which the natural assets play a vital role. These trades constitute however a net descending fraction in the international commerce. In less than a century, from 1913 to 2004, the rate of the agricultural products, of the mineral ones and of the raw materials for energy, in the global exports decreased from two thirds to one fourth (see table 2.2).

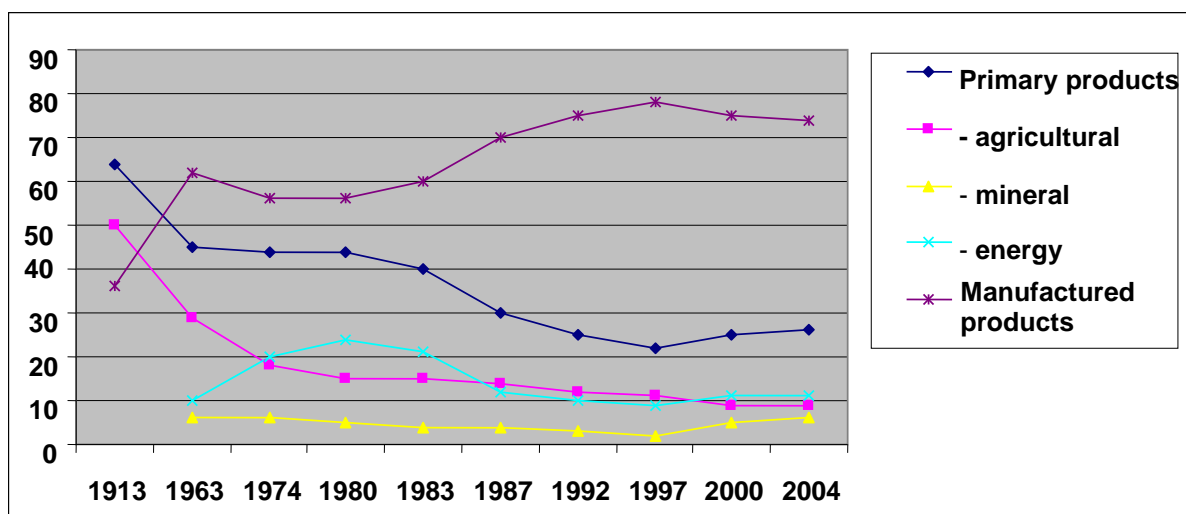


Figure no. 2.5. The evolution of the global exports, 1913-2004, on categories of commodities

Source: GATT and WTO, *International Trade*, Annual Report

Table no. 2.2. The structure of the global exports, 1913-2004 (in % of the total)

	1913	1963	1974	1980	1983	1987	1992	1997	2000	2004
Primary products:	64	45	44	44	40	30	25	22	25	26
- agricultural	50	29	18	15	15	14	12	11	9	9
- mineral	n.d.	6	6	5	4	4	3	2	5	6
- energy	n.d.	10	20	24	21	12	10	9	11	11
Manufactured products	36	62	56	56	60	70	75	78	75	74

Source: GATT and WTO, *International Trade*, Annual Report

At the beginning of the 1960s, the rate of these products was still 45%, from which 10% for energy. The stabilization of this rate in the 1970s is explained by the impact of the two oil shocks upon the value structure of the trades. In constant prices, the decline of the primary products, and especially of those in the mine and energy area, is continuous for this entire period. On getting over the oil counter-shock in 1986, which would bring the real price of the oil at the level it had had before 1973, the rate of the combustibles in the global commerce got back to 10%.

However, even in this field, where the complementarities principle should play an important part, competition draws its effects upon the medium and long term evolutions. This fact is obvious in the oil sector, where the high prices policy led by OPEC (The Organization of the Petroleum Exporting Countries) in the 1970s encouraged the development of a competitive offer and stimulated the substitution and the energy saving, driving to a decrease in the demand for oil addressed to OPEC. The same evolution holds true for the agricultural and mineral raw materials, whose demand is negatively affected by the efforts of reducing the costs directed by the users, that makes them prefer a the new materials, more robust and cheaper than the crude products. The depreciation, on a long term, of the demand (and thus of the relative prices) of primary products drives a great many countries to restrain, as far as possible, from this specialization.

The complementarities trade also involves, theoretically, the goods which involve in their production factors (labour, capital) with uneven international distribution. The neoclassical theory of the international commerce, which reminds of names such as Eli Heckscher, Bertil Ohlin and Paul Samuelson, sees in the differences of factorial endowments the very base of the international trade (the HOS theorem). Taking forward Ricardo's opinion, they attempt to explain the existence of the comparative advantages by the relative abundance of the labour or capital factors with the trade partners. As opposed to Ricardo, who considered one production factor



only, the labour, of variable productivity, the three researchers take into account the existence of more factors but assume that the production techniques and thus the levels of productivity are the same in each country. The differences in costs are explained then by the relative abundance of each production factor. For instance, a country rich in the factor capital will produce less expensively goods intensive in capital, as the cost of capital will be low here. Hence, each country has an interest in specialising in the production of goods that incorporate the production factors that country is rich in. In this circumstance the demand for capital (and so its price, too) will grow in the rich countries but with a small population, while the demand for labour force (together with its price) will grow in the countries lacking capital but having a big population. The prices of the production factors will, this way, tend to come even at an international level, and this, in the absence of any international mobility of the production factors.

The neoclassic view comes thus to an explanation of the trade founded on the relative rarity, i.e. complementarity, and not on the compared productive efficiency, the competition. The complementarity principle, undertaken and abided, also plays an important role in the trades of manufactured goods. In the year 2000, a little more than a third of the global trades of these products regarded areas of different levels of development (table 2.3).

**Table no. 2.3. The matrix of the global industrial trades between the areas with different levels of development, in 2000 (in % of the global commerce with manufactured products)**

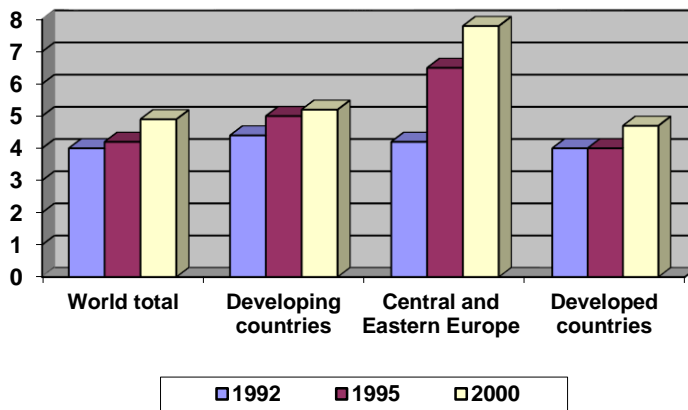
Destination Origin	Developed countries	Asian developing countries	Other developing countries	Eastern Europe	World total	Balances
Developed countries	60	8	7	3	78	+3
Asian developing countries	11	4	1	0	16	+4
Other developing countries	2	0	1	0	3	-6
Eastern Europe	2	0	0	1	3	-1
World total	75	12	9	4	100	0

Source: CEPII, *World Economy* 2001

The international division of work and the complementarity trade applies especially to this type of "vertical" trades, founded on major differences in salary costs. It is less pertinent in the case of "horizontal" trades between the developed countries, for which the competition principle prevails. This does not mean, of course, that the manufactures exports in the developed areas are no competitors for the traditional industries in the developed countries. There is no doubt, anyhow, that this type of production (textile, leather, wood industry, toys, electronic materials) is bound, in the absence of major technical investments, to be delocalised towards the areas with small salaries and that the traditionally industrialised areas that delay the restraint from it risk the regression to a marginal statute.

The dynamism of the global commerce is due primarily to competition, a fact proved by the prevalence of the trade in similar products between the developed countries. The intensification of the competition is, still, not limited to the manufactured products, but extends over the trade in agricultural products, whose liberalisation was stipulated by the Uruguay Round (1994). Instead, it is less perceptible in the extractive activities, inclusively in energy, the trades of which evolve, in the best case, at the same level and rhythm as the production. The international competition grows, at the same time, in the field of services, domain which comprises the incomes from traditional activities, such as: tourism, travels, international insurances; activities more directly linked to the movement of internationalisation (distribution, consultancy, publicity, engineering, telecommunications); the incomes from placed capital, lent or invested abroad, and the emigrant labour force's fund transfers. If the incomes from capitals are excluded, as well as those from the transfers with no counterparties, the rate of the trade of commercial services gets from 2.1% of the global GDP in 1970 to 4.1% in 1992, 4.2 in 1995 and 4.9 in 2000.

presenting differences on groups of countries, as it can be seen in the grid below:



**Figure no. 2.6. The exports of services in % of GDP**

Source: author's production on the basis of data from *Trade and Development Report*, UNCTAD, [www.unctad.org](http://www.unctad.org)

At its most, the international commerce drives its dynamism from the trade in manufactured products. Or, it is these very trades that represent 3/5 of the trades between the industrialised countries. And in this commerce, more than a half of the trades are crossed trades of similar products (for instance the automobile industry or the one of the electronic goods of mass consumption), also called intra-branch trade.

In a significant manner, the studies concerning these crossed trades show that the higher and more comparable, i.e. of identical structures, the levels of the development of the participant countries are, the more intense these trades. Thus, the rate of the intra-branch commerce in the total of the manufactures trades reached 80% with Germany, France and Great Britain in 1991, in a massive increase in the last 30 years (OCDE 1994). The phenomenon is typical for the trades between developed countries, for which the specialization principle is at least partially surpassed by the much more active competitive one.

It should not be deducted that specialization plays no role in the North- North trades, the same way as competition has its part in the North- South trades. As Adda stated, in the industrial trades between the developed countries international specialization is nothing more than the *ex post* outcome of an *ex ante* active competition. On the contrary, the logic of complementarity is more active *ex ante* in the North- South trades in manufactured goods, because of opposite factoring endowments (Adda, p. 70).

This intensification of the competition at a global scale is accompanied by a permanent regrouping of the networks of international trades. These are, at the same time, sensitive at the differences in growth between the various markets (the competition principle) and at the strategies of localization of the productive activities implemented by the firms (the specialization principle).

## 2. Tendencies in the evolution of the international commerce of manufactured products

There are three big tendencies that can be identified in the commerce of manufactured products along the past decades. The first refers to the **regional polarization of the international commerce**. Centred on Europe for a long time, the world commerce has become bipolar, with the hegemonic assertion of the United States, after WWII. The development of the economic power of Japan, then of the newly industrialised countries in Asia (Hong Kong, Taiwan, South Korea, Singapore), and recently of China, is accompanied by the formation of a third regional production pole and by trades that tend to expand to the ensemble of the Far East. In table 2.4, the world trades in manufactured products are assessed on the basis of the big regional poles: North America, Western Europe and the ensemble comprising Japan, Oceania and the developing Asia:

**Table no. 2.4. The matrix of the world industrial trades broken down on the major regional poles in 1980 and 2000 (in % of the world trade in manufactured products)**

2000						
Destination Origin	North America (NAFTA)	West Europe	Japan and the developing countries in Asia	Other regions	World total	Balances
North America (NAFTA)	10	4	3	2	19	-5
West Europe	5	32	4	6	47	2
Japan and the developing countries in Asia	8	6	10	3	17	9
Other regions	1	3	1	2	7	-6
World total	24	45	18	13	100	0
1980						
Destination Origin	North America (NAFTA)	West Europe	Japan and the developing countries in Asia	Other regions	World total	Balances
North America (NAFTA)	6	4	3	4	17	0
West Europe	5	39	3	11	58	9
Japan and the developing countries in Asia	5	4	6	3	18	6
Other regions	1	2	0	4	7	-15
World total	17	49	12	22	100	0

Source: CEPII 2000, *World Economy 2001*; the author's calculations

For each of these three poles, the intra-zone trades are on the first place both from the exports' point of view and from that of the imports'. In 2000, the internal trades at each of the three poles represented more than half of the world commerce of manufactured goods, as compared to 30 % for the trades between themselves. At contrast, the commerce with the other regions (Latin America, Africa, Near East and Eastern Europe) represents not more than 16% of the world commerce of manufactured products as compared with 21% as it was in 1980. Of a significant manner, commerce between these other regions was insignificant in 2000 and in continuous regression as compared to 1980, especially because of the disintegration of the Soviet block.

The second big tendency is **the shift of the gravity centre of the international commerce from the Atlantic towards the Pacific**, which triggers the increase of the power of the Far East and of its privileged connections with the North American market. This shift comes to the detriment of the Western Europe, whose exports of manufactured products decrease form 19 % to 15% of the international commerce between 1980 and 2000. With 27% of the world industrial exports in 2000, but with only 18% of the imports, the Far East now has a rate in the

world trade much greater than North America. Taking advantage from the openness of the American and European markets, this area remains partially open to the manufactured products from its partners, hence a substantial commercial excess, a source of permanent tensions in its relationships with the other two major areas. The increased power of the East is not perceivable at the level of its commercial trades alone. Measured in terms of buying power the global GDP of the area exceeded with 20% to 30% those of NAFTA and of the West Europe in 2000 (CEPII 2001). Moreover, despite its demographic mass, this region sees a progress tendency in its income per capita of 3-4 times more rapid than that of the other two large areas. In this rhythm, the difference in buying power per capita between the three poles (\$5300 in 2000 for the Far East as compared to 16000 for the European Union and 21000 for NAFTA) could disappear by 2035, approximately (CEPII 2001).

The third major tendency regards the **regionalisation of the rapport centre-periphery**, in other words the formation of specific zones of influence of each of those three major world economic powers (the United States, the European Union and Japan), respectively the Latin America for the USA, the Far East and South Asia for Japan, the Eastern Europe, the Near East and Africa for the European Union. Perceivable at the level of the world trades (see table no.2.5), this tendency also exists in what the geographic orientation of the direct investments and of the financial fluxes from North to South is regarded. In conjunction with the prevalence of the intra-regional trades within the three major poles of the world economy – “The Triad” – it means a “verticalization” of the world economy, which comprises in itself the risk of a fractioning of the international area in case of a major crisis between the big economic powers.

**Table no. 2.5. The matrix of the world commerce of all products on the big ensembles North-South in 2000**

Destination Origin	North and Latin America	Europe, Africa, Near East	Japan, Asia, Oceania	World total	Integration rate*
North and Latin America	13	5	4	22	59
Europe, Africa, Near East	6	41	6	53	77
Japan, Asia, Oceania	8	7	10	25	43
World total	27	53	20	10	
Integration rate*	48	78	53		

\* the rate of the internal trades of each major group in the total trades (in %)

Source: CEPII, *World Economy 2001*; the author's calculations

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# ARE THE ROAD AND AIR MODES OF TRANSPORT THE PERFECT ONES AT EUROPEAN LEVEL?

**Benea Ciprian - Beniamin**

*Contact address: University of Oradea, Faculty of Economics, International Affairs Department, Universitatii Street, No 1, e-mail: c\_benea@yahoo.com, or cbenea@uoradea.ro, Tel.: +40. 259. 40 87 99, or +40. 751. 24 99 75*

**Baciu Adrian**

*Contact address: Ministry of Transportation, e-mail: adrianbaciu@email.ro*

*Abstract: In this exposure, the contributors would wish to present the spectacular evolution of road transport in the European Union member countries, and its negative impact, too. The spectacular number's rising of private owned cars in Europe pose real problems to traffic, which cause congestion, pollution, and as a result great environmental problems. Airway transport is analyzed, too, from the perspective of congestion on the airports and the pollution which results from this. Another face of the coin is the high dependence on fossil fuels, which can hinder the future development of European countries. There is presented the solution: the future development of high speed trains, which would take a lot of people from the roads and from the skies, and as a result, would contribute to the congestion's reducing, to the rise of the efficiency of transportation systems on European continent, and to the environment quality's improvement.*

*Code words: congestion, high speed trains, pollution, railway transportation*

During history, any invention which was applied in transportation (and communication) areas have brought with it profound changes of political, social, and economical character.<sup>22</sup> Today transportations have the same characteristics and exert the same influence: technical inventions, which were applied in transportations' and communications' fields are the grounds which have facilitated the global economy's development and international finance's emergence, giving birth to a market which is never asleep.<sup>23</sup> At regional level there has been manifesting a parallel phenomenon – regionalization. How could we speak about a unique market, or about free movement of people, goods, services or labor force in European Union, without bringing into debate the transportations and communications?

But anyone who traveled on European roads or got close to a big European airport could see the congestion on the roads, and the agglomeration in the air, where there could be seen airplanes which, sometimes had to over-fly the airport area, until there would be free a landing runway, providing their safety landing. The agglomeration on the roads (especially close to big European cities, and inside them) becomes a very pressing problem nowadays.

We must remember anytime that the car is the great symbol of diversion, and of reality and truth emptiness, which are associated with it.<sup>24</sup> The automobile succeeded very well in bringing together the science and the desire. The traditional society's destruction invokes the creation of a space and of a time which are structured by, and for the vehicle. "The automobile is the perfect symbol of technical society. It combines the utility with futility, the escape with fatality, permitting you to be in the other place and finally meeting death."<sup>25</sup>

The automobile's acceptance is beyond any criticism; if some people are skeptical in using a TV set, a mobile phone or a computer, none would oppose to car... Until 1990 there wasn't unleash any strike against the automobile (generally speaking) or for the development of public transport.<sup>26</sup> Fewer cars are impossible to be imagined – in the last 60 years the towns were planned and modeled so that there people couldn't leave without cars. A decision which would have the effect of reducing the cars' using could give birth to strong movements of opposition, because it could be regarded as an attack against the individual freedom. In this point it could be

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<sup>22</sup> Harold A. Innis, *The Bias of Communication*, Toronto, University of Toronto Press, 1999, p. 3

<sup>23</sup> Michael Stewart, *The Age of Interdependence*, Cambridge, MA, MIT Press, 1984, p. 26

<sup>24</sup> Jacques Ellul, *The Technological Bluff*, Grand Rapids, Michigan, William B. Eerdmans Publishing Company, 1990, p. 371, citat din B. Charbonneau, *L'hommauto* (Denoel, 1967)

<sup>25</sup> *ibidem*, p. 372

<sup>26</sup> *ibidem*, p. 372

mentioned that the cars' owners and motorcycles represent the *most important lobby and pressure groups* in the Western countries.<sup>27</sup>

It seems that the *state* is helpless in trying to limit their actions; in road infrastructure's building, they pressed the state to promote (decisively, and it seems irreversibly) the development of transport with private car, to the public transport's disadvantage. For example, in the 80's, French state subsidized three quarters of research expenses in the case of Peugeot and Renault companies.<sup>28</sup>

Of course, the pressure from the car owners was well regarded and accepted by the automobile's producers. In some measure, the state has had special interests *vis-à-vis* road transport development: the road's and highway's construction means the employment of labor force and the intensifying of economical activities in colligated economical sectors, it favors the investments' rising and provides an income source for the national budget – the taxes imposed upon the fuel used in transportations. In the same time, the Western countries were interested in the development of road transportation with private cars, because they had been trying to build a democratic society, upon which the state could rely on. So, the freedom of movement, due to a private owned car, became the cornerstone for the creation of labor force's *mobility*, and for the relative liberty regarding the finding (or changing) a job, which is itself assimilated to it. The freedom of movement and the freedom of choice regarding the profession, and the existence of the possibility of the working place's changing (due to the car), became in this way, important sources of a democratic society.

The automobile has become a symbol for the middle class: now we could move faster anywhere we want. But the roads cover a greater surface of arable land. And we are *together*, in the same time, on the same roads, even if each of us is in his private car; the automobile permits us to return to our lost Paradise... The day when we buy an automobile is the same day in which we start to perceive that we no longer have any limit... But on the roads, there is a great jumble. Our automobile's speed slows down to 5km/h, even if it is much greater in our minds... And in this way, the vehicle which has the aim to facilitate our removal from the crowd, puts us back in it...

The acceptance of this car can't be explained but „through men's proclivity for game and entertainment, through psychological instability and through men's behavior which can be easy manipulated.”<sup>29</sup> And this when it is a known fact that the automobile *consumes* a huge amount of resources, it is *inefficient* (with a private car, there use to travel only one or two persons), it needs the *covering* of preciously agricultural land areas (the highway network at European level having been rising yearly with 12000 km in the period comprised between 1970 and 2000<sup>30</sup>), it *kills* (for example in 1998, as a result of road accidents in Europe, there died 43500 people<sup>31</sup>) and it *pollutes* (84% of CO<sub>2</sub> emissions resulted from transportation at European level, is due to road transport). The *congestion* and its immediate effect – pollution – have very negative consequences for the environment; and as a direct consequence of this, for people's health. “The bad quality of the environment is responsible for 25% of the diseases which could be otherwise prevented, especially acute respiratory affections. Some 5% of the deaths are due to air pollution.”<sup>32</sup>

In USA, there live some 4.6% of the world population, and in this country it is consumed 25% of the oil which is consumed at global level;<sup>33</sup> it could easy be observed that there are emitted 25% of the CO<sub>2</sub> emitted at global level. But what it is noteworthy to be mentioned is the fact that 68% of the fuel consumption in the USA is due to *transportation*, 96% of the fuel demand for transportation being satisfied by oil.<sup>34</sup> Another source hints that on the American roads, there is consumed every day almost half of the oil quantity which is supplied daily on the global oil market.<sup>35</sup>

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<sup>27</sup> *ibidem*, p. 372

<sup>28</sup> *ibidem*, p. 373

<sup>29</sup> Mircea Malița, *Zece mii de culturi, o singură civilizație. Spre geomodernitatea secolului XXI*, București, Editura Nemira, 1998, p. 211

<sup>30</sup> *White Paper (2001)*, p. 32

<sup>31</sup> Ciprian – Benjamin Benea, *Regimuri și negocieri în comunicațiile internaționale*, București, Editura Academiei Române, 2007, p. 165

<sup>32</sup> Prince El Hassan bin Talal, *Comuniqué at Third Environment Forum Global Foresight Lecture*, Magdeburg, Germany, 17<sup>th</sup> November 2003

<sup>33</sup> John Deutsch, James R. Schlesinger and David G. Victor, *National Security Consequences of U.S. Oil Dependency*, Raport Nr. 58, October 2006, Council on Foreign Relations, p. 4

<sup>34</sup> *ibidem*, p. 13

<sup>35</sup> Keith Suter, “Is the World Running Out of Oil?” in *Austrian Environment Review*, Februarie 2006

If we look back to European continent, we could observe that in 2001 there could be identified an *inequality* in the development of different modes of transport. Of course, this reflects the high adaptability of some modes of transport to the market economy's needs, and the fact that some external costs haven't been internalized in the total cost of transportation, too, and the fact that some regulations in the social and safety fields haven't been fulfilled – especially in road transport sector.

As a result, in 2001, in EU, road transport provided the transport of 44% of the quantity of goods carried on in Europe, while maritime transport on short distances provided 41%, the inland waterways provided only 4%, and railway transport 8.4%.<sup>36</sup> A quick look to the USA transportation system, and we could see that there are carried on the railways over 40% of the goods transported in that country.<sup>37</sup>

The domination exerted by road transportation in Europe, to the detriment of the rail transport, is much more visible in the case of transport of people: in 2001, 79% of Europeans voyaged on roads, while air transport counted with 5%, and the rail transport with only 6%.<sup>38</sup> This gives over costs: the projections for 2010 indicated the fact that, if there nothing is done, the road congestion would rise significantly, and the cost due to this rising would increase with 142%, reaching the amount of € 80 mld. – 1% of Community National Gross Product.<sup>39</sup>

Linked to the road transportation's development are the *risk* of transport, and *pollution*. As we can observe from Green Paper of European Commission of November 2000, regarding European energetic security, in 1998, the energy consumption in transportations gave 28% of CO<sub>2</sub> emissions, the main gas which gives birth to greenhouse effect, with fundamental implications *vis-à-vis* climate change. If there aren't taken concrete measures regarding the slowing down of the pollution due to transportations, in 2010 the CO<sub>2</sub> emissions resulted from this human activity will be higher with 50%, in comparison with the level registered in 1990. The quantity of CO<sub>2</sub> emissions will be 1113 mld. tones, in comparison with 739 mld. tones of CO<sub>2</sub>, in 1990.<sup>40</sup>

Once again, road transportation is the most negative factor – 84% of CO<sub>2</sub> emissions due to transport, results from road transport,<sup>41</sup> urban transport contributing with 40% of CO<sub>2</sub> emissions which are responsible for climate changing.<sup>42</sup> Studies made for the identification of the factors which contribute to climate change blame in great measure on *the fossil fuels*. Over half of the fuel consumption made in transportation sector is due to private owned cars! And road transport totally depends on oil, 67% of fuel demand being determined by road transport.<sup>43</sup>

It is noteworthy to be mentioned that in Europe, in year 2000, in comparison with 1970, the number of private owned cars was three times higher, from 62500000 millions to 175000000 millions.<sup>44</sup> Every day 10 hectares of land are covered by new roads, with concentration in the areas situated at distance from the geographical center of European continent, where the highways density rose with 43% in ten years (1988 – 1998),<sup>45</sup> the length of highway tripled in Europe between the year 1970 and 2000.<sup>46</sup>

In the same period (between 1970 and 2000) the amount of goods carried on railways dropped from 21.1% to 8.4% (from 283 tones-kilometer to 241 tones-kilometer, respectively).<sup>47</sup>

Regarding airway transportation, the passenger-kilometer indicator has been registering in Europe a yearly rising of 7.4% since 1980.<sup>48</sup> Every day over 25000 airplanes fly over European continent, and this number tends to double in 10 to 14 years.<sup>49</sup> Although the sky seems immense, this *high traffic density* gives birth to significant problems: the rising number of delays is a clear sign of saturation. Beginning with the year 2000, there have been registered significant delays at arrivals on the destination airports: a medium of one in six flights delayed 22 minutes.<sup>50</sup>

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<sup>36</sup> *White Paper*, (2001), p. 7

<sup>37</sup> *ibidem*, p. 10

<sup>38</sup> *ibidem*, p. 7

<sup>39</sup> *ibidem*, p. 8

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<sup>47</sup> *ibidem*, p. 25

<sup>48</sup> *ibidem*, p. 35

<sup>49</sup> *ibidem*, p. 35

<sup>50</sup> *ibidem*, p. 35 (n. 18)

As a result, the pollution due to airway transport rises, too. And it is not an aspect with little significance when during a fly between Amsterdam and New York, an airplane emits one tone of CO<sub>2</sub> for each transported passenger.<sup>51</sup> The airplane's keeping on flying over one crowded airport due to saturation, rises the degree of phonic and chemical pollution.

Regarding the transport of passengers, the railways sustained the rising of the number of passengers transported from 217 mld. passengers-kilometer (1970) to 290 mld. passengers-kilometer (1998).<sup>52</sup> But the quota of railway transport on the transport market dropped from 10% to 6%, due to the rising of road and airway transport quotas. Airway transport is like road transport regarding passengers-kilometer indicator.<sup>53</sup>

It is noteworthy to be mentioned that at the level of the 15 member states of EEC, the European Environment Agency identified only 3 millions peoples disturbed by the noise generated by railway transport, while the same study indicated that 24 millions people were disturbed by road transport and 40 millions by airway transport.<sup>54</sup> But between 1995 and 2004 road transport in Europe rose 17% (transport for people) and 35% (transport of goods).<sup>55</sup> That for, there could be identified in White Paper (2006) mentions regarding actions to be taken in transportation field and which are focalized upon:<sup>56</sup> energy using; infrastructure; innovation; new transport technologies (for example high speed trains).

And if in the US trains which carry goods don't share the same rail infrastructure with passenger trains, why this example couldn't be taken at European level, where nowadays trains loaded with goods share the same infrastructure with train passengers?

Taking account of these things, the reduction of dependency on oil from the level of 98% (2001) through focalization upon alternative sources of fuel and through the energy efficiency's rising for all modes of transport – especially in railway transportation field – is both, an ecological necessity, and a technological provocation, too. There appears the necessity to broke the existent connection between the transportation's development and economic development; but this thing cannot be achieved over night, when rail transport has constantly recorded a deterioration during last 60 years, and as such, nowadays in Western Europe this type of transport is collated with a real marginalization, hitting only the level of 8% (goods transport) and 6% (passengers transport). There is a known fact, and in the same time a worry factor: the medium commercial speed for trains which carries on goods in Europe is only 18km/h,<sup>57</sup> speed which is lower than that one developed by an icebreaker which opens a navigational route through the waters of a frozen sea. And this when it is known that a modern economy as that one of the United States provide 40% of transport of goods using the system of railway networks.

Although in ex-candidate European countries railway transport enjoyed a better position on transportation market – centralized planning being heavy based upon railway transport – the distribution among different modes of transport swayed more and more to road transport, starting with 1990. Between 1990 and 1998 road transport of goods rose by 19.4%, while railway transport declined with 43.5% – but being superior to that one registered in EU-15.<sup>58</sup>

A last presentation of some numbers and we could easy note that the taking of some energetic (even radical) actions is a necessary factor: if congestion affects urban areas especially, European road networks are hit more and more by chronic congestion. Some 7500 kilometers (10%) of European road network (EU-15) is affected by traffic bottlenecks; and 16000 kilometers (20%) of railway network is overloaded; the most important 16 airports in Europe registered over 15 minutes delays for 30% of the flights. Together, these delays determine an yearly extra input of 1,9 mld. liters of fuel – 6% of the fuel consumed yearly in Europe.<sup>59</sup>

The pollution which is due to road and air transportation determines temperature's changes, directly contributing to climate changing; the climate change are the last conflict "generators" which were identified last decades, being preceded by problems as drought, desertification, soil's shading, the fresh water resources' reduction, deforestation, fish stockpiles' reduction, and the ozone layer's thinning. When the scientific community started (during '70s) to discover alarming proves regarding human activity, considering it to be the main element which

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<sup>51</sup> *ibidem*, p. 39 (n. 27)

<sup>52</sup> *ibidem*, p. 33

<sup>53</sup> *ibidem*, p. 33

<sup>54</sup> *ibidem*, p. 33

<sup>55</sup> *White Paper*, (2006), p. 23

<sup>56</sup> *ibidem*, p. 45

<sup>57</sup> *White Paper*, (2001), p. 10

<sup>58</sup> *ibidem*, p. 9

<sup>59</sup> *ibidem*, p. 7



determines climate change, the emerging problem of global warming was regarded by political leaders – when it wasn't totally ignored – as a subject which deserved only marginal attention, which should be administrated by environment ministries.<sup>60</sup> Starting with '90s, the climatic modeling has become more and more sophisticated, political leaders starting to accept that they should look for and identify *the solutions* for reduction of emissions which gave birth to greenhouse effect. Because these measures impose dramatic changes regarding fuels consumption, climate changing has quickly become a problem with economic and energetic connotations. Much more, in the last years the language utilized for climate change's descriptions received a more stringent tone, this problem being regarded as a *menace* for international peace and security.<sup>61</sup> Climate changes threaten both hydrological and alimentation security, the resources' allocation, and the people which leave along the seashores, elements which can easy generate compulsory and uncontrollable mass migrations, which inevitably would generate tensions and desperate conflicts.

Even these scenarios become more and more plausible (we can already see the conflict in Darfur – Sudan), a common ground and a solution for this problem, which receives a chronic character, is very difficult to be found: the negotiations' collapse in The Hague, regarding climate change (December 2000) can be a good proof in this direction.<sup>62</sup>

We could observe that the *reorientation* of transport from roads and air to railways is a necessity; as world population's number continues to rise, and as the proportion of people who own and drive a private car continues to rise in the rising number of world's population, driving a car will transform itself from enjoy (or relaxation) in a harassment, and even in a punishment.<sup>63</sup>

The importance of the advantage which railway has in comparison with the automobile-*hare* and with the airplane-*falcon* resides in the fact that it can bring huge advantage to humankind in the future, when world population will rise and when pollution will become an extremely grave problem at global level. "*The train is ideal solution in the transportation technology field, in order to cope with population's burst in demographical area.*"<sup>64</sup>

The train is the logical instrument for whole and perfect using of technology which achieved the performance of harnessing the huge physical forces for the haulage's benefits. Railways' revitalizing and – taking account of new technologies, which facilitate the construction of TGV rails – the initiation of projects which will have as final point the fulfilling of some new TGV lines should be the "wave of the future". The great speed and the possibility to stop in places which are close to urban centers will make TGV a preferred mean of transport even by those who regard airplane as unique mean of transport which can provide a quick and direct link between two urban centers.

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# AGAINST AND FOR THE HIGH SPEED TRAINS' MULTIMPLICATION

**Benea Ciprian - Beniamin**

*Contact address: University of Oradea, Faculty of Economics, International Affairs Department, Universitatii Street, No 1, e-mail: c\_benea@uahoo.com, or cbenea@uoradea.ro, Tel.: +40. 259. 40 87 99, or +40. 751. 24 99 75*

**Baciu Adrian**

*Contact address: Ministry of Transportation, e-mail: adrianbaciu@email.ro*

*Abstract: In this exposure we intend to make visible the situation in which global warming is given by road and air transport, how could be revitalized railways, and how high speed trains could become a preferred mode of transport. But there is manifesting an opposition to railway development, nurtured by different interests, ranking from governments themselves, to oil importing countries, oil exporting countries, oil companies with their colligate partners situated along the oil distribution chain. But, there could be identified some voices which could create themselves the possibility to speak lauder in order to promote railway transportation. The greens, NGOs, the epistemic communities, for example, could unite their force to make something in order to provide the framework for rail transportation's development, and for road and air transport reduction, for the benefit of while humankind.*

*Code words: climate change, epistemic communities, high speed trains, political costs*

As one could easy observe, the reduction of road and air transport and the development of railway transport hit diverse private interests borne by private and public actors. The reduction of road and air transport can affect: the airplanes' and automobiles' makers; states, which promote the development of these industries for different reasons (for example: risk of unemployment, taxes collected as a result of fuel consumption in transportation in the case of road transport, people's mobility and distraction of their attention); oil companies and companies which are specialized in oil transportation; oil exporting countries; oil importing countries. That for, the implementing of new (and available) technologies which can be successful introduced in transportation sector are hardly introduced in land (and especially road) transportation. But a greater acceptance can be observed in railway transportation, where there was introduced a modern transport technology – this is the case of high speed trains (or TGV). Now, here are presented the elements which can oppose to railway transportation's development. The *opposition* to railway development can come from different directions.

*Automobile factories.* They have great negotiation capacity with the governments where they operate. They have a great number of employees, which, if the automobile factory would stop its production, would be transformed in hundreds of thousands of un-employees. For example, General Motors had 750000 employees at the end of '80s.<sup>65</sup> These people could easy constitute (in) social groups which could give birth to real mass movements,<sup>66</sup> susceptible to be influenced by agitation propaganda,<sup>67</sup> which would push them to act in such a manner that they would generate economic and social costs for that state, and political costs for political leadership from that state, too.<sup>68</sup> Furthermore, too constrictive and radical measures adopted by the governments don't mean that they could adamant and quickly determine a specific action to be taken by automakers; the automakers can easy – due to transportation's globalization – relocate their industry in countries ruled by more open and reasonable governments. That for, it is necessary to be taken similar political actions in more countries (and the perfect situation could be met if there would be taken that sort of actions in all countries), in the same time, regarding road transport and automobiles' production. The importance of actions which would be taken by all countries in the world is given by the fact that global warming is not a geographical limited phenomenon, but a global one, and pollution due to transportation in one country affects people and environment everywhere on the Planet. The reduction of opposition from the automobile producers and of the governments regarding the construction of new railways, and the railway transportation's revitalizing could be achieved through automobile producers'

<sup>65</sup> Francis Fukuyama, *Încredere. Virtuțile sociale și crearea prosperității*, Filipeștii de Târg, Editura Antet, 2002, p. 87

<sup>66</sup> William Kornhauser, *The Politics of Mass Society*, London, Routledge and Kegan Paul, 1960, p. 167

<sup>67</sup> Jacques Ellul, *Propaganda. The Formation on Men's Attitudes*, New York, Vintage Books, Edition, 1973, p. 72

<sup>68</sup> Walter Lippmann, *Public Opinion*, New York, Free Press Paperbacks, 1997, p. 158

cooptation in new railway projects' building and through the encouragement of these kinds of investment through the powerful leverage given by credit's management.

*Colligate industries* of automobile's industry (for example: steel industry, synthetic rubber, or cement industry so necessary for road infrastructure building).

*Aeronautics industry*, due to the fact that railway transportation's development for people transport means the falling down of demand for air transport services, TGV being a viable, and in the same time, a feared competitor for regional (continental) airway transport of persons, especially on medium continental distances. Passengers' reorientation from airplanes to railways when they travel over a continuous land mass, which could be crossed by train in the same condition means incomes' falling down for airway transport companies, and for airplanes' makers, which are economic colossus, in many cases. Of course, intercontinental travel and linking among countries situated on different continents will be provided by planes, but the demand's reduction for airway transport over the continents (where can be found the most prosperous societies) will influence the airways companies' incomes, in a negative fashion.

*Airway colligate industries*, because a little demand for airway passenger transport services means the reduction of the demand from the airway companies' side, and of products and services provided by those colligate industries. *Each state* has special interests *vis-à-vis* aeronautic industry – due to special military interests – and none can afford to reduce too much this activity, because national security could be very affected.

*Countries which import oil*, which are in most cases very industrialized countries, with major interests in oil producing countries and areas. The connection given by oil have given birth to political and diplomatic relations with *special character* and the reduction on oil import, due to the reduction of demand of fuel for transportation, could dramatically influence the evolution of these relations, moment which could be seized by *other states* with special interests in those states (areas).

*Countries which export oil*. The reduction of oil export means a dramatic reduction of their foreign currency incomes. Some oil exporting countries depend in a crucial manner of this product's selling on global oil market and the oil export's stinting would deprive those economies of the money through which their governments can still rein a discontented population (as we can find for example in Central Asian states<sup>69</sup>). And when petro-states stop selling oil, social and political instability had already entered the arena, and domestic social movements, and the wars on the international stage can manifest with a force which cannot be reined. Of course, this destabilization would hurt the gigantic oil companies' interests,<sup>70</sup> and as such, it could be an element which could contribute to the identification of some common interests regarding the perpetuation of road and airway modes of transport. The demand for oil from these two economic sectors is based on common interests, too, from the automobile makers' side, importing and exporting oil countries' side, and financial institutions which lend credit to oil exporting countries – because as they sell oil, they can pay for their borrowings and interests imposed upon those borrowings – and oil companies, which had invested a lot in their drilling and transportation pipelines facilities.

*Oil companies*, which can be pushed into a desperate situation, because, if the demand for oil is reduced, they wouldn't recover in an optimum period of time their investments in drilling and extraction facilities and transportation pipelines. The oil demand's retrenchment could be compensate by a rising in oil prices, but this is a measure which can succeed over a short and medium period of time, at it can help in the same time oil exporting countries which could have a hostile attitude regarding other states.<sup>71</sup>

*Maritime carriers*, which are specialized in oil transportation and its derived products. This is an important aspect when the most part of world maritime fleet (approximate 38% of total maritime fleet's tonnage<sup>72</sup> is destined for oil products' transportation). The surplus of maritime transport capacity is an element which is politicized very quickly, and it could generate tensions among different states with special maritime interests, taking account that

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<sup>69</sup> Terry Linn Karl, "Crude Calculations: OPEC Lessons for the Caspian Region", in Robert Ebel and Rajan Menon (eds.), *Energy and Conflict in Central Asian and the Caucasus*, Lanham, Maryland, Rowman & Littlefield Publishers, Inc., 2000, pp. 29-33

<sup>70</sup> Jill Shankleman, *Oil, Profits, and Peace. Does Business Have a Role in Peacemaking?* Washington DC., USIP Press, 2006, pp 40-49

<sup>71</sup> Lutz Kleveman, *The New Great Game. Blood and Oil in Central Asia*, New York, Grove Press, 2003, p. 123

<sup>72</sup> Gheorghe Caraiani și Mihai Serescu, *Transporturile maritime*, București, Editura Lumina Lex, 1998, p. 72-73

they wish to preserve their national maritime capabilities in a very competitive environment, specific to maritime transport.<sup>73</sup>

*The governments where there could be fulfilled a project which focalizes upon high speed railway infrastructure's building.* The building of such a railway project means enormous sum of money, a big investment project, which needs a very long time for its amortization, and the effort which a government makes can produce effects only in the long run. And as usually, we find each government preoccupied by *immediate* benefits of its actions and not by activities which bring benefits in the long run, the political leadership itself could be reticent in the adoption of measures which would have the finality in the railway infrastructure's construction/or development. The great economic costs (and even the social costs) generate by such a project can be transformed in political costs for the governments and the party/parties which promote that project, because those people which are taxed in order to finance that project's fulfilling might not be among the people which would benefit by that project advantages, and this is due to the long period of time needed for such a project's realization. This means a too great waiting in order to obtain a too much postponed benefit, in detriment of a big *present cost* – this perception found in public opinion spirit could easy be transformed in political capital loosing, for the benefit of the opposition, which can successful seize the moment to gain power.

That for, it is important that similar actions to be taken by political leadership from more states, aiming at railway transport's revitalizing and modernizing, because in each state they will face the same problems, generally speaking. A similar action taken simultaneously in more countries could reduce political risks to which that states' governments are exposed – all of them have the common interest to remain in power and all of them face the fear of being thrown in opposition. The opposition regarding oil consumption's reduction is based upon economical-financial motivations, and political and social interests, too. Notwithstanding, imminent dangers which the world will face, if there aren't take specific actions regarding the reduction of pollution with CO<sub>2</sub> due to road and airway transport activities, could constitute determinant factors regarding the conception of a strategy which would focalize on the reduction of road and airway transportation, without affecting the *mobility* of goods and people, and regarding from this angle, the only viable and realistic alternative is *the railway*. The lobby for railway's development and construction could come from different groups.

The *nongovernmental organizations (NGOs)* which are focalized on environment's preservation and protection, on water and air cleanness, which in the last decades are strongly felt on global arena, due to the using of modern means of communication (as the Internet), which facilitates their "voice" to be spread anywhere in the world. The connections among NGOs could give birth to the premises of a collective action, regarding the acceptance of railway by the spirit of public opinion.

The *greens*, which achieved visibility in some European states due to their effervescent actions, and due to the necessity for providing a sustainable development, in a clean medium.

*Epistemic communities.* For the science and knowledge to create a impact upon states' actions (and in order to push those states to take some specific actions), they have to enjoy a great acceptance among political leaders in key-positions,<sup>74</sup> there have to be a common understanding regarding the nature of problem which would be solved through the cooperation facilitated by the governing rules, and the adequate means for that aim's attaining.<sup>75</sup> The epistemic communities – those "networks of experienced and recognized professionals in a specific area, which enjoy a great authority *vis-à-vis* the relevant knowledge in political arena, in a specific field"<sup>76</sup> – have a crucial importance, constituting themselves in thoroughly canals through which *new ideas* flow from society to the government, and from one country to another.<sup>77</sup> It is noteworthy to mention that the science and knowledge provided by epistemic community have a great *impact* upon international cooperation, if at the political level, there would be perceived a high degree of uncertainty, if in the epistemic community there could be identified consensus regarding the debated problem, and if there is identified a (high) degree of institutionalization of counsels given by scientists. The climate changing poses a real challenge for political leadership, regarding the

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<sup>73</sup> Mark W. Zacher and Brent A. Sutton, *Governing Global Networks. International Regimes for Transportation and Communications*. Cambridge, Cambridge University Press, 1996, p. 38

<sup>74</sup> Stephen D. Krasner, "Structural Causes and Regime Consequences: Regimes as Intervening Variables", in Stephen D. Krasner (ed.), *International Regimes*, Ithaca and London, Cornell University Press, 1983, p. 19

<sup>75</sup> Andreas Hasenclever, Peter Mayer and Volker Rittberger, *Theories of International Regimes*, Cambridge, Cambridge University Press, 2001, p. 149

<sup>76</sup> Peter M. Haas, "Introduction: Epistemic Communities and International Policy Coordination", in Peter M. Haas (ed.), "Knowledge, Power, and International Policy Coordination", Special Issue on *International Organization* 46, no. 1, 1992, p. 3

<sup>77</sup> Andreas Hasenclever, Peter Mayer and Volker Rittberger, *op. cit.*, p. 149

causes which generate this phenomenon, and regarding the right measures which should be taken. The institutionalization of epistemic community's actions – which can easily spread and share knowledge at the global level, due to modern means of communication – could play a crucial role in *political innovation*, because the epistemic community can shape in this way the framework and the form of the subjects which would be debated in collective multilateral talks. The Nobel Prize's conferring in 2007 to a renowned member of epistemic community could be regarded as a good example for those mentioned above.

Having in consideration these elements, the realization by the scientists of the *importance of railway revitalizing* and of the development of railway transportations (especially TGV), and the focalization of their attention upon this aim, could constitute a vital premise for this objective's attaining. The pressure which could generate a united voice of the epistemic community from all UE member states upon a political leadership, looking hopeless for viable solutions with impact in economic, social, and political fields, regarding the adoption of specific measures for the railway transport's development, could have the so much desired effect: the reduction of oil dependency, of pollution, of congestion and road accidents, providing in the same time a high degree of mobility for people at European level, on "steel roads", which could ensure the healthy development for the *European political body*.

*International public opinion* which could be mobilized for the limiting of the risks which the pollution's rising has upon human beings, animals' and plants' health, upon climate changing, with all negative elements which these triggers with it: the rising number of (infectious) diseases, the appearance of extreme meteorological phenomenon (torrential rains, strong storms and winds, hard frosts, prolonged droughts), the disappearance of some kind of plants and animals, disappearance of drinking water in some parts of the globe, the reduction of agricultural production, with famine which it would trigger with it, the rising sea water's level (due to ice melting on the seas which before were frozen), and other events which couldn't be foreseen and controlled.

The shortage of food and water, and the rising of the sea water level immediately would trigger with them *social phenomenon* as *massive emigrations*, which would create social, economic, and political destabilization in great parts of the Planet. In that moment, the massive migration pressed by the great desire of *survival* could constitute the reason for the war, initiated by despaired people, with all negative consequences triggered by this. If we add to famine, the drought, diseases, and the war, we could ask the following question: *Could we live anymore on this ravaged Planet?* The answer is an alarming one and worrisome, too.

The redirection of automobile makers' and road infrastructure builders' interests from road interests to railways and railway transportation, respectively to co-opt these business men to support the construction of railways for high speed trains is an crucial element in order to reduce the pressure which they could pose for the continuity of road transport development, and for the facilitation of railway transportation development, generally speaking, and TGV, especially. The levers as preferential *credit* loans for railways infrastructure builders and as taxes imposed upon the users of a *specific* type of infrastructure, could promote the development of railway transport and, in the same time, to the reduction of road transport.

During history, the desire of people was the "building" of some elements which could provide them the means for the creation of a sole human family (in the geographical space which was known in different historical periods), constructing for this purpose great projects in the civilization's field, and the means employed for this purpose are different from one historical period to the other, nowadays the *communications* can make this dream become a reality.

The first try regarding the demonstration of collective human force is linked to Shinarump, where took place, as the old writings mentioned, the appearance of different languages spoken by different *people* – cultures' and identities' sources. There were employed different instruments from the political and religious arsenal in order to construct a *universal state*, which brought together people which spoke different languages and had the same religious beliefs, but all these tried measures fallen the test of time. Now, there appears the possibility to make this dream to become a reality: the technical means, working for the welfare of the humankind, providing this frail being to survive in a peaceful world, in a world in which people could perceive themselves as beings which travel *together* on the Earth, brothers which could now see themselves that they are true brothers.<sup>78</sup>

If the projects in transportation field possess these general characteristics, to these we can add in the case of railway transportation projects some peculiar characteristics, which confers this type of transport something specific elements, something unique. A person who can find in a given geographical area electrical cables and

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<sup>78</sup> Archibald McLeish, citat în Mark W. Zacher, "The Decaying Pillars of the Westphalian Temple: Implications for International Order and Governance", in James N. Rosenau & Ernst-Otto Czempiel (eds.), *Governance without Government: Order and Change in World Politics*, Cambridge, Cambridge University Press, 1992, p. 101

railways, can say that the society in that area is a civilized one. The appearance of these “lines” in the nineteenth century marked the entrance of humankind in the modernity era. In that moment states could enjoy their available resources – transportations providing the movement of wealth, and the transformation of this wealth in some different products. *In that moment, the humankind could prove itself that its destiny wasn't established once and for all.*

The development of railway transportation – and taking account of the fact that technical innovations support the construction of infrastructures which could provide the high speed trains' displacement – as an alternative to road and airway modes of transport, is given by the necessity to provide the moving of people and goods, in situation in which a limit imposed upon transportation would pose real threats upon economic, social and political actions. As we can see, there appears the necessity to create a viable alternative for road and air modes of transport. These two types of transport are the two which have been registering the most spectacular rising during last three decades, although they pollute very much the environment. The alarming events registered last years (for example hurricanes and droughts) indicate in a tough manner the necessity to do something regarding the development of railway transportation.

But the great merit of railways resides in the fact that, once they are built, they provide a *permanent link* among different geographical points crossed by that railway. Although the vessels, the aviation and the roads could provide the connections among those geographical points, the railways posses a greater impact, in comparison with those means of transport. Even the negotiations carried on for the fulfilling of railways' projects which would cross different states' territories have a great degree of complexity; for example, there must be discussed the gauge, the electrical tension which would be used by locomotive's electrical engine, the type of the system of railway telecommunication, the technical characteristics of the lines which provide the train's carriage with a specific length, mass, and speed, and other things, which rise the complexity of these negotiations. If the vessels and airplanes could relatively easy change their routes and the geographical points to which they provide connection, furnishing to a state the possibility to change rapidly its connections, and for the people (and society if that state) to re-orientate easy on the global arena, providing *mobility for the foreign policy of that state*, and if the road infrastructure, once it was built provide some stability in that state's foreign policy, *the railways*, once they are built, connect much strongly the states which territories are crossed by that railway. The force of the link is given by the “steel” force, and the railways' capacity of transport is superior to the capacity of roads. Once these railways are constructed, they push the building states to a *common orientation* in the future, and even there could take place a change in the governments of those states – due to elections – the next government couldn't ignore the preexistent link. Airplanes and vessels could be easy reoriented from the airports and ports situated in a state with which the flag state hasn't the best relations, but the railways, once they are constructed, cannot be “removed”, limiting in this way the “freedom of movement” of a government.

The high speed railways provide a great mobility for people, in *safety conditions*, and without the necessity of traveling from the airport to the urban center served by that airport. But as the traveling intensify, people could know and better understand the people from other cultures, and at social level there could birth convergent expectations, which, in the long run could give birth to social institutions which would work independently. It would be hard for a government elected in a democratic manner to look for dramatic changes in the foreign policy, when at social level – due to connections created because the existence of transportations facilities – the trend of public opinion oppose to this orientation. A political action which would be deviated from the used trend cannot succeed, because the customs, and human minds don't change so rapidly as the changing which we could identify at political and ideological level.<sup>79</sup>

A hostile position regarding a government, together with which a specific country constructed a railway could be very hard be sustained by that country's government, because that action will not be regarded as legitimate by that country's public. And if this kind of “railway” would connect the different states' territories, their (political) *integration* and the establishment of some convergent (and common) actions would be very much facilitated.

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<sup>79</sup> Ivo Andric, *The Bridge on the Drina*, Chicago, The University of Chicago Press, 1977, p. 7

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# INTERNATIONAL SERVICES TRADE PATTERNS AND SPECIALIZATION POTENTIAL: A COMPARATIVE ASSESSMENT

**Bobircă Ana**

*Academia de Studii Economice București, Facultatea de Relații Economice Internaționale  
Str. M. Eminescu nr. 13-15, sector 1, București  
e-mail: ana.bobirca@rei.ase.ro, tel: 0722 219 289*

**Miclăuș Paul-Gabriel**

*Academia de Studii Economice București, Facultatea de Relații Economice Internaționale  
Str. M. Eminescu nr. 13-15, sector 1, București  
e-mail: miclaus@rei.ase.ro, tel: 0723 366 058*

**Lupu Radu**

*Academia de Studii Economice București, Facultatea de Relații Economice Internaționale  
Str. M. Eminescu nr. 13-15, sector 1, București  
e-mail: ralupu@gmail.com, tel: 021 319 19 90*

**Ungureanu Ștefan**

*Academia de Studii Economice București, Facultatea de Relații Economice Internaționale  
Str. M. Eminescu nr. 13-15, sector 1, București  
e-mail: stefan.ungureanu@lycos.com, tel: 021 319 19 90*

*The main purpose of this paper is to comparatively examine the international competitiveness of services trade, by determining its pattern and structure of specialization for Romania and Bulgaria, on the EU-25 services market. In other words, the research attempts to identify Romania's and Bulgaria's ability to overcome difficulties and challenges that might arise from the hard competition within the enlarged EU, in the field of foreign trade in services. To this end, the paper attempts to suggest a multilevel framework for assessing the international competitiveness of Romania's and Bulgaria's services trade.*

*Key words: international services trade, international competitiveness, specialization*

## **Introduction**

Throughout the 90s, Southern and Eastern European countries have liberalized and reformed their economies to a varying degree. This together with the differences in their services sectors development, industrial base, administrative reforms and political framework, has led to different developments in services trade structure and comparative advantages. Several studies have assessed the evolution of the trade patterns in the transition economies, mainly based on manufacturing sector statistics. The attention was given especially to the former ten accession countries, i.e. transition countries seeking EU accession. The present work aims to extend these studies to the Romanian and Bulgarian economies, as a dearth of empirical research has been carried out up to now.

The purpose of this paper is therefore two-fold. First, it attempts to show how the Romanian and Bulgarian specialization in services trade has evolved over time. Second, it seeks to comparatively examine the international competitiveness of the EU-25, Romanian and Bulgarian services trade and to subsequently determine the competitive position of Romania and Bulgaria on the EU-25 services market. The remainder of the paper is organized as follows. Section 2 reviews the different ways of measuring services trade competitiveness and exposes the considered indices for the empirical analysis. Section 3 presents the empirical evidence on the patterns of trade specialization in Romania and Bulgaria; it illustrates the EU-25 countries', Romania's, and Bulgaria's recent performance in services trade, based on a four-dimensional framework for measuring international services trade competitiveness. Section 4 concludes.

## Methodology and data

For the comparative assessment of the EU-25 countries', Romania's, and Bulgaria's international competitiveness of trade in services, the underlying methodological approach undertaken in this paper is based on a multilevel model encompassing a combination of four indices: (1) *Revealed Comparative Advantages (RCA)*, for which we use a version of Balassa's formula (Balassa, 1965); (2) *Comparative Export Performance (CEP)* (Donges, 1982); (3) *Trade Overlap (TO)* (Finger & De Rosa, 1979) for the calculation of the overall importance of intra-industry, in comparison with inter-industry trade; (4) *Export Similarity (ES)* (Laaser & Schrader, 2002), in analogy to the TO index.

(1) As a first step, we attempt to measure the international competitiveness of EU-25, Romania, and Bulgaria in services trade by using RCA indices. The original RCA index was developed for measuring the degree of a country's specialization in individual industries through data on international trade in goods. The focus in this study, however, is on trade in services. A fundamental element of the RCA is the law of comparative advantage, which assumes trade in goods. Some existing studies, however, have indicated that the law of comparative advantage is applicable to international trade in services, as well as in goods. Both Hindley and Smith (1984), and Deardorff (1985) examined the relevance of the law of comparative advantage for trade in services, and they confirmed the applicability of the theory in each examination. Sazanami and Urata (1990), pioneers in the study of trade in services, used an econometric method to show the significance of comparative advantage to trade in services. Their work also supported the transferability of the theory. There are a number of ways to examine whether or not a country has a comparative advantage in the export of a certain service. One common method is to determine how specialized a country is in the export of a service activity through constructing "Balassa indices" (Balassa, 1965). The formula we use here to measure a country's revealed comparative advantage (RCA) in services trade is given by:

$$RCA_{i,A} = \frac{X_{i,A}}{\sum_i X_{i,A}} \bigg/ \frac{\sum_A X_{i,A}}{\sum_i \sum_A X_{i,A}} \quad (0.1)$$

where  $RCA_{i,A}$  represents the revealed comparative advantage for the services sector  $i$  of country  $A$  and  $X_{i,A}$  corresponds to the exports of the services sector  $i$  by country  $A$ . This formula represents the ratio of domestic specialization (numerator) against that of world specialization (denominator). When one sector has  $RCA > 1$ , it has a comparative advantage; when it has  $RCA < 1$ , on the other hand, it has a comparative disadvantage. The higher (lower) the RCA index, the more (less) successful the trade performance of the country in question is in a particular service activity. The RCA reflects both the competitiveness in the domestic sector and the world supply capacity.

(2) As a second step, we estimate the structure of international competitiveness in services trade for EU-25, Romania, and Bulgaria, corresponding to the years 2003, 2004, and 2005. The comparative export performance (CEP) index (Donges, 1982) is also based only on export shares and therefore allows for a comparison of findings between the first two indices. The formula we use to measure the CEP index is given by:

$$CEP_i = \frac{X_{i,A}}{\sum_A X_{i,A}} \bigg/ \frac{\sum_i X_{i,A}}{\sum_A \sum_i X_{i,A}} \quad (0.2)$$

where  $CEP_i$  represents the comparative export performance for the services sector  $i$  and  $X_{i,A}$  symbolizes the exports of services sector  $i$  by country  $A$ . CEP index values above (or below) unity mean that the particular services sector has a larger (lower) share in the total exports of the analyzed country than the corresponding EU-25 or world share. Thus, the country in question can possess a relative advantage (or disadvantage) in the export of those services.

(3) Thus, as a further step, we consider the overall importance for Romania, Bulgaria, as well as for the EU-25, of intra-industry in comparison to inter-industry specialization in international services trade, by calculating trade overlap (TO) coefficients, at sectoral level. The intra-industry trade suggests how and to what extent the economy in question is already integrated into the world market, as well as the degree of liberalization that the economy has already realized throughout the economic development process. TO coefficient measures the level of specialization in the international trade of a particular services sector relative to the international trade between

different services sectors of the economy. The formula we use to measure the trade overlap (TO) coefficient is given by:

$$TO_i = 2 \times \sum_i \min(X_{i,A}, M_{i,A}) / \sum_i (X_{i,A} + M_{i,A}). \quad (0.3)$$

where  $TO_i$  represents the trade overlap for the services sector  $i$  and  $X_{i,A}$  and  $M_{i,A}$  correspond to the exports and, respectively, the imports of services sector  $i$  by country A; "min" defines the magnitude of total trade that overlaps. The coefficient can vary between zero and one. The closer it comes to unity, the more intra-industry specialization exists. A lower coefficient implies that trade takes the form of inter-industry specialization.

(4) Finally, we calculate whether or not the exports of Romania, Bulgaria, or EU-25 overlap in the period 2003–2005. Coefficients of export similarity (ES) are computed using the formula of Finger and Kreinin (1979), which measures the proportion of a country's exports matched by its competitor's exports in the same service category. The first step in the analysis is to calculate, for individual countries, the share of each services sector exports in total services exports. These shares are then compared between countries to obtain a measure of services export similarity. The Finger-Kreinin statistic is defined as follows:

$$ES_{A,B} = \sum_i \min(X_{i,A} / X_A, X_{i,B} / X_B). \quad (0.4)$$

where  $ES_{A,B}$  represents the export similarity of countries A and B;  $X_{i,A}/X_A$  refers to the services sector  $i$  share in total services exports of country A;  $X_{i,B}/X_B$  refers to the services sector  $i$  share in total services exports of country B.

The ES coefficient can vary between zero and one. The closer it comes to unity, there is a greater degree of similarity between two countries (countries have identical export patterns - intra-industry trade) On the other hand, a finding of zero indicates no export similarity between the countries in question, as well as no overlap - inter-industry trade. Finger-Kreinin is a relative index in that it compares the sector share in total exports of one country with respect to another.

In calculating these indices, the sample data is drawn from UNCTAD, EUROSTAT, and IMF - Balance of Payments Statistics on trade in services by sector, a data-set which covers exports and imports of three principal services categories: *transportation, tourism and travel*, and *other commercial services*, according to the concepts and definitions of the IMF Balance of Payments Manual. The data-set comprises the EU-25 countries, Romania, Bulgaria, and the world (178 countries) and covers a yearly time period counting 2003, 2004, and 2005.

## Results and discussion

### *Revealed Comparative Advantage*

The main conclusions to be drawn from the RCA indices of Romania's, Bulgaria's, and EU-25' services trade by sector, calculated in relation to the world and to the EU-25 states, respectively (only for the former two countries), for the years 2003-2005 are (see table 1): (a) for *transportation services*, Romania and Bulgaria have a revealed comparative advantage, both in their trade with the world and in relation to EU-25; the revealed comparative index is higher for the trade with the rest of the world, which demonstrates a lower degree of specialization in Romania's and Bulgaria's transportation services trade with EU-25; it is noteworthy that EU-25's specialization in such services is slightly increasing, with EU-25 switching to a comparative advantage in 2005; a similar pattern can be observed for Bulgaria's trade with EU-25, whereas for Romania the situation is different (higher comparative advantage, but declining); (b) for *travel services*, Romania's and Bulgaria's specialization index is higher in their trade with the EU-25 countries than in that with the world at large, with Bulgaria being in a stronger competitive position than Romania; EU-25 appears to have a comparative disadvantage for the export of such services, with a tendency to raise its degree of specialization, against an increase of the world market size for such services; while Romania is slightly reducing its comparative advantage in relation to EU-25, Bulgaria is improving its position; (c) for *other services*, whilst the international context looks unfavorable, there appears to be an increase of the degree of specialization in the export of such services for Romania, both in its trade with the world and with EU-25; the EU-25 states have a comparative advantage in trading with these services, that is somewhat worsening in time. Bulgaria's situation, in this case, is considerably weaker than Romania's.

## Comparative Export Performance

The main conclusions to be drawn from the CEP indices of Romania's, Bulgaria's, and EU-25' services trade by sector, calculated in relation to the world and to the EU-25 states, respectively (only for the former two countries), for the years 2003-2005 are as follows (see table 1): (a) Romania and Bulgaria appear to have been maintaining their initial position of comparative advantage in the export of *transportation services*, both in relation to the world and to the EU-25 countries; both Romania's and Bulgaria's comparative advantages are stronger with respect to their overall international trade; EU-25 countries are improving their relative advantage in the export of transportation services; in the case of Romania, the results show that the country is highly competitive in terms of export performance in these services; (b) concerning *travel services*, Romania is decreasing its competitiveness, with CEP values below the unity and seems to be losing its advantages in trade with the EU-25 countries, whereas Bulgaria is strongly improving its relative advantage, especially in relation to EU-25; (c) the results for *other services* indicate that EU-25 states are best positioned for these services, although registering a slight decrease; Romania and Bulgaria have a relative disadvantage in the export of such services, much stronger for Bulgaria. The trade patterns for the two countries analyzed and for EU-25, which have been revealed by the RCA indices, are generally and to a large extent confirmed by the CEPs.

## Trade Overlap

The main results obtained from the estimations of the TO coefficients by services sector for the years 2003, 2004, and 2005 are as follows (see table 1): (a) Romania approaches intra-industry specialization in all three services sub-sectors analyzed; in all service activities, almost the entire value of its exports to the world is offset by similar imports; the situation is comparable in respect to exports and imports towards EU-25 countries, with a slight difference for *transportation services*, that tends to be offset in time; interestingly, Bulgaria's economy indicates the characteristics of intra-industry trade mainly for *transportation* and *other services*, in its trade with the world; (b) we notice, in Bulgaria's case, an important increase for *travel services* in their intra-industry specialization in trade with EU-25 countries; (c) as expected, the TO coefficients for EU-25 come close to unity. This emphasizes that the EU-25 has already realized full intra-industry specialization in its services trade with the world; (d) Romania's intra-industry specialization in *other services*, in its trade with EU-25 is somewhat declining, suggesting a potential for an appearance of the characteristics of inter-industry trade for this heterogeneous group of services.

	Romania-world			Bulgaria-world			EU-25-world			Romania-EU-25			Bulgaria-EU-25		
	R CA	C EP	T O	R CA	C EP	T O	R CA	C EP	T O	R CA	C EP	T O	R CA	C EP	T O
Tran sp.															
2003	1. 87	1. 87	0 .97	1. 24	1. 24	0 .98	0. 94	0. 94	0 .99	1. 59	1. 59	0 .82	0. 99	0. 99	0 .85
2004	1. 93	1. 93	0 .98	1. 13	1. 13	0 .97	0. 95	0. 95	0 .97	1. 53	1. 53	0 .88	1. 15	1. 15	0 .61
2005	1. 45	1. 43	0 .99	1. 33	1. 33	0 .96	1. 08	1. 08	0 .96	1. 42	1. 42	0 .96	1. 10	1. 10	0 .80
Trav el															
2003	0. 52	0. 52	0 .97	1. 93	1. 93	0 .78	0. 93	0. 93	0 .99	1. 00	1. 00	1 .00	2. 29	2. 29	0 .75
2004	0. 49	0. 49	0 .97	1. 94	1. 94	0 .76	0. 90	0. 90	1 .00	0. 93	0. 93	0 .97	2. 14	2. 14	0 .61
2005	0. 80	0. 80	0 .92	2. 11	2. 11	0 .70	0. 95	0. 95	0 .99	0. 80	0. 80	0 .99	2. 35	2. 35	0 .93
Othe r															
2003	0.	0.	0	0.	0.	0	1.	1.	0	0.	0.	0	0.	0.	0

	90	90	.99	38	38	.92	06	06	.95	78	78	.98	37	37	.60
2004	0. 87	0. 87	0 .94	0. 40	0. 40	0 .99	1. 08	1. 08	0 .94	0. 82	0. 82	0 .94	0. 40	0. 40	0 .53
2005	0. 94	0. 94	0 .99	0. 34	0. 34	0 .89	0. 99	0. 99	0 .94	0. 92	0. 92	0 .94	0. 33	0. 33	0 .87

Source: own computation

**Table 1. Framework for measuring Romania's international services trade competitiveness**

### Export Similarity

The estimated ES coefficients (see table 2) show that the degrees of export similarity between Romania and EU-25, as well as between Bulgaria and EU-25 are very high. Also, the export similarity of the Romanian and Bulgarian services exports, with respect to both their trade with the EU-25 countries, is quite low, much weaker than in relation to the world, but strongly increasing in 2005. This means that, as a consequence of Romania's and Bulgaria's accession to the EU, the Romanian services export industries compete, first of all, with exports originating from the EU-25 countries and then from Bulgaria, but at a lesser degree. The main question here is whether Romanian services exports bear complementary or substitutive features. Romania has the largest similarity in its services exports structure with the EU-25 countries, with a noticeable increase in 2005.

	Romania- Bulgaria (world)	Romania- Bulgaria (EU-25)	Romania-EU-25 (world)	Bulgaria-EU- 25 (world)	EU-25-World
2003	60.10	19.79	80.29	65.41	96.81
2004	59.28	21.07	78.16	66.71	96.17
2005	66.05	61.76	93.01	64.94	98.31

Source: own computation

**Table 2. Export similarity coefficients**

### Concluding remarks

The results and interpretations of the RCA, CEP, TO, and ES indices allow us to draw some essential conclusions with respect to Romania's and Bulgaria's international services trade competitiveness in the EU:

1. Romania has a specialization potential for *transportation services*, with a quite steady revealed comparative advantage, against the background of an unfavorable evolution of this activity, both at world level as well as at the level of EU-25; more importantly, Romania is gaining ground on the market for *other services*. Bulgaria has a strong and increasing comparative advantage and, consequently, a specialization potential in *travel services*.
2. To a certain extent, Romania has been trying to catch up and attempted to close the services development gap with the EU-25 countries, by the progresses made to reshape its services export structure towards *other services*, especially business services, suggesting that it is beginning to develop the modern services link. For Bulgaria, the results show that it still has a relatively long way to catch up with the European Union, except for *travel services*.
3. Romania's services trade in the three sectors analyzed is on the best way to create more the intra-industry type of specialization. Whereas the Bulgarian economy showed the typical industrialization pattern of developing countries in 2003 and partly in 2004, from 2005 it started to show features of intra-industry trade with the EU market, which points to the fact that the accession process had a positive impact on the services trade pattern of Bulgaria.
4. The accession process had a major influence in reshaping the international services trade structure of Romania, leading to a high export similarity with the EU-25 countries, especially in 2005.
5. In spite of the efforts undertaken by international institutions in order to progress in the knowledge of the services sector, it is necessary to have more extended series and precise statistics than the ones normally provided. The lack of information is especially severe with respect to international services trade. For that reason, in this paper it has been avoided to enter into details with respect to more specific services activities.

6. In macroeconomic terms, the forward linkages and backward linkages derived from the export of services are different, depending on their structure and quality. In other words, the implications for the economy are very different depending on the structure of services exports. The method applied in this paper for the study of the international services trade competitiveness avoids one approach to competitiveness that, at least from a statistical standpoint, seems to be either not specific enough or not operative enough, i.e. the quality and structure of services. These factors are extremely important when analyzing competitiveness, but the statistical approach is quite complex. For this reason, a statistical calculation of competitiveness in terms of quality has not been performed here and can constitute the subject of further research.
7. Becoming a full-member of the European Union will have positive effects on the process of overcoming the existing weaknesses in the services trade diversification and competitiveness of Romania and Bulgaria. Repeating the above analysis in a couple of years could bring results that would support this assumption and particularly prove the positive effects of becoming a European Union member in terms of services trade competitiveness.

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# THE ROLE OF THE PUBLIC SERVICE BROADCASTING IN THE EUROPEAN COUNTRIES

**Budacia Elisabeta Andreea**

*Romanian-American University, Faculty: Management Marketing, 1B Expoziției Ave., Sector 1, Bucharest, andreeabudacia@yahoo.com , 0722.29.92.93*

*Broadcasting in particular has seen remarkable change from the days of single-channel public broadcasting systems. The audiovisual “explosion” is a cultural, social and economic phenomenon of global dimension. The audiovisual sector forms an essential part of Europe’s economic and cultural influence in the world. The fundamental principle of the Union’s audiovisual policy is to provide for the free circulation of reception of trans frontier broadcasts. So the European audiovisual industry is likely to become a stronger and more competitive player on the global scene. The future of public service broadcasting in Europe is increasingly challenged by unfavorable external factors, such as intensifying competition from commercial media, media concentrations, political and economic interests adversary to independent media, and by internal difficulties, such as cost ineffectiveness.*

*Key-words: European Audiovisual Policy, public service broadcasting, audience market share, cultural obligations, license fee*

The last 60 years have seen the field of communications change from one where telephone, telegraph and radio defined the field to one where television, cable, cellular and satellite only scratch the surface of modern digital communications. The next 60 years promise to further transform the telecommunications and audiovisual films and make them a centerpiece not only of the European economy, but also the lives of all Europeans.

Broadcasting in particular has seen remarkable change from the days of single-channel public broadcasting systems. The current proliferation of private programming channels through out Europe and the impending arrival of a multifaceted, multichannel communications superhighway creates a dynamic new environment that requires comprehensive action.

The audiovisual “explosion” is a cultural, social and economic phenomenon of global dimension. The audiovisual sector forms an essential part of Europe’s economic and cultural influence in the world. However, as things stand, Europe’s market share in the audiovisual world market is shrinking and its most popular art form is under threat. The economic and social importance that is connected with the audiovisual sector is reflected in the audiovisual policy of the European Union. This policy aims not only to promote culture and artistic creativity, but also to strengthen the economic viability of the industry and in this way to create employment. A part from its specific audiovisual features the sector has a role to play in the realization of the underlying principle of the European Union – the creation of the Single Market.

Because of the nature of the audiovisual issue, the role government play in attributing frequencies and the impact of the audiovisual sector on pluralism and democracy, the sector has to be regulated in certain ways. The fundamental principle of the Union’s audiovisual policy is to provide for the free circulation of reception of transfrontier broadcasts. So the European audiovisual industry is likely to become a stronger and more competitive player on the global scene.

Over the last few years, the Commission has developed a comprehensive audiovisual policy that is a priority item on its agenda. The objectives of this audiovisual policy are twofold and complementary. On the one hand, the Union strives for a free and open market for audiovisual products. On the other hand, it pursues the interdependent aim of promoting European audiovisual production.

The audiovisual policy of the European Union is not limited to the territory of its member states. Ever since terrestrial over spill and satellite broadcasts have been beamed into other countries, policy concepts have been exported as well. But not only has factual penetration with Community - maid programs had an impact beyond borders.

In 1989, the political changes in central and eastern Europe demanded as priority policy action the replacement of the notion of centrally controlled state broadcasting by a radically different concept. New audiovisual legislation was being acted in some countries as Poland, Romania, Bulgaria, Hungary. The public service broadcasters had

to fight for their independence from the politically control. The new private sector television services are still growing.

The Commission adopted a catalogue of policy objective, making it clear that the aim to create a common legal framework conducive to the development of a European market in broadcasting and related activities, such as television advertising and the production of audiovisual programs, while respecting and encouraging the diversity and specificity of the audiovisual systems of the member states. This was translated into a joint political determination to coordinate national legislation in order to:

- encourage the provision and free movement of audiovisual services within the Union;
- develop a modern European communications infrastructure capable of strengthening the Union's economic position, thus ensuring its competitiveness in the world market;
- promote the development of the market for television advertising and for audiovisual programs in an economic and geographic context that extends to the Community's borders;
- increase the production and distribution of European works in order to encourage national cultural industries and the expression of the cultural identity of each member state;
- offer new outlets for the creativity of the professions and workers in the cultural field;
- encourage the development of broadcasting as a strategic sector of the Community.

In the times of public monopolies, the reason behind public involvement in the media industry were self-evident. For most Europeans, Public Service Broadcasters were taken as a matter of course, given that they were the sole providers of the radio and television programs everyone listened to and watched. In a world of thousands of commercial radio and television channels, times have changed.

Today it is equally natural to question public involvement in the media. Is there still a need for public broadcasters? What are their cultural obligations, political role and remit in the dual European market?

In the last years, the world audiovisual market has faced in – depth changes as the result of simultaneous moves in technological, deregulation and internationalization.

Current paradox is that, in a sense, the national cultural characteristics of a country are now more related to the way the basic offer of the world cultural industry is delivered, than to the capacity of this country to preserve and develop its audiovisual heritage.

In the 1980s, the political willingness to develop the European audiovisual market was conceived as a possible answer to the hegemony of US TV soap – operas in the prime time of almost all national TV channels in Europe, including the public services one. The idea of the European audiovisual market was supported by the idea that a second market would be created for national works that would find further sales opportunities in neighbouring countries. Economies of scale would than support the growth of a European programme industry. Co-production clubs between companies in the leading European countries were also created with the idea of producing ambitious TV series with pan – European release.

A cross Europe there is currently a broad political consensus that every country should have a public broadcasting service. This consensus was less apparent in the '80s and '90s, as illustrated by different texts of the council of Europe, the European parliament and the European Commission, as well as the Amsterdam Protocol adopted in 1998 by the council of ministers of the European Union. The Amsterdam Protocol recognizes that “the system of public broadcasting in the member states is directly related to the democratic, social and cultural needs of each society and to the need to preserve media pluralism”. A public broadcasting service can be defined above all by its remit which generally includes information, culture, education, the organization of pluralism, promotion of minority cultures. In several countries, particularly Scandinavian countries and the United Kingdom, it has been recognized that public broadcasting has a major role to play in the development of digital terrestrial television. The financing of the public sector demonstrates another form of diversity in the European Public sector. The public broadcasting sector in Europe has a wide range of different national funding structures, although they can be split into two main categories: public revenue (license, fee or funding direct from the state budget) and commercial revenue (advertising, sale of programs, books, discs and in recent years pay – TV income).

There is little sense in comparing the financing of France Televisions with that of the BBC: on the one hand the BBC provides radio services while on the other public sector in the United Kingdom also includes a Channel 4 Group (funded through advertising and its pay – TV channels) and Welsh Channel S4C. In France public service companies also include Radio France, RFI, RFO, INA, TV5, ARTE Etc. The overall ratio of public to commercial revenue in France is more or less the same as in the United Kingdom.



The license fee remains the most prevalent form of financing public service companies. But the license fee does not exist in Luxembourg, in Greece (where instead there is a tax on electricity), nor in Spain. The television license fee has also been abolished in Portugal, in the Netherlands, and, most recently in the Flemish community of Belgium and in the Brussels Region. In these four latter cases direct subsidy is provided in the absence of the license fee. Grants, or contracts with the public authorities, are some times given for specific services, particularly for international services.

Finland is the country where public income is proportionally the largest (some 94.5% of YLE'S income in 2000). Next come Greece (around 90%), Sweden (88.4%) and Germany (79.7%). France (65.9%) and the United Kingdom (65.4%) have public financing percentages close to the European average, but with very different arrangements for allocating the resources between the various public sector companies.

Public income (license fee, grants) does not, however, necessarily constitute the main form of financing for the public service broadcasting companies. In the United Kingdom, Channel 4 draws all of its income from commercial activities (advertising, sales of programs and pay-TV). The proportion of commercial income is greater than that of public income for the Austrian ORF, the Spanish RTVE and the Irish RTE. It is also the case for RAI since 2000, notably as a result of the growth in the activity of its subsidiary RAISAT which operates theme channels.

In terms of audience market shares the situation of public television companies varies hugely from one country to the next. In Denmark, the five public owned channels steel accounted for 69.3% of the market in 2006, while in the Baltic states and Greece, the public service holds less than a 20% market share. In the large countries public broadcasters' audience share has remained fairly stable since the start of the decade, varying between 49% and 51% in Spain and Poland, between 47% and 49% in the United Kingdom, between 43% and 44% in Germany, between 41% and 42% in France and between 44% and 47% in Italy. These stable market shares are generally achieved thanks to the addition of thematic channels by public service broadcasters, which give them a place in cable, satellite or terrestrial digital television packages. Regional channels often play a part in the stability of the public service. One of the key objectives for public broadcasters is therefore to retain a presence in the new niche markets created by digital television. This is often a source of contention with private operators.

In this context, the main problem facing public service broadcasting in the future is probably that of funding. It should be emphasized that, in Central European countries other than Poland and the Baltic states, public service broadcasters are struggling terribly, both from a financial point of view and in terms of audience share.

With regard to public funding, the choice between the most traditional method (license fee) and funding from the state budget is a topic of debate. In a recent years, several countries (Portugal, the Netherlands, Flanders and the Brussels region) have replaced the license fee with public funding from the state budget. This method may save the cost of collecting the license fee, but most public broadcasters believe it increases their dependence of the public authorities. In the Portugal and the Netherlands, this system has led to a reduction in revenue.

The future of public service broadcasting in Europe is increasingly challenged by unfavorable external factors, such as intensifying competition from commercial media, media concentrations, political and economic interests adversary to independent media, and by internal difficulties, such as cost ineffectiveness or a alleged political partiality of public service broadcasters. The legitimacy of the public service status is contested; it is being questioned what, actually, its "publicness" does stand for and what is so special that it should have a preferential position. Its privileged status is disputed on the ground that most if not all of its merits may be respected by commercial broadcasters, and for less money. Empirical arguments against public service broadcasting favoring commercial broadcasters are not to be ignored; yet they also have to be confronted with some insight into its normative – theoretical foundations. The ideal of public service media was and remains essential to democracy and public spheres in Europe since it is inherently connected with the grand idea of publicness inscribed in the foundations of the democratic polity. It is not only central to the democratization of the media, particularly broadcasting media, but also a "natural" setting for the realization of citizens' right to communicate since it represents the most indigenous societal extension of the citizen's right to public reasoning. Born in the age of Enlightenment, the principals of publicness and communication freedom remain essential for democratic communication and are yet to be fully implemented in practice.

It is well recognized that a public service broadcaster – if it is healthy and well-financed – can be a strong shaper of the broadcasting ecology. In this instance it can set an example for commercial broadcasters to follow by demonstrating the public need for, and the success of, cultural programming. All that, however is only the beginning of the public service broadcaster cultural obligations. Other tasks include:

- serving minorities and immigrant communities in a way which satisfies their cultural and linguistic needs, but does not prevent their integration with the rest of the population;
- creating a sense of affinity and understanding with the people of other countries in the region, especially if the country in question is involved in some international integration scheme;
- promoting intercultural and inter-religious dialogue at home and internationally;
- promoting acceptance of, and respect for, cultural diversity, while at the same time introducing the audience to the cultures of another peoples around the world;
- striving to prevent, or reduce, the digital divide, so that no one is prevented from access to culture via the new technologies.

At the Asia Media Summit (may 2005, Kuala Lumpur), *Recommendations* to the second phase of the World Summit on the Information Society (November 2005, Tunis) were adopted, recommending that the media, in both the public and the private sectors, be encouraged and actively assisted to increase diversity of content to include marginalized populations, groups and communities in the communication process. This should include providing comprehensive information and support the culture of dialog among civilizations with a view to promoting mutual knowledge, understanding and peace, as well as promoting the use of broadcast network systems, particularly digital systems which are especially suited to such use, to carry information additional to normal program content, for the benefit of the general public.

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# LOHN PRODUCTION – AN ECONOMIC OR SOCIAL MEASURE?

**Bugnar Nicoleta**

*Universitatea din Oradea, Facultatea de Stiinte Economice, Str. Armatei Romane, nr. 5 , tel. 0722474492, e-mail nbugnar@uoradea.ro*

**Mester Liana**

*Universitatea din Oradea, Facultatea de Stiinte Economice, Str. Armatei Romane, nr. 5 , tel. 0745419739, e-mail lmester@uoradea.ro*

*The rapid Romanian disintegration of the planned economy and the economic crises after 1989 imposed the large amounts of activity in the production units; the easiest way of maintain these of units – with no effects – was the subcontracting for the re-exportation system. This system is very important for foreign (commerce: over 75% of Romanian export to the European Union is in subcontracting for re-exportation system. This huge percent is possible because the subcontracting for re-exportation system allows a better management of the production capacities in order to maintain jobs or to create new ones, and in this way the competition producers a more important roll in what cancens the demands of consumers and it attracts foreign investors, also.*

**Key words:** *subcontracting, production capacities, trade*

If in 2007 Romania was still considered to be “the workshop of the EU”, as a consequence of the increase of the wages and implicitly of the production costs, the lohn production will no longer be profitable for the foreign companies, which at the moment are interested in the country because of its cheap manufacturing costs. Thus we can expect economic shocks: with no markets, no brand on these markets, without any competitive spirit and with no money, the respective industries are facing the risk of colapse. Thus, the exports of the textile, clothing, leather and shoe industries, which are considered nowadays an important element in maintaining the economic balance of Romania, will prove to be inexistent, now that the lohn contracts are no longer available.

In spite of all these arguments against engaging in lohn activities, Romania has accepted this system even in conditions of great economic crisis. Against the baground of the conflict situation in Jugoslavia, which was considered “the champion of lohn production”, lohn production providers have redirected their interests towards the textile, clothing, leather and shoe industry in Romania also because of the low production costs, and the cheap and qualified labour force existing in our country.

At the moment, due to the low profits which are obtained as a result of these activities in Romania, specialists claim that the lohn type of manufacturing looses its lucrativeness in our market, the interest of lohn partners is directed towards countries which are cheaper than Romania (The Republic of Moldavia, The Ukraine, etc), that is, towards countries whichs have the lowest wages. The interest in the Romanian market is fadding because of the fact that unemployment is no longer an accutely and severely widespread phenomenon, but also because of the emigration of the specialized labour force in search of better payed jobs.

Due to the way in which the lohn process operates, it cannot be considered a solution for the modernization of the economy, on the contrary, it is a means of increasing the technological delay which separates the *commissioner* (the one that provides the materials and raw material, the production documentation – models, projects, designs, etc.- accordging to which the manufacturing of the finished product is carried out and sets the technical parameters and quality indicators for the fisihed product) and the *manufacturer* (who commits himself to manufacture the finished product according to the technical norms set by the *beneficiary* by the dates stipulated in the lohn contract). The system in which a large part of the textile and shoe industry in Romania operates, also known as lohn system/ OPT (Outward Processing Trade) implies the subcontracting of some orders for producers and distrubutors from the developed countries. Thus, we are dealling with a temporary import of materials and raw materials, their processing and the re-exportation of the product to a developed country. Usually, this re-exportation is made under an internationally well-known brand on the market. In such a developed market, where image and brand mean everything, **to be the supplier of some well-know companies is an** honourable and somehow comfortable position. Directly or indirectly, the large companies provide all that is necessary for the processing of the order, from the models and materials, to consulting (assistance), quality control and shipping means, and often finance the modernization (refurbishment) of the processing factories.

We must mention the fact that, on the one hand, Lohn production was the alternative chosen by the transnational companies, in the absence of an attractive medium for direct investment, in order to benefit from the cheap labour force in Romania, and on the other hand, it was a means of surviving for the Romanian companies during the transition period. Seen as a commercial operation destined mostly to increase the infusion of foreign currency, in the last decades Lohn processing has constantly had the lead over other products within the Romanian exports. This solution is not a favourable one for the Romanian economy, because the increasing of the products exported in the Lohn system has occurred to the prejudice of the exports of cars, machines electrical appliances, food products, etc, that is, of product which have a high added value. According to the statistics of The Ministry of Economy and Trade, in 1989, Lohn production represented 13% of exports, in 1996 it started to triple: 31,2% in 1996, 30,2% in 1997, 34,1% in 1998, 34,6% in 1999, 35,4% in 2002 and 34% in 2005 (the main goods are clothing, textiles, footwear and leather goods).<sup>80</sup>

Starting with 1999, Romania has become the most important exporter of clothing (garments) in all this continent of Lohn production which is represented by Central and Eastern Europe, and, at the same time, the main supplier for the EU. Poland, the former regional leader, cannot manage to get back on track mainly because of the wages, which are twice as much as in Romania. Other important players on the Lohn market are Hungary (with an export of 1107 million dollars in 2000) and Bulgaria (691 million dollars). The 'boom age' came to an end in 2005 when the EU completely liberalized the import of this sort of products, opening the door for cheaper exporters like China, Bangladesh, Pakistan and, not the least, Turkey (5860 million dollars in 2000).<sup>81</sup>

The Romanian export, which has risen above 10 million ever since 2000 and reached almost 26 million in 2007, presents a few characteristics: it is highly geographically concentrated (in 2007 78% to the EU respective 76% to developed countries), is dominated by products which require a large number of primary products and manufacturing processes (the clothing and shoe industry holds 35% from the total) and is composed mostly of products manufactured in Lohn system) (95% of the products of the clothing and shoe industry, 72 % of the total exports to the EU). In these terms it can occur for the Romanian export to be confronted with a decrease, because the Lohn system could disappear, as Lohn production represents a combination of circumstances given by the cheap working force.

Besides the explanation given by some people, that Lohn production has spread in Central and Eastern Europe, and implicitly in Romania, because of the cheap labour force and a certain inaction on the part of the managers in what concerns the need to approach/penetrate foreign markets, there is also a series of economic reasons. The rapid extension of Lohn production within the West-East relationship is justified by the extremely unbalanced structure of the former communist economy, and implicitly, the delay existing between an overproductive and inefficient production system and an almost nonexistent marketing and distribution system. Thus, the production on commission, which the *commissioner* handling the marketing of the final product, was a means of getting over this situation and allowing the Romanian producers to access the foreign markets. Then the precarious technology available in the economy made it impossible for the Romanian producers to engage directly in the external markets in conditions of full competition. Lohn production made possible the refurbishment of some companies, their adjustment to the new technological and commercial requirements.

Specialists consider Lohn production as a two edged weapon. It has advantages and disadvantages, the balancing of which is very important. Which are the advantages and limitations of the Lohn system as only 20-25% of the exported value remains in the country, and the Lohn production factory gets 10% from the selling price of the product and the employee gets around 1%? The most obvious advantages of the Lohn system from the point of view of the economic and social nature of this phenomenon are:

- as a commercial operation, it contributes to the influx of foreign currency into the country;
- it employs a significant part of the work force, mostly women;
- it improves the quality of the labour force by using the know-how of the foreign partner;
- it facilitates the opening towards the external market;
- the managers and employees get accustomed to the western standards;
- the foreign partners support the modernization of the technology;
- the direct contact with the tendencies of the development of the external market.

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<sup>80</sup> [www.dce.guv.ro](http://www.dce.guv.ro)

<sup>81</sup> \*\*\* - *Capital Magazine*, no.32, 7th August 2002, pp.18

There are a few limitations hidden behind these advantages, limitations which should not be neglected:

- it is considered to be a national income export: the income of the exporter is smaller than the income of the one who is exporting his own production;
- it leaves the national creativity unexploited;
- it only partially supports the increasing of the international specialization (vertically);
- the unfavourable circumstances existing at one point in the external market can determine the importer to give up the Lohn system based activity;
- the increasing of the prices of the factors used in the production of the finished product generates the price risk for the exporter;
- the marketing of the product in the external market under the name of the commissioning company, makes it impossible for the national brands to penetrate the foreign markets;
- the profit margin is reduced to less than half and it is calculated only for manufacturing, not for the whole product
- the accumulation occurs slowly, the resources available for investment are limited;
- it does not allow a medium or long-term production planning.

With all the limitations of Lohn production – the absence of the Romanian manufacturer from the international market, him depending on the commissions from the commissioner, the low price due to the increment only on the manufacturing, etc – it must not be seen as a mostly negative phenomenon. We must mention that this operation made possible the survival of some industries, which otherwise would have been insolvent (unsuccessful).

The removal of the custom taxes between Romania and the EU on 1 January 2002 created favourable conditions for production. At the moment, products such as hosiery, clothing and footwear are Romanian merchandise which is requested for import due to the price-quality equation, a ratio which is also determined by the fact that the employees producing them have the lowest wages. The most part of the exports is still represented by the clothing and shoe industry. The clothing and footwear exports have reached 35,5 % of the total exports in 2007, dropping from 35,7% in the previous year, and after having gained in 2000 30% over the figures reached in 1999 (the Lohn produced goods represented almost 90% of the exports of the clothing and shoe industry in 1999, about 98% in 2002 and dropped to only 60% in 2006, the remaining percentage representing exclusively complete exports of goods.

A large part of these exports goes to the Italian and German markets, which are also the most important commercial partners of Romania. If we take into consideration the fact that the clothing and shoe industry represents a sector of activity in which the export production is conditioned by the import of materials, the comedown of the proportion between the export of clothing and the import of textiles, from 10,5 in 1996 to 8,6 in 2007, illustrates a deterioration of the export capacity of the branch. This means that a part of the imports of textile materials was destined for the internal market which has become more attractive for the inland producers. To this we add the decreasing of the internal offer of materials and accessories, imports of such goods being favourable for inland production, too.<sup>82</sup>

At the moment, Romania is situated on the first place, being the largest clothing exporter for the European Union and getting ahead of Poland. But clothing is not the only branch where Lohn production was applied. Another sector is information technology, where Romanian IT programmers are paid less than the western ones. The method of Lohn production must not be dismissed or blamed because it represented an important stage in the development of an industry, in the process of becoming a functional free market economy, being the only possibility for the development of a sector. The large specialised clothing and shoe industry companies are continuously moving their production units to areas with lower production costs. But we must mention that not only prices are taken into consideration, sometimes the productivity of labour being more important, implicitly the quality-price relation. If a low productivity is combined with an instable economic climate, the investors avoid the countries with cheap labour force like Moldavia or The Ukraine.

The competitiveness of the Romanian goods on the markets of the developed countries is also supported by the commercial agreements to which Romania has adhered. The first measure undertaken by the EU for the Romanian textiles industry was the reduction of custom taxes, and subsequently beginning with 1997 their complete removal. At the same time, beginning with 1995 the quantitative limitations for 13 categories of textile products

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<sup>82</sup> \*\*\*- Capital, no.11, 24 March 2005

have been eliminated and, where the quotas were kept, the export rates were increased; the quotas have also been removed starting with 1998. At the same time, one also conceded in other markets: with the signing of a bilaterat agreement with the USA in 1995, the quotas for export removed for 114 categories of textile products were, and for those remaning, the quotas were significantly increased.

In the present day situation, the Romanian manufacturers should take into consideration not only the lohn production supply (delivery) but also the the inland and external supplies, especially under their own brand. If this situation will not change in the future, we will continue to have an economy which allows only a very slow accumulation of resources for development. Thus, a country with such an export structure cannot aspire to reach prosperity taking into consideration the fact that the years to come are more and more dominated by notions like ‚integration‘ , ‚globalization‘, etc.

That is why the main concern of the companies which operate in lohn system should be to maintain and impove their position on the global market, to create some forms of cooperation with parteners form the developed countries, to modernize their technology and, not the least, to create their own marketing and distribution networks.

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# OPPORTUNITIES AND CHALLENGES OF THE EUROPEAN BUSINESSES IN CHINA

**Butiseaca Alexandru**

*Romanian American University, Faculty of Internal and International Commercial and Financial-Banking Relations, 1B Expozitiei Blvd., Sector 1, Bucharest, e-mail:butiseaca@gmail.com , phone:0723.500.037*

**Sterian Gabriela**

*Romanian American University, Faculty of Studies of the European Economic Integration, 1B Expozitiei Blvd., Sector 1, Bucharest, e-mail:steriangabriela@yahoo.com, phone:0724.268.655*

*Both the EU and China stand to gain from our trade and economic partnership. If we are to recognise its full potential, closing Europe's doors to Chinese competition is not the answer. But to build and maintain political support for openness towards China, the benefits of engagement must be fully realised in Europe. China should open its own markets and ensure conditions of fair market competition. Adjusting to the competitive challenge and driving a fair bargain with China will be the central challenge of EU trade policy in the decade to come. A closer, stronger strategic partnership is in the EU's and China's interests. But with this comes an increase in responsibilities, and a need for openness which will require concerted action by both sides.*

*Key-words: fair competition, transparency, commercial policy, dialogue, partnership*

## **EU and China – diversity and cooperation**

China and Europe both have very diverse regions, with significant income disparities, which they are working to integrate fully as part of their respective 'single' markets. The EU has been largely successful in promoting regional convergence over the last 20 years, through policies such as: dedicated investments in trans-European infrastructure to reduce the effects of distance and regional exclusion; the development of human capital through investment in regionally-targeted training; and the promotion of innovation and research and development in underdeveloped areas. The recent inclusion of ten new member states in the EU has brought new challenges in terms of convergence and integration. Meanwhile, the Chinese government is making considerable efforts to narrow the growing divide between its coastal east and interior west through its "Go West" development plan and major projects to extend infrastructure into western regions. There are opportunities for mutual learning as both economies work towards regional cohesion.

Europe's social welfare structures vary across the region in terms of form and impact – while some have stifled entrepreneurship and job creation, others such as the Nordic model have demonstrated that it is possible to combine social protection with incentives for innovation, employment creation and productivity. However, demographic and global forces are rendering some of these models unsustainable. At the same time, China's shift toward a market economy is leading to the dismantling of its legacy state-guaranteed social support structures. In redesigning their respective welfare systems, both China and Europe can look to learn from each other's experiences.

European companies have invested 4.5 billion euros on average each year over the last six years in addition to the transfer of know-how and state-of-the-art-technology. A number of Multinational Corporations have partnered with Chinese counterparts and established Research and Development bases in China, introducing new management techniques and play an important role in training the next generation of Chinese business executives and engineers.

Moreover, the enhanced dialogue between the European Commission and the Chinese Government is having a very positive influence to the European business in China.

China's integration into the global trading and investment system has been beneficial for both Europe and for China. The EU represents more than 19% of China's external trade. European companies trading in China have brought capital goods, knowledge and technology that have helped China develop its productive capacity. Reciprocally, trade with China helps to promote growth and jobs in Europe through increasing exports, continuing specialisation in high-value products and services and strengthening the global competitiveness of EU companies.

Investments in China have allowed EU firms to remain competitive by gaining access to lower-cost inputs. A significant part of the value added of products "made in China" accrues to European companies. It has also helped European business maintain jobs and viable economic activities in the EU such as research, design, marketing, global management and complex manufacturing. Some investments in China have allowed EU firms to gain market share in the China market and supported our exports.

## **Strategic Considerations for CE Companies**

Increased government efforts to combat corruption in the Chinese economy could have both positive and negative implications for foreign CE producers. As a positive matter, increased transparency and decreased corruption could help reduce operational risks that foreign companies bear when their subsidiaries or affiliated companies have to operate in a commercial environment in which corruption is not only accepted, but also expected.

In other words, in the long-run, Chinese government achievements in reducing corruption will be helpful for foreign companies – it will help companies compete on an even playing field (since competitors will not be able to obtain contracts through illicit payments); it will increase transparency in governmental dealings; and it will help these companies manage regulatory risk and ensure proper internal controls. Conversely, government enforcement efforts also could increase pressure on businesses, especially those companies that have not established rigorous internal control systems regarding corrupt practices. If Chinese government investigators and prosecutors begin to target specific foreign producers, the short-term effects of this initiative would likely be challenging for companies who have not yet developed anti-corruption and local law compliance programs.

It is widely reported that U.S. companies across numerous sectors use Chinese distributors to perform certain negotiating activities with governmental officials. However, U.S. companies are accountable for any illicit activity engaged in by third parties on their behalf under U.S. law, even when the U.S. companies are unaware of the illicit activity. U.S. producers must be particularly careful to develop internal controls and compliance programs that ensure against violations of the Foreign Corrupt Practices Act (FCPA), whether in the form of improper payments or through failure to maintain adequate books and records.

Although enforcement has not historically been consistent, the potential sanctions for violation of anti-bribery provisions can be very difficult in China including imposition of the death penalty or incarceration against individuals, imposition of onerous fines, and the cancellation of various types of professional licenses and product certifications. Also, given that Western countries are pressuring China to reduce corruption, it would not be surprising for Chinese officials to target a Western company to demonstrate its "commitment" to fighting corruption.

## **Opportunities for EU businesses**

The evolution of EU-China trade reflects the evolution in overall EU trade with emerging economies. While the latter, and China in particular, are making significant gains in some segments of high technology products (such as laptop computers, mobile phones and DVD players), the EU is strengthening its specialisation in high-quality products in preference to low- and middle-quality goods. Commission studies indicate that the expansion of the Chinese market will continue to bring important benefits to EU operators. Although Chinese companies will become competitive in more market segments (for example in basic chemicals or some types of vehicles), other segments will expand rapidly (for example, specialty chemicals, demand for capital-intensive car components) offering new opportunities to EU operators.

The EU is particularly strong in exports of machinery and vehicles which account for two thirds of all EU's goods exports and one third of all Chinese imports of machinery. EU exports to China of chemicals have doubled in the last five years, making China the EU's second export market. The EU market share in China in 2005 was 16% - similar to that in Japan and ASEAN countries but lower than its market share in the USA (20%), India (21%) or in Brazil (31%). There is potential to increase EU market share in line with EU performance in other markets. As China develops, its demand for high-end branded European consumer products will increase.

In order to succeed, EU operators will need to develop a more thorough knowledge of the Chinese market and play on their comparative advantage. Europe's chief assets in its trade relationship with China are innovation, specialisation, quality, related services and brand identity. High unit labour costs are not necessarily an impediment to export success: the strongest performing European exporters to China have some of the highest labour costs in Europe.



While Chinese tariffs have gone down significantly as a result of China's WTO accession, EU exports still face a number of tariff and non-tariff barriers to trade and restrictions on investment in manufacturing and in services. In the course of WTO accession China's tariffs were reduced to an average of 8.8% for non-agricultural products. However, China has maintained a number of tariff peaks in some industries of particular importance for the EU such as textiles and clothing, leather and fur, footwear, ceramics, steel and vehicles.

European exporters and investors are facing an increasing number of unjustifiable non-tariff barriers in the form of product certification, labeling standards, import approval requirements and customs clearance delays. The application of laws is often not uniform and regional variations in customs procedures have a negative impact on trade. Unreasonable sanitary and health requirements can create barriers that hamper exports to China, in particular for agricultural products. Chinese national standards often differ significantly from international standards. This results in high compliance costs and extended delays for business which impact on their ability to sell on the China market, affecting in particular EU small and medium-sized enterprises.

China committed itself to opening its procurement market and acceding to the multilateral Government Procurement Agreement as soon as possible after its accession to the WTO. The accession negotiations has just begun in 2008. However, many procurement markets remain closed to European businesses. In some sectors, technology transfers have been made a condition for foreign companies to participate in international bids.

In key sectors such as automobiles, steel, semiconductors or shipbuilding, new policies are emerging which appear to be based on a 'China first approach' contrary to the non-discriminatory principles of the WTO. In a number of industries China has been imposing local content requirements, either through direct legislation or investment authorisation, limiting EU exports and unfairly aiding local industry. There is a growing risk that competition policy will be used against foreign operators and that the lack of independence or transparency of many regulators results in decisions favouring Chinese operators.

In the manufacturing and services sectors European investors are still prevented from setting up wholly owned foreign enterprises and are required to establish joint ventures with Chinese partners. In the telecoms and financial services sector, EU firms have been unable to expand significantly because of high capital requirements and complex approval procedures. In the manufacturing sector, China continues to maintain investment restrictions on some key industries for Europe such as automobiles, petrochemicals or steel.

EU companies often find themselves competing on unfair terms in China. The absence of conditions of fair market competition and inadequate legal protection pose serious problems. China's policies on the environment, social standards, currency valuation and natural resources can distort trade. The adequate protection of intellectual property rights such as patents, copyrights and trademarks is central to the exercise of Europe's comparative advantage in innovation, design and high-value production. Insufficient protection of intellectual property represents a pressing challenge for EU businesses in China. China is by far the largest source of counterfeit and pirated products seized at the EU's borders. While China has made welcome progress in setting up an intellectual property regime, loopholes remain and effective implementation and enforcement of laws remains uneven or lacking. EU companies also face an opaque and burdensome legal and judicial system that offers insufficient guarantees of legal protection of the rights of EU companies.

Demand for EU products in China is also suppressed by low domestic demand resulting from high savings as a result of limited public provision of health and social security services. Enterprises' savings are also very large and account for about half of China's savings. This both suppresses domestic demand, including for EU goods and services and ensures that the bulk of domestic production is exported.

China's regulatory regime for the protection of the environment remains incomplete and implementation on the ground inadequate or discriminatory in favour of local producers. This is contributing to the rapid deterioration of China's environment. China has also maintained restrictions on investment or imports of certain environmentally friendly products and services. Chinese companies also often fail to meet reasonable safety standards for their products; half of the alerts in Europe for dangerous non-food products are for products manufactured in China. The lower environmental, social and safety standards applied in China confer a competitive advantage to production in China.

As a conclusion, Europe should pursue a fair and robust trade policy on China. It should insist that openness benefits both Europe and China, and that an economically strong China is in Europe's interests. It cannot call for openness from China from behind walls of its own.

The EU will continue to press China to improve its record in protecting the rights of EU companies through a transparent legal and judicial system where the regulators are fully independent. In recent years the European

Commission has established a number of important economic dialogues with China that have trade implications. The Commission, the European Parliament and the Economic and Social Committee have been at the forefront of this activity. These dialogues cover issues such as intellectual property, market access, macroeconomic and financial sector issues, agriculture, competition, regulatory and industrial policy, and general product and food safety.

The EU's partnership with China should be used to draw the two economies closer together and to engage China on global issues, which is already a major beneficiary of the international trading system.

## **Conclusions**

Even though chances to improve the business environment still exist, China represents a constant and strong opportunity for the European Business.

The openness of the Chinese Government to discuss the issues affecting European investors and the successful dialogue between the European Commission and the China is giving to the European Business in China the possibility to look optimistically to the future development of the European investments.

China's re-emergence will continue to have a major impact on every part of the global economy. It will be felt in people's daily lives, from the cost of petrol to the price we pay for our clothes. It entails major challenges for global sustainable development. Adjusting to the competitive challenge and driving a fair bargain with China will be a central political and economic challenge of EU trade policy in the decade to come.

European trade policy towards China will seek to promote openness and cooperation to mutual benefit, taking into account the significant domestic challenges China faces. Europe must accept a tough competition, China has to ensure that it respects the laws of fair competition.

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# ANALYSE DES ORIENTATIONS GÉOGRAPHIQUES DU COMMERCE EXTÉRIEUR DE LA ROUMANIE

**Branco Laura**

*L'Université de l'Ouest de Timisoara, Faculté d'Economie et Administration d'Affaires, Roumanie*<sup>83</sup>

*Abstract*

*Since the transition in the market economy, the geographical orientations of Romania foreign exchanges was profoundly modified. If the dominating part of the European Union in the Romanian foreign trade testifies an evident geographical reorientation, this tendency can mask the development of the exchanges with the other partners, in particular those geographically close to Romania. The proposed method aims to seizing at a more elaborated level the intensification of the commercial exchanges, according to the commercial partners of Romania.*

*Classification JEL : F10, F13, F15*

*Mots clés : commerce extérieur, réorientation géographique, Roumanie.*

## **Le processus d'intégration européenne :**

L'observation des parts relatives des principaux partenaires commerciaux de la Roumanie confirme l'effet du processus d'intégration à l'UE. Dès le début des années 1990, l'UE devient le partenaire le plus important, tandis que la part des autres pays européens<sup>84</sup> dont la plupart appartenaient à l'ex-CAEM (Conseil d'aides économiques mutuelles) connaissait une baisse (cf. graphiques ci-dessous).

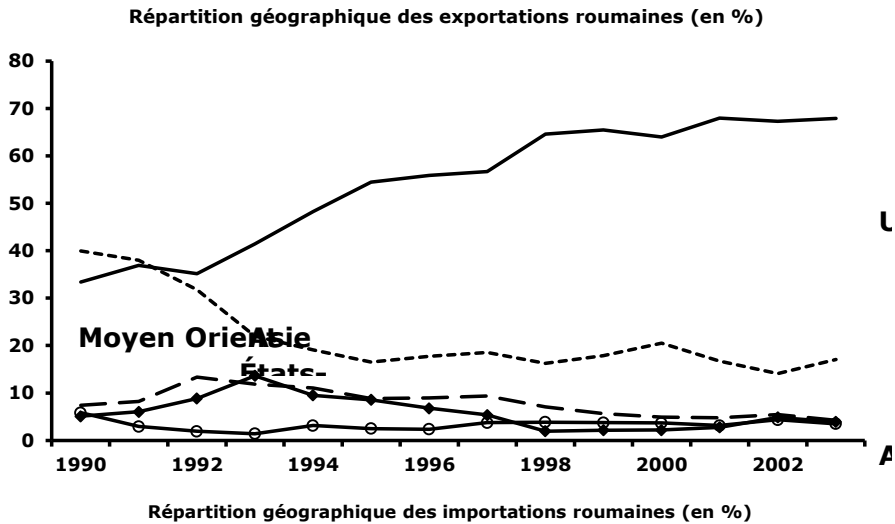
La dynamique du processus d'intégration à l'UE apparaît également à travers l'évolution de la part relative de la Roumanie dans le commerce extérieur de l'UE. Tandis que la part relative des importations en provenance de la Roumanie passait de 0,13 à 0,43% du total, celle dans les exportations de l'UE progressait de 0,13 à 0,46%.

Si cette première lecture des données du commerce extérieur roumain fait apparaître incontestablement la réorientation commerciale de la Roumanie vers l'UE, l'examen d'autres indicateurs laissent apparaître certaines spécificités qui restent à éclairer. Tout d'abord, il est à constater que le développement des échanges avec l'UE s'est réalisé dans un contexte mondial où d'autres pôles commerciaux connaissaient des taux de croissance plus élevés que l'UE. Alors que les importations mondiales progressaient à un rythme de 6,3% par an, celles de l'UE augmentaient de 5%. L'UE est l'unique zone vers laquelle les exportations roumaines ont progressé à un rythme supérieur aux importations totales la zone (Cf. tableau 1.). La question de savoir pourquoi la croissance des importations des autres zones n'a pas profité aux exportations roumaines reste à élucider.

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<sup>83</sup> [laurabranco@yahoo.co.uk](mailto:laurabranco@yahoo.co.uk)

<sup>84</sup> Il s'agit d'Albanie, Bulgarie, Chypre, République Tchèque, Gibraltar, Hongrie, Malte, Pologne, Slovaquie, Turquie, l'ex-URSS et de l'ex-Yougoslavie.



Source : Calculs à partir des données de Direction of Trade Statistics Yearbook, IMF, 1997 et 2004.

Tableau n°1 : Taux de croissance annuel moyen des flux commerciaux (1990-2003)

	Imports en provenance de la Roumanie	Importations totales de la zone	Exportations vers la Roumanie	Exportations totales de la zone
États-Unis	4,7	7,3	1,3	5,3
Japon	-12,7	4,0	9,9	4,7
UE	14,9	5,0	15,1	4,8
Autres Europe	1,9	9,6	3,7	11,6
Moyen-Orient	4,2	5,6	-18,7	5,5
Asie	6,7	9,4	11,9	10,6
Afrique	5,4	4,8	5,6	5,9
Autres	2,1	5,7	3,0	7,8
Total	8,8	6,3	6,7	6,6

Source : Calculs à partir des données de Direction of Trade Statistics Yearbook, IMF, 1997 et 2004.

Ensuite, si la baisse de la part relative de la zone « autres Europe » pourrait s'expliquer par la dislocation du CAEM, on pourrait aussi observer qu'une partie des anciens membres étant engagés également dans le processus d'intégration à l'UE, cette baisse aurait dû être moins brutale. Ce qui pose la question de l'intégration commerciale entre les nouveaux membres de l'UE et la Roumanie qui est appelée à rejoindre l'UE en 2007.

Enfin, la forte progression de l'UE dans le commerce extérieur roumain pourrait s'interpréter comme un remise à l'heure des pendules, dans la mesure où l'Union représente un pôle commercial important. Dans ce sens le fait que l'UE représente plus de 60% du commerce extérieur roumain n'a rien de surprenant, dans la mesure où ceci refléterait la place qu'occupe l'UE dans le commerce mondial. À cet égard, l'approche en termes d'intensités relatives des échanges s'avère particulièrement fertile pour apprécier les orientations géographiques du commerce extérieur roumain.

### **Intensité relative des échanges de la Roumanie selon les principales zones :**

L'intensité des échanges entre deux pays se mesure à l'aide de l'indicateur :

$$\Delta_{ij} = \frac{\frac{V_{ij}}{W}}{\frac{X_i}{W} \times \frac{M_j}{W}} = \frac{\frac{V_{ij}}{W}}{\frac{X_i \cdot M_j}{W^2}}$$

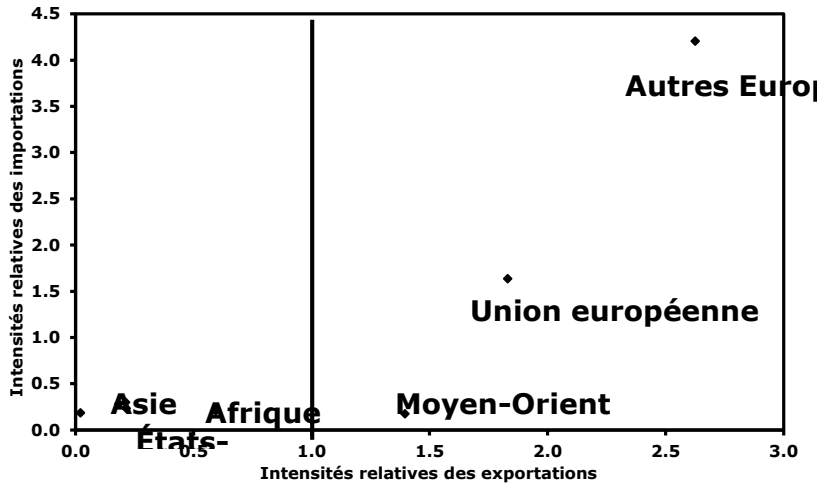
Cet indicateur rapporte le flux bilatéral  $V_{ij}$  entre le pays  $i$  et le pays  $j$ , au produit des exportations du pays  $i$   $X_i$  et des importations du pays  $j$   $M_j$ , chaque flux étant rapporté au total du commerce mondial  $W$ . Si la structure des échanges ignorait la géographie et l'histoire, les flux bilatéraux seraient strictement proportionnels au poids des deux partenaires dans le commerce mondial, et l'indicateur vaudrait 1 pour tous les flux. Un indicateur égal à 2 signifie que le flux d'échanges est deux fois plus intense que ne le justifient les seuls poids des partenaires dans le commerce international (même si les échanges sont faibles en niveau absolu).

Pour les importations du pays  $i$ , en retenant la même logique, nous avons le flux bilatéral  $V_{ij}$  entre le pays  $i$  et le pays  $j$ , au produit des importations du pays  $i$   $M_i$  et des exportations du pays  $j$   $X_j$ , chaque flux étant rapporté au total du commerce mondial.

Connaissant la méthode, on peut représenter les intensités relatives des échanges sur des graphiques intégrant respectivement les intensités des exportations sur l'axe des abscisses et celles des importations sur l'axe des ordonnées. En menant deux droites parallèles aux axes, de coordonnées 1, on peut subdiviser le graphique en quatre zones. Plus la position d'un partenaire est située dans le quadrant nord-est, plus l'intensité des échanges est élevée. Les positions situées dans le quadrant nord-est indiquent une intensité relative importante à la fois pour les exportations et pour les importations. Les positions situées dans le cadran nord-ouest indiquent une intensité relative élevée pour les importations, mais faible pour les exportations. Ce qui veut dire que le partenaire en question est un fournisseur important qui bénéficie d'une situation privilégiée sur le marché interne, tandis que les exportations à destination de ce partenaire restent en deçà de sa capacité d'absorption. Inversement, dans le cadran sud-est indique une intensité relative élevée pour les exportations, mais faibles pour les importations. Enfin, dans le cadran sud-ouest on trouve des partenaires avec lesquels le niveau des échanges sont inférieurs comparé au poids du partenaire en question dans le commerce mondial.

Le graphique ci-dessous décrit les intensités relatives qui mettent en rapport la part relative de la zone concernée dans le commerce extérieur roumain et la part de cette zone dans le commerce mondial.

Intensités relatives du commerce extérieur roumain selon les zones géographiques (2003)



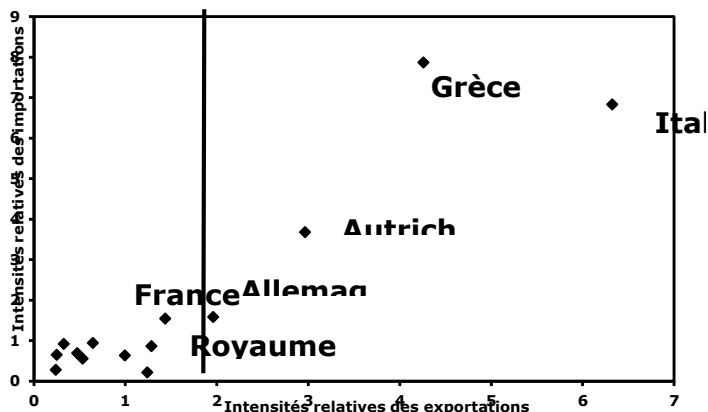
Source : Calculs à partir des données de Direction of Trade Statistics Yearbook, IMF, 2004.

En 2003, seules deux zones ont des intensités relatives supérieures à 1 aussi bien pour les exportations que pour les importations ; l'UE et « autres Europe ». Cette année, les parts relatives de ces zones dans les exportations roumaines, étaient respectivement 1,8 (UE) et 2,6 (Autres Europe) fois supérieures que ne le justifiaient leurs parts dans les importations mondiales. Symétriquement, les parts relatives de ces zones dans les importations roumaines, étaient respectivement 1,6 (UE) et 4,2 (Autres Europe) fois supérieures que ne le justifiaient leurs parts dans les exportations mondiales. On s'aperçoit finalement que « Autres Europe » continue d'être une zone avec laquelle la Roumanie continue d'entretenir des relations commerciales intenses. Un examen plus détaillé au sein de ces deux zones révèle l'importance de la distance géographique.

### Dynamiques régionales à l'œuvre au sein des partenaires de l'UE :

Lorsqu'on observe les intensités relatives au sein de l'UE, en situant les pays par rapport aux intensités relatives globales de l'UE, on constate que les partenaires les plus dynamiques de la Roumanie sont les membres les plus proches (cf. graphique ci-dessous). Même si pour la France et l'Allemagne, l'indicateur est supérieur à 1, ces deux pays enregistrent des performances neutres du point de vue de la moyenne communautaire. La Grèce et l'Autriche qui sont les membres les plus proches géographiquement sont ceux pour lesquels on enregistre des intensités relatives élevées. Quant à l'Italie, elle manifeste un plus grand dynamisme commercial par rapport aux autres poids lourds de l'UE (Allemagne, France et Royaume-Uni). Alors qu'elle occupait en 1990 le 2<sup>ème</sup> rang derrière l'Allemagne parmi les clients et la 6<sup>ème</sup> place parmi les fournisseurs de la Roumanie, ce pays arrivait en tête de liste dans les exportations et les importations roumaines en 2003.

Intensités relatives du commerce avec l'Union européenne (2003)



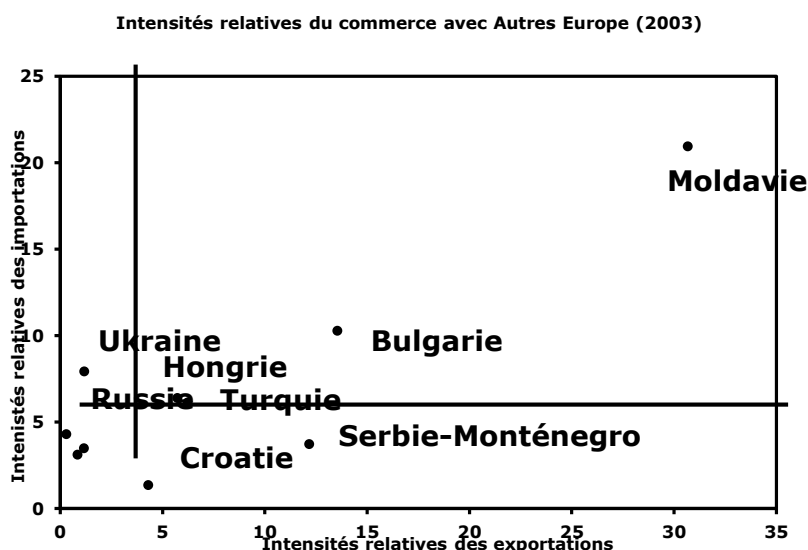
### « Autres Europe » : proximité géographique et perspectives d'intégration européenne

L'observation des intensités relatives au sein de la zone « Autres Europe », en situant les pays par rapport aux intensités relatives globales de la zone, confirme à la fois l'impact de la proximité géographique et celui de l'intégration européenne sur les orientations du commerce extérieur roumain. Aux trois pays limitrophes de la Roumanie, à savoir la Moldavie, la Bulgarie et la Hongrie situés dans le quadrant nord-est du graphique, s'ajoute la Turquie qui n'est pas éloignée géographiquement (cf. graphique ci-dessous). Parmi ces quatre pays, trois d'entre elles sont engagées dans le processus d'intégration européenne ; la Hongrie est déjà membre, la Bulgarie accédera avec la Roumanie au statut de membre de l'UE et la Turquie qui a déjà réalisé l'Union douanière vient d'entamer les négociations d'adhésion. Quant aux autres pays de la zone, il est à noter que même s'ils ne figurent pas dans le quadrant nord-est, il s'agit de partenaires pour lesquels les intensités relatives des échanges sont élevées. Par exemple la part de la Serbie Monténégro dans les exportations roumaines est 12 fois plus élevée que ne le justifie sa part dans les importations mondiales. De même que celle de la Russie dans les importations roumaines est 4 fois plus élevée que ne le justifie sa part dans les exportations mondiales. Il s'agirait dans ce dernier cas d'un changement de sources d'approvisionnement énergétique par la Roumanie ; la Russie ayant remplacé les fournisseurs du Moyen-Orient. Enfin, il est à noter que dans ce groupe se trouvent des partenaires commerciaux importants en poids relatifs de la Roumanie. En 2003 la Russie était le 3<sup>ème</sup> fournisseur et la Turquie 5<sup>ème</sup> client de la Roumanie.

### En guise de conclusion :

L'analyse en termes d'intensités relatives des échanges permet de fournir certains éclairages sur les orientations géographiques du commerce extérieur de la Roumanie, notamment à travers la proximité géographique et le cadre institutionnel. Elle pourrait être complétée par une approche en termes de proximité économique et d'écart des structures de spécialisation.

Les écarts de richesses ont des effets différents selon que l'on est au-dessus ou en dessous d'un certain seuil. En deçà d'un certain seuil, les écarts sont reliés négativement. Plus l'écart de revenu par habitant se réduit plus les échanges bilatéraux sont intenses. La corrélation est donc négative. Il s'agit plutôt d'un commerce intra-branche. Au-delà du même seuil, plus l'écart de revenu par habitant augmente, plus les échanges deviennent intenses. Plus les écarts entre les PNB/habitant deviennent importants, donc plus l'écart de développement devient important. La corrélation étant ici positive. Il s'agit d'un commerce inter-branche. Ce qui correspond au cas des échanges entre l'UE et la Roumanie.



Source : Calculs à partir des données de Direction of Trade Statistics Yearbook, IMF, 2004.

Cette mise en parallèle des écarts de richesse et de la nature du commerce (intra-branche/inter-branche) souligne l'importance de l'effet de la différence des structures de spécialisation. Plus les spécialisations sont différentes,

plus les échanges seront intenses. Le calcul des avantages comparatifs révélés de la Roumanie, ainsi que celui des distances de spécialisations avec ses partenaires commerciaux, pourraient s'avérer à cet égard une piste de recherche intéressante pour comprendre les déterminants des orientations géographiques du commerce extérieur roumain

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# THE LOGISTICS OF PRODUCTION MANAGEMENT AND THE TRANSFORMATIONS IN THE BUSINESS ENVIRONMENT

**Caraiani Gheorghe**

*Universitatea Româno-Americană, georgecaraiani@rdslink.ro*

*The prompt production chains are strongly integrated in the company along its functions and outside it, towards the providers and customers. The transition from vertical to horizontal imposes an organizational change. To help this process, it is useful that 'the best practice' be set through «benchmarking». We seem to enter an era when the competition rules will differ greatly from those existing in the past. If a company aims at obtaining such an advantage, it is crucial for the organization to revise the manner in which it grants values for the customers and decide whether it is time to reconfigure the chain in order to use the power of the other players in the production chain.*

*Keywords: logistics, business environment, production chain*

## **1. General issues**

They suggest that a new business model is necessary in order to cope with the radically changing business environment.

They describe the appearance of network organizations and explore their implications for the management of the production chain.

They underline seven major transformations in the business environment that need to be taken over to administer the chain production in the future.

They discuss the need to organize the chain production and propose means through which complex networks can be better coordinated.

However, there is a large number of organizations where the use of logistics may be easily traced with a significant strategic variable. Companies such as Xerox, Dell, Nokia, Benetton and 3M have massively invested in developing logistic systems. Although their market success is due to several factors, it is obvious that logistics, too, has played an important role in achieving such results.

A study carried out in North America for the Logistic Management Board tried to identify the features of companies that used logistics, the elementary characteristics of these organizations being as follows:

- they display an increased interest in customers;
- they comprise a wide array of mixed control from the functional viewpoint;
- they create alliances with their suppliers;
- they have a greatly formalized logistic process;
- they lay accent on operational flexibility;
- they use performance assessment;
- they invest in information technology;

## **2. The new organizational model**

It may seem that, in order to be successful in all sectors of activity, we need significant changes within the company. There is the need for a change that exceeds the re-sketch of the internal organization scheme and involves a cultural change starting at the top. In fact, the fundamental principles that have traditionally lead the company have to be considered, since what is required is a radical change of the models that hindered the development of industrial organizations for so long.

### ***2.1. The need of new models in the business environment***

Most of us work in hierarchical, vertical and functionally defined organizations. The typical organizational scheme of these companies resembles a pyramid and provides a clear image of subordination and the relationship-building ability of each employee. In fact, the organizational structure has changed very little since the Romanian armies have developed the pyramid model.

Although it is a clear fact that these models were very helpful in the past, now there are serious problems, since they are no longer suitable for the changed conditions of our times. Perhaps the most significant change of all is speed. Due to the short life cycle of products, time on the market has a growing importance.

Similarly, the dramatic growth of 'just in time' (JIT) practices in production means have created an environment where companies develop systems able to answer more rapidly and in a flexible manner to customers' requests. Indeed, this is valid for all the markets nowadays, as organizations try to reduce their stocks and thus be able to answer orders more rapidly.

The challenge for any business is to become a prompt organization in all respects. It has to meet the changes of the market with products and services that provide innovating solutions to the customers' problems; it has to answer volatile requests and must be able to provide a high level of delivery flexibility.

Maybe one of the most important successes of management lately resides in the fact that it has noticed that individual organizations can no longer compete as entities in themselves, but as production chains. We undergo now through a stage of network competition, where the prizes will go to those organizations that can structure, coordinate and administer themselves better in their relationships with their customers in a network meant to provide them a higher market value.

The emergence of network organizations is a recent phenomenon that has led to many comments and analyses. These virtual organizations are characterized by a confederation of expert skills and abilities made available by the network members. It is debatable whether such collaboration arrangements are more effective in satisfying the customers than an independent company, which undertakes all the activities. The implications for management of such a network are generally considerable and, particularly the challenges for logistic management are also significant. In order to make the networks more effective in satisfying the end users, it is necessary to have a high level of collaboration within the network, adjacent to recognizing the need to make these relations mutually advantageous. The network success is due especially to the exchange of information among partners, so that the requests down the production chain are visible for all the members in its upper side. Creating transparency along this chain ensures a production and a product delivery that suits the real demand and not a forecast; thus, the parts of this chain operate much more effectively.

The management of the production chain aims at obtaining an effective cost satisfaction after integrating the buyer/supplier process. This integration is obtained through a greater transparency of the customers' requests by means of sharing information, assisted by the processes, seemingly insignificant, which link the identification of the customers' need to the 'on time' answer.

In the past, there were many cases in which the organizations were structured and organized so as to optimize their own operations with little care for the manner in which they interacted with their customers or their suppliers.

The business model is purely transactional, i.e. the products were bought and then sold and there was little enthusiasm for the concept of long-term coordination relations. The result mainly consisted of products with high costs and low quality for the consumers.

The new organizational model strongly contrasts the old one. It suggests that on the global markets of these days, the path to hold a competitive advantage lies in the administration of a complex network of relations that links the suppliers of specific elements of the final supply in an effective chain from the viewpoint of costs and the added value.

The key to success is given by the new competitive coordinates, in which the network of alliances and suppliers are linked together in a partnership in order to reach their objectives mutually and advantageously.

### **3. Administering the production chain as a network**

The new model we have just described places the company at the core of this interdependent network – a confederation of complementary skills and abilities – that competes like a production chain integrated with other production chains.

In order to administer a radically modified competition structure you need skills and abilities different from those necessary in the traditional model.

To reach the top market in the world of competitive networks it is necessary to focus on the network management and on internal products. From among the many problems and challenges that the organization has to face while commuting to the new competitive environment, the following are the most important:

- Developing the collective strategy
- Strategy of the WIN – WIN type.

#### **4.The production chain of the future**

It is obvious that the markets and the production chains are in a continuous stage of adjustment and adaptation. However, evidence shows that the change rate has accelerated so much, that the business models that have functioned until recently will not be able to operate in the future.

We moved from a business environment in which the supplier held the power – many times due to the ownership on the resources, technologies and brands – toward a situation in which the customer, or even the consumer, is in a leading position. Where before was the seller's market, today there is the buyer's market. Simultaneously, the prevalence of the marketing philosophy moved from the idea of mass markets served by the mass production to the idea of unit markets served by mass commerce.

Even if this fundamental change has been obvious for some time now, it did not reflect in any mass change of the production chain.

The traditional production chain is based on maximizing efficiency, especially by exploiting the balance economy. So it is that our factories were created to produce large amounts and maximize their production capacity. This business type operated well under the circumstances in which it was created; a relevant example is the production of standard products made for mass markets.

This change in the market environment is accompanied by a number of significant changes for the business environment with major implications for the production chain.

#### **5.Seven significant changes of the business environment**

- From supplier-oriented to customer-oriented
- From push to pull
- From inventory to information
- From transactions to relations
- From « Trunks and Sheds » management to the oriented one, of the « end-to-end » type
- From functions to processes
- From singular competition to network rivalry

#### **6.The implications of the logistic system for the managers of tomorrow**

The changes of the type indicated above have important implications on the profile of the type of skills that will characterize the logistic and production chain managers.

This is only an indicator, but what it suggests is that there is a real need for formal education and training in various fields such as information systems and change management. The specified skills cannot be obtained only through expertise; the basis for the use of such skills must be acquired through appropriate education programs.

They represent a challenge for the logistics teachers of our times: how to set programs that have the power and depth to create managers of the T type. The managers of the T type are so called due to the profile of their skills.

Even if they have a certain specialty, they also hold much knowledge with respect to the other company procedures. This comprehensive education is crucial for the managers of the production chain of the future due to the need to 'horizontally' think and manage.

## **7. The organization of the production chain**

Together with the appearance of virtual organizations and enlarged enterprises there came the need to find a means to administer them. For instance, let us take into account the administration of the Ford group at the time of its founder and its current administration.

Henry Ford held an integrated production system because the entire company was his. Beside the production of the components used for the vehicles, the company also held steelworks, gum and mahogany plantations and forests. The Ford of our times is completely different. Most component businesses were externalized to other companies, Visteon and the steelworks were closed. In exchange, Ford is the center of the specialized supplier network.

### **7.1. From 3PL to 4PL**

Another model for the coordination of complex networks was proposed under the form of the idea of 4 PL or Lead Logistic Service Provider (the main provider of logistic services).

3PL are companies that provide a certain variation of logistic services for customers. They may operate in distribution centers, may administer the product delivery along the transportation chain or may take over retail services.

The idea of a 4 PL resulted after consultations with Accenture. The principles at the basis of this idea are that the production networks become global and much more complex, and the ability to administer them cannot exist in a single company. In this situation, there is the need of another company – it is likely to have a merger through another company – that may use its knowledge in order to manage and integrate completely the production chain.

4PL would mean a coalition of the best service providers who, using their own information systems, would ensure an effective solution for the production chain.

In the particular model of this business an agreement was reached between the customer and the partner. The customer will send its logistic assets (distribution centers) to the partner. It is also likely that the personnel administering and leading these departments will be moved to the new company. The partner's contribution may include its information systems, its abilities of strategic development and of the engineering processes.

This partnership will identify then those providers of logistic services who will execute various activities in the production chain. Using its information systems, the partner will become now an orchestrator of the chain production for the said customer, offering him a complete network administration capacity, according to the services and objectives proposed.

If the 4PL model is a partnership or another type of association there are 4 key elements:

- the system architecture and integration skills;
- a control room on the production chain;
- the ability to capture and use information and knowledge in the entire network;
- access to the best service providers;

Such a partnership has advantageous results. A recent example in this respect are the companies General Motors and Menlo Logistics, which commonly invested \$6 billion, General Motors using the majority part in order to set up Vector SCM.

Vector SCM has become in charge with the administration of the entire internal and external logistics of General Motors and with the coordination of individual transports and storage. Placing all the operations within an information system, Vector Vision has given the opportunity of a higher level of synchronization in the entire GM Company from the viewpoint of the supply and demand network.

## **Conclusion**

The prompt production chains are strongly integrated in the company along its functions and outside it, towards the providers and customers. Many companies cannot be prompt and effective because they have an outdated functional structure. They administer functions and not processes and approach the market in a fragmented manner. It is more difficult for them to conceive external integration since they do not have an internal one.

The transition from vertical to horizontal imposes an organizational change. To help this process, it is useful that 'the best practice' be set through «benchmarking». It is also important to identify the major adequate

performance indicators in order to set that the entire organization be focused on those elements that will make possible a more effective production chain.

We seem to enter an era when the competition rules will differ greatly from those existing in the past. A new competitive model is emerging, because the production chain network will create a source of competitive advantages by creating an increased value for the customers.

If a company aims at obtaining such an advantage, it is crucial for the organization to revise the manner in which it grants values for the customers and decide whether it is time to reconfigure the chain in order to use the power of the other players in the production chain. One thing is certain; the companies which believe that may continue to do business 'as usual' will find out that the forecasts for profit on the markets of tomorrow will rapidly face decline.

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# SINGLE WINDOWS IN THE NEW MODERNIZED EU CUSTOMS ENVIRONMENT

**Caraiani Gheorghe**

*Universitatea Româno-Americană, georgecaraiani@rdslink.ro*

*This concept settles a Single Window to increase efficiency of information exchanges between traders and government. Its main purpose is to ease the realization of internal and international transactions through simplifying and harmonizing processes, procedures and information exchanges, all these to contribute to the increase of global trade. After the launch of the concept e-customs, this new Single Window concept represents another action to modernize the new customs environment in the EU. The SW concept refers to a facility, a service that permits both sides implicated in transport and trade to introduce information a single time. There are three basic models for the SW: a single authority which receives information, a single automated system for receiving and sending information, and an automated system of information and transaction.*

*Keywords: single windows, EU customs environment*

## **The Single Window (SW) concept**

For implementing a SW are necessary steps which are complementary to the Recommendation number 33 and created to assist institutions and merchants in planning and introducing a type SW facility for the world import and export and for all operations related to these. This recommendation ensures models of documents to be prepared, part of the instruments, and valid rules and steps to be followed.

*What does the SW concept represent?*

As it is specified in the Recommendation number 33, the SW concepts presented in these guidelines refer to a facility, a service that permits both sides implied in transport and trade to introduce information a single time.

*What are the most common models for the SW?*

Although there are many approaches and forms possible in establishing a SW, three basic models have been identified and outlined from the study performed by the UN/CEFACT on numerous existing or in course of development systems. Still the before taking into consideration these models, it must be underlined the fact that:

- Although many business and trade practices are common to all countries each can't really will also have specific requirements and rules.
- The SW will have to represent a close cooperation between all implicated government institutions, agencies and merchants.
- The SW does not compulsory impose the implementation of a single technology and informing language although facilitating can be considerably increased if those implicated will adopt it.

The three SW basic models are:

- A single AUTHORITY which receives information, other on paper or electronic, stands, shares all the inflammation of all mainly involved authorities and coordinates controls to prevent misfit use in the logistic network. For example in the Swedish SW, at customs, there have to be fulfilled certain conditions required or imposed by certain organizations, authorities such as the National Tax Administration, the Statistics Institution (trade statistics), the Agency for Agriculture and National Trade (import license).

- A single automated system for receiving and sending information (either public or private), data referring to trade and disseminating data regarding external trade. For example USA has realized a program which allows merchants to introduce only once the standard data into the system, and it will process and distribute them to any interested agency for that transaction. There are many possibilities:
  - i. Integrated system: the data is processed in the system
  - ii. Decentralized system: to data is sent to agencies to be processed
  - iii. A combination of i. and ii.
- An automated system of information and transaction through which the merchants can present the electronic trade declarations to different authorities for processing and approaching all of them in one application. In the current approach, the approvals of authorities are electronically sent to the merchants' computer such a system functions in Singapore and Mauritius. More than that, in Singapore, the commissions, taxes are calculated and retained automatically from the merchants bank account. When such a system is realized, attention should be paid to the database where are specified the identity, data and characteristics priory introduced and validated, some time before, for all main types of transactions.

#### *The main agency for a SW*

The proper agency for conducting the introduction of an operation such as SW will vary from country to country according to the legal, political and organizational status. The main agency must be a powerful organization with a vision, legal, getting the political and financial and human resources support it needs and certainly in contact with other key organizations. In some cases, due to their derived role, the key position it has in obtaining information and contact at the border, the customs and harbor authorities can be the most appropriate agencies to lead the development and implementation of the SW. They can also be "entrance points" which receive and coordinates the information flux referring to fulfilling all trade related requirements.

Anyway, the main organization doesn't necessarily have to be a government organization; it can be a particular entity such as the Chamber of Commerce or a private organization such as the Commerce Committee. Still, particular organizations sometimes lack legal authority to solve and receive information and documents, as well as the power to strengthen the rules.

As such, in these conditions, it is preferable that private organizations ask for formal help from the government organizations that have the power and the means to use it.

### **What are the benefits of realizing a SW?**

The SW can simplify and ease up to a considerable point the process of procuring and sharing information necessary to fulfill the trade related requirements, both for merchants and authorities. Using such a system can improve the efficiency of official controls and can reduce costs both for authorities and merchants, correspondent to a better use of resources.

#### *Benefits for government institutions:*

- Incomes from better productions (and usually high ones)
- Improving trade relations
- Increased security
- Increased integrity and transparency

#### *Benefits for the trade*

- Rapid elaboration and clarity
- Explaining and applying rules



- Efficient use of resources
- Increased transparency

## **Implementing the Single Windows system**

Applying a SW is a significant activity implying many pretenders and requiring engagements from many players both government institutions and businesses. As a consequence is necessary that a system is adopted from the beginning. Anyway the implementation will be influenced enough by politics, cultural and social conditions, and traditions in a given country.

- Developing the initial concept for the Single Window
- Initial decision making of examining the feasibility of a Single Window
- The costs for analyzing the feasibility study
- Considerations following the statements of the feasibility study

## **Standards and instruments which help the implementation of the SW**

For the implementation of the Single Window the government and trade are strongly encouraged to take into consideration using existing recommendations, standards and instruments which have been developed along the years by inter government agencies and international organizations such as UNECE, UNCTAD, WOO, IMG, ICAO and ICC.

Using standards and available instruments will help the developed system apply the Single Window to be more acceptable, compatible with similar developments in other countries, and could also help in exchanging information between facilities the Single Window type. More than that using existing instruments and the best practices could help reduce the total implementation cost.

## **Essential steps to be followed in the implementation of a SW**

Successful introduction and implementation of a concept such as Single Window depends in a considerable measure on the preconditions and factors that vary from country to country and from project to project. This final part of Guidelines presents some successful factors picked out in situations of functioning and development of the SW invariant countries that use the UN CEFAC International Trade Procedures Working Group. The list of factors is not arranged in a specific order giving the situation in different countries and functioning forms that can vary a lot.

- Political will
- The main agency
- The association between the government and traders
- Founding the Clear Project Boundaries and Objectives
- Easy and accessible use
- Legal frame for implementation
- International standards and recommendations
- It is possible obstacles
- The financial model
- Payment possibilities
- Promotion and marketing

Promotion and marketing of some Single Windows is very important and should be carefully planned. The promotion campaign should involve representatives of all key governments and trade pretenders in the system, due to the fact that the systems can supply valuable information about the expectations of merchants and can serve directly to the promotion and marketing of messages. A clear implementation program should be realized and promoted in the earliest stage possible of a Single Window project, and thus participating to the marketing of the project and helping potential users to plan their related activities to the project and future investments according to

this program. Marketing should clearly specify the benefits and savings the system offers as well as the increased efficiency it brings.

Setting a corresponding mechanism for the permanent information of all pretenders about the purposes of the project, the objectives, the targets, the progress and difficulties met, generates trust and avoids the type of misunderstandings that can lead to the end of such projects. In this context is extremely important the way to deal with expectations of those involved in a correspondent manner, and is worth to be mentioned the business motto: "promise less and do more". It is also extremely important to remember the fact that pretenders usually don't expect miracles: solving simple, practical problems can generate the significant goodwill to sustain the project in difficult periods along the development.

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# COMPETITIVE ADVANTAGE – EVOLUTION AND CHALLENGES

**Ciobanu George**

*University of Craiova, Faculty of Economics and Business Administration*

**Dragomir Laurentiu**

*University of Craiova, Faculty of Economics and Business Administration*

**Barbu Catalin**

*University of Craiova, Faculty of Economics and Business Administration*

*Competitive advantage is the result of a firm's planned strategy. The strategic direction is realised through the ability of producing greater profits than the competitors. Many factors are equally important in producing a position of success. Some of these are industrial factors, others are resources and competencies of the single firm. The sum of all these forces results in creating and sustaining a successful position, in other words a competitive advantage. This study focuses on the evolution of the concept of competitive advantage from the study of the industrial environment to the analysis of inner resources such as knowledge and specific competencies embedded in firms.*

*Competitive advantage, Portr's diamond, value chain, resources, firm strategy*

## **Introduction**

Moving from the study of competitive advantage theory, the work tries to define this concept identifying its constitutive factors. The study of the mechanisms responsible of creating a sustainable competitive advantage is useful for the management itself and provides many interesting opportunities to investigate the causes of the firm's competitive success. When studying the concept of competitive advantage, the first question we need to answer is: what is the nature of competitive advantage?

Competitive advantage is the result of a strategy capable of helping a firm to maintain and sustain a favourable market position. This position is translated into higher profits compared to those obtained by competitors operating in the same industry. From the definition proposed two issues emerge: the existence of a strategy which is intentionally planned and realized through investments and resource deployment programs (we are therefore interested in strategic planning results and their implications on investment decisions); the implementation of a firm's strategy as result of a long-term competitive advantage, that is, a competitive advantage not immediately destroyable by competitors. These two issues limit the analysis to the study of competitive environments characterized by informative asymmetries and imperfect resource markets. In the absence of these conditions, we could not have sustainable competitive advantages, because the realization of a new competitive advantage would be immediately destroyed by the imitative strategies of competitors.

Therefore, the firm's success is the result of the firm's ability to respond to threats and opportunities existing in the specific industrial environment in which it operates. The strategic decisional processes and the profit-results that firms obtain are heavily influenced by external market conditions. The relationship between the firm and the industrial environment in which it operates is responsible for realising a successful market position and develops along three dimensions. First of all, the firm develops a consistent system of strategic objectives, adopting a complex of coherent functional policies. Second, the system of objectives and policies must be kept consistent with the external conditions of the market; that is, the strengths and weaknesses of the industry which the firm must consider in deciding strategies and policies. Nevertheless, the firm's adaptation to industrial environment requirements has to be seen in a dynamic form, in which the firm constantly adapts its action to external and internal changes, in a continually changing pattern.

The most important milestone in competitive advantage studies is related to Porter's idea of 'value chain' proposed in the 1980s. According to his approach, the study of strategy must rely on three elements: the external environment, the firm's behaviour, and the market results that the firm obtains in implementing its strategy. The successful market position that firms can gain is the result of two factors: the industrial environment and the position assumed by the firm inside the market. Industry attraction depends on the mutual influence of five competitive forces: competitors, new entrants, substitute producers, demand, and suppliers. The two-way interaction of these forces influences the profit leverage available to firms operating in the same industry. Firm

profits are also influenced by the specific position that the firm occupies in the industrial environment. Firms operating in the same industry can decide to adopt different strategies, choosing between three so-called 'generic competitive strategies': cost leadership, when the firm offers the same product at a lower price than its competitors; differentiation, when the firm offers a different product (higher quality and more functions) at a higher price. In this case, the firm must fix the price at a level sufficient to cover the greater costs sustained to differentiate the product. If this is not done, the differentiation strategy will result in greater costs not covered by higher income; focus, when the firm follows one of the two previous strategies, but focusing on a restricted segment of the market. We shall have a cost focus if the firm decides to pursue a cost leadership strategy in a restricted segment of the market, and a differentiation focus if it acts according to a differentiation strategy. Positions not consistent with the three proposed options result in what Porter calls 'stack in the middle' and do not enable the firm to gain average market profits. In explaining the process of gaining competitive advantage, Porter introduces the further concept of 'value chain' claiming that: 'competitive advantage results from a firm's ability to perform the required activities at a collectively lower cost than rivals, or perform some activities in unique ways that create buyer value and hence allow the firm to command a premium price'. In other words, the firm's strategy arises 'from the way in which it configures and links the many activities in its value chain relative to competitors'.

Furthermore, the value chain of each firm will interact with the value chain of any other firm placed along the production chain. The industrial environment defines opportunities, risks, resources, and costs firms must take into account. The external environment maintains a central role, influencing with more or less strength the company's strategy and its ability to gain a successful position in the market. Porter's analysis underscores the firm's opportunity to decide its strategy freely, implementing a cost-based, a differentiation-based, or a focused approach. The market maintains its importance but firms seem to be given higher levels of freedom. Porter's contribution makes the model less rigid, giving the firm the opportunity to move in the market freely, developing one of the three (or rather four) strategy options identified.

#### **The resource based view: a firm focused approach.**

The resource based view chooses the single firm, its strategy, its resources, its strengths and weak points as the objects of analysis. In examining the construction of solid and durable competitive advantages, an internal focus becomes the only accepted perspective, and the process of resource accumulation appears to be the only possible one. The resource based view removes the two fundamental assumptions on which the environmental models are based: homogeneity of resources and opportunities among firms operating in the same industry; perfect resource mobility. These assumptions provided the conceptual basis on which environmental models could choose to study the industrial environment in place of the single firm. Each firm that operates in the same industry can gain the same profit (industry leverage profit) because of the structural conditions of the market. No room is left for single firm strategy; uniform strategy behaviour becomes the necessary condition for firms operating in the same market. The only choice the firm can make is which industrial market to operate in, based on the analysis of market opportunities. In contrast, the resource view gives the firm freedom to decide which strategy to adopt, in relation to the specific resources and competencies acquired and developed by the firm itself during its activity. The importance of industry analysis decreases in relation to the growing strength of the firm, now capable of influencing and modifying the environment with its decisions.

#### ***Resources and capabilities: what makes the difference?***

Declaring the central role of the firm in deciding which strategy to adopt to fit better with its internal characteristics, the resource view defines some fundamental distinctions necessary for a better understanding of the process of creation of competitive advantage. A general distinction is made between resources and competencies. Furthermore, in each of the two groups, we can identify different types of resources and competencies. Resources are all those physical, human, and financial assets contributing in different ways to the input-output production process realized by the firm. These resources are employed, separately or as a complex, and their employment allows the firm to develop a sum of knowledge and operative capabilities, resulting in greater competencies. The distinction between resources and competencies is important because of the way firms can acquire or develop them. Firms can acquire the necessary resources in the markets and can produce their own specific competencies using them. Thus, competencies result from the way the firm uses its resources to create knowledge and skills. Resources are freely acquired in the market, while competencies are internally developed by the firm in its day-by-day activity and use of acquired resources. Competencies are therefore accumulated following firm-specific knowledge patterns. Once developed, they affect the resources from which they have been

generated, transforming the same resources into something different from what the firm bought originally. The result is that resources and competencies change continually, under the effect of normal organisational activity.

Based on this general distinction, we can classify resources into two types: tangible resources, which are physical assets (land, buildings, raw materials, facilities, etc.) that can be easily accounted for in financial plans; and intangible resources, which are, among others, know-how, brand name, and the firm's reputation. These elements cannot be accounted for in the balance sheet. Intangible resources are particularly critical in strategy implementation because of the importance of knowledge and reputation creation and the difficulty of acquiring them.

Competencies are classified into two main groups, too: tacit competencies are the result of personal and tacit learning processes developed in daily work, such as the 'learning by doing' process. These competencies are embodied in workers and cannot be translated into explicit rules and behavioural norms; whereas explicit competencies are embodied in organisational rules, behavioural codes, and other knowledge sources available in written form. These competencies are more easily recognised, acquired and widespread among workers, because of their availability in explicit rules and procedures. The process of competence development is both explicit and implicit. It is explicit because workers learn from the explicit rules developed by management. It is implicit, because workers, in their daily activity, become aware of new patterns of competence deployment, modifying by themselves (naturally) the codified rules of the organisation. The transferability of resources and competencies: barriers to mobility, causal ambiguity and other considerations. According to the resource based approach, the most important knowledge is that which concerns the methods that the firm uses in building and developing its resource and competence assets. How can the firm create a strong and distinctive asset of specific resources and competencies? How can the firm protect itself from imitation strategies implemented by its competitors? Is it possible easily to transfer resources to different contexts? Which resources are available in the market? These are some of the most important questions, sometimes answered, sometimes not, emerging from the resource based view. In answering these questions, we encounter new concepts and face with new problems. Indeed, the resource based view, removing the main assumption on which environmental models were based, introduces two key issues, responsible for the different results that firms can obtain in implementing their strategy: imperfect resource mobility and barriers to imitation of competitive advantage.

Some resources do not flow freely among firms and between firms and the market. These resources, and the competencies created in using them, have been called 'sticky'. Once purchased or internally created, they remain bound to the firm, developing a higher value than if they were used outside. As Peteraf points out: 'because immobile or imperfectly mobile resources are nontradable or less valuable to other users, they cannot bid away readily from their employer'. The construction of solid competitive advantages relies on these firm-specific and not easily transferable resources. A firm's competitive advantage is tightly related to its strategy and not only to its operational effectiveness. He defines the last one as 'performing activities *better* than rivals perform them'. In other words, the operational effectiveness 'refers to any number of practices that allow a company to better utilise its inputs by [...] reducing defects in products or developing better products faster.' On the other hand strategic positioning 'means performing *different* activities from rivals' or performing similar activities in *different ways*.' The difference between the two concepts is relevant because in the first case a firm can try to imitate the other companies' strategy, only improving efficiency or developing products faster than competitors do, but moving towards the same direction, with the same combination of activities. In the second case, when we talk of strategy, we should consider the sum of activities performed by the firm. These activities are completely different from the other firms' or they are performed in a different way with completely different results. The message to customers is different and the firm must choose among different strategies.

Given the difference between the two concepts, the competitive advantage of the firm can only be the result of strategic positioning. Only performing different activities or performing them differently from competitors, the firm can gain a competitive advantage establishing a difference from the other firms and maintaining it over time. Again, as in his older works, Porter underlines the existence of trade-offs which firms must consider and cannot remove. Managers are continually faced with trade-offs among (for example) costs, differentiation, flexibility, or quality and trade-offs are required to give the opportunity to choose among different opportunities and to gain success. Nevertheless, respect to other Porter's works we find a new idea, the one of fit among different activities. Fitness is about how the activities relate to each other, because strategy is not only a problem of what individual activities to choose but, particularly, a problem of how to put activities together, of how to fit them. The fitting activities make the firm successful and let it gain competitive advantage. It 'grows out of the *entire system of*

activities. The fit among activities substantially reduces cost or increase differentiation. Beyond that, the competitive value of individual activities – or the associated skills, competencies, or resources – cannot be decoupled from the system or the strategy. Thus in competitive companies it can be misleading to explain success by specifying individual strengths, core competencies, or critical resources. The list of strengths cuts across many functions and one strength blends into others. It is more useful to think in terms of themes that pervade many activities, such as low cost, a particular conception of the value delivered. These themes are embodied in nests of tightly linked activities.

## Conclusion

The Porter's work can be resumed in some points: He emphasises the importance of considering what the strategy is and how it differs from operational effectiveness. Many managers are now unable distinguish the difference. They are confused between the strategy's implementation through tools such as time-based competition, total quality management, reengineering and so on. These are only mechanisms to implement strategy, improve it and obtain better results. Strategy is something more and something different. It concerns the way how the many activities implemented by the firm can be tied together in different and specific ways. Strategy makes the difference among firms and strategy lets the firm gain a competitive advantage position not easily imitated. Given the difference between the two, a successful strategy implies fitting among activities, so that the result is coherent and the direction is the same. Once more, the sum of activities is more important than the single one. Strategy is something pervading the whole system of activities and all the activities must be reinforcing each other. In Porter's words, 'It is more useful to think in terms of themes that pervade many activities, such as low cost, a particular notion of customer service, or a particular conception of the value delivered. These themes are embodied in nests of tightly linked activities.' Furthermore, the fitting among activities makes them not easy to replicate. Rivals could easily imitate one single activity or some technique, or improve practices, but they could hardly replicate the entire system of activities, performing them in exactly the same way as competitors. This explains how to make the competitive advantage sustainable and durable over time. Trade-offs are important for strategy. Without trade-offs there would be no choice among different strategies and all the firms could obtain the same results with no extra-profits. Also if great improvements have been obtained in getting better results, the trade-off between cost and differentiation continues to be important and real. Firms must choose among different ways to win the markets. Sustainability of competitive advantage and strategy as fitting among activities include the concept of commitment. Strategy has long-range horizons and this means investments and commitment of the firm.

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# THE CONSEQUENCES OF GLOBAL VOLATILITY REFLECTED IN THE EVOLUTION OF INTERNATIONAL MONETARY SYSTEM

**Daea Alexandra Renate**

*University of Craiova, Faculty of Economics and Business Administration, Drobeta Turnu Severin, Adrian Street No.174, Romania, alexandradaea@yahoo.com, 0723610537*

*The international financial system is unstable and subject to serious crises. The crises are a recurrent feature of the international economy and they represent market failures that not only imply some resource misallocations, much more, shocking setbacks in the growth prospects for the emerging economies, with serious implications for income distribution and living standards for their citizens. The founders of the Bretton Woods System 60 years ago were primarily concerned with orderly exchange rate adjustment in a world economy that was characterized by widespread restrictions on international capital mobility. In contrast, the rapid pace of financial globalization during recent years poses new challenges for the international monetary system.*

*Key words: international financial system, crises, Bretton Woods system*

## **International monetary system – subject of international crises**

Integration of global financial markets and increased monetary and financial interdependence of national economies had a significant impact on domestic as well as international economics. Increased interdependence also has integrated such once-isolated policy issues as trade flows and exchange determination, thus immensely complicating the task of managing the world economy and raising important questions about the adequacy of the rules governing international economic affairs.

The international financial system is unstable and subject to serious crises. The crises are a recurrent feature of the international economy and they represent market failures that not only imply some resource misallocations, much more, shocking setbacks in the growth prospects for the emerging economies, with serious implications for income distribution and living standards for their citizens.

The founders of the Bretton Woods System 60 years ago were primarily concerned with orderly exchange rate adjustment in a world economy that was characterized by widespread restrictions on international capital mobility.

In contrast, the rapid pace of financial globalization during recent years poses new challenges for the international monetary system. In particular, large gross cross-holdings of foreign assets and liabilities mean that the valuation channel of exchange rate adjustment has grown in importance, relative to the traditional trade balance channel.

The financial system is complex in structure and function throughout the world. The volatility of global financial markets culminated in the East Asian crisis and the global economic turmoil of the late 1990s, which began in Thailand in July 1997, reflected the growing impact of global economic forces on international economic affairs

The Bretton Woods rules-based international monetary system was replaced by a shaky political agreement among the dominant economic powers G-7; this change made the central banks of the major economic powers de facto managers of the international monetary system.

The last two decades have seen changes in the structure of the international monetary system. Creation of the European Monetary System and the common currency (euro) pose a serious threat to the unity of the international monetary system. The most important questions are whether or not the euro displaces the dollar, what the consequences for the United States would be if it did, and how the euro would affect the functioning and management of the international monetary and economic system.

Throughout the postwar era, the international role of the dollar has been an important feature of the world economy. Somewhere between 40 and 60 percent of international financial transactions are denominated in dollars. For decades, the dollar has also been the world's principal reserve currency; the international role of the dollar has conferred a number of economic and political benefits on United States, and if the dollar were to lose its status as the world's key currency, the United States would forfeit these benefits.

The international demand for dollars has meant that the United States has been able to finance its huge and continuing trade/payments deficits since the early 1980s at a minimal cost. Moreover, the United States has been able to borrow in its own currency and thus avoid exchange-rate risks. In addition, American prestige is certainly enhanced by the international role of the dollar.

Emerging markets passed through a series of crises, leading some to adopt regimes of greater exchange rate flexibility and others to rethink the pace of capital account liberalization. Interpreting these developments is no easy task: some observers conclude that recent trends are confirmation of the bipolar view that intermediate exchange rate arrangements are disappearing, while members of the fear of floating school conclude precisely the opposite.

We show that the two views can be reconciled if one distinguishes countries by their stage of economic and financial development. Among the advanced countries, intermediate regimes have essentially disappeared; this supports the bipolar view for the group of countries for which it was first developed. Within this subgroup, the dominant movement has been toward hard pegs, reflecting monetary unification in Europe. Here the majority of the evacuees have moved to floats rather than fixes, reflecting the absence of EMU-like arrangements in other parts of the world. Among developing countries, the prevalence of intermediate regimes has again declined, but less dramatically. As with emerging markets, the majority of those abandoning the middle have moved to floats rather than hard pegs.

The gradual nature of these trends does not suggest that intermediate regimes will disappear outside the advanced countries anytime soon. At some level, the literature on the bipolar view builds on classic studies of the pre-World War I gold standard. The miracle of the gold standard was that it somehow managed to successfully reconcile stable exchange rates with high capital mobility.

Before World War I, the gold standard was predominant. Currencies were convertible into gold, thus fixing exchange rates between countries. After World War II, the Bretton Woods system and the International Monetary Fund were established to promote a fixed exchange rate system in which U.S. dollar was convertible into gold. The Bretton Woods system collapsed in 1971. We now have an international system that has elements of a managed float and a fixed exchange rate system.

The modern literature attributes this success to the hegemony of a model of monetary policy in which central banks attached priority to exchange rate stability, to the absence of a theory linking monetary policy to the business cycle, and to the fact that the public was not organized or enfranchised in a way that might enable it to apply pressure for the pursuit of alternative goals of policy. Thus, Keynes (1930) modelled the prewar gold standard as a stable intermediate regime – essentially, as a credible target zone. All this changed with the extension of the franchise and the politicization of monetary policy in the 1920s. The result was intense speculative pressure leading to the final collapse of the gold standard in the early 1930s. Disenchantment with open capital markets followed. Capital controls were widely imposed. Their maintenance allowed countries to operate a wide variety of different exchange rate regimes after 1931. Restrictions on transactions on capital account were maintained for many years – in some countries into the 1990s. Thus, while the Articles of the Agreement of the International Monetary Fund required members to make their currencies convertible for purposes of current account transactions after a short transitional period, there was no obligation to make currencies convertible for transactions on capital account.

The architects of Bretton Woods essentially took for granted the indefinite maintenance of capital controls when designing the new post-World War II system of pegged-but-adjustable rates. With the gradual postwar recovery of financial markets and transactions, investors found a growing number of ways around these controls; the development of the Eurodollar market starting in the 1960s was only the most graphic case in point. Policy makers responded in two ways. One was by widening the bands around their exchange rate parities.

Thus, the Smithsonian Agreement in 1971 that sought to salvage the Bretton Woods System expanded fluctuation bands against the dollar from  $\pm 1\%$  to  $\pm 2.25\%$ . European policy makers adopted this convention of 2.25% bands after Bretton Woods collapsed and they substituted the European Monetary System in 1979.

The other response was to elaborate and further tighten controls in order to prevent capital flows from destabilizing currency pegs. What is striking in retrospect is that there seem to have been so few analyses acknowledging that the rise in capital mobility was ineluctable and that it posed a challenge to the maintenance of intermediate regimes – that countries would ultimately be forced to move either to hard pegs (in Europe, in the form of monetary union) or freer floats (in other parts of the world).

Since the collapse of the Bretton Woods architecture, the world monetary system has been affected by two conflicting forces. The more powerful of the two forces is the concept of flexible exchange rates, which established itself in the ideological climate of economic liberalism. The other source of conflict originates in the belief that total exchange-rate flexibility is harmful to economic growth and free trade; it has led to the creation of the euro. This unsettled debate between the two rival concepts has acquired a new intensity because of globalization.



## **International monetary stability and global financial integration**

Moreover, there is another problem that must be solved: Can a globalized economy function in the long run without a global currency? The economists must decide between two alternatives: Will the dynamics of globalization lead to the establishment of a world monetary system or will monetary fragmentation eventually trigger a reversal of globalization? This debate seems to be more an academic controversial because, in reality, monetary calm is an illusion: somewhere, there is always an imbalance that needs clearing.

The crisis in the emerging economies illustrates the harmful consequences of the present shortage of international monetary cooperation. But it depends to the world states (especially United States and European Union) to remedy that deficiency. The advent of the euro creates ideal conditions for a revival of global monetary cooperation. It is a historic opportunity that a revamped G-7 should seize in order to establish financial stability. Without the latter, the gains of globalization may be jeopardized by rising protectionism—a phenomenon whose sporadic manifestations are already visible. The G-7 has not sufficiently adapted to the new global economic environment, in particular the explosion of international capital flows and the rise of the emerging economies.

The G-7 has a special responsibility in the playing field without rules, constraints, or sanctions that has been built on the ruins of the Bretton Woods system. The G-7 must now fill this gap by contributing rapidly and decisively to the development of a new international financial architecture.

First, the G-7 must define a more coherent set of operating rules for the IMF. It must give the Fund the means to act, particularly by granting it broader authority to negotiate with countries that come to it for help; the G-7 also must increase the IMF's financial resources. After the quota increases now under discussion, IMF resources measured against international trade volume will stand at only 11 percent of their 1945 level: this does not make sense.

Second, the G-7 must reform itself in order to take better account of the interests of the emerging economies and to achieve the flexibility needed to adjust to global change without being paralyzed by short-term conflicts of interest. In particular, the G-7 structure needs revamping in order to separate the activities concerning relationships between the two or three main currencies (euro, dollar, and the yen) from broader initiatives requiring an adequate representation of small and emerging countries.

The establishment of these new ground rules must rest on close cooperation between the main industrialized countries, at government and central-bank level. Indeed, their governments and central banks must be fully aware that their international responsibilities, in an open economy, are simply an extension of their domestic obligations. Under such conditions, the international monetary system will be able to gain strength and meet the challenges of the years ahead.

The decline of the G-7 and of monetary cooperation bears a special responsibility in the development; the decline has substantially weakened the scope of preventive action by the multilateral financial institutions in response to governments' economic policies and to unstable investor behavior. Countries whose financial systems had not been adjusted were allowed to lift all controls on capital movements with the rest of the world, and in some cases they were actually encouraged to do so. The world's rising monetary and financial instability is due to fixed exchange rates and the support they have received from the international community, notably the International Monetary Fund.

In a universe in which all agents were perfectly informed, we might assume that this recipe would ensure international monetary and financial stability—provided that economic policies converged. In practice, policy convergence—whether in the monetary or the fiscal sphere—has not proved to be a sufficient guarantee of monetary stability.

In my view, international financial integration and the state of the international financial system are far less abstract topics than one might think at first glance. They reflect one of the most complex, intriguing and powerful aspects of the phenomenon that is generally referred to as globalization. This phenomenon represents a key issue that policy-makers in Europe and beyond have to deal with. Policy-makers often face very specific concerns about economic uncertainty and the risk of instability. There is also a more recent phenomenon that is less visible, but even more dynamic, namely global financial integration. By this, I mean the integration of local and national financial markets into a more unified international financial market. Only a few decades ago, the realization of an investment project was largely contingent on the availability of capital in the local economy. Today the opportunities to raise finance as well as to invest capital are truly global. The substantial number of bilateral investment treaties and the liberalization of capital accounts have further encouraged cross-border investment.

The benefits of this integration are obvious – a greater variety of goods and downward pressure on prices benefiting consumers and households. But the benefits are even more substantial, as production requires both human and financial capital. A skilled workforce cannot unleash its full potential without financial capital. Europe’s impressive economic recovery after World War II would have been inconceivable without its integration into the global economy and its concentration on high-quality exports.

Today, many Asian economies are benefiting from global economic integration. Investment in the appropriate technologies enables these countries to compete on the world market and increase welfare substantially. This is by no means a phenomenon which only appears in national accounts. Income disparities across the world have declined significantly. Not surprisingly, the benefits of this financial integration are particularly clear for open economies, which have recorded higher average growth rates in recent years.

How should we assess these recent developments in the international financial system? We realize that the benefits outweigh the costs. But there are costs of adjustment, often front-loaded and concentrated on specific regions and sectors, which need to be taken into consideration.

The change in the structure of the global economy also requires structural adjustments to be made in local economies. We know that the ability of a country to benefit from global financial integration very much depends on the quality of its institutional and structural environment. All economies, including advanced ones, such as the euro area, have to adapt to the changing needs of the world economy.

The European economy has undergone and will continue to undergo substantial structural changes, which are necessary and beneficial because they will secure Europe’s place in the global economy. This structural adjustment has been and will continue to be a major phenomenon in the coming years. As the world’s largest exporter, Europe clearly has a major interest in global economic integration and is well placed to benefit from it. Sceptics are concerned about the sustainability of global financial integration; they argue that financial integration has gone too far, that market turnover has reached levels that are unhealthy.

The world economy has entered a particularly difficult phase, with the financial turmoil spreading, across borders, across sectors, and to the real economy. Indeed, one of the key lessons has been the importance of international policy cooperation and coordination. Such a collaborative approach offers the best hope for ensuring the stability of the global economy.

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# ASPECTS REGARDING THE THEORY OF EFFICIENT MARKETS

**Despa Radu**

*Romanian-American University, Faculty of Internal and International Commercial and Financial Banking Relations 1B, Expoziției Blvd., Sector 1, Bucharest, Romania , radudespa@yahoo.com, 0744 270 089*

**Coculescu Cristina**

*Romanian-American University, Faculty of Computer Science for Business Mangement, 1B, Expoziției Blvd., Sector 1, Bucharest, Romania , cristina\_coculescu@yahoo.com, 0740 975 358*

**Folcut Ovidiu**

*Romanian-American University, Faculty of Internal and International Commercial and Financial Banking Relations, 1B, Expoziției Blvd., Sector 1, Bucharest, Romania , ofolcut@yahoo.com, 0722 913 416*

*Abstract: From the beginning of the XX century, in a theoretical paper regarding stock speculation, Louis Bachelier shows that the prices of goods on the stock market follow a random movement, drawing, from here the conclusion that speculation is an actual game, meaning that neither the buyers or the sellers don't make in whole a net profit. Further statistic analysis seems to confirm the hypothesis of the random movement of exchange rates. So, it was appreciated that the successive changes in the prices at the stock market are practically independent, and the dependents are practically negligible. This means that the fact of knowing these correlations cannot be used to boost profits resulting from operations, the eventual supplemental earnings being canceled by costs. From these reasons, a conception regarding the price movements on the stock market, the so called theory of the efficient market.)*

*Keywords: efficient market, portfolio theory, informational ensemble*

## Introduction

Although it dates from the beginning of the XX century, the concept of efficient market has become in the last 30 years the base for researching the theory of financial markets. To Louis Bachelier is owed the model of random movement (steps) "Random Walk" or "Fair Game" revised in 1964 in "The random character of Stock Market Prices" by Paul Cootner. Bachelier showed that the interval in which the stock list can be situated with an established probability, it depends on the current level of the stock list  $P$ , on a constant  $a$  and on the square root of time  $T^{0.5}$ , ( $P-aT^{0.5}$ ,  $P+aT^{0.5}$ ). Assuming a normal distribution of stock lists, constant  $a$  can be replaced with the standard deviation for a probability of max 68% and the double of this deviation for a probability of 95%. This rule works only in the hypothesis "fundamental principal" for the evolution of courses, meaning speculation must be a "fair game", meaning the prices expected by a speculator must be zero.

In 1950 some of the first computer applications in economy were the programs for the analysis of time series. Starting from the premises that, following the evolution in time of some economic variables, one can predict the evolution of economy, the boom and recession periods, the analysis of the evolution in time of the stock list was realized, its evolution showing, in this acceptance, the evolution of economy in its whole. According to the results of the analysis, the stock prices seem to have a random evolution, being unable to predict future prices according to past ones.

In time this characteristic of the market was considered to be a characteristic of "an efficient market" or a market that works "well". Based on these observations the concept of "random walk" was born, according to which prices lists or past changes, as well as the changes in the output of bonds can't be used to predict future prices and outputs. According to the model of random walk, the reflection in the stock list of all available information involves the fact that the successive changes of prices and outputs in a period of time are independent. Outputs are also presumed identically distributed. The theory of random walk is incompatible with classical models of administration of portfolios (Markowitz, Sharpe) as well as with the technical analysis on which the hypothesis, that successive price change is constant and that the historical behavior of stock list will repeat in the future, is based on.

## The concept of efficient market and the modern theory of portfolios

The developed capital markets have two important characteristics: divisibility (atomicity) and liquidity. Divisibility means that assets are represented by a large number of shares which can be bought for different sums. In consequence an asset can be owned in different proportions by a number of investors and an investor can place his money in more types of shares. Liquidity means that an investor can immediately, without great costs, change some shares with others. This involves the fact that any investor may constitute his portfolio in a way that suits him at any time, very fast and without great cost. He will have the possibility to manage his positions the way he wants. In these conditions the interest of every investor is to obtain information regarding the shares of varied companies quoted on the market. This information will allow investors to evaluate the perspective of every investment opportunity and investing in the portfolio that have the best perspectives. The sources through which investors may obtain information are balance sheet, rates and volume of transactions, specialized publications and financial journals, as well as financial institutions that appreciate the perspectives of quoted companies. These information channels are efficient in extent that information is rapidly spreading and all new information becomes public fast.

Because shares are dividable and liquid, investors are in measure to rapidly adapt to the perception changes regarding the value of a company. This new information will lead to buying and selling that will affect the rate of exchange until it corresponds to the new value of the company. Thus, the information will be quickly assimilated by the new rate of the share. For example, if all the investors are sure that the rate of exchange of a share will grow by 5%, they would buy it until this hope of a 5% profit would be reflected in today's rate of exchange. It is because of this that tomorrow's awaited 5% variation will be reduced to 0. Starting from this logic today's rate of exchange becomes a reasonable estimation of tomorrow's exchange rate. In these conditions it would be very difficult for an individual investor to find a share that is not correctly evaluated. Thanks to this fact we can formulate a hypothesis according to which the capital markets are "efficient markets". The principal of capital markets efficiency signifies the fact that today's rate is a good approximate for tomorrow's rate. Such a process is a "martingale" process. According to this all the necessary information needed for the prediction of future rates are already reflected in the current rates. A special martingale case is the well known process of random roads "random walk", which needs the supplementary hypothesis of the independent distribution of rate variations.

The term of random road is often misinterpreted. Thus, some consider that rate variations are owed to chance and will not have any causal reasoning. The hypothesis of efficient market does not have in view such an interpretation. The rate varies because the characteristics and perspectives of a company in economy change and because of the fact that the evaluation of the investor of these characteristics and perspectives change. In other words, the knowledge of an investor changes with the information that continues to arise and the revisal of the impact of old information. Meaning that at any moment rate variation in the next period is random, being given by the nature of the available information.

### *Deficiencies in the theory of efficient markets*

The premises of the concept of efficient market are:

- Investors are rational, thus they show aversion to risk and want assets that give maximum output for minimum risk;
- Current rates show all the available information;
- Outputs are independent, unlinked at different moments in time with an approximately normal distribution;
- Markets are "random walk" type.

In reality, the premises listed above are not real: investors don't always show aversion to risk, they don't react promptly to information, they are guided by trend (built on past information) in present strategies. Because of this, the premises that investors are rational, rate modification is independent and markets are "random walk" can't be accepted. The irregular assimilation of information, as it is in reality, can lead to the *tendency* of random movement- "biased random walk", named *fractal time series*.

The hypothesis of random movement, Brownian, is supported by the following aspects:

- The distribution of outputs isn't perfectly normal;
- The risk of some extreme events is greater than the one supposed by the theory of efficient markets;

- The output has the same distribution regardless of the horizon of time chosen;
- Volatility rises with a greater rate than  $T^{0.5}$ , but after a sufficient period of time it drops suddenly.

This drop is based on the growth of the risk premium as the time horizon grows. According to Le Baron, one of the greatest deviations from the pure random evolution in time series is the persistence of volatility. The movements of the output are very hard to predict, although the magnitude of the movements can be relatively easy to forecast. The same author shows in 1992 that self-correlations between share efficiency and the exchange rate change according to recently estimated volatility and the financial time series follow a process whose equation is:

$$4. \quad r_t = \lg(p_t) - \lg(p_{t-1})$$

$$5. \quad r_t = f(\sigma_t^2)r_{t-1} + \varepsilon_t$$

$$6. \quad \sigma_t^2 = \sum r_{t-1}^2.$$

From these equations results that  $f$  is a decreasing function of conditional variant, showing the fact that the local predictability in time series is greater in the periods with lower volatility.

### ***Efficient forms of the financial market***

The correspondence between the perfect financial market and the financial reality determines the different forms of efficiency of the financial market, respectively operational, organizational and informational. *Operational efficiency* is appreciated in report with the hypothesis of rational behavior of the investors and by their anticipation of the behavior of the other market operators. All of these group behaviors, training effects lead to a certain interpretation of the market reaction trough speculative “bubbles”. *Organizational or functional efficiency* refers to the correspondence of hypothesis regarding atomicity, market contingency, and interest without risk, the absence of fiscal and transactional costs. *Informational efficiency* regards the integration in stock rates of fundamental information intrinsic value of quoted shares, public available information, regarding financial execution and the economic perspective of the emitting company, privileged information etc. According to the categories of available information and how quick this information is integrated in the prediction of rates, Eugene Fama identified 3 forms of informational efficiency: weak, semi-strong, strong.

In short, in the hypothesis of efficient market, all the available information, at a certain time, is included in rates. The exchange rate at any moment is an unexaggerated estimate of rates in the following period. On such a market no investor can hope of having, in a repeated fashion, information that has not been already brought up to date by the other investors in the stock. In consequence, no investor can realize abnormal output rates and of a systematic manner. The level of the output rate, at which an investor can hope, is according to the risk assumed by that investor. This remark is very important and represents one of the basic elements of the Equilibrium Model of Financial Assets. The concept of an informational efficient market has a series of extreme implications in the practice of portfolio management: the only investors who have access to privileged information will have the possibility to obtain abnormal earnings. According to Fama (1965; 1969) the information could be separated in three categories, to which three levels of the informational efficiency degree correspond.

Weak form	Semi strong form	Strong form
The informational ensemble: past prices	The informational ensemble: all the public information	The informational ensemble: all the information which are possible to be known
In an efficient market the past prices of shears can't be used to beat the market or to obtain adjusted output for superior risk. Technical and chartist analysis is useless.	Public information include : balance sheets, exploitate accounts, PER, capital rise, etc .  In an efficient market, in a semi strong form the fundamental analysis, based on the public information, is useless.	Superior performances can't be realized no even by the most susceptible persons to receive privileged information.
<b>Efficient market</b>		

Source: Jacquillat&Solnik (1997)

The technical analysis of securities markets was developed by practitioners, its values are questioned by the university and research medium. In fact, technical analysis is centered exclusively on the study of the markets internal dates. The idea it's based on is that the economic, financial, psychological factors that influence market rates, are contained in the movements of supply and demand on the market and that the observation of the volume of transactions and the variation of rates is sufficient in anticipating the evolution of exchange rates.

The fundamental hypothesis of technical and charter analysis is that past tends to repeat itself, and certain charter forms, once identified, will provide information regarding future rates. *A statistician will agree with these methods only if the successive rate changes are dependent events.* This is translated by the so called "serial correlation". The inexistence of such a correlation involves a random evolution of rates, known as "random market". The practical use of technical or charter analysis can be verified only after testing the weak form of efficiency. Semi-weak efficiency will exist only if rates reflect all public information, and efficiency in strong form will exist only if rates reflect all information, including the privileged ones. The majority of portfolio management is based on the technical analysis and fundamental analysis in their activity. Accepting the hypothesis of efficient market makes the use of these practices futile [Solnik, 1997]. Informational efficiency of the American market was put forward for the first time by Cootner (1964), Moore (1964) and Fama (1965). These studies were followed by Solnik(1973) for the main European markets. Gabriel Hawawini(1985), in his monograph, reviews, in an exhaustive manner, all the efficiency studies on the European markets. All these studies showed the informational efficiency in weak form of the main stock markets. In these conditions the development of new instruments in portfolio management which took shape in the modern theory of portfolios. Some key words, which stand at the base of this theory, are: market model, systematic risk, and stock index, contracts based on indicators, market line, or risk premium. According to this new theory, the investors hope for earnings will be directly proportional to the risk assumed on the market.

#### **Statistic testing of the weak form of informational efficiency**

This testing resumes to showing that an investor can't anticipate with a profit, future exchange rates, using past rate sequences. This situation appears when the output of a share can be written, in its simplest form:

$$\tilde{R}_{j,t} = \mu_j + \tilde{\varepsilon}_{j,t} \quad (1)$$

Where  $\tilde{R}_{j,t}$  represents the output rate of share  $j$ , at time  $t$ ;  $\mu_j$  a constant term, and  $\tilde{\varepsilon}_{j,t}$  is a random variable of null hope, the finished variation and of which self-correlation coefficient, with a delay greater or equal to one, is zero.

In these conditions we can write:

$$E(\tilde{R}_{j,t} | \mu_j) = \mu_j \quad (2)$$

Meaning the best prediction of the output rate of share  $j$ , for a future period, is its medium output rate, calculated ex-post, on the same period of time.

For the process  $\tilde{R}_{j,t}$ , of outputs, to correspond to the weak form of informational efficiency, according to relation (1), there must be fulfilled two conditions:

a) process  $\tilde{R}_{j,t}$  must be integrated by the order 0 (the stationarity condition of the process) ;

b) the self-correlation coefficients, of variable  $\tilde{R}_{j,t}$ , must not semnificatively differ from zero (serial uncorelation)

a) the integration degree of a process can be tested with the help of Dikey-Fuller test, or the improved version of it ADF. There are proposed the following testing equations:

$$\begin{aligned}\Delta R_{j,t} &= \mu_a + \theta_a R_{j,t-1} + u_t \\ \Delta R_{j,t} &= \mu_b + \theta_b R_{j,t-1} + \gamma_b t + u_t\end{aligned}\quad (3)$$

In case in which residues  $u_t$ , are self-correlated by order  $p$ , Dickey and Fuller proposed the introduction of  $p$ , regresor  $\Delta R_{j,t-i}$ , where  $i = 1 \dots p$ , resulting the ADF test. The testing equasions will be:

$$\begin{aligned}\Delta R_{j,t} &= \mu_c + \theta_c R_{j,t-1} + \sum_{i=1}^p \theta_i \Delta R_{j,t-i} + u_t \\ \Delta R_{j,t} &= \mu_d + \theta_d R_{j,t-1} + \gamma_d t + \sum_{i=1}^p \theta_i \Delta R_{j,t-i} + u_t\end{aligned}\quad (4)$$

Studying the distribution of estimates  $\theta_a, \theta_b, \theta_c$  and  $\theta_d$  the two found that they are moving downward in report to the Student, by using Monte-Carlo simulations they found critical values, which tend asymptotical towards the values of the normal law for  $T > 500$

When the coefficients  $\theta_a, \theta_b, \theta_c$  și  $\theta_d$  don't differ significantly from 0, the output series  $R_{j,t}$  is integrated by order 1. When it significantly differs from 0 it must be seen if this is not integrated by the order 2, or more. If this last hypothesis is rejected, the output series is integrated by the order zero, respectively stationary.

b) Testing the self-correlation of outputs will be realized with the help of the Ljung&Box(1979), for self-correlation with lag greater or equal to one. The statistic of the Ljung&Box(LB),  $Q_{LB}$ , is calculated staring from the self-correlation series with lag between 1 and the forth part of the

sample volume. The statistic  $Q_{LB}$ , has the following expression :  $Q_{LB} = T(T+2) \sum_{j=1}^K \frac{\hat{r}_j^2}{T-j}$ ,

where  $\hat{r}_j$  are the self-correlation coefficients of residues, of lag  $j$ . Under the null hypothesis of residues, this statistic is distributed after a law  $\chi^2$ , with  $K$  degree of freedom.

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# THE MULTINATIONAL COMPANIES AND THE EMERGING MARKETS

**Diaconu Laura**

*„Alexandru Ioan Cuza” University Iași, Faculty of Economics and Business Administration, Carol I Avenue, no. 22, Iași, 700505, Email: dlaura\_es@yahoo.com, Tel.: 0723.30.27.28*

*The term of emerging markets defines the developing states that are an important source of cheap raw materials and labor force for the multinational companies, which are looking for competitive advantages. Consequently, the potential of these markets have determined important changes in the multinationals' actions that started, more and more, making foreign direct investments in developing states. But, relocating the activities outside the origin country, the firms are influenced and, meanwhile, are influencing the economical, political, social and cultural environment of the host states. Therefore, if the multinationals' decision of investing is taken only after a careful analysis of the opportunities and risks of the emerging markets, their activity may involve both benefits and costs for the local economy.*

*Key words: emerging markets, multinational companies, relocation of production, competitive advantages*

## **Introduction**

The emerging markets represent a great opportunity for multinational companies to grow and intensify the activities. The potential of these markets has already determined significant shifts in the multinationals' actions: if in 1992 the foreign direct investment (FDI) inflows to developing countries were only 18% from the total amount of FDI, in 1996 this percentage rose up to 33%, exceeding 100 billion dollars (UNCTAD, 1996). While these investments are widely interpreted as heralds of a major restructuring of the global economy, the emerging markets are considered to be a source of the future growth.

The term emerging market is used in order to define the developing states that are an important source of low-cost raw materials and labor force. Nowadays, the emerging markets' attractiveness has increased, fact that could be mainly explained through the implementation of some economic liberalization measures that have facilitated the entrance of the multinational companies on their territory. Moreover, the information technology made possible for the small and medium-sized multinationals to easily get in touch with business partners from the emerging markets; in the absence of these facilities, it would not warrant the time and cost of establishing traditional relationships.

### ***Foreign Direct Investments on Emerging Markets: Opportunities and Risks for the Multinational Companies***

Before the last decades of the XX<sup>th</sup> century, with a few notable exceptions, the multinationals' participation on the emerging markets was limited to establishing low-cost offshore production operations, accompanied in some cases by opportunistic exports. Nowadays, these companies are attracted by the revenue-generating potential of these markets and by the opportunity of growth offered by them. Therefore, apart from the advantage given by the possibility of establishing some production subsidiaries in order to produce low-cost goods that, later, will be exported to the developed countries at a much bigger price, the emerging markets are also attractive as secondary markets. This last advantage is exploited especially by the firms with products that have reached the maturity stage on the developed, oversaturated markets, and which now can be sold on the emerging ones. But, at an operational level, the multinationals may confront with some unfamiliar conditions and problems on the emerging markets. For example, what most companies that act on developed country would regard as basic marketing infrastructure, is largely absent in many emergent economies; also, here there is little or no market data, nonexistent or poorly developed distribution systems and, moreover, business regulations are frequently changing.

Another main category of challenges includes the decisions that multinationals have to take: which markets they enter and when, how the product life cycle and the market life cycle might evolve and how to structure the relationship with local partners. The problem that appears is that there is little guidance for corporate executives responsible for the firm's strategy across the emerging markets; so, the default option remains to use the same marketing frameworks applied in developed economies. Some interviews, conducted by A. K. Gupta and D. E. Westney and addressed to some multinational's managers, argue that, due to the differences in the level of

development and in the growth possibilities, the strategies have to be reconceived before being implemented into the emerging markets (Gupta, Westney, 2003; p. 109-110). The risks that may frequently appear on these markets are the political, macroeconomic, monetary and informational ones. The most known political risks are expropriation – when the government takes over a foreign firm – and the political instability that might turn into an armed conflict or might foster corruption. The solutions, in order to avoid these challenges, are either having an important local company as a partner, or “inviting” the government to own part of the firm (Hooke, 2001; p. 50).

One of the few studies that analyze the advantages of the first companies that enter the emerging markets – called “the first-mover advantages” – concludes that most of these markets’ conditions “appear to inhibit rather than enhance first-mover advantages, raising the possibility that no firm should attempt to pioneer in such a market” (Nakata, Sivakumar, 1995; p. 31). This study argues that the lack of the enabling conditions for rapid commercialization impedes the convertibility to profit of early investments and temporary product advantages. Such an approach clearly supports the argument for delaying the entry on an emerging market. The analysis made by A. K. Gupta and D.E. Westney fights against this judgment, arguing that the early entrants in emerging markets may have additional sources of advantages, including favorable government relations, pent-up demand, marketing productivity, marketing resources and consequent learning (Gupta, Westney, 2003; p. 113).

National governments are far more influential in emerging markets than in developed-country systems. This reflects the recent history of many developing states as command economies, with closed markets, the desire of many host governments to build local business as the economy grows and FDI increase and the importance of the government-led infrastructure projects in the early stages of development. The establishment of relationships between the multinationals and the governments may have tangible benefits for the first ones, such as granting one of a limited number of licenses or permits. Moreover, many governments from the emerging markets are still establishing new regulations in order to stimulate the business environment and the multinationals that have already invested in these markets will be favorably positioned to influence the regulation of the market regarding the price control or the opening of communications media.

There may be a substantial latent demand for the Western brands, previously unavailable but known in emerging markets, offering higher sales levels than many of the first-entered firms assume. The advantage of the low-cost factors of production from the emerging markets is considered by the multinationals not only in establishing the location of production, but also in timing of market entry. In this case the comparison is not only with global costs but also with future costs. Low advertising rates per capita in emerging markets enable firms to launch brands and build brand awareness very economically.

Although the number of the managers with both emerging market and international experience is growing, it remains a constraint and thus a potential advantage to multinationals that have entered multiple emerging markets and have developed a pool of experienced managers. Often, the developing countries provide opportunities for innovation in marketing or in production process and the consequent learning can be transferred to other markets. The ability of companies to leverage leading-edge ideas and best practices across operating subsidiaries can be a critical source of competitive advantage (Keegan, 1995). For example, due to the lack of developed distribution infrastructure in many emerging markets, multinationals have created innovative distribution processes or product packaging that is transferable to developed markets.

### ***The Influence of Multinational Companies on Emerging Markets***

Multinational firms, relocating their operations beyond the boundaries of their home country, influence and are influenced by the political, economical, social and cultural environment of the host state. These impacts may be both positive and negative ones. It can be observed that the multinationals may have a positive contribution to the trade balance of the host developing country by producing goods that used to be imported (import substitution) and which can ever be exported (reversal of the direction of trade). Thanks to their experience and advanced technology, the multinationals are likely to be more productive than their local counterparts and this is why they can offer higher incomes to the employees (Lipsey, 2002). Some studies have analyzed the way in which the advantages given by the high salaries and by the increased productivity may influence the efficiency and the incomes of the local firms. They concluded that the multinationals have a positive influence not only on the national markets, raising up the average level of the salaries, but also on the other national firms, determining them either to implement modern methods and technologies, or to attract the labor force that previously had been trained in the multinationals (Malchow-Moller, N., Markusen, 2007; p. 3-5). An example regarding the positive impact of the multinationals from emerging markets on the local firms is the Chinese appliance-maker Haier. Nowadays, it is exporting to developed countries, a step that was inconceivable before massive FDI flows into

China have changed the work practices and standards there. Indeed, the foreign direct investments are fostering the innovation and the development of new information that may be dispersed and used on multiple levels of the local economy. But, the extent to which local firms can take advantage of this depends on some specific factors of host country, such as the local infrastructure and government policies.

Having high levels of efficiency, the multinational companies increase the quality of goods produced and consumed locally; in this way they raise the satisfaction of the national consumers and ensure a convergence of the global clients' tastes. This may be regarded as an advantage in bringing different cultures closer and in reducing the marketing costs of the multinationals. The investments made by multinational companies in new plants and factories may create new jobs in the emerging markets. Moreover, these firms pay taxes, in the benefit of local economy that may use them to improve the educational system, the transports, or other services. Yet, sometimes multinationals may have a negative impact on local firms. It is the case when they receive favorable discriminatory treatments from the host governments, such as lower taxation rate or tax break. Consequently, local discriminated firms will be less competitive, suffering shrinkage of the market share, layoffs or profit reduction. Such negative effects were felt in Nigeria, the sixth largest producer in the world, when the competitive giants Shell (Anglo-Dutch), Chevron (U.S.) and Texaco (U.S.) have started operating there. Local firms, such as the Nigerian National Petroleum Corporation (NNPC), had to yield the leader market position to those multinationals. In response, the local enterprises decided to increase their competitiveness and power allying with other local firms or with the multinationals. In this situation, whether or not local governments protect individual local firms through regulation depends on analyzing the gains and the losses arising from this protection. In China, it seems that the protection of the national industries played an important role since the government tried to equalize such fiscal and political treatments to all firms, starting with 2001.

The technology transfer, in the form of technological know-how, of managerial skills and market techniques, can also have positive local effects, allowing the developing countries to catch up with the economic development of industrialized states. This was particularly important in the rapid development of the economies of Taiwan, South Korea and Hong Kong, which are now classified as ones of the fastest-growing newly industrialized countries with huge export capacity. But, in some cases, the technology transfer made by multinationals may be ill-suited to the needs of the host country. For example, production methods based on modern and sophisticated technology (for which the host country may not have suitably qualified manpower and supporting industries) may require a capital-intensive production system which may not create as many jobs as the host government had hoped. An important implication of the transfer of modern technology is that the multinational may end up dominating the industry by using its technological advantage as an effective barrier, for other domestic or international firms, to entry the market.

The multinational companies bring with them, on the emerging markets, the capital needed for the economic modernization, increasing, through the reform of the financial services and institutions, the productivity of the capital. But, as the local economy becomes more dependent on the economic health of the multinational company, the financial fortunes of the firm take on increasing significance. When a retrenchment of a multinational is accompanied by layoffs, cutbacks or a total shutdown of local operations, the effects can be devastating to the host economy.

A potential entry of a multinational company on an emerging market often prods the host government into liberalizing the trade and investment policies by lowering or removing barriers to free trade and investment; this will enhance the economic prosperity.

One of the most effective ways to reduce the monopoly power of indigenous firms, to stimulate the domestic competition and to encourage the growth of entrepreneurship is to attract multinational companies into the country (but, in the case they enter through merges and acquisitions, the effects might be opposite). Actually, this is one of the basic ideas behind the privatization and deregulation programs undertaken by governments worldwide.

Often, the multinationals may have an important political impact on a national and international level, their size offering them a tremendous power in each country they operate. It is possible that this power is misused and, for this reason, their presence is sometimes regarded as a threat to the sovereignty of the host country. It is considered that, especially in the emerging markets that are vulnerable in front of the power and influence of multinationals, the economic development programs are often dominated by the conditions formulated by these firms for the inflows of FDI. The multinationals' subsidiaries are usually implementing the decisions taken by the parent company that may not correspond to the needs and aspirations of the host country.

The question of industrial dominance is particularly relevant in the case of those multinationals that use their unique ownership advantages to obtain concessions from the host government. For example, in the early stages of

development of the computer industry, computer firms would often insist on exclusive rights to produce or supply only their own brands. They also insisted on products being serviced only by their own authorized technicians, excluding local supplying firms. One major concern about this dominance is that multinationals may use their power and influence to interfere in the host government's economic and political policies for their own interest (Harrison, Dalkiran, Elsey, 2000; p. 47-50).

The cultural impact of the multinational companies is a much discussed topic, raising a national indignation about the practices adopted by these firms in the host states. Introducing new technologies and work practices and challenging management philosophies, multinationals transmit cultural change in the host country. For example, when McDonald's entered in Russia, at the beginnings of the '90s, it heralded a completely new concept in the food industry that significantly altered the eating habits of the population. Of course, this raised deep resentments of the cultural intrusion of McDonald's, especially on the part of the old generation.

### ***The Impact of FDI on the Development of Central and Eastern European Countries***

It is difficult to estimate the specific FDI's contribution on the development of the Eastern and Central European countries. There is no doubt that an important contribution to increase the exports of these states has been made by the major Western multinationals in the oil, gas and automobiles industries. Other multinationals helped the reorganization of the local industries in food-processing, beverages, chemicals and electronics. These firms have stimulated the production of the goods able to satisfy the clients from the local markets, especially in countries such as Poland, Hungary or Czech Republic, where there is a sophisticated and diversified demand. In countries in which, before the '90s, consumers had to accept low quality goods, the same clients are now demanding high quality Western products, refusing to be "fobbed off" with substitutes. Consequently, it is the Western multinationals which must produce the proper goods, at the right prices, in order to satisfy the demand. Moreover, by doing so, Western firms can reestablish the equilibrium in the balance of payments of the countries of the region and also can achieve substantial import substitution.

John Howell, from Ernst and Young, being questioned if the FDI had an important contribution to the economies of the region, argues that what it matters is whether the FDI have generated cultural benefits, by producing changes in the mentality of the government, managers and workers (Howell, 1994; p. 116). He also notes that the real test is whether FDI helped the entrepreneurs create an expanding private sector that includes the small and medium enterprises, especially from the service sector. There were significant progresses in Poland and in Czech Republic, states that have achieved some major cultural changes and entrepreneurial advances, but in many other countries the FDI have a limited impact on the way in which firms act.

An important motivation for the Western multinationals to relocate the production in the Eastern and Central European countries was their desire to achieve competitive advantage over rival firms from the same industry. There is no doubt that the Central and Eastern European states offer a number of significant benefits, one of them being the low wage of the labor force. The benefits that the multinationals may accrue depend largely on the speed with which they take advantages of the opportunities offered by the emerging markets. After 1990, in the Eastern Europe, it seems to be a correlation between the opportunities for the Western investors and the speed of the privatization process. At the end of the last century, John Howell identified that the average size of an investment made in the region was about 10 million dollars, the total value of the investments made only in the automobiles industry being of over 100 million dollars (Howell, 1994; p. 119). Indeed, the car makers discovered unrivalled opportunities for investing in the motor vehicle industry in Eastern Europe. Initially, the Western multinationals like Volkswagen have made joint-venture agreements, but later, firms such as General Motors or Fiat have undertaken greenfield investments in order to exploit the competitive advantages of the emerging markets. The biggest investments were made in Poland and Czech Republic, states that became, especially after their adhesion to the European Union, the center of the Eastern European auto industry. Previously, these states had very few domestic car manufacturers – FSO and FSM in Poland, Skoda in Czechoslovakia.

Although the multinational companies were convinced that the increased investment and the reorganization of production can improve the local firms' efficiency, they were reluctant to perpetuate joint-ventures where the influence of the multinationals on the long term development of production remains limited. It was essential of the Western firms to adopt a long term strategy in order to benefit from the advantages offered by these markets; meanwhile, it was not enough to use only the excess of the production capacity of the national firms to obtain the Western designed cars. To increase the number of the cars, it was vital that, on long term, the Western investors abandoned the joint-ventures in favor of greenfield investments. The auto industry from Central and Eastern Europe have already had a highly qualified labor force, even if the productivity levels were lower then in the case

of their Western counterparts. But, if the level of qualification is correlated to the low-cost labor force, the benefits of the competitive advantage become obvious. Moreover, the investors are confident that they can obtain high quality products, comparable to the Western standards, with the help of the Central and Eastern European labor force. But, if the present competitive advantage – of the low-cost labor force – disappears in future, then this might be compensated by the benefits of having established themselves in an expanding consumer market where the increased wages become translated into a higher demand for luxury goods.

## **Conclusions**

Considering all the aspects mentioned above, we can say that if the multinationals have enough information about the risks they might confront with in the emerging markets and, meanwhile, they adopt measures to avoid, diminish or remove the effects of these risks, then they can profit by the opportunities of the low cost of production, transforming them into competitive advantages on the global market. Meanwhile, it is obvious that the multinational companies play a major role in helping the emerging economies catch up with the advanced levels of development of the industrialized economies.

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# OPENNESS TO IMPORTS AND THE DYNAMIC BENEFITS

**Dobre I. Claudia**

*“Ovidius” University, Constanța, Faculty of Economic Sciences, Constanța, Aleea Universității no. 1, dobre\_claudia@yahoo.com, 0241.511000, int. 146*

**Anghel Gabriela**

*“Ovidius” University, Constanța, Faculty of Economic Sciences, Constanța, Aleea Universității no. 1, gabi\_eforiesud@yahoo.com, 0241.511000, int. 146*

***Abstract.** Despite major reductions in trade barriers, protectionism continues to be a major drag on our economies and a barrier to lifting developing countries out of poverty. The political difficulty of dismantling protectionist mechanisms means they tend to persist long after they have ceased to be economically justified. With the benefits so clear, and the costs so substantial, why is there not a greater constituency for further progress in reducing barriers to trade? Why is the current round of trade talks in the WTO failing to make faster progress? Part of the answer lies in the mercantilist approach which some participants take to trade negotiations. While opening new export markets is rightly seen as a success, opening economies to imports is often (wrongly) seen as a ‘concession’.*

***Key words:** protectionism, benefits of free trade, economic reforms*

## **Introduction**

International trade has been a major driver of global growth and prosperity over the last fifty years. As trade has expanded, global incomes have grown. Open economies have been able to harness the power of trade to boost competitiveness and productivity, helping improve living standards and sustain economic growth. Protectionism imposes a double burden on tax payers and consumers. In the case of European agriculture, the cost to tax payers is about €50 billion a year, plus around €50 billion a year to consumers via artificially high food prices – together the equivalent of over £800 a year on the annual food budget of an average family of four. Furthermore huge distortions in international agriculture markets prevent the world’s poorest countries from trading in the products they are best able to produce. Continuing barriers to trade are costing the global economy around \$500 billion a year in lost income.

## **The importance of open economies**

It is imports which bring direct benefits to consumers and producers through access to a wider range of goods and services at lower cost. Of course exports are vital to our economy. But imports matter too. The EU should show leadership. The EU has, as a result of recent reforms already taken steps to tackle trade distorting domestic support, and should continue to do so. We warmly welcome Pascal Lamy and Franz Fischler’s recent proposal to put all export subsidies on the table for negotiation.

But we believe the EU can and should go further. The EU should agree to further significant further agricultural reform so that border protection is substantially reduced and export subsidies are no longer an issue for world trade by 2010 by: making a unilateral commitment to end all export subsidies, setting a clear end date now; and committing to the elimination of all agricultural tariff peaks, towards the maximum level for non-agricultural products. Not all countries will benefit in the short term from a multilateral reduction in trade barriers. For some the costs of this preference erosion will be substantial. The IMF has already taken an important step in establishing a new facility to help countries which face balance of payments problems as a result of preference erosion. We should seriously consider supplementing this with additional grant resources, designed to help the most vulnerable countries adapt and reap the benefits of more open global markets.

More broadly, some of the world’s poorest countries will face serious constraints in managing the transition to more open markets and capturing their benefits. They need carefully designed and sequenced trade reform packages, integrated into development and poverty reduction strategies and supported by aid flows, in order to ease capacity constraints and help manage change. Trade negotiations should not be seen as a game in which we win only where others lose, but as a collaborative effort to reduce barriers to trade to the advantage of us all.

The expansion in the volume of world trade over the last years has been supported by a steady decline in trade barriers, helping to sustain global growth and enable economic development. As trade barriers have fallen, the structure of international trade has also changed. New information and communication technologies have had, and continue to have, a profound effect. Some services which previously could only be provided domestically can now be traded internationally.

Finer differentiation between products designed to meet specific consumer needs has led to a rise in intra-industry trade – where countries exchange goods which fall into the same broad industrial classification but differ in their specialized features. In addition, technological advances have allowed companies to slice up production processes, locating different stages of production in different regions or countries. These developments offer major new trading opportunities for all economies. They also imply change. Resources are shifting away from traditional industries and into new ones; and the process of change will continue, as developing countries increase their share of world trade. The global benefits from the continued expansion of world trade are potentially substantial. The complete elimination of all agricultural and manufacturing tariffs could yield benefits of over \$1,000 billion annually.

However, doubts about the advantages of greater openness to trade are feeding a persistent protectionism and putting these benefits at risk. While expanding export markets are widely accepted as beneficial, increases in imports can be seen as threatening, replacing domestic production with goods and services from abroad. Governments are often under pressure to respond by protecting sectors from international competition. At a global level, progress on the current multilateral trade round has thus far been slow.

Both economic theory and countries' experience show that economies which trade more tend to grow faster. Income growth depends importantly on a country's capacity to raise its productivity. Openness to trade – both exports and imports strengthens the drivers of productivity by: enabling a more efficient allocation of resources; providing greater opportunities to exploit economies of scale; by exposing the domestic economy to greater competitive pressures; rewarding innovation and providing access to new technologies; increasing incentives for investment.

Taken together, these factors mean that openness to trade can play an important role in raising the long-run sustainable rate of productivity growth in the economy. Notwithstanding the approaches of many trade negotiators, the dynamic effects of openness derive from exposure to imports as well as from opportunities to export. It is the extra competition and innovation which imports bring that helps boost productivity. Moreover, openness to imports increases choice and reduces costs not only for consumers (where the benefits can be considerable), but also for producers. In short, restrictions on imports penalize exporters. It follows from this that the mercantilist approach in which many trade negotiations proceed – a zero-sum game where success is defined solely as accessing as many new export markets as possible, while opening home markets is seen as a “concession” – is so misguided.

Openness to trade has helped promote structural change in the UK economy, enhancing processes already underway due to technological advances, and allowing domestic resources to shift from less productive to more productive uses. In Europe too reductions in trade barriers have boosted economic performance: EU GDP is estimated to be nearly 2 per cent higher as a result of the creation of the Single Market. But the EU still has a long way to go in reducing barriers to trade with the rest of the world, particularly in agriculture. Increased external openness is an integral part of the Lisbon Agenda to promote economic reform within the EU.

Globally, countries which have moved more rapidly towards more outwardlooking trade policies have found it easier to sustain high rates of productivity growth. Different countries have pursued different approaches to trade reform. But while the precise mix of policies have varied from country to country, the key is to move clearly and consistently towards greater openness – imports as well as exports. Despite the manifold benefits of openness to trade, trade protection remains a significant problem. Although barriers to trade have fallen significantly over the last half-century, particular sectors and products remain subject to high levels of protection. Average import tariffs between OECD countries are around 3 per cent; but tariff peaks reach 506 per cent in the EU, and 350 per cent in the US. The highest tariffs are typically levied on goods from the developing world.

Agriculture is heavily protected worldwide, imposing substantial costs on both developing countries and our own economies. Industrial countries' total support to agriculture exceeds \$300 billion annually. In Europe alone the Common Agriculture Policy (CAP) costs taxpayers some €50 billion a year, plus another €50 billion in extra consumer costs through higher food prices. The global benefits of significant agricultural liberalisation could be as high as \$350 billion by 2015.

The stated objectives of protectionist policies can almost always be achieved more cheaply and effectively through alternative policies. Targeted income support and retraining for those leaving declining industries can achieve the same objective as import restrictions (i.e. preventing unemployment) at much lower cost, and with much greater benefits in terms of labour market flexibility and the productivity of the economy as a whole. Additional incentives for R&D-intensive sectors provide a more direct means of compensating companies for spillover benefits than protection.

The global welfare gains from significant liberalisation in agriculture alone could reach \$350 billion. The estimated gains from reducing protection on manufactured goods range from \$190 billion for partial liberalisation to \$644 billion for full liberalisation. The impact of further opening up of services trade is harder to quantify, but could be extremely significant. In short, while estimates vary according to different models used, the order of magnitude is compelling. Reducing protection would make a very substantial contribution to global welfare.

Changes in the structure of production and employment are an intrinsic part of capturing the benefits of greater openness to trade. This requires flexibility in labour, product and capital markets; and social policies which, while providing adequate support, help manage change rather than preventing it. The relationship between flexibility and openness is mutually reinforcing: openness can help increase flexibility in the economy. The European Union in particular must press forward with its economic reform agenda, alongside greater openness to trade, as part of the drive to improve productivity and competitiveness.

Governments have a vital role to play in creating flexibility – equipping their economies to benefit from the dynamic opportunities which openness to trade generates. Investment in education and training enables individuals and firms to respond positively to change. Economic reforms which reduce the regulatory burden on business, encourage competition and promote enterprise and innovation have a strong mutually reinforcing relationship with trade openness.

Flexibility and fairness should be advanced together. Social safety nets are very important in supporting individuals dislocated by trade reform, and can help maintain support for change through difficult transition periods. But social protection should contribute to flexibility – by linking it to opportunities to acquire new skills, for example. The focus should be on enabling individuals to re-enter the labour market as quickly and smoothly as possible. Trade has the potential to lift millions of people out of poverty. Developing countries stand to gain substantially from further reductions in trade barriers. A significant reduction in developed country barriers to trade in agriculture could benefit developing countries by up to \$75 billion a year – significantly more than total annual aid flows.

But developing countries have to overcome significant capacity constraints in order to capture the benefits of more open trade. In many low-income countries, low levels of human, physical and institutional capital seriously constrain their economies' capacity to respond to the signals from international markets. High transaction costs – for example transport, insurance, customs procedures, communication costs – often dwarf the impact of formal trade barriers. Low-income countries also typically have much higher barriers to the entry and exit of firms, and poor access to financial services.

Overcoming these capacity constraints will require significant resources in addition to current aid flows. Given the public good nature of many of these investments (especially those in education and health), it is unlikely that private investment will fill the gap. It is therefore critical that trade reform in developed countries is accompanied by increases in aid flows through mechanisms such as the International Financing Facility. Aid and trade will then reinforce each other, with a substantial impact on development and poverty reduction.

Developing countries also face specific problems in managing the transition to more open markets in their own economies. For those dependent on preferential access to rich country markets, erosion of the value of those preferences through multilateral reductions in trade barriers could have a significant effect, necessitating profound structural change. Low-income countries also tend to be more heavily reliant on tariff revenue; and they are more vulnerable to balance of payments short-falls.

This suggests carefully designed and sequenced trade reform packages, which are integrated into development and poverty reduction strategies, and supported by significant additional international aid flows for investment in physical, human and institutional capital would help ease capacity constraints and help manage change. Eliminating quota restrictions and customs exemptions, reducing non-tariff barriers and reducing tariff dispersion to the minimum are likely to be sensible first steps in most developing countries' trade reform programmes.

Developed countries have an important role to play in providing the resources for the investment needed. This includes direct assistance to facilitate adjustment in those countries badly affected by the loss of preferential



margins; and substantial additional resources to allow countries to build a pro-trade infrastructure, and boost their social spending in education and health.

Openness to trade strengthens the drivers of productivity through six important (and mutually reinforcing) routes:

- *more efficient allocation of resources* - trade enables each country to specialise in the production of those goods and services which it can produce most efficiently. Countries can raise overall consumption by exchanging their surplus production for the surplus production of other countries which have a different comparative advantage;
- *economies of scale* - in the absence of trade, economies of scale are constrained by the size of the domestic market. Trade removes this constraint, allowing industries and firms to produce on a more efficient scale than would otherwise be possible;
- similarly, trade *increases incentives for firms to innovate*, because the rewards from successful innovation will be proportionately greater if firms are selling in larger (i.e. export as well as domestic) markets. Where highly productive firms expand as a result of exports, this boosts the productivity of the economy as a whole;
- *greater competition* - trade openness exposes domestic firms to greater competition. This helps to encourage exit from the marketplace of the least productive firms; reduces monopoly rents; drives down margins; and reduces prices for consumers. Competition further reinforces incentives to innovate, helping to create more competitive firms which can then compete more effectively in world markets;
- *access to new technology* - trade can provide direct access to goods and services that incorporate new technologies, particularly where more open trade regimes have led to different stages of the production process being undertaken in different countries;
- *incentives for investment*. Better access to imports and to export markets increases the scope for productive investment by creating new business opportunities. Foreign direct investment (FDI) enables technology and innovation developed abroad to be applied to domestic production, enhancing competition and leading to a faster diffusion of more efficient and innovative processes.

## Conclusions

We need urgently to open our own markets, and put an end to unfair subsidy practices which distort world markets particularly in agriculture and labour-intensive goods where protection is highest and developing countries are most competitive. We need to face our historical responsibilities and help those developing countries whose export revenue has become increasingly dependent on our byzantine preferential regimes, and who could face significant adjustment costs during the transition to a fairer world trading system. And we need to assist developing countries to design carefully sequenced trade reform packages, integrated into development and poverty reduction strategies and supported by international aid flows to help them overcome serious capacity constraints and capture the potential benefits of more open markets.

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# FINANCIAL GLOBALIZATION: MULTI-CAUSE PROCESS, WITH A COMPLEX DYNAMIC

**Heteş Roxana**

*West University of Timișoara, Faculty of Economics and Business Administration, Timișoara, str. Pestalozzi nr. 16, Email: rhetes@yahoo.com, Tel: 00721798953*

**Miru Oana**

*West University of Timișoara, Faculty of Economics and Business Administration, Timișoara, str. Pestalozzi nr. 16, Email: miru\_oana@yahoo.co.uk, Tel: 0745354286*

**Lobont Oana**

*West University of Timișoara, Faculty of Economics and Business Administration, Timișoara, str. Pestalozzi nr. 16, Email: cristina.nicolescu@fse.uvt.ro, Tel: 0722841221*

**Nicolescu Cristina**

*West University of Timișoara, Faculty of Economics and Business Administration, Timișoara, str. Pestalozzi nr. 16, Email: oana.lobont@fse.uvt.ro, Tel: 0721088137*

***Abstract** Currently, the globalization appears as an undisputed reality of the contemporary world and leaves traces, in a small or great measure, upon all coordinates of life. The financial globalization is the most obvious form for showing the globalization, the financial field proving to be the most dynamical field. The complex processes of deregulation and decompartment which give the essence of the financial globalization process brought a real transformation of the financial environment in what concerns the amplexness of financial flows, complexity and speed of transactions, diversification of financial instruments. Within this context, the financial markets more and more interdependent, characterized by a triple unit, of time, place and operations, brings forward the impact, almost a sudden one, of financial conditions, from a region to national financial markets around the globe.*

***Key words:** financial globalization, financial flows, deregulation, decompartment, disintermediation*

## **1. Triple unit of the financial integration and capital distribution**

The defining element of the evolution of financial activity from the last decades aims a separation of the financial flows from the national territorial area, in close relationship with the trade liberalization, expansion of the transnational corporations and the circulation of the labor force. If in the past, the companies had difficulties in transferring money from one country to another, due to the complicated procedures the cancellation of an obligation or paying some rights had to follow, the things are simpler these days. The financial situations of the economic entities, the course of shares and bonds, the operations of any type can be easily monitored. The banks and the corporations may immediately react to the change of prices and exchange rate, due to the easiness in obtaining the information from the stock exchange markets.

At a general view, the innovating evolution and the one of dynamic change of the political climate, any economic tension or of any kind is found with a very strong intensity at the level of the financial activity, justifying us to talk about shaping a globally financial area. The financial globalization can be described in a simple manner as a complex process of increasing the interdependencies worldwide based upon the trans-frontier financial flows, the integration of markets and shaping a unique market of capitals, functional at the scale of the entire planet. The fast circulation of information and the standardization of the financial instruments are clear marks that the economies of different states advance to a strongly integrated system, a worldwide financial market define by a triple unit:

- The time unit or the uninterrupted functioning of the market, 24 hours of 24 hours, in the Far East, Europe and North America, meaning that a financial operator can continue any time of a day the operations on another market, that are opened after the initial ones are closed;
- The place unit: the same financial instruments may be simultaneous transacted on numerous national and international markets (e.g.: the actions of a company at more stock exchanges around the world);

- The operations unit: on all national financial operations are met the same types of financial instruments and the same types of financial operations are made with them.

Starting from the pertinent statements of the British magazine *The Economist*, such as “the financial markets are the players and the jury of any economic policy”, the question is if the financial market becomes a universal source of wellness and the guardian of the worldwide economic sense? The answer is not a simple one, and in order to formulate a pertinent conclusion we need a complete image upon all dimensions of the financial globalization, starting from its defining elements, the changes that were induced at the level of markets the associated benefices.

## **2. The characteristics of the financial globalization**

### ***2.1 Elimination of the capital flows control and the stability of the financial markets***

The main feature of the financial globalization is the legislative depletion or the deregulation, which consists in the gradual abolishment of the regulations regarding the exchanges, as to facilitate the international circulation of the capital. With the liberalization trend it is aimed to encourage the development of competition in the financial field for the benefit of market participants, in the conditions the excessive regulations may act as barriers when entering the financial markets reducing the competition.

In the past, the financial activities were extremely regulated, starting from reasons such as: the vulnerability of this sector against the trust crisis, the need of monetary regulation instruments or the protection of savings owners. In what concerns the regulation form there were many types of regulations: direct, by which it was limited the capacity of the financial institutions to operate on the market (limitation of the credit, administrated installments of interest, the control of the exchange rate), of prudential nature for supervising the solvability of banks (defining the own funds ratio) or structural by which was limited the action field of the financial institutions (activity authorizations, regulation of the increased participations).

The deregulation tendency became more visible in the 80s for countries such as Latin America, USA, Japan and Great Britain and in the 90s, in the continental Europe. The developed countries gave up to the restrictions they controlled the inputs and outputs of capital, once with the consolidation of their economies and passing to the full convertibility of currency. In case of newly industrialized countries, the liberalization measures were stimulated by the wish of those countries to attract capital for the stimulation of investments and economic growth but also the interest of the great western financial conglomerates to value new opportunities.

The deregulation was felt not only related to the capital transfers beyond borders but also in the banking activity, contributing to a closeness of the internal and international financial markets. In this direction, USA eliminated the thresholds imposed upon the interest rate and founded the International Banking Facilities, a mean through which the American banks could use the main offices from the country in order to offer deposit and credit services to the foreign customers, without taking in account the demands of the federal reserves and the regulations imposed to the interest rate. France allowed the banks to issue deposit certificates in French francs and ECU (later also in foreign currency) on internal markets, and Holland allowed the foreign and internal banks to issue a more assorted range of financial instruments.

Beyond these evolutions, the deregulation does not mean the complete give up to regulations. The financial markets continuously remain regulated, governed by laws and regulations, they being organized markets. Therefore, a clear, complete and stable legislation is absolutely essential and represents a necessary premise in order to assure the subsequent development of financial markets.

After the deregulation from the 80s which emphasized the bankruptcy risk of more fragile financial institutions and the growth of markets instability, the international authorities became more and more preoccupied by this subject, and at the beginning of 90s it started to show a re-regulation tendency, of prudential nature, harmonized at European and international level. A good example is the “Cook rate”, applied in 1993 by the Committee from Basel for Banking Supervision<sup>85</sup>, which imposes the banks to observe a solvability ratio of 8%. Such reasoning determines the banks to adopt strategies for evaluating the risks and efficaciousness to the growth of assets’ costs.

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<sup>85</sup> The Committee from Basel of Banking Supervision is an international organism formed by the representatives of the banking supervision authorities from the main industrialized countries: Belgium, Canada, France, Germany, Italy, Japan, Luxembourg, Netherlands, Sweden, Switzerland, England and USA. They carry out their activity through periodical meetings (once to three months) carried out at the offices of International Regulation bank from Basel.

Subsequently, the International Regulations Bank elaborated new norms, pretty complex, regarding the risks on the financial markets and especially, the markets derived, in order to avoid the multiplication of the processes of payments cancellation of some banking units. These norms started to be applied from 1998 and impose to the banks either to establish a reliable internal procedure and guaranteed by the authorities or, for the banks that do not have the necessary means to use a standardized system elaborated by the Basel Committee (Basel II), from 2001, which regards the minimum banking capital and is structured on three piles: the minimum capital demands, banking supervision activity and the market discipline, which implementation has as objective the achievement of a high safety and solidity level of the financing-banking system.

## ***2.2 The increase of financing through the financial instruments in the detriment of banking credits***

Another feature of the financial globalization is the banking disintermediation in the circuit of financing. Disintermediation can be described as a technical evolution and refers to the direct recourse of the operators at financial markets, meaning the use of a direct financing mechanism in the detriment of indirect financing<sup>86</sup>, through the carry out of placement and borrowing operations. In other words, it is about passing from an economical system where the financial (the banks) represented the main financing circuit, to a market one, the financing being made mainly through the direct funds owners and requesters.

Disintermediation can be characterized most by opposition with the intermediation that made of the banks the only possible connection between the resource owners (depositors or savers) and those who borrow, resulting in credits. In time, the enterprises started to prefer a direct market financing, that allows a reduction of the intermediation costs (associated with obligatory reserves and the insurance commissions) and an increase of the assets (an international credit is hard to be ceded on the secondary worldwide market compared to the financial market where ceding a placement is made easily), the classical crediting and depositing activity of banks being completed by the use of capital markets instruments.

Thus, it is manifested an ample process of substituting the financial assets that eliminates the separation between the banking credits and the bonds and considerably reduces the volume of classical credits in the international financing. A form of banking disintermediation is the securitization, which appear under different forms, from opening the monetary markets for enterprises regarding the possibility to issue treasury bonds (interest rate is not imposed anymore but depends upon the demand and offer, becoming less expensive), up to allowing the banks to issue negotiable titles in the trade-off of debts they have in the balance, especially for the real estate credits (the credit cost decreases).

Although the two terms (disintermediation and securitization) are most often used in the specialty literature in order to describe the new tendencies of the evolution of the international financial-banking activity new trends, it would be best that the references to be made as a term of “re-intermediation”, because the re-intermediation does not disappear of an effective manner but it takes place only a change of its form, through the recourse to other intermediaries.

The large scale intermediation of financial assets owning cannot be completely eliminated, in the conditions when the complexity of the financial products is greater, when the information are so important, the supervision of the evolution of chattels portfolio and the risks management requests more time, and the modern instruments use assumes more advanced own knowledge or the intervention of professionals. In this context, a most important role is the one of a new category of intermediaries such as the institutional investors, represented by the pensions fund, collective placement bodies, insurance companies. The capital markets institutionalization trend assures the fluidization of the funds transfer beyond the national borders, the improvement of the titles portfolio diversity, the increase of the investments stability, the increase of the stock exchange liquidity and a substantial volume of transactions, and not the last one, a more efficient arbitration of the price differences.

## ***2.3 The integration of the financial market compartments***

The globalization covers also the aspect of changing the structure of the financial markets, because it assumes besides the opening of the national economies the elimination of barriers that separate the different compartments

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<sup>86</sup> The indirect financing is characterized by the fact that the banks grant a very important credits mass, and the financial markets play a limited role. The enterprises with capacity and financing need are not directly met on the market, but pass through an agent (the bank), which collects the available funds and grants credits to the requesters.

of the financial market. More precisely, there is a decompartment of them, establishing connections between the monetary market, the capital one and the insurances one.

Until the end of the 70s, the financial system from many countries was strongly compartmented, meaning that the financing circuits were autonomous and responded each to a particular need, the access to different markets being reserved to a limited number of enterprises. Currently, the appearance of new financial instruments makes less visible a clear line between the monetary market that assures the short term financing and the capital market that assures the long term financing.

For example, the bonds, which traditionally are on average and long term their period was shortened by the Euromarkets, while de deposit certificates, in the past issued on few months, can be now on many years. There is a connection of the banking activity and the insurance activity by the appearance of new elements in the structure of the banking services, such as the so-called bancassurance system. This consists of the sale of insurance policies through the distribution network of the commercial bank, base upon a convention within this purpose with the insurance-reinsurance societies. Bancassurance means to offer an insurance product to the bank customers, the idea being to increase the potential of the insured persons base of insurance companies, on one hand, and to use the sums collected as resources attracted by the bank and to record additional incomes, on the other side.

The gradual abolishment of frontiers between the different market segments contribute to the shaping of a global financial market, where the duration and nature notions are not significant anymore for specific products. Within this context, the investor seeks for the best efficiency or the debtor who seeks a more reduced financing cost may pass easily from one title to another, from one currency to another, from one procedure to another.

### **3. The dynamics of the financial globalization process**

Compared to its defining elements, the financial globalization may be best described as a dynamic process with evolutions and complex results. The explosive development of the global financial activities and the complexity of global financial markets transformed the management of developed economies, offering significant occasions for governments and corporations to penetrate new markets and allowing the investors to obtain the best efficiency worldwide.

The positive and innovating aspects of the financial globalization take in account the fact that the development of new vast and liquid capital markets, increased competition and the use of new and complex technologies allow the reduction of transaction costs, an increased efficiency in distributing the capital and the easy access to external financing, determining an increase of the production potential from the world. The efficient financial markets contribute to the intensification of economic growth rhythm and the degree of labour force occupation, by a better distribution of the capital and the reduction of related costs. In other words, the main advantage aims a greater value and selection freedom for the market participant, correlated to an increased level of economic growth and efficiency.

Many voices state that the globalization process does not assure a good allotment of resources between the resources around the world and that it is favorable mainly for the developed countries and great transnational companies, taking in consideration the localization of great international financial centers and the investment flows mainly oriented to these countries, but there must not be ignored or minimized the advantages the developing countries have as result of globalization.

First of all, the international financial flows oriented to these countries, even if in smaller volume, determine a better market discipline both at macroeconomic level and in the financial field, for the public debtors and the private ones. The foreign capital has the capacity to impose effectively such a discipline due to the fact that it may be easily re-oriented to other markets, if the local conditions are not satisfactory. In parallel, more available capital leads to a greater profoundness of the financial market and to the increase of the complexity degree. The debtors and the creditors have access to a wider range of financial instruments and may better manage the risks. The emissions destined to the global investors allow the reduction of the financing costs, because against the increased competition they are willing to purchase the shares and local bonds at greater prices. We must not forget that the direct foreign investments bring not only capital, but also new technologies, know-how, efficient management procedures that stimulate the productivity and the economic growth.

Second, the financial globalization acts in the direction of improving the financial infrastructure, for that the investors and the beneficiaries of funds carry out the activity in a more transparent, competitive and efficient system. Therefore, the diversification and the multiplication of the funds sources improve the competition and adopting the Accounting International Standards leads to a greater transparency. The foreign banks assure the

implementation of the greatest banking techniques, both regarding the risk management and the general operational management that grants more efficiency to the banking sector and leads to a more prudent behavior, more discipline and the reduction of moral hazard issues.

In a synthetical manner, the channels through which the financial globalization contribute to a greater ratio of economical growth in the emerging countries may be divided in two categories: direct and indirect channels. The direct channels are related to the determining factors of the economic growth, respectively the increase of the domestic saving, the reduction of the capital cost, the transfer of new technologies and the development of the financial sector at local level. On the other hand, the indirect channels, which in most cases may prove to be more important than the direct ones, aim a greater level of production specialization, as result of better procedures for the management of risks, and also the improvement of the institutional frame and the promotion of a more qualitative policy, induced by the competitive pressures or by the so-called “discipline effect: of globalization.

Generally, without denying the fact that the global financial market plays an essential role in the efficient distribution of the capital worldwide, must take in account the fact the this is achieved in a way that has profound implications for the sovereignty and national autonomy resulting some costs in terms of risk, volatility and ample crises.

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# ISSUES WITH THE EXPORT PRICE CALCULATION IN RELATION TO THE NORMAL VALUE DETERMINATION IN ANTIDUMPING INVESTIGATIONS

**Ilieş Darie**

*Babeş Bolyai University, Cluj Napoca*

*Faculty of Economics and Business Administration*

*ild12@yahoo.com*

*Abstract: The Antidumping Agreement is at the moment the only international provision dealing with the regulation of antidumping. Central to the entire process of identifying if dumping has occurred or not, and therefore if antidumping measures should be enforced is the calculation of the export price because based on this element, normal value determination closely follows. This paper will point out some elements regarding the process of determining the export price and what implications can be identified for normal value calculations.*

*Keywords: antidumping, normal value, export price*

The Antidumping Agreement does not specify if, in the course of the determination of the dumping margin, the export price has to be determined before or after the normal value. However, given that the export price is usually used as a reference for determining dumping margin, the former is usually determined first.

The only reference in the Agreement to the export price concerns the special circumstances in which there is no identifiable export price (due to some type of association or compensatory arrangement between the exporter and importers). The second situation is usually encountered when the distribution chain of the product is complex or the product suffers transformations after importation, in order to make it more suitable to the specific sale conditions in the importing country. In usual circumstances, when there are no suspicions concerning the true nature of the reported export price, this price will be used as a basis for determining the dumping margin. Usually however, the export price is expressed in a manner that includes certain services the exporter provides for the importer, as for example insurance, transportation or service and maintenance. Also, the export price does not reflect the price rebates that may be received by the importer. All these additions to the price have to be removed in order to determine only the price paid for the actual good.

If the authorities consider the export price cannot be trusted because of an association between the exporter and importers, article 2.3 offers the alternative of calculating this price on the basis of the price for which the good is first resold to an independent buyer.<sup>87</sup> The possibility to ignore the export price in conditions expressed by article 2.3 is due to the lack of any relationship between this price and the true market price of the good (the sale to a related party can represent in fact a simple transfer, at a symbolic price, meant only to avoid high tariffs in certain countries). In the practice of some countries the export price is not ignored in such conditions – it can be considered if it holds in a comparison to the price of sale to an independent buyer. If the selling price to the independent buyer is significantly higher than the average export price to related firms, the latter is ignored as a basis to identify the export price in a transaction. The actual calculation is made starting from the resale price to the first independent buyer (a CIF price in the importing country) and trying to determine an ex-works price in the exporting country by eliminating the additional cost elements that do not relate directly to the production process. Among the elements that have to be considered when making such adjustments there are the ones stipulated by article 2.4.<sup>88</sup>

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<sup>87</sup> “In cases where there is no export price or where it appears to the authorities concerned that the export price is unreliable because of association or a compensatory arrangement between the exporter and the importer or a third party, the export price may be constructed on the basis of the price at which the imported products are first resold to an independent buyer, or if the products are not resold to an independent buyer, or not resold in the condition as imported, on such reasonable basis as the authorities may determine”

<sup>88</sup> “... allowances for costs, including duties and taxes, incurred between importation and resale, and for profits accruing, should also be made.”

The Agreement does not provide anything concerning determination of normal value in a situation like the one described above. In practice, a comparison is made between the export price at the ex-works level with the price of sale to the first independent buyer, without adjusting for discrepancies if they exist between the two. In the interpretation of the European Commission, a good is considered to be sold in the ordinary course of trade in the market of origin, if it is sold to a buyer independent from the producer. Most of the time this means the selling price taken into consideration in an antidumping investigation will be the one from a transaction between a distributor inside the selling chain of the producer and an independent buyer. In this case, the further the distributor is downstream in the selling chain the higher the price of sale to the independent buyer will be. Therefore this way of determination clearly disfavors the producers with long selling chains in their own market. For them, the normal value determined as described in article 2.3 will be significantly higher than for the firms not using many intermediaries to sell their product.<sup>89</sup>

The US authority (the Department of Commerce) also ignores sales to firms inside the distribution chain. It considers normal value to be the first sale price outside this chain. Japan contested to the WTO this practice of the US.<sup>90</sup> The initial decision of a WTO panel was that sales to independent buyers by firms receiving preferential treatment from the producer cannot be considered when determining normal value in an investigation concerning that producer, because the respective company does not have any direct relationship to the investigated party (the producer).<sup>91</sup>

Using sales inside the distribution network to provide price elements for determining normal value can negatively influence its comparability with the export price. This is due in the first place to the fact that the respective sales can be part of significantly different (in terms of volume) patterns of trade than the export sales. Other factors that can greatly influence comparability of the two prices are the different taxes that can arise in the case of sales to related parties, as well as costs and profit margins used by these firms. Therefore, if the authorities decide to use for determining normal value the selling price from a firm related to the producer to an independent buyer, they have to consider the fact that selling prices to related firms contain elements of costs that have to be removed from calculations, otherwise the comparability of the normal value with the export price will be affected.

Fixing the artificial discrepancies between the two can be done in the spirit of article 2.4. Without mentioning it explicitly, the WTO panel in the case mentioned above asks the authorities that, when dealing with sales to related parties, they deduce the same price components (costs and profit margin for the producer) that would be deducted in the case of the calculation of export price. This is done in order to arrive at the ex-works price for the good. The panel notices that article 2.2 does not offer any clues as to what can be the ways to determine normal value if one would like to consider sales to related parties.<sup>92</sup> The appellate body overturned this decision, arguing that article 2.4 offers the authorities the possibility to make a fair comparison between normal value and export price, by using an adequate basis of determination.<sup>93</sup>

The American authorities make comparisons between the price used in relationship with independent buyers and the price used in relationship with related firms. If the weighted average of sale prices to related partners is less than 95% of the weighted average of sale prices from all the transactions with independent buyers, then the respective sales to related parties will be excluded from the calculations of normal value. A WTO panel invalidated this procedure because it did not lead to the exclusion of sales at a price above the average of prices paid by the independent buyers, and this inevitably enhances chances of identifying dumping (normal value determined on the basis of high prices will be high, enhancing the probability that sale prices will be lower than its level – which means dumping is occurring). The appellate body also rejected the determination algorithm, based on arguments similar to the ones presented above.<sup>94</sup>

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<sup>89</sup> Didier Pierre, *The WTO anti-dumping code and EC practice, issues for review in trade negotiations*, Journal of World Trade, vol. 35, 2001, p. 30.

<sup>90</sup> WTO Panel Report, *United States - Anti-Dumping Measures on Certain Hot-Rolled Steel Products from Japan*, WT/DS184/R, 28 February 2001.

<sup>91</sup> *Idem*, par 7.114.

<sup>92</sup> *Idem*, par 7.117.

<sup>93</sup> WTO Appellate Body Report, *United States - Anti-Dumping Measures on Certain Hot-Rolled Steel Products from Japan*, WT/DS184/AB/R, 24 July, 2001, par. 166-167.

<sup>94</sup> Durling James, *Deference, but only when due: WTO review of anti-dumping measures*, Journal of International Economic Law, vol. 6, 2003, p. 135.



We consider that normally sales to related firms should not be considered as part of ordinary course of trade (and therefore ignored when determining normal value) only if an illegitimate influence on the price, directly related to the relationship between seller and buyer, can be proved.

Lower prices used when selling to related parties can have legitimate justifications. These can be associated with the low level (or the non-existence) of advertising costs or other pre-sale expenses that can arise if sales are made to independent buyers. In this respect, changing the Agreement to include this alternative of reasoning would be in line with article 2 (a) of the Agreement on Implementation of Article VII of the General Agreement on Tariffs and Trade 1994 that stipulates “In determining whether the transaction value is acceptable for the purposes of paragraph 1, the fact that the buyer and the seller are related within the meaning of Article 15 shall not in itself be grounds for regarding the transaction value as unacceptable. In such case the circumstances surrounding the sale shall be examined and the transaction value shall be accepted provided that the relationship did not influence the price”

It would also be necessary a more clear definition of the notion of association, in the context of article 2.3. In the Agreement there is a reference to relations between firms but it is made in the context of defining the national industry. Footnote 11 (clarifying article 4.1.1) affirms that the producers are related to exporters or importers if “...(a) one of them directly or indirectly controls the other; or (b) both of them are directly or indirectly controlled by a third person; or (c) together they directly or indirectly control a third person, provided that there are grounds for believing or suspecting that the effect of the relationship is such as to cause the producer concerned to behave differently from non-related producers. For the purpose of this paragraph, one shall be deemed to control another when the former is legally or operationally in a position to exercise restraint or direction over the latter.”

In order to avoid situations in which the authorities decide that a firm controls another even if, for example, it owns only 5% of the shares, the Antidumping Agreement should include in article 2 more clear stipulations concerning this aspect. Such a provision that could be adopted with little or no modifications is the one in article 15.4 of the Agreement on Implementation of Article VII of the General Agreement on Tariffs and Trade 1994, which affirms that “For the purposes of this Agreement, persons shall be deemed to be related only if:

- (a) they are officers or directors of one another's businesses;
- (b) they are legally recognized partners in business;
- (c) they are employer and employee;
- (d) any person directly or indirectly owns, controls or holds 5 per cent or more of the outstanding voting stock or shares of both of them;
- (e) one of them directly or indirectly controls the other;
- (f) both of them are directly or indirectly controlled by a third person;
- (g) together they directly or indirectly control a third person; or
- (h) they are members of the same family”

## Conclusions

The modalities in which the export price is determined can influence the normal value determination, as we have shown. Depending on the approach used by the authorities in identifying the price of transactions between related or independent firms, the results can sometimes mean unjustified exclusions of transactions or inclusions of transactions of which price is “tainted” by elements that do not reflect only the costs of production for the good sold. Certain approaches can be used to avoid calculating an unrealistic export price, and some of them have been presented here, along with some strategies used by the authorities in order to influence the outcome of the antidumping investigation.

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# EVOLUTION AND PERSPECTIVES OF FOREIGN DIRECT INVESTMENT IN ROMANIA

**Kardos Mihaela**

*Universitatea „Petru Maior” Târgu Mureș, Facultatea de Științe Economice, Juridice și Administrative, Tg Mures, Str. Livezeni Nr. 69, mihaela\_kardos@yahoo.com, 0720-128021*

*FDI is a key factor for economic modernization through changes in production patterns, technology transfer and greater competition pressures. In the latest years, Romania has benefited from important FDI flows, mainly due to the privatization process, but also due to the advantages of cheap labour force and a big internal market.*

*The issue to be addressed further regards the possibility of improving its attractiveness as host country for FDI in sectors generating higher added value and this refers to assuring a functional business environment, qualified labour force and a modern infrastructure.*

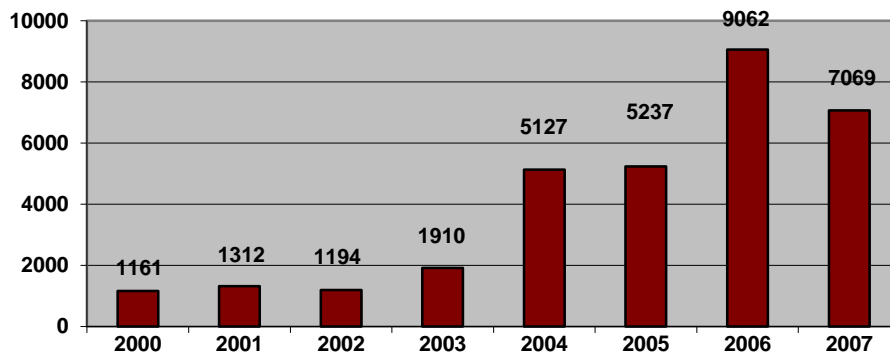
*Key words: foreign direct investment, competitiveness, business environment, qualified labour force*

From the beginning of the transition period, Romania has engaged in a rapid opening-up process of its economy, which has resulted, among others, in attracting significant foreign direct investment (FDI). The presence of foreign firms has grown significantly, which is a sign of increasing economic integration. FDI is a key factor in the process of economic modernization, complementing domestic sources of funding and contributing to raising productivity growth through changes in the sectoral composition of production, technology transfer and greater competition pressures. Foreign investment, bringing technology and capital creates new jobs and contributes to improving the quality of work force. In order to attract FDI, it is necessary to address the challenge of supporting the competitiveness as host country.

After a shy start in the first years of transition, FDI stocks increased significantly in 1997, three times higher than in 1996, while in the following year 1998 reached the greatest value of FDI recorded in the '90. The period between 1999 and 2002 was characterized by a FDI stock diminished to about half of the figure in 1998. In 2003, the investment value increased, reaching a little over the value in 1998.

Starting 2004, Romania has become one of the most important FDI beneficiaries. If in 2000 it attracted 5% of the total FDI in Central and Eastern European (CEE) countries, during 2003 and 2005 attracted 15% of the total FDI in region. Of course these are the most important years for the great privatizations: Romtelecom (1998, 675 mill. Euro), SNP Petrom (2004, 1529 mill. euro), BCR (2005, 3750 mill. euro).

In the latest years, Romania benefited of high flows of FDI. Although FDI/capita is relatively low, reaching 35% of the average level in the neighbors from CEE, it has increased six times since 1999. In 2006, Romania occupied the third place among the New Member States (NMS), after Hungary and Poland, as this was a year in which many sectors continued the privatization, and the sectors already privatized continued to increase their capital, attracting new foreign and local investments, with effects on the structure of economy.



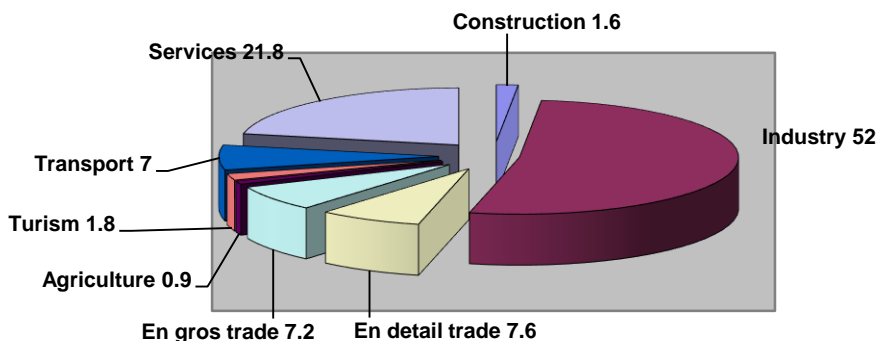
**Graph 1. Evolution of FDI flows in Romania, 2000-2007 (mill. Euro)**

According to data from The National Bank of Romania, in 2006, total value of FDI stock reached 30.9 bill. Euro. This represents an increase of over 9 bill. Euro, in comparison with the previous year. In this sum, 3.75 bill. come from the privatization of The Romanian Commercial Bank. FDI increased in 2006 with 41.2% in comparison with 2005. In 2007, FDI flows decreased, as a consequence of the finalization of the privatization process. Still, FDI stock which is not connected to privatization seems to have remained stable between 2006 and 2007.

Regarding Greenfield investments, these projects had a significant increase only after 2000, and especially in 2005, when were recorded 235 projects of this type (an increase with 37% in comparison with 2004)<sup>95</sup>.

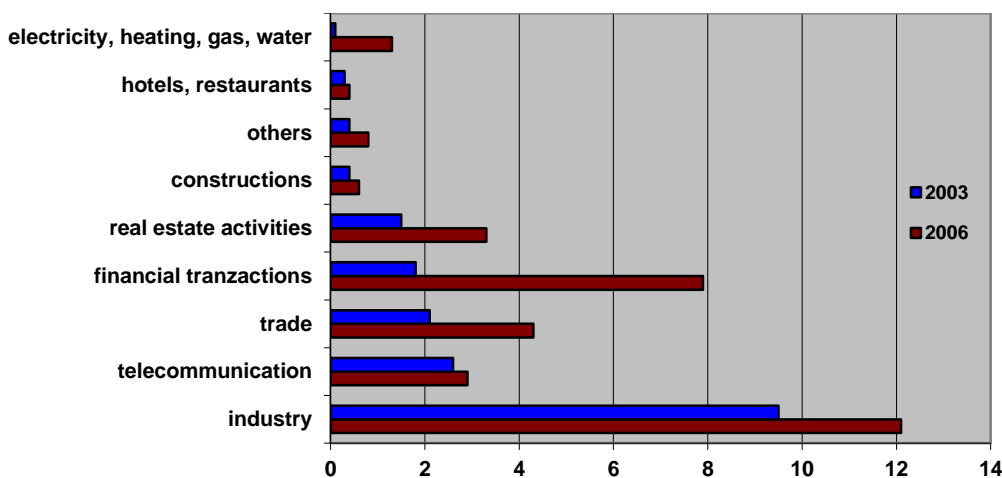
The main countries having FDI in Romania between 1991 and 2005 are: The Netherlands (15.75%), Germany (9.05%) and Italy (5.51%), over 80% coming from EU<sup>96</sup>.

Regarding the main sectors towards which foreign investors were oriented, we can say initially they were interested in production and trade, and then they were more and more attracted by services, especially the banking and the telecommunication sectors.



Graph 2. Structure of FDI on types of activities, 1991-2005 (%)

Important changes in the sectoral composition of FDI have taken place lately. Investors' interests are shifted from advantages of low costs to sectors with higher added value. This thing is reflected in the increase of services quota in total FDI. In the same time, the manufacturing sector is also passing through changes.



<sup>95</sup> World Investment Report 2006, UNCTAD, United Nations, New York and Geneva, 2006, pp 263-265

<sup>96</sup> *Societăți cu participare străină de capital*, „Sinteză Statistică”, nr.93, ian.2006, Oficiul Național al Registrului Comerțului, p 22

### *Graph 3. Evolution of sectoral composition of FDI flows, 2003-2006 (%)*

The service sector attracted significant FDI flows in financial activities and insurances, increasing four times the FDI stock in this sector as GDP quota between 2003 and 2006. The increase in the insurance sector is a consequence of the introduction in 2007 of a voluntary pension pillar and a mandatory one in 2008. In addition, both in detail and in gross trade, real estate and business sectors doubled their GDP quota for the same period.

Still, the most important beneficiary as FDI stocks remains the manufacturing sector, which had more than one third of the total FDI in 2006. While ISD stock increased in the analyzed period, there were some relocations within the sector, as FDI in clothing sector decreased (clothing and leather sectors decreased from 47% in 1999 to 30% in 2006), while it increased in other fields with higher added value and intensive in high-skilled labor force, such as furniture, transport equipments, automobiles and IT industries. Transport equipments recorded one of the strongest FDI flows, due to qualified work force and tradition, their export quota in the total of exported manufactured goods increased from 7% in 2003 to 13% in 2006 (NMS average is 18%). In this sector the technology transfer is high. We can conclude that there are clear signs that Romania is making the transition from to sectors based on the competition of low wages to sectors with higher added value.

Foreign investors are attracted by the cheap labor force, proximity to the Euro zone, macroeconomic bases and a potential in growth of the internal market. However, the boom of the FDI determined by privatization is over. More than that, the advantage of low costs for labor is slowly disappearing, as wages are growing significantly.

Taking into account the fact that the main drivers for investments are almost gone, it is important to identify other factors to stimulate future investments with high added value. Business environment and infrastructure become more important<sup>97</sup>, and also high skilled labor force is an essential condition for investors.

Economic reality confirms that FDI flows are oriented towards countries which practically demonstrate elements in favor of FDI, such as: a free commercial regime, a payment system at international standards, a free currency system, financial and fiscal facilities, a limited role of state in economy. Incentives may have a positive effect only if they are transparent and automatic. A climate favorable for business is preferred to facilities, so the main preoccupation must be the elimination of barriers.

EU enlargement has contributed significantly to raising Romania's attractiveness for foreign investments. Through the adoption of *acquis*, it has conformed to European regulations, records economic growth and has a market economy status. The transition towards ERM II has created institutional instruments for a controlled inflation and competition pressures have strengthened monetary discipline. The geographical position, central in European space assures another advantage compared to rival emergent markets and offers advantages for investors in industries sensitive to distances, those supposing a rapid reaction to changes in consume markets, those using heavy, big or fragile products. Therefore Romania is an attractive location as an export platform, serving for new markets in EU or for those emerging at European periphery.

Other advantages for foreign investors taking into consideration Romania as a possible destination for the development of their business refer to: the dimension of the internal market – one of the biggest in CEE, rich natural resources, a small tax on profit, numerous agreements for avoiding double taxation (this is very important as most recent studies<sup>98</sup> consider taxation a fundamental driver for the investment decision, especially if economies in competition offer similar advantages as location), political advantages – NATO and EU membership.

Business environment plays a fundamental role in choosing a country for FDI destination. In order to support investors, many international institutions and organizations make studies to analyze economies in the world regarding the attractiveness of the business environment. According to the most recent study made by World

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<sup>97</sup> Demekas, G.D. et al., *Foreign Direct Investment in Southeastern Europe: How (and how much) can policies help?*, IMF Working Paper No 05/110, 2005

<sup>98</sup> OECD, *Corporate Taxation and Foreign Direct Investment: India's Tax Competitiveness*, paper work presented at conference: Taxation Policy for accelerating investment: Domestic and Foreign, New Delhi, 13-14 Nov. 2002

Bank<sup>99</sup>, in 2007 Romania placed itself on the 48<sup>th</sup> position out of 178 countries analyzed, a better score than the previous year (the 55<sup>th</sup> position in 2006)<sup>100</sup>.

Among the problems negatively affecting the business environment could be mentioned the improper functioning of public administration and unstable legislation, corruption, the judiciary system. Other reforms are necessary for infrastructure, especially for modernizing the road network. There are challenges regarding work force qualification, improving the connection between education and labour market requests (due to heavy migration we face the lack of quality work force). Other factors discouraging investments refer to: negative external perception, problems with industrial and intellectual property, conflicts' settlement, socio-cultural factors (e.g. attitude towards foreigners).

Another important factor influencing FDI is the technological profile and Romania is found among countries still left behind in comparison with most EU-15 countries. This is the explanation for investors' orientation to activities requesting simple operations, which reduce the probability of technology diffusion.<sup>101</sup> In addition, the technology gap between local firms and multinationals means that the first can not face competition pressures.

According to UNCTAD data<sup>102</sup>, Romania must substantially improve its potential as host country for FDI, being placed on the worst position (17.5 points) in comparison with the other NMS (an average score of 25.3 points) and UE-15 (37.9 points).

FDI have a significant impact and are generally seen as a catalyst for economic growth and industrial restructuring. FDI complement domestic financing resources, increasing the potential for further production increases and employment creation, but they may also promote positive indirect effects (spillovers) if the presence of foreign multinationals improves the productivity performance of the domestically-owned firms they interact with (competitors, suppliers and clients) via technology transfers and enhanced competition pressure<sup>103</sup>. Positive spillovers of FDI are less clear and, to exploit them it is important to improve the competitiveness for attracting new FDI, especially high-tech ones, and a business environment favourable for connections between domestic and foreign companies.

According to the estimations made by the United Nations<sup>104</sup>, 22% of FDI experts and 27% of the questioned multinationals appreciated Romania as being the most attractive investing destination in south-east Europe, creating strong expectations for a positive evolution of investment flows. To conclude we could say that Romania has enough strengths to be an interesting destination for investors, but the EU member state status is not a guarantee for attracting more FDI, without continuous efforts for further reforms and the business environment improvement.

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<sup>99</sup> **World Bank**, *Doing Business 2008*, www.worldbank.org

<sup>100</sup> Calculations made on Ease of Doing Business Index, a composite index measuring 10 criteria: Starting a Business, Dealing with Licenses, Employing Workers, Registering Property, Getting Credit, Protecting Investors, Paying Taxes, Trading Across Borders, Enforcing Contracts, Closing a Business)

<sup>101</sup> **Damijan, J.**, *Transfer of technology through FDI to new Member States: How important are direct effects, horizontal and vertical spillovers?*, paper presented at the European Commission seminar “The Effects of Relocation on Economic Activity: An EU Perspective”, Iunie, 2005

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# IDE SOUS L'INFLUENCE DU DEGRE DE L'INTEGRATION A L'UE – EXPERIENCES ET PERSPECTIVES

**Masca Serbu Simona-Gabriela**

*“Babes-Bolyai” University, Faculty of Economics and Business Administration, 58-60 Street Teodor Mihali, 400591 Cluj-Napoca, Romania, Tel: 0741264392; Email: simona.masca@econ.ubbcluj.ro*

**Moga Marilena-Nicoleta**

*Alba County Council, Economic Development Department, 1, I.I. Bratianu Square, 510018 Alba-Iulia, Romania, Tel: 0749853243, Email: moga\_marilena@yahoo.com*

*There are generally great expectations from Romania's EU integration. All demarches concerning Romania's adhesion, even from the beginning of transition, have had an influence on foreign direct investment performances. This paper, focused on Romania, Bulgaria, Hungary and Slovenia, identifies the role of the relations with EU in FDI performances configuration. An empirical analysis is initiated, based on panel econometrics. The results confirm our expectations and allow us to identify these countries' perspectives in FDI area.*

*Keywords: foreign direct investment, EU integration, panel econometrics*

## 1. Introduction

Pourquoi une analyse centrée sur la Roumanie, la Bulgarie, la Hongrie et la Roumanie ? Les quatre pays ont un passé semblable, ayant connu l'expérience de l'économie centralisée, mais ils sont de tailles différentes, avec une dotation de ressources naturelles différente, adoptant des politiques différentes pendant la transition. Si l'implication des investissements étrangers dans la restructuration est évidente en Hongrie et en Slovénie, elle transparait moins en Roumanie et en Bulgarie. Pourtant, la Slovénie ne fonde pas sa croissance économique sur le capital attiré de l'étranger ; de plus, les investissements directs étrangers (IDE) semblent freiner ici la croissance économique. En échange, les trois autres pays suivent des cycles économiques où la croissance se fonde sur des stocks d'IDE qui ont atteint la maturité.

Les différences concernant les raisons et les modalités de mobilisation des IDE ont déterminé des performances différentes dans le domaine de l'attraction des IDE dans les quatre pays. La Hongrie s'est constituée comme destination préférée des investisseurs, ce qui a démontré l'importance de la politique au détriment de la taille. Dans le cycle d'accès aux investissements, la Hongrie a atteint très tôt la maturité, tandis que la Bulgarie s'approche de ce point, la Roumanie est dans une phase de croissance, et la Slovénie ne semble pas suivre cette évolution cyclique.

Si au début nous avons tenté de distinguer entre deux paires de pays (la Hongrie et la Bulgarie d'un côté, et la Roumanie et la Bulgarie de l'autre), à cause de leur appartenance à la première vague, respectivement à la deuxième vague d'intégration à l'UE, comme on l'a vu ci-dessus, on enregistre des différences dans le cadre même des deux groupes. Le caractère hétérogène des performances et des politiques menées autour des IDE nous ont déterminés de centrer notre analyse sur les quatre pays.

## 2. Les déterminants de l'investissement direct étranger; le rôle des relations avec l'union régionale

Notre étude économétrique est fondée sur un modèle qui utilise les variables macroéconomiques qui caractérisent le pays d'origine de même que le pays hôte. Le choix des variables incluses dans le modèle a la base un support théorique et empirique consistant.

**Le potentiel de l'offre et de la demande de capital** (approximé par le PIB, la population et le PIB/tête pour le pays hôte et pour celui d'origine), en tant que déterminant des IDE, est expliqué par Le paradigme de Dunning (OLI framework), La nouvelle théorie des IDE –MEG (OL) et Le modèle knowledge-capital (Markusen). D'autres contributions théoriques dérivées de l'approche gravitationnelle (Tinbergen J. 1962, Anderson J. E. 1979, 2003, 2004, Wincoop E. 2003, 2004) justifient elles aussi la présence du potentiel de la demande et de



l'offre dans la modélisation des IDE. Le support empirique est consistant, étant apporté dans les études de Gorg&Greenaway (2002), Brenton&Di Mauro& Lucke (1998), Buch, Kokta&Piazolo (2003), Carstensen&Toubal (2004), Bevan&Estrin (2000) et Resmini (2000).

**Les coûts de transaction** (approximés souvent par la distance physique entre les capitales des pays hôte et d'origine) sont utilisés pour la modélisation des IDE en vertu de La théorie de la géographie (Krugman), la nouvelle théorie des IDE et le modèle knowledge-capital. D'autres contributions théoriques dérivées de l'approche gravitationnelle (Tinbergen J. 1962, Anderson J. E. 1979, 2003, 2004, Wincoop E. 2003, 2004) justifient la présence des barrières commerciales dans un sens large (coûts de transport, de transmission, de transaction et politique commerciale). Ceux qui apportent leurs contributions empiriques dans ce domaine sont Gorg&Greenaway(2002), Brenton, Di Mauro&Lucke (1998), Cartensen&Toubal (2004), Bevan&Estrin (2000), Buch, Kokta&Piazolo (2003) et Resmini (2000).

**La dotation relative en facteurs de production** (approximée usuellement par les différences de coût des facteurs de production, éventuellement corrigés avec les différences au niveau de la productivité, ou par la qualification de la force de travail) est bien argumentée dans la théorie (la paradigme de Dunning, la nouvelle théorie des IDE, la Théorie de la géographie, le modèle knowledge-capital). Parmi les contributions empiriques, on présente ceux appartenant à Carstensen&Toubal, Gorg&Greenaway (2002), Bevan&Estrin, Resmini (2000).

**Le spécifique de la transition** (capté par le facteur politique) est utilisé pour la modélisation des IDE en vertu du paradigme de Dunning qui argumente par l'effet de la transition sur la configuration OLI des firmes (L). Ceux qui apportent leurs contributions empiriques sont : Brenton, Di Mauro&Lucke (1998), Buch, Kokta&Piazolo (2003), Carstensen&Toubal (2004), Bevan&Estrin (2000), Resmini (2000).

**Le degré d'intégration à l'UE** (approximé par les relations préférentielles établies avec l'UE, le degré d'ouverture commerciale) en tant que déterminant des IDE, est expliqué par La théorie économique standard. Dans le contexte de l'intégration globale, les flux de capital des pays riches vers les moins riches en capitaux, s'expliquent par le besoin de financement du compte de capital de la balance de paiements. La théorie néoclassique explique les transferts de capital par la loi de la réduction des bénéfices marginaux. Pecking order donne une explication pour la réduction des IDE en faveur des investissements de portefeuille par la croissance du degré d'intégration. La théorie standard du commerce et la théorie « investment – creation and investment-diversion » (Kindleberger) argumente la réduction des IDE suite à la création de l'Union. La théorie de la Géographie argumente la croissance des IDE orientés vers le marché dans une Union, par la redéfinition de la taille du marché résultat de l'intégration.

Le support empirique est consistant :

- Buch&Piazolo (2000) et Gorg&Greenaway (2002) trouvent que le comportement des investisseurs par rapport aux PECO est similaire à celui envers l'UE ; pourtant, on anticipe un potentiel de croissance du stock après l'intégration
- Brenton, Di Mauro&Lucke (1998) démontrent que l'appartenance à la première ou à la deuxième vague d'intégration des PECO à l'UE est significative dans l'explication des IDE ; l'appartenance du pays hôte à l'UE n'influence pas de façon significative le stock d'IDE attiré ;
- Bevan&Estrin (2000) considèrent que les annonces de l'UE sur les perspectives d'intégration se sont reflétées de façon positive et significative au niveau des IDE vers les pays favorisés par ces annonces ;
- Resmini (2000) identifie une influence non significative du degré d'ouverture au commerce international, à l'exception des IDE dans les secteurs traditionnels (influence positive et significative).

### **3. Etude empirique sur la Roumanie, la Bulgarie, la Hongrie et la Slovaquie**

Notre étude empirique utilise la méthodologie spécifique à l'économétrie du panel pour identifier les facteurs qui ont influencé, dans la période 2000-2004, les performances dans l'attraction des IDE dans les quatre pays de l'Europe Centrale et Orientale, spécialement pour déterminer en quelle mesure les relations avec l'UE ont contribué à la configuration de celles-ci.

La spécification empirique, suivant le modèle gravitationnel élargi, prend la forme suivante :

$$IDE_{ijt} = \beta_0 + \beta_1 lagIDE + \beta_2 PIBPC_{it} + \beta_3 PIBPC_{jt} + \beta_4 DIST_{ij} + \beta_5 EDU_{jt} + \beta_6 K\_L_{ijt} + \beta_7 PRIV_{jt} + \beta_8 PRIVg_{jt} + \beta_9 PRIVp_{jt} + \beta_{10} PROPR_{jt} + \beta_{11} OUVERT_{jt} + \beta_{12} FACILIT + \beta_{13} TRAT + e_{ijt}$$

La description des variables se trouve dans le Tableau 1.

**Tableau 1: Les variables du modèle**

Variables	Description	Source des données
IDE	Le stock bilatéral d'IDE en provenance des 25 pays source (i) vers les 4 pays hôtes (j) [ln(ide+1)]	WIIW (millions EUR)
lagIDE	Variable retardée du stock d'IDE (corrige l'absence des données sur les flux)	WIIW (millions EUR)
PIBPC	PIB/capita du pays hôte et du pays source (ln(PIB réel/population))	National Accounts Main Aggregates Database (prix constantes 1990, millions USD), FMI (IFS)
DIST	Le logarithme de la distance physique entre les capitales des deux pays (source et hôte)	CEPII
EDU	La qualification de la force de travail de pays hôte (le poids des bénéficiaires d'au moins le niveau 5 de qualification d'après ISCED)	International Labour Office (LABORSTA)
K_L	La différence de dotation en facteurs de production [ln(Ki/Li)-ln(Kj/Lj)]	National Accounts Main Aggregates Database (la formation brute de capital fixe), International Labour Office (numéro des employées)
PRIV	Le poids du secteur privé dans le PIB (proxy pour le stade de la privatisation dans le pays hôte, pour l'existence de la culture d'affaires et l'efficacité de la gouvernance corporative)	BERD (Indicateurs structurels)
PRIVg, PRIVp	La privatisation à grand échelle, respectivement à petite échelle (rating de 1 – propriété privée réduite, progrès peu significative, à 4+ - la privatisation de tous les petites firmes et d'au moins 75% des grandes entreprises)	EBRD Transition Indicator
PROPR	L'indicateur sur les droits de propriété dans les pays hôtes (0% - tous les propriétés appartiennent à l'état ; 100% - la propriété privée est garantie par le gouvernement)	Heritage Foundation (l'Indice de la liberté économique)
OUVERT	Le degré d'ouverture du pays hôte face au commerce international (la somme des exportations et des importations, divisé par le PIB)	UNECE, National Accounts Main Aggregates Database (millions USD, prix constants 1990)
FACILIT	Variable dummy pour les moments clé liés à l'octroi des stimulants pour les investissements dans le pays hôte (2000 pour la Slovénie, 2003 pour la Hongrie, 2004 pour la Bulgarie, 2001 et 2004 pour la Roumanie)	Analyse du chapitre II

TRAT	Variable dummy sur l'état de l'intégration des pays hôtes à l'UE (=1 si les pays étaient signataires du Traité d'adhésion, et =0 si les pays n'étaient pas signataires de ce Traité)	www.europa.eu.int
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Ce que nous intéressent est l'effet de l'adhésion à l'UE sur les politiques nationales ayant impact sur les IDE. De plus, nous sommes intéressés par l'effet de l'interaction des deux coordonnées (l'adhésion à l'UE et la politique autour des IDE) sur les performances dans l'attraction des IDE. Par conséquent, nous ajoutons à notre modèle des variables interactives, résultat de l'interaction entre la variable TRAT, d'un côté, et des variables du domaine de la politique d'un autre côté. Les résultats des estimations se retrouvent dans le tableau ci-dessous.

**Tableau 2: L'interaction du stade de l'intégration avec les politiques associées aux IDE, pour expliquer le stock d'IDE**

Variable indépendante	(1)	(2)	(3)	(4)	(5)	(6)
Constante	-3.29	-1.28	-1.28	-1.28	-0.29	-5.53
lagIDE	0.63***	0.64***	0.64***	0.64***	0.65***	0.58***
PIBPCj	2.47	-4.18	-4.18	-4.18	-6.67	10.12
PIBPCi	7.40**	6.97**	6.97**	6.97**	6.78**	8.31*
DIST	-0.36*	-0.35*	-0.35*	-0.35*	-0.35**	-0.39
EDU	0.02	0.01	0.01	0.01	0.004	0.02
K_L	0.009	0.008	0.008	0.008	0.01	0.01
PRIV	0.05**	0.06**	0.06**	0.06**	0.06**	0.04*
PRIVg	-0.49	-0.60	-0.60	-0.60	-0.67	-0.56
PRIVp	-0.33	0.37	0.37	0.37	0.59	-0.98
PROPR	-0.01**	-0.01***	-0.01***	-0.01***	-0.01***	-0.01**
FACILIT	0.08	0.01	0.01	0.01	0.03	0.12
TRAT	0.24**	-1.46*	-0.98	-0.80	-1.004*	0.24*
TRAT_PRIV		0.02**				
TRAT_PRIVg			0.36**			
TRAT_PROPR				0.01**		
TRAT_OUVERT					0.006**	
TRAT_FACILIT						-0.12
Obs	380 (500)	380 (500)	380 (500)	380 (500)	380 (500)	380 (500)
R2	0.96	0.96	0.96	0.96	0.96	0.96

Note : \*\*\* désigne les coefficients significatifs à 1%, \*\* significatifs à 5% et \* significatifs à 10%. On dispose de 500 observations (100 paires de pays – 4 pays hôtes\*25 pays source - observés pendant 5 années). Les estimations ont été réalisées après les techniques spécifiques au panel, en utilisant le logiciel WinRATS. La méthode d'estimation est le MCG, dans un modèle avec des effets individuels aléatoires

Nous considérons que l'impact du stade de l'intégration à l'UE (donné par le moment de la signature du Traité d'adhésion) a une importance décisive sur les IDE attirés. La variable dummy construite à cet effet s'avère avoir un coefficient positif et significatif à 5% (voir la régression numéro 1, où la variable sur l'ouverture commerciale pour raisons d'autocorrélation est exclue). Donc, plus les pays hôte ont été avancés dans le processus d'intégration pendant la période analysée, plus la confiance des investisseurs a été grande ; on a ressenti cela au niveau des IDE, surtout en Hongrie et en Slovaquie, pays signataires du Traité en 2003, et moins dans le cas de la Roumanie et de la Bulgarie, qui ont signé le traité à peine en 2005.

L'interaction du stade de l'intégration avec celui de la privatisation, avec la réglementation du droit de propriété et avec l'ouverture devant les flux commerciaux, a une influence significative (5%) et de sens positif. L'impact total du stade de l'intégration sur les IDE est donné par la somme des coefficients de la variable TRAT et de la variable interactive. Ainsi, pour que l'effet total de l'intégration soit positif, il est conditionné par certaines performances dans le domaine des politiques à intérêt sur les IDE. Il est nécessaire donc que le poids du secteur privé soit de minimum 73% du PIB, pour que le droit de propriété soit garanti dans une proportion d'au moins 80%, et que la somme des importations et des exportations dépasse 167% du PIB. Si nous avons en vue le conditionnement de l'effet positif de l'intégration par la grandeur du secteur privé, cette exigence est réalisée seulement en Hongrie, et partiellement en Bulgarie. D'un autre côté, aucun des quatre pays hôte n'accomplit la condition de la garantie de la propriété en proportion de 80% (la Hongrie s'en rapproche le plus, et partiellement la Slovaquie). Conformément aux résultats, l'intégration a un impact positif sur les IDE si elle est accompagnée par une ouverture commerciale de minimum 167%, condition satisfaite seulement par la Hongrie et partiellement par la Slovaquie.

Nous nous demandons enfin si le potentiel d'attraction des IDE a été atteint en Roumanie, en Bulgarie, en Hongrie et en Slovaquie, étant donnés les déterminants spécifiques au niveau de l'année 2004. Prenant en considération les coefficients obtenus à la spécification numéro (1), et connaissant la valeur des déterminants au moment 2004, nous pouvons déterminer une valeur théorique ou le potentiel d'attraction des IDE. De la comparaison de cette valeur avec le stock d'IDE existant effectivement jusqu'à ce moment, résultent des différences en plus ou en moins par rapport au potentiel. Concrètement, en Roumanie et en Hongrie le potentiel a été atteint dans la plus grande partie ; pourtant, on attend encore des croissances au niveau des IDE destinés à la Roumanie de la part du Danemark, de l'Irlande, de la Croatie et de la Norvège, et pour la Hongrie de la part de la Tchéquie, du Danemark et de la Grèce. On entrevoit des perspectives plus nombreuses en ce qui concerne la Bulgarie, où le potentiel de croissance des IDE existe de la part des investisseurs de Tchéquie, Danemark, Finlande, France, Japon, Corée, Espagne, Suède, Croatie et Norvège. De façon similaire, la Slovaquie peut compter sur la croissance des investissements provenant de Belgique, Luxembourg, Danemark, Allemagne, Hongrie, Irlande, Italie, Corée, suède, Grande Bretagne, Etats-Unis, Norvège. Par conséquent, les pays avec des perspectives plus « pauvres » (la Roumanie et la Hongrie) devront agir dans la direction de l'amélioration de la valeur des déterminants identifiés pour devenir encore plus attractives et pour avoir la capacité d'attirer des flux supplémentaires d'IDE.

#### 4. Conclusions et perspectives

Sans avoir un degré élevé de signification, le stade de l'intégration semble avoir influencé dans une certaine mesure les performances dans le domaine des IDE, étant favorisées, évidemment, la Hongrie et la Slovaquie. La Hongrie spécialement a expérimenté des résultats positifs dus à l'intégration à cause du stade avancé de la politique menée autour des IDE, qui a interagi favorablement avec le progrès dans la voie de l'intégration.

Si la Roumanie et la Hongrie ont atteint leur potentiel de captation d'IDE (dans les conditions des déterminants actuels), la Bulgarie et la Slovaquie peuvent encore compter sur l'attraction de flux supplémentaires (permis par les déterminants actuels). La Roumanie doit améliorer encore ses performances économiques susceptibles de se transformer en facteurs d'attractivité des IDE et, de plus, elle doit améliorer son facteur politique. L'influence significative de celui-ci sur les performances dans le domaine des IDE est un indice du fait que les gouvernements peuvent réellement influencer les performances en termes d'attraction des IDE, car le stade du processus de la transition est sous le contrôle des responsables politiques. Mais avant de mener une politique active d'attraction d'IDE, des efforts s'imposent en vue d'assurer la multiplication des bénéfices apportés par ceux-ci dans l'économie, en vue d'accroître la capacité d'absorption autochtone des externalités initiées par les firmes étrangères.

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# STRATEGIES FOR ASSUMING A BUSINESS UNDER THE CONDITIONS OF THE EUROPEAN INTEGRATION AND OF THE GLOBALIZATION

**Marangoci Carmen Raluca**

*George Bacovia University of Bacău, Faculty of Management, 96, Pictor Aman Street, ralucagoci@yahoo.com, 0040-743-018281*

**Brânză Aurel**

*George Bacovia University of Bacău, Faculty of Business Administration, 96, Pictor Aman Street, 0040-732-402476*

## *Summary*

*For most people, the Unique European Market means traveling and working in the community without restrictions and as they wish. For the producing companies, The Unique Market means the ability to sell the goods and offering services in any country of the European Community, without additional formalities.*

*The managers of companies are able today to fragment the chain of value creating thus within the company key strategic elements and the rest of elements can be purchased at the lowest cost from any part of the world.*

*Key words: cooperation, partnership, subcontracting, simple accomplishments, complex accomplishments*

It is generally considered that starting with the '95, the purchase function has got a special importance, being considered not just a simple administrative demarche, but as a component of the strategy that the company's managers must take into account.

The high risk of this function in establishing the strategy has to be accompanied by specific instruments, taking into account that in the present market economy, the levels of "client-supplier" relationships have considerably evolved. This evolution was determined mainly by the following factors:

- the high concern for innovation, that is the acceleration of development of new products in order to satisfy the consumers' more and more variable and flexible demand;
- the drastic reduction of the fabrication duration cycle;
- the optimization of the products' quality;
- the permanent concern for the profitability level in financial terms.

These aspects prove the will of companies of disposing of a competitive advantage that appears in many cases as a surviving condition. Strategically, each company centered on the "basic job", at the same time with the assimilation of experience from outside.

On the other hand, the globalization as a present phenomenon, but especially as future ones, places the company from a medium and small-size country, in a rather unpleasant position from the point of view of the produced quantity, of products' production period and of the costs. Beyond the reduced level of the financial potential, the placement on a global market raises the problem of the existence of such company. Generally speaking, the company be it from a medium country, no matter its importance at a local level, will never be but a small company as compared with the "tops" of great nations.

This new ratio of forces compels companies to merge under different forms but with a common point, that is representatively.

This is not necessarily interpreted as a criticism criterion but also as an assembly of elements that should meet the shareholders' interests.

Even if the characteristic of an enterprise situated in a middle-sized country, disposes of some strengths concerning the manufacturing technologies, vice-versa they do not dispose of a sufficient internal consume (outlet), in order to permit the recuperation of the investment used in order to realize that industrial objective. One

can enumerate more examples of new objectives, which failed because of a lack of outlet, in other words, of lack of needs, expressed into that country.

The condition for surviving of the enterprises of such countries, placed within a context of a world wide market economy, is their capacity to react at the constant evolution of this kind of market. This is the reason why they search to assimilate competences from the exterior. In this direction, finding and assimilating the competence can be realized, by subcontracting the business or by a partnership, or by de-locating it.

There are many formulas of partial or total engagement, leading to the formation of some enterprise associations, known under the name of “enterprises alliances” or “strategic alliances”. In all cases it is about the making up of associations between enterprises, finally aiming to realize a certain project, combining the material, financial and competence resources of all the participants.

## **Strategic alliances**

Under the conditions of settling as objective, the development of the enterprise, it has become frequent the preoccupation for finding ways to achieve it not only under the form of the juridical or financial integration, already known under other forms too, based upon contractual relations. Such relations are included within the general concept of “contractual approach”, being able to appear under different forms, as presented below.

### **Cooperation contracts**

In ratio to other forms, as for example, the present moment grouping of the enterprise, compensation markets, mix enterprises, manufacturing contracts, this is considered the most general form of contractual approach, being based upon two organization principles such as:

- the existence of a central enterprise, assuring the manufacturing of products, the trading and the development of the relations with clients;
- a network of enterprises linked to the central enterprise by cooperation contracts, manufacturing and delivering different subassemblies of the final product.

This form also becomes applicable in the case when the cooperation has an international characteristic, with a juridical qualification, well settled, respecting the three basic rules:

- the contractual liberty;
- the obligation to cooperate;
- the obligation to negotiate;

### **The contractual liberty**

The contracting parts should enjoy from their collaboration contracts of a **large contractual liberty** compared to other classical contracts, applying the common law rules.

### **The obligation to cooperate**

The cooperation contracts generally stipulate that the enterprises will collaborate together in a good manner and having the best intentions, a sense in which the contracting parts have the interest to start a contract by a preamble in which they will explain very briefly the reason for which they decided to work together, this meaning the recognition of the professionalism of both parts.

The contracting obligation relies in the fact that, the parts should act in a common agreement in order to carry out the execution of the contract.

This means the assuming of the obligations:

- furnishing to the other part the necessary assistance;
- respecting the interests of the other part, being forbidden to deprave it from the advantages stipulated in the contract;
- executing the promised operations when they are asked by one part.

### **The obligation to negotiate**

The cooperation contracts will have to state that in case a difficulty appears (dysfunctions) the parts will negotiate the possible ways in order to eliminate them. At the same time they will have to treat the consequences of a negotiation failure.

When the contract is signed, the annulment or the replacement of the supplier can not be taken into consideration. The labor conscription will be carried on to an end, by constantly negotiating the complaints (demands) of the other contracting part.

### The supply partnership

The supply partnership, as a part of the system of clients-suppliers relations, can be defined as a form of cooperation between two non-competing enterprises. The intimate aim of the enterprise which is doing such a step is the only one in order to get the competition advantage.

It is to be understood that, in the case of such type of relations, the disagreements or the conflicts can not be eliminated. In the relation client-supplier, the competing advantage of an enterprise appears from four strategic factors: **price, service, quality and innovation.**

In this direction, in a partnership step, the enterprise should solicit to its suppliers:

- concerning the products price aspect, to help it in finding solution at the lowest price for the fulfillment of the same function;
- concerning the service and the term period aspect, to rapidly answer to the final client's solicitations concerning the product volume and installation characteristics;
- concerning the quality aspect help it to re-discuss the products quality for the future, every time it is asked by the clients;
- as the innovation plan is concerned, to undertake a permanent supervision of the manufacturing technology and of the trading on the market, enabling thus to get information about the possibility to introduce new substitution products at the lowest cost or to assure the perennially of the existing products.

It is pointed out that the TIME factor constitutes the most important variable of the supplying enterprise, ion choosing the partners.

This kind of variable can be de-composed as follows:

*Table No.1. The enterprise strategy and the subcontracting*

Partnership time	Supplier's achievement possibilities	Flow (results)	Client's participation means	Objectives
1	2	3	4	5
Simple achievements partnerships	Specialized labor hand less	Products/services ► simple entries		cost diminishing; flexibility; short-term collaboration.
Partnerships for simple achievements	Specialized labor force Elaborated technologies Organization Brevet Capitals	Products/services ► simple entries ◄ Technology ◄ Brains		transferability and knowledge acquirement; research: JAT, total quality; handling of the total cost; reducing the total management time. - long-term collaboration.
Exception partnership	Brains Capacity Research	► Research Innovation ◄ Technology ◄ Brains Capitals		research, innovation; design to cost; quality complete system.  long-term collaboration.

### The subcontracting and the partnership



Under the circumstances of the business world widening aspect, in order to survive, the enterprises are determined to adopt the formula of disengagement (delocalization, transfer) of their purchases (acquisitions), this becoming the most efficient way to obtain a competing advantage.

This step means a veritable change in the management culture of the enterprise. A supply partnership will especially influence:

- the intervention level of the acquisition function within the process of decision taking;
- the relations between the organizational structure parts of the enterprise;
- the relations client-supplier at the level of different functions of the enterprise;
- the consideration with which the objectives were settled;
- defining the mission for each participant in starting the business and the delegation of tasks;
- the choice between different types of partnership, knowing that they differentiate one another according to the nature of the difficulty degree and the difficulty level : simple partnership, complex partnership, concept partnership.

### **Subcontracting**

Subcontracting should be definite and understood in a large sense, its application field being open for the majority of the enterprise functions.

Nowadays the subcontracting becomes a strategic element of the enterprise for the identification of the hardships and of the consequences in exercising its different functions.

#### **c) Strategic data**

When the communication instruments were limited to using mailing and telephoning, the circuit of information, more and more complex, had to be improved because the traditional strategy of vertical integration was possible only for a limited number of products.

The new informatics technologies permit nowadays to the managers, to fragment the added value scale from their enterprise.. They can solve inside, the strategic key elements (if they have identified them well) for example, the performing of an acquisition with the lowest global cost in any other country.

The result will be that the general managing board will be able to take care of the things that are better-known, avoiding thus the dispersion of human, material and financial resources on secondary elements existing inside the values scale.

The enterprises adopting such an approach formulate their strategy not only on products but on a better knowledge of a limited number of essential competences (services, technologies, marketing etc).

#### **d) The spread of services**

Nowadays, it is necessary to forget the idea according to which the production is apart from the activities in the field of services. The statistical data from some developed countries having a developed market, reveal that the enterprises having between 65 and 75% of employees, undertake effectively service activities, starting with the fundamental ones, linked to production (research, logistics, maintenance and repairing, design) up to administrative indirect services (accounting, juridical, finance, personnel, informatics, marketing etc).

. As a whole, it is appreciated that services represents more than three thirds of the assembly of industrial American costs.

The role of services becomes more and more evident in bringing added value nowadays than during the preceding years. when the essential part came from the production processes.

In pharmaceutical industry for example the contribution in added value results essentially from services activities such as: research field, elaboration of regulations in order to protect brevets, following the effects after the launching on the market etc.

#### **e) effects of subcontracting step**

Adopting such a strategy has a direct impact upon the acquisition function of the beneficiary enterprise. In this direction, one can illustrate the case of an industrial giant, world-wide electronics producer, a firm which has developed with 35% rhythm per year, in a difficult industrial sector providing from the exterior the majority of its components and subassemblies which were considered non-priority.

The boards of the enterprise concentrate its attention and resources upon conceiving and applying the products, managing the logistics, the quality control and experimenting the packaging technologies of its components.

Reducing the general costs, by adopting a policy of purchasing, permitting to the firm to easily react to the market changes and obtain administrative expenses lower than its competitors.

As a conclusion, we consider that on the present stage, the competition advantage based upon “material” means is diminishing. The material expenses can be diminished. The stable competition advantage will appear from the quality of collaborations, from the adopted logistic systems and from the services having a perceivable value from the part of the client. Managers have to dedicate themselves to identifying some fundamental service activities in which the firm excels or they can develop these kinds of activities and at the same time search for solutions to eliminate, limit or subcontract the activities for which the firm is not able to solve itself in a better way.

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# STRATEGIES TO INCREASE THE EFFICIENCY OF MANAGEMENT

**Marangoci Carmen Raluca**

*George Bacovia University of Bacău, Faculty of Management, 96, Pictor Aman Street, ralucaagoci@yahoo.com, 0040-743-018281*

## **Summary**

*The purpose of this article is to argue that, despite the constant economic upheaval and incessant technological changes, strategies to increase the efficiency of management are still a useful and critically important for all companies.*

*The business strategy has been the subject of increased study and search for solutions, especially since the process from strategy formulation to strategy implementation is not efficient.*

**Key words:** *teamwork, efficiency, business, relationship, opportunities*

The efficiency of the managerial work system and of management activities is an important process. The components of work-style are the different ways of behavior developed in the function of company opportunities, and the way the manager's act in order to realize company objectives in an efficient manner. Of the several components of the management work system I have selected the most important positive factors.

## **Efficient use of manager's time**

Management science deals with those means and methods that contribute to efficient time use. Most of the time, manager fight with the lack of time, efficient time use has a rich psycho-social content, which can be categorized according to the following:

- f) the whole process is based on the postulation that managers want to do as many things as possible, which results in changing their attitude and behavior, and in wording the requirements of efficient time use;
- g) the practice of using and organizing working hours postulates certain psychological characteristics, like: memory, flexibility, observation, susceptibility, setting up priorities, developing and maintaining harmonic relations, work capacity and work load, etc.

In order to prevent incorrect conditions and situations, it is recommended that the manager's time use should be regular. In order to improve time use, the first step is to define the objectives in harmony with the requirements and the tasks. In the next step, daily time use has to be monitored and organized with the use of work registration, special register, calendar, etc. The next step is the comparison of fulfilled tasks with the objectives, because it helps to change the customs.

These way managers can eliminate those activities which do not have to be done because:

- they are not important for the objective;
- they can not be realized in the current period;
- they can be done by the subordinates;
- they are not efficient any more. The next step is to set up priorities.

Priorities have to be supervised periodically, and have to be altered in harmony with the new aspects. Once we have defined the priorities meeting the objectives, we can start planning.

## **Manager's work schedule**

The continuous success of the flexible work schedule depends on a good faith effort by employees and their department director/division manager.

Work schedule of the managers is especially important from the point of view of efficiency. Certain elements have to be taken into account when compiling the work schedule.

Once we have taken the above characteristics into account, the manager and the management team have to respect certain rules in the interest of efficient management:

- elaboration of work programs should begin with the realistic estimation of time required to solve the problem(s);
- deadlines should be defined, leaving time for interruptions and unexpected events;
- those tasks should not be listed among the tasks of the manager which can also be done by the subordinates,
- the majority of time available should be devoted to solving the most important tasks;
- two or three parallel objectives should be planned;
- calm and concentrated efforts should be ensured for the solution of important tasks;
- solving top-priority issues should be planned for and connected with the period of maximum efforts;
- experts should be involved in the solution of really important questions;
- time should be reserved for the solution of unexpected and urgent issues.

At this point, we should speak about the schedule, work order, and time planning of the managers as well. In this field, the following are considered to be important: work graphics; registration sheet of the employees and of the individual issues; leaflets, notebooks, calendars; special file for the complicated problems. The best and the most frequently used method is the weekly work graphic.

### **Efficiency of business meeting**

Independent from their nature, business meetings are usually organized to make decisions, or to get and provide information. These meeting consist of three phases: preparation; development; information about the decisions and the approved measures, and demanding their execution.

Preparation of the meeting is an important momentum to increase efficiency. For the maximum efficiency of business meetings, a lot of requirements have to be met in the preparation phase, of which we shall mention the following:

- a) definition of rational issues;
- b) proper structuring of the agenda;
- c) nomination of the team responsible for editing the documentation of the meeting, listing the obligatory items on the agenda;
- d) nomination of a small number of participants from those who work in the affected areas;
- e) guiding and supporting the team in charge of editing the documents in order to prepare a comprehensive and exact documentation;
- f) defining the venue of the meeting, preparation of proper environment;
- g) timely information of the participants about the content of the document to be discussed, and about the proposals recommended for the solution of the problems in time.

Some of the factors that influence and define the efficiency and profoundness of the discussion are mentioned below:

- h) experience and sense of tact in moderating the discussion;
- i) the attempt and effort of the participants to create good atmosphere;
- j) development of an economic, social and human behavior where economic efficiency and profitability are interwoven with the care of the economic units about their employees.

### **Perfection of the relationship between the manager and the subordinates**

The existence of market economy determines and gives new perspectives to the relationship between the manager and the employees at all organizational levels. This relationship is individualized and different depending on the characteristic features and the authorities of the people involved. A similar transformation takes place as a consequence of economic transformation and the realistic operation of the economic units, because all these demands strict, and individual responsibilities, and efficient contribution from the manager and the executive staff, financial and moral encouragement harmonized with the achievements.

There are six rules that I believe a supervisor can follow to improve teamwork with subordinates:

1. *Describe the purpose of the work you and the team are doing.* What are you trying to achieve? Who are your potential customers and how will you create value for them? When people are clear about the purpose of their work, they are better able to understand their manager's concerns. When they are not clear about purpose, they don't feel part of a team. Furthermore, they won't think about innovative ways to achieve purposes they don't understand.
2. *Clarify roles and responsibilities.* Let people know who the team members are and how their roles relate to each other. When roles are unclear, people don't feel empowered to take responsibility. Or if the role is unclear, people may bump into each other's territory, causing unnecessary conflicts that undermine teamwork. In technology organizations, it's a good bet that subordinates know more about their jobs than do their managers.
3. *Make sure managers and subordinates understand each other's personality.* You may be motivated in different ways. It makes a big difference if one is a loyal productive obsessive who pushes for perfection according to inner standards while the other is a productive marketing personality, interested in what will sell and with a self-image as a free agent, always seeking better opportunities, either inside or outside your organization.
4. *Communicate and facilitate communication.* You can never communicate too much when it is a question of how work is progressing, what are the problems encountered, and what is needed from each person. The best teams have the most open communication and don't avoid creative conflict.
5. *Managers need to create trust by treating people fairly.* Relationships deteriorate when managers play favorites. Managers can and should be demanding and challenging as long as they are consistent in their treatment of people. Some managers believe they can stimulate productivity by pushing subordinates to compete with each other. Inevitably, this kind of leadership breeds distrust and undermines teamwork.
6. *Make evaluation a continuous and honest dialogue rather than a bureaucratic process.* Documenting inadequate performance may serve as a legal protection, but it doesn't improve the relationship between manager and subordinate. Often evaluations are made long after the events they evaluate have taken place-they are no help for improving performance and, furthermore, they may provoke angry disagreements.

With respect to the psycho-social field, the relationship between the manager and the employees includes all the aspects of the manager's and the employees' character. This relationship is complex, many-fold, and dynamic. Efficient relationship between the manager and the employees means the coordination of the different characters. If the manager is capable to form and shape the employees so that they become suitable for the execution of their tasks, that is a high-level expression of managerial qualities. In this process, the manager has to respect certain rules of behavior, of which we mention the most important ones:

- a) respecting the personality of the employees;
- b) knowing the employees through direct contacts;
- c) giving personal example;
- d) providing continuous information for the employees, and involving them into the new, and innovative activities;
- e) ensuring mutual respect and the atmosphere of confidence;
- f) using consistent principles in case of punishments and awards;
- g) ensuring highest possible interest of the employees;
- h) permanent and high-level control;
- i) ensuring well-balanced relations.

Organizations can improve employee performance by making it easier for their people to find new opportunities within an organization. According to the recent study, organizations can also develop the skills and knowledge of all talents, regardless of their position in the company. Some of these strategies include involving employees in company decision-making processes, a practice used by 60 percent of executives surveyed.

## **The manager and the official mechanisms**

In order to ensure efficiency, the manager's work has to be prepared and thought over profoundly. In the course of managing the economic units in a differentiated manner, managers have to rely upon the services provided by the experts and the functional departments. Efficient plans and activities can be elaborated and performed with their involvement, and ad hoc measures and superficial solutions can be excluded.

Experts have outlined several trends of using the professional apparatus of the company hierarchical structure. We should keep in mind that the experts of the official mechanism can be utilized in several ways: control especially important activities; analyze and improve objectives and programs; study the technical, economic and social features of the economic unit; prepare proposals on the management process of the unit.

Expert involvement provides the manager with several advantages, of which we mention the following:

- a) improvement of the management process with the adaptation and use of expertise, and ensuring the necessary data;
- b) taking some of the burdens and work-load off the manager;
- c) introducing new elements into management work methods and work-style;
- d) participation in the definition and elaboration of corporate objectives.

## **The form and content of the manager's summary information**

The summary information of the manager is a comprehensive report about the technical- production, economic-financial, social and human factors. This ensures profound knowledge about the corporate processes, and the foundations and control of the decisions.

Information and data provided for the manager can be prepared in the following forms: list of tasks; graphics; summary sheet (tables and graphics); exceptions from the rules; indices, etc.

When preparing summary information, the manager has to take into account the following requirements:

- a) the information should contain continuous information about the activities of the manager in question;
- b) the information should be regular and comprehensive;
- c) the data should reveal exceptional differences;
- d) the information should reveal the qualitative and quantitative relations among the economic, technical and human factors of the company;
- e) the information should contain sufficient frightening information which help the recognitions of incorrect situations,
- f) the information should be efficient in completion and use;
- g) it should provide general information about the operation of the company, and give profound analysis about the different departments, etc.

The summary information helps the manager to get acquainted not only with the production process, but also with the employees, and the socio-human factors of the company.

## **Efficient operation of the secretariat**

Efficient operation depends not only on efficient use of time, but also on taking the burdens of certain activities off the shoulders of the manager.

First of all, we would like to discuss the issues related to working, hours. The secretariat plays a significant role in the efficient and rational use of time available for the manager. The secretariat should solve a wide variety of tasks and problems, including:

- a) filing activities, like signing the documents of the manager, filing, distributing, sending and categorizing them;
- b) actual secretarial activities, like copying, typing, translating, ordering documents, letters, telegrams, notes, notices, information, communication, and independent editing of different documents;
- c) compilation of data, including statistics, tables, graphics, and copying;

- d) publication of information, guidelines, etc. in the absence of the manager and provide information about the issues/events occurring in the absence of the manager;
- e) answering and selecting phone calls;
- f) preparation of business meetings;
- g) receiving visitors, and sending inconvenient people away;
- h) in-time indication of deadlines.

It is evident, that professional and successful execution of the above tasks require certain psychological characteristics like: memory; divided attention; quick reaction to problems, and quick understanding of the issues; discipline; professional integrity; tactfulness; cordiality; intellectual flexibility and adaptability; organizational talents; willingness to listen to the others; capability to develop and maintain exemplary human relations; well-balanced and stable neurotic system, etc. These are the psychological characters that ensure proper basis for the fulfillment of the complicated, many-fold, varied, and difficult work of the secretariat which basically influences the manager's work and success.

### **Management training - necessity and efficiency**

Management training is an important means of improving the competence of managerial personnel in any economy, and managerial talent is a necessary condition for successful economic development.

Above all we should emphasize that in the course of economic restructuring and orientation to market economy, the companies increasingly feel the lack of official managers capable to manage the most important fields of corporate life.

The issue of well-prepared managers, who rule and are capable to implement management science into practice, has to be discussed scientifically. For this reason it is vitally important that several rules, moments, and activities are taken into account in the course of recruitment, testing or interviewing, and employment: a) to be familiar with the offer of qualified labor force; b) recruitment of people with special talents already during the college years; c) testing the candidates with the preparation of certain plans, with competitive tests, or in other ways; d) their employment; e) their involvement into work under the leadership of the manager, or experienced experts; h) increase the level of professional qualifications; i) promote the development of corporate identity; j) ensure the permanency and respect of work-places, and guarantee that these jobs provide good opportunities for personal development. In this process of management training, marketing- and management techniques should be interwoven.

The following characteristics of the manager can be developed in the course of training: a) cooperation with people, the capability to develop a team, promotion of individual and team activities; b) the capability to understand the past and to foresee the future, and fight for permanent development; c) the capability to solve corporate issues; d) the capability to use technical, economic, legal, and psycho-social phenomena in the course of argumentation, and to understand the relationship among the above phenomena; e) the capability to select the important issues which deserve maximum effort; f) ensure the conditions for efficient work, and the capability to apply positive experiences; g) the capability to make decisions quickly; h) the capability to understand corporate problems, and to put them into a wider perspective; i) improve communication; j) learn the analytical methods of discussing the issues, and organizing the problems in a systematic way; k) the capability to learn modern management methods and means; l) harmony between the environment and the internal and external objectives of the company.

The above extensive and complex process requires the use of modern means. Of the modern and efficient methods used for the perfection of the manager, I should mention the following: the method of panel discussions; the method of role evaluation; planned training; solving the problems included in the file of management issues; extending (improving) the scope of activities of the manager; training tests of the managers, etc.

The precondition of management efficiency is that the manager should understand and support the employees. As a consequence of human nature, caution is recommended for the manager in his/her work with the employees. Besides caution, the managers should use different methods when dealing with the employees. However, this can be done only if the manager knows the employees, which is possible with the help of psychology, sociology, biology, medical sciences, and anthropology, with regular observation and control of the employees' concrete activities, and with the help of instincts. In certain cases, managers should ask professional opinion from psychologists, medical doctors, or other experts. This is the only way managers can ensure complete and efficient participation of the employees in the economic processes, in increasing profitability, and in finding professional

and human satisfaction at the workplace. As a result, the manager's work will also be successful, and will contribute to the development and success of the company.

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# METHODOLOGY FOR SUBSTANTIATING THE PROCUREMENT DECISION IN LEASING

**Mustea-Serban Răzvan**

*Romanian-American University, Faculty of Internal and International Commercial and Financial Banking Relations, 1B, Expoziției Blvd., Sector 1, Bucharest, Romania , rmustea@rau.ro, 0722 251 120*

**Ciocîrlan Doinita**

*Romanian-American University, Faculty of Management-Marketing , 1B, Expoziției Blvd., Sector 1, Bucharest, Romania , doinita\_ciocirlan@yahoo.com, 0722 621 252*

**Folcut Ovidiu**

*Romanian-American University, Faculty of Internal and International Commercial and Financial Banking Relations, 1B, Expoziției Blvd., Sector 1, Bucharest, Romania , ofolcut@yahoo.com, 0722 913 416*

*Abstract: The paper analyzes the procurement decision in leasing, considering two criteria: the Net Present Value (NPV) and the Total Net Present Cost (TNPC) of the financing sources. Basically, there are four major financing sources for an acquisition: the self-financing, the bank credit, the supplier credit and leasing. The calculation of the TNPC indicator considers not only the acquisition cost of the good(s), but some other elements as well: the expenses and fees specific for each transaction; the fiscal economy derived from the transaction; the profits tax; the actualization factor. This indicator considers the fiscal economy (fiscal savings) specific to each transaction, which represents a strong argument for leasing. The structure of the expenses excludes the registration fees, the maintenance fees or the liability insurance, as they exist no matter the financing source.*

*Keywords: Leasing, Procurement Decision, Cost of leasing, Cost of Cash Payments, Cost of Bank Credit, Cost of Supplier Credit*

## **Methodology for Substantiating the Procurement Decision in Leasing**

There are several methodologies that lead to the substantiation of the procurement decision in leasing selecting a certain financing source. The most popular of them is the one based on the Net Present Value (NPV) criterion. Another alternative could be the methodology of comparative analysis based on the Total Net Present Cost (TNPC) of the financing sources, because the calculation of this indicator considers not only the acquisition cost of the good(s), but some other elements as well: the expenses and fees specific for each transaction; the fiscal economy derived from the transaction; the profits tax; the actualization factor. This indicator considers the fiscal economy (fiscal savings) specific to each transaction, which represents a strong argument for leasing. The structure of the expenses excludes the registration fees, the maintenance fees or the liability insurance, as they exist no matter the financing source.

## **The Cost of the Goods Procured in Leasing (Financial)**

Besides the cost of the goods procured by the leasing company, the user (the client of the leasing company) needs to pay the interest rate, an administration fee and the insurance fee (if needed). The administration fee is paid once, at the beginning of the contract. The cost of the leasing operation ( $CT_1$ ) for the user is:

$$CT_1 = P_a + D_{ob1} + C_{gest} + C_{asig}$$

Where:

$P_a$  = The acquisition price of the goods, ( the CIP price);

$D_{ob1}$  = The total interest rate levied by the leasing company, calculated by adding the monthly interest rates;

$C_{gest}$  = The administration fee, calculated once, at the beginning of the contract, as a percentage of the initial value of the contract;

$C_{asig}$  = The insurance costs; they are calculated as follows: in the first year they represent a percentage of the initial value (the acquisition price and all the fees required), and every year they decrease in proportion to a certain quote. This cost is higher than the acquisition price with  $D_{it}+C_g+C_{asg}$  monetary units. However, such an analysis is not efficient if the actualization and the fiscal economy are not considered. The procurement decision needs to take into consideration the the Net Present Cost, which is calculated by deducting the fiscal economy from the total cost, both of them made actual at the initial moment of the operation.

The calculation formulas for the Net Present Cost of Leasing are:

$$CT_i = P_a + D_{ob_{leasing}} + C_{gest} + C_{asig} = Av + P_{rinc} + V_{r_m} + D_{ob_{leasing}} + C_{gest} + C_{asig}$$

$$CT_{ded\ i} = Am_i + D_{ob_i} + C_{gest} + C_{asig\ i}$$

$$Am_i = P_a / D$$

$$D_{ob_i} = \sum D_{ob_{hi}} = \sum r_{dl}(\%)/12 * Sd_{hi}$$

$$C_{gest} = P_a * Pr_{gest}(\%)$$

$$C_{asig\ i} = P_a * Pr_{asig}(\%) \quad pt\ i = 0$$

$$C_{asig\ i} = (P_a - \sum Am_i) * Pr_{asig}(\%) \quad pt\ i \geq 1$$

$$E_{f\ i} = CT_{ded\ i} * Imp_{pr}(\%)$$

$$\implies CTN_{ded\ i} = CT_{ded\ i} - E_{f\ i}$$

$$CTN_{neded\ i} = Av \quad (pt\ i = 0) + (P_{rinc\ i} - Am_i) + V_{r_m} \quad (pt\ m = n+1)$$

$$P_{rinc\ i} = P_a - Av - P_{rinc\ i-1}, \quad i \geq 1$$

$$CTN_i = CTN_{ded\ i} + CTN_{neded\ i}$$

$$CTN_{act(leasing)} = \sum CTN_i * f_{act\ i}$$

$$f_{act\ i} = 1 / (1+a)^i$$

Where:

$Av$  = The user's contribution to the financing project (the advance payment);

$P_{rinc}$  = The financed value minus the residual value;

$V_{r_m}$  = The residual value

$n$  = The term of lease (number of years);

$i$  = The year of the contract (values from 1 to  $n$ )

$CT_{ded}$  = The total deductible cost

$Am$  = The amortization (writing off) of the goods - it is reflected in the leasing monthly rate;

$D$  = The normal length of operation for the goods;

$r_{dl}$  = The annual interest rate;

$Sd_{hi}$  = The monthly balance due in the month  $h$ ;

$h$  = The month of the year (values from 1 to 12);

$Pr_{gest}$  = The administration fee;

$Pr_{asig}$  = The insurance fee;

$E_f$  = The fiscal economy for the deductible expenses;

$Imp_{pr}(\%)$  = The profits tax;  $CTN_{ded}$  = costul total net deductibil

$CTN_{neded}$  = The net total undeductible cost;

$f_{act}$  = The actualization factor;

$a$  = The actualization coefficient;

When the term of lease exceeds one year, the actualization is based on the principles of the actuarial mathematics, which means that the Total Net Present Cost is the sum of the The Annual Net Present Costs actualized with the factor corresponding to the year „ $i$ ”.

## The Cost of the Goods Procured with Cash Payments

The value of the investment derived from the cash payments equals the acquisition price plus the profits tax, as from the moment of acquisition the buyer becomes the owner of the goods and it will have to pay taxes, according to the legislation of each country. The insurance expenses need also to be added to the total investment. The buyer will have fiscal deductions from the acquisition price only for the amortization of the goods corresponding to the month following the one in which the payment is done. The difference (the acquisition price minus the amortization described above) will represent taxable revenues.

The calculation formulas for the Net Present Cost of the Cash Payment are:

$$CT_{ch} = P_a + Imp_{pr} + C_{asig}$$

$$CT_{ded} = Am(1 \text{ month}) + C_{asig}$$

$$E_f = CT_{ded} * Imp_{pr}(\%)$$

$$\implies CTN_{ded} = CT_{ded} - E_f$$

$$Imp_{pr} = P_a * Imp_{pr}(\%)$$

$$CTN_{neded} = (P_a - Am) + Imp_{pr}$$

$$CTN = CTN_{ded} + CTN_{neded}$$

$$CTN_{act(cash)} = CTN * f_{act}$$

$$f_{act} = 1 / (1+a)$$

Where:

$P_a$  – The acquisition price;

$Imp_{pr}$  – The profits tax;

$C_{asig}$  – The insurance fees;

$CT_{ded}$  – The total deductible costs;

$Am(1 \text{ month})$  – The amortization;

$E_f$  – The fiscal economy;

$CTN_{neded}$  – The net total undeductible costs;

$CTN_{ded}$  – The net total deductible costs;

$CTN$  – The net total costs;

$f_{act}$  – The actualization factor;

Regarding the VAT (value added tax), if the user is not allowed to deduct this tax, it will appear as an additional expense, which is to be added to the net cost of the transaction.

## The Cost of the Goods Procured with a Bank Credit

This is a very popular method of acquisition, but it has several disadvantages, such as: the need for bank guarantees, the requirements for high financial performances of the applicant and sometimes the fluctuating interest rate. The total cost of the bank credit includes all the expenses related to the acquisition (the advance payment, the cost of the feasibility study, the insurance fees, the cost of the bank guarantee, the interest rates, the administration fee) plus the taxes for the expenses paid from taxable revenues. The taxes are to be calculated subtracting the deductible expenses (the interest rates, the administration fee, the insurance, the amortization, the cost of the feasibility study) from the total expenses and multiplying the difference with the tax percentage.

The calculation formulas for the Net Present Cost of Bank Credit are:

$$CT = P_a + Dob_{credit} + C_{gest} + C_{asig} + C_{fezab} + C_{asig Pty} + Imp_{pf} = Av + P_{ramasa} + Dob_{credit} + C_{gest} + C_{asig} + C_{fezab} + C_{asig Pty} + Imp_{pf}$$

$$CT_{ded i} = Am_i + Dob_i + C_{gest i} + C_{asig i} + C_{fezab i} + C_{asig Pty i}$$

$$Am_i = P_a / D$$

$$Dob_i = \sum Dob_{hi} = \sum r_d(\%) / 12 * Sd_{hi}$$

$$C_{gest i} = (P_a - P_{ramasa i}) * Pr_{gest}(\%)$$

$$C_{risc} = P_a * Pr_{risc}(\%)$$

$$C_{asig\ i} = P_a * Pr_{asig} (\%) \quad pt\ i = 0$$

$$C_{asig\ i} = (P_a - \sum Am_i) * Pr_{asig} (\%) \quad pt\ i \geq 1$$

$$E_{f\ i} = CT_{ded\ i} * Imp_{pr} (\%)$$

$$\implies CTN_{ded\ i} = CT_{ded\ i} - E_{f\ i}$$

$$CTN_{neded\ i} = Av (pt\ i = 0) + (P_{ramasa\ i} - Am_i) + Imp_{pf\ i}$$

$$P_{ramasa\ i} = P_a - Av - P_{ramasa\ i-1}, \quad i \geq 1$$

$$CTN_i = CTN_{ded\ i} + CTN_{neded\ i}$$

$$CTN_{act(credit)} = \sum CTN_i * f_{act\ i}$$

$$f_{act\ i} = 1 / (1+a)^i$$

Where:

$C_{gest\ i}$  = The administration fee corresponding to the year „i”; it is calculated yearly to the remaining balance;

$C_{fezabi}$  = The costs of the feasibility study (paid once, at the beginning of the contract);

$C_{asig\ Pty}$  = The costs of the bank guarantees;

$D$  = The normal length of operation for the goods;

$Dob_{hi}$  = The interest rate corresponding to the month „h” of the year „i”, applied to the remaining balance;

$r_d$  (%) = The annual interest rate;

$Sd_{hi}$  = The remaining balance due in the month „h” of the year „i”;

$P_{ramasa}$  = The remaining balance due;

$a$  = The actualization coefficient;

For the bank credit, the actualization coefficient equals the interest rate levied by the bank.

## The Cost of the Goods Procured with a Supplier Credit

In this case, the deductible expenses are: the amortization, the interest rate and the insurance rate. We assume that the Casco insurance rate is calculated for the whole value of the good in the first year, and in the second year for the unamortized value, and the financial risk insurance rate is calculated for the whole value in the both years. The calculation formulas are, in this case, similar with the bank credit ones, the difference being that the supplier of the good is , at the same time, the creditor (instead of the bank). Generally, the suppliers use credits from banks or other financial institutions to cover the amount that will be collected in the future from the final users, in order to avoid the potential deficit derived from these operations. For the automobiles, we can state that is „fashionable” that the suppliers (importers for a defined market) set up their own leasing companies to finance the potential clients, offering better conditions than other financial institutions. An intermediary solution between these ones would be the leasing combined with the supplier credit, which means that the leasing company is credited with the goods by the supplier and offers it to the final user. They pay instalments to the supplier as they collect the amounts due from the users. The collection rate is, generally, lower than the payment rate (usually, they collect the money monthly and pay the instalments every three months).

The calculation formulas for the Net Present Cost of Supplier Credit are:

$$CT = P_a + Dob_{furnizor} + C_{risc} + C_{asig} + C_{asig\ Pty} + Imp_{pf} = Av + P_{ramasa} + Dob_{furnizor} + C_{risc} + C_{asig} + C_{asig\ Pty} + Imp_{pf}$$

$$CT_{ded\ i} = Am_i + Dob_i + C_{risc} + C_{asig\ i} + C_{asig\ Pty\ i}$$

$$Am_i = P_a / D$$

$$Dob_{hi} = \sum Dob_{fhi} = \sum r_d (\%) / 12 * Sd_{hi}$$

$$C_{risc} = P_a * Pr_{risc} (\%)$$

$$C_{asig\ i} = P_a * Pr_{asig} (\%) \quad pt\ i = 0$$

$$C_{asig\ i} = (P_a - \sum Am_i) * Pr_{asig} (\%) \quad pt\ i \geq 1$$

$$E_{f\ i} = CT_{ded\ i} * Imp_{pr} (\%)$$

$$\implies CTN_{ded\ i} = CT_{ded\ i} - E_{f\ i}$$

$$CTN_{neded\ i} = Av\ (pt\ i = 0) + (P_{ramasa\ i} - Am_i) + Imp_{pf\ i}$$

$$P_{ramasa\ i} = P_a - Av - P_{ramasa\ i-1},\ i \geq 1$$

$$Imp_{pf} = (CTN - CTN_{ded}) * Imp_{pf}(\%)$$

$$CTN_i = CTN_{ded\ i} + CTN_{neded\ i}$$

$$CTN_{act(credit)} = \sum CTN_i * f_{act\ i}$$

$$f_{act\ i} = 1 / (1+a)^i$$

Where:

$Dob_{furnizor}$  = the interest rate levied by the supplier;

$C_{risc}$  = the risk fee, calculated at the beginning of the contract;

$Pr_{risc}$  = risk quote that will be applied (percent);

$Pr_{asig}$  = the insurance quote (percent) – will be calculated for the entire value of the good in the first year, and in the second year for a diminished value, depending on the insurance company.

It is very difficult to compare the total payments for the cash procurement versus the leasing operations, if

we do not consider the same period of time. In this case we need to analyze the expenses related to the use of the goods for the entire period of the location (at least the insurance fee for the next years). Usually, the cash procurement leads to a lower financial effort comparing to leasing, but this means the use of capitals obtained in the past, and not future capitals obtained from the use of the goods. In the leasing operations, for the imported goods, the VAT and the custom duties will be paid at the residual value at the end of the contract (usually, in Romania, this is 20% of the acquisition value). For the cash procurement, these payments are to be done in the moment of the transaction, and the taxes are calculated to the entire value of the goods.

Based on this methodology, we developed a software and experimented it in several leasing companies. This way, we noticed that, applying the net present cost criteria, the bank credit is recommended (if the user has the necessary bank guarantees, the required financial performances and, of course, if the interest rate for the credit is lower than the leasing interest rate). If we consider the total present payments, we find the bank credit to be more efficient as well. This happens when the leasing company finances the procurement of the goods using a bank credit. All the expenses related to the operation and the profits are recovered from the instalments paid by the final users. The structure of the expenses related to the bank credit is very similar to the leasing operations. The exceptions for the leasing operations are the addition of the residual value to the total expenses, but there are no expenses for the feasibility study or with the insurance of the bank guarantees. The interest rate for leasing is usually higher than the bank credit one, and the contract fee used in leasing operations is similar to the administration fee, levied by banks for a credit. The leasing operations would be more attractive if the leasing company financed it from its own capitals. For the imported goods, the leasing is preferred if the fiscal facilities compensate the cost difference.

We conclude that the advantages of the leasing operations are not related only to the payments, but to the complex facilities offered to the clients. If the interest rates for leasing would be lowered, the leasing was more efficient even to the respect of the payments made by the user. If the goods are imported, than leasing is preferred, if the custom duties apply. The former profit tax reductions in Romania decreased the leasing attractiveness.

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# HYBRID NETWORKS – THE LOGISTIC FUTURE IN THE EU

Neagoe Cristina

*Universitatea Româno-Americană*

*There is a trend for the increased use of the hybrid networks. The multi-mode networks are a specific example of hybrid networks, especially if these nodes are used in parallel and not sequentially.*

*Hybridization occurs at all levels: production, inventory and transport. Through a general mechanism of planning and control, shortcuts are created allowing flow strengthening and rapid and trustworthy delivery. These trends usually appear from the customer's increasing requests, translated into the transporter's request. Generally, the transport delivery stays behind and this is the case especially with the outdated inter-mode transport nodes which try only to optimize the flows; since they occur at every train station (in the case of railways), they are not capable to cope with these growing requests. A specific consequence of the hybrid network appearance is the stabilization over time of logistics processes. Better planning leads to smaller uncertainty and to the opportunity to use slower, but more effective transport methods.*

*Keywords: network project, hybrid networks, logistic EU*

## 1. The need of flexible infrastructures

Following the increased degree of sophistication requested in the logistic systems in order to meet the users' growing needs, there is a great demand of flexible logistic networks aiming at:

- efficiency with respect to costs and goods;
- answers to the customers' changing needs;
- obtaining the market advantage;

The first objective is the most important, because only if the logistic structures are effective they may be able to provide feasible solutions in a growingly competitive environment. Strengthening and collaboration are the most logical means to generate smaller costs per transport unit. Through flow **strengthening**, larger vehicles may be used and the loading efficiency is at its best. Through **collaboration**, the logistic activities also become possible, resulting in a slower asset flow through the logistic system and, as a result, a greater use of resources, but, at the same time, it also creates the opportunity to use cheaper and slower transportation means and avoids the need to create safety stocks.

The high feedback level which is required may enter into conflict with the above-mentioned need of slower asset flows, but avoiding the potential conflict is one of the greatest challenges in projecting the logistic network. The systematization of the hybrid network for production, storage and transportation creates the requested flexibility of a part of the production with a patent demand which may be foreseen long before is manufactured in far-away locations that use a low level of the labor force. The remaining production is postponed up to the last possible moment in locations as close to the customer as possible.

The valuable products with a low demand frequency are stored centrally and may be delivered rapidly for long distances if the reduction of inventory costs exceeds the additional costs of the transportation of small size batches using the express transport. The use of slow and cheap transportation means combined with more rapid transportation means may sometimes be more advantageous than that with high, expensive one, especially for products with a lower value density and a high degree of demand safety.

All these examples indicate that the hybrid networks may combine the advantages both of all the alternative networks and the combination of an increased level of efficiency and flexibility.

## 2. Setting a strategic network project

As indicated by these examples, many logistics-related decisions are interrelated and together may create a flexible hybrid structure.

- Choosing the facility locations;
- The sample number ;

- The inventory policy per sample;
- Source decisions ;
- Indicating the customers' orders;
- Choosing the transportation means;
- Delivery frequency ;
- Delivery size ;
- Strengthening type ;
- Cross storage ;
- Choosing the itinerary.

This means that within the projected logistic networks, one should pay attention not to neglect such interdependencies and that it is dangerous to fragment the network design into a number of sub-issues involving the production and the decision related to the location of storehouses separately from the network solutions.

The factors which influence the selection of projecting a certain network are determined by internal and external circumstances. There are external factors, such as the requests for customer relations as to the transportation time and issued linked to taxes, which limit the degree of freedom with respect to the selection proper of the network project, but also the will to collaborate among the various partners in this logistic network may constrain the potential for the network optimization. There are also internal factors such as organizational issues which limit the selection freedom. If the chosen business strategy is to focus on the cost efficiency, it will create completely different alternatives as compared to when the selected strategy is related to the market answer concept. Another blocking factor may be the division of responsibilities into a chain of delivery for service levels, inventories and forecasts. In many organizations, the optimization of the logistic process is hindered by the organizational structure which divides the logistic-related responsibility to several persons or departments or even leads to under-optimization because each of such departments tries to pursue conflicting purposes.

Besides these organizational issues, there are also the physical features which limit the optimization possibilities. The economic exchanges and the assessment of the costs and benefits which influence these network decisions are set by certain key traits that largely influence the costs per production unit.

- The product features such as value density and the package density and the product-related specificity (country / customer) ;
- Possibility of postponing delivery ;
- Sale typical issues: slow vs. quick, season-related issues;
- Life products, cycle / aging;

In setting these hybrid structures to create flexibility opportunities, one may have a multitude of options which may facilitate the decision-making process:

- clarify the selection of structures and responsibilities;
- clarify the rules to keep track of costs and decision-making parameters;
- create transparency in selection options;
- create transparency related to the availability of stocks and resources for various samples and locations;

The transparency of the decision-making process depends on the availability of alternative data in danger. Sometimes, these data are hard to obtain also due to the lack of collaboration among the potential involved partners.

Generally, one may say that the decision to choose between a central, decentralized or hybrid solution depends on the comparison between the advantages and drawbacks of each of these options. The hybrid solution, if accurately designed, may best combine the 2 extremes.

However, in practice, the implementation of hybrid networks will depend on the desire to change and the innovation level of the sector involved.

### 3. New roles for transportation nodes in hybrid networks

Given the project and the organizational structure of all the parties involved in this project, there still are various degrees of freedom pertaining to the tactical and operational- organizational level. The network operation depends on the possibilities to synchronize the activities of each party involved. The synchronization has to do with the information exchange coordinated among the parties, which allows them to adjust their actions and avoid flow cessations or interruptions. In order to reach this stage, one needs:

- to improve the transparency along the supply chain;
- to improve the planning forecasts and procedures;
- to reduce uncertainty with respect to supply and demand;
- to create flexibility and to avoid panic decision;
- to create parallel source possibilities;

Especially within the hybrid network presented in the previous section, the level of information exchange related to the events that are to occur and the accomplishment of the planed activities must be much more intense than in the decentralized organization, where everybody is for him/herself.

### Preoccupations and benefits for external design options

#### *a. Centralized distribution*

<b>Benefits</b>	<b>Preoccupations</b>
Close to the market answer	Large stock levels
Clear responsibilities	Cost management and competition
Ordinary local ITC	Input cost
Low managed risk	Internal transportation cost
Efficiency in the final distribution to the customer	LPS management contracts
Ordinary third parties	

#### *b. Decentralized distribution*

<b>Benefits</b>	<b>Preoccupations</b>
Cost transparency	Old stock
Stock control	Unclear responsibilities
Synergy for materials dealing with internal transportation	Complex ICT systems
Ordinary competence	Complexity risk
Great product availability	Flexibility in delivery
	Complex LPS management contracts

In such complicated networks there is the need for a chain administrator who coordinates all the related activities. Such an administrator must have the authority to force the parties to work according to the service level on which they have agreed.

In such a network, the provider of logistic services plays a crucial role. This party has to ensure that the commercial contracts of the manufacturers who created a consortium in order to deliver their products synchronically with their customers are made according to the service level agreement they set up. This means that in order to work effectively, the provider of logistic services must know what logistic contracts there are



between the involved parties and must also be aware of the production conventions and plans in advance. The provider of logistic services must also make sure that the resource use is optimized and that the proactive action is in place in case of unplanned activities that obstruct the current plan.

In case of a hybrid network, the provider of logistic services must decide which part of the orders will be performed in a certain manner and which part in some other manner. If he uses a hybrid network which facilitates parallel transport, between two modules of internal road and navigation according to the organizational structure, the orders coming on time are transported through a slow and cheap navigation system, while delayed unexpected orders or orders with a short distance between the departure and arrival point are delivered through road transport. On average, a transport which uses navigation lasts at least one day, whereas in Holland a truck transport lasts for about two hours. Most retailers require durations lower than 24 hours between order and delivery, which makes that navigation is not feasible. But by combining internal navigation and truck transport in a collaborating network, the navigating system becomes interesting. It is obvious that such a hybrid network requests a good coordination and synchronization of the shares of each partner in the logistic network.

## Concluding remarks

Making a summary of the various – sometimes conflicting – trends in a unified image is difficult, but we can identify certain general ones:

- There is a trend for the increased use of the hybrid networks
- Hybridization occurs at all levels: production, inventory and transport.
- These trends usually appear from the customer's increasing requests, translated into the transporter's request.
- The increasing prices for transport due to the internalization of external costs and the increase of labor force and fuel will lead to the reproduction of transport costs and will increase the need to use cheaper transport nodes, if possible. The development of these logistic structures comes and goes in waves, but, due to the fragmented nature of the market, multiple solutions may be chosen for the same type of problems. The image may seem grey from a distance, but, seen more closely, it is certainly black and white.

The main forces behind these trends are the need to reduce the costs in order to remain competitive on globalized markets and the improved opportunities to control the logistic process using the information and communication technology.

Of course, not everybody will welcome these innovations, because they threaten the positions of current markets, and many of the logistic organization means do not rely only on technology, but also on trust. However, the need to remove under-optimization on increasingly competitive markets may be achieved only if the companies use the advantage of the available information and make such information transparent for the partners in the supply chain. In many cases, the existing level of information availability is enough to optimize the logistics process. If, however, the optimization need occurs due to the cost increase or higher quality requests, these barriers may disappear.

A specific consequence of the hybrid network appearance is the stabilization over time of logistics processes. Better planning leads to smaller uncertainty and to the opportunity to use slower, but more effective transport methods.

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# CONSIDERATIONS REGARDING TAX OPTIMIZATION IN IMPLANTED MULTINATIONAL ENTERPRISES THROUGH EXTERNAL GROWTH FOR THE AUTOMOBILE INDUSTRY IN CENTRAL-EASTERN EUROPE

**Nițu-Antonie Renata**

*University of West Timișoara, Faculty of Economics and Business Administration, 16 Pestalozzi Street, 300115, renatenitu@hotmail.com, 0723313346*

**Feder Emőke-Szidónia**

*University of West Timișoara, Faculty of Economics and Business Administration, 16 Pestalozzi Street, 300115, feder\_emoke@yahoo.com, 0742542901*

## *Abstract*

*The business strategy of multinational enterprises (MNEs) from the automobile industry implanted in Central-Eastern European (CEE) countries (Poland, Czech Republic and Romania) is an offensive one, global from operational perspective. Mainly it aims the extension of market share through horizontal growth, generally external type single-domain (Mergers and Acquisitions) and internal type (Greenfield investments) in a lower degree. These enterprises put in practice also a defending strategy for the owned market shares through increasing the efficiency of the production network at global level. This paper aims to present the less evident aspects of tax optimization of the applied business strategy by implemented MNEs in the automobile industry in CEE, and in this context, the necessity to establish transfer prices in accordance with the OECD recommendations, as an obligation assessed by the tax legislations of the considered countries, but also from the necessity of efficient run of these enterprises.*

**Keywords:** *multinational enterprises (MNEs), external growth, transfer price, tax optimization.*

## **Introduction**

Under the impulse of the economical and political changes in their business environment, MNEs put in practice operational strategies (of production, of markets and global) in order to maintain their competitiveness in accordance with the customers exigencies. The three categories of operational strategies, varying with the development level of the host state and implicit the advantages offered by localization, can be identified the dominant strategy. In interaction with this category of strategy, MNEs has applied to structural strategies (internal and external growth, strategic partnership), which modified their configuration, setting up the concentration of capital and production in a few regions on the world. These two strategies persuaded by the MNEs, defines jointly their business strategy (Nițu, 2003).

There are situations when the business strategy of the MNEs practiced on different markets, may assure a tax optimization. More exactly, MNEs implanted in foreign countries, on the way of external growth with the goal of the development of new activities, may benefit from the tax advantages, after transferring losses from the level of the over-taken purchased firm on the profits of the parent firm. Also, in the case of a profitable subsidiary, the fusion with a local loss-making enterprise, can have the strategic goal of production capacity extension, and implicit, profit reduction of the new subsidiary (Mazerolle, 2006). In addition, the lack of harmonization of tax regulations on global level, permit the manipulation of transfer prices by MNEs for an optimal geographical profit distribution in order to decrease tax charges. However, the transfer price has to assure also an efficient allocation of the MNEs' inner resources and its administrative establishment on tax reasons, may generate efficiency losses, hard to identify. In this context, the drawn conclusion is that, the business strategy of the MNEs which invoke the approach of external growth for abroad implantation, may guarantee a tax optimization, in the conditions of the assignation of transfer prices according to the OECD recommendations in this field, and implicit the tax legislation of each host country, is the suggested solution, in order to assure the efficient run of these firms. A significant example can be the business strategy of MNEs from the automobile industry in the CEE countries (Poland, Czech Republic and Romania).

## **1.The role of the external growth in the business strategy of the MNEs from the automobile industry of some CEE countries**

MNEs from the worldwide automobile industry (Volkswagen Group, Fiat, GM - Opel, Renault, Ford, etc.), which were implanted in CEE countries (Poland, Czech Republic and Romania) searched to obtain benefits through combining their own competitive advantages with the comparative advantages of the host countries, completed with the advantages of internalization. Beyond the favourable legal, economic and politic climate for implantations, the analyzed countries dispose of certain comparative advantages in the production of automobiles: the existence of an automobile industry (Skoda in Czech Republic; Fabrika Samochodow Malolitrazowych-FSM, Fabryka Samochodow Osobowy-FSO, Fabryka Samochodow Lublin-FSL in Poland; Dacia Pitești, Automobile Craiova in Romania), of local subcontractors (Gumotex, Karsit, Jihostroj Velesin, Magneton, Motorpal, Cz Strakonice in Czech Republic; Kirchhoff Polska, Gedia Poland, HP Polska TI Poland in Poland; Caranda, Rombat Bistrița, Varta, Tudor, Ceproplast S.A. in Romania), and the main advantage is represented by the favourable proportion of cost-quality of workforce. In these conditions, the implantation in Central-Eastern Europe make possible for the multinational firms to benefit from low costs in the framework of a classical delocalization strategy based on the competitive price search. In this case, the result of the production rationalization strategy is a vertical type implantation. In addition, the international breakdown of the production process, specific to the automobile industry can offer an auxiliary explanation for this strategic logic.

The quasi-saturation of the western markets enforced the global carmakers to invest in CEE countries in order to conquer the internal market of the implantation places and the neighbour markets. This type of strategy is explained through the objective of transport costs minimization and the necessity of proximity to the clients. The extension of the market to CEE countries also allows the automobile MNEs to amortize the product development costs when their lifecycle are shortened. In addition, the local production offers a better adjustment to the local norms and information about competitors. In this case, the implantations are horizontal type and embrace the form of production or sale subsidiaries, specific to a commercial (market) strategy.

In the same time, automobile MNEs are engaged in global strategies, considering CEE countries straight an extension of the West-European markets. They establish, in this area, a productive network designated to supply local, European and global markets, in correspondence with the rationalization and industrial specialization scheme at continental level. The majority of the implantations realized by the carmakers are outcome of this type of strategy.

Therefore, the business strategy of the MNEs implanted in the CEE countries, is of offensive type, global from operational perspective, pursuing mainly the expansion of market shares through a mono-sector external type horizontal growth (e.g. VW purchase Skoda in Czech Republic; Fiat buy FSM in Poland; Renault acquire Dacia Pitești in Romania etc.), and in a small compass internal type (GM-Opel realize a Greenfield investment in Poland). The defence of the already conquered market shares through the increased efficiency of the global production networks, in order to face the competition at global level, is also a strategic direction (Nițu, Bădescu, 2005).

The external growth of the MNEs, realized through mergers or acquisitions, generates a series of collective advantages and risks. Generally, the mergers and acquisitions are perceived as, at the level of developing countries analyzed as saviours for the local firms, potentially rewarding, but on the brink of crash (bankruptcy). However, the reorganization of the target firms may generate the decrease of work places, and implicit unemployment, the impact of these forms of growth for the host country are inauspicious from social point of view. Under the impact of competition, created by the take-over operations, the acquisition value of the target firm can increase against its real (stock exchange) value, which makes in time unsuccessful several similar activities. This aspect may be amplified by the technical, managerial and cultural problems generated by the take-over of the target firm, without being guaranteed a productivity growth at the level of the overtaken firm (Meier, Schier, 2005). Additional, must be mentioned the fact that, MNEs can obtain a tax optimization through the technique of external growth. More exactly, the tax advantages from which benefit the abroad implanted subsidiaries, through external growth, with the aim of developing new activities, targeting: the transfer of the subsidiary's losses upon the gains of the parent company, the possibility to deduce from its gross profits the interests due loans granted to the subsidiary, respective the appeal to mergers – acquisitions with a local deficient subsidiary, in the case of a subsidiary with surplus, in order to shrink the second's profits (Mazerolle, 2006). In this context, the lack of harmonization of tax regulations at global level permits a manipulation of the transfer prices, for an optimal geographical distribution of the profits, in order to diminish the tax charges, with negative effects on the efficiency of the MNE.

## **2. The OECD recommendations for methods to determine the transfer price and the analysis of regulations in this field in some CEE countries**

The prices practiced in the transactions of goods and services proceeded between the subsidiaries of a MNE, called transfer prices, can be determined administratively, depending on the interests of the parent company and the involved subsidiaries. Multinational companies can constitute intra-group markets, where competition does not manifest. Therefore, the prices for the transactions practiced on these markets are not result of the reference between demand and supply, but the result of the will and the interests of these firms, which many times have to prove their correctness. At international level, the national legislations are different regarding the determination and evaluation of transfer prices. Additionally, the lack of tax regulation harmonization at global level tempts the MNEs to make appeal to the transfer price manipulation. In this case appears the risk of a double taxation, in the origin and host countries, and for the tax administrations from these countries difficulties in the verification of the correctitude in the determination of gross profits.

Based on these facts, OECD manifests a permanent interest in order to assure on global level a convergence regarding transfer price regulations. In this way, must be mentioned that the OECD recommendations are based on respecting the principle of perfect fair competition announced by OECD Model Tax Convention in art. 9(1), ground for bilateral tax conventions between member countries and other countries. Based on this principle, the applied transfer price between two subsidiaries of a MNE is just (fair), from the tax administrations point of view, if it is situated similar to the level of prices practiced by two independent enterprises, who deals with comparable transactions. Consequently, on one hand, the un-treatment of subsidiaries of a MNE as irresoluble units of a single unified group, but as distinct units, puts them on the plan of taxation as equals to the similar independent firms, in favour to the expansion of the international commerce and foreign direct investments. On other hand, in order to an alike comparison to be possible, there shouldn't be important differences between the compared situations, which influence the methodology of determining the price or the transactional profit, depending on the applied transfer price determination method. Otherwise, there are proposed reliable corrections, in order to eliminate the incidence of such differences. The OECD recommendations maintain a hierarchy in determination of the transfer pricing methods, estimating that the traditional transaction methods (comparable uncontrolled price method, cost plus method, resale price method) are the only ones which respect the principle of perfect fair competition. OECD recognizes that in some cases it is impossible to apply a pure transactional method. In this case the MNE can submit a profit based method, following the study of firms' profitability (transactional net margin method, comparable profit method, and profit split method) (OECD, 2001). Without denying its importance, OECD manifests its circumspection regarding the comparable profit method. The transfer price is only one component used in the determination of profit, being unfair adjusting the profit of a less performing MNE for the simple reason that it is not as profitable as one of its competitor. Because of this, OECD tends to uphold the method of consolidated profit split of the MNE between its subsidiaries, and also the method of net margin, recommending as last case methods.

Generally, in the case of EU countries, the regulations referring to transfer prices follow the recommendations of OECD regarding the determination methods and the prioritization in applying transactional methods (Table no.1).

*Table no. 1*  
*Methods of transfer price determination in EU countries*

Countries	Price comparison method	Cost plus method	Resale price method	Comparable profits method	Net margin method	Split profit method
Austria	Yes	Yes	Yes	Yes	Yes	Yes
Belgium	Yes	Yes	Yes	Yes	Yes	Yes
<b>Czech</b>	Yes	Yes	Yes	No	No	Yes
Denmark	Yes	Yes	Yes	No	No	Yes
Switzerland	Yes	Yes	Yes	Yes	Yes	Yes
France	Yes	Yes	Yes	No	No	Yes
Germany	Yes	Yes	Yes	No	No	Yes
Italy	Yes	Yes	Yes	Yes	No	Yes
Great Britain	Yes	Yes	Yes	Yes	Yes	Yes
<b>Poland</b>	Yes	Yes	Yes	No	No	Yes
Portugal	Yes	Yes	Yes	Yes	Yes	Yes
<b>Romania</b>	Yes	Yes	Yes	No	No	Yes
Slovakia	Yes	Yes	Yes	Yes	Yes	Yes
Spain	Yes	Yes	Yes	No	No	Yes
Hungary	Yes	Yes	Yes	Yes	Yes	Yes

Source: after Ernst & Young, Transfer Pricing Global Reference Guide, www.ey.com, 2008; Taxation Code of Romania, Meteor Press, Bucharest, 2006.

As a rule, for the determination of the transactions market price, the tax administrations will use the method applied by the MNE, with the exception of the case in which the used method does not reflect the market price of the products and services, object of the transaction. In this case, the tax administrations will apply the most adequate alternative from the traditional transaction methods (comparable uncontrolled price method, cost plus method, resale price method) or any other methods recognized by the OECD directives regarding the transfer pricing (net margin method and split profit method), taking in consideration the circumstances individually for each and every case, respective the market conditions, contractual terms, special competitive conditions.

### **3. Scenarios regarding MNEs' tax optimization by external growth with applicability in the automobile industry in CEE countries. Effects of the manipulation of transfer prices.**

Taking in consideration the business strategy of the implanted MNEs, with predilection on the way of external growth, in the automobile industry in Poland, Czech Republic and Romania, with the necessity of respecting the principle of perfect competition in the determination of transfer pricing, in accordance with the tax legislation in the mentioned countries, can be sketched out based on a simple, extremely general and hypothetic example, the possibilities of tax harmonization of these firms. Additionally, it is brought in discussion and analyzed the effect of transfer price manipulation, aiming the taxation, on the functioning efficiency of the MNE. The drawn conclusions from the further analysis come to complete the general aspects of the business strategy of the MNEs from investigated the automobile industry. The aim of the demarche is, on one hand, to emphasize aspects regarding taxation in their business strategy, and on other hand, to point out the fact that the reduction of the tax charges does not have to be the only goal of the MNEs in the moment when they determine transfer prices. Consequently, the determination of these prices in accordance with OECD recommendations becomes not only a

limitation, induced by the tax legislation in the analyzed host countries, but also a necessity imposed by the efficient functioning of the MNE.

It is considered, thus, a MNE which produce and distribute, at the level of parent firm in the origin country, a product conventionally noted with X. The nominated cost function is  $CT = 312.500 + 25Q + 0,0015Q^2$ , where Q represents the production volume of the considered product X, the market price being p for the commercialized product established varying with demand and costs so that maximize the profit. In the conditions in which conventionally we consider as demand function  $p = 100 - 0,0010Q$ , where p represents the price of the considered product X, the profit reaches the maximal peak, when the marginal cost ( $C_{mg}$ ) equals the marginal earnings ( $V_{mg}$ ), which determines the sale price of 85 EURO/piece and an optimal quantity of 15.000 pieces ( $C_{mg} = V_{mg}$ ;  $25 + 0,0030 = 100 - 0,0020Q$ ;  $Q = 15.000$  pieces;  $p = 100 - 0,0010 \times 15.000 = 85$  EURO) \*.

In the condition in which the considered MNE, from rational point of view of the production process, applies to the external growth, by acquisitioning from abroad a production subsidiary, this (year N) can register a deficit, thanks to the investments realized for technological modernization and R&D costs. In year N, the financial results of the MNE are presented in Table no. 2. At the level of the parent firm, the turnover is of 1.333.000 EURO, the costs are in sum of 1.098.000 EURO and the gross profit is 235.000 EURO. To notice is how the loss at the level of the implanted subsidiary on the way of external growth on a new market will diminish the gross profit of the MNE, which emphasizes the possibility of a tax optimization realized by the MNE in parallel with the practice of its business strategy.

**Table no. 2**  
**Financial results of the multinational enterprise with a shortfall subsidiary (year N)**

- Thousands Euro -

<b>Financial results of the parent firm</b>			
Total costs	1.025	Turnover	1.275
Gross profit	<b>250</b>		
Total	1.275	Total	1.275
<b>Financial results of the subsidiary in year N</b>			
Total costs	73	Turnover	58
		Loss	<b>15</b>
Total	73	Total	73
<b>Financial results of the multinational enterprise</b>			
Total costs	$1.025 + 73 = 1.098$	Turnover	$1.275 + 58 = 1.333$
Gross profit	$250 - 15 = 235$		
Total	$1.098 + 235 = 1.333$	Total	1.333

After a few years (N+5), the shortfall subsidiary will become profitable, evidence of the succeeding business strategy of the MNE. In the current conditions, the cost function at the level of the foreign subsidiary is  $CT_A = 100.000 + 20Q + 0,0010Q^2$ , proving a cost reduction due to the strategy of rationalization for the production process pursued by the MNE. The cost function at the level of parent firm which assure, in the current situation, only the distribution of the X product produced by the subsidiary is  $CT_B = 62.500 + 5Q + 0,0005Q^2$ , and the demand function for product X is  $p = 100 - 0,001Q$ . Taking in consideration the fact that, the MNE will be efficient in the condition of resource allocation so that to maximize the consolidated profit, which, in this context, requires the determination of the price for product X at which this will be transferred between intra-firm from the level of the foreign subsidiary to the level of the parent firm. With other words, at the level of the MNE the transfer price and implicit the optimal quantity to be produced and transferred intra-firm, must be established in order to the marginal cost to equal the marginal revenue ( $C_{mg} = V_{mg}$ ) at the level of the MNE.

In these conditions, the optimal quantity to be produced by the foreign subsidiary (Q) will be 15.000 pieces, the transfer to the parent firm for distribution at the price ( $p_i$ ) of 50 EURO/piece ( $C_{mg} = C_{mgA} + C_{mgb} = V_{mg}$ ;  $C_{mgA} = V_{mg} - C_{mgb}$ ;  $20 + 0,0020Q = (100 - 0,0020Q) - (5 + 0,0010Q)$ ;  $Q = 15.000$  pieces;  $C_{mA} = V_{mA}$ ;  $p_i = 20 + 0,0020 \times 15.000 = 50$  EURO/piece). In these conditions, the financial results of the MNE are as follows: a turnover of 2.025.000 EURO ( $50 \times 15.000 + 85 \times 15.000 = 750.000 + 1.275.000 = 2.025.000$  EURO), costs of 1.625.000

\* The numeric example is adapted after F. Mazerolle, Les firmes multinationales, Vuibert Press, Paris, 2006, p. 235-243

EURO ( $100.000 + 20 \times 15.000 + 0,0010 \times 15.000 \times 15.000 + 50 \times 15.000 + 62.500 + 5 \times 15.000 + 0,0005 \times 15.000 \times 15.000 = 625.000 + 750.000 + 250.000 = 625.000 + 1.000.000 = 1.625.000$  EURO), and gross profit of 125.000 EURO ( $750.000 - 625.000 = 125.000$  EURO).

In the conditions of a tax rate of 8% in the origin country of the MNE and of 34% in the host country, the consolidated net profit will be 296.500 EURO ( $275.000 - 275.000 \times 34\% + 125.000 - 125.000 \times 8\% = 275.000 - 93.500 + 125.000 - 10.000 = 181.500 + 115.000 = 296.500$  EURO), and the MNE could be tempted to manipulate the transfer price, in the sense of increase, in order to avoid from taxation a part of the profit of the foreign subsidiary (Table no. 3, Case I.).

If we take in consideration this last possibility, a raise of transfer price to 60 EURO/piece, will permit from perspective point of view, a reduction of the gross profit, in the condition of amplifying of the net profit, but the MNE will not assure the optimal resource allocation, registering a hardly identifiable loss at the level of efficiency (Table no. 2 and Table no.3). Must be mentioned that, if this loss is maintained, the tax advantages generated by the transfer price manipulation disappears as the consequence of the modification of the tax rate for the profit in the origin country, respectively the host country of the MNE.

Therefore, at the transfer price ( $p_t$ ) of 60 EURO/piece, increases the produced quantity by the foreign subsidiary and delivered intra-firm of 20.000 pieces ( $C_{mg} = C_{mgA} + C_{mgB} = V_{mg}$ ;  $C_{mA} = V_{mg} - C_{mB}$ ;  $20 + 0,0020Q = (100 - 0,0020Q) - (5 + 0,0010Q) + (60 - 50)$ ;  $Q = 20.000$  pieces), and the transfer price of the product at the level of parent firm will be reduced to 80 EURO/piece ( $100 - 20.000 \times 0,001 = 80$  EURO/piece).

**Table no. 3**

**Financial results of the MNE with a profitable subsidiary in the case of an optimal transfer price (I.) and in the case of an administratively increased transfer price (II) (both for year N+5)**

Thousands Euro -

Case I.		Case II.	Case I.	Case II.
<b>Financial results of the parent firm</b>				
Total costs	1.000	1.562,5	Turnover	1.275
Gross profit	275	37,5		1.600
Tax on profit	10	12,75		
Net profit	253	24,75		
Total (costs+ gross profit)	1.275	1.600	Total	1.275
<b>Financial results of the subsidiary</b>				
Total costs	625	900	Turnover	750
Gross profit	125	300		1.200
Tax on profit	42,5	24		
Net profit	82,5	276		
Total (costs+ gross profit)	750	1.200	Total	750
<b>Financial results of the MNE</b>				
Total costs	$1.000+625=1.625$	$1.562,5+900=2.462,5$	Turnover	$1.275 + 750 = 2.025$
Gross profit	<b><math>275+125=400</math></b>	<b><math>37,5 + 300 = 337,5</math></b>		$1.600+1.200 = 2.800$
Tax on profit	$22+42,5=64,5$	$12,75 + 24 = 36,75$		
Net profit	<b><math>253+82,5=335,5</math></b>	<b><math>24,75 + 276 = 300,75</math></b>		
Total (costs+ gross profit)	$1.625+400=2.025$	$2.462,5+337,5=2.800$	Total	2.800

As result of the manipulation of transfer price, the MNE will register the following financial results: a turnover of 2.800.000 EURO ( $20.000 \times 60 + 20.000 \times 80 = 1.200.000 + 1.600.000 = 2.800.000$  EURO), costs in sum of 2.462.500 EURO ( $100.000 + 20 \times 20.000 + 0,0010 \times 20.000 \times 20.000 + 60 \times 20.000 + 62.500 + 5 \times 20.000 + 0,0005 \times 20.000 \times 20.000 = 900.000 + 1.200.000 + 362.500 = 900.000 + 1.562.500 = 2.462.500$  EURO) and a gross profit of 337.500 EURO ( $1.200.000 - 900.000 + 1.600.000 - 1.562.500 = 300.000 + 37.500 = 337.500$  EURO). In the conditions of a tax rate of 8% in the origin country of the MNE and of 34% in the implantation country, the consolidated net profit will be 300.750 EURO ( $300.000 - 300.000 \times 8\% + 37.500 - 37.500 \times 34\% = 300.000 - 24.000 + 37.500 - 12.750 = 276.000 + 24.750 = 300.750$  EURO) (Table no. 3, Case II).



In the considered hypothetical example, at establishing the level of its transfer price, the MNE had as objective the maximization of the consolidated profit. However, in reality, the principal logic followed is of reducing the tax contributions, the transfer price being established administratively, with negative effects on the efficiency of the rolled activities, at the level of the entire enterprise. It is to remark the fact that, in this context, the establishment of the transfer price with reverse of the principle of complete competition, will eliminate this drawback. Taking as benchmark the market price for product X, the risk of inefficient operation of the MNE will decrease. The two independent firms, taken as benchmarks, will take as exogenous data the price established on the market and will determine the quantity of the delivered products in order to maximize their profits. Also, the MNE will comply with the tax stipulations of the implantation country regarding the determination and methods of transfer pricing, what will reduce the risk of penalty payments for tax administrations in the implantation country, where in the case the tax fraud determined by the transfer price manipulation would have been proved. The manipulation of the transfer price appears when the differences in the tax rates at the level of the considered countries are substantial; the registered net income can cover the loss of efficiency. In the case when the difference in taxation is reduced, the loss of the efficiency is maintained; the manipulation of the transfer price will lead to a decreased net profit.

In addition, in order to realize some kind of diminish of the profit in the implantation country and a cut for the tax contributions, the MNE can apply again to a tax optimization. Parallel with the strategic necessity to increase its production capacity, the enterprise can propose an external growth; the profitable subsidiary can merge with a local shortfall company from the same sphere of activity. If we consider for year N+5, the turnover for the subsidiary is in a value of 750.000 EURO and the total costs spent 625.000 EURO, the registered net profit will be of 125.000 EURO.

**Table no. 4**  
**Financial results of the new foreign subsidiary**

Thousands Euro -

<b>Financial results of the foreign subsidiary</b>			
Total costs	625	Turnover	750
Gross profit	125		
Total	750	Total	750
<b>Financial results of the shortfall firm</b>			
Total costs	325	Turnover	200
		Loss	125
Total	325	Total	200
<b>Financial results of the new foreign subsidiary</b>			
Total costs	$625 + 325 = 950$	Turnover	$750 + 200 = 950$
Gross profit	<b><math>125 - 125 = 0</math></b>		
Total	$750 + 325 = 950$	Total	$750 + 200 = 950$

The firm acquisitioned by the MNE in order to fusion with the profitable subsidiary has a turnover of 200.000 EURO, total costs of 325.000 EURO, registering a loss of 125.000 EURO (Table no. 4). It is ascertained for simplification that the gross profit of the subsidiary is equal with the loss registered by the considered firm to realize the fusion. The MNE managed to assure a tax reduction on profit, but implicit a diminution of the equities value. This negative aspect is compensated by a capital gain owing to the raise of the shares value, and to be added also the success of the business strategy registered by the MNE.

## Conclusions

The MNEs from the CEE automobile industry are applying with predilection to the external growth succeed, in the same time with the fulfilment of the strategic objective with economical and commercial facets, to realize also a tax optimization. On one hand, the tax objectives do not have to be the exclusive goal of a merger or acquisition operation, on other hand the taxation dimension of the business strategy on the MNE should not be neglected. Also, in the context of the followed business strategy for the MNE, the intra-group transfers must be realized at prices settled in harmony with the tax legislation from the implantation spaces, in accordance with the OECD recommendations. In the case of their manipulation, there wont be resource allocation in such manner that to guarantee a consolidated profit maximization at the level of the MNE. If the taxation discrepancy between

countries is significant, thus the MNE to be tempted to manipulate the transfer pricing and to reduce the consolidated gross profit, the obtained tax gain can cover the loss of efficiency. In the case that, this disparity is reduced, the tax gain will not compensate the efficiency loss and the administratively determined transfer price will generate a reduced net profit.

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# GENERAL VIEW REGARDING THE RECENT CONTRIBUTION OF THE WORLD BANK IN EUROPE AND CENTRAL ASIA

**Popescu Ramona Florina**

*University of Pitești, Faculty of Economics, 5, George Sion Street, Pitești, Arges, Romania, ramonadobrita2001@yahoo.com, 0721460607*

*Abstract:*

*The World Bank is the institution that assumed the role of economic and social catalyser through its structures and affiliated organisms. The article is a review of the Bank's contribution to the development of Europe and Central Asia, as reflected by statistics. The paper presents the multiple roles the World Bank carries out in the specified regions, and the figures showing the level of preoccupation for these regions on the Bank's agenda. The author uses charts to illustrate the recent evolution of the allocations, considering both the origin and the destination of the funds (IBRD, IDA, IFC and MIGA). Last, the article refers to Romania, which beneficiates of the Bank's support in its effort to integrate in the EU and to create a viable market economy.*

*Key words: World Bank, lending activity, analytical work, allocations, commitments*

## **The World Bank Structures**

The World Bank declares itself as a vital source of financial and technical assistance to developing countries around the world. It is not a bank in the common sense. It consists of two unique development institutions owned by 185 member countries – the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA). Each institution plays a different but supportive role in the mission of global poverty reduction and the improvement of living standards. The IBRD focuses on middle income and creditworthy poor countries, while IDA focuses on the poorest countries in the world. Together they provide low-interest loans, interest-free credits and grants to developing countries for education, health, infrastructure, communications and many other purposes.

The World Bank provides analysis, advice and information to member countries in such manner that they can deliver to their people the lasting economic and social improvements needed. World Bank provides economic research on broad issues such as the environment, poverty, trade and globalization and country-specific economic and sector work. The research evaluates the economic prospects of a country by examining its banking systems and financial markets, as well as trade, infrastructure, poverty and social safety net issues. Also, the research is used to educate clients to be better prepared for solving their development problems and promote economic growth.

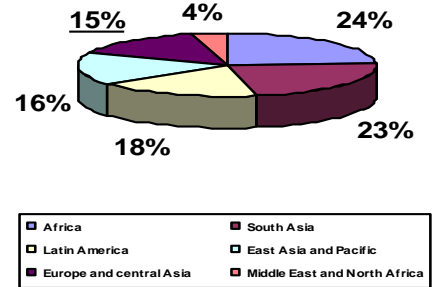
The World Bank has three affiliated organizations, the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA), and the International Centre for Settlement of Investment Disputes (ICSID). The World Bank acts through these organizations that synchronize their activities with the institutions of the World Bank Group but are legally and financially independent.

## **IDA and IBRD activities in Europe and Central Asia**

The World Bank is constantly present in Europe and Central Asia (E&CA), thirty countries from this region receiving loans, grants and assistance. In 2005, the main issues for these regions that concerned the World Bank were state bureaucracy, environmental issues (biodiversity, water, carbon emissions and renewable energy), population health, and climate for investment and social inclusion. [1] In 2006, World Bank has approached new aspects: long – term unemployment, rural poverty, weak local institutions, decaying infrastructure, depressed one-company towns, state owned enterprises in need of reform and environmental degradation. [2] In 2007 the emphasis was on income disparities within countries, aging population, lack of scientific and technical innovation, weak public and corporate governance, human trafficking, natural disasters and, again, environmental degradation. It is obvious that the range of subjects is strongly diversified and different from year to year. [3]

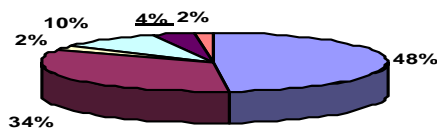
In 2007, the World Bank lent a total amount of \$24.7 billion (combined IBRD and IDA lending), the share of Europe and Central Asia being of 15%. *Figure 1* shows the share of each region, as presented in World's Bank Annual report 2007.

The proportions are very different if we compare the shares of IDA or IBRD lending alone. *Figures 2* and *3* illustrate that in IDA lending, Europe and Central Asia benefited of only 4% of the amounts, and it received 26% of the IBRD total lending. The figures prove different objectives of the two organisms, IDA focusing on the poorest countries and IBRD on middle-income ones.



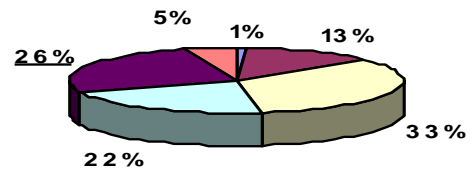
*Figure 1*

*Share of E&CA in combined IBRD and IDA lending*



*Figure 2*

*Share of E&CA in IDA lending*

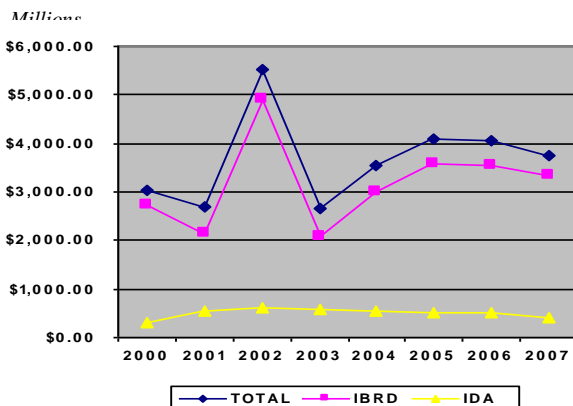


*Figure 3*

*Share of E&CA in IBRD lending*

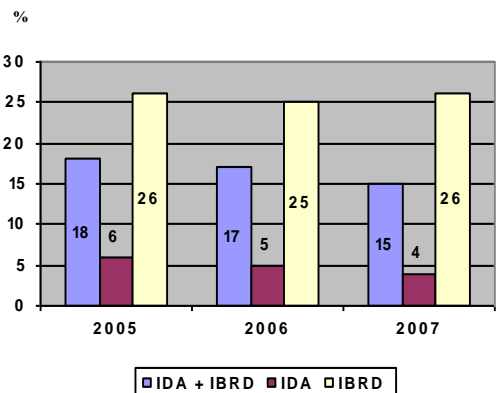
As illustrated in *Figure 5*, after a three years increase, the share allocated for Europe and Central Asia for the last two years slightly decreased for combined IDA and IBRD lending, and for IDA lending.

The amounts confirm the tendency. Referring at the lending activity and its evolution, it can be noticed that it decreases from \$4.1 billion in 2005 to \$3.8 billion in 2007. The cause, as stated in the Bank's Annual Report 2007, is the political uncertainty in several countries. The evolution is reflected in *Figure 4*, which also stresses that the region benefited by a top allocation in 2002, based on IBRD contribution.



*Figure 4*

*Evolution of IBRD, IDA and combined IBRD and IDA allocations between 2000 and 2007*



*Figure 5*

*Evolution of E&CA allocations rates between 2005 and 2007*

As an exchange, the analytical work did not suffer. In 2005, the Bank delivered 98 pieces of economic and sector work and completed 68 technical assistance assignments. [1] In 2006 the technical assignments were only 58, [2] and in 2007 the Bank delivered 100 economic and sector reports and policy notes and conducted 84 technical assistance activities [3]. Perhaps it's worth it to mention some of the products. For example, in 2005 a great importance presented the Country Assistance Strategies for Bosnia and Herzegovina, Croatia, Moldova, and Serbia and Montenegro, the Country Partnership Strategies for Kazakhstan and Poland, a Country Assistance Strategy Progress Report for Russia, a Poverty Reduction Strategy Papers or updates for Albania, Armenia, Azerbaijan, Georgia, Moldova and Uzbekistan and analytic work on the knowledge economy in Romania. Among lending instruments, considered of great innovative character, were: Poland Road Maintenance and Rehabilitation Project, the program loan for electricity community of South Eastern Europe, the umbrella technical assistance facility for the eight new members of the European Union and the Partial Risk Guarantee operation for Romania.

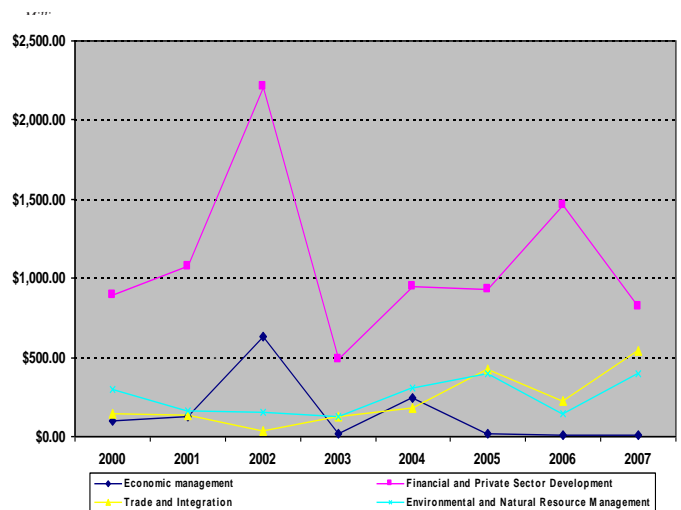
In 2006 the Bank approved several projects as Georgia Country Partnership Strategy for 2006 to 2009, a new Albania Country Assistance Strategy, Romania Knowledge Economy Project, Croatia Science and Technology Project, Moldova Competitiveness Enhancement Project and the Serbia and Montenegro Programmatic Private and Financial Development Policy Credit (lending projects). Also, the Bank worked out studies as Growth, Poverty, and Inequality: Eastern Europe and the Former Soviet Union, Enhancing Job Opportunities: Eastern Europe and the Former Soviet Union and From Disintegration to Reintegration: Eastern Europe and the Former Soviet Union in International Trade.

The most important financing projects in 2007 were the Joint Economic research program with Kazakhstan and the loan granted to Armenia, deeply affected by a severe economic crisis. The analytic work is represented by the Migration and Remittances: Eastern Europe and the Former Soviet Union report or the Anticorruption in Transition 3 report.

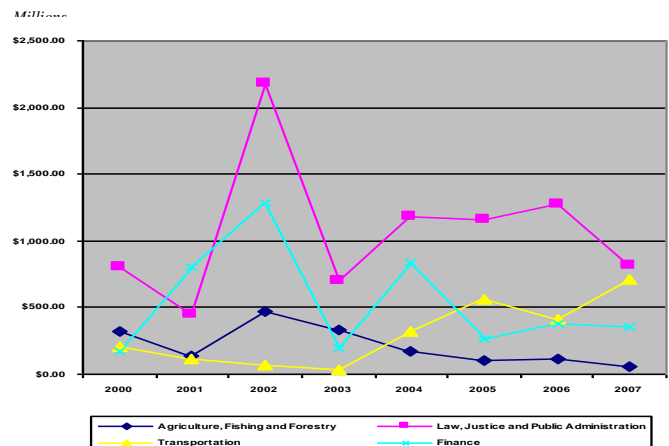
If we analyze the evolution of the financial allocations in the last eight years, distributed into eleven themes, (illustrated by *Figure 6*), the clearest patterns noticed are:

- The allocations for Economic Management had decreased in the last three years after reaching a top in 2002;
- Trade and Integration and Environmental and Natural Resources Management beneficiaries of a constant allocations increase;
- The most important allocations concentrate in the Financial and Private Sector Development, but they strongly oscillate.

The allocations are analyzed by sector, too. Among the ten sectors the World Bank considered, the most significant evolution in the



**Figure 6**  
*Evolution of World Bank allocations by theme between 2000 and 2007*



**Figure 7**  
*Evolution of World Bank allocations by sector between 2000 and 2007*

last eight years (*Figure 7*) seems to be registered by:

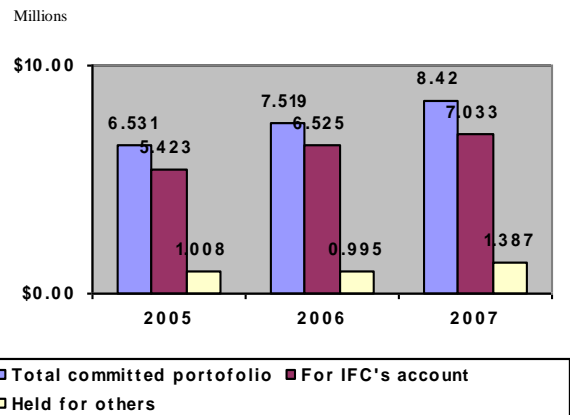
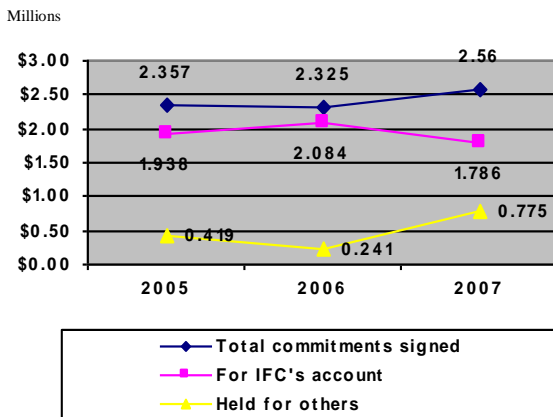
- Law, Justice and Public Administration, which benefits of the largest amounts;
- Finance sector benefits of relatively large amounts, but has a decreasing tendency;
- Agriculture, Fishing and Forestry sector manifests a clear decreasing tendency;
- The allocations for Transportation sector increase slowly, but constantly.

## IFC and MIGA presence in Europe and Central Asia

IFC fosters sustainable economic growth in developing countries by financing private sector investments, mobilizing capital in the international financial markets, and providing advisory services to businesses and governments. It helps companies and financial institutions to emerge markets, create jobs, generate tax revenues, improve corporate governance and environmental performance, and to contribute to their local communities. The goal is to improve lives, especially for people who mostly need the benefits of growth.

In Europe and Central Asia, the implication of IFC is of a great importance. The organization is represented in the region by 12 headquarters and 486 field offices. The development impact is of 76%, greater than in any other region. In 2007, it held 28% of the total IFC investment portfolio, with a 22% share of the 2007 investments [8]. Regarding the technical assistance and advisory services, Europe and Central Asia hold a share of 20% in 2007, greater than the 2005 and 2006 shares (around 17%) [6] [4].

The evolution of the commitments' value (total commitments signed through the year and total commitment portfolio) evolved in the last three years as shown in *Figure 8* and *Figure 9*. The conclusion is that the total committed portfolio increased by almost 1 million every year whereas the annual commitments preserved an almost constant value. The increase of the total committed portfolio is based on the increase of the committed



*Figure 9*

*Evolution and structure of IFC committed portfolio between 2005 and 2007*

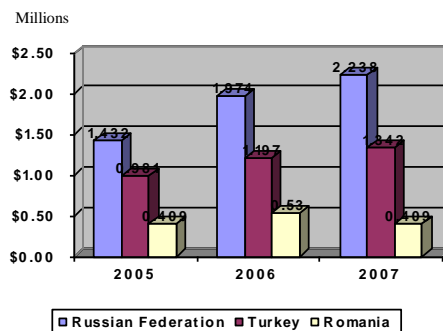
portfolio for IFC's account.

*Figure 8*

*Evolution and structure of IFC commitments*

The structure of the committed portfolio for IFC's own account for the year 2007, shows that the largest exposures belong to the Russian Federation, Turkey and Romania [4]. The situation is similar for the years 2005 and 2006 and the amounts indicate an increase of the allocations, as shown in *Figure 10*. The most important growth can be observed in the case of the Russian Federation, country that also has the greatest rate of success, 89%, compared to 76% rate for Turkey and 75% rate for Romania (in 2007).

As a member of the World Bank Group, MIGA's mission is to promote foreign direct investment (FDI) into developing countries to help support economic growth, reduce poverty, and improve people's lives. MIGA addresses the concerns about investment environments and perceptions of political risk by providing three key services: political risk insurance for foreign investments in developing countries, technical assistance to improve investment climates and promote investment opportunities in developing countries, and provide mediation services for reconciliation of potential conflicts seen as obstacles for future investment.



**Figure 10**  
*Situation of IDA largest country*

In Europe and central Asia, during the fiscal year 2007, MIGA guaranteed 4 projects and supported 8 technical assistance projects [11], a slight reduction compared to the 10 guarantees and 8 technical assistance projects in 2006 [10], but an important reduction compared to 2005 (with 22 guarantee projects and 25 technical assistance activities) [9]. The evolution of the gross guarantee exposure indicates a decrease in 2007, at \$1.9 billion, from \$2.3 billion in 2005 and \$2.5 billion in 2006. If we refer to the rate of the region in the agency's portfolio, the reduction is more obvious, at 36.6% in 2007 from 45.2% in 2005 and 46.6% in 2006. Romania benefited in 2005 of four guarantee projects (HVB Bank Romania S.A., Raiffeisen Bank S.A. and Raiffeisen Leasing S.R.L.).

## The World Bank and Romania

Romania benefits of the World Bank's support in directions referring mainly to achievement of convergence with the EU; economic integration and social cohesion with the EU, implementation of structural and institutional reforms, completion of the Privatization Program and other structural reforms, upgrade of skills and the reduction of labor taxation, improvement of agricultural productivity; upgrade of environment standards, address of fiscal vulnerability and the modernization of the public sector, improvement of revenue collection and administration, improvement of the absorption of EU funds, modernization of public administration, promotion of research and innovation and disease control.

In October 2007, Romania and World Bank had 21 active projects (IDA and IBRD funds). They refer to social sector development, immigration rehab, rural finance, energy efficiency, rural education, health sector reform, transport restructuring, mine closure, knowledge economy social inclusion and avian flu. Several projects are waiting the approval in 2008.

In 2007 a number of documents containing analysis of different Romanian economical or social aspects were finalized. The most significant are: "Product market regulation in Romania: a comparison with OECD countries 2007", "Doing business 2008 – Romania: a project benchmarking, the regulatory cost of doing business in 178 economies", and "Evaluation of the World Bank's assistance to basic education in Romania".

Few other studies must be mentioned. One of the most important analytical works completed in 2007 that refers especially to Europe and Central Asia is the report "From Red to Gray, the "Third Transition" of Aging Populations in Eastern Europe and the Former Soviet Union". The report contains important information about Romanian demographic aspects, with projects for the next fifteen years. Another report finalized in 2005 regarding the region's economical performances is "Enhancing Job Opportunities: Eastern Europe and the Former Soviet Union". The report confirms the active preoccupation of the World Bank for recent evolutions of countries like Romania. Also, the report "Increasing Inequality in Transition Economies: Is There More to Come?" completed in 2006 shows that Romania is subject of an analysis conducted in the social inequity field. Finally, it is worth mentioning the analysis of the region's evolutions regarding the international trade, work presented in

“From Disintegration to Reintegration: Eastern Europe and The Former Soviet Union in International Trade”, where Romania occupies a central place.

## **Conclusion**

The World Bank is a constant presence in Europe and Central Asia. The figures presented above demonstrate its increasing interest for existing difficulties. Although global and regional conjunctures are of great influence in the assignment of allocations and their destinations, it can be noticed that regions keep their place in the global hierarchy.

Countries of Europe and Central Asia undergo significant changes in their needs, due to changes in their status (i.e. Romania became member of the EU in 2006). Consequently, the World Bank will update its policy and countries that benefit today of significant allocations will soon become important donors.

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# BRIEF PRESENTATION OF THE WORLD FOSSIL ENERGY MARKET

**Preda Mihaela**

*Academy of Economic Studies – Bucharest, Romania, Faculty of International Business and Economics, Contact Address: Ferme D Street, no 5A1, Otopeni, Ilfov County, e-mail: mihaelap\_2004@yahoo.com, phone: 0722 560 625*

*The beginning of the third millennium brought the globalization of the worldwide energy market. The fossil fuels, especially petroleum resources are, generally, limited and concentrated in few regions and the world energy market becomes more and more dependent of some “key regions”: the Middle East, the Caspian Sea Region, Russian Federation-Siberia. The great consumers try to consolidate their position in the regions reach in energy resources. And this is happening while growing economies, such as China and India begin to dominate the global demand for energy and push higher the oil prices worldwide.*

*World market energy consumption is projected to increase by 57 percent from 2004 to 2030. China and India together account for 45 percent of the increase of the energy demand.*

*Keywords: fossil fuels, reserves-to-production (r/p) ratio, producers, suppliers, consumption.*

## The Geographic Distribution of the Global Fossil Energy Resources

The energy resources are generally limited and distributed unfairly. Most of the economically advanced states prove to have not enough oil and gas reserves to sustain their economies and their growing fuel consumption, and the states less developed, especially in the Middle East, are reach in energy resources.

The largest world fossil fuel reserves are located in: Asia (Middle East, the region of the Caspian Sea, Russia – Siberia) and in America (United States, Canada, Mexico, Alaska, Venezuela). Other smaller reserves are located in Europe (the North Sea) and in the North of Africa.

The proved world oil and gas reserves as of the 1<sup>st</sup> of January 2007 as reported by Oil & Gas Journal<sup>105</sup> are the followings:

Level per Region	State/Region	Oil (bill. barrels)	Natural Gas (trillion cubic meters)
1	Canada	<b>179.2</b>	58.0
2	United States	21.8	204.0
3	Mexico	12.4	15.9
<b>TOTAL</b>	<b>North America</b>	<b>213.4</b>	<b>277.9</b>
1	Venezuela	80.0	152.0
2	Brazil	11.8	11.5
<b>TOTAL</b>	<b>Central and South America</b>	<b>91.8</b>	<b>163.5</b>
1	Norway	7.8	82.0
2	United Kingdom	4.029	18.750
3	Denmark	1.328	2.786
<b>TOTAL</b>	<b>Europe</b>	<b>13.157</b>	<b>103.536</b>
1	Russia	60.0	<b>1,680.0</b>
2	Kazakhstan	30.0	100.0
3	Turckmenistan	-	100.0
4	Azerbaijan	7.0	30.0

<sup>105</sup> Estimated quantities that can be recovered under present technology and prices.

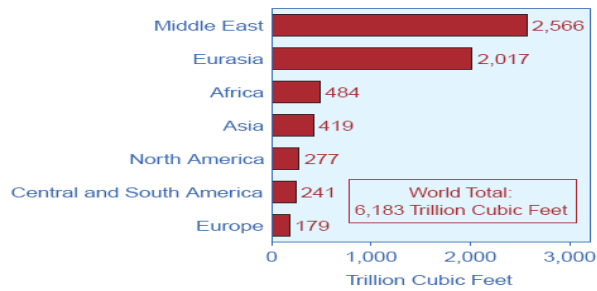
5	Uzbekistan	-	65.0
<b>TOTAL</b>	<b>Russia and ex Soviet Union</b>	<b>97.0</b>	<b>1,975.0</b>
1	Saudi Arabia	<b>262.3</b>	240.0
2	Iran	<b>136.3</b>	<b>974.0</b>
3	Iraq	115.0	112.0
4	Kuwait	101.5	55.0
5	United Arab Emirates	97.8	214.0
6	Qatar	15.2	<b>911.0</b>
<b>TOTAL</b>	<b>Middle East</b>	<b>728.1</b>	<b>2,506.0</b>
1	Libya	41.5	52.65
2	Nigeria	36.2	182.0
3	Algeria	12.3	162.0
4	Angola	8.0	-
5	Egypt	-	59.0
<b>TOTAL</b>	<b>Africa</b>	<b>98.0</b>	<b>455.65</b>
1	China	16.0	80.0
2	India	5.8	39.0
3	Indonesia	4.3	98.0
4	Malayezia	-	75.0
<b>TOTAL</b>	<b>Asia and Oceania</b>	<b>26.1</b>	<b>292.0</b>
<b>Rest of World</b>		<b>49.843</b>	<b>409.414</b>
<b>TOTAL WORLD</b>		<b>1,317.40</b>	<b>6,183.00</b>

Source: Worldwide Look at Reserves and Production, Oil & Gas Journal, Vol 104, No.47, December 18, 2006, pp. 24-25, Energy Information Administration – International Energy Outlook 2007

The large oil and natural gas reserves are concentrated in states/regions less developed, some of them without democratic regimes, with internal disputes, crisis and conflicts, areas where the great global energetic consumers confront and cooperate as well, in the process of access, control and extraction of these fossil energy resources.

In the Middle East, there are over 55 percent out of the proved world crude oil reserves. Saudi Arabia has 20 percent (around 262.3 bill. barrels) out of the world reserves, Iran has 10 percent (136.3 bill. barrels), Iraq has about 9 percent (115 bill. barrels), the Caspian basin has about 3 percent, and the Russian Federation has about 4.6 percent (60 bill. barrels) out of the world reserves.

For the natural gas, the leader is Russia with over 1,680 trillion cubic meters (about 27 percent of the world's natural gas reserves), followed by Iran with 974 trillion cubic meters (about 16 percent), Qatar with 911 trillion cubic meters (about 15 percent) and Saudi Arabia with 240 trillion cubic meters (about 4 percent). Almost three-quarters of the world's natural gas reserves are located in the Middle East and Eurasia (the following figure). Russia, Iran and Qatar combined accounted about 58 percent of the world's natural gas reserves as of 1<sup>st</sup> of January, 2007.



Source: "Worldwide Look at Reserves and Production," *Oil & Gas Journal*, Vol. 104, No. 47 (December 18, 2006), pp. 22-23.

### **World Natural Gas Reserves by Geographic Region as of 1<sup>st</sup> January, 2007**

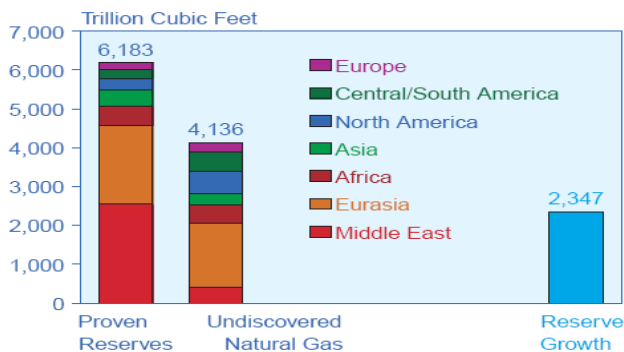
**Source:** *International Energy Outlook 2007*

The most common measure of the adequacy of proved reserves to annual production is the reserves-to-production (r/p) ratio, which describes the number of years of remaining production from current proved reserves at current production rates.

The United States r/p crude oil ratio has been between 9 and 12 years, and the top 40 countries in conventional crude oil production rarely have reported r/p ratios below 8 years. The major oil producing countries of OPEC have maintained r/p ratios of 20 to 100 years.

Despite high rates of increase in natural gas consumption, particularly over the past decade, most regional reserves-to-production (r/p) ratios for natural gas reserves are substantial. Worldwide reserves-to-production ratio is estimated at 65 years. Central and South America has a reserves-to-production ratio of about 52 years, Russia 80 years and Africa 88 years. The Middle East's reserves-to-production ratio exceeds 100 years for natural gas.

The United States Geological Survey (USGS) periodically assesses the long-term production potential of worldwide petroleum resources (oil, natural gas and natural gas liquids). According to most recent USGS estimates, released in the World Petroleum Assessment 2000 and adjusted to reflect current proved reserves, a significant volume of natural gas remains to be discovered. Worldwide undiscovered natural gas is estimated at 4,136 trillion cubic feet (the following figure). Within the natural gas resource base, an estimated 3,000 trillion cubic feet is in „stranded” reserves, usually located too far away from pipeline infrastructure or population centers for its transportation to be economical. Of the new natural gas resources expected to be added through 2025, reserve growth accounts for 2,347 trillion cubic feet:



**Source:** U.S. Geological Survey, *World Petroleum Assessment 2000*;

“Worldwide Look at Reserves and Production”, *Oil & Gas Journal*, Vol. 104, No. 47, December 18, 2006, pp. 22-23; and Energy Information Administration estimates.

The total recoverable coal reserves around the world are estimated at approx. 998 billion tons, reflecting a current reserves-to-production ratio of 164 years. Although coal deposits are widely distributed on the globe, 67 percent of the world's recoverable reserves are located in four countries: The United States (27 percent), Russia (17

percent), China (13 percent) and India (10 percent).<sup>106</sup> The world recoverable reserves of coal at the 1<sup>st</sup> of January 2003 are the followings:

Region/Country	Bituminous and Antracite	Subbituminous <sup>107</sup>	Lignite <sup>108</sup>	Total
United States <sup>109</sup>	123.7	110.3	33.5	267.6
Russia	54.1	107.4	11.5	173.1
China	68.6	37.1	20.5	126.2
India	99.3	-	2.6	101.9
Other Non-OECD Europe and Eurasia	51.5	20.7	39.4	111.6
Australia and New Zealand	42.6	2.7	41.9	87.2
Africa	55.3	0.2	-	55.5
OECD Europe	19.5	5.0	18.8	43.3
Brazil	-	11.1	-	11.1
Other Central and South America	8.5	2.2	0.1	10.8
Canada	3.8	1.0	2.5	7.3
Other <sup>110</sup>	1.8	0.4	0.1	2.3
<b>World Total</b>	<b>528.8</b>	<b>298.1</b>	<b>170.9</b>	<b>997.7</b>

**Sources:** For USA: Energy Information Administration, unpublished data from the Coal Reserves Database (April 2007). Other countries: World Energy Council, 2004 Survey of Energy Resources, Eds. J. Trinnaman and A. Clarke (London, UK: Elsevier, December 2004).

Historically, estimates of world recoverable coal reserves have declined gradually from 1,174 billion tons in 1990 to 1,083 billion tons in 2000 and 998 billion tons in 2003. In particular, the most recent assessments of the recoverable coal reserves of Germany have revealed that they have declined from 73 billion tons to 7 billion tons.

## The Great Global Energy Producers and Consumers

For the crude oil output and exportation the member states of the Organization of the Petroleum Exporting Countries (OPEC) are on top, with an important position ensuring the consumption and formatting the world prices for the fossil fuels. In 2005, OPEC provided 31.85 million bpd, meaning 44.1 percent out of the total world oil production. Some data as of 2005 are provided hereunder:

Country	2005 Production [millions bpd]	2005 Share of World Production [%]	Reserve-to-production Ratio ( r/p) [years]
Saudi Arabia	9.55	13.3	75
Russia	9.04	12.6	18
United States	5.18	7.2	11
Iran	4.14	5.7	83
China	3.61	5.0	14

<sup>106</sup> For USA - Energy Information Administration, unpublished data from the Coal Reserve Database (April 2007); For the other countries - World Energy Council, 2004 Survey of Energy Resources, Eds. J. Trinnaman and A. Clarke (London, UK: Elsevier, December 2004);

<sup>107</sup> Caloric power 5600-7600 kcal/kg, used for the metallurgic coke and for thermo-energy;

<sup>108</sup> Energetic coal with caloric power 2600-4100 kcal/kg;

<sup>109</sup> Data for the United States represent recoverable coal estimates as of the 1<sup>st</sup> of January, 2006;

<sup>110</sup> Includes Mexico, Middle East, Japan and South Korea

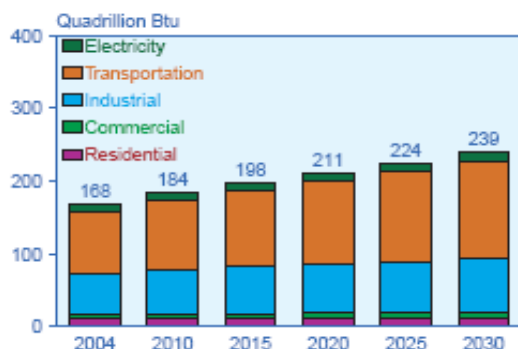
Mexico	3.33	4.6	12
Norway	2.70	3.7	9
Nigeria	2.63	3.6	37
United Arab Emirates	2.54	3.5	106
Kuwait	2.53	3.5	110
Venezuela	1.98	2.7	107
Irak	1.88	2.6	168
Algeria	1.80	2.5	18
United Kingdom	1.65	2.3	7
Brazil	1.63	2.3	18
Libya	1.63	2.3	65
Canada	1.28	1.8	10
Angola	1.26	1.7	12
Indonesia	1.07	1.5	12
Kazakhstan	1.05	1.5	23
Qatar	0.84	1.2	50
Oman	0.77	1.1	19
Malaysia	0.75	1.0	11
Argentina	0.70	1.0	10
India	0.66	0.9	22

**Sources: Production 2005: Energy Information Administration, Short-Term Energy Outlook (October 2006). Reserves: "Worldwide Look at Reserves and Production," Oil & Gas Journal, Vol. 104, No. 47 (December 18, 2006), pp. 24-25.**

Russia, on the second level, with an output of over 9.04 million bpd takes efforts to enhance its capacity similar to that of Saudi Arabia, by using an additional reserve of approx. 3 million bpd, by which can influence the international oil prices. In spite of that, the production costs in Russia are almost similar to those from the other countries while the transport costs for the Russian oil are much higher, which might affect the margin of profit.

The most representative world consumers are United States, China, India and the European Union. The total world consumption of crude oil is reaching 85 million bpd per year, for natural gas raises at about 2,700 billion square meters per year, and for solid coal it has grown to 5,000 million tons per year.

According to the U.S. Department for Energy - International Energy Outlook 2007 – despite the high level of the world oil prices which is projected to persist further into the mid-term outlook, world consumption of petroleum and other liquid fuels increases in 2030 to 118 million bpd (equivalent to 239 quadrillion ( $10^{15}$ ) Btu), compared to 83 million bpd in 2004. For 2008, the consumption is projected at approx. 87 million bpd and for 2015 for approx. 97 million bpd. Two-thirds of the increment in world liquids consumption in the reference case is projected for use in the transportation sector, where there are few competitive alternatives to petroleum. The industrial sector accounts for a 27 percent share of the projected increase, mostly for use in chemical and petrochemical processes. Further on, it is presented the world liquids consumption by sector, 2004-2030, in quadrillion Btu:



**Sources:** 2004: Derived from Energy Information Administration (EIA), *International Energy Annual 2004* (May-July 2006), Projections: EIA, *System for the Analysis of Global Energy Markets* (2007).

To meet the increase in the world energy liquids consumption, liquids production is projected to increase by 15 million bpd from 2004 to 2015 and by an additional 20 million bpd from 2015 to 2030, meaning that from 2004, until 2030, production will increase per total by 35 million bpd. Nevertheless, 65 percent of this are expected to be provided by the OPEC producers (about 23 million bpd). In 2030, OPEC is expected to produce 57 million bpd, and non-OPEC producers are expected to reach an output of 61 million bpd, representing 48.3 percent for OPEC and 51.7 percent for non-OPEC liquid producers. High oil prices, new exploration and production technologies, aggressive cost-reduction programs by industry and the emergence of unconventional resources contribute to the outlook for continued growth in non-OPEC liquids production.

The leading world producers and suppliers of natural gas are Russia, United States and the Middle East countries. Hereunder, it is presented the World Natural Gas Production by regions and countries, 2004 – 2030 in trillion (10<sup>12</sup>) cubic feet:

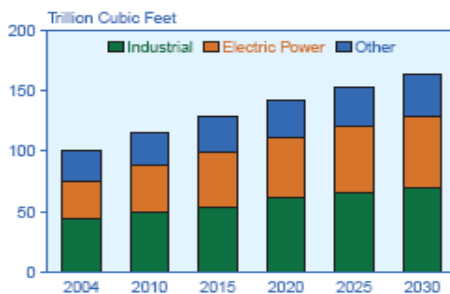
Region/Country	2004	2015	2020	2025	2030	Average Annual Percent Change, 2004-2030
United States	19.0	19.7	20.9	20.7	20.7	0.3 %
Canada	6.5	6.4	6.0	5.9	6.0	-0.3 %
Mexico	1.5	2.0	2.4	2.6	3.0	2.7 %
<i>OECD North America</i>	26.9	28.2	29.3	29.2	29.6	0.4 %
<i>OECD Europe</i>	11.4	11.2	10.7	10.5	10.1	-0.4 %
<i>OECD Asia</i>	1.6	3.1	3.8	4.3	4.7	4.2 %
Japan	0.1	0.1	0.1	0.1	0.1	0.4 %
South Korea	0.0	0.0	0.0	0.0	0.0	-
Australia/New Zealand	1.5	3.0	3.7	4.2	4.6	4.3 %
<b>Total OECD</b>	<b>39.9</b>	<b>42.5</b>	<b>43.8</b>	<b>44.1</b>	<b>44.5</b>	<b>0.4 %</b>
Russia	22.4	27.4	30.0	32.6	35.2	1.7 %
Other	6.3	9.1	9.5	9.8	10.0	1.8 %
<i>Non-OECD Europe and Eurasia</i>	28.6	36.4	39.5	42.4	45.2	1.7 %
China	1.4	3.1	3.5	4.0	4.3	4.1 %
India	1.0	1.7	2.1	2.4	2.5	3.5 %
Other non-OECD Asia	8.1	11.5	13.5	15.8	18.4	3.1 %
<i>Non-OECD Asia</i>	10.5	16.4	19.1	22.2	25.2	3.3 %

<i>Middle-East</i>	9.9	17.4	20.1	21.8	24.1	3.3 %
<i>Africa</i>	5.3	9.5	11.1	13.0	15.1	4.0 %
Brazil	0.3	0.7	0.8	0.9	1.0	4.1 %
Other Central/South America	4.2	6.3	6.9	7.6	8.2	2.5 %
<i>Central/South America</i>	4.5	7.0	7.7	8.4	9.2	2.7 %
<b>Total non-OECD</b>	<b>58.9</b>	<b>86.7</b>	<b>97.4</b>	<b>107.8</b>	<b>118.8</b>	<b>2.6 %</b>
<b>TOTAL WORLD</b>	<b>98.9</b>	<b>129.2</b>	<b>141.2</b>	<b>151.9</b>	<b>163.3</b>	<b>1.9 %</b>

*Note: Totals may not equal sum of components due to independent rounding.*

**Sources:** for 2004: EIA, *International Energy Annual 2004 (May-July 2006)*, web site [www.eia.doe.gov/iea](http://www.eia.doe.gov/iea). 2010-2030: SUA: EIA, *Annual Energy Outlook 2007, DOE/EIA-0383(2007)* (Washington, DC, February 2007), web site [www.eia.doe.gov/oiaf/aeo](http://www.eia.doe.gov/oiaf/aeo). Others: EIA, *System for the Analysis of Global Energy Markets (2007)*.

Worldwide consumption of natural gas increases from 100 trillion cubic feet in 2004 to 163 trillion cubic feet in 2030. The World Natural Gas Consumption by End-Use Sector, during 2004 to 2030 period is the following:



**Sources:** 2004: Derived from Energy Information Administration (EIA), *International Energy Annual 2004 (May-July 2006)*, web site [www.eia.doe.gov/iea](http://www.eia.doe.gov/iea).

**Projections:** EIA, *System for the Analysis of Global Energy Markets (2007)*.

By energy source, the projected increase in natural gas consumption is second only to coal. Natural gas remains a key fuel in the electric power and industrial sectors. In the power sector, natural gas is an attractive choice for new generating plants because of its relative fuel efficiency. Natural gas also burns more cleanly than coal or petroleum products. Much of the world's natural gas use is for industrial sector process.

Russia has an extensive pipeline network reaching into Europe and has proposed the construction of pipelines to China and South Korea.

World coal production by regions and states, projected for the period 2004 to 2030, is the following:

Region/Country	2004	2015	2020	2025	2030	Average Annual Change 2004-2030	Percent Change 2004-2030
United States	22.8	25.8	26.7	30.4	33.9		1.5 %
Canada	1.5	2.1	2.2	2.4	2.5		2.0 %
Mexico	0.2	0.4	0.4	0.5	0.5		3.3 %
<i>OECD North America</i>	24.6	28.3	29.4	33.3	3.0		1.6 %
<i>OECD Europe</i>	7.9	7.7	7.1	6.6	6.6		-0.7 %
<i>OECD Asia</i>	8.1	10.4	11.2	11.9	12.7		1.7%
Japan	0.0	0.0	0.0	0.0	0.0		-
South Korea	0.1	0.1	0.1	0.1	0.1		0.9 %

Australia/New Zealand	8.1	10.2	11.1	11.9	12.6	1.7%
<b>Total OECD</b>	<b>40.6</b>	<b>46.4</b>	<b>47.7</b>	<b>51.9</b>	<b>56.2</b>	<b>1.3 %</b>
Russia	5.9	7.5	7.9	8.2	8.5	1.4 %
Other	4.1	5.0	5.3	5.4	5.3	0.9%
<i>Non-OECD Europe and Eurasia</i>	<i>10.0</i>	<i>12.5</i>	<i>13.3</i>	<i>13.6</i>	<i>13.7</i>	<i>1.2%</i>
China	43.0	64.6	74.3	83.4	93.4	3.0 %
India	7.3	9.5	10.8	12.0	13.0	2.3 %
Other non-OECD Asia	4.9	8.3	9.6	10.0	10.3	2.9 %
<i>Non-OECD Asia</i>	<i>55.2</i>	<i>82.4</i>	<i>94.7</i>	<i>105.4</i>	<i>116.7</i>	<i>2.9 %</i>
<i>Middle East</i>	<i>-<sup>111</sup></i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-1.2 %</i>
<i>Africa</i>	<i>5.9</i>	<i>7.7</i>	<i>8.0</i>	<i>8.6</i>	<i>8.9</i>	<i>1.6 %</i>
Brazil	0.1	0.2	0.2	0.2	0.2	3.3 %
Other Central and South-America	1.7	2.9	3.8	4.1	4.1	3.4 %
<i>Central and South-America</i>	<i>1.8</i>	<i>3.1</i>	<i>4.0</i>	<i>4.3</i>	<i>4.3</i>	<i>3.4 %</i>
<b>Total Non-OECD</b>	<b>72.8</b>	<b>105.7</b>	<b>120.1</b>	<b>131.9</b>	<b>143.7</b>	<b>2.6 %</b>
<b>TOTAL WORLD</b>	<b>113.4</b>	<b>152.1</b>	<b>167.7</b>	<b>183.8</b>	<b>199.9</b>	<b>2.2 %</b>

**Sources:** for 2004: Energy Information Administration (EIA), *International Energy Annual 2004 (May-July 2006)*, web site [www.eia.doe.gov/iea](http://www.eia.doe.gov/iea). Projections: EIA, *System for the Analysis of Global Energy Markets (2007)* and National Energy Modeling System run IEO2007.D032707B.

Increase demand for international trade is expected to support production growth in Australia/New Zealand, Russia, other non-OECD Asia, Africa and Central and South America (excluding Brazil).

The top four exporters of steam coal in 2005 were Australia, Indonesia, China and South Africa. Projections for 2030 show that Indonesia is expected to surpass Australia as the largest exporter of steam coal, and China, due to increase in the domestic consumption, will not export at the same level and will be ranked as the sixth-largest world exporter of steam-coal in 2030. Indonesia has low-cost reserves of low-sulfur coal, many ports-some with the capability to take capsize ships, and proximity to expanding markets of Asia. For the coking coal, Australia, Canada and the United States will continue to be ranked among the top three exporters over the projection period.

Europe and particularly United Kingdom, has increasingly sought Russia's low-sulphur coal as its own mines have closed. Russia is continuing to increase the capacity of its coal ports, current plans call for an additional increase in export capacity from about 72 million tons (1.6 quadrillion (10<sup>15</sup>) Btu) in 2005 to 97 million tons (2.1 quadrillion (10<sup>15</sup>) Btu) by 2008.

World coal consumption increases by 76 percent over the projected period, from 113.4 quadrillion (10<sup>15</sup>) Btu in 2004, to 199.9 quadrillion (10<sup>15</sup>) Btu in 2030. Moderate increases in coal consumption are projected for most of the OECD countries, including South Korea, Canada, Australia/New Zealand and Mexico. Coal consumption in OECD Europe declines by 1.7 quadrillion (10<sup>15</sup>) Btu (representing 13 percent) from 2004 to 2030, in the reference scenario of International Energy Outlook; however, the region is and will continue to be a major market for coal. Coal consumption in OECD Europe, at 13.1 quadrillion (10<sup>15</sup>) Btu in 2004, represented 28 percent of total OECD coal use. For 2030, this coal consumption in OECD Europe is projected to drop to 11.5 quadrillion (10<sup>15</sup>) Btu. The major coal-consuming countries of the region, all with consumption of 0.7 quadrillion Btu or more in 2004, include Germany, Poland, United Kingdom, Spain, Turkey and the Check Republic. Although OECD Europe relies heavily on imports of hard coal, low Btu lignite represents an important domestically produced source of energy.

Plans to replace or refurbish existing coal-fired capacity in a number of the countries of OECD Europe are an indication that coal will continue to play an important role in the region's overall energy mix. In addition to some

<sup>111</sup> Less than 0.05 quadrillion Btu



recent additions of coal-fired capacities, electricity producers in Germany, Spain, France, Italy, Poland, the Czech Republic and Slovakia have revealed plans to upgrade or replace existing coal-fired generating facilities over the next two decades. Power producers in Germany plan to build nearly 11 giga-watts of new coal-fired generating capacity by 2012, primarily to replace existing-less efficient coal-fired capacities.

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# GLOBALIZATION AND THE NEW ENERGY CHALLENGES

**Preda Mihaela**

*Academy of Economic Studies – Bucharest, Romania, Faculty of International Business and Economics,  
Contact Address: Ferme D Street, no 5A1, Otopeni, Ilfov County, e-mail: mihaelap\_2004@yahoo.com*

*A New Global Energy Economy is emerging, in which energy demand and supply will make regions of the world much more dependent upon each other. International extensive energetic interdependence on energy resources and networks grows in the global economy. Some \$22 trillion of investment in supply infrastructure is needed to meet projected global demand until 2030. Mobilizing all this investment will be challenging. Adherence to these policies will ensure that the global energy investments materialize, the necessary infrastructure is built, and the lengthening worldwide energy supply chain operates in security. Strong global energy policy is needed to move the world into a more sustainable energy path.*

*Keywords: energy security, extensive energetic interdependency, global energy consumption, supply infrastructure.*

*Motto: Welcome to the New Global Energy Economy!*

*“The next ten years will be crucial for all countries, including China and India, because of the rapid expansion of energy-supply infrastructure. We need to act now to bring about a radical shift in investment in favor of cleaner, more efficient and more secure energy technologies.”*

*(Nobuo Tanaka, Executive Director of the International Energy Agency (IEA))*

## **Evolutions and Trends of the Global Energy Market**

The energy problem became very sensitive today in the entire world and will turn into sharp in the coming years.

The decline of the fossil fuel global reserves, the peak oil prices, the energy security, represent issues of concern, marking the actual global scene. Covering the worldwide energy demand, while protecting the natural environment together with fulfillment of restrictions of economic and social nature, represent some of the great challenges addressed to the worldwide governments now.

The recent 10 years have been marked by major structural changes, generated by the dynamic evolutions of the contemporary era. In a globalized economy the energy policy of a country is developed within the context of the evolutions and changes registered by the international market. A global approach of the energy sector is aimed, thus emerging a New Global Energy Economy.

Some of the main determinants of the New Global Energy Economy are:

- The global economic and commercial system, with the three pillars: The European Union, The United States of America and Japan, superpowers generating regionalism and development.
- The emerging of the new giants of the world economy, such as China and India, registering an important economic and demographic growth; both put considerable pressure on the primary fossil resources and determine important growth of the fossil fuel prices.
- The inclination of the Russian Federation to become a new center of reference of the fuel prices on the international market, pursuing „energetic pressure” over the consumers of the Russian fossil fuels, especially over those from Europe. The objective envisaged by Russia, is to sign an agreement which will allow access of the Russian companies on the European markets as a trade off for recognition by Russia of the international economic principles – trade liberalisation, and access of foreign investors on the internal Russian energy market.
- The need of a sustainable economic development, as a major priority, for limiting and solving the miss-functionalities generated by the „ecologic pressures” turned more and more severe. The recent studies show that new basis of the development to prevent a global ecological collapse are needed, as may affect all the worldwide regions, with serious consequences for their economies and ecosystems. According to the Intergovernmental Committee for Climate Changes (IPCC), the

greenhouse gas emissions have already determined an increase of the temperature at global level with 0.6 degrees. If corrective measures are not going to be taken, the increase will reach between 1.4 and 5.8 degrees for the end of this century.

- The understanding of the reality that the primary energy resources are limited and, as a result, the countries - especially those countries relying on imports of energy - redefine their energy policies, consider the renewables and the improvement of energy efficiency.

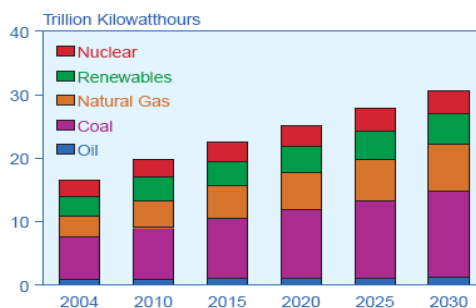
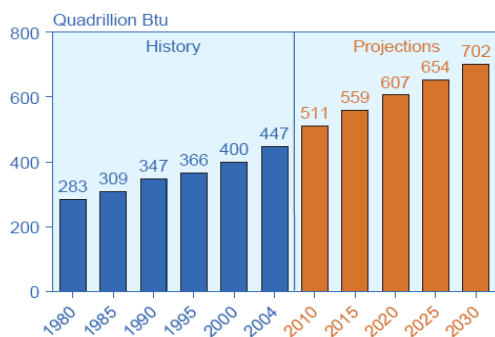
## The Trends in the World Energy Market Consumption and Supply projected to 2030

The structure of the world energy consumption has changed in the last years, thus developing countries have increased their share in the total global primary energy use, from 22 percent, share in the total consumption in 1970, to 39 percent in 2003, 46 percent in 2004, projections indicating that for 2030 the world consumption will be dominated by these developing countries at about 57 percent of the total.

The Reference Scenario in the World Energy Outlook 2007, published by the International Energy Agency, which provides a baseline vision of how energy markets are likely to evolve without new government measures to alter underlying energy trends, shows that:

- The global primary energy demand increases by approx. 55 percent between 2005 and 2030, with an annual average rate of 1.8 percent per year; the demand will reach 17.7 billion toe in 2030, as compared to 11.4 billion toe in 2005; 45 percent of this increase accounts for China and India together;
- Fossil fuels (petroleum, natural gas and coal) are expected to continue to remain the dominant source of primary energy, accounting for 84 percent of the overall increase in demand between 2005 and 2030;
- Oil demand share in global primary energy demand falls from 35 percent in 2005 to 32 percent in 2030; despite these terms, the oil demand will reach 118 million bpd at the level of 2030 growing from 83 million bpd at the level of year 2004; for 2015 oil demand is projected at 97 million bpd;
- Coal demand sees the biggest increase in demand in absolute terms, jumping by 76 percent between 2004 and 2030, and pushing its share in total energy demand up from 25 percent to 28 percent in 2030; the coal demand will raise from 113.4 quadrillion ( $10^{15}$ ) Btu in 2004 to 199.9 quadrillion ( $10^{15}$ ) Btu in 2030;
- The share of natural gas in global primary energy demand increases modestly, from 21 percent to 22 percent. If in 2004 the demand for natural gas was at 98.9 trillion ( $10^{12}$ ) cubic feet, in 2030 it will reach 163.3 trillion ( $10^{12}$ ) cubic feet;
- The electricity use shall double, its share of final energy consumption rising from 17 percent to 22 percent;
- To meet the global energy demand projected up to the level of the 2030 year, some 22 trillion ( $10^{12}$ ) USD are estimated to be needed as investments in the global supply infrastructure.

Further on, the World Marketed Energy Consumption during 1980 and 2030 (in quadrillion ( $10^{15}$ ) Btu) and the evolution of the World Electricity Generation by Fuel during 2004 and 2030 (in trillion kWh) are presented:



**Sources:** Energy Information Administration (EIA), *International Energy Annual 2004 (May-July 2006)*, web site [www.eia.doe.gov/iea](http://www.eia.doe.gov/iea). **Projections:** EIA, *System for the Analysis of Global Energy Markets (2007)*.

## **The Interdependency between World Energy Production and the Trends of the World Oil Prices**

The fossil fuel prices are extremely sensitive. Different events emerging in any part of the world, mainly in countries which are important producers and exporters of petroleum resources, influence the oil reference price. In the last years we were witness to the shock of the oil price growth due to unstable regime in supply countries such as Iraq or Iran (the nuclear threaten) combined with the increase in demand and with the decline of the petroleum global output.

Fluctuations and the peak oil prices are notorious. The oil price is volatile and hard predictable.

Control over the energy resources means control over fuel prices. The international suppliers have organized in:

- The Organization of the Petroleum Exporting Countries (OPEC), administrating the quantities produced by the member states, and
- The parallel markets (NYMEX – New York Mercantile Exchange, SIMEX – Singapore Exchange, IPE – International Petroleum Exchange, London), to be part in the decisions taken in fixing the world crude oil prices. The parallel markets can influence the international oil price and can counterbalance the OPEC decisions.

So, the 12 member states of OPEC decide over the price strategy by producing a greater or a smaller quantity of oil as compared to the quantity needed in the market. The petroleum ministers of the Member States meet periodically to discuss the prices and starting with 1982 to establish the quotas for the production of crude oil as well. As long as the oil price is maintained within the established reasonable limits, OPEC does not intervene.

In the last years, the OPEC policy could not keep the pace with the robust growth of the price of the oil barrel, and the decisions related to the output quotas are regarded with scepticism. Some of the analysts are estimating an increase of the oil barrel up to some 150 dollars, in which case the effects towards the global economy should be catastrophic.

On the other hand, one of the objectives of the Russian policy is to gain the capability to have a word to say in fuel price forming, as related to Russia share on the export market, by setting up the said OPEC of the Caspian Sea. Recently, a project of an OPEC of gas was launched as well, project that may include Russia, Iran, Algeria, Libya, Turkmenistan, Kazakhstan and Uzbekistan, which will have serious effects over the prices and the gas supply to Europe. The analysts anticipate that the price paid by the European consumers for gas might reach even 400 dollars per 1000 cubic meters until the end of the year 2009.

The increasing in energy demand, combined with geopolitical factors, especially those in the Middle East, determined the growth of the crude oil prices in the first decade of the 21<sup>st</sup> Century. Generally, the natural gas prices follow the crude oil prices with a 6 month delay (6 months lagged oil-gas price values).

Another determinant for the increased global price of the oil products was the deficit of refining capacities, a problem that needs to be identified medium and long term solutions.

The tendency of some states to supplement the stocks for crisis is adding to all these above.

All these determined the reorientation of the energy policies of all the countries, mainly of those countries importing energy, by considering the renewables and the energy efficiency.

## **The Top Global Energy Companies**

For 2007, the Platts Top 250 Global Energy Company' Rankings, accomplished by the experts from Platts, the first 10 levels are covered only by oil and natural gas companies, with total revenues of *1.8 trillion (10<sup>12</sup>) USD*.<sup>112</sup> The robust growth of energy prices during 2005-2008 has supported the gradual increase of profits which have reached huge levels for the entire global economy.

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<sup>112</sup> As compared, all the oil and natural gas companies listed in the *Platts Top 250 Global Energy Company' Rankings* for 2004, registered a total revenue of *1.9 trillion USD*.

Item	Company	Country of origine	2007 Assets (billion USD)	2007 Revenues (billion USD)	2007 Profit (billion USD)	ROIC <sup>113</sup> (%)
1	ExxonMobil Corp.	SUA	219.015	335.086	39.500	31.8
2	BP plc.	Marea Britanie	217.601	265.906	22.025	22.8
3	Royal Dutch/Shell plc.	Marea Britanie	235.845	318.845	25.442	20.4
4	Chevron Corp.	SUA	132.628	204.892	17.138	22.3
5	Total S.A.	Franta	141.595	172.422	15.298	20.6
6	Petrochina Co. Ltd.	China	114.006	87.778	18.120	21.2
7	Statoil ASA	Norvegia	52.257	67.660	6.488	25.4
8	ENI Spa	Italia	118.839	111.888	11.977	18.3
9	Petroleo Brasileiro S.A.	Brazilia	108.886	74.357	12.179	17.2
10	ConocoPhilips	SUA	164.781	167.578	15.550	14.5
<b>Total</b>			<b>1,505.453</b>	<b>1,806.412</b>	<b>183.717</b>	

*Note: Company data as of 9/11/07 provided by Standard & Poors;*

*Source: Platts Top 250 Global Energy Company' Rankings*

Absence of the Russian companies from this top 10 is noted, probably one of the reasons being the limitation of the access of these companies to the western market. As a matter of fact, this is the issue for which actually Russia puts the “energetic pressure” over the European consumers of Russian energy resources into the so called “the Russian natural gas problem” towards Europe.

Companies as LUKOIL (12 ranking) and Gazprom OAO (17 ranking) are very active in Asia, Africa and in the Eastern Europe.

Consequently:

- The energetic industry tends to become less national in the conditions of liberalisation and integration of energy markets and the role of global energy companies and of the bilateral strategic alliances is growing rapidly.
- Thus, globalisation has brought into discussion the role of states-nations, meaning not to diminishing, but to transforming their functions and de-politicizing the national space for the energy sector.
- The liberalisation, as an immediate consequence of globalisation, necessarily implies a transfer of responsibility from the state to the private sector simultaneously with the corresponding transfer of the regulatory attributes to independent governmental regulatory authorities (“the regulation for competition”).

## Energy Security and the Energetic Disputes

### *Energy Security*

In terms of risk, energy security means to produce the energy needed for the internal consumption and to maintain a minimum possible dependence of external imports of energy. The Energy Security envisages three dimensions:

- to ensure alternative sources of energy supply,
- to identify alternative energy routes and
- to secure existing sources of energy supply and routes of energy transportation.

<sup>113</sup> Return on Invested Capital

The realities of the last years have proved that great consumers should leave the utopia of energetic independence and accept the energetic interdependence. But the great players of the “energetic scene” have different perceptions over the energy security concept:

- For the United States, it represents first to diminish dependence from the energy resources from the Middle East.
- Europe can have energy security only if Russia is committing to supply the needed oil and natural gas and
- Russia at its turn, understands by that, access to the occidental markets.

The energy security theme is strongly debated during the G8 summits, while aiming to attain a common vision, especially in regard with the liberalisation of the Russian energy market. The objective aimed by Russia is to sign an agreement which to allow access of the Russian energy companies on the occidental markets; and this, in the exchange of Russia to recognize the international economic principles of trade liberalisation and guarantee access of foreign investors on the internal energy market of Russia.

The North Atlantic Treaty Organisation (OTAN), at its turn, has included the energy security theme on the Alliance’s Agenda. The OTAN’s strategic concept provides for protection of the supply routes as being one of the critical issues for the security of the members of the organization. Consequently, the energy security is no longer only an economic problem and becomes a more thoughtful and profound global issue, with large politico-military implications.

The energy security theme must take into account the energy challenges brought by the globalisation process, any miss-functioning or vulnerability from one side of the world being capable to affect the worldwide consumers. For example, if a country which is a great energy consumer (such as China or India) will have an event to determine the government of the respective country to buy more oil, this will lead to pushing higher the international oil price and, implicitly of the petroleum products in United States.

Since 1970 and until today, numerous energy crisis have emerged, having their origins in reasons of that nature:

- The oil crisis in 1973-1974, caused by the embargo imposed to OPEC by majority of Arab states oil producers, as an answer to the support provided to Israel by the western countries during the Yom Kippur War.
- The energy crisis in 1979, following the Iranian Revolution;
- The explosion of the oil prices in 1990, caused by the Gulf War, when Iraq invaded Kuwait.
- The crisis of fossil fuels prices – the current huge increase of prices for energy resources (2001-2008), while maintaining the worldwide oil production at the same level, correlated with increased global demand of the United States, China and India.

The consequence of this crisis of fossil fuels prices consists in the occurrence of a transnational system of resources with numerous ramifications – infrastructure development and networking.

The great consumers try to consolidate their position in the regions reach in energy resources:

- the United States launched the project for the democratization of the Middle East,
- the European Union promotes, within a common external energy policy, the extended neighborhood policy, and
- China and India base their policy on special agreements and partnerships.

### ***Networks and Pipelines for Transportation of the Fossil Fuels***

Certainly a tight connection exists between the holding, the demand, the supply and use of the energy resources, their geographical distribution and access to such resources.

Control over the energy resources – oil, natural and liquefied natural gas (LNG), other fossil fuels – has become the main objective not only for the major players of the global market (United States, European Union, Russia Federation), but also for the new emerging powers (China and India).

It is considered that the East is supplier of energy resources while the West is provider of security and economical assistance. To have access to energy resources from the East, is necessary to develop an adequate infrastructure: the shortest distance from the source to the end user, pipe capacity for transportation, low production costs, low transportation costs, transiting stable areas, port facilities, maritime and river shipping, etc.

According to the Simdex<sup>114</sup> statistics, March 2008 data update, 534 Future Pipeline Projects are under evidence, with a total length of approx. 266,717 km, out of which 168 are in North America, 47 in Latin America, 80 in Europe, 28 in Africa, 97 in Middle East, 101 in Asia and 13 in Australasia. Other 44 New Future Pipeline Projects are on the track, with a total length of 14, 809 km, out of which 20 are in North America, 7 in Europe, 4 in Africa, 7 in the Middle East, 5 in Asia and 1 in Australasia.

The goal is extremely of major importance for all interested states and parties (producers, consumers, companies and countries of transit as well) and different interests and involvements are revealed each and every day.

### ***The Energetic Pressures- The Crisis of the Russian Natural Gas***

„The Energetic Pressures” brought by Russia against Europe, has generated a reorientation of the main European consumers of the Russian fossil fuels. The refusal of Ukraine, in January 2006, to pay the price of 250 USD per cubic meter requested by the Russian companies instead of that one of 60 USD per cubic meter (the price used by Russia on the domestic market) and the interruption of natural gas supply to Europe has triggered an entire international debate upon this matter.

As a reaction to that, the European Union has adopted on the 8<sup>th</sup> of March 2006, a new project for a European Energy Strategy, A European Strategy for Sustainable, Competitive and Secure Energy.<sup>115</sup> The six priority areas envisaged by the European Union in order to balancing sustainable development, competitiveness and security of supply, are:

- The liberalisation and integration of the European electricity and gas markets, by adopting common rules and standards on issues that affect cross-border trade and by setting up the European grid with interconnections between the national ones;
- An Internal Energy Market that guarantees security of energy supply and solidarity between the Member States by rethinking the EU’s approach to emergency national oil and gas stocks and preventing disruptions;
- • Diversification of energy sources towards a more sustainable, efficient and diverse energy mix;
- • An integrated approach to tackling climate change;
- • Encouraging innovation: a Strategic European Energy Technology Plan for energetic research and development of new technologies;
- • A coherent External Energy Policy, common for all the EU Member States, which would enable the Union, in effect, “to speak with the same voice”. There must be clearly identified the EU’s priorities for construction of new infrastructure necessary for the security of EU energy supplies, notably new gas and oil pipelines and liquefied natural gas (LNG) terminals, as well as application of transit and third party access to existing pipelines. An Energy Community Treaty and a new energy partnership EU-Russia are envisaged as well. A reaction instrument able to react quickly and in a fully co-ordinated manner to external energy crisis, to deal with emergency external supply events is also considered for the energy supply for Europe.

## **Conclusions**

In the recent reports of the International Energy Agency (IEA) on the global energy outlook for the first three decades of the 21<sup>st</sup> century, caution is given to the global trends in energy demand, the increasing import dependency, coal use and greenhouse gas emissions projected to 2030. Economic growth is among the most important factors to be considered in projecting changes in the global energy consumption. The continuous increase has determined fuel global economic growth and put considerable pressure on energy suppliers, who experience different threats of geopolitical and other potentially disruptive nature. On the other hand, for the energy consumers, energy security and environment issues have led to changes in these countries’ energy policies. These problems have been reflected in the energy market through high and volatile energy prices. But the global energy demand grows despite the high world oil and natural gas prices which are projected to persist further into the mid-term outlook. This is the actual research framework for the „New Global Energy Economy”!

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<sup>114</sup> *The Simdex Future Pipeline Projects Worldwide Guide*, March 2008 data update, [www.simdex.com](http://www.simdex.com)

<sup>115</sup> European Commission, *A European Strategy for Sustainable, Competitive and Secure Energy*, 8<sup>th</sup> of March 2006, [http://e.europa.eu/energy/green-paper-energy/doc/2006\\_03\\_08\\_gp\\_document\\_en.pdf](http://e.europa.eu/energy/green-paper-energy/doc/2006_03_08_gp_document_en.pdf)

World leaders have pledged to act to change the energy future. Some new policies are in place. But China and India are the emerging giants of the world economy. The huge energy challenges facing China and India are global energy challenges and call for a global response. The IEA's imperatives for the governments can be summarized as follows: Governments must open the borders to international trade and investment, sustain competitiveness, rely on private enterprises and provide peaceful resolution of international disputes. The world is heading towards more energy interdependence. A world that meets its energy needs through extensive interdependence is a world that conforms to the tenets of globalization.

The energetic industry tends to become less national in the conditions of liberalisation and integration of energy markets and the role of global energy companies and of the bilateral strategic alliances is growing rapidly.

Thus, globalisation has brought into discussion the role of states-nations, meaning not to diminishing, but to transforming their functions and de-politicizing the national space for the energy sector.

The liberalisation, as an immediate consequence of globalisation, necessarily implies a transfer of responsibility from the state to the private sector simultaneously with the corresponding transfer of the regulatory attributes to independent governmental regulatory authorities ("the regulation for competition").

Great energy consumers should leave the utopia of energetic independence and accept the energetic interdependence, an extensive interdependence.

To conclude with, the uncertainties related both on the possible different economic growth patterns for the different world regions as well as on the availability of fossil fuel resources impose shifting the energy evaluations to long term scenarios based on high oil and gas prices. Improving the energy efficiency, increasing the share of renewables and diversifying the sources and the routs of energy supply represent the general priorities for countries importing energy.

Collective actions is needed to address global energy challenges, because in a global economy, energy can not subtract globalization and its effects, and „the main losers of today are not those who have exposed too much to globalization, but those that have remained out of it !”<sup>116</sup>

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# EVOLUTION OF THE FOREIGN DIRECT INVESTMENT IN ROMANIAN ECONOMY

**Stănescu Cristina**

*Romanian-American University Bucharest, 0722993100, cristina\_voinea21@yahoo.com*

**Nedelescu Dumitru Mihai**

*Romanian-American University Bucharest, 0722253811, nedelescumihai@yahoo.com*

*The foreign investors in Romania are stimulated and attracted by free access to domestic markets, the possibility of taking part in privatizations, no imposed limits on foreign participation in commercial enterprises.*

*Romania is ready to accommodate a higher inflow of FDI in sectors such as agriculture, construction materials, automotive industry, constructions and real estate, oil and gas, petrochemical, energy, metallurgy, telecommunications, transport, food industry, retail, tourism, IT, financial sector, and distribution. Among these, the most appealing for foreign investors are automotive, financial services, software, constructions and real estate, electronics, telecom, pharmaceutical, and chemical industries.*

*Keywords: FDI, ARIS, BERD, privatization, investors*

The foreign investors in Romania are stimulated and attracted by free access to domestic markets, the possibility of taking part in privatizations, no imposed limits on foreign participation in commercial enterprises. Also, foreign investors despite usually prefer Joint Ventures, are also free to establish foreign-owned enterprises in Romania, and more, to repatriate 100% of their profit after taxes.

A significant step forward taken for improving the relationship with the investors is the establishment of a governmental agency in charge with attracting and maintaining the contact with foreign investors in Romania. This is the Romanian Agency for Foreign Investment (ARIS), which has as main objectives to increase significantly the investment volume in Romania, to actively promote investment opportunities and to offer professional services for foreign investors, all along the investment cycle.

Besides the law regarding the direct investments with significant impact on the economy, the other most significant legal incentive offered to direct investment in Romania is the new single tax reform, introduced by the Government at the beginning of 2005. This modification brought Romania among the most competitive investment destinations in the region. The country was known for its high level of income taxation. Starting 2005, following a successful model already introduced by other countries in the region, corporate and individual incomes are levied with a single tax rate of 16%. This fiscal reform was coupled with a softening of the taxation principles on which all fiscal procedures will be based: transparency, simplicity, partnership with taxpayers, and prudence.

According to the experience of other countries, the accession to the EU will increase Romania's competitive advantage in attracting higher FDI, especially in export oriented, labor intensive and high value added industries.

In order to counter the lower taxes collected on corporate and individual income, the Government was forced to raise quotas for other taxes, such as: tax on dividends (from 5 to 16%), tax on capital gains (from 1 to 16%). The new fiscal strategy of the Government puts emphasis on indirect taxes, as compared to direct taxes (which are aligned at 16%, the same quota applicable for tax or income). Plus, Romania has revised its taxation system in order to bring it closer to the EU system and line it with the recommendations of the World Bank.

As an EU member, Romania will benefit from post-accession funds, which are significantly larger than the pre-accession funds. The total amount allocated for Romania for the period 2007-2013 for Structural and Cohesion Funds is EUR 19,668 billion. The Funds are meant to increase economic competitiveness, improve transport and environmental infrastructure, develop and strengthen regional development, improve human-resources development and strengthen administrative capacity.

In 2006, the investor's interest for Romania increased, ARIS announcing a new annual record of EUR 9.1 billion in FDI, an increase of 74.24% compared to 2005. ARIS considers that improvements in the business environment, the flat tax of 16% and a positive attitude from foreign partners helped improving FDI inflows dramatically. A direct impact on the FDI level had also the accession to the EU that changed the investors attitude towards the country that now has the status of a member state.

For the future, the estimations are also optimistic, at approximately EUR 10 billion, mainly due to the EU accession. The FDI increase will be determined by major players that were not until now present on the Romanian market, but decided to enter, immediately after the accession. Targeted segments will be the infrastructure, logistic, transport and energy, that still lags behind the West European countries and need significant investment.

## **Evolution of the FDI in Romania after EU accession**

Once part of the EU, Romania has created a legal framework consistent with a market economy and investment promotion, and still continues to harmonize its legislation to the EU, by adding the so called "acquis communautaire".

Already in October 2004, Romania received the status of a functioning market economy, after years of transition and difficulties. Romania's attractiveness as a business environment determined an increase of 9.2% in 2006 compared to 2005, in terms of number of commercial companies with foreign capital newly registered.

Romania has a leading role in attracting FDI in South-East European region. In 2005, out of the total EUR 10.4 billion in FDI attracted by countries in the region, Romania received half of these inflows. The positive trend continued in 2006, when FDI increased by an impressive 74.24% compared to 2005.

In Romania, the record level of investment inflows in the last years, compared to the other South-East European countries, was partly a result of the successful privatizations. Inflows were also important in green-field and expansion projects, particularly in the automotive industry and in services. The accelerated growth pace in the last three years has placed Romania among the leading FDI destinations in CEE region.

Though some substantial gains in recent years, direct investment flows have remained relatively low compared to the potential of a market with 21.2 million inhabitants, great natural resources, skilled labor and flexible (but still under changes) legislative environment. Still, Romania has lowered personal income and corporate tax rates and strengthened tax administration in order to attract the investors interest. Though, the legislative unpredictability continues and determine the investors lack of confidence.

In conformity with the data released by the National Prognosis Commission (NPC), the year 2006 was the seventh year of economic growth, the GDP registering a growth of 7.7%, compared to only 4.1% increase registered in 2005. For 2007, NPC estimated a GDP increase of 6.5%, reaching approximately RON 390.3 billion (EUR 118 billion). The increase is mainly determined by the strong activity volume especially in the services sector, industry and constructions.

Having in view that FDI in a country is facilitated, by the development of the infrastructure, the efficiency of administration, and by an adequate legislative system, the international financial institutions are actively supporting Romania in its efforts to meet these criteria, and surpass the difficulties of the transition.

BERD is the largest individual investor in Romania, country which is the third-largest recipient of BERD funding. As in 2007, BERD had signed projects in Romania, totaling over EUR 3.3 billion. This has helped to generate an additional EUR 6.2 billion from other sources. A total of 63% of investments are in the private sector.

Whenever possible, BERD is encouraging the private financing of infrastructure through concessions and build, operate, transfer schemes. The Bank is also actively supporting the development of the non-banking financial sector by promoting investment in leasing and insurance companies and in equity, mortgage and pension funds.

The World Bank is Romania's largest institutional creditor and its assistance covers all areas of the economy. The World Bank has financed operations in the country for a total original commitment of almost USD 5 billion.

In support of the country integration into the EU, the EU Commission actively assisted Romania technically and financially. It is estimated that the non-reimbursable funds that were made available for

Romania in the last couple of years were up to EUR 650 million annually. The funds were allocated for projects supporting convergence with the EU and focused on updating the legislation. The Government main tasks in the integration process were:

- to create the conditions for a functional market economy;
- to increase the financial discipline, to reduce inflation;
- to stop injecting money into the big state-owned companies, and privatize them, in order to reduce losses.

As part of the EU, Romania will benefit of structural, post-accession funds, as part of 7-year allocation plans, in amount of EUR 19.67 billion. The main recipients of these funds will be local and state administration, mainly for infrastructure projects.

The amount of FDI in a country is dependent also upon the privatization strategy adopted by the Government. Until the end of 2005, the Romanian Government has privatized most of the sectors of the economy. The largest privatization deals concluded are: BCR (sold to Erste Bank in 2005), Petrom (sold to OMV in 2004), Agricultural Bank (sold to Raiffeisen Bank in 2001), Sidex (sold to LNM Ispat in 2000), BRD (sold to Société Générale in 1998), and Dacia (sold to Renault in 1997).

The privatization of the largest Romanian bank, BCR, finalized at the end of 2005, is by far the largest ever realized in Romania. The amount obtained by the Romanian state, approximately EUR 3.75 billion for 61.88% of shares, is so large, that it is about equal to the value of all the other privatizations of the last 15 years. After the privatization process, BCR's customers will benefit from improved access to account information, better customers service and a larger and improved range of services & products.

Another successful major privatization was done also with an Austrian investor - Petrom, the national oil company. The deal was concluded in 2004, when OMV acquired 33% of the company, for about USD 900 million. Petrom is the largest company in Romania, with a turnover of about USD 3 billion.

Privatization of the main utilities was successfully concluded by the end of 2004. The privatization of the regional electricity distribution companies Electrica Banat and Electrica Dobrogea was done with the Italian company Enel in 2004. The two gas distribution companies, Distrigaz Sud and Distrigaz Nord, were sold in October 2004 to European strategic investors. Gas de France has acquired Distrigaz Sud, paying EUR 128 million for 30% of its shares, and subsequently increasing the share capital by another EUR 183 million, thus gaining the company control. Distrigaz Nord was privatized with the German company Ruhrgas which paid EUR 125 million for 30% stake and earmarked EUR 179 million for a share capital increase that will bring over the 51% control.

## **Distribution of FDI per countries of origin**

Romania is actively integrated into the European economical environment, as reflected by the distribution of FDI per countries of origin.

### **Dutch investment in Romanian economy**

The Dutch companies are mainly investing in production and logistic, IT, milk processing, banking. With over 20% of total foreign investment in Romania, The Netherlands occupies the first place in the top of foreign investors. More than 2,700 companies activating on the Romanian market have Dutch capital, high investment being made by Unilever, ING, ABN AMRO, Philips, KPMG, Heineken.

### **Austrian investment in Romanian economy**

Since 1990, Austria has constantly been among Romania's most important trade partners. Currently, Austria ranks second within the classification of foreign investors in Romania, the subscribed equity capital amounting to more than EUR 2.1 billion.

Many Austrian companies are interested in investing in real estate, in buying land in the vicinity of motorways and transport knots, in machine construction, metallurgy, measurement and equipment production, food industry, construction materials, etc.

In the banking system, Raiffeisen Bank and Volksbank are already top players. However the BCR transaction changes the position of Austria between foreign investors. Erste Bank considered coming to

Romania after some very successful strategies already applied in the transition countries, BCR becoming the most important privatization deal ever concluded in Romania.

The leading Austrian investors in Romania are, apart from the new entrant Erste Bank: OMV, Raiffeisen, Schweighofer, Porsche Romania, Volksbank, Omnisig and Unita.

### **French investment in Romanian economy**

Over 4,800 French capital companies are registered with the Romanian Trade Registry, France occupying currently the third position in top of foreign investors in Romania. The major French investors are Orange, Société Générale, Lafarge Romcim, Renault-Dacia, Carrefour and Alcatel.

### **German investment in Romanian economy**

The majority of German investments are in small businesses. More than 90% of these investments amount to less than EUR 40,000, still the Germany's contribution to the strength of the Romanian economy is substantial. However, the above mentioned figures do not take into account the fact that a number of major German companies have effected their investment in Romania through their branches in various European countries.

Main investment sectors for the German companies are: automotive industry, metallurgy, wholesale trade, plastics industry, textile industry, retail trade, IT, financial services and main players are: Metro, Praktiker, Kaufland, Selgros, Billa, Plus, Steilmann, CarpatCement, Siemens, Dr. Oetker.

### **Italian investment in Romanian economy**

Italy is presently one of the most important commercial partners of Romania ranking fifth in the top of foreign investors, with more than 22,000 Italian capital companies registered with the Romanian Trade Registry. Mainly Italian investment are focused on the so-called "labor intensive" projects, developing the Lohn system with raw materials brought from Italy. The traditional sectors in which Italians have been investing so far are textiles, construction, trade, services and agriculture.

The main Italian investors are Italstrade, Unicredito Italiano, Butangas, Pirelli Telecom, Cefin.

### **UK investment in Romanian economy**

UK is placed on the seventh position in the top of foreign investors in Romania, with over 2,900 companies registered by March 2007 and a subscribed equity capital of more than EUR 600 million. One of the most favorite investment field for UK investors is the real estate market, together with the construction field, railway, clothing & textiles, energy sector, agriculture.

Major investors so far have been: GlaxoSmithKline, BPB Gypsum Ltd, Mivan-Kier, Aviva, Halewood, British Vita.

### **Greece investment in Romanian economy**

Greece occupies the nine place in the top of foreign investors in Romania with more than 3,700 companies having Greek capital and a subscribed equity capital amounting to more than EUR 550 million. Preferred fields for the Greek investors are: telecommunications, construction sector, IT, plastic industry, distribution, banking system.

Main investors are: Romtelecom, Cosmote, Alpha Bank, Egnatia, Piraeus, Alexandrion, Loulis, Chipita, Diekat, Marks&Spencer, Germanos.

Among the factors that are deemed to support higher FDI in the future, the following are the most important:

- Romania is a politically and socially stable country, part of the EU;
- Romania has gained full membership of NATO;
- Romania represents the second largest market in the CEE region;
- The crucial geographical positioning of the country, a gateway between East and West of Europe;

- The commitment of investment funds present in the country to develop their business and the association of the Government with international financial institutions, such as FMI, BERD, World Bank, and the EU Commission;
- The high qualification of labor force and its low costs, below the levels of other countries in the CEE region.

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# **EUROPEAN INTEGRATION**

# ROMANIAN APPROACH TO GENETICALLY MODIFIED ORGANISMS

Anghel Gabriela

*“Ovidius” University of Constanta, Faculty of Economic Sciences, 1 Universitatii Alley, Constanta, e-mail: gabi\_eforiesud@yahoo.com, tel. : 0723/650.232*

Popovici Veronica

*“Ovidius” University of Constanta, Faculty of Economic Sciences, 1 Universitatii Alley, Constanta, e-mail: verovnp@yahoo.com, tel.:0723/579.963*

*Abstract: Genetically modified organisms (GMOs) - an extreme controversial issue in the entire world, raise numerous questions concerning the impact on the human health, biodiversity, farmers, legislation, etc. In Romania, country that is dealing now with lots of difficulties on agriculture and environmental protection, especially due to the recent European Union’s accession , the population is poorly informed on the risks, the regulation at national and european level, the reactions and initiatives of the European Communities regarding the cultivation and consumption of GMOs.*

*Keywords: genetically modified organisms (GMOs), GM soybeans, organic farming*

Genetic modification, also known as “genetic engineering” or “recombinant-deoxyribonucleic acid (DNA) technology” was first applied in the 1970’s, being the newest methods to introduce novel traits to micro-organisms, plant as animals. Hence, genetically modified organisms (GMO) have been called all the organisms such as micro-organisms (bacteris, viruses, etc.), plants and animals, the genetic characteristics of which have been modified artificially in order to give them a new property (a plant’s resistance to a disease or insect, improvement of a food’s quality or nutritional value, increased crop productivity, a plant’s tolerance to herbicide, etc.).

In 1994, for the first time ever, a genetically modified plant was commercially grown. The introduction of the FlavrSavr tomato in the United States (US) was the beginning of a global change in agriculture. However, when the first harvest of GM soybeans and maize was about to be shipped to Europe in 1996, consumers there voiced an unforeseen opposition to this food. Consumers wanted to know what they were eating and asked for the labelling of GM food. In many countries of the European Union (EU), the introduction of this kind of food onto the market failed, and the major EU food producers and retailers now guarantee a GE-free food supply.

Only Spain, and to a very limited extent France and Germany, were growing GE maize in 1997-1999. To date, the EU has approved the deliberate release of 18 GMOs (under Directive 90/220/EEC), but their status is uncertain, given that national bans have been imposed on 8 of these GMOs by 5 different EU countries. Of the 18 GMOs approved in the EU, 10 are agricultural crops and include soybeans, maize and oilseed rape. No GMO has been given authorisation for deliberate release in the EU since October 1998. (ANPED, 2003)

## **Genetically Modified Crops in Romania**

Romania grows GM crops on a larger scale than any other European country and was ranked 11<sup>th</sup> largest GM crop growing country worldwide in 2004. This GM crop is made of Monsanto’s GE Roundup Ready soybeans that have been genetically modified so as they are tolerant to the herbicide, Roundup (glyphosate), which is also made by Monsanto. Farmers can spray their fields of GM soybeans with Roundup, killing the weeds but not the soybeans.

Monsato’s GM soybeans have been grown commercially in Romania since 1999, before any regulations were in place here.

In 2001, about 15,000 hectares of GM soybeans were planted and the figure steadily climbed as farmers saw the advantages of the new technology, especially given Romania’s huge weed reserve. In 2004, roughly 50,000 hectares of biotech soybeans led to record yields, while the local affiliates of US biotech

companies reported unprecedented high demand for seeds for the just completed 2005 spring campaign. Growers are well aware that they can benefit by continuing to produce GM soybeans, as there is a great protein deficit in the EU.(USDA, 2005)

According to farmers, the whole Romanian soybean harvest is delivered to 2 oil mills, in Urziceni and Constanta. The mills press the soybeans to extract soy oil, most of which is used domestically. The soy soil is used to make soy protein isolate, used for sausage filling and processed foods, like margarine. After oil extraction, the remaining soyameal is used as animal feed. Farmers cannot feed raw soybeans directly to cattle, because they contain a toxic component which requires heat treatment before it can be used as animal feed.

In 2005, Monsanto's and Pioneer's GM herbicide tolerant soybeans were approved for commercial growing in Romania, while Pioneer GM maize was under field testing and several varieties of Bt potatoes were in the greenhouse of University of Timisoara. A GM Bt potato - commercially known as Newleaf and designed to kill the Colorado Potato Beetle - had been approved but was a failure in commercial cultivation in Romania in 1999 when it was grown on less than 1,000 ha. It has since been withdrawn from the seed varieties register.(ANPED, 2003)

## **Genetically Modified Organisms Free Regions in Romania**

Despite all this, in the spring of 2006, The National Federation of Organic Farmers (FNAE) and the Information Centre on GMOs (InfOMG - Romania) announce the declaration of the first GMO Free Region in Romania. A number of 26 localities from the Bistrita Nasaud county, declared themselves as GMO Free Zones. These localities are - 2 cities: Nasaud, Sangeorz-Bai and 24 de communes: Chiochis, Chiuza, Cosbuc, Dumitra, Feldru, Ilva-Mare, Ilva - Mica, Lesu, Lunca - Ilvei, Maieru, Magura - Ilvei, Nimigea, Nuseni, Parva, Poiana Ilvei, Rebra, Rebrisoara, Rodna, Romuli, Runcu Salvei, Salva, Sant, Telciu, Zagra. All of them are part of the Association for the Environmental Protection and the Preservation of Water Resources.

The "GMO Free Zones" declaration represents the official commitment of local authorities, to the extent of their legal and organizational powers, to cultivate no GMOs on their land. Also, the local authorities are asking the relevant national and regional politicians to make sure that no GM plant is / will be cultivated the present year and in the future in the entire country and to ensure them that the rights of the farmers who want to produce GM-free crops are in future legally protected and that all suitable measures are employed in order to avoid any GM contamination of their land and harvest.

The "GMO Free Romania" project is funded by the Grassroots Foundation, Germany. The goal of the project is to make the local authorities aware of the risks posed by GMOs, to convince them to take practical measures to protect their regions in the new context of co-existence and to start the public debate on the GMO issue in Romania.

## **Legal Framework on Genetically Modified Organisms in Romania**

Regulations governing GMOs crops were first introduced in 2000 (Ordinance 49/2000 on obtaining, testing, utilization, and commercialization of GMOs), after the GM soy was first grown commercially. A Biosafety Commission was established, composed of academics and officials to evaluate and license experimental and commercial releases of GMOs.

However, to bring Romania into line with EU rules, in the context of its future accession, Ordinance 49/2000 was replaced with Law 214 in April 2002, effective from May 2002. This new law provides the main framework for GM product approval in Romania. It is intended to be consistent with the EU's Deliberate Release Directive (2001/18) and is administrated by the Ministry of Environment and Water Management. A new Biosafety Commission composed of scientists has been established to advise the Ministry on applications and only GM crops with approvals can be placed on the national seed register.

Two other pieces of legislation relevant to labelling and traceability are Decision 106/February 2002 on labelling food derived from GMOs or containing GM additives or derived from GMOs; and the Minister of Agriculture, Forests, Waters and Environment Order 462/2003, effective from July 2003. Romanian enforced the complete EU 1830/2003 Regulation on labelling and traceability by the end of 2006.



The Labelling of Food No. 106 came into force in February 2003. This harmonises with EU regulations 1139/98, 49/2000 and 50/2000 and requires product-based labelling for food containing more than 1% of Monsanto's Roundup Ready soybeans and a variety of GM maize. However, the labelling law excludes the labelling of all other GMOs, such as Bt potatoes. If Romania plans to create a comprehensive and logical framework for GM food labelling, it should abstain from approving any GMO for whose products no labelling regulations exist.

Responsibility for implementation of the food labelling law lies with three departments: the Agriculture Ministry, Health Ministry and National Authority for Consumer Protection. The law states that “the producer” is responsible for labelling. According to the National Authority for Consumer Protection, “the producer” is understood to be the farmer. As the last player in the supply chain, the Consumer Protection authority claims that it will be unable to enforce the GM food labelling requirements, without the appropriate labelling of crops from the field to the market. However, none of the three agencies have a laboratory for testing for GMOs, and hence the means to implement this legal requirement.

Under Order 464/2003, the Ministry of Agriculture keeps records of the area of GM crops grown each year, collecting data from sales of seed. Farmers have to record what they have planted with local County Agriculture Department before June 15<sup>th</sup> of every year. However, this figure neglects those farmers who use farm-saved seed without reporting it.(ANPED, 2003)

## **The Situation after EU-Accession**

Romania's entry into the EU abruptly changed the legal situation with regard to GMOs, and especially regarding Roundup Ready soy. As this kind of plant is not permitted within the EU, its cultivation was immediately prohibited when Romania entered the Union, in January 2007, without any transitional period whatsoever. However, this does not mean that these plants have disappeared from the fields. Some of the GM seeds remain in the soil, thus assuring a considerable amount of soy harvest contamination. Viewed this way, Romania represents a test case if and to what extent a decontamination of areas once planted with GM plants is possible – and how long this process would take.

Conversely, entry into the EU has permitted Romanian farmers to cultivate Monsanto's GMO maize (Mon810) and GMO Bt maize - containing a gene that produces a bacterial toxin to protect the plant from insects, such as the European corn borer - both of which have been licensed in the meantime. Thus the problem has simply shifted from one plant to another. Simultaneously it is becoming more virulent as corn-growing areas in Romania are significantly more extensive than those used for soy production. 3 million hectares have been planted with (yet) genetically unmodified corn.

EU authorities approved Mon810 for cultivation a decade ago, but since then four EU countries – Austria, Greece, Hungary and, most recently, France – have imposed bans. Poland operates restrictions on the sale and import of gene-altered seeds, and very little cultivation takes place there. Most of these countries, including France and Hungary, which are the second- and third-biggest corn growers in Europe, justified the bans on the grounds that the crops potentially could harm soils and reduce biodiversity.

Romania planted only about 325 hectares, or 800 acres, of Mon810 in 2007 and this year is expected to plant about 10,000 hectares. That still represents just a fraction of the roughly 2 million to 3 million hectares of corn planted each year in Romania, as it was already mentioned. (Kanter, 2008)

On 10<sup>th</sup> of May 2007, the Romanian Ministry of Agriculture and Rural Development clearly expressed the will to re-introduce GM soy in Romania, offering as justification that its cultivation proved to have obvious advantages for Romanian farmers, with positive outcome for Romania's national economy. As Romania is an EU member state since 2007, this favorable position for GM soy commercial growing, will affect the entire European Union.

## **Complex Implications**

The cultivation of GM crops in Romania threatens biodiversity and the potential farming as in many cases the farmers do not know what they plant or what their neighbours plant. Organic and GM agriculture are incompatible, GM crops may contaminate organic farming and there is a strong need to keep GM and non-GM separate from field to fork.

Actually, organic and conventional farmers face a threat from genetic engineering because contamination would lead to loss their export markets for agricultural and food products in the EU, where consumers are

demanding GMO-free food. Romanian farmers may be excluded from this market because of the promotion of genetic engineering by the Romanian Government, the USA, and biotech companies.

According to the latest EU surveys, 62 per cent of Europeans are worried about GMO food. The majority of Europeans thinks that GM food should not be encouraged. GMO food is seen as morally unacceptable and as risky for society. (European Commission, 2006)

But, above all these, despite the cultivation of GM crops and their presence on the market, there is no public awareness about GMO. GM soybeans are milled in Romania mainly for the domestic market but in the absence of any certified polymerase chain reaction (PCR) laboratory no food producer is labelling GM food. As a consequence, the consumer has no possibility to exercise his or her freedom of choice.

## Conclusions

Agriculture plays an important role in the economy of Romania. In its rush to ‘modernise’ agriculture, Romania must reject the use of genetic engineering in farming in order to retain the option of growing non-GM crops conventionally. The commercialisation of GM crops could have long-term implications for food safety, but more immediately Romania's ability to export its GMO-contaminated harvest. This could have important socio-economic impacts, both for farmers and for consumers, as Romania loses its export markets for agricultural products in the EU and Asia, where consumers are demanding for non-GM food.

Romanian farmers have a right to know what seed they are sowing. Consumers have the right to know the true facts about genetic engineering and what is in their food. Moreover, society has the right, based on full disclosure of information, to make an educated decision about which agricultural path they want to follow. Until now, there has been minimal public awareness, and no national debate. As a result, the population is poorly informed on the risks, the related regulations at the national and European level, as well as the reactions and initiatives of the European Communities regarding the cultivation and consumption of GMOs.

By adopting organic farming instead of genetic engineering, Romania would face a much more prosperous future and the threats to its special ecosystems that GM agriculture brings would not be observed. Romania must invest more in non-GM agriculture and make sure the system of traceability and labelling are in place to protect against contamination.

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# THE PITEȘTI MUNICIPALITY COMMUNITY DEVELOPMENT IN THE POST- ADERATION STRATEGY

**Asandei Mihaela**

*“Constantin Brâncoveanu” University, Pitești, Faculty of Management Marketing in Economic Affairs, Calea Bascov 2A, mihaela.asandei@yahoo.com, Tel. 0745-068 325*

**Voicu Ioana-Iulica**

*“Constantin Brâncoveanu” University, Pitești, Faculty of Management Marketing in Economic Affairs, Calea Bascov 2A, ii\_voicucb@yahoo.com, Tel. 0723-864 353*

**Gangone Andreea-Daniela**

*“Constantin Brâncoveanu” University, Pitești, Faculty of Management Marketing in Economic Affairs, Calea Bascov 2A, andreeagangone@yahoo.com, Tel. 0741-778 317*

*Romania's existence as an European Union's member country involves the citizens active participation in solving all the problems of the community they belong to. The fundamental objective of the European Union by 2010 is to become: the most competitive and dynamic economy in the world, based on knowledge, capable of a durable economic growth, with better and more numerous work places, and a stronger social cohesion. The values of the new Europe are also promoted in Romania through medium and long-term programs for the entire community of Pitești.*

*Keys words: Community development, strategic directions, operational programs*

The model of the European democracy is one of cooperation that is based on all the community actors' participation. In practice, the principles of participatory democracy are promoted, implemented, developed and supported by public authorities, educational institutions, media and non-governmental institutions with the help of programs, projects or interventions on macro and micro-social level. The values of the new Europe (tolerance, value pluralism, equality, public participation, civism) are also promoted in Romania of the year 2008 through medium and long-term programs for the entire community.

**Community development** is defined as a process that creates the conditions for economic and social development for all the citizens of a community by their active participation and full trusts in the community's initiative (in UNO's acceptance). This process in being built around some leaders of the community and, possibly, around an initiative community group, involving an institutional consolidation on local level.

The main areas trough witch are planned the community development at Pitesti level are education, culture and art, youth and sport, health and medical support and social services.

## **1. Community politics in the Education of Pitești**

**Education** represents a national development priority, which is analysed by making reference to the specific needs of Argeș County and to the local community's expectations, by observing the legal regulations in force.

The Romanian education, which undergoing a complex reconstruction process, and implicitly, the education in Pitești, establish their priorities and define their position in the contemporary society as an asset of the community, being part of its responsibility and getting involved in its activity. In the context of a society in transition, the Romanian education must take on a new perspective regarding its functioning and evolution, the educational partnership becoming thus a priority of the strategies aiming at the Romanian education's development.

The strategies approached by the high school education and higher education fit into the performance criteria of the national education system with emphasis on the specific features of Argeș County and Pitești Municipality, but also according to the pupils' expectations and options.

Analysing the results of the opinion poll conducted on the citizens of Pitești Municipality, one can notice some relevant observations regarding the present situation of education from this city:

- The number of pre-school education units in Pitești Municipality is appreciated by the respondent citizens as being enough by 60%, as well as that of special pre-school education units (64%), but the percents of discontented people show the fact that there is a need to set up other education units for the pre-school population in the municipality;
- The best known grammar or middle school institutions in Pitești are: Grammar school no. 5 (9,5%), Grammar school no. 4 (3,8%), Grammar school no. 19 (3,8%), Grammar school no. 1 (2,9%) and Grammar school no. 7 (2,9%);
- The best known high school institutions in Pitești are: Colegiul Național Zinca Golescu (25,7%), Colegiul Național I.C. Brătianu (15,2%), Colegiul Economic Maria Teiuleanu (8,6%) and Colegiul Național Al. Odobescu (6,7%);
- The quality of higher education was appreciated by the respondents as being very good only by 2,7%, good (53,4%), average (32,4%) and very poor (5,5%).
- There is also a need for other specializations (76,2%), the most frequently named ones being medicine (30%), pharmacy (3,3%), stomatology (2,2%);
- Out of the total number of young people gone to study in other cities, less than half return to Pitești in the opinion of 55,9% of Pitești's citizens, a fact that indicates that there is a migration phenomenon of the young population to the capital city or to other big cities of the country;
- The main reasons why young people do not return to their home town after graduation are: better paid jobs (27%), lower salaries (23%), the lack of work places where they can practice their jobs (6,8%), the level of living (6,8%), work opportunities (5,4%), leisure time (5,4%), few employment offers (5,4%), marriage (4,1%).

Based on the identified strategic directions for the education field the following operational programs are being prepared:

- The modernization of the infrastructure of the high school education system
- The development of the nursery schools and kindergartens network by increasing the number of available places in the public/private institutions
- Supporting the education institutions and teaching staff involved or interested in carrying out some national and international projects (Comenius, Socrates, Leonardo da Vinci, Inclusion education, Second chance, etc.)
- Granting scholarships for pupils and students who obtain good results and for those coming from modest families
- The identification on city level of the development perspective so that a re-orientation of the educational offer can be achieved according to the future needs of local work market
- The rehabilitation and modernization of the existing sports rooms and of the schools' courtyards so that the children's safety can be ensured
- Setting up some production laboratories and workshops for the training of the pupils in the Arts and Trades Schools
- The identification of some spaces for the education institutions that function in retrocede buildings

## **2. Community politics in cultural and artistic life of Pitesti**

**Culture and art** together with education play a strategic role in the modernization process of every society; therefore the potential of these fields must be prized, both locally and nationally.

At national level, the City of Pitești is less known from a cultural and artistic point of view; therefore, it is necessary to elaborate a policy that deals with the intensification of cultural life and the assessment of local traditions by developing various cultural programs and promoting them at national and international level.

The Philharmonics of Pitești Municipality was set up a year ago, with the support of Pitești Cultural Centre. It is a professional institution of interpretative art, which promotes the values of Romanian and universal musical culture. The Philharmonic Chorus had its debut in November 2007, as a result of the preoccupations meant to develop the cultural zone.

Today, more than ever, the values of culture and art in Pitești got new valences since new large projects became the expression of some unanimously appreciated stage activities. Nevertheless, for a continuous development of these fields, we must consider the following **strategic directions**:

- Providing adequate spaces for the activities of cultural institutions;
- Increasing the quality of cultural activities in Pitești;
- Developing the partnership between cultural operators, local public administration institutions and local business environment;
- Elaborating coherent policies in the field of culture and art;
- Rehabilitating and modernizing the headquarters of Pitești Cultural Centre;
- Creating a Planetarium at the Argeș County Museum;
- Increasing interest for cultural publications edited under the aegis of local officials;
- Promoting traditional cultural manifestations.

In this field, operational programmes aim is:

- To perpetuate the tradition of some very important events for the community: Tulip Symphony, City Day, D.G. Chiriac – International Choral Festival, National Festival of Dance Society, International Festival of Studio Theatre, Gh. Iliescu Calinesti – International Sculpture Symposium Carpati, International Folk Festival, Youth Carnival, Zavaidoc National Old Fiddle Music Festival, The Potters' Fair
- To rehabilitate and to renew The Cultural Centre from Casa Cărții
- To set up Pitești Philharmonic orchestra
- To modernize Dinicu Golescu Arges Country Library (to endow lecture rooms with air-conditioning)
- To set up The Planetarium & The Astronomic Observer within Argeș County Museum

### **3. Community politics for young people**

The fundamental objective of these policies must regard the correlation of the officials' projects with the young generation's major needs and problems in order to accomplish a sustainable economic, social and cultural development.

Consequently, one must consider the following **strategic directions**:

- Providing conditions for an adequate development of the formal education process;
- Maintaining facilities for public transportation in order to stimulate the access to education;
- Improving young people's life conditions by constructing homes and student hostels, increasing the young people's accessibility to a home;
- Creating an appropriate environment of new jobs for students and pupils, with a part-time program;
- Supporting non-profit organizations in order to develop educational activities for young people (health, social protection, cultural, entertainment and recreational activities);
- Supporting young people in getting involved in the social and cultural life of local community;
- Professional formation of the young people starting from the institutions' needs (partnerships between Argeș Prefect's Office and institutions of higher education).

Operational programmes in the field aim is:

- To promote the activity of Local Youth Council

- To build social houses and lodgings for young people
- To organize some artistic and cultural events for young people: The Students' National Poems Festival (Juventus), The Student's Local Cultural Week (Argesis), Autumn's Colors students' Fashion Festival, Freshners' Autumn, Open Doors (2-9 May), The month of local student (student from Pitesti)
- To organize Youth & Education Week

#### **4. Community politics in sport**

The sports activity in Pitești is coordinated by the National Agency of Sport, which manages Argeș County Sport Direction, the Municipal Sport Club of Pitești, Bascov- Budeasa National Complex and Muscelul Câmpulung Sport Club, the 4 clubs having private legal personality and direct financing from NAS.

In Pitești one may notice a poor representation of mass sport, the sport and entertainment technical and material base (sport clubs, fields, equipments) is limited and insufficiently developed, competitive sport is rarely supported from a financial point of view and in little sports (judo, tennis, football etc.).

In order to provide a continuous development, a competitive organization and functioning for the local system of physical education and sport, we must impose the following **strategic directions**:

- Developing some national programs: Sport for everyone, Professional Sports, Maintenance, improvement and development of material base of sport for everyone;
- Developing sports activities in schools and universities;
- Developing the sports and entertainment material base (such as creating a skating rink);
- Reinforcing professional sports (athletics, boxing, volleyball, handball, canoeing and kayaking etc.), providing facilities for professional sports such as using the Municipal Stadium and the Olympic Swimming Pool;
- Getting resources to sustain professional sports;
- Increasing the attractiveness of Trivale Natural Park;
- Rehabilitation of Ștrand Park;
- Restoration of the Zoological Garden.

For sport and entertainment, operational programmes aim to:

- To rehabilitate and modernise Nicolae Dobrin Stadium
- To modernise Sports' House
- To modernise Youth Sports' House and to rehabilitate Strand Park
- To modernise and to rehabilitate Trivale Natural Park
- To rehabilitate Expo-Park
- To modernise The Olympic Pool

#### **5. Community politics in the health and medical assistance**

Health and medical assistance represent a prior field of public policies on national level, which decisively influence social protection, work, economic development, etc. The elaboration of a local strategy completes the de-centralization tendency of the health policies towards the levels of local public administration.

The strategic directions for the development of the local medical assistance system aim at:

- The creation of a super-institutional structure on the municipality level that can include representatives of the local public authorities, governmental institutions qualified in the health and medical assistance field, representatives of the medical services suppliers, representatives of the population, non-governmental organizations active in the health field;
- Lobby activity regarding the development of an integrated informative system of all the above-mentioned structures that will be able to allow the development of the analysis and prognosis capacity in the health field;

- The accomplishment of an analysis of the population's state of health in Pitești and the establishing of the priorities and objectives in the health field;
- The development of projects or partnerships in the field of family planning and reproduction health;
- The development of projects and partnerships regarding the prophylaxis and increase of the population's awareness concerning the risk of developing infectious and chronic diseases;
- The rehabilitation, modernization and endowment of the hospitals' out-patients' departments;
- The modernization and endowment of the emergency departments within the regional hospitals (The County Hospital, The Paediatric Hospital).

## **6. Community politics in the Social Services**

**Social services** are defined as representing the totality of measures and actions performed to respond to the individual social needs, family or group needs, in order to overcome some difficulty situations, to reserve the individual's autonomy and protection, to prevent social exclusion. These services are performed by the local public administration authorities or by the public/private natural/legal persons.

There are partnerships signed between Pitești's Municipality City Hall and non-governmental organizations in order to carry out some projects in the community's benefit, in the social, youth, natural environment's protection, animals' protection fields, such as: Save children Association, Compartir Foundation, Shuman solidarity Association, Equilibre Association, Ute Langenkampf-Love stray dogs Association, The association for Promoting youth's programs, The association for Helping physically disabled children from Romania, Argeș subsidiary branch (ASCHFR).

**Operational programs** in the social protection field:

- Marinating the functioning standards of the social center "Hope"- night emergency shelter
- Extending the Care and Assistance for elder people Center from Pitești
- Counselling center for the prevention and fighting against social exclusion in order to find solutions for the reintegration of elder people, of people with deficiencies, of families with many children, of single-parent families
- Setting up a shelter for young women coming from orphanages
- Forming home assistants
- The rehabilitation center for people with deficiencies "Chances for everybody"

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# LIFELONG LEARNING IN THE CONTEXT OF THE NEW LISBON STRATEGY

**Barna Cristina**

*Spiru Haret University, Faculty of Marketing and International Business, Bucharest, 313, Splaiul Independentei, District 6, cristina.barna@spiruharet.ro , 0723263677*

**Lenghel Emilia**

*United Nations, Zandzegge 2, 2318 ZL, Leiden, Netherlands, emlengh@yahoo.com, 0031-615669228*

*Lifelong learning is the core of the ambitious Lisbon 2010-process. Lisbon Growth and Jobs Strategy aims to transform Europe's education and training systems into world leaders. Also, considering the challenges of the complex adaptive systems, it is therefore undeniable that the future success of European Union economy will rely on the capacity to build up an environment promoting knowledge, creativity and lifelong learning. The human being is an intelligent dynamic system with unthinkable capacities. And the management of the new world organizations has to be focused on building societal and organizational systems that generate collective intelligence and continuously facilitate co-evolution and innovation among the citizens, among the employees. This in turn, enables them to re-create themselves and positively contribute to the economical growth. We consider lifelong learning to be the key in achieving all these goals.*

*Key – words: lifelong learning, lifelong learning strategy, Lifelong Learning Programme, Lisbon Strategy, complex adaptive systems, ChangeBrain strategic learning spiral*

The European Union adopted a Communication in October 2006 entitled "*It's never too late to learn*". The document suggests lifelong learning to be the core of the ambitious *Lisbon 2010-process*, in which the whole European Union should become a learning area, especially now when the *knowledge based economy* is characterized by a continuous acceleration of innovation and an increased use of knowledge.

Three years after it was re-launched in 2005, the *Lisbon growth and jobs strategy* demonstrated that it is working, but the European Union must reform further in order to succeed in a globalised age. We can state now that the "*triangle of learning*" (*education – research – innovation*) plays a central role for a positive trend in growth and jobs creation. But what involves in fact the *New Lisbon Strategy?* – an increased research development & innovation, a more dynamic business environment, *investing in people*, and greening up the economy [1]. With reference to the objective of investing in people, we must consider besides more and better jobs, *lifelong learning* as being of major importance, and, in consequence, subject of our paper.

*Lifelong learning* must mean high quality initial education for all, from an early age and throughout lifetimes, reducing drop-out rates from schools, world-class higher education, vocational training systems that respond to students and employers' needs, real opportunities and incentives to learn new skills throughout careers, including for older workers. *The Lisbon Growth and Jobs Strategy* aims to transform Europe's education and training systems into world leaders. *Lifelong learning* equips people for change and better jobs, so it is also an important element of flexicurity, the labour market model, already used in some Member States that combines flexible work arrangements with strong social protection [2].

*Lifelong learning* should be viewed as a concept covering all contexts (formal, non-formal, informal) and levels (pre-school, primary, secondary, tertiary, adult, continuing) of education and training. A *lifelong learning strategy* should include flexible learning pathways and effective transition points between all systems and levels of education and training in order to avoid dead-ends. Lifelong learning strategies should build on partnerships with all relevant stakeholders (including policy makers at national, regional and local levels, social partners, learners and representatives of civil society) and must include the necessary implementation and dissemination arrangements. [3]

The agreements from the 10-year work program of the European Commission, *Education and Training 2010*, constitute the EU strategic framework of co-operation in the fields of education and training, and are



implemented through the open method of coordination. Member States have agreed on *three major goals to be achieved by 2010* for the benefit of citizens and the EU as a whole [4]:

- First to improve the quality and effectiveness of *EU* education and training systems;
- Second to ensure that they are accessible to all;
- Third to open up European education and training to the wider world.

Over the last five years the *Education and Training 2010 Work Program* of the *European Commission* has made a vital contribution towards achieving the main objectives of the Lisbon Strategy: growth and jobs working together for Europe's future. The *Education Council* adopted for the first time in 2001 the future objectives in terms of quality, accessibility and openness of education and training systems, to be achieved in practice by 2010.

These objectives were followed-up in 2002 by a detailed work program. In 2002 it also adopted a resolution committing the Member States and the *European Union* to developing national *lifelong learning* strategies. The *Copenhagen Process* was launched in 2002 by the Ministers responsible for vocational education and training in cooperation with the social partners and the *European Commission*, with a view to improving cooperation in the field of vocational education and training. *The Education and Training 2010 Work Program* incorporates these various policy orientations and the implementation of the *Mobility Recommendation and Action Plan*. It also takes into account the outcomes of the Bologna process in the field of higher education. It establishes cooperation between 32 countries and involves different stakeholders, including social partners and international organizations. It covers all learning contexts (formal, non-formal and informal) and levels (pre-primary, primary, secondary, higher, adult education and continuing training) of education and training within a lifelong learning perspective.

The conclusions from the spring 2006 *European Council* underline that education and training are critical factors in developing the EU's long-term potential for competitiveness as well as social cohesion and reiterate that "investments in education and training produce high returns which substantially outweigh the costs and reach far beyond 2010". Further to this the conclusions from the spring 2007 *European Council* describe education and training as prerequisites for a well-functioning knowledge triangle (education - research - innovation) which play a key role in boosting growth and jobs [5].

Also, last years of research in education field were remarkable by results as establishment of new concepts – *zone of mutual trust (ZMT)*. There are many reasons for the emergence of *ZMTs*, as example enhancing *lifelong learning* through improved access to learning or through increased learner awareness of skills etc. Definitions of a *zone of mutual trust* and reference levels were developed to help those who need a common understanding. A *zone of mutual trust* is an agreement between individuals, enterprises and other organizations concerning the delivery, recognition and evaluation of *vocational learning* outcomes (knowledge, skills and competences). *ZMTs* offer practical help with decisions about the value of qualification and certification, further learning and recruitment into employment. They may be dynamic in nature and may become more or less formal in scope and from according to the mutual confidence and needs of the stakeholders involved [6].

At European level, it is remarkable the *European Commission's* initiative of integrating various educational and training activities under a single umbrella, the *Lifelong Learning Programme* [7]. With a significant budget of nearly EUR 7 billion for the period 2007 - 2013, the new programme replaces the existing education, vocational training and e-Learning programmes, which ended in 2006. The new Lifelong Learning Programme enables individuals at all stages of their lives to pursue stimulating learning opportunities across Europe. It consists of four sub-programs: Comenius (for schools), Erasmus (for higher education), Leonardo da Vinci (for vocational education and training) and Grundtvig (for adult education). A transversal programme complements these four sub-programs in order to ensure that they achieve the best results. Four key activities focus on policy co-operation, languages, information and communication technologies, effective dissemination and exploitation of project results. Finally, the Jean Monnet programme stimulates teaching, reflection and debate on the European integration process at higher education institutions worldwide.

Lifelong Learning Programme represents the necessary infrastructure for transforming Europe in a real area of lifelong learning, and in consequence is a key in promoting social inclusion and personal fulfilment, and also in achievement of people's employability and adaptability.

We are experiencing now the very middle of the second economic revolution, as a result of the changes in the stock of knowledge, which entails an entirety societal conversion, depicted by three particular changes in the economic system:

- a change in the reserve of knowledge generated by
- a change inside the organizations in order to enable them to cause the new productive potential
- generating as outcome a change in the productive potential of a nation [8] the entire world becoming more and more complex.

*Complexity theory* has grown out of *systems and chaos theories* in an effort to demonstrate why the entire universe is greater than the sum of the parts and how all its components come up together to generate overarching patterns as the system learns, evolves and adapts. But *chaos theory* is totally different from complexity, the two concepts being totally distinctive as in chaos theory the iterated principle is constant, while *complex systems are be capable of adapting and evolving*. [9]

Researchers are translating the theory into a new science relating its key elements to management with a focus on learning and knowledge management. But are the complex systems capable to adapt as fast as the external system impose this? The application of *complexity theory* to a broad range of business and *organizational development issues* is widening in practice. In this field of inquiry a body of thought known as *complex adaptive systems*, or *CAS*, theory has been successfully established. As Mitleton-Kelly (2003) states, complexity is not a methodology or a set of tools (although it does provide both). The theories of complexity *provide a conceptual framework, a way of thinking, and a way of seeing the world* [10] and understanding the business systems in order to provide solutions for the future economy.

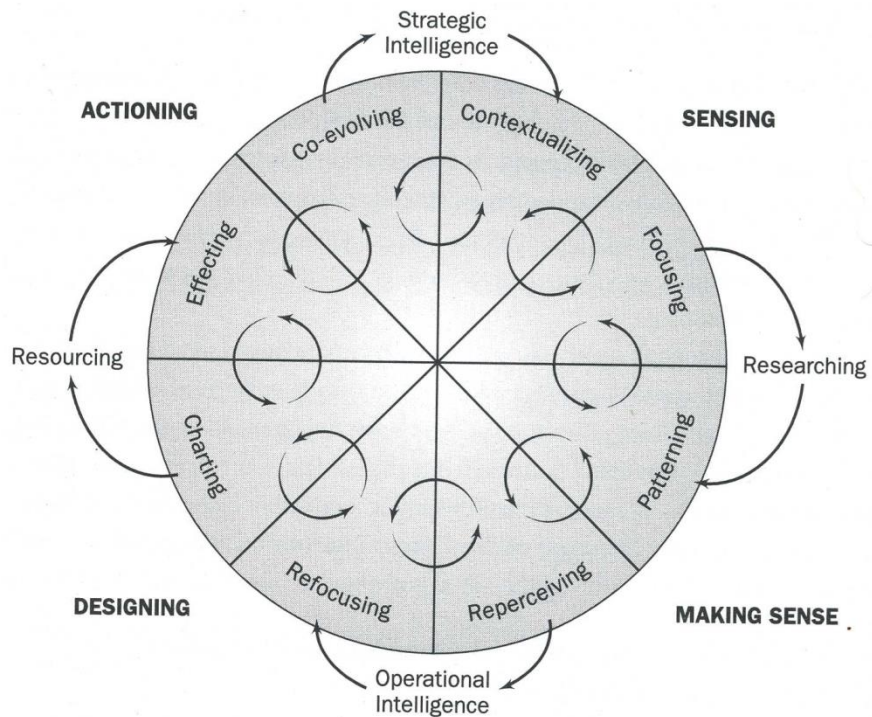
It is therefore undeniable that the future success of European Union economy relies on the capacity of building an environment promoting knowledge, creativity and entrepreneurial spirit, *lifelong learning*, through a coherent, inclusive and proactive modern policy. Socio-economic growth, in a globalised world, increasingly relies on entrepreneurial initiative and innovation capabilities. As Greenspan states that *the ultimate competitive goal didn't change* [11]; it is still gaining maximum rate of return. What will happen, in this context, if the present gaps between developed world and the rest might become too big and impossible to be covered or the price for covering it might cost too much our entire humanity?

The human being is an intelligent dynamic system with unimaginable capacities. And the management of the new world organizations has to be focused on building societal and organizational systems that generate *collective intelligence* and continuously facilitate co-evolution and innovation among the employees, in order to make them able to re-create themselves and positively contribute to the economical growth. The result will be the creation of new social and organizational forms through co-participation of all those directly affected. Thus, it does not matter if we are speaking about a developed market or an emerging one, the importance of the entrepreneur not only *through his management skills and employee administration* [12] but also through the decisional process concerning organizational development and human resources training, it is critical.

The change of the systems way of thinking can be generated by both something apparently insignificant or by a huge reform. A small, but critical, change of the system way of thinking can make the deep, unimportant, thoughts of the human being to become tremendously powerful. Richard Hames [13] consider that the most effective tool of ensuring that an organization is conscious of the internal and external system evolutions *is through the persuasive use of the ChangeBrain strategic learning spiral*.

Accordingly to *chaos theory*, missing connections and communication not only during the entire existence of an organization has as outcome the insecurity of the future. Consequently, any strategy developed, in these circumstances, will be incremental and short-term. An improved communication within the organization, by using both formal and informal channels and the promotion of formal and informal training, will maximize the entire activity, by creating a balance not inside the system but in the system development process.

Information is of no use unless it can be communicated. Therefore a work environment allowing and promoting employees' development it is compulsory for the organizational survival and growth, the transfer of managerial know-how constituting a key mission. *ChangeBrain spiral* model combines rigorous investigation with intuitive synthesis and use the operational intelligence of the entire system, promoting and facilitating continuous development and learning, as presented in figure 1.



**Figure 1. The ChangeBrain Strategic Learning Spiral**  
 (Copyright 1996 Hames & Oka)

The *ChangeBrain spiral* model is generator of power and craving for learning and confidence for taking actions by leaders. Moreover, it is initiator of organizational growth in a world requiring more and more mixes of generalized and advanced skills and competencies, in line with the modern working conditions. In order to manage complexity it is necessary to become capable to come to a decision in real time, considering not only the dynamics of the functions that make up the complex system but also the dynamics of the system itself. [14]

Nyhan et al. [15], states that one of the keys to promoting learning within organizations is to organize work in such a way that it promotes human development. Additionally, they need collaborative support networks, which will facilitate the transfer of tacit knowledge. This has to be implemented through a continuous direct and permanent contact between actors from diverse organizations, based on spatial and cultural neighborhood, if they are to implement e-learning in the workplace. And it has to be based on partnership between enterprises and other regional 'knowledge institutions' such as universities, innovation centers, technology centers, and vocational education and training providers.

Europe's tomorrow society needs to make *learning a lifelong endeavor*; and people, does not matter their age, have to develop continuously their skills. E-learning will have a significant contribution, for both employees and organizations, promoting development and transforming the way they learn, interact and work. Furthermore, e-learning is opening access to knowledge for people with special needs and those living in difficult circumstances (marginalized groups, migrants, single parents, etc.).

The world economy is evolving, is becoming more complex than ever before, and also the regional economies and European Union. And the European Union societies are eminently shaped by political developments, legal structures and cultural factors. Therefore it become imperative for the enterprises to rethink the way they are doing business, by moving toward a real strategic development and educate their workforce in order to facilitate the recognition of lifelong-learning benefits.

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# QUELQUES REFLEXIONS SUR LA STRATEGIE DE LISBONNE – LE CAS DE LA ROUMANIE

**Belaşcu Lucian**

*Universitatea “Lucian Blaga” Sibiu, Facultatea de Ştiinţe Economice, Calea Dumbrăvii, nr. 17, 2400, Sibiu, lucian\_belascu@yahoo.com, 0742 610003*

**Baltador Lia**

*Universitatea “Lucian Blaga” Sibiu, Facultatea de Ştiinţe Economice, Calea Dumbrăvii, nr. 17, 2400, Sibiu, lia\_baltador@ulbsibiu.ro, 0724 321992*

*Résumé: La communication porte sur le contenu de la Stratégie de Lisbonne par la présentation de son historique, avec les changements enregistrés au fil du temps. Nous essayons également de sensibiliser sur l'importance du suivi des recommandations de cette démarche européenne, si nécessaire pour la longévité économique de l'Union. Nous nous penchons également sur le cas de la Roumanie en tant que pays membre soumise aux exigences européennes. Une présentation des réussites parsemées par les situations encombrantes ainsi que par les suggestions du Conseil et les engagements de l'administration roumaine vont se constituer dans une deuxième partie de notre article.*

*Mots-clés: stratégie, Lisbonne, réformes, occupation, innovation*

La stratégie de Lisbonne a été décidée dans le cadre du Conseil Européen de Lisbonne, en mars 2000, et se proposait de «soutenir l'occupation, la réforme économique et la cohésion sociale, comme parties d'une économie basée sur la connaissance». On essayait ainsi une «transformation radicale d'une économie européenne»<sup>117</sup>, qui puisse faire face aux nouvelles enjeux induits par la globalisation, concernant la croissance des interdépendances entre les pays, l'augmentation des pressions concurrentielles, de la révolution technologique des années 1990. On poursuivait, notamment, la croissance de la compétitivité de l'économie européenne par rapport à celle des Etats-Unis.

Les démarches ont démarré avec une analyse de la situation de fait de l'économie européenne pendant cette période-là. Parmi les avantages que l'économie de l'Union Européenne assurait, il faut mentionner: un taux de l'inflation réduit, un taux d'intérêt et des déficits publics faibles, mais aussi une main d'œuvre bien préparée et des systèmes de protection sociale efficaces.

Les points faibles se rapportaient au taux d'occupation (à cette date-là il y avait plus de 15 millions de chômeurs) et au secteur tertiaire, insuffisamment développé, surtout en ce qui concernait les télécommunications et l'Internet.

L'objectif stratégique de l'Union Européenne est mis en valeur par la phrase la plus citée de ce document, c'est-à-dire de devenir, jusqu'en 2010 «l'économie la plus dynamique et compétitive du monde entier basée sur la connaissance, capable d'une croissance économique durable, génératrice de nouveaux emplois, meilleurs, et caractérisée par une plus grande cohésion sociale»<sup>118</sup>. A partir de cette citation de la stratégie il faut remarquer deux aspects. D'un côté, il ne s'agit pas de partenariat, mais d'un leadership européen qui est envisagé. De l'autre, on vise la croissance économique durable, et les questions d'environnement ne représentent pas de priorité. L'économie basée sur la connaissance allait soutenir la croissance économique et, en même temps, mener à l'amélioration de la qualité de l'environnement. Le techno-optimisme qui se dégage de ce document stratégique considérait que les instruments des Technologies Informationnelles et de Communications (ITC) peuvent déterminer, directement, la résolution de certains déséquilibres naturels.

Par le biais de la Stratégie de Lisbonne, on a établi l'objectif d'obtenir une croissance économique annuelle de 3 % et de créer 20 millions de nouveaux emplois, jusqu'en 2010. L'agenda Lisbonne envisageait toute une série d'objectifs spécifiques dans des domaines tel que l'innovation, les entreprises (notamment les PME) et la libéralisation des divers marchés. Les objectifs établis en 2000 étaient ambitieuses et couvraient

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<sup>117</sup> Conclusions de la présidence du Portugal, Lisbon European Council, 23 and 24 March 2000

<sup>118</sup> ibidem

toute une série de domaines. En ce qui concerne l'occupation de la main d'œuvre, on visait d'atteindre un taux de l'occupation de 70 % et la croissance du nombre de femmes et de personnes plus âgées qui présents sur le marché du travail. Pour encourager l'innovation, l'objectif était d'accroître le nombre des ménages qui aient accès à l'Internet, ainsi que la croissance des dépenses pour la recherche-développement. Dans le domaine des entreprises, les Etats membres devaient initier plusieurs mesures pour appuyer les petites entreprises, y compris la réduction de la bureaucratie dont elles se confrontaient dans le déroulement de l'activité. La croissance de la concurrence sur le marché des télécommunications et la libéralisation des marchés de gaz et d'électricité étaient également concernées.

Les résultats de la mise en place de cette stratégie ont été en-dessous des attentes. A la moitié de la période de mise en place de la stratégie, dans certains pays européens, la situation économique et sociale semblait s'empirer. Par exemple, en Allemagne et en France, le chômage touchait à peu près les 10 %, et la croissance économique, au niveau européen, se situait en-dessous de 2 % par rapport au Etats-Unis, qui connaissait une croissance de plus de 3 %. Autrement, il ne faut pas non plus nier que, dans certains domaines, pendant la même période, on a enregistré certains progrès, tout comme il s'est passé avec la libéralisation des marchés d'électricité, de télécommunications et de services financiers.

## **Relance de la Stratégie de Lisbonne**

L'évaluation des résultats de mise en place de la Stratégie de Lisbonne, en printemps 2004, est revenu à l'ancien premier-ministre des Pays-Bas, Wim Kok, qui a été désigné à conduire un groupe d'experts et à rédiger un rapport, dans le but de donner une nouvelle impulsion à la Stratégie de Lisbonne. Conformément aux conclusions du «Rapport Kok »<sup>119</sup>, présenté lors de la réunion d'automne du Conseil de l'Europe de la même année, les résultats obtenus ont été décevants à cause de «l'agenda trop chargé, au manque de coordination et aux priorités conflictuelles». De plus, le rapport suggère que la faute principale revenait aux pays membres, qui n'avaient pas eu suffisamment de volonté politique de mettre en place les réformes nécessaires en vue de réalisation des objectifs de l'Agenda Lisbonne.

Suite à ce rapport, qui faisait référence à la croissance de l'adaptabilité, l'augmentation de l'attractivité du marché du travail européen, l'augmentation des investissements en capital humain (par formation continue, tout au long de la vie), tout comme à la croissance de la mobilité de la main d'œuvre, la Commission Européenne a décidé la relance de la Stratégie de Lisbonne (en la renommant Stratégie Lisbonne pour la croissance et emplois)<sup>120</sup> en 2005. Cette nouvelle approche visait que l'accent soit mis plutôt sur les actions qui devaient être mis en place, que sur les objectifs qui doivent être réalisés. C'est pourquoi, 2010 et les objectifs concernant d'atteindre un certain taux de l'occupation ou d'un niveau de croissance économique, ne sont plus considérés comme étant toujours des priorités. La Commission Européenne et les Etats membres ont décidé que la nouvelle stratégie, structurée en cycles de trois ans, aie comme fondement un partenariat étroit entre eux, et que sa mise en oeuvre s'appuie sur le Programme Communautaire de Lisbonne (lancé en juillet 2005) et sur des Programmes Nationaux de Réformes, actualisés annuellement.

La stratégie révisée considère la croissance du potentiel et de la productivité comme éléments fondamentaux pour la consolidation de la compétitivité, au centre des préoccupations se situant la connaissance, l'innovation et l'optimisation du capital humain.

De plus, on définit la relation entre Stratégie de Développement Durable de l'UE et la Stratégie de Lisbonne: «la nouvelle stratégie Lisbonne est une composante essentielle de l'objectif dominant du développement durable»<sup>121</sup>. La croissance du bien-être et l'amélioration des conditions de vie, d'une manière soutenable, qui soit garantis autant pour la génération actuelle, que pour celles futures. Ces deux stratégies sont ainsi complémentaires, poursuivant des cibles complémentaires, utilisant des instruments différents et dégageant des résultats dans des périodes de temps différents.

La stratégie révisée inclut ainsi la technologie d'environnement et le management durable des ressources naturelles «comme un potentiel moteur de la croissance et de la création de nouveaux emplois», même si la Technologie de l'Information (IT) occupe le rôle central. La confiance dans la capacité du développement du secteur des services, notamment la création d'une «économie virtuelle» a mené à la manifestation d'une

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<sup>119</sup> [http://ec.europa.eu/employment\\_social/employment\\_strategy/pdf/etf\\_de.pdf](http://ec.europa.eu/employment_social/employment_strategy/pdf/etf_de.pdf), le 18.04.2008

<sup>120</sup> <http://www.strategies.eu.tf>, le 18.04.2008

<sup>121</sup> [http://ec.europa.eu/growthandjobs/index\\_en.htm](http://ec.europa.eu/growthandjobs/index_en.htm)

attitude post-matérialiste au niveau de l'Union. A cet égard, la technologie de l'information et des communications allait réduire la production de biens matériels et, également, la consommation de ressources naturelles, tout en réalisant, de cette façon, la réalisation d'un objectif de protection de l'environnement. En même temps, l'éco-technologie et l'éco-innovation devaient être encouragées, tout particulièrement dans des domaines tel que l'énergie, le transport et les acquisitions publiques. L'expérience a indiqué ainsi le fait que les effets obtenus étaient, souvent, adverses à ceux suivis. Les nouvelles technologies et l'orientation de la main d'œuvre vers ce domaine a déterminé, suite au feedback positif, que les possibilités de production et la production effective de biens matériels augmente, en contribuant ainsi à la croissance de la pression sur les ressources naturelles.

Dans le premier rapport annuel concernant les progrès enregistrés, depuis janvier 2006, la Commission a défini quatre domaines principaux, qui imposaient des mesures supplémentaires: en plus des investissements encore plus grands en éducation et recherche, plus d'appui pour les PME et pour la création de nouveaux emplois, la Commission a considéré que la définition d'une politique commune dans le domaine de l'énergie doit être partie de la Stratégie de Lisbonne.

Dans le deuxième rapport (de décembre 2006) intitulé «Une année de résultats», la Commission Européenne conclut qu'elle a assuré 75 % des mesures qu'elle considérait comme faisant partie de la Stratégie de Lisbonne, dont on rappelle l'adoption de la Directive concernant les services, l'agrément du Programme Cadre 7, ainsi que les progrès enregistrés pour ce qui est des services financiers. Dans la liste de questions «inachevées» on inscrit la portabilité intra-communautaire des retraites, la libéralisation incomplète de l'énergie et des transports, ainsi que la réforme du système européen concernant la propriété intellectuelle. A nouveau, la Commission désigne quatre domaines prioritaires d'action: des investissements en connaissance et innovation, la réduction des pressions administratives pour les PME, la modernisation du marché du travail et l'énergie et les changements climatiques.

En décembre 2007, trois ans après la relance de la Stratégie Lisbonne, le rapport stratégique de la Commission conclut que les politiques définies par la Stratégie Lisbonne donnent, finalement, des résultats. Pourtant, le rapport souligne que «tous les pays n'ont pas mis en place des réformes avec la même détermination» et que des réformes dans certains domaines (l'ouverture des marchés d'énergie et de services) on été mis en oeuvre plus lentement.

Le rapport, présenté au Conseil de printemps des 13-14 mars 2008, considérait que, pour le prochain cycle de trois ans, les réformes doivent continuer à être mis en place, tant au niveau national, que communautaire. Il établit également toute une série de nouvelles initiatives politiques dans les quatre domaines prioritaires, identifiés en printemps 2006: des investissements en capital humain et la modernisation du marché du travail, l'environnement d'affaires, la connaissance, l'énergie et l'environnement<sup>122</sup>.

## **La Roumanie dans le contexte de la Stratégie de Lisbonne**

La Roumanie a eu droit à une croissance annuelle d'environ 6,5 % depuis 2003 jusqu'en 2007, avec des prévisions assez optimistes pour 2008, 5,9 % (Conseil de l'Europe), mais plus pessimistes 5,4 % (Fonds Monétaire International). Selon le dernier les prévisions sont encore plus sombres en ce qui concerne le déficit de compte courant estimé à 14,5 % du PIB, alors que l'année dernière déjà le déficit de la balance de paiements a touché un maximum historique de 13,9 % du PIB, c'est-à-dire 66,1 % de plus par rapport à 2006, voire 16,87 milliards d'euros. Tel que l'on souligne dans le rapport sur les perspectives économiques mondiales, récemment publié par le FMI, le niveau du déficit de compte courant inclue la Roumanie dans la catégorie des pays européens avec un déséquilibre de la balance de paiements de plus de 10 % du PIB, dans le voisinage de la Bulgarie et des pays baltiques. Pour 2009, le FMI estime pour la Roumanie un déficit de compte courant de 13 % du PIB, alors qu'en 2013 une diminution jusqu'à 8,5% du PIB, voire un niveau similaire à celui de 2004. Les projections du FMI pour le déficit de compte courant de la Roumanie sont plus pessimistes que celles de la Commission Nationale de Prévision – qui estime un déficit extérieur de seulement 13,5 % en 2008 – et plus optimistes que celles de l'agence de rating Fitch, qui voit une accélération massive du déséquilibre de la balance de paiements, jusqu'à 17,5 % du PIB pour cette année. La croissance s'est en grande partie réalisée grâce aux investissements étrangers et à la croissance rapide de la consommation des ménages tout en créant un grand déficit de compte courant et une croissance de

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<sup>122</sup> [http://ec.europa.eu/growthandjobs/faqs/developments/index\\_en.htm](http://ec.europa.eu/growthandjobs/faqs/developments/index_en.htm)

l'inflation. Le Produit Global Brut/habitant reste faible, environ 38 % de la moyenne de l'UE, en 2006. Le taux de chômage a été 7,3 % en 2006 et 7,1 % en 2007. Le taux d'occupation (58,8 %) est bien en-dessous de la cible de Lisbonne (de 70 %) et de la moyenne de l'UE. Le chômage au sein des jeunes de Roumanie a dépassé les 20 % - l'un des plus grands pourcentages de l'UE. Les deux dernières années signalent la continuation de la croissance de la balance de paiements extérieures, de moins en moins de temps effectivement alloué au travail non qualifié, une croissance considérable des crédits de consommation, situations qui ont alimentées la pression inflationniste. L'enjeu pour la Roumanie c'est de diminuer ces vulnérabilités macro-économiques le plus vite possible par des réformes structurelles en vue de la croissance de la compétitivité et en utilisant graduellement les avantages du coût minimal pour diriger l'économie vers des activités innovatrices et de haute valeur. Le Programme National de Réforme de Roumanie réalisé à la fin de juillet 2007 identifiait six enjeux clé qui devraient être suivis de près pour pouvoir bien mettre en place les réformes ultérieures: la croissance de la qualité et l'expansion du management au niveau gouvernemental dans le contexte d'une politique macro-économique prudente, l'amélioration de la fonctionnalité des marchés, l'amélioration de l'environnement d'affaires, la croissance du taux d'occupation et du taux de l'activité sur le marché du travail, management soutenu des ressources, une amélioration de la capacité administrative.

On est tous d'accord, des progrès il y en a, mais le développement socio-économique est encore ralenti par le fonctionnement de l'administration publique. La relance de la capacité administrative est nécessaire le plus vite possible en ce qui concerne la planification et l'exécution du budget, l'application des règles de la compétition, supervision et régularisation, modernisation des services d'administration publique et l'assurance d'un système judiciaire cohérent. Le Programme de Réforme admet le fait qu'il faut améliorer la capacité administrative tant au niveau central que local, mais on considère par contre qu'il propose très peu d'actions concrètes. Un grand problème le constitue toujours la corruption qui altère l'environnement d'affaires ainsi que l'accès à des services publics de qualité. On a bien prévu plusieurs mesures établies par le Conseil de l'Europe en printemps 2006: il y a des priorités dans le domaine de la connaissance-recherche, de l'entrepreneuriat, de l'occupation de la main d'œuvre. Il faut toujours faire un grand effort pour assurer la simplification de l'environnement d'affaires. La Roumanie est éligible pour des fonds en valeur de 19,67 millions d'euros en provenance des Fonds Structurels et de Cohésion pendant la période 2007-2013. Il y a un fort lien entre ces fonds et le Programme National de Réforme de Roumanie. Du montant total des sommes allouées, 56 % est destiné aux objectifs de Lisbonne. Dorénavant, il est très important de s'y mettre tout spécialement au niveau local pour assurer l'utilisation correcte des fonds et leur absorption.

La politique fiscale de Roumanie n'est pas encore suffisamment prévisible. La politique budgétaire s'appuie sur le maintien de la stabilité macro-économique et de la baisse de l'inflation. La réalisation d'un programme à moyen terme pour la gestion des dépenses est un pas important pour l'amélioration de la situation. Le même programme prévoit une amélioration du déficit budgétaire jusqu'à 2 % du PGB pendant la période 2009-2010. Tout de même, le programme ne spécifie pas exactement la façon où le déficit budgétaire sera réduit continuellement, parce qu'il y a des pressions au niveau de la croissance démographique. Par exemple, la façon d'application des réformes pour la santé et des retraites est décrite, mais l'impact à long terme n'est pas analysé.

La restreinte du marché du travail et la limitation de la qualification sont en grande partie dues à la migration de la main d'œuvre, ce qui a contribué à la croissance bien plus rapide des salaires en-dessus du niveau de la croissance de la productivité du travail. En même temps, les salaires du secteur public ont augmenté de 30 % entre 2006 et 2007. Tout cela alimente l'inflation et dénote des dépenses publiques plus grandes, ce qui menace d'éroder rapidement la compétitivité de la Roumanie. Il s'impose alors la mise en place d'une manière urgente de certaines réformes structurelles ambitieuses dans le cadre micro-économique dans toutes les domaines d'activité pour fournir des nouvelles sources et bien plus durables de croissance et pour promouvoir l'innovation. Tout dépend finalement de l'habileté de l'autorité publique d'accroître la qualité de la planification budgétaire et de l'exécution budgétaire, l'habileté de restructurer le contenu et de répartir les dépenses publiques et l'habileté de leur canalisation vers l'agrandissement des niveaux des investissements.

Le même programme identifie la croissance de la compétitivité économique, l'amélioration de l'environnement d'affaires et l'utilisation d'une manière soutenue des ressources renouvelables comme élément primordial dans le développement au niveau micro-économique. On mentionne aussi quelques composantes générales qui seront soutenues par le biais des investissements provenant des fonds structurels:



transports, télécommunications et infrastructure énergétique. Le montant des aides d'Etat est bien en-dessus de la moyenne de l'UE, donc la Roumanie devrait canaliser, réduire et réorienter ces fonds vers d'autres objectifs, comme par exemple vers l'innovation. Les règles allourdissantes, les retards fréquentes et de longue durée pour l'obtention des autorisations et le manque de sécurité légale représentent des obstacles sérieux pour la croissance et l'innovation, tout particulièrement pour les PME. On reste toujours trop loin de la résolution des problèmes qui pèsent et stoppent la croissance de ces petites compagnies.

Les facteurs qui contraignent la capacité de la Roumanie d'innover incluent: la fragmentation de l'activité de recherche (trop d'établissements qui produisent un résultat d'une qualité faible), des liaisons faibles entre compagnies et établissements de recherche. Au moins, on prévoit une croissance significative des dépenses publiques dans le domaine recherche-développement depuis 0,19 % du PGB en 2005 et 0,5 % en 2007 à 1 % en 2010. Le Programme s'impose une cible dans ce domaine de 3 % du PGB jusqu'en 2015. Pour réaliser cet objectif et pour éviter les problèmes d'absorption, la Roumanie devrait faire davantage dans le but de la croissance du nombre de chercheurs, de consolidation de la capacité managériale et de délimitation des modalités de financement intermédiaires. Pour la période 2007-2013 on prévoit toute une série de mesures pour stimuler l'excellence et la coopération, le transfert de technologie et l'investissement en ressources humaines et fournir une large utilisation des fonds basée sur la compétition. La réponse pour la politique au niveau global pourrait bénéficier d'une identification plus claire des opportunités et des points forts, à une gestion plus ciblée des fonds publics – tout en incluant ceux structurels – pour être utilisés comme mécanisme de liaison entre le secteur privé et les investissements en recherche-développement. Pour faciliter l'orientation vers une société basée sur la connaissance, on recommande de remettre en question aussi le système éducationnel roumain.

L'économie roumaine se confronte avec une crise soutenue du marché du travail, due à la croissance rapide et à la migration agressive de la main d'œuvre. De plus, le taux de l'occupation reste faible et le chômage est en croissance. Contre ce phénomène, le Programme se concentre sur l'attraction et la conservation de la main d'œuvre, par la souplesse des conditions contractuelles, par flexibilité et en promouvant l'éducation par vocation, des formations et l'augmentation de la capacité des services publics de placement du personnel. On a vu ces derniers temps l'organisation dans les pays où on retrouve de nombreux roumains l'organisation des bourses d'emplois en vue de faire rentrer la main d'œuvre dans notre pays. L'activité agricole entraîne presque un tiers du total de la main d'œuvre active, mais contribue pour moins de 10 % du PGB. Il faut des politiques pour la modernisation de la production agricole et l'intégration des fermiers dans d'autres secteurs de l'économie. Le Programme reconnaît que l'éducation et le marché du travail sont superficiellement reliés. On se confronte encore avec la question de l'abandon écolier prématuré à cause des conditions sociales et géographiques défavorables. On se propose toujours la mise en place d'un nouveau cadre pour l'enseignement pré-universitaire mais aussi pour celui universitaire orienté vers la croissance de la qualité de l'éducation. Une des cibles très ambitieuses en ce qui concerne l'entraînement des employés dans des formations (pour l'instant, 1,5 % est le petit de l'UE). Mais ces efforts ne sont pas combinés avec des mesures de modernisation du système d'assistance et de sécurité sociale. L'extension de la vie active et la réduction du passage en retraite anticipée devraient contribuer au soutien à long terme du système de pensions et à la croissance de l'offre d'emploi.

Les recommandations du Conseil de l'Europe seraient: le renforcement d'urgence par le gouvernement de la capacité administrative tant au niveau central que local par la mise en place d'un cadre de réglementation, contrôle et exécution; l'évitement de la politique fiscale pro-cyclique qui mène à la croissance du déficit de compte courant et à la pression inflationniste, garder le niveau des salaires en concordance avec celui de la productivité du travail, la croissance de la qualité des finances publiques par la relance de la manière de gestion et répartition des dépenses, la réduction des aides d'Etat et leur redirection vers des objectifs horizontales, la prise de mesures rapides pour la réduction substantielle des procédures administratives et de la manière difficile d'obtenir d'autorisations, aspect qui va aider aussi pour la lutte anti-corrruption, la mise en place d'un système de croissance du taux d'occupation, du taux de l'activité et du niveau de la productivité, tout spécialement par l'accélération de la réforme du système éducationnel pour mieux répondre aux besoins du marché du travail.

Comme on l'a déjà observé, il y a des démarches correspondant aux exigences imposées par les institutions européennes tout comme celles prévues dans les programmes nationaux. Par contre, selon nous, ce qu'il manque le plus c'est de ne pas être conséquent. Il suffit de remarquer l'augmentation du taux de l'inflation, la volatilité du taux de change de la monnaie nationale depuis le début de l'année (tout cela en dépit de

l'intervention répétée de la BNR), les augmentations salariales (un seul exemple: les rémunérations des diplômés roumains se sont doublés à partir du dernier janvier), des différents droits qu'on supprime et ensuite on redonne suite aux pressions sociales (à voir le cas des chèques-cadeau pour les professeurs) etc. Ce ne sont que quelques exemples parmi d'autres puisque, de plus, on est bien en année électorale et on le sera toujours en 2009.

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# ECONOMIC CONCENTRATION IN THE CONTEXT OF THE WORLD ECONOMY GLOBALIZATION

**Berinde Mihai**

*University of Oradea, Faculty of Economic Sciences, 12, Dogarilor Street, Bucharest, Romania, Email: mihai.berinde@yahoo.com, Tel: +40 (0) 720 07 77 77*

***Abstract:** This paper has as main objective to emphasize the importance of a permanent control activity on the economic concentration operations. In order to assure an appropriate choice as concern the economic concentration to be submitted at the assessment procedure each country has its competence to establish its turnover ceilings opening the procedure in accordance with the priorities of its own economic policy. As a final conclusion, we stress that economic concentration assessment and competition policy as a whole are very dynamic activities asking permanent legal and procedural adjustments in order to take appropriately into account economic interests of the country as well as the evolutions registered on regional and global level. This approach is the most valid in the case of Romania taking into account its recent accession to the European Union and its more and more important involvement in the regional and global cooperation.*

*Key words: economic concentration notification and assessment, abuse of dominant position, turnover ceilings, regional and global cooperation, competition policy, international trade rules*

## **1. Introduction**

Globalization is a specific process of the world economy evolution during the last period of time. This process is characterized especially by: more and more liberalized international trade; increase of market dimensions; setting-up of undertakings which are developing strategies for more important number of consumers etc.

Even from the beginning, in parallel with the globalization process, international practice established another concept which treated the economic issues at regional level. These two processes, regionalization and globalization have been considered initially in contradiction. But international practice proved that they are fully complementary. Indeed, it was proved that the solution at regional level of different problems opened the way for consensus at international level. At the same time, the establishment of international rules, within globalization process, has facilitated conclusion of regional agreements in order to find out appropriate solutions for specific existing problems among the countries from the same region.

During the time it was proved that both processes have positive and negative economic effects and under these conditions countries have been encouraged to define rules able to assure the development of these processes. This approach has been adopted exactly for avoiding that negative effects cancel the positive ones. A very good example in this context is the international trade liberalization. So, the elimination of tariff and non-tariff barriers in international trade had as direct result the price decreasing due to the cost reduction with custom duties and administrative formalities at the border. All these positive effects of trade liberalization would be compromised in absence of very strict rules for competition policy. Indeed, implementation within liberalized market of the competition rules had the role to avoid cartels or abuse of dominant position. Otherwise the positive effects of the liberalization were transformed in the negative ones and consumers had to pay increased prices which did not take into consideration the respective liberalizations. It was a simple example in order to demonstrate from the beginning of the paper how important is the competition in context of the liberalization of the economy.

As Porter said, "Competition is essential factor for the success and for failure of undertaking. It establishes appropriate activities of company which might contribute at its performance, as for example innovation, a culture and right implementation<sup>123</sup>". Economic concentration is a reality more and more well defined in the context of economic development, having in mind that it increases the dimensions of the companies and sets-up the prerequisites premise for an abuse of dominant position on the market, what is strongly against the competition rules. This is why the authorities of any country pay a great importance to the

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<sup>123</sup> Porter M, Competitive Advantage, Teora 2001

assessment of economic concentrations implemented on their markets. The aim of this work is to offer a response at the practical needs imposed by economic concentrations. More exactly, the aim is to define in which extent the economic concentrations have to be assessed for administrative needs or they are imposed by economic realities and by economic priorities, in the context of economic regionalization and globalization.

## **2. Economic concentration concept at European level**

The setting-up of the Single Market produced important changes in the field of competition rules applicable for economic concentrations at European level. All these changes imposed the definition of the legal framework for merging and acquisition rules in order to assure a fair competition on the market.

So, the European Council adopted the Regulation no. 139/2004 of 20 January 2004 on the control of concentrations between undertakings (the EC Merger Regulation)<sup>124</sup>. In accordance with this Regulation, a concentration shall be deemed to arise when a change of control on a lasting basis results from:

- a) a) The merger of two or more previously independent undertakings, or
- b) b) the acquisition, by one or more persons already controlling at least one undertaking, or by one or more undertakings, whether by purchase of securities or assets, by contract or by any other means, of direct or indirect control of the whole or parts of one or more other undertakings.

## **3. Economic concentrations submitted to control procedure**

Following an economic concentration it may result undertakings acting on one or on many markets. In accordance with competition rules in place in Romania<sup>125</sup>, economic concentration are illegal which, having the effect of creating or consolidating a dominant position, lead to or are likely to lead to a significant restriction, prevention or distortion of competition on the Romanian market or on a part of it. Under these conditions it is obviously that we need to define as well as possible the competent authorities to assess economic concentrations, the conditions for assessing economic concentrations and the criteria to be taken into consideration for such assessment.

### ***3.1. Competent authorities***

Each country has set-up a Competition Authority which has to be professionally independent institution in order to be able to adopt right decisions without any kind of administrative or political influence.

At EU level an economic concentration having a Community dimension is assessed by DG Competition, and authorizing decisions are adopted by Commissioners. It is evident that European Commission doesn't asses all economic concentrations, giving the competence for National Competition Authorities from Member States to play an active role in this field.

At the same time, by legal framework put in place, European Commission defined cooperation procedure between National Competition Authorities from Member States and DG Competition, in order to assure harmonized procedures for economic concentrations assessment. By this way it was avoided a complication of the assessment procedures and their transformation in administrative obstacles with negative impact on economy.

### ***3.2. Conditions for economic concentration assessment***

In the most part of countries we meet some turnover ceilings established for starting the assessment procedure for the economic concentration in order to authorize it. Having in mind these elements I present below turnover ceilings practiced in Romania and in European Union.

So, in accordance with Romanian Competition law<sup>126</sup> the assessment procedure do not apply to economic concentrations where the aggregate turnover of the undertakings concerned does not exceed 10 Million Euro, and there are not at least two undertakings on the Romanian territory, a turnover exceeding 4 Million Euro.

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<sup>124</sup> OJ L 24/29.01.2004

<sup>125</sup> Article 13, Competition law no 21/1996, republished

<sup>126</sup> Article 15, Competition law no 21/1996, republished

The economic concentrations exceeding these turnover ceilings are subject to control and must be notified to the Competition Council.

European Union is on the other side as concern turnover ceilings. In principle the specific Regulation has to be applied to all concentrations with a Community dimension<sup>127</sup>.

1. In the case where Member States are involved in the merging procedure, a concentration has a Community dimension where:
  - The combined aggregate worldwide turnover of all the undertakings concerned is more than EUR 5000 million, and
  - The aggregate Community-wide turnover of each of at least two of the undertakings concerned is more than EUR 250 million,

unless each of the undertakings concerned achieved more than two-thirds of its aggregate Community-wide turnover within one and the same Member State.

2. In the case where three or more Member States are involved in the merging procedure, a concentration has a Community dimension where:
  - The combined aggregate worldwide turnover of all the undertakings concerned is more than EUR 2500 million;
  - In each of at least three Member States, the combined aggregate turnover of all the undertakings concerned is more than EURO 100 million;
  - in each of at least three Member States included for the purpose of point b), the aggregate turnover of each of at least two of the undertakings concerned is more than EUR 25 million, and
  - the aggregate Community-wide turnover of each at least two of the undertakings concerned is more than EUR 100 million,

unless each of the undertakings concerned achieves more than two-thirds of its aggregate Community-wide turnover within one and the same Member State<sup>128</sup>.

Comparing these two examples it is easily to see the big difference between the levels of turnover ceilings as they are mentioned in Romanian and European legislation.

It is also important to point out that taking into consideration dimension of Romanian market, the level established for turnover ceiling is the most reduced, comparing to other Member States.

Having in mind that this very low level has been established in 1996, before Romanian accession to EU, it is worth to assess if it is not appropriate moment to adapt it to European practice. The existence of such reduced level makes almost all economic concentration from Romanian market eligible for notification and authorization from the part of Competition Council.

Such situation leads to at least three negative effects, respectively:

- a) Important delays in putting in place the economic concentration;
- b) Excessive focusing of Competition Council on cases which are not very relevant from competition point of view under conditions where Romania became full member of EU. So, the authorizing procedure for economic concentrations is prolonged on an unjustified way;
- c) Romanian undertakings are "punished" to remain at a reduced dimension and to compete with difficulty within Single Market.

### ***3.3. Criteria for economic concentration control***

All economic concentrations in which the turnover ceilings mentioned at point 3.2. are exceeded have to be notified at National Competition Authority or at European Commission in order to be assessed within an authorizing procedure.

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<sup>127</sup> Article 1 (EC) Regulation 139/2004

<sup>128</sup> Pierre Martijssen, European Law Compendium, Club Europa 2003

In order to establish if an economic concentration operation is or not compatible with a normal competitive environment, the competent Authority has to take into consideration following criteria:

- a) necessity to maintain and develop a real competition on the market taking into account the structure of all markets in question and the existing or potential competition among undertakings;
- b) Market share held by the undertakings, their economic and financial power;
- c) available alternatives for suppliers and users, their access to markets and supplies, as well as any legal or other barrier to entry on the market;
- d) The supply and demand trends for the relevant goods and services;
- e) The extent to which end-users' and consumers' interests are harmed;
- f) Contribution to technical and economic progress.

Economic concentrations susceptible of leading to a significant restriction, prevention or distortion of competition on the market or a part of it may be allowed if parties involved in the economic concentration can prove they meet cumulatively the following conditions:

- a) The concentration is to contribute to the increasing economic efficiency, enhancing production, distribution or tough lower real prices. Technical progress or increasing export competitiveness;
- b) The positive effects of the concentration compensates for the negative effects restricting competition;
- c) To a reasonable extent, consumers benefit from the resulting gains, especially through lower real prices.

Taking into account the mentioned criteria it is obviously the assessment of an economic concentration represents a very complex process which is asking administrative, legal and economic approaches. Economic approach became more and more important due to the development of regionalization and globalization of the world economy. This is why European Commission and the most part of National Competition Authorities set-up the Chief Economist institution in order to assure an accurate assessment taking into account all economic instrument as: macroeconomic indicators; a right definition of relevant market affected by economic concentration; a professional assessment of markets; a professional approach of international trade rules.

Lack of knowledge or of the capacity to assess all these economic aspects may lead to wrong decisions which affect seriously the economic development of a country. Indeed, an excessive division of economic operators through an administrative approach and the failure of economic criteria, reduce undertakings' capacity to compete with other stronger competitors.

#### **4. Concluding remarks**

The present paper has as objective to point out the main evolutions registered in the world economy towards a global approach and the manner in which this approach might be developed in order to assure a normal competitive environment and the protection of consumers' interests. This is why, I insisted in this paper on the need to make more and more professionally the assessment procedure of economic concentrations taking into account their economic effects for promoting economic development.

Main conclusions resulting from this paper are:

- a) Globalization and regionalization are two realities of the world economy which are developed on the base of relatively strict rules in order to maintain a normal competitive climate which is mandatory for a healthy economic development.
- b) Assessment and authorizing procedures are not mandatory for all economic concentrations. The aim of these procedures is to avoid to set-up new dominant positions on a market which could become an abuse of dominant position in the next step.
- c) Each country may establish its own turnover ceilings for opening the assessment procedure for economic concentrations, taking into account the objectives of its economic policy.

- d) Definition of the minimum turnover ceiling has to be done in accordance with economic priorities of each country and with already existing international practices.
- e) Establishment of very low turnover ceilings creates important difficulties in the assessment procedure of economic concentration and leads to economic and competitive negative effects.
- f) Economic approach in the assessment procedure of the economic concentrations is becoming more and more important because this procedure is a very complex one asking a very high professionalism in order to take into account all economic circumstances in which economic concentration has been achieved.

All aspects mentioned in the present paper allow me to conclude that competition is a very dynamic activity asking permanent legal and procedural adjustments in order to take appropriately into account economic interests of the country as well as the evolutions registered on regional and global level.

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# PERFECTING THE SYSTEM OF EXTERNAL FINANCING OF SPECIALIZED SERVICES OF CHILD AND ADULT PROTECTION

**Boghicevici (Pantea) Claudia**

*Universitatea de Vest Timișoara, Facultatea de Științe Economice, Arad, str Vrancei, nr 41A., pla\_net\_claudia@yahoo.com, Tel:0727821645*

**Miklo (Buda) Cătălina Petruța**

*Universitatea de Vest Timișoara, Facultatea de Științe Economice, Arad, str. Piata Garii nr.6, bl I, sc B, ap.8, catalina.miklo@alcoa.com, Tel:0728040060*

**Herbei Marius**

*Universitatea de Vest Timișoara, Facultatea de Științe Economice, Arad str.Metianu nr.4, marius.herbei@yahoo.com, Tel:0721631540*

*Abstract: After 1989, the programs' management has developed and it contained diverse aspects regarding the social life, due to the assistance of the European Community in the field of protection of the under-privileged persons.*

*During the period 1991 – 2006, Romania has received from UE around 6.5 billion Euros within the three instruments of pre-adherence.*

*The balanced development of all the country's regions will be performed by an integrated approach, based on the contribution of public investments in the local infrastructure, active policies of stimulation of the business activities and support regarding the capitalization of local resources on the following thematic priority axis of POR:*

*Key words: the programs' management, three instruments of pre-adherence, The funds, the child protection system, the PHARE, a policy of social and economic cohesion, thematic priority axis of POR, The POR analysis, the "rrom" population., human rights, the labor market.*

After 1989, the programs' management has developed and it contained diverse aspects regarding the social life, due to the assistance of the European Community in the field of protection of the under-privileged persons. This situation could be considered as "a trend of projects, legitimated in the conditions of the transition", but the phenomena marks a new paradigm of the intervention, a new model of efficient management in the conditions of the dynamic society that is marked by post-modernism.

The elaboration of minimal standards of quality represents a result of the process of aging of the social practices in the field of social assistance.

During the period of pre-adherence, Romania was the beneficiary of important funds, in the form of grants or in the form of loans, supplemented by a national co-funding (where it was necessary), directed towards different purposes, from major investments in infrastructure and support to the business environment and up to consolidation of the administrative capacities of the Romanian public administration to transpose and implement the European acquis. The main support came from the European Union, through the pre-adherence programs (PHARE, ISPA, SAPARD), the bilateral assistance of the EU Member States, the community programs<sup>129</sup>, the loans from EBRD and EBI etc. Other funds came from the World bank (for example SAMTID), PNUD and UNEP (for example Global Facility of Environment).

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<sup>129</sup> Socrate II (2000-2006), Leonardo da Vinci II (2000-2006), Tinerete (Youth) (2000-2006), Viață (Life) (2000-2004), Cultura 2000 (Culture 2000) (2000-2004), Programul pentru Întreprinderi și Spirit Antreprenorial (Program for Enterprises and Business Spirit) (2001-2005), Ida II (1998-2004), Acțiunea Comunitară în domeniile Sănătății Publice (Community Action in the Field of Public Health) (2003-2008), E-content (2001-2005), Egalitate de Șanse (Equality of Opportunities) (2001-2005), Combaterea Discriminării (Fighting Discrimination) (2001-2006), Combaterea Excluziunii Sociale (Fighting Social Exclusion) (2001-2005), Programul cadrul nr. 6 pentru Cercetare și Dezvoltare Tehnologică, inclusiv Euratom (Framework Program No. 6 for Technological Research and Development, including Euratom) (2002-2006), Măsuri de încurajare în domeniul ocupării forței de muncă (Encouragement Measures in the



During the period 1991 – 2006, Romania has received from UE around 6.5 billion Euros within the three instruments of pre-adherence: PHARE (including the CES and CBC components) ISPA and SAPARD. Starting with the year 2000, when the process of negotiation has begun regarding the adherence of Romania to EU, the annual allocation of European funds within these three instruments has represented the equivalent of 25% of the total investments performed by the national budget, reaching in 2006 the amount of 1.1 billion Euros.

The funds allocated to the child protection system through the PHARE Program together with those with the same destination that have been made available to the specific institutions by the Government of Romania have led to major movements regarding the permanent decrease of the number of institutionalized children as well as regarding the diversification of the types of performers from this field, especially by the apparition and development of private bodies of accreditation as well as professional maternal assistance.

## **Utilization of structural and cohesion funds in funding of social assistance services from Romania**

The European Union is one of the most prosperous regions from the world.

Since its enlargement with 12 new members on May 1<sup>st</sup> 2004 and January 1<sup>st</sup> 2007, it has the power of an internal market of 27 states with almost 500 million inhabitants who live in almost 300 regions. But not all Europeans have the same advantages and chances of success in social – economic terms, which has led to the elaboration of a policy of social and economic cohesion to remove these disparities.

There are

1. three Funds known as Structural Funds for programming the period 2007 – 2013:
  - European Fund of Regional Development (FEDR)
  - European Social Fund (FSE)
  - Cohesion Fund (FC)
2. - two Funds known as Complementary Actions, meaning:
  - European Fund for Agriculture and Rural Development (FEADR)
  - European Fund for Fishing (FEP)

The funds contribute, each in conformity with the specific provisions that they regulate, to the achievement of the three objectives previously mentioned, as follows:

- g) at the convergence objective: FEDER, FSE and Cohesion Fund;
- h) at the objective of regional competition and work places: FEDER and FSE;
- i) at the objective of European territorial cooperation: FEDER.

The balanced development of all the country's regions will be performed by an integrated approach, based on the contribution of public investments in the local infrastructure, active policies of stimulation of the business activities and support regarding the capitalization of local resources on the following thematic priority axis of POR:

1. Support of sustainable development of towns – potential poles of development
2. Improvement of local and regional transport infrastructure
3. Improvement of social infrastructure
4. Support of development regarding the regional and local business
5. Sustainable development and promotion of tourism
6. Technical Assistance

Priority axis 3 – Improvement of social infrastructure

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Field of Employment) (2001-2005), Mecanismul de Protecție Civilă (Mechanism of Civil Protection) (2002-2007), Vamă (Customs) (2003-2007), Fiscalis (2003-2007), Acțiune Comunitară în Sprijinul Protecției Consumatorului (Community Action in the Support of Consumer's Protection) (2004-2007), Agenția Europeană de Mediu (European Agency of Environment).

### 3.2 Rehabilitation / modernization / development and equipping of social services' infrastructure

The particular objective of this field of intervention represents the improvement of quality and capacity of the social services that are provided through their balanced support throughout the entire territory of the country in order to ensure an equal access to these services for all citizens.

The POR analysis have shown a precarious situation of the social services' infrastructure and the need to make investment for rehabilitation, modernization and equipping of the buildings where these services are provided. At the same time, the necessity of investments arises as a result of the establishment of certain minimal standards of quality for the social services that must be fulfilled by the residential centers.

In many situations, the poor quality of infrastructure and the lack of equipment make the persons belonging to under-privileged social groups to call on social services from other areas, getting further from their residence. At the same time, this situation also affects the performance in normal conditions of the activities from the labor market, for two reasons: qualified and sufficient social assistance is not given to the persons belonging to the vulnerable groups who could be reinserted on the labor market and the active persons who have in their family dependent members spend an important part of their time taking care of them, but insufficiently and unqualified, with repercussions on the dependent persons who does not benefit from permanent specialized care as well as on the work's quality and life of the persons who have in their family members with different disabilities or alone persons who are taking care of children.

The improvement and diversification of the social services offered by the residential and multi-functional centers can contribute to the relief of families' active members of caring for the dependent persons for the period of time of the work hours and to increase labor quality of the active persons as well as of the dependent ones.

The social centers with multifunctional designation will cover a wide range of services with the purpose of helping the persons in difficulty, starting by accepting them in the center until their specific problems are solved, temporarily or permanently (material, financial, cultural, legal and administrative, relational, medical or regarding employment), inclusively by organizing workshops for development of independent life skills and professional abilities.

The development of these social centers can be supplemented by investments in residential centers already existing which ensure services of long term accommodation thus ensuring a proper place of accommodation and caring for the persons in difficulty. A special attention will be given to the "from" population.

Therefore, the implementation of such projects will have positive results, from a humanitarian point of view as well as from the point of view of the reinsertion on the labor market of many persons in difficulty. In order to facilitate the access of the underprivileged groups from within the communities to social services, the "principle of open gates" will be observed.

The identification at a regional level of the projects of rehabilitation, modernization and equipping of the residential and social centers' infrastructure will be performed in accordance with the priorities established through the National Strategy regarding Social Services as well as with the needs identified through the county strategies of social inclusion and the Plans of Regional Development.

FUNDING OF PROJECTS within the Regional Operational Program – in the field of social protection

Authorities of the central and local public administration

- FEDR contribution: 85 %
- Contribution from state budget: 13 %
- Contribution from the local budget: 2%

Legal persons that are not trading companies (NGOs):

- FEDR contribution: 85 %
- Contribution from state budget: 13 %
- Own contribution: 2%

Priority axis 6 – Promotion of social inclusion

Objective:

Facilitating the access on the labor market for vulnerable groups and promoting the inclusive society for the purpose of ensuring the well-being of each citizen.

Substantiation:

This priority axis tries to develop specific programs of personal development for the purpose of increasing the motivation of vulnerable groups for professional training and integration on the labor market as well for the improvement of the access on the labor market.

The social inclusion can be successfully achieved through a complex approach that is addressed to all fields (employment, education, social protection, health care, management, etc.) at the same time using the maximum of available resources in a concentrated and efficient manner. The efficient coordination can be achieved only by being aware of all the parties concerned in the intended purpose and in the benefits of such an action of synchronization.

This can be achieved by providing the proper access to base services (water, electricity, etc.), to information as well as by ensuring the non-discriminatory treatment in the sense of having access to all the opportunities offered by society.

The ambitious objective of Romania is to successfully build an inclusive society based on general understanding and observance of human rights.

Although important steps have been made, it is necessary the continuous improvement of the method of approach of the persons that belong to the vulnerable groups, granting them support in order to recover the handicap that separates them from the large population from the point of view of education, labor culture and abilities that are requested on the labor market.

Until the month of December, the applicants hope to appear in the guides for funding of the axis related to the social field, so that they can start the registration of projects and the accessing of the European funds.

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# THE ECONOMIC INTERSTATE INTEGRATION WITHIN THE POST-WAR AGE (EEC AND CMEA)

**Buican Mariana**

*Constantin Brancoveanu University –Pitesti, e-mail: monica\_buican@yahoo.com, telefon : fix-0348409557, mobile -0742141929*

The second world conflagration left deep tracks in the economic area, both by losing important producer goods and by reducing the labor force. Thus, the economy of the belligerent countries – and not only – had suffered due to actions related to supporting the military efforts and destructions induced by the parts involved in the conflict by bombardments, sabotage, the *parched field* tactics and so on. The military plans of destructing the enemy's economical potential mostly aimed the industrial capacities, the rail-way, road and navy infrastructure, houses etc. A further assessment of the destructions provoked during the war established their value at about \$2000 billion, at the 1945 exchange rate.

On the other hand, the military confrontations deployed during almost six years, determined important lost of human lives, which affected the economy by the appearance of a chronic lack of labor force.

In addition to all these, we assist at a diminution of the living conditions due to destructions, dysfunctions in acquiring prime necessity products, prorations, requisitions etc.

Under these conditions, the development of many countries and of the world economy within the first years after the war was profoundly touched by the world spread conflagration. The first measures adopted by the authorities of the belligerent countries aimed the transition of the economy from the war state to peace and recovery actions.

We also have to underline that, within the first years after the war, a political and ideological division occurred between the former allies (USSR and the satellite Eastern European countries on one hand and the Western European countries on the other hand).

This situation determined the development of concerns that aimed creating new international organizations and institutions, whose role was to contribute to the creation and consolidation of the interstate economical relations and to support their social-economical development. Under this context, tendencies of interstate integration had appeared that had, besides the economical goals, political and ideological connotations.

On the regional and zone level, the post-war world adopted almost unanimously the interstate economical integration principle, that had the advantage of coordinating efforts in order to accelerate the social-economical growth and development. Based on this principle – known in the literature as the interstate economical integration – economical communities were established.

As a matter of fact, the idea of European integration promoted at the end of World War II wasn't new, but it had originated in the western Middle Ages. From the political point of view, the most important effort to put it into practice was the proposal made by France through its Minister of Foreign Affairs, Aristide Briand, in front of the Nations Society, on September 5<sup>th</sup> 1929 that stipulated the creation of a federation called the *European Union*. This idea was further developed in the French Government *Memorandum* sent to the European Governments and presented to the Nations Society on May 1<sup>st</sup> 1930. The Memorandum proposed a Permanent Political Committee and a Secretariat. The economical dimension of the European Union project was based on getting closer the European countries economies, whose political responsibility was yet left to the governments. It can be seen that the economical and political definition of the European Union projected in 1930 was very close to what it would be, 60 years later, the 1992 European Union. This initiative didn't materialize due to the profound economical crisis and also to the strong ascension of the German social-nationalism.

Later on, during the World War II, in a Memorandum presented by W. Churchill on October 1942, the *United States of Europe* formula was launched. In 1946, stating the soviet threat, the politician revised the idea.

The political will of the Western European countries to accelerate the recovery after the war and the future economic development based on the economic integration principle materialized in the foundation, in 1948, of the European Economic Cooperation Organization (EECO) and, in 1949, of the European Council. During this period, the Western European countries were in the middle of the economic

reconstruction process and EECO was created for a better management of the American aid, provided by the Marshall Plan.

The drawing-up of the Marshall Plan was determined by the American administration fear that a certain part of the European countries that were facing economical, political and social problems determined by the war would under the influence of the communist ideology. This situation determined USA to present the *European Reconstruction Plan*, known as the *Marshall Plan*.

The response was immediate, 16 European countries gathered together (except Germany, Spain and the Eastern European countries) and decided on the common management of the American aid by founding EECO (April 16<sup>th</sup> 1948). USA and Canada were participating to EECO as associates, without the right to vote.

The American aid had a substantial contribution to the recovery and development of the beneficiary countries economies.

The beginning of the European integration process – characterized by original and specific features – might be considered the year 1950, when the French Minister of Foreign Affairs, Robert Schuman, proposed the involvement of several European countries in a cooperation project that implied the transfer of sovereignty to an organization having a power of constraint on its members. The initiative consisted in the integration of France and Germany coal and steel production within an organization opened to the accession of other European countries. In 1951, Belgium, France, Italy, Luxemburg and Holland were signing the Treaty of Paris that established the European Coal and Steel Community (ECSC) throughout which competences were transferred to an institution (the High Authority) responsible with the decision-making, independent of the member states consensus of opinion.

Another initiative was the foundation, in 1952, of the European Defense Community (EDC), initiative that failed due to the fact that the French Parliament never signed the afferent treaty.

The revival of the European integration took place in 1955 within the Messina Conference, where EECO's foreign ministers decided on the establishment of an economic union based on a common market and on the establishment of an atomic energy organization. These initiatives materialized in 1957, by signing two treaties in Rome that established the foundation of the European Economic Community (EEC) and the European Atomic Energy Community (EURATOM).

In the same time, in the Central and Eastern European part of the continent, being under Soviet influence, an isolationist policy was established by the foundation of an international organization for multilateral economic and technical-scientific cooperation called the *Council for Mutual Economic Assistance (CMEA)*, founded on January 25<sup>th</sup> 1949. The organization was a reaction to the Marshall Plan and to the Western European economic interstate integration.

The foundation of CMEA after the World War II was determined by a complex of factors based on the economic and political struggles of the time. The most important are: Joseph Stalin's desire to enforce the Soviet domination on the Eastern European states, the tempering of some of these states regarding their interest in the Marshall Plan and also the intention to counterwork the commercial boycott enforced shortly after WWII by USA, Great Britain and the Western European countries.

The official goal of the organization was to offer the member states the possibility to share economic experiences, to extent the mutual technical aid and to contribute to the mutual aid related to materials, food supplies, machines, equipments etc.

For over a decade after its foundation, CMEA lacked a defined structure and operated without a statute. All this along with the fact that CMEA sessions convened ad-hoc (until 1955) reflected on the narrow goals of CMEA and on the response character to the Marshall Plan.

## **EEC versus CMEA**

Even if both organizations had as goal the economic integration of the subscriber countries, there was a range of distinctions between them, the most relevant of them being related to the economic structure, size, balance and influence.

Taking size into consideration, EEC included 270 million citizens of Western European countries in an economic organization that was regional level integrated and wasn't based on ideological principles. The

economic discrepancies between the member states were quite small and the members aimed reaching a certain level of industrialization.

The Treaty of Rome stipulated this organization's goals: to ensure the proper conditions for the freedom of movement of goods, labor force, services and capitals, to establish a common policy for agriculture, transports energy and the coordination of member states economical policies etc.

On the other hand, CMEA summed up 450 million people from 10 countries on three continents. Within this structure, USSR owned 90% of the organization member's territory and of the energetic resources and 70% of the population.

The industrialization level was very different from country to country, the organization having under its patronage three underdeveloped countries – Vietnam, Cuba and Mongolia – and several over industrialized countries. There also was a great difference between the national incomes of the European states and the non-European members.

The variety of economies level and the economic development level determined divergences between the member states expectations on the benefits as a result of the accession to CMEA.

Within the EEC, members considered themselves equal partners of a super-national organization that succeeded in achieving the transfer of sovereignty from the member states to the "Community". Thus, the transfer of sovereignty meant a delegation – from the Community founder members to certain common institutions – of the power of decision on certain common aspects, according to the democracy and rules of law principles. This proves that EEC was a transparent organization, with well-determined goals, where the member states had equal rights.

Physical size, military power and economic and political resources made the USSR a dominant member of the CMEA. Thus, the main management institutions were in Moscow, the top management was assured by the Soviets, all these elements proving this country's role within the organization.

The organization's existence was also influenced by the ratio of forces between the member states and USSR. Within the organization, USSR had much more advantages (political, economic, military), which gave it the opportunity to influence the decisions. Thus, the political advantages were determined by the fact that Moscow was the center of power, the economic ones came out of the importance of its natural resources, and military, USSR was the second military force in the world after USA.

In the trade between the member states and CMEA, USSR usually provided the raw materials, and the Eastern European countries provided equipments and finished machines. The three underdeveloped countries had a special relationship with the other seven countries. CMEA affected rather more political than economic discrepancies between its main contributors against the three underdeveloped economies.

The Soviets tried to enforce their political power on the other members of the organization, but this always came across the **sovereignty equality** principle existent within CMEA, upon which its members had the right not to participate to any projects if these weren't in their benefit. Thus, neither CMEA nor USSR as a major force within the organization had supranational authority. Even if this offered a certain degree of freedom against the economic domination, USSR deprived CMEA of the necessary power to achieve maximum economic efficiency.

The members' economic interests ensured the EEC unity, the intention to establish a single market, a custom union and the adoption of a common economic policy. Geographically, there was unity between the member states as they were situated in the western region of Europe.

Within EEC, the unity was ensured through political and economic factors. All the members of the organization were united by "*a communion of fundamental class interest and the Marxist-Leninist ideology*" had common approaches on the form of economic property (public versus private) and management (planned versus market economy). In 1949, the COMINFORM united the communist government parties at international level. Although COMINFORM was abandoned in 1956, the ties between these parties kept on being strong even afterwards, as a result to regular international conferences of the communist parties. Geographically, there was no unity between the member states as they were situated on three continents.

## Decision-making

Within EEC, the citizens were consulted on the decision making by dint of polls. Thus, they adopted the common decision making principle in the areas considered of transborder importance, in areas regarding the cooperation with the developing countries, the scientific cooperation and the drugs traffic and consumption combat etc. At the national governments level, decision-making mechanisms had been kept in areas that affected the citizens directly, especially those in health, social protection, education, and culture areas.

This decision making mechanism based on the subsidiarity principle, meaning that the member states were deciding together at the community institutions level, but only on those issues which could have been solved better at that level than at the national one. The decisions proving to be more efficient at the state or regional level, that is closer to the citizens, must be still adopted without the organization's interference.

Regarding to the materialization of the community policy, EEC used the following modalities: *recommendations* – which had an orientative character – *regulations* and *directives* – mandatory from all points of view. After approving a decision or law at the community level, these became mandatory, their breach being sanctioned by the Court of Justice.

Within CMEA, the recommendations and the decision making could have been adopted only after the existence of a consensus between the concerned member states and after every member declared itself “concerned” about the issue taken into consideration. According to the statute, the decisions and recommendations didn't apply to the countries declared uninterested in a particular matter.

Although CMEA acknowledged the unanimity principle in the decision-making, the uninterested parties didn't have veto right, but they abstained from attending. A lack of interest declaration couldn't block a project; the interested countries continuing without the disinterested member who could further adhere to the decisions and recommendations adopted by the other members.

## The economic integration between achievements and failures

The founding treaty of EEC stipulated the establishment of: a single market, a custom union and a common policy. The Community's main mission was the foundation of a single market, based on “the four freedoms”: the free movement of people, services, goods and capitals.

The foundation of a single market meant not only the liquidation of all existing barriers in the free movement of goods and the establishment of a single custom duty (the custom union) but also the establishment of a common policy in strategic areas (agriculture, trade, transportation and competition) in order to create optimal conditions for increasing economic activities performances.

EEC aimed the foundation of a custom union, in order to gradually remove, in a 10-year period of time, the custom import and export duties in the trade relations between the signatory states; quantitative restriction and non – tariffing barriers were gradually removed from the mutual trade; a common policy was introduced towards third-parties; the economic and monetary union materialized, viewing the foundation of a community policy regarding investments and the monetary system, the coordination of the general and social economy, common measures to remedy the member states balance of payments deficit, the insertion of total mutual and irreversible conversion of the member states currencies and the insertion of a single currency.

Thus, in 1986, EEC had already concluded the custom union and had a single agricultural market.

Later on, this gradually achieving plan of an economic and monetary union was completed by adding new elements, stating even the member states aspiration to create a European Union and to achieve the single common market, which to represent *a free internal borders area, where to ensure the free movement of goods, people, services and goods, its functioning regulation having to be established by the end of 1982.*

Regarding the cooperation between EEC member states, these showed their availability to *work together* in order to achieve certain common goals, but also preserved their sovereignty. As a consequence, the unification efforts based on the cooperation concept had not as an ultimate goal the creation of *a post-national political unity*, but were limited to achieving a sovereign states union, where the national structure preserved intact without creating a supranational integrate level.

Unlike EEC, within CMEA, the economic integration of the member states has been permanently had in view. In the first stage, this has been tried by coordinating the plans of economic development for a 5 year –period and later by coordinating the perspective plans. In the last stage, it was had in view the planning of some activities established on time. In this context, the member states didn't appreciate the existence of a unique plan of the economic activity, this leading to some negative aspects coming out in the Council. Another objective of the organization that arose disputes between the members was the intention of production specialization. This objective was considered to be a control element for the economic integration. The member states had a different view on this objective. Thus, the developed states have adopted a certain attitude that followed their own development and those less developed followed the discrepancy recovery and the production specialization was not an advantage for them.

A thorough analyses shows that the specialization process has been achieved especially within the machine building industry and some branches of the heavy industry.

The trade relationships between the member states were characterized by lack of elasticity, being especially bilateral cooperation relationships. Within the 9<sup>th</sup> session of CMEA, there were stated the principles of price estimation, that had to take into account the goods value and the international market fluctuation. The Council was not able to elaborate its own price basis, that's why they couldn't influence the international market.

An element, which made problems in creating a unique system of prices at the organization level, was the lack of a unique currency. Ruble was used, but only within CMEA countries. This trouble has also created inconveniences in establishing a unique system of tariffs and taxes at the organization level.

The CMEA member states have created credit institutions within the organization such as: The International Bank of Economic Cooperation and since 1971 the International Bank of Investments. As well as in the other fields, the results were not spectacular. Thus, the credits were preeminently directed to USSR that wished to valorify their resources and develop their economy.

During the existence of CMEA there were different proposals for programs of activity efficaciousness. In 1962, Poland proposed a plan for creating a super state planning body. This proposal was refused by some member states of the organization. Things have changed ten years later when, at CMEA session from Bucharest (1971) the "Complex Program of widening and improving the Cooperation and Development of the Socialist Economy Integration of CMEA Member States". As a new cooperation technique, it was proposed "the coordination of CMEA interested member countries activity" concerning the trade economic, financial, credit policy in the planning field, in science and technique development, creation of economic organizations between the member countries, getting raw materials and fuel, purchasing and using certificates, licenses, improving the price system in foreign trade.

The year 1979 brought new changes of CMEA Statute, representing a new stage in the organization evolution. Among the Council duties we can now mention the improving of labor socialist international division through: organizing mutual consulting, drawing up long-term cooperation plans, specializing and cooperating in production.

In the '80s years the organization had in view the joining of objectives foreseeing the economic efficaciousness with the political objectives, respectively "the civil competition with capitalism". After 1986, the crises within CMEA seemed to become deeper and deeper when many projects of economic development drawn in the previous period didn't have any results.

The aftermaths of changing and reorganizing the old CMEA system have proved the organization crises. Phenomena such as the constant decreasing of mutual changes, unfulfilment of liabilities mutually assumed, the incapacity of adopting to the worldwide novelties (trade, technical progress, competitiveness). The impossibility of a strict determination of the economic efficiency of changes and their equivalence made another approved of the economic cooperation made another approach of the economic cooperation between the CMEA states. The CMEA session of October 1987 caused many discussions covering the mechanism reorganization of the multilateral cooperation and socialist economic integration within CMEA.

There were proposed especially the improving of planning tools of goods – money relationships and the increasing of CMEA role in the cooperation between the member states. There were also mentioned the increasing of national economies complementarity, the equalizing of the economic development levels, the creation of a united market of goods and services. This opinion was supported by Bulgaria,



Czechoslovakia, Cuba, German Democratic Republic, Mongolia, Poland, Hungary, USSR and Vietnam. This reorganization was to be achieved by reinforcing the economic system. Moreover, they had in view the improving of the price creation system, of the financial-currency and credit system, of the mutual consulting system regarding the trade relationships with third countries and their trade groups as well as the improving of CMEA structure.

After 1985, some changes in the opinion of some leaders from Moscow have encouraged a liberty of relationships between the CMEA member states, that allowed CMEA to cut its way through EEC. Thus, June 25, 1988 the Mutual Declaration was signed by the delegates of these organizations, whereby they agreed upon establishing special relationships between them. According to this document every member state of CMEA could establish relationships with EEC and trade and cooperation agreements could be negotiated, that could place the economic relationships on stable legal bases. Therefore, in August 1989 they stated diplomatic relationships with EEC: German Democratic Republic, Bulgaria, Hungary and USSR, than with Vietnam and Cuba and in January 1990 with Romania.

In May 1990, from French initiative, 42 countries signed the Statute of the European Bank of Reconstruction and Development. This institution joined for the first time countries from the Eastern and Western Europe as well as other countries and has as main objective of its activity the investment promotion in Central and Eastern Europe to reduce the financing risks, to facilitate the transition to the market economy of these countries and to accelerate the structural changes.

CMEA ceased to exist after the communism fall in Eastern Europe and was officially dissolved on June 28, 1991.

## Conclusions

The idea of economic integration appeared as a consequence of the intention of some politicians to improve the European economic climate and prevent the war.

The creation of the two organizations EEC and CMEA was determined by political, economic and ideological interests and depend the division into two blocs of the European states.

The reasons that determined the creation of these organizations, the structure, the economic development level, the goals and achievements were different and proved the EEC viability which, later, will be changed in the European Community and then in the European Union.

Unlike EEC, CMEA didn't have special achievements and ceased to exist at the same time when the political, ideological and military ruling of USSR over the states from the central and Eastern Europe ceased to be.

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# ALIMENTARY SAFETY: DIFFERENCIES BETWEEN DEVELOPED AND DEVELOPING COUNTRIES

**Brata Anca-Monica**

*University of Oradea, Faculty of Environment Protection, Oradea, str. Morii, nr. 9 ap 19, jud. Bihor, ancabrata@yahoo.com, 0745/621966*

*Between developed and developing countries there are big differences regarding medium alimentary consumption per capita. Alimentary consumption in developed countries is balanced and stable. In the European Union consumption structure reflects a healthy and balanced alimentation. In the developing countries the alimentary consumption reveals deficiencies, mostly on the quality and quantity levels.*

**Key words:** *alimentary safety, food products, globalization, alimentary consumption, population*

Regarding the concept of alimentary safety, the technical literature called for a multitude of definitions, each of them having a certain value of knowledge. These definitions were developed at an individual, familial, regional, national and global level. From a scientific point of view, at an international level, the concept of alimentary safety is defined as being **“the universal and permanent access to the necessary food for an active and healthy life.”** [6]

The global issue of alimentation captured the attention of the international scientific community, because it influences the present situation, as well as the evolution of many other economic, social and political issues of our century. Despite all the past warning signals, the present status of the global alimentation and its immediate perspectives are not reassuring at all. During the last decades, the alimentary issue has become more stringent and acquired new features and dimensions from a qualitative point of view. **Being at the beginning a national or regional issue, it has turned into a global issue now.** [3]

Given the present circumstances, the big and growing global differences act like a vacuum, the only difference being that in the complex systems, like the social ones, the consequences are less predictable than in the case of the simple systems. Therefore, it is in the interest of the whole mankind to act and think rapidly.

In order to deal with this situation, the most important step is now to understand where we are, where we are going to and where is mankind going if the actual state of facts continues.

One can not deal with global issues individually, because they depend on each other and are amplifying themselves, becoming a real threat for human condition. Therefore, it is mandatory to analyze the validity of our ways to develop, of our ways to manage the world. Confronting the unprecedented demographic rise and present technological evolution, human system will become so immense and complicated that **the holistic approach and evaluation** will be indispensable.

Another problem is that of the imbalance we cause to ecosystem, by its devastation and pollution, by intensifying pasturing and fishing, by clearing the woods and overexploit the soil. Soil resources are running short exactly when world population and its needs are exponentially growing. Environment issues are to deal with at once. Therefore, it is necessary that the relationship between technical man and nature to be reconsidered with an unparalleled maturity and responsibility.

Solving the alimentary problem and ending starvation require precise and detailed projects, foundation for an adequate alimentary policy. Such projects can be solved only on after a detailed analysis of the alimentary production functions, consumption functions and cultural practices taking into consideration the alimentation of urban and rural families having different levels of income and also the way agriculture production influences pay balance and inflation's control.

In order to decently provide with food a population of 6 billion people, global agricultural production has to be carried out mainly in the developing countries, where alimentary needs will double in the next years.

Through constant efforts and an efficient utilization of the available natural and human resources, alimentary and agricultural production of the developing countries can be at least doubled. This aspect will

not do to end starvation and malnutrition. It is necessary a better distribution of the product per capita, especially of the income of marginal, disadvantaged segments of society.

Having the starting point the desperate situation of alimentation in some regions in the world, a situation that will worsen if measures of increasing alimentary production will not be taken, some participants at the Conference in Rome supported the idea of migration of these people from countries lacking of food to those countries with excess of it. They also discussed the idea that people of the third world can ensure their alimentation. From a technical point of view, this is possible. The essential condition is to provide an adequate economic and alimentary policy. But if the present tendencies of economic policy continue, this will not happen.

Any delay of an efficient approach of alimentary issue will make it more difficult to be solved. Because of the persistence and even growing of poverty, the world pays a great and unacceptable price in the terms of economy, resources, also social and psychological. These costs create a major obstacle for a balanced and harmonious society on the globe. From a historical point of view, global poverty of the last decades represents an anachronism whose eradication is a sine qua non for progress. It is for the benefit of the global community to focus on the reduction of global poverty costs. From this perspective, the cost to eradicate global poverty is much smaller than the cost of doing nothing.

We have to mention that the notion of alimentary safety is mostly based on the wrong principle that gives the developed countries the responsibility to provide food products for the developing countries, without taking into consideration the role of the developing countries in solving the problem. The developing countries proved that, by growing their reciprocal alimentary commerce six times, from 2.4 billion dollars in 1970, to 15.3 billion dollars in 1980 [4]. During this period, the total trade with agricultural products of the developing countries has grown with a similar rate, from 3.4 billion dollars to 21.5 billion dollars in 1980. These data powerfully certify that world alimentary strategy can not be conceived without taking into consideration the decisive factor that the deloping countries will have to play. [3].

The growing number of the deloping countries taking part to solving alimentary issues, a problem that affects more than 6 billion people since 2000, implies careful examination of the financial resources impact over alimentary production.

The main issue concerning the food providing for the world population is if this can be done without destroying the ecological base of agriculture during this process. The model of intensive agriculture has certain limits and the research workers consider the ecological agriculture a solution for the future both in the developed and developing countries.

The studies carried out by FAO certify that we have an unbalanced alimentary regime in the world, opposed to the physiological needs of the human body. The quantitative and qualitative differences in the world alimentation show that where the food is insufficient, it is also lacking the necessary qualitative structure.

Worldwide, the energetic availabilities per capita have grown in 21 years (1990-1992/1969-1971) from 2440 kcal to 2720 kcal (an annual growth of 0,5% in two decades). Two tendencies manifested during this period [5]:

- Slowing down the growing rhythm of the energetic food products availabilities worldwide, in the poor countries especially;
- Diminishing of the energetic alimentary availabilities in the big countries of the world and a slow growing rhythm in the developed countries overall.

Growing of the worldwide energetic availabilities is slower during the past two decades.

*Table no 1. Evolution of energetic availabilities per capita -Calories-*

	1969-1971	1979-1981	1990-1992	2002-2005
<b>Developed countries</b>	<b>3190</b>	<b>3280</b>	<b>3350</b>	<b>3420</b>
Industrialized countries	3120	3220	3410	3470
Transition economies	3330	3400	3230	3350

<b>Developing countries</b>	<b>2140</b>	<b>2330</b>	<b>2520</b>	<b>2800</b>
Latin America and Caribbean	2510	2720	2740	3050
Saharan Africa	2140	2080	2040	2400
The Near East and Northern Africa	2380	2850	2960	3120
East and South-West Asia	2060	2370	2680	2980
South Asia	2060	2070	2290	2760
<b>Economical groups of developing countries</b>				
Less developed countries	2060	2040	2040	2330
Low income and low standard of living countries	2060	2230	2450	2780
Low income countries	2060	2210	2430	2760
Medium income countries	2360	2670	2760	2980
<b>World-wide</b>	<b>2440</b>	<b>2580</b>	<b>2720</b>	<b>3020</b>

Source: The sixth world food survey, Roma1996; fao.org 2006

The evolution of energetic availabilities per capita, period 1979/81 compared to 1969/71 shows a 0.3% growth in the developed countries, during the period 1990/1992 compared to 1979/81 the growth is of only 0.2%. The period 2002/2005 shows a slower growth, in the developing countries it was of 0.9%, respectively 0.7%, reflecting a slower growth of energetic alimentary availabilities per capita in these countries [5].

World protean availabilities per capita, on regions and groups of countries, clearly show that the nutritional state of population is strongly connected with the social-economical growth.

The level of protean availabilities per capita is inferior to the physiological needs worldwide, consequence of the critical alimentary situation of some developing countries. As to animal protean availabilities per capita, their level is of 9-10 g in the less developed countries, compared to 59 g animal protean per day in the developed countries [5] (see Table no2 ).

In the developed regions of the world lives 24% of the global population, consuming 71.1% of the energetic availabilities, 66% of the protean availabilities and 57% of the lipid availabilities.

In the developing regions of the world lives 76% of the global population, consuming 29% of the energetic availabilities, 34% of the protean availabilities and 43% of the lipid availabilities.

The differences between developed and developing countries are more obvious if we follow the structure of alimentary energetic availabilities. These show that in the developing countries the availability of products having low nutritional value is double compared to those in the developed countries, resulting in deficient qualitative structure that can not be compensated by the excessive cereal consumption [5].

Table no 2 Availabilities of total and of animal origin proteins based on regions and groups of countries

	<b>Total proteins(gr/capita/day)</b>			<b>Animal origin proteins(gr/capita/day)</b>		
	<b>1979-81</b>	<b>1990-92</b>	<b>2003-05</b>	<b>1979-81</b>	<b>1990-92</b>	<b>2003-05</b>
<b>Developed countries</b>	<b>95</b>	<b>99</b>	<b>102</b>	<b>51</b>	<b>56</b>	<b>59</b>
Industrialized countries	93	97	103	54	58	63
Economies in transition	100	103	100	44	51	51
<b>Developing countries</b>	<b>53</b>	<b>57</b>	<b>62</b>	<b>10</b>	<b>12</b>	<b>15</b>
Latin America and Caribbean	65	68	68	25	29	29
Saharan Africa	54	51	49	11	12	10
Near East and Northern	66	77	80	14	18	18

Africa						
East and South East Asia	49	56	65	7	9	16
South Asia	51	50	55	7	7	10
<b>Economical groups of developing countries</b>						
Less developed countries	52	51	50	10	10	9
Low income countries with a deficit in standard living	50	53	59	8	9	12
Low income countries	51	53	59	7	8	12
Medium income countries	59	66	69	18	21	23
<b>World-wide</b>	<b>65</b>	<b>68</b>	<b>71</b>	<b>22</b>	<b>23</b>	<b>25</b>

Source: The sixth world food survey, Roma 1996, fao.org 2006

*Table no. 3 Share of main food product groups from the total amount of alimentary energetic availabilities during 2003-2005 on an international level and groups of countries*

Groups of products and aliments	World-wide	Developed and transitional countries	Developing countries
<b>Total vegetal products, out of which</b>	<b>83,4</b>	<b>70,9</b>	<b>89,7</b>
Cereals	51,2	30,4	59,6
Fats	8,2	11,1	7,0
Roots and tubers	5,0	3,8	5,4
Fruits and vegetables	4,3	4,9	4,8
Sugar	8,8	12,8	7,2
Alcoholic drinks	2,4	4,9	1,4
Other products	0,4	0,6	0,3
<b>Total animal products, aut of which</b>	<b>15,7</b>	<b>29,1</b>	<b>10,3</b>
Meat	7,4	12,8	5,2
Milk	4,3	8,6	2,6
Fats	2,0	4,4	1,1
Eggs	0,9	-	-
Fish	1,0	1,3	0,7

Source: The sixth world food survey, Roma 1996, fao.org 2006

Specialists in alimentation and specialized international organizations recommend remodeling of alimentary consumption and encouraging a healthy nutrition, based on the accumulations of each country and their capitalization as a cultural nutritional thesaurus. It is considered that alimentary education of the population and improving social insurance systems can contribute to limit starvation.

In the developed and developing countries there are great discrepancies regarding medium consumption per capita, but these are mostly of structural and qualitative order. Alimentary consumption of the developed countries is balanced and stable. Inside the European Union the consumption structure reflects a healthy and balanced alimentation.

Milk and lacteous products are the most important components of alimentary share in EU, followed by vegetables, fruits, meat etc. If we cumulate meat and fish we have 108 kg/capita, milk and lacteous products 132 kg/capita, eggs 13 kg/capita, resulting in a very high protean consumption. The sugar consumption is also high (33 kg/capita).

In the developing countries there is a significant underfed population, whose energetic consumption per capita is way under the minimal levels. [2]

**Table no 4 Average energetic consumption of underfed population in comparison with the minimum and medium needs per capita (kcal/capita/day)**

	Average energetic consumption per capita			Minimal energetic needs per capita			Average energetic needs per capita		
	1979-81	1990-92	2003-05	1979-81	1990-92	2003-2005	1979-81	1990-92	2003-05
Saharan Africa	1490	1480	1970	1810	1810	1810	2110	2100	2100
Near East and Northern Africa	1570	1630	1640	1830	1840	1840	2130	2150	2150
East and South East Asia	1520	1610	1660	1820	1870	1880	2130	2200	2220
Latin America and Caribbean	1610	1650	1660	1830	1850	1870	2140	2170	2200
Developing regions	1530	1580	1610	1810	1830	1840	2110	2150	2170

Source: The sixth world food survey, Roma 1966, fao.org 2006

During a 20 years period, energetic consumption of the underfed population did not significantly improved in the poorer countries and regions of the world.

If we compare the qualitative structure of consumption in the poor countries to that of European Union and North America, there is a major gap and the perspectives are not too optimistic. In the poor regions and zones, dominant in the average consumption per capita are cereals (224 kg cereals/capita in Northern Africa compared to 118 kg/capita in EU).

**Table no 5. Average cereal consumption on different regions and countries worldwide Period 1993-1995-2005**

Consumption per capita		
	1993-1995	2005
<b>Developed countries</b>	<b>118</b>	<b>119</b>
USA	98	100
EU	112	113
<b>Transition countries</b>	<b>153</b>	<b>159</b>
Romania	175	220
Polonia	175	173
Bulgaria	136	114

Source: The sixth world food survey, Roma 1996, FAO.org 2006

In Romania and other transition countries, population consumption has diminished during the past years. According to statistic bulletins (CNS), in 2005 the cereal consumption per capita was of 218.33 kg, potato consumption 89.75 kg, fruits 46.07 kg, vegetables 137.32 kg, meat 42.27 kg, sugar 22.73 kg, oil 9.8 liters. The average daily consumption, expressed in calories, was of 2872 kcal/capita in 1994, its level and structure expressing a significant gap compared with the average in EU. [1]

All above mentioned bring on the conclusion that, despite some growth in production at some alimentary products, the global alimentary condition could not be classified as satisfying (with the exception of some developed countries), especially if we take into consideration the level of satisfying developing countries necessities, especially the poor ones (countries from Africa – the continent most affected by starvation and underfeeding – and some countries from Asia). This conclusion is of even greater importance if we deeply analyze the offer and consumption of different social strata of these countries. It is well known that the richest people from the developing countries stand for only 10% of the total population, but hold over 40% of the total income. In the meantime, the income of the people from the poorer strata is hold by 1/5 of the population, the most critical situation being in the rural regions.

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# RESEARCH IN BIHOR DISTRICT REGARDING MAIN FACTORS INFLUENCING AGRO-ALIMENTARY PRODUCTS ACQUISITION

Brata Anca-Monica

University of Oradea, Faculty of Environment Protection, Oradea, str. Morii, no. 9 ap 19, jud. Bihor, ancabrata@yahoo.com, 0745/621966

*There are numerous factors that can influence consumer's decision to buy. In the urban setting, the most important factor proved to be time quality, while in the rural setting the main influencing factor is price.*

**Key words:** *agro-alimentary consumption, price, quality, brand, rural setting, urban setting*

## Introduction

No matter what book we open, of economy, statistics or marketing, we find aspects regarding population consumption. Basically, population's consumption means using goods (alimentary or non-alimentary) and/or services in order to satisfy people's personal necessities.

Population's consumption refers to a great variety of goods, some of first necessity (bread, meat, milk, vegetables, clothes), some of them tolerating a delay, being considered a luxury. Analyzing consumption at products and group of products level does not have to consider quantity evolution only, but also their quality. [1]

Consumption's volume, structure, quality and dynamic point out the satisfying level of the population's multiple physiological, spiritual or social necessities.

Starting with the fact that people have multiple and diverse preferences, but limited resources to satisfy them, we can point out that, in order to maximize the anticipated satisfaction for consuming different goods and services, consumers will chose at a certain point as consumption's optimal combination the one that will be able to simultaneously fulfill their desires and preferences corresponding to their possibilities.

## Materials and methods

The purpose of this research is to identify the main factors influencing agro-alimentary products acquisition in rural and urban setting and comparing the two settings.

As for the sampling method, we have chosen a stratified sampling, having a probabilistic character, which implied the following steps:

- j) aleatory selection of localities where tools of research were applied;
- k) aleatory selection of individuals, using the aleatory road method.

The selected method assures the sample's representative character and consequently the accurateness of our study. The sample's structure on original background and age is illustrated in the following table:

Background/Age	U	R
18/20	0	1
21/24	1	1
25/29	3	5
30/34	7	8
35/39	8	2
40/44	4	1
45/49	4	2

50/54	1	2
55/59	1	2
60/over	3	4
Total	32	28
60 questionnaires		

**Table no 1 Sample structure on original background and age**

The questionnaires were completed in July 2007, in 5 localities from the rural background (Gheghie, Vadu Crişului, Lunçsoara, Cetea, Dobricioneşti) and in the town of Oradea.

Total population submitted to research is represented by the total people from Bihor county with an age of over 20. Total volume of population was 455401 in January 1<sup>st</sup>, 2007. Distribution depending on original background is presented in the following table: [3]

Bihor county	
Urban	Rural
234825	220576
Total: 455401	

Source:INSSE,Jan 1<sup>st</sup>, 2007

**Table no 2 Structure based on original background of Bihor county population**

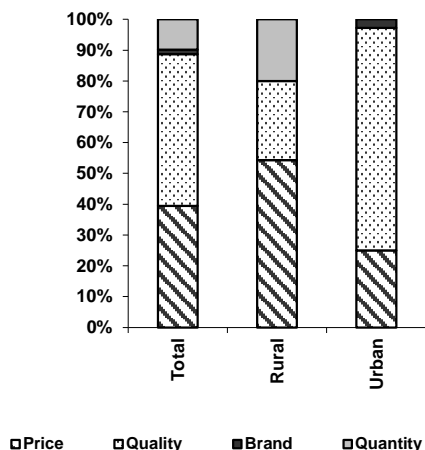
## Results and discussion

a) **Univariate analysis.** Choosing a product is influenced by a series of *factors* that differ as importance from one consumer to another. Factors that influence purchase of agro-alimentary products consumed by population are also very different. In order to find out the intensity these factors influence consumers when they make such a choice, we asked respondents to classify the following factors: price, quality, brand and quantity. At a sample level, for most of our subjects (39.44%) quality is the most important, followed by price and quantity of the purchased products. Product brand is the less important factor when they buy products designed for consumption. Frequency oh choosing the most important factor in agro-alimentary products purchase is presented in the following table:

Criterion	Simple absolute frequency			Simple relative frequency		
	Total	Rural	Urban	Total	Rural	Urban
Price	28	19	9	39,44%	54,29 %	25,00%
Quality	35	9	26	49,3%	25,71%	72,22%
Brand	1	0	1	1,4%	0,00%	2,78%
Quantity	7	7	0	9,86%	20,00%	0,00%

**Table no 3 Which are your factors when you decide to buy a product?**

Looking at figure no 1 one can easily notice the differences between the two backgrounds: if in the rural background price is the most important factor, followed by quality, in the urban background the situation is reverse – more than 70% of the respondents from the urban background chose quality the most important factor.



**Figure no 1 Factors influencing a decision to purchase agro-alimentary products designed for consumption, at a sample level and based on original backgrounds**

b) **Bivariate analysis.** Analyzing connection between the original background and influencing factors of purchasing agro-alimentary products

Distribution of influencing factors of purchasing agro-alimentary products designed for consumption, at a sample level and based on the original backgrounds is as follows:

Background Factor	Rural	Urban	TOTAL
Quality	9	25	34
Quantity	4	0	4
Brand	0	1	1
Price	15	6	21
TOTAL	<b>28</b>	<b>32</b>	<b>60</b>

**Table no 4 Distribution of influencing factors of purchasing agro-alimentary products designed for consumption, at a sample level and based on the original backgrounds**

Looking at the bidimensional series we can notice that there is a connection between the two variables, because the not null frequencies are grouped, not being spread all over the surface of the table. We can notice that in the urban background quality is the most important factor in making agro-alimentary products purchase decisions, while in the rural background, where the average income is smaller than in the urban one, the most important factor is price.

To prove how strong this connection is, we will apply the test  $\chi^2$ .

The table of the frequencies recalculated with the formula  $n_{ij} = \frac{n_{i \cdot} \cdot n_{\cdot j}}{n}$  is presented as follows:

Background Factor	Rural	Urban	TOTAL
Quality	2,97	2,60	34

Quantity	2,44	2,13	4
Brand	0,47	0,41	1
Price	2,76	2,41	21
TOTAL	<b>28</b>	<b>32</b>	<b>60</b>

*Table no 5 Recalculated frequencies for the table 4*

$$\chi^2_{\text{calculat}} = \sum_i \sum_j \frac{(n_{ij} - n'_{ij})^2}{n'_{ij}} = \frac{(9 - 2,97)^2}{2,97} + \frac{(4 - 2,44)^2}{2,44} + \dots + \frac{(1 - 0,41)^2}{0,41} + \frac{(6 - 2,41)^2}{2,41} = 16,19$$

Because this value is much above 0, we may say that at a sample level there is a connection between the two studied variables (background respectively the factors influencing purchase). The more above zero is the calculated value, the much stronger this connection is. 16.91 being very high compared to 0, we may say that, at a sample level, between background and the factors influencing purchase there is a strong connection.

To extend our result over the total population of Bihor county, there are two hypotheses:

$$H_0 : \chi^2 = 0$$

$$H_1 : \chi^2 \neq 0$$

In order to find out which hypothesis is the right one, we have to compare the calculated value, 16.19, with that from the table, in our case 7.8. Calculated value being higher than that from the table, we accept as real hypothesis  $H_1$ , so there is also a connection at the total level of population between the two variables and it is a strong connection.

## Conclusions

- the most influent factors when purchasing agro-alimentary products are price, followed by quality in the rural background and quality followed by price in the urban background;
- as for fidelity for a brand, this is very small at agro-alimentary products, being only a choice of people having high living standard.

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# SUSTAINABLE DEVELOPMENT STRATEGIES

Ceașescu Aurelian Ionut

*Universitatea Constantin Brâncuși Târgu Jiu, Facultatea de Științe Economice, Com. Drăguțești, Sat Iași Gorj, Jud. Gorj, ionutaurelian81@yahoo.com, 0765176004*

*Sustainable development opens new horizons of research through taking into consideration of externalities (positive or negative) generated by human activities. Acknowledging the fact that the outputs of economic activities do not limit at outcomes strictly accounting aimed at by the present system of national accounts, the economic theory and practice are challenged to accomplish and to rethink the actual mechanisms.*

*Therefore, sustainability means a different matter than the simple preservation of the stock of capital, regarded as a simple and mechanic question. Introducing the future in the equation suppose, before anything else a certain anticipation and a planning of it.*

*And for the same reasons, nobody can conceive a sustainable development without the elements of the stock of capital and their structure not to register important qualitative leaps (and also qualitative).*

*Keywords: Sustainable development, development and progress in economy, human capital,*

The concept of lasting development, sustainable and viable has its origins in innumerable theoretical attempts to clarify the mechanisms of spreading the development and progress in economy, of understanding and bringing into accord the man and his nature, with society and with himself.

In a first stage, before the appearance of the term of sustainable development as such, the scientific community is alert regarding a whole range of new or unknown problems till then connected mainly by the natural environment of the Earth. The increasing destroying effects upon environment are criticized and the accelerated waste of natural resources is signaled together with traditional patterns of extensive economic increase.

The first Report of the club in Rome appears – known as Meadows Report – and a variant of *zero increase* is advanced in which the absolute economic results and the total population are rising in the same rhythm so that the level of results per capita remains unchanged.

The implications of such a conception upon the possibility of overcoming the differences, which separate the less developed countries of the developed ones economically speaking, bring about heated discussions. Not even the rich countries are willing to limit their increasing possibilities. The hypothesis of zero increase is in contradiction with one of the fundamental premise of economic science in conformity with which the aim of the economic action lies in maximization of the outcomes - paralleled with the minimization of efforts – and especially with axiom that maximization of profit represents the motivation of each enterpriser.

The second report of the club in Rome – Mesarovici, *humankind in a turning point*, is the beneficiary of more important means. In the point of view of the report, not the economic increase represents the cause of the crisis of resources, but the analytical feature of this crisis, which if it goes on, even at a rate of 5% a year it will lead rapidly at wasting of many natural resources. The authors propose a new kind of *organic augmentation* within whose context as well as in the alive organisms the cells are specialized in conformity with the rules of harmonious development of organisms. The international studies are multiplied and many proposes are advanced, but the world seems too hasty to take them into account.

The recognition of the importance of the natural capital and the link which exists between it and the economic development have determined the appearance of different conceptions of ecodesvelopment, which though they coexist today, they tend to be regarded as evolutionary in a continuous process of understanding and defining a real sustainable development.

Initially the geocentric theory is given rise, which blames totally human intervention upon nature making the protection of the environment an end in itself.

Criticized for its lack of realism, this conception was replaced with the biocentric one which acknowledges as main the ecological concern, the preservation of all lively forms on the planet and this

theory is accused of being highly conservative, as protecting the biosphere is above all the interests social and economic and most of the times satisfying the most stringent human wants cannot be ensured without a minimum transaction. Unlikely the anthropocentric conception tends to deviate towards the other extreme taking into consideration that nothing else matters than satisfying the increasing and all the more diverse demands of the man; the man cannot be imposed limits of intervention upon nature, which may be sacrificed on behalf of the increase of consumption. Lately different preoccupations to improve these conceptions have been observed, the vision of reconciliation of the man with nature and with himself coming into prominence.

More often than not, in order to define the concept of lasting or sustainable development they use the formula of Brundland Report in 1987, being understood through this *That development which succeeds in satisfying those needs for the present generations without affecting the capacity of the future generations of satisfying their own needs.*

The lasting development is conceived in the vision of reconciliation between the environment and the economy as a new way of development able to satisfy the human progress not only in some places and for a few years, for the whole planet and for a longer future.

In other words the concept of sustainability takes advantage of an opening wider enough. The needs are regarded in a wider sense, not only economically speaking, but also speaking of the need to live in a social community, the need of security and also many needs of employment. As well satisfying them implies a bivalent criterion of equity both between generations and within the same generation.

Thus the lasting development hangs in the balance first the satisfying of present human needs and the future generations ones, which represents the central objective to follow. This claim cannot be accomplished by exploiting the natural capital however and no matter how much, being necessary to be satisfied a number of conditions referring to balance (statically or dynamic):

- between different components of land ecosystem;
- between environment and economy;
- among the size of population, the capacity of tolerability of the environment and the level of economic activity;
- between the working conditions and life conditions of different categories of population (social equity and justice);
- between the level of consumption and environment quality;
- between the degree of satisfying the needs of present generations and those future ones, as well as a number of evolution conditions;
- increasing the standards of living;
- diminishing the differences and increasing the social equity;
- increasing the volume and quality of usable natural resources;
- increasing the capacity of tolerability of the environment;
- the increase of efficiency of using the natural capital; diminishing the waste;
- diminishing the technological impact upon the environment.

So it is about a balance of increasing, concerning both each component – economic, technologic, ecological, social and human – and the relationships among these components.

All these aspects impose a re-evaluation and a rethinking of economic knowledge. Lately, more and more authors identify and add new dimensions to the concept of lasting durability, so that we may say that the realm of comprising the term is in a full process of enlargement and completion.

It deals with a process of knowledge and research, from which new significations derive, the progress of the man and the environment he lives in being emphasized.

Such a vision cannot leave unmodified the classic theories of political economy. In many aspects, these problems constitute an arguable question concerning the traditional scientific bases in conformity with which efficiency is the only and the most powerful regulator of economic life, which finally dictates what, how much, how, who and for whom to produce.

In this point of view, we may say that the promoters of lasting development are rallied to those who consider that the modality of solving the law of rarity cannot be done only through efficiency (positive approach of economy), essential being the optimum degree of satisfying the needs (normative approach).

What today appears in a certain context as being efficient, may be totally inefficient if we take into consideration a number of conditions which are not kept in an account:

- the degree and speed of waste of the consumed natural capital;
- destroying – remediable or not - of the land balance ecosystems, whether through irrational exploitation or through polluting emissions - which can take place during the whole cycle of existence of the product;
- the extent in which the goods efficiently produced satisfy the real social needs; it is well known that any economic activity implies at the same time a cost for producing this good and a cost of non producing other goods; this cost of opportunity is supported most of the times by the society through limiting the possibilities of choice;
- an efficient activity for nowadays generation may be counter-productive for tomorrow's generation.
- national economy may register an economic increase without the standard of life for most of the citizens to be improved, in this sense they talk about a productive efficiency and allocative efficiency.

In order to decipher all the problems incumbent from sustainable development, the most recent studies start with analyzing the three kinds of capital: the natural capital, which includes the natural resources of interest economically speaking, as well as the other characteristics of the land environment, which are indispensable to life, the anthropic capital, created by man, understanding through this both the physical capital and the financial one and the human capital comprising the entire area of phenomena supposed by this. There is also the opinion that the social capital may be added, which allows integrating justice, rules and social values within this assembly.

From this point of view concerning the relationship among generations, through sustainability may be understood the necessity of preserving the forms of capital, at least at the level and quality they register today, so that the future generations to benefit from the same possibilities as the present ones. Referring to the natural capital, more specific to the usable resources in economy, a diminish of those is admitted – in the extent that humanity cannot survive today without consuming a part from non regenerating resources – but it is emphasized promoting the telluric progress, as a solution for diminishing the specific consumption, discovery of new reserves, creating new possibilities for satisfying the same needs by using alternative resources.

From the point of view concerning the relationship among generations, sustainability means a greater equity in the distribution of the three forms of capital among the individuals in nowadays society, among regions, states and continents offering them equal chances to benefit of all the forms of capital, to use them for their own interests, for heirs and society and participate actively at quantitative and qualitative increase.

As well for the reason that the development be characterized as sustainable, it is necessary to assure a fundamental equilibrium both within each form of capital and especially among them.

The complex links realized among the economic, social and environmental dimensions lead to the conclusion that among different objectives of the national politics there will be a need for priority-choices, which suppose, in other words, to renounce to some of them in favour for others.

The interactions among the three dimensions implies synergies and convergences, flows inter-propulsion and self-maintenance, as well as divergences, narrow sites, discrepancies more or less irreconcilable, which demands to be negotiated and cannot be solved without giving up to some of them favouring others.

Most of the authors' opinions are that different components of the wealth are not changeable among them or they show a diminished changeability. Therefore preserving the stock of capital cannot be regarded as a global matter, being necessary to respect this condition for each and every type of capital. Thus we may speak about low sustainability when consuming the natural capital takes place from the point of view of development and maintaining the capital created by the man, social or human, so that on the whole the stock of capital should be kept. On the contrary, a high sustainability takes place when none of the possible types of capital is endangered.

The lasting development suppose also the knowledge and anticipation of the future generations' wishes. As any analysis, which approaches the problem of sustainability is compelled to make anticipations upon the future, it inevitably stirs up uncertain elements. Most often they start with the assumption that the future generations will need the same goods as the present ones, yet nothing can guarantee that their preferences will be the same.

Therefore, sustainability means a different matter than the simple preservation of the stock of capital, regarded as a simple and mechanic question. Introducing the future in the equation suppose, before anything else a certain anticipation and a planning of it.

And for the same reasons, nobody can conceive a sustainable development without the elements of the stock of capital and their structure not to register important qualitative leaps (and also qualitative).

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# EUROPEAN INSTITUTIONS' REFORM ACCORDING TO LISBON TREATY

**Cebuc Maria - Iuliana**

*"Constantin Brâncoveanu" University – Pitești, Faculty of Management Marketing in Economic Affairs - Rm. Vâlcea, e-mail: iuliacebuc@yahoo.com, Nicolae Bălcescu Street, No. 39, Râmnicu Vâlcea, Vâlcea, tel. 0729080711*

**Petria Licuța**

*"Constantin Brâncoveanu" University – Pitești, Faculty of Management Marketing in Economic Affairs - Rm. Vâlcea, e-mail: licutapetria@yahoo.com, Nicolae Bălcescu Street, No. 39, Râmnicu Vâlcea, Vâlcea, tel. 0751125689*

*Lisbon Treaty's conclusion whose provisions are to become applicable on 1 January 2009 after its ratification by the member states is going to have major effects as to the European accession, reshaping the European Union's form and ensuring functional decisional devices of its institutions, at the same time generating a closer approach of the accession process to European citizens. The European Union is becoming a supranational organization that is going to benefit from clearly stated function rules and principles necessary to world coherent progress whose abilities are specified in compliance with the member states.*

*Keywords: institutional reform, the Union's High Representative for Foreign Affairs and Security Policy, the president elected for the European Union Council*

The European Union's legitimacy derives from the democratic values it promotes, the objectives it aims at, and the instruments and competences it has. However, the European project's legitimacy also derives from the existence of democratic institutions that are transparent and efficient. The institutions set up during more than 50 years reflect the time evolution of the European Union's structure and are currently undergoing a reform process generated both by internal and external challenges.

The institutions come forth as a result of a specific economic and political context that has produced them and which must be able to use and shape them under the influence of political purposes they should reach. That holds true especially for the European Union and its institutions whose role is not mainly to lead a political entity but to enhance it.

The opinion that European institutions do not work efficiently, cannot cope with the internal and external challenges faced by the European Union, cannot efficiently accomplish their basic functions and cannot rapidly adapt to the ever-changing world has not occurred over the last years. Neither have the need and the idea to have a full institutional reform without precedent. In the late 90's, the doubtful legitimacy of European institutions was presented as part of a constitutional crisis, the idea of institutions' reform being revived especially between Maastricht Treaty and Nise Treaty adoptions and meaning the main objective of the 2004 Constitutional Treaty, not ratified by the member states. In this context, in order to find solutions and meet citizens' requests, it is necessary that a collective effort should be made at European level, the community setting-up should have efficient and coherent instruments adjusted not only to the functioning of the newly-enlarged union from 15 to 27 member states but also to the rapid changes of the world nowadays.

Lisbon Treaty's coming into force (on 1 January 2009 after its ratification by the member states) is to ensure European institutions' proper working after the accession of the states in Central and Eastern Europe, with the European Union on its way to become a supranational organization that will benefit from clearly stated working rules and principles that are a must in the world's coherent progress.

Lisbon Treaty does not fundamentally change the Union's institutional structure which is still going to rely on the Parliament, Council, Commission triad taking a significant share of the reforms foreseen by the 2004 Constitutional Treaty not ratified by the member states. Nonetheless, the Treaty introduces a few new

elements meant to improve institutions' efficiency, coherence and transparency so that they could better meet the new internal and external requirements.

Thus, according to the provisions of Article 13 (in current numbering), the Union is going to have an institutional framework meant to ensure the promotion of its values, the accomplishment of set goals, the support of its own, its citizens' and its member states' interests, providing coherence, effectiveness and continuity in its policies and actions. The Treaty increases the number of European institutions to seven: the European Parliament, the European Council, the Council, the European Commission, the European Union's Court of Justice, the European Central Bank and the Court of Accounts.

The European Parliament's role (Article 14) is restated by Lisbon Treaty as the institution benefits from extensive legislative, budgetary and international agreement approval competences. The Treaty also modifies the Parliament's structure, that is the number of parliament members elected by universal, direct, free and secret voting by member states' citizens for a five-year mandate cannot exceed 750 (751 with the president) and the distribution of seats by member states is going to be proportionally decreasing with minimum six members from every member state. In other words, the parliament members coming from the countries with the largest number of inhabitants are to represent a greater amount of citizens than those from less inhabited countries. The Treaty also stipulates that every member state will have at least six seats and ninety-six at most in the Parliament. The same stipulates that the next Parliament's make-up is to be decided upon by the European Council that must make a decision in this respect based on the Parliament's unanimously voted proposition.

Article 15 in Lisbon Treaty states that the European Council's role is to provide the Union with the necessary incentives for its growth, defining the general political orientations and priorities without exerting legislative functions. The European Council is made up of the state and government presidents, its president and the Commission president. The novelty of current norms regarding the Council's president is that, unlike previous community regulations according to which the Council's presidency was exerted by each member state in turn for six months, now the president of the European Union Council is elected for a two-year and a half mandate with the possibility of mandate renewal only once. Having in view the growing complexity of European issues ensuing both from the Union's enlargement from 15 to 27 countries as well as from increasing the number of European Union competence fields, the six-month mandate used to be too short. The new mandate duration will allow the governing member state to better coordinate its strategies and pursue their effects.

The president is due to prepare and stimulate the Council's works ensuring their continuity, to take actions in order to facilitate the Council's cohesion and consensus with the duty to report to the European Parliament after each Council's meeting. As far as foreign relations are concerned, the president is due to represent the Union at world level without getting involved in the attributions of the Union's High Representative for Foreign Affairs and Security Policy.

The Treaty asserts that the Council of Ministers and the Parliament together exert the legislative and budgetary functions defining the Union's policies and coordinating the decision making in accordance with the directions provided by treaties. The Council of Ministers' role remains largely unchanged. The Council has meetings within various groups set up in compliance with the Treaty's provisions, and the Council of General Affairs prepares the Council's meetings and pursues the achievement of steps in collaboration with the European Council's president and the Commission. The Union's foreign actions are set up by the Council of Foreign Affairs.

The Council of Ministers' presidency except the Council of Foreign Affairs is ensured by turns by member states' representatives for at least one year, relying on the rules set up by the European Council.

According to Article 18, the European Council, deciding by qualified majority and with the commission's president agreement, appoints the Union's High Representative for Foreign Affairs and Security Policy, being able to decide his mandate cancellation in the same way. The High Representative is in charge of the Union's foreign and common security policy contributing by suggestions in the drafting and accomplishment of the policy. The High Representative presides the Council of Foreign Affairs. The High Representative is one of the Commission's vicepresidents and ensures the coherence of the union's foreign actions. When exerting his responsibilities within the Commission and only regarding his responsibilities, the High Representative is subject to the procedures of the Commission's functioning regulations if it complies with Indentations (2) and (3).

The major change brought about by Lisbon Treaty refers to the decision-making process. Firstly., the Council is due to make decisions by qualified majority except when the treaties provide another procedure such as unanimous voting. In practice, once Lisbon Treaty comes into force, qualified majority voting will be applied to numerous activity fields (for instance, immigration or culture).

Lisbon Treaty simplifies the voting system so that it is necessary that 55% of the member states (15 out of 27) be in favour of a decision in order to adopt it. The states should account for at least 65% of the EU's total population as this requirement reflects the Union's double legitimacy which will lead to enhanced transparency and efficiency. The new calculation method will be supplemented by a device similar to the "Ioannina compromise" which should allow a small number of member states (close to blocking minority) show their disagreement with a decision. Thus, the blocking minority must include at least four Council members, otherwise it is presumed that qualified majority could be settled. In such a situation, the Council will have to do everything in its power to duly reach a satisfactory solution for both parties.

Yet, the change in the voting system will not come into force before 2014 as it is one of the conditions imposed by Poland in order to sign the Treaty. Another concession obtained by Polish leaders provides that an EU decision cannot be changed without unanimous votes which is practically very difficult. Thus, despite the voting system change, EU leaders have allowed the maintenance of a significant obstacle in the decision-making process. By derogation from Article 16, Indentation (4) in the Treaty regarding the European Union, starting on 1 November 2014 under the reserve of the directions set up by the Protocole on transitory regulations, if the Council does not make decisions obeying the Commission's or the Union High Representative's propositions, the qualified majority can be defined as equal to at least 72% of Council members representing the participating member states that account for at least 65% of the Union's population.

According to Article 17, the Commission is a collaborative body that promotes the Union's general interests and takes the proper steps in this respect ensuring the implementation of treaties and steps adopted by institutions for their purposes. It also has the ability to execute the budget and manage the community programmes by coordination, execution, administration according to the treaties' directions.

Except the common foreign and security policy, and other cases provided by treaties, it ensures the Union's foreign representation, adopts the initiatives of the Union's annual and multiannual scheduling with a view to conclude interinstitutional agreements. The Union's legislative acts can be adopted only at the Commission's suggestion except the case when the treaties provide otherwise. The other acts are adopted at the Commission's suggestion if the treaties stipulate that.

Until 31 October 2014, the Commission is made up of a resorter from each member state, including the president and the High Representative of the Union's foreign affairs and security policy who is one of its vicepresidents. After 1 November 2014, the Commission is made up of a large number of members, including the president and the High Representative of the Union's foreign affairs and security policy, accounting for two thirds of all member states as long as the European Council does not want to change that number, by a unanimous decision. The Commission members are elected from among the member states' resorters according to an even rotation system among member states to reflect the geographic and demographic diversity of all member countries. The system is agreed upon by the European Council that unanimously decides according to Article 244 in the Treaty regarding the European Union's functioning.

Lisbon Treaty sets up the new framework of European law courts made up of the Court of Justice as supreme community court, the Tribunal (the current court of first instance) and specialized tribunals, achieving a better distribution of jurisdictional functions and setting up profile courts in different fields. Thus, the Treaty's guidelines contribute both in enlarging the Court of Justice's current competences and in their adjustment to the Union's new competences mainly in relation with obeying the fundamental rights when exerting them.

By the guidelines of Article 263, TFUE first paragraph, they regulate the enlargement of the Court of Justice's competences regarding the acts adopted by the European Council, yet this competence is limited if contesting a European Council act by which they find that a member state seriously and repeatedly infringes the European Union's principles. The Court also acquires enhanced competences to control the guidelines on the implementation of foreign policy and common security, to make a decision about decisions' lawfulness that provide restrictions adopted by the Council for the purpose of that policy against individuals and businesses. As to obeying the fundamental rights, by admitting the juridical power of the Fundamental Rights Charter, the Court will have the chance to act as control instance only if it is

summoned by an individual's or business's lawsuit whose purpose is to cancel acts of Union institutions that regard them directly.

The directions of current treaties referring to the European Central Bank (ECB) and the Court of Accounts have not changed their roles or make-up modality.

In conclusion, it can be stated that Lisbon Treaty's novelties modernize the Union's institutions and decision making, providing a beneficial functioning framework both for the Union in its whole, and its member states and citizens, granting the opportunity to get more involved in the Union's activities. The Lisbon Treaty is a document which will enable the European Union to tackle the common European challenges in the 21st century with more efficiency. The functioning of the EU will become more efficient not only within the Union, but also in its external relations. Besides this increased efficiency, the Treaty will bring more transparency and democracy to the Union

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# THE ROLE OF ECONOMIC AND FISCAL INSTRUMENTS IN SOLVING THE ECONOMIC – ECOLOGICAL CONFLICT AT THE COMMUNITY LEVEL

**Cobzaru Angelica**

*Universitatea „George Bacovia” Bacău, Facultatea de Management, Specializarea Administrație Publică, Adresa: Str. Pictor Aman nr. 96, Bacău, E-mail: angex2003@hotmail.com, Telefon: 0745 321710*

*The environment is a present problem of high priority that needs immediate solutions. The preeminence of economics in the social and political life of the last decade, the concentration of activities for an immediate profit, has led to the ignorance of environmental aspects.*

*The year 1960 is considered the beginning of the environmental crisis when the environmental problems became of high priority as compared to other aspects of any other nature, be it political, economic or cultural. Thus, there has been developed worldwide a series of economic and fiscal key factors for the environment protection, with the purpose of facilitating the economic – environmental conflict solving process. The European Community whose member Romania is today has a very good environmental policy and other EU member can serve as a model as far as the environmental strategies are concerned.*

*This paper aims to study the evolution of environmental problems as well as the change of the old mentality “The economic has priority” into a new vision consisting in the priority of environmental problems. It is considered that conciliation between economic and environmental will succeed in getting the society out of the environmental crisis, but it will also bring changes on the economy, that is the implementation of a new type of development, “the sustainable development”. The paper presents particularly the economic and fiscal modalities meant to improve the environmental protection process both for the present and for the next generations.*

*Key-words: environment, sustainable development, economic, environmental conflict*

The environment protection is the centre of present concerns and has also become an individual’s right and fundamental freedom.

The environment protection is a public responsibility, an obligation of the state, fact that implies the regulation of protection and public control activities.

The environment protection views the escape from the negative influences on the environment, either natural or entropic, by finding the causes and eliminating them, attenuating the effects of pollution and, if possible, completely eliminating them for the sake of human kind.

”Starting from the indisputable truth that the establishing of ecological balance and the protection of different environmental elements cannot be realized only by the spontaneous action of the different natural factors, the human intervention needs to take place through a complex, rational and scientifically structured activity having as purpose the prevention and control of pollution, the reestablishment of the damaged environment and the improvement of its quality.”<sup>130</sup>

The development of society should somehow change its trajectory that is it has to observe the environment and its natural resources. Thus, the economic growth has to take into consideration the environment problems, as well. The agreement between ecological and economic has hardly been concluded, taking into account the interest for immediate profit, in most cases to the detriment of the environment.

At a community level, through the fifth action programme “ towards a sustainable development” there has been admitted the more and more important role of the economic and fiscal instruments in promoting the environmental protection objective, and the European Commission estimated that “the best way of reaching the set

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<sup>130</sup> Daniela Marinescu, *Tratat de dreptul mediului (Environmental Law Treaty)*, Lumina Lex Publishing House, Bucharest, 2003, p. 8;

environmental objectives is by combining the fiscal instruments with other measures implemented in a coherent manner in order to change behaviors.”<sup>131</sup>

## **The economic and fiscal instruments of the environmental protection**

This subchapter presents the main economic and fiscal key factors of the environment protection from an integrated perspective. After the EU adherence, Romania has harmonized its legislation and has aligned its environmental policies and strategies to the community specificity first of all.<sup>132</sup>

For the realization of an efficient environmental protection there has been imposed the co-operation and coordination of more factors - political, judicial-institutional, economic and educational ones. Thus, at a community and international level there has been realized a certain uniformization of the environmental protection techniques and modalities.

The environmental protection has become a constant of life and human kind that, in time, has created its own system of judicial economic and institutional measures trying to reach a happy end: a sustainable development, a healthier environment and resources for the future generations, as well.

The most used economic and fiscal key factors are:<sup>133</sup> **charges, price policy, loans (advantageous credits), insurance, detaxation and subventions, pollution markets, consignment systems, green label (eco-label or ecologic label).**

### **Charges**

One of the most used economic and fiscal key factors of the environmental protection is the charges system, used for the penalty of products or activities damaging the environment. In the category of charges there are included:

- charges depending on the quantity or quality of the polluting substances with effects on the environment;
- charges on the polluting substances;
- administrative charges paid for different administrative services such as the registration of chemical products or for the implementation of certain regulations;
- royalties used for the collectivity expenses, for example for waste treatment .

The system and type of charges and their implementation are different from one country to another, and there is a diversity of hypostases. The common element is the role of these charges and their double hypostasis is on the one hand their fund collection function for a given purpose (in this sense the charges are relatively low); on the other hand the charges are meant to stimulate a favorable and controlled behavior towards the environmental protection problems.

From a community perspective, the subject of eco-taxes must be considered from two perspectives: on the one hand the already taken initiatives or those which will be taken by the European Community itself, on the other hand, the national regimes that are compelled to a community discipline. Concerning the first aspect, the European Commission suggested in 1992 a CO - energy combined charge; the initiative has come across so many obstacles from the industry and the community states that the community court finally changed its strategy, suggesting the taxation of all energetic products and increasing the existent charges.

The national ecotaxes of the community states began to comply to the community demands, the northern countries being the most open to these incitation systems.<sup>134</sup>

“It has become clearer and clearer that countries admit the power of fiscal systems, not only of increasing incomes, but of modeling the individuals’ and companies’ economic decisions”.<sup>135</sup>

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<sup>131</sup> *Comunicat asupra fiscalității în Uniunea Europeană...*(Communiqué on Taxation in the European Union) Doc. Com., (96) 546;

<sup>132</sup> The three hypostases of the environmental law are: the national law, the community law and the environmental international law are in a strong interdependence. In spite of this, for Romania the basis is the national environmental law, followed by the environmental community law (for EU state members), and last the international environmental law.

<sup>133</sup> Mircea Duțu, *Dreptul mediului: curs universitar (Environmental Law: university course)*, C.H. Beck Publishing House, Bucharest, 2007, p. 226 – 234;

<sup>134</sup> Mircea Duțu, *Cited papers*, p. 229;

### ***The price policy for the preservation of the environment***

The price policy is an important economic instrument for the protection and preservation of the environment. It is frequently paid by the whole society as the prices of products do not reflect the product environment cost or the cost of the emissions resulted from their use.

Therefore, policies reflect the requirements of “the polluter pays” principle and can guarantee the consideration of the environment cost of goods and services. (for example when the state is the owner or controls the natural resources, as well as the forests or the mineral reserves).

### ***Detaxations and subventions***

The suppression of taxes for certain products due to their importance for nature protection to the detriment of others considered harmful, is an advantageous modality of promotion of certain ecological objectives. For example, the increase of no lead fuel price allowed in many countries the setting of lower prices to the regular fuel, thus encouraging the use of a cleaner fuel.

As far as subventions are concerned, there can be mentioned as examples the national financial support for water and air cleaning, or those offered at the community level for the environmental friendly agricultural activities.

There is also the community support for investments meant to facilitate the adaptation to new economic norms, the aid for information, formation and social work activities. As for the community instruments available for the environmental projects funding, the most significant are the structural ones and Life programme.

### ***Loans (advantageous credits)***

Loans are a form of economic stimulation of environmental friendly activities. Thus, for some pro-environment activities, such as the construction and implementation of ecological installations or for the recycling systems, low-interest credits are used, even with governmental support.

This system is more frequently used at the community level, France being one of the countries currently practicing advantageous loans in order to stimulate those actions which are benefic for the environmental protection.

Unfortunately, in Romania this system is not applied yet on a large scale, but gradually it will become an obligation for all agents causing pollution.

### ***Insurances***

Insurances have been directed towards the environmental protection with the purpose of repairing the ecological damages produced by high-risk economic and social activities. The insurance covers only accidental events, and if the damage is caused by deliberate acts or by an insurance omission, it will not be repaired by the insurance system.

At the community and international level there is a tendency of the insurance companies to form specialized pools which accept the insurance of new risks, relatively unknown under the control of legislation on the environmental protection. The extension of the insurance on the gradual pollution risk has been more and more admitted, as well.

### ***Consignation systems***

The consignation systems are a market mechanism that has become more and more active nowadays having the role of stimulating the return and recycle process of different types of recipients.

Initially this system was used for glass recipients, the idea being their reuse and the return of expenses. Later, the system was extended in some states for the plastic bottles, as well.

From country to country there are some particularities of using this system. For example, in Germany the system is envisaged for a wider range of packing (drinks, detergents, paints, lacquers). In Norway there is a unique and efficient system of depositing cars since 1978 with the purpose of avoiding the uncontrolled spread of waste.

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<sup>135</sup> Lester Brown, J. Larsen, B.F.Roberts, *Politică ecologică a planetei*, Editura Tehnică, București, 2002, p. 143;

It is to be noticed the idea of creating a bail by the sand or stone career exploiters reimbursed after its re depositing in the initial state of the place.

At the community level, a special situation was registered in Denmark where a Decree in 1984 limited the import and sale of drinks whose packing was not agreed and set a consignment system. The European Court estimated though that the Danish regulation was disproportioned in relation with the established report. The concerns for the environmental protection have to be in harmony with the principle of free competition and of free circulation of goods within the Common Market.

As a result, the EU member states need to obtain the license of the European Commission for the different forms of support and stimulation of technological investments concerning the environmental protection. <sup>136</sup>

### ***Pollution markets***

As an economic-financial instrument, the system of pollution markets is difficult to implement seeming rather a utopia than a viable, real environmental protection technique. What is the most difficult to use is the control an implementation of this instrument in case of non-observance of the set objectives.

The pollution markets have appeared in the USA for water and air and they are not extended on a large scale as it is a controversial subject.

For short, the principle supposes the following: a plant (enterprise) can purify more than is asked and allowed to than another enterprise for a certain amount of money. This way pollution receivables are being sold. In the USA there are even specialized persons dealing with this type of transactions.

It is desired that the system should be introduced at an international level as well, implying the reduction of gas emissions with a global warming effect by negotiable “emissions permits” , a state being able to sell to another one its right to pollute and even to borrow, that is reporting the emissions overflows on to the next generations.

At a community level, the system of pollution markets was experienced in Germany, under the form of “transferable authorizations”. This unique type of implementing the pollution markets was named “the pollution bubble” that represents the total quantity of the pollution admitted in a certain area, as established by the authorities.

Each enterprise has to obtain from the local authorities an emission authorization within those limits. Thus, the economic units investing in pollution reduction technologies and procedures can change and sell their authorizations to other enterprises placed in the same area, but less efficient in the environmental protection.

### ***Eco-label***

In western countries where the concern for the environment and its protection are more advanced, a special attention is given to the ecological label (brand). It is based on the fundamental principle of the environmental law according to which it is easier and more efficient to prevent environmental problems than to repair them after they are produced.

“The ecological label is a graphic symbol and/or a short descriptive text applied on the packing, in a brochure or other informative document accompanying the product and offering information on at least one and no more than three types of impact on the environment. “ <sup>137</sup> This method requires the producers to examine the entire life cycle of the product (production, distribution, use, and elimination) in order to prevent the degradation of the environment in all stages and for all sectors: air, water, soil.

The role of the ecological brand consists in informing the consumers on the products considered less destructive for the environment than similar ones.

The system was practiced for the first time in Germany (By “the blue angel brand” in 1978), extended then in Norway, Sweden, Finland, than in Austria, Portugal, France. At presents, it is estimated that there is about 4,000 products ecologically labeled belonging to approximately 70 categories.

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<sup>136</sup> In accordance with art. 92 și 93 of the Treaty of Rome, <http://www.europa.eu>

<sup>137</sup> C.P. Romișan, *Dicționar de dreptul mediului (Environmental Law Dictionary)*, All Beck Publishing House, Bucharest, 2004, p. 83;



By the Government Decision no. 335/2002, there have been adopted new measures for the implementation in Romania of the “Blue Flag” programme (the sign of an exemplary management of environmental problems concerning sea shores, lake shores or the beach).

The Romanian legislation has also introduced, by the Emergency Order no. 91/2002 (coming with modifications to the Law no. 137/2002), a way of implementing the elementary principles and “the recognition of the products with reduced impact on the environment by granting the ecological label”. (art. 4 letter b) <sup>138</sup>

## Conclusions

Economic and fiscal instruments have certainly begun to play a more and more important role in promoting the environmental protection objectives. The use of these instruments is limited at a national level, but is more extended at a community, respectively international level. Despite all these, Romania’ accession to the European Union supposes the alignment of all regulations and approaches of environmental problems in accordance with the community level.

The role of economic and fiscal instruments concur at the same time for a co-operation of the economic and the ecological, fact that represents an evolution in the contemporary mentality meaning a sustainable development of the economy. This economy takes into account both the present resource necessities and the future ones. The economic development and the immediate profit do not represent any longer a way of solving the society problems, as nowadays the ecological crisis is so evident and can no longer be avoided. The whole economic vision has to take into consideration the priority of environmental problems, as an essential principle of an eco-economy concerned with the ecological aspects of the planet, as well. “The experience shows that some procedures have a limited effect, even though they suppose considerable administrative tasks which significantly reduce their efficacy. Moreover the efforts of the environmental protection can even lead to an economic growth”. <sup>139</sup>

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<sup>138</sup> In accordance with art. art. 4 letter. b, within Law no. 137/2002;

<sup>139</sup> Mircea Duțu, *Cited papers*, p. 234

# SLOVENIA ON ITS WAY TO THE FINAL STAGE OF ECONOMIC AND MONETARY UNION

**Croituru Elena Lucia**

*Universitatea Romano-Americana, Bucuresti, lucia.croituru@yahoo.com*

**Sterian Maria Gabriela**

*Universitatea Romano-Americana, Bucuresti, steriangabriela@yahoo.com*

*Abstract: The Maastricht Treaty states certain criterias that have to be achieved in order for a EU Member State to qualify in undergoing the 3rd stage of UEM, the introduction of the euro. In 2007 Slovenia passed this stage, following a well defined and coherent strategy, based on a long time planning, based on the cooperation between the Government and the National Bank. Thus, the experience of switching to euro implemented in Slovenia represents a model for other countries, including Romania.*

*Key words : nominal convergence, real convergence, inflation, euro*

## **1. The convergence criteria for adoption of euro**

### ***Nominal convergence***

The Maastricht Treaty specifies that, in order for a EU member State to adopt euro, it is necessary for it to fulfill certain criteria of nominal convergence:

- the rate of inflation criteria: the rate of inflation should not exceed with more than 1.5 pp the rates of inflation of 3 EU member states that have the highest price stability;
- the criteria of the interest rate: the interest rate should not exceed with more than 2 pp the average interest rate of the 3 EU member states previously taken into consideration;
- Fiscal criteria: the lack of a decision of the Council regarding the existence of an excessive budgetary deficit (based on respecting the limit of 3% of the GDP for the deficit and maximum 60% of the GDP for the Public Debt);
- The exchange rate criteria: the exchange rate has to respect the normal fluctuation margins provided by the Exchange Rate Mechanism for a period of at least 2 years before the examination, without the devaluation of the currency related to the euro.

After the candidate state has become an EU member, the next step represents the adhesion to ERM II with a view to the adoption of the euro.

### ***Real convergence***

Regarding the real convergence process, there are no formal criterias and no complete agreement regarding the variables that should be taken into consideration; some of them refer to the growing rates of the GDP per capital and of the productivity in the different sectors of activity from the GDP share.

Until the 1990s the EU was formed by states that were sharing the same economic structure, thus the real convergence became a fact (even if the Maastricht Treaty doesn't refer to it) only after the joining of Central and Eastern countries.

In regards to the real convergence there are no formal criterias and no total agreement regarding the variables that should be taken into consideration; some of them refer to the rates of growth of the GDP per capital and of the productivity as part of the different sectors of activity from the GDP, others to the evolution of the degree of economic integration.

## 2. An anysis on the achievement of the criterias by Slovenia

### *Nominal Convergence stage*

Slovenia achieved the convergence reports in order to achieve the convergence criterias set by the Maastrich Treaty and succeeded in coordinating it's economic policies with the other states based on the directions set by the Commission.

The annual inflation average, used in evaluating the convergence, decreased from 8.6% in 2001 to 2.3 % in march 2006.As a result, it came near progressively to the refference value and reached it for the first time in november 2005.

Thus, during the reference period, from april 2005-march 2006 the average inflation rate in Slovenia was 2.3% under the value of reference of 2.6% regarding the price stability criteria. Even if this positive aspect was recorded without major fluctuations after 2000, Slovenia had to be careful in maintaining it's low inflation environment

*Tabel 1. Inflation in Slovenia*

	<b>Dec. 2005</b>	<b>Ian. 2006</b>	<b>Feb. 2006</b>	<b>Mar. 2006</b>	<b>Apr.2005 – Mar. 2006</b>
HICP inflation	2,4	2,6	2,3	2,0	2,3
Reference Value					2,6

*Source : European Comision (Eurostat)*

During the last years, the level of the long term interest in Slovenia went on a decreasing trend, that constantly decreased in regards to the euro zone, starting 2002.The main factor that generated this was the elimination of the economic and financial uncertainty, due to the cautious monetary and fiscal policy measures and also the reduction of inflation in regards to the euro zone. Further on, the reduction of the interest's differential level benefited from the market's trends regarding the transition to ERM II, that took place in 2004, as well as of the tolar/euro exchange rate starting that date. The convergence process of the interest was also sustained by the tendencies of the adoption of the euro.

In conclusion, the interest rate in Slovenia followed the euro zone level, reflecting the market's trust in the economic, fiscal and monetary policies as well as the currency exchange rate.

During the reference period, from april 2005-march 2006, the long term interest rate was approximately 3.8% average, under the reference value of 6.2% set by the level of interest criteria.

*Tabel 2. Long-term interest rate developments*

	<b>Dec. 2005</b>	<b>Ian. 2006</b>	<b>Feb. 2006</b>	<b>Mar2006</b>	<b>Apr. 2005- Mar. 2006</b>
Long term interest term	3,7	3,7	3,7	3,8	3,8
Reference value1)					6,2

Sources : European Comision and European Central Bank

1) Calculation for the April 2005 to March 2006 period is based on the unweighted arithmetic average of the interest rate levels of Poland, Finland and Sweden, plus 2 percentage points.

Regarding the budgetary deficit criteria, Slovenia reported a deficit of 1.8% of the GDP, way below the reference value of 3%. The public debt was 29.1%, below the reference value of 60%.

**Tabel 3. Fiscal developments**

	<b>2004</b>	<b>2005</b>	<b>2006</b>
Deficit	-2,3	-1,8	-1,9
Reference value	-3,0	-3,0	-3,0
General government dept	29,5	29,1	29,9
Reference value	60,0	60,0	60,0

Source : European Comision and European Central Bank

The slovenian currency participated to ERM II since 28th of June 2004, for approximately 22 months from the 2 years reference period from april 2005-march 2006. The reference value for the tolar was settled at 239.64 tolar/euro, this being the market value at that date, Slovenia not devaluating the tolar at it's own initiative. A fluctuation rate of was settled at +\_ 15% around the central value.

**Tabel 4. Exchange rate developments**

Membership of ERM II	yes	
Membership since	28/06/2004	
Devaluation of bilateral central rate on country's own initiative	no	
Maximum upward and downward deviations 1)	Maximum upward deviation	Maximum downward deviation
28 iunie 2004-28 aprilie 2006		
Euro	0,1	-0,2

Source :European Central Bank

1) Maximum percentage deviations from ERM II central rate. Ten-day moving average of daily data at business frequency.

It is very interesting to make a comparison with the ten states that joined the EU at the 1st of May 2004. Together with Slovenia, Poland accomplished the criterias in the reference period of April 2005-May 2006. After a further analysis we can see that only 2 other states-the Czech Republic and Cyprus accomplished the inflation criteria. Regarding the budgetary performance criteria in the 8 states that recorded budgetary deficits, only 3-Cyprus, Malta and Lithuania bordered around the reference value. Regarding the public debt, Cyprus, Hungaria and Malta recorded values above the reference value. It is interesting to observe that, regarding the interest rate, only Hungaria placed itself above the interest rate (for Estonia there weren't statistical data because the finacial system in this country is characterized by the lack of a developed market).

*Table 5. Indicator of economic convergence*

		Inflation	Surplus/deficit	General government dept	Long term interest rate
Czech	2005-2006	2,2	-3,5	30,9	3,8
Estonia	2005-2006	4,3	+2,5	4,0	-
Cyprus	2005-2006	2,3	-1,9	64,8	4,1
Latvia	2005-2006	6,7	+1,0	11,1	3,9
Lithuania	2005-2006	2,7	-0,5	18,0	3,7
Hungary	2005-2006	3,5	-10,1	67,6	7,1
Malta	2005-2006	3,1	-2,9	69,6	4,3
Poland	2005-2006	1,2	-2,2	42,4	5,2
Slovenia	2005-2006	2,3	-1,8	29,1	3,8
Slovakia	2005-2006	4,3	-3,4	33,0	4,3
Reference value		2.6%	3%	60%	6.2%

Sursa: BCE, Eurostat and European Comision

1).The satibility of the exchange rate is not included.

2).Average percentual modifications.The data for 2005-2006 reffer to the reffrence period of November 2005-October 2006.

3). The reffrence value reffers to the November 2005-October 2006 period

### ***Real Convergence study***

After the real growth of the GDP was artificial between 2001-2003, it began to increase again in 2004, continuing to be slower than in other states. The conditions of the labour market remained stable, the unemployment rate fluctuating between 6 and 7%.The compensations for the increasing of the employed personnel reached decimal numbers in 2000 and 2001, then decreasing to 7.7% in 2004.The slowing of the labour productivity growth resulted in a substantial growth of the labour cost in 2000 and 2001, followed by a gradual decline down to 3.8% in 2004.

### **3. The introducing of the euro - a real success**

All this success was based on a single leit motif: the importance of the preparation of introducing the unique european currency. The slovenian people were already accustomed with the utilization of currencies, due to it's geographical proximity to states that were already, for a few years, the habit of utilizing these currencies, but also due to the close economic relations and to the payments performed in euro. Actually, the introducing of the unique european currency was rushed even more than in 2002, almost

80% of the totals on the market came to the Slovenian Bank on the 11th of January (in the countries that adopted the euro in 2002 the percentage was 40%).

Like the citizens of the other states, the Slovenians expressed their worries about that possible changes in prices and about the impact of inflation. The majority of prices even decreased during January, compared to december 2006. The inflation reached 2.6% compared to 3% in December 2006. Overall, the prices increased with 1.3%, compared to the same period in 2006, when the value was 1.5%. Regarding the public and private sectors, the introduction of the euro was a success, due to several factors: a careful planning that began more than 3 years before, the special attention paid to the complexity of the project and regular testings. Small companies instructed their departments and anticipated the changes that came after the 1st of January. Citizens and companies that had been well informed in regards to the practical consequences of the introducing of the unique european currency dealt with minimal difficulties. Thus, the Slovenian public's eye confirms once again the crucial role of informing and communication in the success of the transition process.

## Conclusions

Slovenia shifted to ERM II only a few months after joining the EU, being the only state, among the ten other states, that adopted the euro on the 1st of January 2007. It defined very well its strategy regarding ERM II, succeeded in not devaluating its currency and thus had not to wait another two years until the moment of adopting the euro.

As a second entrant country, Slovenia took advantage of other euro zone countries good practices' at the time of euro adoption. Based on the experience of other countries, the government and the Bank of Slovenia took measures to ensure a smooth transition to the euro. Notably, Slovenia adopted dual pricing nine months prior to the euro changeover, and lead an information campaign aimed at informing the broad public about the possible risk in the process of the currency changeover. As a result, inflation remained stable in the month prior to euro adoption and immediately after it. Average inflation stayed stable at 2.5 % in the last three months, whereas year-on-year inflation amounted to 2.3 % in November 2006 and declined to 2.1 % in February 2007. The euro changeover has not affected long-term inflation dynamics, but has had a significant effect on some groups of the CPI, notably on services in restaurants and cafes.

The lessons from Slovenia, where the changeover process went very smoothly with much public support, demonstrates the value of a well-planned extensive information campaign. As other Member States prepare their citizens for the euro, communication and information will play a major role in ensuring the process goes smoothly and that it is supported by the public. The issue of inflation perceptions as opposed to reality was an issue for Slovenia as it was in the first wave countries. Slovenia did not fully succeed where others also partly failed, i.e. in avoiding perceived inflation starting to diverge from actual inflation in the context of the changeover. The perception that some retailers see the introduction of the euro as an opportunity to put up prices remained. In the light of the Slovenian experience, it is possible to say that caution should be exercised in placing too heavy a reliance on dual price display as an anti-inflation measure in itself, and that more emphasis should be placed on fair-pricing agreements.

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# THE CAPACITY OF SMES FROM BIHOR COUNTY WHICH CARRY OUT IMPORT-EXPORT ACTIVITIES TO FACE THE CHALLENGES OF THE INTEGRATION IN THE EUROPEAN SINGLE MARKET WITHIN THE EURO-REGIONAL CONTEXT

**Dodescu Anca**

*adodescu@uoradea.ro, University of Oradea, Faculty of Economic Sciences*

**Bugnar Nicoleta**

*nbugnar@uoradea.ro, University of Oradea, Faculty of Economic Sciences*

*Starting from the premises that the competitive capacity of the SMEs is determined by their nature: some of them having rapidly growing capacity, others being totally dependent on local or regional markets, the present paper aims to investigate the capacity of SMEs from Bihor county, which carry out export and import activity, to face the challenges of integration in the European Single Market, with the purpose to guide them towards that initiatives and measures that correspond to their nature, by exploiting the possibilities offered by structural funds. The paper presents the general situation of the SMEs from Bihor county focused on those which are part of intra-communitary trade, and, on the base of a questionnaire applied to a number of 50 of them, their perceptions regarding the threats and opportunities of the European Single Market, in order to increase the absorption of structural funds and to design a Euro-regional strategy for the SME sector with direct benefits for the economic agents and communities from Romania and Hungary. The paper is based on the preliminary research results of the project called "The encouragement of SMEs which carry out import-export activity from Bihor county regarding the integration in the European Single Market through the development of cross-border business services", financed by the PHARE CBC 2005 Programme. The data used have been offered for the mentioned project by Local SMEs Council, Oradea.*

*Key words: economic integration, European Single Market, SMEs sector, structural funds absorption, Euro-regional development, cross-border cooperation*

## Introduction

The privileged position occupied by the SME sector within the EU politics is determined by the acknowledgement of the fact that this sector can significantly contribute to the growth of the GDP and to the reduction of unemployment, as 80% of all the newly generated employment in the EU in the last years was provided by SMEs, that is, according to the UE, enterprises with maximum 250 employees and with a turnover of maximum 50 million Euro<sup>140</sup>. Moreover, SMEs have the capacity to respond in a flexible way to the requirements of an extremely competitive market and to rapidly adapt to the cyclic and structural changes of the global economy. Nevertheless, at the same time, it is true that the SMEs sector is equally characterized by a strong dependency on the local and regional markets, being very sensitive to any change that occurs within the business world. Admitting that it is necessary that something should be done and that there is more to be done for SMEs than what has already been done for the 23 million SMEs in Europe, which represent 99% of the enterprises in the UE, but which very often are confronted with administrative obstacles and are subjected to the same administrative requirements as the 41 000 large enterprises in Europe<sup>141</sup>. On 25th of June 2008, The European Community adopted the „Small Business Act for Europe”, a document according to which SMEs become the focus point for the development of European and

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<sup>140</sup> According to European portal for SMEs - [http://ec.europa.eu/enterprise/sme/index\\_en.htm](http://ec.europa.eu/enterprise/sme/index_en.htm)

<sup>141</sup> Report of the European Investment Bank available at <http://www.eib.org/attachments/strategies/sme-consultation-2007-2008-en.pdf>

national politics in order to unleash their potential for long term growth and to generate employment<sup>142</sup>, in the spirit of the Lisbon Strategy.

This paper analyzes the particular situation of SMEs from Bihor County which carry out export-import activities, in the general context of the changes determined by the country's joining the European Union and of the challenges generated by the integration in the European single market, as well as in the particular context of the Bihor-Hajdu-Bihar Euro-region, a context which, by means of cross-border exchange, allows for the transfer of knowledge/knowhow between the Romanian and Hungarian SMEs.

***The Project: „The Supporting of the Integration of SMEs which carry out Import-Export Activities in Bihor County within the European Single Market through the Development of some cross-border services”<sup>143</sup>***

The successful preparation and integration of the SMEs from Bihor county which carry out import-export activities in the European single market, using the two-year experience of Hungary in the European Union, is the main objective of the project entitled: ***The Project: „the Supporting of the Integration of SMEs which carry out Import-Export Activities in Bihor County within the European Single Market through the Development of some cross-border services”***, project financed by the Romania-Hungary PHARE CBC 2005 Programme. The project has as goal to determine the improvement of the technical and managerial abilities of the personnel working in the import-export SMEs from Bihor county by means of exchange of know-how with the Hungarian partners and training activities, thus, consolidating their capacity to administrate, operate and implement cross-border projects, and, at the same time, to induce a change in the attitude and mentality among the SMEs regarding the process of European integration and the European single market. This change of attitude will reflect itself in the improvement at the level of applying and interpreting legislation, at the level of rendering the management of human and material resources more efficiently, at the level of the awareness of the necessity and usefulness of a management and development plan of the company on short and medium term, as also at the level of the development strategy that respects the European tendency. The focus point is represented by the SMEs which are currently engaged in import-export activities, which are not in need of support in understanding the changes that occur and the integration in European single market immediately after the integration of Romania in the E.U: 70 small and medium-size import-export enterprises from Bihor county, Romania (50 enterprises) and from Hajdu-Bihar county, Hungary (20 enterprises), each represented by their manager and an employee. The SMEs have been selected with the help of the Local SME Council from Oradea, Bihor and the Hajdú-Bihar Chamber of Commerce from 5 different fields of activity (agriculture, industry, commerce, transport, tourism-services).

***How do the import-export SMEs from Bihor county perceive the European single market?***

The research, that was carried out in the period November-December 2007, by the team of the above mentioned project, starts from the hypothesis that the import-export SMEs from Bihor county perceive the European integration and the European single market to be rather a source of threat and constraints than a source of opportunities for the development of their business, which will implicitly determine a reduced capacity of the SMEs to absorb structural funds. Being familiar with the perception of the SMEs about the European single market is, in our opinion, the starting point in order to be able to generate a change in attitude and mentality among the SMEs regarding the European integration and the European single market, which will no longer be seen only as a generator of constraints and threats but also as generator of opportunities resulting, especially from the special status of the SMEs in the E.U. The purpose of the investigation is to identify the means to increase the capacity of the SMEs to absorb structural funds and to shape a Euro-regional strategy for the SME sector with direct benefits not only for Romania but for Hungary also. The research was carried out by applying a questionnaire made up of three dimensions: the first one analyzes the perception of the SMEs in Bihor county regarding the influence the integration of Romania in the E.U has on their own activity, the second one, deals with the perception of the SMEs in Bihor county regarding the European single market, seen either as a source of opportunities for business

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<sup>142</sup>The "Small Business Act" for Europe available at [http://ec.europa.eu/enterprise/entrepreneurship/sba\\_en.htm](http://ec.europa.eu/enterprise/entrepreneurship/sba_en.htm)

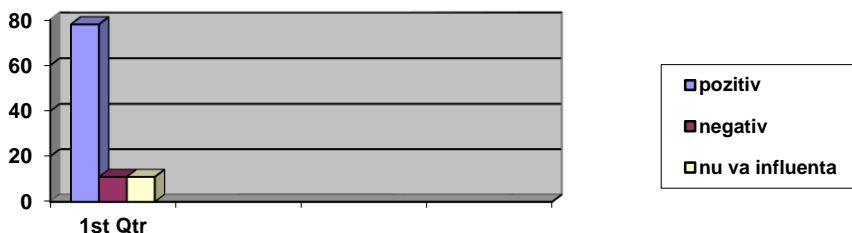
<sup>143</sup>Project financed by the Romanian-Ungarian PHARE CBC 2005 programme, ref.no.: RO-2005/017-536.01.01.01.20



development or as a source of constraints, and the third dimension analyzes the degree of awareness of the representatives of the SMEs in Bihor county regarding the structural funds and the possibility to attract these funds. The questionnaire was applied to the direct beneficiaries of these projects: 50 Romanian managers and 50 Romanian employees from the SMEs in Bihor county engaged in this project.

*The first dimension of the research conducted with the help of the questionnaire refers to the perception of the SMEs in Bihor county regarding the influence the integration of Romania in the E.U has on their own activity.* Thus, 78% of those questioned consider that the integration of Romania in the European Union will influence their activity in a positive way, 11% consider that the influence will be negative, and 11% that their companies will not be affected by the integration.

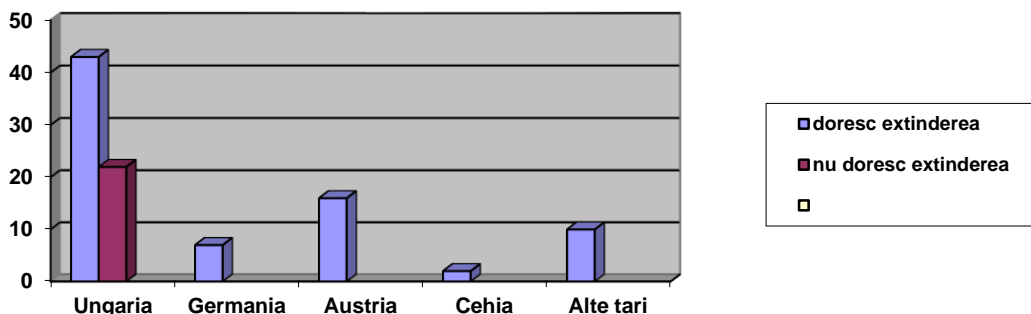
*Do you think that the integration of Romania in the European Union will influence the activity of your enterprise?*



**Fig no. 1. the perception of the SMEs in Bihor county regarding the influence the integration of Romania in the EU has upon their activity.**

*The second dimension, deals with the perception of the SMEs in Bihor county regarding the European single market, seen either as a source of opportunities for business development or as a source of constraints.* In what concerns the perception of the European single market as a source of opportunities, we must point out the willingness of of the SME representatives from Bihor county to enter the European single market – 78% declare their willingness compared with the 22% which are not willing to undergo the risks of an international business; moreover, we must point out the high percentage (43%) of those who are willing to extend their activity to Hungary, which demonstrates that there is a great potential for the development of cross-border business relationships.

*Do you wish to extend your activity in one of the states which belong to the European Union?*



**Fig. No. 2 The perception of the SMEs in Bihor county regarding the extension of their area of activity in the E.U. member states**

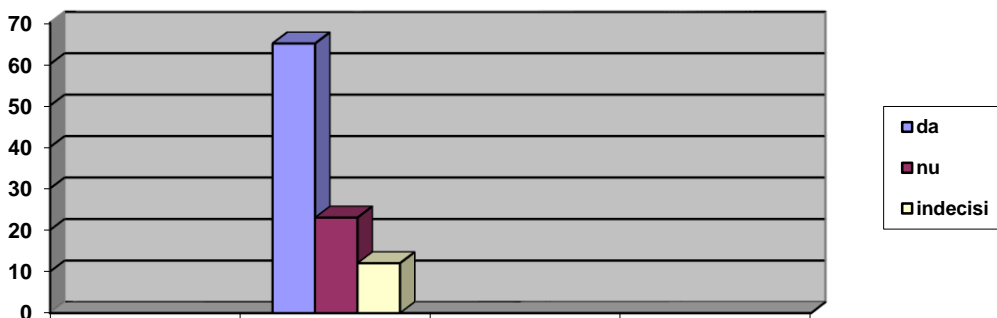
To the question *What do you think is the main advantage of your company compared with a similar company from the European Union?*, 37,43 % from those questioned mentioned the low costs, firstly, in what concerns the labour force, and secondly, those deriving from the valorization of the local/national resources; 25,71% - the fact that they know the local market with its implicit advantages (being familiar

with the clients, the competition: the business relationships existing at the local and national level, the supply and delivery networks; 10% - the experience, the specialization, lower sales costs, 22,85% did not mention any advantage, while only 2% consider that there are no advantages. Moreover, the local market is perceived by all those questioned as undergoing a growth process, offering possibilities for development in a more rapid and intense way, or as a developing market, offering the chance to benefit from the yet unexplored opportunities, the way in which the local market is perceived is anyway opposed to the way in which the European market is perceived, that is as a saturated market.

In what concerns the European single market being perceived as a source of constraints and a creator of disadvantages, - the first two disadvantages identified by the SME representatives from Bihor county are the lack of information, knowledge and experience in the field, as well as the lack of capital. Thus 22% recognize as disadvantage the lack of information, knowledge and experience in the field, which reflects the acute necessity of some informational and training projects like this project; 10 % point out the lack of capital, this percentage being, from our point of view, alarming in the case of information campaigns regarding the the structural funds which the SMEs can access; and 68% bring other issues into discussion, as an example: the difficulty to enter a market which is already formed, the absence of an adequate infrastructure, the lack of exposure and means of promoting the company image, birocracy and the lack of support from the local authorities, the lack of governmental help, the lack of a financial policies favourable to the SMEs at the national and local level, the interference of politics in the economy, etc.

The third dimension of the questionnaire we applied analyses the degree of awareness of the representatives of the SMEs from Bihor county regarding the structural funds and the possibility to access them. First of all, 65% of the SME managers from Bihor county, which were questioned consider themselves, generally, less informed regarding the European single market, than their peers from the European Union, compared with the only 23% who feel inferior when it comes to the degree of awareness.

*Do you believe that managers in the European Union are better informed regarding the European single market than the Romanian managers?*



**Fig. no. 3. The way in which SME managers from Bihor county perceive their awareness regarding the European single market compared with the managers in the European Union.**

The inferiority status in which the managers of the SMEs from Bihor county see themselves, when it comes to the amount of information they have about the European single market, reflects the necessity for a strategy to inform and counsel which is specific to the SME sector, at both the local and national level, as well as, at the Euro-regional level. To the question „What information are you interested in regarding the European single market?” two answers are clearly set apart: information regarding structural funds or non-refundable E.U. financing (56%), respectively information regarding E.U. legislation, regulations and standards specific to the field activity of the company (34%). Although, the information regarding structural funds occupy the first position in the preference chart, 86 % of those questioned declare that they do not have information about the *Specialized Operational Programs (SOPs), as means of accomplishing the priorities of the sector and/or the regional priorities from the National Development Plan which are approved for financing by The Frame for Communitary Support* and, as a result, cannot

distinguish between SOPs which would interest them, choosing one or more depending on the proximity of their title to their field of activity.

*Do you have information about the seven SOPs?*



**Fig. no.4** *The degree of awareness of SMEs from Bihor regarding the SOPs.*

### **Conclusions and Suggestions:**

The questionnaire which was applied proves, in the first place, the *existence of a acute need of to be informed and trained in the field of enterprise*, in the context of the numerous changes of the business world determined by the European economic integration. The fact that not the lack of capital is considered to be the main threat of the European single market, but the lack of information, knowledge and experience in the field invoked by 22% from those questioned and that 65% from the SME managers from Bihor which were questioned consider themselves to be less informed as compared with their peers from the E.U., and 86 % from those questioned declare they do not have any information about the SOPs, *eventhough 50% are interested to acquire as much information as possible regarding the access to structural funds*, they clame that massive information campaigns are necessary *as well as some training and instruction programmes for SMEs are necessary in order to access structural funds*.

The fact that 78 % of those questioned view the European integration as a positive aspect and that 78 % are willing to undergo the risks of an international business demonstrates, that *there are more reasons to be optimistic than pesimistic in what concerns the capacity of the SMEs in Bihor to cope with the challenges of the European single market*. The high percentage (43 %) of those who wish to extend their area of activity to Hungary shows that *there is a great potential for the developmet of cross-border business relationships*, nonetheless, even if progress has been made in the Bihor-Hajdu-Bihar Euro-region, the economic and business relationships are still limited by the potential ofered by the economic characteristics of the area/region. The Euro-regional dimensions of the strategies used by the SMEs must be developed by creatig a frame which should facilitate and compensate for the lack of contracts and interaction, which are necessary for the economic development, including the import-export activity in the cross-border region. The easiest way to create this frame is to facilitate the cross-border exchange of know-how between companies, which belong to the same field, which are confronted with the same problems and subjected to the same pressures, *by means of cross-border cooperation programmes, by organizing different associations of the SMEs or of the specialized fields*

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# PROSPECTS FOR THE AGRICULTURAL INCOME IN ROMANIA

Dachin Anca

*Academia de Studii Economice, Facultatea de Economie, București, Piața Romană nr. 6, e-mail: [ancadachin@yahoo.com](mailto:ancadachin@yahoo.com)*

*Abstract: The accession to EU represents a major economic and social opportunity for fundamental changes in micro and macro management and for reconsidering agriculture and rural areas in the process of sustainable development. Romania faces serious structural problems, such as the fragmentation of agricultural land and of production and the backward organization in most production units. They keep the low level of productivity, which was in 1994 (one of the best agricultural years) only 17.2 % of the average level of EU25. This productivity determines the low level of agricultural income. By having the option for subsistence agriculture, households in rural areas depend strongly on the income from agriculture, while the own consumption often masks rural unemployment. Common Agricultural Policy measures will have direct impact on agricultural income. Rural development gives the chance to income diversification of households and to the absorption of excess employment from agriculture.*

**Key words:** *productivity, agricultural income, single payment scheme, rural policy*

## Introduction

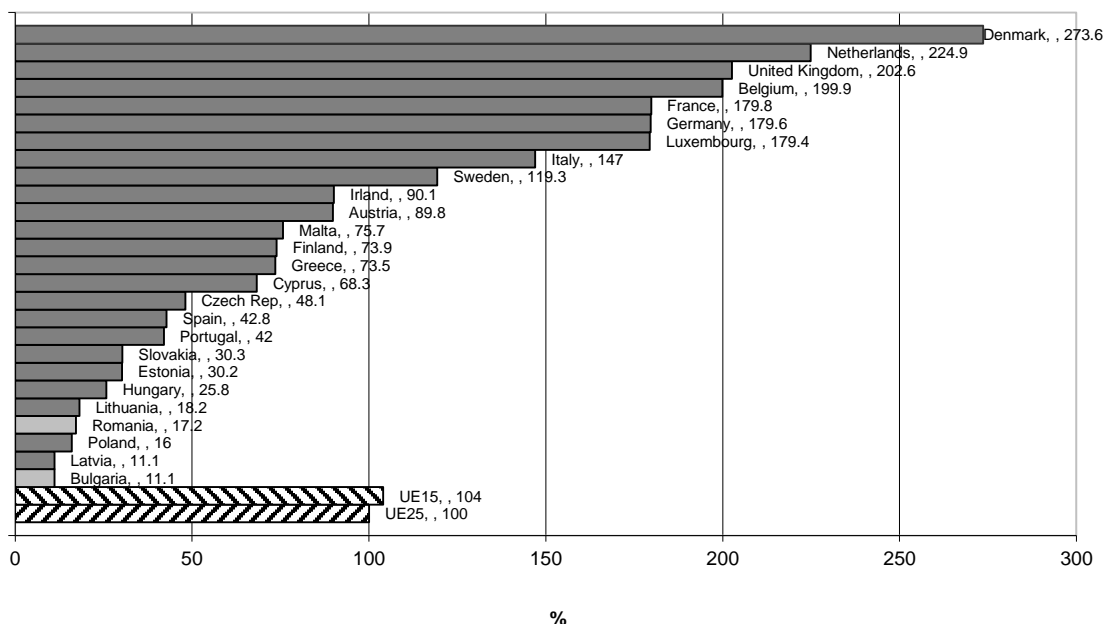
The latest reform of the EU Common Agricultural Policy (CAP) that started in June 2003 refers to making European farming more competitive in a global world and more sustainable by meeting the expectations of the public, as well as to developing rural areas from the environmental, social and economic point of view. Farmers and other rural businesses should improve their capacity to respond to new challenges. For the new Member States the accession to European Union represents a major economic and social opportunity and a pressure for fundamental changes in micro and macro management. It is also a new step in reconsidering the agriculture and rural areas in the process of sustainable development. The application of the CAP measures could be an advantage for Romania, especially regarding the increase of agricultural income, the support for investments in farms' modernization and rural diversification.

## Productivity and agricultural income

The main factor that determines the farmers' income is productivity, which depends on the intensification of agricultural production and the number and quality of the labour force. In less developed agriculture the weather plays also an important role, being often a cause for instability of agricultural output. Productivity levels of labour and land (hence total factor productivity) are strongly responsive to capital endowments per worker with current technology and are associated with the average density of employment per hectare.

Romania faces serious structural problems, having a lack of a medium-sized farms' sector and of functional agri-food distributional chains upstream and downstream to agriculture. The fragmentation of agricultural land and of the production and the backward organization in most production units keep the low level of competitiveness in the agricultural sector. The present situation of agriculture is the cumulated result of structural changes after 1991, lack of a coherent policy over time and insufficient financial support for this sector. In Romania the public support reached an average of about 800 Euro/ hectare for a period of 1991-2006 (15 years), which is equivalent to the subsidies/hectare for 1-2 years in EU15 in the same period (1).

In the agricultural year 2003/2004 Romania introduced the direct payment per cultivated hectare in order to have a similar mechanism with the CAP. This support from the state budget was 62.6 Euro per cultivated hectare for the benefit of 4.4 million farmers, of which about 3.4 million were subsistence households. In 2004 Romania had the best agricultural year from the last decade, due to favourable climatic conditions but also to an increase of the public support for agriculture. Even under comparatively good conditions, in 2004 the productivity in the Romanian agriculture was only 17.2 % of the average level of EU25 (Fig.1). The productivity gap in agriculture is higher than at general macroeconomic level.



**Fig.1: Agricultural gross value added at producer prices/ annual work unit in the European Union in 2004 (EU-25 = 100%)**

Source: Calculation based on data from Eurostat Yearbook 2005 and on-line data base

Some of the ten Member States that joined the EU on 1<sup>st</sup> May 2004 had about the same productivity gap (Latvia, Poland, Lithuania), associated with similar production structures and employment density. At the moment of accession, the best starting level for productivity had Malta and Cyprus, but their agricultural potential is not comparable with that of larger countries. The next best position had the Czech Republic, Slovakia and Estonia, but they were still at a great distance from the western competitive agriculture.

Romania and Bulgaria are lagging behind the average EU productivity, by having low physical production per hectare and per animal and excessive employment in agriculture. Regarding cereal production, in Romania the yields of cereals per hectare is at 50-60% from the EU25 average level. In Romania the employment in agriculture was about 32% in 2004-2005 and decreased only slightly to 30.5% in 2006. The long term improvement of this situation will result only from the structural change of the production systems.

### Rural households depend on agriculture

By having the option for subsistence agriculture, households in rural areas depend strongly on the income from agriculture. Obviously, the highest dependency is in the case of farmers` households. These are defined as households where the head has the occupational status of being self-employed in agriculture or is a member of an agricultural association.

In 2006, in a farmer`s household in rural area, from the total income, 27.7% was money income from agriculture and 43.4% was equivalent value of consumption of agricultural products from own resources. Consequently, the farmers`s household depends in a proportion of 71% on agriculture. Due to the high level of own consumption, other types of households also depend significantly on the agriculture activity, even if they rely primarily on salary, pensions, non-agricultural profits or social benefits (Table 1). For them the own consumption is an income diversification, counting as a subsistence source, which often masks the rural unemployment. Most of these households are not prepared to develop market oriented

production units. An international comparison is difficult, because of methodological differences(2), but this high degree of household dependence on subsistence agriculture is not specific to EU-countries.

	Employees	Self-employed in non-agricultural activities	Farmers	Unemployed	Pensioners
<b>Total income, of which:</b>	100	100	100	100	100
<b>Money income</b>	76.3	72.8	55.5	74.9	62.3
<b>- income from agriculture</b>	2.5	6.4	27.7	5.2	6.6
Equivalent value of consumption of agricultural products from own resources	20.8	26.1	43.4	23.5	36.1

Source: Coordinates of living standard in Romania. Income and expenditures of private households, 2006, Institute of National Statistics, Romania

*Table 1: Income structure of households in Romania in the rural area, 2006*

An increase in agricultural income will allow an improvement of the households' income in rural areas, which was in 2006 only 68% from the income level in urban areas. A contribution to this development will have the diversification of activities, considering the potential of multifunctional agriculture.

### **CAP measures with direct impact on agricultural income**

As a new Member State, Romania will benefit from the application of the actual Common Agriculture Policy, which has experienced a new reform in 2003. The main policy measures and financing schemes that will have also a direct effect on the agricultural income are (3):

- **Single Payment Scheme (SPS):** According to the 2003 CAP reform the market instruments must act a safety net for farmers and must provide the right level of support in difficult times. They would help farmers from being forced out of production. The reform introduced a new system of direct payments, known as the Single Payment Scheme, under which aid is no longer linked to production (decoupling). The main aim of the single payment is to guarantee farmers more stable incomes. Farmers can decide what to produce in the knowledge that they will receive the same amount of aid, allowing them to adjust production to the demand. The decoupling of most direct payments from production was also a decision in favour of diversity. The farmer has the choice of what to produce not based on the type of farm support, but on demand, prices and market opportunities. In addition to the single payment, Member States may decide to provide aid under other specific support schemes linked to the area under crops or to production.

Farmers must in any case comply with all legislation affecting their business. All farmers receiving direct payments (even if they are not part of the SPS) will be subject to cross-compliance. Farmers receive direct payments only if they meet certain standards concerning public, animal and plant health, the environment and animal welfare and keep their land in good agricultural and environmental condition. Where farmers fail to meet those standards, the direct payments are reduced or even withdrawn for the year concerned, in dependence on the degree of non-compliance.

It has been estimated that in 2014 approximately 91% of the budgetary transfers in the form of direct payments (including national envelopes and top-ups) for the arable crops, milk, beef and sheep sectors will be part of the decoupled single farm payment for the EU27 as a whole (4).

- **Single Area Payment Scheme (SAPS):** The new Member States had the option for a simplified Single Area Payment Scheme for maximum five years after accession. This involves the payment of uniform amounts per eligible hectare of agricultural land, up to a national ceiling laid down in the Accession Agreement.

- **Complementary national direct payments:** In addition to EU support there is co-financing from the national budget called “top-ups” which is state aid approved by the European Union.
- **Other market support from the national budget:** Intervention for public and private storage and other market support schemes (i.e. reconversion of vineyards, primary processing for natural fibres), intervention prices (if it is the case) and export restitutions are still available. But considering the global context, with the pressure of food demand and development of biofuel market, the intervention prices have been cut and certain intervention schemes will apply only in severe crisis.
- **Rural policy measures:** Part of the measures aim to increase the competitiveness of rural areas and create new sources of income for farmers and their families. Rural development is a key tool for the restructuring of the agricultural sector and for the diversification in rural areas by means of significant improvement of the infrastructures.

The EU-10 Member States have more experience in applying the CAP principles and measures. The year 2004/2003 was favourable for the dynamics of real agricultural income per worker, mostly due to the activity in the previous year and the support measures during the whole pre-accession period (Table 2).

	<b>% change 2004/2003</b>	<b>% change 2005/2004</b>	<b>% change 2007/2006</b>	<b>Indices in 2007 (2000 = 100%)</b>
<b>EU-10</b>				
Latvia	+173.2	+16.3	+9.3	308.8
Estonia	+155.4	+1.7	+22.5	285.2
Lithuania	+160.9	+24.6	+39.3	250.2
Poland	+195.1	+1.9	+13.7	213.2
Czech Republic	+160.1	+12.6	+20.9	186.2
Slovakia	+142.9	-10.6	+9.2	161.5
Slovenia	+150.7	-4.2	+8.5	147.3
Hungary	+155.0	-8.6	-1.0	144.8
Malta	+1.06	-6.0	-1.7	103.8
Cyprus	-10.2	-2.1	-0.5	100.3
<b>EU-2</b>				
Romania	+142	...	-16.7	123.5
Bulgaria	-1.0	...	-8.5	95.4

**Table 2: Trend of real agricultural income per worker in the new Member States in the period 2000-2007**

Source: Eurostat yearbook 2006-2007, pg.294 and Eurostat News Release 35/2008

Starting with 2004, the new support schemes and the new schedule for disbursement of payments (ex-post payments) were strongly in contrast with the previous national support practices. This is a serious source of difficulties and it resulted in a moderate increase of income in the next 2-3 years.

### **Prospects for agricultural income in Romania**

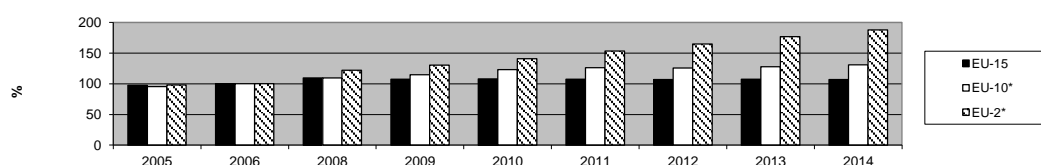
In the period 2007-2013 Romania will receive 5.501,67 million Euro for direct payments and 8.022 million Euro for rural development from the European Union. In addition, there are complementary national direct payments from the national budget as direct payments per hectare or per animal. The direct payment schemes aim at raising and stabilization of the farmers` income, but should also determine the formation of



market oriented farms and of the market itself, since the funds are allocated according to strict rules. The payments will be in the benefit of about 1.2 million eligible agricultural exploitation having a used agricultural area of 8.7 millions hectares registered in the Register of farms. In 2007 payments have not been made because of non-functional institutions and lack of reliable information regarding eligible farms, but the allocated funds have been transferred for the next period.

In 2008 has been approved the final version of the National Plan for Agricultural and Rural Development 2007-2013 for Romania. From the amount for rural development funds will benefit both farms and non-agricultural activities from rural area. The distribution of funds will be based on projects elaborated by the eligible beneficiaries and approved under strict rules and criteria of eligibility.

Considering the stability of the positive macroeconomic trends for Romania (5.8% yearly economic growth until 2013), the European Commission has an optimistic medium-term forecast (Fig.2). According to these data, the agricultural income (measured as net value added at factor cost in agriculture/labour unit) will have an 87.6% increase by 2014 compared to 2006 in EU-2 (Romania and Bulgaria). The year 2007 is atypical, since the CAP mechanisms did not function and there was a severe drought. This dynamic however shows only better prospects for the agricultural income, but the income gap in absolute values compared to developed countries will not be significantly reduced.



\*EU-10 = Member States that joined the EU on 1<sup>st</sup> May 2004; EU-2 = Romania and Bulgaria

**Fig.2: Forecast for agricultural income change for EU-27, 2008-2014 (2006=100%)**

Source: European Commission, March 2008 (4)

The increase of agricultural income will be accompanied by the complex development of the economic activities in rural areas, determined by the development of the agricultural products` processing and the agricultural and non-agricultural services as well, and by the rural infrastructures` creation, development of rural tourism, environment protection etc. This will allow the diversification of household income in rural areas and the absorbtion of the excess employment from agriculture.

## Conclusions

In the period 2008-2013 Romania could benefit from important financial allowances coming from the European Union for agriculture and even more for rural development and environmental protection. There is essential to prepare the administration and the farmers for accessing these amounts. For this purpose, the farmers should respect the conditions of quality and environment negotiated with the financing organisms. They should elaborate eligible projects and ensure co-funding as well. Considering this financial support, the productivity is expected to increase and also the agricultural income. Rural development gives the chance to income diversification of households and absorbtion of excess employment from agriculture.

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# THE EFFECTS OF ECONOMIC RELATIONS BETWEEN TURKEY AND EUROPEAN UNION ON TURKEY'S CANDIDATE PROCESS AND MACRO ECONOMIC PERFORMANCE

**Demir Sezgin**

*Adnan Menderes University, The Faculty of Economics, Nazilli-Turkey Tel: 90 3151974 E-mail: sdemir@adu.edu.tr*

**Ateş İsmet**

*Adnan Menderes University, The Faculty of Economics, Nazilli-Turkey Tel: 90 3151974 E-mail: iates9@gmail.com*

*Turkey is one of the candidate countries to European Union (EU) and it was also affected by this process. Turkey's membership process to EU is becoming more important for both sides, especially by the effects of recent economic development in Turkey. When it is considered the two of third of direct foreign investments come from EU countries to Turkey, it will be easy to understand that why this process is important. The big share of EU countries in Turkey's foreign trade makes necessary for investors to invest directly in Turkey. The aim of this study is to search what are the effects of economic relations between Turkey and EU on Turkey's candidate process. In this study, the effects of Turkey's foreign trade and investments relations on Turkey's membership process are analyzed and also asserted the effects EU-Turkey relations on Turkey's macro economic indicators.*

*Keywords: Foreign direct investments, EU-Turkey economic relations, portfolio investment, economic growth*

## INTRODUCTION

Increase in foreign direct investment boosted international trade volume. Some countries especially attractive for foreign investors because they are close other market countries. International capital investment increases portfolio investments. Capital portfolio investment in developed countries flows to developing countries and these movements called as hot money which has an important effect on countries economic growth. Due to these effects, European Union membership process becomes more important for Turkey.

Due to globalization and increasing importance of economic unions economic developments of developing countries depend on their own international relations (Kula, 2003: 14). The existent relations of Turkey with foreign world are becoming more important according to economic dimension of Turkey's European Union membership process. Considering the impacts of membership process the desire and efforts of Turkey to become member of EU makes necessary to examine current and future aspects of relation between Turkey and EU. Thereby, deviating results will show the impacts of economic relations membership process and the possibility of becoming full membership. The economic relation between Turkey and EU is not to consist of export or import and this situation can easily seen on data given below. So the effects of direct foreign investments and foreign portfolio investments on Turkey's macro economic variables should be measured and the direction and size of relation between these variables should be analysed. To understand the effects of Custom Union Agreement on Turkey's membership process is possible to analyze the economic data affected by the Agreement. Agreement is one of the turning points of Turkey's membership process for European Union. The increase in national income and employment rates in Turkey are expected by European Union in the process of membership.

## DEVELOPMENT OF TURKEY'S FOREIGN ECONOMIC RELATIONS

It is obvious that investment rates should be increased for a continuous growth in the long term in Turkey. Since this need can not be meet by insider investments because of the weakness of capital accumulation, foreign investment becomes a key factor for economical development. Benefits Turkey expected from foreign investments can be summarized as followed:

- Solving the problem of unemployment,
- To provide economic development, increase in production and national income,
- To decrease public debts with tax income,
- To take a necessity step for competitive market situation,
- To supply investment accumulation,
- To complete technological development,
- To create supplier industry according to main industry.

International investments would support the country's economy if they are applied in good conditions, but if they are not, they could become threats for the economy. Because of these, we must compare international investment development and expecting benefits.

## **DEVELOPMENT OF FOREIGN TRADE**

As known, our age is affected from globalization and diminishing of borders. World turns to be more globalize day by day and countries open their borders to outside world. They start to communicate with the world instead of inside. As a result, countries trace each other technologically and socially, and a change in one of them always affects the others.

Globalization, reaching information easily, and endless consumer needs forces countries to open themselves to the world.

World's structure begins to base on commercial relations and trade becomes the most important concept in the world. Your country's foreign trade development accelerates your economical development and your credit in world trade market increases as well.

During 1970-1980 period, while world faced stagnation, Turkey also was affected by this stagnation. Petrol crisis of 1973-74 and high inflation rates in the west countries causes destroyed foreign trade limits and equilibrium, on the other hand current transaction equilibrium debits increased. Turkish Lira was over evaluated in spite of exchange policies. In order to maintain economic equilibrium, Turkey takes import under pressure and increase exchange controls.

Turkey had a closed economic program since 1980, but it was affected by external conjuncture crisis and stagnation. In this period, customs discount and regulation implications were delayed between Turkey and EU countries. As a result, production rates decreased and unemployment rates increased. 1970s both Turkey and world were affected by these economic problems.

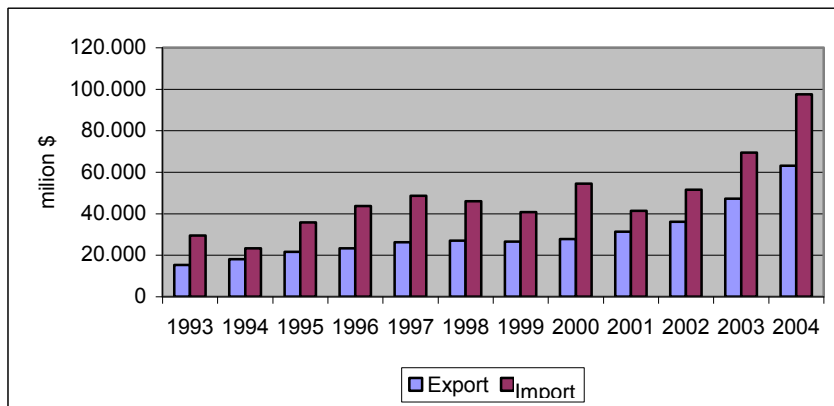
In 1980s new commercial improvements appeared both in the world and in Turkey. Especially Turkey entered a new economic period. A new program called "January 24<sup>th</sup> Decisions" including structural transformations was applied on January 24<sup>th</sup> 1980. In this period radical changes appeared in Turkey. The share of government investment decreased and external trade became free. Government stimulated foreign investments, profit transfers, and external contractor services. In this period import activities were liberalized degree by degree, and export activities was encouraged with tax decrease, low interest credits, custom dispensation to manufacturer exporters and encouragement systems. All of these changes showed us that Government's 24 January 1980 Decisions realized radical changes on the economy and make a transition from closed economy to open and liberal economy. So Turkey leaved from industry strategies depending on import to industry strategies depending on export.

The basic aims of these policies are to restructure Turkey's economy according to the changes in the world, to provide harmony between Turkey's economy and world economy. After the 1980s, share of external trade in national income increased from %4.2 in 1980 to % 13.5 in 1997.

Developments in foreign trade in 1980 were followed by the developments in 1983. Parallel to a new managerial forming in foreign trade, **Undersecretary of Treasury and Foreign Trade** was established dependent to the prime ministry by (13.12.1983 and decree law188). After 11 years, it was divided into two as **Undersecretary of Treasury and Undersecretary of Foreign Trade** by (9.12.1994 decree law 4059) **Undersecretary of Treasury** has functions of determining foreign trade policies, coordinating, applying

and developing export, stimulating export, import, construction business abroad, and bilateral and multilateral economic agreements.

With 24 January 1980 economy decisions, developments continued in Turkey's economy and free trade zone became more important. Government took new decisions about these subjects on 1985 and with 3218 law; "Free Trade Zone Law" came into force (KULA, 2003:45). This law's aim was to encourage export and establish free trade zones for external and internal investors.



**Graphic 1: 1993–2004 The development of international trade**

*Source: GDFI (www.treasury.gov.tr)*

The improvements in export and import since 1980 started to heal after 1990 and benefits from liberal policies was not enough. As a result of this Turkey's foreign trade is import weighted and the rate for foreign source dependence getting worse.

Considering the export and import amount between 1993 and 2004, import amount is always bigger than export amounts. Both export and import are rising but import growing speed always up the export growing speed.

## **THE DEVELOPMENT OF DIRECT FOREIGN INVESTMENTS**

Turkish Republic starts out to do Economic Development Policy that prioritizing private and relatively liberalistic entrepreneurship in its first years. In beginning of the 1930's, it proceeds to an Economic Policy that aiming to accelerate industrial investment.

The certain conversion of this policy was finished at second part of 1940's. The principal features of this policy are;

- dominating free market conditions in foreign trade,
- supporting to private entrepreneurship all level
- limiting state control in Economy
- abating public investment at industry
- prioritizing agriculture, mechanization, public infrastructural investments (road transportation, energy etc.) and
- encouraging foreign direct investment.

In spite of certain commitment, privatization of public economic enterprise didn't realize. These applied policies bring about increasing GDB and demand significantly. Increased demand stimulated private sector investment. There was applied economic policy that concentrates on private sector in periods 1950-1960. But these policies didn't sufficient and foreign direct investments were needed for country's sustainable development.

Foreign Direct Investment law put in to force on 17 June 2003 numbered 4875. It contains foreign direct investment, foreign investor and foreign capital readjustment according to international standard.

According to this law foreign investor, real persons residing abroad possessing foreign nationality and Turkish citizens residing abroad, and foreign legal entities established under the laws of foreign countries and international institutions that effect foreign direct investments in Turkey.

Foreign direct investment that brought by foreign investor;

- Capital in cash in the form of convertible currency purchased and sold by the Central Bank of Turkey
- Stocks and bonds (other than Treasury bonds) and other forms of capital in kind participation in the companies,
- Machinery and equipment
- Industrial and intellectual properties, that are acquired from abroad, or; i) Establishment of a new company or a branch office, ii) Participation in an already existing company either by acquisition of shares except through stock exchanges or by acquisitions of minimum 10% of shares or an equal proportion of voting rights through stock exchanges, by means of;
- Reinvested earnings, financial claims, or any other investment related rights of financial value; and
- Commercial rights for to the exploration and extraction of natural resources, that are acquired in Turkey, by foreign investors

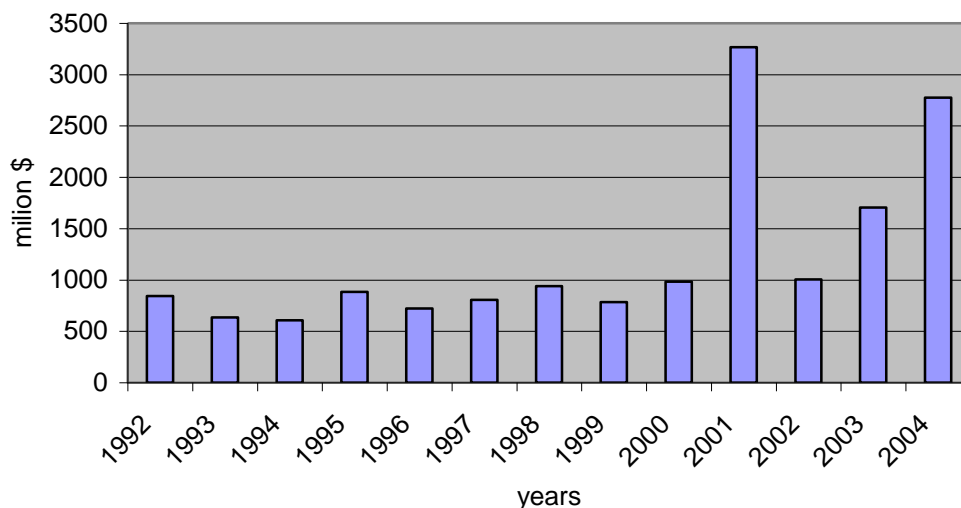
For long term sustainable development in Turkey, investment levels will be need to increase. When domestic investments are insufficient foreign capitals contribute to improvement of investments environment. The contributions of foreign direct investments to the country where invested;

- Foreign direct investments are significant factor for solving unemployment problem which is very important problem for a long time.
- Foreign direct investments are effected directly economic growth
- Foreign direct investments increase tax revenue
- Foreign direct investments act forming competitive market structure
- Foreign direct investments increase total investment capital, knowledge and technological transfer intercountry
- Forming of sub-industry with main industry has been contributed.

In accordance with the liberal policies that applied after 1980, Turkey gave more importance for foreign investments. Especially” The Law of Direct Foreign Investments” put in to force in 2003 improved these developments.

Foreign direct investments have importance for capital flowing in countries by providing employment, development high technology, transferring know-how and new managerial skills. The most important benefits of foreign direct investment is contribution of Gross Domestic Product.

The foreign direct investment between 1992-2004in Turkey is shown in Graphic 2.



**Graphic 2: Foreign Direct Investment in Turkey**

**Source: : GDFI ([www.treasury.gov.tr](http://www.treasury.gov.tr))**

Turkey, so as to multiply foreign direct investments renewed the law and legislation of foreign capital after 1980. Foreign capital framework decisions changed in 1968, 1992 and, 1995. Foreign direct investments which come to Turkey low floated in terms of quantity in periods of 1994-2000. Foreign direct investments were at the lowest level in 1994. Foreign direct investments increased in following periods but the incentive policies newly put in to force and Custom Union Agreement between Turkey and EU multiplied the increase in foreign investments. This trend continued until 2000.

There was a rapid increase in foreign investment in 2001. The main reasons of this increase were, decisions taken by government after 2001 economic crisis, new applied politics and the reliable atmosphere created by the stand-by agreement with International Monetary Fund (IMF) in the framework of the Turkey's Programme for Transition to a Strong Economy. There was a small decrease in 2002 but, the increasing trend has continued up to present time.

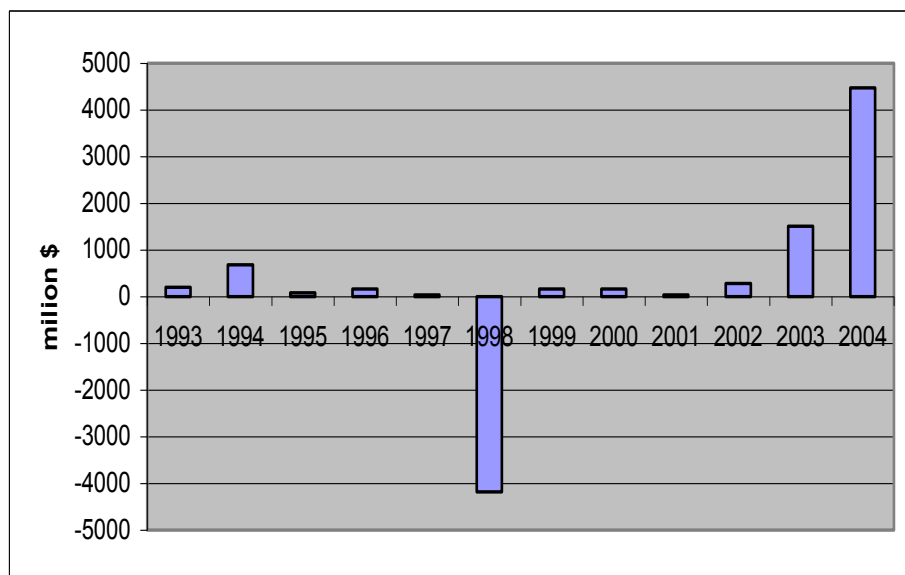
## **DEVELOPMENT OF PORTFOLIO INVESTMENTS**

Another country or country's companies buy the listed shares in a country stock market and it is called as International portfolio investments. Portfolio investments are not only made by depending specific sector. Portfolio investments are financial investments so they are very sensitive for the changing in financial factors. Portfolio investments can be easily effected by the conditions of the country where they invested. A small change in applying economic policy can be change the position of the foreign portfolio investments in the country.

Economically and politically stable countries are more attractive than instable countries. Stable country is a precondition for portfolio investments otherwise; foreign portfolio investments leave the country. A portfolio investment makes hot money transfers to the countries where they come, makes deeper the existing markets and multiply the volume of market transactions. Foreign capital's respect on Turkey's financial markets is getting bigger by increasing the deepness of stock market and economic growth in Turkey.

Foreign portfolio investment started to come Turkey since 1986. Investment volume was increased by the regulation called article 32. Portfolio investment was 686 million dollars in 1994 but it was decreased to 85 million dollars in 1995. The decrease continued up to 34 million dollars in 1997. Portfolio investors left Turkey in 1998. The outgoing portfolio was about 4,179 billion dollars. The portfolio re-entrance occurred

in 1999. There was a little decrease in 2001 because of the economic crisis. Afterward foreign portfolio investors started to leave Turkey because of economic instability and worries.



*Graphic 3: Foreign Portfolio Investment in Turkey*

*Source: TURKSTAT*

Turkey arranged a Programme for Transition to a Strong Economy in 2002. Thereby, portfolio investment increased up to 286 million dollars. On 2004 Portfolio investment reached maximum level of its history.

## **DEVELOPMENT OF ECONOMIC RELATION BETWEEN TURKEY AND EU**

Turkey has intensive relations with EU especially economic. Two thirds of foreign investment com to Turkey comes from European Union countries. According to this condition EU has a big importance for Turkey’s capital flows. Turkey develops some new incentives to improve these relations. “**The Law of Direct Foreign Investment**” which put in to force in 2004 provides some eases for foreign investors.

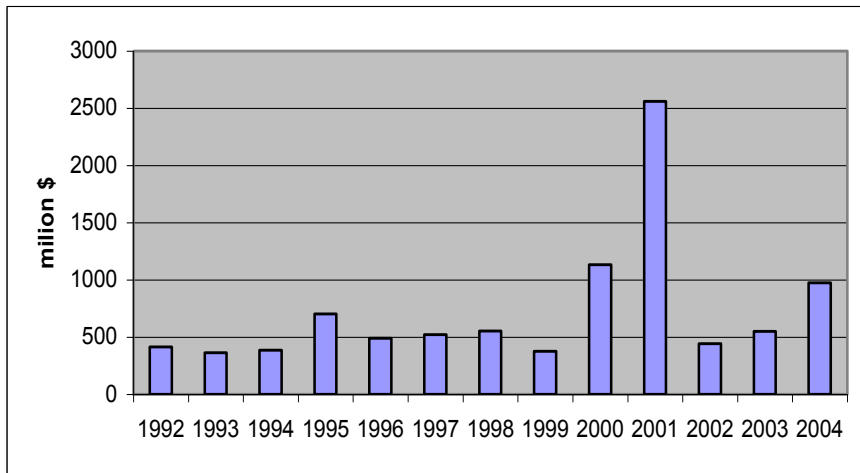
Turkey has close relations with EU for centuries. EU countries have % 54 shares in Turkey’s foreign trade. Adding the candidate countries this shares will increase up to %77. By the way when foreign investments in Turkey are checked it is easily seen that the share of EU in foreign investments countries is quite high.

The sector specific distribution of foreign capitalized institutions in Turkey especially localize in manufacturing, industry and services sectors. %90 of the total foreign capital in Turkey comes from OECD countries. The EU has the big share among the OECD countries. It was also seen that foreign capital from Holland, France, Germany, United Kingdom Italy and Belgium permits increased rapidly due to effect of Custom Union Agreement with EU put in to force on 1<sup>st</sup> January in 1996.

## **THE DIRECT FOREIGN INVESTMENTS IN TURKEY COME FROM EU**

The direct foreign investments make important additions on the countries where they invested. Turkey is a candidate country for EU. Some trade agreements were made member countries in the membership process. Through these agreement investments which come from EU countries is larger then come from other countries. (European Commission, 2005:62) The membership process of Turkey to EU increased this kind of investments.





**Graphic 4: Foreign Direct Investment Come From EU to Turkey**

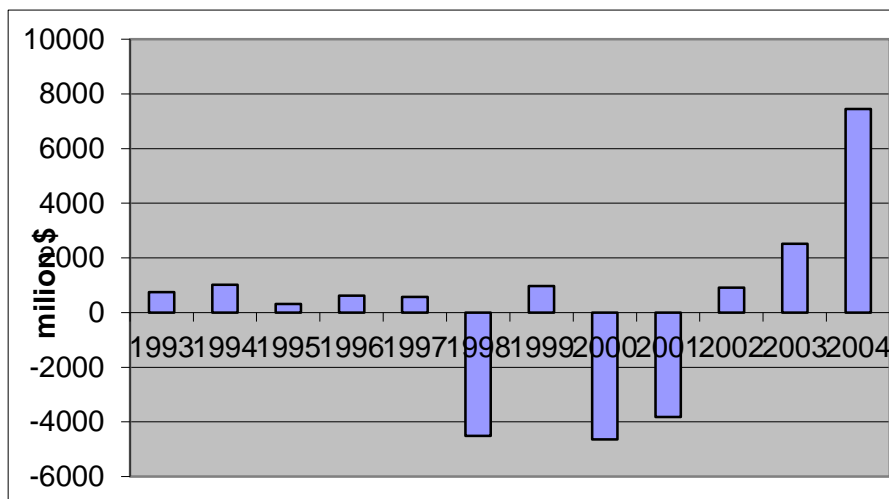
*Source: YASED*

When the foreign direct investments come from EU countries to Turkey are analyzed there were some fluctuation in the past. But most of them were in the periods 1998-2004. The direct foreign investments reached up to 1,132 billion dollars in 2000. Also in 2001 this trend continued and reached up to 2,561 billion dollars. But there was a huge decrease in the direct foreign investments in 2002. The direct foreign investments decreased from 2,561 billion dollars to 442 million dollars in this period. The foreign direct investments entered an increasing trend in 2003 and 2004.

### **THE PORTFOLIO INVESTMENTS FROM EU TO TURKEY**

The most of portfolio investments which come to Turkey are coming from EU countries like direct foreign investments. This situation effects Turkey's economic life deeply. The fluctuation foreign portfolio investments effects Turkey's economy badly because of the direct relation with hot money and portfolio investments.

**Graphic 5: Portfolio Investment from EU to Turkey**



*Source: TURKSTAT*

As it is seen on Graphic 5 portfolio investments have very fluctuation trends in Turkey and it is also seen that there was portfolio outgoin in 1998 2000 and 2001. There was an increasing trend after the 2001

economic crisis in Turkey. Although Turkey and EU signed Custom Union Agreement in 1996 there were no enough portfolio investments from EU countries for first five years after the agreement. The increase of portfolio investments started after the year 2002.

## THE EFFECTS OF CUSTOM UNION AGREEMENT ON TURKEY'S ECONOMIC PERFORMANCE

To understand the effects of Custom Union Agreement on Turkey's membership process is possible to analyze the economic data affected by the Agreement. Custom Union Agreement is one of the turning points of Turkey's membership process for European Union. The increase in national income and employment rates in Turkey are expected by European Union in the process of membership. The direct investments should be increased and foreign trade should be balanced to realize the long run sustainable increase in these two indicators. The graphics about these data are shown below. The relations of mentioned indicators are analyzed each other from the year 1996 when the Custom Union Agreement was signed to the year of 2008. The data set is used in this study between the period of 1998s when the first impacts of Custom Union Agreement were starting to seen and at the end of 2007. The summary about the data set are shown in the table below.

### Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
FDI	40	-93,04	1900,00	85,1310	309,16084
PORTINV	40	-280000,00	1147,46	-7149,0828	44251,15277
UNEMR	40	5,53	12,45	8,9553	1,86125
GR	40	-10,34	14,35	3,9310	5,93441
TRBAL	40	-60,82	155,04	7,7540	35,11966
TRBALEU	40	-73,86	358,79	21,3213	89,01475
Valid (listwise)	N 40				

In this study, growth rate and unemployment rate of Turkey are used as dependent variables and, foreign direct investments, portfolio investments, the balance of foreign trade, balance of foreign trade with European Countries are used as independent variables. To avoid the differences caused by size percentage changes are used. There is four separate regression equation is composed by using the growth rate and unemployment rates as dependent in this study. To understand the relations between dependent an independent variables the equations are used below.

$$GR_i = \beta_0 + \beta_1 FDI_i + \varepsilon_i$$

$$UNEMR_i = \beta_0 + \beta_1 FDI_i + \varepsilon_i$$

$$GR_i = \beta_0 + \beta_1 PORTINV_i + \varepsilon_i$$

$$UNEMR_i = \beta_0 + \beta_1 PORTINV_i + \varepsilon_i$$

$$GR_i = \beta_0 + \beta_1 TRBAL_i + \varepsilon_i$$

$$UNEMR_i = \beta_0 + \beta_1 TRBAL_i + \varepsilon_i$$

$$GR_i = \beta_0 + \beta_1 TRBALEU_i + \varepsilon_i$$

$$UNEMR_i = \beta_0 + \beta_1 TRBALEU_i + \varepsilon_i$$

To measure the causality among the variables separate regression equations are used to examine each independent variable relation. The results are shown in Table 1. FDI symbolizes foreign direct investments, PORTINV symbolizes portfolio investments, TRBAL symbolizes balance of foreign trade, TRBALEU symbolizes balance of foreign trade with European Countries, GR symbolizes growth rate and UNEMR symbolizes unemployment rate. The *t* statistics value belongs to variables are shown in brackets.

Dep. var.	Constant	FDI	PORTIN V	TRBAL	TRBALE U	R <sup>2</sup>
GR	3,746*** (3,821)	0,002 (0,701)				0,013
GR	3,728*** (3,96)		-2,8 E-005 (-1,334)			0,045
GR	3,722*** (3,87)			0,027 (0,998)		0,026
GR	3,787*** (3,891)				0,007 (0,629)	0,010
UNEMR	8,994*** (29,139)	0,000 (-0,462)				0,006
UNEMR	8,92*** (29,729)		-4,9 E-006 (-0,72)			0,013
UNEMR	8,921*** (29,304)			0,004 (0,522)		0,007
UNEMR	8,888*** (29,309)				0,003 (0,945)	0,023

**Table 1: Regression Analysis Results of Growth and Unemployment Rate in 1998-2007**

The derived regression results show that the relation among all variable is weak and is not meaningful statistically. The relation between direct foreign investments and unemployment rate is null statistically. This situation shows that the investments made by foreigners don't have a meaningful effect on promoting Turkey's production, depending employment rate and national income. In this period privatization activities were quite intensive. According to this scientific reality, the foreign direct investments were not new investments, but it was only the change of hands for existing companies and institutions. The foreign investors made investments in Turkey due to privatization but it did not create expecting effects

Another important finding is the relation between portfolio investments and growth rates. Although there was rapid increase in portfolio investments for the periods the negative relation for variables are considered as negative signal for economy.

The impact of foreign trade with European Countries on growth rate and unemployment rate is negative direction. When the continuous foreign trade deficit for the periods is considered the rise in foreign trade

deficit increases both growth and unemployment rates. So there are some implications can be made. These are; growth is not production oriented, gains derivate from portfolio investment can create increase in national income in addition, under valuated exchange rate policy makes national income to be seen higher artificially. Continuously growing imports without accretion in production makes visible lower growing rates in domestic production. This situation supports the increase in imports and the unemployment rates.

## CONCLUSION

In according to complete the economic development for European Union membership is depending both domestic and external economic conditions for Turkey. Due to globalization the effects of foreign factors on economies are increasing by the rapid flow of capital. In this study, the effects of Turkey's foreign trade and investments relations on Turkey's membership process are inspected and also asserted the effects EU-Turkey relations on Turkey's macro economic indicators.

Considering the convergence criteria for EU, the result of regression analysis shows that there are no meaningful effects of Customs Union Agreement which put in to force 1996 on Turkey's macro economic indicators and membership process for EU. Foreign trade deficit for Turkey is becoming larger up to present time. But, the addition of EU to Turkey's deficit is not dramatic as other countries. Major finding of this article is that the increase in foreign direct investments has not positive effect on growth and employment rates. Foreign investments from EU countries continuously growing for the periods analyzed. The most of foreign capitals have bought existent institution in Turkey, in other words they are not new investments. It was only the change of hands for existing companies and institutions. This is not mean that there is no new investments but, not enough.

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# THE HUMAN RESOURCE ROLE IN THE EUROPEAN COMPETITIVENESS MODELS

**Dimian Gina Cristina**

*ASE București, Facultatea de Cibernetică, Statistică și Informatică Economică, București, Piața Romană, nr. 6, E-mail: ginadimian@gmail.com, Telefon: 021/3191900*

**Dimian Mihai**

*ASE București, Facultatea de Management, București, Piața Romană, nr. 6, E-mail: m\_dimian@yahoo.co.uk, Telefon: 021/3191900*

**Profiroiu Alina**

*ASE București, Facultatea de Management, București, Piața Romană, nr. 6, E-mail: alina\_profiroiu@yahoo.com, Telefon: 021/3191900*

*Abstract: In order to realise the competitiveness objectives, European Union (EU) “can have only one alternative in the global economy, that to form highly trained human resources, who are supposed to act on more flexible labour markets” because “the knowledge based economy involves the human capital improvement” (Mulatero and Riela, 2006).*

*In this context, the paper aims to identify the main possibilities through the human resource factor influence a nation competitiveness and the place occupied by it in some European states competitiveness models, proposing, according to the realised analyses, a model for assuring the Romanian economy competitiveness.*

**Key-words:** *human resources, models, competitiveness*

## Introduction

In order to decrease the productivity gap existing between EU and its main competitors, USA and JAPAN and to fight against the new global market players (CHINA and INDIA), which present the advantages of a cheap and well qualified workforce, but first of all to assure high living standards for its own citizens, EU set as main objective to become the most competitive economy based on knowledge and full occupation until 2010, conceiving in this purpose a group of policies known as Lisbon Strategy.

**Its role** at EU level, justified by the **insufficient investments** in: high technology, education, research&development, new highly added value products, better and well paid workplaces and the **improperly workforce usage** (Cojanu, 2006), **is** to sustain a durable economic increase, based on highly educated workforce during entire lifetime, flexible and adaptable, improving the entrepreneurial and innovative spirit, developing the research in areas suitable to obtain high-tech product and services, training knowledge based employees capable to assure the conceiving, assimilating and transmitting technologies to the informational and communications society.

Thus, if until 1980, the economic increase was based on capital accumulation and copying or adapting the innovations realised in different areas (Aghion, 2006), after this moment it has become evident the fact that assuring a competitiveness increase in EU can be realised only on the own innovation process, by concentrating the investments to some factors as: research&development and highly education, in this way the EU being able to overpass the challenges caused by the technological changes and the shifts into the structure of qualifications demand on the labour markets.

From the quantitative point of view, the investments in education that will cause an annual increase of population's medium education level, with age between 25-64 years, can lead, according with the studies realised at the European Commission level, at an increase of factors global productivity with 4% to 6% and to an annual increase of GDP between 0,3% to 0,5%, while the increase with 1,9% to 3% into the research&development investment until 2010 will cause an increase with 1,7% of the GDP, an upturn of the factors global productivity, employment and net incomes of 0,8%, 1,4%, respectively 3%, until 2010 and a GDP level increase of 4,2% in 2015, 7,5% in 2020 and 12,1% in 2030 (EC, 2007).

Thus, in order to realise the competitiveness objectives, the European Union “can have only one alternative in the global economy, that to form highly trained human resources, who are supposed to act on more

*flexible labour markets*” because “*the knowledge based economy involves the human capital improvement*” (Mulatero and Riela, 2006).

The human capital, defined as “*the knowledge, capacities, competencies and human beings attributes that are used in order to create the self, social and economic welfare*” (OCDE, 2001) became a competitiveness key factor, being decisive in order to create the competitive advantage based on research&development, innovation and entrepreneurship.

## **The evaluation of national competitiveness**

### ***The competitiveness tree model***

Because of the importance given to the competitiveness development in the European Union as a whole and in each member state, taken separately, in the last period it can be noticed the institutions and specialists’ increasing interest for establishing the possibilities of obtaining and quantifying the competitiveness through the identification of the determinant factors and conceiving analyse methods.

From this point of view, is relevant the *Competitiveness tree model*, proposed by Ecorys Groups, that identifies the competitiveness determinant factors in the next component: talent, innovation, connectivity and entrepreneurship (the tree’s roots), the industrial structure and productivity (trunk), these being the support for realising the competitiveness and obtaining the results: occupation and income, profit and investments, taxes and contributions (tree’s branches).

In this model, the economic competitiveness has as a main source the human capital (**the talent**), in other words, the human resources improved through intensive knowledge based qualification, educational facilities, access at training and learning institutions, assuring dwelling quality and the adaptability.

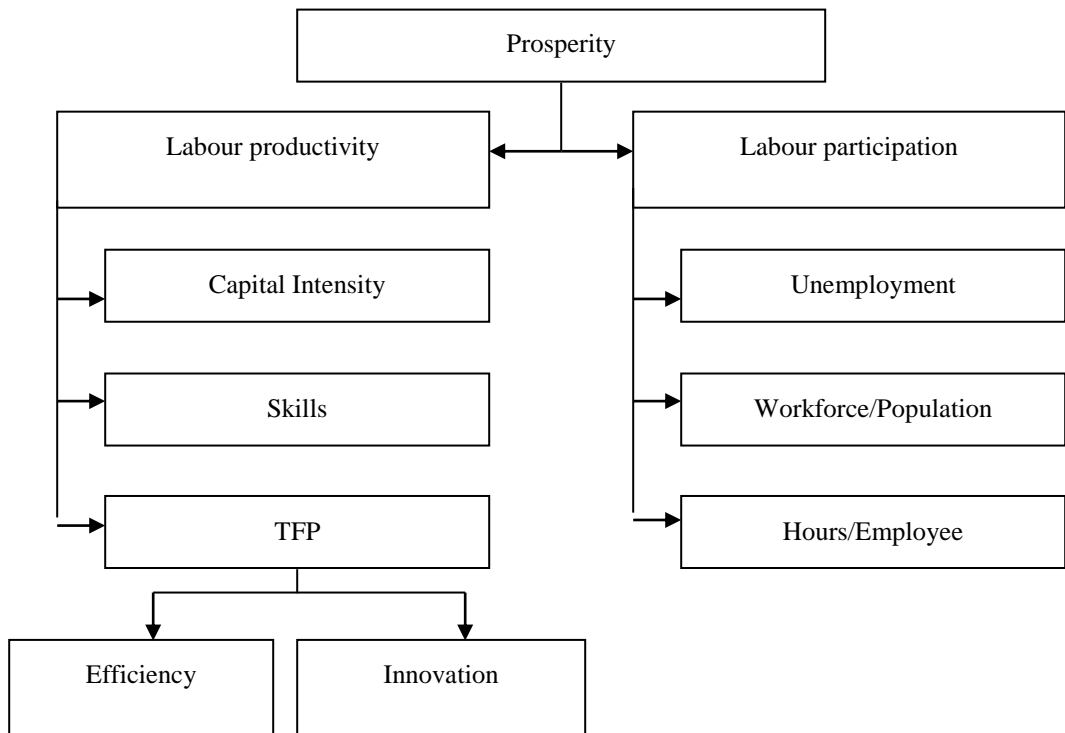
The achieved qualifications and living standards offer for the labour force the necessary comfort in order to promote the creative qualities, making easier the products, services and technologies improving process, through **research** and **innovation**, sustaining the **entrepreneurial spirit**, creating firms and activity clusters. The talent, innovation, connectivity and entrepreneurship are decisive factors for the increase of employment and specialisation in high added value activities, the base for obtaining population and economical agent prosperity from the space where these are integrated.

In the competitiveness tree model, the human resources have double role: main source for obtaining competitiveness and base for the motivation of doing this (improving the living standard).

### ***The business environment competitiveness model***

The connexion between prosperity, competitiveness and the main conditions of companies activities can be emphasized through the model which put together an economy prosperity indicators (GDP/inhabitant), employment (employment rate) and productivity (labour productivity), caused by the capital investments, workforce qualification, and global factor productivity (GFP). The increase of GFP on this efficiency and innovation alternative can be assured by improving the business environment conditions: IT&C, the access at financial resources, at human capital, open and functional markets, innovation and knowledge, administrative and regulatory environment, entrepreneurship.

**Figure 1: Structure of prosperity**



Source: Commission of the European Communities, Benchmarking enterprise policy, results from the 2004 scoreboard, European Commission, Enterprise publications, Competitiveness and benchmarking, Brussels, 2004

The human resources are involved in obtaining prosperity both from quantitative point of view, participating at labour force and from qualitative perspective by increasing the productivity based on highly qualifications.

### **Regional competitiveness models**

The key elements for the regional competitiveness are gathered in models meant to emphasize its peremptory factors and also the results obtained at different levels. Thus, the *Regional competitiveness hat* model, developed by Cambridge Econometrics studies the competitiveness at regional level starting from the decisive factors (base infrastructure and accessibility, human resources and productive environment), their combination results (sectoral structure, specialisation, firms distribution, property), transforming the outputs (regional productivity at labour unitary costs, profitability, market shares) in results (GDP/employee and the number of employees). In this model, the human resources are positioned in the centre of regional competitiveness sources.

Studying the competitiveness of Great Britain regions has been realised according to the *tri-factorial Model* (Huggins, 2003), that presents, into an integrated form, the components that describes the regional competitiveness for the regions from this country, as it follows:

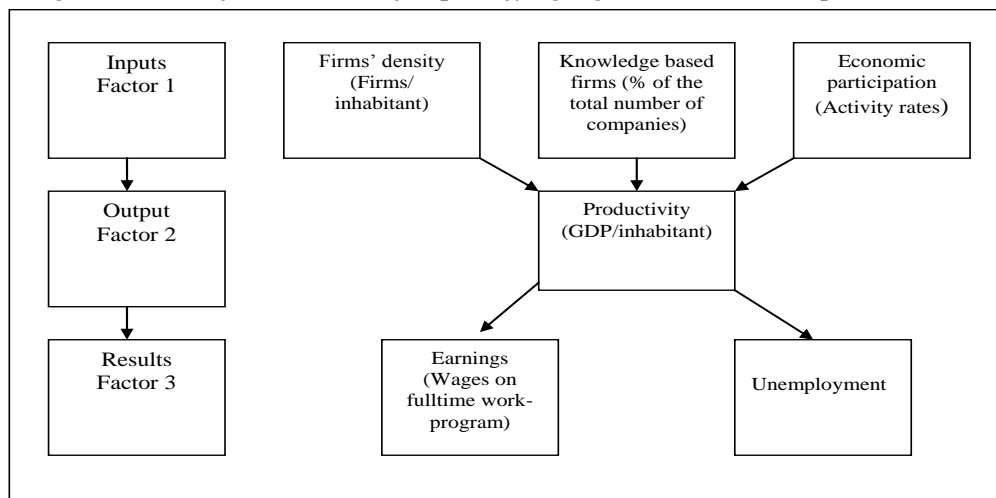
1. Input factors: firms density (companies/inhabitant), companies based on knowledge (the share of the firms based on knowledge from the total number of a regions' companies) and economic participation (activities ratios);
2. Output factors: the productivity (GDP/inhabitant);
3. Results: the earnings average (salaries on fulltime work-program) and unemployment.

Thus, the input factors as firms density, the share of the companies based on knowledge and activity rates are considered the most important indicators for the economic sustainable development potential, based on

the new entrepreneurs and their companies, on innovative activities and new technologies that assure not only the competitiveness for the company, but also the global one, at national, regional or local level and, not at the last, by the area human potential.

All three input factors contribute at obtaining the output, more precisely the productivity, having as a main indicator the GDP/inhabitant, which quantifies the considered area competitiveness potential. The average earnings and the unemployed workers proportion represent the tangible results for input and output factors and reflect, first of all, the workforce recompense as part of production obtaining process and, on the other side, the labour market performances/weaknesses.

**Figure 2: The tri-factorial model for quantifying regional and local competitiveness**



Source: Huggins, R., *Creating UK Competitiveness Index: Regional and Local Benchmarking*, Regional Studies, Vol.37.1, pg 89-96, 2003

### **Proposal for the Romanian competitiveness economy model**

Evaluating the Romanian economy competitiveness according to the coordinates fixed at the European level by the Lisbon Strategy, the European Institute of Romania study: *Romanian economy competitiveness – necessary adjustment for achieving the Lisbon Agenda objectives*, indicates that Romania has overpass the stage of the competitiveness based on intensive exploitation of production factors (unqualified or low qualified labour force) being in the situation in which has to focus on improving the efficiency (higher education and continuous training, the capacity to obtain benefits from the existing technologies) and assuring, in the same time, the premises for going to the next stage – innovation based competitiveness (Cojanu, 2006).

In this purpose, we propose for Romania and its eight development regions an adaptation of the local possibilities in order to obtain competitive performances according to the action directions established by the Lisbon Strategy by approaching the competitiveness concept starting from an original, but European integrated model.

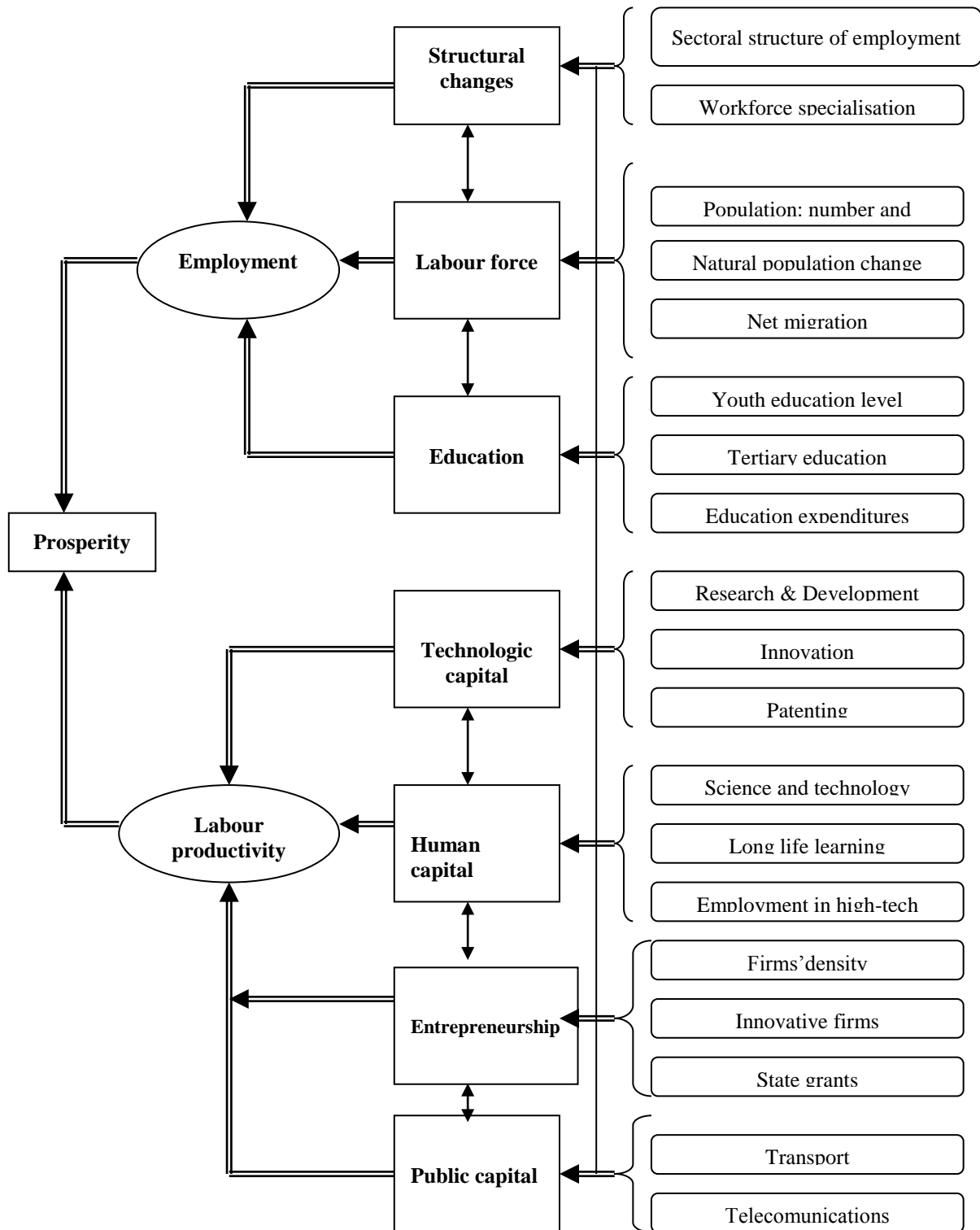
Thus, into the centre of the preoccupations should be the increase of population living standard by raising labour productivity and the employment, paying attention to the workforce quality improvement in order to enforce the human and technological capital and also to the entrepreneurship spirit (Figure 3).

In this context, a key factor proposed for obtaining a significant competitive increase is human capital, more precisely: knowledge, human abilities and skills enforced by continuous education, which assure the adaptability and flexibility needed into a globalised economy and based on intensive usage of knowledge.

Romania overcome the level of economical increase based on using intensively the natural resources, it has started to focus on the factors that contribute to the increase of efficiency: investments in education, research and innovation for assuring the necessary conditions in order to obtain and use the advanced technologies. Realising these objectives is imposed inclusive at regional level, fact possible by an efficient use of European funds.



**Figure 3: Romanian competitiveness economy model**



Source: Authors compilations based on technical literature

Also, the negative demographic evolutions obliges our country to act for employment increase by making longer the active life, to increase labour productivity, to sustain more actively the education, especially that

facilitates the adaptability by re-qualifying the employees and develops entrepreneurial spirit, reforming insertion and social protection systems.

## Conclusions

Obtaining competitiveness has become, once with Lisbon Strategy, one of the main objectives of European Union and of each member state of it, these building their own models in order to achieve the desired performances. In this purpose the European Union has developed the benchmarking method, encouraging the member states to present their own results compared to the competition, which represent a favourable moment to learn the successful models.

Thus, according to the World Economic Forum, obtaining competitiveness can be realised differently, according to the development level of each country: by *exploiting the production factors* (low qualified or unqualified workforce and natural resources), using *the factors that increase the efficiency* (high education, continuous learning and efficient usage of existing technologies) or by *sustaining the innovation* (complex products obtained by innovation).

Related to it, the models conceived at national and regional level reflect both their evolution stage and the future tendencies. The developed countries are guiding on competitiveness models that sustain achieving prosperity using factors as: talent, innovation, entrepreneurship and knowledge based firms, while countries as Romania should value the local potential by solving problems related to ageing, financing the education, lifetime learning, adapting the labour force to the workplaces characteristics and vice versa, also stimulating the entrepreneurship culture.

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# THE CREATIVE CLASS – RESEARCH AND DEVELOPMENT POTENTIAL OF THE CITIES – DRIVER OF ECONOMIC GROWTH

**Dinescu Maria - Cristina**

*Academy of Economic Studies- Bucharest, Faculty of International Business and Economics, Bucuresti, Str. Birca, Nr.17, Bl. M8, Ap.17, Sector 5, cridinescu@yahoo.com, 0040-723.463675*

**Grigorovici Corina**

*Universitatea Crestina Dimitrie Cantemir Bucuresti, corinagrigorovici@yahoo.com, 0040-721.3211194*

*Human capital continues to become more important every year, since human intelligence, knowledge and creativity are fundamental for economic development. The “explosion” of the creative sector has been explained by the position that creativity and innovation started to occupy, as “driving forces” of economic growth. Research and development activities are generally classified as creative ones, but one has to take into consideration that many times their results are immaterial goods with economic value. Therefore, the activities of research and development can be considered part of the service sector. At international level, creativity is generally concentrated in cities, some of them being called „global talent magnets”[1](Florida R, 2005) , that have a high value for the creativity index, being strong attraction points for the creative class as well.*

*Creativity, Creative economy, Research and development, Creative class, Creative cities*

## **Creative Economy and the Creative Class- Drivers of Economic Growth**

Creativity and innovation started to draw increasing attention to specialists, being considered “driving forces” of economic growth. The creative industries and activities were defined [2] as those where “the use of expressive value is essential to the performance of these sectors”. Moreover, experts extend the importance of these industries to the whole economy, asserting that both service and manufacturing sectors exploit and benefit from the outputs generated by creative industries. Specialists [3] formalized the creative industries and identified 13 of them: advertising, architecture, publishing, radio and TV, design, film, music, software and computer services, computer games (interactive leisure), designer fashion, crafts, performing arts and the arts and antique market.

The main factor participating in creativity is human capital. Creativity is, therefore, considered to be a form of capital [1] (Florida R, 2005), the so called “creative capital”. Historically, capital was considered to be physical (raw material), investment (finance), land (functional property), human capital, (educated people) and social capital (coming from people acting in groups). According to modern theories, economic growth is mostly the result of stocks of human capital the economies possess, and not as much of their physical and investment capital. Even though the most conventional measure of human capital was the educational level, it would be necessary, but difficult, to take into account everyone’s intrinsic creative potential to generate new ideas, technologies, business models, cultural forms and whole new industries. It is how the “creative class” came to being as a concept in the studies of Richard Florida.

### ***The Global Creativity Index***

In his studies presented in the book “The Flight of the Creative Class” (2005), Richard Florida, together with other experts, presented the Creativity Index for different nations, obtaining a classification at the global level. The Global Creativity Index is made up of an equally weighted combination of the Talent Index, Technology Index, and the Tolerance Index. The values are normalized on a scale from 1 to 0. According to this, Romania ranks last, 45<sup>th</sup> in a group of 45 nations. The classification top starts with Sweden, with a 0.808 Global Creativity Index and finishes with Romania, with a 0.127 Global Creativity Index. Japan ranks 2<sup>nd</sup> with 0.766, Finland 3<sup>rd</sup> with 0.684, while United States rank 4<sup>th</sup> in the top, with a value equal to 0.666.

Romania's position was given by most of the values analyzed in the study: Talent, Creative Class, Scientific Talent, Technology, Research & Development, Innovation, Tolerance, etc. However, two of the indexes that had a major impact were the Research and Development Index, with a value of 0.37, comparing to the Swedish one of 5.186 and the Innovation Index (Patents) with 0.45, comparing to the United States one of 307.06.

These values are strongly related to the human capital, or the creative capital a nation has. Since creativity is the way towards progress, a global competition for creative talents can currently be seen. The competition, however, seems to be acting at urban level, according to certain experts [1] (*Florida R, 2005*).

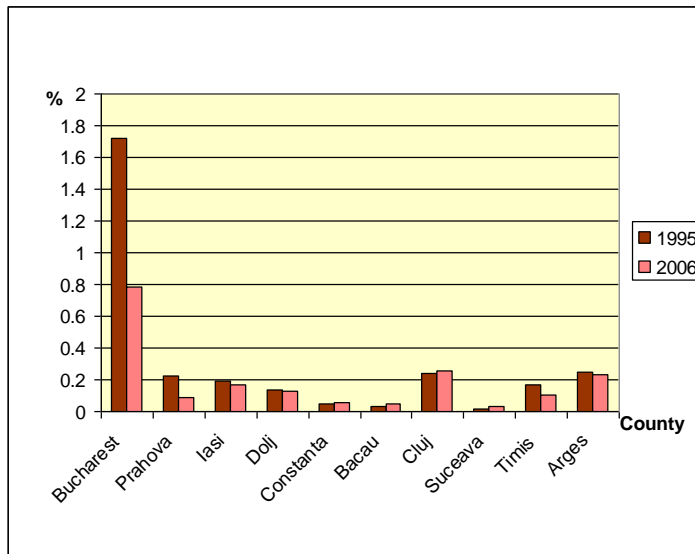
### ***Creative Cities***

According to Peter Hall [5] (1998), cities have been at the heart of the innovation and economic growth for thousands of years. They became increasingly important social organization units, holding from 3 percent of the global population in the 1800s, to more than half of the population in the developed countries. Even though it was predicted that technology would lead to the decline of cities, it was proven that they became a gathering point even more, the importance of the countries being the one declining. This is one of the reasons why specialists defined certain cities as "Global Talent Magnets". These cities compete for outside sources of talent. It is very difficult to measure the top cities from this point of view. However, a group of scientists at George Washington University [6] (*Benton-Short, L, 2004*) developed data regarding the immigration level for 166 cities worldwide, taking into account the percentage of foreign born. According to this classification, Dubai tops the list with about 82%, followed by Miami, with about 50%. The results are rather astonishing, but they are given by the lack of data filtration, the immigrants covering all ranges, from low to high- skilled people.

We consider that one of the main creative forces that is to be found in the creative class is to be identified in the Research and Development field, since mostly is this field that brings innovation and new technologies. The data provided by the studies presented above are rather worrying for Romania, since the position is not even at a medium level. Our study presents the evolution of the high-skilled people involved in research and development activities in the most important cities of Romania from the demographical point of view.

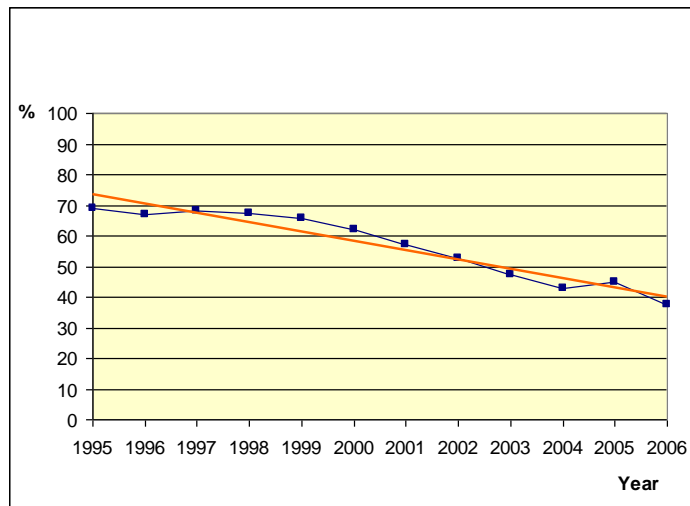
### ***Research and Development in Romanian Top Counties***

We completed a study regarding the high – qualified personnel involved in research and development activities in the first ten districts of the country in 2006 selected by the demographic criterion. We aimed to observe the evolution of this segment of population in the time range 1995- 2006, taking into account the participation of the research and development (R&D) sector to the whole number of employees. We also considered the fraction of the employees involved in the R&D activities in companies that are not research institutions. The data source is The Romanian National Institute of Statistics. The results are to be found in the following graphs.



**Graph 1: The number of employees (%) involved in R&D in 1995 and 2006, respectively**

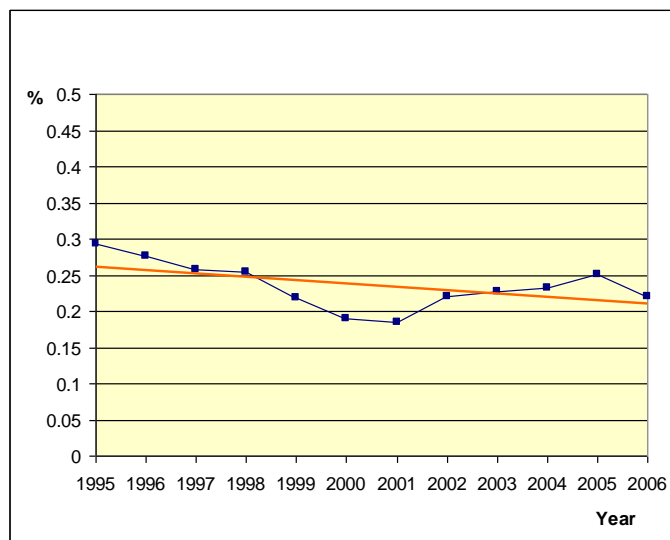
We observed (Graph 1) that the general trend of the proportion of people involved in R&D activities was downward, more people being involved in this field in 1996 than in 2006. However, for Constanta, Bacau, Suceava and Cluj, things happened differently, but with a reduced impact.



**Graph 2: The percentage of R&D employees working in companies with respect to all R&D people**

The descending trend of high-qualified human resources involved in R&D activities was also found in the percentage of people involved in R&D activities working in companies (Graph 2). Although we expected this trend to be ascending, we surprisingly found that people involved in R&D activities inside companies either changed specialisation, or migrated towards other countries, a second option that is more probable.

We took into account the counties' population, since data regarding the cities was not available at the moment. However, R&D activities are concentrated in urban areas of the country, mostly in the counties' capitals, so it can be considered that the data refers to cities.



**Graph 3: The employees in R&D sector (%)  
as part of the total working force in the country**

In Graph 3 we see that, even though the data presented above (regarding the first 10 counties) is worrying, the interest for the R&D activities had a revival beginning with 2001-2002, after a continuous fall in the previous years. It is a result of both economic changes, as well as due to differences in total population calculated at the last census. However, we noticed a slight positive change starting with 2001.

## Conclusions

As we expected, Romania registered a negative trend in population involved in R&D activities, both in institutions and in companies. This is mainly due to the state of economy, that did not encourage such activities and made people change the activity field, as well as to the migration of people wanting to continue their work elsewhere, generally in “creativity magnets” abroad.

It is very important to develop a strategy that keeps and motivates the creative force in the country. The data provided by international studies proves that Romania is not in the position to attract foreign creative capital, since it has strong difficulties in keeping its own at home. This will have a long term impact on the economic and social development of the country.

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# PROMOTING THE INTERESTS OF CONSUMERS AND USERS IN THE SINGLE MARKET

**Dogaru Alexandra**

*West University of Timișoara, „Nicholas Georgescu-Roegen” Platform of Interdisciplinary Training and Research, Faculty of Economics and Business Administration, Str. Ion Ghica 15A, 300161 Timișoara, alexandra.dogaru@rectorat.uvt.ro, 0256-592.168, 0721-064852*

**Silași Grigore**

*West University of Timișoara, „Nicholas Georgescu-Roegen” Platform of Interdisciplinary Training and Research, Faculty of Economics and Business Administration, Str. J.H. Pestalozzi nr. 16, cabinet 101, 300115, Timisoara, grigoresilasi@yahoo.com, 0256-592.539, 0723-320788*

*As globalization provides consumers and users with a larger choice and new uncertainties as well, the need arises for new global protection. European standardization process is more and more a must to the Single Market, a key element to an actual „commercial citizenship” inside the European Union. It is necessary to ensure strengthened and increased efficiency of international collaboration between private and public actors, sustainable supply of renewable energy at best prices and a producer-trader-consumer connection which should allow consumers and users to enjoy rights and aspirations, in full respect of competition requirements. Single Market cohesion needs a competition policy throughout the European Union which should ensure the existence of strong companies as necessary actors within the competition on international markets.*

*Key words: Globalization, European standardization, consumers, cohesion of the European Single Market, competition policy, Romanian market*

## **1. Introduction. Conceptual Framework**

Globalization provides consumers and users a larger choice and new uncertainties as well, which must be considered from the point of view of regulation, as new protection is needed. Consumers and users must be represented at all the decisional levels and enjoy global forums for debate, in order to ensure their aspirations' fulfilment.

It is equally important to provide European consumers and economic agents, on medium term, a sustainable supply of energy from fossil sources, at best prices, while on long term it is desirable to increase the weight of renewable energy, for consumer protection and environmental protection are closely interrelated.

The most important market segment, that which directs the economic agents' future activity, is represented by actual/potential final consumers or users. These are the ones who, through their choices, configure the sale development.

*Consumer* is anyone who purchases for their own use, goods or services which are offered within the free competitive market. The idea of consumer usually refers to individual persons, although institutions or human groups can also be 'consumers'. As for individuals, we have to remark that, in classical economics, decisions are made at group level, on the base of compromises between individual aspirations of family members.

Romanian law for consumer protection reflects the collective feature of *consumer* defined as „natural person or group of natural persons (established as associations), who purchase, achieve or consume goods or services, outside their professional activity”. Therefore, the notion of *consumer* is perceived in a larger context, as part of a community and it is the collective feature that brings necessity of a policy of consumer protection, as a result of collective interests.

Population as a consumer-whole is the main target of the largest part of the produced and imported goods and it is precisely population which closes a cycle of the economic process so that any disorder in this sector could have the utmost inauspicious effects upon an economy.

The marketing science distinguishes between *consumer* and *client*: a consumer who is satisfied with the purchased goods/services becomes a client, and the steadily satisfied client becomes a *loyal client*. The client belongs to a provider-known segment of consumers who are characterized by periodicity in purchase or consumption, hence showing a certain loyalty towards the company or brand, or service type. So not all consumers are clients too, for the client is that one who starts a lasting relation with the provider they have chosen. The clientele has a vital importance to the economic agent's success.

In quite many cases, it is not the actual consumer who decides upon the choice of goods / services which they consume as a matter of fact, but an intermediary. For instance, pharmaceutical products address ill persons, but their choice is made by doctors. And doctor's choice depends upon pharmacist's offer. Within the Romanian post-1990 market, pharmacists opted mainly for imported products, much more expensive than the domestic ones, hence more profitable to the seller, and thus domestic drug production was discouraged and also an already-disadvantaged category of consumers was deprived of protection.

## 2. Directions of protection

Regulation through norms of consumer protection implicitly acknowledges two functional shortenings of competitive market<sup>144</sup>:

- the lacking effect of back regulation (self-regulation) within the seller-buyer relation (non-observance of provided good/service quality);
- unfair relation between the producing entity and the individual consumer.

Self-regulation ought to allow efficient recovery of the loss that consumer has been subjected to through non-observance of a certain good/service quality by the provider, including in the damage the time they have assigned to the exchanging act, which did not end as the consumer had wanted. The provider has a definite advantage over the individual consumer that they use in a frequent and unauthorized way, in an uneven confrontation of forces. On the other hand, consumer is not able to gather, process and select in time the whole available information on goods/services existing within the market and necessary to their own consumption, so that their decisions will be in a large extent aleatory and rather imposed by outer restrictions than own aspirations.

The legal norm establishes four categories of fundamental rights for consumers:

1. **protection against the risk of purchasing a good or being provided a service** that could harm their life, health, security, or affect their rights and vested interests;
2. **complete, correct and precise information** upon essential characteristics of goods and services, so that the purchasing decision they adopt could be in accordance with their needs;
3. **market availability** which provides them with a varied range of high quality goods and services;
4. **compensation for losses caused by unsuitable quality** of goods and services, by legal means.

Consumer protection also involves the action of the State and respectively the Court of Justice at the European Union's level, being a peculiarly complex process. Every new regulation is perceived by producers as coercion and will obviously cause their countermeasure within exchange processes on competitive markets.

## 3. Cheating advertising and aggressive selling practices

On December 12, 2007, new provisions came into force throughout the EU, as to fight cheating advertising and aggressive selling practices – including prohibition of false offers, so-called “free”, as well as advertising released on Internet and based on children “*harassing ability*” (that contains straight urges to purchase for children).

Directive 2005/29/EC<sup>145</sup> of the European Parliament and of the Council, of 11 May 2005<sup>146</sup>, on unfair commercial practices of enterprises within internal market, towards consumers, is meant to reinforce the legal framework already in force, with respect to cheating advertising, and introduces new countermeasures for aggressive selling practices, like harassment, constraint and unjustified influence.

Adoption of this Directive is mainly meant to increase trust of consumers – natural and legal bodies – in Single Market, so that they should have maximum benefits of enjoying goods and services in other

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<sup>144</sup> Vasile Dogaru, *Economia comerțului*, Eurostampa Publishing House, Timișoara 2007, pp. 227-235.

<sup>145</sup> Official Journal n° L 149 from 11/06/2005, p. 0022 – 0039.

<sup>146</sup> <http://eurojournal.eu/>, April 2008.



countries than their residing. At the time of this Directive's coming into force, only 14 out of the 27 EU's Member States had transposed it into their national legislation, and the infringement procedure was initiated by the European Commission for the remaining 13.

The black list of forbidden practices set by this Directive included, among other, 12 of the most frequent abusive practices which are used in relation to consumers. Unfair practices misinform consumers, thus harming competitive markets. As the European Single Market does not admit traders who put pressure on consumers, intimidating or misleading them, the European Union decided to serve as an example: provisions referring to forced sale which misleads consumers range among the most severe ones in the world.<sup>147</sup>

The new Directive establishes 4 essential elements:

- comprehensive general clause which defines forbidden unfair commercial practices;
- detailed definition of aggressive practices (actions and omissions) and those meant to mislead the consumer – these are the main two categories of unfair practices;
- institution of protecting means for vulnerable consumers, through the adoption of provisions meant to prevent exploitation which consumers might be exposed to;
- black list, thoroughly describing the forbidden practices in all circumstances.

Over 30 practices are black listed as being in all circumstances considered unfair, and 12 among them are underlined for damages they might cause to consumers.

- 1) **„Lure” advertising**: the action of making the consumer buy at a very low price, from a company which advertises some product without having a reasonable stock of it.
- 2) **So-called „free” offers**: the action of describing a product as „gratis”, „free”, „without charge” or similar, when the consumer still has to pay anything other than the unavoidable cost of responding to the commercial practice and collecting or paying for delivery of the item.
- 3) **Actions of direct exhortation to children**, or persuading their parents, to buy advertised products for them. TV direct exhortation to children is prohibited. The black list also applies this prohibition to the whole media, the Internet included.
- 4) **False statements** on beneficial properties of a product.
- 5) **„Broadcast advertising”**: using editorial content in the media to promote a product where a trader has paid for promotion without making it identifiable to the consumer.
- 6) **Pyramid schemes of product promotion**: in such cases, compensation is derived primarily from bringing new participants in the scheme rather than from sale or consumption of products.
- 7) **Prizes**: inducing to the consumer's mind a false impression of winning a prize while it does not exist or its delivery is conditioned by fulfilling a payment or other task.
- 8) **Misleading the consumers** with respect to the rights they enjoy – in this case, consumer's rights ensured through appropriate laws are presented as a characteristic element of the commercial offer.
- 9) **Limited offers**: actions of abusive statement on some product availability, depriving the consumer of the reasonable possibility of informed choice.
- 10) **Operating language of after-sale service**: it is prohibited to use a single language which consumers are not familiar with, if full information was not provided before transaction.
- 11) **Products which the consumer has not ordered**: this category includes the claiming of immediate or gradual payment of supplied products which were not ordered by the consumer.
- 12) **Service availability throughout Europe**: creating the false impression that after-sale service of a product is available in other Member State than the one in which the product is sold.

#### **4. A greater flexibility of self-regulation within competitive market**

In order to relieve the European Court of Justice and Court of First Instance of a significant share of the multitude of European law infringement cases, the Commission had the initiative of establishing a “peace

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<sup>147</sup> Meglena Kuneva, European Commissioner for consumer protection, <http://eurojournal.eu>.

panel” at European level. The SOLVIT network was thus established in 2001, by the Commission and the Member States, and in 2002 it started functioning with the aim to solve problems which citizens and economic agents are faced with as a result of non-observance of Community Law for the internal market. All the Member States, plus Norway, Iceland and Liechtenstein, set SOLVIT centers, in most cases inside the Foreign Affairs Ministry or the Ministry of Economy. Those centers directly cooperate through an online database, in order to find out actual functional solutions to the problems pointed out by citizens and economic agents.

The maximum deadline for complaint solving is of 10 weeks. Both SOLVIT centers will act together in the attempt of finding out a solution to the specific problem and the complainant will be kept informed on the case development and the suggested solution by their domestic SOLVIT center. But if a complaint remains unsolved or the complainant considers the suggested solution unacceptable, they can take legal action in a national court or can put forward a petition to the European Commission. Romania ranges among the Member States with SOLVIT centers in urgent need of more staff or more time to be assigned by the existing staff.

### *An example of SOLVIT solution*

A Finnish company asked permission for launching food supplements within the Czech Republic market. Czech authorities objected that according to their national law, the respective products exceeded the permitted amounts of B vitamin and could have been harmful to the consumers if traded as food supplements. Even after one year of negotiations, the authorities went on considering those imported products as pharmaceutical items. However, SOLVIT managed to persuade Czech authorities that those products were not pharmaceutical and could be traded as food supplements if suitably labelled.

One more frequent problem is the food security. The Swedish Institute of European Studies (SIEPS) issued a report entitled "Transformation of Community Regulation on Food Security", which analyzes the development of food security within Community Law and shows the contributions of the regulation from 2002. A number of general principles are introduced which henceforth make the public health on of the main elements of European policy on food security.<sup>148</sup>

A survey of the European Commission on the rate of economic confidence, issued on 30 April 2008, reveals that the confidence of enterprises management and consumers has clearly decreased. In April, this index fell by 3.8 points in the European Union and by 2.5 points in the euro zone, reaching 98.1, respectively 97.1 points. This is the lowest level since August 2005. This severe decrease affects all sectors and mainly services and retail trade. UK ranges first with 8.9 point decrease. The index of business environment, which calculates the industrialists' confidence, has strongly dropped.<sup>149</sup>

### **5. Romania's Strategy on consumer protection during 2007-2012<sup>150</sup>**

The European policy on consumer protection follows some fundamental directions:

- Promotion of a vision on consumer protection understood as complex social-economic phenomenon involving systemic integration of consumer interests in all the relevant sectors of the EU;
- Combination of individual and associative self-protection – the surest, most efficient and less expensive way, with direct and indirect protection achieved by every Member State and respectively at the Community level;;
- Even implementation of Community *acquis* in the specific sector;

According to these directions, the **main strategic targets** were set for the policy on consumer protection over the period 2007-2013:

- **knowledge of consumers and market ;**
- **implementation, monitoring and update;**

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<sup>148</sup> Morten P. Broberg, *Transforming the European Community's Regulation of Food Safety*, Report no. 5/April 2008, issued by the Swedish Institute for European Policy Studies, Stockholm, ISSN 1651-8942, ISBN 978-91-86107-01-7 ([www.sieps.se](http://www.sieps.se)).

<sup>149</sup> EUROPEAN COMMISSION, DIRECTORATE-GENERAL FOR ECONOMIC AND FINANCIAL AFFAIRS, *BUSINESS AND CONSUMER SURVEY RESULTS*, April 2008, [http://ec.europa.eu/economy\\_finance/db\\_indicators/db\\_indicators8650\\_en.htm](http://ec.europa.eu/economy_finance/db_indicators/db_indicators8650_en.htm)

<sup>150</sup> <http://www.protectia-consumatorilor.ro/strategie.php>

- **better informed and educated consumers.**

**The vector-target** is to realize a high level of consumer protection understood as defence of consumer fundamental rights: protection of life, health and security; protection of economic interests; ensuring the vital necessities; availability of markets with varied range of products and suitable quality services; safe environment; information; education; association.

**The fundamental objectives** are major lines of action for building a European-type legislative institutional system which should ensure a higher consumer protection, namely:

- increased capacity of individual self-protection, especially associative, so that it becomes the main way of consumer protection;
- optimization of State activity of direct and indirect protection;

The action lines and principal targets for achievement of fundamental objectives are:

1. Improvement and development of legislative framework for a better operation and conclusion of harmonization with the EU's Law.
2. Development and improvement of the institutional system.
3. Development of consumerism.
4. Improving the activity of consumer information, counselling and education.
5. Carrying out surveys, studies and comparative tests meant to ground the activity of consumer information, counselling and education.

## 6. Conclusion

European *acquis* in the field of consumer protection includes regulations on protection of both consumers' economic interests and goods' general security. The Member States of the European Union must ensure the *acquis* implementation through devices of solving disagreements, both by lawsuits and other ways including administrative systems like the system of market monitoring and its reinforcement of consumer associations' role.

This horizontal policy has in view the promotion of consumer interests within the internal market and has important consequences on other policies of the EU which include norms on consumers' rights, as for example The Joint Agrarian Policy, environmental protection, transports and energy. The European Council from Copenhagen (1993) acknowledged the importance that harmonizing the legislation with the *acquis* in this sector has for the enlargement process. The general framework for financing Community actions which support consumer protection for 2004-2007 mainly referred to Community actions aiming to protect consumers' health, security and economic interests, as well as actions of consumer information and education.

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# THE DIFFERENT IMPACT OF PENSION REFORM ON WOMEN AND MEN

**Dordea (Utureanu) Simona-Luize**

*Universitatea Ovidius Constanta, Facultatea de Stiinte Economice, Alea Universitatii nr. 1, simona\_utureanu@yahoo.com, +40723341715*

**Popovici Veronica**

*Universitatea Ovidius Constanta, Facultatea de Stiinte Economice, Alea Universitatii nr. 1, veronp@yahoo.com, +40723579963*

*The national system's pensions reform is taking place at this moment in different European countries like Slovenia, Poland, Hungary, Romania, Latvia, Lithuania. This paper emphasize the different impact of pension system's reform on women and men. Gender objectives were not considered a priority in the reform frame, although there is a series of complex problems generated by these changes and women will be mostly affected.*

*Key words: pension, reform, annuity*

## **Pension system reform**

The Romanian state introduced a pension system at the beginning of the 20th century, with money contributing to the system moving on to the existing pensioners. As a self-sufficient entity, this is now heading for collapse. Life expectancy has increased, which is good news for everyone except the welfare state, because the total number of pensioners will overtake those who can contribute to their pensions.

Many analysts argue that the failure of the state pension is because the system in which contributors pay to the social securities budget is inefficient. The state also does not, and cannot, invest the money it receives – which it then passes on straight to the current class of pensioners. Demographically, the number of contributors to the state pension is decreasing every year. Numbers of employees in Romania have fallen from over eight million in 1990 to under five million in 2006. If at the beginning of the 1990s there were five employees paying the pension of one retired person, this ratio now stands at one employee to 1.2 pensioners. In the next two decades, according to the National Institute of Statistics, the proportion of the elderly will rise from 14.3 per cent to 17.4 per cent of the population – the kind of shift all Europe has to contend with.

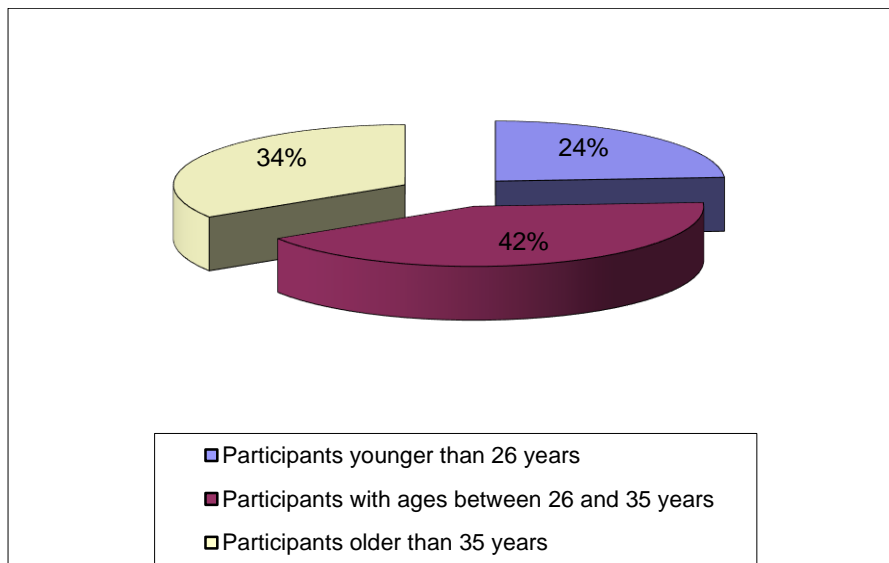
September witnessed the birth of a new industry in Romania, with legislation giving the green light to the much-awaited private pension system on the Romanian market.

Optimists hope that through this legislation, in 30 years' time, pensioners will lead a more decent life, as young people are forced to save earlier into pension accounts administered by private businesses.

Romania's legislation is based on the experience of New Europe and the principles are similar, but critics argue that its legislation is restrictive and prudent.

The public pension is the so-called first pillar of the pension system. It functions according to the law no. 19 from 2000 with further modifications and completions. This type of pension relies on the solidarity between generations: the pension of the actual retired population is made up of the contributions collected from the active persons working on the labour market in this moment.

*Chart no. 1. Private pension fund participants repartition according to their ages*



Source: CSSPP Report 7 March 2008

The private mandatory pension represents the so-called second pillar of the pension system. It functions according to the law no. 411 from 2004. It can be considered a type of forced saving, based on an individual compulsory contribution: the sum with which a person is mandatory contributing during its active life stands at the base of its pension. To this sum is added (or subtracted, if it is negative) the accumulated fund's capitalization rate and it are subtracted the administration commissions of the respective fund. All Romanian employees under the age of 35 had four months to choose to subscribe to one fund and then this year the funds will start collecting money. Until this moment, for the private mandatory pension have applied about 4 millions employees; number which includes also persons with ages between 35 and 45 years who adhered optionally to the second pillar (Chart no.1).

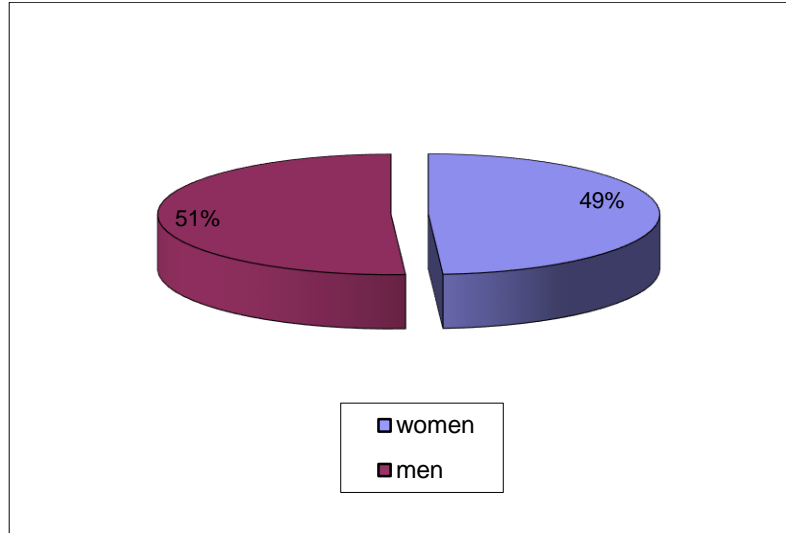
The optional private pension represents the so-called third pillar of pension system. It functions according to the law no. 240 from 2006. It is a voluntary saving system, based on deliberate individual contribution. The mechanism that makes up this type of pension is the same with the one used for mandatory private pensions.

### **The different impact of pension's reform on women and men**

The research performed in different countries, which had reformed their pension system, show that there are differences that, in general, are in women's disadvantage.

In general, women register smaller rates of participation on the labour market (Chart no. 2), contributing more at the domestic work – women work in the salaried labour system, in average, just half of the years that men do; this is also because of the discontinuities related to maternity, child raising and care vacations.

**Chart no. 2. Private pension fund participants repartition according to their gender**



Source: CSSPP Report 7 March 2008

Smaller wages, due to weaker fructifying of women's work and its belonging to economic fields with smaller rewards – until adult age women earn in average 2/3 of the amount earned by men.

If the pension benefits depend on the contributions and the contributions depend on the wages, work type and the number of years worked, women get smaller pension benefits.

Demographic problems and regulations regarding beforehand retirement are amplifying the differences:

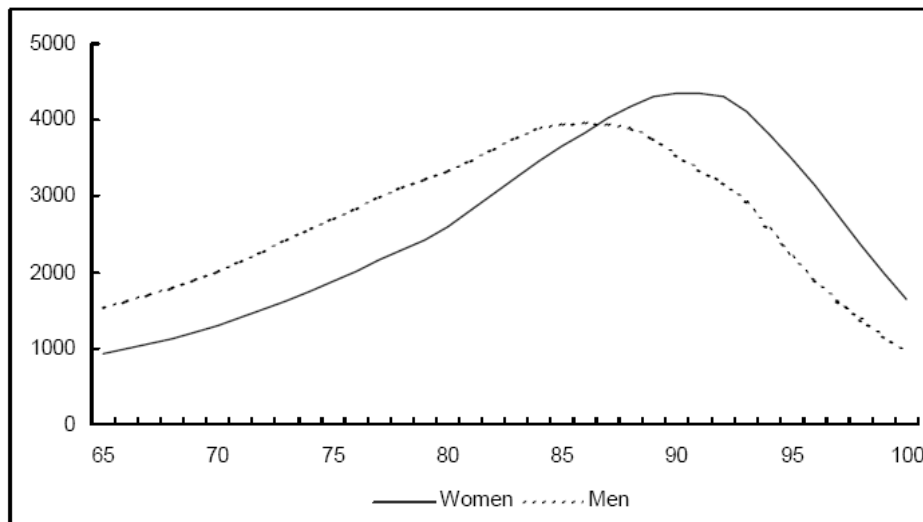
- Women live in average with 3-5 years more than men do and they are younger than their husbands/partners;
- Women are allowed often to retire with 5 years earlier than men. It is tempting, but this means that they accumulate less resources for the pension period;
- If we add the fact that they live more than their husbands/partners, the risk of poverty is bigger – they live a longer period of time with smaller resources.

The role of life expectancy is important in setting the pension benefits for women and men, according with the private pension system. If the system will copy the private assurance's customs of using different tables for women and men life expectancy, than women will end up receiving just a half of what men are getting.

Despite the fact that on average women are expected to live longer than men, for individual men and women there is a significant overlap in the ages at which they die. Chart no. 3 highlights this overlap. Although more men then women are expected to die at each age before age 87, 61 per cent of men and 46 per cent of women are expected to die before reaching this age.

For Romania, the estimation made regarding the gender impact on pension reform, indicate the fact that, the smaller number of worked years, smaller earnings and bigger life expectancy can lead to a reduction of the women average pension with about 34% in comparison with the one from the public sector, if the situation remains unchanged.

*Chart no. 3. The number of men and women from a population of 100,000 aged 65 in 2004 expected to die at each subsequent age*



Source: GAD 2002-based population projections

Women receive lower monthly annuity payments than a man from the same amount of pension saving because annuity providers take into account the expectation those women will live longer than men.

It appears inherently unfair that a woman can be offered a smaller annual payment than a man for an identical pension lump sum, even if the lump sum has been built up using exactly the same contributions. In other parts of the pension system this does not happen. In the state pension system a woman could receive a higher overall payout than a man with an identical contribution record, because a woman would receive a pension for a greater number of years (once state pension ages are equalised between 2010 and 2020, a woman will receive the same state pension as a man with an identical contribution record). In an occupational pension scheme a man and a woman with identical career and earning experience would receive identical annual benefits. This is because in both of these schemes men and women are ‘pooled’ together, and the relative risks of long life are shared among them. To the extent that women live, on average, longer than men, these schemes may be seen to subsidise women at the expense of men.

These arguments help us sustain the idea that a woman with the same income, age and working years has to receive a monthly pension equal with a man in the same situation. In some countries this happens, but in others do not. In those countries where it has been decided to use the unique life expectancy for the second pillar pensions calculation, there is the need for the actions to continue. This decision is not sufficient, because the ones managing the private funds will find a way to discourage women to participate in the scheme, either because of the advertising approach, or because of their operating manner. It is necessary to set up a regulation system that will help equilibrate women’s and men’s participation rates to this scheme.

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# LE CHANGEMENT DE LA CULTURE ENTREPRENEURIALE VERS LE DEVELOPPEMENT DURABLE

Doval Elena

Doval Oriana

*Université Spiru Haret, Faculté de Management Brasov, L.C.Babes,no.1, bl.5, sc.B, ap.8, 500435 Brasov, e-mail: doval.elena@yahoo.com, tel. 0723 593225*

*Résumé: La culture organisationnelle reflète brièvement le système de valeurs sur lequel est basée la stratégie. La culture entrepreneuriale change puisque le contexte du développement durable est promu dans le monde. Cet article présente le contexte général du développement durable et définit le système culturel de l'organisation. Les influences de la culture organisationnelle focalisées sur la culture entrepreneuriale sont analysées du point de vue du développement durable. Enfin, les coordonnées d'une nouvelle culture entrepreneuriale qui est en cours de changement en Roumanie sont commentées par rapport aux principaux pilotes de changement et quelques directions principales pour l'action future sont offertes.*

*Mot-clé: changement, culture organisationnelle, culture entrepreneuriale, développement durable*

## Le contexte général

En Europe ainsi que dans le monde entier, le problème du développement durable fait partie des stratégies à long terme, qui offrent une nouvelle chance à la planète et aux générations futures.

Les provocations de l'avenir selon la Banque Mondiale sont dirigées sur: des changements dans la technologie, le management des ressources naturelles et le bilan social. Les ressources conventionnelles de la planète sont déficitaires, ainsi que la problématique du développement durable est influencée par trois causes majeures (Danchin, 2003, 9-10): l'augmentation rapide de la population dans certaines zones de la planète, ce qui amplifie la pression sur les écosystèmes; l'urbanisation et la pollution qui dépassent les responsabilités des autorités centrales et locales, concernant la pollution de l'eau, du sol et de l'air, avec des conséquences néfastes sur la sante de la population et la production alimentaire insuffisante en corrélation avec la provocation d'une nouvelle "révolution verte". Les principales directions des la stratégie mondiale qui soutient le développement d'une nouvelle culture organisationnelle dans le contexte du développement durable sont:

- Implémenter de nouvelles stratégies adaptées à l'augmentation de la productivité dans l'agriculture;
- Les investissements dans l'infrastructure rurale;
- Les politiques gouvernementales de réduction de la pauvreté dans l'environnement rural et de protection de l'environnement;
- Construire la synergie entre les bénéfiques locales et globales de l'environnement ;
- L'augmentation de l'indépendance et du pouvoir de l'administration locale et de la liaison entre les administrations locales et la communauté basée sur des organisations;
- Développer les instruments d'engagement de la société civile dans les zones de conflit par l'exploration des liaisons entre le management des ressources naturelles et les conflits et l'application des stratégies adéquates pour la réduction de la pauvreté dans ces zones de conflit (par exemple, les bassins miniers);
- Promouvoir les technologies propres pour réduire les émissions de charbon et le développement durable par la protection des forets et de la terre;
- Actualiser les procédures pour les projets régionaux et par secteurs avec un impact et des risques réduits sur l'environnement et les aspects sociaux;
- Offrir des subventions aux entrepreneurs ingénieux pour développer les activités spécifiques;



- Développer les programmes de construction des capacités des activités qui protègent les employés et les clients et l'harmonisation continue des processus à demande mondiale.

Dans le but d'accomplir les exigences prévues dans l'acquis communautaire, la Roumanie a développé un cadre législatif approprié et fait des efforts d'investissements pour moderniser les technologies, implémenter les systèmes de management de l'environnement dans les entreprises industrielles. Dans ce contexte s'encadre aussi le développement d'une nouvelle culture organisationnelle qui se caractérise par le respect envers les problèmes de l'avenir.

## **Les influences de la culture organisationnelle sur le développement durable**

Dans le rapport „Notre avenir commun”, présenté au Sommet de l'ONU a Rio de Janeiro en 1992, le développement durable est conçu dans la vision de la réconciliation entre l'économie et l'environnement (Dobrotă, 1995, 444-445). En essence, les quatre dimensions du développement d'un pays (économique, social, technologique et écologique) doivent être en interaction et assurer leur compatibilité et la simultanéité du progrès. Le problème du développement durable est lié sans doute aux objectifs fondamentaux du développement. L'assurance et l'amélioration de la qualité de la vie humaine n'est plus le seul but de la croissance économique. L'agenda 21 adopté au Sommet de Rio de Janeiro en 1992 a établi de nouvelles dimensions au développement global, telles que (Haas, Levy, Parson, 1992): accélérer le développement durable des pays en cours de développement; combattre la pauvreté; changer les modèles de consommation; la dynamique géographique; la sante humaine; le développement durable des villes et l'intégration de l'environnement et du développement dans la prise de décisions. L'implémentation de ces objectifs a en vue le changement de la culture organisationnelle, en général, et de la culture entrepreneuriale, en particulier.

Analysant les aspects importants du développement durable chez plusieurs organisations on constate que les décisions managériales comprennent la conservation et le management des ressources du développement et visent: la planification intégrée et le management des ressources de la terre; combattre le défrichement des forêts; le développement durable rural et de l'agriculture; la conservation de la diversité biologique et le développement sûr de la biotechnologie; la protection de l'atmosphère, des montagnes, des eaux des ressources vivantes des forêts, rivières, mers et océans; la collecte, le dépôt en sécurité et la destruction écologique des produits chimiques toxiques, des ordures et des résidus et des programmes de sante et de protection sociale pour les citoyens et les employés.

Dans ce contexte, les composantes culturelles déclarées, telles que: l'utilisation de remplaçants dans l'industrie des meubles, des produits agricoles écologiques, garantir un revenu minimum pour tous les citoyens, des technologies non-polluantes et autres sont visibles, en considérant l'approche sur trois niveaux de Schotte et Ciarlante (1998). Le niveau de base se considère être implémenté depuis des générations (par exemple : jeter les ordures et les résidus dans des poubelles différentes).

En fonction du niveau de développement du pays et de la culture entrepreneuriale dominante, nous pouvons remarquer plusieurs différences dans les stratégies de développement durable (tableau no. 1).

En analysant les caractéristiques des trois catégories de pays, nous pouvons affirmer que la Roumanie se dirige vers les pays avancés en ce qui concerne les actions pour le développement durable. Ils sont encore nécessaires des investissements financiers et techniques puisqu'a part l'introduction permanente en pratique des organisations des technologies non polluantes et en spécial des technologies de l'information et de la communication, les stratégies de développement durable des organisations doivent s'orienter vers l'homme, en visant les aspects concernant: le combat de la pauvreté, la santé et l'éducation.

## **Le système de la culture organisationnelle**

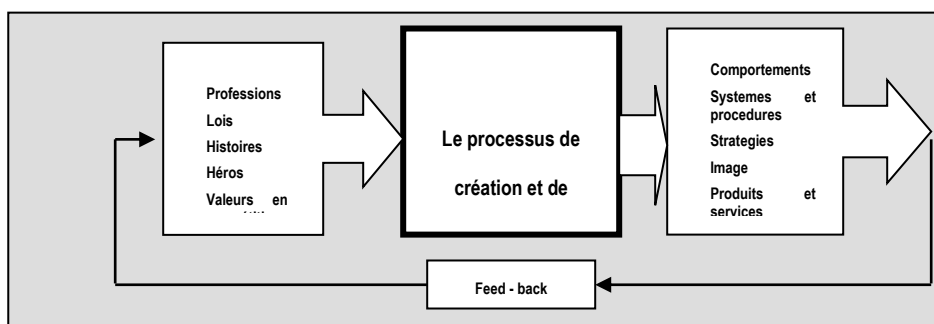
La culture est un concept difficilement à définir, mais l'on sait que ce concept diffère d'une organisation à une autre. Ainsi, la culture d'une grande organisation de type corporation est très différente de celle d'une entreprise petite ou moyenne, ou de celle d'une institution. Gareth Morgan décrit la culture comme “un phénomène actif de vie par lequel les gens créent ensemble et recréent les mondes dans lesquelles ils vivent” et considèrent qu'a la base de l'analyse de la culture se trouvent trois questions : Quelles sont les références partagées qui font que l'organisation soit possible ? D'où viennent-elles ? Comment sont-elles créées, communiquées et soutenues ? La réponse à ces questions peut être trouvée si la culture d'une organisation est vue en tant que système (figure no. 1).

Selon la figure no. 1, le système comprend:

- *Les entrées dans le système de la société* : professions, lois, histoires, héros, valeurs en compétition et services;
- *Le processus de création et de transformation de la culture* basé sur des hypothèses, des restrictions, des valeurs et des normes;
- *Les sorties du système*: comportements, technologies, stratégies, image, produits et services, croyances, tels que: la valeur pour l'argent, les gens en tant qu'actif, le temps en tant que restriction etc.;
- *Feed-back*: la dispersion des sorties dans la société, qui influencera certainement le processus de récréation ou de transformation de la culture organisationnelle.

**Tableau no. 1**

Le niveau de développement du pays	Éléments de la culture entrepreneuriale	Objectifs stratégiques de développement durable
Développée	Participation active Transparence Responsabilité Communication Egalité des chances Innovation	Partenariats Réglementations et facilités fiscales pour les entrepreneurs Marketing sociétal et écologique Financements faciles Nettoyage des terrains contaminés
En cours de développement	Connexions particulières, influences politiques Egalité des chances déclarée Innovation par l'importation de know-how Lois et réglementations spécifiques	Attraction des investissements étrangers Implémentation des programmes de training Implémentation des standards de qualité et d'environnement Financement partiellement remboursable ou subventions Réglementations pour les entrepreneurs Maintenance des écosystèmes
Non développée	Priorités spécifiques Pratiques anti compétitives Corruption Accès inégal	Utilisation intensive des ressources naturelles Motivation différenciée du facteur humain Priorités pour impôts et taxes



**Figure no. 1 Le système de la culture organisationnelle (adaptation selon Morgan)**

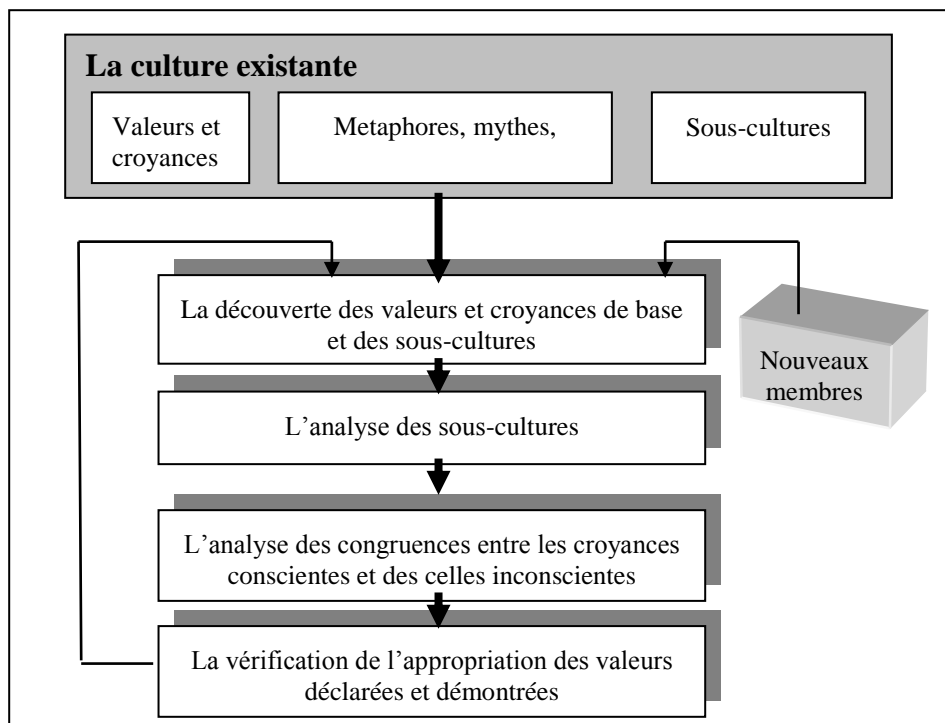
La culture reflète la personnalité de l'organisation, la façon dont elle est organisée et ce qu'elle représente dans son environnement interne et externe.

Le problème de la culture et des changements dans la culture organisationnelle se pose concrètement au moment où on initie un processus de changement. En général, puisque la culture change le plus difficilement et souvent elle représente la principale force contre le changement ou celle qui ralentit l'implémentation d'un changement, les managers du changement s'axent sur la culture comme étant une des priorités dans le processus de changement. "La culture, plus que la structure, peut être un barrage contre le changement. Une culture rigide, profondément enracinée au long de plusieurs générations, s'oppose toujours au changement et ralentit son implémentation. Si les normes de l'organisation imposent un perfectionnement continu et une adaptation aux changements de l'environnement, si les comportements ne sont pas des stéréotypes, les valeurs sont disséminées et les membres de l'organisation sont motivés et ont une ouverture vers le nouveau, le changement est appui ou de toute manière n'est pas bloqué ou ralenti". La culture influence l'environnement social (un groupe social) et l'environnement social devient responsable pour la transmission des valeurs et types de comportement les plus adéquats au groupe social et individus.

### **Le changement de la culture entrepreneuriale vers le développement durable**

Conformément à la théorie X-Y de Mc Gregor (1960), la nature humaine tend vers l'indolence et la passivité et est nécessaire la motivation des gens pour qu'ils deviennent productifs. Mais la motivation tient à la façon de diriger, en spécial à la culture. Schein (1993) disait que "les difficultés dans le cadre des transformations organisationnelles apparaissent à cause du manque d'analyse de la culture organisationnelle existante", mais aussi comme "la limite du bas des leaders est celle comme quoi s'ils ne deviennent pas conscients de la culture dans laquelle ils sont enfermés, ce sont les cultures (et il se réfère aux sous-cultures) qui vont les diriger".

Le changement de la culture est difficile et consommateur de temps puisque ca vient de l'histoire de l'organisation ou de ses membres. Le processus de changement de la culture comprend les étapes suivantes (figure no.2): la découverte des valeurs et des croyances de base, qui sont incorporées dans les valeurs et les buts de l'organisation, mais aussi dans des métaphores, des mythes, des histoires et dans les comportements de ses membres ; l'évidence des différences entre les sous-cultures dans le cadre de l'organisation et leur analyse ; la recherche de congruences entre les valeurs et les croyances conscientes et inconscientes et le choix de celles auxquelles aspire l'organisation et la répétition des trois premières étapes pendant une période plus longue et la vérification de l'appropriation des valeurs déclarées et démontrées par les nouveaux membres de l'organisation.



Le processus de changement de la culture est continu, ainsi qu'il est difficile d'affirmer qu'une organisation a fini avec succès le changement de sa culture. Si on a enregistré un progrès dans un domaine, on tourne l'attention vers un autre attribut de la culture. Ceci ne signifie pas qu'on minimise la nécessité d'obtenir des performances dans tous les domaines, mais il faut reconnaître les faits que les employés ne peuvent travailler de façon performante dans des conditions de stress et de confusion déterminées par trop de changements en même temps.

Les principales instruments dans la réalisation du changement de la culture sont la communication et la formation, mais aussi la délégation et le mandat. Dans les corporations, ces instruments sont utilisés fréquemment, mais dans le cadre des organisations entrepreneuriales le processus de changement de la culture présente certaines limites, dont: le manque d'une stratégie de développement et de changement fait que le plus souvent cette activité soit confiée à un consultant externe; le nombre de managers et de personnel est réduit, alors des activités telles que la communication et la délégation sont considérées comme étant implicites, mais en réalité les décisions sont prises seulement au sommet, et la communication se réduit à des tâches et non pas à l'explication claire des causes et des conséquences du changement; les ressources financières pour les investissements sont en général réduites et se font des efforts pour obtenir un financement pour les investissements, en général en équipements et rarement pour la construction de nouveaux actifs productifs; le développement de l'entreprise dépend du développement du quota de marché, et d'habitude dans le cadre des PME on n'accorde pas une importance suffisante aux activités de marketing; les ressources humaines sont en général négligées lorsqu'on pose le problème des investissements dans la formation et le manque du conflit car d'habitude les employés qui ne sont pas d'accord avec les décisions prises au sommet quittent l'organisation.

Ces limites, qui sont évidemment généralisées, sont mises en balance avec plusieurs avantages qu'on ne trouve pas dans les corporations ou dans les grandes entreprises, justement à cause du nombre réduit de personnel et de l'envergure réduite de l'activité, mais qui sont corrélées avec une stratégie d'investissement acceptée par le management au sommet, dont: le nombre élevé de cultures brutes avec lesquelles viennent les patrons dans le cadre de l'organisation, les managers et le personnel et qui se mêlent de façon chaotique, mais qui justement pour cela offrent une base complexe pour l'analyse et pour le changement, tout en créant ainsi un réservoir unique de connaissances et opinions qui incitent à l'innovation qui réponde aux provocations requises par l'activité de l'organisation; le management applique rapidement les connaissances accumulées et prend les décisions rapides, souvent intuitives, qui facilitent l'adaptation de l'organisation aux exigences de l'environnement et en spécial à celles du marché et l'existence des relations de compatibilité sociale entre les membres de l'organisation, qui constituent le fondement de la promotion de la diversité dans l'activité courante et future des organisations.

Les influences de la culture organisationnelle ouest-européenne et nord-américaine qui sont entrées en Roumanie par les investissements étrangers et les compagnies multinationales contribuent au changement pas à pas des valeurs culturelles déclarées et par conséquent des valeurs visibles, du comportement des organisations, du management et de leurs membres.

La culture organisationnelle en Roumanie, en cours de changement, concernant l'intégration de l'environnement et du développement dans la prise de décisions, considérant la conception des deux experts Schutte et Ciarlante (1998), se détache encore de la culture ouest-européenne par certains aspects spécifiques, tels que: *Niveau III*-Les comportements pratiques visibles, se caractérisent par : la flexibilité, l'amélioration continue, les règles, les contrats et les systèmes, la performance organisationnelle, la compétition et la connexion Networking; *Niveau II*-Les valeurs déclarées, se caractérisent par : le contexte historique, la différenciation en fonction des exigences des consommateurs et l'accomplissement des tâches et *Niveau de base*-Valeurs „prises de la nature” se caractérisent par : l'organisation est un système de gents et tâches, l'interdépendance dialectique dans la réalisation des tâches et le concept de faire n'importe quoi et n'importe comment.

## **Directions stratégiques de changement**

Dû au spécifique de la culture entrepreneuriale en Roumanie, les changements nécessaires dans la direction de l'implémentation des exigences de développement durable comportent, comme une conséquence, plusieurs particularités de la culture organisationnelle, groupées sur cinq directions stratégiques :

- L'augmentation de la responsabilité de l'organisation envers les employés et la communauté, incluant la standardisation dans les stratégies managériales ;

- Le renforcement du rôle des institutions de contrôle et attestation des organisations dans le domaine du management de l'environnement ;
- L'augmentation du rôle de la société civile et des médias dans les actions à convaincre les organisations et les citoyens par la communication ;
- La création d'un environnement compétitif entrepreneurial privé, par des actions support (encouragement, facilités de financement, incubateurs d'affaires, actions non-discriminatoires entre les sexes etc.) ;
- La réforme du management du secteur public par l'augmentation de la transparence dans le but de l'amélioration du partage équitable des revenus publiques et des dépenses pour la santé et l'éducation.

Parmi les actions nécessaires et possibles pour le changement de la culture entrepreneuriale en Roumanie concernant le développement durable, on cite: l'implication des agences pour l'environnement dans la promotion d'une nouvelle culture par la communication au niveau des petits groupes, par des débats dans le cadre de séminaires, talk-show à la radio, e-mail et lettres personnalisées, et au niveau national, par la dissémination de messages simples, par des publicités dans les médias (télévision, presse écrite, radio national; l'implication des agences pour la reconversion de la main d'œuvre par l'introduction de cours attractifs concernant le développement durable (la protection de l'environnement et le rôle personnel de chacun) dans les programmes de préparation des chômeurs; l'élaboration d'un code d'éthique du comportement du citoyen dans la protection de l'environnement par les autorités locales; et une meilleure intégration des principes opérationnels de développement durable social: inclusion, cohésion et responsabilité.

## Conclusions

Le changement de la culture organisationnelle dans les organisations entrepreneuriales tournée vers le développement et les investissements dans la protection de l'environnement peut se réaliser seulement avec l'implication du personnel, par la communication, la délégation et les investissements dans les ressources humaines. Le changement de la culture dans cette direction met les bases d'une stratégie de développement des organisations de type PME et assure le succès des affaires par leur adaptation aux changements dans l'environnement. Le processus du changement de la culture organisationnelle, ayant en vue les particularités des organisations entrepreneuriales concernant la culture organisationnelle, peut constituer un instrument utile dans le management des organisations en Roumanie. L'intégration de la nouvelle culture entrepreneuriale et des exigences de développement durable doit engager toutes les institutions gouvernementales et non-gouvernementales, au niveau central, mais surtout au niveau local et régional.

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# THE CORRELATION BETWEEN RESEARCH & DEVELOPMENT AND THE ECONOMIC GROWTH IN ROMANIA

**Dragomir Laurențiu**

*Universitatea din Craiova, Facultatea de Economie și Administrarea Afacerilor, Craiova, Str. A.I. Cuza, nr. 13, cod 200585, Phone: 0744136855; Email: dragomirlaur@yahoo.com*

**Barbu Cătălin Mihail**

*Universitatea din Craiova, Facultatea de Economie și Administrarea Afacerilor, Craiova, Str. A.I. Cuza, nr. 13, cod 200585, Phone: 0727761287; Email: catarom@yahoo.com*

**Ciobanu George**

*Universitatea din Craiova, Facultatea de Economie și Administrarea Afacerilor, Craiova, Str. A.I. Cuza, nr. 13, cod 200585, Phone: 0722344577; Email: georgeciobanu@hotmail.com*

*Abstract: The increasing productivity of production factors, due to progresses in science and technology is today the engine of economic growth. The economic theory managed to endogenize the technical progress, first as a result of the unintended activities of firms, then as the result of profit driven behaviour of economic agents. In globalization the stock of knowledge becomes available also to developing countries and the production technologies and their employment are more democratic regarding the availability. For the developing countries it still remains the problem of financial resources and availability. Developing new technologies has a prohibitive costs, at least until the moment in which large scale production allows for the reduction of costs. Long term economic growth will depend on the creation of global technology stock, including the leverage effect of sustained R&D. In this paper we will approach the progress of Romania in the area of knowledge base economy, especially regarding the policies in the R&D sector.*

*Key words: knowledge economy, economic growth, research&development*

In the contemporary world, nations and companies assign more and more resources for research and development. Although they are different by their nature, these activities contribute to the technical progress. The first consequence is the production of an aggregate of intangible qualities, which are expert knowledge or new concepts about commodities and equipments, usually concretized under the form of some new or improved products, as well as better techniques for the processes.

*The development of the procedures* presupposes the creation and the adoption of some new technology, integrated in the newer or superior fixed assets used in production. This type of technologies increases the productivity and the competitiveness of the companies, industries and of the economy as a whole. As a consequence the companies invest in manufacturing technologies before competing with prices.

The development of the products presupposes the production of some newer or better goods; the companies invest in this activity for the competitive advantages in exclusive or high-quality products. Once they are introduced the new procedures and products have the tendency to be *distributed* to other companies; the technology is “a public good”, it does not provoke rivalries (many users can use it at the same time) and trains the exclusivity (the owners cannot stop the other to use it but just in a certain manner). The inventor can keep the exclusivity of his work just for a couple of years. So, the social efficiency justifies the governmental funding for research and development. These social efficiencies imply the reduction of the consumer price, the emergence of some new and superior concepts which offer a competitive advantage and a better living standard.

## **1. The Significance of the Innovation in the New Economy**

At the beginning of the III-rd millennium the concepts “new economy” and “new paradigm” are usually repeated in order to cover a reality from a notional point of view, where the main “constant” is the change. The continuous innovations from the high-tech field as well as the globalization of the markets have modified the economy sufficiently enough for this to be able to operate and to conceptualize it differently. The most obvious feature is the emergence of a new Zeitgeist of the accelerate change both in the knowledge area and in the praxis are. The discrepancy between creativity and the traditional economy

becomes more and more obvious; the perfect competition is the central paradigm in describing the “classical” capitalist economies, but “the invisible hand theory” is concentrated on the production processes, ignoring the “informational” aspects of the work (management, marketing, and research-development). Is this pattern still valid today, when the innovation has become such an important activity and millions of people are drawn into creative activities - creating, designing, and marketing the new products – and is the economic activity dedicated to a great extent to the “creation” of the technical progress?

Joseph Schumpeter’s theory which states that the innovation is the motor of the capitalist development remains no doubt the first theory which is acknowledged by many people as being the most complete one, regarding the role of the technical progress in the economic growth. This theory of the innovation is based on Schumpeter’s definition of the entrepreneur – as the person (or group of people) which has to take commercial decision concretized in the introduction of new products, procedures and systems or in its extension towards new markets or supplying sources. Schumpeter estimated that an innovative entrepreneur represents more a willing manifestation than an intellectual act and that the incredible dynamism of the capitalist society can be explained through a creative leadership. After conceptualizing the process of technological exchange under a linear form „invention  $\Rightarrow$  innovation  $\Rightarrow$  distribution“, form which dominated the economic perspective about the technological evolution, Schumpeter pointed out the most radical investments and gives less importance to the innovations and distribution.<sup>151</sup>

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We think that Schumpeter paid too much attention to the revolutionary inventions and underestimated the purpose of the gradual innovations in the process of the technological exchange. Referring to Schumpeter’s growth, Joel Mokyr has defined the technical progress as any change resulted from the application of the information in the production process, which allows the improvement of the efficiency, so the production of the outcomes with less resources (productivity growth) or the accomplishment of new or improved products. One has to notice that using this information does not necessarily mean using new information. Actually a large part of the growth derives from the distribution of the existent information and not from the conception of new knowledge.<sup>152</sup>

Schumpeter has launched the concept “creative destruction” as an alternative to the “fundamentalism of the market” promoted by Adam Smith; Paul Romer describes the direct production as a process which follows the same “recipe” while the creativity is seen through the creation of some new recipes which will allow for a new, high living standard; but the efforts of creation also imply risks: while some of them will fail, the others will be concretized in new successful products, and will be substantially rewarded.

The companies and the workers whose products are not so new as compared to the new accomplishments will be seriously affected. The asymmetry of the benefits implies the fact that an economy which grants important parts of its resources to the creative activities can enjoy on the whole the welfare – with the cost of increasing the social inequality – rather than a less creative economy.

In his paper “Capitalism, Socialism and Democracy”, Schumpeter formulates a paradigm for the economic theory where the creativity is the main motor of the development and the profits are the gas supply. The essence of the simple capitalism is its capacity to reward the change allowing those which get/develop new products/processes to take the benefits of their own innovations under the form of short run monopoly profits. A competition that is too strong would volatilize these rewards “transferring” them to the consumers

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<sup>151</sup> Joseph Schumpeter, *Capitalism, Socialism and Democracy*, 3d ed., Harper and Row, New York, 1950.

<sup>152</sup> Joel Mokyr, *The Lever of Riches. Technological Creativity and Economic Progress*, Oxford University Press, New York, 1990.

and would diminish the motivation of the companies to create new products. These monopoly profits provide the entrepreneurs the means to finance the creative activities as an answer to the opportunities of the market, to counter-balance the conservatism of the other competitors and the opposition of those that see their markets threatened by the new products and to implement a distribution chain which should make known the innovations a high number of consumers.

Which are the reasons that diminish the change in economy? First the uncertainty associated with the creation, development, acquisition and difficulty to compete against the new products. Creativity threatens the position of the already existing products; the inter-generation competition is a form of the competition, which is part of the “creative destruction” paradigm, where the companies develop new generations of the same product in order to eliminate the competition: the first company which enters the market with a new generation of products can win all the respective market and in consequence the profits (an obvious example are the micro-processors and the operating systems for computers).

This eliminates the profitability of the previous generation and sets the basis for a new “generation” gap which will destroy the profits of the current leader. To be creative also presupposes intrinsic risks; if the new successful products (seen in a broad sense as qualitative improvements newly manufactured) can draw huge profits, others will fail to do that causing important losses for the creators and financiers. There are some constraints for consumers, too – the consumer “invests” in the new products by simply buying these products, he suffers along with the manufacturer as they are morally superseded; the effect is more obvious in the case of some so-called network goods where the value for each consumer is given by the total number of consumers which choose that product. The costs associated with the creativity have always to be balanced with the gained profits. It is difficult to accomplish the commensuring of the values of the new products on a short term; the present enthusiasm, the complementary effects (for eg: the development of the products of the new economy; time is also essential for the market to take advantage of the potential benefits of a creative product).

## **2. The Simulation of the Research-Development Activity in Romania**

In the neoclassical vision, the labor and the physical capital were considered the main determiners of the economic growth. The suggestions of economic policy aimed the growth of the abundance of these factors, respectively the growth of the labor force and of the investments. In spite of these the socialist system did not agree the Western economic theories; it seems that the economic decision factors from our country were strongly influenced by the neoclassical theory. So, at the beginning of the '90s the growth of the population and the physical capital accumulation is not synonymous with the economic growth. The growth of the population does not automatically determine the accumulation of competencies of the individuals and does not lead to the increase of the human capital stock. The investment in the human capital is very expensive before having the right efficiency in accomplishing the economic growth.

Along with the capital, the human factor represents a key element of the knowledge economy. A competitive, knowledge-based economy relies on the abilities of the employees in the research-development sector. These are able to offer innovative solutions for all the problems of the society.

The educational system has to provide a consistent group of researchers, so that they could assure the competitiveness of the innovative process. The quality of the high-education is extremely important for the renewal of the human resources from research and for their connection to the current stage of development.

Even through the reforms from education and their correlation with the requirements from the labor market, the number of graduates from the field of science and technology tends to decrease, and if there are not adopted any measures for the creation of a more consistent demand for the high education graduates, it appears the risk of a vicious circle regarding the human resources.

Education is important not only for providing the labor force from research but also for the entrepreneurship. The innovative behavior of the entrepreneurs can be developed through education in the field of business, in fields as management, marketing, etc. The appetite of the ones that innovate to start the correlated businesses is strongly influenced by their ability to think strategically and to act in a professional manner.

The entrepreneurial environment has to rely on modern management approaches of the businesses as for example the approval of the need and the efficiency of innovation. Although for the moment in Romania there are some factors which may have a positive impact on the growth of the companies, this situation will



change soon. The commercial liberalization will continue to refresh the consumer preferences on the internal market and the higher incomes will provide resources for the development of some sophisticated tastes. The EU integration will determine the growth of the competitive pressure and it is possible that a part of the existent foreign investments to be relocated in the developing countries from the ex-soviet regions or from Asia. The Romanian countries will have to adopt strategies based on innovation in order to survive.

An evaluation of the real priorities in the field of the innovation policies from the period 2000-2006 show that education together with the intellectual property represents the central points. This assumption seems to be the improvement of the regulating frame of the intellectual property and creates the circumstances so that the high-qualified labor market could generate innovation. Unfortunately, the factors which did not allow for this thing to happen are those which have become less attention in that period: the lack of a vision regarding the research-development supply, the awareness of the demand as well as the strong lack of the research funding.

As a consequence of the financial resources which are very limited, the number of researchers went down in an accelerated rhythm up to 2000, reaching to a number of 35094 (37,0 per 10000 employees) in 1995 at 23179 researchers (26,9 per 10000 employees) in 2000, after which the trend started to be ascending, so that in 2006, the number of researchers was of 30122 (35,6 per 1000 employees). One has simultaneously noticed an increase of the average age. The community of the researchers from the research institutes survives by the means of a mixture of national and international financial resources which still remains insufficient for providing them with the sustainable motivation and efficiency. According to the GO 442/2003 regarding the measures to attract, train and maintain the young researchers, there were granted some facilities for the young people between 14-24 years old willing to work in this field, but the measures were too recently adopted so that they could be observed. Between 1995 and 2000 Romania has lost almost 12000 researchers (table no.1). The age average of the researchers has grown because the young talented people prefer other sectors of activity.

**Table no.1. The Main Indices regarding the Research Activity from Romania**

	1995	2000	2001	2002	2003	2004	2005	2006
Total number of researchers	35094	23179	23597	24636	25968	27253	29608	30122
Researchers/10000 employees	37,0	26,9	27,6	29,6	31,3	33,1	35,3	35,6
Expenses for research-development projects, of which *	543556	264768	404841	499045	673211	861256	1040367	1319247
- fundamental research	72540	46083	83644	103213	170755	200083	248578	512842
- applicative research	374510	163622	252400	281282	391634	499687	680300	672793
- experimental development	96506	55063	68797	114550	110822	161486	111489	133612
-public property		196977	300724	372971	507055	631372	688166	956940
- private property		67791	104117	126074	166156	229884	352201	362307
Source: Romanian Statistical Yearbook 2002 - p. 230, 2005- p. 462, 2007- p. 485, 489								

\* Thousand lei current prices

The human capital represents one of the motors of the development, both at a social and at a community level, but also at an individual level. From here on in the context where the investment of the individuals in high education is reduced, representing a less frequent act than in other countries, but also reduced as a frequency in the assembly of the Romanian society, a strategy focused on the development of the educational capital constituted an attitude of active adaptation, oriented towards growth. The widely used

classification divides the components of the research system in: research institutes, research departments inside the universities, companies having as a main activity the research and research departments of some companies.

The main theoretical classification divides the research activity in fundamental and applied research, but this does not overlap with the taxonomy of the financing institutes or instruments used in Romania. In spite of these, the closest classification is the one given by the National Statistics Institute (NSI), according to which the expenses for the research and development projects were distributed in 2006 as it follows:

- Fundamental research – 38,87%.
- Applicative research – 51,00%;
- Experimental development – 10,13%;

Because the research and development activity is still concentrated in the public sector (more than 70% from the research and development activity), it is affected by the bureaucracy and specific lack of initiative (also reflected in the weak marketing activity), all these reducing its capacity to obtain competitive results on the market. In 2006, the percentage of the private sector in the total research and development expenses was of 27,5%. The statistical weight of the private sector is reduced because the benefits associated with the results of the research are weak. There is no market which could turn into profit the results of the research; the competition from the developed countries is too strong that the Romanian companies from this field could find a place on the European or international market. Moreover, many young well-prepared people prefer a certain, consistent wage at a foreign institute, rather than the risks associated with the entrepreneurial activity from Romania. We think that the statistical weight from the private sector may grow by accomplishing some partnership activities with companies and institutions from abroad which could subcontract certain stages of the research project. Such an arrangement is difficult to put into practice because of the fact that the research is seen as a strategic field which can provide the supremacy of a country of the international scene.

The Romanian research system is old in what the structure on groups of activities is concerned; so most on the research (almost 35% from the total expenses for research) correspond to the technological and industrial research. A reduced part of the funds is destined for the computer-based activities and communication activities. The infrastructure from the old system does not help very much. There are some research institutes perform the same activity in different towns which sometimes approach the same research theme, while the complementary institutes are far away from one another. We think that it is necessary to build scientific parks around the universities or some well-known institutions, where the scientific activity may be accomplished.

The structure of the research and development system is varied in different fields, which represent a development opportunity but which in the context of the very low budget is translated through a dissipation of the available resources. Instead of giving them the right priority, the money from the state budget is divided between a very high number of projects, sometimes affecting their possibility to obtain notable results. Together with the public or private research institutes, the companies represent real vectors for the creation and distribution of knowledge. At the level of the Romanian enterprises the research activity is much reduced because of the sub-capitalization and lack of funds. In the restructuring process of the state enterprises, the research departments were among the first to be abolished and the private companies focus their funds on investments in increasing the production capacity, geographical extension and to qualitative aspects.

Romania is still a destination for the subcontracting activities which quite far from the production frontier. Multinational companies transfer in a certain way the technology, but less know-how in research and development, because these activities take place in their headquarters. Again, the exceptions are to be found in high-tech fields and telecommunications. Companies as Oracle, HP, Siemens, Alcatel have created centers that produce knowledge (software products, computer applications and complex telecommunications). One can say that up to the present, Romania has not succeeded to transform the competitive pressure resulted as a consequence of the open economy in an incentive of the local innovation. The change starts to happen again but the sector differences are very important.

Taking into consideration the contribution of the research, development and innovation to the growth of the productivity, economic performance and attaining the social objectives, it is generally known that the governments have a purpose in encouraging them to make the necessary expenses in order to attain the

desired level of research and development. Regarding the research-development from the private environment, the national authority may use fiscal incentives, subventions, patents and other instruments in order to increase the investments in research. In Romania this type of aid is limited to the regulations specific for the state aid, which are taken over by the *acquis communautaire*.

We think that in Romania the research and development activity has to be correlated with the current stage of the economic development. In this sense Romania does not have to investigate the current problems at an international level; it is necessary for our researchers to learn the methodological instruments used on an international level and also to manage to understand the existing technologies from the developed countries. It is necessary to build a technological infrastructure, a stock of knowledge which can represent the basis, the starting point for the future complex investigations. The alignment of the Romanian objectives with the problems of the Romanian society can be found in research themes, as for example: the improvement of the rural infrastructure, the growth of the living standard, implications of the accession to EU.<sup>153</sup>.

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<sup>153</sup> This problem is also outlined by other economists and analysis of the sub-development phenomenon. M. Torado shows that the researchers from the poor countries are engaged in sophisticated, research projects which are not relevant for the economic development. *Economic Development*, 7<sup>th</sup> Edition, Addison Wesley Longman, 2000

# THE ORGANISMS OF EUROPEAN STANDARDIZING

**Franca Dumitru**

*Universitatea de Vest Timișoara, Facultatea de Științe Economice, Timișoara, str.Orșova, nr.19, bl.112, ap.14, email: francadumitru@yahoo.com, telefon:0728013463*

***Abstract:** The EU' essential politics follows the keeping of the unique market and it is beneficial to the countries which are in process of integration and newly entered in EU to understand and work after European principles. The countries that wish for the fastest integration must have a special interest in the principles of European normalization. These represent the basic elements in a system, which includes, among others, the evaluation procedures of the conformity and supervision of the market.*

*The European Community and the member states deliver considerable technical assistance to countries in process of integration in order to help them line their technical regulation, their standards, the structures of evaluation of the conformity, procedures, the quality of products and services at the European Community's demand. The assistance offered is done in conformity with the situation and the level of development of each country.*

**Key words:** European standardizing, European Community, EU

The European standards have had a decisive role in building the internal market of the EU, helping in the elimination of technical barriers created by the differences between national standards. The great advantage of the uniform utilization of European standards in the EU and the European Economical Zone leads to the elimination of a multitude of technical national different models.

European standards have been helpful to the governments too, which used them in order to harmonize the regulations concerning the consumers' protection and health, for products that circulate inside the market.

The European Committee plays a very important role in European standardizing.

The organisms of European standardizing are:

1. CEN
2. CENELEC
3. ETSI

## 1. CEN

CEN is the European organization of multi-sectorial standardizing which is active in all areas, except for electro technique and telecommunications. CEN represents an important provider of European standards and technical specifications. It is the only European organization acknowledged, according to Direction 83/189, for planning, preparation and adoption of European standards in all areas of economical activity, except for electro technique and telecommunications. CEN has a specific responsibility in consequence of The New Approach to define technical details of standards in connection to the European legislation.

CEN is an international association governed by Belgian law. CEN consists of the following members:

- National members of CEN (national organisms of standardizing, which have the power of final decision inside CEN)
- CEN Associated Organisms
- Associates of CEN (represent groups of interests at European level – ANEC, NORMAPME, FIEC, CEFIC)
- Affiliates of CEN (national organisms of standardizing in Central and Eastern Europe which wish to become members of the CEN)
- Corresponding Organizations
- The Management Center of CEN

Organisms which have the power to determine and implement CEN's actions, as:

- General Assembly
- The Administration Council

Organisms which provide the infrastructure of operational activities of CEN:

- Technical Committees
- Work Groups

Providing an efficient infrastructure for the development, maintenance and distribution of some coherent packages of standards and specifications;

Flexibility for the demands of the market and society;

The integration in the production terms solicited by the market;

The conformity with the legislation in force;

The capacity to serve as basis for the evaluation of conformity;

Substantiation on opening, transparency, consensus and coherence;

Offering products and services which are directly bounded by standards and utilization of standards CEN politics in which CEN is concerned in European and international standardizing represents:

- The priority of collaboration with ISO and providing the conformity of international standards with legislative and European market's demands.
- Providing an European platform in order to achieve a coherent position at international level (with The World-wide Commerce Organization)
- Respecting individual responsibilities of each ISO member and coordination of national contributions to subjects of vital interest for Europe.
- Maintenance of the agreement from Vienna with ISO or of some equivalent agreements as instrument of work. The achievement of coherence in European standardizing, in which the legislative demands of CENELEC, ETSI, and CE/EFTA are concerned.
- The development of cooperation with other regional organisms of standardizing and with the countries in process of development, according to European politics.

## 2. CENELEC

CENELEC is the European organization responsible for standards in the electro technical area. CENELEC means The European Committee of Electro Technical Standardizing. It was founded in 1973 as a non-profit organization and officially acknowledged as Organization of European Standardizing through the Direction of European Committee 83/189/EEC.

CENELEC was founded in 1973, as a result of the extension of the unique market to Denmark, Ireland and Great Britain. It was the result of the fusion of two organizations: CENELCOM and CENEL. Presently, CENELEC is a technical non-profit organization founded according to the Belgian legislation and it consists of the technical committees of 20 European countries. Plus, 15 national committees from Central and Eastern Europe participate in CENELEC's works, under the state of affiliates. Their objective is to achieve the quality of member with full rights of CENELEC. CENELEC's mission is to prepare electro-technical standards, which will help at the development of the European unique market for electrical and electro-technical products by removing commercial barriers, creating new markets and reducing the costs of standards adoption. CENELEC's standards are acknowledged and used in the 15 affiliated states. As a result of The Agreement of Dresda signed with IEC, for which CENELEC adopts international standards as many times as possible, CENELEC contributes in opening to non-European exporters, with the same advantages as European producers. The result of the Agreement of Dresda is that the majority of CENELEC's standards are also international standards, acknowledged, consequently, outside the European territory. CENELEC takes into consideration the producers' opinion and the contribution, settling connections with these through official agreements of collaboration closed with 31 industrial associations. These partners can offer advice and establish priorities for standardizing, can propose and offer the expertise over the legislative consequences and the new standards.

### 3. ETSI

ETSI is the European organization which activates in the telecommunication area.

ETSI (The European Institute for Standards in Telecommunications) is a non-profit organization, which mission is the production of standards for telecommunications, which are used on the European territory and outside it.

Having the residence in the South of France, ETSI reunites 786 members from 56 countries, in Europe and outside Europe, representing the administrations, network operators, producers, service providers, organisms of research and utilisers. The members, who have the responsibility to approve elaborated standards, decide the working schedule of the Institute. Consequently, the ETSI activities are perfectly lined to the market's necessities, desired by its members. ETSI is an organization, which works after the market's rules; its members, who represent the industry, decide the working schedule and the allocation of necessary resources. ETSI has an important role in the development of a big variety of standards and others technical documentations in telecommunications, data transmissions and IT. The main object of ETSI is to support the global harmonization, by providing a forum in which the main actors can actively contribute. The European Committee and the EFTA secretariat officially recognize ETSI. By international collaborations, ETSI will follow the object's fulfillment of developing standards, which are practical to a global level, also supporting the regulations and undertakings of UE and EFTA. The object of the institute is to produce and maintain the technical standards, as well as others documentations required by the members. As an European organization of standardization, this object will be realized so that it will be supporting the competition on the European market of telecommunications. ETSI is governed by its layouts, which involve status and procedure rules.

ETSI has the role of following:

- The initiation of a continually process of revision, in order to consolidate the ETSI orientation to new standardization domains (m-commerce, IP technologies and services, e-Europe initiatives, etc.).
- The assurance of the necessary measures to consolidate the ETSI position as Standardization Institute of first class, developing standards of international importance which is willing to initiate international co-operations of all kinds, especially for global solutions of standardization.
- The operalization of the ETSI activities for the Internet (e-standardization)
- The definition of the internal activities as a result to the external developments and trends.
- The development of standards and documentations with global practicability, obtained by global collaboration and attending international associations, without ETSI becoming an organization of global standardization.
- ETSI must accomplish the demands of its members, respecting therewith the relevant politics of EU and EFTA.

### **International organisms of standardization:**

#### *1. ISO*

The role of ISO has evolved in the first 50 years of existence and it will continue this process in future. By the decisions of the Council, ISO has answered all its members' wishes, which result from the markets solicitations: in this way, ISO has developed new products which would satisfy these necessities.

The international standardization has started in the electro-technical domain: the International Electro-technical Committee has been fond in 1906.

When ISO has been fond in 1947, the main object was to assure recommendations towards its members, to the harmonization of the national standards and in the first 25 years of existence the results of the ISO activity have been published as ISO Recommendations.

AT the beginning of the '70 ISO started to publish the international standards, in an oportune moment, regarding the exceptional expansion of the international commerce, which followed. At the beginning of the '80 has been accepted the fact that the ISO standards had their own validity on the market, appearing

the first signs of the markets' globalization. There have been cases when it was solicited that ISO should develop standards on specific themes, which meant a moving off from the initial mission, the one of harmonization of the global standards.

ISO comprehends a network of standardization institutes from 147 countries, based on a member from each country, having a general secretariate in Geneva which co-ordinates this system.

ISO is an non-governmental organization, whom members are not deputies of the national governments, like in the case of the United Nations. However, ISO occupies a special position between the public sector and the private one. Consequently, ISO can act as a connection organization where it can get to an agreement based on some solutions which not only answer to the demands of the business environment, but also to the group of users.

ISO contains standardization institutes from big or small states, which are industrialized, and are in train of developing or in transition, from all the regions of the world. ISO is developing standards, which must be congruent with the established demands of the market. Experts from the industrial sectors, business or technical sectors which have solicited those standards and which they will apply realize this work. Those can also join other persons cu the relevant expertise, as well as the reprezentors of the governmental agencies, educational institutes and testing labs.

The main concepts, which substantiate the operational model of the ISO, are Valoare N Parteneriat N Optimizare.

## 2) IEC

IEC is the international organization responsible for the standardization in the electro-technical domain.

The IEC Objects are:

- the efficient accomplishment of the demands of the global market
- The assurance of the priority and the maxim utilization at an international level of the standards and schemes of evaluation of the conformity.
- The evaluation and the improvement of the products' quality and services covered by standards
- The assessment of the conditions of interoperability of the complex systems.
- The efficient raising of the industrial processes.
- The contribution to the improvement of the health and safety of the population
- The contribution to the environment protection

## *Standards*

The international standards of the IEC facilitate the commercial exchanges at an international level, by the elimination of the technical impediments, succeeding therefore in creating new markets and economical raising.

The IEC standards have a major importance, because they represent the essence of The Agreement of the World Organization of Commerce on The Technical Impediments in Commerce, where more than 100 members of the governments recognize the very important role of the standards on improving the efficiency and developing the international commerce.

## 3) ITU

ITU represents the international organization, which operates in the standardization of the telecommunications. The three sectors of the Union N radio communications (ITU-R), the standardization of the telecommunications (ITU-I), and the developing of the telecommunications (ITU-D) N work nowadays to built and influence the networks and the services of the future. Those activities cover all the aspects of the telecommunications, from the establishment of standards to the facility of the interoperability of the equipments and the systems of a global level, until adopting the operational procedures for the variety if offered services.

The ITU activity has assured the essential base which has facilitated the raising of the telecommunications' industry to a global value of one trillion USD.

Each of the three sectors of ITU act by conferences and meetings, where the members negotiate agreements which are used as basis for the operation of the global services of telecommunications.

The international standardization, European and national all are complementary one with each other. The activity of national standardization is complementary to the process of European and international standardization because the national standardization is aware of the national and local particularities, including those geographic characteristics, cultural and linguistic. This consolidates the capacity of the European and international standardization process to be aware of the local interests and to promote a large participation of all those who are interested. It is important that the national standardization system to assure an effective participation of all interested parts and to reflect the national position.

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# EUROPEAN UNION INSTITUTIONS

**Franca Dumitru**

*Universitatea de Vest Timișoara, Facultatea de Științe Economice, Timișoara, str.Orșova, nr.19, bl.112, ap.14, email: francadumitru@yahoo.com, telefon: 0728013463*

**Abstract:** *The European Union is an economic political state, of security and of defence, community composed from 25 states members that achieves conjointly a series of specific tasks by dint of the community politics and programs. EU is through nature and his structure an institution sui-generis (unique, which didn't existed till now). EU is an international organization and in the same time is driven by dint of supranational institutions, to which the states member delegate a part from sovereignty and power of decision in its own internal business. For a good function of UEM it is necessary an efficient cooperation between different institutions of the EU.*

**Key words:** *European Union, economic, community, institutions*

EU owns today some from the attributes of a state - institutions with executive legislative juridical powers communes, the unique coin, flag, hymn - and even of a politic system - politic European parties, groups of lobby, nongovernmental organizations, and the finality towards shall evolve EU in the future - a federation of states or an intergovernmental structure - is one of the main subjects of theoretical and practical debates concerning EU.

With a population of approx. 450 millions of persons and Gross Domestic Product (GDP) for approx. 10.000 milliards euro, EU is today the second economic power from the world after US and one of the most important actors in international political and security relations.

The Union flag represents a circle with twelve golden stars on blue background. The politic system of European Union is defined of a series of European treaties. The last among these treaties is the Treaty to establish a Constitution for The Europe. The current and future treaties assign for the politics of European Union a series of institutions. The politic system resulted from these papers reflect through his structure the democratic principle of separation of the powers in states in the legislative executive and juridical power, and in what it concerns the legislative process follows the principles of subsidiarity and proportionality.

The institutions of the European Union are:

- The European Committee
- The Council of the European Union
- The European Parliament
- The European Council
- The European Court of Justice
- The European Court of Accounts
- The Economic and Social committee
- The committee of the regions
- The European Ombudsman
- The European bank of Investments
- The European Central bank

The committee is the first supranational organism from the frame of EU. The committee is composed from 25 of members, proposed by the cabinets of the states member and elected on a period of five years. The European parliament gives the agreement for their choice. The commissaries don't deploy the activity on behalf of their country of origin, having to involve detachedly, in the sight of the accomplishment of the communitary objectives. The committee must elaborate proposals in the sight of the development of the communitary politics. The committee follows the way in which are applied the specified dispositions in the treaty as well as the decisions taken of the EC organisms, having the possibility, in the case in which finds certain informalities, to appeal to the European Court of Justice. The Council of the ministries is the

most important organ of decision of EC. This decides considering the suggested laws by the Committee, in collaboration with The European parliament. In this kind were taken decisions as part as Community since from the beginning. The members of the Council gather depending on the politic area in discussion in different composition, see the Ministries Council for Agriculture, the Ministries Council for Environment.

The Council secretariat is composed of approx. 2500 persons, which activates within the frame of a six departments. Its tasks are firstly of administrative order: Preparation of the work agenda, the elaboration of the reports, the translation service, the verification of the problems of juridical order etc. Another feature of this organism represents the diversity of the activities of CEE from its establishment. The political areas, being in the incidences of different Councils of specialty, bear an autonomous life, especially from two reasons:

6. At the level of the states members it renounced more and more at the principle of coordination. This fact indicates how much the politics missed at the level of the states members the statute of the external politics in comparison to EU.
7. Secondly, with the crossing to the principle of the qualified majority it felt the necessity to arrive at an agreement through the adoption of such "package deals".

The European parliament (EP) is the first organism at supranational level. EP is different from the national parliaments. The competences and the EP in the frame of the Community were in a permanent change, still from the establishment of CECO, this becoming more and more influential. Other modifications appeared also after the entrance in operation the Treaty of Nice. The role of EP is composed in suprastatal factions, as example, from the faction of the European Popular Party and of the European Democrats (EPP-ED), that with the 279 of its deputies, represents to the current moment the most strong faction or the faction of the European Social Democrat Party (ESP), with 199 of deputies. In the same scheme you can find out how many deputies come from a certain country. An importance extremely big for the activity of EP and of its sphere of influence are the 20 of Permanent Committees. The parliamentarians, elected on a period of five years and which deploy their activity in one of the Committee, must take possession a substantial amount of information from the specialty selected area. Thus, they can follow and verify the activity of general directions of the Committee and of the different Councils of Ministries of specialty, being endowed with the power to influence this activity – in a bigger measure than seems to permit the formal competences these ones. The importance in this sense is also the relation of tight cooperation with the services of the Committee, as well as with the national and transnational associations.

## **European Council**

The European Council is an institution with important functions of management, which are founded above the three pillars, which engage them.

While the Ministries Council was specified still from the beginnings in Treaty, this thing it is not available also for the European Council. This one came into existence along with the meetings between the state and government chiefs, members of EC, which had place beginning with 1969. Its role was established with more accuracy through the European Unique Act (EUA) from the year 1986. The Maastricht treaty has taken the forecast EUA in this regard, confirming the Council in its function of motor force of European unification and of the join of some distinct areas. To the Council even with the competence to formulate lines for Occidental European Union (OEU). The European Council interferes also when, in the frame of some specific areas, the responsible ministers of these activities cannot arrive to an agreement, being thus necessary the adoption of some general "parcels"(package deals). The European council, interstate component of the European Union has grown in importance during the last decades. Its power of influence followed to become even bigger with the introduction of a new Constitution, which the passed with failure after the negative votes obtained from the referendums from France and Holland.

## **The European Court of Justice**

The European Court of Justice (ECJ) has like The European parliament (EP), a name with we are familiar from the context of similar institutions from the level of the national states. ECJ is the conductress of the communitary right observance. Among its competencies we count the settlement of the conflicts between the member states, between Union and the members states, between the organisms and institutions from the European Union, as well as between physical persons and Union. Judges from the courts of justice from the

frame of the national states address to ECJ in the case which the problem in question has tangents with the community law.

There are two methods to invoke ECJ. The first of them, by dint of such preliminary procedures, that permits to the national courts of justice to address to ECJ for the interpretation of some appearances from the frame of the community law, of which they lack in taking decisions in their cases, and the second method is by dint of the direct petitions.

The different influence of ECJ results from the activities undertaken in some specific areas. The European Court of Justice constituted a motor force of decisive importance in the direction of the super nationality, enforcing, among others, the principle of direct effect - that is for each citizen of EU, without the intermediate of the state of which this belongs - of the right EC, as well as the community right supremacy about the national law. ECJ had a different impact over the material politics, enforcing for instance, by an extraordinary decision, the principle of reciprocal recognition of the standards from the states members, that came to substitute the one of harmonization of the norms and the standards, a difficult process that lasts too much, offering such important premises for the creation of the project for an internal market.

ECJ in comparison of some national Constitutional Courts extremely influent as the Supreme Court in US or German Federal Constitutional Court, disposes of a power much stronger, giving decisive impulses for the process of integration. The role of ECJ, as well as the juridical system strong influenced by this one counts certainly, from view of the "super nationality" EC, a factor which distinguishes from the others international organizations.

## **European Court of Accounts**

Found in 1977, the European Court of Accounts had got the status of institution of EU only in 1993 (when the Amsterdam Treaty was enforced) and represents the "financial awareness" of the Union. Its role is to control the financial aspects of EU, more specific the legitimacy of the actions of the common budget and its relations with the annual program of its management. The Court makes this type of annual control and elaborates a report which is given further on to the European Parliament (and which serves to the budgetary download of the Comity). The Court of Accounts is independent regarding the other community institutions and is fully free regarding the organization and planning of its audit activities and of report. The Court is constituted of 15 members (independents and with experience in public financial audit). The Court of Accounts can't offer sanctions in the case of discovering mistakes, but only inform the competent community organs.

## **The Economic and Social Comity**

The Economic and Social Comity is a consult organ, found through the Rome Treaty (1957), which reflects the involvement of the civil society in politic life and which represents the most important groups of interest from the economic and social domain. CES is constituted of a 222 members – from union representatives to consumers and ecologists.

The role of CES is:

- to offer advising to the Parliament, council and committee in the process of taking a decision
- to assure a greater involvement of the civil society in the European initiative and to promote social dialogue
- to enforce the role of the organization associations of the civil society in the non-member countries of the UE

Through its component and domains of activity CES activates as an European forum of reflection for the organizations and associations of the civil society, being, in the same time, a bridge between CES and UE. The domains in which is CES consulted are represented by: internal market, education, consumers protection, environment, regional development and social business – the last on specific problems, like taking over the work force policy, public health, odds equality etc. As well, CES can issue opinions from self initiative.

# The Institutions of European Union

## *Regions Committee*

The regions comity is the newest community institution and it was found through Maastricht Treaty (1992), as an answer to the request of the local and regional organizations to be represented in UE. CR is constituted 222 members of local and regional authorities named by European Union Council for a period of four ears and which evolve its activities exclusively on the proposal came from SM.CR is an consultative organ, which opinions are asked and taken in consideration by UE council, Parliament and 28 comity, in the domains which interferes with local and regional interests – as: education, young people problems, culture, health, economic an social solidarity. Its role had been extended when the Amsterdam Treaty was enforced, among its areas of expertise, being numerate now and the environment problems, Social Found, professional formation, over the border cooperation, and transportation. As well, CR can issue opinions from self initiative.

## *European Bank of Investment*

Financial institution of UE, found on Roma Treaty, European Bank of Investment sponsor a project which leads to the realization of Union's objectives in Europe and all over the world.EBI is an organism with juridical personality and financial independence and has the center in Luxemburg. EBI stockholders are SM of Union, the bank being administrated by a Council of Governors, constituted of 15 chancellors of the exchequer. The responsibilities of the Council are: established the credit policy, balance approval and annual report, financial operations authorization from outside the Union and taking the decision regarding capital raise.

## *European Central Bank*

European Central Bank - situated in Frankfurt – was found in 1998 and it is responsible for the monetary policy of UE. The main objective of ECB is assuring the price stability, so that the value of the unique coin (euro) maintains and the European Economy doesn't be affected by the inflationary process. Monetary policy has the role to support others politic objectives established on the community level.ECB is administrated by a president and an executive council, which maintain a tight cooperation with National Central Banks of SM which acceded to the Euro zone – composing the European System of Central Banks, or Euro System.

The objectives of this system are:

- defining and the implementation of monetary policy of the Euro zone
- evolve of the external operations
- keeping and administrating the member state reserve
- promoting an efficient system of payment

The European Central Bank has replaced the European Monetary Institute.

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# INDIVIDUAL AND ASSOCIATIVE PROTECTION OF BANKING SERVICES CONSUMER IN THE RELATIONSHIP WITH NATIONAL AND COMUNITARY BANKING INSTITUTIONS

**Gheorghe Carmen Adriana**

*Universitatea Transilvania din Braşov, Facultatea de Drept și Sociologie, Bd. Eroilor nr. 27 Braşov, carmenghe2003@yahoo.com, 0747.223.307*

**Laura Mureşan**

*Universitatea Transilvania din Braşov, Facultatea de Drept și Sociologie, Bd. Eroilor nr. 27 Braşov, lauramureshan@yahoo.com, 0722.516.412*

*Abstract: In Romania, a bank-customer term is punctually (for a brief period) built and not for long term. The customers are looking for the best alternative, especially for a crediting product. The customer-bank relationship should be built in time and, firstly, should depend on the way in which the bank has succeed to be responsible for every client needs – payments, bills, banking transfers, banking deposit, credits, cards etc. In the advanced countries, a customer prefers working with the same bank his entirely life.*

*Key words: bank, banking law, customer, protection, national institutions, comunitary institutions.*

## **The Banking Services Client- a New Concept of Banking and Business Law**

Nowadays we are talking about the client banking services consumer, a new concept, recently introduced in Romania, in the same time with integration into European structures, including the banking one. On the other side, banks' offers are so closed, that the major criterion of decision should be, first of all, the bank-customer terms, rather than the financial genuine product.

The achievement manner of a stable relationship and on equality postures between bank-client/customer it' an objective consistently and very carefully pursued by every bank in the world.

The present research has as purpose the problems approach from customer-bank viewpoint, because, it seems that, in Romania of our days, the bank is situated in a higher position given its client and, therefore, it has been imposing its services, rather than offers. Moreover, it is desirable that a customer/banking services consumer can protect himself in the relationship with banking institution both through a well knowledge of banking field and through associative forms that allow the practising of citizens fundamental rights at another level.

## **Situation on the National Plane**

Romanian client is not very loyal, he does not hesitate to buy from more places, looking for better circumstances – a lower interest for credits, a higher one for deposits, a card with less commissions, for instance. This situation is typical to Romania. In western countries, the clients, physical (private) persons achieve the most of their banking operations with a single bank, and this relationship has a long-term stability. On the other side, in the same time with spread of banking market retail, the number of complaints, because their less quality or not-fair services, is twice more.

According to a test realized for Banks Romania Association (B.R.A.) by a consulting team under the patronage of World bank in 2008, the banks could record 10.000 complaints, from which over 90% are concentrated at the three most important banks in Romania. Most of complaints are related to cards' transactions; swindles, wrong operations not justified shutting of accounts. The object of the third part of complaints consists in credit agreements while the problems with cards transactions at bankomates represent another 8% from the complaints sums.

A major problem between banks and customers is the duration for a complaint solving, which may surpass one year for the third part of complaints, while less than 3% are solved in only a month. Taking account of these results, B.R.A. is going to bring on the Romanian market the institutional pattern of ombudsman, which will support the clients free, to solve the various complaints at which the banks cannot properly

answer. The final target: protection of customers' rights, thus all the banks become able to respect the best practices, being forced to obey of the independent arbitrator decisions. The institution would function on the basis of complaints received from the clients, that it would check, after that, depending on situation, to investigate the case, to reach to an intermediation between bank and customer, and to a final solution whether the two involved parts do not reach to a mutual agreement.

The clients have a subordinate position in their relation with the bank, when the financial culture is still low, and the products and services degree is more and more sophisticated. If an arbitrator (mediator) would exist, the public will have more trust in banks and these ones could rectify their miscalculations in a friendly manner which not end with a client lost, but will lead to the relation improvement. This kind of institution has been working in Greece since 1999, when between banks and clients has been settled a negative climate because of bad quality of services and that atmosphere was representing a continuous risk for the entire system reputation. In 2005, from 980 of accepted cases, 83% were been solved in clients' advantage. Last year, the institution received 8000 phone complaints and 5.400 in written.

The objective for us is to introduce (accustom) the Romanian banking market with a new concept in the customer-bank relationship based on partnership idea.

Another aspect of current stage of this problem refers to the fact that many banks clients from Romania suffer because of bad trained employees of certain banks, which give them wrong information. There are many persons in such situation, especially those ones registered into the database of Credit Office, having no information about the existence of any kind of debt. Since it has been efficacious, august 2004, the database of Credit Office contains 3,8 million of registered persons, most of them based on negative information received from the banks. Anyone who has a debt towards to a financial institution bigger than 10 lei and older than 30 days is reported as debtor.

There are sites like the New FinZoom – More closer of the Consumers, preoccupied by the need to inform the citizen about his terms with the bank. A new version brings the Index DAE for the Credits with mortgage which help the consumers to see the market tendencies and to orientate themselves on their choices based on history. The site makes another step towards a direct and practical approach of consumer's education of financial product by (re)launching a new section: Ask the Expert, Add Comments, Advice, Frequent Questions, Financial Dictionary, Search, Your Suggestions, Financial News, Promotion, FinZoom Novelties. More, new search and filtration criteria for financial products have been implemented as a result of observation in due time of the most frequent additional questions in financial consulting activity FinZoom.

This research proposes to encourage the consumers to inform themselves about the whole financial offer available on Romanian market before a decision. Through its activity, the objective of the research team is to build steps towards an evident financial environment and strongly rival, too, that will advantage every time the consumers by competitive products, better conditions and lower costs.

In Romania, a preoccupation for the improvement of bank-customer relationship was tried to be achieved by N.A.C.P. – National Authority for Consumers' Protection, that has proposed to fine the banks that cheat their clients and resort to incorrect commercial usage concerning the interests' granting and their immediate changing. These banks risk fines between 3.000 and 30.000 lei. Thus, there are banks that, for attract clients, offer a lower interest, that increases after two moths, in the basis of stipulated riders, on the reason that this increase was established by market evolution. In the same time, the respective bank offers the initial interests to new customers, for attract them. This is a not-fair usage, at which, unfortunately, many banks resort to, because every consumer, not only the early ones, should be influenced by the market increase.

## **The Legislation Role**

The law concerning the fighting against incorrect commercial usage no. 363/2007 is operative starting with this January and it as applicable form the beginning of February. The normative paper, awards to N.A.C.P. the ability to punish the betraying publicity, the aggressive one, the false free offers, the consumers mislead by trap-advertising. The standard document charges both a wrong information and the commercial usages and the betraying and aggressive publicity. The N.A.C.P. inspectors have already requested the agreements patterns from the commercial banks branches (Iași) to verify if there are abusive or indistinct riders. Mostly of the consumers do not understand the contract riders because a typical, sophisticated language is used. The riders must be distinct, to offer every required data. According to the new law, there is no need to

demonstrate the consumer's damage. The physical persons, consumers associations, and the rival economical operators too, may complaint against commercial banks. On the other side, it's one of the first normative documents in which it is talking about a behaviour code, defined as the agreement or rules ensemble that is not imposed by legislation or administrative orders and that defines the merchants' behaviour which pledge to respect it concerning one of more commercial usage or to one or more activity domains. The new standard document makes also supplements at Law no. 289/2004 as concerns the judicial system of credits contracts for consumption meant to consumers, physical persons. The law transposes the European provisions contained in Directive no. 87/102/CEE from the 22th of December 1986 to harmonise the legislative and administrative stipulations and the settlement concerning the credit for consumption, subsequently modified.

Another discussed question is the introduction of an optional product, simplified, standardized, such a basic banking account, that may facilitate the access to retail financial services for penniless consumers. This idea came up against obstacles from industry, which sustains that in this way the competition and innovation are impeded. As concerns the consumer's protection and information, to increase his trust, the Commission is searching for ways to protect them and to ensure the financial health of companies that offer retail financial services. The Commission sustains that different rules for consumer's protection of each country member represent a significant obstacle for financial services market, and thus, is sustains the adopting of some harmonised settlement to protect the consumers.

Even this, the consumers groups oppose to these protection rules, sustaining that the local legislative men are the most suitable to solve this problem. The Commission Consultancy has found that the consumer's education and programmes for financial training are ways to educate the consumers and make them more sensitive. The Commission wants that the consumers have a more financial education and to improve the transparency of available information, which may be achieved, by education and school curriculum, for instance. On the other side, the consumers groups warn these objectives achievement by a qualitative protection and informing. The industry warns about a possible informational overcharging of consumers, while the users groups ask high degree information, in a clear and simple language. Another problem related to the relation between services supplier and the consumer was the ascertaining of part which offers retail financial services and of that one who is obliged to inform the consumer; their possible superposition may create an interests conflict. The inspector for Internal Market, Charlie McCreevy, which is responsible of proposition, has declared: We want to create a unique market of retail financial services and to make perceptive improvements for European consumers. The socialist Europarlament (ary) men and speaker for Parliament response at Measures Plan in Financial Services (FSAP), Ieke van den Burg, has mentioned that the Parliament was more sceptical in what is concerning the market opening of retail financial services. She has warned the Commission that they should not neglect the consumer protection tradition through a <universal> approach, sustaining that the trans-frontier access doest not represent a simple purpose. Matthias Bauer from Raiffeisen Capital Management (RCM) and chairman of EFAMA (European Funds Association Management), thinks that for a consumers' better protection, the information should come from superior level and clearly formulated for everyone. The official of consumers' association, Guillaume Prache (FAIDER) has stated that the information must come in the same shape to give the consumers a possibility to compare the offers from the whole Europe. Andrew Smart, chief of financial risks department in Zurich Financial Services and member of ABI (Association of British Insurers), has mentioned that the information excess max constitute an obstacle for financial services consumers, sustaining that less max mean more. The General secretary of European Banking Federation (EBF) Guido Ravoet has declared: We firmly believe that any European policy related to consumer's protection must rely on uniform guiding principles, unlike the current ones, which are opposite to consumers' needs, for going beyond the divergent national settlements. On the plane of jurisprudence, the French Court of Cassation, commercial department, through the decision of the 14th of December 1966, published in *Revue trimestrielle de droit commercial et droit des affaires*, 1966, p. 375, was passing in this respect: *if a client trusts to the bank shares in order to manage (administrate) them, the bank must inform him about the events that may influence the course of these shares in order to this one can decide if keeps or sell them.*

## Conclusions

This paper is a part of an extend research has purpose to information gathering about bank-customer/consumer terms in specialized literature, articles, mass-media, to make the informative materials made at clients service, agreements models, European Community sites (banks from countries with

tradition in banking services, para-banking institutions), because 2007, the Romanian citizen may be informed also in other manners, borrowed from European institutions. The economical analysis will be focused on a research as concerns the number of clients from European Union countries, of those which appeal to one or more banks, of requested services category, of discontented customers, of those ones who go to law with banks etc.

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# THE IMPACT OF THE CONTROVERSIES WITHIN THE CONTEMPORARY WORLD ECONOMY ONTO THE REGIONAL ECONOMIC INTEGRATION AND INTERNATIONAL TRADE

Giurgiu Adriana

University of Oradea, Faculty of Economic Sciences, Contact address: Universitatii str. 1, Room D405, post code 410087, Oradea, Bihor, Romania, E-mail: agiurgiu@uoradea.ro, Telephone: +40259-408109 or +40259-408422

**Abstract:** Following the new position of Romania as a member state of the EU, I consider it imperiously necessary knowing and approaching the problem of the nowadays phenomena the world trade and the world economy are confronting, EU according to today statistics being in the top of world exporters and on the second place as importers. It is for this fact obvious, because of belonging to this integrationist group, EU position and strategy in approaching international trade relationships to have a major impact on our country's trade orientation. In this context, taking into account the fact that economic integration represents a main component of globalization and that Romania wanted, since 1990, to be reintegrated into the international trade, theoretical globalization approach was felt necessary, as well as describing the impact of the present controversies within the world economy onto the international trade and regional economic integration processes, respectively.

**Key words:** globalization, triadization, regionalization, international trade, regional economic integration, Romania's European Union integration

## 1. Introduction

The ideal of European integration initially “fed” by the 19<sup>th</sup> <sup>154</sup> century poets and philosophers utopias visions or interpreted by conquerors, which sought justification for their domination greed, imposed itself like a real political objective only after the continent was torn apart by two unspeakable wars. That is why, an Eastern Europe characteristic during the post-war period was largely represented by a constant integration tendency, both economically and politically. This process, initially determined by the wish of avoiding new conflicts between the great European powers<sup>155</sup>, and later consolidated in opposition with communist integration, has reached today a superior phase. This phase, which due to the qualitative steps forward, represents a unique achievement of our continent centuries old history, of this *Eurosphere*, as Mark Leonard [2005] called it in his work, suggestively entitled “Why Europe will run the twenty first century”, and which was so expressively defined as being “a group of one hundred countries, all over the world, or even more, that looks at the European Union waiting to be coordinated and considering it like a model”.

Examples of those being part of the *Eurosphere* could be found everywhere internationally – and these are based mostly on the commercial model developed by the European Union during the 50 years of existence – especially if we have a look at the at the groups aspiring towards integration, groups which consider the European Union as a model of regional integration, an aim worth every necessary effort to get to.

Thus, European integration determines an inciting debate which, of course, will carry on the fascinating game of ideas, finding along the years the secret of spirit youth, always confronted with the Kantian questions: What can I know? What do I have to do? What am I allowed to hope?

“*Unity in diversity*“ is the motto of Europe today, under which, even if it might cover the entire Eurosphere, unites nowadays only 27 different nations, with 22 official languages and a rich cultural

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<sup>154</sup> On the 21<sup>st</sup> of August 1848, Victor Hugo presides in Paris, The Congress of Peace, proposing Europe unification on universal vote basis. He launches the syntagm “United States of Europe”, an idea to be taken again by Aristide Briand in 1929 during a speech in front of Society of Nations and, in 1946, by Winston Churchill in his famous speech of Zurich

<sup>155</sup> “European nations union request that the centuries long opposition between France and Germany to eliminated: this action has to start first from France and Germany themselves” – Robert Schumann, Paris, the 9<sup>th</sup> of May, 1950.

diversity. Paraphrasing the academician Mircea Malița [1998], we could say that nowadays Europe is the most representative for “ten thousand cultures” integrated into a “single civilization” – that of the European Single Market – from whose experience, acquired in the 50 years of construction of what we call today European Union, resulted a wide European aperture towards commerce, investments and world cooperation, that brought about its position between the great economic powers of the world. This complex of European performances, especially economic performances, commerce stands out by far, as statistics, no matter which, point out that European Union is in the top of international commerce.

This economy sector of the Union founding countries constitutes, in fact, the starting point of its today performances which brought about its turning into a Common Market, after the first border union registered by WTO, then followed by the by the present Economic and Monetary Union, as a part of the final objective – that of the Political Union. Furthermore, the Economic and Monetary Union and the Euro currency creates new opportunities for international partnerships, offering its members the stability they need in the foreign trade as to enable growth and development based on the advantaged offered by the European Single Market.

The performances of the European integration make some researchers of the world economy to state that European Union represents the first institutional construction – which might resemble a <<“regional state” built of many “states” - which will constitute the political structure at the end of the 21<sup>st</sup> century, the EU influence being beyond present time and space”>> [Howorth, Jolyon, March 2007: pp. 24].

From this perspective, and considering the current debates with respect to the regionalization and globalisation of the world economy, we naturally wondered what will come in the future and what the Romanian economy expectations might be, on immediate, medium and long term basis, from the moment our country decided to join the European Union, in 1990, and to follow the way towards integration. This question seems even more natural considering the public debates each of us witnessed along these years, with a lot of points of view and scenarios with regards to the possible way the more and more integrated, as well as globalised economy could run forward, and for these reasons, we will try to find some answers in what it follows.

## **2. The controversies of the contemporary world economy**

### ***2.1. Regionalization instead of globalization?***

The famous researcher of some subjects like the peace and the conflicts, Ernst-Otto Czempiel, sustains that regionalization – and not globalization – is the element characterising the present: “Globalization is, as it seems, the defining element of the end of the 20<sup>th</sup> century. This word is on everybody’s lips. Indeed, the world has become the horizon of the society knowledge. Mass-media has entered all over the place, the highways connect all the corners of the world, and the trans-national corporations are represented in many countries of the world. The term *globalization* is used also argumentatively to justify the changes desired at the political and economic levels. It serves to *stage* the political transformations.” [Czempiel, Ernst-Otto, 1999: pp. 24-25 and 30-31]

Yet, if we analyse the term “globalization” more closely, we will notice that this is not a very resistant one. The internationalization of the world economy started even in the middle of the 19<sup>th</sup> century, the trans-national corporations expanding only in the 60’s what they had started doing long before. They are not represented yet at the world level. They appear in industrialised countries, spread along a thin “string” laying on the North-American continent, Western Europe to South-East Asia. In the North and South of this “string”, globalization is till very little present. More than half of humankind must travel for two days to get to the nearest telephone. The world still has long to wait until it is economically globalised.

Referring to the relation between regionalism and globalization, Mircea Malița appreciates that there are two differences between the two concepts.. “Unlike globalization, which is not a deliberate construction of the states, regionalism is based on the deliberate and voluntary transfer of sovereignty towards supranational institutions. In the second place, globalism is not endowed with institutions capable to exercise control or to generate common policies”. [Malița, Mircea, 1998: pp. 109]

Having in view the difference between globalization and regionalization, other authors support the idea that the latter consists in the fact that in the case of regionalism, “the economic liberalization takes place at a smaller scale geographically limited to the space of the states participating to the group”. [Bari, Ioan; Păun, Laura, 2001: pp. 41]

Yet, only the quantitative aspect does not explain the differences between them. On the other side, the region cannot be understood outside the national state and globalization. Regarding the sphere relation, the region is between state and globalization. But only through the presentation of some differences between regionalism and globalization does not result what the region is.

As there is not a unanimously accepted definition of globalization, there is no definition of regionalization, but both are processes tending to cover the entire globe and determining one another, being interdependent and interconnected (for example, during the Cold War, the threat of the nuclear weapons). Their use would have had global consequences, a possible destruction of the Earth. The air and water pollution is present all around the world, as well as the climate changes. These processes must not be underestimated; they must be taken very seriously into consideration. They do not though raise the term “globalization” to the rank of defining feature of the present and future.

The term “globalization” has also another meaning, a systematic meaning. “Globalization” means not only “spreading” but also “interdependence”. The states are interconnected. They are not isolated or autonomous anymore when it comes about fulfilling their political interests. They depend on each other. Who speaks about “globalization” must have in view also this relation of interdependence. This relation is indeed a new element which did not exist sixty years ago or of it did exist, just in very basic lines. This interdependence does not occur today globally. The world economic crisis of the 90’s is a proof supporting this theory. It occurred in the South –East Asia and its effects were felt in the industrial states. These were not totally taken in by the crisis. The effects occurred at the regional level and not at the global level.

The term “globalization” shows correctly but imprecisely that the position of the state changed at the end of the 20<sup>th</sup> century, in a double sense. It is charged with processes of interdependence which allow a state to reach its aims only by cooperating with other states. The state collaborates therefore very closely with its neighbours. This process takes place at the regional level. That is why it is the regionalisation that is a defining element of the present and not the globalization. Only a few processes have a global tint: the potential destruction by using atomic weapons, air and water pollution.

Also, the industrial states are undermined by the social players, too. These have become emancipated from the control of the governments and they built their own fields of action in the international policy, setting up, by cooperating with partners from other states, a network of social interactions. These players are not only the big trans-national corporations but also the non-governmental organizations.

## ***2.2. Triadization instead of globalization?***

In the following fragment we draw the attention on the fact that the processes of economic “globalization” are restricted to the level of few states – of a triad -, due to which we are rather speaking about a “triadization”: “The current globalization is a partial globalization. That is why, the term «triadization» is more appropriate. «Triadization» means that the process of technological, economic and social-cultural integration are more intensive and more important among the most developed three regions of the world (Japan and the newly-industrialised states in the South and South-East of Asia, Western Europe and North America) than the integration processes between these three regions and the less developed countries or among the less developed countries.”

Triadization takes place in the people’s mind, too. The Japanese, North-Americans and Western Europeans think that the world “that matters” is their world. Here are presented arguments supporting the cultural and scientific supremacy, the technological supremacy, the military hegemony, the economic welfare and, implicitly, the capacity to control and organize the world economy and society.

The phenomenon of triadization occurs, moreover, in the geographical model of the strategic corporatist alliances. Of the 4200 cooperation agreements signed between 1980 and 1989 at the world level, 92% were signed by corporations from Japan, Western Europe and North America.

The statistics regarding the direct foreign investments show that, in the last ten years, in Japan, the USA and Western Europe the number of reciprocal investments rose. The triadization of the direct foreign investments is the result of the fluxes of investments resulting in an economic situation totally different from that of the 60’s and 70’s.

Until the beginning of the 80’s, the developing countries played a clear, even though limited role of source and target for the foreign investments. In the 80’s, the triad monopolised four fifths of all the international fluxes of capital. The part due to the developing countries lowered from 25 percent in the 70’s to 19

percent (...). The countries in this triad interact more and more among them, their integration process continuing to go on.

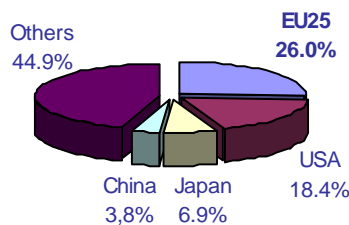
If target means victory then there can be only few winners. Those who lose are excluded and let deal on their own. Those who win will keep depending on each other, integrating more and more. The necessity to build new connecting bridges between the excluded ones and those integrated lose its importance. Together with the globalization there occurs a new division of the world.

By this process of exclusion, some countries and regions are losing in time their connections with the countries and regions economically evaluated. Instead of participating to the process of entailing and integration stimulated by the new global order, these countries are moving in the opposite direction. The process of exclusion has in view almost all the countries in Africa and large parts of Latin America and Asia (except for South-East Asia).

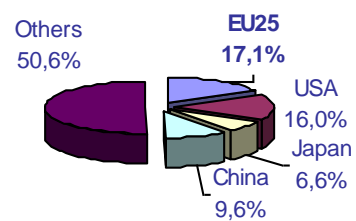
The figures speak for themselves: in 1980, the poorest 102 countries in the world were participating to the exchange of merchandise 7.9 percents of the total of exports at the world level and 9 percents of the total of imports. Ten years later, this participation was reduced to 1.4 percents, 4.9 percents respectively. From the other perspective the participation rate of the three regions of the triad increased from 54.8 percents to 64 percents of the total of exports at the world level and from 59.5 percents to 63.8 percents of the total of imports.

Moreover, in 1970 these regions were participating with 60.8 percents to the world trade. In 1990, the intra-continental trade within each region was of 48.7 percents, the inter-continental trade among the three regions increasing to 24.9 percents. In all, the participation of the three regions to the international trade was of 73.6 percents. The rest of 26.4 percents was divided among Russia and Eastern Europe, Middle East, Africa and Latin America.

It is also important the rate of increased growth of the inter-continental trade between the Asia-Pacific and the Western Europe. This type of trade increased from 6.3 percents to 10.2, from 27.1 percents to 33.4 percents respectively. In contrast, the participation of Africa and Middle East lowered from 14.1 percents in 1970 to 9.9 percents in 1990, that of Latin America from 7.8 percents to 6.1 percents and that of the former communist block from 7.3, to 4.1 percents. In 2005 and 2006, respectively, as we can notice in the graphs below, the “triad” countries (that is 29 states in the world) were participating with 50.6% to the world trade with goods and with 55.1% to that with services. Also, we must mention the fact that, 85% of the world population has only 15% of the global revenue. The globalization provides, as we can remark, many opportunities to make money much more rapidly, but only for the very rich people. These have used the latest technology to transport important amounts of money in any point on Earth in a few seconds and to speculate more efficiently. [Bauman, Zygmunt, 1999: p 6]



*Graph 1– Participation to the world trade with services (2005)*



*Graph 2 - Participation to the world trade with goods (2006)*

Source: Publications of Eurostat and European Commission – The General Direction for Foreign Trade, May 2007, and the 2006 WTO’s World Report,

### 3. Conclusions

An argument supported by many analysts refers to the fact that only 20% of the population able to work can ensure the advance of the world economy that is they actively participate to life, gain and consumerism; and hence H.P. Martin and H. Schumann’s more than sombre conclusion referring to the future of mankind: “to eat or to be eaten”. [Martin, H.P.; Schumann, H. 1999: pp. 13] The opinions of these two authors emphasize more the destabilizing character of globalization being the cause of the social

polarization between a fifth of the more restrained and richer society and the poorer and poorer most majority of four fifths. In other words: the world economy has been characterised lately by a decrease of the exchange of goods between the very rich economies and with an increased rate of growth of North America, Western Europe and Asia and the rest of the world (especially Africa). If we take into consideration this tendency to see how the situations will be in twenty years time, we will see that the participation of Africa, Middle East, Latin America, Russia and Eastern Europe, reduced from 39.2 percents (1970) to 26.4 percents (1990), will reach 5 percents (2020). This means exclusion. This is the new division between a globalised world, more and more integrated, and a more and more excluded one.

The conclusions that can be drawn from the short presentation of the actual challenges with which the international trade meets – including Romanian one –, prove that the commercial dimension of globalization is, undoubtedly, very important, this being one of the most important causes of the phenomenon and the motional power for the *globalization* processes in other domains. But one cannot overlook the fact that globalization comprises more than the increased integration of the global trade and economy: therefore, it cannot be limited strictly to economical processes, an issue that often occurs.

As a result, we consider that, when problems start to get a more and more global character, their political solution should also be of a „global” matter. In this regard the concept „Global Governance” has been invented, that has to be both efficient and democratic. But these two basic requirements are in a tensed relationship, too. The most advanced model in cooperation between the states and societies is the European Union (EU), thus having the possibility to consider it a Global Governance „laboratory”. But also amongst the EU one can notice the same dilemma regarding the efficiency (functionality) and democracy. We also must consider the fact that, the European states have more similarities than those on a global level, and WTO, that presently represents global government of the international trades, has to face all the challenges resulted from the controversies of the contemporary world economy.

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# THE RENEWAL OF THE RE-LAUNCHED LISBON AGENDA FOR A MORE COMPETITIVE EUROPE WITHOUT BARRIERS

Giurgiu Adriana

University of Oradea, Faculty of Economic Sciences, Contact address: Universitatii str. 1, Room D405, post code 410087, Oradea, Bihor, Romania, E-mail: [agiurgiu@uoradea.ro](mailto:agiurgiu@uoradea.ro), Telephone: +40259-408109 or +40259-408422

***Abstract:** The Lisbon Strategy is working; it has helped to bring about higher economic growth, more jobs and reduced unemployment. As a new member state of the European Union, Romania should respond positively to the challenges of the Lisbon Strategy, and build the prerequisites for a knowledge-based economy, in order to stimulate economic growth and employment and make Europe's economy the most competitive in the world. For this reason, in this paper we will realize a short presentation of the evolution of the Lisbon Agenda since it was envisaged by the Lisbon European Council in 2000, and until its last renewal at the Spring European Council in March 2008, focusing on the Romania's accomplishments with.*

***Key words:** European Integration, Lisbon Agenda, priorities and challenges for Romania*

## 1. Introduction

The informal beginning of the Lisbon Strategy dates back to the '90s, when certain parallel reform processes existed in the EU. The Luxembourg process brought the first guidelines on employment. The Cardiff process launched the initiative for integrating the internal market and structural reforms, which would assist the EU in overcoming the then financial crisis. The Cologne process introduced an initiative for social dialogue. The processes were mainly ineffective, as reflected by the EU's decreasing competitive advantage in relation to the USA and the rapidly developing Asian countries. The 2000 Spring European Council in Lisbon therefore agreed that the EU needed a strategy which would help Europe "to become the most competitive and knowledge-based economy in the world"<sup>156</sup> by 2010.

The Lisbon Strategy was augmented at the 2001 Spring European Council in Stockholm and also in Barcelona in 2002. The Swedish Presidency integrated the environmental dimension into the Lisbon Strategy, while the Spanish Presidency put more stress on the social dimension and introduced a target of 3% of GDP for research and development spending.

## 2. The Reform of the Lisbon Strategy – The 1st Re-Launching

Soon after the Lisbon Strategy was adopted, critical remarks were exchanged about the Lisbon Strategy not yielding the expected results. A plethora of overly broad objectives, opposing priorities and poor coordination between the EU Member States were supposedly to blame.

With a view to eliminating these flaws, the 2004 Spring European Council conclusions mandated former Dutch Prime Minister Wim Kok to present a proposal for reforming the Lisbon Strategy. *The Kok Report* was duly presented in November 2004, and was a basis for the re-launched Lisbon Strategy adopted by the 2005 Spring European Council. The revised Lisbon Strategy focussed narrowly on economic growth and employment, while giving equal importance to all three dimensions: economic, social and environmental.

The re-launched Lisbon Strategy also addresses the issue of governance. In order to improve the governance of the Lisbon Strategy, two three-year cycles were established (2005–2008 and 2008–2011). After the first cycle, the Commission prepared a strategic report to serve as a basis for continuing with the second cycle.

The revised Lisbon Strategy is based on a set of Integrated Guidelines, combining employment guidelines with broad economic policy guidelines. After the first three-year cycle, the Integrated Guidelines were supposed to be re-examined and, if appropriate, renewed.

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<sup>156</sup> Presidency Conclusions Lisbon European Council, 23 and 24 March 2000

In order to improve ownership of the Lisbon Strategy, the EU Member States were also obliged to prepare *National Reform Programmes* (NRPs) setting out progress towards the Lisbon objectives, and appoint a national coordinator for monitoring the implementation of the Strategy. Annual implementation updates to the NRPs must be submitted to the Commission, with a new NRP to be presented at the start of every 3-year cycle.

Coordination of Lisbon policies is carried out under the open method of coordination, which involves voluntary coordination of Member States' policies in areas where the EU does not have exclusive competence. Emphasis is placed on the exchange of good practices and experiences between the Member States. Every year, the Commission prepares an overview of progress towards Lisbon objectives and publishes it in a report to the Spring European Council. At the same time, the Commission prepares recommendations for the EU Member States concerning implementation of their National Reform Programmes as required by the Lisbon Strategy.

### **3. First Three-Year Cycle**

#### ***3.1. First report on the implementation of the Lisbon Strategy***

In January 2006, the European Commission combined the contributions of the EU Member States and presented its first annual report on the implementation of the Lisbon Strategy. In its report, the Commission evaluated National Reform Programmes and proposed four areas for meeting the Lisbon objectives where the European Union should focus as a priority: investment in knowledge and innovation; creation of a more favourable business environment; creating more and better new jobs while maintaining social cohesion and facing the challenges of demographic change; energy and climate change.

In spring 2006, the European Council approved these four priority areas, and other objectives aimed at attaining the Lisbon goals:

- The Member States should establish a "one-stop-shop" system by the end of 2007, which would allow the establishment of a business in no more than one week;
- By the end of 2007, the Member States should provide employment, further education or a traineeship for all individuals within six months of their leaving the education system.

The first Lisbon implementation report reflected endeavours to create a more supportive business environment for enterprises, with attention being given in particular to eliminating administrative obstacles, encouraging competition in network industries (especially telecommunications), promoting public-private partnerships, and investing in infrastructure. Furthermore, measures for increasing the employment of older persons (Active Ageing Strategy) and encouraging their prolonged (and at least part-time), activity were prepared, with additional incentives for individual pension insurance at the preparation stage.

#### ***3.2. Second report on the implementation of the Lisbon Strategy***

Considering the proposals of the European Commission and the conclusions of the 2006 Spring European Council, and drawing on the contributions from the EU Member States, the European Commission adopted the second report on implementing reforms intended to fulfil the Lisbon objectives in December 2006, entitled "*A year of delivery*". On the basis of this report, the 2007 Spring European Council adopted the following orientations regarding the Lisbon Strategy:

- It approved the future strategy for innovation, as adopted by the Competitiveness Council;
- It approved the "*flexicurity*" initiative on employment;
- It reiterated the commitment to reducing administrative burdens by 25% at the EU level by 2012, while the EU Member States were bound to set comparably ambitious objectives; and
- Numerous commitments were made in the field of energy and climate change.

Among other things, the report presented also actions in the area of taxation and social affairs aimed at encouraging citizens to take jobs and incentivising businesses to increase employment and investment in research and development. Important new measures were also adopted by some of the member states in the field of research and development: actions to increase the number of researchers in the business sector, and measures for encouraging transfers from the public to the business sector were carried out on the basis of

the national research programmes. The share of financing for applied and developmental research was also increased, along with incentives for the establishment of new higher education institutions.

### **3.3. Summarizing the 1<sup>st</sup> Cycle: Economic performance has improved since 2005**

The end of the revised strategy's first-three year cycle is an appropriate moment to draw some conclusions about how well it is succeeding. The statistic data show that the economic performances have improved considerably since the re-launch of the Lisbon Strategy in 2005. Economic growth was 3.0% in the EU27 in 2006 compared with 1.8% in 2005, and is forecast to remain at 2.9% and 2.4% in 2007 and 2008 respectively. Thirteen million jobs have been created since 2000, and more than half of that after 2005, and unemployment has fallen steeply from 8.6% to 6.9% over the 2005-2007 period. An especially welcome development is that for the first time since 1997, job creation and productivity improvements have occurred simultaneously. As a result of the improved growth performance, the gap in GDP per capita with the US has closed slightly, from 65.4% of the US-level for EU-27 and 72.1% in the euro area in 2005 to 67.1% and 73.5% respectively in 2007.

The three Baltic states, Slovakia, Slovenia and the Czech Republic have experienced an especially rapid convergence. The recovery has also spread to EU15 countries, most remarkably to Germany, which seems to have overcome its role as growth laggard in the EU. In addition to higher growth rates, the composition of growth has become more favourable to domestic drivers over time, which bodes well for increased resilience to adverse external factors. As shown in *Table 1*, the contribution to growth of fixed capital investment had been particularly weak in the first half of the decade. Since 2005, it has strengthened, returning to growth rates comparable to the ones observed in the late 1990s which raise hopes that firms' higher investment, through the diffusion of technological progress, translates into higher productivity growth.

Though private consumption contributed less to growth in 2005-2007 than in the late 1990s, an upward shift in the contribution of private consumption spending is now clearly evident from the data on consumer expenditures as well as from the recovery in consumer confidence underpinned by the declining rates of unemployment.

Moreover, productivity gains accounted for more than half of the average economic growth recorded in EU27 2005-2007, with labour inputs accounting for the remaining part. Labour inputs benefited from net migration, and to a lower extent an increasing native population, while the rise in participation rates, especially of women and older workers, was partly offset by the decline in average hours worked per person employed and the decline in youth participation. As regards labour productivity, technical progress appears to have been a stronger driving force than capital accumulation and rise of labour initial education. Compared to the 2000-2004 period a key difference is the positive contribution to growth from the reduction in unemployment rates, which should be partly attributed to the cyclical recovery. Due to sound economic fundamentals, most Member States were considered to be in a good position to withstand the strains from the financial turbulence witnessed in summer 2007.

According to the autumn 2007 forecast of the European Commission, growth in the EU-27 is predicted to be 2.9% in 2007 and 2.4% in 2008. For a few Member States (LV, LT, EE), however, accumulated macroeconomic imbalances such as high inflation, large current account deficits and excess housing price increases bear important risks in the current juncture. Also in BG and RO, external deficits are large and inflation high. In other countries such as EL, ES and PT deteriorating economic growth is likely to jeopardise the sustainability of competitiveness, foreign debt or households' indebtedness. Such countries need to closely survey financial stability and, in case of a further widening of the external deficit, vigorous structural reforms to restore cost competitiveness.



	2000-04	2005-2007	2007	2008-09
<b>GDP growth</b>	2.2	2.6	2.9	2.4
<b>Consumption growth</b>	2.2	2.0	2.2	2.2
<b>Investment growth</b>	1.6	4.8	5.6	3.4
<b>Employment growth</b>	0.9	1.4	1.6	1.0
<b>Unemployment rate (% labour force)</b>	8.8	8.1	7.1	6.7
<b>Inflation rate</b>	2.7	2.3	2.3	2.3
<b>Government balance (% of GDP)</b>	-1.8	-1.7	-1.1	-1.1
<b>Government debt (% of GDP)</b>	61.5	61.4	59.7	57.8
<b>Current Account (% of GDP)</b>	0.0	-0.6	-0.8	-0.9

*Table 1: Economic developments 2000-2009, key figures, EU27*

#### **4. Second Three-Year Cycle – Renewing the Re-launched Lisbon Strategy**

At the Spring European Council in March 2008, the Slovenian Presidency launched the second three-year cycle of the Lisbon Strategy. The European Council confirmed that the revised Lisbon Strategy from 2005 yielded positive results and called for consistent implementation of reforms within the existing four-pillar structure (investing in knowledge and innovation, unlocking business potential, particularly of SMEs, investing in people and modernising labour markets, and energy and climate change).

The European Council confirmed that the Integrated Guidelines (Broad Economic Policy Guidelines and Employment Guidelines) were to remain valid for the period 2008–2010 and invited the Council to adopt the Integrated Guidelines formally, in accordance with the Treaty. The expectations were thus met, both with regard to the Lisbon Strategy focusing on implementation within existing structures and the launch of the new cycle of the Strategy at the Spring European Council.

In the framework of the Lisbon Strategy governance, the European Council called for a reinforced exchange of good practices and for seizing opportunities offered by the existing open method of coordination, stressing in particular the importance of coordination within the *euro area*.

The European Council for the first time adopted conclusions relating to the future of the Lisbon Strategy after 2010. It also invited the Commission, the Council and the national Lisbon coordinators to start reflecting on the future of the Lisbon Strategy in the post-2010 period. It stated that after 2010, a sustained EU-level commitment to structural reforms, sustainable development and social cohesion would be necessary in order to lock in the progress achieved by the re-launched Lisbon Strategy for growth and jobs.

The conclusions also drew particular attention to the following priorities in the framework of the Lisbon Strategy:

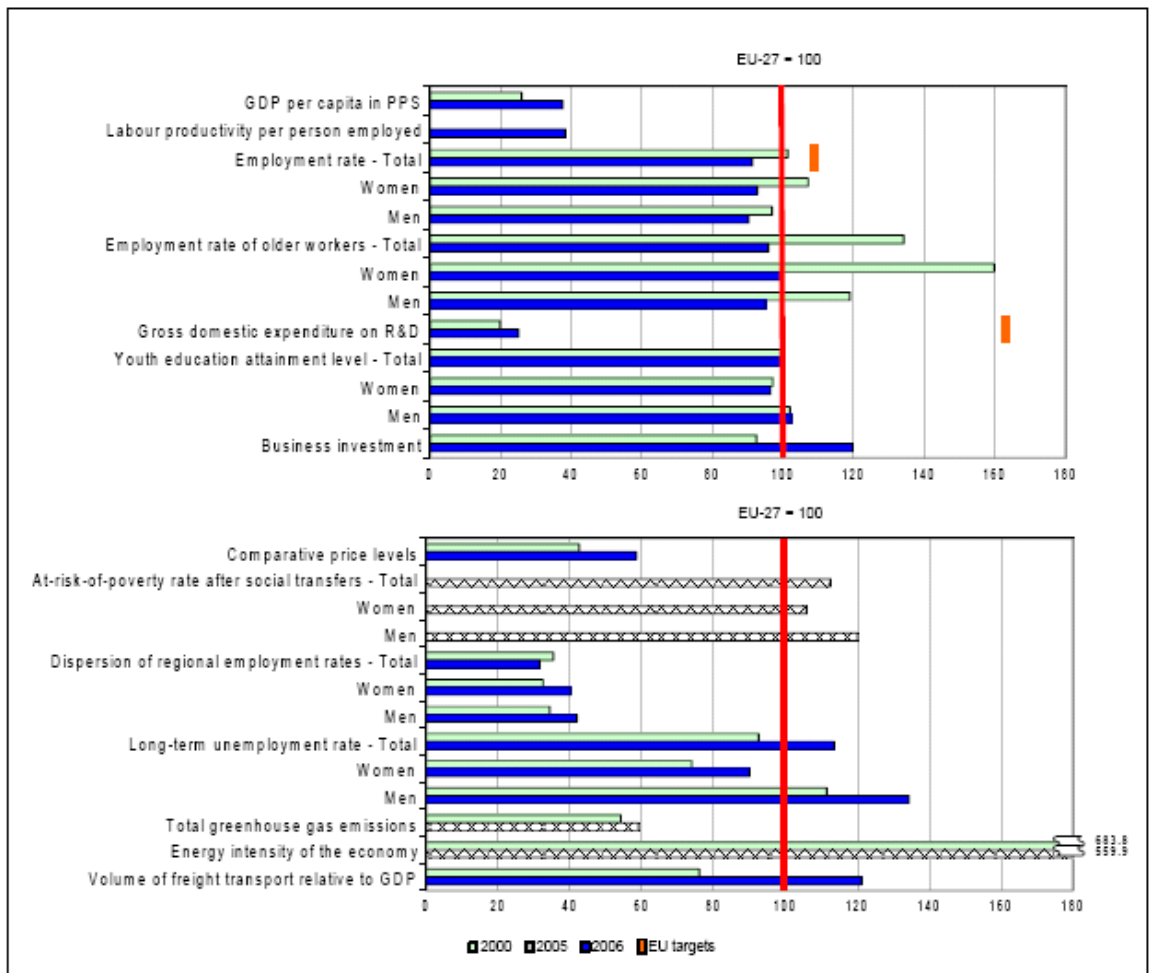
- As a key factor for future growth, the full development of the potential for innovation and creativity of European citizens was mentioned. Particular attention was paid to the introduction of the "*fifth freedom*", namely *the free movement of knowledge*, expected to complement the four existing freedoms. The fifth freedom should be based on enhancing the cross-border mobility of researchers, students, scientists and university teaching staff. In order to achieve the actual movement of knowledge, it would be essential to facilitate and promote the optimal use of intellectual property, to launch a new generation of world-class research facilities and to promote the mutual recognition of qualifications. The requirements would be resumed in the so called "*Ljubljana process*" to be approved at the May Competitiveness Council;
- On the basis of the Single Market Review, the Council pointed out several priority actions to further improve the functioning of the internal market. Effective measures concerning the remaining barriers to the four freedoms laid down in the Treaty would have to be adopted annually. The internal market should promote market opening both within the EU and on an

international level. The EU should therefore continue its endeavours to shape globalisation by reinforcing the external dimension of the revised Lisbon Strategy;

- Progress made during 2007 on better regulation was the main reason for improvements to the competitiveness of EU business, in particular SMEs. The European Council invited all Council formations to focus on better regulation in their regulatory work;
- In order to reinforce the EU's SMEs policy and to allow SMEs to operate more effectively in the Single Market, the following actions were proposed: Small Business Act; support for research-performing and innovative SMEs; further facilitation of access to finance; and facilitation of increased participation of innovative SMEs in clusters and in public procurement;
- When launching the new cycle of the renewed Lisbon Strategy, the importance of the social dimension of the EU was again stressed; the European Council reiterated the need to improve coordination of economic, employment and social policies. In this context, the education element of the knowledge triangle “research-innovation-education” was highlighted as the basis for further activities. Investing more and more effectively in education was of key importance not only for Europe’s success in a globalised world, but also one of the most effective ways to fight inequality and poverty. The European Council also stressed the importance of Member States implementing *flexicurity* arrangements at the national level.

## **5. Romania’s Contribution to the accomplishment of the re-launched Lisbon Strategy**

Romania has experienced strong economic growth averaging 6.2% annually from 2003 to 2007, and it is expected to be 5.9% in 2008. Growth has been driven largely by foreign investment and fast growing domestic demand, creating a widening current account deficit (15.4% of GDP in 2007) and rising inflation (4.84% in average in 2007, but increasing to 6.57% in December 2007, and then to 7.26% in January 2008, and to 7.97% in February 2008 respectively.). GDP per capita is low, about 38% of the EU average in 2006. Unemployment was 5.2% in 2006 and decreased to 4.1% in 2007. The employment rate (58.8%) is far below both the Lisbon target of 70% and the current EU average. Romanian youth unemployment is over 20%, amongst the EU's highest.



**Graph 1: Romania's Performance compared to EU27**

Romanian strongly performing economy is showing clear signs of overheating with a very high and growing external account deficit, growing labour shortages in spite of a significant share of untapped labour, strong wage growth and rapid increases in household borrowing; these have, in turn, fuelled inflationary pressures. The challenge for Romania is to tackle these macro-economic vulnerabilities urgently whilst speeding up structural reforms to strengthen its competitiveness and, with its low-cost advantages gradually eroding, move the economy towards more innovative and higher value activities.

In accordance with the renewed governance of the Lisbon Process, and on the basis of Romania's sectoral development strategies promoted by the *2007-2013 National Development Plan*, the *2007-2013 National Reference Strategic Framework*, the *2007-2010 Convergence Programme* and the *2007-2013 National Strategic Rural Development Plan*, Romania submitted the *National Reform Programme (NRP)* intended to meet the Lisbon objectives to the European Commission in July 2007. The *National Reform Programme* primarily stresses actions promoting sustainable development and efforts toward a more efficient and cost-effective state.

	Performance				Areas where CSR have been proposed				Policy Performance				Areas where CSRs have been proposed			
	Budget balance	Fiscal stance	Inflation rate	External balance,	2005 NRP	March 2007 Council	Dec. 2007 Comm. Prop.	Debt ratio	Sustainability gap	Sustainability risk classification	Empl. rate older worker	2005 NRP	March 2007 Council	Dec. 2007 Comm. Prop.		
	2007	2005-07	2007	2005-07	Key challenge	C S R	P T W	C S R	P T W	2007	2006	Key Challenge	C S R	P T W	C S R	P T W
BE	-0.3	-0.2	1.7	3.1				85	2.7	Medium	32	X				
BG	3.0	1.1	6.7	-14.3	X		X	19	n.a.	-	-	X				X
CZ	-3.4	-1.9	3.0	-2.7	X			30	8.0	High	45	X	X		X	
DK	4.0	-1.3	1.7	2.4				25	0.3	Low	61	X				
DE	0.1	2.4	2.2	5.3		X		65	3.3	Medium	48	X	X			X
EE	3.0	1.7	6.2	-11.2				3	-3.2	Low	59					
IE	0.9	0.2	2.7	-4.0			X	25	2.4	Medium	53			X		X
EL	-2.9	2.4	2.8	-8.8	X	X	X	94	1.3	High	42	X	X		X	
ES	1.8	0.6	2.6	-7.8		X	X	36	2.8	Medium	44			X		X
FR	-2.6	1.0	1.4	-2.0	X	X	X	64	3.2	Medium	38	X	X	X		
IT	-2.3	2.0	1.9	-1.5	X	X	X	104	3.0	Medium	33	X	X	X		
CY	-1.0	2.1	1.8	-5.9*				61	7.0	High	54	X	X		X	
LV	0.9	0.6	9.5	-17.8	X	X	X	10	1.2	Low	53					
LT	-0.9	-0.4	5.7	-9.2	X		X	18	2.4	Low	50					
LU	1.2	0.6	2.4	10.9*	X			7	9.3	Medium	33			X		X
HU	-6.4	2.9	7.6	-5.2	X	X	X	66	12.3	High	34	X	X	X	X	
MT	-1.8	0.8	0.7	-3.4				63	-0.1	Medium	30	X		X		X
NL	-0.4	-1.0	1.6	6.9				47	2.4	Low	48					
AT	-0.8	-0.1	1.9	3.6			X	60	-0.1	Low	36	X				
PL	-2.7	1.1	2.3	-2.0	X	X	X	47	-1.4	Low	28					
PT	-3.0	2.8	2.4	-8.3	X	X	X	64	8.3	High	50	X				
RO	-2.7	-1.7	4.5	-10.3	X		X	13	n.a.	-	-					X
SI	-0.7	-0.3	3.4	-2.6				26	7.0	High	33		X		X	
SK	-2.7	-1.9	1.6	-6.7				31	4.1	Medium	33					
FI	4.6	0.7	1.5	5.4				36	-0.7	Low	55	X				
SE	3.0	0.6	1.6	6.4				41	-1.5	Low	70					
UK	-2.8	0.5	2.4	2.8	X	X	X	45	4.2	Medium	57	X		X		

**Table 2: Overview of situation in EU Member States on securing economic stability and long-term sustainability**

**Note:** CAB: cyclically-adjusted budget balance; Fiscal stance: measured as the change in the structural budget balance over 2005-2007 (a positive figure implies tightness, a negative looseness); CSR: country-specific recommendation; PTW: point to watch.

Since the Romanian National Reform Programme was submitted only at the end of July 2007, in the subsequently report, special attention was paid to reforms regarding the efficient creation, transfer and use of knowledge; actions contributing to enhanced economic competitiveness and leading to increased economic growth; and reforms focusing on modernisation of the welfare state and increased employment. The Romanian National Reform Programme (NRP) identifies 6 key challenges which need to be tackled to lay the foundations for the successful implementation of further reforms: improving the quality and management of government expenditure in the context of prudent macroeconomic policies; improving the functioning of markets; further improving the business environment; increasing employment and activity rates on the labour market; sustainable management of resources; and an overarching challenge of improving administrative capacity. As a result, the Commission fully agreed with the analysis of the main priorities submitted in the report and Romania's proposed approach to sequence its reforms.

In the light of Romania's 2007 Implementation Report and the Commission's assessment of the National Reform Programme delivered in the "Lisbon Strategy for Growth and Jobs: 2007 Strategic Report Country – Assessment of the National Reform Programmes", on 11<sup>th</sup> December 2007, and based on the Integrated Guidelines for Growth and Jobs, the following conclusions were found appropriate:

- Overall, the National Reform Programme focuses on the right challenges. However, in some critical areas, such as strengthening administrative capacity and improving the business environment, the programme lacks ambition. In other areas, information about the content of measures, their timelines and budgetary support is sometimes lacking which makes it difficult to assess whether measures will bring solutions to the problems and challenges identified.
- The programme's strengths include initiatives aimed at implementing a medium-term expenditure framework, reducing non-wage labour costs and reforming research structures.
- The policy areas in the Romanian National Reform Programme where weaknesses need to be tackled with the highest priority are: strengthening administrative capacity, addressing overheating and improving budget planning and the quality of expenditure; cutting red tape

and activating labour supply and raising skill levels. Against this background, it is recommended that Romania:

- urgently strengthen administrative capacity at both central and local levels of government by building up effective regulatory, control and enforcement capacity;
  - avoid pro-cyclical fiscal policy to contain the growing current account deficit and inflationary pressures, keep wage developments in line with productivity growth and improve budget planning and execution as well as the quality of public finances by reviewing the composition of public spending and by reducing and redirecting state aid to horizontal objectives;
  - substantially reduce administrative procedures and delays to obtain authorisations as part of a coherent better regulation policy in order to improve the business environment;
  - implement an integrated approach to increasing employment, activity rates and productivity levels, especially by accelerating reforms of the education system to respond better to labour market needs, by reducing early school leaving, by significantly increasing adult participation in education and training; and by transforming subsistence/semi-subsistence farming into sustainable employment.
- In addition it will be important for Romania over the period of the National Reform Programme to focus on: taking further measures to ensure the long-term sustainability of public finances, in particular with regard to potential risks in terms of adequacy and sustainability of pensions; reinforcing measures to tackle fragmentation of the research base whilst ensuring that planned increases in public research funding yield effective returns by vigorously implementing the national R&D and innovation strategy and by regularly monitoring its results; pursuing a more integrated approach to infrastructure development and roll-out of ICT; intensifying efforts to tackle undeclared work; improving the effectiveness and geographical scope of public employment services, particularly to assist vulnerable groups.

## Conclusion

By re-launching the Lisbon strategy in 2005, and refocusing it on growth and jobs, Europe has come a long way. The results are already visible. The economy is performing much better than it was in 2005. The growth figures are strong. Almost 6.5 million new jobs have been created in the last two years. Another 5 million are expected to be created up to 2009. Behind these figures stand millions of Europeans who have been lifted out of the misery of unemployment and whose lives have changed for the better. Of course, some of the current upturn is cyclical. But structural reforms implemented by Member States and the Union within the framework of the Lisbon strategy in the last few years have made a difference, and they are the best protection against a cyclical downturn.

The Lisbon Strategy is the EU's vehicle for accompanying change. This makes it an essential part of the Union's response to globalisation, helping Europeans to shape this new set of challenges and opportunities. Reform can be tough. It can sometimes be unpopular. But the path of reform is the only one in tune with today's needs.

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# IMPLEMENTING STRUCTURAL INSTRUMENTS IN ROMANIA: COORDINATES AND PRIORITIES

**Giurescu Daniela**

*University of Craiova, Faculty of Law and Administrative Sciences, 13 A.I. Cuza Street, 200585, Craiova, danagiurescu@yahoo.com, 0724 641634*

**Marcu Nicu**

*University of Craiova, Faculty of Economics and Business Administration, 13 A.I. Cuza Street, 200585, Craiova, marcu.nicu@yahoo.com, 0752 166361*

*The general objective of the Cohesion Policy reflects the fact that the problem of the diminution of regional disparities already represents a key issue within the framework of the Cohesion Policy. The Romanian membership to the economic community does not reduce the disparities between current development levels, on the contrary, under certain circumstances, it can aggravate the differences. The structural grant assistance offered by the European Union to Romania gives a chance in order to increase the speed of recuperating the disparities and to reduce the structural differences. This is even more valuable so as it takes over a considerable part of the economic efforts that should have been done on one's own account.*

*Cohesion Policy, structural instruments, operational programmes*

## **1. Main objectives of the European Cohesion Policy**

During the past 20 years, expenses with structural funds have constantly increased, stabilizing themselves at approximately one third of the total budget of the European Union, or approximately 0.46% of the European Union's Gross Domestic Product.

Starting with 1985, structural funds have been specifically linked to the promotion of social and economic cohesion- an objective extended to social, economic and territorial cohesion by the New Reform Treaty.

The Cohesion Policy has been gradually associated with an increasing number of large objectives of the European Union, such as economic increase, competitiveness, labor force occupation, sustainable development, subsidiarity, regionalism and good governance (including the participation of the civil society).

Structural funds – financing instruments of the Cohesion Policy - have been used to compensate member states both for the extension and for the deepening of the European integration. The European Commission aimed at exploiting the allocation of funds with a view to promote the cause of multileveled governance.

The early success of the European Commission in developing a supranational policy was opposed by member states that decided to keep the role of intermediary. The extension of the European Union in 2004 raised a series of questions linked to the future of the Cohesion Policy, the way that this has evolved since 1985, member states being divided regarding the extension, the maintenance or the renationalisation of expenses linked to structural funds.

The Cohesion Policy has always been focused on the differences between GDP on each inhabitant, favorising the macroeconomic and territorial aspects against the social aspect. The Cohesion Policy can be also criticized for its failure in reducing important disparities that can emerge inside a region, even when this region converges with the other regions inside the EU.

With a view to the implementation of the Social and Economic Cohesion Policy, the EC has created a series of financial instruments aimed at reducing the disparities between regions and at promoting an economically harmonious and balanced development of the Union's territory, and at the occupation of the workforce and protection of the environment.

A current trait in the evolution of the Cohesion Policy is the gradual "nationalization" of the structural funds' management. By this, most of the responsibilities regarding the management and implementation functions are transferred to the member state that will decide on the way to use the funds. The involvement

of the European Commission remains important, consolidating itself even in the functions of evaluation, monitoring and control.

The next two processes of extension of the European Union have led to the deepening of interregional disparities, and differences between the values of GDP on each inhabitant, at the level of the richest and poorest regions almost doubling following the recent extensions.

That is why, in order to ensure a harmonious, well balanced development, it is necessary that measures within the framework of the Cohesion Policy be founded starting from the analysis of the causes of certain regions lagging behind (territorial isolation, decline of some traditional economic activities) and from the identification of the real potential of development of the regions in question. In this sense, the Cohesion Policy approaches differently the continental regions within the framework of the 3 Objectives - *Convergence, Regional competitiveness and occupation and European Territorial Cooperation*.

The necessity of reorganization, modernization and facilitating of continuous innovation based on knowledge on products, management and processes and of development of human capital, where the quota of added value is little and where the competitive advantage is especially based on cheap production factors.

Most of the regions register a high rate of employment in the traditional sectors characterized by a low percentage of the added value and a competitive advantage based mainly on cheap production factors.

In this sense, a first action direction at regional level consists in the *reorganization of polycentric networks of localities*, hierarchized as force and functions, in order to develop and consolidate competitive advantages and in order to contribute to national competitiveness by regional competitiveness. As response to the market's challenges, regions must modernize and diversify economies, by increasing the proportion of sectors with high added value and by creating favorable conditions for business, especially for the small and medium sized enterprises, by adopting and adapting innovative products and processes.

At the same time, it is necessary to be aware of the role that entities that activate the research-development domain can play in ensuring an adequate reaction to the reorganization pressure; in this sense, it is important to *encourage the interactive relations between research institutes and the representatives of the business environment*.

*The active participation within the framework of certain regional, national and European networks and alliances that promote the exchange of experience* represent another way by which regions can recuperate the disparities in development and can use the potential in attaining the strategic development objectives.

As far as human resources are regarded, the adaptation to competitive forces supposes *the promotion of adaptability of the employees and of the enterprises, the adaptation of the educational offer to the market's demands regarding the qualifications and competencies, the increase of long life professional training and the quality of the training process*. Thus, the development of managerial skills and practices becomes extremely important in order to ensure an integrated development at institutional and professional level.

Finally yet importantly, beside the actions mentioned above, we must emphasize *the importance of the improvement of the administrative capacity*, which constitutes an essential factor in the confrontation with the restructuring pressures and in ensuring the institutional and juridical framework necessary for the maintenance of competitiveness.

The demographic problem constitutes a key issue and challenge for the states and regions of Europe, in the context of the process of decrease and demographic ageing which most of the member states are confronted with, phenomenon that induces important pressures on the macroeconomic stability on medium and long term.

From Romania's perspective, the measures that need to be approached within the Cohesion Policy as response to the current demographic changes must aim at:

- *measures linked to the increase of the human capital's quality*: a better training and a training of human resources, the adaptation to professional qualifications of the labor market's demands, the encouragement of long life professional training by furnishing re-conversion and specialization trainings, and the fight against school abandonment;
- *measures linked to the increase of the degree of occupation*: the diversification of occupational forms, the development of equal opportunities of occupation, inclusively for

rural population, the increase of young people occupation, adequate attractive wages, with a view to fight migration for work, and promotion of active ageing and so on.

It is necessary as well a sustained campaign of understanding and awareness of population on the phenomenon of demographic ageing. Furthermore, we need concrete measures to ensure a healthy ageing by the insurance of an equal access of all citizens to basic healthcare, the improvement of the quality and safety of the medical act. Furthermore, the Cohesion Policy can directly influence the increase of birth rate by the improvement of life conditions, the insurance of work safety and of a favorable family environment, by the reconciliation of work with family life.

## **2. Programmes financed within the framework of the objective „Convergence”: main domains of interventions**

According to the new community acquis, in force starting with January 1, 2007, Romania receives financial grant assistance from European Union within the objectives “Convergence” and “European Territorial Cooperation”, respectively by the European Regional Development Fund, the European Social Fund and the Cohesion Fund, generically entitled Structural Instruments.

The European Regional Development Fund sustains the long lasting and integrated economic development at local and regional level by the mobilization and consolidation of local capacities by programs aimed at modernizing and diversifying economic structures, focusing on the following domains:

- support for SMEs;
- research-development and innovation;
- informational society;
- development of the infrastructure (transport, environment, energy, education, health, tourism);
- prevention of natural and technological risks.

The European Social Fund contributes to the increase of adaptability of the labor force and of enterprises, to the increase of access on the labor market, to the prevention of unemployment, to the prolongation of active life, to the increase of the degree of participation on the labor market of women, to the support of social inclusion of disadvantaged persons and to the fight against discrimination.

The Cohesion Fund finances major projects in the domains of:

- environment protection (air, water, wastes) and of transEuropean transport networks;
- long lasting development (energetic efficiency, regenerable energy);
- improvement of the management of air and road traffic, the development of public transport and the promotion of ecological urban transport, the development of modernization of multi-modal transport.

At national level, the financial assistance received by Romania from the European Union within the “Convergence” objective is implemented through the following Operational Programmes:

Sectoral Operational Programme Increase of Economic Competitiveness will mainly sustain the consolidation and development of the productive sector and the creation of a favorable business environment for the development of enterprises. There will be stimulated research-development activities with application in the economic environment and there will be aimed at the capitalization of the potential of informational and communication technology in the public sector (administration) and in the private sector (citizens, enterprises). The programme will as well aim at the increase of energetic efficiency and at the long lasting development of the energetic sector.

Sectoral Operational Programme Environment aims at the improvement of life standards and of the quality of environment, taking into account two long term objectives: the insurance of general access to basic public utilities and the development of environment’s quality.

Investment priorities taken into account within the framework of the programme: the improvement of life standards by ensuring services of public utilities at requested quality and quantity standards, in the sectors water and wastes; the improvement of district heating plants, the improvement of sectoral environmental



management systems, as well as the implementation of an adequate infrastructure for the prevention of natural risks in vulnerable areas.

A special attention shall be granted to the prevention of floods and to the fight against the erosion of coast areas, in order to reduce the economic and social impact of such phenomena.

The investments within Sectoral Operational Programme *Transport* aim at improving the road, railway, air, river and sea transport networks, with a priority on projects on TEN-T network (priority axes TEN-T no 7, 18, 22). The degree of connection of the national and regional infrastructure to the TEN-T network will also be improved.

The investments will lead to the increase of accessibility on regional, national and international markets, to the reduction of dead intervals of time for the travel and costs of transport for passengers and goods, as well as to the increase in the quality of transport services.

Within the framework of Sectoral Operational Programme *Development of Human Resources* there will be sustained investments in the improvement of the educational and professional training system and there will be realized the connection between the educational offer and the current demand of workforce. The program aims at the modernization of the Public Occupation System, supporting a good functioning of the labour market.

The adaptability of the workforce and of enterprises, as well as the long life training will represent as well central elements of the programme. In this sense, the employers will be encouraged to invest in the employed human resource. The projects taken into account will contribute to the promotion of equality of chances and to the fight against social exclusion for women, Roma minority and other vulnerable groups on the labour market, in order to extend the access of these groups to the existent or newly-created work places.

The Regional Operational Programme aims at reducing the interregional and intraregional disparities, as well as those between urban centres and adjacent rural areas, by the capitalization of local and regional potential. To this aim, the programme contains interventions within the framework of the next priority axes:

- the improvement of the regional and local public infrastructure (modernization of the networks of regional/local roads, the health infrastructure, the educational infrastructure);
- the reinforcement of the regional/local business environment (the development of the business environment and support to small enterprises);
- the development and promotion of regional and local tourism (rehabilitation of tourism infrastructure);
- lasting urban development (the sustenance of urban regeneration).

The Operational Programme *Development of Administrative Capacity* takes into account the acceleration of the reform of public management in public administration by interventions in the policy cycle (the enforcement of the capacity of the public management of ministries and the implementation of modern methods in the domain of human resources for the improvement of individual performances of civil servants) and the sustenance of the management reform in the sectors that contribute directly to economic growth and to the creation of work places.

By the Operational Programme *Technical Assistance* there will be ensured support for the coordination and efficient transparent implementation of Structural Instruments in Romania by:

- the sustenance of the processes of programming, monitoring, financial management, control and internal audit of Structural Instruments;
- the development of an “evaluation culture” in Romanian administration;
- staff training;
- the insurance of coordination with the other operational programmes;
- satisfying the necessities of the Authority for the Coordination of Structural Instruments, and the certification authorities, of payment and audit;
- the functioning and development of the Unique Information Management System regarding Structural Instruments;

- the dissemination and promotion of information regarding the Structural Instruments.

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# LEGAL ASPECTS REGARDING THE AGENCY CONTRACT'S REFLECTION IN THE ROMANIAN LEGISLATION

Gradinaru Nicolae

„Constantin Brancoveanu” University Pitesti, Faculty of Management Marketing Business Affaires  
Rm.Valcea, Nicolae Balcescu street, no. 39, Rm.Valcea, E-mail: gradinaru\_fd@yahoo.com, Phone:  
0744313269

**Abstract:** *The legal practice has revealed several collaboration contracts, under the impulse of the new social and economic expectations. The agency contract is a juridical institution set up and developed by practice. In opposition with rare, isolated collaboration which characterizes the commission contract, the agency contract features stable, durable collaboration with commercial agents that sometimes manage to find customers or conclude contracts on behalf of the deal principal. The agency contract is concluded in writing for a stipulated or non-stipulated period of time including all subsequent changes and additional clauses; it can be proved only in writing irrespective of its value, both between the two parties and to third parties.*

**Keywords:** *contract, commercial agent, deal principal, non-competition clause.*

## 1. General considerations

Integrating the regulatory contents of EU Council's Guidelines no.653/1986 of 18 December 1986 regarding the compliance of EU member state independent commercial agents' rights with the Romanian legislation involves the adjustment and supplementation of the Romanian Commercial Code or the adoption of a special law.

The Romanian legislation does not include a juridical category different from the one of proxy or commission under the agency title although, there are other regulations for certain types of agents.

The Romanian commercial code foresees a single type of collaboration contract – the commission contract and its variant, the consignment contract.

The legal practice has revealed several collaboration contracts, under the impulse of the new social and economic expectations resulted from the changes in the goods and services distribution system. Thus, the new commercial contracts have various often inaccurate names which have assigned law courts very difficult tasks when trying to qualify contracts and setting up their contents.

The agency contract is a juridical institution set up and developed by practice. In opposition with rare, isolated collaboration which characterizes the commission contract, the agency contract features stable, durable collaboration with commercial agents that sometimes manage to find customers or conclude contracts on behalf of the deal principal.

A special law has been adopted in this field regarding the above issues – Law no.509/2002 related to permanent commercial agents which does not confide to the provisions in EU Council's Guidelines no.653/1986, but adjusts the latter to the Romanian juridical context.

The law applies to the juridical relationships between permanent commercial agents and their deal principals.

A permanent commercial agent is any marketer, individual or business, who is permanently authorized as an independent intermediary to:

- negotiate business on behalf of an individual or business called *deal principal*;
- negotiate and conclude business on behalf of and at the expense of the deal principal.

The contract concluded between an agent and a deal principal is called *agency contract*.

An agent may use the authorization provided by a deal principal only in certain regions, as it is stipulated in the contract.

The agent is not the deal principal's official in charge (that is the agent is not hired on a work contract basis). According to article 392 in the Commercial Code, the official in charge is "the one assigned with their manager's trade activities either at the site of effective practice or in any other place". Thus, the official in charge receives that position by the work contract concluded by the marketer and the former. The contract conclusion entails the official in charge's dependence upon the marketer as he/she is one of the latter's employees. The agent renders a service as main title or supplement for some remuneration

The provisions of Law no.509/2002 do not apply to the people who:

- a) act as jobbers within stock exchanges and regulated markets of goods and financial derivative instruments;
- b) work as insurance/reinsurance agents and brokers;
- c) render unpaid services.

According to the law, an agent is not the one who:

- a) is the legal or statutory body of a business and has the duty to stand for the latter;
- b) is a partner or shareholder and has the legal authorization to act for the other partners or shareholders;
- c) is a judiciary administrator, liquidator, trustee, guardian, custodian or distraint executor to the principal in a deal.

## **2. Rights and obligations of the parties**

The agent cannot negotiate and conclude on his own competition trade operations with similar goods and/or services within the region stipulated in the agency contract, and without the deal principal's consent.

If the agency contract does not stipulate a counterclause, the agent may act for several deal principals and the deal principal may use several agents in the same region, at the same time and for the same trade.

The agent may be given the authorization to negotiate or conclude operations for several competitor deal principals in the contract-stipulated region only if there is such an allowance within the contract.

The agency contract may stipulate a *clause of non-competition* – which is a contract provision whose effect is to reduce the agent's professional activities during the development of and/or after the conclusion of the agency contract.

The non-competition clause should be drafted in writing, under the penalty of nullity. The non-competition clause is applicable only in the geographic area or to the people stipulated in the agency contract, and only regarding the goods and services the agent is authorized to negotiate for and conclude operations. Any extension of the non-competition clause scope can be cancelled at the agent's request. The non-competition clause cannot last for more than two years from the date of agency contract conclusion.

The agent shall meet the requests ensuing from authorization received personally or by means of his deal principals with a view to accomplish the latter's interests.

In order to execute granted authorization, the agent must act with goodwill and professional diligence.

## **3. Agent's obligations:**

- a) to gather and communicate useful information to the deal principal regarding the region/s stipulated in the contract as well as all other information at hand;
- b) to show required diligence when negotiating or concluding business that he is authorized for in most favourable circumstances to the deal principal;
- c) to closely observe the deal principal's sensible instructions, taking account of their imperative, indicative or optional nature;
- d) to record in his registers separate entries that relate to each deal principal;
- e) to store the goods or samples so that he can easily identify the ones belonging to a certain deal principal;
- f) to meet any other requirement stipulated by the contract or law provisions. .

#### 4. Deal principal's obligations:

- a) to provide the agent in due time with the right amount of samples, catalogues, tariffs and all other documents the agent needs in order to apply authorization;
- b) to provide the agent with the information necessary to execute the agency contract;
- c) to inform the agent in due time if he foresees that the commercial operation amount is going to be lower than the one normally anticipated by the agent;
- d) to pay the agent the due remuneration within the terms and conditions provided by the contract or law;
- e) to accomplish any other task stipulated by the contract or law.

The deal principal must duly inform the agent about every commercial operation negotiated or concluded by the agent and which has been disapproved, declined or not executed.

If, after the notice, the deal principal does not duly inform a third party about his acceptance directly or by means of his agent, the negotiated operation shall be quit.

The deal principal must act with goodwill and professional diligence.

#### 5. Agent's remuneration

The agent's remuneration is either a fixed amount or commission, either partly fixed or partly commission, as agreed upon by the parties.

When legal provisions or derogative stipulations are missing, the agent is entitled to a remuneration in compliance with the commercial usage in the area or market sector of his activities. In the absence of certain usage, the agent shall receive a proper remuneration taking account of all his activities' aspects.

A *commission* is any remuneration form whose amount is set in relation with operations' volume or value.

The *agent* is entitled to a commission for an operation concluded during the contract development if:

- a) the operation has been completed due to the agent's intermediary practice;
- b) the operation has been completed with a third party that has been previously found as a client by the agent providing the operation should be similar with the one concluded with that client before;
- c) the operation has been completed with a client from a stipulated region that the agent has exclusive authorization for.

*The agent* has the right to a commission for an operation completed after the contract conclusion if:

- a) the operation conclusion takes place within a reasonable term from the contract conclusion and it is mainly due to the agent's activities;
- b) the third parties' order has been received by the deal principal or agent before the agency contract conclusion.

The right to a commission starts on the date one of the following conditions is met:

- a) the deal principal executes his contract duties to the third person;
- b) the deal principal should have executed his contract duties to the third person;
- c) the third party executes their contract duties.

The right to a commission starts no later than the date the third person executes or should have executed their duties on condition the deal principal has duly executed his.

A commission is also received for completed operations that have yet been left aside by the parties. If the third person performs a partial execution, the agent has the right only to a part of the commission.

The right to a commission ceases when the operation completed between the deal principal and the third person is not executed because of circumstances that are not the deal principal's fault.

The parties (deal principal and third person) cannot resort to derogation that is unfavorable to the agent's interests.

The commission account shall be liquidated by the deal principal at the end of each term and sent to the agent along with copies of the invoices dispatched to clients, including the specification of the essential elements underlying commission calculation.

The agent has the right to require and receive any information including extracts from the deal principal's account books in order to check the commission value he is due to get. The commission must be paid no later than the last day of the month following the term during which the right to a commission started.

## 6. Agency contract conclusion and cancellation

The agency contract is concluded in writing for a stipulated or non-stipulated period of time including all subsequent changes and additional clauses; it can be proved only in writing irrespective of its value, both between the two parties and to third parties.

The agency contract with a stipulated duration shall be executed by the parties and it is considered a non-stipulated duration contract after its expiration date.

The non-stipulated duration agency contract can be *denounced* by either party on condition a notice is first sent.

The notice term accompanying the denouncement statement should be at least one month long for the first contract year lasts more than a year, the minimum notice term is increased by a month corresponding to any additional year with the notice term not exceeding six months.

The parties may agree upon longer terms only at the expense of the deal principal. If the parties do not agree otherwise, the notice term end shall coincide with the end of a calendar month. Either party may cancel an agency contract without a notice or before the contract term expiration if there is a non-execution due to the other party's serious fault and duty execution failure.

The agency contract may be immediately denounced by either party along with the adjustment of damages caused to the other when special circumstances, other than the force majeure or accidental case, make the contract continuation practically impossible.

Thus, the contract cancellation presumably takes place on the date of written notice receipt about the denouncement intention, also including the reasons.

When the agency contract is cancelled, the agent has the right to an indemnity from the deal principal if:

- a) he has found new clients for the deal principal or has extended the commercial operations with existing clients, so that the deal principal gets benefits;
- b) having in view concrete circumstances, the indemnity is equivalent, especially due to the commissions the agent should receive after the deal principal's concluded operations as well as to the agent's potential activity reduction as a result of the non-competition clause.

The indemnity value may not exceed the amount of an annual remuneration whose calculation is based on the average annual remunerations cashed by the agent over the last five contract years. If the contract lasts less than five years, the annual remuneration is calculated based on the average cashed during that period.

Granting an indemnity does not cancel the agent's right to ask for compensations according to the law.

If the agency contract is cancelled because of the agent's death, the calculated indemnity shall be properly granted to his successor.

The right to an indemnity is cancelled if the agent or his successor does not delay the deal principal in his claims within **one year** from the agency contract cancellation date.

The agent has no right to an indemnity if:

- a) the deal principal cancels the contract because of the agent's infringement of his obligations from his own fault;
- b) the agent *denounces* the contract, except when the denouncement is justified by reasons such as the agent's age, handicap or disease that clearly prevent his activities from being executed, or justifiable reasons from the deal principal's fault;
- c) in case of agency contract novation when replacing the agent by a third person.

The deal principal cannot exonerate himself from the *non-competition clause* if the agency contract is cancelled in the following circumstances:

- a) the deal principal denounces the contract without obeying the notice term and having a serious reason previously communicated to the agent;
- b) the agent cancels the contract for a serious reason due to the deal principal and immediately informs the latter;
- c) the agency contract is cancelled by the law court subsequent to the deal principal's fault.

The law court may, at the agent's request and observing the deal principal's legal interests, remove or restrain the non-competition clause effects when the consequences damage the commercial agent and are against evenness.

At the agent's request, the law court may reduce the penal clause or stipulated indemnity share for his infringement of the non-competition clause if they think it is excessive as compared to the causes and circumstances.

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# THE ASPECTS OF COMMERCIAL POLITIC OF ROMANIA FROM THE PERSPECTIVE OF INTEGRATION IN EUROPEAN UNION

Grozea Cristina Mihaela

„Ovidius” University of Constanța, Economic Sciences Faculty, Str. Adamclisi Nr. 2A, Bl AS2, Sc. B, Ap. 29, Constanta, cgrozea@yahoo.com, 0723564913

Spătariu Elena Cerasela

„Ovidius” University of Constanța, Economic Sciences Faculty, Str. Unirii nr. 112A, Bl. U6, Ap. 31, Constanta, ebarbu2001@yahoo.com, 0722548393

Asalos Nicoleta

„Ovidius” University of Constanța, Economic Sciences Faculty, Str. Al. Lapusneanu, Nr.68, Bl.LE12, Ap. 38, Constanta, nicoleta\_asalos@yahoo.com, 0722819098

*Abstract: The paper proposes an analyze of economic implications for Romania once with the integration in the structures of European Union in the domain of commercial politic. Romania's quality of European Union member supposes the opportunity of beneficiate of the construction of a politic and economic power developed during many decades, but also the assuming of the responsibilities. Once with the adhering, Romania adopted Comunitary Commercial Politic, but also the Common Customs Tariff, that conduced to the liberalization of the commerce and the retraction from all the accords that belong to and were in the outside of European Union, and also the application of comunitary juridical frame.*

*Key words: commercial politics, market, integration*

## **Introduction:**

Exactly what is looks today, European Union represents probably the most ample and the perfect regional integration model, that influences and modifies the commercial changes at international level.

The characteristics of commercial politic mechanism of European Union are: the convention of member states concerning the customs taxes at communitary level and the continuous rythm concerning the commercial liberalization of industrial goods. The convergence of our country to the European Union structures will conduce to the improval of economic infrastructure, that will conduce also to substantial funds waves, and will raise the capacity of foreign investments attraction in domains such as: telecommunication, services, commerce, machines industry, wood industry.

The commercial integration contributed to the profound study of the integration to its superior levels. European Union with USA, Japan and China realize almost half of mondial commerce, the only direct competitor of European Union being USA.

The unique character of the integration process comes from the success of the creation of one of the biggest common markets and from the good defining of common politics. The integration has a strong connection with the science development, technique and modern technologies, which determined structural rapid changes, in a process of a long term and new forms of mondial work division, and also the adequate modalities of realizing them. Through material, technique, human, financial integration of every country will be used more efficient, thing that conduces to the raising of complexity grade of national economy.

The intervention of European Union in a big number of domains is possible thanks to the competences delegation by the member states. Through the common politics we can say: common agricol politic, common commercial politic, transports politic, economic and monetary union. European Union resorts to its common politics in order to be capable to face the numerous changes of globalized mondial economy.

The commercial politic of European Union, in the globalization context, must become an integrant part of economic reform, having the next premises: the opening of new detachment markets, the creation of new opportunities for production and assurance of European company competitiveness. Because of European integration, a lot of member states had developed their commercial changes, which constituted an important factor of economic growth.



The commercial politic of European Union has the role of imprimating a negotiation power stronger than in relations with the collaborating countries to establish an extern common customers tariff, and also, to the harmonious development of mondial commerce. The benefic effect of commercial politic can be seen through the success of incontestable economy by the European Union. Today, the European Union is the most important participant to the global commerce, covering almost 20% of the mondial imports and exports.

Once with the adhering of Romania to the European Union, the commercial politic of Romania is reglemented by the comunitary rules which means that, Roamnia will retract from all the accords that belongs to and are away of European Union and will apply the comunitary juridical frame, and on the other side, will apply the accords with mediteranean areas, Mexic, Chile, South Africa, and stabilization accords and association with the states from the west balcanic area. A percentage of 83,9% from the Romanian exports realized before the adhering in the frame of free commerce accord, and a percentage of 70,56 from the imports.

The adhering politic of Romania applied the commercial politic of European Union and concentrates in:

- common customers tariff;
- scheme of generalized preferences (SGP) of European Union;
- commercial defend measures;
- commercial and cooperation preferential accords signed with the collaboration countries;
- the commercial commitment from the frame of Commerce Mondial Organization (OMC).

## **1. Common customers tariff:**

Now, Romania, after the adopting of Common Customers Tariff apply a level of customers taxes lower than before the adhering to European Union, the incomes registered from customers taxes is almost 2% from PIB. The larging of customers union influences commercial waves and also, will appear modifications of commercial politic.

The commercial politics modifications result, on a side, from the larging of customer union that will influence the commercial waves, and on the other side, from the canceling of commercial accords of Romania from before the adhering.

These modifications involve two aspects:

- the modification in value of customer taxes;
- the modification in tariffary regim applied to the origin countries of imports.

The adoption of Common Customer Tariff of European Union supposes the next situations:

- the elimination of any barrier between membre states of the union;
- the customer regim with thirds countries will remain the same, but the level of customers taxes will be different;
- the commercial partners that beneficiate of commercial preferential regim could loose this status.

In addition, following the adoption by Romania of commercial politics of European Union on multilateral, interregional, regional, bilateral plan, will conduce to some unavoidable important changes in extern commercial politic of our country.

Through the adoption of Common Customers Tariff of European Union, our country pointes out some disadvantages:

- the renouncing to the status of country in cours of developing, and, in consequence, to the disadvantages from which Romania beneficiates in the domain of commercial politic measures, in the virtute of this status;
- European Union has some engagements with OMC at which Romania aligned, but these engagements involve the customers tariffs to a sensitive level, lower than the actual consolidation level of vama taxes of Romania, at OMC;

- the renouncing to the status of country beneficiary of SGP in the favour of the donating one of SGP and the retracting form the Commercial Preferences Global System.

There exists also some advangaes, such as:

- the possibility of a more efficient promotion of the interests in the international commercial negotiations, taking into consideration that European Union is the commercial mondial leader, so with big force of negotiation;
- the diminutionof import prices for the products came from European union, the entrance of these products in big quantities in our countries will exercitate pressures over the intern producers, that will conduce to the raising of the competitiveness.

The Integrated Tariff of European Communities represents o data base with almost 10.000 titles and bases on the Combined Nomenclature that constitutes the basic nomenclature for the Customer Tariff. It indicates the comunitary legal dipositions that applies in the case of imports by the European Union or in the case of exports to some another countries.

On the site [www.ac.europe.eu](http://www.ac.europe.eu) exists a page where can be calculated the customers taxes if it is introduced the product and origin/destination country.

In addition of the adhering to European Union, Romania does not sign anymore customer formalities for the developed commerce with the other member states, these being replaced with a serie of suplimentary declarations that will be sent to the Intrastate. The statistic system Intrastate collects dates concerning the developed commerce between the member states of European Union directly from the economic agents, declarations being monthly.

The Intrastate declarations represents a simplification of the old customers declarations, because these reduce at half the demanded information. In Romania, Intrastate is administrated by the National Institute of Statistic, in collaboration to the Public Finances Ministry. Mircea Toader, general director in the Economy and Commerce Ministry, declares that the exports situation at 11 months in 2006 to the countries from European Union – 25 was cifred to 16.232,1 millions EUR, representing 68,1% from the total value of the export, meanwhile the effectuated import by Romania from the countries from European Union – 25 was cifred to 22.939,1 millions EUR, representing 62,5% from the total of the imports.

## **2. Generalized Preferences Scheme:**

Generalized Preferences Scheme is a system of tariffary preferences accorded unilateral by the European Union of some originary products form the developing countries, implemented on the base of the accords for periods of three to four years.

In the frame of this system, the originary products from the developing countries beneficiate by the reduced customers taxes or zero, and the originary products from the less advanced countries have free access to the export on European union market. Once with the adhering in European Union, Romania quit the position of preferences receptor, through the retracting from Generalized Preferences Customers System, global system of commercial preferences between the developing countries, negotiated under the aegis UNCTAD, the Protocol of the 16<sup>th</sup>, negotiated under the aegis GATT, and became donator of preferences.

The reglementations for the period 2006-2015 have into consideration the imporval of the system through:

- the application of SGP to the developing countries that have the biggest needing;
- the simplification of SGP;
- the according of the preferences to the beneficiaries to be transparent;
- the reanalyzation of the temporary retracting accords of preferences, of safeguarding clauses and anti-fraud;
- the continuation of according process of preferential customer advantage;
- the introduction of new stimulants.

For the period January 1<sup>st</sup> 2006 – December 31 2008, European Union will apply “SGP Plus”, which is a stimulants schemes for a durable development and a good governation, through which is extended the covered number of products by the Ecuador, Peru, Venezuela, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua si Panama, Moldova, Georgia, Mongolia si SriLanka.

In what concerns the commercial defend measures, European Union applies all known types in the contemporary practice, such as: antidumping measures, compensatory measures and safeguarding measures. Through the antidumping and compensatory measures is followed the remediation of market distortions generated by the unloyal practices of several countries, and through the application of safeguarding measures is followed the stopping of the deteriorating situation of comunitary producers, as a result of the raising imports.

### **3. Commercial accords signed by the European Union and third countries**

#### ***3.1. Commercial preferential accords signed by the European Union with the third countries groups thus:***

- European Economic Space (SEE)
- Stabilization and Association Accords
- Autonomie Commercial Preferences System (SPCA)
- Euro-Mediterranean Association Accords
- Preferential Accords signed with Africa countries
- Preferential Accords signed with Latin America countries

#### ***3.2. Unpreferential commercial accords signed by European Union with third countries are grouped thus:***

- Unpreferential accord signed with Republic Moldavia
- Unpreferential accords signed with Oceania countries
- Unpreferential accords signed with Mid Orient countries
- Unpreferential accords signed with North America countries
- Unpreferential accords signed with Latin America countries
- Unpreferential accords signed with Latin and Central America countries
- Unpreferential accords signed with Asia countries
- Unpreferential accords signed with ex-CSI countries

In conclusion, the Romania integration and adopting of Common Commercial Politic, but also the Common Customers Tariff will determine a semnificative impact over the competitiveness level of our country through the influences that these will have over the value and the volume of imports, but also the exports performance. In the same time, the adhering effects will be seen also in what concerns the commercialized intern goods, direct foreign investments volume, but also on the work force market.

The European Union proposes the liberalization on forward of the commerce giving trust to the business environment.

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# THE INVESTMENTS, ECONOMIC GROWTH FACTORS OR CONSUMPTION OF DEVELOPMENT POTENTIAL?

**Huru Dragoş**

*Academy of Economic Studies, Faculty of Economics, Căderea Bastiliei nr1 Sect.1 Bucureşti, dragos.huru@economie.ase.ro*

**Hrebenciuc Andrei**

*Academy of Economic Studies, Faculty of Economics, Căderea Bastiliei nr1 Sect.1 Bucureşti, andrei.hrebenciuc@economie.ase.ro*

*In Romania, in the last year the economic growth is a real phenomenon that is not our subject for demonstration or for analyze in this paper. Our concern is related with the way of manifestation for economic growth in the economic system. We study if not the economic growth on the contrary of development for current or further performance (regardless of economic aspect or level of analyze) can unstuck in consumption of the availed resources for consolidate potential for development.*

*Key concept: investments, economic policies, economic growth*

Investments represent the build up through which the humanity reached the actual development stage, being also, the way through which it succeeded in accumulating the means for satisfying its necessities. In almost all the economic theories, investments appear as an integrant part of the development theory in which the investment policy determines the economic growth trend, and their structure, influence the reaching of different production ascendant trends in economic sectors, ultimately sustaining shifts in the economic structure of the system; investments are being influenced by several growth and development hypostases. (Huru 2007) The paradigmatic analyze on investment quality in this sense would be useless, through the investment act, we can naturally create the premises for material and spiritual growth. But, the paradigmatic analyze in Kuhn's view does not solve the problem, the Popper view (Fuller 2003), leads us to a critic of an implicit argument, leads us to a question: Can economic growth be a mean of destructing the development potential, through an inefficient distribution of resources to the present economic growth?

In the economic growth events people have to accumulate, to save. When people save, they in fact accumulate, so that they can access the needed money for a bigger future consumption not for a future supplementary consumption. We understand bigger future consumption as expenditure resulted from higher incomes appeared from supplementary profits realized after sacrificing the present one. Through sacrificing the present consumption; we need to understand a rearrangement of incomes in a long period of time. Investments should be orientated to consolidate the economic development resources, in case they sustain a bigger present consumption without future implications, they could be transformed in the consumption of potential economic development elements.

Investments in an economy which wants to become competitive and assure the success of the process of European integration, have to consolidate the human capital, technologies and knowledge which became important elements in the economic development processes. The mode in which they integrate in the functional processes for reaching a higher growing trend is a specific one, and relatively new to the economic science. In any historical period, every economic transformation process was marked by the producing of two essential different goods: consumption goods and production goods destined to future development. (Inada 1966). The development processes have to be studied starting from the distinction between these two economic sectors. They should not be mistaken, even in the situation in which a good through its constructive characteristics can evolve in being useful for both processes. The economic growth stability could be reached through the consolidation of competitive real assets.

We believe that in Romania appears a new period of erroneous economic policy in the investments field. Until 1989, we could all debate about inefficient capital allocation in the sense in which the efficiency and economic rationality criteria faded in front of politic rationality. (Zaman 1998, Postolache 1991). In present, it is possible that the economic policy in Romania skipped over or the instruments needed to create the future direction (BNR position) became less strong in orientating the investment capital to

consolidate the economic development . We try to underline that despite the raising of the GDP / person in present , the phenomenon acts in an inflationary gap. It is normal to perceive at macroeconomic level , that we are witness to an economic growth but this fact was influenced by the passing over the recession period through a boom and bust policy . In case in which the personal or company investments do not prepare the field for future growth we could all be witness to an eviction effect of economic policy and the Romanian economy entrance in a structural crises determined by the economic policy context presented . The romanian consumers euphoria could affect the proper development conditions appeared through multiple causes: the nominal convergence process sustained through macroeconomic governance , real convergence determined by the European Union integration , the catching – up process influenced by real vertical and horizontal integration in the European economy . We cannot formulate a scientific judgment in this direction , we only propose to start an alternative analyze , the described problem is in the center of government , corporate governance and scientific debates.

The decline of economic growth performances is not only a problem for Romania , is a real problem for the European Union too .( Oughton 1997 ). The critics are formulated around the investment policies for competitive development of real assets who could ultimately develop competitive goods to the European and international market. The debate on this aspect always points out the controversy about the mode in which the economic policies should be defined in order to achieve the compatibility between the business field and the international standards. The debates on the assistance to a sector who could promote winners through government economic policies or the mode in which the policies for market failure were replaced by a new gravity centre: how can we design the economic policies so that we can include a variety of policy measures (not just economic policy) to sustain a future economic development? The analyze center moves from an integrant vertical to a horizontal economic action approach. (Romer 1993).

The our dilemma reveled in this paper can not be explained though the lack of our capacity to observe the right incitation of economic action now in Romania (we can explain in this manner the expectation of growth failure in Romania- Walker and Sharp 1991) or as a attempting to express the failure of government policies (Pitelis 1993) as we can find in economic literature. On the another hand it is necessary to find a manner to organize the resources allocation witch make possible the exploitation of every possibility to grow the efficiency of resources allocation or processing of that in economic medium. The extinction of individual consumption for durable or current goods from Romanian economy is generated from the lack of perspective in the business environment of emergent economy for post-communist country (Dinu, 2007) and from highly opportunity cost for savings and for investment in the lack of coherent policy in the investment field which can concords with comparative advantage who can be transformed in competitive advantage in Romania. In the condition of one economy in full process of integration, investment policy (Huru 2007) is must to consider the new condition and characteristics who claim to concord in the business environment tendencies of economic development.

The priority for investment policies is not to assure a highly rate of growth. The priority is represented by the assurance of economic development for a long time can allow a consistent real capital accumulation. That's tendency implies growth of production capacities simultaneously with the growing of development potential who enable the growing of real investment weight in GDP for the further. The European development policies implies (since before Romanian's integration- CE 1994) the growing of importance for investment in technology, the development of cooperation and the reduction of asymmetric information, the improvement of concurrency and the modernization of public management. Without consideration of these aspects the present economic growth is possible to response in a powerful recession wit effects in the entirely European economy. The solution in this case consists in generation the good condition for predictability in business environment with immediate result in growing the real capital on the suzerain territory of Romania, capital capable to be competitive in this result and who can admit the further development even in the condition of multiplies the concurrency bat in the situation of improvement the for of that.

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# EUROPEAN „C” QUEST: COMMUNITY, COMPETITIVENESS, CONVERGENCE, COHESION. WHAT SHOULD THE “EU NEW COMER ROMANIANS” AIM FOR?

**Jora Octavian-Dragomir**

*Bucharest University of Economics, Faculty of International Business and Economics, Address: 13-15, Mihai Eminescu Street, Sector 1, Bucharest, code 010511, Romania, octavian.jora@yahoo.com, 0723.977.823*

**Topan Mihai-Vladimir**

*Bucharest University of Economics, Faculty of International Business and Economics, Address: 13-15, Mihai Eminescu Street, Sector 1, Bucharest, code 010511, Romania, topan\_vlad@yahoo.com, 0723.408.532*

**Mușetescu Radu-Cristian**

*Bucharest University of Economics, Faculty of International Business and Economics, Address: 13-15, Mihai Eminescu Street, Sector 1, Bucharest, code 010511, Romania, radu.mușetescu@rei.ase.ro, 0724.398.464*

*Abstract: The analyses carried out both at the centre (Brussels) and at the destination (member states) (ab)use of the principle that in public expenditure terms “spent money means well-spent money” and consider that absorption capacity equals economic performance (equated quite disputably with disparity reduction). The aggregate Keynesian perspective provides the main argument in favour of this interpretation: EU funds lead to GDP growth (economic growth). This vision overlooks the crucial importance of resource allocation micro-processes, private property and business activity. Therewith, the process of making European funds profitable and, consequently, the EU convergence feasible depends on the extent to which the absorption environment is structurally reformed. The “cohesion paradox,” which can be formulated like “least underdeveloped regions have relatively higher chances to attract European funds, while disparities compared to relatively less developed regions might even intensify”, can be broken only through multi-dimensional reform, immaterial to whether we speak about Romania, or Ireland, or Portugal, or Spain, or Greece.*

*Key words: EU funding, EU regulations, private property, competitiveness, convergence, cohesion.*

*JEL: H0, I0, O5, P5*

## **Economic and social cohesion (issues)**

### ***On convergence dialectics. Nominal versus real convergence***

The two large types of convergence – *nominal* and *real* – are usually considered at least distinct if not somehow opposite. The distinction itself between the two follows a classical separation – between *real economy* (aspects related to production, commerce, services) and *symbolic economy* (aspects related to the financial-monetary part of an economy). However, this distinction is artificial to a certain extent – even if it has a heuristic-operational utility – and rather recalls the vision that in economy money is a mere “veil”, cash and financial flows being only the necessary consequence of real flow movement. From another perspective, that of a paradigm that considers money itself a driving force of the market, the separation between *the real* and *the symbolic* (or *real* and *nominal*, to use the same words) decisively loses relevance. Why would the unemployment rate be, let us say, a more “real” aspect of the economical situation of a certain area than the inflation rate? In other words, why would the possibility to get a job necessarily be more “real,” more tangible, than the reduction in the purchasing power?

In view to extrapolate the above, we might point out that there is no difference of nature between nominal and real convergence issues; on the contrary, the two of them can reinforce each other. *The so-called nominal convergence would be an important premise of real convergence to the extent that, on one hand, nominal exigencies “clean up government’s behaviour” and, on the other hand, “the main ingredients of economic growth are the private property, the free entrepreneurship and the accumulation of capital”*

(which presupposes a healthy currency to allow accurate business calculations). Some of the European economic mainstream believes that nominal convergence criteria might be incompatible with economic growth. The key to understanding these issues is to abandon the simplistic “numerical”<sup>157</sup>, aggregative vision and to adopt in exchange an *entrepreneurial approach* of economic performance whereby nominal convergence and single currency become brands of the European way of reform. Criteria are not only displays of an anti-inflation obsession, “but also a truly economic performance framework to unleash private businesses and restrain government fiscal-monetary discretionism. Nominal convergence criteria are a key ingredient for real convergence!” (Spiridon 2004, pp. 22-23)

### ***Natural convergence and “self-chosen disparities”***

The simple but fundamental question to which the ordinary treatment of the convergence and cohesion issue fails to answer is: why cohesion or convergence (howsoever they may be expressed) is necessarily beneficial for everybody. And here there is possible that certain communities do not recognise generally accepted standards (GDP/capita, productivity; employment; infrastructure, etc) as elements of welfare. If we think – from the perspective that Romania is an orthodox country – of the orthodox areas populated with monasteries (Mount Athos; certain areas of Moldavia), it might be possible that the similarity with rich areas from the EU’s hard core will not only be a priority but quite an inconvenient. Moreover, in order to reach certain internal consistency, the European model – that treasures non-discrimination ideal - should reflect on the particular communities issue (we could add here a part of the gypsy community) and on how such communities see the desideratum to “converge” with the rest of the European communities.

Therefore, the idea of “self-chosen disparity” should be firstly accepted during the discussion on convergence and only then, should the convergence issue be raised. This point, however, leads to a fundamental question: how necessary is government or inter-governmental intervention (especially the cohesion policy instruments) to build convergence. Even the underlying neoclassic model of the absolute beta convergence idea recognises the normal convergence of a space/area within which capital and labour force (not to mention goods and services) circulate freely. Thus, economic policy measures for cohesion might concentrate on building this necessary premise: *freedom of circulation*, because there is the risk that the attempts to go beyond *natural convergence* might actually undermine it.

### ***Cohesion policy and its possible weak sides***

#### **In principle (back to Economic Fundamentals)...**

Basically, the European Union economical-social cohesion policy reduces to two large instruments: *intergovernmental transfers of funds* and *regulations*.

The economic theories indicate us two major obstacles to its success: *calculation chaos* and *moral hazard*.

- *Moral hazard*: a (national or European) public/civil servant is not motivated by profit & loss to behave for the interest of the taxpayer-consumer. If it is possible for him to establish a “priority” or to change the result of a public tender in favour of political clientele, his county or simply to his family, nothing can guarantee he will not do it.
- *Economic calculation*: the fundamental instrument that makes possible for the production structure such as that of modern contemporary economies to be maintained through rational allocation of resources is *monetary calculation*. If expected revenues from an investment project do not exceed expenses (both present and anticipated), the concerned project *will not* be carried out at market conditions (under voluntary exchange conditions). In general, the so-

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<sup>157</sup> The rationale of instruments emphasizing real convergence (sigma, beta versions – absolute or conditional) does not start from realistic intuitive elements, but it is a product of the use of mathematical-statistical tool: dispersion and regression. In other words, no fundamental issues related to convergence are raised (what is it and especially, why is this beneficial), but it is tried to give the answer to an implicit question like “what can we say about convergence by using the statistical-mathematical tool.” The official methodology favours the statistical correlation for the detriment of fundamental causal economical explanations. The impact of a measure of policy (e.g.: cohesion policy) cannot be observed either empirically or by putting the empirical measurements into a model, despite the quantitative precision impression of the model observations or results. See, for example, the non-homogenous assumptions (and the results) between the three models used in the European Commission’s report (HERMIN, EcoMod and QUEST) partly inspired by new-Keynesian theories that can demonstrate how imperfect this way of decrypting economy remains.



called disadvantaged areas have, due to various reasons (remoteness, unqualified and relatively expensive labour, low demand, ill-conceived regulations etc.), few chances to carry out profitable projects. The idea of regional policy based on intergovernmental transfers of funds disregards this very type of market verdict. The market gives the following message through its business elite: in such and such region, currently such and such projects are not feasible (profitable); bureaucracy disputes this very verdict of the market without, however, having the intellectual instruments to actually do/replace it (that very monetary calculations it had given away)!

Then, the persistence of disparities despite cohesion assistance should be interpreted differently. This may mean that either institutional incentives are still weak or adverse natural data cannot be overcome or that self-chosen disparities may exist (see previous comments), so the ‘remedy’ should be accordingly asserted and applied in order not to break the very principle of any cure: *primo non nocere*.

... and in practice (back to Benchmark Integration)

### ***The Irish case: reduction of public expenditure, superior to the incoming European funds***

For the occurrence of „the Celtic Tiger” phenomenon multi-causal explanations are often given, such as *European transfers* (agricultural subsidies, plus structural funds and cohesion funds), *“knowledge-based economy”*, or the *deregulation and fiscal –budgetary exemption*. Nevertheless, which is the true story of Irish success?

In the last two hundred years, Ireland has been the poorest region in the British archipelago. After the accession of Ireland to the EEC, in 1973, “the catching up” has become the main objective, but the initial instruments have been typical for the governmental Keynesian activism: high public expenses in order to absorb unemployment, high taxes, high credits for the public sector. The public debt level also became very high, but taxes, extremely high, could not be safely increased anymore.

Belonging to the ECC has deprived Ireland of monetary “expedients” such as monetary inflationary expansion in order to finance the public debt was incompatible with membership of the European Monetary System (EMS). The Irish government had to discover other principles of action, which would be regarded in the nowadays social Europe as “attacks” to economic democracy: in 1988, the government from Dublin applied the most drastic reduction of public expenses in the last decades<sup>158</sup>, solving the fiscal crisis. The economic freedom extended vigorously, and the role of the government in economy diminished adequately.

The Irish recipe of development would be the classical recipe (ante- and anti- Keynesian): *the decrease of weight of the public sector in the economy, small and balanced budgets, monetary stability, free foreign trade*. Another Irish “secret” of early stage reform: *absence of populism and trans-party compromise*. The power and the opposition were hand in hand in 1987, year ‘0’ of reforms, with social partners getting involved in a „social contract” both responsible and responsibility fostering: the government committed itself to low taxes and low inflation rates in exchange for payment requests moderation on the part of trade unions.

The virtuous and disciplinary effects of EU membership materialized between 1990 and 1995 in form of a very responsible monetary and fiscal behaviour – the Maastricht criteria have disciplined the public finances (the budget deficit and the public debt), and the perspective of adopting the Euro has disciplined monetary management.

At the same time, the tax burden was to be relaxed both at the income tax and corporate profit tax level. Subsequently, the government from Dublin shocked once again. Accused by the states from the same „social Europe”, whose capitals migrated towards the island, for „distorting competition” due to the existence of some “special areas”<sup>159</sup>, where corporate taxes amounted to 10% (while the general level amounted to 24%), Ireland had to comply and levelled taxes to only 12.5%.

After a sustained *forcing* with growth rates of over 5% between 1990-1995 and over 9% between 1996-2000 – and somewhat lower afterwards (we will see why) –, with important capital inflows (especially American), flourishing exports, a good demographic growth (as compared to the continent’s „hardcore”),

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<sup>158</sup> For example the costs for health have been reduced by 6%, those for education by 7%, agriculture had a lower budget by 18%, the military expenses have decreased by 7%, and the roads and dwellings received 11% less!

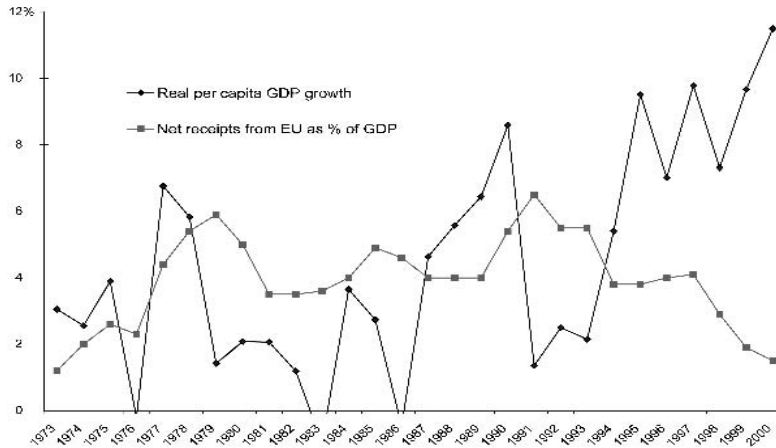
<sup>159</sup> The Shannon area and the Centre for Financial Services from the International Airport Dublin.

and with the acceptance of the idea of immigration, productively inserted in society and not on the pay roll of social security, as elsewhere, Ireland<sup>160</sup> has accomplished „more than catching-up”, having at present, after Luxemburg, the highest „positive” difference as compared to EU average: 145% the EU GDP/capita average.<sup>161</sup>

As for the European funds and the possibility for them to be the main explanation of the Irish economic success, we shall just notice that:

- a) public expenses cuts were higher than the European funds entries,
- b) there is a negative correlation between the economic growth rates and the amount of financial assistance<sup>162</sup> and
- c) there is no other major recipient country of such transfers from the European Union (and nowhere else either) which had similar satisfactory performances.

So, the Irish example is, most probably, a living proof of the force of private free enterprise.



**Fig. 1. Net European transfers and growth rates in Ireland (Source: Department of Finance, Ireland (2002)).**

The slowing down of the Irish economic growth, after the beginning of the 2000’s, must be interpreted with nuance: either by the conjuncture changes in the world economy – after 2001, USA, Ireland’s main trade and investment partner, entered into a period of recession because of the volatility of the previous growth, which resulted in the fall of the prices of listed securities, coming from the technology intensive sectors („tech bubble burst”) –, or because of the occurrence of certain contagions with ideologies such as the „Welfare State”<sup>163</sup>.

None of these invalidates or fully accounts for the recipe and the significance of growth spurred by economic freedom.

**Portugal: the EU funds have not compensated the structural reform deficit**

Two decades have passed since Portugal joined EEC and it continues to be one of the ambiguous stories of the “(financially assisted) development by European integration”. Providential after the right-wing dictatorship of Salazar (which was economically rather open towards the exterior), and after the left- wing

<sup>160</sup> The pre- community Estonia has also a story of the economic reform, similar in its essence: tariff and non-tariff unilateral “disarming”, early privatization, current and capital account liberalization, taxation unique quota, eliminated subventions, budget balance imposed by the law. (Magnus Feldman and Razeen Sally, “From the Soviet Union to the European Union: the political economy of Estonian trade policy reforms”, 1991-2000)

<sup>161</sup> And the second most reduced fiscal burden in EU – 31%, as compared to the average level of 46%. See also Dorgan (2006).

<sup>162</sup> Empirically, if the European funds had represented a major cause of the economic growth, it would have been expected that the respective growth had been the highest during the period when the fund transfers would have been the biggest.

<sup>163</sup> “Over the last 5 years, the country has been sliding into the abyss of rising government spending, indirect taxation increases and more regulation and state involvement in the economy.” De Vlieghere, M. et al. (2006)

democracy which succeeded it (along with the “Carnations Revolution” in 1974), its entry into the European Community marked the destiny of probably the most “Balkan”-like economy of Western Europe. Portugal’s accession in 1986 produced, until the beginning of the ’90’s, only a percentage point movement, as compared to the revolution in ’74, of the real convergence with, at that time, EU-12. The structural-type discipline – and less the fund-irrigated “catching-up” –, imposed by the EU accession, has begun to be treated responsibly only recently, the latest Portuguese governments choosing for a long while to “sacrifice” the sanitary, nominal convergence, for a misunderstood real convergence.

The economic growth, recorded in Portugal, has stayed below the EU average, starting 1999. The convergence increased by 21 points from 1974 until 2002, reaching about 74% from the EU-12 average. But from a different perspective, the GDP/capita decreased from 80% the average of the future EU-25 (1999), to 70%, last year, (or 74% from the average of the future EU-27), given the fact that fund entries were higher, as cohesion country, than for any other performers in catching-up! After 2000, the Czech Republic, Malta and Slovenia (from the group of the new EU member states), as well as Greece (from the old cohesion countries in EU-15) outran Portugal in GDP/capita growth rate.

Today, Portugal’s economy is marked by chronic backwardness in the classifications of almost all the European economic performance indicators. (The increase of GDP in 2006 was the lowest not only in the European Union, but even in the entire European continent).

The history of economic slippages in the last years shows that Portugal was the first member state to receive warnings of penalties for failure to comply with the Stability and Growth Pact terms – the out of control governmental expenses pushed the budgetary deficit in 2005 to 6,9%, the highest level in Euro land at that moment.

At present, the Portuguese government, run by José Sócrates proposes the continuation of the „lisbonization” of the pan-European economic reform, but the Portuguese vision seems to more clearly emphasize today a discipline of means. At home, Sócrates has already started to clean up the public finances. In his last two years as Prime-Minister, the budgetary deficit has been lowered from 6,9% to 3,8% “and lowering”<sup>164</sup>, and by rising the minimum legal retirement age from 60 to 65, Sócrates intends to continue the structural depressurization of his country’s budgetary deficit in order to bring it, in 2008, below the 3% limit imposed in the EU.

If the Portuguese talk about Ireland as about a “small and atypical” economy, to which the comparison would not be relevant, the comparison to Spain is not at all unreasonable. Portugal shares the peninsula with Spain, which is a country perceived as the locomotive of Iberia, and where the annual rate of economic growth has been of around 3% in the last decade (except for one year).

The explanation of the unequal performances between the two states varies among analysts, but the essential cannot be avoided: Spain has reformed the public sector and disciplined the public finances before EMU accession and not afterwards, as in Portugal.

When the interest rates converged downwards at the end of the ninth decade, with EMU joining, Portugal did not capitalize on the premises of economic growth by making budgetary “provisions” to cover future deficits, but forced an amplification of the growth rate by an expansionist budgetary-fiscal policy. The failure to seize this opportunity indicates why the European funds, as generous or well-oriented as they could be, could not find but a shaky ground for fructification.

The funds represented on average 2,3% from the Spanish GDP between 1990 and 2000 and 3,8% respectively from the Portuguese GDP, while the nominal economic growth was of 2,5% in Spain and 2,6% in Portugal. Moreover, the contribution of the cohesion funds in the public investments was, between 2000 and 2006 of 60%<sup>165</sup>, the highest share in EU-15. But the result was the one already mentioned: growth rates which persist in remaining under the EU average.

Instead of conclusion (Some lessons for Romania, arisen from the evaluation of the old cohesion countries knowledge)

- a) the structural reforms should be carried out and improved. In accordance with different international and national estimations, Romania has a moderate free market, the most critical distortions being: the registering of the property rights, distortions of certain

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<sup>164</sup> The Economist, 2007.

<sup>165</sup> Fourth Cohesion Report.

markets, numerous zones of corruption ( the legal and administrative system, underground economy of great extent), high taxation on employee, the number of taxes etc. At the same time, the extent of turning into account the European funds depends on how much the environment is structurally reformed. Only by means of a multilateral reform the „paradox of cohesion” can be broken, and this may be so expressed: the less underdeveloped regions have pretty larger chances to attract European funds, and the disparities, given the poorer regions, could grow.

- b) the steady grow of capital supply is a necessary premise for the competitiveness and convergence increase ; it can be done either on the account of the public sector (in Romania the public investment, as a share of GDP (3%), is less than in other new member countries), or the private one. The last way implies, firstly, bringing down vast FDI, the way that represented the main explanation of Ireland’s success!
- c) high investment in human resources. In the National Plan for Development, the human resources are on the 4th position among the most important factors of development. But, the direction toward the increase of the competitiveness (foremost, of the productivity) implies the creation of assets and services that include high qualified labour. For comparison, on the first place, among the decisive factors of the economic growth in the National Development Strategy of the Great Britain for 2003, there were: skills created by education and the training of the human resource, followed by the other factors. In the Ireland success formula also entered, before all, according to its officials, „education, education, education”!<sup>166</sup>

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# MODIFICATIONS RÉCENTES, APPORTÉES PAR LE PARLEMENT EUROPÉEN À LA « NOUVELLE POLITIQUE EUROPÉENNE DU TOURISME »

**Jugănaru Ion-Dănuț**

*Université „Ovidius” Constanța, Faculté de Sciences Économiques, Adresse de contact: 1, Aleea Universității, Constanța, Mél: juganaru@ccina.ro, Téléphone: 0722569164*

**Jugănaru Mariana**

*Université „Ovidius” Constanța, Faculté de Sciences Économiques, Adresse de contact: 1, Aleea Universității, Constanța, Mél: mjuganaru@univ-ovidius.ro, Téléphone: 0722337044*

*Les institutions européennes ont eu, ces dernières années, une série d'initiatives visant la réglementation de certains aspects liés à l'activité de tourisme. Parmi ces initiatives, la Communication de la Commission (de 17.03.2006), intitulée « Une nouvelle politique du tourisme: renforcer le partenariat pour le tourisme en Europe ».*

*Le Parlement européen a adopté, dans ce domaine, le 17.10.2007, une résolution qui apporte une série d'amendements à cette « nouvelle politique européenne du tourisme ». Tous ceux impliqués dans le tourisme roumain doivent absolument connaître les prévisions de ces documents des institutions européennes, afin d'adopter leurs politiques et stratégies futures.*

*Mots-clé : tourisme, politique, stratégie, objectifs, mesures*

## **1. Initiatives et mesures concernant le tourisme, adoptées par les institutions européennes**

Parmi les plus importantes initiatives et mesures visant le tourisme, adoptées par les institutions européennes, dans les dernières années, on peut mentionner les suivantes [1]:

- On a mis en place, auprès de la Commission Européenne, un « Groupe Durabilité du tourisme européen », composé d'une représentation équilibrée de tous les « acteurs » importants du tourisme et chargé de proposer un cadre d'action détaillé, nécessaire à l'élaboration d'un « Agenda 21 du tourisme européen ».
- L'adoption, par la Commission Européenne (par la Décision n° 2003/287/CE, de 14 avril 2003), du label écologique communautaire – ECOLABEL – a eu une grande importance pour le tourisme. Tout opérateur touristique, qu'il s'agisse d'une chaîne d'hôtels ou d'un gîte rural, peut demander ce label écologique (écolabel), symbolisé par une fleur, à condition de satisfaire préalablement à des critères minimaux en matière environnementale et sanitaire. Ultérieurement, par la décision de 14 avril 2005 (2005/338/CE), la Commission Européenne a aussi adopté les critères pour accorder le label écologique pour les services offerts par les hébergements en plein air.
- Parmi les nouvelles initiatives de la Commission, la Communication intitulée « Une nouvelle politique européenne du tourisme : renforcer le partenariat pour le tourisme en Europe » a joué un rôle important dans le domaine touristique. Dans cette Communication, la Commission européenne insiste sur la nécessité d'une réponse politique harmonisée au niveau de l'UE, aux défis auxquels le tourisme européen est confronté et propose l'amélioration de la réglementation dans ce domaine, par une compétitivité accrue : étendre l'utilisation des analyses d'impact aux nouvelles propositions, simplifier la législation européenne existante, consulter les différentes parties prenantes, dans le processus d'élaboration des politiques UE etc.
- En 2006, la Commission a lancé le Prix pour les « Destinations Touristiques d'Excellence », pour l'année 2007. Ce prix, accordé chaque année, est ouvert à tous les Etats membres et aussi aux pays candidats. Chaque pays participant à la compétition devra sélectionner une

destination d'excellence et la Commission, qui participera au financement de la sélection nationale, présentera les destinations gagnantes dans le cadre du Forum Européen du Tourisme.

- En ce qui concerne les plus récentes préoccupations du *Conseil Européen*, dans le domaine du tourisme, on peut mettre en évidence le projet de conclusions concernant « Une Nouvelle politique Européenne du Tourisme », discuté par le Groupe pour le Tourisme du Conseil, adopté ultérieurement (le 25 septembre 2006), par le Conseil Compétitivité.
- D'autre part, on peut aussi mentionner, parmi les préoccupations du *Parlement Européen*, dans le domaine du tourisme, la résolution adoptée le 8 septembre 2005 (à l'initiative de la Commission des Transports et du Tourisme du Parlement européen), concernant les nouvelles perspectives et les nouveaux défis pour un tourisme européen durable. Le même jour, à l'initiative de la Commission Développement, le Parlement européen a adopté une résolution concernant le tourisme et le développement, document qui s'inscrit dans le cadre de la politique UE d'appuyer le développement, dans les pays en cours de développement et qui insistent sur le rôle fondamental du tourisme dans ces pays.

## 2. La nouvelle politique européenne du tourisme

Au présent, le tourisme européen est confronté à une série de nouveaux défis [2]. Ainsi, l'évolution et la structure démographique auront-elles un impact majeur sur le tourisme. Le nombre de personnes âgées va continuer de croître dans la mesure où la population jouit d'une meilleure santé et d'une espérance de vie plus grande. Le pouvoir d'achat de ces personnes est supérieur à celui des générations précédentes, contexte qui favorise une augmentation du nombre de personnes âgées voyagent beaucoup plus, à but touristique.

D'autre part, les exigences du public vont changer en ce qui concerne les *formes de tourisme* pratiquées, et le tourisme de santé et celui en rapport avec le patrimoine culturel et naturel devraient progresser le plus.

Il est aussi communément admis que le tourisme peut devenir victime de son propre succès s'il ne se développe pas d'une manière durable. La biodiversité, la fonction écosystémique, les ressources naturelles et le patrimoine culturel peuvent être menacés par le *développement non contrôlé* du tourisme. La durabilité au plan économique, culturel et environnemental est un facteur clé pour la compétitivité des destinations touristiques, le bien-être de leur population, la création d'emplois et la préservation des centres d'intérêt naturels et culturels.

Pour répondre aux défis que posent l'évolution démographique, la concurrence extérieure, le besoin de durabilité et la demande de formes spécifiques de tourisme, l'Europe doit s'efforcer d'améliorer sa compétitivité actuelle dans ce domaine. Une industrie du tourisme plus compétitive et des destinations durables contribueront également au succès de la stratégie renouvelée de Lisbonne, à la satisfaction des touristes et à la confirmation de la position de l'Europe comme première destination touristique dans le monde.

La Commission européenne considère que les défis auxquels le tourisme européen est confronté requièrent une réponse politique harmonisée, au niveau de l'UE. Cela signifie que cette politique doit se fixer des *objectifs* clairs et réalistes, partagés par les décideurs, les employeurs et les salariés ainsi que par les populations locales des zones de destination touristique et qu'elle doit tirer le meilleur parti des ressources disponibles et profiter de toutes les synergies possibles. A partir de l'ensemble des actions déjà entreprises, la politique respective devra offrir une valeur ajoutée aux politiques et aux mesures nationales et régionales. Toute politique européenne du tourisme doit être *complémentaire* des politiques menées dans les États membres.

Le *principal objectif* de la nouvelle politique européenne du tourisme est celui d'améliorer la compétitivité de l'industrie européenne du tourisme et de créer des emplois plus nombreux et meilleurs, dans ce secteur, par la croissance durable du tourisme en Europe et dans le reste du monde.

La Commission estime que les *instruments* les plus appropriés pour la mise en œuvre de cette politique sont : la *coordination* au sein de la Commission et des autorités nationales, la *coopération* entre les différentes parties prenantes et le lancement d'*actions de soutien spécifiques*.

Cette nouvelle politique du tourisme européen se concentrera sur les principaux *domaines* suivants [2] :

A. Mesures d'intégration visant le tourisme :

1. Amélioration de la réglementation
2. Coordination des politiques
3. Meilleure utilisation des instruments financiers européens disponibles

#### B .Promouvoir un tourisme durable

Cela est réalisable, principalement, par l'adoption et la mise en œuvre d'un Agenda 21 européen pour le tourisme, et aussi par d'autres mesures spécifiques, menées en faveur de la durabilité du tourisme européen.

#### C. Améliorer la compréhension et la visibilité du tourisme

Cet objectif complexe se réfère à l'amélioration de la compréhension du tourisme européen, en tant que phénomène, mais aussi à la meilleure promotion de celui-ci, pour accroître, ainsi, sa visibilité.

### **3. Amendements récents aux prévisions de la nouvelle politique européenne du tourisme**

Vu le rapport de la Commission des transports et du tourisme, concernant la *nouvelle politique européenne du tourisme : renforcer le partenariat pour le tourisme en Europe* et les avis de la Commission de la culture et de l'éducation et de la Commission du développement régional (A6 – 0399/2007), le Parlement européen a adopté, le 17.10.2007, une résolution [3] dans ce domaine, en chargeant le Président (du Parlement) de transmettre cette résolution au Conseil, à la Commission et aux gouvernements et parlements des États membres.

Dans la résolution on montre que, même si le tourisme ne constitue pas un domaine de la politique communautaire, CE est compétente pour prendre des mesures afin d'assurer un bon fonctionnement du marché intérieur, y compris pour les services dans le domaine du tourisme, et le tourisme se trouve à la croisée de beaucoup de politiques de l'UE, qui ont un impact substantiel sur l'efficacité de ce secteur et sa capacité à contribuer à la croissance économique, à l'emploi et à la cohésion sociale et territoriale. Dans la résolution on précise également que l'impossibilité, jusqu'à présent, de mettre au point une approche transsectorielle cohérente du tourisme, au niveau de l'UE, a entraîné des déficiences et un développement insuffisant de ce secteur, tout en augmentant le risque de voir l'Europe y perdre sa part de marché. Encore plus, on a enregistré une détérioration de la situation dans certaines destinations touristiques très prisées de l'Europe.

Nous présentons ci-dessous les principaux aspects abordés dans cette résolution.

#### **3.1. Harmonisation des normes de qualité dans le domaine des services hôteliers en Europe**

En constatant, d'une part, la multiplicité des *normes de classement* qui existe dans les États membres créant une situation qui nuit à la fiabilité et à la transparence du secteur du tourisme et, d'autre part, le fait que les utilisateurs considèrent le système de classement comme un instrument important pour choisir un hôtel ou une autre forme d'hébergement, le Parlement européen estime qu'il est *recommandable et possible* d'établir une base commune et des *critères de classement communs*, clairs et vérifiables pour les clients et qu'il est nécessaire de simplifier les normes actuelles, tout en invitant l'industrie européenne de l'hôtellerie à :

- poursuivre ses efforts visant à rapprocher ces critères et systèmes de classement, sans préjudicier les systèmes existants et les consommateurs ;
- poursuivre ses efforts visant à faciliter la compréhension du sens des « étoiles » dans les classements de différents États européens ;
- informer, régulièrement, les institutions européennes, de l'évolution de ce processus.

Par ailleurs, le Parlement invite les autorités locales, régionales et nationales, lorsqu'elles modifient les systèmes de classement, à soutenir, dans le cadre des partenariats public-privé appropriés, l'activité actuelle de l'industrie européenne de l'hôtellerie concernant, à la fois, la transparence et le rapprochement, via l'étalonnage, des systèmes de classement existants.

Étant donné la variété des types d'hôtels et des critères de classement touristique qui découle des exigences, des cultures et des sensibilités locales, il sera très difficile de mettre en place un système de classement commun, au niveau de l'UE. Cependant, on pourrait élaborer et adopter une série d'orientations



fondées sur de critères communs et uniformes, pour l'ensemble de l'UE, tout en respectant les intérêts des consommateurs, l'environnement et les caractéristiques locales.

Le Parlement européen invite la Commission, en coopération avec les organisations européennes de l'hôtellerie et de la restauration et avec les organisations européennes de protection des consommateurs, à établir une méthodologie pour créer de telles normes minimales, en matière de sécurité et de qualité des services d'hébergement, méthodologie qui pourrait inclure l'instauration d'une « marque CE » pour l'hébergement qui engloberait des critères paneuropéens de manière à donner aux consommateurs une garantie quant au niveau minimum de qualité auquel ils peuvent s'attendre, quel que soit le pays de l'Union européenne visité.

### **3.2. Les systèmes de gestion de la qualité**

Le Parlement européen invite l'industrie de l'hôtellerie à poursuivre son activité visant la mise en place d'un « parapluie » européen pour les systèmes de gestion de la qualité, en encourageant les acteurs de l'industrie européenne de l'hôtellerie à développer les normes européennes en vue d'améliorer la qualité des services fournis, et la Commission est invitée à soutenir ces efforts.

En même temps, le Parlement invite les autorités locales, régionales et nationales, lorsqu'elles participent aux systèmes de qualité, à soutenir, dans le cadre des partenariats public-privé, l'activité actuelle du secteur de l'hôtellerie européenne concernant la mise en place d'une instance européenne pour couvrir les systèmes de gestion de la qualité.

De même, PE invite la Commission à promouvoir, en collaboration avec les associations du domaine de l'hôtellerie, les processus de labellisation concernant les structures d'hébergement entrepris dans les différents États membres et à promouvoir les modèles de qualité qui ont fait la preuve de leur efficacité en d'autres lieux, la labellisation écologique pouvant être utilisée, avec succès, dans la promotion des destinations touristiques.

### **3.3. Le tourisme accessible**

Le Parlement européen se félicite des initiatives visant à coordonner, au niveau européen, les informations sur le *tourisme accessible*, qui permettraient aux touristes à mobilité réduite et à leurs familles de trouver les informations nécessaires sur l'accessibilité des destinations touristiques et invite les États membres, les prestataires de services touristiques et les organisations nationales et locales à adhérer à ce type d'initiatives et à les soutenir. PE invite la Commission et les États membres à envisager l'opportunité d'établir une *Charte des droits et des devoirs du touriste européen* ainsi qu'un *Code de déontologie européen*, à l'usage des entreprises touristiques.

PE invite également la Commission à mettre en chantier un label CE « Accès pour tous » qui garantirait des infrastructures d'accessibilité de base pour les touristes à mobilité réduite et couvrirait des offres telles que l'hébergement, les restaurants, l'agrément etc. En outre, des efforts intensifiés sont nécessaires afin d'améliorer l'accès des handicapés, dont la participation aux voyages touristiques augmente, aux sites et objectifs du patrimoine culturel européen.

Vu que l'accessibilité des destinations touristiques tient également aux services de transport, PE demande à la Commission qu'il soit tenu compte de la moindre accessibilité des régions présentant des caractéristiques naturelles ou géographiques spécifiques (les régions ultrapériphériques, insulaires, de montagne et les régions les plus faiblement peuplées etc.).

### **3.4. Le tourisme socialement, économiquement et écologiquement durable**

Le Parlement européen soutient les actions spécifiques que la Commission doit entreprendre pour promouvoir la durabilité économique et sociale du tourisme européen et se félicite de l'initiative prise par celle-ci d'élaborer un programme pour le tourisme européen, pareil à l'« Agenda 21 », tout en soulignant le fait que la durabilité sociale, économique et environnementale est une condition fondamentale du développement et du maintien de toute activité touristique. De même, PE insiste sur la nécessité de soutenir et de promouvoir des pratiques plus durables et socialement responsables dans l'industrie du tourisme et d'évaluer leur efficacité et demande à la Commission de mettre à la disposition des États membres d'un *guide pour une meilleure coordination politique du développement du tourisme* au niveau national, régional et local et pour *l'amélioration de la durabilité des activités touristiques*. *L'éducation des touristes* concernant les questions environnementales est aussi importante lors de l'élaboration de la politique

environnementale, étant donné que le tourisme est en partie responsable des dommages causés à l'environnement, liés à l'augmentation des déplacements.

### **3.5. La promotion des destinations touristiques européennes**

Le Parlement européen se félicite de la création, financée par la Commission, du Portail des destinations touristiques européennes ([www.visiteurope.com](http://www.visiteurope.com)) et invite celle-ci à continuer cette démarche, par exemple à travers la création et la promotion d'un label « Europe », et à travers l'établissement de mécanismes et de structures permettant de collecter, puis de diffuser auprès des agents du secteur touristique, des informations sur les destinations touristiques européennes. PE se félicite également de la mise en œuvre d'une procédure de sélection pour une « Destination européenne d'excellence » annuelle et encourage les initiatives visant à valoriser le patrimoine culturel européen telles que les Itinéraires culturels du Conseil de l'Europe, tout en proposant de soutenir, dans cet esprit, la création d'un label « Patrimoine européen », visant à mettre en valeur la dimension européenne des sites et monuments de l'Union européenne.

En plus, PE invite la Commission à promouvoir les destinations européennes dans les pays dont les hautes saisons coïncident avec les basses saisons européennes et à étudier la possibilité de conclure des accords/protocoles d'accord avec ces pays tiers, de manière à développer des flux de touristes ayant une répartition saisonnière optimale.

### **3.6. Le développement du tourisme**

Le Parlement européen engage la Commission, les États membres, les autorités régionales, locales et l'industrie du tourisme, à coordonner les politiques ayant une incidence directe ou indirecte sur le tourisme, à *coopérer* davantage entre eux et à mieux utiliser les instruments financiers européens existants, durant la période 2007-2013, afin de développer le tourisme européen. Ces politiques devront mettre l'accent sur la *compétitivité* de l'industrie touristique et des destinations touristiques, sur le développement des entreprises, des services et des infrastructures de tourisme, sur la création d'emplois, la mobilité et la formation professionnelle dans ce secteur, la diversification de l'économie et le développement des régions européennes, notamment les plus défavorisées.

PE invite la Commission à élaborer un rapport tenant compte des répercussions que les actions et les propositions formulées dans le domaine des politiques communautaires peuvent avoir sur le secteur du tourisme et souligne que les PME devraient être davantage associées à l'entrepreneuriat lié au tourisme et que les cours d'adoption des meilleures pratiques, promus par l'UE, devraient être introduites au niveau des régions, en particulier dans les pays qui ont adhéré à l'Union européenne après 2004.

### **3.7. Autres aspects**

Le Parlement européen réitère la nécessité de la mise en place d'un *programme européen du tourisme pour les personnes retraitées*, en basse saison, qui contribuerait à la qualité de la vie des aînés dans l'UE, programme qui pourrait s'intituler « Ulysse » et qui générerait un développement plus soutenu de l'économie européenne.

De même, PE invite la Commission à demander qu'une *étude d'impact global* soit menée *concernant les conséquences d'un étalement des vacances en Europe*, au niveau régional et dans le temps.

En conclusion, nous considérons qu'il est extrêmement nécessaire que toutes ces modifications, apportées par PE, à la « Nouvelle politique européenne du tourisme », soient très bien connues par tous les « acteurs » impliqués dans l'activité touristique de Roumanie, ceux du secteur public et aussi ceux privés, afin qu'ils puissent adopter leurs politiques et stratégies futures en concordance avec ces changements.

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# EUROPEAN INSTITUTIONS INITIATIVES REGARDING THE DEVELOPMENT OF SUSTAINABLE TOURISM

**Juganaru Mariana**

*Ovidius University of Constanta, The Faculty of Economic Sciences, Constanta, 1 Aleea Universitatii, juganaru@univ-ovidius.ro, 0722337044*

**Juganaru Ion-Danut**

*Ovidius University of Constanta, The Faculty of Economic Sciences, Constanta, 1 Aleea Universitatii, juganaru@ccina.ro, 0722569164*

**Anghel Andreea**

*Ovidius University of Constanta, The Faculty of Economic Sciences, Constanta, 1 Aleea Universitatii, aanghel@univ-ovidius.ro, 0730014219*

*The magnitude of the tourism phenomenon and the diversification of its forms have multiple consequences on the natural environment, the society and the economy. That is why, starting with the 1980's there have been preoccupations at EU level regarding policy elaboration towards a sustainable development of tourism. These policies must set clear and realistic objectives as far as the improvement of European tourism industry competitiveness is concerned, by sustainability of tourism in Europe and worldwide. Economic, cultural and environmental sustainability is a key factor for the competitiveness of tourism destinations, for the well being of the population, for new jobs creation and for the preservation of the natural and cultural tourism attractions.*

*Key words: sustainable tourism, European institutions, initiatives, accomplishments*

The magnitude of the tourism phenomenon and the diversification of its forms have multiple consequences on the natural environment, the society and the economy. The world states cannot remain indifferent to such activity which stands out as a distinct economic sector and a powerful space transformation agent and for this reason they apply several policies while trying to lead the evolution of the tourism phenomenon and to obtain a greater profit out of it [1].

At world level OECD has members the governments of 30 states, attached to the democracy and the free market economy principles in order to [2]:

- sustain a durable economic growth
- grow life standards
- maintain financial stability
- help other countries develop their economy
- contribute to the growth of the world commerce

OECD shares its experience that has been accumulated in over 40 years of activity and initiates exchange of ideas with over 70 developing countries.

The 30 OECD member countries have a dominant place in world tourism both as far as tourists and internal and international travels effectuated by their citizens and tourism expenses are concerned. That is why these countries give special attention to the tourism sector.

Because of its importance to the economies of the member states, tourism is one of the public administrations' fields for action, in most OECD countries.

Tourism has seen spectacular growth during the past 30 years becoming an essential component of services economy (30% of international services exchange in the OECD zone) which represents the growth engine in most OECD countries. These countries account for approximately 70% of the world tourism activity.

Globalization, the growth of the international competition, and the great sector and trans-sector evolutions have a strong influence on the role played by central administrations in the field of tourism. In this respect, the Tourism Committee is the main contact point of OECD in these matters and offers an unique

framework for debate on tourism and socio-economic, commercial, statistic, and analytic issues related to tourism. The Tourism Committee is an information exchange forum regarding the policies and the structural changes influencing the growth of international tourism, in the view of sustainable development.

Once a year, the OECD Tourism Committee gathers the high level decision makers in the field of tourism in order to debate the main evolutions that concern the sector, to adopt initiatives function of the necessities, to reunite information elements on policies and to contribute to works developing in other sectors of OECD. The Tourism Committee cooperates with WTO, EU and the Bureau of International Labor Affairs and sustains dialog with states not members of OECD, offering a framework for consultations and seminars organization among tourism, universities and other categories representatives.

The main designation of the Tourism Committee is that of helping the OECD member states to adapt their policies and actions in order to favor a development of tourism compatible to sustainable development. It also tries its best to sensitize different “actors” on international issues and to encourage international cooperation in the field of tourism.

At the European Union level, tourism is not a fully harmonized field of activity, there is no common, harmonized policy. Nevertheless, in 1992 the Maastricht Treaty introduced the possibility for the Community to take measures in the field of tourism (according to article 3.1.u) to the end of contributing to attaining convergence objectives at Community level, such as economic growth, or new jobs creation, economic and social cohesion, or sustainable development. Any Community measure in this field requires the unanimity of Union member countries votes in order to be adopted (according to article 308 of the Treaty) [3].

Even though tourism is not subject to a distinct EU policy, tourism activities are “covered” by articles 49 and 50 of the Treaty, which refer to services and are regulated directly by other provisions, such as those referring to structural funds. In a more general approach one may assess that due to the discreet peculiarity of tourism components, an important number of sector policies may affect tourism (for instance, the policy regarding enterprises, transports, environment, taxation, etc.).

Ever since the 80’s there was a certain cooperation among member states and the European Commission in this field, tourism allowing the harmonious development of economic activities within the Community, which represents, actually, one of its missions.

Both the member states and the Commission acknowledge the importance of tourism as job creator economic sector, since it enjoys a high development rate and is able to substantially contribute to attaining the objectives of the European Council set at Lisbon (March, 23-24<sup>th</sup>, 2000), respectively, to make Europe the most competitive and dynamic economy in the world, based on knowledge and innovation.

The working method established by the European Council to apply the strategic objective set at Lisbon, consists of setting objectives at community level, leaving up to the member states (respecting the subsidiary principle) the possibility to reach these objectives, within the policy adopted by each state at national level. This method is also based on the association of local and regional collectivities, as well as social partners and civil society representatives.

Tourism is one of the sectors with the most favorable development perspectives with diverse tourism attractions within the same geographic perimeter.

Tourism plays an essential part in the development of the great majority of the European regions. Tourism infrastructure contributes to local economies development and the creation of new jobs, even in the regions characterized by industrial decline.

European tourism is confronting the challenge of its own sustainable development, respectively a growth that guarantees its competitiveness and respects the limitations of its basic resources and the regenerative capacity of these resources.

At the same time, tourism is a service sector, with an extremely complex product and depends on a diverse and fragmented offer, which is why it has to find its true sector identity.

The European institutions have undertaken a series of initiatives and measures toward the sustainable development of tourism.

The “Tourism and jobs” campaign launched in 1999 lead the European Commission and the member states to cooperate to the end of maximizing the contribution tourism may have to economic growth and new jobs

creation. To this end, in November 2001 a Commission communication entitled “Working together for the future of European tourism” was adopted.

This strategic document submits:

- an operational framework, based on the method of open coordination among all involved “actors”
- a (limited) series of actions and instruments, meant to be used by these actors, having as final purpose the enhancement of the information/knowledge base regarding this economic activity as well as the strengthening of enterprises’ competitiveness and the improvement in this way, of the tourism sustainable development in the EU and its contribution to new jobs creation.
- The main actions brought to attention to this end are the following:
- the implementation of the TSA in the member states, according to a common methodology elaborated by Eurostat
- the definition and implementation of Agenda 21 for European tourism
- the elaboration of quality indices necessary to follow up the quality of tourism destinations and services
- the creation of networks for good practice exchange
- the simplification of accessibility criteria for tourism sites and infrastructure in order to meet the needs of the differently able.

This communication was followed by a Council resolution on May 21<sup>st</sup> 2002 (Resolution 2002/c135/01) which adopted the actions preset by the Commission, emphasizing the economic importance of tourism and the necessity to strengthen its political recognition at community level, as well as the inclusion of tourism within other community policies, referring to other fields.

On this base the Commission engaged in 2002 and followed up during the next years the implementation of different necessary actions, under the aegis of the Consultative Tourism Committee.

In view of the strengthening of the interface between the public and private sector, the Commission organized a first edition of the European Tourism Forum on December, 10<sup>th</sup> 2002, in Brussels, leading to a second edition in November 2003, in Venice, and to a 3<sup>rd</sup> edition in Budapest, in October 2004.

On November 21<sup>st</sup> 2003, the Commission adopted a new communication regarding the Basic orientations for the sustainability of European tourism, which was presented to the Council on Competitiveness on November, 27<sup>th</sup> 2003. The communication was preceded by vast consultations of public authorities, industry, professional bodies, and civil society, enlisting in the impact study procedure, created for a number of legislative and non-legislative proposals regarding the new Commission governance principals. This communication is the adaptation for tourism of the Strategy for sustainable development in the European Union, adopted by the European Council at Göteborg in June, 2001, advising the member states to mobilize in order to improve the European tourism sustainable development conditions, from an economical, social and environmental point of view.

A working group entitled Tourism Sustainability Group, comprising all important tourism “actors”. On November 21<sup>st</sup>, 2003 the European Commission adopted a communication entitled Basic orientations for the sustainability of European tourism aiming at promoting the European and worldwide tourism evolution toward sustainability. The Commission objective is to launch the activities comprised in the Agenda 21 for European sustainable tourism in 2007, based on studies of the Tourism Sustainability Group, whose members are experts in the European tourism area. This group was founded in February 2005 and set as objective to formulate proposals and recommendations regarding a final report, representing the base of a vast consultation which should identify the guiding lines of enterprises and tourists sustainable actions and to submit a structure for a European tourism Agenda 21. To this end, 6 sub-groups were constituted, on the following issues: consumers, destinations and local communities, institutions, industry, tourism and transport.

As far as the actions of the European Parliament in the field of tourism are concerned, one may emphasize the resolution adopted on September 8<sup>th</sup>, 2005 regarding the new perspectives and challenges for a sustainable European tourism. In the same day, at the initiative of the Development Commission, the European Parliament adopted a resolution regarding tourism and development, which enlists to the EU

development policy, regarding developing countries and insists on the fundamental role of tourism in this respect.

Europe remains the most visited region of the world. Under these circumstances, one must bear in mind the risk of tourism becoming the victim of its own success, unless it develops in a sustainable manner. Biodiversity, the ecosystem function, the natural resources and cultural patrimony may be threatened by the uncontrolled development of tourism. Sustainability from an economic, cultural and environmental point of view is a key factor for the competitiveness of tourism destinations, for the wellbeing of the population, for new jobs creation and for the preservation of natural and cultural tourism attractions.

The Commission considers that the challenges of the European tourism require a politically harmonized answer at EU level. This policy must set clear and realistic objectives, shared among decision makers, employers and employees, as well as local populations in tourism destination areas and must attract most of the available resources, taking advantage of all possible synergies. Bearing in mind the actions already undertaken in this field, the policy must offer added value to national and regional policies and actions. Any European policy regarding tourism must be complementary to the policies adopted in the member states.

The main objective of the new European policy regarding tourism is the enhancement of European tourism industry competitiveness and new and better jobs creation, by sustainable development of tourism in Europe and worldwide.

The European Commission will implement this policy developing tight collaboration relationships with member states authorities and with tourism industry “actors”.

The Commission considers that the most suitable tools for implementing this policy are the coordination within the Commission and national authorities, the cooperation among interested parties and the launch of specific supporting actions.

The promotion of a sustainable tourism may be done mainly by adopting and implementing a European Agenda 21 for tourism as well as other actions developed in favor of European tourism sustainability.

Agenda 21 is an action program for the XXI Century orientated toward sustainable development, which was adopted by the countries signatory of the Rio de Janeiro Declaration in June 1992. The main purposes of Agenda 21 are: to fight the poverty and social exclusion, the production of sustainable goods and services and environment preservation.

The main objective, referring to economic growth and new job creation must be accompanied by social and environmental objectives. The renewed Lisbon strategy represents an essential element in attaining the main objective, that is sustainable development in Europe and worldwide, as it is described in EU Treaty: the improvement in a sustainable manner of wellbeing and life conditions of present and future generations.

In the communication entitled Basic orientations for the sustainability of European tourism, the European Commission underlined the crucial importance of economic, social and environmental sustainability of European tourism in order to contribute to sustainable development in Europe and worldwide, as well as to ensure viability, continuous growth, competitiveness and commercial success of tourism.

In 2004, the Commission launched the Tourism Sustainability Group destined to favor the synergies among interested parties and to supply the information necessary to elaborate the Agenda 21 for the sustainability of the European tourism. This group is made up of experts who represent, in a balanced manner, industry associations, tourism destinations and civil society representatives, as well as national tourism administrations in the EU member states, and international organizations, such as WTO.

The elaboration and application of an Agenda 21 for tourism is a process of great amplitude. The Commission set specific actions for promoting economic and social sustainability of the European tourism, as follows [4]:

- the identification of national and international actions meant to support the SME developing tourism related activities and the setting of good practice exchange mechanism
- the evaluation of the economic influence of tourism accessibility improvement on the macroeconomic growth and new jobs creation, on services quality and competitiveness
- the facilitation of good practice exchange in the field of tourism for all

- the publication of a guide book referring to tourism professions, in order to update tourism competences, with the participation of all interested parties
- the studying of trends regarding new jobs creations in seaside/sun lust related tourism
- the elaboration of official statistics and studies related to the implications and consequences of e-business on the tourism industry
- the following up of the Commission's initiatives and member states cooperation with tourism industry representatives and WTO in order to fight sexual exploitation of children, by also involving tourists in this matter.

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# FROM INTERNATIONAL ECONOMY TO GLOBAL ECONOMY: MULTINATIONAL CORPORATIONS AND DIRECT FOREIGN INVESTMENTS

**Lupan Mariana**

*University „Stefan cel Mare” Suceava, Faculty of Economics and Public Administration, Universitatii St., No. 13, Suceava, Postal cod 720229, marianal@seap.usv.ro*

*The evolution of world economy from international affairs to global affairs was possible due to international flux of investments, and increase of the role of multinational corporations. The obvious roles of multinational corporations and direct foreign investments (FDI), especially, have led to acceptance of idea according to these two entities represent pillars of globalisation. It is considered that all multinational corporations (CMN) have facilitated the internationalisation of production and services, considering that in the moment of liberation from the limits imposed by national economies, these became truly global corporations that represent motive forces of economical development of society.*

*Key words: multinational corporations, direct foreign investments, globalisation, internationalisation, global economy*

## **Ideas proceedings regarding multinational corporations and their evolution**

It is necessary to underline the fact that debates concerning CMN are not unanimously accepted, existing in the same time sustainers, and critics at their address [1]:

- It considers that CMNs represent victory of the economy under politics, representing an important evolution for national management of global economy;
- Corporations together with international finances represent the symbol of the global capitalism with what he has worst, and CMN is exploiting the entire world to increase its corporatist profit;
- CMN is not a global corporation, but just a company of a certain nationality that organised its production, distribution and other activities in order to pass the national frontiers;
- CMN behaviour is determined by economic policies, by economic structures and by the political interests from the country of origin;
- CMNs are not good, and not bad, but are needed certain international norms to govern the relations between CMN and national governments.

No matter the position to multinational corporations, is certain the fact that these entities have accelerated in a decisive way the integration of global economy. The period between 1950s-1960s is characterised through development of international commerce, leading to re-launching of economic increase and reduction of barriers in the commerce way. In the mentioned period, international competitiveness was measured through the level of national economies' imports, and through the market quotation of the respective country on the international market.

During 1970s, international investments of multinational corporations have known an increase without presiding. Real internationalisation of businesses is placed at the half of 1980s, when is remarked the transition from the period of American direct foreign investments, to a pluralist system more complex of multinational corporations. Numerous countries have increased their direct foreign investments, and USA became the first host economy at world level, but stays, in the same time, the main source of FDI.

We mention the fact that, immediately after the end of the Second World War, American corporations have practiced a horizontal strategy of investments, establishing many branches beyond the borders, with priority in Central Europe. With time passing, this strategy has been reflected again, and CMNs passed to strategies on vertical of investments, that generated excessive global outsourcing, and production processes were integrated and rationalised at world level.

After 1990, together with the second wave of globalisation, technological revolution led to modification of CMNs' role at the level of global economy. The progresses made in communications and transports and, especially, without precedent of the Internet, made possible from the technical point of view for bigger corporations to organise and lead giant industrial systems, and global distribution also. It is necessary to

specify that technological innovations reduced considerably the cost of globalisation, especially in services field.

Cause of technological advance, corporation reached to interaction more at global level through inter-corporatist alliances, for example: forming of mixed companies, joint-venture, subcontracting, accords between firms licence etc. In this way, multinational corporations passed the phase of export and adjustment of facilities for FDI, attaining to put the basis of complex international alliances and have the shape of networks of research-development, production and marketing.

Corporatist alliances play an important role in sectors of high technology, characterised as activities that need expensive expenditure of research-development. Rapidity of technological advantage, and regional protectionism led to formation of partnerships between big corporations, succeeding so to enter in those protected markets.

### **FDI fluxes during the second wave of globalisation**

Concerning FDI, the statistics emphasize the fact that during the period 1985-1990 they have grown with a rate of 30% per year, meaning by four times more than world production and with three times more than the increase rate of commerce. This evolution underlines the role more and more important that has FDI in global economy, and justifies us to sustain the idea that they represent an essential motor of globalisation. We must put into discussion the way are concentrated these investments at global level. Is remarked a significant increase of FDI fluxes in the countries under development, but the biggest part of them are concentrated in the developed economies of USA and Europe.

As ONU statistics, multinational corporations are leaders of goods and services production within international commerce. Through their activity, VMN determine international fluxes of capital and detain advantages over host countries, especially in economic-finance field. The most important changes from the international economic system have been generated by production internationalisation, by fluxes' increase of foreign investments and international commerce have determined CMN become the main actors in the new order of global economy, respect to direction of foreign investments that have as base transnational private strategies. From this perspective, receiver countries have tried to create for CN big sale markets, and opportunities for these to develop and adopt private economic objectives to requirements of the new global order.

CMNs distribution emphasises discrepancy between countries under development and industrial countries that detain the majority of foreign investments and that represent the higher attractivity level for commercial activities and investments. Organisation of United Nations estimates that at the beginning of this century at world level were almost 45.000 of mother-societies, from which 37.000 been localised in developed countries of OECD. ONU and World Organisation of Commerce statistics, appreciates that at the beginning of XXI century, only 8% from the investments stocks have been provided by countries under development, which represented almost 15% from international economic fluxes. The most important increase of CMN registers in bank sector, where social capitals reached a rate for more than 7% each year.

Presently we can see an increased number of multinational corporations of small and medium size, representing almost 50% from the number of multinational corporations in USA, Canada, Japanese and almost 45% in France and Great Britain. Many small and medium multinational companies have the origin in the countries under development, which are interested to invest in tertiary sector.

### **Determinants and model of FDI**

Existing literature about FDI determinants, in big majority of economic trends, have passed seeing an important dimension of these determinants. More precise, these literature underestimates, or does not estimates, the importance of political institutions that have the role in sustaining the politics that determine a friendly climate of the market. We appreciate that political institutions can be an important component in "political risks" limitation concerning investments for multinational corporations. Political institutions that prove that political credibility, and flexibility offer credible and solid guaranties to multinational corporations. CMN prefers institutions, which limit the changes inside governments and analyses democratic decisions, that have a direct or indirect impact over multinational and that assure, in the same time, a certain degree of political flexibility.

Importance increase of FDI fluxes (positive or negative) did not suit an increase of tests to understand the impulses that are behind these fluxes. Nevertheless are some recognised studies that analyse this phenomenon; an excellent starting point constitutes distinction made by OECD (1998) between factors „pull” and „push”. Push factors motivate foreign firms to invest capital in exterior. These factors contributes to the explanation of rapid increase of FDI fluxes, as diminution of communication and transports costs that make profitable the production at international scale or decrease of FDI fluxes from the past years from OECD countries.

OLI paradigm (*Ownership Location Internalization*) of John Dunning offers an explanation of investing decision of multinational corporations, where they invest internationally aiming property rights, location and internationalisation. Firms have *property advantages* when have access to certain actives and procedures that assures an advantage over existing firms on extern market. CMN invest in foreign countries to exploit these own advantages of the company on extern markets ensuring bigger revenues.

Firms are motivated to invest in foreign countries because of *location advantages*. They can invest in production facilities or in expansion on extern markets because of the transport costs that limits service of these countries through export. This fact can be directly determinate by the nature of good or service (for example, a product very voluminous or a service that has to be assured at the spot), or because of the political factors, as costume taxes, import restrictions, or problems related with market access that make that material investment to be more advantageous than market service through export. Localisation advantages have a lead both aptitudes of host country and a reach souse of cheaper work force, but well prepared.

Conform to Dunning, *internationalisation advantage* represents the second and most complex factor. During two other OLI factors emphasise the motives for which companies move tier production in another country, they do not show why a company licence a foreign producer to make the product. CMN can, pure and simple, to supply with necessary technology the production process and with product models to a local firm. The concept of internationalisation advantage emphasises own motivations of the company to produce the product inside the organisation, in a foreign location.

As Dunning, other researchers developed certain theoretical models to explain decisions of firms to invest in foreign countries. These models can be classified, as firms’ theories, in “vertical”, “horizontal” models and “informational capital model” of multinational corporations. Vertical corporations separate their activities through capital intensity, producing diverse goods and services in different physic locations (Helpman 1984). Not but that represents a contribution to decisions understanding to invest of multinational companies, theories based on vertical multinationals do not take into account the companies that reproduce production of the same goods and services in different physic locations.

Markusen (1984) explains this model of reproduction through creation of “horizontal” firms’ model with scale economies at companies’ level that integrates on horizontal over the national borders. Model of informational capital Markusen (1997) folds these horizontal models in the existing vertical models. Conform to this model, multinational corporations can produce in the same time the same product or service in multiple locations (horizontal), or to separate the central office from production locations (vertical).

Not but what OLI paradigm and horizontal/vertical/informational capital models of CMN are important instruments for understanding of multinational companies’ motivation to invest, they still do not respond to one of the most important question of international development: what countries attract FDI? Direct foreign investments stay a decision at firm’s decision, but countries differ through their ability to attract them.

### **Role of CMN and FDI in global economy**

We can appreciate that the role of multinational corporations and of direct foreign investments is more and more obvious within the economic globalisation. Taking into account this aspect, we are agree with Gilpin (2000) who says that the absence of some international rules regarding CMN and FDI can have some repercussions over the national economies, generally, and over the increase of world economy especially. The author emphasises that are not comparable rules with those that settles the commerce and international monetary affairs. CMN and FDI are settled through national, bilateral, regional and multinational agreements, but none of these agreements is not universal valid at global level.

Through Uruguay Round have been made some steps to setting-up of such rules, but these efforts have been minimum comparatively with problem dimension. Many economists consider that is not necessary an investments regime, because the market will punish states and firms that are not complying with the existing norms. However, this aspect implies a too complex effort for the markets. Moreover, the reality suggests that is necessary to ground an international agreement over CMN and FDI, in the sense that this would generalize the tendency to liberalisation of national policies that affect FDI, would eliminate distortions caused by governmental policies to throw the burden on the shoulders of the neighbours and to reduce the conflicts between states and multinational firms.

Sylvia Ostry, Canadian commercial negotiator, says by rights that an international regime of investments should have a series of characteristics, through which the right to establish, national treatment and non-discrimination. Suited to „establishing right”, no matter the nationality, the firms have the right to invest in entire world. The main “national treatment” stipulates that governs must treat branches of foreign companies as intern companies. Also, countries should not make discriminations against some particular countries, being one of the necessary strict conditions that national policies regarding FDI to interior to be transparent. Also, a regime of investments would confront with the fact that each country imposes some restrictions or limits to investments in some domains, such as finance, culture and national security; the regime should determine which type of national restrictions are legit and which should be forbidden. Although these objectives are reasonable, their inclusion in an international regime of investments meet political obstacles unusual difficult [5].

The most important initiative regarding creation of a regime of investments represented Multilateral Agreement over Investments (MAI), proposed for the first time by Clinton Administration, in September 1995. Corresponding to Economic Report from 1998 of the president to the Congress, the purpose of this initiative consists in establishing “some high standards for liberalization of intern regimes over investments through “effective procedures of conflict solving” [6].

Through this initiative was followed CMN protection from nationalisation, corruption and political instability. In the same time, through this initiative has been advanced proposal that host countries to be stumbled to make discriminations to foreign CMN. Corresponding to their initiators, the agreement would not only protect the American firms, but would facilitate entrance of more FDI in the countries under development. OECD choice as host of negotiation have been a not very good inspired, because this organisation was a club al reach countries, and many states less developed have been excluded from discussions.

Many countries members of OCDE have objected, against the rules that affected their own interests, as France and Canada that wanted exclusion of things of cultural order (radio television, film etc.), while United States sustained the restrictions over selling of agricultural fields. EU did not want that the stipulations of this agreement to interfere with some of its policies. Workers and ecologists sustained that MAI will permit that multinational neglect workers interests and pollute the environment. Some critics said that are not assured any protection against the products of poor quality made by CMN. Even the American enthusiasm decreased in the moment in which have been realised that the debate mechanism of MAI could be used against the USA and American CMN.

## **Conclusions**

In the actual age of globalisation, the governs of the countries under development become aware about the fact that if do not attract FDI will be difficult to obtain the access to international sources of finance, at technologies and international market, these representing essential elements for support for development of national economies. We recognise all the fact that, an economy under development in disadvantaged when is situated outside the alliances and production networks that exist between multinational corporations, being known the fact that a considerable part of world commerce consists of inter-firms transfers that are realised between subsidiaries of CMN. Is moment to emphasise the fact that the most majority of firms form the host countries of CMN are close-mouthed and, in the same time, worried because of the competition, but because the increased importance of FDI implemented by CMN for economical growth and international competitiveness is signal a hash competition for attraction of FDI between national economies.

Is important to specify that FDI reach directly national economies and that can violate the national values and economic independence. From this cause, countries, first those less developed, are opposing

to yielding of their jurisdiction in this matters to an international body. They are afraid by the domination of giant corporations from USA and other developed economies. More than this, because these CMN are unfolding their activity within two or more national jurisdictions, the task to elaborate an international regime is extremely difficult. A regime of investments has to settle sensitive aspects, as taxation of extern investment, transfer prices (prices imposed by a subsidiary to another one), use by govern of financial incentives and other kind of incentives, for attraction of extern investments. A special disorder problem for commercial partners of America concerns extraterritorial application of American laws not only to extern subsidiaries, but to the subsidiaries of foreign corporations.

After this analyse regarding the two pillars of globalisation – multinational corporations and direct foreign investments – we can appreciate that in their case too, continues to exist divergent discussions concerning the role that they play in world economy, as otherwise globalisation phenomenon itself.

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# ASSURING THE EFFICIENCY OF THE ROMANIAN COMPANIES' ACTIVITY THROUGH CHANGE MANAGEMENT IN THE FRAMEWORK OF JOINING THE EUROPEAN UNION

**Marcovici Mugurel - Alin**

**UNIVERSITATEA DE STAT DIN MOLDOVA, FACULTATEA DE STIINTE ECONOMICE, BUCURESTI, B-DUL PACHE PROTOPOESCU, NR 14, AP 3, SECTOR 2, ALIN\_MARCOVICI@YAHOO.COM, 0788821544**

*Changes, especially those which take place in the social systems, affect people and organizations transforming values, necessities, roles etc. Thus we can offer some examples: the automation and the spread of using computers are two reactions of the technological boom, in the field of communication, press and media, changes have shortened distances and have brought people closer; in the economic field, transnational organizations have appeared whose budgets often exceed those of the developing countries, and goods get old and become obsolete day by day, which stimulates consumerist markets. These examples, which represent only some of the situations that surround us, raise the following question: what happens to management in this world of changes? Does it succeed in keeping up?*

*The main reaction of the Romanian management is that of professionalizing it. This reaction is based on: the development of a managerial culture; understanding the concept of permanent education, the belief that management is a resource for development, inexhaustible and which increases the uses of the other resources as well.*

## **The need for change**

Until 1989, Romanian economy could be characterized as hypercentralized, being subdued to some of the stiffest mechanisms of planning and control among the countries of Central and Eastern Europe. The exacerbation of the role of the unique national plan and the involvement of the government and of its bodies in the activity of the economic agents – in the context in which, paradoxically, the necessity of promoting the principles of work selfmanagement and of self economic and financial administration were encouraged – limited to almost annihilating the economic agents' decisional autonomy and initiative, promoting indolent behaviour, of waiting for orders and tasks sent from above hierarchically.

Marking a sudden break from the old system, the 1989 events represented the starting point of some crucial transformations, capable of assuring the passing from the made to order economy, highly centralized, to a new type of economy, in which the market and its laws have the decisive role in the settlement of the economic activity.

Modifying the regime of property favorable to that of private property, decentralizing the national economy's management, diminishing the state's intromission, the economic agents' autonomy, promoting competition and the settling mechanisms proper to the market economy, based mainly on the law of demand and offer, reorganizing the national production system, liberating the prices and the markets, creating new institutional and legislative infrastructures etc. represent definitive and highly deep processes which define and accompany this change of system.

In this way, there are certified the organizational dynamics, which is felt more in our economy of transition, the decisional and legislative transformations which acknowledge change at all levels; the market that brings essential structural changes, strategies that point out a new balance between demand and offer.

Being under the pressure of the influences of the scientific-technical revolution, of the economic, political and social transformations, the European economy, generally, and the economy of transition especially, feel the need of change, all being or being induced in the area of professional managerial interventions.

Thus we may discuss the issue of priority in solving the disagreements caused by the new transformation:

- Focusing on the priorities of the national economy, the development of economy, the careful measurement at national level between different branches and fields of activity;
- Correlating these priorities and strategies with those already in practice in the European Communion;
- Configuring some strategic alternatives;
- Taking into consideration the mechanism of the international economic relationships outside Europe.

The issue of reasonableness of using resources of our own drawn in the frame of ample development processes requires special attention for the correct measurement of the resources involved in order to determine the most efficient process for acquiring and using them and, mostly, to inject them into preferential points, whose development will have an extended impact both upstream and downstream from the place they are placed.

The present and specially the future achievements of the company depend on the duration and the resources consumed in the process of change.

Changes can be caused or produced from the inside, or can be caused by external factors or with the participation of these (for example, as a consequence of a merging, or of hiring a new manager with a view to promote change, or of another factor of change).

It may seem paradoxically, but, although change is necessary in order to annihilate tensions, it cannot be really successful unless it is understood as a factor of improving the situation and if it starts with however small improvements of the situation which produced it.

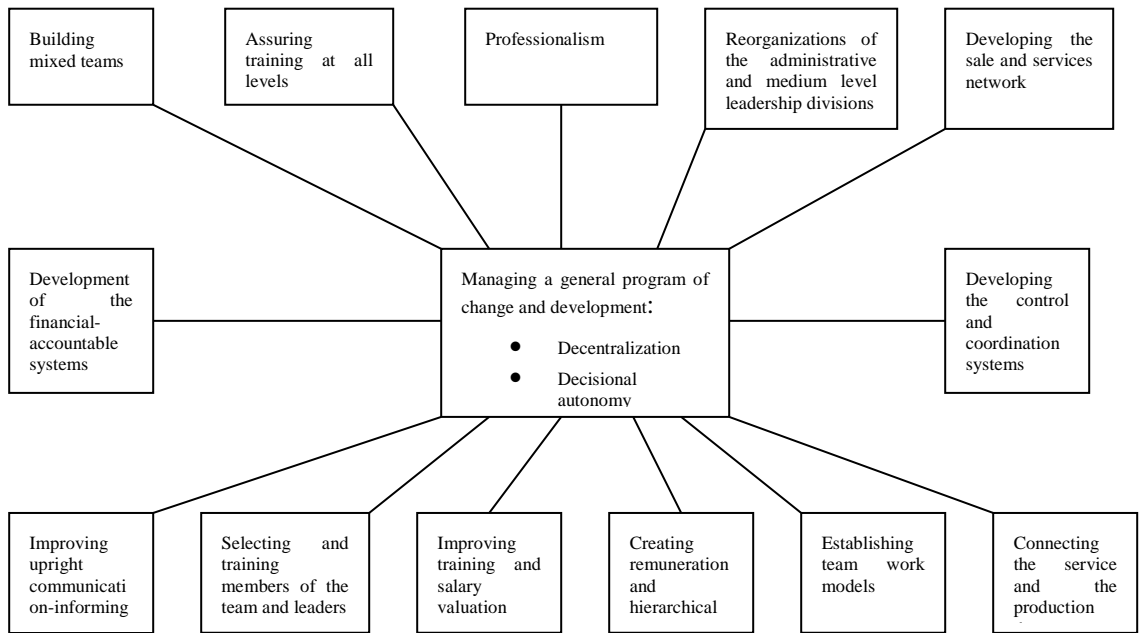
Whatever shape change may take it must produce as little side effects as possible in order to be successful and it is for the best when, even if the achievement is small there are no failures recorded, which, even if small, lead to discouragement and distrust towards the adopted change. "Success makes success" is a well-known saying. If change starts by achievements, even of small dimensions, the avalanche effect is possible.

Change may have a view to the strategy, structure, policies, budget, systems of the company, list of products, clients, suppliers, prices, costs, technologies etc. All these elements condition the company's performance, being conditioned by the company's external and internal environment.

Also a restructure of the view of the managerial activities is necessary as today the manager must be a man of outlook, of culture, a leader and mostly, a man of results. It is useful to underline that in Romania learning to change is more than a necessity. Learning to change supposes:

- a) The clarity of objectives at all levels of organization;
- b) Planning the actions and participation of managers and experts specially in approaching and solving focused problems;
- c) Making the whole personnel responsible to support initiatives;
- d) Assessing managerial performance at each stage of development;
- e) Promoting feed-back connections in order to build every stage of development;
- f) Bringing forward the ideas of the entire personnel;
- g) Supervising balanced with autonomy development;
- h) Understanding that change, specially in management, is a learning process.

In the diagram below I will gather the main elements which define change initiative and the relevant fields for an organizational change:



We should also take into account the situations in which managers are put regarding change processes:

- a) A process of change at the level of an organization always requires a research on the economic and social environment;
- b) Promoting change after having made market research (the necessity to observe the market demand, the market response towards the products, the works or the services offered by that company) and a technological forecast (endowment with the latest technology available on the market and the development prospect).
- c) The characteristics of the period of transition to the market economy;
- d) The normative and legislative reform;
- e) The new economic and financial mechanisms;
- f) The desire to join the European Union;
- g) The involvement of top management in the process of change;
- h) Creating an innovating and creative environment;

and which give an impulse to making the organizations' activity efficient.

### **The resistance to change – obstacles, dilemmas and contradictions**

The adjustment to physical changes and technological innovations is apparently simple; yet, social and methodological changes are hard to face.

In 1995, Rodriguez points out that the resistance to change comes from:

#### **I. the need for security**

- people need to feel secure and when change threatens security, they tend to oppose resistance;

#### **II. the probability to affect particular interests**

- an organizational reorganization may cause uncertainty regarding its consequences on the activity;

#### **III. the lack of vision and clarity regarding the possible benefits from change**

- the employees want to feel secure and to have control over change;



#### IV. inertia

- generates the preference to maintain the same rhythm opposite to the additional efforts necessary to make the change;

#### V. the contradictory interpretations of changes, achievements, objectives etc.;

- change will be more successful and will face lesser resistance from the employees if managers talk on time about a plan of change which they will set forth and discuss and explain to the employees, asking as well for opinions and suggestions from their parts;

#### VI. the lack of resources

- may create difficulties or even make the support of an innovation impossible;

#### VII. envy and the internal inappropriate attitude

- makes some people and departments of the organization oppose to the innovations suggested by other people and departments.

The resistance to change can manifest itself in any type of organization, especially in those which have developed formal structures, because they are more conservative.

Although the achievement of the company's objectives must be a common cause of all the employees, on the way tensions and even conflicts may appear, due to different attitudes and rhythms of action, or even because of the disagreement regarding the objectives or the way in which one acts in order to accomplish them. Are such tensioned states acceptable or even necessary? Theoretically, yes, because they can lead to better solutions than those seen initially, by examining the objectives and the way to achieve them from different perspectives. However, care must be taken in order not to let the disagreements turn into destructive conflicts for the company, through the serious deterioration of the work environment.

The gradient of change has increased in the present period and it is likely to increase even more in the future, especially as a consequence of globalization and the Internet (electronic commerce, virtual company, etc.), of the mutual bringing forward between the technological progress and consuming, with generally economic effects, within the framework of market division and of the environment in which the functions of the company and of management are practiced.

On the basis of the things mentioned above, also correlated with a succinct analysis of the way in which the process of reorganization was conceived and it develops in Romania, not without a major impact on the strategic management and on the development of economy generally:

- change started off as a spontaneous process being marked by the decrease of the industrial production and by the bankrupt estate or even the abolition of some economic units in a critical economic and financial situation;
- the lack of co-operation and the insufficient gathering of efforts and actions of different bodies and institutions qualified to accomplish reorganization (The Ministry of Reform, FPS, The Reorganization Agency);
- ignoring the connections between branches and smaller branches, as long as there is no general vision shaped on economy and industry in the perspective of the years to come;
- the lack of divisional reorganization strategies elaborated by the ministries and approved by the government;
- the insufficiency of available funds and the lack of programs for professional upheaval;

have had and have consequences on the rhythm of reorganization, on the process of economical growth, change management remaining one of the important objectives of the process of economic reform, and its achievement must be approached with professionalism and accompanied by a pile of levers and specific instruments that should orientate the behavior of the economic agents, to challenge and stimulate them towards the endorsement of some reorganization and using new technology strategies.

### **Change reliability-obstacles, dilemmas and contradictions**

Organizational change is a multitude of alterations – structural and behavioral – which are interdependent and imbedding. Organizational change represents the absorption of a new idea or of a new behavior by an organization. Chiavenato presents four types of changes:

1. changes in the organizational structure – refer to the elaboration of new organizational structures or to changes in the activity structures;
2. changes in technology – refer to new equipment and processes;
3. changes of products and services – refer to the new products, services, clients;
4. changes in the organizational culture – are associated with new attitudes, understandings, expectancies, results.

These types of change must be administrated by the organization if one wants the innovations that are to be applied to be successful.

Another classification of change which should point out the guarantee of change management efficiency:

- a) *Unplanned change* – in this situation, change operates in order to react to some events (e.g. improving equipment);
- b) *Planned change* – known, it has proactive characteristics which can influence the future;
- c) *Enforced change* – it is generally determined by the management's interventions, normative elements or decisions of the super-ordered bodies; it is conditioned by the degree of education, by the level of culture, by the capacity to understand the change process;
- d) *Participative change* – it is generally based on the involvement of the personnel, on the creation of a modern, enabling environment and on the permanent informing of the employees regarding the understanding of the need for change – it is one of the most important methods because, although it implies a slower process, it creates a relative accord regarding the issues of change;
- e) *Negotiated change* – it is materialized in collective, official or unofficial agreements in which the points of view accepted by the parties are sanctioned, unsolved problems being discussed in further negotiations – in this way a good manager can analyse the way in which change has been accomplished until that time and can suggest solutions for better results.

That is why the ideas that constitute pre-requisites of success must be promoted, those that Edward Deming recommended and applied successfully:

1. the consistency regarding the improvement of the product in order to be competitive;
2. adopting a new philosophy;
3. renouncing the quality class control building pre-requisites to increase the quality of the product, seen as client satisfaction;
4. ceasing awarding the management, raising thus the costs, but rewarding first of all those with contributions in production and innovation;
5. the permanent and steady improvement of the system of production and services, the rise of quality and the decrease of costs;
6. training for every job;
7. the real leadership at the level of the executer – the supervisor should constantly help the workers that solicit him;
8. eliminating fear – people should work motivated for the company and for themselves;
9. eliminating the barriers between departments – everybody makes a team;
10. eliminating slogans – they can produce the opposite effect;
11. eliminating limitations in workshops and regarding tasks – replace them by global tasks;
12. eliminating barriers between the types of work and between functions;
13. introducing a compelling educational and self-improvement program for the employees;
14. each person's contribution to achieving change.

These ideas, which applied have proved to be very productive for the companies that adopted them, must be a part of the company's culture.

Assuring the efficiency of the Romanian companies' activity in this context can be summed up to a few basic conditions:

1. Competitive achievement of objectives;
2. Maintaining the internal balance of the organizations;
3. Leading organizations towards success;
4. The adjustment to the dynamics of the external environment accompanied by a behavioral flexibility;

The processes of change usually imply good planning, effort and sacrifice. Those responsible of administrating change must emphasize the desire to share with each and every one of the members of the organization, regardless of their role inside it, the due costs of the initiative. This is an easier way to convince that the potential benefits of change are worth the effort. Well planned changes, once they surpass the initial resistance, enable the improvement of the atmosphere and of the working conditions, with a positive impact not only on the communication systems, but also on the organization's efficiency.

To conclude, we live a fast period in all fields, at macro and micro – economic levels. The reform, reorganization and privatization processes need to be thoroughly analysed and understood; there is the need to develop a managerial way of thinking, supported by managerial professionalism in order to assure the efficient run in the national and international competition.

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# THE HARMONIZATION OF THE INDIRECT TAXATION IN THE EUROPEAN UNION

**Miklo ( Buda) Cătălina Petruța**

*Universitatea de Vest Timișoara, Facultatea de Științe Economice, Arad, Str. Piața Gării nr.6 bl.I sc.B ap.8, jud. Arad, catalina.miklo@alcoa.com, tel: 0728.040.060*

**Boghicevici (Pantea) Claudia**

*Universitatea de Vest Timișoara, Facultatea de Științe Economice, Arad, str Vrancei, nr 41A., pla\_net\_claudia@yahoo.com, Tel:0727821645*

*Abstract: Harmonization of the indirect taxation in the European Union is a necessity in the context of cross-border trade development, the evolution of market economies .*

*The themes debates the main issues related to fiscal harmonisation of the indirect taxes and presents the European Comission future projects.*

*Key words: Indirect taxation, VAT, Fiscal harmonization*

The internationalization of the social relationships, known under the denomination of globalization, implies an outwardly opening of the national economies. The unprecedented development of the world trade, the progress of science and technique, the evolution of the market economies, have accelerated the process of regional and world integration. Within this context, the harmonization of the national economic policies was compulsory. The fiscal policy, an integrant part of the economic policies, represents the object of the harmonization process developed at the European Union's level. The fiscal policy is the work of the state power (the national fiscal policy) or of the overstate power (the regional or world fiscal policy).

In actual fact, the fiscal policy is established in a direct connection with the state options regarding the taxes and duties, in that it has to impose the conscious utilization of the entire assembly of fiscal instruments and procedures in order to settle the level, the structure and the regime of the fiscal facilities, within the process of the distribution of the social product, so that it is ensured the accomplishment of the political, economic and social goals.

The indirect taxation is characterized by the fact that it exclusively refers to the consumption of goods and services, determining a distribution of the fiscal obligations.

The indirect taxes are those sources of budgetary incomes that are achieved, mainly, by means of the taxation on the consumption, being collected for goods sale, for the performance of certain services, respectively of some works.

They are borne by the final consumer, namely by the one that acquires and/or uses for himself the good or the service within the price of which the tax is included the tax.

In the field of the indirect taxation system, the goal of the European action is to achieve the compatibility of the national systems, not only amongst them, but also with the aims of the EC treaty.

One of the first measures regarding the fiscal harmonization at the community level, aimed the indirect taxes which are applied to the reunited capitals (denominated "contribution rights").

Beginning with 1977, VAT was the first harmonized tax.

Despite all these efforts, the fiscal harmonization is far from being satisfying. This persistent incapacity regarding the development in the fiscal policies coordination has conduced not only to the perpetuation of decisions on the internal market, but it has also aggravated the unemployment, including the favouring of the tax base erosion.

In 1996 the committee identified the three main directions that will be the key points for the fiscal policy that is to be promoted in the European Union within the next period:<sup>167</sup>

- the establishment of the collection of taxes for the member States;

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<sup>167</sup> Source: Petre Brezeanu – Finanțe Europene, Editura C.H. Beck, Bucuresti 2007

- the good functioning of the unique market;
- the promotion of the employment (jobs).

VAT has been introduced beginning with 1970 in the European Economic Community by means of the first and the second VAT norm, replacing the various production and consumption taxes applied until then by the member States, taxes that represented obstacles for the trades. The sixth VAT norm appeared in 1977 in order to harmonize this tax. It allowed the establishment of the methodology necessary for the achievement of the goal that has already been pointed out by the first VAT norm: the fiscal borders annulment. By means of this norm, it has been implemented the application of a definitive tax regime for the exchanges among the member State, related to their tax base in the member State of origin of the delivered goods and of the performed services.

The annulment of the fiscal borders required a certain harmonization level of the VAT rates. The member States apply , within the new regime, a normal VAT rate of at least 15% and, optionally, one or two diminished rates of at least 5%, only for certain goods and services with a cultural or social character.

The tax principle in the consumption State ( or the taxing at origin) for the goods and services destined to the subjects, at the rates and according to the conditions in force in this State remains the essential principle of the VAT common regime for privates. It is a matter of avoiding, as long as the rates are not sufficiently close (alike), the distortion risks of the competition and the delocalization of the activities. This regime is therefore intended to the consolidation of the community integration, maintaining the financial interests of the member States.

Although, the transitory regime maintained at the same time different tax regimes at destination companies, in order to ensure that the tax is collected in each member State, depending on the significance of the consumption made on its territory; in the mean time, legal actions have been promoted, pointing out particular regimes, especially for:

- occasionally goods, art objects, , antiquities, collection objects;
- operations on gold;
- services with a high intensity of manual labour;
- tourism agencies;
- services provided by electronic ways.

Regarding the exchanges with the third countries, the imports are declared at the customs and they are VAT taxed when they are imported. The exports will remain exonerated, under the reserve of the accomplishment of the usual customs formalities.

For the operators who want to put in free practice in the member states the third goods before they send them to another member state in which they will be used or consumed, it is applied the simplified regime.

Within the VAT strategy, the committee has the goal of affirmation of the taxing principle at the consumption place and the simplification of the operators' obligations. With this purpose, it proposes the pointing out of a "unique desk" mechanism, that brought considerable facilities in case an operator performs taxable actions for which he is subjected to tax in the member States in which it is not established. On the other hand, the Committee agrees that a more and more strong collaboration among the member States, should allow the maintaining of the VAT fraud within acceptable limits.

The communitary regulation regarding the excises is recent. In contrast with the VAT one, it established a definitive regime and, in general, at the owning, the circulation and the control of the products subjected to excises. The maintained principle is the one of the taxing in the country of consumption. This regime, effective beginning with 1 January 1993, is one of the elements of the global strategy for the rates approaching and for the harmonization of the indirect structures. This regime is applied to the alcoholic drinks, manufactured tobacco and mineral oils and allows the circulation of goods with the cancellation of the excises rights and without controls at the intracommunity borders. The excises are paid when the product is put in consumption in the State of consumption. The circulation of the products with the cancellation of the rights is made by means of the fiscal repository and under cover of an accompanying administrative document.

The instauration of the minimal rate for alcohol and alcoholic drinks, cigarettes and tobacco was made in 1992. It was foreseen that during the entire two years, the Council will examine the minimal rates, taking into consideration the good functioning of the internal market and of the real value of these rates.

According to the approach kept by the Committee for mineral oils, petrol (carburant) and petrol gas (the respect towards the environment, the encouraging of the consumption of energetic products that are resulted from recyclable resources), the Committee presented in 1992 a proposal that established the decrease of the rates (quotes) of the excises applied to the carburant of origin or to the bio-carburant and in 1977, a proposal regarding the harmonization of the indirect fiscality for the energetic products.

Together with the approach of the rates in force in the member States, a minimal harmonization of the structures is, also, necessary (taxable materials, collection methods, fiscal exonerations, payment conditions) in order to achieve the effective cancellation of the fiscal borders. In this effect, the EU norms have as goal, the harmonization of the taxed products in order to ensure a common taxing and to foresee the applicable exonerations.

Regarding the mineral oils, petrol and petrol gas, the European Union adopted two norms in 1992, norms that referred to the harmonization of the structures of the rights resulted from excises for mineral oils and the approach of the excises rates for the mineral oils. In 1997, the European Committee issued a new norm proposal regarding the harmonization of the indirect fiscality of these products. In 2003 this proposal was adopted, determining a real communitary environment for the energetic products and electricity.

The specificity of Romania in comparison with the EU27 countries is the structure of the collected incomes at the state budget. In Romania, the fiscal and budgetary incomes are depending on the incomes resulted from the indirect taxes and duties (VAT, excises, customs taxes, etc), while in the European Union, the contribution of the three main categories of taxes and duties (direct, indirect taxes and social contributions) within the incomes are relatively close. Under these circumstances, we can notice that the fiscality in Romania is an average one, comparing with the countries within the European Union, being situated at a level close to Ireland or Slovakia (where it is applied a unique quote of 19% both for the incomes and for VAT) and much more diminished in comparison both with the countries within the EU15, for example Sweden, France or Denmark, and with some of the new-included EU countries in 2004, such as Czech Republic or Hungary.

In comparison with the rates applied by the member states of EU, the VAT quote applied in Romania is situated at an average level. This rate of 19% is met in Slovakia (where it is applied the principle of the unique quote extended also for VAT), Germany, Czech Republic, etc. The highest VAT rate is registered in Sweden, Norway and Denmark (25%). The rate used in Romania is higher than the one used in other states such as Luxemburg and Cyprus (15%) or Great Britain (17%). Otherwise, regarding also the first registration tax, that has been recently introduced in the Fiscal Code and so contested, it must be mentioned that, in Romania, the environmental taxes are 10 times smaller in comparison with the European Union.

The harmonization of the indirect taxing is a long process that often comes up against the significant differences that exist in the legislation of the member states.

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# ROMANIA'S PERFORMANCE IN THE EMU ACCESSION PROCESS

Miru Oana Maria

*West University of Timișoara, Faculty of Economics and Business Administration, Timișoara, str. Pestalozzi nr. 16, Email: miru\_oana@yahoo.co.uk, Tel: 0745354286*

**Abstract:** *Following Romania's accession to the European Union, the greatest challenge facing economic policy is compliance with the criteria for joining Economic and Monetary Union. The economic policy decision-makers must consider the convergence criteria, in order to be able to comply with them at the lowest possible cost. Romania is a little behind the other countries in what regards the convergence criteria, except of the government finances criteria. With the entrance in the Euro zone set to 2014, it has still got time to meet them, but the fact that it is among the last in the EU should be a worry.*

**Key words:** *European Union, convergence, stability, performance, catching up*

## 1. Introduction

The Treaty on European Union represents a new stage in European integration since it opens the way to political integration. The Treaty introduces the concept of European citizenship, reinforces the powers of the European Parliament and launches economic and monetary union (EMU). Besides, the EEC becomes the European Community (EC). The EMU puts the finishing touches to the single market. It can be described as an advanced stage of economic integration based on a single market. It involves close co-ordination of economic and fiscal policies and, for those countries fulfilling certain conditions, a single monetary policy and a single currency – the Euro. Entry into the euro zone will mean lower risk premium and interest rates, as well as lower transaction costs, along with a say in shaping the ECB's monetary policy, the independence from which becomes more imaginary than real once a small country has *de facto* integrated into the economy of the euro zone.

The Maastricht criteria for accession to the Euro area can be difficult for any economy to achieve. For poorer economies which are catching up to the living standards of the wealthier EMU members, the challenges are magnified. Catching-up economies are those that are narrowing the per capita income gap vis-à-vis wealthier economies, by investing in better human and physical capital and by adopting more efficient production processes. As the productivity gap narrows it is natural to expect the price level gap to narrow also, reflecting the gradual convergence of living standards to those of Western Europe. However, this process poses particular challenges for the catching-up countries' goals of meeting the Maastricht criteria of low and stable inflation together with stable exchange rates. (Brook, 2005)

The new Member States, which have joined the EU in 2004 and 2007, are expected to enter the Euro area over several years, as they fulfill the necessary conditions. The process started on 1 January 2007 when Slovenia became the first EU Member State from the 2004 enlargement to adopt the Euro. Starting 2008 Cyprus and Malta have also joined the Euro Zone. Sweden is expected to join the Euro area in the future, but has not yet qualified.

This paper is trying to compare Romania's performance regarding the economic criteria, set by the Maastricht Treaty, as well as the real convergence criteria meant to show the standard of living within the countries, with the group of countries which have joined the EU in 2007<sup>168</sup>, and of those that have joined it in 2004<sup>169</sup>.

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<sup>168</sup> Romania and Bulgaria

<sup>169</sup> Czech Republic, Estonia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Slovenia, Slovakia

## 2. The nominal convergence criteria

### 2.1. Price stability

The price stability criteria implies that the inflation rate of a given Member State must not exceed by more than 1½ percentage points that of the three best-performing Member States in terms of price stability during the year preceding the examination of the situation in that Member State. Anne-Marie Brook very well notes that this definition of the reference value makes fulfillment challenging for three reasons.

First, to the extent that the Balassa-Samuelson<sup>170</sup> (BS) effect is significant, it may create a more challenging goal post for catching-up economies than it did for the core EMU economies, resulting in the boxer effect<sup>171</sup>. Second, even for countries without a significant BS effect, the definition of the inflation reference value creates uncertainty about the definition of “best performing” in the context of price stability. Initially the “three best-performers” were simply identified as the three EU countries with the lowest inflation rates. In 2004, however, the Commission decided to exclude Lithuania on the basis that “countries with negative inflation are not considered to be best performers in terms of price stability” (European Commission, 2004). This however raises the question of whether countries with positive, but very low, inflation rates would be considered best performers. Finally, the third reason is this definition provides a moving target for compliance with the criteria, since the composition of countries that meet the “best-performing” criteria will change over time, and their inflation rates cannot be predicted with certainty. (Brook, 2005)

It can be observed that in most of the countries that have joined the European Union, both in 2004 and 2007, there is an ascending trend. The countries that are an exception are Slovakia, Slovenia, Cyprus, Malta and Romania. In what regards the reference value of the inflation rate we can see that it is very close the Euro zone average. At the end of n2004, after the EU accession, the Czech Republic, Estonia, Hungary, Lithuania, Latvia and Poland have seen a growing inflation rate with 1.64 to 3.55 percent, and has been growing ever since. Excluding the states that have already joined the Euro zone<sup>172</sup> the others are still a little far from the levels in the Euro area. Latvia has the highest inflation rate, followed closely by Hungary, Bulgaria and Estonia.

This trend reflects the global increase in energy prices, which has been affecting consumer prices. In some countries, recent inflation developments have been influenced by increases in food prices, which have begun growing at a faster rate in 2006, following very subdued rises or declines in 2005. Inflationary pressures have been reinforced by a combination of rapid domestic demand growth – supported by strong real income and credit growth feeding through into household consumption – in many of the countries examined and EU entry-related increases in indirect taxes and administered prices. In some rapidly growing economies, increases in unit labor costs have also contributed to inflation. By contrast, declines in tradable goods prices, such as the prices of clothing and footwear, suggest that a shift in import patterns towards low-cost countries is having a downward impact on inflation. (ECB, 2006)

Slovakia is one of the best performers in what regards the inflation criteria, along with Cyprus and Malta. Its inflation rate has dropped from 8.43% in 2003 to 1.89% in 2007. While it has seen sharp rise in 2006 to 4.26% from 2.8% in 2005, it has come back on track dropping in 2007 to 1.89% and meeting the Maastricht criteria for inflation rate.

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<sup>170</sup> The Balassa-Samuelson effect implies that the catching-up economies have higher *steady state* inflation rates than do the wealthier economies of the Euro area. Because of this, it has been argued that the Maastricht criterion on inflation may be inconsistent with the catching-up process. One concern is that accession countries may be forced to achieve the required inflation reduction by allowing greater nominal exchange rate appreciation, which could lead to a loss of competitiveness and risk attracting speculative capital flows. Another concern would be that an accession country may be forced to deliberately slow the economy below its potential growth rate, leading to a loss of welfare.

<sup>171</sup> The boxer effect states that the candidate country will do whatever is required to squeeze down inflation prior to accession, only for repressed pricing pressures to re-emerge once it has joined the EMU (Szapáry, 2001)

<sup>172</sup> Slovenia in 2007 and Cyprus and Malta in 2008



	Czech Republic	Estonia	Hungary	Lithuania	Latvia	Poland	Slovakia	Slovenia	Cyprus	Malta	Bulgaria	Romania	Euro area	Average reference rate
2007	2,95	6,74	7,93	5,82	10,08	2,6	1,89	3,8	2,2	0,7	7,57	4,91	2,1	2,8
2006	2,09	4,44	4,03	3,79	6,57	1,27	4,26	2,54	2,25	2,58	7,42	6,61	2,2	3
2005	1,6	4,11	3,48	2,66	6,9	2,18	2,8	2,47	2,05	2,53	6,04	9,07	2,2	2,8
2004	2,55	3,03	6,77	1,16	6,19	3,59	7,47	3,65	1,9	2,72	6,15	11,89	2,1	2,4
2003	-0,07	1,39	4,68	-1,08	2,94	0,71	8,43	5,7	3,98	1,94	2,35	15,27		

*Table 1. HICP - Overall index, Annual average rate of change, neither seasonally nor working day adjusted, Source: Eurostat, own calculations*

Looking back over a longer period, HICP inflation in Cyprus has been contained, with only occasional periods of relatively high inflation. This long-term inflation performance reflects a number of important policy choices, most notably the long-standing tradition of pegged exchange rate regimes, which dates back to 1960. In Malta, inflation has been relatively stable, fluctuating mostly between 2% and 3% over the hosen period of reference. The fact that inflation has remained relatively stable over a long period reflects a number of important policy choices, most notably the decision to maintain a pegged exchange rate arrangement since Malta became independent in 1964, for most of the period against a basket of currencies. Since 2 May 2005, the Maltese lira has been pegged to the Euro.

In what regards Romania, unlike the other states that have recently joined the EU, it has seen a clear disinflation trend during the chosen period, mainly due to the monetary policy adopted by the Central Bank. However it is still higher than the Euro area rate, about 2.81% difference in 2007, and higher than the average reference rate required by the Maastricht criteria. The upward trend in the projected annual inflation rate is expected to continue in 2008 Q1 followed by the resumption of disinflation and its acceleration towards end-2008. The NBR reiterates that it will use all available instruments at its disposal in order to resume as fast as possible, in a sustainable manner, the announced medium-term disinflation trajectory, the risk-management strategy employed in the configuration and implementation of monetary policy requiring that inflation targets<sup>173</sup> be attained over the medium run with the conservation of main macroeconomic equilibrium while avoiding the worsening of existing disequilibria. (NBR, 2008)

According to economic analysts, in almost all countries, the inflation rate is expected to rise in 2008, due to the recent world economic downturns. This would probably affect both the Euro area countries and the derogation countries as well. A CESifo study puts the expected inflation rate for the first quarter of 2008 at 2.5% in the Euro area and at an average of 5.1% for the new EU members, i.e. 2004 and 2007 accession. (CESifo, 2008)

## 2.2. Long-term interest rates

The nominal long-term interest rate must not exceed by more than 2 percentage points that of the three best-performing Member States in terms of price stability. According to guidelines, interest rates should be based on secondary market yields. However, for some countries, i.e. Cyprus and Lithuania the interest rates are based on primary market rates. For Estonia, which has a very limited government debt, harmonized ten year government bonds following the common statistical framework could not be identified. As a best indicator, it was used the average level of interest rates on new loans to enterprises and households with maturity over 5 years.

The highest interest have been reached by Hungary and Romania, i.e. 7.12% and 7.49% in 2006, while in the Euro area the rate has dropped to 3.83%. However all the other countries taken into consideration have reached interest rates above those of the Euro area. In what regards the reference value it reached 6.2% in 2007

In Romania the interest rate from the last 10 year government bonds issue, in august 2005, was 7.49% and in the last 5 years government bond issue, in march 2007, the interest rate was 7.03%.

<sup>173</sup> 3.8% in 2008 and 3.5% in 2009 (dec/dec)

### 2.3. Exchange Rates

ERM II is a system designed to avoid excessive exchange-rate fluctuations between the participating currencies and the Euro that might disrupt economic stability within the single market. The Member State must have participated in the exchange-rate mechanism of the European monetary system without any break during the two years preceding the examination of the situation and without severe tensions.

Conceptually, the ERM-II was designed to serve as a testing ground for the central rate as well as for the sustainability of convergence in general. In other words, the framework has been designed to help in identifying any potential misalignments in the central parity that have not been detected before. If the exchange rate remains very close to the central rate during ERM-II membership, and if the other Maastricht criteria are met, then this is seen as a positive sign that sustainable convergence has been achieved. Catching-up countries do not easily fit this framework, in its simplest form, since a significant productivity gap is likely to require some real exchange rate appreciation during the course of ERM-II participation.

Brook considers that for economies with floating exchange rates, this framework presents the national authorities with a number of challenges. First, although the central rate should ideally be set as close as possible to the estimated equilibrium level, there is considerable uncertainty about where the equilibrium level is. Second, there is a risk that speculative capital flows could push the exchange rate to an uncompetitive level. Finally, some appreciation of the nominal exchange rate within ERM-II may be necessary, in order to achieve some real exchange rate appreciation without sacrificing the inflation criterion (Brook, 2005). If a catching-up economy has a significant productivity growth differential with respect to that in the Euro area, then some appreciation of the real *equilibrium* exchange rate will occur over the period of participation in ERM-II. Given the inflation objective, this may require some nominal exchange rate appreciation. Fixed exchange rate regimes with perfect capital mobility are known for their weakness in the face of speculative attacks. For the ERM II, such intrinsic weakness may be worsened by possible “convergence plays”. Such plays arise when agents, anticipating economic growth in a country with a fixed exchange rate regime, invest massively in the economy, being attracted by high rates of return. But when such investments are short term, any turnaround in expectations may reverse the play and trigger currency depreciation.

In what regards the appreciation of the currencies none of them exceeded the set rate of +15%, over the analyzed period while only the Latvian lats have depreciated with over 2.5% in 2004 and 2005, however still in the +/- 15% band. The Maltese lira has been participating in ERM II with effect from 2 May 2005. The central rate for the Maltese currency in ERM II was set at 0.429300 lira per Euro – the market rate at the time of entry – with a standard fluctuation band of  $\pm 15\%$ . The Cyprus pound has also been participating in ERM II with effect from 2 May 2005. The central rate for the Cyprus currency in ERM II was set at 0.585274 pounds per Euro – also the rate at which the pound was linked unilaterally to the Euro since the beginning of 1999 – with a standard fluctuation band of  $\pm 15\%$ . The Slovenian tolar has been participating in ERM II with effect from 28 June 2004. The central rate for the Slovenian currency was set at 239.64 tolar per Euro, with a standard fluctuation band of  $\pm 15\%$ . Since joining ERM II the tolar has traded close to its central rate and Slovenia has not devalued its currency’s central rate against the Euro on its own initiative and has maintained a rather stable Euro exchange rate.

Between 2004 and 2006, the Hungarian forint did not participate in ERM II but traded within a  $\pm 15\%$  fluctuation band around a unilaterally set central rate of 282.36 forints per Euro. In this period, the forint was rather stable until February 2006, before being repeatedly subjected to depreciation pressures. From early 2006 the Hungarian currency traded against the Euro at a consistently weaker level than in November 2004 (ECB, 2006). With effect from 26 February 2008, the forint exchange rate has been floating freely vis-à-vis the Euro as a reference currency, with movements in the forint determined by the interaction between the forces of supply and demand.

The Slovak koruna has participated in ERM2 since November 2005. The exchange rate has remained within the 15% fluctuation band around the central rate, although much closer to the upper band than the lower band. In view of significant inflows of foreign direct investment followed by the progressive acceleration of economic growth and substantial appreciation of the estimated equilibrium real exchange rate, it was mutually agreed in March 2007 to revalue the ERM2 central rate for the Slovak koruna against the Euro by 8.5 % to SKK 35.4424. This step was meant to support the authorities in maintaining macroeconomic stability.

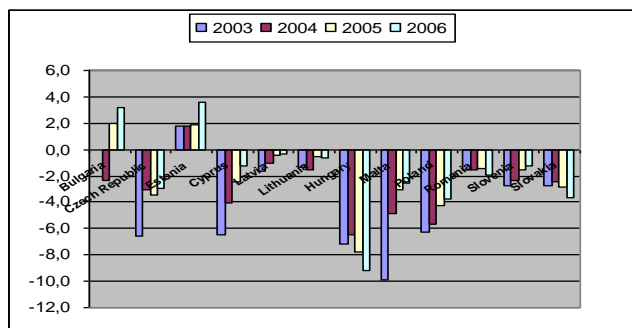
In what regards the Romanian leu the average exchange rate shows an appreciation of the currency over the chosen period. However, in the second part of 2007 and first part of 2008 the Romanian leu has clearly been depreciating, reaching a value of 3.72RON/EUR at the end of March 2008, compared to the average 3,3353 RON/EUR for 2007. The behavior of the RON exchange rate was shaped in December by the successive turmoil episodes on external money markets as well as by the rising global uncertainties related to the US sub-prime mortgage market crisis. Amid these developments, the domestic currency not only further depreciated versus the Euro, but the volatility of daily rates peaked at a two-year high, thus outpacing the similar indicator of other currencies in the region. The international environment had a large impact on the RON during the period under review as well, insofar as financial investors' decisions concerning placements on the domestic market were still influenced by the possibly excessive worsening of their perception of the current and short-term developments of the Romanian economy.

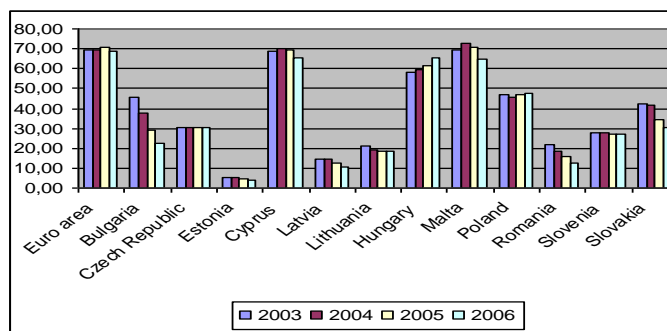
As uncertainties on world financial markets are likely to persist, the short-term behavior of the RON exchange rate is expected to come under the impact of possible shifts in the attitude of investors towards the domestic financial market. These mood swings will heavily depend on the reoccurrence of turmoil on world financial markets, but also on investors' increased sensitiveness to the developments and outlook for domestic economic fundamentals. (NBR, 2008)

## 2.4. Government finances

The Commission, when drawing up its annual recommendation to the Council of Finance Ministers, examines compliance with budgetary discipline on the basis of the following two criteria:

- the annual government deficit*: the ratio of the annual government deficit to gross domestic product (GDP) must not exceed 3% at the end of the preceding financial year. If this is not the case, the ratio must have declined substantially and continuously and reached a level close to 3%. Among the analyzed countries, Bulgaria and Estonia do not have a deficit, but a rising surplus. The other countries either have a declining deficit, or a rising one, but however under 3%. Romania is one of the best performers regarding these criteria, with a very low deficit, but however rising in 2007, after the EU accession, to 2.5% from 1.9% in 2006. Hungary is one of the worse performers in what regards government deficit. After the EU accession in 2004, it has dropped by 0.7%, but starting 2005 it has risen to 7.8% and 9.2% in 2006. Slovakia also has a rising deficit, exceeding the 3% reference value in 2006, reaching 3.7%.
- government debt*: the ratio of gross government debt to GDP must not exceed 60% at the end of the preceding financial year. If this is not the case, the ratio must have sufficiently diminished and must be approaching 60% at a satisfactory pace. Except for Hungary and Poland, all the other states considered have seen decreasing government debt after the EU accession. In this matter Romania is among the best performers, along with Estonia, Latvia and Lithuania. In Romania the government debt is under 20%, well under the 60% reference set by the Maastricht treaty. The main objective for the government debt management is its maintenance at sustainable levels and assuring the necessary resources for the government deficit financing, as well as the resources for paying off the debt at a low cost and a low risk level.

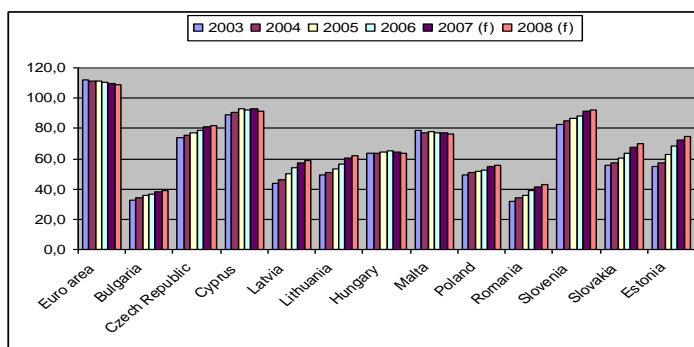




**Figure 1. The annual government deficit and government debt, as percentage of GDP, Source: Eurostat and ECB Statistical Data Warehouse**

### 3. Real convergence

The Maastricht Treaty does not mention explicit criteria in what regards the real convergence, which is meant to diminish the gap between countries in what regards productivity and prices, implying an income rise in catching up countries to the level in the developed countries in the EU. This criteria is best represented by the GDP per capita expressed in Purchasing Power Standard (PPS<sup>174</sup>). It is defined as the value of all goods and services produced less the value of any goods or services used in their creation. The volume index of GDP per capita in PPS is expressed in relation to the European Union average set to equal 100<sup>175</sup>. Basic figures are expressed in PPS.



**Figure 2. GDP per capita, Source: Eurostat, ECB Data Warehouse**

One empirical observation in connection with the emerging countries is that, in parallel with the process of growth in per capita income, prices will also approach the levels of the more advanced nations, even though they are typically considered low during the early stages.

Regarding the situation of Romania, before the starting of the EU negotiations, the GDP per capita was 23.2% of the level in the EU, reaching 38.9% in 2006, before the EU accession and rising to 41.6% in 2007 (Eurostat forecasting). It is still expected to rise in 2008 to 42.6%. Even though, it is among the worse performers in the group of analyzed countries, along with Bulgaria. Despite this, all the countries have a lower level of GDP per head than the EU average. The best performers are Slovenia, Cyprus, reaching values of over 80%, hence getting closer to the EU average level. In all the countries it is clear that the GDP per capita has risen after the EU accession. This figures show that, all the recent EU entrants have still got a lot to work on the catching up process of the living standards in the other developed countries in

<sup>174</sup> eliminates the differences in price levels between countries allowing meaningful volume comparisons of GDP between countries.

<sup>175</sup> If the index of a country is higher than 100, this country's level of GDP per head is higher than the EU average and vice versa

the Union. Romania especially needs to rethink its strategy in this matter and speed up reforms that could narrow the GDP per capita gap vis-à-vis all the other countries in the EU.

#### 4. Conclusions

In 2004 and 2007 twelve new countries joined the EU as Member States with a derogation on Euro area membership. This means that, while not yet adopting the Euro, they are committed to striving towards the eventual adoption of the Euro upon fulfillment of the four convergence criteria laid down in Article 121 of the Maastricht Treaty. The architecture of the EMU accession rule-book has been designed primarily for economies that are relatively homogenous with respect to the original EMU members. For such economies, sound macroeconomic and structural policies should make it relatively easy to achieve a stable exchange rate with respect to the Euro at the same time as low and stable inflation. The forthcoming monetary enlargement will go ahead in stages, subject to the trade-offs these countries will make between the demands of nominal convergence needed to join the Euro and their more general need to catch up economically.

This paper was meant to analyze Romania's level of the convergence criteria compared to the other recent EU entrants. The conclusion is that it still has a lot to catch up especially in what regards the inflation rate, interest rate and GDP per capita. The NBR states that it will use all available instruments at its disposal in order to resume as fast as possible, in a sustainable manner, the announced medium-term disinflation trajectory. The prerequisite of exchange rate stability is meant to strengthen the nominal convergence process and ensure convergence in expectations. Prior to the Euro zone entrance, exchange rate policies should smooth the development of the Romanian leu and act to prevent excessive deviation of the exchange rate from its perceived fundamental level. Unlike the inflation and exchange rate criteria, there is no reason why the fiscal criterion should be any more difficult for the catching-up countries to meet than it was for the original EU members. In this matter Romania is among the best performers in the group. Although both the deficit and government debt tend to rise in the last and following years, they are still below the reference rates and the other countries rates.

The main conclusion that can be drawn is that Romania is still among the last performers in the EU regarding the economic convergence criteria, which should be a worry for the authorities. They should try to increase the GDP per capita, while maintaining the disinflation trend and the government deficit to the required sustainable levels.

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implicit criteria in what regards the real convergence, which is meant to 2.5% from

# DOES THE OPEN METHOD OF COORDINATION HELP DELIVERING LISBON?

**Murea Maria Mirona**

*Academia de Studii Economice București, Facultatea de Relații Economice Internaționale, B-dul Dacia nr.41, Sector 1, e-mail: m\_mirona@yahoo.com, Telefon: 0723077477*

*The EU's economic ambition can be summarised by the main goal of the Lisbon Strategy (2000) and its initiators agreed upon the necessity of a plan, to solve some issues that were left behind in the process of European integration (education, R&D, innovation, labour markets, welfare of consumers) at a time, when the depth of the integration process and the economic growth had the first lead. EU's problems were related to an increased number of participants on the EU Labour Market and a slowdown in productivity (not necessarily implying a lower rate on investment in ITC). Therefore, new policies were needed, in areas like employment and competitiveness and also a requirement for an efficient Open Method of Coordination (OMC) between the member states and the European Commission, economic growth and jobs being vital for obtaining a sustainable development.*

*Key-words: Growth, jobs, OMC*

## **General Aspects**

The EU economic ambition could be summarised by the main objective stated in the Lisbon Agenda (2000): EU should improve its competitiveness, without damaging the social and economic cohesion, or the environment.

The European Commission, as initiator of legal projects and "guard" of the Treaties, has little power to sustain the needed reforms, that lead to reaching EU's ambitions. The instrument of the Lisbon Agenda (LA), the Open Method of Coordination (OMC) should ensure a collaboration and interdependence between the European Commission and the member states, but also to maintain the political enthusiasm<sup>176</sup> that initiated the Lisbon Strategy (LS).

In the opinion of Mr. Kok and Mr. Barroso, the OMC did not achieve its goals yet (did not deliver): a high degree of collaboration on both national and supranational level of the member states.

Looking back on the progresses the member states and candidates achieved in reaching the main LS objective and also based on the "Mid-term Review", the President of the European Commission, Jose Manuel Barroso concluded that the EU should focus more on its economy (he named it the EU's "sick child"<sup>177</sup>). The concentration on the EU economy, mainly creating growth and jobs, should not, however, leave on a secondary level the other areas that were mentioned in the LS: social cohesion and environment. On the top of the EU policy agenda was the economic performance (even though, the LS was considered to be overly ambitious or/and ineffective) and the need to reform various markets and government policies. Without these reforms, made to "boost" the economic performance, the EU might face collapse. The LS took into consideration areas that were somewhat left behind on a community level, at a time when the ITC peaked: education, research, innovation, the labour market or welfare of consumers. Learning on the experience of the previous decades of integration of the community institutions – that worked at a national and supranational level and provided the efforts to sustain the necessity of reform, the heads of state and government of the member states focused on needed reform of the labour market.

The fact that the EU economy (basically growth and jobs) needs more attention on short term base could have negative influences for the social cohesion and environment on the long term. The economic expansion contributes to maintaining a social cohesion and environment, but the structural trade-offs among the central elements of the LS cannot be avoided, unless policy changes are made (such as pricing pollution). Higher productivity doesn't make room for the governmental manoeuvres and this could lead to

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<sup>176</sup> Wim Kok Report

<sup>177</sup> S. Everdeen, A. van der Horst, P. Tang (2005)

higher taxes and public expenditures (the public sector wages and the social security benefits are linked to productivity). To engineer the increase in employment, changes in welfare-state arrangements are needed.

The main issue is the fact that, even though there is an increased participation on the labour market (during the last 18 years) and the productivity per hour is high in many EU member states, the rate of productivity growth, has fallen since the '70 and especially the '90. However, this slowdown does not necessarily mean that the investments in knowledge have been decreasing, but the high level of productivity of the past decades (starting from the '60) was also generated by imitating and implementing state-of-art-technologies.

Compared to the EU, the USA faces a growing rate of productivity, due to an intense use of information and communication technology (ITC) in services. In present, in order for the EU to overcome this slowdown, more investment in knowledge is needed (R&D, education, ITC, innovation).

In a nutshell, Lisbon was about improving the economic performance of the EU (an increased level of growth and raise productivity), but after the release of the "Mid-term Review" (2005) it concluded that the relative position of the EU in the world economy was not changed, hence several proposals to rejuvenate the LS were made, by Mr. Wim Kok in his Report and was supported by Mr. Jose Manuel Barroso. First, the LS 2 should focus on growth and jobs, in order to achieve sustainable development and for financing the EU member states a long run. Second, the reform is needed, because the lack of progress in reaching for the LS goals, resides in the lack of political will to reform of the member states. To fulfil the goals of the Lisbon Agenda (also its main objective: reaching the most competitive and dynamic knowledge based economy of the world, by 2010) a large variety of political and economic measures were taken: the community law system faced changes, new goals and benchmarks were established, in order to realise a monitoring and evaluation of the member states (old and new) and of the candidates, including Turkey. The necessity of reform was pointed out, in order to intensify the EU competition, to restructure the labour market, to consolidate the social cohesion and to assure a compatibility of the economic and environmental policy.

But, after the Wim Kok Report and a thorough analysis of all the member states and candidates, according to the eight Lisbon Criteria, the results were less than expected, also compared to the USA (which reached high scores in most of the dimensions). Compared to the USA, the EU faced a disadvantage because the US sustained the development of knowledge, mainly in the technological area, compared to EU that registered a slower rate of development.

The LA was considered to be ambitious, yet comprehensive and in a constant need of sustained efforts, for many years, in order to realise its goals. Therefore, the initial political enthusiasm should be brought back. The proposed reforms should be fulfilled as soon as possible and the new member states are not to be left out. This way, together with the enlargement, also the economic growth and competitiveness can be realised.

The member states have to adopt National Action Plans (NAP), responsible for increasing the rate of growth and the number of jobs, alongside with measures that provide the implementation of the much needed reforms at the same time in all member states, making the process less painful. The OMC would prove its necessity and effectiveness in bringing commitment, changing the national perspectives into an overall EU viewpoint and maintaining the initial political enthusiasm that characterised the LS.

### **Action-taking, after 5 years**

After the release of the Mid-term Review, in 2006, the European Commission proposed 10 priorities for action, at a communitarian level<sup>178</sup>:

- Establishing an innovation- friendly education systems
- Establishing an European Institute of Technology
- Working toward a single and attractive labour market for researchers
- Strengthening research-industry links
- Fostering regional innovation through new cohesion policy programmes

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<sup>178</sup> Proposals based on the European Commission's Vice-president, Günther Verheugen presentation "Putting Knowledge into Practice: a Broad-based Innovation Strategy for the EU" (12940/06)

- Reforming R&D and innovation state aid rules and providing a better guidance for R&D tax incentives
- Enhancing intellectual property rights protection
- Digital products and services-initiative on copyright levies
- Developing a strategy for innovation friendly “lead Markets”
- Stimulating innovation through procurement

The LA is considered to be, alongside the European Commission’s budget and the Euro, a part of the EU economic architecture, so its structural reforms should be seen in the context of the economic governance of the Union, which faces three simultaneous challenges:

1. the financial perspective: 2007-2013
2. the future of the Stability and Growth Pact
3. the implementation of the LA

According to Mario Monti, the main problem the LS had to face was the “disconnection from the other two pillars of the EU economic governance”.

The LA suffered from a lack of effectiveness in the implementation and delivery, caused by wrong OMC: it would be more appropriate to set some EU-wide objectives and allow national autonomies to translate them into actual measures and to implement them, than using a hybrid combination of the intergovernmental and supranational Community Method.

The implementation gap can be explained by a partially misguided approach, caused by the fact that, in spite of the existence of a long list of reforms, the productivity rates have changed little over time.

Compared to the USA, the EU has a more open economy, concentrated on external stability and savings, while the USA focused on domestic growth via consumption. This situation could cause tension between the national and EU economic objectives which the LA needs to address and it points to the necessity of reinforcing and maintaining a macroeconomic dialogue and coordination among the member states, including social partners.

Since the '80, a better economic performance was needed for the EU policy-making on a long term, in order to fight the negative effects caused by the “euro-sclerosis” (the Single Market Programme and the “Padoa-Schioppa Report”<sup>179</sup> -1987- both were created to help fighting these effects). For the LA a similar perception was used, despite some differences that can be spotted.

**Fig. 1 Compared Analysis between the Single Market and the LS**

	<b>Single Market</b>	<b>Lisbon Strategy</b>
Final Scope	- integration and economic growth	- economic growth, social cohesion and employment
Intermediate Objectives	-reducing the purchasing costs for goods and services at a communitarian level	- advance in the innovation and education processes - higher investment for R&D - higher degree of employment - liberalisation of the industrial services
Means	-elimination of all existing barriers - legal harmonisation	-the definition of common tasks - monitoring each other - the evaluation of the successes by achieving the proposed goals
Instruments	-directives, based on the decisions of the national	- national measures (tax-paying,

<sup>179</sup> „The Padoa-Schioppa Report” was based on a three pillars theory and started at a theoretical level, a sustained economic growth. (The pillars were: the Single Market- for a better economic efficiency, an efficient monetary system -to achieve a monetary stability, a common, enlarged budget- to sustain an economic cohesion.



	Courts	legal or budgetary)
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Source: G. Drăgan (2005)

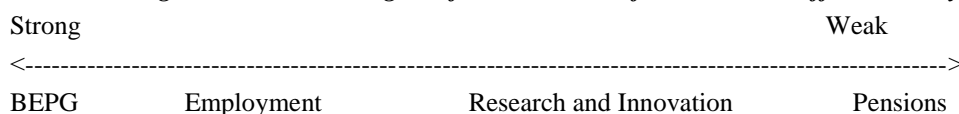
## The OMC

The OMC is the logical approach to achieve the common EU ambition, initiated by the main objective of the LS. Even though it does not impose a single, European vision of the ideal welfare state design or other policy areas, it is considered to be a “mean of spreading best practices and achieving greater convergence towards the main EU goals” (EC, 2000).

Regarding the OMC, the opinions are divided, because it is considered to be a new governance architecture (Radaelli, 2003)<sup>180</sup>, or whether it is even a policy instrument (even though it is part of the EU arrangements, the ways to enforce compliance are limited at the best). At a EU level, no competences are being delegated; the European Commission and European Parliament play only a small part.

There is another problem: the OMC seems to exist in every policy area, but is not harmonised: in some it is a weak, while in other areas, there is a strong coordination, balancing from clear guidelines (like the BEPG case) to broad objectives (the pension’s situation)

**Fig.2: The Relative Degree of Coordination of the OMC in Different Policy Areas**



Source: S. Everdeen, A. van der Horst, P. Tang (2005)

The fact that the OMC has developed so differently, fits well with the principle of subsidiarity at EU level, but the question arises as to whether EU interference with national policies in some areas (for instance the two areas that are central in the renewed LA: growth and jobs) is even necessary. Once a member state finds itself in the position of full employment (or cannot lower the structural unemployment further) it cannot benefit from more jobs in another state, by raising exports and production; so the EU Labour Market s are hardly interdependent because it has only a marginal structural effect on production in one country and relative prices in other countries.

The idea behind the OMC states that if in one country exists economic performance, it has a positive influence on the other performances of other countries. So, the OMC can help policies by stimulating knowledge investments, or to support innovation, or the environment. Even tough it is not harmonised (meaning same guidelines or objectives) and the existence of a decentralisation of the targets at a national level, the introduction of NAP’s might lead to a better coordination. These NAP’s and the existence of Mr/Ms Lisbon should improve the informal sanctions when a member state’s contribution to growth and jobs is below par.

Even though it might work better if harmonised, the fact that the OMC exists in a wide range of policies (from BEPG to pensions) helps the member states to achieve the LS main goal. But it is not possible to apply to growth and jobs the same governance method, because in areas with strong spillovers (like growth) the OMC failed, while in areas of weak spillovers (jobs), it contributes by fostering mutual learning.

<sup>180</sup> S. Everdeen, A. van der Horst, P. Tang (2005)

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# RISKS AND IMPLICATIONS OF GENETICALLY MODIFIED PRODUCTS

**Mureşan Laura**

*Transilvania University of Brasov, Romania, Faculty of Law and Sociology, Bd. Eroilor, nr.5, lauramureshan@yahoo.com, 0722/516412*

**Neacşu Andreea**

*Transilvania University of Brasov, Romania, Faculty of Economic Sciences, Bd. Eroilor, nr.5, deea\_neacsu@yahoo.com, 0740/194425*

**Madar Anca**

*Transilvania University of Brasov, Romania, Faculty of Economic Sciences, Bd. Eroilor, nr.5, ancamadar@yahoo.com, 0745/345355*

*Abstract: Genetically modified products are not a new concept, not even for Romanian people. The most known and endearing tortoises were “mutant,” meaning genetically modified. The first product obtained through this technique and made for sale, was a genetically modified version of a hormone – BST somatotropina – which stimulated lactation in cows. The term “OMG” is used to refer to live organisms, plants or animals, who have been injected with genes, particles from other species’ DNA, trespassing the species barrier, for it to be able to have new properties.*

*Key words: genetically modified products, soy bean GM, legislation, risks.*

## **Introduction**

Genetically modified produce are products that have similar nutritional qualities, or sometimes even better qualities than those achieved through classic methods. “The new products” are the result of genetic engineering. A gene is a particle from the acid molecule DNA, and is responsible for a certain trait of an organism (like blood type).

Genetically modified products are not a new concept, not even for Romanian people. The most known and endearing tortoises were “mutant,” meaning genetically modified.

The first product obtained through this technique and made for sale, was a genetically modified version of a hormone – BST somatotropina – which stimulated lactation in cows. This product was made through the insertion of the gene for BST in bacteria, a method similarly used in the experiment for the making of insulin. After this realization the question of whether this hormone influences just the animal or if it influences the consumer as well, showed up.

Experimentally it was proven that an injection with BST would increase milk production by 15-20%. Canadian researchers, who were busy with the introduction of new genetically modified products on our markets, found that 30% of the rats that received an enhanced dosage of BST produced antibodies, which meant that the BST reached the blood circulation system. Only after 8 years from the realization of this study the end of the usage of this hormone was achieved in Canada.

In Romania there is a great deficit of information with regard to genetically modified organisms.

The term “OMG” is used to refer to live organisms, plants or animals, who have been injected with genes, particles from other species’ DNA, trespassing the species barrier, for it to be able to have new properties.

### ***I. Are the products which contain OMG dangerous for the health of people and animals?***

There are studies, unfortunately not too many, which prove this. So far, the results of some relevant studies on guinea pigs are available. One of the most interesting of these studies, which concerns us as well, was performed in Russia on the soy bean MG, the same type of soy bean MG cultivated in Romania since 1998 until last year, officially. “Officially,” because un-officially it is still cultivated.

The effects upon the two species of guinea pigs tested, who consumed the soy bean MG, were absolutely impressive; even the who participated in the study were shocked. It was found that in the tested animals there were malformations in the internal organs (kidney, brain, testicles), an increased aggressive temperament in the second generation animals, the reduced birthrate at half point, and the loss of maternal instincts in female guinea pigs, who killed their young and ate their brains.

Are the MG seed resistant and do they give least pretentious crops? Is this an advantage for farmers, especially for the ones in the Third World?

Definitely it is not an advantage for farmers anywhere; first of all because of the norms imposed by the producing companies. The farmers lose their primordial right of using the seed of a crop to another, making them obligated to buy a whole new lot of seeds from the company that produces them, every year.

Another problem is contamination. The crops of a farmer who does not wish to cultivate MG plants can be accidentally contaminated by natural pollenization (wind, insects) which the man, evidently, can not control. There are cases in which the producers of MG seeds solicit damages for the unwilling farmers with contaminated crops, since these farmers can't depend on the law's protection, while the MG seed producer is protected through his registered norms.

What is "a territory free of OMG"?

This is a concept from the resistance campaign against OMG, through which the local authorities (local councils, municipal councils) declare that they do not want to cultivate any kind of OMG on the territory they preside over. As soon as there will be enough local councils who take these kinds of decisions, this type of pressure, from a local level, will matter very much in decisions at the national level, regarding the MG cultures.

Are these types of territories, without OMG, present in Romania as well?

Of course. Forty-two places: 3 cities and 37 comunals from the counties of Cluj and Bistrita-Nasaud, have declared themselves OMG-free zones. The people with which they discussed were very receptive in these places and evidently, the result was positive – meaning that all the zones were declared "OMG free zones."

InfOMG had an "Information tour about Genetically Modified Organisms" in 3 countries: Romania, Bulgaria, and Macedonia. Why these countries?

Because it was found that in these 3 countries there is a great deficit of information for the citizens, a deficit of assimilable information. The subject of OMG can be perceived in the first phase as a very complicated one, even though it can be explained quite simply and intelligently, so that all the people can be conscious of what OMG are and why they create problems.

What results do you think this tour had in Romania?

The public interest for the information was visible. Generally, the reaction shown from romanian was of not believing the safety of consuming these genetically modified products. There were questions about the impact of these genetically modified products on the human health and that of the environment. Many people were unhappy about the fact that the products which contain OMG are not labeled according to the operating legislation (HG 173/2006), which obviously trespasses upon the consumer's right to choose.

With this event, InfOMG and Friends of the Earth Europe launched a campaign of collecting signatures for the outlawing of genetically modified corn MON810 crops in Romania, product of Monsanto, recently authorized in Romania.

The campaign is in still unfolding. Until presently there have been a couple thousand signatures collected.

## ***II. What does the Romanian legislation say about OMG?***

The Romanian legislation which regulates the introduction on the market of genetically modified organisms is harmonious with the communal legislation (Directive 2001/18/CE of the European Parliament and of the March 12 2001 Council regarding the deliberate semination in the environment of the genetically modified organisms). Art. 1 alin. 1 states the objective of the emergency ordinance number 43 from May 23 2007 regarding the deliberate introduction in the environment and the introduction on the market of genetically modified organisms, as being the necessary assurance of the legislative and institutional framework, harmonized with the communal one, such that the activities with genetically

modified organisms can unfold with respect to the precaution principle, for the assurance of human and environment health protection.

In the activities regulated by the emergency ordinance number 43/2007 there can be found the introduction on the market of genetically modified organisms, by themselves or components of other products (Art. 1 alin.2 lit. B).

This emergency ordinance number 43/2007 defines the most frequent notions utilized in the regulation of genetically modified organisms. In this way, the genetically modified organism is defined as being any live organism, except of humans, whose genetic material was modified in a different way than natural, besides the natural crossing and/or recombination. The genetic modification is legally defined as being the modification of the natural hereditary genetic information of an organism through techniques of genetic modification. The introduction on the market is defined as the availability of genetically modified organisms, with price of free, of the people with authorization for activities with genetically modified organisms. The notification is the transmission, from the notifier, to the competent authority, of necessary information about the background of the present normativ act. The product is one which is made up of, or contains, a genetically modified organism or a combination of genetically modified organisms and which is introduced on the market. Biosecurity is legally defined as being the total measures taken for minimalizing or eliminating the potential risks which can show up as a consequence of the use of genetically modified organisms, which could have adverse side effects upon human health and upon the durable conservation and utilization of biologic diversity. The evaluation of the risk upon human, animal, and environment health is a process destined to evaluate the direct or indirect risks, immediate or delayed, which the deliberate introduction in the environment or on the market can have upon human and environmental health.

The emergency ordinance number 43/2007 prohibits:

1. the activity of introduction on the market of a genetically modified organism, by itself or a component of a product, without authorization from the competent authority or without the authorization from another member state.
2. the activity of utilization of a product which does not respect the conditions from the legal authority obtained.
3. the activity of introducing on the market a genetically modified organism , by itself or as a component of another product, if the labeling and packaging does not respect the conditions of the legal authority obtained.

The labeling and packaging of product which contain genetically modified organisms has to be done conform the national and communal legislation on the subject.

The person which transmits a notification can only be a judicial person. He/she is obligated to ensure the correct evaluation of the potential adverse side effects upon human and environmental health, which could result, directly or indirectly, from the gene transfer from genetically modified organisms to other organisms. The evaluation is done for every case before introduction and takes into consideration the nature of the introduced product and that of the receiving environment, as well as the cumulative potential effects long-term, associated interactions with other genetically modified organisms and the surrounding environment. (Art. 5 alin. 1, Emergency ordinance number 43 from may 23 2007 regarding the deliberate introduction in the environment and on the market of genetically modified organisms).

The evaluation of the risk upon human and environment health is realized by independent scientific organists or independent experts, authorized or certified according to the legislation on the subject.

The operator who uses genetically modified organisms or carries on the introduction on the market, on import, export, transit, storing, manipulating, transporting of such genetically modified organism or a combination of such an organism, by itself or as a component to another product, has the legal obligation to take measures such that the unfolding activities to not have adverse side effects upon human, animal, and environment health. The costs of necessary biosecurity measures for the secure unfolding of the activities, as well as the costs of biosecurity measures necessary for the minimalization, mending or preventing consequences of adverse side effects determined from the use of genetically modified organisms are endured by this operator (Art. 9, emergency ordinance number 43/2007).

The operator who carries on the activities with genetically modified organisms, is obligated to nominalize a responsible regarding the biosecurity problems or to assure the collaboration with an external consultant,

with professional qualifications in biosecurity measures, and to assure the training of personal employees and of those direct contributors regarding the specific legislation about genetically modified organisms, operating legislation regarding the environment protection and legislation regarding work security.

Additionally, the operator who puts in motion these activities with genetically modified organisms has the following obligations:

1. to allow access of controlling authorities, to collaborate with these, and to present documents which demonstrate the nature of the used products, under genetic modification aspects, for the verification according to the precautions from the authorization of the competent authority or for the legal stabilization of the activity and of the manner in which the wishes regarding protraction were respected;
2. to allow sampling of the product for control;
3. to make available for controlling authorities the documents through which the mode of transport of genetically modified organisms, security measures for transport, place and way of storing, before and after introduction, information regarding packaging and labeling, waste disposal are set;
4. to keep documents regarding the unfolding activities, for a period of 10 years from the ending of the deliberate introduction on the market;
5. to assure the elaboration of emergency plans and to communicate them to the authorities with responsibility for emergency situations and to all those who could be affected.

The evaluation studies of risks for human and environmental health, which regards genetically modified organisms which contain one or more genes resistant to the antibiotics used in medical or veterinary treatments, has to contain distinct mentions about identification and progressive elimination of resistance markers to antibiotics from these organisms, which could have adverse side effects upon human and environmental health.

The application of precautions from the emergency ordinance number 43/2007 and the creation of the national biosecurity framework is realized through the participation and collaboration between: the central public authority for environmental protection, National Agency for Environment Protection, Commission for biologic security, Environmental National Guard, implicated authorities (central public authority for agriculture, veterinary and product safety control central public authority, health central public authority, consumer protection central public authority, and education, research, youth central public authority).

Any judicial person, who wishes to introduce on the market for the first time, a genetically modified organism or a combination of such organisms, by themselves or as components of other products, has the obligation to transmit preliminarily a notification to the competent authority, if Romania is the state where it is intended to introduce on the market for the first time this genetically modified organism. The notification is to be transmitted in electronic format, in romanian and english, as well as on hard paper, in 2 original copies, through mail, with receipt confirmation, or can be handed in to the competent authority, which records the notification on the date of receipt.

## **Conclusions:**

There are risks from the consumption of genetically modified products to the consumer's health, of which the most important are:

1. Allergic effects

Newly inserted genes can produce proteins which, to some people, can determine allergies. The most frequent allergies are from milk, eggs, fish, cereals, and soy beans. At the beginning of the 90's when soy beans were discovered to have nutrition effects from the introduction of a gene from brazilian nuts, the potential risk was evident.

2. Antibiotic resistance

It is unknown that some produce genetically modified can raise the human resistance or animal resistance to antibiotics. For example, tomatoes genetically modified and consumer fresh have a gene marker (a resistant gene to antibiotics) which is resistant to neomycin or kanamycin. The same thing happens in the case of cotton seeds. Generally, the risk varies according to the origin of the implicated gene. Bacterias which produce lactic acid don't have to have the resistant gene to antibiotics.

### 3. Modifications at the metabolism level

Through the insertion of new genes other alterations can be produced at the genome level – meaning that the total genes of an organism – alterations which can generate in the host organism other effects besides the counted on one, like the lowering of the quantity of nutritive substances and the raising of the toxin levels in the host organism.

#### *Suggestions:*

- Romanian consumers have the right to know the truth about genetic engineering and about the contents of the products they consume.
- Farmers have the right to know what type of seeds they plant.
- Also, society on the whole has the right to make a good informative choice regarding the way of agriculture which they wish to practice.
- Presently, there has not been a focus of public attention about this subject, least of all there has not been any public proceedings on the subject.
- The intention of InfOMG is the objective informing about the situation of genetically modified organisms in Romania and abroad, and the making aware of the public regarding the impact of the introduction of this biotechnology in the environment and in the food circuit.
- Competent authorities should effectualize more controls to see if the legislation which regulates this subject will be respected.
- There has to be more intense programs and actions for the informing and educating of consumers with regard to OMG.

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# INTEGRATING THE ROMANIAN VITICULTURE AND WINEGROWING SECTOR ON THE UNIQUE EUROPEAN MARKET BY INCREASING COMPETITIVENESS

**Neculita Mihaela**

*“Dunarea de Jos” University of Galati, Faculty of Economics, NeculitaM@yahoo.fr, 0723238232*

**Sarpe Daniela**

*“Dunarea de Jos” University of Galati, Faculty of Economics, d\_sarpe2000@yahoo.fr, 0723500623*

**Abstract:** *The geographical location of the country and the natural resources endow national viticulture with a competitive feature not yet complementary to the European viticulture. However, if we are to consider the current status and distribution of the national viticulture patrimony, it is clear that what we are up against is an failure to come up to the competitive standards set on and by the European market.*

**Key words:** *economic efficiency, viticulture and winegrowing industry, adaptability*

The objectives targeted by negotiations in viticulture and in the winegrowing sectors are presented in the table bellow:

ROMANIA' S DEMAND	THE UE STAND	
1) A 4 year transition period; deadline: 31.12.2010; objective: to record vineyards in a communitarian book of viticulture plantations	A period of transition was not granted – it has been estimated that Romania had enough time to achieve the task before being aligned to the book of viticulture plantations.	
2) An 8 year transition period; deadline: 31.12.2014; objective: removing hybrid vines from vine plantations.	Reformulated demand (see table bellow)	
3) Objective: to include Romanian vine plantations in the communitarian sorts.	- Transylvania's Plateau: <b>zone B</b> - The Hills of Muntenia, Oltenia, Moldovia, Crişana, Banat and Maramureş, Ştefăneşti Argeş, Sâmbureşti, Drăgăşani and Craiova's Hills: <b>zone C Ist</b> - The Hills of Muntenia, Oltenia, Buzău, Dealu Mare, Severin, Drânca's Valleys, The Mounds of Dobrogea, Danube's Terraces, the South of the country: <b>zona C IInd</b>	
DEMANDS FINACIALLY GRANTED		
Name	Romania's demand	The EU Offer
<b>Vine</b>	<b>30.000 ha</b>	<b>30.000 ha</b>
Permission to replant hybrid sorts defended by the EU (replacement is to be done within 8 years from alignment) Other replanting rights.		The possibility of receiving grant aids: 75% max. of the investment value. 1,5% of 188.700 ha (2830 ha)



## 1. Economic efficiency in viticulture and winegrowing industry

Taken by its etymological meaning only, efficiency shows the quality of an economic activity to produce a positive effect. Likewise, a qualitative estimation in the view of the results obtained seems to be imposed by any human activity, and especially by the economic ones, due to the fact that a great amount of work and society resources is allotted to them.

The economic agents who succeed in obtaining extremely low cost productions are more competitive on the market because they are liable to gain a higher income, and higher profits respectively. The price is the key element that measures economic efficiency and *therefore determines the resource allotment*.

In our country, setting a price value for wines is, most often than not, directly connected to and depending on the level of costs. Because of this reason, the case study bellow is focussed on evaluating the final commercial wine cost: the production, distribution and delivery costs.

### 1.1. Cost and price of raw stocks in winegrowing plantations across Romania.

The main restrictive aspect of this sector is the low productivity of plantations because of the old age of the vines. Despite the fact that plantation technologies are used by the book, farmers manage yet to compensate for the expenses made to obtain production. In the table 1 bellow there can be seen an average calculus of the necessary expenses for a hectare of vine (wines grapes) with an estimated production of 8000 kilos and 7000kilos on average.

*Table 1 – Cost and price of grapes for table wines*

INDICES	\$ USD	\$ USD
Average production - kg/ha	8000	7000
Value of production -\$ USD	1961	1961
Profit or loss/ha - \$ USD	-119	-119
Total expenses - \$ USD	2080	1717
Irregular expenses	1292	1036
Expenses on materials	676	475
<i>Young planting vines</i>	49	
<i>Chemical and organic fertilizers</i>	97	80
<i>Pesticides</i>	335	200
<i>Other materials</i>	195	195
Expenses on automated activities	494	494
Supply expenses	68	68
Insurances	55	
Regular expenses	787	681
Expenses on permanent labour force	600	600
General expenses	73	73
Interests	106	
Amortization	8	8
Production costs \$/kg	0.260	0.245
Internal market price	0.245	0.245

Source: own calculi in accordance with technological expense estimates

Under such circumstances, the grant-aided commercial production of the grape producers is a short-term solution; the long-term feasible solution is provided by the replacement of the vineyards; maximum outputs that can be achieved in a young vineyard and with the same input expenditure, are directly responsible for an efficient economic production.

### ***1.2. Wine costs***

The wine production and supply on the market needs a certain labour force employment and production means. Wine needs special handling and treatments meant to conserve or even improve its quality, or to preserve its species variety and the features determined by this one. Once the maturation phase of wine is over, there follows bottling, which is optional for table wines, but compulsory for fine wines (except for the exported ones), and most of the production is commercialized and only a very small part of the wine production is kept in bottles and left to grow old.

As compared to the above estimated costs, a DOC wine production implies additional costs for:

- vineyard certification and authorization;
- commercial right certification;
- labelling system of DOC wines certification;
- labelling and bottling additional expenses.

The case study on the wine cost was carried out in two winemaking industrial units, with different production levels. These are located in the counties of Constanta and Prahova: the former industrial unit (A1) produces more than 110 thousands of hl annually, of which 70% are fine wines, and the latter (A2) produces 22 thousands of hl, of which more than 74% are fine wines. The period of time when the production costs were analysed was 2004-2006; in order to carry out the qualitative analysis method, constituent elements were taken apart and evaluated, not only simultaneously in time but also between industrial units.

The level of the production cost has a rising dynamics, regardless of the sorts of wine produced (fine wines or table wines) and this is directly connected with and influenced by the price increase in fuels and energy.

Set in contrast, there are significant discrepancies between the production costs of the two units. The comparative analysis method applied to different production factors and their influence on the cost value reveals that a higher production volume in A1 ensures a top resource distribution, which also shows in lower production costs.

As far as fine wines are concerned, cost variations range from 8 to 25%; the value of the production cost of table wines is 18-25% higher in A2.

Qualitative inconsistencies between table wines and fine wines can be made out in the cost distribution. On the one hand, in A1 differences are visible in the high percentage held by the consumption of raw stocks and materials: 7,9% fine wines and 34,4% table wines; lower costs in raw stocks point to their inferior quality and result in a higher consumption of materials to fix problems.

During the bottling process, the wine is transferred the preservation-maturation tanks (cisterns, wines casks, barrels) into 0,75 litre glass bottles for fine wines or 1/1,5 litre glass bottles for table wines. This operation ensures a civilized commerce done in proper hygienic- sanitary conditions, but entails high costs spent on packaging (bottles, imported cork stoppers, thermocontractible films, brands) which almost doubles the wine production cost of the wine. Moreover, there are always transportation and delivery costs, rental costs, or salaries to be paid to the economic agents engaged in the wine commercialization.

As in can be seen from the configuration of the ultimate marketable cost of wine (in 2004 and 2006 respectively) a significant percentage is allotted to raw stocks (between 28 and 32%); the other costs being further added to post-harvesting activities.

The setting of the ultimate marketable costs in contrast reveals that raw stocks hold a significant percentage in both cases and that, A2 marks considerable differences between the industrialization costs. Therefore, it can be noted that in 2004:

- The total cost of 87,8\$/hl in **A1** is configured as follows: 28,4% - raw stocks; 5,7% - industrialization costs; 7,44% tax liabilities (charged by the state); 36,2% - packaging costs; and 10% of the total cost are paid by dealers.

- The total cost of 94,6\$/hl in **A2** is configured as follows: 29,4% - raw stocks; 11% - industrialization costs; 8,14% tax liabilities; 39,3% packaging costs; and 10% of the cost are paid by dealers.

The value of the final product that the consumer finds on the market covers as much as 10% of the value of the raw stocks.

### 1.3. Price calculus. Compensation amounts on the viticulture-winegrowing branch.

The market price paid by the consumer results from the industrialization process costs and the gross profit margin expected by the wine producer, tax liabilities and distribution costs (wholesale and retail) and the traders' added taxes, the consumers' purchasing power, and the evolution of the exchange rate. As it can be seen in the data presented in tables 2 and 3, the price of the wine established by the producer is formed in keeping with the costs and the expected gross margin.

**Table 2 – Establishing Prices for Fine Wines A1**

No		2003		2004		2005	
		\$/hl	\$/a bottle	\$/hl	\$/a bottle	\$/hl	\$/a bottle
1	Raw stocks costs	28.432	0.213	28.543	0.214	28.951	0.217
2	Industrialization costs	5.68	0.426	5.79	0.04	6.08	0.046
3 (1+2)	<b>Production costs \$/hl</b>	<b>34.12</b>	<b>0.256</b>	<b>34.33</b>	<b>0.257</b>	<b>35.04</b>	<b>0.263</b>
4	Packaging costs	36.21	0.272	37.33	0.280	39.29	0.295
5 (3+4)	Bottled wine costs	70.33	0.53	71.66	0.54	74.33	0.56
6	Tax liabilities	7.44	0.056	6.97	0.052	0.00	0.000
7 (5+6)	<b>Total expenses supported by the wine producer</b>	<b>77.77</b>	<b>0.583</b>	<b>71.66</b>	<b>0.537</b>	<b>74.33</b>	<b>0.557</b>
8	Price set by the producer	160	1.200	181	1.358	199	1.493
9 (8-7)	Economic excess obtained by the producer	82.23	0.617	109.34	0.820	124.67	0.935
10	Dealers costs	10	0.075	12	0.090	15	0.113
11	Market price	275	2.063	287.5	2.156	325	2.438
12 (11-10-8)	Economic excess got by the dealer	105	0.788	94.5	0.709	111	0.833

Source: own calculi

**Table 3 - Establishing Prices for Fine Wines A2**

No.		2003		2004		2005	
		\$/hl	\$/a bottle	\$/hl	\$/a bottle	\$/hl	\$/a bottle
1	Raw stocks costs	29.353	0.220	29.353	0.220	32.210	0.242
2	Industrialization costs	10.96	0.082	11.01	0.083	11.52	0.086
3 (1+2)	<b>Production costs \$/hl</b>	<b>40.31</b>	<b>0.302</b>	<b>40.36</b>	<b>0.303</b>	<b>43.73</b>	<b>0.328</b>
4	Packaging costs	36.12	0.271	37.14	0.279	39.63	0.297
5 (3+4)	Bottled wine costs	76.43	0.573	77.50	0.581	83.36	0.625
6	Tax liabilities	8.14	0.061	6.42	0.048	0.00	0.000
7 (5+6)	<b>Total expenses</b>	<b>84.57</b>	<b>0.63</b>	<b>83.92</b>	<b>0.63</b>	<b>83.36</b>	<b>0.63</b>

		supported by the wine producer						
8		Price set by the producer	190	1.425	215	1.613	236	1.770
9	(8-7)	Economic excess obtained by the producer	105.43	0.79	131.08	0.98	152.64	1.14
10		Dealers costs	10	0.075	13	0.098	15	0.113
11		Market price	300	2.250	325	2.438	350	2.625
12	(11-10-8)	Economic excess got by the dealer	100	0.750	97	0.728	99	0.743

Source: own calculi

For the sales agents in the winegrowing industry (raw stocks producers, wine producers and dealers) the repayment degree of the factors in the field of winegrowing is characterized by changes for the raw stocks producer (the only one who undergoes through a loss); the economic excess is distributed between the two links of the branch, the wine producer and the dealer. There is an obvious economic efficiency of the upright integrated production.

#### 1.4. Concept and analysis method of the external wine trade competitiveness

Competitiveness is the skill of a sales agent to efficiently produce, that is to gain profit and to combat market competition. This skill can be measured by a range of criteria that describe the circumstances favorable to market consumers. These criteria are: cost and sales price, product quality, market adaptability in keeping with the ever changing demands, innovations, and management of a market segment.

Speciality literature presents several methods to estimate effectiveness, such as:

- *The Index of the Comparative Advantage Pointed Out (CAP (Rom. ACR))*, that compares the proportion of exports and imports operated within a certain industry to the proportion of the total number of managed exports and imports. The negative values of the index point out comparative disadvantages.
- The *"Shift and Share"* analysis is based on the distribution of increasing exports in line with two elements. The former is an increase in the importing demand of the partner-country and the latter is an increase in efficiency on that market.
- *The market share*. The share held by exports in the country under discussion in the total amount of imports in the partner-country. The enlargement of the market share implies an efficiency increase in the exporting country.
- The calculus of product competitiveness in keeping with the *Unitary Value*. The unitary value is defined as the value of exports, and of imports respectively in a certain industry, divided by the physical production. The industries which are considered to be competitive in prices are those which have export prices which are lower than or equal to the average import prices of the same market.
- $UVI_i = \text{Imp. val}_i / \text{Imp. quant}_i$   
 $UVE_i = \text{Exp. val}_i / \text{Exp. quant}_i$

Positive values point to a competitive commercial advantage while negative values point to a competitive commercial disadvantage.

The data used in the calculus of the model are taken from the FAO database. The results of the calculi are presented in the table below.

The calculi comprise a period of 13 years (1994-2006) and the results listed in table 4 confirm deterioration in efficiency (but not its absence) on the global market or a varying competitive disadvantage in rapport with the European Union market.

**Table 4 – The Commercial Advantage of Romanian Wines on the world and E.U. Market**

<b>World Market</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
AER	5.604	4.997	2.469	1.896	1.889	1.983	1.913	1.875	2.490	2.747	1.355	1.582	1.440	1.545
IPI	0.000	0.224	0.326	0.383	0.205	0.105	0.214	0.073	0.032	0.114	0.135	0.044	0.036	0.048
ACR = AER-IPI	5.604	4.774	2.143	1.513	1.685	1.878	1.699	1.802	2.458	2.633	1.221	1.538	1.404	1.498
<b>E.U. Market</b>	<b>1990</b>	<b>1991</b>	<b>1992</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
AER	0.129	0.124	0.060	0.047	0.044	0.045	0.044	0.046	0.067	0.086	0.046	0.049	0.044	0.050
IPI	0.000	0.164	0.240	0.278	0.143	0.074	0.155	0.051	0.023	0.085	0.097	0.032	0.026	0.035
ACR=AER-IPI	0.129	-0.039	-0.180	-0.231	-0.100	-0.030	-0.111	-0.005	0.044	0.001	-0.051	0.017	0.018	0.014

Own calculi; data collected from the FAO database

- The values of the AER index which are higher than 1 point to a comparative advantage in the world market exports which are now decreasing; the AER values that go below 1 suggest that Romanian wines don't have a similar advantage on the E.U. market exports.
- The „0” value for IPI in 1990 shows that the Romanian market is, practically, still closed for foreign wines. However, during all this time, the import penetration index has been sub-unitary on both markets.
- ACR also measures the competitive advantage; the positive values show a high competitive commercial advantage on the global market, while the negative values point to a competitive commercial disadvantage on the European Market.

### ***1.5. Tendencies in the branch – adaptability to the unique European Market demands***

The analysis of the evolution of the viticulture-winegrowing branch, based on component distribution, viticulture and wine production, internal and external market, product policy, structurally-functionally interrelated, enables us to identify some trends. The tendencies were estimated as % differences between the 2002-2006 average and the 1997-2001 average.

The parameters taken into discussion were: surface area, average grape production, output value of the wine production per ha (indices of the grapes' conversion into wine were used) both for noble and hybrid vines; likewise, the total consumption of wines and the proportion of exports were also taken into discussion.

The first table shows what would happen to Romania's viticulture should everything remain unchanged.

Distinguished tendencies for the 2002-2006 period as compared to the 1997-2001 period:

1. Grafted vines:
  - The areas covered by noble vines have decreased by 18,84 thousand ha, which is a 12,77% decrease;
  - Productivity has marked a regress of 539,7 kilos/ha that is a 10,15% decrease.
2. Hybrid vines:
  - The areas covered by hybrid vines have evolved in a positive direction, with a 17,3 thousand ha increase, that is 16,96%;
  - The average production decreases by 607,8 kilos/ha, which is 13,08%;

In order to obtain wine from noble grapes, a 0,7 index was used, and a 0,5 one for hybrid vines.

In keeping with the distinguished tendencies, both in surface areas and in efficiency outputs, the likely grapes production was estimated for the two vine sorts; the use of some indices specific to the transformation process of grapes into wine has enabled an assessment of the possible production for the estimated period.

e.g. noble vines:

109,82 thousand ha x 4295,06 kg/ha = 471683,49 tones

471683,49 tones x 0,7 (transformation index of grapes into wine) = 330 178,44 thousand liters

**Table 5 – Case-Scenario on the evolution of the viticulture-winegrowing branch**

	Average 95/99	Average 00/04	<u>2000-2004</u> 1995-1999	2005	Average 2005/2009	Average 2010/2014	Average 2015/2019
<b>SURFACE (thousand ha)</b>							
<b>Grafted and indigenous</b>	<b>147.50</b>	<b>128.66</b>	<b>-12.77%</b>	<b>109.82</b>	<b>95.76</b>	<b>83.51</b>	<b>72.82</b>
Hybrid vines	102	119.3	16.96%	119.3	119.3	119.3	119.3
<b>AVERAGE PRODUCTION (kilos/ha )</b>							
<b>Grafted and indigenous vines</b>	<b>5317.27</b>	<b>4777.6</b>	<b>-10.15%</b>	<b>4295.06</b>	<b>3861.26</b>	<b>3471.27</b>	<b>3120.68</b>
<b>Hybrid vines</b>	<b>4648.39</b>	<b>4040.6</b>	<b>-13.08%</b>	<b>3511.28</b>	<b>3051.30</b>	<b>2651.58</b>	<b>2304.23</b>
<b>POSSIBLE WINE PRODUCTION (thousand hl)</b>							
<b>Noble wine - thousand hl</b>			<b>0.7</b>	<b>3301.79</b>	<b>2588.36</b>	<b>2029.09</b>	<b>1590.66</b>
hl/ha				30.065	27.0	24.3	21.8
<b>Hybrid wine –thousand hl</b>			<b>0.5</b>	<b>2094.48</b>	<b>1820.10</b>	<b>1581.67</b>	<b>1374.47</b>
hl/ha				17.6	15.3	13.3	11.5
<b>TOTAL PRODUCTION</b>				<b>5396.27</b>	<b>4408.47</b>	<b>3610.76</b>	<b>2965.13</b>

Source: own calculi

The inertial case-scenario is based on the following:

- The tendency in wine exports, with a 1% increase per period; the export was estimated as % of the total wine production;
- Global consumption decreases by 14,7 %;
- The volume of imports was not significant.

**Table 6 – Inertial Case-Scenario**

	Average 99/04	Tendency	2005	Average 2005/2009	Average 2010/2014	Average 2015/2019
<b>TOTAL PRODUCTION</b>			<b>5396.27</b>	<b>4408.47</b>	<b>3610.76</b>	<b>2965.13</b>
<b>EXPORT -% of the total production</b>		<b>+1%</b>	<b>8%</b>	<b>9%</b>	<b>10%</b>	<b>11%</b>
<b>EXPORT -thousand hl</b>			<b>431.70</b>	<b>396.76</b>	<b>361.08</b>	<b>326.16</b>
<b>DECREASE IN THE GLOBAL CONSUMPTION</b>	<b>5106</b>	<b>-14.7%</b>	<b>4355.42</b>	<b>3715.17</b>	<b>3169.04</b>	<b>2703.19</b>
<b>Stock</b>			<b>609.15</b>	<b>296.53</b>	<b>80.64</b>	<b>-64.23</b>

Source: own calculi

Of the above listed calculi, there follows that, if production and consumption pursue the distinguished decreasing tendencies for the 2015-2019 period, there will be an incapacity to cover the internal demand; naturally, this will be covered by the imports so that a 64 thousand hl quantity multiplied by 5 years multiplied by 40 Euro/hl value result in a cost of 12 800 thousand Euro.

Given the inertial case-scenario as well as the EU negotiations and Romania's engagement to wipe out hybrid vines, table 7 presents the likely evolution of the branch.

*Table 7 – Wine market tendencies influenced by EU engagements*

	2005	Average 2005/2009	Average 2010/2014	Average 2015/2019
<b>Surface area with noble vines thousand ha</b>	<b>109.82</b>	<b>95.76</b>	<b>83.51</b>	<b>72.82</b>
<b>Surface area with hybrid vines</b> (wiped out= 60 thousand ha)			-30 thousand ha	-30 thousand ha
Surface area with hybrid vines after removal	119.3	119.3	<b>89.3</b>	<b>59.3</b>
Hybrid wine	2094.48	1820.10	<b>1183.93</b>	<b>683.20</b>
Noble wine – thousand hl	3301.79	2588.36	2029.09	1590.66
<b>TOTAL PRODUCTION</b>	<b>5396.27</b>	<b>4408.47</b>	<b>3213.02</b>	<b>2273.86</b>
<b>Export tendencies +1%/period</b>	<b>8%</b>	<b>9%</b>	<b>10%</b>	<b>11%</b>
EXPORT –thousand hl	431.70	396.76	321.30	250.12
DECREASE IN CONSUMPTION -14.7%/period	<b>4355.42</b>	<b>3715.17</b>	<b>3169.04</b>	<b>2703.19</b>
<b>Stock</b>	609.15	296.53	<b>-277.32</b>	<b>-679.45</b>

Own calculi; data collected from the FAO database

- The surface area covered by noble vines marks a decreasing tendency, the same as the noble wine production;
- The 2008-2012 period estimates the removal of 30 thousand ha of hybrid vines Romania's engagement under the negotiations of Chapter 7; other 30 thousand ha are covered by hybrid vines outside the city in areas larger than 0,1 ha/family.
- Decrease in consumption (-14,7%)

If we are to consider the listed tendencies, there results that Romania will be faced up against an average loss of 277 thousand hl during 2010-2014; things are expected to get worse in the years to come. Unless global consumption marks a decrease directly connected with the wiped surface, Romania is bound to become a wine importing country.

What are the costs of the second alternative?

Vine removal (with a bonus): 30 000 ha x 1 000 euro/ha = 30 000 thousand euro

Wine imports (2008-2017) 4 783.85 thousand hl x 40 euro/hl =191 354 thousand euro

**Total = 221 354 thousand euro**

What can be done with this sum of money?

191 354 thousand Euro ca be used to plant 19 thousand ha of noble vines, which is a constant investment for 25 to 30 years. An average output calculus of only 50 hl of wine, and for 40 euro/hl, there results a value of more than 1 milliard Euro.

Based on the information provided by the book of vineyards and on market information, a nationwide campaign can be started off to revive viticulture, provided that there are clear objectives and a strong financial support.

1. Encouraging small producers to sign funding partnerships (possibly foreign) for winegrowing and distribution, with a simultaneous possibility to access European funds for reconversion and reorganization.
2. Implementing the management expertise and the production organization skills on a large scale, i.e. implementing modern management skills; the economic development is, not so much the result of a quantitative increase in the production factors but more a growth of their efficiency.
3. Granting aids to production organizations with a view to acquiring specific mechanisms that promote the product.

## 2. Conclusions

- Privileged by its geographic location, Romania is a country and with a rare viticulture potential: the surface most favourable to vine plantations holds 39,5% of the entire viticulture surface which is of 54,2%.
- The transition period, characterized by a hostile economic environment and a laissez-faire policy, has led to a continuous deterioration of the viticulture plantations.
- Although, to all appearances the distribution of plantation surfaces seems to be the chief problem that Romanian viticulture is confronted with, i.e. an increase in the percentages held by hybrid vines, it can be concluded that the main problem of the Romanian viticulture is the physical condition of the noble plantations, which are old and economically inefficient, and strongly predisposed to self-destruction.
- Small raw stocks producers lack organization and, most often then not disfavoured by bleak predictions. A good solution to their problems would be setting up funding (possibly foreign) cooperations that support the winegrowing production and distribution, and enable easy access to information and specially designed services to facilitate involvement in various communitarian programs.
- The economic efficiency of the vast viticulture plantations does not reside in their size if not in the quality of the production factors. A restrictive factor is the inability to invest in new plantations.
- The debated viticulture surface agreed upon gives Romania the chance to preserve its traditional status of a winegrowing country. This is a matter of national importance and it should be dealt with accordingly: if we consider the plantation restrictions enforced following the integration it needs must to set in motion a national campaign meant to revive plantations; a temporary financial effort will result in clear advantages on the long run.
- The loss of the external markets has entailed a continuous weakening of the external wine commerce. Unlike Bulgaria and its practices in the past decades which made it a steady and remarkable figure on the wine market of several member states, Romania did not make it an interest of national importance to expand on and conquer new markets. As compared to the quality of the EU wine market, Romanian wines have a competitive disadvantage; under such circumstances, the competitive advantage existent on other markets should be made the most of, simultaneously with a new promoting policy on the EU wine market
- The compensation resulted from export will encourage exporters to find new opening markets for table wines, other than the common market; an aggressive campaign is needed to promote fine wines; the success of some countries on the global market is always achieved at the expense of some other whenever the consumption rate is decreasing.
- The long term objective remains reviving viticulture; a nationwide plantation retrieval program can ensure not only the best distribution of valuable sorts that are demanded on the external market, but also a high quality homogenous offer. This is the only possible solution to catch up with the member states that have a long tradition in viticulture. Without a serious



improvement of the highlighted situation there is always a risk for Romania to become a major opening market for the EU wines, putting a good *majority* of the national producers at risk: “stagnation”, “economic regress” or “subsistence autarchic viticulture practices” are just few of the problems than can emerge therein. .

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# THE STRUCTURAL FUND INTERVENTIONS - CASE STUDY THE ROLE OF UNIVERSITY IN SUCEAVA REGIONS DEVELOPMENT

Năstase Carmen

*"Ștefan cel Mare" University of Suceava, Faculty of Economics and Public Administration, Universității Street, no. 13, 720229, Suceava, Romania, carmenn@seap.usv.ro, phone 0740043099*

Popescu Mihai

*"Ștefan cel Mare" University of Suceava, Faculty of Economics and Public Administration, Universității Street, no. 13, 720229, Suceava, Romania, mihaip@seap.usv.ro, phone 0745323285*

Scutariu Liviu

*"Ștefan cel Mare" University of Suceava, Faculty of Economics and Public Administration, Universității Street, no. 13, 720229, Suceava, Romania, livius@seap.usv.ro, phone 0744370746*

*Abstract: The Structural Funds (ERDF, ESF) have invested vast sums to enhance the functional environment of SME 's by building infrastructure and improving skills of workforce. The last enlargement of EU, with accession of Romania and Bulgaria, has brought the Structural Fund resources available in new countries. However the project experience has only recently started accumulating and the participation of beneficiaries (SME's in this case) to the planning processes is quite new. In University of Suceava there are some projects will help to consider promoting entrepreneurship project outside of formal school activity as an educational leisure and as a learning activity for young people. With those project crucial insights will be gained in the need, willingness and possibilities for the establishment of business incubators in the cross-border region in the coming years.*

*Keywords: structural funds, strategic development, EU integration process, University, projects.*

## 1. The Structural Fund interventions

The European Social Fund (ESF) contributes to the economic and social cohesion objective set in article 158 of the EC Treaty, by supporting policies and priorities aimed to achieve progress towards full employment, improve quality and productivity at work, and promote social inclusion and cohesion, in line with the guidelines and recommendations under the European Employment Strategy.

European structural funds are important resources for the development within the countries of European Union. The EU funds are serving main goals that are oriented to the general economic develop at local, regional and national level. The major priority of the European Structural Funds and of the political cohesion promoted the UE is applying a balanced development and its purpose is decreasing the differences between various areas. The second priority has as purpose to revitalize all the areas with deficient structure (industrial, rural, urban). The activity of the European Structural Funds is based on 4 principals: focusing on the priorities; the implementation steps which is the result of several years lasting programs; the partnership which implies a close collaboration between Commission and the corresponding authorities at the national, regional and local level, in every member state from the preparing steep to the rules implementation; the subsidiary which means that it is up to the management authorities named by member States, to select the project which will get the finance and to supervise their implementation. Romania institutions are hardly working in order to prioritize the direction of strategic development. The process is very complex one and will assure the proper use of the funds after the well and long expected integration in EU.

### *Regional development needs*

Romania is the largest country in Eastern Europe, and is poised to enter the European Union. Accession to the EU was accompanied by significant transfers to support regional and rural development objectives, and there is a tremendous opportunity to realize the expectations of large segments of the population: improved rural livelihoods, economic and social revitalization of laggings regions, and increasing competitiveness with comparable regions of Europe

The importance of small and medium- sized enterprises (SMEs) in contributing to job creation and output growth is now widely accepted in both developed and developing countries.

Countries' existing enterprise development strategies may no longer be effective in light of the changes in the environment. Any government that is concerned about promoting SMEs should therefore carefully examine the impact of its existing policies and programmes for enterprise development and redesign its SME strategies to focus on addressing the issues related to the "missing middle".

The available evidence suggests that SMEs have played a major role in the growth and development of all the leading economies in Romania. Among the factors that have contributed to the success of such SMEs is a high incidence of cooperative inter- firm relationships, which have rendered individual firms less susceptible to risks, fostered mutual exchanges of information and know-how between firms and created a rich pool of collective knowledge. A key factor has also been the provision by Governments and Structural Funds to SMEs of technological extension services (such as quality assurance, research support and information on sources of technology).

### ***Structural fund interventions***

During programming period 2007-2013, Romania and special North East of country will benefit significantly from structural and rural development funds, and will receive about 17 billion Euro in Structural Funds (includes 11.143 for convergence) and approximately 8 billion Euro in agriculture and rural development funds. These resources offer the financial means to address critical and strategic local needs, but also pose significant challenges in terms of absorption capacity, effectiveness and efficiency of expenditures. Strategic thinking, selectivity and synergies between operational programs, especially territorial aspects of regional and rural development are important to maximize the impact and absorption of EU funds.

## **2. Analysing methods**

The most important internal and external factors for the future of a region or an enterprise are summarised within the SWOT analysis. In the A'WOT method, SWOT analysis is made more analytical by giving numerical rates to the SWOT factors as well as to the four SWOT groups. In the standard version, this is carried out by integrating the Analytic Hierarchy Process (AHP) and its own value calculation technique with SWOT analysis. The hybrid method improves the quantitative information basis of strategic planning processes. The use of AHP with SWOT yields analytically-determined priorities for the factors included in SWOT analysis and makes them commensurable. In addition, decision alternatives can be evaluated with respect to each SWOT factor. Thus, SWOT provides a basic frame within which to perform an analysis of the decision situation, and the AHP assists in carrying out SWOT more analytically and thoroughly so that alternative strategic decisions can be prioritised. Other decision support techniques can be applied for the same purpose in place of the AHP.

Four experts from Suceava (one from Local business, one University staff, one from North-East Regional Development Agency, one from Consulting Group Company) region were interviewed for the A'WOT analysis in a 2 h meeting based on the point of view "University's role in Structural Fund interventions"

The SWOT analysis for the demand based in the demand analysis and the discussion on experts the show the following results:

### **Strengths**

- Existence of human resources well prepared active in the sector of RDI and IT
- Existence of 3 universities centers that include in main areas of activities scientific research invention, technological innovation and IT
- Existence of the basic infrastructure for research, development, innovation and TT - 79 units recognized by CNSIS (cca.12% from the total at national level)
- Existence in the region of 13.3% of enterprises with innovation departments at national level
- Existence in the region of specialized companies in producing software and IT services
- Communication infrastructure well developed with high level of coverage

- Existence of the European road E85 that crosses the region from North to South, the European corridor no. IX and the international airports Bacau, Iasi, Suceava
- Existence of sectors of activities with potential for development, inclusive through innovation, such as: wood superior processing, food industry, textile industry, ITC, machinery and equipments, biologic agriculture, tourism, energetic sector

#### Weaknesses

- Insufficient financing of RDI sector, both from public and private sources
- Reduced level of investments in modernizing, retechnologisation
- Insufficient cooperation between research/university centers and business environment in order to valorize results of research and achieving TT toward economy
- Insufficient accessing by companies of the available financing (loans, grants)
- Reduced number of enterprises ISO certified
- Reduced level of EDI in the region
- Low productivity of economic activity
- Low level of entrepreneurial and innovation culture

#### Opportunities

- Romania accession to EU, importance of innovation being recognised in the European policies
- Opportunities to finance RDI projects from 7 Framework Programme and structural funds
- Increasing awareness level upon the role of RDI for economic development of the regions
- Possibility to develop business environment as result of the establishment of industrial and scientific parks as well as business incubators
- Increasing dynamics of SMEs sector
- Increased interest of the foreign companies to locate branches in the region as a consequence to accession
- Possibility that through regional airports modernization to be sustained the development of the regional businesses that become starting points for regional tourist itineraries
- Possibility to develop commercial exchanges due to the position of the region as Eastern border of EU
- Development of the first Regional Innovation Strategy

#### Threats

- Work force migration, particularly that qualified and specialised from research and innovation sector toward countries that offer more motivating salaries
- Reduced competitiveness of the regional companies on the European market
- Increased volume of imported products on the Romanian market
- High level of piracy in the IT sector, that jeopardizes the development of this sector;
- Limited availability of the enterprises for RDI expenditures, especially due to financial issues
- Inexistence of a structure that integrates the innovation system at regional level
- Lack of coordination between different sectorial policies with consequences toward development of RDI sector

The hybrid method A'WOT along with the SMART technique proceeds as follows: SWOT analysis is carried out. The relevant factors of the external and internal environment are identified and included in the SWOT analysis. The mutual importance of the SWOT factors are determined separately within each SWOT group. When the SMART method and its simple rating version are applied, the importance of the SWOT factors is defined as follows: 100 points are allocated for SWOT factors according their importance

separately in each SWOT group. The mutual importance of the SWOT groups are determined. One hundred points are allocated to the four SWOT groups. Finally the individual SWOT factors within each SWOT group are scaled according to these priority values.

### **3. The role of University in Suceava regions development**

In Romania the most important objective of the Universities is the education of the young generation and its through specialization in various fields of activity. The goals of the university in this direction are: boost the cross-border economic development process by increasing the amount of entrepreneurs who are establishing start ups cross-border; to upgrade human resources by enhancing the number of start-up entrepreneurs cross-border with viable business plans and by training local trainers.

#### **3.1. The Suceava region presentations**

Suceava County is situated in the Northern – Eastern part of Romania, at the Ukrainian border. Suceava County means 8553 km<sup>2</sup>, with slightly more than 700000 inhabitants living in the 16 towns of the county (43%) and in the surrounding rural areas (57%). Alone, Suceava town concentrates 120000 inhabitants. The number of employed persons is 250900, with a decreasing unemployment rate in the latest three years and situated today at 4.4%. Half of the population is employed in the primary sector – agriculture and forestry, other 18% in the industry and 13% in services.

The main industries in Suceava County are the wood-based industries, the food stuffs industry, and the machinery producers. Most of industries are located around Suceava town, in an industrial park area. The tourism is not the main contributor to the local economy, Suceava region has an important tourism potential due to the forested landscape, rural area traditions and mostly the centuries old, well known monasteries. Suceava county is recovering now for a more than a decade economic recession. In 2000, the Region North-Est from which Suceava is part was one of the poorest in the country.

Market openness, physical and professional infrastructure, are not major impediments to entrepreneurship, although the cost of professional advice may be rather high for start-ups, industrial land is quite scarce and traffic jams are a serious problem in the major urban areas. A long-term impediment is the social and cultural norms surrounding entrepreneurship. Becoming an entrepreneur is still not considered as an obvious career.

#### **3.2. The role of University Stefan cel Mare in Suceava regions development**

The University Stefan cel Mare is one of the most important institutions in the higher educational field in the north – east of Romania. The university is offering a modern educational-curriculum, following the example of modern universities of Europe, but, in the same time, keeping her own traditions.

The University Stefan cel Mare is a public institution educating in total 12000 students in nine faculties, with a number of 315 staff, teachers and researchers (2007). The main contributions of University in local context are to be located in: research activities; educating skilled labor force for local industries, namely forest industry, food industry, machineries and equipment; improving education and continuous education for practitioners, managers, namely in tourism-related issues, forest investment construction; partnership with different institutions and firms.

University Stefan cel Mare of Suceava has led or participated in over 80 projects that means a major role in delivering European Structural Funds Programmes USV, Faculty of Economics and Public Administration initiated many projects financed by EU or by Ministry of Research and Education: Developing and implementation of the entrepreneurial behaviour of the students and graduate students from Bucovina area in market economy development context. (CNCSIS 720, implementation period 2004-2006), Optimal strategies of adherence (and expansion) of the multinational companies to the efficiency of the technological transfer through the ISD chain, European Curriculum for Methodological Forming in Environmental Education (Leonardo Da Vinci, implementation period 2006 - 2007), INNO-FOREST: Integrating innovation and entrepreneurship in higher forestry education, *Leonardo vocational training according to EU standards for young graduates in the field of adult education* - ro/2005/p195165/mtd, 2005-2006, *Developing of skills and competences for trainers in the field of formal and informal entrepreneurship training programmes for local community*, CII-SK-0044-01-0506 - Applied Economics and Management, CENTROS – Counselling Centre for the unemployed.

The VISEC (Virtual Incubation of Student Entrepreneurs Cross Border) project will help to enable the border region between Romania and Ukraine to consider promoting entrepreneurship projects outside of formal school activity, as an educational leisure and as a learning activity for young people.

The VISEC project is a precursor for the establishment of business incubators in the region. With the VISEC project crucial insights will be gained in the need, willingness and possibilities for the establishment of business incubators in the cross-border region in the coming years.

The goals of the VISEC project are: boost the cross-border economic development process by increasing the amount of entrepreneurs who are establishing start-ups cross-border; to upgrade human resources by enhancing the number of start-up entrepreneurs cross-border with viable business plans and by training local trainers.

The final beneficiaries are the partners involved who strengthen their capability to enhance entrepreneurship and enterprise development to contribute to cross border regional economic development.

The primary target group of the VISEC project is young people from universities and schools of higher education who are finishing or just finished their studies. The secondary target group of the VISEC project is established SMEs who are looking for strong growth opportunities cross-border.

The TESCA (Tourism Entrepreneurship in Suceava and Chernivtsy Area) project is a Human resources development project and will contribute to a steady upgrade of entrepreneurial skills and sustainable business cross border enterprise cooperation from the tourism field. Common Interests of the partners are: to develop an endogenous capacity to train, develop and coach local entrepreneurs; to prove that common activities can have direct economic and social benefits through tourism development; to demonstrate the capacities of the involved institutions to obtain similar results in other regions; to adopt an entrepreneurship development method which is both efficient and effective; to increase number of local/international high-tech companies in tourism field.

University Stefan cel Mare of Suceava are also involved with the North-East Regional Development Agency, in the project RIS DISCOVER NE. The project objective is to develop the first Regional Innovation Strategy in North -East Region Romania that will contribute to the valorisation of its economic potential, based on an innovation support system. Those projects are a precursor for the establishment of business incubators in the region.

#### **4. Conclusions**

The problems of absorbing the structural funds now confronting the new member states reflect the absence of effective national policy frameworks, weak implementation capacities, and inexperience with the principles and practices of development partnerships: operationally regional development and territorial synergies with rural development and other; develop effective mechanisms for resources allocation that can filter funds down to local level; ensure a high quality of local projects.

This has sometimes led the Romania to adopt approaches to the structural funds that are formalistic and mechanical, rather than truly 'developmental'. The emphasis is on structures and procedures, rather than on partnerships for impact. The new EU Policy strangle itself to mobilise the brainpower of Europe and is enabling universities to make their full contribution to the Lisbon strategy: "*Learning needs to encompass transversal skills (such as teamwork and entrepreneurship) in addition to specialist knowledge.*"

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# THE ROMANIAN LEGAL ARMONISATION WITH THE EUROPEAN UNION STIPULATIONS REGARDING THE TIME-SHARE CONTRACT

**Neagu Emilian**

*„Constantin Brancoveanu” University Pitesti, Faculty of Management Marketing Business Affaires  
Rm.Valcea, Nicolae Balcescu street, no. 39, Rm.Valcea, E-mail: neaguemilian@yahoo.com, Phone:  
0721784146*

**Gradinaru Nicolae**

*Constantin Brancoveanu” University Pitesti, Faculty of Management Marketing Business Affaires  
Rm.Valcea, Nicolae Balcescu street, no. 39, Rm.Valcea, E-mail: gradinaru\_fd@yahoo.com, Phone:  
0744313269*

*In romanian legislation, the necessity of a proper and concise counseling of consumers regarding the rights they have before and after signing a contract with view to obtain a real right or any other right of temporary usage over one or more imobiliary goods is explicitly reglemented. The contract for obtaining the right of temporary usage „timeshare” of imobiliary goods can come in the form of a standard contract or of a group of contracts made for a duration of 3 years minimum, with the payment of a global price, by means of which the consumer obtains, directly or indirectly, the right of usage over one or more imobiliary goods, in exchange for a global price, for a duration of time, predetermined or not, that can not be shorter than one week.*

**Key words:** *time-share, imobiliary goods, clause, global price.*

## **1. General considerations**

Into a free market economy, it is to have in view the growth of the protection level for the consumers at the moment of the contract`s enclosure aiming to obtain the use right on a temporarily basis of some imobiliary goods, ensuring the right and complete informations offered to the consumers by the economic agents, before and after the contract is signed.

This principle was put into view by the European Council and Parliament also through the endorsement by means of the co-decision procedure of the 94/47/CE Directive of the 26th of October 1994, regarding the protection of the gainers of assets from some aspects of the contracts regarding obtaining the rights of temporary usage of various imobiliary goods<sup>181</sup>.

The directive establishes several principles to be adopted in various national right systems and be applied in the case in which no minimal consumer protection clauses have been stipulated in the contracts regarding obtaining a real or any other right with view to temporary usage of imobiliary goods, especially in those that contain an element of foreign origin (when the parties come from different member states; exemplary, Spain has received a lot of criticism prior to the endorsement of the Directive for the absence of such reglementations and for abusive practices, sometimes dangerously close to fraud, to which clients with the domicile in other member states, who spent their holidays in this country, fell victims). However, the Directive allows the member states to maintain its own, more consumer-friendly, national reglementations, to the extent to which these already exist in the internal judicial order.

The contract for obtaining the right of temporary usage „timeshare” of imobiliary goods can come in the form of a standard contract or of a group of contracts made for a duration of 3 years minimum, with the payment of a global price, by means of which the consumer obtains, directly or indirectly, the right of usage over one or more imobiliary goods, in exchange for a global price, for a duration of time, predetermined or not, that can not be shorter than one week.

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<sup>181</sup> The nr.94/47/CE Directive, has been published in the Official European Union Journal(OEJ) nr.L280/29.10.1994.



According to article 2, line 2 of the Directive, the imobiliary good is defined as any building or part of a building, with the functional destination of habitation over which one of the contractees has the rights. However, the nature of the right of temporary usage over such a good remains controversial<sup>182</sup>, varying depending on the civil right systems of each member state. For example, responding to a request to pass a preliminary decision on the basis of the former 177th article (currently the 234th article) of the Treaty on which the European Union was formed, the Luxemburg Justice Court has decided that, in the case of a contract that stipulates the supplying of a touristical services package whose value is higher than the value of the actual temporary usage right of the respective imobiliary good in question, the respective right can not fall under the category of real rights.<sup>183</sup>

In romanian legislation, the necessity of a proper and concise counseling of consumers regarding the rights they have before and after signing a contract with view to obtain a real right or any other right of temporary usage over one or more imobiliary goods is explicitly reglemented in the nr. 282/2004 Law.<sup>184</sup>

The purpose is to increase the level of consumer protection for the enclosure of such contracts, by assuring that complete and correct information is offered by economical agents before and after the closure of the contract.

The protection of consumers when signing such contracts, by implementing european directives in the field in the romanian legislation, leads to the diversification of the manner in which touristical products are being commercialized, but also to the entrance of Romania in new service and product markets, where the citizens of the European Union have the same rights, on Romanian soil, the same rights as in their states of origin.

The contract for obtaining a right of temporary usage of imobiliary goods is, a contract of group of contracts, closed for a *minimum duration of 3 years*, with the payment of a global price, through which, directly or indirectly, a real right or any other right over the use of one or more imobiliary goods for a determined or undetermined period of the year that *can not be lower than one week*, is comprised of, or is the object of a transfer or of an agreement of transfer of such a right.

The imobiliary good is defined as any building or part of a building, with the functional destination of habitation over which one of the contractees has the rights and which is the object of the contract.

If the good is located in Romania or in a member-state of the European Union, and the law that is applicable on the contract is not in accord with Union reglementations regarding the protection of the purchaser in the case of contracts with view to real rights or any other rights regarding the temporary use of imobiliary goods, the purchaser necessarily benefits from the protection conferred by the 282/2004 Law.

## **2.The time-share contract's content and enclosure**

The directive establishes the contractual frame of the right of temporary use of some real estates. Therefore, the timeshare contract is enclosed between a professional ( in the directive's terminology „the saleclerk” that usually encloses such contracts during his professional activity) and the consumer, whose state is defined in a sufficiently wide manner so as to include all of the juridical formes used. The main purpose of the Directive is to protect the economical interests of the consumer and to offer him in advance, in the moment of the offer, o detailed information and a reflection period necessary for him to express his consent.

## **3. Conditions regarding the time-share contract's enclosure**

The directive establishes the rule according to which the contract is mandatory enclosed in writing, therefore this condition is *ad validitatem*<sup>185</sup> and will contain a series of mandatory elements, determined by

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<sup>182</sup> The 5-th considerent of the Directive stipulates that in the EU member states practice the obtaining of a temporary usage different from the way in which the usage right is obtained based on a rental contract, especially in the payment method, because under the Directive's stipulations, the price payment for the right of temporary usage for the imobiliary goods, can be through a line of credit offered by the salesman (art.7 from the Directive).

<sup>183</sup> The Decision from 22 april 1999 cause C-423/97, Travel Vac SL.c. Manual Jose Antelm Sanchis, published in Rec.1999.p.I-2195.

<sup>184</sup> The Directive was transposed into the romanian intern law by the Law nb. nr.282/2004 regarding the protection of the contractees obtaining the right of temporary usage of imobiliary goods, published in the M.Of.nr.580/30.06.2004.

the correct informing of the consumer regarding the characteristics of the estate in question and the rights and obligations that he will assume. In this purpose, the Directive states that any mean of publicity regarding the estate and the right to use it on limited duration must indicate the possibility of the future benefitor to come into possession of a document that contains the mandatory information that will be included in the contract, if this contract is to be enclosed, as well as the place where this document can be obtained (usually, the saleclerk's agency) (art.3, par. 3).

The contract, as well as the document that includes the mandatory information must be edited in the language or the languages of the member state where the benefitor has his domain or residence or, by choice, in the language of the state that he is a citizen of, on the condition that this (these) is a part of the official languages of the Community. Moreover, preoccupied to offer protection to the benefitor, the Directive says, in a blurry way, that the member state where the benefitor lives or is a resident of, can solicit that the editing of the contract be made, in all situations, in his language and, moreover, that the saleclerk must translate the contract to the benefitor in the official language or languages of the state where the real estate is located.

Modifying the information included in the document without the consent of both parties involved, is allowed only if the cause of this modification is independent of the saleclerk's will.

Any modification of the information will be brought to the benefitor's knowledge before the enclosure of the contract.

Any modification of the information will be mentioned in the contract.

The publicity regarding the real estate will indicate the possibility of obtaining the document that includes the information, as well as the place where this can be obtained.

Violating these disposals is an infringement<sup>186</sup>, the sanction can be applied both to physical persons and juridical ones.

The contract is enclosed in written, under the sanction of absolute nullity and will include at least the mandatory elements.

According to the provisions of art.5 from law nb.282/2004, the contract and the document that envelops the information must be written in Romanian. In case that the benefitor is a foreign citizen or has his residence abroad, the contract will be written in one of the official languages of the state in question, by the citizen's choice, in case that the language is an official language of the European Community. On the contrary, the saleclerk must give the benefitor an authorized translation of the contract in the official language of that state, in which case that is an official language of the European Community.

Regarding the reimbursement of the expenses that have already been made before the exertion, by the benefitor, of the right of unilateral denunciation, the directive regulates two hypotheses as follows:

- a) if the benefitor denounces the contract with no reason after the expiry of the term of reflection that has not begun after the saleclerk delivers the final information of the ones solicited, the benefitor must only reimburse the expenses which, according to common right, result as a consequence of the enclosure and the unilateral denunciation of the contract and that match the legal formalities that must be finalised before the end of the end of that term, these must be mentioned in the contract. In any case, the directive expressly forbids the payment, by the benefitor, of any sum with the title of advance before the term of reflection is over (art.6).(5)
- b) if the price of the contract is fully or partially covered by a credit given to the benefitor by the saleclerk or by a third person, based on a contract enclosed between the third and the saleclerk, the credit contract will be annulled with no penalty and/or interest from the benefitor.

It must be noticed that, unlike these two hypotheses, in the situation in which the benefitor exerts his right to annul the contract of timeshare, he will not be obliged to refund any expense made by the formalities of enclosing the contract.(art.5, par.4)

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<sup>185</sup> The Law nb.282/2004 concludes that the sanction for breaking the *ad validitatem* condition at the contract's enclosure is nullity.

<sup>186</sup> O.G. nb.2/2001 regarding the juridical regime of infringements, published in M.Of.nb.410/25.07.2001, approved by Law nb.180/2002 published in M.Of.nr.268/22.04.2002;

The directive stipulates that it is of the competence of the laws of the member states to foresee any clause in which the beneficiary gives up the rights given or in which the saleclerk is exonerated from the responsibilities that emerge from this cannot have any side effect on the debtor.

#### **4. The nullity, denunciation and annulment of the timeshare contract in Romanian legislation**

The contract is enclosed in written, under the sanction of absolute nullity, and will include at least the mandatory elements.

The action in ascertaining the nullity can be introduced by any interested person and is solved by the competent civil instance.

Complementary to the beneficiary's options according to common right, regarding the nullity or the annulment of the contracts, the beneficiary is entitled to:

- a) to denounce the contract unilateral, without having to state a reason, in 10 calendar days – the term is calculated according to common right – from the date of the signing by both parties or from the date when the parties signed a precontract.
- b) In case that the contract or precontract does not contain the information from the annex of the law during the signing by both parties, to solicit the annulment of the contract or the precontract in 3 months from that moment. If in 3 months the information have been supplied, the 10 day term in which the beneficiary can denounce the contract start from the date he received the last piece of information.

If at the end of the 3 month term, the beneficiary has not exerted his right to solicit the annulment of the contract and the enclosed contract cannot include the information stated in the annex, the term of unilateral denouncement of the contract will start from the day after the day in which the last term expired.

In case that the beneficiary wishes to exert the right stipulated by the law to denounce the contract unilateral, he must, before the end of the terms, notify in written the person whose identification data are stated in the contract, according to common right and the procedures specified in the contract. The final term will be considered respected if the written notification is sent before its end.

In case the price of the contract is partially or fully covered by a credit given to the beneficiary by the saleclerk or a third, based on a contract between the third and the saleclerk, the credit contract will be annulled without penalties and interest, in case that he is exerting his right to unilateral denounce the contract.

According to the provisions of art. 7, law nb. 282/2004, the contractual clauses through which the advance payment is solicited from the beneficiary, before the end of the term in which he can exert his right to unilateral denouncement of the contract, are nule.

The beneficiary's right to unilateral denouncement of the contract cannot be limited by any contractual clause or settlement between the parties, these being considered nule.

Any clause through which the beneficiary gives up the rights that the law gives him or through which the saleclerk is exonerated of his responsibilities is nule.

According to art.13, law nb.282/2004, violating the law, is followed by civil response, contraventional or capital.

The rights and obligations that emerge from the enclosed contract can be carried off by the thirds. A novelty in the Romania juridical system, the sale of a real right or any other usage right on a limited amount of time, is the permission that the rights and obligations that emerge from the contracts enclosed through this regulation, can be carried off by the thirds.

In case the consumers feel more protected from unpleasant situations that can appear during such contract, their faith in sales' systems of an utilisation right on a limited period of time of real estates situated both in the country, as well as abroad, but also in saleclerks will grow, developing a relationship with benefic effects on the market evolution.

The directive creates the necessary background increase the protection of the beneficiary's temporary utilisation rights over the real estates, both on communitary level, as well, mainly, on national level, so as to avoid and/or to solve unpleasant situations that can appear during the succeeding of the contract, because

of the existence of the premises to increase disbelief in these juridical constructions enclosed with entertainment purposes and not only. Therefore, the benefitors will use the real estate both in the country, as well as the states that are members of the Community, with the purpose to facilitate free circulation and the right to establish these inside the Community, in concordance with the fundamental principles of the communitary law.

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# MOUNTAIN ENVIRONMENTS AND TOURISM - A EUROPEAN MODEL OF SUSTAINABLE DEVELOPMENT

Nicula Virgil

*“Lucian Blaga” University of Sibiu, Faculty of Economic Sciences, Calea Dumbrăvii nr.17, niculavirgil@yahoo.com, +40 (269) 210375*

***Abstract:** Tourism can be an important way of preserving the mountain communities, bringing revenue and jobs to village communities increasingly unable to survive on agriculture alone and where migration threatens their existence. The European model, through stronger stakeholder involvement, may perform better than the corporate model in managing the destination on a responsible basis, since the community directly depends on it. Therefore, by taking into account the ecological and social dimensions of sustainability, the community will protect the surrounding natural environment. However, small communities and local rivalry may make joint decision-making difficult and may lead to a lack of cohesion in consistently promoting a destination. The development of a sustainable tourism means protecting the environmental tourism resources with the help of various actions taken by the locals.*

*Key words: mountain environment, sustainable development, mountain tourism*

The origins of Responsible Tourism go back to 1972 when, at the UN Conference on the Human Environment, the World Commission on Environment and Development (WCED) was created. In 1987, the WCED produced the Brundtland Report which raised the notion of sustainable development and the need for all countries to ensure they preserve resources and natural environments for future generations. The concept was gaining ground elsewhere with the similar ideas being proposed by the International Union for the Conservation of Nature (IUCN) in their World Conservation Strategy and in ‘Our Common Future’ produced by the United Nations Environment Programme (UNEP) and the World Wildlife Fund (WWF). In 1992, at the Rio Earth Summit, 182 governments signed a declaration agreeing to five action areas which would bring sustainability principles to many areas of development. This led to the creation of Agenda 21 which comprises a set of guidelines for implementing sustainability principles at a national and local level. Tourism was not cited specifically in Rio, and only in 1996 was Agenda 21 for the Travel and Tourism Industry produced. In 1999, the World Tourism Organisation approved a “Global Code of Ethics for Tourism”, addressing both the role of tourism as a development option, and also the principles of ethics in tourism, or “tourism’s contribution to mutual understanding and respect between peoples”. This engendered the notion of tourism’s responsibility to its host destinations and communities and led to the Cape Town Conference on Responsible Tourism in Destinations in 2002.

A Declaration was signed by 280 delegates from 20 countries, identifying the concept of Responsible Tourism as having the following characteristics: minimising negative economic, environmental, and social impacts; generating greater economic benefits for local people and enhancing the wellbeing of host communities, improving working conditions and access to the industry: involving local people in decisions that affect their lives and life chances; making positive contributions to the maintenance of the world’s diversity by conserving the natural and cultural heritage; providing more enjoyable experiences for tourists through more meaningful connections with local people and a greater understanding of local cultural, social and environmental issues; providing access for physically challenged people and being culturally sensitive, engendering respect between tourists and locals and enhancing local pride and confidence.

Since the Cape Town conference, World Travel Market, the travel industry’s key annual trade event, has a Responsible Tourism day, and this signifies that the travel industry no longer views Responsible Tourism as a niche product, but as a mainstream principle. Its growth is happening alongside a growing consumer awareness of ethical issues, such as fair-trade food products and interest in the sourcing of products. Most recently, climate change has risen on the agenda of the media and governments, focussing especially on global CO<sub>2</sub> emissions. Still, Responsible Tourism is not just about the environment and there is a danger of forgetting the social and economic principles. Additionally, it should be noted that Responsible Tourism does not just apply to developing countries; it is equally applicable to developed countries. Krippendorf,

who was one of the pioneers in thinking about the impacts of tourism, based his ideas on mass tourism in Switzerland. It is arguable that the first mass tourism in natural environments was to the Alpine regions of Europe back in the 1800s, for mountaineering and health resorts.

As mentioned, Agenda 21 was agreed upon and a chapter was devoted to 'Managing Fragile Ecosystems: Sustainable Mountain Development'. It identified that "mountains are an important source of water, energy and biological diversity and a source of key resources such as minerals, forest products and agricultural products of recreation". This highlights the competing demands on mountain environments of which tourism is just one part. About 10 % of the world's population depends on mountain resources, especially on water. Mountains are also a storehouse of biological diversity and endangered species. The mountain ecosystem is one of the most complex and sensitive to climactic change and is essential to the survival of the global ecosystem, but it is rapidly changing and experiencing degradation. However, Agenda 21 does not just focus on the environmental aspects; it notes the many peoples who live in mountain environments and the widespread poverty that is often experienced. Life is hard for many mountain communities, but loss of those communities would lead to loss of indigenous knowledge. The report highlights that "proper management of mountain resources and socioeconomic development of the people deserves immediate action" and calls for research to be conducted into mountain ecosystems and programmes for their sustainable development.

Tourism can be an important way to preserve the mountain communities, bringing revenue and jobs to communities increasingly unable to survive on agriculture alone and where migration threatens their existence. However, tourism can cause problems and overdevelopment, as Michel Revaz of CIPRA (the International Commission for the Protection of the Alps) commented: "The Alps are totally overdeveloped; the most exploited mountain range in the world". The Alpine Convention became effective in 1995 and had the dual aims of protecting and sustaining the development of the Alps. While the Alps constitute the living and economic environment for the indigenous population, they are also vitally important for extra Alpine regions - being the site of important transport routes. They are also an essential habitat and last refuge for many endangered species of plants and animals. They identify the ever-growing pressures caused by man threatening the Alpine region and the need for economic interests to be reconciled with ecological requirements.

Throughout history, travelling for sport is evident, whether it involved journeying to the next village to play a game of football or in recent times (as mountains became an attraction instead of an object of fear) to go skiing (Matley, 1981). The concept of sport-related tourism has become more prominent over the last few years; however, there have been difficulties defining the sector and academia have frequently seen sport and tourism as separate spheres of activity. Gibson (1998) identifies three domains of sport tourism; 'active sport tourism' referring to people who travel to take part in a sport, 'event sport tourism' which refers to people who travel to watch a sporting event and 'nostalgia sport tourism' which includes visits to sports museums or stadiums. According to these definitions, skiing would be seen as active sport tourism; however, that would account for only part of the ski market, for example British skiers going on holiday to Austria. Yet a large part of the ski market is formed of locals skiing in their local ski resorts. Nogawa et al. (1996) suggest there is a difference between sports tourists who stay at least 24 hours in a destination and sports excursionists who are day trippers. De Knop (1987) described a sports tourist as an individual who participates in sports while on holiday and he identified three types of active sport vacations: the pure sport holiday, such as a dive trip; taking advantage of sports facilities at a holiday destination, where sport is not the primary purpose of the trip; the private sporting holiday, where the tourists take part in non-organised sports activities.

It seems the British have a strong tendency towards active holidays; Glyptis and Jackson (1993) report that 56% of the holidays taken in the UK by British tourists include participating in at least one sport, the same being true for 26% of British holidaymakers travelling abroad. It is likely that these percentages will have increased since then with the growing trend for active holidays over the last five years. Schreiber (1976) was one of the first to develop a profile of the active sports tourist and found that "the sport traveller is more affluent, better educated and more active than other travellers". This has been supported in further studies of the ski market, and it is indeed often the perception that you need to be affluent both to go skiing and to purchase all the equipment, although this is not necessarily the case. Kaae and Lee (1996) conducted a study to compare alpine skiers with cross country skiers and found that both groups were relatively affluent and well educated in comparison with other tourists. Redmond (1991) suggests that the development of sport tourism has been nurtured by the ascent of a highly specialised global leisure industry

flooding the marketplace with high tech sports equipment and he argues that “modern technology has served to create an international sporting playground for the reasonably affluent athletic tourist”. As Hudson (2000) notes in his study of the international ski industry, there is a vast array of companies supplying the industry with the skis, boots, clothing, safety equipment and accessories who operate at the cutting edge of technology and who perpetuate their own industry by bringing out new and better technology. It was noted during the recession of the late 1980s and early 1990s, when ski holiday participation decreased, that the sports manufacturers also suffered badly. De Knop (1990) attributed the desire for active participation in sports on holidays to increased urbanization and a wider variety of active leisure pursuits open to Europeans. In 1995, De Knop developed this theory by drawing on figurational sociology, which attributes the popularity of sport in modern society to the civilizing process. As society becomes more civilised and behaviour becomes more restrained, there are fewer ways to express emotion and engage in experiences which generate excitement; sport provides the arena for “Controlled Excitement”. Since most of the population lives in urban areas, mountains and other wild places represent escape locations that offer excitement, stimulation and potential adventure. This dislocation of the self from the ordinary to the extraordinary appears to provide a pleasurable experience that is central to sports and adventure tourism; however, the irony is that most tourists buy a holiday packaged for maximum efficiency. With the growing commodification of modern life, ‘Leisure time’ which is proclaimed and expected to be an escape from routine work, often becomes another routinised, packaged commodity, thereby failing to be anything like a carefree, relaxed alternative to work. The function of tourism is to sell a commodity to a group of consumers, whether it is a sun and sand holiday or an adventure holiday. Even climbing Everest has, to some extent, become another commodity with a price where you pay an ascent fee. In a ski resort, the skiing is the commodity and the lift pass is the package with the price attached.

Mountains are particularly attractive destinations for adventure tourism as they offer a range of activity options in a setting steeped in actual and symbolic representations of adventure. Mountaineering and white water rafting are seen as hard adventures with the associated level of risk, skiing is seen as a soft adventure activity with many of the elements of risk reduced as much as possible. However, sports and adventure tourists (whether hard or soft) rarely leave the urban frame and their habits travel with them, thus expecting the same levels of comfort as at home and expecting to be insulated from the less desirable elements. The ski corporations have a dominant influence on how the destination is operated as a strategic business unit, as well as strong political power in the community related development of the destination. They question whether it is possible to bring about an organisational structure which has a concern for the welfare and quality of life of the local community where the system is based.

The Community model found in much of Europe is characterised by specialised independent service providers operating in a decentralised way, where no single company/organisation has any dominant administrative power or dominant ownership. The existing village community is at the core of the resort and locally owned businesses are found. Strategic leadership is anchored in a stakeholder-orientated management and is concerned with issues of sustainability. Destination planning, product development, destination marketing and management lie with the political and administrative institutions. Some parts of Europe, most notably France, have developed purpose built ski areas close to existing villages to separate the tourism from the core of the village, generally at a higher altitude, but these tend to be locally owned and developed.

The most recent analysis of the British ski market has been published by Crystal Holidays (a subsidiary of TUI Travel). It was published in July 2006 and incorporates statistics from the winter season 2005/2006. It aims to bring together various different sources of information including the tour operators’ own statistics, AC Nielsen’s TravelTrack, Snowsport GB data, CAA published statistics, tourist office figures and travel agency feedback. The British ski market rose by 6.9% in the winter season 2005/2006, reaching 1.156.000 people, thus continuing the steady upward trend that has been witnessed since 2000. Out of this number, tour operators take 58% of the market, 31% are independent travellers and the remainder is made up of the schools market. All three markets experienced growth, although the independent sector is difficult to measure with varying statistics reported from the low cost airlines (Crystal Holidays, 2006). Recent good snow has helped this rise, together with the growing popularity of snowboarding which is continuing to open up the market to a new segment.

France continues to be the most popular destination for British skiers with 36% of the market, followed by Austria (20%), Italy (14%), Andorra (12%), Switzerland (5%) and Bulgaria (3%). The proportions for Austria, France, Switzerland and Bulgaria tend to remain broadly similar year on year; the changes are

occurring with a decline for Italy and Andorra which is taken up by increases for the USA, Canada and other 'new' destinations (Crystal Holidays, 2006). The continuing appeal of France to the British market reflects a number of features; it is still seen as the country for self drive and self catering and, therefore, a lower cost holiday can be enjoyed (despite the fact that driving times can be similar for Switzerland and Austria). France has a large chalet and club hotel product which is a popular choice for the British market and the quality of which has seen a marked rise in recent times. This is effectively the "all inclusive" ski holiday with no hassle and a fixed price which is also a growing trend. Also the growing popularity of Eurostar and the ski train is currently only benefiting France.

Flying, as the method of travel, has increased by 7% in the last year; however, the no-frills carriers saw an increase of 15% over last season. The largest source of flights is the scheduled airlines (including tour operator allocations on scheduled airlines) (45%), followed by no-frills airlines (37%) and tour operator charter (17%). The number of no-frills carriers continues to rise and the route network continues to expand with smaller airports being added which often significantly reduces transfer times. However, it is notable that some no-frills carriers are beginning to have less appeal to the ski market due to tight restrictions and high costs for luggage and sports equipment.

The touroperator market is dominated by some large operators and there are also few mid size operators. The remainder of the market is made up of small specialised tour operations that specialise on either a particular market segment or a particular resort. They are often very successful with a very loyal clientele. Tour operators were threatened by the no-frills market in previous years; however, they are now succeeding in differentiating themselves and re-asserting their value. The rise in the no-frills airlines stimulated demand for the ski weekend and several shorter ski trips in a year, and for smaller airports with quicker turnaround times and short transfers. The tour operators have responded with obtaining access to the smaller airports, gaining hotel allocation for weekends, and are increasing the completeness of the package, to offer a hassle free, easy holiday as opposed to piecing the elements together. The transfer is the area of concern and expense for independent skiers; car hire is expensive when the car is actually only needed for the arrival and departure, and concerns about driving conditions, snow and the requirement for snow chains puts many off self drive. Resorts are responding to this by offering coach transfers themselves to help the no-frills /independent market but the tour operator eases this with the inclusive product and is increasingly offering many facilities for families such as day care, après ski clubs and baby sitting.

With 58% of the ski market (670,000 skiers), the British tour operators exert a lot of power over the British ski industry. They are important intermediaries and "can influence the choices of consumers, the practices of suppliers and the development patterns of destinations" (Tour Operators Initiative, 2003).

Means End Theory is the integration of the push and pull factors. It focuses on the cognitive linkages between the relatively concrete attributes (the 'means') and the more abstract consequences these attributes provide for consumers and the highly abstract personal values (the 'ends') these consequences help re-enforce. It provides a way to understand the relationship between consumers and the products they purchase and consume; how the attribute of a destination can fulfil a need of an individual. In a skiing context, a product attribute would be the number of black runs in a resort. The consequences are the perceived benefits or costs associated with the attribute, thus, in relation to the number of black runs the consequence might be 'feeling challenged'. The personal values are the end states of existence the consumer seeks to achieve; in response to 'feeling challenged' this might be achievement or excitement. Traditional multi-attribute models of choice tend to concentrate on if and to what degree an attribute is important. The means end approach focuses on how and why something is important (Gutman, 1982).

It takes an "avoid, minimise, mitigate" approach to natural resource management that aims to promote "beyond compliance" in the following areas: stewardship of the natural surroundings; balancing human needs with ecosystem protection; concentrating activities to limit impacts on wild areas; sustaining ecological, climatic and hydrological systems; maintaining characteristics that make landscapes unique; reducing the greenhouse gas emissions; placing priority on safety; planning design and construction; operations: water resources for snowmaking, facilities, landscaping, summer activities, quality management and waste water management; energy consumption and clean energy: facilities, snowmaking, lifts, vehicle fleets; waste management: waste reduction, product re-use, recycling, hazardous wastes; fish and wildlife; forest and vegetative management; wetlands and riparian areas; air quality; visual quality; transportation; education and outreach.



The development of a sustainable tourism means protecting the environmental tourism resources with the help of various actions taken by the locals. For the planning, development and administration of a sustainable tourism at local and regional level (in this case: Sibiu area) it is necessary to have a partnership between the researchers, the tourism industry (represented by the owners of tourist enterprises), the specialists that ensure the environmental protection, the community, the interest groups, the local leaders and the authorities. (Guide, 1999 - L'intention des autorités local: Développement Durable de Tourisme, O.M.T.). This partnership can also lead to the development of a sustainable and efficient tourism, to the improvement and growth of the quality of life into the local community.

The experience obtained thanks to the program "Sibiu-European Cultural Capital 2007", has proven the necessity to develop the mountain tourism in the area. This can happen by improving and diversifying the tour-operators' offers, but only in collaboration with the local institutions and authorities, and with The District Tourism Association.

Several surveys made by a French institute have revealed that the visitors of some mountain spas in France, Italy, Switzerland and Austria prefer the mountains during winter. Regarding the distribution of preferences, it has been seen that: in summer, almost 65% of tourists prefer mountaineering, travelling or are being sedentary, and 35% are practicing different sports; in winter, 80% like to go skiing, 6% like to go skating, 4% practice some other winter sports and only 10% prefer mountaineering, travelling or are being sedentary. The segment that frequents the mountain resorts the most is the youngsters, but there are also people with high incomes that can afford to stay in luxurious winter resorts. These aspects are very important when adopting some strategies regarding the setting up of mountain resorts and they suggest the importance of "après-ski" activities, as well as that of recreation facilities. At the same time, with the changing demands, some tendencies have emerged in the evolution of an offer. A variety of aspects must be taken into consideration, as for example: providing the ski domain with up-to-date installations, modernizing the ski-lifts, organizing ski schools, creating reception structures that are modern and comfortable etc.

The environmental factors with tourist potential are the landscape, the relief (through altitude), the slope and the orientation of the slopes, the vegetation, the waters, the position of the mountains within the geographic area and of course, the climate conditions. The climate is a dynamic element with special tourist potential. In mountain tourism, natural conditions have a fundamental importance, ensuring the quality of services, integrating the location in the mountain area and offering favourable conditions for practicing winter sports, mostly ski.

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# ROMANIAN COMMERCIAL COMPANIES IN INTERNATIONAL BUSINESS AND LITIGATION

**Novac Laurentiu**

*Universitatea "George Bacovia", Facultatea de Management, Specializarea Drept, Str.Pictor Aman nr.96, Bacau 600164, Email:laurentiunovac@yahoo.com, Tel: 0745411966*

*Summary: In this article I'm referring to commercial companies from Romania which have to face out the international competition and litigation. These companies need to adapt to the new demands of the international market and integrate in the European Union, a community which becomes larger. Firstly, I present in chapter 1 the notion of the commercial company, in chapter 2 I treat the notion of litigation and the procedure of solving it and in chapter 3 a particular case is being presented related to the subject of Court of Arbitration and commercial companies.*

*Keywords: company, commercial, litigation, arbitration.*

## **Introduction**

The 1<sup>st</sup> of January 2007 is a historical moment for Romania, because it is the date when our country became a member of the European Union.

Starting with this date we assist to a complex process for Romania, the European integration, a process that submits the commercial companies from Romania to a harsh test in the contemporary European geo-political and economical context and in the context of the intensification of the international business.

Can the Romanian commercial companies manage the competition, the integration and the litigation? There is an adequate political and economical context that allows the development of the Romanian commercial companies or they must adjust to the new demands of the market?

## **Chapter 1**

In the first place we need to define the notion of commercial company. So what is a commercial company?

According to the dispositions of the Romanian Civil Code the company is a contract by which two or more persons agree to put something in common with the purpose to share the profit that may derive from it. The company has to have a lawful object that has to be made for the common benefit of the parties (art.1491 and art.1492).

Any commercial company has its own judicial personality, it represents a contract, as well as a subject of autonomous law, and in the same time it has a lucrative purpose, because it wants to have material benefits, and benefits of another nature.<sup>187</sup>

The notion of commercial company is used in the legislations of the states in which the commercial law has an independent existence. The appreciation of the commercial character of a company is made after two criteria. In connection to the admitted solution one can use the criterion of the social object or the criterion of the way of establishing.

The first criterion, that of the social object, was consecrated by the French Commercial Code from 1807. The social object is a classical criterion, and it is an objective one. A company is commercial if it has been established with the purpose of making acts of commerce, acts that are stipulated as such in the Commercial Code.<sup>188</sup>

The criterion of the form of establishing is adopted by the French Law nr.537 from July, 24<sup>th</sup>, 1966 on commercial companies. This criterion is a modern and a formal one. A company is commercial if it was

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<sup>187</sup> C.Hamangiu, I.Rosetti-Balanescu, Al.Baicoianu, *Tratat de drept civil roman*, vol II, Ed.Nationala, Bucuresti, 1929, p.994 si urm; Fr. Deak, *Tratat de drept civil. Contracte speciale*, Ed Actami, Bucuresti, 1996, p.356 si urm.

<sup>188</sup>A se vedea art.1.alin.(1) al Legii romane din 1990 privind societatile comerciale si art.3.C.com.rom.

established under the form of a company in common name, company with a limited responsibility or as an anonymous company with stock.<sup>189</sup>

So a commercial company that was made in a legal manner, with the fulfillment of all the established conditions of content and form, gets a judicial personality. From that moment on, the commercial company has its own name that is mentioned on the social firm, the name of the company permits the individualisation of the social activity, a social environment, a nationality and patrimony. The company can participate in its own name in the commercial circuits, it has the capacity to stand in court and it has its own patrimonial responsibility.<sup>190</sup>

The commercial company has its own domicile that becomes its social headquarters.

The establishing of the company's headquarter has important consequences. In connection to the social headquarters one appreciates: the nationality of the commercial company, the place where the procedure documents are communicated, the abilitated court to judge the litigation in which the company is a part of, the place where some publicity measures are taken, the place where the company can be executed.

In the Romanian law, in order to determine the nationality of a commercial company, we use the criterion of the social headquarters. Thus a company that has its headquarters in Romania has the Romanian nationality, is subjected to the Romanian laws, this criterion is applied also to the companies that have foreign participation<sup>191</sup>.

The commercial company has its own nationality, that is distinct from the one of its members. The notion of nationality expresses the affiliation of the company to a certain state and law system (art. 237 from the Commercial Code). The affiliation of the company can be determined after several criteria: the criterion of the social headquarter, the criterion of the registration, the criterion of the place where the main exploitation is located, and the criterion of control.

The commercial company has its own patrimony, that is distinct from the one of its associates and in the same time it has an autonomous character that is very important (I. Macovei, 2006, p.107).

Once we have clarified the notion of commercial company, we have to think to other aspects: the competition, the integration in the European Union of the Romanian commercial companies, their place in the international business.

I consider that today there is a number of commercial companies that are ready to face the competition, but unfortunately, the number of the companies that are not prepared to face the competition and the international business is pretty big. What must be done in this direction? What is the solution? Can these companies be integrated in the economy of the European Union?

My opinion is that in this situation the attitude of the people in charge, of the political class should change, in the sense they should reduce taxes and that the local investors should have some advantages, thus we can reach a durable development/ growth of the Romanian economy and the possibility that the Romanian commercial companies can extend to an international level. Besides this, the commercial companies have to adapt to the new demands of the market, in order to reach a positive outcome.

This adaptation can be done through a good management and marketing and through the total implication of the employees, through investments in equipment and in the latest machines.

Unfortunately, this reduction of taxes will not be done any time soon, because lately I noticed that few Romanians fight for the rights they have through the Constitution.

In these conditions, Romanian commercial companies will not be able to develop and integrate in the European Union. It is desirable to be better aware of the importance of the Romanian commercial companies.

## Chapter 2

In the international economical context one can have litigations that are solved by the Romanian Court of Commercial Arbitration, these litigations being between Romanian commercial companies and the ones

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<sup>189</sup> I.Macovei, *Institutiile in dreptul comerțului internațional*, Ed. Junimea, Iasi, 1987, p.102

<sup>190</sup> Pentru detalii, I.Macovei, *Dreptul comerțului internațional*, vol I, Ed.C.H.Beck, Bucuresti 2006, p.105 și urm.

<sup>191</sup> Art.1 alineat.(2) și art.280 din Legea 31/1990

from other states. After resolving these litigations, the Romanian commercial companies can win or the exact opposite can happen. This depends only on the judges from the Court of Arbitration.

There is a set of Rules of arbitrary procedure that were emitted based on art.5 j, art.11 and art 13 from the Order in Council nr.134/1990 regarding the Chambers of Commerce from Romania and that were approved by the College of the Court of Arbitration through the Decision nr.3 from the 10<sup>th</sup> of September 1999, that came into effect at the 1<sup>st</sup> of January 2000. the modification and completion of these Rules was made through the Decision nr.1 from 30<sup>th</sup> June 2004 that came into effect at the 1<sup>st</sup> of September 2004.

Next I will present a part of the rules of arbitrary procedure that were modified and completed through Decision nr.1 from the 30<sup>th</sup> of June 2004.

Thus, according to art.(1) align(2) the organization of the arbitration “is made through the Court of Commercial Arbitration that functions besides the Chamber of Commerce and Industry of Romania, that is still called the Court of Arbitration....”.

Continuing art.(2),align (1),(2) and (3) stipulates the next aspects: ”The Court of Arbitration organises and manages solutions on the way of arbitration, of some internal or international commercial litigations, if parties have concluded in this sense a written arbitrarial convention.In the meaning of these Rules, commercial litigation is any litigation that derives from a commercial contract, including his conclusion, execution or abrogation, and like any other commercial judicial reports.” “Commercial litigation is internal when the results from a contract or from other commercial judicial reports that interests international commerce.”

Chapter 2, article 10, align.(1) stipulates : “The arbitrarial convention is made in writing, under the nullity sanction.This act of arbitration can be realised of any arbiter that is a physical person, Romanian citizen or foreigner, who has complete capacity of exercise of rights, enjoys of an untouched reputation and has a high qualification and experience in the commercial law domain and international commercial relations”.(art.17,align(1))

Parties can establish if the litigation can be judged by one, two or more arbiters. In the situation that parties haven’t established the number of arbiters, the litigation will be judged by three arbiters each one of them named by each side and the third superarbiter chosen by the two arbiters.(art.19)

But there also exists a situation stipulated in article 19 in which if there are more claimants or more defendands, parties that have common interests will name only one arbiter.Only in case of a misunderstanding the arbiter will be appointed by the president of Court of Arbitration.

Another important aspect that needs to be taken into account is that the arbiters have to be impartial and independent.(article 20)

Concerning the notification of Court of Arbitration this is made by the claimant through an written petition, named arbitration petition or arbitrarial action.(article 30)

The arbitral procedure ends by sentencing the arbitral decision named arbitral sentence with a decisive role.(article 56, align.1)

Rules must be respected once parties have committed, so that at the end to come up to an advantageous result for a part and less for the other part.

### **Chapter 3**

Next I will present a particular case bounded to the subject of Court of Arbitration and commercial companies.

It’s about the conclusion from the 9th of October 2001 from the International Commercial Court of Arbitration from the Chamber and Industry of Romania.In this sense is taken into discussion the exception of prematurity, the lack of making directly conciliation procedure stipulated in article 7201 Civil procedure code.(www.avocatura.com)

The section form 30th of January 2002, the arbitration court with superarbiter: Ion Bacanu and arbiters: Stanciu Carpenaru, Victor Babiuc si Daniela Pop. On the role it is the sentence about the exception of prematurity of arbitral action registered under the number M 11966 from 4.10.2001, action formulated by SC.TH.SA, in attribute of claimant against SC.SDC.SA in (the capacity) attribute of defendant. In the session of arbitration from.15.01.2002, according to those registered in the conclusion of that day, the defendant raised the exception of prematurity of the arbitral action. The plaintiff requested the rejection of

the exception as unfounded. The arbitral court put off the sentence about this exception successive at 22.01.2002, at 28.01.2002 and then for the date of 30.01.2002, when the sentence was pronounced in the presence of the three members in person with unanimity of votes, at the residence of the Arbitration Court. The Arbitral Court puts in discussion the exception of prematurity of the arbitral action. Through the contestation registered under the number 126 form 10.01.2002 and the oral conclusions raised in the session of arbitration from 15.01.2002, the defendant raised this exception with the motivation that the plaintiff infringed the imperative stipulations of article 7201 of civil procedure code. According to this text in actions in law and petitions in commercial matter evaluated with money, before introducing the petition of summoning, the plaintiff will try to resolve the litigation through direct conciliation with the other part.(align. 1)

In this intent, the plaintiff will convene the adversary part, communicating to him in writing his claims and their legal base, and all the acts that can be proven.(article 7201,align.2) The convocation date for conciliation will not be established earlier than 15 days from the date of receiving the communicated acts.(align.3) The result of conciliation will be committed in an written act with the indication of each other pretences regarding the object of litigation and the point of view of each part.(align.4)

The written act about the conciliation result, or in case the accused couldn't come to convocation the proof that from the date of receiving the convocation have passed 30 days, will be annexed to the petition of summoning.(align.5)

The defendant sustains that the plaintiff did not respect the minimum of 15 days, between the date of receiving the convocation by the defendant and the date of convocation, fixing a term of only 5 days and at the same time the plaintiff did not show in the convocation the hour to where the defendant was called for conciliation.(www.avocatura.com)

The plaintiff, through oral conclusions from the arbitrarium session from 15.01.2002 and through written conclusions, demanded for the exception to be repelled as unfounded, in principal, with the motivation that the procedure of direct conciliation stipulated by article 7201 civil procedure code is not obligatory in the arbitral procedure and in addition the defendant hadn't made the proof that by this prematur action could have suffered a damage that could not be removed only by the annulment of the arbitration petition, regarding that article 7201 does not stipulates in express way the nullity sanction, so it's about a virtual nullity regulated by article 105, align.2 civil procedure code. Examining the claims of both sides and the proof from the file, the arbitral court will establish that the attached lawsuit in xerox copy, the convocation for the purpose of trying to settle in a good way differences related to the execution of selling-buying contract number 20 B from 23.04.2001, convocation made through notification number 823 from 9.07.2001, transmitted through a judiciary executor, whereby the defendant is convoked at the indicated place in the convocation, in term of 5 days from the receiving oh this. In convocation are showed the issues that will be discussed and the precise day and hour when will display the meeting, it this sense the defendant will be asked through fax. At the end of convocation will be specified that in case the discordant issues won't be solved amiably, the plaintiff will address to arbitration according to article 8 from contract number 20B from 23.04.2001, made by the parties. Corresponding to arbitration clause from article 8, any litigant situation will be solved amiably between the two parts of the contract the decision being final and executory and in extraordinary way the Committee of Arbitration from the Commercial Chamber of Romania will solve the situation.(www.avocatura.com)

The Arbitral Court, verifying her own competence, holds back that this arbitration clause is available according to article 969 civil code, article 340 and next procedure civil code and article 2 and next from the Procedures Rules of Court of Arbitration.

Consequently, the Arbitral Court is competent in solving this litigation including the exception of prematurity.

After a lot of discussions, the Arbitral Court considers that the two legal dispositions from article 341 align.2 procedure Civil Code which stipulates that parties establish the procedure of eventual preliminary conciliation and article 7201 procedure civil code referring to direct conciliation has a character of special stipulation, derogatory from common law of civil process and, consequently of strict interpretation. Even if they have common aspects and follows the same finality, they strictly apply in disputed claims office for which they have been edicted, the first one in arbitral litigation and the second one in judicial commercial process.

In conclusion, the Arbitral Court considers that the stipulations of article 7201 from procedure civil code cannot be applied in this litigation, so that the exception of prematurity will be rejected as unfounded.

## **Conclusion**

Finally I consider that commercial companies from Romania have real opportunities to develop in international business and integrate in the European Union and this will happen only if the Romanian state will take measures and make everything that is possible regarding legislation and taxes.

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# THE TEXTILE INDUSTRY AND THE CHALLENGES OF THE EUROPEAN INTEGRATION

**Petraru Simina Andreea**

*Str. George Calinescu, nr. 19, bl.11, sc.A, ap.4, Bucuresti, Simina\_petraru@yahoo.com, 0722.383.207, University for Economic Studies – Bucharest, Faculty of Commerce, Candidate for a doctor's degree in economy*

*Summary: Textiles and ready-made clothes are considered to be one of the first products manufactured within a productive economy. They have constantly developed, adapting themselves to the requirements of companies with an ongoing interest in the overall development of mankind. Europe has always played an important part in the changing world of textile industry. The textile industry is one of the most general ones at world level. There are many challenges at European level and that is why effectiveness measures are continuously adopted.*

*The textile industry was one of the main fields that has adopted social dialogue at European level. The Committee for social dialogue in terms of textiles and ready-made clothes of the EU gathers periodically in order to discuss current matters on the political orientation of the EU in this field, launching and monitoring common projects for promoting contractual relationships in benefit of the Union, improving the labor organization, anticipating structural changes and adapting to the contractual frame, that allows the creation of new job opportunities and the access to permanent training. The EU has issued guidelines for labeling textile and ready-made products containing detailed information on the raw materials and the processing; this comes in addition to its concern towards the consumer needs, his social values and the protection of the environment.*

*Romania, being a member of the EU, and holding one of the most dynamic and competitive textile industry and ready-made products, is confronted with challenges in order to face the new competitors like China, Turkey, Bangladesh.*

*The new strategies for the Romanian textile fields should consider the improvement of the products' competitiveness, within the market economy, with minimal material and social costs and highest efficiency, at the same time with strengthening the position on current markets and conquering new markets.*

**Key words:** *textile industry, European integration, social values, competitiveness, commercial trade.*

## **The Textile Industry and the Challenges of the European Integration**

The European integration has defined new challenges for the Romanian economy in the field of textile and ready-made products industry.

The textiles and ready-made products are considered among the first products manufactured in a productive economy.

The textiles and ready-made products' industry is one of the oldest industries in the world and has known a continuous improvement due to its quick adaptation to the needs of a company interested in the overall development of mankind.

Europe has always played a major role in the changing world of textile industry. During the 20<sup>th</sup> century the textile industry has been the main producing field, with an extraordinary dynamic. In the last two decades, though, this industry has been subject to a period of stress due to some restrictions imposed by developed countries in order to protect their own manufacturing industry. The competition has developed on a yearly basis, each producer being in search of ways to decrease the production costs and therefore to target less developed countries, where the labor force is extremely cheap.

Once the Multifiber Agreement has become not valid, on the 1<sup>st</sup> of January 2005, a new era of liberalization of the textile and ready-made products' world commerce has started; this is the final point of the quota system that had begun a decade ago, during the *Uruguay Round*.

The new conditions of an overall, multipolar economy and of the growing industrial power of China, India and Pakistan have lead to a sensitive period of European textile and ready-made products' industry. In EU,

the textile industry employs approximately three million people in around 250.000 producing enterprises; this industry is ruled by a set of social and environmental policies, management policies, regional and international relations policies. This business field is especially focused on research and innovation, trying to regain the lost market quota and to become the world's market leader. This is why, upon the request of several member states of the EU, the European Committee has launched the implementation of security measures, meant to improve the protection of European producers and, by this, to counter-weight the import of textiles and ready-made products from China.

The textile industry is one of the most wide-spread worldwide and acts like a major source of revenues, by generating lots of job opportunities. Millions of options and decisions of corporations in the entire world have materialized due to the globalization factor into flexible projects leading to a higher capital mobility, goods, direct foreign investments and the intensity of trade exchanges among countries.

The textile industry is dominated by small and medium sized companies, having an approximate average of 50 employees per entity, representing around 60% of the entire labor force in the field of ready-made products, concentrated mainly in major economic and social big regions. In the last years, within the EU, the mass production has been considerably reduced and moved firstly in Central European countries and afterwards to Eastern Europe, in countries like Romania and Bulgaria (before they joined the EU), as well as Mediterranean countries.

Nowadays, the textile industry in the EU goes through an extremely challenging period. The reasons are the termination of quantitative restrictions, of the shares referring to the textiles and ready-made products, as well as the negotiations in progress within *The Doha Development Round* and the reconstruction of the Euro-Mediterranean area. In the last period, the Euro currency has also registered a significant growth as compared to the American dollar, having a strong impact over the production costs.

According to *Eurostat – Statistical Office of the European Commission*, the major vendors of textiles to the EU are: China with 18,1% from the total import figure, followed by Turkey with 15,8%, India with 11,2%, Pakistan with 8% and Switzerland with 5,7%. The major markets for the export of textiles in the EU are Switzerland with 17,4%, U.S.A. with 14,6%, Russia with 9,1%, Romania with 5,2%.

Related to the imports of ready-made products, the main vendors to the EU are: China with 23,1%, Turkey with 15,4%, Romania with 7,7%, Bangladesh with 7,5% and Tunisia with 5,2%.

The textile industry was one of the first fields to adopt social dialogue at European level. Today, *The EU Committee for Social Dialogue on textiles and ready-made products* meets every 4-6 months to discuss current matters, referring to the policy of the EU in this respect, the launch and monitoring of common projects on promoting contractual relations within the Union, modernize the work structure, anticipate structural changes and adjust to the contractual frame, that allows the development of new job opportunities, the access to ongoing training sessions.

The EU – constant to its policy of concern towards the customer, social values and environment protection – has issued mandatory guidelines related to labeling textile and ready-made products, containing as much information as possible on the raw materials and processing method.

The quality, design, creativity and fashion represent significant elements that define the competitive advantage of the EU textile industry. Its commercial policy is aimed at combating fraud, the theft of intellectual property in form of licenses, drafts and templates, technological and production information.

The evolution of competitive factors is associated to innovation, research, quality improvement, encouraging creativity, prepare the member states and those in process of joining to face the impact of the Union extension and the continuous restructuring and modernizing of the textile industry in Europe.

It took only 30 years and 5 expansion rounds for the EU to enlarge from 6 founding member states, having a population of 185 million people, to 27 member states, representing the biggest commercial power of the world, with a total population of about 500 million people.

Romania, who has become a member of the EU in 2007, has been a major supplier for the contractors in Western Europe even before that year. Romania has not only been a temporary supplier, as it has been considered at the beginning of the 90's. The investments, the technology, the ability to react quickly to market needs, the gained or imported know-how and, not as last, the cultural compatibility has put us in the position of first European exporter in the EU.

The field of ready-made clothes is very dynamic and competitive, with a weight of 2,2% of the Romanian GDP, 6,7% in the industrial production, 20,9% of Romania's export and 2,4% of Romania's import. This is



also important on an international level, due to the place held by Romanian products on the world market and mainly on EU markets, a place providing the first rank among Central and Eastern European countries.

The Romanian ready-made clothes industry faces the following challenges and options:

- EU enlargement to 27 member states;
- Romania's joining the EU and its implications;
- the complete liberalization of world textile commerce starting with 01.01.2005;
- determination of a free trade area in the PAN-EURO-MEDITERRANEAN frame;
- negotiations within the DOHA round regarding the restrictions imposed to the import custom taxes;
- the effects of globalization.

It is necessary to mention that the development strategy of the clothing industry had already been shaped and it ensures the growth of competitiveness and the development of Romanian confection industry. Within the world crisis in the field of textiles, the diminishing of the RON/EUR and RON/USD relation seriously damages the Romanian exports.

In the field of Romanian textile industry there is a trend to increase the investment by the significant implication of the national capital and by attracting external resources mainly as direct investments. It is very important to create a favourable environment for Small and Medium Sized Enterprises to have small investment expenses and to use cheap local resources. Therefore, it is crucial to implement national programs, even supported by external sources, in order to sustain the exports and regional development programs. The existence of an important fund of fixed assets allows the lowering of the investment effort necessary for realizing new production capacities. Modernization and retechnologization can make existent production capacities performant, which leads to creating competitive products on the international market. The three big markets for Romanian exports need to be considered: EU, U.S. and the former Soviet countries, by taking advantage of the geographical closeness to them.

The merger with the EU has led to a growing volume of trade exchanges on the European market, and Romanian producers were forced to improve their design of clothing and to produce small volumes depending on market segments. It is important to support the growing manufacturing of environmental friendly products and of those under own brand, as well as the development of internal *lohn* policy, allowing the increase of orders for some companies and, therefore, the increase of using the production capacities and of economical effectiveness. The chemical industry is somewhat developed being able to provide a major part of the raw materials for the textile industry; this is crucial for staying competitive on the EU market, as well as on the world market.

The short and medium term perspectives of Romanian textile industry are influenced by the following factors, some already mentioned: the growing competition on the internal and international market, the liberalization of world's textile trade, joining the EU, the lowering of import custom fees, determining a free Pan-European-Mediterranean trade area that shall also include Romania and Bulgaria next to the 12 member states, China and Russia entering the World Trade Organization (WTO), the adopting of the EU custom code. The evolution of the fuel price shall have a major impact on the price of electricity and on production costs. Environment protection shall increase and each country shall have to adopt such measures. A new trend is to use recycleble materials.

The following has been outlined by a study on competitiveness in the field of textiles of the new EU member states, Romania and Bulgaria (the study has been presented by the representatives of the CAST in Milan):

- the new strategies for textile branches have to consider privatization, the restructuring of European partners, the new challenges: competition from China, Turkey, Bangladesh, Romania's joining the EU with its limitations, constraints and new opportunities; it is necessary for local companies to cooperate, including the cooperation with European countries; this is an opportunity but it is not enough;
- the new strategies imply a full change in the mentality of Romanian companies, passing from good producers to good managers. This is the biggest problem of Romanian economy.
- the new strategies in the field of textiles should consider cost reduction, increase of productivity and an overall promotion of the products and services with the purpose of

keeping the competitiveness of Romanian companies at high standards, in order to face new competitors.

A possible answer to these aspects can be found in the development program of Romanian textile industry up to 2010, considering the perspectives of the internal market, as well as the study on the tendencies of world and European economy, issued by the Ministry of Industry and Trade – Department of Industry, in cooperation with the National Research Institute for Textiles, Leather and the HR Development Center.

The main objective of the above mentioned strategy is the increase of the competitiveness of products, within the frame of market economy, with minimal material and social costs and maximum efficiency at the same time with strengthening the current market position, conquering of new markets.

The following economic measures aimed at reaching this objective come to our attention:

- establishing a national program for revitalizing the branches of textile industry, for ensuring raw materials like wool, linen and hemp;
- retechnologization of production flows by acquiring high-level tools, to increase labor productivity and the quality level of products;
- supporting the companies in implementing the European Quality Standards ISO 9001/2000, of the Environment Standard ISO 4001/2000, and the Social Standard 180001;
- moving to exporting home-made goods;
- input computer systems in order to increase design operations, tailoring and end product realizing;
- creating own collections according to world tendencies;
- timely informing the producers on the non-reimbursing financing programs and criteria, provided by international institutions;
- supporting the SMEs to take part in several international events specific to the industrial field, like faires, exhibitions a.s.o.;
- involving various institutions and professional associations in industrial cooperation activities;
- issuing investor friendly regulations;
- not taxing the reinvested profit in modernizing the manufacturing flows;
- establishing technological innovation centres next to specialty institutes and faculties.

The effects of implementing these measures and other ones may contribute to the growth of competitiveness level, by increasing the contribution of the textile industry to ensuring the foreign currency resources necessary for the development of other branches of national economy, as well as the increase of textile industry to the GBP. Specialists show that an average annual growth of 6% of the production needs an increase in the field of the sales volume, both on the internal and on the external markets. The increase of the internal market volume can be done under the conditions of the increase of living and the use of products that are specific to the industry.

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# THE EUROPEAN PARLIAMENT'S ROLE IN THE COMMUNITY INSTITUTIONAL SYSTEM

**Petria Licuța**

*"Constantin Brâncoveanu" University – Pitești, Faculty of Management Marketing in Economic Affairs - Rm. Vâlcea, Nicolae Bălcescu Street, No. 39, Râmnicu Vâlcea, Vâlcea, e-mail: licutapetria@yahoo.com, tel.0751125689*

**Cebuc Maria - Iuliana**

*"Constantin Brâncoveanu" University – Pitești, Faculty of Management Marketing in Economic Affairs – Rm. Vâlcea, Nicolae Bălcescu Street, No. 39, Râmnicu Vâlcea, Vâlcea, e-mail: iuliacebuc@yahoo.com, tel.0729080711*

**Neagu Emilian**

*"Constantin Brâncoveanu" University – Pitești, Faculty of Management Marketing in Economic Affairs, Nicolae Bălcescu Street, No. 39, Râmnicu Vâlcea, Vâlcea, e-mail: neaguemilian@yahoo.com, tel. 0721784146*

*The European Parliament was founded by the Treaty of Rome (1957) to represent the “peoples of the states gathered in the European Union”. The Parliament was originally organized as a deliberative, consulting assembly and made up of members of national parliaments, being the only community institution today, directly elected by the member states’ citizens. The subsequent community legislation especially the Treaties of Maastricht and Amsterdam have significantly changed the Parliament’s role and it has become a body with political functions and legislative, budgetary and control powers.*

*Keywords: the enhancement of the European Parliament’s role, consulting, co-legislature.*

Due to the obvious need for common policies and regulations within those, at the time of the fundamental treaties’ ratification, national parliaments gave legislative power to the European Union in a small but important number of fields. The competences were originally granted to the Council made up of ministers from national governments who acted at the Commission’s propositions, representing a collaborative leadership by turns set up by national governments, yet having to act to the interest of the entire European Community.

The European Parliament was founded by the Treaty of Rome (1957) to represent the “peoples of the states gathered in the European Union”. Originally, the European Parliament was more like a forum which had been made up by national parliaments’ delegates until 1979, appointed by the former. Its role was pretty insignificant, that is, it was consulted only relating to few legislative propositions before their adoption by the Council and had the right to dissolve the Commission by censorship voting with a majority of two thirds.

Those competences seemed too restrictive especially for those summoned to work in the European Parliament and who claimed the system suffered from a “democratic deficit” since it only allowed ministers to adopt the legislation.

During five decades, the Parliament has passed from the status of consulting gathering to that of genuine co-legislator in the European Union which has considerably evolved beyond the initial European communities both regarding its activity scope and competences. The Parliament and the Council currently make up the European Union’s twofold chamber legislator.

The change has occurred gradually by the member states’ agreement with new treaties that supplement or modify the initial ones and have considerably increased the European Parliament’s role in the community structure.

Thus, by the budgetary treaties of 1970 and 1975, the Council and the Parliament represent the “budgetary authority”, together setting annual budgets within the fixed revenue limit. Although budget approval procedures are complicated, they allow the parliament both to change it and have a final vote for its

adoption or rejection. In 1975, a conciliation procedure among institutions was agreed upon regarding budgetary legislation in order to avoid potential conflicts between the Council's legislative powers and the Parliament's budgetary powers. The procedure stipulated that, if the Council did not meet the Parliament's agreement, the issue should be presented to a conciliation committee made up of the Council members and an equal number of Parliament members. However, the respective legislation's adoption still rested for the Council to be responsible for.

In 1979, the Parliament was elected by universal, direct and secret voting for the first time. That was meant to provide enhanced democratic legitimacy and generate several political debates upon European issues, but it also created full-time jobs for the Parliament members (the appointed Parliament had 198 members, and the first Parliament elected by universal voting had 410 members).

In 1980, the Isoglucose sentence of the Court of Justice (lawsuits 138 and 139/79) shocked the legislation, as the Council had adopted it before the Parliament's approval. That judgement provided the Parliament with the *de facto* grace power it could use to negotiate potential changes. The Parliament's negotiating power was obviously stronger when a rapid decision was necessary, and that helped the Council get used to the need to ask for the Parliament's opinion.

The Single European Act came into force in 1987 and introduced two new procedures to adopt community acts. Those devices enhance the Parliament's role in the Community's decisional process, yet it is limited to formulating opinions and suggesting amendments. The cooperation procedure, initially applied only to ten articles in the treaty, adds a new version to the traditional consulting procedure as it claimed that the Council's proposition should be once again submitted for approval by the Parliament within ten months, otherwise the latter could reject it (when the proposition would be out of question only if the Council does not unanimously reject the Parliament's proposition) or asked for changes (which, once supported by the Commission, can be unanimously rejected by the Council, while the reviewed text can be approved by voting with a qualified majority. The procedure of corresponding *notice* gives the Parliament equal rights to those of the Council, that is, it needs the Parliament's approval for ratifying accession treaties and association agreements.

The Treaty of Maastricht, that came into force on 1 November 1993, contributed in increasing the parliament's competences. The co-decision procedure was introduced based on the cooperation procedure, with two important additional provisions: firstly, the inclusion of an official conciliation committee which was in charge of negotiating compromises between the Council and Parliament; secondly, the Parliament's option to reject the Council's decision after conciliation, thus causing the collapse of the respective legislation. That procedure was applied almost to the entire legislation that the Single European Act had presented to the cooperation procedure along with a few new fields:

- the cooperation procedure extended almost to all the other fields the Council works in, by qualified majority;
- the procedure of corresponding notice also extended, covering a wider range of international agreements and other fields;
- the Parliament was given the right to vote certain position appointments such as the position of Commission President and President of the European Monetary Institute/Central Bank, a consulting vote from the official point of view, yet very important politically. Its vote in order to allow or not to allow the Commission to exert its mandate by trust voting was legally binding, and its initial mandate was changed in order to coincide with the one of five years held by the Parliament. Additionally, the parliament had the duty to elect an *Ombudsman* whose five-year mandate coincides with the Parliament's;
- they also enhanced various competences in elections' monitoring, especially by a Treaty provision for the parliament investigation committees.

The Treaty of Amsterdam came into force on 1 May 1999 and considerably enlarged co-decision scope, so that most of the legislation meant for non-agricultural fields was subject to the procedure. It also modified the procedure to the Parliament's favour. At the same time, the Treaty rendered legal binding to the Parliament's voting of the Commission's president position. If the Commission's president appointed by the European Council does not manage to achieve most support within the Parliament, he cannot exert his mandate. The procedure of corresponding notice is removed from ordinary legislation, and the cooperation procedure is to be kept within UEM. Regarding its structure, it was stipulated that the number of deputies

is going to exceed 700 and, if the number changes, it is necessary they should ensure proper representation of the member states' peoples. The Treaty of Nise came into force on 1 February 2003 and continued to extend co-decision scope. It reasserts the Parliament as co-legislator as it can take action for cancellation against other institutions' acts without being restricted by a particular interest. The co-decision scope is also enlarged and its according notice is necessary to set up enhanced cooperation.

The Treaty provides an increased number of European parliament members reaching 732 (although inadequate for the Parliament, especially because it exceeds the limit of 700 which is considered the maximum functional number) starting with the elections in June 2004, and the distribution of Parliament seats is done from the perspective of the Union's enlargement to 27 member states. Although the number of seats granted to the member states is decreased by 91, Germany is still a leader (99 parliament members) and the other states have accepted to have fewer members, thus allowing the access of candidate countries which have 197 seats.

The Reform Treaty of Lisbon was drafted relying on the precise detailed mandate agreed upon by the European Council on 21-23 June 2007, practically resuming the contents of the former Constitutional Treaty whose ratification is due to take place according to the 27 member states' constitutional practices until late 2008, in order to come into force on 1 January 2009.

The treaty brings about a lot of improvements in the Union's institutions and procedures:

- the enhancement of the Parliament's co-legislative function along with the council within the Union – in this case, co-decision would practically apply in all fields, including agriculture and the entire annual budget;
- the growth of the Parliament's power when validating and reviewing the Commission's decisions;
- the enhancement of the Parliament's role when electing the Commission's President after every parliamentary election at European level.

As a result of changes, at present there is the so-called "two-chamber legislative power" within the European Union where the Council represents the member states, and the Parliament stands for the citizens. Drafting the common policy does not devolve only upon governments, but also upon the Parliament elected by direct voting. The above issues clearly emphasize how different the European Union is from a traditional intergovernmental organization. It is enough to imagine what the European Union would be like without its Parliament: a system dominated by bureaucrats and diplomats, superficially monitored by ministers who periodically fly to Brussels. The existence of a body having permanent representatives for decision making at Brussels that ask questions, knock on doors and have ongoing dialogues with home electors, renders the European Union's system more open, more transparent and more democratic than it might be in other circumstances. The European Parliament's members are elected from the parties in power and in the opposing ones, and they represent not only capital cities, but also other regions.

The Parliament also diminishes national conflicts, especially due to its being organized in political groups and not national delegations, demonstrating that the delimitation of concrete issues is not among nations, but the various political opinions or sectorial interests.

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# EUROPEAN NEIGHBORHOOD POLICY: ROMANIA'S CONTRIBUTION TO THE EU'S NEW SHAPE

Ploae Cătălin

*“OVIDIUS” University of Constanta - Faculty of Economic Sciences, Tel - 004-0723740854, catalin\_ploae@yahoo.com*

*On 1st of January 2007 the EU welcomed two new Member States and 30 million people, when Bulgaria and Romania joined the European Union. This completed the EU's historic fifth round of enlargement peacefully reuniting Western and Eastern Europe after decades of division. The challenge was not to close gates but to meet new frontiers. We need a positive but practical vision for a better Europe. What are, then, the new frontiers of Europe?*

*European borders are characterized by alternating hard and soft forms on one axis and open and closed forms on another. Europe's internal national borders are not merely modified by the growing significance of a European external frontier, but both internal and external borders are influenced by the wider global context. Enlargement policy has allowed the EU to expand its frontiers both economically and politically. The first and foremost frontier, and the most urgent challenge for Europe, is to rebuild confidence in the European economy. The internal market has liberalised European economies and created the biggest economic area in the world, reaching 500 million consumers once Bulgaria and Romania have joined the European family.*

*Keywords: frontiers, neighbourhood, cross-border intercultural dialogue and co-operation*

## Introduction

It was one year ago that Romania and Bulgaria joined the European Union that now embraces 27 members. Despite all the heterogeneity between the individual regions and countries there is nevertheless the joint search for the *one* European identity. Which is why we find this question of particular interest: *Where are Europe's frontiers?* In this respect, an entire continent is searching for itself, trying to get to the bottom of what and who belongs there. Thinking European means overcoming conventional frontiers.

We need a positive but practical vision for a better Europe. What are, then, the new frontiers of Europe? The *first* and foremost frontier, and the most urgent challenge for Europe, is to rebuild confidence in the European economy by improving competitiveness and innovative capacity to enhance job creation and to raise employment rates. The internal market has liberalised European economies and created the biggest economic area in the world, reaching 500 million consumers once Bulgaria and Romania have joined the European family in January 2007. Last enlargement round has been an economic success. It has boosted growth and created new jobs in the European economy. The *second* frontier is the political revival of Europe. We need both an economic Europe and a political Europe. We need economic reforms to enhance competitiveness, and political reforms to make the Union more effective and democratic. The *third* frontier is to extend the European zone of peace, liberty and prosperity by better projecting the EU's soft power, especially through a gradual, rigorous and carefully managed accession process. Therefore, we need to build a new consensus on enlargement, which recognizes the strategic added value of enlargement while ensuring the Union's capacity to function. The challenge for the EU is to improve the functioning capacity of the current EU now, not only the more abstract absorption capacity in distant future. That's why the EU needs to work for the economic and political revival, and not make enlargement the scapegoat for domestic failures.<sup>192</sup>

## What borders for the Union?

The Wider Europe concept was designed to deal with the consequences of the 2004 enlargement of the Union from 15 to 25 Member States. Given the number of potential accession countries, it was inevitable

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<sup>192</sup> Olli Rehn, Member of the European Commission, responsible for Enlargement, *Europe's Next Frontiers*, Lecture at the Finnish Institute of International Affairs, Helsinki, 27 October 2006

that fundamental questions would be asked about the nature of the Union and its limits. Indeed, the issue of the EU's future enlargement became a theme in the two failed referenda on the Constitutional Treaty in France and the Netherlands in 2005.

*Where the final borders of the Union should be drawn?* It is impossible at this time to give a definitive answer to this question, which is posed increasingly by EU politicians and bewildered citizens.

To the north, the situation is clear. The only countries remaining outside the EU are Norway and Iceland. Both would have little difficulty fitting into the Union, given their membership of the European Economic Area (EEA). To the west, Ireland and Portugal are the Border States facing the Atlantic. To the south, the position is equally clear: Morocco once applied for membership but was politely told it was not European, so north African states are thus slated to be good neighbours but can never join the family.

The problems for the EU begin in the east and south-east. The countries of the Balkans were given an undertaking at Thessaloniki in 2003 that they were all eligible for membership when they met the Copenhagen criteria. But no one can state with any certainty when this might occur, as it largely depends on progress in each country. Turning to the east, the EU has to deal with the rump of a superpower (Russia), a newly-independent state as big as France but unsure of its identity (Ukraine), and five countries all with significant problems (Armenia, Azerbaijan, Belarus, Georgia and Moldova).

Given the close historical, cultural, economic and human ties and numerous shared challenges, the EU's Mediterranean neighbours were among the first to establish special economic and trading relations with the Union. The Barcelona Process and the Euro-Mediterranean Partnership aimed at increasing political dialogue, stepping up economic and trade relations (creation of a Euro-Mediterranean free trade area by 2010) and partnership in social, cultural and similar fields. The European Commission's 'Wider Europe' communication of 11 March 2003 had proposed a 'ring of friends' with the prospect of close economic integration with the EU, potentially extending to the four freedoms of the Internal Market.

In its 'European Neighbourhood Strategy', developed by the Commission in May 2004, the EU offers its neighbours a privileged political and economic relationship, building upon a mutual commitment to common values (democracy and human rights, rule of law, good governance, market economy principles and sustainable development). Title VIII ("The Union and its immediate environment") of the future Treaty establishing a constitution for Europe foresees a special relationship with neighbouring States and specific agreements with them. These agreements may contain reciprocal rights and obligations as well as the possibility of undertaking activities jointly. This new type of agreement would complement other types of agreements concluded by the Union, such as association agreements

When it was launched in 2004, the European Neighbourhood Policy (ENP) was seen as covering the enlarged EU's immediate neighbours, but not countries with an accession perspective (Bulgaria, Romania, Turkey and the Western Balkans). The ENP covers Algeria, Armenia, Azerbaijan, Belarus, Egypt, Georgia, Israel, Jordan, Lebanon, Libya, Moldova, Morocco, the Palestinian Authority, Tunisia, Ukraine and Syria. As Commissioner Ferrero-Waldner explained: "The aim of the ENP is to avoid new dividing lines on the continent and deepen relations between the EU and its neighbours. The ENP is not about enlargement, but it is about mutual interest in supporting reforms and modernization. Each country has its own agreed action plan that reflects its needs and priorities".<sup>193</sup>

In the policy towards Europe's neighbours a thorny issue is how to deal with countries, such as Belarus, that do not comply with the Copenhagen criteria and with the principles of democracy and respect for human rights. They do not cease for that to be neighbours and to have common interests with the EU. After all the Helsinki process, part of a neighbouring policy whose ultimate consequences cannot be considered to have been unfavorable for the West, nor for the advance of democracy, applied to regimes that were no any better or more democratic than, say, the present one in Belarus. We may also consider that here we could have a vicious circle: an authoritarian regime, and the absence of the rule of law, the lack of respect for human rights, might be factors acting against economic performance and the openness of a country, but economic progress and increased openness can be factors mitigating the political system, bringing about its evolution in a suitable direction. An appraisal of the likely consequences of different attitudes and policies of the EU on the internal evolution of its neighbours could be of relevance here, even if this could be only very tentative, and one should be ware of unintended consequences. As far as the CIS neighbours are concerned, not only are they eligible in principle to membership because of their European nature, but they

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193 Speech to EPC on 3 February 2006



are different in some important aspects from most of our Mediterranean neighbours. Whatever their difficult present circumstances, there is a discrepancy in the neighbouring CIS countries between their economic and political conditions, and their educational attainments and human capital accumulation. One could well expect (or hope for) somehow the gap to close in the future and those countries to endow themselves with political institutions and economic structures better fitted to their level of overall cultural tradition and educational accomplishments. The above may be part of the explanation of the different attitudes by the EU towards human rights and the Copenhagen criteria in the Eastern and Southern neighbouring countries.

The ENP is based on the concept of shared values and common interests. The shared values are those which ensure our prosperity, stability and security i.e. democratic reforms (fundamental rights, rule of law), market economy and sustainable development (including reforms in sectors such as trade, competition, energy and transport, environment, people-to-people contacts etc). These reforms will enable us to develop joint responses to the common challenges we face in the twenty-first century e.g. prosperity gaps, migration, crime, environmental issues, public health, extremism and terrorism. Furthermore, the ENP offers progressive integration into the EU's internal market and deepened political cooperation.<sup>194</sup> EU needs its neighbours' cooperation to tackle problems of illegal migration, terrorism and cross-border crime, as much as they need access, as much as possible, to EU programmes. EU has to offer more than proposed, because otherwise it may find itself facing a ring of states in distress rather than a ring of friends.

### **The challenges of the European Neighbourhood Policy in the East**

The new member states have increased the attention and activity of the EU with regard to the Eastern neighbourhood but their ability to actively shape a common EU policy has been rather limited. Nonetheless, enlargement as such has considerably altered the geopolitical map and self-perception of the EU and required new engagement in the East. Also the neighbours in the East have changed over the past years, with some countries (Ukraine, Georgia and Moldova) making renewed efforts to adopt European norms and values, and others (Belarus and Russia) moving in the opposite direction. The EU has become more committed than ever before to supporting transition in the reform-minded neighbouring countries. It has become aware of and active towards the authoritarian regime in Belarus, and adopted a more critical approach towards Russia. These changes have resulted from a variety of factors, including active contribution of the new member states, the dynamics in Eastern Europe, the impact of enlargement on the foreign policy identity and geopolitics of the EU, and the gradual strengthening of EU foreign and security policy.

The activeness of the new member states has often not been based on a sound strategy and vision that could mobilize support in the EU. It should be noted that the new members are not so new any more. It is time for them to develop a broader, more strategic approach to and stronger ownership of common EU policies. Within Eastern Europe one needs to develop a strategy for the whole region and not be preoccupied with one's own closest neighbours. This is not to argue against a certain division of labour; a broad strategy and narrowly focused practical work have to be complementary and support each other.

The new members themselves have to be committed to common EU policy in order to be able to shape it. Due to their specific expertise and strong interest in the Eastern neighbourhood, they can take an indispensable role in developing the existing EU instruments, the ENP, so as to promote security and democracy in Eastern Europe. Although the ENP as such has been a disappointment to the new member states, this is the instrument we currently have to work with. By being more constructive, the new members could better advance their interests in the neighbourhood. Furthermore, the new member states need to enhance their efforts to engage the old member states. Germany, the UK and the Nordic countries are the most important partners that have often been supportive of the new member states' views on Eastern neighbours. It is not enough, however, to involve similar-minded countries, but a dialogue with all member states is needed. The above-mentioned broader perspective of new member states would help them to change their reputation within the EU as countries that are interested only in their direct neighbourhood. A broader interest in other EU external relations would make the new members more valuable and reliable partners not only for the Scandinavian countries and Germany, but to some extent also for France, Spain or Italy which are more engaged in the Mediterranean neighbourhood of the EU. Closer co-operation with old

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194 COM(2004) 373, European Neighbourhood Policy Strategy Paper, Brussels, 12 May 2004. [http://europa.eu.int/comm/world/enp/pdf/strategy/strategy\\_paper\\_en.pdf](http://europa.eu.int/comm/world/enp/pdf/strategy/strategy_paper_en.pdf)

member states would also help in overcoming the distinction between old and new member states, which should become less and less visible in the coming years.

The EU's increasing engagement in the Eastern neighbourhood has far-reaching implications for the future of Europe. Even though some member states are resolutely against further enlargement and would not mind leaving the new Eastern neighbours in the Russian sphere of influence, no one in the EU can object to enhance support for political and economic reforms in the neighbourhood. The more effectively the Union promotes the Europeanization of its neighbours and extends its system of governance to the neighbourhood, the harder it becomes to avoid the question of offering them the prospect of membership. In other words, if the neighbours are successful in implementing reforms, the question of their membership or at least closer association will have to be seriously addressed and answered by the EU.

The new member states in themselves are a strong case for their argument: the EU has to remain open to all European countries that share its values, and enlargement is the most effective means for the Union to promote stability and wellbeing on the continent. It is worth reminding that, according to the current treaties, the EU has no right to deny full membership to democratic European countries. The EU's policy towards the Eastern neighbours will test the Union's continued commitment to its underlying goals and principles, above all the promotion of democracy and security through integration.

The EU shall particularly acknowledge how far it is willing to go, especially if it comes to concrete membership aspirations of ENP-partners. An all too altruistic-looking policy seems unrealistic and therefore not trustworthy. Regardless of how tempting it might appear to the EU, promising or even just implying more than it wants to deliver might prove counterproductive in the end. This is evidently a difficult task, especially as under the conditions of asymmetry partners tend to feel deprived when it comes to the allocation of benefits from co-operation. A substantial increase in these benefits for partners could be generated by strengthening inter-neighbour co-operation and increasing consistency in the EU's foreign policy.

The ENP sets ambitious objectives for partnership with neighbouring countries based on commitments to shared values and political, economic and institutional reforms. Partner countries are invited to enter into closer political, economic and cultural relations with the EU, to enhance cross border co-operation and to share responsibility in conflict prevention and resolution. The Union offers the prospect of a stake in its Internal Market and of further economic integration. The speed and intensity of this process will depend on the will and capability of each partner country to engage in this broad agenda. The policy builds upon the existing framework of co-operation.

The EU's attempt to devise a joint and thus more coherent approach towards its immediate neighbourhood can be seen as a welcome step. However, the concept is not entirely without problems. As it stands now, the ENP raises at least four broad questions concerning its viability:

1. How genuine is the "European choice" as far as the eastern neighbours are concerned? As long as this basic choice is faltering, the EU's attempts to apply conditionality along the lines envisaged by the ENP are, and will remain, highly problematic.
2. Will the new eastern neighbours really be a high priority for the EU? In order to furnish the current rhetoric with real substance, this should be the case. Ukraine, Belarus and Moldova are economically unimportant for the Union, which undermines the potential for positive prioritization. Negative prioritization, that focuses on social security challenges emanating both here and in the third countries, is also arguable at least, if seen in comparative terms (vis-à-vis the Balkans and Northern Africa). Besides, negative prioritization often brings into practice policies of containment, like strict visa regimes, and not instruments of in-depth interaction. It is quite probable that the lobby of eastern-neighbour advocates within the Union will remain weak. What is more, the EU side will be irritated by the need to manage the practical consequences of the present round of enlargement, such as the introduction of visas and the accommodation of new neighbours' demands for compensation for the negative effects of enlargement, which could increase the already discernable feeling of "East-fatigue" in the EU.
3. Regarding Romano Prodi's offer that the EU would be sharing "everything but institutions" with its neighbours sounds generous at first, but the "four freedoms" –even if easily realized, which they are not – are a rather abstract goal compared to full accession. Is the new policy just the old cake with some new topping?

4. And finally, can the EU itself make the blurring of internal and external divisions work? The previous experience gathered during the Northern Dimension has shown that the blurring of clear inside/outside divisions in the EU is a source of problems for the Union itself. The member states are jealous of their sovereign prerogatives and the Brussels bureaucracy does not want outsiders meddling with the internal EU policies. Nor has the sectorally organized Commission – at least so far – been willing to experiment with horizontal cooperation to the extent that would be required if the policy was made to work. It is also debatable whether blurring the lines will satisfy the new neighbours either.

## **Romania - EU's New Eastern border**

The main question arising is how and in what extent the Romanian membership could influence the development of EU. Although, owing to its limited economic size, Romania's economic impact on the EU is rather marginal, from political and strategic stand point Romania represents an important member, a significant geographical link between EU and West Balkans, Republic of Moldova, Ukraine or the Black Sea.

One of the obvious enlargement's opportunity derives from the chance Romania has to integrate in a community built on shared values such as democracy, respect of human rights, solidarity and cohesion, equal opportunities and fight against all forms of discrimination, universal access to education and healthcare, quality of life and quality in work, sustainable development and involvement of civil society, all of these representing a choice in favour of a social market economy. At the same time, the challenges might come from the speed in the process of economic reform, adopting and implementing EU legislation, strengthening institutional capacity, etc, all in all in increasing the speed of the catching-up process.

As an EU bordering country, Romania will have both the opportunity and responsibility of developing strengthened cross-border cooperation relations with Moldova and Ukraine, in order to fulfill the priorities set through the action plans. Considering the fact that the ENP strategy provides a new context for the methodology implemented in the EU enlargement process towards Central and Eastern Europe, the two EU neighbouring countries will use in implementing the action plan and integrating in the European policies and programs not only Romania's quality as a EU member, but also the experience acquired by meeting the accession criteria and achieving the transformative processes towards Europeanization. In this respect, some key strategy elements of the relations between Romania as EU member state, on the one hand, and Moldova and Ukraine as ENP countries, on the other hand, could be mentioned:

1. creation of certain structures and mechanisms for communication, information, advice and institutional dialogue, both at the central level and at the level of the local and regional communities;
2. managing the bilateral and multilateral cooperation relations within the different regional structures to which the three countries belong towards the priorities included in the action plans; taking into account the cooperation potential and the involvement requirements as a border country, as well as the experience gathered during the pre-accession process to the European Union, Romania could have an essential contribution to:
  - *Institutionalize a sustainable democracy system*, by strengthening democracy and the rule of law, observing the human rights and the fundamental liberties (especially press and expression freedom), the administrative and justice reform;
  - *Develop the civil society and integrate the neighbour countries within the education and research European area*; support the Bologna Process implementation and the accession of the two countries to the European programs related to culture, education, professional training where young people could play an important part;
  - *Implement the economic and administrative reforms, improve the export potential, implement the European legislation related to tariff union and standards; prepare to participate in the internal market and adopt the community acquis necessary to ensure freedom of circulation and administrative cooperation*; Romania will be able to use in this respect both the possibilities to correlate the internal community policy instruments which are complementary to the ENP and the expertise acquired during the pre-accession period;

- *Strengthen the cooperation and political dialogue in the field of foreign and security policy, as well as justice and internal affairs*, especially to implement the European Security Strategy, prevent terrorism, organized crime, drug traffic and slave trade, migration control and frontier management;
3. The commercial and economic integration, according to the functionalist method implementation (considering the below analysis);
  4. Promotion of „people-to-people” contacts, especially through cooperation in the field of education, international mobility, culture and audio-visual;
  5. strengthening the cross-border and trans-national regional cooperation, with structural objectives: promote the sustainable economic and social development, improve the business environment, promote the public-private partnership, minimize discrepancies, develop the transport infrastructures, telecommunications, environment, energy, research-development, develop the informational society, information, communication, transfer of competences.
  6. Strengthening the Euro-region role. Unfortunately, even though the cross-border cooperation programs taking place within the Euro-regions already created among the three countries were in great number, their impact is still reduced. The most important factors that limit the Euro-regions efficacy are: the lack of an integrated approach of euro-regions, as an instrument of the three countries foreign policies and of their strategies of sustainable development; the lack of action plans with clearly defined objectives, axes and priorities; the relatively low economic potential of the involved regions; the lack of experience and relatively low competence of the local and regional administrative structures; the strong emphasis laid on the information and consultancy programmes, to the disadvantage of the development programmes; limited financial resources. Despite all these, the Euro-regions have promoted good neighbourhood relations and have favored the experience gathering concerning the cross-border cooperation, and this experience can be an important support in implementing the ENP, as a consequence of the potential they have especially in: information, exchange of experience and good practice; improve institutional cooperation; economic integration of the cross-border regions; development of rural contacts and solidarity. It is also a positive development that from 2007, the ENP will have a subsequent instrument, European Neighbourhood and Partnership Instrument (ENPI), with its specific feature - the cross-border cooperation component. Romania is very much interested in the ENPI projects, being Managing Authorities for two such programmes, ENPI CBC Joint Operational Programme Romania – Ukraine - Moldova and the ENPI CBC Joint Operational Programme in the Black Sea basin. At the same time, we believe that the ENP should facilitate/stimulate the development of the border areas of the EU – that have a crucial role in boosting the territorial cooperation.

In order that the bordering countries valorize the most efficiently possible the ENP context in relation to the neighbouring countries, it would be necessary to draw a strategy which implements the neighbourhood policy oriented on the ENP fields and objectives of the action plans, considering the complementary internal policies and the European Security Strategy. If it were based on the functionalism method, the ENP implementation could contribute efficiently to a high level of integration of the neighbouring countries in the European; functionalism would provide not only the advantage of flexibility by integrating only the interest fields for the involved actors, without significant constraints, but also the advantage of integration progressivity by creating the necessary generating and convergence mechanisms in a possible perspective of the countries accession to the European Union.

### **Wider Europe: accepting the challenge**

The need to make the division between the enlarged Europe and its Member States more permeable and reduce the socio-economic disparities in the border regions, enriches cooperation initiatives by an additional meaning. Through the various cross-border cooperation programmes, the national level is loosing its role as sole actor in external relations. At the same time regions, communities, and municipalities are strengthening their positions in the European integration process. Especially in the new, enlarged Europe, citizens must be given the opportunity to experience directly and personally what

European citizenship means in practice. Cross-border cultural experiences and cooperation boost Europe's cultural diversity and its shared values. Despite this, cultural cooperation remains undervalued in the EU.

Cooperation on a regional level not only contributes to a decentralized integration process, but also insures that this process take place at a governance level closer to the citizens of the enlarged Europe. This would not only ensure enhanced democratic legitimacy but also more ownership and efficiency in cross border cooperation projects. The EU will have to work with the new neighbours to stabilize borders region economies, to induce prosperity and reduce poverty that is often the root cause of social upheaval, mass illegal migration, smuggling, and crime. In order to avoid structural inequalities and the unbalanced development they entail, particular emphasis has to be put on human capital formation: the commitment of the EU set out in the Lisbon strategy to become the world's most dynamic and competitive economy in 2010, capable of sustaining growth as a result of more and better jobs and enhanced social cohesion, should not stop at the borders of the European Union. Therefore, once the enlargement process is successfully completed, the EU is duty-bound to contribute to the economic and social development of the neighbouring countries, not only at European level, but also by redefining the role it should play within the world order and reflecting the on-going processes of globalization. The EU also bears a crucial responsibility in promoting political and democratic stability, security, sustainable development and social cohesion among our neighbours, thereby creating a friendly neighbourhood based on real cooperation at all levels and across all sectors.

The achievement of a "ring of friends" around the European Union will have a beneficial effect on the political stability and economic development of both the Member States and the neighbouring countries. However, a narrow focus on extending the internal market or security aspects will not by itself ensure full cooperation between countries. The European Union must also commit itself to promoting cultural cooperation, sustainable development and economic, social and territorial cohesion by fostering intercultural dialogue is a basic ingredient of the new neighbourhood policy, and that it should be reinforced through a series of measures demonstrating the diversity encountered across Europe, focusing on respect for human rights and the fight against discrimination, racism and xenophobia. Frequently this intercultural dialogue can and should be based on policies favoring ethnic or linguistic minorities living on both sides of the borders.

There is clear and growing recognition in Europe of the need for deeper and more structured intercultural dialogue involving public authorities and civil society at all levels. This implies the shift from "multi-cultural" to "inter-cultural" societies. To underline this priority, the European Commission has endorsed Commissioner Ján Figel's proposal to make 2008 the European Year of Intercultural Dialogue.<sup>195</sup> When presenting this proposal, Ján Figel, European Commissioner with responsibility for Education, Training, Culture and Multilingualism, stated: "Over the past few years, Europe has seen major changes resulting from successive enlargements of the Union, greater mobility in the Single Market, and increased travel to and trade with the rest of the world. This has resulted in interaction between Europeans and the different cultures, languages, ethnic groups and religions on the continent and elsewhere. Dialogue between cultures would therefore appear to be an essential tool in forging closer links both between European peoples themselves and between their respective cultures." Generally speaking, the European Year is expected to: promote intercultural dialogue as an instrument to assist European citizens, and all those living in the European Union, in acquiring the knowledge and aptitudes to enable them to deal with a more open and more complex environment and to raise the awareness of European citizens, and all those living in the European Union, of the importance of developing active European citizenship which is open to the world, respectful of cultural diversity and based on common values.

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<sup>195</sup> "The Commission adopted on 5 October 2005 a proposal for a Decision of the European Parliament and of the Council to declare 2008 "European Year of Intercultural Dialogue".

## Conclusion

There is no official geographical limit to the European Union and there will be none for quite some time. This will remain an unwritten rule. It raises obvious issues for EU economic governance. First, because the EU is composed of various areas, or "spaces," each with its own operating rules, and the interworking between them has not been provided for anywhere. Second, because the necessary EU institutional reforms are mired in the tradeoff between "deepening" versus "enlargement" of the Union. Finally, and perhaps most importantly, because it is hard to for "Europe" to project itself forward, as a united and unifying whole, when it is in a state of flux. In other words, "Europe" must currently recognize itself not as a body, but rather a core, with various peripheries; it must also recognize that working from a core area with a "project" for Europe can provide renewed impetus for the EU to move forward.

Instead of limits and borders, the debate on the future of Europe should focus on the next frontiers of the European Union. Borders are restrictive. Borders limit our minds, chain actions, and reduce our influence. Frontiers are innovative. Frontiers free our minds, stimulate action, and increase our influence<sup>196</sup>. Today in Europe we are facing the challenges of the increased need of young people for intercultural dialogue, understanding and cross border cooperation, as tools for prevention of culture, religion and social based conflicts. The EU realized well before the 2004 enlargement that it needed to create a new policy for the new Eastern neighbours. According to the initial discussions in the Council in 2002, the new neighbourhood policy addressed only Ukraine, Belarus and Moldova, with a special focus on Ukraine. Both the European-oriented new neighbours and the new member states (candidates at that time) challenged the "Russia first" approach and called for a proactive EU policy that would aim to integrate the neighbours. In this respect, the European Neighbourhood Policy was created to: develop closer cooperation, encourage investment, support governance, and sustainable development that lead to a more secure, stable and prosperous Europe. Reshaping domestic political and economic structures will enhance overall security and offer a far firmer basis for stability than strategies based on containment and deterrence. There are obvious limits to what the ENP can and cannot achieve. The key factor for success will be the willingness of both partners to use all the ENP instruments in a positive and forward-looking manner.

The impact of the European Neighbourhood Policy will ultimately depend on its influence on economic development in the new neighbours. So far, it is easier to find reasons for skepticism than optimism. Although the ENP seeks to ease trade restrictions through the implementation of legislative approximation and convergence with EU standards, prospects of access to the EU's single market seem rather far away. The lack of measures to promote increased labour migration between the new neighbours and the enlarged EU may also be something of a missed opportunity. On the plus side, access to the single market could improve significantly under the ENP.

Furthermore, the Union can benefit from your experience with your neighbours. European Neighbourhood Policy aims at sharing with its neighbours the stability, security and prosperity already created within the enlarged Union. Common concerns are needed, both political and economic, and it is necessary to avoid new dividing lines being drawn across Europe and barriers across the Mediterranean and the Black Sea. Romania should play a key role, building on its existing links, in assisting the EU in creating good and stable neighbourly relations, notably with the Republic of Moldova and Ukraine.

Whether these benefits will be sufficient to push recalcitrant reformers to adopt robustly European policy agendas remains to be seen. Government interest in reforms seems likely to depend largely on eventual prospects for EU membership. The ENP does little to remove fears in this respect. Indeed, its emerging role as substitute for EU membership could make the ENP ineffective, if not counterproductive.

Fundamentally, the neighbourhood policy has yet to show what it is meant to be. It could be a modest mechanism for mitigating the unfavorable effects of the enlargement for border regions. It could also be an attempt to motivate a serious 'Europeanization', in the sense of political, economic and societal transformation of neighbouring states.

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<sup>196</sup> Olli Rehn (2006), *Europe's Next Frontiers*, October 4, 2006 lecture at Bilkent University Ankara

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# **POLITICS OF COHESION AND STRUCTURAL FUNDS SUPPORT OF THE REORGANIZATION AND MODERNIZATION PROCESS FOR THE MEMBER STATES**

**Pop Radu**

*Universitatea de Vest Vasile Goldiș Arad , Filiala Satu Mare , strada Mihai Viteazul , nr. 26 , telefon 0361401014 , fax 0261716230*

*Abstract: For a harmonious development of the EU member states a series of structural funds have been initiated. Due to its belonging to the EU, Romania is directly interested in being introduced to these funds and using them efficiently. A major importance represents a good use of the structural instruments which provide the appliance of the EU politics of cohesion.*

*Keywords: cohesion, funds, applications, impact.*

## **Politics of cohesion of the EU and Structural Funds**

### **1. General position**

According to the stipulations of the art.158 of the Treaty:

“In order to promote the harmonious development on all her contents, the Community will initiate follow actions which will lead to and strengthen the economical and social cohesion. Particularly, the Community will follow the reduction of the disparities between the development levels of different regions and the falling behind of the less developed regions, or islands, including rural areas.

The art.159 of the Treaty specifies that these actions are supported by the Structural Funds, the European Investment Bank and other existent financial tools.

The differences between the regions of the member states of the EU are connected to:

- infrastructure
- the quality of the environment
- the unemployment rate and the abilities of the working force which are relevant to the development
- the size and diversity of the businesses
- the level of innovation and the use of technology in business

Politics of cohesion of the EU is destined to reduce these differences and economical difficulties which are generated in order to improve the functioning of the European Unique Market.

Existent issues of the regional development of Romania

- the increase of development disparities between the region Bucharest- Ilvof and the other regions
- the unbalanced development between the East and the West, meaning the North –Eastern regions, South -East, South, South -West and the Western regions, North –West, Central
- the chronicle lack of development is focused in the North –Eastern region, at the border with Moldavia and the South region along the Danube
- the existence of some important disparities between regions which reflect the mosaic structure of the economical development: inside the regions coexist both poorly developed areas as well as relatively developed ones
- the massive decline of small and medium cities, especially mono industrial cities, generated by the industrial reorganization
- the low rate of appeal of most regions



- the social-economical decline of numerous urban centers and the diminution of their role in the development of adjacent areas.

## 2. The basic principles of the reform

- Concentration: financial aid in the regions and the domains which are in great need support – approximately 80% of the funds to the less developed areas
- Simplification: the reduction in the number of rules; less objective – fewer funds; programming; unique fund programs; more flexible financial management; proportion concerning control, evaluation and monitoring; expense eligibility.
- Decentralization: a more powerful role for the regions and the local actors.

The principles of the politics of cohesion

1. Additional: the credits from the funds cannot be used for public expenses or other structural expenses of the member state.
  - EU finance: the cohesion fund- max. 80% of the cost
  - Other costs- max. 75% of the cost
2. Coordination: sector and regional politics must be synchronized with other implementation measures through PND non financed by structural funds.
3. Partnership: important contribution of all organizations and relevant institutions

## 3. Structural instruments

The politics of cohesion of the EU is financed through structural instruments, these representing the second percent al length allowed from the budget of EU.

The structural instruments include:

- The European Fund for Regional Development
- The European Social Fund
- The Cohesion Fund

Between 2007-2013 Romania will receive through the structural instruments a sum 4 times larger than through the pre adhering instruments such as: PHARE, ISPA, and SAPARD.

In Romania the investments which come from the structural instruments will be supplemented with the funds belonging to the United Agriculture Politics of the EU.

Complementary instruments:

- The European Agriculture Fund for Rural Development
- The European Fund for Fishing

## 4. Objectives and intervention Domains

- Convergence

Regions with PIB (Public Internal Budget) / inhabitant below 75% from the EU average

Member states with PIB / inhabitant lower than 90% from the EU-25 average; this objective will receive 75% from the EU budget.

- Regional competition and occupation of the working force

Uncovered regions by the convergence objective- this objective is assigned 18% of the EU budget.

- European Regional Cooperation

Regions located at the border and regions involved in trans-national cooperation – this objective will receive 4% of the EU budget

### *The European Regional Development Fund*

Supports productive investments that lead to new work places

Application domains:

- infrastructure
- local development initiatives and SME activities
- development areas: transport, communication technology, energy, environment, research and innovation, social infrastructure, training, urban reconstruction and convergence of industrial areas, rural development, fishing industry, tourism, culture.

### ***The European Social Fund***

Prevents and fights unemployment, supports the development of human resources and promotes the integration on the labor market.

Application domains;

- professional long-term integration of the unemployed people
- professional integration of the young unemployed people
- professional integration of people excluded from the labor market
- promoting of equal opportunities concerning the access on the labor market through the EQUAL initiative
- specific actions to improve women's access on the labor market
- improvements to the education and training systems
- promoting specialized work force
- the growth of human potential in the research and development area

### ***The Cohesion Fund***

Special fund formed to assist the member states whose PNB is lower than 90% of the EU average.

Eligible member states: Greece, Spain, Portugal and other new 10 member states. After the integration, Romania and Bulgaria will also benefit of this fund.

Interventions:

- environment
- transport infrastructure

Complementary Funds:

### ***The European Agriculture Fund for Rural Development***

Supports the rural development and productivity growth in agriculture.

Application domains:

- investments in agriculture proprieties
- the support of youth establishment in the rural and training area
- aid for early retirement
- compensation for less favored areas
- measures for the environment protecting agriculture
- the processing and marketing of agricultural products
- the development and proper use of forest
- the development of the rural area by promoting services, the support granted to the local economy, encouraging tourism and artizanal activities

#### 4. The European Fishing Fund

Invests in:

- reorganization of the fishing activity
- improving fishing boats

- improving manufacturing and marketing of fish products
- aquaculture
- developing fishing farms
- protection of sea areas
- facilities in the fishing harbors

## **5. The Co-finance principle**

- Structural instruments of the EU do not act alone, they are co-financed mainly out of public resources, although they can be involved in resources from the private sector
- In the Convergence Objective the maximum rate of intervention will generally be of 75% from the total cost of each investment for ERDF, ESF, EARDF, EFF.
- Concerning the Cohesion Fund, the maximum intervention rate will be of 85% of the total cost.

## **6. Politics of Cohesion Impact**

- Growth: cohesion instruments rise public and private investments in the required areas
- Convergence : the funds contribute to the PIB growth in the undeveloped areas
- Work places: opening of new work places and maximizing the potential of human resources
- The growth of human and physical capital
- A better regional and local administration
- Financial stability over 7 years

Taken into consideration the above we realize the vast range of funds we can benefit from in order to reduce the differences in various domains between member states of EU.

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# AN ANALYSIS OF THE FOREIGN INVESTMENT OPTIONS BETWEEN FOREIGN DIRECT INVESTMENT AND PORTFOLIO INVESTMENT

**Prelipcean Gabriela**

*University “Stefan cel Mare” Suceava, Facultatea de Stiinte Economice si Administratie Publica  
13 Universitatii Street, 720229 - Suceava*

**Boscoianu Mircea**

*University “Stefan cel Mare” Suceava, Facultatea de Stiinte Economice si Administratie Publica  
13 Universitatii Street, 720229 - Suceava*

*There are two major types of international equity flows. In the literature there are only few publications focused on the bilateral correlation between Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI) in a robust analytical framework. We consider Lipsey-Razin model to explain the dynamics of foreign investment option in Romania after European integration and the recent financial global crises, in the aftermath of subprime.*

*There are two distinct aspects: the reallocation of investors between FDI and FPI after European integration in the context of euro macroeconomic cycle which leads welfare parameters an early withdrawal; the effects of financial contagion on FPI and Romanian stock exchange.*

*Keywords: FDI (foreign direct investment), FPI (foreign portfolio investment), recession, European integration, global financial crisis.*

## **1. Introduction**

The dynamics of changing the main types of international equity flows in Romania after integration should be analyzed by considering the global evolution and future trends of financial flows, the liquidity aspects and the contagion effects on local markets. We use Lipsey-Razin model of a trade off between FDI/FPI which highlights the selection decision aspects. The costs associated to FDI are: the initial fixed costs (especially for Greenfield investments, terrain acquisition, building, training, could be considerable); the information-based costs, exogenous and resulting from the capacity to sell quickly their investments before maturity (in liquidity shocks, potential buyers will pay only a lower price because they suspect an asymmetrical information on the prospects of investments).

These costs are also driven by the volatility and liquidity and depend on the macroeconomic context but also on the turbulences existing on international financial markets. The difficulty of FDI withdrawals may create a bias of less illiquidity-prone investors, such as big multinationals. Institutional investors, who are subject to frequent withdrawals, are biased in favor of FPI. By using Lipsey-Razin model we could analyze the trade-off between management efficiency and liquidity which have strong empirical evidence; we also add the effect of asymmetric information for different types of control. The increasing of the control increases also the efficiency and value of the firm (Perez-Gonzalez, 2005). There is also a positive response on the capital market (Chari, Ouimet, Tesar, 2007).

Big FDI investors can achieve effective control by holding a block that is much smaller than the majority, but the value of the firm may increase at similar rates. The sale of big blocks by control holders (Rasdaq companies after increasing their capital in the summer of 2007) generates a larger price impact than a sale by other investors, because of a bigger downward effect on the price (Mikkelson, Partch, 1985; Holthausen, Leftwich, 1990; Chan, Lakonishok, 1995). The global price impact of sale in the presence of control can be obtained by analyzing what happens after the firm sells a part of its own shares in the asymmetric information environment (Flamingo, Armax Gaz Medias, Albalact, Prospectiuni, Ceramica Iasi).

An interesting implication of the trade-off between efficiency and liquidity is that investors with high/ vs. low expected liquidity needs are more likely to choose less/ vs. more control. The mechanism is based on the fact that investors with high expected liquidity needs are affected more by the low sale price associated with control, whereas those with low expected liquidity needs are affected more by the efficiency in

management. In this case, the assets under control are less likely to be liquidated prematurely (Hennart, Kim, Zeng, 1998). Big investors are much more likely to exit from joint ventures than from fully owned investments with more control. FDI exhibit more control than FPI which expected to be liquidated less often, in the global context of international portfolio management. The instruments of FPI could be: a direct investment in local stock exchange (blue chips, Investment Financial Companies- with balanced portfolio, IPO hunting) or by using a special vehicle of investment like open end investment funds/ close /end investment funds managed by financial intermediaries.

## 2. The selection from the existing models in the literature

Albuquerque model explain the differences between the volatility of FDI versus the volatility of FPI, but is not considered the effect of liquidity and the macroeconomic facts or the international financial environment. Albuquerque is focused on the expropriation risks and the inalienability of direct investments, and thus is different from the information-based mechanism.

In other papers related to FDI, it is used the asymmetric information hypothesis (Froot, Stein, 1992; Klein, Rosengren, 1994; Klein, Peek, 2002). The authors use the hypothesis that FDI is information intensive, and thus FDI investors, who know more about their investments than outsiders do, face a problem in raising resources for their investments. Gordon, Bovenberg (1996) use the asymmetric information between domestic investors and foreign investors to explain the home bias phenomenon. Razin, Sadka, Yuen (1998) explain the pecking order of international capital flows with a model of asymmetric information. A new model of Razin and Sadka (2005) analyze the gains from FDI when investors have superior information on the fundamentals, relative to FPI investors. All these analyze could not consider the effects of asymmetric information on the liquidity of FDI and FPI, which is a very important aspect.

In **Lipsey-Razin** model there is a small economy faced by a continuum  $[0, 1]$  of foreign risk neutral (the optimality is to maximize ex ante expected payoff) investors with the opportunity to invest in one investment project, FDI (in this case he acts as a manager)/FPI. The timing (0, 1, 2) is the following: in period 0, each investor select the type of investment (FDI/FPI); in period 1, after the realization of the productivity shock, the manager of the project observes  $\varepsilon$  and chooses  $K$ , so as to maximize the net cash flow; in period 2, the project matures.

The net cash flow from the project is  $R(K, \varepsilon)$ , where  $\varepsilon$  is a random productivity factor that is independently realized for each project in period 1, and  $K$  is the level of capital input invested in the project in period 1, after the realization of  $s$ . For tractability we assume that  $R(K, \varepsilon)$  takes the special form

$$R(K, \varepsilon) = (1 + \varepsilon)K - \frac{1}{2}BK^2. \quad (1)$$

We assume the cumulative distribution between  $(-1, 1)$  and a density function  $g(\cdot) = G'(\cdot)$ ;  $E(\varepsilon) = 0$ ;  $B$ , is the production cost parameter and reflects higher production costs and lower productivity gaps.

### 3.1 A better management and efficiency for FDI

In period 1, the chosen level of  $K$  to optimize the net cash flow is denoted by  $K^*(\varepsilon)$

$$K^*(\varepsilon) = \frac{1 + \varepsilon}{B}. \quad (2)$$

Thus, the ex-ante expected net cash flow from FDI held until maturity, is given by

$$E = \left( \frac{(1 + \varepsilon)(1 + \varepsilon)}{B} - \frac{1}{2}B \left( \frac{1 + \varepsilon}{B} \right)^2 \right) = \frac{E((1 + \varepsilon)^2)}{2B}. \quad (3)$$

In the case of FPI, the owner is not the manager, does not observe  $\varepsilon$  and follows earlier instructions as for the level of  $K$ . A possible rationale behind this sequence of firm decisions, whereby the level of capital input  $K$  is determined ex ante, has to do with a potential agency problem between the owner and the manager to maximize the ex-ante expected payoff

$$E \left( \frac{(1 + \varepsilon)}{B} - \frac{1}{2B} \right) = \frac{E(1 + 2\varepsilon)}{2B} = \frac{1}{2B}. \quad (4)$$

It results a higher payoff in FDI but we must consider the costs: the fixed initial costs (FDI cost) and the information-based cost, derived endogenously in the model from the possibility of liquidity shocks occurring in period 1.

### 3.2 The effect of liquidity shocks

Let  $X$  the probability of liquidity shocks that could forced early withdrawals. Let a community with two types of investors,  $\frac{1}{2}$  with high expected liquidity needs (type H), and  $\frac{1}{2}$  with low liquidity needs (type L). We assume for the probabilities associated  $1 > \lambda_H > \frac{1}{2} > \lambda_L > 0$ ,  $\lambda_H + \lambda_L = 1$ . Investors know their type ex ante, but this is private information.

There is also a possibility to liquidate the project in period 1 even if there is no liquidity shock which generates another cost associated to FDI. The price of resale in period 1 is equal to the expected value of the project from the point of view of the potential buyer. We denote the maximum level of  $\varepsilon$ , under which the FDI investor is selling by  $\underline{\varepsilon}_D$ . We denote by  $\lambda_D$  the probability that an FDI investor gets a liquidity shock. Both  $\underline{\varepsilon}_D$  and  $\lambda_D$  will be endogenously determined in equilibrium. Given that FDI owner is selling, the buyer thinks that with probability  $(1 - \lambda_D)G(\underline{\varepsilon}_D)$  the owner is doing so due to a low realization of  $\varepsilon$ , and with probability  $\lambda_D$  that she is selling the projects because of a liquidity shock. Using Bayes's rule, the period 1 price that the direct investor gets for the project is given by

$$P_{1,D} = \frac{(1 - \lambda_D) \int_{-1}^{\underline{\varepsilon}_D} \frac{(1+\varepsilon)^2}{2A} g(\varepsilon) d\varepsilon + \lambda_D \int_{-1}^1 \frac{1+2\varepsilon}{2A} g(\varepsilon) d\varepsilon}{(1 - \lambda_D)G(\underline{\varepsilon}_D) + \lambda_D} \quad (5)$$

The initial owner sets the threshold level  $\underline{\varepsilon}_D$ , such that, given  $P_{1,D}$  while observing  $\underline{\varepsilon}_D$ :

$$P_{1,D} = \frac{(1 + \underline{\varepsilon}_D)^2}{2B} \quad (6)$$

From (5), (6) we determine  $\underline{\varepsilon}_D$  and  $P_{1,D}$  as functions of the market-perceived probability  $\lambda_D$ , denoted by  $\underline{\varepsilon}_D(\lambda_D)$  and  $P_{1,D}(\lambda_D)$  which are increasing in  $\lambda_D$  (when  $\lambda_D$  is high, the buyer thinks that the probability for early sale results from a liquidity shock and not from a bad realization of the productivity parameter and the resale price is high). A consequence is that investors have a greater incentive to choose FDI in period 0, when the market participants think that investors with high liquidity needs choose FDI.

When a FPI investor sells in period 1, everybody knows that is due to a liquidity shock. The price is given by

$$P_{1,D} = \int_{-1}^1 \frac{1+2\varepsilon}{2B} g(\varepsilon) d\varepsilon = \frac{1}{2B} \quad (7)$$

In this case, the resale price in period 1 of FDI is always lower than the resale price of FPI, and this is also a consequence of the liquidity.

## 3. Ex-Ante Choice between FDI and FPI

### 3.1 Expected Value of FDI

With  $\lambda_i$  ( $i = H, L$ ) probability, a type  $i$  investor gets a liquidity shock and sells the project in period 1 at the market price:

$$P_{1,D}(\lambda_D) = \frac{(1 + \underline{\varepsilon}_D(\lambda_D))^2}{2B} \quad (8)$$

With probability  $1 - \lambda_i$ , the investor does not get a liquidity shock. The investor sells if the realization of  $\varepsilon$  is below  $\underline{\varepsilon}_D(\lambda_D)$  according to equations (5), (6). The expected payoff in the state of no liquidity shock is

$$\int_{-1}^{\underline{\varepsilon}_D(\lambda_D)} \frac{(1 + \underline{\varepsilon}_D(\lambda_D))^2}{2B} g(\varepsilon) d\varepsilon + \int_{\underline{\varepsilon}_D(\lambda_D)}^1 \frac{(1 + \varepsilon)^2}{2B} g(\varepsilon) d\varepsilon.$$

In addition, FDI investor has to incur a fixed cost of  $C$  and the ex-ante expected net cash flow is:

$$\begin{aligned} EV_{\text{Direct}}(\lambda_i, \lambda_D, B) &= (1 - \lambda_i) \left[ \int_{-1}^{\underline{\varepsilon}_D(\lambda_D)} \frac{(1 + \underline{\varepsilon}_D(\lambda_D))^2}{2B} g(\varepsilon) d\varepsilon + \int_{\underline{\varepsilon}_D(\lambda_D)}^1 \frac{(1 + \varepsilon)^2}{2B} g(\varepsilon) d\varepsilon \right] + \\ &+ \lambda_i \frac{(1 + \underline{\varepsilon}_D(\lambda_D))^2}{2B} - C \end{aligned} \quad (8)$$

### 3.2 The expected value of FPI investments

When the investor holds the FPI with probability  $\lambda_i$ , in a liquidity shock with resale in period 1 the price is:

$$P_{1,P} = \frac{1}{2B}.$$

With probability  $1 - \lambda_i$ , the investor does not receive a liquidity shock and the expected net cash flow is:

$$\frac{E(1 + 2\varepsilon)}{2B} = \frac{1}{2B}.$$

The ex-ante expected net cash flow from a portfolio investment is given by

$$EV_{\text{Portfolio}}(B) = \frac{1}{2B}. \quad (9)$$

### 3.3 The differences between the expected value of FDI and FPI

This difference between the two expected values is:

$$\text{Diff}(\lambda_i, \lambda_D, B) = EV_{\text{Direct}}(\lambda_i, \lambda_D, B) - EV_{\text{Portfolio}}(B) \quad (10)$$

and the choice FDI vs. FPI is governed by the parameters  $B$  and  $C$ . Investor  $i$  is more likely to choose FDI when: the FDI cost  $C$  is lower; the productivity cost  $B$  is lower; the probability of a liquidity shock  $X_i$  is lower, the market-perceived probability  $\lambda_D$  of a liquidity shock for FDI investors is higher.

## 4. The allocation of investors between FDI/FPI

To describe the equilibrium, it is necessary to specify  $\lambda_D$ . If  $\lambda_D$  is in line with the equilibrium choice of investors between FDI/FPI:

$$\lambda_D = \frac{\lambda_H \lambda_{H,FDI} + \lambda_L \lambda_{L,FDI}}{\lambda_{H,FDI} + \lambda_{L,FDI}}. \quad (11)$$

where  $\lambda_{H,FDI}$  is the proportion of  $\lambda_H$  investors who choose FDI in equilibrium and  $\lambda_{L,FDI}$  is the proportion of  $\lambda_L$  investors who choose FDI in equilibrium. There are five cases at equilibrium: all  $\lambda_H$  and  $\lambda_L$  investors choose FDI.; all  $\lambda_L$  investors choose FDI and  $\lambda_H$  investors split between FDI and FPI; all  $\lambda_L$

investors choose FDI and all  $\lambda_H$  investors choose FPI.;  $\lambda_L$  investors split between FDI and FPI and all  $\lambda_H$  investors choose FPI; all  $\lambda_H$  and  $\lambda_L$  investors choose FPI.. In real economies FDI and FPI coexist. The differences between expected liquidity needs for a representative FDI investor and those for a representative FPI investor depends on volatility, liquidity, macroeconomic situation and international financial picture. In Figure 1 is presented a full characterization of the equilibrium allocation of investors as a function of  $\lambda_H$  the probability that investors with high expected liquidity needs will get a liquidity shock, and  $B$ .

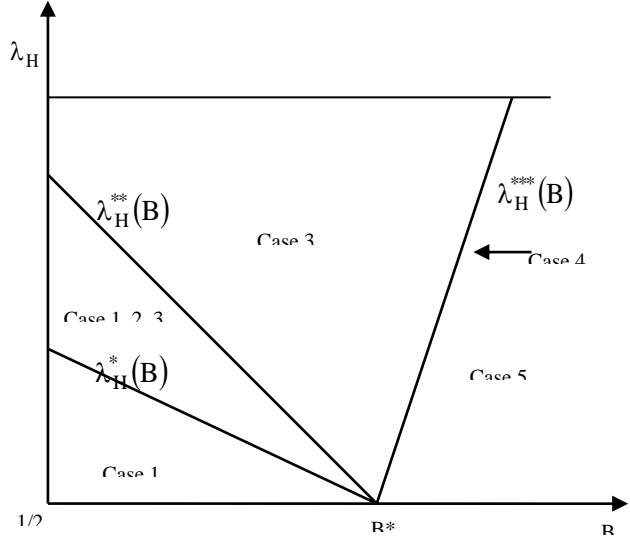


Figure 1 – The allocation of investors between FDI and FPU

**5. Conclusions**

FDI investors are more informed about the fundamentals of their projects and this information enables them to manage their projects more efficiently. It results also an asymmetric-information problem in case they need to sell their projects permanently, and reduces the price they can get in that case. As a result, investors who know they are more likely to get an idiosyncratic liquidity shock that forces them to sell early are more likely to choose FPI, whereas investors who know they are less likely to get a liquidity shock are more likely to choose FDI. The model generates several results that are consistent with empirical evidence in Romanian economy which attracted larger shares of FPI after EU integration. Romania supplies a lower labor costs that make high added value business more profitable. After integration, the high transparency of the capital market makes FPI more efficient, in the context of reducing FDI after BCR privatization. The model can account for the high observed withdrawal rates of FPI relative to FDI, which also contribute to a high volatility of the former relative to the latter. It is also observed that increasing transparency implied smaller differences between the withdrawal ratios of FPI vs. FDI. It is interesting to remark the behavior of Romanian capital market after subprime crisis in US. The capacity to attract more investors with low expected liquidity needs to FPI is in danger now and it could also result a separation between investors with low expected liquidity needs and those with high expected liquidity needs. The main conclusions are: a) The expected liquidity needs of FDI investors are lower. Liquidity shocks are more common among FPI than among FDI investors. Investors with high expected liquidity needs and speculators are not interested about the long-term efficiency of FDI, and care more about the short-term price, having a higher tendency to invest in FPI. Investors with low expected liquidity needs prefer FDI. FPI investors are more vulnerable to liquidity shocks. This result contributes to the high withdrawal ratio of FPI relative to FDI, which can account for the empirically observed higher volatility of net FPI inflows; b) As  $B$ , the production cost parameter increases, there will be more FPI and less FDI at equilibrium. As the level of  $B$ , the cost of



production in the host country, increases, equilibrium outcomes changes in a gradually preference for more FPI and less FDI. Since  $B$  represents the cost of production, we expect developed countries to have higher levels of  $B$ ; c) When FDI investors acquire a firm in a developing country, it transfers TFP in the source country to the new firm, reducing the productivity cost  $B$  which strengthens the relative attractiveness of developing countries for FDI; d) As the liquidity need heterogeneity among investor's increases, a separating equilibrium – with a large difference between the withdrawal rate of FPI and the withdrawal rate of FDI – becomes more likely. When  $B < B^*$ , an increase in  $\lambda_H$  shifts the equilibrium outcome e) There is a domain of the fundamentals  $(B, \lambda_H, C)$  with multiple equilibria. Multiple equilibria exist when  $B < B^*$  and  $\lambda_H^*(B) < \lambda_H < \lambda_H^{**}(B)$ . In this region, Cases 1, 2, and 3 are possible equilibria. The reason for the multiplicity is the existence of externalities among  $\lambda_H$  investors. This multiplicity may generate severe jumps from equilibrium with a lot of direct investments to equilibrium with significantly fewer direct investments. This may explain why some countries have more direct investments than other countries with similar characteristics, and why some periods of time are characterized by more direct investments than others. The existence of multiple equilibria also generates interesting welfare implications.

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# DEMOCRATIZATION PROCESS AND TOURISM INDUSTRY AT THE REGION OF WEST BALKANS : TOURISM AS A SOCIOPOLITICAL FORCE

**Priniotaki Ioannis Maria**

*Tourism Management, Hellenic Open University , Sappus 17 , Kallithea, Athens, Tel: +6937425944, Email: address:mpriniotak@hotmail.com*

**Kapsis Stavros Dionisios**

*Promotion of Mental Health, University of Athens , Dafnomilis 36 , Licavitos, Athens, Tel:+6978180763, Email: address: kapsisd@yahoo.gr*

*Abstract : This paper aims to highlight the political aspect of tourism: politics is a fundamental yet much ignored component of tourism development and tourism studies. A research into the political dimensions of tourism industry towards the democratization fulfillment in the region of West Balkans is further discussed. The stipulated trade-off between democracy and growth is also examined. The results suggest that democracy reinforces progress in economic liberalization, which, in turn, improves growth.*

*Keywords :democracy, tourism industry, development , West Balkans*

## 1. Introduction

It is unanimously accepted that, the sudden wave of democratization which prevailed in Eastern Europe during 1989-1990, provides a formidable challenge to politicians and academic scientists trying to explore the causes and patterns of democratization. In other words, they were literally unable to predict or even to anticipate the forthcoming collapse of socialist systems in Eastern Europe and the consequent democratization. In this general context, Samuel Huntington had concluded in 1984, in his article on whether more countries would become democratic, that there was less likelihood of this occurring in Eastern Europe and more specific in West Balkans than elsewhere in the world (Huntington 1984).

However, 20th century has politically acknowledged to be a certain period of time with enormous evolutions for the region of Eastern Europe (Kouvertaris 2002) and more interestingly for the region of West Balkans. It is near after the collapse of the Ottoman empire, the genesis of “new” ethnic nations, their intervention into two global wars, the separation into two different zones of conflict and finally the collapse of their authoritarian regimes, that West Balkans managed to initiate a new crucial period for their future. After a long period of intensity and national conflicts (1989-2001), region’s political, financial, and social instability appears to be over. Thus, the undergoing re-regulation of their geopolitical priorities and the mutual cooperation offered by international organizations, has led to the so-called policy of “transition” (Kubicek 2000).

Almost all of the eastern countries have a shared historical experience upon which their perception of democracy and its promotion is based. For a large part of researchers, democracy building, especially in the Eastern neighborhood, is a common mission for all new member states of EC. In other words, democracy promotion is becoming institutionalized and could, therefore, become a consistent and long-lasting element of the region’s states (Laurynas Jonavicius 2008).<sup>197</sup>

In this specific field, tourism - as a powerful mix of cultural, economic and political phenomena with multiple meanings, applications, and perspectives – and its relationship, if any, with democracy and the region’s political evolutions is examined (Burns and Novelli 2007). Tourism is, without a doubt, one of the most important forces shaping our world (Cohen and Kennedy 2000), while tourism development as a concept has been widely considered as an essentially political concept. Political philosophy and ideology has a substantial impact on tourism development processes and vice versa (Hall 1998). In this research, one has to remember that, economically, tourism is of growing importance to many nations and is recognized

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<sup>197</sup> See Raik, Kristi and Gromadzki, G. (2006), Král, D. (2005).

as the largest export earner in the world and an important provider of foreign exchange and employment (WTO).

This paper sets out to explain democratization in Eastern Europe from different perspectives and mainly to investigate the possible and actual linkages between tourism industry and the undergoing democratization process in the region of West Balkans .

## **2. Democracy : its nature and prerequisites**

Democracy as a normative and analytical concept is fairly difficult to be defined. The word ‘democracy’ comes from the Greek words *demos* ‘the people’, and *kratos*, meaning ‘power’. For Abraham Lincoln, democracy depicts ‘the government of the people, by the people and for the people’ ; assessing the processes of democratization in Eastern Europe , though, requires a more comprehensive working definition as such: a political system in which ideologically and socially different groups are legally entitled to compete for social power and in which institutional power holders are elected by the people and are responsible for the people (*Vanhanen 1990*).

Taking Vanhanen’s definition as a useful analytical tool, we can see that democracy depends on both formal constitutional structures, and a broader of pluralist power relations in society. For Andrian G.V. Hyde –Price (1994), a democratic system of government consists of institutionalized mechanisms for interest articulation and integration, based on broadly agreed constitutional and political structures. However, as he notes, a flourishing democracy must be grounded on much more than formal constitutional and political structures.

Democracy, though, has clearly evolved to include so much more than government by majority. Minority rights, civil liberties and policy making by elected representatives of the people have come to be part of the equation. A mechanism for democratic government can not be assured without a pluralist distribution of economic and social power in society, without a democratic political culture –in other words, a healthy and well developed civil society. This is the reason that Eastern European democrats have given such a considerable importance to the notion of civil society, by which they include the existence of a network of formal and informal groups, representing different social, political, professional and economic groups, and organized autonomously by the state – according to Keane’s (1998) criteria.

For Laurence Whitehead (1986), this political discourse on democratization process is obliged to take into account the following common characteristics, having occurred by the cases studied in the Wilson Center’s project on ‘Transitions from Authoritarian Rule’:

- Peacetime transitions;
- Transitions from ‘rightist’ regimes;
- Countries with a liberal, European tradition (what Whitehead calls ‘children form the French revolution’)
- Developing or newly industrializing countries ;
- A geopolitical position within, or close to, the Western bloc.

Whitehead comments that it is about factors that, taken together might prove an important restriction on the role of foreign actors, and by excluding other cases, the ‘project narrowed its frame of reference to these recent experiences of attempted redemocratization in which local political forces operated with an untypically high degree of autonomy’. A comparison with Eastern Europe unveils that it differs from these cases mainly on the character of the regime (2) and in some of the traits of the state, i.e. the economic situation (4). Eastern Europe though, does have in common with the cases studied, that they occurred in peacetime, that the countries had a liberal tradition to some extent, and, why not, they were close to, and beginning to integrate into the Western bloc.

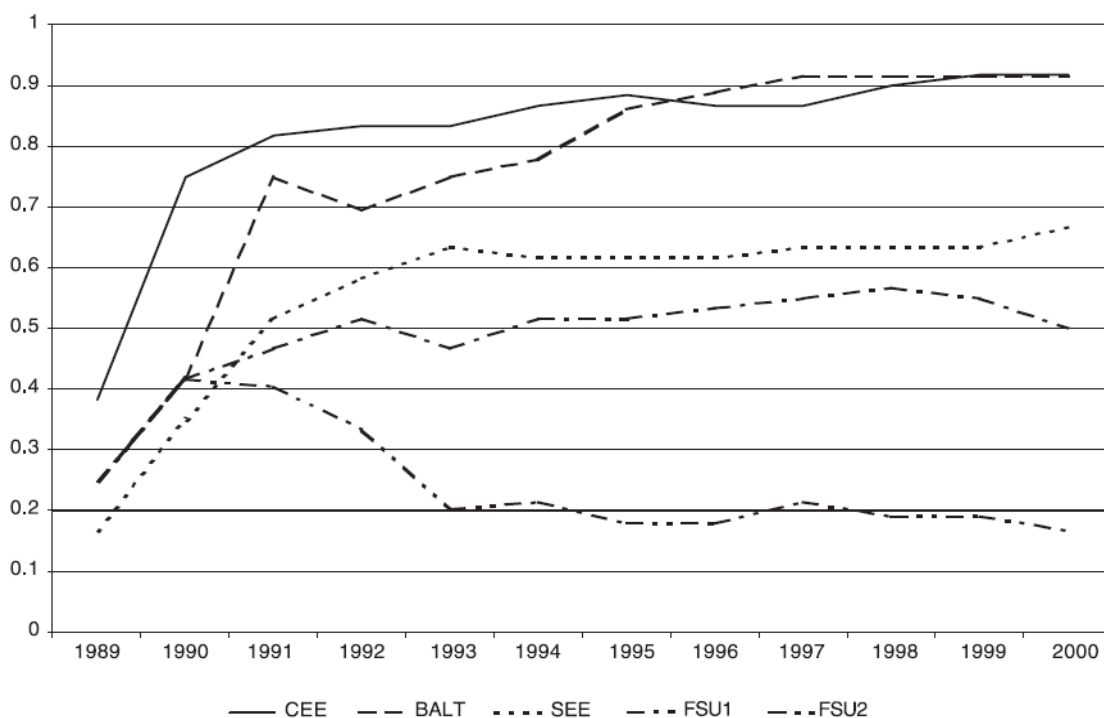
### 3. Democratization process in EC new member states

There is no doubt that a strong EU ‘Eastern Policy’ is a shared goal for the new EC member states, mainly due to their geographical location. The belief that all Central and Eastern European EC members share the same vision and interests towards Eastern neighbors and Russia is widespread in many Western European States. As Laurynas Jonavicius (2008) notes, however, the differences between the new member states are significant, since each has its own vision of the role it should play inside and outside the EU : Poland aspires to become a regional power, while Estonia strives for internal development first.

The simultaneous transitions to liberal democracy that commenced as a whole in Eastern Europe at the end of 1980s, in some cases earlier, are certainly a development of major historical importance, but in some cases, as researchers observe, they are still in a relatively early phase. Due to their different characteristics (historical, cultural and geographical) new member states can be clustered into three general categories : Poland, the Czech Republic, Slovakia and Hungary constitute the first group of states, Lithuania, Latvia and Estonia are widely known as the Baltic States, while Romania and Bulgaria can be classed as a separate group due to their geographical position and different EU accession date.

The democratization progress in the above mentioned states may be depicted in Figure 1. It is the Czech Republic, Slovenia and Hungary, the three frontrunners having attained a level of political freedom and civil liberties comparable to the United Kingdom, France or Germany. Although the other post communist countries did not democratize so rapidly, they also made considerable progress.

**Figure 1: Evolution of democracy in post –communist Europe.** Notes : CEE: Czech Republic, Hungary, Poland, Slovakia and Slovenia. BALT: Estonia, Lithuania and Latvia. SEE: Albania, Bulgaria, Croatia, Macedonia and Romania. FSU1: Armenia, Georgia, Moldova, Russia and Ukraine. FSU2: Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan.



Source : Fidrmuc (2003)

Before investigating the democratization process in the above mentioned states, it is of major importance to examine, first, their economic level of development according to OECD Annual Report 2005 and the Eurostat data (See Table 1 & 2).

*Table 1 : GDP in capita in PPS (EU 27)*

EU 27	100	Cyprus	92.9
Luxembourg	283.9	Slovenia	90.6
Ireland	143.8	Greece	89.5
The Netherlands	133	Czech Republic	81.4
Austria	129.3	Malta	75.5
Denmark	126.6	Portugal	74
Belgium	122.3	Estonia	72.5
Sweden	121.8	Hungary	65.7
United Kingdom	119.4	Slovakia	66.6
Finland	117.3	Lithuania	60.9
Germany	114.2	Latvia	60.3
France	112.6	Poland	55.1
Italy	103.3	Romania	39.5
Spain	103.1	Bulgaria	38.7

*Table 2: ODA of new EU member states*

COUNTRY	2006 ODA (min of EUR)	2006 ODA (% of GNI)
EU-15	45854	0.44
EU-10	556	0.10
Czech Republic	110	0.11
Estonia	6	0.06
Latvia	8	0.06
Poland	250	0.1
Lithuania	14	0.064
Slovakia	30	0.085
Slovenia	35	0.127
Hungary	89	0.1

Source : Laurynas Jonavicius (2008)

Under this scope, we observe that new EC member states still rank amongst the poorest member states, while, it is worth mentioned the limited external aid funds, as opposed to the formal requirement to increase development cooperation. In this general context, one has to mention many recent empirical studies, pointing out that transition countries are also facing serious institutional handicaps, beyond the well known structural weaknesses related to their outworn economies (high share of traditional agriculture in GDP, obsolete technology, cheap labor, and high-energy consumption) (Wallden 1994, Panteladis and Petrakos2000, Totev 2002).It is their former communist institutional legacy which maintains an economic environment, discouraging for an increasing productivity, as North notes (1991). Insecurity of property

rights, the absence of a stable legal frame determining in permanent way the rules of the game, soft budget constraints, that is governmental inability to impose financial discipline both to private and to state-owned firms and, of course, corruption are among the institutional failures often cited (Stiglitz 1994, Rizopoulos 1999).

In this paper, we limit our research into the most recent EU comers (2007), namely Romania and Bulgaria. After joining the EU in 2007 both Romania and Bulgaria have assumed commitments in the development cooperation sphere : ‘the Member States which have joined the EU after 2002, and that have not reached a level of 0.17% ODA, will strive to increase their ODA to reach within their respective budget allocation processes, that level by 2010 ... Member States, which joined the EU after 2002 will strive to increase by 2015 their ODA to 0.33%’ (The European Consensus 2005).

Romania is acknowledged to be a sentry on this last frontier of the democratic world (Mihai-Razvan Ungureanu 2005). For Fuss (2003) though, after having conducted a survey in several European cities, European identity and especially European constitution are not yet significant issues in Romania but, as he notes, the increased European integration will soon lead to visible tensions between national and supranational levels. However, the triple action for an increased security, democracy and stability in its neighboring areas (Black Sea and the Western Balkans) proves to be a priority issue for the country, since Romania believes it has a strong moral and political duty to be an anchor country along this frontier of the democratic community. Romania is also known for its strong political activism in the region : sharing common interests with Moldova – since a great number of Moldavians have Romanians passport and citizenship – and in view of the idea of the so called ‘Ring of the Friends’ in the region, Moldova’s democratization is the most important target of the Romanian policy. Commenting the Romanian policy, one has to keep in mind that major importance of the Black Sea region, with two crucial fields for the EU policy: energy and hard security.

Although Rumania and Bulgaria share a plethora of socioeconomic characteristics, the latter is perhaps the most isolated state concerning the democracy promotion policies. It is the Black Sea dimension for both, that provides Romania and Bulgaria a chance to become important democracy promoting players in the region. Bulgaria’s however weak economy and as yet unaccomplished achievements in consolidating democracy inside the country hampers its further activism.

Democracy, however, is perceived to be closely correlated with the performance of the economy (De Melo et al. 1996, Dethier et al. 1999, Fidrmuc 2000).It is interesting to see, though, how people are satisfied or not with the development of democracy in their country (See Table 3). The database employed here combines several Central and Eastern Euro barometer surveys conducted on behalf of the European Commission from 1990 to 1996 covering up to 21 countries in the form of a panel.

A quick interpretation of the results shows that if people are better off compared to the past and expect to be even better off in the future, they will be more pleased with democratization process and vice versa. In other words, one has to anticipate that personal economic success (failure) has a positive (negative) impact on the attitude towards the democratization development.

According to the income quartile variable, relatively reach people are more satisfied with progress in political transformation. It is further inferred that inflation has a negative effect on satisfaction: it does not only reduce support for market reforms (Hayo 1999) but it also decreases satisfaction with progress in reforming the political system. Generating low inflation rates may result in a 'double dividend' in terms of increasing support for market reforms and higher satisfaction with progress in reforming the political system. Furthermore, respondents in countries that are characterized by a higher GDP per capita index are less satisfied with the political transformation progress. In other words, if living conditions have improved, people demand a similar amount of progress in political transformation (Inglehart 1977).

*Table 3 : Explaining satisfaction with democracy (1991-1996)*

Independent variables	Coefficients	SEs
<i>Personal financial situation</i>		
Deterioration compared to the past and negative expectation	-0.93**	(0.04)
Improvement compared to the past but negative expectation	-0.06	(0.08)
Deterioration compared to the past but positive expectation	0.05	(0.04)
Improvement compared to the past and positive expectation	1.02**	(0.07)
Income quartiles	0.09**	(0.01)
<i>Macro variables</i>		
Inflation (% p.a.)	-0.0001**	(0.00003)
GDP per capita index	-0.003*	(0.001)
Employment index	-0.02	(0.01)
Degree of openness ((exports + imports) to GDP)	0.04	(0.53)
<i>Fiscal stance</i>		
Government expenditure to GDP	0.02	(0.02)
Government surplus to GDP	0.05*	(0.02)
Private sector share of economy	0.02*	(0.01)
<i>Transition indicators</i>		
Index for price liberalization and competition	0.07	(0.62)
Index for privatization and banking reform	0.93	(0.90)
Index for trade and foreign exchange rate system	-0.81	(0.43)
F-test	F(42,35) = 61.2**	
Pseudo-R <sup>2</sup>	0.092	

*Notes:* Country and time dummies are included. Additional control variables are gender, age, age squared, and education. The sample contains 19 countries.\* (\*\*) indicates significance at a level of 5% (1%).

Source : Dragoman (2008)

#### **4. Explaining democratization factors**

Democratization process has been acknowledged to be closely correlated with factors such as : socio-economic structures, historical, political and various other conjunctural factors. In any case, studies of democracy show that many different conditions may affect the chances of democracy in a given country. These may well be cross-nationally variable.

At this point, it is of major importance to present the outcomes of an extensive survey by questionnaires of Balkan entrepreneurs :

In a recent study based on an extensive survey by questionnaires of Balkan entrepreneurs, Liargovas and Chionis (2002) found that, the most significant barriers to the transition of enterprises from central plan to market economy are mainly socio-economic: “attitudes and values accounting for 40% of the total, followed by the business environment 25%, and skills and knowledge with 35%.” In a further desegregation between state’s and private entrepreneurs’ attitudes and values scored even higher as a barrier, reaching 49% of total, as compared with 31% within the sub-category of post-communist entrepreneurs, who correspond to our players of the “new or the capitalist game.” According to the aforementioned study, major values and customs inhibiting change in these economies included: (1) doing practically no work whatever is a status symbol among wide strata of people employed, (2) mistaken conceptions of the world around them by men of power because they had never traveled before to a non-Communist country and could not speak any foreign languages, (3) putting the brakes in any attempt by their subordinates to introduce even minor reforms until it was too late, (4) employees’ mentality, a lack of trust in improving their work, (5) unwillingness of the staff to change their stereotypes due to their mentality formed in the past decades, (6) a false sense of security taken over from the Communist era, that whether you stay, or you lay you will be paid your salary, and related to this, (7) an unwillingness of

employers to dismiss people, and (8) the communist mentality, that wages must be differentiated according to employee's years in the firm, not to their competence and knowledge.

In each country of the region the past exercises a significant influence on the present. Any analysis of recent change must deal with layers of history, to some extent shared, and to some extent, individually experienced. As Waller (1994) comments, the most recent and universally shared historical layer is the forty and more years of communist rule. Imposed on all of them except Albania and Yugoslavia in the aftermath of the Second World War, communist rule is often perceived as a 'glacier' that froze that history (Rupnik 1990). For these states, the communist political system was not only authoritarian, but it characteristically atomized society, breaking up autonomous concentrations of power in the middle reaches of the political system, and making the organized articulation of interests impossible to sustain. The countries of Eastern Europe all claim to have put behind them the political system of communism and to be seeking, to establish a pluralist democracy. At the same time, however, a large part of academics, has recorded a number of factors that have impeded the development of democratic politics in the region and may be expected to have an influence also on future developments (See for further analysis Waller 1994).

Political factors ; The high speed of democratization reflected in Fig. 1, depicts, not only the desire of these countries' citizens to live in democracy, but also the encouragement or outright pressure from Western governments, international organizations and especially the European Union, which made democracy an explicit precondition for accession negotiations. After all, one has to keep in mind that in the new EU member states' foreign policy agendas is the imperative need to anchor their European identity. According to the social-constructivist theoretical approach, the process of "identity construction" drives a state's behavior towards other actors: how you are perceived by others is of crucial importance for the general understanding of "who you are". In this light, as all the NMS have been going through identity transformation processes from "post-communist countries" to "European states", today they have an urgent need to strengthen this "European" identity.

## **5. Tourism as a sociopolitical force**

Tourism is usually promoted by a country for its ability to spread economic development and reduce inequalities in income distribution by providing employment to people in a particular geographical area (Pearce 1988, Coccoisis & Parpairis 1995, Wahab & Pigram 1997). Governments, particularly in the Third World encourage tourism investment because of the assumption that it will contribute to economic development of their countries (Hall 1995). In poor countries, regions, towns and cities, tourism is seen as a fast track to development (Glasson et al. 1999). Governments therefore, view tourism as a catalyst for national and regional development, bringing employment, exchange earnings, balance of payments advantages and important infrastructure developments benefiting locals and visitors alike (Glasson et al. 1999). In this light, the primary concern of tourism in destination areas is its ability to have strong linkages with the domestic economy, particularly agriculture, manufacturing, construction, wholesale and retail trade, hotels and restaurants, transport, banking and insurance services, water and electricity, and social and personal services. Therefore, an assessment of tourism's contribution to development requires an analysis of the backward and forward linkages between tourism and other sectors, an understanding of the spatial location of tourism activities, and identification of the beneficiaries of its economic and other impacts (Mbaiwa 2005).

Despite the prevailing view of tourism as an economic phenomenon, tourism is a social -economic phenomenon that acts both as an engine of economic progress and a social force. For Davidson (1994) tourism is much more than an industry. Tourism is much more like a 'sector' that impacts a wide range of industries. Tourism is just not businesses or governments – it is people. Supporting rational tourism growth and development needs to be viewed in this broader context. The words of the 1980 Manila Declaration on World Tourism highlight perhaps the strongest vision for tourism : Convinced ... that world tourism can contribute to the establishment of a new international economic order that can help to eliminate the widening economic gap between developed and developing countries and ensure the steady acceleration of economic and social progress, in particular of the developing countries. Aware that world tourism can only fly flourish if based on equity ... and if its ultimate aim is the improvement of the quality of life and the creation of better living conditions for all peoples.

In the practice of tourism, spiritual elements must take precedence over technical and material elements. The spiritual elements are essentially as follows :



- The total fulfillment of human being.
- A constantly increasing contribution to education.
- Equality of destiny of nations.
- The liberation of man in a spirit of respect for his identity and dignity
- The affirmation of the originality of cultures and respect for the moral heritage of peoples (WTO 1980).

In this light, at the 2nd World Travel and Tourism Summit, organised by the World Travel and Tourism Council, which gathered together in Portugal more than 200 of the world's decision makers in governments and global businesses, the participants made the following commitment in the Vilamoura Declaration 2000:

(1) To continue to measure and promote the importance of tourism as a force for economic growth, job creation, and peace to measure political and economic policy makers; (2) To foster cooperation between private enterprises, the public sector and communities at local, national and regional levels; (3) To encourage the expansion of infrastructure and human resource training and development, and the reduction of the great debt in some emerging economies, to match growth in demand for tourism in both emerging and developed economies; (4) To develop tourism that is economically, socially and environmentally sustainable and enriching ;(5) To promote tourism's unique role in harnessing technological advancement to fulfill human aspirations.

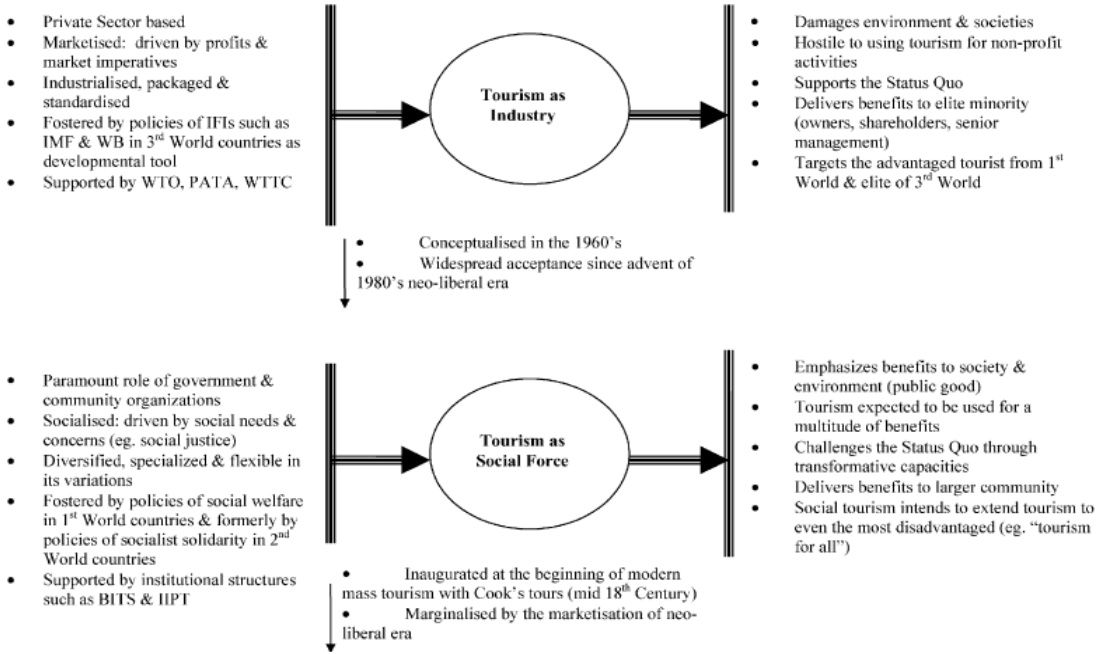
According to Dogan (1989), tourism has been a major source of intercultural contact and it has influenced the sociocultural structures of most touristic countries either positively or negatively. Hosts have reacted in different and varied ways, ranging from active resistance to complete adoption of western culture. As a general conclusion, Dogan notes that “in a community previously dominated by a particular response to tourism, a diversity of responses will emerge as tourism develops, and groups with different interests and characteristic responses to tourism will be formed within the community”.

Historically, the ability of tourism to contribute to important sociopolitical aims was early recognized at the birth of the modern phenomenon. Turner and Ash claim Cook viewed the railway as “a great and beneficial social force” (1976, p. 52) and they quote Cook describing travel as “appertaining to the great class of agencies for the advancement of Human Progress” (cited in Turner & Ash, 1975, p. 53). Turner and Ash argue further:

He saw “excursionism” as an agent of democratization, and in 1861 he demonstrated the sincerity of his democratic principles by organizing an excursion of 1500–1600 people to support a working men’s demonstration in Paris. Cook made a loss of 120 pounds and described the venture as a “labor of love minus profit”. Nevertheless, a similar excursion was organized in the following year (1975, p. 53).

Despite this promising beginning for tourism, though, Turner and Ash conclude that “tourism has proved remarkably ineffective as a promoter of equality and as an ally of the oppressed”. Brohman (1996) has thoroughly critiqued the use of tourism as part of the outward-oriented development strategies promoted by the neoliberally driven IFIs such as the International Monetary Fund and the World Bank. Such agencies pressure developing countries to adopt neoliberal policies as part of the structural adjustment programs that are a pre-requisite to obtain loans. Reviewing Brohman’s work, Scheyvens has claimed “rather than encouraging domestic tourism or promoting tourism as a means of developing crosscultural awareness, for example, for most Third World countries tourism is explicitly pursued as a means of earning foreign exchange” (2002)

**Figure 2: Perspectives on the purposes of tourism**



Source : F.Higgins –Desbiolles (2006)

## 6. Tourism Industry in the Region of West Balkans - a major factor towards the democratization process

Tourism economic sector has been widely acknowledged as one avenue for boosting socioeconomic development. In developed countries, attempts are often made to convert former industrial areas and impoverished rural areas to a tourism economy. For the developing countries, more interestingly, the major importance of tourism closely correlates with national development in all aspects .

For the West Balkans, the collapse of communist rule created a 'spring of hope', which promised to the peoples of this much-abused region a new era of democracy, prosperity and national independence. It has also lead to growing worries about the future, as the pains of market-orientated economic reform and resurgent nationalism have generated fears about the emergence of various forms of authoritarian nationalism in at least some of these post-communist countries. Fifteen years after regime change swept across the former Soviet bloc and contrary to the widely held hopes and expectations at that time, liberal democracy has emerged and taken root only in a small number of post-communist countries. In the majority of former communist states, political transformations have either lost their momentum and resulted in partially democratic systems or have been reversed and brought new authoritarian regimes. As Hall argues (1998), in the limited number of analyses undertaken on tourism development and post-socialist processes of restructuring in Central and Eastern Europe (CEE), most attention has been paid to the more advanced societies of Central Europe. By contrast, Europe's less developed and relatively unstable south-eastern corner, where tourism development issues may take on a different complexion, has been relatively neglected.

The relationship between politics and tourism is complex and multi-faceted, and a subject which is assuming a higher priority in the research literature. In this general context, it is of essence to see the intellectual relationship between tourism, as described above, and the democratization process under evolution in the region of Eastern Europe. The breakup of the USSR and the neo-liberal era in Eastern Europe have increased freedom of travel while reducing the right to leisure, economic security, and health care. Eastern Europe and Russia are increasing destinations for Western travelers but the intra Eastern Bloc travel that prevailed in the era of soviet hegemony has been in some places reduced by the increased cost of travel and the lack of workplace retreats, and guaranteed leisure once widespread in socialist countries. Under this scope, it is interesting to see, the evolution of tourist phenomenon in the region of the Southeastern, central and eastern Europe as described in Table 4.

**Table 4: Southeastern, central and eastern Europe :international tourist receipts per capita, 1990-2000**

Region	Country	International tourism receipts per capita (in US\$)					2000/ 1995	2000/ 1990
		1990	1995	1998	1999	2000	(as %)	(as %)
South eastern European (including Turkey)								
	Albania	133	1625	1929	NA	NA	NA	NA
	Bosnia-Hercegovina	NA	175	233	233	155	89	NA
	Bulgaria	201	136	362	377	385	283	192
	Croatia	242	905	607	654	473	52	195
	Macedonia, FYR	80	127	94	117	168	132	210
	Moldova	NA	133	200	200	235	177	NA
	Romania	35	214	88	79	111	52	317
	Serbia/Montenegro <sup>a</sup>	352	183	125	112	NA	NA	NA
	Turkey	672	700	801	755	796	114	118
Central and eastern Europe (2004 EU entrants)								
	Czech Republic	58	851	679	541	503	59	867
	Estonia	NA	666	643	589	459	69	NA
	Hungary <sup>a</sup>	40	135	209	236	220	163	550
	Latvia	NA	38	319	241	NA	NA	NA
	Lithuania	NA	118	323	387	318	270	NA
	Poland	105	344	423	340	351	102	334
	Slovakia	85	688	543	470	411	60	484
	Slovenia	1109	1485	1110	1084	878	59	79

NA: data not available.

<sup>a</sup> Arrivals data include all visitors.

Source : Hall (2004)

By encouraging greater and closer interaction, Hall (1998) comments, between formerly restricted host populations and the outside world, both inbound and outbound tourism may be seen as a catalyst of change: as a positive educational force stimulating a thirst for knowledge of the outside world, encouraging entrepreneurial activity, providing supplementary incomes, generating new forms of employment, creating new patterns of travel, or in setting up potentially negative demonstration effects, modifying cultures and generating major economic leakages through transnational involvement. The integration of CEE into the global economy and in particular in preparation for individual countries' possible accession to the European Union (EU), has been a prime foreign policy driving force, especially of the more advanced economies of Central Europe. In this general context, ex-communist CEE countries might welcome cultural tourism in the furtherance of political ends that arise through its image-generation potential. There is a continuing dialectic about the role of culture, the significance of tourism and the relationship between these two in CEE societies in transformation. Both culture and tourism have been utilised to display a break with the past, to promote particular national identities and to demonstrate a new openness and willingness and eagerness to embrace a wider European identity. In CEE, emergent post-communist governments have been keen to establish (and re-establish) national identities that are free from any connection with communism (Hall 1999). The debate about identity finds some expression in countries of CEE in tourism images that are promoted (Hall 2000). There has been a particular desire in tourism development to affirm an affinity with and reintegrate with 'European' cultural heritage and to demonstrate a new openness (Fox 1997).

## 7. Conclusions

Charles Dickens's opening words from his epic novel aptly sums up the contradictory and ambiguous mood prevalent today in much of eastern Europe: it was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity, it was the season of light, it was the season of darkness, it was the spring of hope, it was the winter of

despair (*A Tale of Two Cities*). Tourism as a political force, among others, may be a promising agent at this historical evolution. Tourism, in other words, has nowadays a unique opportunity to prove that it is not only a strict economic agent during this long lasting neo-liberal era; it is about a major sociopolitical force, enmeshing democracy globally.

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# EUROPEAN INTEGRATION BY MEANS OF ENERGETIC INTEGRATION

**Rotaru Marius-Petre**

*West University of Timișoara*

*Faculty of Economics and Business Administration*

*Address: 102-104 Uranus, Bl.A7, Sc.A, Ap.11, Sect 5, București,*

*Email: marius.rotaru@yahoo.com, tel.: 0721.324.576*

*Abstract: The energy security is a growing concern both of the EU governments, and of Brussels. The European officials have been working on a strategy that should ensure the energy security of the Union. Some of the main courses of action are as follows: increasing the energy output from regenerative resources, cutting down on the dependence upon Russia by finding alternative suppliers, and interconnecting the shipment routes.*

*Romania must act as such in order to face the domestic economic challenges. An increase in the quota of energy derived from regenerative resources of the total energy output will be sustained by important investments in the hydro-energy and eolian field. Another top priority for Romania is to interconnect the shipment routes for hydrocarbons at the European and regional level.*

*Keywords: energy security, integration, European Union, regenerative resources*

## INTRODUCTION

*The energy security is a concept differently understood from one country to another, depending on the risks they are faced with on the short term, as well as on the long term. To most experts, energy security means producing the necessary energy in their own countries, and their dependence, as little as possible, of imports. The energy security aims at three dimensions: ensuring alternative supply sources, identifying alternative energy supply routes, and securing the existing sources and supply routes. But the facts of this age have shown that great consumers should give up the utopia of energy independence, and accept the idea of energy interdependence<sup>198</sup>. The great players of „the energy stage” think differently of energy security.*

*The uneven distribution of energy resources, their convergence into certain countries create vulnerabilities in the energy security area, and affect the relationship between states. The vast resources of the Russian Federation stand for a strong compelling factor, a genuine means of political blackmail, as economies’ dependence on the energy resources is increasing.*

*A UN study stated that „The importance of energy for industry as a whole, and the fundamental role of oil as a source of energy as well as an indispensable military product seem to have contributed to turning the energy issues into a fundamental element of security.”<sup>199</sup>*

*Ensuring the energetic resources is a priority to the European governments. It is ever more obvious that we deal with a crisis against a growing demand of energy, particularly oil, natural gas and coal.*

*According to the Eurostat, in 2005 the average energy dependence rate of the 25 EU members was 56 %. The Eurostat study, published in September 2006, shows that, while in 2004 the EU energy dependence was of 54 %, it rose to 56 % in 2005, due to a decrease in the domestic production of 4.2 %, as the consumption remained the same<sup>200</sup>.*

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<sup>198</sup> Yergin, Daniel, „Ensuring Energy Security”, „Foreign Affairs”, March/April 2006.

<sup>199</sup> Anastasiei, Traian, „Cosiderații privind corelația dintre securitate și economie”, international seminar „România – membru al Alianței Nord-Atlantice”, 3-4 iunie 2004, Editura UNAp, București, 2004, page. 102.

<sup>200</sup> European consume is up to 1.637 millions tones of equivalent oil - Source: Ministry of Economy and Finance, Public Relations Department

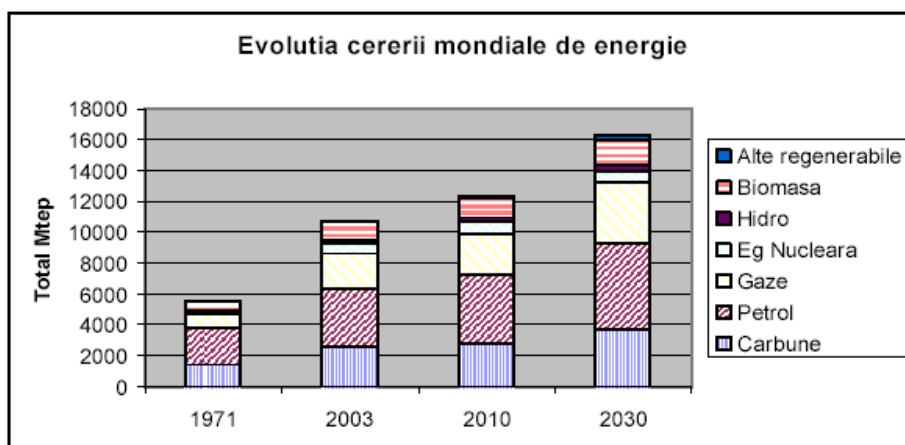
## PRODUCTION, CONSUMPTION AND ENERGY IMPORT

Fossil fuels are energy sources created over millions of years. As per the statistics by the British Petroleum, considering the current consumption, their exhaustion rate is as follows:

Fuels	Exhaustion rate (years)
Oil	40
Natural gas	62
Coal	224

*Tab. 1 The global exhaustion rate of fossil fuels*

At the same time, we can notice the dynamics of the energy demand (ill. 2), which triples from 5,500 thousand tons oil equivalent in 1971, to over 16,000 thousand tons oil equivalent consumption foreseen for 2030.



*Ill. 1 Evolution of global energy demand*

(source: IEA taken over by [http://www.minind.ro/foaie/PEN\\_19\\_10\\_2006.pdf](http://www.minind.ro/foaie/PEN_19_10_2006.pdf))

In 2005, the energy production of all kinds decreased in the 25 EU nations by 9 %, in contrast to 2004, according to an Eurostat study. The natural gas production decreased by 5.8 %, that of coal by 5.7 %, and nuclear power by 1.3 %.

The UK is the biggest European producer of oil (70%) and natural gas (44%). As far as oil is concerned, the United Kingdom is followed by Denmark with 32 %, and, as for natural gas by the Netherlands, by 32 %. Nevertheless, in 2005 the production of petroleum decreased in Great Britain by 11.4 per cent and in Denmark by 3.8 per cent towards the previous year. The natural gas decreased in 2005 by 7.7 per cent in Great Britain and 5.9 per cent in Holland.

Poland is the greatest producer of coal in Europe, with a share of 57 per cent from UE. In 2005 its production decreased by 2.1 per cent towards 2004. Poland is followed by Germany (19%) and Great Britain (13%), which decreased their production in 2005 by 3.9 per cent, respectively 17.9 per cent towards the previous year.

France, 46 per cent, produces the most nuclear energy in UE. The production of nuclear energy is the only one that increased in 2005 towards 2004, but only in France, by 0.9 per cent. Germany, which is the second producer of nuclear energy (16%), decreased the production by 3 per cent.



Europe imports a great deal of petroleum and natural gas, with a share of 60 per cent, respectively 25 per cent from the neat energy imports of the Union. The most dependent members of the Union concerning imports were Cyprus (total dependence), Portugal (99.4% dependent), Luxembourg (99%), Latvia (94%) and Ireland (90%). Denmark is the only European country that produces more energy than needed. Even The Great Britain has imported energy about 13 per cent.

The biggest consumers of energy are four members of the Union: Germany – 324.2 tons petroleum equivalent, France – 257.3 tons, The Great Britain – 224.1 tons and Italy – 181.9 tons. Spain follows with 139.5 tons. Although Poland has the same number of votes like Spain in the European Union Council, therefore a population and a similar territory consumed in 2005 by 53 tons less energy.

In January 2007, The European Commission presented some measures in the long term concerning the energy, which contain a Strategic Energy Review, the long term vision of UE regarding energy, a new Ground to cover for the regenerative energy resources, a Report on the liberalization level of the internal market, a Conveyance on the energy routes and a Conveyance on the „green” coal.

The measures taken in the energy field on the common level have been intensified after the year 2000 when the European Commission emitted The Green Card on the providing of secure energy, revealing the UE status at this chapter. The Green Card showed that the energetic dependence of the UE could increase from 50 per cent in 2000 up to 70 per cent in 2030, without any measures taken by all the Union members. In 2000 the imports status of the Union members looked like that: 45 per cent from the petroleum imports came from The Middle East and up to 2030, 90 per cent from the European petroleum consumption could have come from imports. Russia exports in the Union 40 per cent from the consumed gas, (30% Alger, 25% Norway) and up to 2030 more than 60 per cent from the UE gas import was to come from Russia, the dependence level reaching 80 per cent. As for the coal, the European Commission suggested that, up to 2030, 66 per cent should come from import.

In Romania, the whole amount of energy that came from the regenerative sources of energy decreased from 17.520 GWh in 1997 to 16.518 GWh in 2004, almost this energy being generated by the hydro plants. It is desirable that in 2010 the amount of energy got from regenerative sources should reach 33 per cent of the global energy. The hydro- energy industrially produced registered 15.855 GWh in 2004. In 2005 and 2006 it has been registered a slight increasing of the hydro- energy production due to the amount of rainfall mainly (see tab. 2). The contribution of the small hydro plants is moderate, by 658 GWh in 2004. The medium level of hydro energy increasing is small (on average 5 per cent by year between 1997 and 2004), despite its great potential.

Types of Energy Plants	Years						
	2000	2001	2002	2003	2004	2005	2006
	Millions kilowatt-hours						
Termoelectrica	31701	33497	33376	38480	34421	33651	38709
Hidroelectrica	14778	14923	16046	13259	16513	20207	18355
Nuclear electrica	5456	5446	5513	4906	5548	5555	5632
<b>Total</b>	<b>51935</b>	<b>53866</b>	<b>54935</b>	<b>56645</b>	<b>56482</b>	<b>59413</b>	<b>62696</b>

**Tab. 2 Electric energy production by type of energy plant**  
(source: The National Institute of Statistics)

Balance of electric energy by component elements	Years						
	2000	2001	2002	2003	2004	2005	2006
	Thousands tones equivalent oil						
Primary production (recovered products)	28190	29021	27668	28192	28026	27090	27065

included)							
Imports	10925	12771	13949	14639	16672	17072	17605
Exports	2947	3334	4999	4112	4820	6534	5983
Gross inland consumption	36374	37971	36480	39032	39018	37932	39571

**Tab. 3 Balance of electric energy by component elements**

(source: *The National Institute of Statistics*)

The Romanian program comprises a resolution for the installation of an eolian plant with a total power of 120 MW until 2010. In 2004, Romanian farms which used eolian energy generated 2 GWh.

In 1996, in the 1<sup>st</sup> of July the first nuclear reactor has been connected to the national energy- supply to the plant from Cernavoda, and in the 7<sup>th</sup> of August 2007 the second reactor. At the present day, the first and the second unit are producing together about 18 per cent of the electric energy consumption of the country. The initial project, as from the beginning of the 80s, foresaw the construction of five units. The nuclear reactors from Cernavoda use Canadian technology known as CANDU. The necessary of hard water, used as a go-between, is produced at Drobeta Turnu Severin. The power plant is shut down in dry periods, when the Danube level is low, because the cooling device of the reactors cannot function. This happened, for example, in August – September 2003, when the plant has been shut down for three weeks.

## THE ENERGY STRATEGY

The geopolitical aspects of the energy policy are still a national competence of the EU member states. Still the integration of EU nations' energy markets and the EU cross-national competence in the trade policy with third countries bring the energy issue up on the common political agenda. Prime Minister Călin Popescu-Tăriceanu stated: "Romania will back up the idea of drafting a strategy and a EU common policy for energy, in the EU relationship with Russia". The Romanian PM also tackled this topic in Berlin, in the discussions with German Chancellor Angela Merkel, emphasizing that "it is very important to have a EU – Russia partnership, so that we can speak in a powerful common voice, but by no means in a conflict-wise language". Prime Minister Tăriceanu fosters the idea of achieving a strategic EU – Russia partnership to provide higher energy security for the EU nations.<sup>201</sup>

Romania faces the same energy market weaknesses as the European Union: dependence of Russia, and the high rates of imported energy. Such problems may be settled by:

- reaching real competitiveness in the energy market;
- raising the energy production based on regenerative resources.

## ENERGY COMPETITIVENESS

As far as the first item is concerned, competitiveness is a key word, as it ensures low costs, consumer's wellness, and effectiveness at every tier of the energy industry: production, shipment, distribution, delivery and consumption.

For the period of time between 2005 and 2008, the Romanian Government identified three strategic objectives<sup>202</sup>:

- a) to acquire real competitiveness in the energy sector;
- b) to improve the institutional framework;
- c) to rule out the irregularities affecting the market competition.

Three areas have been looked into:

a) As far as the mining sector is concerned, mining products are in view to be sold on a free market terms, by harmonizing the price for energy mineral coal and brown coal with that corresponding to the quality of imported coal, privatizing the units that may attract investments, changing the current subsidy granting

<sup>201</sup> <http://www.gov.ro/presa/integrare/afis-doc.php?idpresa=199> (18.04.2008)

<sup>202</sup> <http://www.gov.ro/obiective/afis-docdiverse-pg.php?iddoc=257>, „Programul de Guvernare 2005-2008”, Cap. 13 - „Politica industrială” (18.04.2008)

system, downsizing mine operation losses, and conducting mining activities in environmental protection conditions only.

b) To maximize the natural gas production and shipment sector, the main gas producer (Romgaz) is planned to be privatized, geological activities to be enhanced, those at a great depth in particular, in order to get a “new-found reserves/production” ratio at a minimum of 0.5-1.0, so that the production decline should be reduced, and the energy balance be poised (at present, the natural reserves designed for industry are 70% exhausted), gas storage facilities are intended to be increased, the legal status of the natural gas piping system to be cleared up, policies to be promoted that ensure the supply continuity and security (variation of import sources, widening of the range of imports from the Russian Federation, by means of new interconnections to the national shipment system (Ungheni) concurrently with the transit facilities’ development, interconnection of the national shipment system in the West of the country - Arad, Oradea - with the view of providing the second import source - the North Sea, we also plan to participate in accomplishing the natural gas transit project from the Caspian and the Near East to Western Europe, and to participate in creating the Nabucco pipeline.

c) The electric and thermal power production, shipment and distribution sector: privatizing the production and distribution companies, organizing the energy stock market, establishing the regional energy market in Southeastern Europe, furthering private investments into new production capabilities based on cogeneration and non-polluting natural resources (hydro, solar, eolian), keeping up the efforts to establish the energy interconnection with EU nations, through the Transelectrica Company, and preserving the public ownership of it, extending offers for concession arrangements or privatization of the 25 unfinished hydroelectric power plants, and privatizing the micro hydroelectric power stations, increasing the capacity to interconnect with the European Union – Romania has a power reserve which may be used for export.

### ***POWER FROM REGENERATIVE RESOURCES***

The regenerative power production helps counter climatic changes, also increasing the energy supply security.

In 2004, most power derived from regenerative sources was produced by the large-scale contribution of hydroelectric plant power (hydroelectric power). To a great extent, the high potential of low scale hydroelectric power remained untouched. Between 1997 and 2004, both the production level, and the rise in most regenerative power sources were stable. Public supply is properly regulated, but the projects on regenerative power production have not been funded yet.

To promote the energy from regenerative sources, Romania enforced the following steps:

- A quotation system with Transactionable Green Certificates (TGC) for the power resulted from new regenerative sources was implemented since 2004. The mandatory quotations grow from 0.7% in 2005 to 8.3% in 2010. The TGCs are used in producing electrical power from wind-, sun-, biomass- or hydro-energy, being generated in facilities with less than 10 MW of their capacity.
- Compulsory shipment and priority marketing of the electrical power from regenerative sources, starting in 2004.

### **CONCLUSION**

The energy sector has a paramount influence upon the evolution of the whole society. At present, we cannot think of a developed economy, with a social sector fit to the 21st century Europe, without an effective energy sector. The energy policy should be able to sustain a long-lasting economic rise, based on harmonizing the economic proficiency requirements, social grounds, and environmental objectives.

The increased international energy and primary energy resources demand calls for ruling out the scenarios based on a long-term low-cost energy price. Improving the energy effectiveness, raising the share of regenerative sources, and broadening the range of primary energy supply sources and routes are top priorities for our nation.

EU member states’ dependence upon imported energy is growing. There are undoubtedly enough sources around Europe able to cover the foreseen rise in demand on the continent over the centuries ahead. Nevertheless, the shipment capabilities towards European markets are scarce for the time being. Consequently, one of the main trends of the community energy policies is aimed at diversifying and

multiplying the supply sources, as well as the supply routes, especially now, that the European reserves dwindle.

The national energy sector must meet the most important domestic and European challenges: energy supply security, growth of economic competitiveness, and reduced environmental impact. Such challenges are fundamental, given the fact that Romania must make up for the economic performance lag between her the developed EU countries.

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# REGIONAL INTEGRATION AND THE NEW TYPE OF COMMERCIAL WARFARE

**Rotaru Marius-Petre**

*Address: West University of Timișoara, Faculty of Economics and Business Administration, Str. J.H. Pestalozzi nr. 16, cabinet 101, 300115, Timisoara*

*Tel.: 0721.234.576, E-mail: marius.rotaru@yahoo.com*

*Abstract: The lowest the number of the regional integration areas, the higher the propensity for protectionism (Krugman). The revival of regional protectionism measures meets the case of a commercial warfare. In the largest integrated market, investors must “play” by strict rules, so that a balance between productivity and risk should be kept. The elasticity in replacing the goods interchanged across local areas commensurate with the frequency of intra-regional and extra-regional goods replacement by consumers, depending on how prices evolve. The challenge of cross-area regional integration commercial warfare might lessen to the extent that these few areas are strong enough to build their global commercial relationships upon cooperative arrangements rather than conflict-wise solutions.*

*Keywords: regional integration, protectionism, commercial warfare, elasticity, global cooperation, Romania's commercial security.*

## 1. Introduction

No country is immune to the effects of regional commercial agreements because they are more and more a part of the present configuration of global economy. Probably at a given moment in time, questions over the potential partners and the measures that should be implemented are raised in every country. The answers to these questions cannot be found easily because the states are different one from the other through structure as well as politic and economic goals. Nevertheless, it is certain that preferential agreements stimulate trade between Member States due to the elimination of barriers regarding interregional flows. The question is whether this increase of interregional trade is positive for each Member State, entire commercial block and/or entire world.

Economic integration is a dynamic, multidimensional, complex process, which became an important issue of international economy, especially in the last decades. When we speak about economic integration, we consider three aspects:

- regional integration
- preferential trade arrangements
- commercial blocks

This integration supposes, in its simplest form, the discriminatory elimination of all commercial barriers of flows between at least two countries and the establishment of some coordination and cooperation elements between them.

The economic integration is the result of an action made by a complex of factors of which the most significant parts are estimated to be the economic and political factors. One the one hand, the economic disparity between western European countries affected by World War II and USA – whose place have been grounded significantly in the global economy – was one of the *main economic reasons* that generated the idea of a tighter cooperation in Western Europe. On the other hand, the avoidance of some possible future conflicts between France and Germany, which were already having tense relationships from the end of the 19<sup>th</sup> century, bringing back Western Europe to its status of global power and stopping USSR's expansion are mentioned frequently as *politic reasons* that caused the integration process in Europe.

No matter the nature of the most important reasons, the political and economic factors are interdependent. The integration supposes the need of cooperation and coordination that powerfully reproduces in the more advanced stages of this process. Besides economic and politic premises, geographical and cultural factors had been brought into discussion.

Paul Krugman states that geographic neighboring causes the existence of some “natural” commercial blocks created between partners who exchange a significant part of their commercial flows between them.

Samuel Huntington presents the culture as a force that establishes and divides at the same time. Therefore, the states with cultural affinities cooperate economically and politically and international organizations like the EU, formed by states with mutual cultural features are more successful than those that try to transcend the cultures.

The economic integration determines the transformation of the present international system and somehow alternates the classic vision over the suzerainty and country’s role.

The tendency of some regional commercial blocks’ appearance is caused by the influence of some factors:

- endogen
- hexogen

Endogen factors are the result of the evolutions that took place inside of a country already developed.

- Fundamental options of similar economic politics and therefore mutual conception over development
- Trade liberalization politics promoted by multiple developing countries, process which will ease the increased liberalization in the view of a future integration with more developed countries
- Economic barriers with which the states have been confronted with, as a result of the energetic crisis which had as an effect the awareness of the fact that there is a development potential which hasn’t been exploited enough.

Among hexogen factors, there are:

- The assuring way of the potential risks caused by regional events or events that are far away
- Attempts to compensate possible losses caused by the decrease of some external markets with an increase of group exchanges, as a result of some integration processes as well
- The desire of political balance and consolidation of democratic systems

## **2. Regional integration and the new type of commercial wars**

### ***2.1 Trade’s freedom and economic welfare***

Nowadays is admitted that the idea of a world where dominates the exchanges’ freedom is more profitable than that in terms of the tariff and non-tariff barriers in trade’s way.

Nevertheless, in reality, the possibility of organizing trade’s freedom on a local scale is more probable than on a global scale. Therefore, after the end of World War II, a series of regional integration area began to appear.

If global free exchange seems hard to be achieved, at least now, it is possible to consider, at least as a transitory idea, the creation of regional integration area as a second best choice.

After World War II, we can observe a more regional than global orientation of international trade.

The most powerful regionalization of trade is made in Europe, the most significant example being given by the EU. The tendency of regionalization had been present especially since the 80’s. The intra-European underlining of exchanges followed a trade’s stagnation period during the 70’s while for Asia the 8<sup>th</sup> decade of the past century is related to one of the highest period of economic increase despite the inter-Asian exchanges have not been so outlined.

If we analyze interregional trade’s dynamics in relation to GDP, interregional trade’s side appears to be sensitively increased than global trade in general<sup>203</sup>.

In 1987, the report for USA was 11.4%, 21.8% for Japan and South-East Asia and 13% for Western Europe.

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<sup>203</sup> R.C. Hine, “Regionalism and the integration of the World Economy”, Journal of Common Market Studies no 2, 1992

## 2.2 The development of the regional integration areas

P. R. Krugman shows that the tendency towards protectionism gets higher as the number of the regional integration areas decreases.<sup>204</sup> Its empirical tests highlight that areas' number which could minimize world welfare is three, which corresponds to the present case (European area – around the EU, Asian area – around Japan and American area – around USA).

R.C. Fenstra studied also this matter. Starting from GATT<sup>205</sup> Member States, he established a global standard of exchanges according to the three blocks: North and South America, Europe and Africa, Asia and the Oceans. The analysis made considering the regional income spent for importations from other regions from 1988 show that more than a half of international trade is interregional. More precisely, total trade represents almost 20% of global income and the exchanges between regional areas raise up to approximately 8% of world income (see 2<sup>nd</sup> column of Table no 1). There had been made forecasts regarding two different hypotheses:

- A trade's decrease to half between regions because of the reappearance regional protectionist measures, which means a state of commercial war
- The variables' values of substitution resiliencies of goods exchanged between regional areas (substitution values' variability of goods exchanged between regional areas)

These resiliencies measure the intensity of which consumers operate (make) a substitution between local goods and those which are from outside the area, depending on their prices' evolution. R.F. Fenstra mentions three values of the substitution resilience: 1,5; 2; 3.

These values correspond to: low value – 1.5; average value – 2; high value – 3 in comparison with the usual values obtained by empirical tests.

Regional Areas	Trade with other groups of regional	Substitution resilience		
		1,5	2	3
North and South America	2,1	7,2	3,6	1,8
Europe and Africa	6,4	6,4	3,2	1,6
Asia and the Oceans	14,7	11,7	5,8	2,9
World Average	8	8	4	2

**Table 1: Percentages in world trade of regions and costs of a commercial war**  
(Source: R.C. Fenstra, 1992)

According to substitution resilience's value, world welfare will be more or less affected as a consequence of exchanges' decrease. Extra-regional trade's part would remain constant at 2% of world income if trade between regional integration areas would decrease to half and if substitution resilience's value would be 3. Trade would remain constant at 8%, with a substitution resilience of 1.5. Nevertheless, commercial wars' risk of regional integration internal areas could be reduced if these areas are few and have a sufficiently important economic percentage in order to incite them to better look for resolutions by cooperating than to remain in conflict when it comes to international commercial relationships.

It is also possible the idea according to which a very fragmented world would allow a higher welfare than a world in which there would be just a couple of regional groups. In absence's case of regional integration

<sup>204</sup> P.R. Krugman, "Is Bilateralism Bad?" in *Helpman, Ehlman and Raniz Eds. International trade and trade policy*, Cambridge, 1955, republished 1991

<sup>205</sup> **General Agreement on Tariffs and Trade** created in 1947 is the institution, which arbitrates commercial conflicts. 123 states joined GATT agreement, number that represents 90% of world trade. After the meeting in Tokyo (Tokyo round) non-tariff barriers have been eliminated. In 1986, the negotiations during Uruguay round led to the elimination of commercial barriers and discrepancies by extending the protection and services of intellectual property. On April 12 – 15<sup>th</sup> 1994 the Ministerial Conference of GATT in Marrakech had marked the end of GATT so that from 1995 all aspects related to international trade to be solved by Trade World Organization.

areas, the risk of non-tariff markets' occurrence for the tertian states would be more indicated but would affect less the countries than a case in which a single group (EU for example) would form its own market in relation with one or more of its activities. Such discrimination would seem suddenly dangerous given the importance of the European market and would imply permanent negotiations for the attempt to balance the interests of the multiple parts. With a fragmented market obstructioned by non-tariff barriers, global loss of welfare might be bigger as every country could be affected differently (the existence of a commercial prejudices atomicity), their individual reaction might be less efficient in the fight for exchange barriers' elimination. Globally speaking, it can be concluded that regional agreements doesn't appear as obstacles in world trade's development, but represent in Pareto optimum terms a second best resolution in comparison with free world trade because they introduce a new type of protectionism and begin some new commercial wars which are more destructive for most of world's countries.

A significant part of observers and theoreticians of contemporary globalization almost unanimously focus on the aspect of interstate and inter-firm competition and less on the concept of economic war, which is considered to be exaggerated and therefore inadequate to the present context.

Some authors consider that we are finding ourselves inside of an economic war led at different levels by enterprises and states looking for supremacy as they noticed that globalization doesn't have a peaceful character and it's effects are ill-fated for some countries and regions.

### 3. Conclusions

Economic war is rarely treated seriously, even in the media, where some titles as "textiles' war", "shoes' war", have more purpose to get the attention than to explain it. The followers of the idea that free capital and merchandise circulation is a pacifying way for the countries have doubted themselves. According to them, competition is the key aspect, and some of them – like Elie Cohen – even minimized the competitive side of globalization's circle: "Starting with Paul Krugman it is known the fact that nations' problem isn't competitiveness, that to do better what the neighbor had done, but winning segments of the market. The main issue is efficiency or a country's capacity to produce better and more efficiently using its own physical and human capital and within the technological and scientific resources." Getting out of the context the economic war to make it unique and analyze its implications in globalization's context may seem inadequate considering the fact that most of the times wars which human kind had known have had an economic side permanently. Except the campaigns in Iraq and Afghanistan, the last World War is a part of a long series of major conflicts marked by the destruction of human lives and material goods, where economic interests have played a key part.

War implies a violent action and from here the indecision to extend its meanings towards present international economic space where competitiveness concept, even if implies the existence of winners and losers, distances itself from the destructive effects of a "real" war. The fact that economic wars have mixed with military wars led to believing that they will disappear in peaceful times. Nevertheless, countries' interests did not harmonize through large-scale commercial exchanges caused by globalization as shows the neo-liberal speech focused on the idea of the pacifying market.

Christian Harbulot, an expert of the economic war notices that, from the nationalist point of view, economic war begins to make a meaning hidden not only by liberalism but also by Marxism. While it was focusing on the imperialism as a supreme stage of capitalism, Marxism was omitting the "un-ideological" analysis of the confrontations between national economies. Ideology war's disappearance did not lead for now to economic confrontations' disappearance. Globalization, within its rivalries, which is inducing to the international actors, leads to economic conflicts, which, in certain terms, can jeopardize national safety. That is especially why Harbulot was warning, "It is urgent for us to establish very clear distinctions between national interest and over-national interest, between enterprises' competitive objectives and those of national economies."

In theory, world economic competition implies the participation of the countries and enterprises in the race for the maximum benefits' achievement for consumers and stockholders so that it can be stated that the main reason for these actors of globalization is the destruction of the enemies.

Such a vision does not take actually into consideration the existence of some complex politic and economic connections between the states of the world. The interests and rivalries among the great powers continue to exist even when ideologies stop to divide the two sides. China, a special "capitalist - communist" hybrid case, is not unanimously seen as a potential violent "enemy" by politicians and businessmen.



In the same time, powers' distribution at the global scale has met important changes during communism, materialized in the highlighting from multilateralism to American unilateralism of whose motivations are obviously found not only in wishing to guarantee planet's safety. What globalization and geo-political interests are creating today is a war that cannot be defined easily. It is more about a complex use of economic weapons at different levels where the politics is involved or not, acts from the shadows or relatively up front.

Human kind has a long way to take until that global perfect "game" where everyone is winning. That is especially why the definition of state's role in market's economy and in its connections with the national private firms is a matter that deserves to be analyzed in order to clarify the ambiguities.

The dynamics of the connections between national state and firms has met an historical evolution filled with its local culture, influenced by groups of interests, ideologies and external events. These facts are making us today to be the witnesses not only of a new global unique capitalism but also of an entire series of variations on the same subject distributed in the entire world.

The difference between competition, economic war and economic weapon is not always clear. The interests of the states of the world still remains in the center of the policies promoted by these even when they sign integration agreements, which leads to ambiguities and confusions as so-called the "economic patriotism". On long term, the effects of the accelerated economic competition between enterprises and states can be disastrous for environment and irreplaceable natural resources as the "winners" could be on a first level those territories poor in resources, which ended this way to depend on the "relationships" given by the "protectors".

Albert Hirschman noticed that it could not be spoken of equity when it comes to commercial exchanges between a powerful country and a weak one because the strongest always will impose the commercial terms that are most advantageous to it. It can be easily deduced, when is the case that a great power could block the importations of some merchandise from countries, which wishes to undermine politically and economically.

But even dumping policies, commercial barriers, licenses' administration, brains and labor force's migration, the increase of petroleum's price, financial crises can, in certain terms, produce the undermining of a national economy.













# SELF-EMPLOYMENT PROBLEM IN SOME EUROPEAN COUNTRIES –REALITIES AND PERSPECTIVES

Sarpe Daniela

“Dunarea de Jos” University of Galati, Faculty of Economics, d\_sarpe2000@yahoo.fr, 0723500623

Neculita Mihaela

“Dunarea de Jos” University of Galati, Faculty of Economics, NeculitaM@yahoo.fr, 0723238232

*Abstract: This paper is a result of a Leonardo da Vinci project “SELF-EMPLOYMENT - Guidance and Counseling for Self-Employment” whose aim was to identify the location and the value of guidance and counseling services aimed at people considering self-employment in some European countries: Austria, Poland, Romania and Finland. In the whole project self-employment was defined as a one-person company. The project identified the location and the value of various support services for self-employed in Europe, including a study of entrepreneurship level in the four countries and a survey of existing services which support establishment or development of one-person enterprises. A SWOT analysis in the field of self-employment is presented in the first part of the paper and in the second part the curricula for self-employment training courses and the effectiveness of the training are taken into account for all the related countries.*

*Key words: self-employment, SWOT analysis, quality*

## 1. Introduction

High unemployment rate in European countries requires efficacious modes of action. Self-employment, laden with lower risk than waged/salaried employment, is one of the still underappreciated solutions.

It is very important to research self-employment. Micro, small and medium-sized enterprises are socially and economically important, as they represent 99 % of all enterprises in the EU and provide around 65 million jobs and contribute to entrepreneurship and innovation.<sup>206</sup>

The objective of the first part of the paper is to present and compare the strengths, weaknesses, opportunities and threats linked with the self-employment system in four European countries: Austria, Poland, Finland and Romania. The second part will deal with the problem of the curricula for self-employment training courses in all these countries. The paper is based on the databases and the national analyses of the databases.

## 2. Strengths, weaknesses, opportunities and threats in the self-employment field

### 2.1. Finland case of self-employment

Strengths	Weaknesses
<ul style="list-style-type: none"><li>• The presence of support services in the whole country.</li><li>• The supply of services is extensive.</li><li>• Services are inexpensive.</li><li>• Nearly all information, forms and contact information on the support services for self-employment can be accessed through the Internet.</li></ul>	<ul style="list-style-type: none"><li>• The image of one-person-companies is not so high-profile; people are not so keen on to start their own business.</li><li>• The use of services declines after the establishment phase.</li><li>• The innovative potential of the cooperation and interaction between companies and e.g. universities is not fully exploited.</li></ul>

<sup>206</sup> SME definition: Commission Recommendation of 06 May 2003 (2003) European Commission. <[http://europa.eu.int/comm/enterprise/enterprise\\_policy/sme\\_definition/index\\_en.htm](http://europa.eu.int/comm/enterprise/enterprise_policy/sme_definition/index_en.htm)>



<p>Opportunities</p> <ul style="list-style-type: none"> <li>• Self-employment could offer many people a good way to get employment.</li> <li>• More and more possibilities e.g. for women's entrepreneurship, environmental friendly entrepreneurship and social entrepreneurship.</li> <li>• Potential in the cooperation and interaction between companies and e.g. universities.</li> <li>• Potential of peer and mentor firms.</li> <li>• Potential in the further cooperation between</li> </ul>	<p>Threats</p> <ul style="list-style-type: none"> <li>• Missing evaluation of the effectiveness of support programs</li> <li>• The lack of mental support the new entrepreneurs for coping with the critical start-up phase.</li> <li>• Increase of public support services costs.</li> </ul>
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## 2.2. Romanian case

<p>Strengths</p> <ul style="list-style-type: none"> <li>• Most support services are available in the whole country.</li> <li>• The supply of services is extensive.</li> <li>• Most counselling services are free of charge.</li> <li>• Nearly all information, forms and contact information on the support services for self-employment can be accessed through the Internet;</li> </ul>	<p>Weaknesses</p> <ul style="list-style-type: none"> <li>• Missing access to finance and lack of knowledge how to access the existing finance;</li> <li>• taxes &amp; regulations;</li> <li>• lack of entrepreneurial culture,</li> <li>• lack of management &amp; risk taking knowledge.</li> <li>• the image of one-person-companies is not so high-profile; people are not so keen on to start their own business;</li> <li>• Missing support targeting especially one-person-companies combined with wrong expectations on every start-up company to grow and create more jobs than the one for the founder</li> </ul>
<p>Opportunities</p> <ul style="list-style-type: none"> <li>• Self-employment could offer many people a good way to get employment.</li> <li>• Starting developments of lobbying for one-person-companies</li> </ul>	<p>Threats</p> <ul style="list-style-type: none"> <li>• Missing evaluation of the effectiveness of support programs</li> <li>• The lack of mental support the new entrepreneurs for coping with the critical start-up phase.</li> <li>• Poor sustainability of business support centres after the financing from the donors ceased;</li> <li>• Missing specific market knowledge of most consulting providers.</li> </ul>

### 2.3. Polish experience in the field

<p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>• A high number of diverse support providers.</li> <li>• A broad subject range of the trainings offered.</li> <li>• A wide variety of the forms of support offered.</li> <li>• Possibility to use the services free of charge.</li> <li>• Availability of services both at the national and local level.</li> <li>• Experience in enterprise support.</li> </ul>	<p><b>Weaknesses</b></p> <ul style="list-style-type: none"> <li>• Varying quality level of the services offered.</li> <li>• Small number of customised, specialised support forms.</li> <li>• Focusing the support on the initial stage of business activity.</li> <li>• No support forms focused specifically on self-employment.</li> <li>• Provisional support forms instead of comprehensive measures.</li> </ul>
<p><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>• The increase of enterprise importance in political activities, programmes, etc.</li> <li>• Favourable changes in social perception of entrepreneurs.</li> <li>• Strong promotional actions for the benefit of self-employment.</li> <li>• Development of training initiatives/programmes oriented on self-employment.</li> <li>• Introduction of legislative solutions in the form of incentives for self-employed.</li> <li>• Possibility to finance the support forms from the means of support programmes.</li> <li>• Possibility to employ new technologies (e-learning).</li> </ul>	<p><b>Threats</b></p> <ul style="list-style-type: none"> <li>• No external systems for verification of the quality of services offered.</li> <li>• Poor dissemination of information concerning the possibility of using support forms.</li> <li>• Low survival rate of one-person companies.</li> <li>• Legal and institutional environment being “hostile” towards entrepreneurs and frequent changes in the regulations.</li> <li>• “Spoiling” of the training market by unprofessional/dishonest organisations.</li> </ul>

### 2.4. Austrian case of self-employment

<p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>• Allocation of existing support services around the counties and regions.</li> <li>• Innovative potential (i.e. sustainable skills for entrepreneurs).</li> <li>• Raising awareness about the increasing group of persons in (new) self-employment and other structural changes on the labour market.</li> <li>• High survival rate of start-up-companies compared to the EU average.</li> <li>• Organized platforms for networking</li> </ul>	<p><b>Weaknesses</b></p> <ul style="list-style-type: none"> <li>• Missing representation of one-person-companies in comparable statistics.</li> <li>• Missing access to micro-credits.</li> <li>• Missing support especially for one-person-companies combined with wrong expectations on every start-up company to grow and create more jobs than the one for the founder her/himself.</li> <li>• Barriers in society concerning the image of one-person-companies.</li> </ul>
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between one-person-companies.	
<p>Opportunities</p> <ul style="list-style-type: none"> <li>• Increasing initiatives orientated on the needs of women in self-employment.</li> <li>• Research potential in the field of universities and other research institutes.</li> <li>• Counseling potential for the particularities of branches and businesses and to present best practice examples.</li> <li>• Simplifications in the handling with authorities and the legal documentation.</li> <li>• Starting developments of lobbying for one-person-companies.</li> </ul>	<p>Threats</p> <ul style="list-style-type: none"> <li>• Missing awareness for taking into account the situation of one-person-companies in the immigrant population.</li> <li>• Unclear legal definition and further problems about “new self-employment” in the context of legal matters, social insurance and taxes.</li> <li>• Missing evaluation of effectiveness of support program.</li> <li>• Missing specific market knowledge of most consulting providers.</li> </ul>

### 3. Comments on SWOT analysis

All of the four countries have the strength that the support services are available in the whole countries. The services are also low cost or even free of charge. A common strength is also that there are many types of services available. The Finnish case also has the strength that nearly all information, forms and contact information on the support services for self-employment can be accessed through the Internet; there is less bureaucracy and the access to the services is better. The Internet access becoming more common in other countries, too. In Austria there is a high survival rate of start-up-companies compared to the EU average.

There are also many common weaknesses in the partner countries. One problem is that the image of one-person-companies is not so high-profile; there are barriers in society concerning the image of one-person-companies. One weakness is that financial know how, management & risk taking knowledge and other know-how is lacking from many entrepreneurs. So, the usage of support services should be higher also after the start-up phase of the company.

A common opportunity in all partner countries is that self-employment could offer many people a good way to get employment. There is potential for example in women’s entrepreneurship, environmental friendly entrepreneurship and social entrepreneurship. The Internet brings many new opportunities, e.g. for the new kinds of learning environments.

There are also threats. For example, the lack of mental supports for the new entrepreneurs for coping with the critical start-up phase is a threat. In Poland there is a low survival rate of one-person companies. In Austria, there is missing awareness for taking into account the situation of one-person-companies in the immigrant population. In Finland there is increase of public support services costs. And in Romania there is poor sustainability of business support centres after the financing from the donors ceased.

### 4. Entrepreneurship courses at schools and training centres

Another important result of the research concerning the self employment process in the four European countries was that of comparing the entrepreneurship teaching methods at schools and training centres located in the related countries.

Courses and trainings in entrepreneurship taught in Austria, Finland, Poland, Romania, can be compared with each other under the following aspects:

1. type of institutions organising the above mentioned courses and trainings,
2. general programme and subject matter of the courses,
3. teaching methods used during the courses,
4. quality inspection of the courses taught.

#### **4.1. Organisers**

Realisation of entrepreneurship curriculum within the system of education is the responsibility of the Ministries of Education in individual countries. In Austria the teaching of entrepreneurship as an obligatory subject was introduced into schools already in the early 1990s. In Poland and Romania it was no earlier than 2003. Entrepreneurship promotion takes place at different levels of education. A tendency has been observed to gradually lower the age of learners who start their education in entrepreneurship. In Poland it is currently started by lower secondary school students at the age of 13 and in Austria – by 10-year-olds. In Finland it is compulsory starting from the first class of primary school (since 2004) and in Romania – from grade IV; the Ministry for Education and Research in Romania makes it possible for children in grades I-III to participate in entrepreneurship lessons within the framework of extracurricular activities.

Among government units not only the Ministries of Education, responsible for formation and supervision of the system of education, implement entrepreneurship lessons. It is also in the interest of the Ministries of Economic Affairs and Labour, which promote entrepreneurship by providing funds for execution of various entrepreneurship-related countrywide programmes and trainings. The Ministries affect in this way the amount and the kind of labour supply. They are organisers of such activities as career centres at primary and secondary schools and extracurricular courses in economics and contests concerning the acquired knowledge.

The actions conducted by schools are often joined by non-governmental associations and foundations in individual countries. Schools often initiate the contact themselves, seeking in this way financial or subject-related support for their actions. These associations can also organise various projects and contests at national or regional level on their own. As organisers of such actions the associations may cooperate with one or more schools, depending on the project performed. An example can be simulations of mini-enterprises at Polish lower secondary schools and at Austrian schools. The author and executor of this project in Poland is the Small and Medium-Size Enterprise Foundation KOMANDOR and in Austria it is the Young Enterprise Austria. Also the Austrian Chamber of Commerce promotes entrepreneurship by providing teaching concepts and material (i.e. “entrepreneur driving licence”) directly for the use in the educational system. Many initiatives carried out by governments are of supranational character. The European Union member states avail themselves of the EU funds, and the other (Romania) make use of the support of United Nations Conference on Trade and Development. In addition to foundations and associations that act and work for promotion of entrepreneurship, there are the purely commercial organisations which offer more specific courses in chosen fields.

The learning of entrepreneurship may also take place directly, by means of actions undertaken on a bottom-up basis by persons interested in self-development themselves. This is the case with various vocational activation centres created by European students or simulated enterprises founded on a voluntary basis. Activity including founding and managing of such organisations develops entrepreneurship qualities in individuals.

#### **4.2. Subject matter of trainings**

The collected information enables us to state that the subject matter and scope of entrepreneurship lessons at schools differs from that of courses carried out in training centres. The classes at schools have a more general character and teach knowledge from many fields. The primary school curriculum, in all countries except Poland, includes elementary knowledge concerning the child’s closest environment, which is communicated in a way adjusted to the children’s young age.

Within the compulsory curriculum at lower and upper general secondary schools the following main topics are offered:

- a) General functioning of market and market economy
- b) National economy (role of state, functions of state budget, the concept of economic growth, functioning of banks and insurance system, risks e.g. corruption, etc.)
- c) Labour market and job counselling; choice of profession
- d) Entrepreneurship (knowledge about the functioning of small enterprises, necessary skills, formal and legal regulations, support sources)
- e) Development of individual personality qualities and vocational competencies

This is the minimum programme which is considerably expanded in case of the so-called business schools and enterprise centres, where besides general knowledge also specialist knowledge concerning self-employment and functioning in specific sectors of economy is being imparted. Enterprise centres/schools operate in all partner countries of the project. These are relatively new initiatives, even in the more developed countries (e.g. in Austria the first students of the 'Entrepreneurship Education' project which promotes gifted students at 'Schumpeter-Handelsakademie', carried out at Secondary College for Business Administration, finished their education in 2005).

Entrepreneurship courses are also organised by higher schools. Their offer is directed not only to students, but also e.g. to unemployed persons or to all interested persons in general. However, it is mostly the young people that avail themselves of this offer.

Courses performed by training centres most often concern a selected subject matter comprising an element or a supplementation of the school knowledge, e.g. what needs to be done in order to register a one's own business, how to write a good business plan, how to overcome stress. As actually in all countries the teaching of entrepreneurship has been introduced only recently (in the 90s or at the beginning of the 21st century), in case of persons over 30 (and in some countries even those over 20) these courses need to substitute for the general knowledge that they won't obtain at school any more.

It must be remembered that the transfer of a more extended knowledge is not tantamount to this knowledge, being more valuable than that supplied during other courses. Its very generality may be its negative aspect. It is also worth noticing that the form of teaching the entrepreneurship subject at schools is unfavourable → lectures.

Furthermore, there are no educational packages including subject matter aimed directly at self-employed persons. Entrepreneurship courses are of a too general character for their participants to get familiar with the real situation of a person running his/her own individual business.

### ***4.3. Teaching methods***

The basic method of teaching at schools in all countries is comprised by the traditional lectures. However, it's no news that this form is not conducive to focusing the students' attention on the subject described, and an excess of theory in relation to practice hinders the development of entrepreneurial qualities and the process of knowledge assimilation. Therefore, innovative teaching methods enjoy popularity among students and find approval also in the eyes of local representatives of the education system. Workshops and group works of all sorts make lessons more attractive and provide a possibility to use the knowledge in a more practical way. Furthermore, seminars with participation of guests from business scene provide an opportunity to meet persons with entrepreneurial qualities, and meetings with experts on the local labour market help get acquainted with the current market trends and provide a hint while choosing the direction or continuation of one's career. These teaching methods are used in all countries.

Development of the Internet and multimedia techniques made it possible to introduce online courses in entrepreneurship, which are conducted in this way in various countries. However, because the accessibility of Internet and skills level in using a computer are different among populations of the individual countries, also the possibilities to use e-learning in order to acquire knowledge are limited (in general to the disadvantage of Middle and Eastern European countries and elderly people).

One of new ideas realised in all partner countries, comprised of a combination of an e-learning course (or a traditional one → lectures) with real operations of a company are the so-called simulated enterprises. Students / course participants taking part in such lessons create their own artificial small-enterprise based on the theoretical knowledge they acquire prior to or simultaneously with the foundation of their small-enterprise. Then they choose the appropriate departments for each of them and perform the relevant duties. In this way they can check the usefulness of the previously learned theoretical matters and put them in practice.

The significance of the recent development of ICT, the Internet and audiovisual techniques must be emphasized. Producing a change in the form of education, it contributed to the making of the trainings more attractive and provided an opportunity to test the acquired knowledge in practice. The new technologies make it also possible to reach groups of people for whom the participation in trainings had been unavailable before (e.g. the e-learning course "My own business – A chance to live with dignity" directed to physically impaired people which was conducted in Poland in 2004).

Other methods serving the development of entrepreneurship are also career services and schools' centres for vocational development. Reaching them and participating in various trainings, practices, organising job fairs and seminars etc. requires personal initiative and increases the activity of individuals.

#### **4.4. Quality inspection of the courses**

Depending on who organises the course, different units perform the inspection of the realisation of the course programme. In individual countries the evaluation of the method of realisation of entrepreneurship courses is carried out within the framework of the education system. This is usually done on the basis of a division into particular regions or towns. The inspection is usually quite superficial and concerns more the question whether the lessons took place and how many hours were dedicated to them, and not how they were performed or whether they brought the desired effects. It must be stressed that the realisation of the obligatory subject matter is considered the necessary minimum, whereas conducting additional activities serving the introduction of economic knowledge is evaluated as particularly valuable, e.g. organisation of simulated enterprises or economics-related contests. However, also in this case it is more the mere fact that the initiatives have been undertaken by the schools that is stressed. The only measure of their effectiveness may be the students' willingness to participate in the unusual initiatives, as there are no means to measure the courses' effectiveness.

It needs to be mentioned that some countries are creating more detailed quality inspection tools for the courses conducted. In Finland, for example, there is the Development Plan for Education and Research for years 2003-2008, adopted in 2003, which assumes the development of such tool.

Other institutions that perform individual activities usually evaluate them on the basis of observing the course participants and training groups. Then they state that e.g. throughout the course duration a person has displayed an increasing ability to work in a group. In this way they determine that the training has affected the desired behaviour with this particular participant, and in their opinion this means that the method and/or subject matter of the course is correct.

### **5. Effectiveness of teaching in the entrepreneurship field**

A number of entrepreneurship-related courses are conducted in all countries. They are commonly available, especially due to enterprise and employment support programs from the EU funds. Their organizers are both government authorities and non-governmental institutions and foundations. The prevailing courses are those concerning general economic knowledge or detailed knowledge of individual issues, e.g. writing of a business plan or registration procedure for individual business.

In individual countries there are both theoretical and practical forms of teaching. In post-communist countries, less developed with respect to ICT and without continuity of tradition of individual entrepreneurship, teaching by practical means has been introduced only recently and acquires the state's support and the attention of non-governmental organisations. It must also be mentioned that self-employed people are a particular group of entrepreneurs. They operate independently, without the support of a team, as it is in bigger enterprises. Furthermore, only they are responsible for the entire undertaking i.e. their business; they are the only beneficiaries of their activity, but at the same time they are the only ones to bear the risk and possible loss resulting from any wrong decisions. Because of these aspects, participation in such initiatives as simulated enterprises will never allow a participant to understand the situation of a self-employed person.

Regarding the financing of trainings/courses, those included in school curricula are carried out in European countries either for free at public schools or for a fee at private schools.

Apart from the free education at schools there is a wide range of cost-free or partly-paid courses conducted by local and regional non-governmental organisations, various foundations and associations of entrepreneurship. Many of the programmes executed are financed from the EU funds. Of course, there are also some courses that are fully-paid, especially those organised by private institutions, business organisations and non-public schools.

From the viewpoint of the „Guidance and counselling for Self-employment” project realisation, the best source of information about the effectiveness of the entrepreneurship trainings was the data concerning a number of people who have completed such courses and have started a one-person-business afterwards. However, we are not aware of any study of this kind.

There are no comparative studies concerning opinions about the quality and effectiveness of trainings conducted both within the system of education and by other institutions. To our knowledge, there are also no research projects that would collect general opinions and evaluations of participants or outside observers of these courses within either the education system or extracurricular activities. This means both lack of studies in each individual country and lack of international research.

There are no accessible data concerning the grades obtained by learners who complete the education in entrepreneurship subjects, which could comprise another measure for the effectiveness of these courses. As regards other institutions, a part of them do not organise any exams at the end of the courses and do not grade the level of knowledge acquired by the participants at all. What is noteworthy is the common cooperation of various institutions at local and regional level, aimed at entrepreneurship education.

## **6. Conclusions**

The results of the whole project will be potentially used by decision-makers from different bodies (at EU level, national and regional level) for improving conditions conducive to self-employment, as well as by career counselors for creating advanced and effective tools for guidance, counseling and other support services. The aim of the project widely meant promotion of self-employment. Researches are to describe the condition of one-person-enterprises and help in developing suitable support service system addressed to people being self-employed or considering it.

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# THE REGIONAL DEVELOPMENT AND THE SUSTAINABLE TOURISM IN ROMANIA

Scutariu Adrian Liviu

*“Ștefan cel Mare” University of Suceava, Romania, Faculty of Economics and Public Administration, Str. Universitatii nr.13, 720229 Suceava, Romania, livius@seap.usv.ro, (+40) 230 216147, int. 297*

Nedelea Alexandru

*“Ștefan cel Mare” University of Suceava, Romania, Faculty of Economics and Public Administration, Str. Universitatii nr.13, 720229 Suceava, Romania, alnedelea@yahoo.com, (+40) 230 216147, int. 297*

*Abstract: In the European Union regions are territorial units of medium size, created with the purpose to absorb efficiently the European Union funds for regional development and to interpret and research the regional statistics. In Romania there are 8 development regions. The regional development of tourism must be a sustainable one. The analysis of some indicators show that after a long period when the tourism had a descendent curve, in the last years this has had a positive evolution in almost all regions. The tourism may become an important component of the economy, which can determine important mutations in the territorial field, contributing to the social-economic growth of a region. In the last years it is noticed a small growth of the tourism, tendency expected in the future, too.*

*Key words: regional development, sustainable development, tourism*

## **1. Issues of Regional Development. Considerations over regional development in Romania**

The main objectives of the regional development policies are as follows:

- to reduce the existing regional disparities, especially by stimulating the well-balanced development and the revitalization of the disadvantaged areas (lagging behind in development) and by preventing the emergence of new imbalances;
- to prepare the institutional framework in order to comply with the integration criteria into the EU structures and to ensure access to the financial assistance instruments (the Structural Funds and the Cohesion Fund of the EU);
- to correlate the governmental sector development policies and activities at the level of regions by stimulating the inter-regional, internal and international, cross-border cooperation which contributes to the economic development and is in accordance with the legal provisions and with the international agreements to which Romania is a party.

The principles that the elaboration and the application of the development policies are based on are: decentralization of the decision making process, from the central/governmental level to the level of regional communities; partnership among all those involved in the area of regional development; planning – utilization process of resources (through programs and projects) in view of attaining the established objectives; co-financing – the financial contribution of the different actors involved in the accomplishment of the regional development programs and projects.

In order to apply the regional development strategy, eight development regions were set up, spreading throughout the whole territory of Romania. Each development region comprises several counties. Between 1998 and 1999 in Romania it developed, with PHARE support, a complex institutional environment destined to realize the regional development objectives stipulated by the Law nr.151/1998 concerning the regional development in Romania, respecting the principles of allocating the structural funds (mainly The European Fund of Regional Development) to the member states of the European Union. The regions' function is to allocate the European Union's funds for regional development and to interpret and research the regional statistics. The current tendency in E.U. is to decentralize the decisions.

The overview of the situation in Romania related to regional development revealed several aspects, which can lead to the conclusion that in the field of regional policy, there have been a lot of progress achieved



during the last years, but there are still many things to be done in order to comply with the legal and institutional requests of the EU cohesion policy.

## 2. The Sustainable Development and Romanian Sustainable Tourism

**The tourism sector** constitutes one of the most important sources of wealth of nations regardless of their level of development. The negative impact of tourism, including its growing threat to the aims and practice of many conservations bodies was becoming better and more widely understood, in developed and developing countries alike. Mass tourism can destroy the environment, the economy, the host country and its people, even the tourists themselves. **Sustainable development** is the development that meets the needs of the present without compromising the ability of future generations to meet their own needs. The effect of our continuing misuse of the earth' resources, the part played by tourism in this process, the links between development and tourism are very important issues to be solved.

The economic, social and political context of the period after 1990 has not been one that contributed to the Romanian tourism development. Today, the Romanian hospitality industry confronts itself with problems such as: the decline of the internal and external tourist demand, an old tourist product, the low standard in the services which do not satisfy the tourists' expectations, the payment and too high prices compared to the quality of the services, an insufficient promotion.

## 3. The tourism in the development regions of Romania

The durable regional development must necessarily correlate and integrate the tourism of Romania, among other local economic components taking into account that this clean industry does not affect the environment and does not imply big investments. A good project of lasting development, included in a program of regional development, supposes investments less expensive if the integration is harmoniously organized. The tourism may become an important component of economy capable of important mutations in the territorial profile, determining a social-economic growth of some poor regions, as that from the North- East.

The North-East region is one of the least developed areas from Romania. The tourism may determine a lasting regional development in the North-East part of Romania and the growth of the living standards, because the European Union's policy intends to eliminate differences among regions. The tourism may contribute, more than other sectors, to the accomplishment of some larger objectives, established by governments as priorities for the general interest of the citizens: fighting against poverty, improving life standards, growing currency cashing, intensification of relations between countries, even politic objectives. The development of the local tourism must be done with the local authorities' support, which have to take into account that, besides positive effects, the tourism generates a lot of negative effects, too. By a careful planning and an intelligent management, the benefits may be maximized and problems minimized. Thus, it may be realized a lasting development of the tourist sector by protecting environment and local culture. Thus, in the period of 1991-2003, the existing accommodation capacity, expressed by the number of accommodation places, continued to fall down, and in 2003 it was recorded a growth, both at the national and at the North-East region levels (table no.1).

**Table no. 1. Accommodation existing capacity in development regions, in the period 1991 - 2005**

- Number of accommodation places -

Year	Total	North-East	South-East	South	South-West	West	North-West	Center	Bucharest
1991	312407	23321	146527	25955	22230	21036	24732	38600	10006
2001	277047	16971	132053	21321	15326	22298	25197	34648	9233
2002	272596	17269	130111	21456	14855	20190	24561	33823	10331
2003	273614	17965	130991	21729	15112	20713	24320	32759	10025
2004	275941	17183	130854	22494	13936	21066	24576	34365	11467
2005	282661	18718	132965	22292	14672	21291	26019	35479	11225

Source: Territorial statistics 2002, INSSE, Bucharest, p. 327-336; The Statistical Yearbook of Romania, INSSE, Bucharest, 2002, p. 784, 2003, p. 839, 2004, p. 713, 2005, p. 740 and 2006, p. 740

In terms of development regions, the areas with the highest number of accommodation places are: the South-East followed by Center, North-West and South regions. We see that the South-east region has almost a half of the total accommodation places which exist at the national level. The index of plain utilization of the functioning capacities had also a descending evolution. This decreased at the national level from 1991 to 2005, when it reached 33,4%. In the North-East region, the index is taking the general tendency of diminishing at the national level; it is the lowest index of all regions (table no. 2).

**Table no. 2. Indices of net using the capacity in function, in development regions, in the period 1991 - 2005**

-%-

Year	Total	North-East	South-East	South	South-West	West	North-West	Center	Bucharest
1991	49,8	46,1	52,9	52,6	46,2	49,0	46,1	46,0	60,6
2001	34,9	30,2	42,3	29,2	44,9	36,9	31,9	28,2	32,2
2002	34,0	28,9	38,2	27,1	45,0	39,1	32,8	28,8	31,9
2003	34,6	29,2	37,8	28,7	44,4	38,7	35,5	28,5	35,9
2004	34,3	29,5	39,2	27,7	44,5	35,9	33,2	29,4	35,3
2005	33,4	27,2	37,8	28,1	40,6	34,7	32,2	29,5	38,1

Source: Territorial Statistics 2002, INSSE, Bucharest, p. 327 – 336 and The Statistical Yearbook of Romania, INSSE, Bucharest, 2002 , p. 784, 2003, p. 839, 2004, p. 713, 2005, p. 740, 2006, p. 740

A descending evolution has in the period 1991-2002 the index “Arrivals”, too. This evolution is explained by the modest life conditions which made that the majority of Romanian people not be able to afford going on holydays. Also, the continuing decrease of the quality of the tourist services has made the wealthy people spend their holyday abroad. The biggest decrease, in a relative expression, may be found at the “Arrivals” index in the North-East and South-West regions. In the last years these things have started to change, so, after the year 2003 the “Arrivals” index has a tendency to grow (table no. 3).

**Table no. 3. Tourist arrivals in the tourist units, in the development regions, in the period 1991 - 2005**

-Thousands-

Year	Total	North-East	South-East	South	South- West	West	North-West	Center	Bucharest
1991	9603,3	1389,5	1789,2	1184,9	793,3	923,8	1099,6	1494,4	928,6
2001	4875,0	535,0	994,0	546,0	338,0	541,0	596,0	837,0	488,0
2002	4847,0	535,0	984,0	549,0	350,0	493,0	629,0	753,0	554,0
2003	5057,0	553,0	1019,0	572,0	324,0	520,0	637,0	847,0	585,0
2004	5639	619	1133	576	361	536	698	986	730
2005	5805	622	1108	574	334	535	733	1068	831

Source: Territorial Statistics 2001, INSSE, Bucharest, p. 327 – 336; The Statistical Yearbook of Romania, INSSE, Bucharest 2002, p. 784, 2003, p. 839, 2004, p. 713, 2005, p. 740, 2006, p. 740

#### **4. Development directions of the regional tourism**

Romania has a tourist potential not fully exploited, and the tourism is one of those areas which do not require huge investments. The development of the tourism will determine a development of the region by increasing income and by stimulating of those activities related to tourism. The tourism is able to contribute to the internal development of a region, to the reduction of the regional unbalances, to the geographical redistribution of the welfare from the metropolitan areas towards the poor, peripheral ones. Consequently, the tourism appears as a viable alternative of development of different regions.

For the rural tourist development there are financing programs for developing of those agro tourist lodgings. This may be an explanation for the great number of agro tourist lodgings, appeared in the last years, together with the change in the tourist services consumer's behavior. The tourism still has a general infrastructure (particularly of the communication means) and support of the inadequate tourism. The services of information and promotion of tourism are insufficiently developed. There is not enough qualified staff in this field. At the regional level, for a lasting development of the tourism, we can systematize as objectives: modernization of the tourists offers; developing regional tourist products; re-qualification of the labor force; improving the quality of the services; improving collaboration and public-private partnership; producing and delivering advertising promoting materials; setting up and expanding regional tourist information points. One of the most important measures for economic development of the regions is that referring to the development of the tourist infrastructure. A long time planning involvement, supposes an approach of the tourist activity at the regional level. This supposes community involvement in the process of planning and developing, also in creating and developing tourism forms which determine benefits for the inhabitants. If they have advantages from the development of the tourism, then they will be more interested in supporting the tourism development in that particular region, willing, in the same time to preserve the tourist resources.

The development of tourism attracts, too, the development of other related areas. The notion of effects of multiplication established by receipts/expenditures, in the tourism, becomes relevant as a considerable number of another branches benefit of activities from the tourist sector, the multiplier's value may be interpreted as a stimulus-answer report in the context of the initial injection of expenditures in the tourism area. The tourist multiplier underlines that an initial expenditure made by a tourist in a region or in a country, becomes successively income for another economic areas (agriculture, the processing industry, the industry of consumer goods, the construction and construction material industry, trade, services) related directly or indirectly to tourism until the moment when those financial resources leave the country, the reference zone or the economic sphere, generally under the form of tax payments, savings, imports etc., called the leakages. By attaining the targets of the tourism development we will reach the multiplying effect of this. The profitable effects will be noticed upon the level of the population's gains and upon other external areas of the tourist activity. Even if the private structure is extremely active, the tourism cannot develop only through private initiatives, it also needs the support of the public institutions. The state can help in three directions: infrastructure, promotion and intelligent fiscal facilities.

The number of the Europeans who are visiting our country has increased since 2007. The tourism operators rely on the curiosity of the old EU members of discovering the new states which adhered on the 1st of January 2007, but also on the elimination of the traveling restrictions. The foreigners may be interested mostly in the spa and rural tourism, very good represented in Romania. The economical agents in the field will be able to access, beginning with July 2007, European Funds for the tourism in Romania. The greatest part of the money is from The European Agricultural Fund for Rural Development concerning the improvement of the life quality in the rural zones and promoting the rural tourism. There will be the possibility of co-financing for the projects which are done by the small and middle sized firms.

Still, together with the activity of promoting Romania as an attractive destination for tourism and business, people will be able to access E.U. funds through The European Fund for Regional Development. The projects which are developed based on this fund have as an aim the promotion of tourism and the development of the promotion centers. The development of the tourism refers also to the permanent promotion of the regional and local tourism, and brings funds that will be accessed from the European Fund for Regional Development, to which we add funds from the state budget. The projects will have as an aim the restoration and the capitalization of the historical and cultural patrimony, the capitalization of the natural resources and the increasing of the quality of services.

## 5. Conclusions

In the European Union, territorial units of medium size called regions were created, with the purpose to absorb efficiently the European Union funds for regional development and to interpret and research the regional statistics. In Romania there are 8 development regions. The development of tourism must be a sustainable one. Sustainable development is the development that meets the needs of the present without compromising the ability of future generations to meet their own needs. The analysis of some indicators show that after a long period when the tourism had a descendent curve, in the last years this has had a positive evolution in almost all regions (the accommodation capacity has grown, the number of arrivals have grown too, only the index of utilization remaining at low levels). The tourism may become an important component of the economy, which can determine important mutations in the territorial field, contributing to the social-economic growth of a region. Romania possesses an important potential for developing the tourism, which is not developed at the existing potential level. In the last years it is noticed a small growth of the tourism; it is estimated a continuation and even a stimulation of this tendency, especially because of the investments in tourism and the attraction of tourists the European Union.

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# **IMPROVEMENT OF RESEARCH – CONSULTANCY – PRODUCTION RELATION, ONE OF THE WAYS TO INCREASE COMPETITIVENESS OF ROMANIAN AGRICULTURE**

**Scurtu Ion**

*Constantin Brâncoveanu University of Pitești, Faculty of Management, Marketing of Economic Affairs of Pitești, 2A Bascovului Street, ucb\_scurtu@yahoo.com, Telephone 0722-397 343*

**Dugan Silvia**

*Constantin Brâncoveanu University of Pitești, Faculty of Finance and Accounting of Pitești, 2A Bascovului Street, dugan\_silvia@yahoo.com, Telephone 0740-020 921*

*Romanian agriculture experiences a reduced competitiveness compared with the results obtained within the European Union and the main agricultural countries in the area. This feature may be seen both from the average productions of the main agricultural cultures and from the average yield of zootechnics.*

*The causes are multiple, ranging from the excessive land crumbling, agricultural exploitations that produce mainly for self-consumption, the lack of professional training of many farmers and the insufficiency of agricultural consultancy and of implementation of research results into production.*

*Keywords: agricultural competitiveness, average productions in the vegetal sector, agricultural consultancy and research.*

Romanian agriculture experiences today a very important phenomenon, namely a reduced competitiveness made obvious particularly through the low productions obtained from 1 cultivated Ha. in vegetable production, but also by zootechnical production, especially in the case of milk cows.

In the vegetable sector, total productions yielded by the main culture are below the potential offered by pedoclimatic conditions in Romania, even during favourable years; during draughty years, that are more and more frequent, the productions decrease significantly.

In theory, Romania still is one of the great European powers from the point of view of its agricultural potential illustrated by the agricultural area and by the number of population working in agriculture.

Romania's agricultural area, namely its 14.8 million Ha., make up 8% of the total agricultural area worked within the European Union. One should also keep in mind the fact that Romania has an important percentage of arable area comprised in the total agricultural area (approximately 64%) and important resources represented by over 220 thousand Ha. of vineyard and viticultural nurseries and by almost 220 thousand Ha. of orchards and fruit tree nurseries.

However, Romania relies very little on the European agricultural market, first of all because of small agricultural productions, that in many cases do not meet the requirements of domestic consumption, thus resorting to food product imports.

Compared with the main agricultural countries in the European Union, Romanian agriculture yields average productions in almost every agricultural culture and in many zootechnical fields, especially in the field of milk cows.

In order to provide a clearer image of this reality, we have selected some of the agricultural crops that have an important percentage in our country and we have carried out a comparison with the productions yielded in two developed countries – France and Germany – as well as in two East European countries, whose membership was accepted by the European Union in 2004, namely Poland and Hungary. We have not selected the European countries that hold the records with respect to the analysed agricultural cultures on purpose since in many cases the cultivated areas of these countries are too small compared with those of Romania; as far as milk cows are concerned, the material base, veterinary assistance services, fodder etc. may not be compared, as in countries such as Denmark, England, the Netherlands etc. they have reached standards which are difficult to be met by our country in the subsequent years.

A situation of the basic components of agricultural production is presented. The analysis begins by considering the wheat and maize crop – crops with a strategic significance for the food of the population, and the zootechnics which is a time-honoured activity in Romania, favoured by the pedoclimatic conditions.

The wheat-cultivated area in Romania in the past 3 years (2005-2007) amounted in average to 2131 thousand Ha, thus making up 8.4% of the total cultivated area in the European Union – 27.

But if one analyses the total average productions yielded in the past 3 years, these represented only 4.2% of the wheat production of the European Union, which is not at all flattering for an agriculture deemed to be in the old days the „granary of Europe”.

The wheat-cultivated area in Romania are almost equal to those cultivated in Poland, twice as large as those in Hungary, are approximately equal to 2/3 of the wheat cultivated surfaces in Germany, but are twice as little as the ones cultivated in France.

As far as the average production per hectare is concerned, the situation is serious compared with all the countries taken into account and compared with the European average.

Thus, the wheat average production amounted only to 24.3 q/ha, making up 48.5% of the average production of the 27 European countries. If one refers to developed European countries such as Germany (that obtains an average of 72.1 q/ha) or France (that obtains 66.6 q/ha), the average production obtained in Romania represents only 33.7%, and 36.5% respectively.

Based on the comparison with two East European countries, Poland and Hungary, one may notice that the wheat average crops are much higher than those yielded in Romania (40.5 q/ha in Hungary, and 37 q/ha in Poland respectively). The average production of the last three years yielded in Romania represented 60% compared with that obtained in Hungary and 65.5% compared with that obtained in Poland.

The situation is not different as far as the maize crop is concerned; the maize represents an extremely important cereal for Romania and is ranked first for the cultivated areas.

In the last 3 years, Romania yielded average productions twice as little as the ones generally obtained within the European Union.

At the same time, developed countries such as Germany or France yield average productions 2.8-2.9 times higher than those obtained in Romania, while Poland and Hungary obtained within the same time frame average productions 1.8-1.9 times higher.

With respect to these crops, one may point out the fact that the year 2007 was extremely unfavourable. In fact, the maize crop yielded in 2007 was one of the lowest productions obtained in the last 40 years (15.5 q/ha). Still, during the favourable year of 2005, when the average production in Romania amounted to 40.1 q/ha, Hungary yielded 75.6 q/ha, Germany yielded 92.1 q/ha, while the average of the European Union (70.1 q/ha) was 75% higher than the average production obtained in Romania.

The analysis continues and the situation of the sunflower is considered; it is an industrial crop of great importance and Romania ranks as European leader as far as the cultivated areas are concerned, in the last years they have amounted to 1 million hectares. Unlike other crops, the sunflower occupies small areas in Europe (approximately 3.6 million Ha in 2005) and one quarter of the crops is cultivated in Romania (between 800 thousand and 1 million Ha annually). Significant areas, amounting to over 500 thousand Ha are cultivated in Bulgaria, Spain, France and Hungary, countries taken into account with a view to carrying out the comparison.

One may notice that although the sunflower has long been cultivated in our country, although we have achieved important results in obtaining high performance hybrids and although we have enjoyed relatively favourable pedoclimatic conditions, the average production yielded in our country is systematically surpassed by that obtained by our neighbours, Hungary and even Bulgaria, whose average crops surpassed in the last three years the crops yielded in Romania by 82,6 and by 10% respectively, while France obtains an average production twice as large as the one obtained in Romania.

Regarding the potato crop, the situation is quite similar. Romania cultivated annually an area amounting to approximately 275 thousand Ha, which makes up 11% of the potato cultivated area of the European Union, but since the average production of the European Union is 86.7% higher than that obtained in Romania, the total potato production yielded in Romania represents a mere 6.3% of the total production of the European Union – 27.

If as far as the vegetable production is concerned, the situation is quite similar with respect to other crops, we have tried to give an account of the situation in the zootechnical production. In order to simplify the task, we have analysed one indicator, namely the milk quantity delivered per milch cow.

This quantity is not the total produced quantity since a part of it is retained for family consumption or for the food of calves, but it represents an important indicator depicting the commercial capacity of the farms.

From a commercial standpoint, zootechnical farms in Romania do not succeed in delivering more than 700 l of milk for each milked cow - the equivalent of 2.25 l daily during lactation (310days) during the course of one year.

During the same time frame, in Hungary, that has a live stock 3 times smaller than Romania, the annual total quantity of milk delivered is higher, it amounts to 4.5 t annually per milch cow, while in France or Germany the production delivered annually amounts to 6 t per year per cow.

Additional analyses may be carried out with respect to other agricultural fields, but we believe that based on what has already been pointed out it clearly results that in Romania the obtained productions are mostly inferior to those obtained in developed European countries and to the average of all the countries that compose the European Union.

This triggers price increases for domestic food products and a weak competitiveness of Romanian farmers that compete with the farmers in the other European countries.

For this situation one must find the explanations and the rectifying solutions. A first explanation is connected to the excessive land crumbling in exploitations that cannot use the benefits of mechanisation and of high performance technologies.

The average area of an agricultural exploitation in Romania amounts to 3.3 ha, but the largest surface, amounting to 9.1 million Ha is divided in 4.24 million individual exploitations, namely 2.2 Ha per exploitation. Although there is also a small number of companies or large associations (1630 exploitations with an average surface of 263 Ha), they have a total of 742065 Ha and are not able to decisively influence the level of average productions, even if the productions yielded here are higher, as a result of modern technologies applied.

The result is that in order to increase the level of average productions, of the total production and of the product quality with a view to meeting the national level, the safest way is to take actions aiming at modernising the technologies used in individual exploitations, simultaneously with the support given to the voluntary association of small farmers.

Within this framework, a special part is held by some basic agricultural bodies such as the scientific research establishments and the agricultural consultancy establishments. Only through intense cooperation between research, that must offer optimal solution specific to each farm – and the consultancy offices, that must get involved in the practical application of solutions – the current negative situation of small private agriculture may be overcome.

Unlike the previous periods, specific to traditional farming, when the working methods and knowledge were automatically passed on from parents to children, at present farmers have to work with hybrids, fertilizers, complicated equipment etc.

In this context, role of National Agricultural Consulting Agency must be increased.

Permanent education, the access to public agricultural advisory services, as well as to financial consultancy services, gain an increasingly great importance.

The low adjustment of public advisory and consultancy services, in an early stage of development, to the specificity of rural areas, as well as the lack of financial resources, so that farmers can ask for such services, make these services non accessible in reality, which has a negative impact upon agricultural production quality and competitiveness.

The current Agricultural Consultancy Agency, although it carries out an outstanding activity, it cannot find solutions to all necessities because of insufficient funds and staff, but also because of failure to adapt the staff structure to the specific of the production corresponding to each area.

Notwithstanding, in 2007, the National Agricultural Consultancy Agency (A.N.C.A) organised, among many others, 989 training courses and approximately 33 thousand trainees took part; over 130 thousand farmers participated a series of instructions; 1128 demonstrative lots, symposiums, round tables etc. were organised.

Although the figures seem high and they mirror an intense activity carried out by these bodies, in reality they only address to a segment of 5-10% of the total of over 4 million agricultural exploitations.

The situation is also difficult, if considered from the point of view of the research activity and the research – production relation. It is a well known fact that the agricultural research was highly represented in all sectors of the Romanian agriculture, supplying seeds, planting material and high quality pure breed animals.

Nowadays, following the earmarking of smaller and smaller funds for research, many institutes or research establishments reduced their activity or have even ceased to operate.

Still, the ones that are still operating continue to supply varieties, hybrids and animal breeds, to produce seeds and high quality planting material, but the implementation in production is more and more difficult.

The use of planting material and in general of biological material (varieties, breeds) of doubtful quality, not adapted to regional pedoclimatic conditions, the failure to apply improvement measures and the reduced use of fertilizers and of herbicides, of the irrigation systems, the lack of strategies regarding the preservation and improvement of animal breed quality and of use of fodder with nutritious value are only a few of the causes that lead to important decreases of quantity and quality of the Romanian agricultural products.

For example, one of the causes of the maize production drop is connected to the large-scale use in peasant households of seeds obtained on their own lots instead of hybrid, high performance seeds, adapted to each ecological area.

This is the reason why measures with a view to relaunching the scientific research and of territorial establishments should be taken, having as starting point the tradition and the results of the Romanian agricultural research results and the guarantee of conditions needed in order to value the results under market conditions.

The Agricultural Consultancy Agency must cooperate more intensely with the research institutes and establishments, set forth the training requirements, organize joint demonstrative lots and recommend to producers the plant varieties, animal breeds and technologies adequate to each ecological area.

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# OPPORTUNITIES AND RISKS FOR THE RURAL DEVELOPMENT OF ROMANIA

**Sorlescu Mariana**

*Romanian-American University, Facultatea de Relatii Comerciale si Financiar-Bancare Interne si Internationale, Expozitiei nr.1-3,sect 1 Bucuresti, madisorlescu@yahoo.com*

*For the new member states of the European Union, the integration of the agro-alimentary and rural sector has proved to be one of the most difficult and sensitive issues of the accession trial, and Romania is no exception from the rule. However, the 2 year experience of the new EU member states has proved that such integration has considerably sped reforms and has triggered a re-organization process of the agro-alimentary and rural sector, with multiple positive aspects.*

*We have to be aware that only investments in the agro-alimentary industry create the grounds to increase the quality standards and the food's safety as per the requirements provided by international markets. Measures and technical-economic actions must be implemented which would lead to: decrease of negative effects of the restrictive production factors and use of performing technologies for animal and plant production.*

*Key words: the re-organization of agriculture, competitiveness, ecologic agriculture.*

The new capacity of “member state”, with all its implied undertakings and requirements, represents one of the major opportunities in what concerns the activation of the trial already initiated for the re-organization of agriculture and of the Romanian rural economy. This statute will trigger the sector's increased performances and competitiveness, diminishing the trends atypical for a modern European economy, registered in Romania during the last decade, such as: increase of the population involved in agriculture, high weight of self-consumption and expansion of the sustenance and semi-sustenance economy.

Romania has plenty of advantages, called by experts “strong points”, which should be put forward. Low industrialization and extensive agriculture have led to low and limited pollution, thus allowing the preservation of bio-diversity and highly qualitative biologic productions. The agricultural potential is noteworthy in terms of financial resources and labor resources.

The agriculture's capacity to cause higher gross added value to a unit of global product, compared to other branches of the national economy, consequently to the relatively low intensity of intermediary consumption, represents a positive aspect of the Romanian agriculture.

Agriculture has the capacity and resources for rural and ecologic tourism, ecologic and traditional agriculture, as expanding sector of the unique European market and as complementary income source in the rural environment.

Moreover, the existence of a proper legal frame regarding the reconstitution of the ownership right upon agricultural lands, the private agricultural sector representing today 96% of the land patrimony, will lead to the strengthening of the current agricultural exploitations and to the establishment of new agricultural exploitations – economically viable. Romania has a significant number of experts, who have average and higher professional training, able to apply performing technologies and a modern management in the farming production.

Besides agriculture, which is the main economic activity, there are plenty of non-farming economic activities taking place in the rural environment, even though the said are not very expended. The rural environment possesses an increased touristic potential and a rich natural and cultural-spiritual environment. Based on a brief analysis of the recent years, the accommodation capacity has followed a crescent trend, the rural tourism representing at present an option more and more tourists are selecting for their holidays.

Another advantage must be taken into account, namely the emerging market under full process of organization, with its demand for products and services insufficiently satisfied, which might generate an effective demand and, subsequently, higher possibility of establishment and development of rural IMM. The increase of the housing number in the rural environment has registered a constant rate, exceeding the

increase in the urban environment and which has also led to the continuous increase of the utility networks (water, gas, sewer, etc.), thus improving the living standard of rural inhabitants.

A major aspect is represented by the powerful traditions and the good experience regarding the villages' cultural life. A good tradition regarding the research of the villages' cultural life (folklore studies, handicraft, construction of specific houses, clothes, etc.) provides the necessary terms to support the villages with experts capable of reviving cultural activities. It is well known that many village artistic ensembles have competed in foreign shows, being awarded with various prizes.

Romania has the institutional infrastructure for specialized education and we also have to remember the attendance of education and farming research institutions to the international research programs in this field. Romania offers a great socio-humane advantage, namely the preservation of a specific rural environment, which offers alternatives to the urban environment. Thus, the existence of a less polluted rural environment, the possibilities of supply with unpolluted agro-food products create favorable conditions for the preservation of the health of certain population classes in the rural environment.

A new image emerges about life in rural communities, which ties people to the rural environment and becomes a social force of adhesion to the villages' realities and of strengthening the social adhesion.

We have presented above the positive aspects of the Romanian villages, but there are also weak points of the rural economic and social life, which we will try to reveal and analyze below.

One of the problems would be the inter-yearly variability of the meteorological parameters, which create a high variability of crops. Extreme meteorological phenomena have amplified recently and have worsened the soil degradation process. This soil degradation process is due to a faulty management upon farm level together with the decrease of the funds needed to improve degraded lands. Also, the physical conversion parameters of the production factors in agricultural product are quite low and thus the potential efficiency of the sector diminishes. There is also a strong fragmentation triggered by the high number of sustenance and semi-sustenance farms, with an average area of 1.7 ha.

Other negative aspects would be:

- Discordance (higher in the territory profile) between the structure of the technological capacities (mainly mechanical equipment) and the size of the agricultural exploitations;
- Low export of farm products with high processing degree;
- Low competitiveness of farm products;
- Negative agro-alimentary commercial balance sheet;
- Income per rural inhabitant with 27% lower than in the urban environment;
- The land patrimony in the farming exploitations is affected in proportion of 20-25% by the action of restrictive factors and by the use of non-performing technologies;
- Insufficient specialized services to ensure the production factors for the farming exploitations;
- Improper structure of crops (over 60% - cereals and over 16.3% - technical plants) and insufficient technical-material equipment.

Also, the financing sources are insufficient; loans granted by banking institutions are restrictive for the rural areas. The banking system in the Romanian rural environment is undeveloped (we could say almost inexistent) and if it exists, it is not adjusted to the environment's specificity. Most farmers do not have the means to secure a loan or the down-payments needed for the regular credit instruments, most of them not meeting the eligibility requirements provided by banks at present.

Support services for those who could establish IMMs in villages (assistance, information regarding the legislation in force, effective support for business commencement, legal assistance, etc.) are inexistent and, consequently, their number is very low.

In terms of infrastructure, there are also sever malfunctions: the sewer system for waste water is below the needs of the rural environment; road infrastructure is poorly updated; differences regarding water supply for consumers living in disadvantageous areas (high areas); interruptions of water supply due to insufficient water or blackouts.

Numerous deficiencies are characteristic to the education system and culture, among which: dramatic decrease of the number of schools in the rural environment based on efficiency criteria (low number of pupils; old equipment; lack of jobs, which led to school abandon), inexistence of funds needed for

permanent improvement of village libraries, leading to the decrease of the number of libraries; inexistence of funds allowing prestigious artistic groups to perform in Romania and abroad; lack of institutional procedures for attracting and settling young performing graduates. The development degree of the social infrastructure, mainly health and education services, influences in its turn the population's decision to stay or leave the rural environment; the access to attend qualitative education forms influences the training level of future rural labor force. Low number of education institutions in the rural environment and their location, sometimes very far from pupils' homes, together with the family's low financial resources, has increased the differences between the rural environment and the urban environment regarding access to a form of training for young people.

For age groups between 6-9 and 10-14 the values registered for the population attending an education institution are slightly equal in the two environments – rural and urban – differences between averages increasing once the children grow up. Thus, only 48.4% of the population aged 15-19 and 7.7% of the population aged 20-24 from the rural environment attend an education form, compared to 67.6% and 24.6% from the urban environment. Per development areas, the percent of university graduates working in rural areas is of 2.0% in North-West, 2.8% in West and 0.8% in North-East and South-East together. In the Eastern area over 60% of the labor force has graduated primary and secondary schools.

Unfortunately, it is very hard to put forward the positive aspects of the village due to the low economic-social level of its population. There is no cultural-social vision regarding education among most part of the rural population, the strictly instrumental attitude being the dominant one, which gives credit to education as long as it brings a well-paid job.

A weak infrastructure meant for health assistance combined with certain economic difficulties of the population has led to the accentuated decline of the health of most village inhabitants. Unfortunately, people choose the rural environment not because they want to, but forced by the hard life they have to face in cities (unemployment, low pensions, women with children left by their husbands, etc.).

Analyzing the strong and weak points of the Romanian agricultural sector, we can say that Romania has both opportunities and risks. We can consider as opportunity the fast growth of the areas meant for ecologic agriculture. The development of durable farming systems which would counter-balance the consequences of the massive exploitation of farming lands by enforcing a durable management in order to diminish the erosion phenomena.

Authorities must pay a higher attention to the steps which would form and strengthen the sector's competitiveness: concentration of capital in competitive exploitation in an increasing open economy; technical upgrade of farming exploitations; development of the competitive environment. But also the need to take measures which would stimulate and persuade small landlords to form partnerships, to cooperate in terms of organization and management of farming production within modern systems. Programs for the establishment of new farming exploitations must be set up, which exploitations would be economically viable and also the existing exploitations must be developed in order for such commercial agricultural exploitations to hold 70% of the country's farming lands.

We have to be aware that only investments in the agro-alimentary industry create the grounds to increase the quality standards and the food's safety as per the requirements provided by international markets. Measures and technical-economic actions must be implemented which would lead to: decrease of negative effects of the restrictive production factors and use of performing technologies for animal and plant production.

It is important to acquire the knowledge to comply with the sanitary-veterinary regulations, animal and environment welfare in order to improve farming products.

The traditional peasant economy may be stimulated by developing large and modern peasant markets, which would attract consumers willing to rediscover their grand-parents' products.

Also, it is important to train human resources in order to create local strategies, contributing to the horizontal development of the rural environment and to the development of the rural infrastructure's upgrade and improvement; this would lead to the development of the population's basic services and to investments likely to make rural areas more attractive, namely to reverse the descendent economic and social trend and the depopulation of the rural environment. At present in Romania 68% of its population benefits of water supply from the public system, that is 92% of the urban population and 33% of the rural

population; only 11.2% of the rural population benefits from sewer services compared to 86% of the urban population.

If we address the heating systems used in housings, stoves dominate the rural environment (97.98%), only 1.03% having own central heating systems and 0.66% - connected to central heating plants. It is important to gather together the inhabitants from rural areas to form strong communities able to answer coherently to the decisions regarding the community development.

There are real chances to decrease poverty (on its different levels) as constant economic growths are accomplished in the following years and fair social process for the increase of people's living standard is ensured, which fact would guarantee the basic conditions for the rural communities' viability.

As per the perusal above, it is necessary to establish a connection between the priorities of the four axes in order to overcome the key-problems the Romanian rural environment is facing and so, at the end of the programming period, Romania will have a more developed agricultural and forest sector able to cope with the competition on the common market, guaranteeing the development's grounds within a rural area which preserves the environment and offers, at the same time, new opportunities to create and maintain new jobs and diversity. Romania's general objectives for 2007-2013 which form these axes are:

- To develop a competitive agricultural and sylvan sector based on knowledge and private initiative, able to adjust to long term changes and which takes into account the community rules, preserves the environment and strengthens the processing sector;
- To preserve the quality and diversity of the rural and sylvan environment in order to reach a balance between human activities and the preservation of natural resources;
- To improve living standards in order to guarantee a long-lasting population within the rural environment and to contribute to a territorial equilibrium both in economic and social terms;
- To implement a pilot LEADER program

The allotment of 45% of the total funds for Axis 1 – Increase of competitiveness in the agricultural and sylvan sectors, is justified by the continuance of the reorganization and upgrade process in the agricultural and sylvan sectors in order to improve the company's performances and to obtain new technologies and, as well, by the national priorities in agriculture, which pursue to re-divide the farming lands, to develop the agricultural infrastructure, to support the transformation of semi-sustenance farms into commercially viable exploitations and to stimulate the development of a competitive agricultural and sylvan sector able to comply with the international market's requirements.

For Axis 2 – Improvement of rural environment and landscape, the 25% allotment is performed by means of measures which support users of farming and sylvan lands. There are endorsed farmers who carry out their activities in naturally disadvantageous areas, Natura 2000 sites, farmers who voluntarily take agro-environment measures for the animals' welfare and for unproductive investments. Also, there are financed measures regarding the durable use of sylvan lands such as: first forestation of farming lands, first implementation of agro-sylvan systems on farming lands, first forestation of non-farming lands, Natura 2000 payments, payments for sylvan-environment measures, reestablishment of sylvan potential and preventive measures and productive investments.

Axis 3 – Life quality in rural areas and diversification of rural economy has 30% of the financial allotment, considering that, besides the measures for the diversification of the non-agricultural activities and rural tourism, there are provided measures to refurbish villages, rural infrastructure and formatives' training. Also, we have to mention that, compared to SAPARD where the rural infrastructure measure represented 80% of the 3<sup>rd</sup> axis, in PNDR, it is limited as type of investments and location on rural settlements, and therefore the financial resources for this axis are lower.

Axis 4 – LEADER represents 2.5% of the allotments for the three axes for 2010-2013 in order to implement the measures provided under art. 34 of the Regulation 1698/2005.

For 2007-2009, support will be granted to form and support private-public partnerships on local level, to draft and promote local development strategies, to finance research and draft support requests, objectives sustained under axis 3. Four major objectives are needed for the implementation of the Lisbon strategy: large investments in research and development (3% target of GDP until 2010), increase of the entrepreneurship potential by putting focus on small and medium companies, development of an efficient energy market and solutions for the problems generated by globalization and demographic changes.

Our general objective is to promote a progressive and dynamic agricultural and sylvan sector, taking into account that in the Romanian rural environment there is an immediate and severe need for economic growth. At the same time, we must admit that the Romanian agricultural sector is characterized by a potential oriented towards two development directions, which must be equally encouraged.

At the same time, it is important to create new jobs in the rural areas by developing services and non-farming activities, significant objectives which would increase the attractiveness of the rural environment. Moreover, by moving the decision-making process on local level, the endogen development potential would be mobilized.

The recent opening towards beneficiaries with lower economic power has been a significant decision, granting development chances to small exploitations. Maintaining such opening towards multiple exploitations and including other sort of beneficiaries, such as churches and monasteries with farming lands (not only forests) or other means of economic production, small manufacturers from national parks or other rural areas, who make traditional agro-alimentary foods, of those who have agro-touristic and eco-touristic business should be considered for the future. For them, the strict European norms regarding food safety could become eligibility requirements, but they could also be discouraging and would not stimulate such activities with a significant development potential in Romania.

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# CONSIDERATIONS REGARDING ROMANIA – MEMBER OF THE EUROPEAN UNION AND THE KNOWLEDGE BASED ECONOMY

Stănescu Aurelia

*Academia de Studii Economice București, Facultatea de Management, Piața Romană nr. 6 sector 1, aurelia\_stanescu06@yahoo.com, +4021 319 19 00 int. 165*

*Abstract: The central idea around which this paperwork is built is that the implications of the new economy (knowledge based economy) on the business world are of such a nature that is necessary to redefine the economic concepts and models. The global civilisation are based on innovations and furthermore on technological development which leads towards a high level of competitiveness and human development. Among the other countries Romania are interested in becoming knowledge based society.*

*Key concepts: intellectual capital, knowledge-based economy, innovation.*

Most developed and developing nations' transition towards knowledge based economy lead to understanding the important role of knowledge in economic growth.

Because knowledge is considered public good and because of the global dimensions of competition in producing and commercializing it, the state must be actively involved in creating the premises for building a knowledge society, mainly through investing in fundamental research and accordingly financing public learning, but also through active involvement in creating a knowledge culture. Investing in intellectual capital becomes strategic for any country, including Romania who wishes and pursues creating a knowledge economy.

Beginning with 1998, the Economic Cooperation and Development Organization and the World Bank cooperated in their action of supporting knowledge-based economies, helped even by developing countries. In the World Bank Institute's Knowledge for Development Programme manager's opinion, "to benefit from the knowledge revolution proper strategies are necessary that can satisfy the four pillars of knowledge economy:

- An economic and institutional regime that offers stimulants for efficiently using new and existing knowledge and encouraging entrepreneurs;
- An educated and qualified population to create, share and make best use of knowledge;
- A dynamic information infrastructure, that facilitates effective communication, spreading and processing of information;
- An efficient innovation system in research centers, universities and firms, that creates new technologies and use the global knowledge found, assimilating and adapting it to local needs.

A European Commission study<sup>207</sup> regarding the evolution of 50 countries considered active in the science field (countries selected on indicators such as research and development expenses, number of scientific publications, number of invention patents registered nationally and at the European Patent Office) shows that 16 relatively less developed of the 50 analyzed countries, among which China, Singapore, Malaysia, Thailand, Indonesia, Chile, India, Pakistan and Turkey had a very high economic growth rate, above 4% each year between 1998 and 2002, without the research-development capacities of industrialized countries in the same study. This phenomenon can be explained through the importance of commercializing and fast spreading of technology and highlights the idea that access to scientific and technological knowledge and capacity to exploit it gains decisive strategic importance for economic performance of countries and regions in the competitive global economy.

Countries without the human capital able to efficiently use natural resources, production systems or important capital goods manage harder than those without natural resources, but with educated population, knowledge and know-how. Data shows that unequal distribution of human capital and scientific and technological knowledge around the world contributes to economic differences. Lack of these attributes

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<sup>207</sup> Second European Report on Science & Technology Indicators 2003

potentially excludes more than 100 countries from modern economic and social development. Indeed, while medium income in countries among the 50 mentioned grew in the last 10 years, with 1,1% every year, other 130 countries' income that do not invest in education, science and technology dropped in the same period with 1,5% every year.

Central and Eastern Europe countries have a developed educational infrastructure and can be regarded in a favorable angle in their transition to knowledge based economy. For example, Romanian economic products and services hardly rise up to international competition. High added value products export is preferable to that of brute matter and agro-alimentary products. Our country's position on the way to knowledge access is not the most favorable at this time. People able to work in the high technology field choose to leave abroad because the favorable environment for their potential does not exist (lack of specialized enterprises) but, even if the possibility existed for them to work in the country, our informatics specialists and engineers prefer working abroad because of material advantages. In the research and innovation field, main set backs are found in defective stimulation of the research offer, in the functionality of financing mechanisms and copyrights applying and use.

Because in the knowledge society organization critical resources are related to competence, intangible value, silent or explicit knowledge, organizational processes and practices, intellectual capital, intangible values become more and more the essential source and resource for the organization's survival and performance.

In Romania's case, organizations are significantly behind with handling intangible actives, which is reflected in not using them as strategic economic actives and in the fact that innovation capacities are not sufficiently used (generating but also absorbing new knowledge and technologies).

Some specialists' opinion<sup>208</sup> is that the informational situation might be overcome through a "jump"-like evolution, that would lead directly to the manifestation of the knowledge society characteristics.

In 2001 in the Romanian Academy's project "Informational society – knowledge society" took place the Delphi study which shows that any delay of actions strategically oriented in this direction might be followed by placing Romania outside the international tendencies.

As innovation and learning become endogenous factors of economic growth, intensive-intellectual processes and products continuously increase their role in developed economies, firms' performance very much depends on using intangible actives.

New economic research demonstrates that innovation plays a central role in increasing productivity in knowledge economy.

To ensure that innovation and change benefits are largely distributed, Romanians, including those not involved or not benefiting on the "new economy", must have access to instruments resources they need. As economy became more and more unstable and based on knowledge, people, organizations and the whole community's success is even more determined by their learning and adapting capacity. The government must encourage a new society organization based on education and professional qualification. In knowledge based economy in which abilities are most priced, access to continuous education at an accessible price must be provided.

As information technology becomes a more and more important economic element (and a determining factor in qualification requests for employees), and as it becomes a vital instrument for accessing information and participating in civic life, government must provide access to information by ensuring internet access in public libraries, schools, work-force occupation centers, community centers and that citizens have the necessary capacity to use that technology.

To stimulate innovation, government must invest even more in 21st century knowledge infrastructure: education, qualification and continuous learning, science, technology, technological standards and other public intangible goods, as they are essential factors of today's economic progress.

Our success in competition comes from our innovation capacity. Government must invest more in science and technology and research, both public and private must be encouraged through credit and assistance for research collaboration. In this critical period in our country, as the old economy gives way to the new one,

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<sup>208</sup> Draganescu, M (2002), Knowledge Informational Society. Knowledge society vectors. Romanian Academy, p. 43-112

decisive factors must make long term investments, that generates innovation (for example, collaborative research between industry and universities).

In the new economy, technological innovation became capital for dealing with a large scale of public objectives, including the need for a better medical system, a renewed defense base, improved education and qualification systems (for instance, technology can make available for physicians and patients modern informatics systems that can lead to better quality of the medical system; ecological technology can help reduce pollution generated by industry).

In the old economy, information was a rare source that few had access to; in the knowledge economy constant innovation in information technology at a low cost allow access to information, giving people more power to make pertinent choices. Authorities should encourage and take advantage of this tendency to address a large range of questions about public politics, to make sure needed information is available to Romanians as consumers and citizens, at the same time searching technology based solutions to solving problems of public interest.

In Romania too, knowledge-based economy will eventually become a free market reality in which the main players are organizations (enterprises) – “knowledge generators” and citizens – “consumers and holders of knowledge”, government and civil society through which a durable development is facilitated.

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# THE EFFECTS OF LABOUR FORCE MIGRATION IN ROMANIA TO THE COMUNITY COUNTRIES-REALITIES AND PERSPECTIVES-

Szarka Arpad

*University of Oradea – Faculty of Economical Sciences, Oradea, 1 . Universitatii St., postal code 410087, Telephone 0744472241, Fax 0259-437662, E-mail: szarkarpad@yahoo.co.uk*

*Nowadays, the migration of active labour force is a phenomenon with a rapid dynamics, generated mainly by globalization.*

*The international migration is appreciated to imply about 200 million persons, which is double than 25 years ago.*

*.The migration is determined by economical, social and political causes.*

*.The migration of active labour force in Romania registered in the Community Countries reaches low levels, about 200.000 person, but the illegal one is appreciated to reach 1.7-2 milion persons.*

*The effects of migration are mainly due to: the loss of the tax payer – active labour force formed in Romania, the weakening of the social solidarity in the social security system, and in the same time, its increase in the destination countries , the remittance of some important amounts of money in the origin countries, the contact with other economical, social, cultural models.*

*The evolution of remittance in the world is very dynamic, in 2007 it is said to be about 250 billion dollars from which 7,1 billion euro for our country, compared to 9,1 billion euro representing direct investments.*

**Migration** implies the existence of a subject (the emigrant or the immigrant) at least two countries (the country of origin, and the country of destination but also the countries of transit) and an intention of settlement or working in the country of destination.

Nowadays, migration is a **phenomenon with a rapid dynamics**, generated, mainly by globalization. According to the „Global Economic Prospect” of the World Bank, the **international migration** is summed up at approximately **200 million persons** working outside the native borders, **which is double compared to 25 years ago**.

**Romania** is a part of the international migration phenomenon, with a history of migration marked by ups and downs especially determined by **economical**, social and political conditions. The analysis of the historical evolution of this phenomenon emphasizes at least two distinct stages: before and after December 1989.

**Before 1989**, the emigration of Romanians had its roots in the political regime of those years. The emigration was done due to ethnical reasons (more than 64% of the emigrants had other origins than Romanian, especially Germans, Hungarians, and Jews) the main countries of destination Germany, Hungary, Israel and also United States of America. The growth of emigration kept on rising as we were close to 1989, along with the deterioration of life and political status in the country.

The first year **after December 1989** (marked by the opening of the borders and a certain incertitude, manifested in the various aspects of social – economical life), has doubled the number of emigrants registered in 1990- approximately one thousand persons – compared to the previous year.

The first sign of change of emigration structure from the point of view of nationality appears.

Thus, even if the number of emigrants of other nationalities has grown from about 60% in 1989 to over 75% in 1990, the number of emigrants of Romanian origin has registered in the same time a growth of approximately 62% compared to 1989.

**The structure of emigration** per gender emphasizes some changes, women having a higher importance, this number was **62,3%** in 2004 and **62,4%** in 2005.

In age groups, the persons between 26 and 40 years old represented 58,1% in the population which emigrated in 2005, **the tendency being in growth**, from one year to another, as the data comprised in the following table:

*The evolution of population emigration in Romania during 1998-2005*

	1998	1999	2000	2001	2002	2003	2004	2005
The number of emigrants (thousands of persons)	17,5	12,6	14,8	9,9	8,2	10,7	13,1	10,9
The total number of emigrants between 26-40 years old(thousands of persons)	5,4	4,2	5,7	4,0	4,0	5,5	7,2	6,3
The ponder of persons between 26-40, in the total number of emigrants (%)	30,7	33,7	38,8	40,5	48,7	51,0	54,8	58,1
The rate of emigration (‰)	0,78	0,56	0,66	0,44	0,37	0,49	0,60	0,51

It is necessary to say that the statistical data concerning the migration, made public the National Institute of Statistics, refers only to **the legal emigrants**, who permanently change their residence. Along with them, there are other categories of emigrants: those who migrate illegally, those working temporarily abroad and those practicing circulatory migration (meaning the return of the migrants in the country), the latter categories being most significant quantitatively in the last few years.

**The illegal migration has grown during 1990s** when a larger number of Romanians has tried to **reach in the European Union**, searching for a place to work in the informal section or even to imply in illegal activities. As to the calculation made by the specialists at the National Institute of Scientific Research in the area of Labour and Social Security, the illegal migration in 2002 has surpassed with approximately 20-30% the legal migration. The result was that over 30% of the illegal migration dealt with human trafficking and labour force, which had negative effects over the human beings by breaching the human rights and the degradation of the individual's personality.

The migration for labour purposes

The information made public by the authorities of the Labour Ministry, (the office for Labour Migration until July 1 2007 and the National Agency for Labour Force after this date) at the level of 2006 there were over 2 million Romanians employed abroad for non-season activities, representing approximately 10% of the population in Romania. The Foundation for a Open Society (FOS) which has done a representative national research concerning the migration for labour purposes of Romanians during 1990-2006 shows the existence of 3 different *stages* in this process: the first stage during 1990-1995, characterized by a rate of emigration from 3 to 1000 inhabitants, the countries of destination being Israel, Turkey, Italy, Hungary, Germany, the second stage between 1996-2001 with a rate of emigration from 7 to 1000 inhabitants with the following destinations: Spain, USA, Canada, and the third stage characterized by the elimination of Schengen visa (2001-2006), which has registered a huge rate of emigration, from 28 to 1000 inhabitants, the main countries of destination being Italy (40% of the total of those migration for labour purposes), Spain (18%) Germany (5%) Hungary (5%), Israel (6%).

It is to underline the fact that there are some important differences between the official information and the results of the study of the Foundation for a Open Society; this is because the official information comprise only a part of the legal migration for labour purposes, while the studies show the fact that 60% of the Romanians who worked in Italy, 45% of those employed in Spain and 38% in Germany have worked illegally during 1990-2006.

As for the immigration for labour purposes in Romania, in July 31 2007 there were over 12 thousand work permits registered for foreign citizens, 2 thousand more than the same period of the last year, out of this number 25% belonging to the citizens of the European Union and 17% to the citizens of the Republic of Moldavia, the main areas of activity being the commerce, the services and the industry. The immigrant workers are mainly men (85% of the total number) with the age between 26-35 years old. A characteristic of the last years is the growth of the number of the labour permits issued to immigrants.

## The Effects of Migration

The growing tendency of migration (registered or not, legal or illegal, permanent or temporary) in the period after 1989 is caused by several factors:

1. objectives
  - the economical situation,
  - the political situation
  - the social situation
2. subjective
  - the expectancy and the personal perceptions.

Although the emigration is a significant loss from the point of view of human development, the real losses cannot be quantified, this is because we do not know which might have been the contribution of the respective persons to the economical development of the country and their accomplishments from the point of view of the working place, of education, health and children if they had not left the country, so that the analyses be made in terms of costs and benefices.

The emigration affects the groups with high rate of fertility, being thus able to reduce the potential new born children in Romania, if it becomes permanent. The explanation is that those emigrating are young and the number of emigrant women has almost equaled that of men, being in a continuous growth.

The emigration has a very important effect on the reduction of the unemployment rate in Romania. But it generates unbalances on the internal labour market for some jobs. For example, there is already a lack of workers in the construction department, while a large number of Romanians work abroad in the same area, the cause of this situation being the difference of salaries in Romania compared to those in the European Union.

In spite of these negative aspects the migration has positive effects over Romania by the money transfers of the workers abroad and by cultural changes, which is a fundamental element. The same positive impact for Romania can have the immigration towards our country, but this does not register significant figures yet. Now, when the pyramid of ages in the European countries outlines the *danger of aging on the long term* with an increase in the deficit of labour force, the immigration politics becomes more and more actual for all states. It is defined by the accommodation of heterogeneous requirements:

- equality in treatment
- solidarity
- the avoidance of social exclusion
- the avoidance of illegal work
- the assurance of European economical competitiveness
- the free circulation of labour force.

As for the dynamics and the content of the migration we shall be able to appreciate that there will not register an important increase of the number of Romanians to travel for work abroad.

Also, Romania shall open the frontier for the neighbor countries such as for the Republic of Moldavia, Serbia, Ukraine, where important communities of Romanians reside. This aspect is expected to have positive effects over the economical development of the country.

A special situation that can generate important losses from the point of view of the human development is the fact that the Romanian students who shall study in the European Union (the number is expected to grow every year) might settle in the countries of destination, after graduation.

Among the essential elements for the discussion of the complex problem of the migration is mentioned the elaboration of coherent internal politics, the interstate collaboration and the signing of bilateral agreements.

The effects of migration consist of:

- the loss of tax payer –active labour force in Romania,
- the decrease of social solidarity in the social security system in Romania and in the same time its increase in the countries of destination,

- the remittance of some important amount of money in the countries of origin,
- the contact with other economical, social cultural models

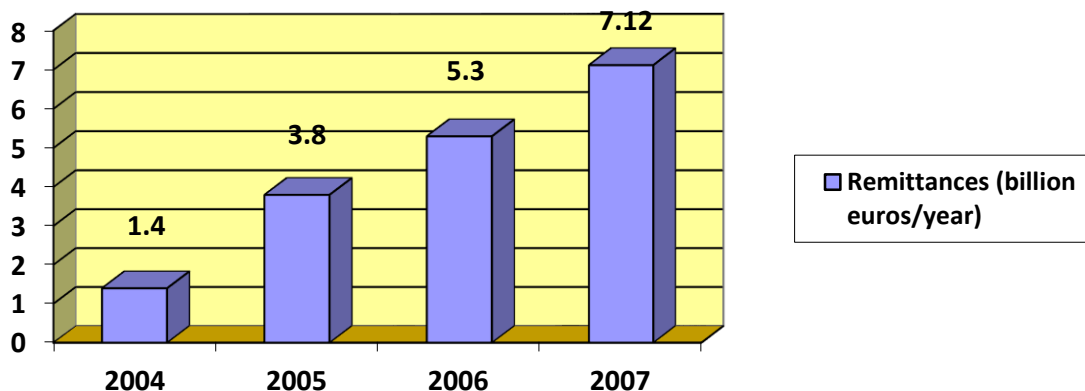
## The Money Transfer from Workers Abroad

An essential conclusion to the EU summit in December 2006, dedicated to the accede of Bulgaria and Romania shows that: "the discussion of challenges and opportunities of migration in the benefice of all is one of the major priorities of the European Union in the beginning of the 21th century". The amounts of money sent by emigrants in the country of origin, the so called "remittances " represent one of these benefices of which the Romanians take advantage.

According to the information of the World Bank, the remittances in the entire world have totalized in 2004 about 232,2 billion dollars, from which a quota of 8% (19 billion dollars) for Europe and Central Asia. For several countries of EAC the remittances represent the second source of external financing, after the direct foreign investments, or are situated even in the first place in countries like Moldavia and Albania. In EAC area, the remittances come in a proportion of three quarters in the European Union. Between one third and two thirds of the emigrants money are sent in the country of origin by "informal" ways, such as bus drivers, friends, family members etc.

The estimations of the National Bank of Romania concerning the amount of money sent in the country by Romanian working abroad is 1,4 billion euro in 2004, 3,8 billion euro in 2005 and 5,3 billion euro in 2006. In 2007 the transfers made by the Romanians totalized 7,12 billion euro, being situated over the level of foreign investments of 9,1 billion euro.

### THE EVOLUTION OF REMITTANCES



Although they speak a lot in Romania about **the phenomenon of remittances**, they are not situated by far at the level of other countries in the area and not even at the level of other states in the European Union. As for the remittances in PIB, for example, between 10 states of the Central and Eastern Europe newly acceded to the EU, **Romania is before the last place**. As to the estimations of NBR which take into consideration partially the informal fluxes, the remittances in PIB reaches 5,9% at the level of 2007. For comparison, we state that in 2004, according to FMI, in Moldavia, the remittances were close to 25% of PIB, in Haiti 30% and in Tonga over 45%.

The impact at the macro economical level of remittances is difficult to identify because they act over a large number of macro economical variables. The most visible and immediate effect of transfers of money is the one done over the consumption of houses, an important problem at the macro economical level, taking into consideration that it is a part of the final effective consumption, a component of the gross internal product. But the transfers also affect the investment and the savings. Also, the remittances can lead to the increase of the currency in the country of money destination, with the condition that the fluxes be high, which can have a negative influence over the export.

**The effects of remittances over Romania** are multiple. Both the investment and the consumption get an infusion of dynamism by the entrance of currency in the country, contributing to the growth of economy.

The life standard of the citizens increases, by reducing the potential social tensions. In Romania 65% of the remittances are found in consumption and 35% of those money are sent towards investments and savings.

Due to the fact that the main cause of emigration of the labour force is the significant differences of workers income in Romania on one hand, and the countries of destination (mostly western European) on the other hand, it is obvious that this phenomenon shall not be stopped in the near future. In these terms, the politics destined to the immigration of labour force shall play an important role in the administration of the deficits in the labour force market, which are generated by emigration. Also, they have to bear in mind the politics destined for withdrawal of the actual emigrants for work.

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# EU REGIONAL POLICY AND THE STRUCTURAL FUNDS

**Tarța Monica**

*Academia de Studii Economice București, Facultatea de Economie, Str.Dr.Sion, nr.1-9, bl.15, sc.4, ap.130, sector 1, E-mail: tartamonica@yahoo.com, Tel: 0726 290 150*

*The Lisbon and Gothenburg European Councils defined a broad strategy to increase the competitiveness of the Union and achieve sustainable growth. Accordingly, during the 2000-2006 programming period, the various cohesion policy instruments - primarily the Structural Funds - contributed, directly or indirectly, to the Lisbon strategy. They had a major impact on the competitiveness of the regions and helped achieve substantial improvements in the living conditions of their populations. At the March 2005 European Council, the Lisbon Strategy was renewed with the adoption of the partnership for growth and jobs. In line with this strategy, cohesion policy must be focused on promoting sustainable growth, competitiveness and jobs. On the basis of these priorities, the **Strategic Guidelines for 2007-2013** aim to: make Europe and its regions more attractive places to invest and work; improve knowledge and innovation; create more and better jobs; and take account of the territorial dimension of cohesion policy.*

*Key words: regional policy, structural funds, competitiveness, sustainable growth*

EU regional policy really makes a difference to the development of European regions which have a key role to play in the new partnership for jobs and growth. In the present economic context, improving regional and local competitiveness is a vital objective for the European Union to meet the following challenges: greater socio-economic disparities after enlargement<sup>209</sup>, asymmetric effects and restructuring provoked by globalization, the technological revolution, the expansion of an economy and a society based on knowledge, the ageing of Europe's population and increased immigration.

To meet the expectations of its citizens, the Lisbon and Gothenburg European Councils defined a broad strategy to increase the competitiveness of the Union and achieve sustainable growth. Accordingly, during the 2000-2006 programming period, the various cohesion policy instruments - primarily the Structural Funds - contributed, directly or indirectly, to the Lisbon strategy. They had a major impact on the competitiveness of the regions and helped achieve substantial improvements in the living conditions of their populations.

In this context, European regional policy is a unique tool for converting political priorities at the EU level into real results on the ground. A key asset is the broad network of regional and local actors mobilized to implement this policy. This partnership contributes to better economic governance and to ownership of the Lisbon agenda for growth and jobs.

At the March 2005 European Council, the **Lisbon Strategy** was renewed with the adoption of the partnership for growth and jobs. In line with this strategy, cohesion policy must be focused on promoting sustainable growth, competitiveness and jobs.

The strategic guidelines identify those areas in which cohesion policy can contribute to the achievement of other Community priorities, including those deriving from the Lisbon strategy. They are also in line with the integrated guidelines for growth and jobs. The strategic guidelines are focused on three priorities:

- improving the attractiveness of regions and cities in the Member States;
- encouraging innovation, entrepreneurship and growth in the knowledge economy; and
- creating more and better jobs.

On the 17th December 2005 the European Council reached an agreement on the Union's financial framework for 2007-2013. The ten new Member States will get around EUR 157 billion over the seven years, of the overall EUR 307.6 billion spending; EUR 251 billion is earmarked for convergence (including EUR 61.5 billion for the Cohesion Fund) and EUR 48.7 billion for regional competitiveness and employment; territorial cooperation will get EUR 7.5 billion.

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<sup>209</sup> in the enlarged EU, the economic gap between regions has doubled

The strategic guidelines for cohesion policy after 2007 have **two objectives**:

- to strengthen the strategic dimension of cohesion policy with a view to ensuring that Community priorities are better integrated into the national and regional development programmes; and
- to ensure greater ownership of cohesion policy on the ground, as reflected in a reinforced dialogue in the partnerships between the Commission, the Member States and the regions and the creation of a clearer division of responsibilities between the Commission, Member States and the Parliament.

On the basis of these priorities, the Strategic Guidelines for 2007-2013 aim to:

- make Europe and its regions more attractive places to invest and work;
- improve knowledge and innovation;
- create more and better jobs; and
- take account of the territorial dimension of cohesion policy.

## **Investment and jobs**

The Communication lists **three groups of measures** for making Europe and its regions a more attractive place to invest and work.

First, **transport infrastructures** must be expanded and improved. With this in mind, the Member States must give priority to the 30 projects of European interest by investing in secondary connections. In addition, better access to rail infrastructure and improved connectivity of landlocked territories to the Trans-European network (TEN-T) must be encouraged. The same applies to the environmental dimension of transport networks and the development of short-sea shipping.

Secondly, the **synergies between environmental protection and growth** must be strengthened so as to guarantee the sustainability of economic growth, innovation and job creation. With this in mind, the Commission recommends investing in infrastructures, creating attractive conditions for businesses and their staff and putting in place risk prevention measures. In addition, the EU's Kyoto commitments must be taken into account.

Thirdly, traditional energy dependency must be reduced through **improvements in energy efficiency and use of renewable energies**.

## **Knowledge and innovation**

The aims of growth and job creation will require a structural shift in the economy towards knowledge-based activities. To achieve this, it will be necessary to:

- increase and improve investment in research and technological development (RTD), especially in the private sector (including through public-private partnerships (PPPs), small and medium-sized enterprises (SMEs) and cooperation among companies);
- facilitate innovation and encourage the creation of companies with the objective of promoting a climate which promotes the production, dissemination and use of new knowledge (entrepreneurship);
- promote the information society and the dissemination of information and communication technology (ICT) equipment to companies and households; and
- improve access to finance by creating financial engineering mechanisms, while supporting financial instruments other than subsidies.

## **Jobs**

To create more and better jobs, cohesion policy must aim to address the challenges highlighted in the European employment strategy. In particular, more people must be attracted into and retained in employment through the modernisation of social protection systems.

In addition, worker adaptability and labour market flexibility must be increased by investing in human capital through improvements in education and skills. In line with these priorities, the administrative capacity of public administrations and services must be increased and a healthy labour force maintained.

## Territorial cohesion and cooperation

Cohesion policy must be adapted to the particular needs and characteristics of individual regions in terms of the problems and opportunities which derive from their geographical situation. The territorial dimension includes the following themes:

- the contribution of cities (urban areas) to growth and jobs (in order to promote entrepreneurship, local employment and community development, for example);
- supporting the economic diversification of rural areas (e.g. the synergy between structural, employment and rural development policies); and
- cross-border, transnational and interregional cooperation focused on the aims of growth and job creation.

In 2007-2013 the financial resources will be channeled through the structural funds into investments in key elements of EU competitiveness – human capital and physical infrastructure, innovation, telecommunications and information technology, research and development.

The Structural Funds – comprising The European Fund for Regional Development (ERDF), the European Social Fund (ESF) and the Cohesion Fund – contribute to **three objectives**: Convergence, Regional Competitiveness and Employment, and European Territorial Cooperation in the following way:

### Objectives, Structural Funds and instruments 2007-2013

Objectives	Structural Funds and instruments		
Convergence	ERDF	ESF	Cohesion Fund
Regional Competitiveness and Employment	ERDF	ESF	
European Territorial Cooperation	ERDF		

The rationale of the Convergence objective is to promote growth-enhancing conditions and factors leading to real convergence for the least-developed Member States and regions. In EU-27, this objective concerns – within 17 Member States – 84 regions with a total population of 154 million, and per capita GDP at less than 75 % of the Community average, and – on a “phasing-out” basis – another 16 regions with a total of 16.4 million inhabitants and a GDP only slightly above the threshold, due to the statistical effect of the larger EU. The amount available under the Convergence objective is EUR 282.8 billion, representing 81.5 % of the total. It is split as follows: EUR 199.3 billion for the Convergence regions, while EUR 14 billion are reserved for the “phasing-out” regions, and EUR 69.5 billion for the Cohesion Fund, the latter applying to 15 Member States

Outside the Convergence regions, the Regional Competitiveness and Employment objective aims at strengthening competitiveness and attractiveness, as well as employment, through a two-fold approach. First, development programmes will help regions to anticipate and promote economic change through innovation and the promotion of the knowledge society, entrepreneurship, the protection of the environment, and the improvement of their accessibility. Second, more and better jobs will be supported by adapting the workforce and by investing in human resources. In EU-27, a total of 168 regions will be eligible, representing 314 million inhabitants. Within these, 13 regions which are home to a total of 19 million inhabitants represent so-called “phasing-in” areas and are subject to special financial allocations



due to their former status as “Objective 1” regions. The amount of EUR 55 billion – of which EUR 11.4 billion is for the “phasing-in” regions – represents just below 16% of the total allocation. Regions in 19 Member States are concerned with this objective.

The European Territorial Co-operation objective will strengthen cross-border co-operation through joint local and regional initiatives, trans-national co-operation aiming at integrated territorial development, and interregional co-operation and exchange of experience. The population living in cross-border areas amounts to 181.7 million (37.5 % of the total EU population), whereas all EU regions and citizens are covered by one of the existing 13 transnational co-operation areas. EUR 8.7 billion (2.5 % of the total) available for this objective is split as follows: EUR 6.44 billion for cross-border, EUR 1.83 billion for transnational and EUR 445 million for inter-regional co-operation.

The Structural Funds budget and the rules for its use are decided by the Council and the European Parliament on the basis of a proposal made by the European Commission, after having consulted closely with Member States over the **Community strategic guidelines on cohesion**. This is the pillar of the policy which gives it a strategic dimension. The guidelines guarantee that Member States adjust their programming in line with the priorities of the Union to encourage innovation and entrepreneurship, foster the growth of a knowledge-based economy and create more and better jobs.

The Community Strategic Guidelines contain the principles and priorities of cohesion policy and suggest ways the European regions can take full advantage of the € 308 billion that has been made available for national and regional aid programmes over the next seven years. National authorities will use the guidelines as the basis for drafting their national strategic priorities and planning for 2007-2013, the so called National Strategic Reference Frameworks (NSRFs). According to the guidelines and in line with the renewed Lisbon strategy, programmes co-financed through the cohesion policy should seek to target resources on the following three priorities:

- improving the attractiveness of Member States, regions and cities by improving accessibility, ensuring adequate quality and level of services, and preserving their environmental potential;
- encouraging innovation, entrepreneurship and the growth of the knowledge economy by research and innovation capacities, including new information and communication technologies; and
- creating more and better jobs by attracting more people into employment entrepreneurial activity, improving adaptability of workers and enterprises and increasing investment in human capital.

The Guidelines seek to provide a balance between the twin objectives of the growth and jobs agenda and territorial cohesion. Thus, it is recognized that there can be no question of a “one size fits all” approach to the new programmes.

These strategic guidelines should also recognize that the successful implementation of cohesion policy depends on macroeconomic stability and structural reforms at national level together with a range of other conditions which favour investment, including effective implementation of the internal market, administrative reforms, good governance, a business-friendly climate, and the availability of a highly skilled workforce.

In accordance with the Strategic Guidelines, Each Member State prepares a **National Strategic Reference Framework** (NSRF), over the course of an ongoing dialogue with the Commission. The rules outline that, after the adoption of the strategic guidelines, a Member State has five months to send its NSRF to the Commission. That document defines the strategy chosen by the Member State and proposes a list of operational programmes that it hopes to implement. The Commission has three months after receipt of the NSRF to make any comments and to request any additional information from the Member State.

The Commission validates certain parts of the NSRF that require a decision, as well as each **operational programme (OP)**. The OPs present the priorities of the Member State (and/or regions) as well as the way in which it will lead its programming. An obligation exists however for the countries and the regions concerned by the convergence objective: 60% of expenditure must be allocated to the priorities arising from the Union's strategy for growth and jobs (the Lisbon strategy). For countries and regions concerned by the competitiveness and employment objective the percentage is 75%. After the Commission has taken a decision on the operational programmes, the Member States and its regions then have the task of **implementing the programmes**, i.e. selecting **the thousands of projects**, monitoring and assessing them.

All this work takes place through what are known as management authorities in each country and/or each region.

Further on, the Commission **commits the expenditure** to allow the Member State to start the programmes, then **pays the certified expenditure** per Member State. The Commission **monitors each operational programme** alongside the Member State. **Strategic reports** are in addition submitted by the Commission and by the Member States throughout the 2007-2013 programming period.

## **Geographical coverage and eligibility criteria**

The whole European Union is covered by one or several objectives of the cohesion policy. To determine geographic eligibility, the Commission bases its decision on statistical data. Europe is divided into various groups of regions corresponding to the classification known by the acronym NUTS (common nomenclature of territorial units for statistics)

Phase-out assistance systems have been set up for regions which benefited from much financial assistance before the enlargement, in order to avoid drastic changes between two programming periods.

Cohesion Fund – Member States whose GNI (Gross National Income) is lower than 90% of the EU average can benefit from cohesion fund, that is all the regions of the following countries: Bulgaria, Czech Republic, Estonia, Greece, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Portugal, Romania, Slovenia, and Slovakia

A phasing-out system is granted to Member States which would have been eligible for the Cohesion Fund if the threshold had stayed at 90% of the GNI average of the EU **at 15** and not **at 25**. This only concerns Spain.

Regions with a per capita Gross Domestic Product (GDP) less than 75% of the EU-25 average will qualify for the ERDF and ESF support under the convergence objective; temporary support will also be made available to those regions where a per-capita GDP would have been below 75% of the EU-15 average ( the so-called statistical effect of enlargement). All remaining regions will be eligible for support through the competitiveness and employment objective. All regions will also be eligible for the territorial co-operation objective.

The ERDF aims to reduce disparities between the levels of development of the various regions and the backwardness of the least favoured regions including rural areas. Its resources are mainly used to co-finance infrastructure, productive investment leading to the creation or maintenance of jobs, as well as local development initiatives and the business activities of small and medium-sized enterprises.

The ESF will provide significant support to achieve progress towards full employment, to improve quality and productivity at work, and to promote social inclusion and cohesion. It promotes investment in people, equal opportunities, and boosts human potential in the field of research and development.

The Cohesion Fund assists the eligible Member States to catch up with Europe's wealthier regions by contributing to the improvement of transport, energy and environmental infrastructure.

The implementation of regional policy in Romania falls under the Convergence objective all throughout the 8 development regions. To this aim, Romania has adopted seven Operational Programmes to be implemented over the period 2007-2013.

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# ENHANCING ECONOMIC COMPETITIVENESS IN ROMANIA THROUGH COHESION POLICY AND THE STRUCTURAL FUNDS

Tarța Monica

*Academia de Studii Economice București, Facultatea de Economie, Str.Dr.Sion, nr.1-9, bl.15, sc.4, ap.130, sector 1, E-mail: tartamonica@yahoo.com, Tel: 0726 290 150*

*Despite considerable progress in terms of macroeconomic performance, Romania's international rankings on competitiveness suggest several weaknesses, especially related to market efficiency, business sophistication, education, technology readiness and innovation. Revealed Comparative Advantage and Intra-Industry Trade analyses outline that the Romanian economy is still labor intensive, thus needing capital infusion in order to increase its competitiveness within the EU. In order to benefit from the EU cohesion policy, Romania has adopted The Sectoral Operational Programme "Increase of Economic Competitiveness", which is one of the seven instruments (operational programmes) adopted by Romania and under the Convergence objective; the programme sets out to achieve the priorities of the National Strategic Reference Framework, derived from the National Development Plan 2007 – 2013, which aims to strengthen the strategic focus of the Economic and Social Cohesion policies across Romania, and to enhance economic competitiveness in Romania.*

*Key-words: cohesion policy, structural funds, competitiveness*

Convergence towards the EU is the paramount objective of Romania in terms of economic development. If nominal and institutional convergence is required in order to maintain stability and create a functional framework, real convergence is the path to prosperity. This section is aimed at investigating the convergence progress and the status of competitiveness factors, as well as assessing the opportunities for enhancing competitiveness with the aid of the structural funds.

Over the last few years, Romania has remarkably improved its macroeconomic framework, after finding itself close to financial crisis in 1999. Real gross domestic product (GDP) growth has averaged 6% over the last six years and is expected to follow the same trend in the medium term. As a result, Romania seems well-positioned for a fast catching-up trajectory towards the EU.

Until a few years ago, the country's sustained economic recovery, following the late 1990s recession, was led by an export-driven economic growth. This was facilitated by the managed floating policy pursued at that time by the National Bank of Romania (NBR), which was designed to prevent the excessive real appreciation of domestic currency and thus preserved the country's export competitiveness.

Over the last years however, investment and domestic consumption have taken the lead role in keeping the momentum going, being the main engines of economic growth. The growing attractiveness and easier access to domestic credit by households have led to an increase in their disposable income and this pushed up private consumption. Structural constraints on the domestic production side of goods and services meant that domestic supply could not accommodate the upward demand pressure. As a consequence, excess demand, helped also by a real appreciation of the RON, has continued to expand. In part, this trend reflects years of under-investment in which the high cost of borrowing and limited access to credit prevented households to meet their investment needs, most notably in durable goods, whereas economic agents found capital purchases extremely costly.

Disciplined monetary and fiscal policies pursued over the last years have improved considerably the macroeconomic picture. Over the last two years, domestic consumption has taken the lead role in keeping the economy growing, being the main engine of economic growth.

In spite of positive achievements however, the macroeconomic outlook is still vulnerable to a number of factors. The Romanian economy needs more fixed investment and a better infrastructure for sustaining average growth rates of above 6% yearly, on longer term. Public support for productive investment may consolidate the current convergence process and ensure increased competitiveness.

Human capital scarcity and propensity for migration may affect the economy if the economy will not become more capital intensive. Finally, structural constraints on the domestic production of goods and services continue to exist. As a consequence, the persistence of excess demand has fuelled imports growth continuing to widen the current account deficit.

In what regards competitiveness, Romania international rankings suggest several weaknesses, especially related to market efficiency, business sophistication, education, technology readiness and innovation. Revealed Comparative Advantage and Intra-Industry Trade analysis outline that the Romanian economy is still labor intensive, thus needing capital infusion in order to increase its competitiveness within the EU.

The Sectoral Operational Programme “*Increase of Economic Competitiveness*” (further referred to as SOP IEC) is one of the seven instruments (OPs), under the Convergence objective, for achieving the priorities of the National Strategic Reference Framework (NSRF) derived from the National Development Plan 2007 – 2013 (NDP), which aims to strengthen the strategic focus of the Economic and Social Cohesion policies across Romania, and to make the correct and appropriate linkages to the European policies and the Lisbon Strategy for growth and job creation.

SOP IEC directly addresses the first priority of the National Development Programme “Increase of economic competitiveness and development of the knowledge-based economy” and the second priority of National Strategic Reference Framework i.e. “**Increasing the Long Term Competitiveness of the Romanian Economy**” and contributes, to different extents, to the implementation of all NSRF priorities.

The Operational Programme Increase of Economic Competitiveness was elaborated under the coordination of the Managing Authority for SOP IEC – the Ministry of Economy and Finance (MEF), and is the result of the partnership consultations both with the strategic partners (ACIS within MEF, other Managing Authorities coordinating other OPs, institutions designated as Intermediate Bodies, other line ministries, and agencies, social partners, civil society organizations, potential beneficiaries, other stakeholders involved in this field).

The implementation of the programme is under the responsibility of the Managing Authority for SOP IEC within MEF. In order to carry out the programme efficiently, the Directorate for SF Management within the Ministry for SMEs, Trade, Tourism and Liberal Professions (former National Agency for SMEs and Cooperatives), Ministry of Education, Research and Youth – National Authority for Scientific Research, Ministry of Communications and Information Technology, and Ministry of Economy and Finance - Energy Policy General Directorate were designated as Intermediate Bodies (IBs) for SOP IEC.

The starting point for the formulation SOP IEC is the analysis of the current situation of entrepreneurship and innovation, with special emphasis on the small and medium-sized enterprises sector (SMEs), on resources for the RDI sector, on ICT sector, and on energy efficiency and environment protection issues in the energy and industry sectors.

Further on, a SWOT analysis is carried out, on the basis of which, the development strategy is built. The SOP IEC also contains a description of the priority axes, key areas of intervention and proposed operations, as well as financial tables, implementation provisions, partnership arrangements.

The general objective of SOP IEC is the increase of Romanian companies’ productivity, in compliance with the principle of sustainable development, and reducing the disparities compared to the average productivity of EU. The target is an average annual growth of GDP per employed person by about 5.5%. This will allow Romania to reach approx. 55% of the EU average productivity by 2015.

**The specific objectives are:**

- a) **Consolidation and environment-friendly development of the Romanian productive sector**

The key point of this specific objective is the support to the upgrading and innovation of existing enterprises leading to cost reduction and subsequent productivity gains, and the creation of new ones, especially SMEs in the manufacturing and business services sectors. The valorization and the qualification of the productive equipment, based on its enlargement and upgrading, the innovation of productive processes and the support for the adoption of international standards, foster the increase of the products range. Improvement of specialized advisory offer and the support to internationalization give a contribution to the process of increasing the market share.

- b) **Establishment of a favourable environment for sustainable enterprises’ development**

The key point of this specific objective is to provide a favourable framework for entrepreneurship by reducing the existing constraints in the areas of market failure - access to finance, innovative financial instruments, availability of qualified services, cooperation among firms – for the creation of new enterprises and for the development of the existing ones. The fulfilment of the two above objectives may be quantified by the increase of SME's share within GDP by 10% in 2015.

**c) Increase of the R&D capacity, stimulation of the cooperation between RDI institutions and enterprises, and increase of enterprises' access to RDI**

The aim of this specific objective is to improve the overall performance with regard to RDI along with the productivity of enterprises through increasing the rate of innovation and the economic benefits from the exploitation of knowledge. The key points of this objective are the funding of R&D projects that will generate results directly applicable in the economy, the upgrading and development of RDI capacity and infrastructure, the improvement of the quality and range of the supply of innovative services, the stimulation of the potential demand of innovation coming from enterprises. The achievement of this objective will contribute to Romania's aim to increase the gross domestic R&D expenditures (GERD) to 2% of GDP by 2015.

**d) Valorization of the ICT potential and its application in the public (administration) and private sector (enterprises, citizens)**

The key points are the improvement of infrastructure endowment in market failure areas (underserved rural and small urban areas), development and increase of the efficiency of public electronic services (e-government, e-education and e-health) and increase the ICT uptake by SMEs and development of a dynamic E-Business environment with rapid impact on the cost structure of economic operators. The Commission communication „Bridging the Broadband Gap” rightly considers that wide broadband coverage in Europe is crucial for fostering growth and jobs. Therefore the target is the increase of broadband penetration rate in Romania (number of broadband connections/100 inhabitants) from 5% in 2005 up to 40% in 2015<sup>29</sup>, ensuring the uptake of ICT in the productive system, in the administrative processes, in day-to-day life, and development of a new and better generation of products and services, able to compete on a globalised market.

**e) Increasing energy efficiency and security of supply, in the context of combating climate change**

The key points are to contribute to reducing the energy intensity through the implementation of new technologies in order to increase productivity, especially to industrial end-users and to increase the use of renewable energy sources. An important support will be given to implementing new technologies in order to reduce emissions of energy plants (essential to the National Energy System), and to diversification of interconnection networks in view of strengthening security of energy supply, which lies at the basis of any sound economic system. The envisaged objective is to contribute to the following national targets: the reduction of the primary energy intensity by 40% compared to 2001, the 33% share of electricity produced from renewable energy resources in the gross national electricity consumption by 2010 and the reduction of emissions in the energy sector according to the National Programme for the reduction of sulphur dioxide (SO<sub>2</sub>), Nitrogen Oxide (NO<sub>x</sub>) and dust emissions from large combustion plants.

Taking into account both the identified possibilities for improvement of the competitive position of Romanian enterprises to cope with the challenge and to be able to use the opportunities arising from operating on the European Single Market and the areas eligible for the ERDF support, the following Priority axes have been identified in the SOP IEC:

## **Priority Axis 1: An innovative and eco-efficient productive system**

Increasing productive investments and improving enterprises access to market according to the principles of sustainable development are the key conditions of the competitive functioning of Romanian economy in the European Union. The second economic accession criterion established in Copenhagen in 1993 highlights the imperative necessity that Romanian enterprises must be prepared to face the competition pressures within the Internal Market. The Internal Market competition may be beneficial to local enterprises only if they will manage to profit from the advantages created by the free movement of goods, services, people and capital. Despite certain progresses in the SMEs sector, which Romania registered in implementing the European Charter for Small Enterprises, difficulties are still encountered, due to limited

financial resources, significant technological gap and the lack of know-how in business development, that hinder the capacity of SMEs to rapidly adapt to the Internal Market requirements.

In this context, the specific objectives of axis 1 are: the consolidation and sustainable growth of the Romanian productive sector and the establishment of a favourable environment for enterprises' development

Key Areas of Intervention are:

- Productive and environment friendly investments and preparation for market competition, especially of SMEs
- Access to finance for SMEs
- Sustainable entrepreneurship development

## **Priority Axis 2: Research, Technological Development and Innovation for competitiveness**

The low level of funding (both public, and private) for research, technological development, and innovation (RDI) had as direct results the obsolete RDI infrastructure, the decreasing number and increasing average age of researchers, and the low performance of RDI activities. The lack of funding also hindered enterprises' access to RDI activities and technology transfer. These weak points together with the low participation of the private sector in funding RDI activities resulted in a large technology deficit of Romanian companies and in a low innovation score in enterprises.

In this context, the objective of priority axis 2 is the increase of R&D capacity, stimulation of cooperation between RDI institutions and enterprises, and increase of enterprises' access to RDI.

Key Areas of Intervention are:

- R&D partnerships between universities/research institutes, and enterprises for generating results directly applicable in economy
- Investments in RDI infrastructure and related administrative capacity
- RDI support for enterprises

## **Priority Axis 3: ICT for private and public sectors**

In the new global economy, taking into consideration the need to reinforce competitiveness at different levels, the Romanian companies, public administrations and other economic and social players are facing major challenges. Productivity growth may be considered a decisive factor for a successful market development and the positive impact of the ICT on this is well known.

In this context, the specific objective of axis 3 is to support the economic competitiveness through increasing the interactions between the public sector and enterprises/citizens by fully exploiting the ICT potential. The main actions to be carried out in order to achieve this objective address the need to improve the ICT infrastructure in market failure areas (under served rural and small urban areas), to develop and effectively use the electronic public services and to develop a secure and dynamic e-business environment. From this perspective, it will be necessary to introduce and sustain innovative productive systems in the administrative process, in day-to-day life and to develop a competitive market for a new generation of products and services.

Key Areas of Intervention are:

- Supporting the ICT use
- Developing and increasing the efficiency of electronic public services
- Sustaining the E-Economy

## **Priority Axis 4: Increasing energy efficiency and security of supply, in the context of combating climate change**

An efficient, flexible, safe and clean energy infrastructure is a necessary precondition for economic development as it boosts productivity, and thus competitiveness. More efficient energy production,

transport and distribution, and end use, entail the reduction of both primary and final energy. As a direct result, final consumers would benefit from both a better quality and security of supply, implicitly leading to increased productivity. In order to improve energy efficiency, a comprehensive and streamlined set of measures are envisaged for each part of the chain: production, transportation, distribution, final use of energy: maintenance of the production capacity; improving the quality parameters of transportation and distribution grids; the improvement of energy efficiency at the end user

Key Areas of Intervention are:

- Efficient and sustainable energy (improving energy efficiency and environmental sustainability of the energy system)
- Valorisation of renewable energy resources for producing green energy
- Diversification of interconnection networks in view of strengthening security of energy supply

### **Priority Axis 5: Technical Assistance**

The technical assistance priority axis of SOP IEC provides specific assistance for project preparation, monitoring, evaluation and control as well as communication activities, only with regard to the specificity of SOP IEC. The technical assistance of SOP IEC is complemented with the horizontal support of the Operational Programme Technical Assistance, which provides assistance for the common needs of all the structures and actors involved in the management and implementation of the structural funds and ensures the general public awareness on the role of the Community support. Technical Assistance (TA) will assist in the implementation and monitoring of the programme. The priority axes of SOP IEC are in full compliance with the lines of action of the Commission's proposal regarding the framework for Competitiveness and Innovation 2007-2013, and take into account the guidelines put forward by the EU Council for the cohesion policy for 2007-2013. The ERDF contribution to SOP IEC budget for the 2007-2013 programming period is 2,554 million Euros, which represents 13.3% of the Community contribution to the NSRF.

The objective of this priority axis is to provide support for the programme implementation process and effective use of the Community financial input and national co-financing through: ensuring high quality and coherence of key areas of intervention aimed at programme implementation; providing compatibility of the realised projects with the acquis and EU policies; organisation of a system of information and promotion of programme objectives and operations.

Key Areas of Intervention are:

- Support to SOP IEC management, implementation, monitoring and control
- Support for communication, evaluation and IT/other equipment acquisition

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# THE ADAPTATION OF ROMANIAN COMMERCIAL LEGISLATION TO THE EXIGENCY IMPOSED BY THE EUROPEAN UNION

**Tutuianu Ion**

*UNIVERSITY OF BACAU, FACULTY OF ECONOMIC SCIENCES, Spiru Haret nr. 8, Bacau, tutuianuion@yahoo.com, 0744210530*

**Abstract:** *Although Romania's relationship with the European Communities dates since the 60s, only after December 1989 the adoption of Romanian commercial legislation was introduced at European standards, being finalized in 1991 with the commerce and cooperation Agreement. The aquis in this domain covers legislative categories like: the right of commercial societies, the application of intellectual propriety rights while fighting against piracy and forgery. The politic in the area of competition regulates the elimination of agreements between firms to diminish competition and dominant position abuses, the monitoring of state aids through the interdiction state subvention act in order to maintain afloat unviable companies in order to have false national champions.*

**Key words:** *commercial, legislation, competition, European Union*

## 1. General concepts

Through its integration in the European Union, Romania became part of the most effective system of political and economical organization known in history, EU having today a series of characteristics which differentiates it from the classic international structures, bringing it closer to a federal one: one single currency, one single external border control, one single custom system, a budget derived mostly from its own resources, a decisional capacity on the territory of the member states in its arias of expertise, mixed or exclusive, common policies and a Legal system prevails in front of national judicial norms<sup>210</sup>.

But how did this step influenced one of the most important domains in the Romanian Legal system, the Commercial Law? The answer to that question will be presented in the pages of this analysis. But, before that, one must make a few conceptual specifications, as well as, positioned in time, Romania's relationship with the Union, to be able to establish a solid base for the presentation in the following sections.

The denomination of Commercial Law suggests the idea that the Commercial Law is an assembly of judicial norms, which regulates commerce. This idea is in part correct. But, to fully understand the idea of Commercial Law it's necessary to understand the notion of commerce.<sup>211</sup>

Commerce is an occupation, which through its long and repeated practice gained the characteristics of a profession.<sup>212</sup> Etymologically speaking, the term of ,commerce,, is a juxtaposition of the words: cum = with, and merx = merchandise, therefore, comercium ( operations linked to merchandise or an activity regarding merchandise ).

The subject which exerts the commerce activity, is, usually the merchant ( merx- mercator ).

Starting with Roman Law and throughout the present, the word ,, commercial ,, suffered in its judicial acceptance, which differs from free speech, a semantic evolution: from the right to participate to judicial operations regarding the circulation and distribution of goods, to production and commerce in its own right.<sup>213</sup>

As the specialized doctrine shows, commercial Law is that specific branch in Private Law, which contains the unitary assembly of the judicial norms, which regulates social patrimonial relationships and personal, without any patrimonial value relationships from the sphere of commerce activities, relationships which are

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<sup>210</sup> Ion Jinga, Uniunea Europeană în căutarea viitorului. Studii europene, Editura C.H. Beck, București, 2008, p. 136

<sup>211</sup> Stanciu D.Cârpenaru, Drept comercial român, Editura All Beck, București, 2000, p. 1.

<sup>212</sup> Smaranda Angheni, Magda Volonciu, camelia Stoica, Drept comercial, Editura All Beck, București, 2004, p. 1.

<sup>213</sup> Elena Cârcei Drept comercial român, Curs pentru colegii universitare, Editura All Beck, București, 2000, p.1.

born, usually, between persons who have the quality of merchant and who are on an equal judicial position.  
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Even from the establishment of the European Economic Community, commercial politic was included in the „ common politics „ category, along side the common agricultural politic and the common transport politic.<sup>215</sup>

According to the Treaty of Rome, one of the Community objectives was the creation of custom union between the member states in order to stimulate commerce between the members, to promote better use of available economic resources, the reinsertion of Germany in the international system and to build commercial relationships strong enough to withstand against the Soviet pressures and the competition from the USA. The Custom Union, which proposed the progressive elimination of the barrier tariffs and the quantitative restrictions in commerce between member states, as well as the introduction of uniform commercial practices with intermediate states, was realized by the end of the 60s.<sup>216</sup>

With the Treaty of Maastricht, common commercial politic becomes the exclusive expertise of the Union. In virtue of this principle, the European Commission gains the status of unique negotiator in the relations with intermediate states or international organizations, according to the mandate given by European Union Council. Subsequently, the Treaty of Amsterdam created the possibility for the Council to further extend the negotiation expertise of the Commission into the services sector and that of intellectual propriety.

The treaty of Nice brought significant modifications, specifying that in the new 5<sup>th</sup> paragraph of art. 133 ETC that the 1<sup>st</sup> and 4<sup>th</sup> paragraphs are applied also to negotiations and the signing of agreements in the commerce and services domains and the aspects with commercial character of the intellectual propriety right, finally resorting to the majority qualified procedure in order for the Council to adopt decisions.<sup>217</sup>

In regard of our countries relationships with the European Communities, first of all, and then with the EU, one must say that they are quite old, existing from the 60s, when the first negotiations began between Romania and the European Economical Community (EEC) which beheld the closure of some technical and different economic sector arrangements.<sup>218</sup> In the 80s, even a commercial agreement was signed. Subsequently, the application of this agreement was suspended, the motive being the transgression of the freedoms and rights of the Romanian citizens, in the period of labor, socialist and then communist regime. The suspension lasted until 1988.<sup>219</sup>

At 25 of June 1988, the common Declaration was given between the European Communities and COMECON, which constituted the beginning of new economical and political relationships with the Central and Eastern European countries. Following that, commercial and cooperation agreements were closed between the period of October 1988 and March 1991, with the Eastern countries including Romania, with which the agreement was signed for three years. In 1992, Romania benefited of the removal of the quantitative restrictions, to enable an easier access in the Community market.

In 1991, the commerce and cooperation Agreement was signed and entered in use. In the same year, the application of the PHARE program was extended for Romania, program launched by the EU for economical and social reforms with non-reimbursable funds, in Central and Eastern Europe.

On the 30<sup>th</sup> of June 1995, the Additional Protocol to the European Agreement was signed, and went in to use, according to its stipulations at the 1<sup>st</sup> of August 1996.

Romania made its petition to adhere to the EU on the 22<sup>nd</sup> of June 1995.<sup>220</sup>

At the European Council from Helsinki, on December, 1999, Romania participated, being part of the second group, was decided the start of the adhering negotiations with Romania, and on the 15<sup>th</sup> of

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<sup>214</sup> Smaranda Angheni, Magda Volonciu, Camelia Stoica, op. cit., p.2.

<sup>215</sup> Ion Jinga, Andrei Popescu, Integrarea Europeană. Dicționar de termeni comunitari, Editura Lumina Lex, București, 2000, p. 143-144.

<sup>216</sup> Luciana-Alexandra Ghica(coord), Enciclopedia Uniunii Europene, Editura Meronia, București, 2007, p. 114.

<sup>217</sup> Ovidiu Tinca, Drept comunitar material, Editura Lumina Lex, București, 2003, p. 367.

<sup>218</sup> Cristina Arvatu, Daniela Ionescu ș.a., România și Uniunea Europeană, Editura Institutului de Științe Politice și Relații Internaționale, București, 2004, p. 9.

<sup>219</sup> Gheorghe Iancu, Instituții de drept constituțional al Uniunii Europene, Editura Lumina Lex, București, 2007, p. 315.

<sup>220</sup> Gilbert Gornig, Ioana Eleonora Rusu, Dreptul Uniunii Europene, Editura C.H.Beck, București, 2006, p. 163.

February 2000, the negotiations regarding the adhering to the EU started, on the base of the recommendations made by the Commission in its rapport from October 1999.

Romania's adhering negotiations with the EU were complex and were officially over in the evening of the 8<sup>th</sup> of 2004, with the occasion of Romania's Adhering Conference to the EU from Bruxelles, were, together with Bulgaria, the editing process of the Common Treaty for adhering to the EU was launched, the closure of the adhering negotiations being decided as a cause of the temporarily closure of all the negotiation chapters. With occasion it was decided that the date of the adhering will be the 1<sup>st</sup> of January 2007.<sup>221</sup>

Romania's adhering treaty to the EU was signed at Luxembourg, on the 25<sup>th</sup> of April 2005 and contained rules for Romania's and Bulgaria's adhering to the EU

At the 1<sup>st</sup> of January 2007, Romania closed the long path to European integration, becoming a member of the EU.

## **2. The implications of Romania's adhering to the EU over Commercial Law**

### ***2.1. The Commercial Law of commercial societies***

The aquis of this domain covers very different legislative domains: the Commercial Law of commercial societies in a strict sense, respectively the directives regarding the knowledge of the identity of those whom are in powered to represent a society, the financial situation of the society, the growth, the maintenance, and the diminution of the capital of action based societies, the law of accountancy, the intellectual and industry propriety rights protection, as well as the regulation that replaces the Bruxelles Convention over jurisdiction and the application of judicial decisions in cases of civil and commercial nature and the Rome Convention regarding the law of contractual obligation.

The main aspects used in this domain are <sup>222</sup>:

1. the industrial propriety protection rights for pharmaceutical products in the limits of the extended Union;
2. the application of intellectual propriety rights, with the purpose of fighting against piracy and counterfeiting
3. the common commercial brand- the Union proposed the automatic extension of existing common brands within the territory of the candidate countries.

Romania has accepted full heartedly the common aquis without requesting a transition period or derogation and engaged itself to apply it until the adhering date.

Regarding the Commercial Law of commercial societies, the national installment of the common aquis was finalized at the 31.12.2004, with the current measures: the transfer of the Register of Commerce to the Justice Department; the anticorruption legislative package; the laws regarding commercial societies, banking bankruptcy, the assurance companies and the their surveillance; the guaranties made in order to protect the interests of the associates and intermediates. <sup>223</sup>

International accountancy standards were introduced (for the realization of financial reports comparisons, a general balance presentation frame will be applied, also to the profit and loss account), the Chamber of Auditors of Romania was introduced, and the common financial audits legislation was taken and a professional training program was launched for 500 specialists.

The industrial and intellectual protection rights was composed of measures regarding: judicial protection for software programs, of cable and satellite transmissions and also the data bases; the Romanian Office for Author Rights was introduced-ROAR; measures to combat piracy were taken; the system of common brands was extended in Romania, the registration of patents, the medicine protection certificates, drawings, industrial models and integrated circuits systems. The assurance of these rights is effectuated also in the custom procedures.

Regarding the intellectual propriety right, the 3<sup>rd</sup> annex of the adhering treaty foresees the Regulation application regarding:

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<sup>221</sup> Gheorghe Iancu , op.cit., p.318.

<sup>222</sup> A se vedea informațiile publicate pe site-ul [www.infoeuropa.ro](http://www.infoeuropa.ro).

<sup>223</sup> Ion Niță , Integrarea în Uniunea Europeană, Editura Lumina Lex, București, 2005, p. 31-32.

- the common commerce adhering brand
- the creation of supplementary certificate for medicine protection ( for those with a patent )
- the common industrial drawing and models ( to have the same effect through out the community )

In the 5<sup>th</sup> annex it's foreseen that, the patents or a protection certificate owner may prevent their import from Romania if such a protection had not been obtained before the adhering ,,

The Romanian legislation is compatible with the dispositions of the Rome Convention (1980) regarding the law applied to contracts; with those of the Bruxelles Convention (1968) regarding to jurisdictional competence, the acknowledgement and the execution of foreign judicial decisions in the civil and commercial matter and the bases of judicial competence were laid at the closure of the contracts with the consumers, and the labor and assurance contracts.

## ***2.2. Politics in the competition domain***

The aquis regarding competition it is based on the 31<sup>st</sup> article ( state monopolies with commercial character ) the 81<sup>st</sup> and 82<sup>nd</sup> articles (rules applied to firms ), the 86<sup>th</sup> article <sup>224</sup> ( state firms and firms with special or exclusive rights ) and the 87<sup>th</sup> and the 88<sup>th</sup> articles ( rules applied to healthcare ) from the EC Treaty , as well as the 65<sup>th</sup> and the 66<sup>th</sup> articles of the CECO Treaty, which expired in 2002. The control of fusions is realized with the aid of the 4064/89 EC Regulation regarding fusions ( amendments included ) . In regard of healthcare, a part of the relevant aquis was discussed in the framework of the adhering negotiations and in other chapters of negotiations, respectively Transport, Agriculture and Fishing. <sup>225</sup>

The main aspects of the common aquis regard <sup>226</sup>:

- the elimination of agreements between firms, which have diminished competition; also, the abuses of dominant position ( for example, establishing prices agreements, of production limitation or the sale by, preventing the plummeting of prices, of reallocation of markets or suppliers );
- the control over fusions and over the firm agreements, in order to prevent a market domination and competition distortion (for those who have business figure of over 200 000 euros or have over 5% of the common market must be notified to the EC). These regulations are also known as antitrust regulations;
- the opening of the public utilities market, as is the case of postal services, railway, electric and gas energy, telecommunications etc. If a country gives a national company the right of monopoly to officiate services of public interest, the EC must watch over, that these special rights will not exceed what is necessary to fulfill the current service ( reasonable quality and convenient price )
- the monitoring of the state aids respectively the interdiction to give aids to maintain afloat unviable companies, in order to have false national champions or to create advantages for certain firms. Some types of public assistance including financially are considered compatible with the objectives of the Unique Market if some of the criteria's analyzed by the EC are satisfied from one case to another ( encouraging the appearance of IMMs, the development of backward regions, the cooperation with other firms from the EU, the encouragement of research-development activities etc.);The state aids at the EU level are different regarding the country; between 0.5% and 1% of the IBP.
- As in other fields as well as in the one of the common aquis competition was gradually implemented, starting from 1951 when through the CECO the agreements that distorted the competition in the domain of steel and coal were interdicted, and then after the creation of the EEC , firms were obligated to ( in 1962 ) to notify the Commission the agreements which restricted competition and had influence over commerce inside the community; in 1978, 1983-1984 some types of contracts were regulated which had an influence over the competition etc.

<sup>224</sup> Augustin Fuerea, Drept comunitar al afacerilor, Editura Universul Juridic, București, 2006, p. 184.

<sup>225</sup> www.infoeuropa.ro

<sup>226</sup> Ion Niță, op. cit.p.35-36

Romania opened the negotiations for this chapter in November 2000 and succeeded to finalize it four years later, in December 2004, being amongst the last to be finalized. The main issue was the problem of state subventions, knowing that many firms (sadly also private ones) accumulated huge debts to the state and through all kinds of redistributions are aided in order for them to stay afloat. Having the memory of an uncompetitive economy in which the majority of the active population worked, Romania couldn't conform itself in such a short period of time to the exigency's required by the common aquis without provoking large social convulsions (mass unemployment, caused by the closure of ineffective firms). The solution was the assimilation of this aquis alongside the restructuring of the economy, but until its adhering, Romania accepted it full heartedly and solicited a transition or a derogation period.

The law of competition and that of healthcare amended at the end of the year 2003 assures a harmony with European legislation in the treating and regulation mode of firm agreements, concerted practices, dominant position abuse and economic concentration control.

The Competition Council had a satisfactory activity in applying the antitrust law, the restrictive accords, the dominant position abuses and the control of fusions.

In the healthcare domain multi sector regulations were adopted, as well as referring to guaranties, risk capital, and the transparency of state firms, of the regional aid funds or those to support the IMMs, the restructuring and rehabilitation funds and those for environment protection and professional preparation. Also, it was regulated the sale of lands and buildings owned by the state.

Giving aid to sensitive areas of the economy and to backward regions is present, according to the EU regulations, even after adhering to the EU will cause Romania's level of development to be after many years (15-20) below common average and it will be appointed in the previews of the 87<sup>th</sup> article of the EU Treaty.

Regarding the politic evolving the competition area, the Treaty of adhering is composed by:

- at the 5<sup>th</sup> annex its mentioned the obligation to transmit the list of state aids to the Commission and other information its evaluation and in case they are not contested in a period of three months, they are considered compatible with the common aquis, and if not, the decision to investigate will be taken, the following effects taking place after the adhering (if the decision is negative, Romania will have to take all measures into consideration to get back the aid from the beneficiary, with the current interest. )
- in the 7<sup>th</sup> annex, regarding fiscal aids and the restructuring of the steel industry, its mentioned that:
- for backward regions, the state will continue to give profit tax exemption for the firms which received a permanent investor certificate until the 1<sup>st</sup> of July 2003; the exemption will be until the 31.12.2008 for three of the backward zones: Brad, Valea Jiului and Balan, until the 31.12.2009 for 22 backward zones and 31.12.2010 for other three: Cugir, Zimnicea, and Copsa Mica.
- The aids for regional investments cannot exceed 50% or 75% in case of the IMMs;
- One can give exemptions to the dues in case of free zones until the 31.12.2011 to the firms whom signed the contract until the 1<sup>st</sup> of July 2002;
- The restructuring of the steel industry has in view: under no circumstances aids will be given to the firms whom entered the national restructuring program in 2005 until the 31.12.2008 ( the end of the restructuring period); the net reduction of the production capacity for the period 1993-2008 is a minimum of 2.05mil.tones ( in all the firms modernization measures are necessary , to increase quality, to reduce costs, to respect the environmental conditions etc. ); the EU Commission and Council will monitor at close range the application of this program, in this case Romania being obligated to send half-yearly rappsorts and in the case of transgression, the reimbursement of these aids will solicited, even recurring to the safeguard clause previewed in the 37<sup>th</sup> ad 39<sup>th</sup> article.

### **2.3. Other domains**

If the main aspects with an impact over the Romanian Commercial Law have been integrated in the two issues studied before, given the complexity and the amplexness f the phenomenon's that are linked to

Commercial Law, there are other domains in which the Romanian commercial legislation had to change or adapt to the EU regulations. These were negotiated by Romania with other chapters, like: the free circulation of goods, of services, of persons and capital, of transport, of taxing, regarding the EMU, energy, industrial politics, small and medium firms, telecommunications and information technology, audiovisual, environmental protection, the consumer, the custom Union etc. Synthesizing all the aspects referring to these domains and their impact over the Romanian Commercial Law, one must show that in its majority, the common aquis was taken and the Romanian legislation has changed according to it, and the periods of transition obtained by our country were relatively few:

- 5 years, until the 1<sup>st</sup> of January 2012, for the installment of the nr.97/9/CE Directive regarding the schemes to compensate the investors. The minimum level of compensation will reach 20.000euros at the end of the transition period ( if the investment exceeded that sum );
- 7 years for the acquisition of the agricultural terrain, forests and forest terrain by the UE and the EES citizens.
- Applying the tax exemptions in the backward zones where the investors have gained backward zones investor certificate before the 1<sup>st</sup> of July 2003, will continue along the existence of the backward zones: for three of them until the 31.12.2008; for 22 zones until the 31.12.2009; for other three zones until the 31.12.2009;
- Until the 31.12.2011, due exemptions will be applied for free areas, for the firms whom have signed the commercial contracts with the Free Areas Administration before the 1<sup>st</sup> of June 2002;
- 4 years, respectively until 31.12.2010, to apply, in regard of Romanian vehicles which have strictly internal commercial activities, the minimum taxes previewed in the 1<sup>st</sup> annex of Directive nr. 1999/62;
- The integral application of previews regarding the maximum payload of Directive nr.96/53, which establishes the maximum dimensions in the national and international traffic and the maximum payload admitted in the international traffic for 7 years, until the 31.12.2013;
- 3 years, until the 31.12.2009, in order to reach the minimum taxation for cigarettes previewed in the new aquis the Council Directive nr.2002/10/EC regarding cigarettes.

### 3. Conclusions

The commercial politics promoted in the past 15 years by the EC was focused on three major components<sup>227</sup>:

- the integration and harmonization between member states, through the introduction of the Unique Intern Market, on January 1993;
- the rapid extension and the augmentation of the complexity of the preferential commercial relationships with other countries and regions( in which the signing of the European agreements with countries from Central or Eastern Europe);
- the active participation in the multilateral efforts to liberate international commerce, shown by the contribution given to the rounds of negotiations from GATT/OMC.

These coordinates have made the Union a first rank element in the economic relationships around the Globe, but also, to open up new horizons to the commercial activities inside the Union. In order for them to be successful, a legislative frame is needed, adequate to the ever changing reality. That's why, the common decision factors have continuously brought new legislative initiatives which enlarges or modifies the common aquis in the field of commerce. Knowing this, one might say like a conclusion to this analysis, that the Romanian Commercial Law suffered many transformations brought by our countries adhering to the Union, but also, that these changes will continue perhaps in an equally sustained rhythm, after the adhering, for the only purpose that profound transformations have occurred in the common legislation. In order to resolve the frequent changes in legislation, which especially in Commercial Law represents an impediment to the well functioning of things, the Romanian legislator must not wait for signals to come

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<sup>227</sup> Mirela Diaconescu , Economie europeană, Editura Uranus, bucurești, 2004, p. 61-62.

from Bruxelles, but to make its own analysis of the current trends and to create legislative frame harmonized with them.

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# THE EU'S COSTS OF SOCIOECONOMIC "HEALTH GAPS"

Unița Lucian

*University of Oradea, Faculty of Medicine and Pharmacy, Address: Oradea, str. Ady Endre nr. 30, ap. 2, E-mail: lunita@uoradea.ro, Telephone: +40-723-336432*

**Abstract:** *During the past two decades, socioeconomic inequalities in health have increasingly been recognized as an important public health issue throughout Europe. As a result, there has been a considerable research effort which has permitted the emphasis of academic research to gradually shift from description to explanation. And as a consequence of that, entry-points for interventions and policies have been identified, providing the building-blocks with which policy-makers and practitioners have begun to design strategies to reduce socioeconomic inequalities in health. Although relatively little is known yet about the effectiveness of these strategies, it is possible to make some educated guesses about their potential impact on the economic implications of health inequalities in the European Union. And this way, investing in health should not only be seen as a cost to society, but also as a potential driver of economic growth.*

**Key words:** *economic benefits, improvements in EU population health, inequities, health gap*

## 1. Introductory Considerations

In recent years there has been growing attention to the potential economic benefits of improvements in population health. This is far from new: historically, one of the origins of the public health movement lies in the awareness that the prosperity of nations is partly dependent on the health of their populations. But this awareness has recently received a new stimulus from the publication in 2001 of the report of the WHO Commission on Macroeconomics and Health, which demonstrated that health improvement can be seen as a key strategy for income growth and poverty reduction in low- and middle-income countries (Commission 2001). This report was followed in 2005 by an overview of evidence concerning the impact of health on the economy in high-income countries, particularly the European Union (Suhrcke et al., 2005). The latter report concluded that there are strong economic arguments for investing in health - if Europe were to become more competitive globally, greater investments in human capital are necessary. Both reports suggest that investing in health should not only be seen as a cost to society, but also as a potential driver of economic growth.

Most analyses of the relationship between health and the economy focus on average health, but health is actually very unevenly distributed across society. In all countries with available data, significant differences in health exist between socioeconomic groups, in the sense that people with lower levels of education, occupation and/or income tend to have systematically higher morbidity and mortality rates. Socioeconomic inequalities in health usually present themselves as a gradient, characterized by a gradual but systematic increase of the rates of morbidity and mortality as one moves down the social ladder.

This gradient may be partly due to health-related social mobility (which increases the likelihood of people with health problems to move downwards in the social hierarchy and of people with excellent health to move upwards). But longitudinal studies, in which socioeconomic position is measured first and health outcomes are assessed later, show that this gradient is largely due to unequal exposures of people at different positions in the social hierarchy to a variety of health risks. Many health risk factors, including unfavourable living and working conditions, psychosocial factors, and health behaviours, are more frequent in lower socioeconomic groups, and have been shown to contribute in multivariate analyses to the explanation of health inequalities (Mackenbach, 2006). This strongly suggests that socioeconomic inequalities in health can be reduced by improving the life situations of people with lower levels of education, occupation or income. Reducing these health inequalities are one of the main challenges for public health, and there is a great potential for improving average population health by eliminating or reducing the health disadvantage of lower socioeconomic groups (Mackenbach, 2006). This requires an active engagement of many policy sectors, not only of the public health and health care systems, but also of many other policy areas, including education, social security, working life, city planning, etc.

A fruitful dialogue between the public health and health care sector on the one hand, and other policy areas on the other hand, is likely to be facilitated if the economic benefits of reducing health inequalities can be made clear. If a case can be made for a positive economic spin-off of improvements in average health, it is a logical question whether perhaps the same applies to reducing socioeconomic inequalities in health: What would be the economic impact of improving the health of groups with a lower socioeconomic status to that of more advantaged sections of the population? That's why this paper aims to give one answer to this question for the European Union, by approaching the economic costs of socioeconomic inequalities in health in the European Union.

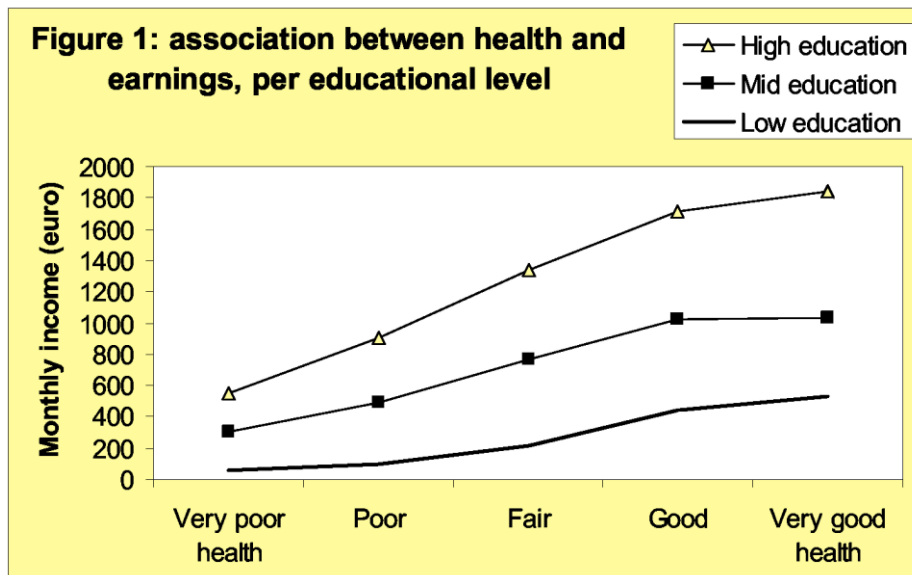
## **2. The impact of health on economic outcomes**

In order to derive estimates of the impact of ill-health on labour supply and labour productivity in the European Union, particularly in lower socioeconomic groups, we have conducted regression analyses using data from the 5<sup>th</sup> wave (1997) of the European Community Household Panel (ECHP) and the study published by the Health & Consumer Protection DG (Mackenbach et al, 2007)

This study and data were used to observe whether the impact of self-assessed health on earnings (and the separate components of labour market participation, number of hours worked, and hourly income) differed according to people's initial socio-economic position, as measured by their educational level. To the extent that people's earnings represent their economic output, the study has taken also into account the fact that people from lower socioeconomic groups, where inequalities-related losses to health are concentrated, generally have lower earnings than people in higher socioeconomic groups. Education was used as the key indicator of socioeconomic position. The advantage of this socioeconomic indicator was established as early in life and stable over time. Educational level may therefore have potentially large effects on health (and through health on economic variables) while reverse effects (of health on education) are likely to be small.

There were observed large differences in the level of personal earnings according to the general health of people. Persons with "very good" or "good" health had about 4 times higher earnings than those with "poor" and "very poor" health (unadjusted for confounders). The relative impact of health on personal income was larger for lower educated persons. In absolute terms, health had a greater impact on personal income among the higher educated, because of the higher overall levels of personal income of higher educated compared to lower educated (*Figure 1*).

Current and past health had an independent effect on personal income and its underlying components, but the effect of current health is largest. The use of more objective measures of health (compared to self-reported general health) increased the impact of health on personal income and labour participation, as expected. The effect of health on personal income is about equally large for men and women, and is much larger for persons 55-64 years than for younger age groups, especially as compared to persons younger than 45 years.



*Figure 1*

In the refereed analysis (Mackenbach et al, 2007), the main cause of lower earnings among those with poor health was their lower labour force participation. People with "very poor" health were about 2 times less likely to participate in the labour force than those with "very good" health. To a lesser extent the number of hours worked among economically active persons and hourly wages contributed to differences in income between persons with good and poor health. The effects of health on labour force participation, number of hours worked and hourly wages were generally larger (in relative terms) among persons with lower educational level. Some of these effects also differed according to age group, sex or country.

It was this way difficult to be certain about the exact size of the causal effect of ill-health on earnings. On the one hand, part of the observed 'effect' of ill-health on personal income may actually due to a reverse effect of income (or other aspects of socioeconomic position) on health, which was not removed by our longitudinal analysis design. On the other hand, there are also reasons to suspect that we may have underestimated the true effect of ill-health on earnings. Past health (up to 4 years back) was found to have an independent impact on current personal income, but we were not able to take into account the role of health in the further past. Health was also measured imperfectly and incompletely, e.g. we largely ignored mental health problems. Finally, possible spill-over effects of health on the earnings of the partner were ignored in the analysis.

### **3. Inequalities-related losses to health as a “capital” and as a “consumption good”**

Our conceptual framework is based on the notion that health is both a 'consumption good' and a 'capital good'. As a 'consumption good', health directly contributes to an individual's 'happiness' or 'satisfaction', and as a 'capital good', health is an important component of the value of human beings as means of production. Our analysis has tried to attach a monetary value to the inequalities-related losses to population health in the European Union by combining these two complementary perspectives. Inequalities-related losses to population health were determined by calculating the frequency of ill-health in the population which is attributable to the fact that not everybody has a high level of education, a higher occupational class, or a high income level. 'High' socioeconomic positions was arbitrarily be defined as the upper 50% of the population. On the basis of currently observed patterns of mortality by educational level, the number of deaths that can be attributed to health inequalities in the European Union (EU-25) as a whole is estimated to be 707 thousand per year (all figures apply to 2004). The number of life years lost due to these deaths is about 11.4 million. Similarly, the number of prevalent cases of ill-health that can be attributed to health inequalities is estimated to be more than 33 million. The estimated impact of health inequalities on average life expectancy at birth in the EU-25 for men and women together is 1.84 years, and the estimated impact of health inequalities on average life expectancy in good health is 5.14 years. As *Table 1* shows the

number of inequalities-related cases of "very poor" or "poor" health amounted to more than 33 million persons in the EU25 member states in 2004. Similarly, 707 thousand deaths in the EU25 in 2004 could be attributed to health inequalities.

Table 2 shows the economic costs corresponding to these numbers of people. If people in lower educational groups were to have the same level of health as people in higher groups, and if their personal income were to increase correspondingly (taking into account the association between health and income among low educated people), the average personal income in the European Union would increase by 2.77%. Because the personal income definition used in these calculations corresponds with the wages and earnings component (excluding employers' social contributions) in GDP National Accounts, we can now calculate the impact of inequalities-related health losses on GDP. The share of this wages and earnings component in total GDP vis 39%, and the 2.77% impact on personal incomes can thus be translated into a 1.08% increase in GDP, or €113 billion for the 25 EU member states taken together in 2004.

	Total EU-25 population: observed rates and numbers (1)	Total EU-25: estimates assuming rates of higher educated (2)	Impact of health inequalities (1) – (2)
Death rate	0.01009	0.00855	0.00154
Absolute number of deaths (* 1000)	4,633	3,926	707
Total years of life lost (* 1000)	n.a.	n.a.	11,364
Prevalence rate of "fair/poor" health	0.397	0.324	0.073
Absolute number of cases (* 1000)	182,212	148,745	33,468
- in "fair" health	126,857	45,188	10,167
- in "poor" health	55,356	103,556	23,300
Life expectancy at birth	78.65	80.49	-1.84
Expectancy of life in poor health	31.22	26.09	5.14

**Table 1: Aggregates of the population health impact of educational differences in mortality and morbidity in the EU25 in 2004 (source: Health & Consumer Protection DG, 2007)**

The total GDP impact is likely to be larger because part of the added value of employees is included in firm profits, and because we did not include the economic impact of health among the self-employed. If assumed that the effect of health inequalities on the category of firm profits and mixed incomes, is 0.69%, which is equal to one quarter of the 2.77% effect on wages and salaries. The share of this mixed income component in total GDP is 38%, and the impact on total GDP will therefore be around €28 billion or 0.27% for the EU-25 member states in 2004. As a result, the combined effect of health inequalities on total amounts to €141 billion or 1.35% of GDP. In view of the annual growth rates of GDP (in the order of 2 to 4%), this seems a modest effect, at least in relative terms. It is important to note, however, that this estimate excludes several mechanisms which link ill-health to human capital. In addition, by accepting the market price of the labour supplied by people with a lower socioeconomic status it is possible to have underestimated their contribution to the total economic output.

But GDP is an imperfect measure of welfare. It does not capture a number of welfare components, such as the value of non-market goods including health. Although there is no consensus on the monetary value of health, we will use adopted versions of Nordhaus' estimates for illustrative purposes. The results are presented in Table 2.

<b>Total value</b>		
	<b>In billion euro</b>	<b>As % of GDP</b>
GDP of EU-25, 2004	10,451	100.0%
<i>Health as a capital good:</i>		
<i>GDP income componenta</i>		
- wages and salaries	4,071	39.0%
- firm profits, mixed income etc	4,021	38.5%
- total income	8,092	77.4%
<i>Health as a consumption good</i>		
- mortality	n. a.	n. a.
- morbidity (40% of mortality)	n. a.	n. a.
- total health	n. a.	n. a.
<i>Health care costs</i>		
- physician services	157	1.5%
- hospital services	267	2.6%
- total health services	888	8.5%
<i>Social security benefits</i>		
- unemployment benefits	178	1.7%
- disability benefits	222	2.1%
- total benefits	401	3.8%

**Table 2: Economic impact of socioeconomic inequalities in health, EU-25 member states, 2004**

#### **4. Social security benefits and health care expenses**

Our analysis of the ECHP panel data confirms that poorer health is strongly associated with receipt of disability benefits. People with "very poor" health on average receive about 20 times more disability benefits than those with "very good" health. Among lower educated groups, the effect of health on disability benefits is slightly smaller in relative terms. Similar patterns were observed among both men and women, and in all European countries included in this study. The association between poorer health and receipt of unemployment benefits was much weaker and less consistent, however. In general, those with poor health received more unemployment benefits, although this association is weak among low educated people. When comparing countries, it was found that poorer health was related with more employment benefits in Northern European countries, while the opposite association was observed in France and most Southern European countries. Because of the possibility of various forms of bias, including 'justification bias', these international variations should be interpreted with caution.

If all persons would have the health corresponding to those high educational levels, this would clearly lead to fewer applications for unemployment and disability benefits. On the basis of ECHP data, we estimate that unemployment benefits would decrease by 3% on average in the European Union as a whole, representing about €5 billion annually in social security costs. Disability benefits would decrease by 25% representing €55 billion annually (Table 2). The total of €60 billion corresponds to 15% of the total costs of social security systems. The analysis of ECHP data also confirmed that poor health was consistently related to GP visits, specialist visits and hospitalization rates. People with "very poor" health had more than 6 times more GP visits and more than 9 times more specialist visits than those with "very good" health.

Virtually identical associations were observed within both higher and lower educated groups. If all persons would have the health corresponding to those high educational levels, this would also decrease the number of GP visits and specialist visits by 16%, and the number of nights in hospital by 22%, in all persons aged 16 years and older. Assuming that the impact of health on health care utilization is similar in children up to 15 years, we estimated the impact of health inequalities on health care costs as €26 billion for physician services, and €59 billion for hospital services. According to OECD data, physician visits and hospitalizations represent almost half of total health care costs (see data base at OECD website). Analyses of utilization of other health services (e.g. physical therapy, home care, mental health services) in the Netherlands demonstrated that an identical or even stronger association exists with poor general health and with low education (Kunst et al., 2007). If the empirical results for physician visits and hospitalizations were to apply to total health care, the total impact of health inequalities on health care costs would represent €177 billion euro, or around 20% of total health care costs in the EU25.

## 5. Conclusion

Our estimates suggest that the economic impact of socioeconomic inequalities in health is likely to be substantial. While the estimates of inequalities-related losses to health as a 'capital good' (leading to less labour productivity) seem to be modest in relative terms (1.4% of GDP), they are large in absolute terms (€141 billion). It is valuing health as a 'consumption good' which makes clear that the economic impact of socioeconomic inequalities in health is really huge: in the order of about €1,000 billion, or 9.5% of GDP). The separately calculated impacts on costs of social security and health care systems and health care support these conclusions. Inequalities-related losses to health account for 15% of the costs of social security systems, and for 20% of the costs of health care systems in the European Union as a whole. It is important to emphasize that all these estimates represent yearly values, and that as long as health inequalities persist, these losses will continue to accumulate over the years. What can be done to narrow the health gap? Several policy options are available:

- **Reducing economic and social inequalities:** Poverty and poor health can turn into a true vicious cycle from birth to death. Children born into disadvantaged families tend to have a lower birth weight due to harmful influences during pregnancy and are more likely to incur accidents. Underprivileged people are also at higher risk of chronic stress and repeatedly disappointed professional and private expectations not only cause long-term disease, but can also push people towards substance abuse.
- **Redistributive tax policy:** Research indicates that even a minor shift in wealth could prevent numerous premature deaths. The reintroduction of a redistributive tax policy could therefore play a role in preventing premature death. Nevertheless, reality shows that redistribution of income in Europe is currently moving in the opposite direction, as relative poverty continues to rise with incomes of top executives rising sharply.
- **Social transfer payments:** Countries that are most successful at reducing inequality and poverty are those that spend the largest amounts on social transfer payments, such as rent rebates and child allowances, and other than pensions, as they help reduce poverty.
- **Reform of the Common Agricultural Policy:** According to the WHO, 14% of all deaths in the European region are caused by a poor or unhealthy diet (called "food inequity").
- **Reducing homelessness and housing improvements:** A study by researchers at the London School of Hygiene and Tropical Medicine shows that the lives of several hundred people in the UK each year could probably be saved by improvements in the insulation and heating of their homes.
- **Supporting health promotion activities:** Health promotion is "the process of enabling people to exert control over the determinants of health and thereby improve their health." Traditional approaches to health promotion, such as providing health information, fail to reduce health inequalities effectively because they tend to benefit the wealthy more than the poor.
- **Integrating health determinants into other policy areas:** The health sector in itself can only achieve limited results in reducing health inequalities. However, by integrating health

determinants into fiscal, education, agriculture and housing policy, a great deal could be done to narrow the "health gap".

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# THE EU'S HEALTH POLICY NEW STRATEGY - A LINK BETWEEN HEALTH AND ECONOMIC PROSPERITY

Unița Lucian

*Universitatea din Oradea, Facultatea de Medicină și Farmacie, Catedra de Anatomie, Adresa de contact: Oradea, str. Ady Endre nr. 30, ap. 2, E-mail: lunita@uoradea.ro, Telefon: +40-723-336432*

***Abstract:** Health is an important priority for Europeans. We expect to be protected against illness and disease. We want to bring up our children in a healthy environment, and demand that our workplace is safe and hygienic. When travelling within the European Union, we need access to reliable and high-quality health advice and assistance. The Member States have a responsibility to ensure that these concerns are reflected in their policies, but, although the EU doesn't usually intend to make health policy but in practice other policies often to do with the union's origins as a free market affect health care. Thus, the EU complements the national health policies and has a vital role to play through the obligations placed on it by the European Treaties, bringing European added value through its action to the EU sustainable development strategy. For these reasons, the present paper will focus on the EU's Health Policy and the related strategies to achieve its goals.*

**Key words:** *EU Health Policy, Health Strategies and Programmes*

## 1. Introduction to the EU Health Policy

Official EU health policy has been built on something of a paradox. Union leaders have wanted for years the union to be seen to be "doing something" about issues, like health, that citizens care about. Yet health policy is so high on national political agendas that most governments do not want the union interfering in it. The solution the EU came up with in the Maastricht Treaty of 1992 was to have a mandate of "encouraging cooperation between member states" and "if necessary, lending support to their actions" in public health [article 129(1)]. The EU was given the power to spend money on European level health projects but forbidden to pass laws harmonising public health measures in the member states [article 129(4)].

As a consequence, under the Treaty, EU action must aim to improve public health, prevent human illness and diseases, and identify sources of danger to human health. This has led to integrated health-related work at EU level, aiming to bring health-related policy areas together.

When the EU's powers over health policy were revised in the Amsterdam Treaty of 1997 the mandate was significantly strengthened. The EU was commanded to ensure "a high level of human health protection" in the "definition and implementation of all (union) policies and activities" and to work with member states to improve public health, prevent illness and "obviate sources of danger to human health" [article 152(1)]. None the less, harmonisation of member states' public health legislation with two small exceptions continued to be prohibited and the EU was mandated to "fully respect" the member states' responsibilities for "the organisation and delivery of health services and medical care" [article 152(4, 5)].

Food safety crises such as bovine spongiform encephalopathy, genetically modified crops, and dioxin in chicken have forced health up the EU agenda in recent years. In 1999 one of the first acts of the incoming president of the European Commission, Romano Prodi, was to create a directorate general for health and consumer protection. Though this gave EU health policy a new profile, most of the directorate's resources are deployed on consumer protection and in particular food safety.

As a result, several EU programmes were created to share common objectives such as supporting health protection and safety, improving living conditions and the quality of services, achieving accessibility for all, and increasing awareness. The aim is an integrated approach with particular attention to creating links with other EU actions to exploit synergies across all policies and programmes.

The *Public Health Programme (2003-2008)* was also designed to reinforce EU action in the field of public health within a single and coherent framework as part of an overall public health strategy. The programme includes annual work plans and actions for evaluating the programme and has three fundamental objectives:



- supporting the dissemination and sharing of health information,
- enhancing the capability to respond rapidly to health threats, and
- promoting healthy lifestyles by addressing health determinants.

So, improving quality of life in good health is now the EU's main goal, and it is achievable by approaching it from a broad perspective through cooperation and coordination between Member States and through legislative measures, where appropriate.

Consumer policy is a core component in improving the quality of life of citizens in terms of their health and their consumer interests. EU programmes that address social protection and inclusion, environmental concerns, research and development and technological innovation are major instruments in helping to achieve this goal.

Through the health strategy, the EU plays its part in improving public health in Europe, and in so doing provides added value to Member State actions while fully respecting the responsibilities of the Member States for the organisation and delivery of health services and health care. The EU health strategy focuses mainly on strengthening cooperation and coordination, supporting the exchange of evidence-based information and knowledge, and assisting with national decision-making. To this end, the EU is developing a comprehensive health information system to provide EU-wide access to reliable and up-to-date information on key health-related topics, and hence a basis for a common analysis of the factors affecting public health. Secondly, the EU wishes to enhance the capability for responding rapidly to health threats. This is why it is strengthening the epidemiological surveillance and control of infectious diseases.

Further aims are ensuring patient safety and the quality of healthcare to facilitate cross-border healthcare, as well as the mobility of health professionals and patients. Health and consumer protection policies are particularly closely linked. The safety of products and services — including food safety and rapid food alerts — are key priorities here.

There are other policy areas of particular relevance to ensuring a high level of health protection. Health and safety at work aims at ensuring protection against workplace risks, work accidents and occupational diseases. Environmental and health policies also need to work in tandem to achieve a high level of health protection. Technological developments and information society programmes include work relevant to health systems and public health. Several specific research projects are designed to provide scientific support to health-related challenges.

The evaluation and authorisation of medicinal products is another key related topic. Thus, the EU's role in public health and in health care is likely to grow over coming years, but for the moment the official health policy is something of a Cinderella.

## **2. The European Community Health Strategy**

Health is increasingly a global matter, and it is not surprising that the European Union is developing a Europe-wide health strategy and related policies. A coherent and co-ordinated approach to health policy was first set out in the European Community health strategy put forward in May 2000. Originally the European Commission proposed the Services Directive, the “Bolkestein Directive” in January 2004 to liberalise the free movement of services. But the European citizens and Non Governmental Organisations expressed their resistance to the “Bolkestein Tsunami” as it undermined the right to collective bargaining, national labour market models, the European social model, the scope and content of a directive on Services of General Interest and last but not least quality in health and social care.

A new Health Strategy 'Together for Health: A Strategic Approach for the EU 2008-2013' was adopted on 23 October 2007. This Strategy aims to provide, for the first time, an overarching strategic framework spanning core issues in health as well as health in all policies and global health issues. The Strategy focuses on four principles and three strategic themes for improving health in the EU. The principles include taking a value-driven approach, recognising the links between health and economic prosperity, integrating health in all policies, and strengthening the EU's voice in global health. The strategic themes include Fostering Good Health in an Ageing Europe, Protecting Citizens from Health Threats, and Dynamic Health Systems and New Technologies. Thus, this new Health Strategy puts in place an overarching, strategic framework for work on health at the EU level, and sets the direction of travel for the coming years. The Strategy encompasses work not only in the health sector but across all policy areas, and together with this new

Health Strategy, the Second Programme of Community Action in the Field of Health 2008-2013 came into force on 1 January 2008.

The need for this new Strategy was based on growing and changing challenges that face the EU, and which can only be met effectively by a coordinated response at EU level involving all partners and stakeholders. These include the ageing of the population which is changing disease patterns and putting pressure on the sustainability of health systems and the wider economy in an enlarged EU. Health threats such as communicable disease pandemics and bio-terrorism are a growing concern, while the health impact of climate change raises new threats. New technologies are revolutionising the way health is promoted and illness is predicted, prevented and treated, and globalisation continues to change the way we interact with the wider world.

In an EU of 27 Member States there are wide health inequities (inequalities that are avoidable and unfair) within and between countries. For example, in Italy, men live 71 Healthy Life Years (HLY) compared to 53 HLY for men in Hungary. The ageing population will put a strain on health systems and the wider economy. Commission projections have estimated that if HLY increase at the same rate as increasing life expectancy, health care costs due to ageing would be halved. Although action is already taking place in this area, the EU could add value by, for example, further encouraging the use of Regional Policy programmes for health and by sharing good practice in this and other areas.

Protecting citizens against health threats such as communicable and non-communicable diseases, and improving safety and security are ongoing health challenges where the EU provides clear added value, because these are issues which cross boundaries and cannot be tackled effectively by individual Member States.

This new Strategy will add value by providing new opportunities to share good practice and drive forward improvements in areas such as communicable disease surveillance where EU systems can be further developed, and patient safety, where currently as many as 10% of hospital patients suffer an adverse effect.

The sustainability of health systems in the future is a challenge where the EU can add value on cross border issues such as patient and health professional mobility, and in facilitating exchange of knowledge and good practice on issues such as demographic change and the appropriate use of new technologies. The new Strategy will add value through the Community Framework for Safe and Efficient Health Services which is one of the initiatives it will encompass.

In today's globalised world it is increasingly difficult to separate national or EU wide actions from global policy. Decisions affecting EU citizens directly are often made at global level, and EU's internal policy can have consequences outside the EU borders. The new Health Strategy will add value by putting a new focus on strengthening the EU's voice on global health issues on the international stage and on tackling issues such as the global shortage of health professionals and improving access to medicines and technologies.

To be effective, the new Strategy needs also to support the principles of good governance, meaning that the EU's response to these challenges should be coordinated, effective, transparent, and coherent. A coherent framework for health policy at EU level will act as a driver for achieving objectives, and will help to rationalise and simplify existing structures. A Strategy at EU level will help strengthen health action at national level, and will guide the use of EU instruments and actions for health.

The Strategy will have a focus on *Health in All Policies*, a concept which underpins the EU health action in the Treaty. A cross-sectoral approach is more effective than an approach which is limited to the health sector. The Strategy will encourage this approach at national as well as EU level and will also make EU health action more visible to stakeholders including Member States, international organisations, NGOs, industry, academia and citizens.

### **3. The expected Impact of the new Health Strategy**

Analyzing the possible impact of the new Health Strategy, four options should be taken into consideration:

- Option 1: to continue the status quo
- Option 2: to put in place a Health Strategy with an enhanced Health in All Policies approach at EU level but no new mechanisms with Member States or other stakeholders

- Option 3: to put in place a Health Strategy with an enhanced Health In All Policies approach at EU level and a new Structured Cooperation implementation mechanism to engage Member States and other stakeholders
- Option 4: to put in place the same measures as in Option 3, with the addition of legislation to set binding targets for key objectives in the Strategy

*Economic Impacts* - There is a clear link between a healthy population and economic prosperity. Under Option 1, the full potential for enhancing support for the wider economy through health improvements would not be achieved. Under Option 2, enhanced development of cross-sectoral synergies could lead to a positive impact on the economy through better understanding of, for example, the impact of health on the labour force and the impact of innovation on health systems. However, without the full engagement of Member States these gains would be limited.

Under Options 3 and 4, a stronger positive impact would be expected as a new Structured Cooperation mechanism would allow Member States to share knowledge and good practice in relation to, for example, investments in health. Through a visible new Strategy, the link between health and economic prosperity would be better understood, supporting sustainable health systems and economic gains in the long term.

*Social Impacts* - Positive social impacts would continue from ongoing health actions under the Status Quo option, but this would ignore the potential for improvements through a new strategic framework. Option 2 would build on existing cross-sectoral synergies which could lead to a positive social impact particularly in fields like employment and health, and health education. However, this impact would be likely to be limited without the full engagement of Member States and other stakeholders. Under Option 3, positive social impacts would be expected through the new strategic focus and Structured Cooperation mechanism. A risk of binding legislative targets under Option 4 could be that this would oversimplify complex issues, leading to less 'across the board' improvement than in Option 3.

*Environmental Impacts* - Ongoing work on environmental health issues would mean some positive impacts under the Status Quo option. Option 2 could offer further benefits through increasing cross-sectoral cooperation in fields such as climate change, and by building on existing work. Option 3 would offer the greatest potential for improvement through increasing opportunities for Member States and other stakeholders to share knowledge and experience on environmental health issues, including global issues. Option 4 would offer similar outcomes to Option 3, but could be seen as unnecessarily burdensome. Comparing the options:

<b>Impact for Health Objectives</b>	<b>Impact for Governance Objectives</b>
<p><b>Option 1: Status Quo:</b></p> <p>Option 1 would lead to benefits based on continuing action to protect and improve people's health, including sharing knowledge and best practice.</p> <p>However, the lack of a coherent strategic direction may mean that potential for improvement would not be fully exploited. New health challenges, including those linked to the enlargement to 27 Member States from 15 in 2004 and 2007 respectively may not be adequately addressed. Economic benefits of a more targeted approach to health systems issues could be lost.</p> <p><b>Option 2: Health Strategy with Enhanced Intersectoral Action:</b></p> <p>Through a more strategic approach to the many varied actions across the EU that impact on health, Option 2 could lead to benefits, for example a stronger focus on supporting healthy lifestyles, or</p>	<p><b>Option 1: Status Quo:</b></p> <p>Effective work would continue, including work with other sectors.</p> <p>However, a clear, strategic vision for the future would not be achieved, and there would not be a focus on addressing key new challenges and fully exploiting synergies between sectors at all levels.</p> <p>Without a well defined Strategy, presenting a clear direction of travel that stakeholders and citizens could engage with would be difficult.</p> <p><b>Option 2</b> would set strategic objectives which would help to strengthen HIAP cooperation across sectors by offering a clear, strategic framework and direction of travel.</p> <p>However, it is likely that the new framework would not become widely recognised by Member States and other stakeholders, and that progress towards the objectives would</p>

further clarification of issues relating to the use of new technologies within health systems.

However, without full engagement by Member States the added value and actual outcomes under this Option would be limited.

**Option 3: Health Strategy with Enhanced Intersectoral Action and Structured Cooperation with Stakeholders:**

Option 3 would be likely to lead to positive impacts by engaging all Member States through a Structured Cooperation system, including measuring progress against indicators, to focus attention on tackling new challenges, such as protecting health, reducing inequities, supporting healthy lifestyles, addressing the future sustainability of health systems, and supporting the consideration of global issues in health policy at all levels.

**Option 4**, like Option 3, would be likely to have a positive outcome through putting in place a new Structured Cooperation mechanism to help focus attention on key challenges.

The impact might be greater than in Option 3 due to the imposing of binding legislative targets. However, this may be seen as disproportionately burdensome to Member States and may reduce their flexibility in addressing problems at national level.

therefore be limited. Option 2 would be unlikely to adequately fulfil the objective of greater visibility and understanding of work on health at EU level.

**Option 3** would put in place a system of Structured Cooperation with Member States and stakeholders to support work towards objectives and open up new opportunities for sharing knowledge and information.

It would go beyond Options 1 and 2 by supporting greater recognition of the importance of intersectoral working at national, regional and local levels across the EU, and greater involvement of non-traditional stakeholders as partners to achieve health aims.

Option 3 would be more likely than Options 1 and 2 to fulfil the objective of improved visibility of work on health at EU level.

**Option 4** would be likely to be slightly more effective than Option 3 as it would enforce Member States to work toward the objectives through binding targets, rather than relying on the cooperation process alone. Similarly, it might be slightly more effective in improving visibility of work done at the EU level, as setting binding targets may mean that more policymakers at national, regional and local levels are required to consider EU health objectives. This Option, however, could be seen as disproportionately burdensome to Member States.

we can observe that Option 3 uses the powers given to the EU in the Treaty to go a step further than Option 2, by putting in place a new implementation system. This Option would ensure that the new strategy is not just a paper exercise, but that it drives real change. At the same time it does not go too far in placing a burden on Member States and respects the subsidiarity and proportionality principles. This Option should therefore be the preferred Option.

## CONCLUSIONS

Within the ongoing enlargement process of the European Union, it is essential to develop and agree on European standards of care and quality control. As free movement of persons is one of the fundamental freedoms guaranteed by the European Treaty, we need to make sure that EU standards in care, standards in education and standards in recruitment are met at EU level, to comply with global challenges. But whatever strategy or legislative initiative is initiated by the European Commission, it is up to the national governments to put health and health system high on the political agenda and to develop a stakeholder approach with Civil Society to prevent ideas, initiatives and recommendations ending up on book shelves. As Europe manages its integration into the global economy and strives to become the world's most competitive and dynamic knowledge-based society by the year 2010, new ways of successful leadership within the European health policy making community is needed to address these concrete "future challenges".

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# MIXED INSTRUMENTS IN PROMOTING RENEWABLE ENERGY SOURCES: LESSONS FROM THE EUROPEAN EXPERIENCE

**Zamfir Andreea**

*Academy of Economic Studies Bucharest, Faculty of Management, 6<sup>th</sup> Piata Romana RO 030173 Bucharest Romania, zamfir\_andreea\_ileana@yahoo.com, +4021.319.19.00/250*

**Ioan Ildiko**

*Academy of Economic Studies Bucharest, Faculty of Agri-Food & Environmental Economics, 6<sup>th</sup> Piata Romana RO 030173 Bucharest Romania, ioanildiko@yahoo.com, +4021.319.19.00/250*

**Constantin Florentina**

*Academy of Economic Studies Bucharest, Faculty of Agri-Food & Environmental Economics, 6<sup>th</sup> Piata Romana RO 030173 Bucharest Romania, fconst2000@yahoo.co.uk, +4021.319.19.00/250*

*Abstract: This study explores the means by which governments could support the use of renewable energy sources. Our conclusion justifies the effort invested in designing new policy instruments and also has relevance for policy making in a very sensitive sector to accomplish sustainability goals – the use of renewable energy. It has been concluded that renewable energies could be better promoted if a mix of policy instruments is applied. The study was conducted using the knowledge base built up through research of literature and national experiences in promoting renewable energy sources. It has demonstrated the necessity of developing complex support schemes by identifying logical connections between the instruments used in different countries and the use of renewable energy sources.*

*Key Words: renewable energy sources, policy instruments, supporting schemes*

## **Introduction**

This study investigates how the use of renewable energy sources could be better promoted by government support (legislative, financial etc.). The manner in which renewable energies are supported is highly debated and is a leading point on the political agenda.

We consider that renewable energy sources (RES) could be promoted by using a mix of policy instruments. The study is based on evidence provided by a set of policy documents (road map, regulations, position papers etc.), as well as articles and research reports. Some instruments are still too young to be evaluated and criteria for evaluation are not yet unified. Analyzing and evaluating evidence and interpreting and reorganizing concepts answered the research question. Computing empirical data through mathematical models could be another way of approaching this question. Answering the research question was difficult, due to the variety of approaches, concepts, definitions, criteria, and classifications employed.

## **Background**

Renewable energy is a highly debated topic nowadays. Contemporary society acknowledges both the value of this energy and the challenge of its use. There are at least four reasons for valuing renewable energies: first, society relies mainly on fossil fuels, which are limited and non-renewable; second, fossil fuels will be exhausted in a foreseeable future; third, the use of fossil fuels has generated environmental effects that negatively affect social well-being beyond acceptable limits; fourth, RES could satisfy the needs of modern society in terms of consumption and environmental impact. Using RES is challenging because it has some very serious drawbacks. Among these, low economic competitiveness is the most important.

Governments around the world are now investing a lot of effort in supporting the use of renewable energies. Public policies in many countries (the Netherlands, the UK, the USA, Ireland, Sweden, Spain, China etc.) address this issue and allocate significant amounts of money.

Policy goals can be achieved by using a large variety of instruments. These are usually grouped in more categories, the most widespread formula being: direct and indirect instruments. Direct instruments could be

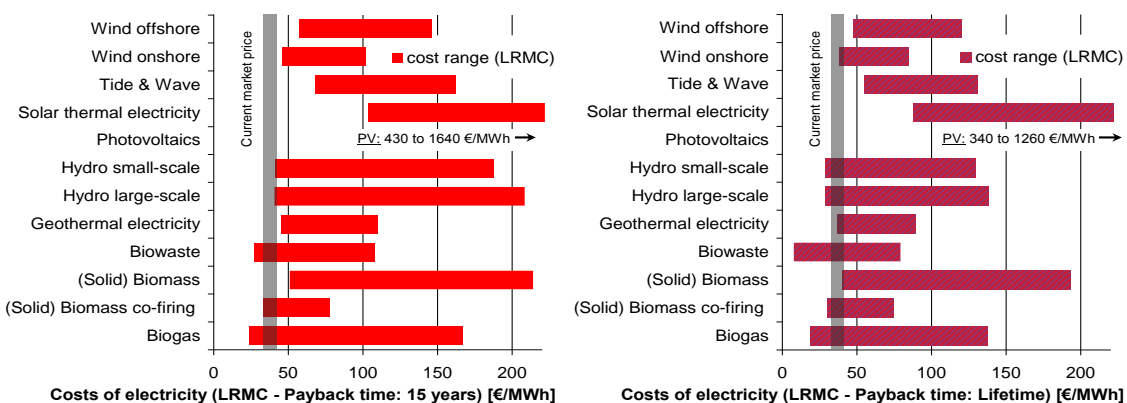
financial measures or regulations, while indirect measures are represented by actions taken in other sectors that could influence the use of renewable energies (e.g. education, information, standards).

The decision on what kind of instruments should be used is a very important one, as the instrument to be used will influence the outcome and the public expenses. How the decision is taken depends on the criteria used for the evaluation of the policy instruments. Usually, several criteria are used, and the final decision depends on how much weight is given to each criterion.

## Factors of influence for market penetration

The market penetration of RES depends on their different costs, due to the resource-specific conditions and the technological options available.

The RES-specific conditions, such as potential, intermittency or effective power, lead to different investment and generation costs from one source to another. As shown in Figure 1 (Auer et al., 2007) the generation cost for different renewable energies is in a broad range. For instance, generation costs for onshore wind power are in the range of 40-64 Euros/MWh. The lower value corresponds to investment cost of 1150 Euros/kW at an average wind speed of 9.5 m/s. The higher value is for 800 Euros/kW at 6 m/s. The cost range for offshore wind energy amounts to 71-96 Euros/MWh, for projects of 1800 Euros/kW at windy sites. In this case wind speeds are between 8 and 10 m/s. Near-shore projects in sheltered waters have lower investment costs, between 1250-1400 Euros/kW (EWEA, 2005). In case of photovoltaic energy, which is the most expensive at the moment, the generation cost varies from 340 Euros/MWh up to 1260 Euros/MWh (Auer et al., 2007). However, the cost of solar photovoltaic systems has decreased by over 60% since 1990 (European Commission, 2006). The differences among RES types in terms of investment and generation costs could be an important element to support their market penetration through a mix of policy instruments.



**Figure 1 Long-run marginal generation costs for renewable energies**

Source: Auer, H., Obersteiner, C., Pruggler, W., Weissensteiner, L., Faber, Y., Resch, G. (2007), *Action Plan, Guiding a Least Cost Grid Integration of RES-Electricity in an extended Europe*, Energy Economics Group (EEG) Vienna University of Technology, Austria, viewed 8 Dec. 2007 <[www.greennet-europe.org](http://www.greennet-europe.org)> p. 9.

The technological options available also have an influence on the cost of RES. For instance, co-firing plants for biomass and small-scale plants for biomass have different costs (Auer et al., 2007). Figure 1 (right) reveals that some RES are already competitive (if we compare their generation cost and their current market price). These are: biowaste, biogas, hydro small-scale and large-scale, biomass co-firing, geothermal and wind onshore. On the other hand, solar thermal electricity, tide and wave electricity, and also wind offshore, have generation costs above current market price, being uncompetitive (Auer et al., 2007). The different country-specific cost-resource conditions influence the level of support for RES (European Commission, 2005). We can conclude that energy policies could use a mix of instruments to promote RES so that the gap between market prices and costs is covered. Furthermore, the instruments used to support RES could be differentiated taking into consideration the various levels of technological

development of RES, the technological options available, and the country-specific cost-resource conditions.






On the other hand, policy instruments used to support renewable energies do not make any difference among RES types. In order to demonstrate this issue, we created table 1, which shows that there are countries in the EU where only one instrument is used to support wind onshore, biomass, biogas, small hydro and photovoltaic. For instance, Austria, Germany, Portugal, Spain, Estonia, Hungary and Lithuania use feed-in tariff as the only instrument to support all five RES. Also, table 1 shows that for the RES studied different instruments are used in different countries, and all instruments could support each one of the RES.

*Table 1 Instruments used to promote different RES in Europe*

Country	Wind onshore	Biogas	Biomass	Small hydro	Photovoltaic
Austria	Blue	Blue	Blue	Blue	Blue
Belgium	Blue, Maroon	Blue, Maroon	Blue, Maroon	Blue, Maroon	Blue, Maroon
Denmark	Blue	Blue	Blue	White	Blue
Finland	Orange	Orange	Orange	Orange	Orange
France	Blue, Green	Blue, Green	Blue, Green	Blue, Green	Blue, Green
Germany	Blue	Blue	Blue	Blue	Blue
Greece	Blue	Blue	White	Blue	Blue
Ireland	Green	Green	White	White	White
Italy	Blue, Maroon	Blue, Maroon	Blue, Maroon	Blue, Maroon	Blue, Maroon
Luxembourg	Blue	Blue	White	White	Blue
Netherlands	Blue, Maroon	Blue, Maroon	Blue, Maroon	Blue, Maroon	Blue, Maroon
Portugal	Blue	Blue	Blue	Blue	Blue
Spain	Blue	Blue	Blue	Blue	Blue
Sweden	Orange, Maroon	Orange, Maroon	Orange, Maroon	Orange, Maroon	White
UK	Blue, Green	Blue, Green	Blue, Green	Blue, Green	Blue, Green
Cyprus	Blue	White	White	White	No available data
Czech R.	Blue, Maroon	Blue, Maroon	White	Blue, Maroon	No available data
Estonia	Blue	Blue	Blue	Blue	No available data
Hungary	Blue	Blue	Blue	Blue	No available data
Latvia	Blue, Maroon	Blue, Maroon	Blue, Maroon	Blue, Maroon	No available data
Lithuania	Blue	Blue	Blue	Blue	No available data
Malta	White	White	White	White	No available data
Poland	Maroon	Maroon	Maroon	Maroon	No available data
Slovak R.	Blue	White	Blue	Blue	No available data
Slovenia	White	Blue	Blue	Blue	No available data
Bulgaria	Blue	Blue	Blue	Blue	Blue
Romania	Maroon	Maroon	Maroon	Maroon	Maroon



Legend:

	Feed-in tariff
	Quota/Tradable green certificates
	Tender
	Tax incentives/investment grants
	No instrument

Source: Commission Staff Working Document, Annex to the Communication from the Commission, The support for electricity from renewable energy sources, Impact Assessment, Brussels, 7.12.2005, SEC (2005) 1571, pp. 32-46.

However, some instruments are more suitable than others for different RES. For example, feed-in tariffs are the only appropriate instruments in case of photovoltaic energy (EPIA, 2007). Each country could choose any instrument or mix of instruments to promote RES, taking into consideration the local conditions of RES, the costs and the target for market penetration.

### **Variety of supporting schemes for the use of RES**

The use of RES is stimulated in most countries by more than one instrument. This statement is based on surveying the support schemes applied by the different European Union countries to stimulate renewable energy development. National support is essential in order to ensure the development of RES. A wide range of policy instruments are mixed support schemes, which vary among Member States. Generally, a mix of instruments is essential and a key to success (World Watch Institute, 2004).

In each European country the use of RES is supported through various policy instruments or schemes. In 2002 a European Commission study have made an inventory of the national support available for promotion of RES in 15 EU member states regarding price support, tax measures, subsidies and loans (European Commission, 2002). According to this study, in the United Kingdom the policy instruments are: price support (renewable electricity obligation); tax measures (fossil fuel levy or Climate Change Levy Electricity); subsidies, loans (capital grants for renewable energy technologies). Since Valle Costa et al. (2008) consider UK as country where the use of RES is advanced we could conclude that a mix of instruments is essential to promote renewable energy.

The dominant instruments for promoting the generation of electricity by RES have been feed-in tariffs and quota with green certificates. Pfaffenberger et al. (2006) carried out a study regarding the main instruments for the promotion of electricity from RES in 22 countries. They found that feed-in tariffs are used in 14 of these, while quota with certificates is used in 6. These two instruments were also found as having high effectiveness (Dijk, van et al., 2003).

### **Surmounting barriers for RES use**

In order to increase the use of RES, many barriers have to be overcome (financial barriers, administrative barriers, geographic barriers etc.) and each instrument has its limits in surmounting a barrier. In support of this statement, we have compiled information from different studies (Menanteau et al., 2001; Dijk, van et al., 2003; Beck, Martinot, 2004; Kofoed-Wiuff et al., 2006; Pfaffenberger et al., 2006) and established a correspondence between RES barriers and the most used instruments. These relations are presented in table 2.

**Table 2 Correspondence between RES barriers and policy instruments**

Barrier	Policy instruments		
	Direct instruments		Indirect instruments
	Financial measures	Non-financial measures	
High investment	Subsidies and loans Tax exemptions or advantage	Negotiated agreements between producers and government	Project sitting and permitting standards
High generation cost	Feed-in tariffs Green certificates Bidding	Quota obligation on production	
Market	Tax advantage	Quota obligation on consumption	Information campaigns Education Labeling
Low performance technology	Funding research and development Subsidies and loans		Technology standards and certification
Administrative	Interconnection regulations		Information campaigns
Geographic	Differentiated subsidies		
Infrastructure related	Independent power producer framework Biofuels mandate Tax exemptions or advantages		Grid connection standards
Perceived risks	Feed-in tariffs Quota with green certificates		
Lack of renewable energy skills			Education and training

The use of more than one policy instrument can overcome a barrier, with two exceptions, such as geographic barriers and lack of renewable energy skills. On the other hand, most policy instruments (tax advantage, education, information, feed-in tariffs, subsidies and loans etc.) address more than one barrier. For example, technological barriers are overcome by investing in research and development, subsidies and loans, and technology standards, while market barriers are overcome by tax advantage, quota on consumption and by providing more information on RES. Therefore, stimulating the use of RES has to rely on more than one instrument.

## **Complementarities of policy instruments**

### ***Reaching stakeholders***

Using a mix of policy instruments for stimulating RES is supported by the fact that this way more stakeholders could be reached. In order to explain how policy instruments are complementary in this respect we will consider two categories of stakeholders: producers and consumers. The interest of

producers in using RES could be stimulated by feed-in tariffs, quota with green certificates, and investment support. On the other hand, investing in education, information and communication could influence consumers. Nevertheless, one of the instruments, namely the quota system, could envisage producers and also consumers. In this case, the government establishes the amount of energy to be transacted on the market by specifying either or both the quantity to be produced and/or the quantity to be consumed (Menanteau et al., 2001; Dijk, van et al., 2003). Using different types of policy instruments allows governments to obtain the desired result by converging means.

### ***Providing equal opportunities for generators***

Another reason for stimulating the use of RES by a mix of policy instruments is that the instruments should stimulate small, medium and large companies that generate electricity from RES. As it is stated in the literature (Agnolucci, 2008), policy instruments should not be used in order to create some concessions to certain generators, but to give these equal opportunities. Such equal opportunities are needed more intensely by small companies that do not have sufficient investment funds of their own and also face barriers to obtaining funds when entering the renewable market. Based on this evidence, we could say that there is a need for promoting the use of RES by using instruments that stimulate the investments of all generators, regardless of their size.

### ***Achieving performance***

The different policy instruments could be complementary in reaching performance indicators. A range of criteria that indicate how well they perform evaluates the instruments used for stimulating RES. Such criteria are effectiveness, cost effectiveness, transparency, market conformity (van Dijk et al., 2003) or conformity with objectives such as increase in RES energy production, reduction of RES prices, reduction of carbon dioxide emissions, acceleration of the implementation of RES (Espey, 2001). Every policy instrument has a different potential in terms of performance. The survey conducted by van Dijk et al. (2003) revealed that in terms of market conformity quota systems are the most appropriate, while subsidies have the potential to distort the market. According to Espey (2001), feed-in tariffs are very successful in terms of stimulating the production of energy from RES, but they have little influence on reducing the price of RES. By using a mix of policy instruments, the shortcoming of these instruments could be avoided. We also noted that various studies evaluate policy instruments according to different, or at least differently nominated, criteria.

### **Impact on investors**

An objection to applying a mix of policy instruments to stimulate renewable energies is that it could confuse the investors. For instance, the complexity and diversity of the instruments used in Netherlands confused investors, as they fear lack of security in the long term (Do Valle Costa et al., 2008). The long-term stability of the instruments (that is, the system used and the level of support) could lead to market stability and security for investors (EREC, 2007). If policy makers diversify their instruments over some limits, then the reverse could obtain, namely a lack of interest in generating electricity from RES. However, the confusion of investors could be avoided through information campaigns, and also through the stability of regulations, which could guarantee the security of the investments in the long term.

### **Conclusions**

The study reveals that the use of RES could be better supported if a mix of policy instruments is applied. This conclusion is based on the premises that (1) the market penetration of renewable energies is influenced by many factors, (2) countries with more experience in this field use a variety of supporting schemes, (3) there are different types of barriers to be overcome, and (4) policy instruments complement each other in achieving the energy policy objectives.

Our findings could justify the effort invested in designing new policy instruments. This could be helpful in order to better address the problems encountered in supporting the use of renewable energies.

Policy instruments have diversified greatly in the last decade, and the same holds true for evaluation procedures. Therefore, a normative conclusion as the one presented here could usefully guide policy making.

Further research could focus on identifying the mix of policy instruments which would present an optimal complexity level, which would not hinder the attractiveness of RES for investors. At this stage, the development of a unified system of criteria for evaluating policy instruments for RES would also be useful.

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**THE IMPACT OF FOREIGN LANGUAGE  
KNOWLEDGE ON THE ECONOMIC  
ENVIRONMENT DEVELOPMENT**

# IDENTITY AND THE EUROPEAN UNION

**Abrudan Cristina**

*Universitatea din Oradea, Facultatea de Științe Economice, Str. Univesității, nr.3-5, cabrudan@uoradea.ro, Tel. 0259-408276*

*The purpose of this article is to throw some light on the question of identity in the European Union. The challenge is to understand how identity formation takes place in the contemporary world. The European integration has to be understood both as a process of socio-economic convergence among European states but also as a process of co-operation on different other levels, too. It seems that cultures, traditions and interests are more and more interconnected as societies become increasingly multicultural. This is the reason why people are concerned with the concept of identity and the recognition of their uniqueness in terms of traditions, values and ways of lives.*

*Identity, social identity, European Union, culture, nation*

Europe is a forest of ideas, symbols and myths, and it can be seen as a mirror that reflects a multitude of concepts and meanings. And it also reflects a story worth telling not only for the political and economic change that is taking place of an unprecedented scope and type but for the interesting changes that happen to the persons involved in it. The debate about the European integration refers to a process of long-term socio-economic convergence among European societies, a careful and premeditated process of co-operation between the states involved on a variety of levels, as well as a process of constructing a European identity.

Nowadays, probably more than ever, people hear, read, and discuss questions about identity. Discussions and talks have as main subjects the meanings of home and place, migrations, displacements, and Diaspora. In a world obsessed with European Integration, the word 'identity' has become a key word for conferences, lectures, books, and articles, talking about every aspect of identity one can imagine. A great deal of interest has been developed during the last years, concerning self, subjectivity, and the theory of identity. In the network era, 'identity' has become one of the unifying frameworks of intellectual debates. Sociologists, anthropologists, political scientists, psychologists, historians, economists, and philosophers give the impressions that have something to say about this subject. At every turn we encounter discourses about identity and its various forms. The talk is also about the emergence of new identities, the resurgence of old ones, the transformation about existing ones.

But what does 'identity' mean? Consulting the Oxford English Dictionary yields a Latin root ('identitas', from 'idem', which means 'the same') and two basic meanings. The first is a concept of absolute sameness: this is identical to that. The second is a concept of distinctiveness, which presumes consistency or continuity over time. Approaching the idea of sameness from two different angles, the notion of identity simultaneously establishes two possible relations of comparison between persons and things: on the one hand similarity, and difference on the other hand. The verb 'to identify' is a necessary accompaniment of identity: the word implies something active, which cannot be ignored. Identity is not just there but it must always be established.

The notion of 'identity' has a history. Years ago, it was seen as something that was 'given' to us. Nowadays, debates are focused on identity as a quality that arises in our interaction with others, not as an inherent quality. It is seen as something that is constructed by means of some processes; identities are seen as being constituted and validated through ongoing interactions. Because the process of identification always involves construction it reveals additional characteristics. Firstly, it is a process that is never completed, being in a continuous construction and reconstruction throughout the life-course of individuals.

During the last years, a great deal has been written about the different faces of identity, about social identity, national identity, group identity, individual identity, personal identity, cultural identity, etc. How could we characterize these faces of identity? Are there any differences between them? What do they express? On all these levels identity has something to do with a tendency toward 'sameness' or stability, with a tendency toward 'wholeness' or integration of traits, or with a strengthening of boundaries around

the unit in question. To give an example: personal identity is the wholeness of a person, in so far as this person attempts to be and to remain a well-functioning unit in his environment. Similarly, a group will not have identity unless it coheres and maintains itself as a viable system in its surroundings. Thus, the identity of a nation depends on its wholeness being recognized and its boundaries being articulated.

But first we will talk about social identity and how we could define it. The concept of 'identity' is one of the most contentious in the social sciences. Race/ethnicity, sex/gender, and sexual orientation have emerged as divisive social issues under the rubric of 'identity politics'. Without social identity there is no society, because without such framework of similarity and difference people would be unable to relate to each other in a consistent and meaningful fashion. Social identity is a characteristic or property of humans as social beings. However, the word 'identity' embraces a universe of creatures, things and substances, which is wider than the limited category of humanity. Minimally, social identity refers to the way in which individuals and collectives are distinguished in their social relations with other individuals and collectivities. It is our understanding of who we are and of whom other people are, and, reciprocally, other people understand of themselves and of others (which includes us). Our human social life cannot be imagined without some means of knowing who others are and some sense of who we are. Identity theorists argue that the self consists of a collection of identities, each of which is based on occupying a particular role. Identities can be defined as one's answer to the question 'Who am I'. Many of the 'answers' are linked to the roles we occupy, so they are often referred to as 'role identities' or simply 'identities'. The role identities are said to influence behavior in that each role has a set of associated meanings and expectations for the self.

Not only intellectuals regard 'identity' as a theme of discussion. Popular concern about identity is, in large perhaps, a reflection of the uncertainty produced by rapid change and cultural contact: our social map no longer fit our social landscape. Politically, the rhetoric of identity allows to pursuit of sectional interests to pass as a defense of the ineffable. Commercially, the advertising industry has long understood that selling things to people often means selling them a new identity too: a 'new look' may be synonymous with a 'new me' and the path to that new identity is likely to pass through the shopping center. There has probably always been a bound between identity and consumption. But what may be new is that consumers are more sophisticated in their awareness of this and more self-consciously collusive in the face of the expanding ranges of alternatives produced by a global market.

During their everyday lives, all kinds of people, not only social scientist tried to reflect upon social identity. It is nothing new to be self-conscious about social identity, about what it means to be human, whether people are what they appear to be. These things represent, in fact, the basis of social identity. Nowadays, the social identities are prominent, and of course to some extent historically and culturally specific. Social identity is a strategic concept in broaching these questions, for a number of reasons. First, identities are necessarily attributes of embodied individuals, which are equally necessarily socially constituted. Second, if social identity is conceptualized in terms of process, a sharp distinction between structure and action may be avoided. Third, since social identity is bound up with cultural repertoires of intentionality such as morality, it is an important concept in our understanding of action and its outcomes, both intended and unintended. Forth, in identifying internal and external moments of identification a necessary connection is made between domination and resistance and the processes of social identification. Social identities are in themselves one foundation upon which order and predictability in the social world are based.

The same situation is with the contexts and media through which contemporary discourses about identity find expression. It is nothing new to be self-conscious about identity – what it means to be human, what it means to be a person, etc. Identities are necessarily attributes of embodied individuals, which are equally necessarily socially constituted, sometimes at a high level of abstraction. A person's identity is influenced, among other things, by what he or she consumes, what he or she wears, the commodities he or she buys, what he or she reads and sees, etc. An identity is formed, partly, of what the person thinks of itself, and how it relates to the everyday life. Other powerful institutions that have to be taken into consideration when talking about an identity are popular culture, fashion, advertising, and mass media.

Broadly speaking, people talk about two types of identity: a traditional one and a modern one. According to the traditional point of view an identity is made up of some elements such as class, gender, and race which operate simultaneously to produce a coherent, unified, fixed identity. The modern view sees identity as a result of a process in which psychological and social factors are mixed. Of course, these two sets of factors

overlap; there are psychological aspects to the sociological factors, and sociological aspects to the psychological factors.

Besides, there are two sides of a person's identity: the public identity – which is the 'outside' of our concept of the self, and the private identity which is the 'inside' of our identity. The former is how others see us, and the latter is how we see ourselves. When considering someone's identity we have to take into consideration some social elements such as: class, nation, race, ethnicity, gender, religion. All these give color to an identity. An identity is not an object which stands by itself and which offers the same face to each observer in each period. Perhaps when we are thinking of identity we should think of all the events that happened to us and how these transformed us in time. Making some researches on the idea of identity, economists and psychologists come to the conclusion that individuality and individual identities are separate and distinctive from social identities. So, two selves seem to appear with the individual/personal unique self being regarded as more real, more significant and quite different from the socially learned or social self. How these two entities may be linked is an uncertain issue. In 2004, Richard Jenkins in his book entitled *Social Identity* adopted a starkly different point of view, noticing that

*“The individual identity – embodied in selfhood – is not meaningful in isolation from the social world of other people. Individuals are unique and variable, but selfhood is thoroughly socially constructed.”*

The individual identity and the social identity are entangled with each other, being produced by analogous processes and they are both intrinsically social. But what happens with the identities, in general, in the context of the European Union? Are they bound to suffer or not? These are only two of a wide range of questions that preoccupy not only sociologists but also other scientists. Gerard Delanty notes that

*“The search for new principles of European legitimacy is inexplicable bound up with the attempt to create a space in which collective identities can be formed.”*

One important question is if such a European identity can be at all formed. All the countries that are members of the European Union have their own national identities but the question is if they will “survive” in the complex story of Europe. The building of a nation, historically speaking, has been marked by struggle, by people actively fighting for their cultural recognition, particular language, history, and identity. Applied to Europe, people would try to create a unique European identity and self-possessed Europeans. But it is highly unlikely that there will be a process in Europe where a European identity replaces a Member state national one. As J. Habermas notes in his *Struggles for Recognition in the Democratic Constitutional State*:

*“It is neither possible nor desirable to level out the national identities of member nations, not melt them down into a Nation of Europe”.*

However, what is interesting to explore is whether national identities can be supplemented or transformed, even to become post-national. This consideration requires attention because the contemporary context of identity formation is entirely different from that which existed when the notion of national identity first emerged and when the national identities of the European Member States were formed.

Nowadays, cultures, traditions, societies, and interests are becoming highly interconnected and linked, as societies become increasingly multicultural. This is why people are more and more concerned with identity, the recognition of their uniqueness, in terms of cultures, ways of life and values. The countries which are member of the European Union still retain their own cultures, traditions, national identities and socializing mechanisms for their citizens. The European Union has not changed these and hopefully it will not do it in the future.

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# THE NATION IN THE ERA OF GLOBALISATION

**Abrudan Cristina**

*Universitatea din Oradea, Facultatea de Științe Economice, Str. Universității nr. 3-5, cabrudan@uoradea.ro, Tel. 0259-408276*

*This article tries to throw some light upon the idea of nation, nationalism and national identity in the present world context, where everyone seems to be obsessed with modernization and globalization. Nowadays cultures, traditions and societies are more and more interconnected and nations become multicultural – these are only two reasons why people are concerned with the recognition of their uniqueness, of their national identity.*

*Nation, nationalism, national identity, globalization.*

The age of globalization is accepted by a large number of theorists as an age of nationalist resurgence in that of establishing nation-states as well as in the widespread reconstruction of the idea of national identity. The idea of nationalism and national identity appear as a surprise if we take into consideration the fact that some critics declared nationalism as a dead trend because of the following reasons: the globalization of the economy and the internationalization of the political institutions, the universalism of culture diffused by electronic media, education, modernization, and urbanization. But let's develop a little bit upon the concepts of nation, nationalism, and national identity.

It seems that there are a lot of definitions of the term 'nation'. One of the most important is the one given by Anthony D Smith in his book entitled *Nationalism* (1994). For Smith the nation is '*a named population sharing a historical territory, common memories, and myths of origin, a mass standardized public culture, a common economy and territorial mobility, and common legal rights and duties for all members...*'.

The concept of nation has been subject to a wide variety of meanings. There are three classic statements that one must take into consideration when trying to define the term 'nation'. They belong to Renan, Stalin, and Weber and they cover a wide spectrum. Ernest Renan sees the nation as a form of morality, a solitary sustained by a distinctive historical consciousness. On the contrary, Stalin defines the term as a mixture of objective and subjective elements. He says that nations come into existence only when several elements, such as economic life, history, and language have come together. Max Weber examines the nation as a community endowed with a sense of cultural mission. He claims that nations are too various to be defined in terms of one criterion. But of course, besides these three voices, others could be heard trying to define this concept. Another approach is that of Karl Deutsch, which offers a functional definition avoiding a single-factor characterization of the nation. He argues that the objective of nationalist organizations is to strengthen and extend the channels of communication which can ensure a popular compliance with national symbols and norms. From an anthropological perspective, Clifford Geertz describes the nation as a concept where the idea of ethnic and civic intermingles.

A nation could be understood as a group of people, a community bound together by culture, history, and common ancestry. The modern Italian nation was formed from Romans, Teutons, Greeks, Arabs and so on. The French nation was formed from Gauls, Romans, Britons, Teutons, and so forth. The same can be said about the British, the Germans, and the others who were formed into nations from people of diverse races and tribes. Thus, a nation is not a racial or tribal, but a historically constituted community of people, not a casual or ephemeral conglomeration, but a stable community of people.

In fact, I think, there are some common ideas and motifs of the nation, common to most theorist, and thereby establish an ideal type of the nation. Such an ideal type, derived from the three goals of national identity, unity and autonomy, would include:

- The growth of myths and memories of common ancestry and history of the cultural unit of population;
- The formation of a shared public culture based on an indigenous resource (language, religion, etc);

- The delimitation of a compact historic territory, or homeland;
- The unification of local economic units into a single socio-economic unit based on the single culture and homeland;
- The growth of common codes and institutions of a single legal order, with common rights and duties for all members.

These motifs, commonly found in the writings of theorists everywhere, help us to define the nation as a named cultural unit of population with a separate homeland, shared ancestry myths and memories, a public culture, common economy, and common legal rights and duties for all members. This is a modernist definition, in the sense that its very concepts such as public culture, common economy, and common legal rights derive their meaning from developments in and of the modern epoch. The first, or the 'Western' model, arose out of the 'Western' absolutist states whose rulers inadvertently helped to create the conditions for a peculiarly territorial concept of the nation. The second or 'Eastern' model emerged out of the situation of incorporated ethnic communities or ethnics, whose intelligentsias sought to, liberate them from the shackles of various empires. The Western model of the nation tended to emphasize the centrality of a national territory or homeland, a common system of laws and institutions, the legal equality of citizens in a political community, and the importance of a mass, civic culture binding the citizens together. The Eastern model, by contrast, was more preoccupied with ethnic descent and culture. Apart from genealogy, it emphasizes the popular or folk element, the role of vernacular mobilization, and the activation of the people through a revival of their native folk culture – their languages, customs, religions, and rituals, rediscovered by urban intellectuals such as philologists, historians, folklorists, ethnographers, and lexicographers. The contrast between these two concepts of the nation should not be overdrawn, as we find elements of both at various times in several nationalisms in both Eastern and Western Europe.

So, we may define a nation as a named human population sharing a historical territory, common memories, and myths of origins, a mass, standardized public culture, a common economy and territorial mobility, and common legal rights and duties for all the members of the community. This definition is just one of many that have been proffered for the concept of 'nation'. But, like most others, it reveals the highly complex and abstract nature of the concept, one which draws on dimensions of other types of cultural identity, and so permits it to become attached to many other types of collective identification – of class, gender, region, and religion. National identifications are fundamentally multidimensional. But though they are composed of analytically separable components – legal, territorial, ethnic, economic, and political – they are united by the nationalist ideology into a potent vision of human identity and community.

There are several characteristic features of a nation. One of these is a common language. This does not mean that different nations always and everywhere speak different languages, or that all who speak one language necessarily constitute one language. There is no nation which at one and the same time speaks several languages, but this does not mean that there cannot be two nations speaking the same language. English and Americans speak the same language but they do not constitute one nation. Another characteristic feature could be a common territory. But it is not all. A common territory does not create by itself a nation. This requires an internal economic bond to weld the various parts of the nation into a single whole. Thus, a common economic life is another characteristic feature of a nation. But this is not all. One must take into consideration the spiritual complexion of the people constituting a nation. Nations differ not only in their conditions of life, but also in spiritual complexion, which manifests itself in peculiarities of national culture. But also the psychological element has to be taken into consideration when talking about the characteristic features of a nation. Of course, by itself, the psychological element, or otherwise called the 'national character' is sometimes intangible for the observer, but in so far as it manifests itself in a distinctive culture common to the nation it is something tangible and cannot be ignored. The 'national character' does not have to be understood as a thing that is fixed once and for all, but something that is modified and changed according to the conditions of life. Thus, a nation has its beginning and end, has a history and it can be subject to change. An interesting idea is that none of the above mentioned characteristics taken separately is sufficient to define a nation and it is enough for single characteristics to be lacked and the nation ceases to be a nation. If some people are economically disunited, inhabit different territories and speak different languages but they possess a common 'national character' certainly we cannot say that they constitute a single nation. People with a common territory and economic life but with no common language and common 'national character' would not constitute a single nation. So, it is clear

that we have a nation only when all these characteristics are present together. As Bruce Franklin noticed in 1973 in his book entitled *The Nation*:

*“A nation is a historically constituted, stable community of people, formed on the basis of common language, territory, economic life, and psychological make-up manifested in a common culture”.*

What distinguishes national identities from other identities? What is implied by describing a particular community of people as a nation? What is involved in thinking of oneself as a member of a national community? There are at least five aspects that have to be taken into consideration if we try to answer to these questions. Among those who have seriously thought about this subject, the first point acknowledged very widely is that national communities are constituted by belief: nations exist when their members recognize one another as compatriots, and believe that they share characteristics of the relevant kind. The concept of national identity is both complex and highly abstract. Indeed the multiplicity of cultural identities, both now and in the past, is mirrored in the multiple dimensions of our conceptions of nationhood. Nationality is an identity that embodies historical continuity – is the second aspect that comes to one mind. Nations have a past and in most cases their origins are conveniently lost in the mists of time. In the course of this history, various significant historical events have occurred, and we can identify with the actual people who acted at those moments, appropriating their deeds as our own.

Another distinguishing aspect of national identity is that it is seen as an active identity. Nations are communities that do things together, take decisions, achieve results, etc – this is not literally so. But it means that the link between the past and the future is not merely a causal link. A nation becomes what it is by the decisions it takes. This active identity clearly marks out nations from other kinds of grouping, for instance churches or religious sects, whose identity is essentially a passive one.

The connection of a group of people to a particular geographical place represents the fourth aspect of a national identity. A nation must have a homeland where it can act as a group. It is this territorial element that has forged the connection between nations and states, while a state is precisely a body that claims legitimate authority over a geographical area.

Finally, the ‘national character’ is the fifth aspect. The people who share a national identity should have something in common, a set of characteristics – this is the ‘national character’. Communities constituted by shared belief and mutual commitment, extended in history, connected to a particular territory, and marked off from other communities by its distinct public culture represent the five elements together that form the idea of national identity. But theorists of nationality and nationalism give rise to a future question: is national identity a distinctively modern phenomenon, something specific to post-Renaissance or perhaps even to post-Enlightenment societies, or it is simply a continuation of tribal and other such loyalties which are coeval with the human species? This question divides the theorist into two categories: the first perspective sees national identity as a modern phenomenon allied to notions of democracy; and those who see it as a continuation of older royalties, a cement that holds societies together, inspires mutual concern between members, etc.

Talking about contemporary nationalism, we have emphasize three major analytical points: first, contemporary nationalism can be or cannot be oriented towards the reconstruction of sovereign nation-state; secondly nations do not limit themselves to the modern nation-state as constituted in Europe after the French Revolution; thirdly, nowadays, nationalism is accepted as a reaction against globalization. Contemporary nationalism tends to be more cultural than political and thus more oriented to defend the culture which has already been institutionalized than to defense the state. In order to understand better the trend of the contemporary nationalism, I will quote Kosaku Yoshino analyzing the cultural nationalism in his book entitled *Cultural Nationalism in Contemporary Japan (1992)*:

*“Cultural nationalism aims to regenerate the national community by creating, preserving, or strengthening a people’s cultural identity when it is felt to be lacking or threatened. The cultural nationalists regard the nation as a product of its unique history and culture, and as a collective solidarity endowed with unique attributes. In short, cultural nationalism is concerned with the distinctiveness of the cultural community as the essence of a nation.”*

In the contemporary world situation, two phenomena seem to appear to be characteristic: first, the disintegration of pluri-national states that try to remain fully sovereign or to deny the plurality of their national constituents (as examples we can mention the case of the former Soviet Union, the former Yugoslavia, the former Czechoslovakia, and in the future it could be the case of Sri Lanka, India, Nigeria, and other countries. Secondly, the developments of nations which force their parent state to adapt and cede

sovereignty. However, in this historical period, the attributes that reinforce national identity vary they all suppose the sharing of history over time. Another very important aspect, in this sense could be language. As Manuel Castells notices in his book *The Power of Identity* (2003):

*“I would make the hypothesis that language, and particularly a fully developed language, is a fundamental attribute of self-recognition, and of the establishment of an invisible national boundary less arbitrary than territoriality, and less exclusive than ethnicity.... Language provides the linkage between the private and the public sphere, and between the past and the present, regardless of a cultural community by the institutions of the state.”*

In a world that seems to be obsessed with globalization and modernization, the power of global media and language as direct and incontestable expressions of culture, become the trench of cultural resistance, *“the last bastion of self-control, the refuge of identifiable meaning”* as the author mentioned above said. *“Thus, after all, nations do not seem to be imagined communities, constructed at the service of power apparatuses. Rather, they are produced through the labors of shared history, and then spoken in the images of communal languages whose first word is ‘we’, the second is ‘us’, and unfortunately, the third is ‘them’”* – Manuel Castells, *The Power of Identity* (2003).

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# MOTIVATION IN LANGUAGE LEARNING

**Abrudan Caciora Simona Veronica**

*University of Oradea, Faculty of Electric Engineering and Information Technology, Univeristatii street no. 3, phone number 0744 241599, e-mail: veronicaabrudan@yahoo.com*

*Abstract: This paper represents an attempt to evaluate students' motivation in learning a foreign language in general and English in particular. It is mainly a theoretical approach to the concept of motivation including a definition of the concept, a presentation of the most important theories of motivation, and the factors influencing it*

*Key words: motivation, foreign language learning*

## **Introduction**

The success of any action usually depends on the extent to which individuals strive to attain their purpose, along with their desire to do so. In general people have come to refer to this psychological factor – the impulse that generates the action – as motivation. As the term itself indicates, it is a “motive force”, something that prompts, incites or stimulates action. According to *The Short Oxford English Dictionary*, motivation is “that which moves or induces a person to act in a certain way; a desire, fear, reason, etc which influences a person’s volition: also often applied to a result or object which is desired.”

To think of motivation as belonging only to the initial stages of an action, - that is as concerned with arousing initial interest and turning it into a decision to engage in some activity – is only a limited understanding of the term. The need to maintain this state of arousal, to determine someone to make the necessary effort to complete an action is also of great importance. This idea is reflected in the definition given by Williams and Burden (1997: 120) who see motivation as “a state of cognitive and emotional arousal, a state which leads to a conscious decision to act and gives rise to a period of sustained intellectual and/or physical effort”. Thus intellect and affect combine with volition and perseverance to result in what is known as motivated behaviour. The same idea is conveyed in different words by R.C. Gardner who seems to explain the term with the precision of mathematical demonstration: motivation is a combination of effort plus desire to achieve a goal plus favourable attitudes towards the goal to be accomplished (Gardner, 1985:11).

Thus the simple existence of desire, strong reasons for doing something or favourable attitudes towards a particular thing or action do not reflect motivation in and of themselves. The same R.C. Gardner gives the example of individuals who may have a strong desire to do something or may enjoy an activity and who cannot be considered to be motivated, since their intentions are not linked with a striving to accomplish that particular thing. Similarly, a person can put a great deal of effort toward a goal without being necessarily motivated: the decision to accomplish something may be triggered by different causes, both internal – such as interest, curiosity, or even a general desire to achieve – and external ones such as another person, social pressure, material rewards, etc.

## **1. The Concept of Motivation**

Each concept or idea has its own history determined by the general evolution of human thought. For many years, the understanding of the term and the research on motivation were dominated by the so-called *drive-reduction theories*. Psychologists identified a large number of human needs (both biological and psychological ones), all of them causing inner tensions, which had to be released in one way or another.

In 1964, Atkinson (quoted in Williams and Burden, 1997: 113) tried a more promising reformulation of the drive reduction approach to motivation. Its basic premise was that people differ quite markedly in their need to achieve or be successful. The lives of some people are dominated by the drive to succeed, to be high achievers in everything they do, whereas for others, it really does not seem to matter whether they do well or not. In addition, a person might be inclined to avoid engaging in a particular activity because of fear of failure.

Such assumptions might have brought into the light the problem of motivational intensity (i.e. the degree of effort the individual expends to achieve a goal), but they are not sufficient in themselves: focusing only on intensity does not completely describe the concept of motivated behaviour.

The first decades of the 20<sup>th</sup> century marked an important contribution in the definition of motivation as concept. During the 1920s and 1930s, most behavioural psychologists were committed to a non-introspective study of human behaviour that concentrated mainly on what could be objectively observed, described and measured, without resort to the presumption of inner motives or innate mechanisms as determinants. Since much of overt human behaviour takes the form of actions repeated in similar circumstances, learning theorists of that period focused on habits and the way in which they were acquired (the theory of stimulus – response and reinforcement). In practice, the overemphasis on tedious mechanistic processes to which the student was not expected to make any spontaneous or personal contribution, left little room for the idea of doing something for pleasure or satisfying a subjective purpose and interest. However, behavioural psychologists were the first to recognize the power of feedback as a motivating influence, though the latter was largely considered in terms of external forces (i.e. what specific conditions give rise to what kind of behaviour and how the consequences of that behaviour affect whether it is more or less likely to happen again). Several other motivational strategies used by teachers all over the world have their roots in the principles of Behaviourism: the importance of stimuli survives in the form of giving pupils meaningful, relevant and interesting tasks to do and the importance of response, praise and encouragement for the learners' positive efforts cannot be contested by anyone.

Another important step in the evolution of the concept of motivation was the appearance of cognitivism, a trend emerging as a reaction to Behaviourism. It was based on the ideas of the linguist Naom Chomsky who maintained that, far from being a form of behaviour, language was a ruled-based system from which an infinite number of sentences can be created. The concept of “language creativity” and the idea of choice could not remain without an echo in the sphere of language learning and had an important influence upon the concept of motivation. From a cognitive perspective, motivation was concerned with such issues as why people decided to act in certain ways and what factors influenced the choices they made. It also involved decisions as to the amount of effort people were prepared to expend in attempting to achieve their goals.

This view on learning put motivation (i.e. the inner desire to do something leading to a conscious decision to act and sustained effort) at the basis of any action.

Though language teaching has never adopted a methodology based on Chomsky's work, his ideas opened the way to Krashen's theory of language acquisition, to socio-linguistics and humanistic approaches. Although they bear different names, all these trends are based on the belief that the individual learner is the centre of the learning process. The *natural order hypothesis* and the theory of the *affective filter* have come to emphasise that learners make sense of various external influences in ways that are personal to them so, according to their internal disposition, they will allow or prevent the exterior input to be received; hence, the importance of creating a relaxed atmosphere in the language classroom and of adopting a positive attitude towards the learner. Certain language points may take learners some time to absorb, so praise and encouragement will keep motivation up.

Another factor influencing student motivation is the perceived value of an activity. In 1960s and 1970s, the promoters of socio-linguistics threw light upon the fact that, in order to communicate effectively in a foreign language, people need to know more than how to express ideas in correct grammatical terms. They also had to be aware of appropriate levels of language to use in different situations. The necessity of teaching language as it was used everyday, real-world situations and the importance of numerous *receptive* activities were reflected in the creation of syllabuses designed to serve the actual social, cultural or vocational needs of the learners. The application of humanistic theories in practice has resulted in the incorporation in the language-learning materials of activities for expressing one's feelings, for sharing one's values and viewpoints with others. New methods such as Suggestiopedia, Community Language Learning, the Silent Way, Total Physical Response, role-play and drama techniques are meant to help more inhibited students to express themselves freely. Foreign Language Teachers have become conscious of the fact that individual students have preferred modalities of learning, that what is good for one is not always good for everybody. They have been encouraged to adopt a more flexible outlook upon the process of language teaching, adapt their programmes to the needs of their students and the area where they are teaching.

## 2. Types of motivation and factors influencing it

In order to summarize briefly the ideas presented so far, we could define it in terms of two factors: learners' communicative needs and their social and educational attitudes. An extension of the first part of the definition would take into consideration the types of motivation as identified by researchers at different moments in time (Gardner, 1985; Lightbown & Spada, 1993; Wright, 1987; Spolsky, 1989). They all have come to draw a distinction between two types of motivation: when the only reason for learning a foreign language is to gain something outside the activity itself, such as passing an exam, obtaining financial rewards, getting a job or pleasing another person(s), the motivation is likely to be *extrinsic/instrumental*. As the terms themselves indicate, it is caused by a combination of external factors and used as a means or instrument to obtain something. When its purpose is to enable one to communicate with the members of a specific language community, then motivation is considered to be *intrinsic* or *integrative*.

In order to offer a clear image of the intrinsic-extrinsic dichotomy, Spolsky (1989:124) borrows Harter's model (1982) and represents it in the following way:

Intrinsic		Extrinsic
Preference for challenge	vs	Preference for easy work
Curiosity/interest	vs	Pleasing a teacher/getting grades
Independent mastery	vs	Dependence on teacher in figuring out problems
Independent judgement	vs	Reliance on teacher's judgment about what to do
Internal criteria for success	vs	External criteria for success

Following this model, it comes out clearly that the greater the value the individuals attach to the accomplishment of an activity, the more highly motivated they will be to engage in it and later to put sustained effort until they achieve their goal.

This distinction also tells us that both internal and external factors have an important role to play in motivating learners.

## 3. Factors influencing motivation

### 3.1 Motivation and personality variables

In general, many people see an association between personality attributes and the successful acquisition of a second language. While successful student may display different types of characteristics (they may be extrovert, self-confident, active, passive, independent as well as introvert or shy), unsuccessful students are more frequently described as demonstrating a lack of self-confidence and being shy, afraid to express their opinions and nervous. Whatever their form of behaviour, students who try to adopt a more flexible attitude towards the learning of a foreign language seem to have greater chances of success than those whose affective filter is constantly up.

Referring to the problem of motivation, W. Rivers (1964) has observed that personal motifs such as fear or anxiety may combine with learned social motifs such as a desire for status in a group and for social approval, creating a series of reactions that may inhibit or work towards progress in a foreign language. Up to a point, an anxious learner may try hard to catch up with the group and acquire proficiency in a language. A friendly/supportive environment may be decisive in such a situation. But the judgement of classmates can also be harmful, destroying the self-belief in one's ability to succeed. Combined with a generalized fear of negative evaluation, it may inhibit or distract the learner from the task of attending and remembering new items.

Williams and Burden (1997:100) also speak of a state called "learned helplessness" referring to people who feel that they had no control over their actions and see intelligence as something unchangeable and failure as essentially due to a lack of ability. In conclusion, learners' inhibition may be the result of both internal and external factors, and being related to the ability or inability to find solutions to problems in the past.

Another important component influencing motivation to learn is the individual learners' feelings of competence and self-efficacy. Displaying no signs of inhibition, they are usually eager to take risks, are not

afraid of making language mistakes and ready to adopt some of the identity characteristics of another cultural group. Their affective filter is low and they can grasp much of the comprehensible input they are faced with. Such people often referred to as “mastery oriented” tend to understand failure in terms of lack of effort and seek to improve their subsequent performance.

Obviously, there might be other categories of learners between these two extremes such as those who hide their shyness behind a face of openness and willingness to take risks or people who avoid situations in which failure would signify low ability, trying to look smarter by all means. But in those situations we can speak of the appearance of motivation, rather than the reality of it.

Given the diversity of personality types, some researchers have tried to find connections between them and receptivity to different aspects of language learning. In a book dedicated to the way in which languages are learned, Lightbown & Spada (1993:36) do not exclude the possibility of motivation to be more related to particular aspects of language proficiency than others. They base their suppositions on several studies among which a language proficiency test in which highly motivated students were found to be more successful in the part of the test which measured oral communication skills but not more successful than others in the part assessing grammatical knowledge. Though, motivated student may have a better self image and more confidence than non-motivated ones, and such characteristics might make them feel more at ease when interacting with others, the fact that the two things occurred at the same time do not necessarily mean that one caused the other. Even if cases when students preferred oral practice to written assignments or work on grammatical structure do exist, they cannot make us jump at the conclusion that motivated students will draw a line between different aspects of a language, accepting some and rejecting others.

### ***Attitudes and motivation***

In general, most people seem to agree that attitudes and motivation are closely related to success in language learning. This explains perhaps why some people have a much easier time of learning languages than others; in the same classroom setting, some students progress rapidly, while others just struggle along and never achieve command of a second language. Krashen has drawn attention to the fact that variables in second language acquisition derive both from the amount of comprehensible input the acquirer receives and understands and from the strength of the affective filter.

When the only reason for learning a second language is external pressure, internal motivation may be minimal and attitudes towards learning are likely to be negated. On the other hand, if students have favourable attitudes towards the foreign language and its speakers, towards the teacher and the course, they will probably be more attentive in the class, would take assessments more seriously and, willing to achieve more, would look for situations when they can obtain further practice in the foreign language. Some critics (Gardner, 1985) make a distinction between different types of attitudes according to factors in the environment or subject characteristics such as age or sex. Thus we can speak of attitudes revolving around the educational aspects of second language acquisition (*educational attitudes*) and of *social attitudes*, focusing on cultural implications of second language acquisition. Sex differences are also thought to influence attitudes and motivation: experience indicates that girls tend to demonstrate significantly more positive attitudes towards learning languages than boys, a good example in this respect being the overwhelming majority in the faculties of philology and foreign languages.

Though many researchers (Spolsky, 1989; Williams and Burden, 1997) do not believe in an absolute biological basis for learning, there are cases when differences of age may have an important influence upon the process of foreign language learning. The notion that young children pick up foreign languages more easily than older learners is clearly challenged by the evidence of areas in which the latter do better. However, the adults' emphatic capacity and openness to get involved in “real communication”, their ego permeability may be lower especially because of external causes.

### ***The role of the teacher/professor in all the stages of the motivational process***

Nowadays the role of the teacher is recognized as being highly significant in all the stages of the motivational process. Motivation is no longer thought of only as integrative or instrumental. It is also considered a key to learning something in many cases created, fostered and maintained by an enthusiastic and well-prepared classroom teacher. Because of the importance of the nature of the interactions that occur between learners and teachers, many studies have been dedicated to the discussions of the influence of



teachers in the process of foreign language learning. Given the complexity of the issue it may well constitute the subject of a separate paper. What we shall attempt here is just a summary of important qualities a good teacher usually displays. At the top of the list I should place the teacher's enthusiasm, acknowledgement and stimulation of students ideas, the creation of a relaxed and enjoyable atmosphere in the classroom, the presentation of activities in a clear, interesting and motivating way, the encouragement of pupils with difficulties, helping them to increase their expectations of themselves. In an article published in 1982, Mary Finocchiaro has added to all these the importance of (a) making sure the students comprehend every dialogue, utterance, the gist of the reading passage; (b) giving them extensive practice in using verbal or non-verbal alternatives for communicative expressions, structures or language items; (c) correcting important errors tactfully by rephrasing a question, expanding an answer, or by merely saying "listen" and giving the correct answer; (d) letting them either grade their own papers or do so with a partner; (e) showing concern for school or community problems of individuals; (f) making it possible for them to enjoy small successes and the feeling that they are making definite – even if slow – progress toward their goals. As Finocchiaro argues in points (c),(d),(e), the problem of error correction plays a very important role in the process of motivating or de-motivating students. Being constantly aware that all human learning is fundamentally a process involving the making of mistakes may help any teacher in using mistakes and errors creatively during the teaching activity, for they hold in them some of the keys to the understanding of the process. When teachers help the learners to develop an internal sense of control as well as feelings of effectiveness in their ability to carry out tasks, then there are great chances for the learners to become motivated to learn. External reinforcers in the form of rewards, good marks or simple praise, are often considered to be excellent ways of motivating underachieving or reluctant learners. Conversely, extra homework, punishment or other sanctions, proved not only ineffective in bringing about positive change, but also having exactly the opposite effect. As Williams and Burden (1997) have rightly observed when "feedback actually provides information to learners that enables them to identify specific aspects of their performance (...) it should prove both motivating and helpful to them to move into the zone of next development. If, on the other hand, the feedback fails to provide this kind of information, it could have entirely the opposite effect". (1997: 138)

### ***3.4 Motivation and learning styles***

Closely related to the problem of students' attitudes towards the language course is the problem of their different learning styles. Researchers and foreign language teachers have gradually become conscious that individual students have preferred modalities of learning. Consequently, when learners are given some freedom to choose one way of learning or another, they might do better than those who find themselves forced to learn in environments where a learning style, which does not suit them, is imposed as the only way to learn. One of the views put forward by the initiators of humanistic approaches to learning was that teachers should be allowed to adapt their programmes with due attention to the objectives of their students and the needs of the area where they are teaching. Though, this might not always be easy, a concern for the students' learning styles might be of great help in motivating them to learn.

### ***Motivation and the power relationships between languages***

The existence of power relationships between languages is one of the reasons why people have favourable or unfavourable attitudes towards learning a particular language. Subjects, who select instrumental reasons over integrative ones, often take into consideration the economic and practical advantages of learning a foreign language. A good example in this respect is the present situation in Romanian schools where learners and the parents, faced with the opportunity of choosing between English and French, generally choose the former as it has become a kind of *lingua franca*, placing those who are able to use it in a more favourable position than those who are proficient in French. In the same way, members of a minority group may have different attitudes and motivation when learning the language of a majority group than those of a majority group members learning a minority language. Here, the case of immigrants is perhaps the most relevant.

The intent of this section was to focus attention on the variety of factors influencing motivation in language learning. A review of the literature indicated how personality variables, learning styles and different kinds of attitudes might relate to success in or willingness to acquire a particular language. Before coming to an end, I thought it might be interesting to see how individual students perceived the complex problem of motivation and how their attitudes relate to their behaviour in the language classroom.

## 4. Conclusions

As indicated in this paper, motivation is a crucial factor in learning a foreign language, which is influenced by different variables: personality variables, the attitudes of learners, their learning styles, and even the power relationships between languages.

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# MOTIVATION: THE SATISFACTION OF NEEDS - OR CHARGING AND RECHARGING THE EMPLOYEES' BATTERIES

**Abrudan Maria Madela**

*Univeristatea din Oradea, Facultatea de Științe Economice, Str. Universității nr. 1-3, Oradea, 410087, email: mabrudan@uoradea.ro, tel. 0723.958.516.*

**Judeu Viorina - Maria**

*Univeristatea Agora, Facultatea de Drept și Științe Economice, Piața Tineretului nr.8, Oradea, 410526, email: viorina@univagora.ro, tel. 0722.762.939*

**Văleanu Emma Margareta**

*Univeristatea Agora, Facultatea de Drept și Științe Economice, Piața Tineretului nr.8, Oradea, 410526, email: emma\_margareta@univagora.ro, tel. 0745.935.797*

## *Resume*

*Satisfying the needs is based on an entire chain that starts to manifest once these need start to show. The need waken up a wish and this wish challenges tensions. These tensions impose the actions through which the need is being satisfied. The tasks of the manager are to see, to discover and to direct these tensions in the benefit of the employees.*

*Key words: motivation, satisfiers, needs, motivators.*

*'You don't have to be a fantastic hero to do certain things - to compete. You can be just an ordinary chap, sufficiently motivated to reach challenging goals.'*

*Sir Edmund Hillary*

Motivation is, really, the driving force of the people. The motivation assures people of finding themselves committed to others and to the organization as well as to feel responsible for the actions of an organization.

The issue of the human needs is more complex than this exposed situation. And this is because a human being does not have only one need and one desire. In the same time the person he can have physiological needs as hunger for example, or personal comfort, but also psychological needs, the need to relax or to travel. In most of the cases there is a great difficulty in choosing which need is the most important one or which should be satisfied first, which one to satisfy first and which one offers the most pleasure possible. This is because the task of the one that must motivate this person is becoming more complicated that it was believed at the beginning. The manager must guess the order of these desires.

The truth is that the employees will be looking for at their work place to satisfy all or most of their needs. There are things that the organizations can do and these belong to the challenges that are posed by the demands of the new century.

If we go deeper into the situation, by analyzing the chain of needs it is seen as a complete cycle. And this is because a satisfied need comes together with another need that will go on and on. This new need can start from the satisfaction of the first need or it may be totally different from the first or the second one, by making a needs' list. For example if the need of having a new, performing mobile phone, there automatically comes the need of paying the bill, that being the direct need, and the indirect one to desire to have a vacation in the Caribbean.

The duration of the satisfaction period may be a short time or a log time period, it depends on the intensity the desire was, what is for sure is that it is limited when talking about time. There are only a few needs that come from the interior of the human beings' person; the majority is influenced by the environment, by the exterior. When a person is born, he/she feels the only need possible: to eat. From then on the environment, and the entire people that come in contact with he/she will have an impact on the respective persons and an impact on everyone's needs.

It is common held the assumption that money is the prime motivator for the majority of the people in their work. Under this assumption one unhappy employee could be motivated by giving them a raise, and is valid the vice-versa of punishing the ones who are not doing their jobs properly by cutting away a part of the wage.

Frederick Herzberg<sup>228</sup> found out that there are two distinct types of factors, and these are:

1. The first type is the category of **motivators or satisfiers**. These are features of one job that actually inspire and encourage. These include such elements as the work itself, responsibility, achievement, recognition, advancement and growth. The responsibility when thinking about the tasks that the employee has to perform at the job, the achievement of targeting the goals, the recognition of the merits, the advancement in position and the growth when speaking about wages.
2. The second type being the **maintenance factors or dissatisfies**. These are aspects of the job that in and of themselves do not actually motivate, but the absence of which can be sometimes de-motivating. These include job security, wages, administration, supervision interpersonal relationship, working conditions and status.

The motivation is the fundamental functional structure that correlates with the motive and the social context, the psychological mechanism that convert the pressing of the motives in ruled behavior towards a certain purpose, that once touched will determine the preoccupation for satisfying another purpose, another need.<sup>229</sup>

According to the genesis and to the content, the needs can be classified as:

- **The basic needs**

Are the ones that the person is born with, the ones that have the role of assuring the physical integrity of the human body. Here are framed the biological needs:

- ◆ Huger
- ◆ Thirsty
- ◆ Sexual impulses

The functional needs or the functional one which are the following:

- ◆ Moving
- ◆ Relaxing

The primary needs are common for the human being and for the animals, with the idea that at the human beings are modeled and instrumented from the social and cultural elements.

- **The secondary needs**

These needs are the one that are formed during life time in order to assure the integrity of the person. This consists of the following:

- ◆ Material needs – shelter, comfort, tools and instruments
- ◆ Spiritual needs – of knowing, understanding, esthetical, ethical
- ◆ Social needs – communication, social integration, cooperation

During the existence of the person are formed different motivations that can be classified two by two in some pairs and we note:

- **The positive and negative motivation** - the first is produced by awards and has benefits on the organizations and the negative is produced by using the negative stimulus (threatening, blaming, and punishment).

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<sup>228</sup> D.S Pugh, D.J Hickson, *Managementul organizatiilor*, Codex Puterea Cunoasterii S.A, Bucuresti, 2006

<sup>229</sup> C. Rosca, *Managementul resurselor umane, editia a III-a*, Editura Universitaria, Editura CERTI, Craiova, 2004, p.137.

- **The cognitive and affective motivation** – the cognitive is about the need of knowing new things, while the affective is determined by the need of approval and maintaining.
- **The interior and exterior motivation** – the leaders must follow the construction of the interior issues because this is the real spring of the quality of the activity.

There are, as I have noted two sets of factors that affect personnel behavior at the work place, the satisfiers and the dissatisfiers. If there is any dissatisfaction the individual is not affected by satisfiers, so cannot be motivated. These factors are socio-emotional or intrinsic to the individual and can therefore be hard to satisfy. Some examples of satisfiers may be:

- recognition
- responsibility
- advancement
- growth
- the work itself.

Satisfiers create job satisfaction and positive job attitudes because they satisfy the individual's need for self-actualization. The absence of the satisfiers does not mean the dissatisfaction and the absence of the dissatisfiers does not prove satisfaction or dissatisfaction, this being a neutral element.

The dissatisfiers are related to the context of jobs while the satisfiers are related to the content of jobs. These factors are classified as extrinsic to the individual. Some of the dissatisfiers may be:

- the working conditions
- relationships with colleagues, supervisors and subordinates
- wage
- security
- personal life
- administration.

In the motivational area there are two main levels: the principle or lack and the principal of progression. A need is being motivated as long as it is not satisfied, and regarding the progression the satisfaction of one need draws progressively to the satisfaction of another need that is situated on another level. First the needs of primary, physical level are present, the need of eating drinking, relaxing and sheltering. Once these are done the next level desires will show their presence, for example the need of belonging in a certain environment, once he/she belongs here he/she will feel the need of being present not only physical but all his values, capacities and merits to be recognized and finally the person will do anything as to perfect himself/herself and in the relation with the others. The need of security, harmony and family support are also present during this cycle.

For the manager of an organization, motivation is a type of encouragement that is focused to get an employee to perform in a desired manner. Managers can choose to be the motivators or satisfiers. The satisfier-style managers provide their employees with the basic needs of a job while motivator-style managers provide opportunities for individual and professional growth. Motivation is a crucial element for productivity in any type of organization. From the development of recognition and reward programs to understanding the role of an organization's culture, a manager can influence the potential of employee motivation.

In a comparative study made by Nevis<sup>230</sup> he showed that for example in the Chinese society there are taken into account only four categories of needs: social, psychological, security and self perfecting needs. Here the physiological needs are the most important ones, and the professional and personal recognition do not belong into the label. The need of self perfection is seen important not as an individual feature but as society's one, this is not an individual need, as it is said for the individual, but it becomes a requirement of the society.

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<sup>230</sup> E.C. Nevis, *Using an American Perspective in Understanding Another Culture Towards a Hierarchy of Needs for People's Republic of China*, The Journal of Applied Behavioral Science, nr.3/1983

Here we may add also Hofstede's approach which come the theory of the employees, so the inferior level employees may be rewarded using material stimuli while the superior level employees will be motivated by power, competition and cooperation.<sup>231</sup>

This hierarchy is influenced by the level of the country's development; in the high developed country the need of power is dominant while in the low development countries the motivating issue is the need of security. In the collectivistic countries the most motivating factor are; the conditions at the job, the interpersonal relations while in the individualistic ones important are: the need of power and recognition.

There is another theory of D.McClelland<sup>232</sup> and according to it there are three main bases in the motivation cycle: the need of personal standards, the need of power and the need of affiliation. The people that functions on the personal standards tend to wish for more and more power but in the same time they feel the failure feeling. On this level all they want is to have power and success, and the need of affiliation lacks here.

As a conclusion analyzing all the three theories it can be said that no matter how we are giving to organize and label the needs – important is the fact that we have them and all these must be satisfied. Also the progressive principle in satisfying the need is universally applicable. What is the fact that can not be omitted is that every culture gives a certain importance to the level of each category and this is according to the time of development and environment. So only a motivational program, as to be an efficient one, needs to be adapted to each culture.

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# THE ENGLISH FOR BUSINESS SYLLABUS AND ITS EFFECT UPON THE BUSINESS ENVIRONMENT

**Botez Nicoleta**

*Universitatea "George Bacovia", Bacau, Facultatea de Contabilitate si Informatica de Gestiune, Strada Pictor Aman, nr. 96, Bacau, nicoletabotez@yahoo.com, tel: 0740096778*

*Summary: The article aims to illustrate the importance of foreign language knowledge, especially English for business in building up a competitive business environment under the circumstances of the European integration and of the globalization. The success or the failure of a large or small and middle-sized enterprise depends, in a great extent, of how important it is nowadays to speak several foreign languages. Language skills are increasingly attractive to business and industry and valuable to students entering an ever more international and global workplace. Business English is also very important for the today's new business environment.*

*Key words: English for business syllabus, business culture, business performance, business meetings, business communication, globalization.*

## **English language and the business culture**

In a competitive business environment one need to be sure that his/her business is reaching its full potential. While there is no magic fix for unlocking business potential, did you know that building the language, literacy and numeracy skills of employees can have a significant impact on business operations.

In this changing world individual people carry on getting up and going to work and doing the best they can for themselves and for their families. For working people the challenge remains to manage diversity and change simultaneously. The European Union will continue to foster partnerships and joint ventures, mergers and acquisitions, within the territory and across borders.

Creating a global business culture takes place on many levels and in several timeframes. At senior executive level there may be a need to create a strategy for developing a business culture appropriate to global goals with measurable objectives and benchmarks. In the short term there may be an intermediate problem with dysfunctional multicultural teams. In between these extremes are skills such as negotiating across cultures and managing project teams. Your culture is changing all the time and will do so ever more quickly with the impacts of globalization and technological development. The question is not whether you want culture change but whether you want to manage it.

English is the accepted medium for international business transactions and the market for Business English courses and textbooks is booming. There is relatively little published and practice is materials rather than research-led. An interdisciplinary approach is called for to take account of language, interpersonal communication skills, business know-how and cultural issues.

People around the world conduct business meetings in English even though this language may be a foreign language to all those present. The language that they use will be neither as rich in vocabulary and expression, nor as culture-bound, as that used by native speakers, but will be based on a core of the most useful and basic structures and vocabulary. Businesspeople do not always need to know the full complexities of English grammar and idiom. Fine distinctions in meaning may not be important in a business context. On the other hand, in a Business English course some structural areas may require more attention than in a conventional course: for example, conditionals in negotiating, or modality for expressing possibility or politeness. There is consequently a need for syllabus designers to be selective when addressing the needs of Business English learners.

## **Business English Syllabus**

Business English is not only English for Specific Purpose (ESP) or an international language. It is not just specialist vocabulary, which distinguishes Business English) BE from other English courses. It is vital to be aware that the whole of business world (to be more precise - international business world) finds its

reflection and realization in Business English - its major communication asset. The English for Business syllabus is likely to be defined primarily in relation to business performance skills such as meetings, presentations, socializing, or report-writing. Within these skills areas, certain concepts are typically discussed and expressed: for example, describing changes and trends, quality, product, process and procedures strategy. These concepts can be broken down into more linguistically powerful functional areas such as comparing and contrasting expressing cause and effect, recommending, and agreeing. The language defined in the syllabus may include grammatical or lexical items, and elements of spoken or written discourse, including for instance, cohesive devices and stress and intonation patterns, as well as organizational features such as signaling a new topic or turn-taking in interactive sequences.

English is often called the unofficial language of the world community, which is no wonder when you consider that half of the world's scientific journals are written in English, three quarters of the world's mail is written in English and three fifth of the radio stations of the world beam their messages in the English language. English is the second most spoken language in the world but it is the official language of more countries than any other language.

Globalization, especially terms of trade, environmental policies, and oil politics, whether managed wisely or not, will also lead to shifts in the European business environment. Today's business environment is globalizing rapidly. The idea of the global village ("think global, act local") is becoming reality. Organizations are crossing borders and searching for strategies that take advantage of the new global opportunities. European unification is another factor stimulating cross-border business. This does not only affect multinationals, but also small and medium sized companies are strongly influenced by the process of globalization. In all cases, organizations are confronted with more complexity. Cross-cultural differences are an important part of this complexity and have an impact on business processes. The extent to which companies are able to cope with this new cross-cultural challenge is one of the key causes of success or failure. Technology has now created the possibility and even the likelihood of a global culture. The Internet, fax machines, Satellites, and cable TV are sweeping away cultural boundaries. Global entertainment companies shape the perceptions and dreams of ordinary citizens, wherever they live. This spread of values, norms and cultural tends to promote Western ideals of capitalism. Will local cultures inevitably fall victim to this global "consumer" culture? Will English eradicate all other languages?

English is rapidly becoming a global language in academia. At least 1,700 universities in countries with another host language offer master's degree programs in English, and an increasing number of schools have stepped up English-language requirements at undergraduate levels as well. Directors of these programs aim to prepare students "to be global leaders in this new era of internationalization", (New York Times, April, 2007) arguing that universal teaching language is a necessary and a "natural consequence of globalization". Today there are many varieties of Business English. The most important distinction to be made is that between pre-experience (or low experience) learners and job-experience learners. Students in colleges or universities will have gained their knowledge of business largely from books and, as a result, such knowledge will be incomplete and theoretical rather than practical. They will be less of their expectations of language learning will be molded by their experiences from school, and thus by the educational policies of the country in which they grew up. Job-experience learners are more likely to have a single set of needs relating to their job. The practical use of the language will be more important than theoretical knowledge about the language.

International businesspeople have a need to make contact with others whom they never met before, or know only slightly. Meetings are often short because businesspeople are pressed for time. There is a need for an internationally accepted way of doing things so that people from different cultures, and with different mother tongues, can quickly feel more comfortable with one another.

Social contacts are often highly ritualized. Formulaic language is used (in greetings and introductions, for example) in context of a routine pattern of exchanges. A certain style is generally adopted which is polite but also short and direct (taking into consideration the need to be economical with time). Although some situations may require more than this (for example, keeping a conversation going over lunch), the style and content of social interactions will be typified by a desire to build a good relationship while avoiding over-familiarity.

Business English is an area of ESP that is relatively poorly researched. Rigorous linguistic analysis is fragmented and is more frequently based on the written forms of language such as correspondence, annual reports, and articles in business journals. Some kinds of analysis have been carried out with respect to the



language of meetings and discussions, but there is still little to support course developers beyond their own first-hand experience gained in the field.

### **Achieving a sense of purpose within the business context**

The most important characteristic of exchanges in the context of business meetings, telephone calls and discussions is a sense of purpose. Language is used to achieve an end, and its successful use is seen in terms of a successful outcome to the business transaction or event. Users of Business English need to speak English primarily so that they can achieve more in their jobs. Business is competitive: competition exists between companies and also within companies, between employees striving to better their careers. It follows that performance objectives take priority over educational objectives or language learning for its own sake. For example, a German company in Seoul may have a long-term objective to establish good trading relations, and their representative's use of English is geared to that end. A French telecommunications project manager in India needs to know English to communicate with his technical terms on the site, who are all Indian. A Swedish pharmaceutical product manager needs to give clear presentations of recent product development to subsidiaries in Europe and the Far East. In each of these examples, the use of the language has an implied element of risk; mistakes and misunderstandings could cost the company dearly.

Most of the language needed by businesspeople (apart from social language) will be transactional: getting what you want and persuading others to agree. A significant amount of business is being lost to European enterprise as a result of lack of language skills. On the basis of the sample, it is estimated that 11% of exporting European SMEs (945,000 companies) may be losing business because of identified communication barriers. Analysis of the findings from the survey identified a clear link between languages and export success. Four elements of language management were found to be associated with successful export performance: having a language strategy, appointing native speakers, recruiting staff with language skills and using translators and interpreters. There could be very significant gains across the whole EU economy if all exporting English is a key language for gaining access to export markets. However, the survey results suggest that the picture is far more complex than the much-quoted view that English is the world language. Russian is extensively used in Eastern Europe as a lingua franca (along with German and Polish). French is used to trade in areas of Africa and Spanish is used similarly in Latin America longer term business partnerships depend upon relationship building and relationship-management.

### **Performance objectives for business English**

As already stated, one of the main characteristics of Business English is the emphasis on performance. For people in business, the priority is to be able to understand and get their message across, and for the majority of Business English learners many of the refinements of language are quite simply not relevant. What the majority of business learners need to acquire could be broadly summarized as follows:

- Confidence and fluency in speaking
- Skills for organizing and structuring information
- Sufficient language accuracy to be able to communicate ideas without ambiguity and without stress for listener
- Strategies for following the main points of fast, complex, and imperfect speech
- Strategies for clarifying and checking unclear information
- Speed of reaction to the utterances of others
- Clear pronunciation and delivery
- An awareness of appropriate language and behavior for the cultures and situations in which they operate.

Some learners may also need to develop practical reading and writing skills.

In Business English, these performance criteria need to be seen in the context of specific business situations which the learner will be involved in. If the requirements of a typical job are analyzed, it can be seen, for example, that the learner has to attend meetings which are carried out in English and that he or she has to follow what is going on and be able to make a contribution.

As a conclusion we may state that there is a strong relation between language skills, cultural competence and exporting performance. In contemporary business environment foreign language skills are prerequisite for success of young business people and their companies. Every professional, from scientists to engineers, to nurses, to businessmen etc, function in a global market: they rely on primary sources published in other languages, attend international conferences, and often find themselves interacting across national, cultural, and linguistic borders. Government and industry often give preference to job applicants who are proficient in one or even more foreign languages. More and more companies are competing in the global market place, which means there is a growing demand for managers with an international outlook. Graduates with knowledge of foreign countries and their business cultures, that are proficient in foreign languages, have an edge.

Business English is certainly language: vocabulary, grammar, functions, but also content: marketing, management, finance, etc., besides, it is communication skills: telephoning, correspondence, meetings, presentations, etc., and cultural awareness of social and business behaviour. A complete novice in TBE (Teaching Business English) is at risk to conclude that his concern is just the language part. This is a very serious mistake. The four parts are inseparable and cutting down any of them leads to no new acquisition in the field. One should try to enter this new world and make it his own. It is BE with its communicative and thematic comprehensiveness, reflecting every sphere of human international business relations, which can stimulate a new spiral in the development (and self-development) of an EFL teacher of a new generation in this country. The business environment comprises three major categories of -n-workers: managers, executives and clerical staff. A well designed English for Business syllabus will address separately to the three categories mentioned above because they all have different responsibilities, and as a result, they can be expected to have different needs as BE learners.

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# NÉOLOGISMES ÉCONOMIQUES DANS LA PRESSE ITALIENNE D'INFORMATION GÉNÉRALE

Catarig Andra Teodora

Universitatea din Oradea, Facultatea de Științe Economice, Str. Universității nr. 1, Oradea, cod 410087  
acatarig@uoradea.ro, 0259-408799

*The written press is a continuously evolving organism, playing an important part in spreading the linguistic patterns. It is the privileged support of innovation, because it presents accurate facts, takes over the innovations from the specialized language and meanwhile it creates new words out of the necessity of naming the new objects, concepts and phenomena, but even out of stylistic reason or out of their desire to captivate the readers.*

*In the present paper we define our goal as being the identification and the description of neologisms present in the economic section of two Italian daily newspapers of general interest, Corriere della Sera and La Repubblica. This section defines itself through a great number of neologisms in comparison to the other sections. Some of them have immediate success and enter the common language, being immediately recorded in the dictionary; others are ephemeral, closely connected to certain events with no implications and that don't start another series of events.*

*Discours médiatique, néologie, formation des mots*

## Introduction

Jusqu'au début des années 1970, en Italie l'information économique était diffusée uniquement par la presse spécialisée, notamment par quatre quotidiens : *Il Sole*, *24 Ore*, *Il Globo*, *Il Fiorino*. En 1956, *Il Giorno* de Milan introduit la page *Économie*, comme section autonome du quotidien. Vers la moitié des années 1970 on assiste à deux grands événements: en 1976, à Rome, naît le quotidien *La Repubblica*, qui va s'imposer et devenir en 2007 le quotidien d'information générale le plus lu par les Italiens et qui réserve dès le début une place distincte à l'information économique ; en 1972 Piero Ottone est nommé directeur du *Corriere della Sera* et, parmi les changements qu'il a opérés, nous devons mentionner la création de la section *Économie*.

On assiste en même temps à la formation d'une nouvelle catégorie de journalistes spécialisés. Ces journalistes ne se limitent pas à relater les événements, mais cherchent à comprendre et à interpréter la signification des événements, en voulant attirer la part du public qui s'intéresse à l'information économique.

Leur écriture doit respecter les mêmes exigences de lisibilité, de clarté, de précision et de crédibilité que les autres sections du journal. Cela s'avère difficile, étant donné que les pages consacrées à l'information économique sont imprégnées de beaucoup de termes de spécialité et d'un nombre plus grand de néologismes que les autres sections, à l'exception des pages consacrées à la science et aux nouvelles technologies. D'ailleurs, le domaine même de l'économie est extrêmement dynamique et novateur. Ainsi, l'écriture de la section *Économie* est assez opaque pour le lecteur commun.

Les néologismes naissent du besoin réel de nommer les nouveaux objets, concepts, phénomènes, car la société est en permanente transformation et les progrès enregistrés dans le domaine de l'économie sont significatifs. Auprès du lexique spécialisé de la discipline, nous retrouvons dans la presse écrite les paroles créées par les hommes politiques et les hommes d'affaires. Parmi les causes de l'apparition de nouvelles unités lexicales nous devons également mentionner le désir d'enrichir la langue ou la prédilection pour les jeux de mots et les allusions.

La fortune qu'aura le néologisme dépend du besoin réel du terme et de sa force expressive. Le premier contact avec le néologisme peut être plaisant ou désagréable, mais ces effets s'atténuent avec le temps. Ainsi, certaines paroles s'intégreront dans la langue, d'autres seront oubliées.

## Corpus et méthode

Nous avons choisi un corpus formé de trois numéros du quotidien *La Repubblica* et de trois numéros du *Corriere della Sera* et nous avons identifié les néologismes des sections *Economia*, *Economia e politica*, *Finanza & Mercati*, *Imprese & Mercati* (R) et *Economia* (CdS).

Nous mentionnons dans notre travail les néologismes qui ne sont pas encore enregistrés dans les dictionnaires *Zingarelli*, *Sabatini & Coletti* et dans la version en ligne du dictionnaire *Garzanti* et ceux qui ont été récemment enregistrés. L'entrée dans un dictionnaire équivaut à la reconnaissance officielle du terme et peu à peu, le néologisme n'est plus senti comme tel.

Les exemples sont accompagnés de la citation des passages où ils figurent et de l'explication de leur mode de formation.

## Les néologismes – définitions et fonctions

Ainsi qu'il résulte de l'étymologie du terme *néologisme* (*néo*, nouveau et *logos*, parole, discours) et conformément aux définitions données par les linguistes, le néologisme est un *mot nouveau* ou un *sens nouveau d'un mot qui existe déjà dans la langue*. Dans le premier cas nous avons affaire à la *néologie formelle*, dans le second à la *néologie sémantique*.

« Il neologismo è una parola o un'espressione nuova, non ancora registrata nei dizionari, che può avere origine da parole già in uso – talvolta combinandone insieme più d'una – o essere prelevata dal lessico di altre lingue, nella sua forma originaria o in una adattata. Anche un significato nuovo attribuito a parole già esistenti può essere considerato un neologismo, così come termini nati in ambito regionale o specialistico possono rifluire nel lessico dell'uso comune, arricchendolo e rinnovandolo costantemente. » (Adamo, Della Valle, 2005 : V)

Selon Pruvost et Sablayrolles la nouveauté consiste dans les rapports entre signifiant, signifié, et référent.

« Le néologisme est un signe linguistique comme les autres associant un signifié (sens) et un signifiant (forme) renvoyant globalement à un référent, extralinguistique. La nouveauté dans un ou plusieurs de ces trois pôles du triangle sémiotique modifie leurs rapports et affecte le signe dans son ensemble. » (Pruvost et Sablayrolles, 2003 : 54)

En donnant des exemples pour la langue française, ils envisagent quatre cas de néologie:

1. une nouvelle forme et un nouveau sens (on ressent le besoin de trouver une dénomination pour une nouvelle réalité)
2. un nouveau sens pour une forme existante (le mot *souris* acquiert un nouveau sens dans le vocabulaire de l'informatique)
3. une forme nouvelle pour un sens ancien (*sponsor* remplace *commanditaire*)
4. la réintroduction de formes (l'ancienne forme *retoquer*, ayant le sens de « refuser, rejeter », est actuellement employée pour des lois ou règlements qui doivent être améliorés) et ils remarquent le fait que le locuteur n'a pas toujours conscience d'émettre une nouvelle unité lexicale.

Quand ils sont volontaires, les néologismes reflètent un objectif stratégique du locuteur. Ainsi, Pruvost et Sablayrolles identifient trois fonctions des néologismes:

1. *une fonction d'appel*, fondée sur le fait que la singularité des néologismes focalise l'attention du lecteur. En effet, les deux linguistes affirment que le nombre assez grand des néologismes présents dans les titres ou sous-titres des journaux a le rôle d'inciter le lecteur à lire le contenu de l'article.
2. *des fonctions argumentatives*. En employant un néologisme, son créateur essaie d'agir sur l'interlocuteur. Par exemple, en inventant la dénomination d'un nouveau produit on veut induire une interprétation positive et en même temps on cherche à faire acheter le produit par le consommateur.

3. *des fonctions relationnelles*. Les néologismes servent parfois à établir une connivence avec l'interlocuteur. On emploie expressément un mot inventé au lieu du mot attendu, pour créer un certain effet ou pour provoquer une réaction de la part de l'interlocuteur.

L'emploi des néologismes peut se révéler bénéfique. Une unité lexicale nouvelle peut remplacer une périphrase plus longue et lourde. Le locuteur économise ainsi ses efforts et le néologisme arrive à combler une lacune du lexique.

Les néologismes constituent parfois la *marque identitaire* du locuteur. Les journalistes de la presse écrite forgent des néologismes qui deviennent par la suite leur marque. Nous en donnons seulement quelques exemples: Michele Serra forge *bioestetico*, *davantologico* (devant les yeux de tous), *leccascarpe* (adulateur), Ernesto Galli invente *sociologizzare* (considérer d'un point de vue sociologique), Umberto Eco appelle les conflits contemporains *neo-guerra*.

## Les modes de création

L'italien est une langue moderne qui s'enrichit continuellement tant par des **procédés internes** (la dérivation et la composition) que par des **procédés externes** (emprunts aux langues étrangères).

**A. La dérivation** est le mécanisme le plus utilisé en italien pour former de nouveaux mots. Elle comprend :

- **la préfixation**, qui consiste dans l'ajout d'un affixe devant une base (*capace* → *incapace*).
- **la suffixation**, qui consiste dans l'ajout d'un affixe après une base (*fiore* → *fioraio*).

**La préfixation** ne modifie pas la classe grammaticale (à l'exception du préfixe *anti-* et des dérivés parasyntétiques) et de ce fait elle ressemble à la composition. Alors que le suffixe n'est jamais autonome, le préfixe peut l'être. Il y a des cas où il peut être préposition, adverbe ou conjonction (*con*, *contro*, *sotto*, *non*) et des cas où il acquiert une valeur adjectivale (*super*).

Dans notre corpus nous remarquons la prédilection des journalistes pour les préfixes *anti-*, *contro-*, *super-*. D'ailleurs, ces préfixes ont un très haut degré de productivité en italien contemporain.

Le préfixe *super-* apporte l'idée de supériorité, d'excès.

**supereuro**, s.m., euro fort

- dérivé de *euro* avec l'ajout du préfixe *super-*

[art.] Più indirette le ricadute del supereuro sui bilanci delle famiglie [...]. (R, 28/04/07, p. 42)

Ces préfixes s'ajoutent également à des mots étrangers :

**supermanager**, s.m., manager ayant des pouvoirs très grands

- dérivé de *manager* avec l'ajout du préfixe *super-*

[art.] Non molto, per un supermanager che a Crédit Suisse First Boston aveva guadagnato oltre 200 milioni negli anni d'oro della « new economy ». (CdS, 25/03/08, p. 31)

**La suffixation** est un des procédés les plus productifs de la langue italienne. En ajoutant un suffixe on peut changer de catégorie grammaticale. À partir d'un verbe on crée un nom ou un adjectif, à partir d'un nom on crée un verbe ou un adjectif, etc.

**La transformation  $N \rightarrow V$**  est très productive.

**calendarizzare**, v.t., établir la date d'un événement (enregistré par les dictionnaires Zingarelli et Sabatini & Coletti, I-ère attestation : 1985)

- dérivé de *calendario* + le suffixe *-izzare*

[art.] La sortita di Rutelli [...] giunge in vista della ripresa del dibattito in commissione del disegno di legge delega ex rendite finanziarie calendarizzato per l'aula di Montecitorio a fine maggio. (R, 28/04/07, p. 40)

**La transformation  $N \rightarrow N$**  est proche de l'altération.

**tesoretto**, s.m., « petit trésor », argent provenant d'un surplus de recettes, de rentrées fiscales inattendues, qui sont le résultat de la lutte contre l'évasion fiscale.

- dérivé de *tesoro* + le suffixe *-etto*. Le suffixe *-etto* n'a plus sa valeur habituelle de suffixe diminutif.

[art.] Riferendosi a quello che nel dibattito di politica economica è stato battezzato il « tesoretto », Rutelli ha precisato che « la priorità è ridurre il debito » ma che l'extragetito « può essere impiegato anche per la riduzione dell'Ici sulla prima casa ». (R, 28/04/07, p. 40)

[art.] Motivo in più per il presidente del Consiglio e il ministro dell'Economia di riflettere sulla distribuzione del tesoretto. (CdS, 24/07/07, p. 33)

#### **La transformation Adj → N**

**automotoristico**, adj, qui se réfère aux automoteurs

- dérivé de l'adjectif *automotore* + le suffixe *-istico*.

[art.] Poi sì, il presidente avverte anche che « occorre stare sempre con i piedi per terra, non dimenticare mai quanto siano difficili mercato e business automotoristico ». (CdS, 24/04/07, p. 31)

#### **La transformation V → N**

**australianizzazione**, s.f., la modification de la structure du capital de la compagnie Rio Tinto, pour que 51% du capital soit coté en Australie.

- dérivé de *australianizzare* (lui même obtenu de *australiano* + *-izzare*) + le suffixe *-zione*.

[tit.] Bhp Billiton e la « australianizzazione » di Rio Tinto (R, 03/12/07, p. 16)

#### **La transformation V → Adj.**

**autorizzativo**, adj., concernant l'assurance (enregistré par le dictionnaire Zingarelli, I-ère attestation : 1985)

- dérivé du participe passé du verbe *autorizzare* + le suffixe *-ivo*.

[art.] In passato, però, ci sono stati « blocchi normativi » di altro tipo, dall'incertezza sui finanziamenti pubblici (come nel caso di Pedemontana) ai blocchi autorizzativi. (CdS, 29/04/07, p. 24)

**Les parasythétiques** sont des unités formées d'un préfixe, d'une base et d'un suffixe : *impoverire*, *sdoganare*. Ces formations ont encore une certaine vitalité en italien contemporain.

**B. La composition** suppose l'union de deux unités lexicales pour en former une nouvelle. Selon M. Dardano (1978 : 141), la composition représente le grand réservoir dans lequel l'italien moderne puise pour renouveler de l'intérieur son patrimoine lexical.

**Les mots composés stricto sensu**, c'est-à-dire la composition avec des éléments italiens :

La séquence typique de l'italien est le type *déterminé* + *déterminant* : le second élément détermine le signifié du premier.

**Les composés N + A** proviennent de la transformation d'une phrase prédicative avec le verbe *essere* :

**auto blu**, s.f., les véhicules destinés au transport des représentants des institutions (enregistré par le dictionnaire Zingarelli, I-ère attestation : 1980)

[tit.] Rutelli: avanti tutta con il taglio dell'Ici. Il Tesoro dimezza le spese per le auto blu. (R, 28/04/07, p. 40)

### **La composition néoclassique :**

Il s'agit d'un type particulier de composition, qui utilise des éléments savants (d'origine grecque ou latine) ou pseudo-savants, nommés *confissi*, *semiparole* ou *prefissoidi* et *suffissoidi*, en fonction de la position qu'ils occupent dans les mots composés. D'habitude, ces éléments ne sont pas libres, ils apparaissent seulement dans les mots composés, même si dans les langues d'origine ils étaient des mots pleins. Dans ce type de composition l'ordre traditionnel *déterminé* + *déterminant* est inversé ; nous remarquons donc l'antériorité du déterminant, propre au latin, au grec et aux langues germaniques. De plus, ce type de mot composé ne se limite pas à deux éléments. Certains éléments développent des sens particuliers, différents

de ceux qu'ils avaient dans les langues d'origine. Ainsi, l'élément d'origine grecque *-poli (ville)* est actuellement utilisé dans le langage journalistique avec le sens de « *scandale* » : *affittopoli*.

Dans le langage journalistique les couples *maxi-/mini-*, *macro-/micro-* sont particulièrement productifs. Ces éléments expriment des signifiés augmentatifs ou appréciatifs, diminutifs ou péjoratifs.

**maxiprestito**, s.m., un emprunt de très grandes dimensions

- composé par l'élément *maxi-*(< lat.) et le substantif masculin *prestito*  
[soustit.] Jp Morgan quintuplica l'offerta. Maxiprestito dalla Fed. (R, 25/03/08, p.22)

**micro azienda**, s.f., entreprise de petites dimensions

- composé par l'élément *micro-* (< gr.) et le substantif féminin *azienda*  
[art.] Sono micro aziende, fornitori e subfornitori, che a Napoli o nella provincia di Prato (trasformata in un fortino di clandestinità per lavoratori cinesi sfruttati giorno e notte), sono pronte a modo loro a dare un contributo al successo delle griffe. (R, 03/12/07, p.17)

Il faut signaler également d'autres éléments productifs : *multi-* (d'origine latine), *auto-*, *eco-*, *tele-* (d'origine grecque).

Nous mentionnons la fréquence élevée des mots composés avec les éléments *caro* et *euro*:

**caro-euro**, s.m., croissance de la valeur de la monnaie européenne

- composé par l'élément *caro-* et le substantif masculin *euro*  
[art.] In Italia poi il caro-euro amplifica i suoi effetti: è un toccasana sul fronte energetico [...]. (R, 28/04/07, p. 42)

**eurogruppo**, s.m., groupe politique représenté dans le Parlement européen (enregistré dans Adamo & Della Valle, 2005 : 173)

- composé par l'élément *euro-* et le substantif masculin *gruppo*  
[art.] Il confronto nell'Eurogruppo sarà fondamentale, è probabile che arrivi la richiesta di lasciare, per ora, i tassi invariati al 4%, per poi decidere una nuova stretta della politica monetaria agli inizi del 2008. (R, 03/12/07, p. 10)

**eurozona**, s.f., ou **zona euro**, le nouvel espace monétaire européen (enregistré par le dictionnaire Zingarelli, I-ère attestation : 1998)

- composé par l'élément *euro-* et le substantif féminin *zona*.  
[art.] Resta il fatto che in tutta la zona euro la spesa è diminuita (in media dal 47,5 al 47,4% del pil). E che nell'eurozona solo in Italia e Francia (53,5%) lo Stato si mangia più di metà della ricchezza nazionale [...] (CdS, 24/04/07, p. 33)

### C. La troncation et la siglaison

L'italien contemporain a développé une série de mécanismes de réduction de paroles ou de locutions :

**La troncation** suppose la réduction des unités polysyllabiques.

**coop[erativa]**, s.f.

- [surtit.] Il network delle coop europee ha rilevato l'80 di Palink (R, 03/12/2007, p. 16)

**La siglaison** comprend les sigles et les acronymes.

**Le sigle** est formé des lettres initiales des éléments d'un syntagme plus ample. On obtient les formations suivantes :

- lettres majuscules séparées par des points
- seule la lettre initiale est majuscule (*Bce* = Banque centrale européenne)
- toutes les lettres sont minuscules (*ddl* = disegno di legge, *cda* = consiglio d'amministrazione, *ad* = amministratore delegato)

D'habitude la première occurrence d'un sigle est expliquée entre parenthèses. Quand le sigle n'est pas suivi d'une explication, il est déjà connu par la majorité des lecteurs: par exemple, les sigles des Institutions européennes (*Bce*), ceux des partis politiques (*DS*), etc.

Il arrive parfois que les sigles employés fréquemment par les spécialistes ne soient pas expliqués ; le lecteur habituel a du mal à en identifier l'origine. La difficulté de décoder le sigle provient également du fait que l'italien emprunte des sigles anglo-américains :

*ceo* (chief executive officer) = direttore generale (CdS, 24/04/07, p. 30)

Dans le langage journalistique, les sigles des partis politiques servent également à indiquer les membres des partis : *il diesse*, avec le dérivé *diessino*.

**Les acronymes** sont formés des lettres ou des parties des mots qui composent un syntagme :

*Istat* = Institut Central de Statistique Italien

*Eurostat* = Office Statistique des Communautés Européennes

*ipo* = offerta pubblica iniziale (une introduction en bourse), provient de l'anglais *Initial Public Offering*.

➤ [surt.] L'ipo (CdS, 25/03/08, p. 35)

*Ifo* = Institut für Wirtschaftsforschung (Institut de recherche économique)

➤ [tit.] « Riforme in ritardo ». L'Ifo critica la Merkel (CdS, 24/04/07, p. 24)

**D. Les mots-valises** combinent des fragments de mots qui ont une partie de signifiant commun. Ils sont fréquents dans le langage économique.

*infotainment*, s.m., anglicisme formé de *information* et *entertainment*, info-spectacle. (enregistré par le dictionnaire Zingarelli, 1-ère attestation : 1991)

➤ [art.] Suo padre è Rupert Murdoch, il re dell'« infotainment », e suo marito è Matthew Freud, barone delle relazioni pubbliche [...] (CdS, 25/03/08, p. 35)

### E. Les locutions

Les néologismes de combinatoire lexicale sont des séquences à l'intérieur desquelles on ne peut pas insérer d'autres éléments. En italien le type le plus fréquent est formé de *nom + préposition + nom* : *stile di vita*, *addetto alle vendite*.

### F. L'emprunt

Les nouveautés peuvent être empruntées à d'autres systèmes linguistiques. L'italien importe massivement de l'anglais. Les emprunts apparaissent surtout dans les pages spécialisées des quotidiens : dans la section consacrée à la science et à la technologie, dans celle dédiée à l'économie, etc.

Selon Carmelo Scavuzzo (1992), grâce à leur présence massive dans le langage financier, les anglicismes en constituent le trait le plus frappant. Les journalistes spécialisés les manient avec une maîtrise particulière.

Nous remarquons qu'auprès des anglicismes importés dans les années 1970-1980, tels que : *holding*, *pool*, *joint venture*, *boom*, *leader*, il y en a toujours d'autres qui s'imposent : *target*, *board*. Pour de nombreux termes anglais il y a un équivalent en italien, mais les journalistes préfèrent utiliser le terme étranger, surtout dans les articles consacrés aux événements du marché international. Ils obtiennent ainsi un effet particulier. Nous indiquons seulement un petit nombre de termes extraits des quotidiens analysés :

*asset* – *attività*, *attivo*

*authority* – *autorità*

*board* – *consiglio d'amministrazione*

*corporation* – *corporazione*

*corporate governance* – *direzione d'azienda*

*decoder* – *decodificatore*

*hostess* – *assistente di volo*

*network* – *rete*

*outsourcing* – *esternalizzazione*

*shopping mall* – *centro commerciale*

*short list* – *elenco ristretto*



*top manager – amministratore delegato*

*utility – servizi di pubblica utilità*

*vendita on line – vendita in linea*

Le journaliste peut utiliser exclusivement le terme anglais :

**public company** – *società per azioni quotata in borsa*

- [tit.] En plein dei fondi alla Parmalat. Bondi: una vera public company
- [art.] Noi siamo una public company a capitale diffuso e con un capitale che partecipa attivamente alla vita della società. (CdS, 29/04/07, p. 23)

Pourtant, il y a des cas où dans le titre le journaliste utilise le mot anglais et dans le corps de l'article l'on trouve le mot italien: **Authority** – *Autorità*

- [tit.] L'Authority: via l'Iva sul nucleare dalla bolletta
- [art.] Ed è quello che chiede al governo e al Parlamento l'autorità per l'Energia presieduta da Alessandro Ortis. [...] Secondo l'Autorità non dovrebbero quindi essere assoggettati all'Iva, che invece grava mediamente per il 13,3%. (CdS, 24/04/07, p. 31)

Nous indiquons aussi des termes pour lesquels il n'y a pas d'équivalent italien ou bien dont l'explication serait trop longue pour être utilisée dans les pages de journal:

*hedge fund* = *fond d'investissement hedge* (R, 03/12/07, p. 11)

*stranded cost* = *costi non recuperabili del mercato elettrico (coûts non récupérables du marché de l'électricité, coûts non compétitifs)* (CdS, 24/04/07, p. 31)

Par l'intermédiaire de la presse, certains anglicismes arrivent à passer dans la langue commune (*broker, business, manager, target*). Après une certaine période de temps, ils entrent dans les dictionnaires.

Certains termes anglais reflètent les réalités de l'économie anglaise ou américaine (*il mercato dei subprime*), d'autres termes sont empruntés au moment où l'économie italienne adopte l'objet ou le phénomène en question :

*un contratto « spot »* = *un contrat au comptant qui prévoit la livraison immédiate des biens*

- [soustit.] Un contratto « spot » per Asm-Aem-Hera
- [art.] Con un contratto « spot » della durata probabilmente di 12-18 mesi [...]. (CdS, 24/04/07, p. 29)

Nous avons identifié très peu de calques :

**ambientalista** – écologiste, environnementaliste (enregistré par le dictionnaire Zingarelli, I-ère attestation : 1984)

- dérivé de *ambientale* + le suffixe *-ista*, c'est en fait un calque de l'anglais *environmentalist*
- [surtit.] Esce il libro dell'ex leader ambientalista divenuto banchiere. (CdS, 25/03/08, p.35)

**advisor legale** (< legal adviser) – avvocato

- forme hybride, formée du substantif anglais *advisor* + la traduction en italien de l'adjectif
- [art.] La riunione presieduta da Roberto Mazzotta [...] e alla quale hanno preso parte 18 consiglieri su 20, gli advisor e i consulenti legali dello studio Lombardi è iniziata intorno alle 10.30 ed è terminata alle 14. (CdS, 29/04/07, p.23)

Nous signalons aussi des emprunts au japonais, par l'intermédiaire de l'anglais :

**tycoon** – un magnat ou un grand entrepreneur dans le domaine de l'industrie, du commerce, des finances.

- attesté pour la première fois en 1975, cet emprunt est signalé par les dictionnaires Zingarelli, Sabatini & Coletti et Garzanti on line.
- [surtit.] La mossa di Elisabeth, figlia del tycoon e sposata al nipote di Freud. (CdS, 25/03/08, p.35)

La parenté lexicale de l'italien et du français fait en sorte que les emprunts à cette langue soient aisément adaptés. Pourtant, dans notre corpus il n'y a aucune occurrence récente. Nous avons trouvé un seul terme, attesté en italien depuis 1986 : *capi griffati* (*griffato* = dérivé de *griffe* + *-ato*) (R, 03/12/2007, p. 17).

Quant aux néologismes sémantiques, nous avons trouvé un seul cas : *Il Leone*, l’emblème de la compagnie d’assurances *Generali*, est employé pour désigner la compagnie :

- [surtit.] Il Leone concentrerebbe le attività nell’area. Convocato per giovedì un consiglio straordinario della compagnia, sabato l’assemblea per la nomina dei vertici.

[art.] Il Leone avrebbe battuto i concorrenti più agguerriti [...] (CdS, 24/03/08, p.29)

## Conclusion

Par l’intermédiaire de la presse, les termes économiques, connus par un nombre restreint de spécialistes, arrivent à s’intégrer dans le langage commun. Le journal constitue donc un moyen de diffusion du lexique de spécialité.

De plus, chaque numéro du journal apporte de nouvelles créations, sur la base des termes existants dans la langue ou bien en empruntant à des langues étrangères, surtout à l’anglais. Nous avons donné des exemples extraits des quotidiens les plus lus par les Italiens.

Les journalistes italiens ont la tendance à transformer tout en spectacle : ils reprennent les termes inventés par les hommes politiques (*tesoretto*), ils utilisent des termes anglais à la place du terme italien équivalent (*authority*), ils créent des néologismes occasionnels (*australianizzazione*) en partant des possibilités virtuelles que leur offre la langue.

Les néologismes, utilisés surtout dans les titres et les surtitres, induisent une charge émotionnelle particulière, qui incite à la lecture de l’article. De même, l’emploi d’un terme anglais à la place du mot italien équivalent peut avoir des explications d’ordre affectif. Dans le corps de l’article, les néologismes servent à construire un message concis, ayant un impact très fort sur le lecteur.

D’autre part, les sigles et les anglicismes non adaptés, qui apparaissent avec une fréquence très élevée dans les pages consacrées à l’économie, ont parfois comme conséquence le fait que le langage devient opaque pour le lecteur non avisé.

Le phénomène le plus frappant reste l’emprunt à l’anglais. Une grande quantité d’anglicismes entrent dans la langue italienne et la plupart de ces formes sont des substantifs. Le style nominal est d’ailleurs une des principales caractéristiques du langage journalistique. Nous avons remarqué que la tendance actuelle est de ne plus adapter les emprunts à la langue italienne. Une possible explication en serait la rapidité avec laquelle le message doit être transmis : par conséquent, les journalistes n’essaient plus de traduire les mots et les expressions provenant de l’anglais. Une autre explication consiste dans le fait que les spécialistes en économie utilisent les termes anglais, empruntés par nécessité, et les médias les transmettent tels quels.

Le langage journalistique subit en permanence des transformations, c’est pourquoi les résultats d’une recherche synchronique ne peuvent jamais être donnés comme étant définitifs.

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# L'INTERCOMPREHENSION LINGUISTIQUE DANS LE CONTEXTE D'UNE EUROPE MULTICULTURELLE

Constantin Felicia

*Universitatea Oradea, Facultatea de Stiinte Economice, Str. H.Ibsen nr.3, bl.AN2, ap.7, Oradea, Email: fconstantin@uoradea.ro, Tel. +40723.089104*

*Dans le contexte de l'élargissement de l'Europe et de la disparition des frontières, le problème des langues nationales se pose avec insistance. Des projets et des études cherchent à trouver des solutions à la problématique linguistique de l'Europe. Le plurilinguisme, le multilinguisme, l'espéranto ou l'intercompréhension linguistique sont des solutions envisagées pour répondre aux défis soulevés par la coexistence des 23 langues nationales, les langues officielles de l'Europe.*

*multiculturalisme, langues, intercompréhension*

## Considérations générales

L'idée d'une langue parfaite a obsédé l'humanité depuis des siècles. L'Europe d'autrefois, « une mosaïque de nations », a vécu de bonne heure le drame de la fragmentation des langues, ressentie comme « l'effet tragique d'une malédiction divine ».<sup>1</sup>

L'ambition de l'une ou de l'autre des langues de se constituer en langue unique de l'Europe est allée de pair avec les événements historiques, qui ont déterminé des transformations sur le plan économique et social. La diffusion d'une langue a été tout d'abord le résultat d'une influence politique – à voir le cas de la France, considérée pendant longtemps comme un noyau linguistique – mais aussi le résultat d'une reconnaissance tacite, qui tient aux « subtils mécanismes de culture de masse, que cette langue-là est influente, puissante, désirable »<sup>2</sup> et par conséquent, doit être étudiée.

Le multilinguisme est donc *la conséquence* de quelques phénomènes historiques, de la mobilité géographique, de la coopération entre les États, du tourisme de masse ou de la diversité des chaînes média, mais aussi *un facteur favorisant* de ces relations et transformations.

R. Simone évoque l'étude de Claude Hagège, Le Souffle de la langue, en se montrant critique à l'idée qu'il y a des langues capables d'attirer l'attention des autres peuples et de les fédérer autour d'elles. Mettant au premier plan le problème de l'hégémonie des langues, le chercheur français considère que les deux langues qui pourraient prendre les commandements de l'Europe de demain seraient l'anglais et le français. Hagège montre d'ailleurs dans le célèbre déjà Halte à la mort des langues que l'idée de souche darwinienne de la lutte pour la vie dépasse le milieu naturel et s'étend aussi à la linguistique<sup>3</sup>. Les langues qui disposent de moyens résistent à la pression de la concurrence pour la domination, une lutte appauvrissante dans laquelle la victoire de l'anglo-américain pourrait cependant être relativisée (vu les 900 millions de locuteurs qui parlent le chinois mandarin, les 125 millions de parleurs d'arabe, les 266 millions de parleurs d'espagnol ou les 170 millions de personnes parlant le portugais)<sup>4</sup>. Malgré cela, la diversité des langues reste un motif d'émerveillement pour les linguistes et pour ceux qui n'ont pas peur de les apprendre.

Si la relation inter-langues s'est établie sur des positions asymétriques groupe dominant – groupe dominé<sup>5</sup>, le nouveau contexte européen unificateur et pacifiste remet les langues, au moins en intention et théorie, sur un plan d'égalité.

En 2008 l'Union Européenne a 27 États membres et 23 langues officielles, réglementées par l'art I-3 du Projet de la Constitution Européenne qui précise que « l'Union respecte la richesse de sa diversité culturelle et linguistique et veille à la préservation et le développement du patrimoine culturel européen »<sup>6</sup>

## Le besoin de l'intercompréhension

D'après Jean Zinck, l'ancien directeur du Bureau des Traducteurs de Bruxelles et directeur honoraire de la Commission Européenne, la coordination du gigantesque mécanisme qu'est l'Union Européenne, présuppose la communication permanente au sein des commissions de travail. Étant donnée la diversité linguistique des participants aux débats, consultations et négociations, un énorme appareil d'interprètes et

traducteurs doit être mis en marche à Bruxelles, devant faire face à des centaines de combinaisons possibles entre les langues officielles.

La possibilité d'une langue privilégiée est exclue, car elle infirmerait l'idée de l'égalité des langues, tout comme l'introduction d'une langue artificielle unique présenterait le risque de l'appauvrissement et de la simplification.<sup>7</sup>

L'idée n'est pas partagée par François Grin, professeur à l'Université de Genève, qui présentait en 2005 un rapport établi à la demande du Haut Conseil de l'Évaluation de l'École. Le Rapport Grin<sup>8</sup> aborde le problème de « L'enseignement des langues étrangères comme politique publique » et identifie trois scénarios possibles pour la situation linguistique de l'Europe.

Le scénario 1 «tout-à-l'anglais» se caractérise par une communication interlinguistique menée essentiellement en anglais; cette option engendre cependant des inégalités en faveur des locuteurs natifs de cette langue et les risques accrus d'érosion à terme de la diversité linguistique et culturelle. Le scénario 2, «plurilinguisme» consiste d'après Grin dans une communication interlinguistique en diverses langues européennes, gravitant vers un petit nombre de « grandes » langues, notamment les trois langues privilégiées par hypothèse (anglais-français-allemand); la diversité linguistique et culturelle est plus affirmée, mais elle entraîne le risque d'instabilité et la nécessité de prendre des mesures ciblées pour favoriser les contextes communicationnels en langues nondominantes, autres que l'anglais. Conformément au Scénario 3 «Espéranto» la communication interlinguistique se ferait essentiellement en espéranto ce qui déterminerait une égalité quasi complète entre locuteurs quelle que soit leur langue maternelle. De toute manière, même pour les pays qui n'ont pas l'anglais, le français ou l'allemand comme langue maternelle, le choix devrait se faire dans la triade *anglais-français-allemand*. L'option de l'auteur va indiscutablement vers le dernier scénario, dont les enjeux symboliques mais surtout financiers constitueraient des arguments incontournables.

Dans ce contexte de diversité et de débat, la maîtrise d'un plus grand nombre de langues étrangères est l'élément déterminant pour l'entente entre les européens, pour leur avenir politique, social et culturel. Mais on sait que l'apprentissage d'une langue étrangère est le résultat des nombreuses heures d'étude et de pratique. C'est pourquoi les spécialistes se sont dirigés vers la recherche d'une nouvelle méthode, qui permette l'accès rapide non seulement à une mais à plusieurs langues étrangères : il s'agit d'une méthode qui concerne l'intercompréhension des langues ou bien « la sensibilisation à la compréhension multilingue »<sup>9</sup>

Cette démarche se propose l'entraînement de la compréhension et n'a pas l'ambition de déterminer l'apprentissage d'une autre langue, dans l'esprit classique de la didactique des langues étrangères: réception, compréhension et production de messages oraux et écrits.

M. Slobodzian identifie les valences novatrices de cette limitation pédagogique, en ce qui concerne la conception sur la langue dans le processus d'apprentissage, les stratégies pédagogiques et les sujets. Dans sa vision, l'accès à un certain niveau de compréhension d'une ou de deux langues à travers le miroir de celle-ci éloigne l'obsession du « tout ou rien », en offrant le droit à l'approximation, dans un contexte où l'élève se fonde sur ce qu'il connaît déjà et a une vision sur la réussite: le droit à une connaissance imparfaite, approximative d'une ou de plusieurs langues, qui le stimulent souvent à approfondir son étude.

Deux victoires importantes sont, pour Françoise Ploquin<sup>10</sup>, le dépassement de l'obstacle temps et l'acquisition de la compréhension (partie importante dans l'apprentissage d'une langue étrangère). La compréhension globale d'un fragment écrit ou parlé représente le point de départ vers d'autres domaines : bibliothèques, presse écrite et audio et favorise la communication lors des visites touristiques ou des réunions, quand tous s'expriment en leur propre langue et les autres réussissent à s'entendre.

L'intercompréhension s'exerce dans le cadre des trois grands groupes linguistiques européens: romanes, slaves et germaniques. Tous les projets créés dans cet esprit concernent l'acquisition de la compétence de compréhension globale plurilingue, par des méthodes spécifiques, modulaires.

## Modèles de projets

La Communauté européenne développe depuis quelques années de différents projets au niveau de l'enseignement supérieur. Adopté par le Conseil des Ministres le 28 juillet 1989, le programme LINGUA se propose d'améliorer l'enseignement des langues étrangères, à partir de la considération que celles-ci représentent un élément essentiel dans la construction européenne. Les objectifs fondamentaux de

LINGUA sont la diversification des langues enseignées dans la Communauté Européenne, l'encouragement de la communication entre les citoyens européens et l'implémentation des connaissances linguistiques dans la vie économique.

Les initiatives ont reçu l'appui financier de la Commission Européenne, fait qui témoigne de leur capacité d'offrir une solution au problème de l'enseignement des langues étrangères face aux défis d'une Europe multiculturelle.

Parmi les projets européens voués à illustrer et à fonder une didactique du plurilinguisme, affirmée comme discipline indépendante dans les années '90, on peut compter le projet **Galatea**, initié en 1992 au Centre de Didactique des Langues de l'Université de Grenoble, en collaboration avec des universités d'Espagne, de Portugal, et d'Italie. Dans son étude « *Développer l'intercompréhension dans l'espace linguistique roman : le programme Galatea / Socrates* », C. Degache identifie les principes et les particularités de cette démarche pédagogique.<sup>11</sup>

L'objectif de ce programme a été l'élaboration de documents didactiques destinés à entraîner des sujets de langue maternelle romane (jeunes adultes, enfants et adolescents) à la compréhension écrite et orale rapide d'une autre langue romane du groupe: le français, l'espagnol, l'italien et le portugais.

La recherche a été réalisée en 3 étapes: la première étape concerne la réunion et l'analyse des processus et des stratégies empiriques de construction du sens auxquelles doivent recourir les sujets pour comprendre un document oral et écrit dans une langue romane inconnue, tout comme les représentations qu'ils se créent de ces langues. La deuxième étape est représentée par l'analyse contrastive langue source – langue cible, qui se propose de dresser un inventaire d'«obstacles linguistiques» qui apparaissent dans l'intercompréhension. La troisième étape, celle du développement, comprend l'élaboration des documents didactiques qui favorisent l'auto-apprentissage, en utilisant les ressources multi-média.

La démarche scientifique a mis en évidence que la diversité des procédés et des stratégies de lecture/compréhension représente une condition de la performance; le sujet doit alterner et équilibrer le traitement global et analytique du texte et arriver à l'élucidation du sens dans une langue étrangère par des stratégies d'inférence. Ces stratégies varient d'une personne à l'autre et éclairent souvent le lecteur sur sa propre langue maternelle. Les bénéfices de ce type de démarche sont indiscutables et c'est pour cela que le projet a été développé dans d'autres universités, étant enrichi avec des objectifs spécifiques liés aux situations d'apprentissage et à certains publics visés.

Un autre projet ayant des finalités semblables est **EuRom4**.<sup>12</sup> Mis en oeuvre par un groupe de professeurs français, espagnols, italiens et portugais et expérimenté pendant quelques années dans des universités européennes, le projet a confirmé les hypothèses de départ concernant la possibilité de l'enseignement simultané des langues romanes.

La méthode part de la prémisse qu'un adulte qui parle une langue romane peut arriver assez vite à en comprendre une, deux ou trois autres. La limitation de cet objectif – utopique à première vue – s'impose dès le commencement: il s'agit de la compréhension de ces langues, et non pas de l'expression par écrit ou oral; en plus, cette compréhension est « basique », car on ne peut pas tout comprendre. Le matériel est constitué d'articles de journal - des textes écrits dans une langue assez standardisée - qui répondent aux exigences de la méthode: 24 articles pour chacune des quatre langues, sélectionnés à la suite d'un travail rigoureux.

La méthode EuRom4 comprend un ouvrage édité sur papier, une édition informatisée et des enregistrements sonores. Elle réside dans un ensemble de 24 leçons, ayant chacune une durée d'1h30; dans chaque séance on étudie un article, donné tel qu'il apparaît dans la presse. La démarche pédagogique comprend trois étapes: la première étape dure 5-8 semaines et oriente presque entièrement le sujet vers la découverte du lexique et des graphies, en défaveur des « détails grammaticaux ». La deuxième étape comprend les leçons 8-16 et marque un intérêt pour la construction des phrases et pour les comparaisons entre les formes des langues. Lors de la dernière étape, le sujet a accès aux textes plus difficiles et utilise les tableaux comparatifs de grammaire, des informations fournies seulement à la demande.

L'activité, dirigée de manière interactive par un moniteur, permet à l'apprenant d'aboutir à une compréhension globale, par des stratégies personnelles qui misent sur le droit à l'approximation et sur la technique du mot vide. La traduction ne constitue pas un objectif indépendant, car il ne s'agit pas d'arriver à « un bon traducteur », mais à « un bon lecteur », capable de donner une traduction globale du texte.

Claire Blanche-Benveniste<sup>13</sup>, la coordinatrice de ce programme, a avoué qu'à la suite des expériences, les professeurs coordinateurs avaient été « frappés...par le plaisir que les sujets prenaient à ces séances » incités par les provocations d'une lecture difficile et l'admiration des nouvelles langues. Les participants, perdant l'angoisse de l'apprentissage, ont donné des résultats surprenants, qui ont dépassé toute attente.

## Conclusions

Bien que la plupart des méthodes concernent les langues romanes, il y a une préoccupation constante pour les autres langues, par des projets qui sont expérimentés dans des universités et sont voués au passage dans le circuit public. Reniées par les traditionalistes, surprenantes même pour leurs initiateurs, embrassées avec enthousiasme par les utilisateurs, ces méthodes représentent une alternative pour la réalisation d'une *Europe des langues*. Aujourd'hui, loin de vivre une obsession pour une langue parfaite, on peut constater une remise en question et une revalorisation des langues nationales, vues comme « l'instrument d'une identité ethnique et comme un droit politique, une réalité à laquelle ça vaut la peine de revenir, même au prix d'une guerre civile. »<sup>14</sup>

L'image que Umberto Eco s'est formée sur l'Europe de demain est celle d'une communauté qui ait l'exercice de l'intercompréhension : « Une Europe de polyglottes n'est pas une Europe de personnes qui parlent couramment beaucoup de langues, mais, dans la meilleure des hypothèses, de personnes qui peuvent se rencontrer en parlant chacune sa propre langue et en comprenant celle de l'autre, mais qui, ne sachant pas pourtant pas parler celle-ci de façon courante, en la comprenant même péniblement, comprendraient *le génie*, l'univers culturel que chacun exprime en parlant la langue de ses ancêtres et de sa tradition.»

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# THE ROMANIAN MODERN / POSTMODERN ADVERTISING IN MAGAZINES

**Cristea Sanda**

*University of the West Timișoara, Faculty of Economics, 16 Pestalozzi St, Timișoara 300115, slpopa@yahoo.com, 0356 411847*

*The paper focuses on nowadays Romanian advertisements published in magazines and on the similarities or differences between the Romanian ads and the British, American, French and Japanese prints published between November 2001 – January 2008. The comparison of the Romanian advertising with the one of foreign origin will reflect the fact that, nowadays, we can speak not only about the Romanian global or local advertising but also about ads adapted to the Romanian culture.*

*the global, glocal, and local advertising*

## Introduction

The term ‘modern’ means “of the present or recent times”, “contemporary” (Cowie, A. P., 1994: 798). Though, I have attached it to the word ‘postmodern’ because, as Sturken and Cartwright (2001: 240) affirm, “aspects of postmodernism and modernism have coexisted throughout and since the last decades of the twentieth century.” For Sturken and Cartwright (2001: pp. 239, 240) postmodernism means “postwar globalization”, “the emergence of new information technologies”, and “the breakdown of the traditional nation-state.” Lewis (2002) is another author who defines ‘postmodernism’ very clearly. According to him, postmodernism is a mixture of cosmopolitan and individual, since he (2002: 17) describes it as “global/multicultural”.

Lewis, Sturken and Cartwright’s definitions of ‘postmodernism’ will guide my analysis of nowadays Romanian advertising. As we can see in Table 1, ‘global’ describes the first type of Romanian advertisements. I replaced the adjective ‘multicultural’ with ‘local’ to define the third type of ads. I used the term ‘glocal’ (i.e. global and local) for the second type of Romanian advertisements.

No.	Types of advertisements	Message		Producers (companies)
		Copy	Illustration	
1	Global / Fully standardized advertisements	The copy is not translated	Identical	Transnational companies (TNC) Multinational companies (MNC)
2.1	Glocal / Partly standardized advertisements (adapted to the national / local culture)	The copy is partially translated / modified	Identical	TNC MNC
2.2			Modified	TNC MNC
2.3			New	TNC MNC
3	Local advertisements (created for the national culture)	New	New	National / local companies TNC (rarely) MNC (rarely)

	Local advertisements (created for a regional culture)	New	New	National / local companies
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**Table 1 The types of Romanian advertisements**

***The Global Romanian, British and American Advertising***

The first type of advertisement is the global one. This type of ad is more visual. As we can see in Table 1, its illustration is identical and its copy is not translated, no matter where it is published. There are many ads that can be included in this category, most of them being created for products ‘Made in’ a country. In the advertisements I chose for this subchapter, the advertised products are a well known French perfume (Miracle by Lancôme), an Italian perfume (Funny by Moschino), and an Italian beer (Peroni).

The copies for the Italian products are the same in English and Romanian. Both the copy for Funny (*Cosmopolitan*, Octombrie 2007: 71 and *Glamour*, 2007: 101) – “Euroitalia monza mi Italy / Moschino / Funny!”, and the one for Peroni (*Cosmopolitan*, Octombrie 2007: 123 and *Wallpaper\**, 2008: 045) – “Peroni / Peroni / Italy / peroniitaly.com” are short. The ad for Miracle in the Romanian magazine differs a little from the one in the American magazine, but only the words that would not have reflected the Romanian reality were deleted. The American copy (*Vanity Fair*, 2003: 40) is “Lancôme Paris / miracle / You make it happen / shop at lancome.com / lift here” because any American could have smelt its fragrance if s/he had unfolded page 40 in 2003. These things were not possible in our country in 2003, and that is why the Romanian copy (*Cosmopolitan*, Ianuarie - Februarie 2003: back cover) was reduced to “Lancôme Paris / miracle / You make it happen / www.lancome.com / Distribuít de [...] tel. [...]”.

***The Glocal Romanian, French, Japanese, British and American Advertising***

The concept of ‘glocal’ has been used by many economists or advertisers who believe that marketing is neither a local, nor a global problem, but a glocal one. Writing about advertising in China, Zhou (2002: 21) affirms that in China “neither complete standardization nor complete localization is usually implemented”. Bogdan Enoiu (in Ștefănescu, 2002: 15) uses the same term when referring to the marketing strategies (i.e. global, glocal and local) of multinational companies.

In what follows I will give some examples of glocal advertisements. They are of five types.

- a) advertisements with the headline, the slogan or sentences in the body copy in English

First I will analyse three advertisements created for cars (the brands I chose are Nissan, Volvo and Toyota) that were published in Romanian, French, and Japanese magazines. Their copies are in Romanian, French and Japanese, apart from their headline, slogan, or sentences in the body copy which are in English. In the ad for Nissan (*FHM*, 2003: 39) there are words in English in the headline – “MODTRO: [modern yet retro]”, in the body copy – “Do you speak Micra?” and in the slogan – “SHIFT\_expectations”. Comparing to the Romanian print, the French advertisement (*Ideat*, 2007: 7) has only the slogan in English “Volvo. for life”, and the Japanese one (*Kansai Walker*, 2001: 35) both the slogan – “Drive Your Dreams” and a sentence in the body copy – “50<sup>th</sup> Anniversary Edition”. In my opinion, the illustrations of the three ads are imposed by the producer.

The next ad I will analyse is a Japanese advertisement about Diamor, an autumn fair in Osaka. The girl in the illustration expresses her feelings in English. She says “I’m happy” (*Kansai Walker*, 2001: 20) because Diamor is a place where she can go shopping. It is clear that this advertisement is designed for young people who are familiarized with the English language and the western ideology. Kanehisa (2002: 0-1) explains in his book how the Japanese society has evolved: “At the end of the 1980s the Japanese society suffers a brutal change of values.” The illustration of this advertisement is new. It represents a Japanese girl and a map with the underground shopping street.

- b) advertisements with one English word

The Romanian advertisement for Fujitsu Siemens is destined to educated people, to businessmen. We know that English is the language preferred in business. That is why the copywriter uses the word “secure” (*BIZ*, 2001: 59). S/he wants to flatter the consumer and encourage her / him to buy the laptop.

- c) advertisements which use elements from the culture of the nation the consumer belongs to

The print I selected was created for the xerox machines produced by Minolta (*BIZ*, 2001: 35). Its copy and its illustration were partially modified. In my opinion, the copywriter mixed the story written by Ion Creangă (Harap-Alb) with a text that could be found in other foreign advertisements for Minolta. Intertextuality, a feature of the postmodern text, is present in the copy of this ad. The story of Creangă is transformed. The Red Emperor and the Green Emperor become The Black-White Emperor and the Light-Grey Emperor. This print could also be included in the first type of glocal advertisements because its slogan is in English: “The essentials of imagining”.

- d) translated advertisements (the illustration and the copy are the same)

The copy of the advertisement for Camel cigarettes is word-for-word translated. The headline of the American print (*Newsweek*, 2002: 61) “Slow down. Pleasure up.” and the warning “Tobacco seriously damages health” are translated in *Cosmopolitan* (Noiembrie 2003: 43) with “Acordă-ți o clipă. De plăcere. / Tutunul dăunează grav sănătății”.

- e) translated advertisements (the illustration is the same, the copy is adapted)

Many ads – especially the ones for cosmetics – are not literally translated. I agree with Usunier (1996) and White (1980) who suggest that the translation of ads is often adapted to the consumer’s culture.

Usunier (1996: 416) states that “transfer of promotional materials is a practice which is frequent in multinationals: they are adapted as necessary”. White (1980: 219) affirms that “The most sophisticated international marketing companies have adopted [...] a distinctly flexible approach to their international advertising. [...] they adapt and modify it to fit individual markets.” My opinion can also be supported by Juliane House’s (in Hickey, 1998: 63) definition of translation. “The fundamental characteristic of a translation”, believes House, “is therefore that it is a text that is doubly bound: on the one hand to a text in the source language, the ‘source text’ or the original and, on the other hand, to the communicative-linguistic conditions holding in the culture to which the addressees belong.”

To explain the reason for which there are differences between the source (i.e. British) copy and the target (i.e. Romanian) copy of the two advertisements for cosmetics I will analyse, we have to understand first what the differences between the English and Romanians are. Usunier’s book (1996) will guide our analysis. According to the marketing researcher (1996: 220), Romania, unlike the United Kingdom, is a “collectivistic-individualist country” with “a high power distance” and “high uncertainty avoidance”.

The first adapted ad is for the Pantene PRO-V shampoo and the second for L’Oreal mascara. I transferred their copies into two tables to compare the two versions easier.

Copy	The British copy	The Romanian copy (literal translation)	The Romanian copy (adapted translation)
headline	Damaged by winter. Rescued by Pantene Pro-V.	Distrus de iarnă. Salvat de Pantene Pro-V.	Pantene Pro-V. Amenințat de iarnă. Protejat de noua colecție Pantene Pro-V Winter Protection.
body copy	Is your hair sending out a winter S.O.S? Help is at hand with limited edition Pantene Pro-V Winter Rescue.  The rich pro-vitamin formula rescues dry, static hair, replenishing moisture deep down	Îți trimite părul un S.O.S. de iarnă? Ajutorul este la îndemână / lângă tine cu ediția limitată de Pantene Pro-V Winter Rescue.  Formula bogată în pro-vitamine salvează părul uscat, static, furnizând umiditatea necesară / până	Pentru părul tău, iarna este un anotimp-problemă. Vremea rece, agresivă și purtatul căciulii pot diminua rezistența părului și îl pot deteriora.  Pantene Pro-V Winter Protection, cu formula specială îmbogățită cu pro-vitamine, îmbogățită cu pro-vitamine, îți face părul mai rezistent

	so you really feel the difference.  Smoother and softer hair in just 10 days. Winter is so last season.	în profunzime ca să simți într-adevăr diferența  Păr mai neted și mai mătășos în doar 10 zile. Iarna este astfel ultimul sezon.	și îl protejează de efectele negative ale anotimpului rece.  Mai rezistent, mai protejat!
slogan	Pantene Pro-V. For hair so healthy it shines	Pantene Pro-V. Pentru păr atât de sănătos încât strălucește	Colecție specială de iarnă Pentru părul sănătos pe care îl iubești!

**Table 2 Pantene Pro-V, Winter Rescue / Protection**

The British headline (*Cosmopolitan*, February 2004: 25) of the advertisement for Pantene PRO-V is more aggressive than the Romanian headline (*Cosmopolitan*, Noiembrie 2003: 59). Both “damaged” and “rescued” are associated with ‘masculinity’ while “protejat” with ‘femininity’.

The body copies of the British and Romanian advertisements are also different. In the source text the producer addresses his consumer directly. The copywriter establishes a dialogue between the producer and the consumer. So, there is a low power distance between them. The producer’s question – “Is your hair sending out a winter S.O.S.?” presupposes the consumer’s answer “Yes”. The Romanian addressor maintains the distance between him and the consumer. The Englishmen are a short term oriented people, while the Romanians are a long term oriented people. The body copies reflect this statement. In the British version the consumer is promised her hair will be “smoother and softer [...] in just 10 days”. For the Romanian women there is no deadline, they are informed only that the new shampoo will offer them the security they desire: “Mai rezistent, mai protejat!”. The British slogan (“For hair so healthy it shines”) is oriented towards the result achieved after the product use, while the Romanian slogan (“Pentru părul sănătos pe care îl iubești!”) is oriented both towards the result achieved after the shampoo application, and towards the consumer’s emotions. It is a well-known fact that the product merit appeal is much used in the British ads.

Like in the previous example, the Romanian headline (*Cosmopolitan*, Ianuarie - Februarie 2003: 6-7) of the advertisement for L’Oreal is less aggressive than the British headline (*Cosmopolitan*, January 2003: 57).

Copy	The British copy	The Romanian copy (literal translation)	The Romanian copy (adapted translation)
headline	Beyond your wildest dreams:  A false lash effect from every angle.	Dincolo de cele mai sălbatice vise ale tale:  Un efect de gene false din orice unghi.	Privire de vis:  Efect de gene false din orice unghi
body copy	Definitely not for the timid...  L’Oreal creates Lash Architect. For lashes with magnified volume, longer and curvier than you ever dreamed of...	categoric nu pentru timide...  L’Oreal creează Lash Architect. Pentru gene cu volum mărit, mai lungi și mai curbate decât ai visat vreodată...	Nemaivăzut Pentru prima dată, Lash Architect construiește gene cu volum extrem, mai lungi și mai curbate ca niciodată...  Inovator Formula “Polimeri cu efect 3D” îmbracă fiecare geană

	Its unique formula coats each lash for a false lash effect in just one stroke, without looking fake.	Formula sa unică îmbracă fiecare geană pentru un effect de gene false dintr-o lovitură, fără să pară false.	pentru un efect de gene false fără nici un artificiu, oricare ar fi unghiul din care ați privi!  Timidele să se abțină...
slogan	Because you're worth it.	Pentru că meritați!	Pentru că meritați!

**Table 3 L'Oreal, Lash Architect**

“Wildest” belongs to the semantic field of the word “man”. The Romanian “privire” appeals to the consumer’s emotions. In the British headline the possessive pronoun “your” is used. It reflects the Englishmen’s high degree of individualism. The first part of the British body copy – “Definitely not for the timid” is translated by “Timidele să se abțină”. The English words reflect masculinity, decision, but not a high power distance, like the Romanian sentence. Both the British copywriter and the Romanian translator (who may know that Romanians like to avoid uncertainty) give many details about the product.

In the previous two subchapters I have compared the Romanian advertising with the British, American, French and Japanese one. The last subchapter is dedicated entirely to the Romanian advertising.

### **The Local / Romanian Advertising**

The local advertisements are of two types:

a) created for a people (for Romanians)

A very good example of such an ad is the print for the newspaper *Cașavencu* (*Tabu*, 2004: 53), whose copy can be quickly deciphered only by Romanians since the order of some letters is reversed: “Ne permietm să spuenm lurcurile atfel. Petru că citiroții notșri snut mai inteligneți deăct ai lor.”.

b) created for a region / county

I took the photo of the hoarding for the Romanian newspaper *Capital* in Timișoara (on 5<sup>th</sup> March 2004). I doubt the word “frunce” in the body copy (“Doar analiști de frunce”) of the hoarding in Timișoara was inserted in the copy of the hoarding for *Capital* in București.

## **Conclusion**

I would like to conclude this paper with the statement that the Romanian modern / postmodern advertising is not only completely global or local. It is also glocal.

In my PhD thesis, I will develop the subchapter about the Romanian advertisements translated from British English (v. ‘*The Glocal Romanian, French, Japanese, British and American Advertising*’, e), and I will compare the Romanian online advertising with the British / American / Australian one.

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# ASPECTS MOTIVATIONNELS DANS L'APPRENTISSAGE DES LANGUES ÉTRANGÈRES – LE CAS DU FRANÇAIS DANS UNE FACULTÉ DE SCIENCES ÉCONOMIQUES

Constantin Felicia

Universitatea Oradea, Facultatea de Stiinte Economice, Str. H.Ibsen nr.3, bl.AN2, ap.7, Oradea, Email: fconstantin@uoradea.ro, Tel. +40723.089104

*Le Modèle de Renald Legendre surprend la complexité d'une situation pédagogique et éclaire parfaitement une démarche propre à la didactique des langues. Dans la triangulation objet du savoir – enseignant – apprenant interviennent des relations pédagogiques à multiples facettes. Dans ce jeu des composantes et des relations, la motivation représente le facteur dynamogène et orientatif, que l'enseignant doit maîtriser parfaitement afin d'optimiser son activité et les performances des apprenants.*

*didactique, langues, motivation*

## Cadre général

La mise de la didactique des langues à l'épreuve du sujet-apprenant conduit Anderson Patrick, dans le livre qui porte le même nom, au constat que « Enseigner/ Apprendre une langue fixe la triangulation: langue (objet du savoir) – enseignant et apprenant »<sup>1</sup>.

Dans cette relation, le déplacement de l'intérêt se fait vers l'apprenant, sur lequel est reporté aujourd'hui l'ensemble des interrogations. Anderson le voit comme un hybride qui convoque à la fois une perspective universaliste (par son appartenance à la classe des enseignés) et une perspective singulière (par son individualité). L'enseignant n'est plus un « dispensateur de savoir », mais celui qui veille sur le déroulement de l'acte didactique, préoccupé de faire « apprendre à apprendre ». La langue, quant à elle, se prête en même temps à un examen d'une extrême banalité (attachée à sa description comme simple outil de communication) ou d'une incroyable complexité<sup>2</sup> (dans le sens évoqué par François Dolto dans le titre de son livre, Tout est langage).<sup>3</sup>

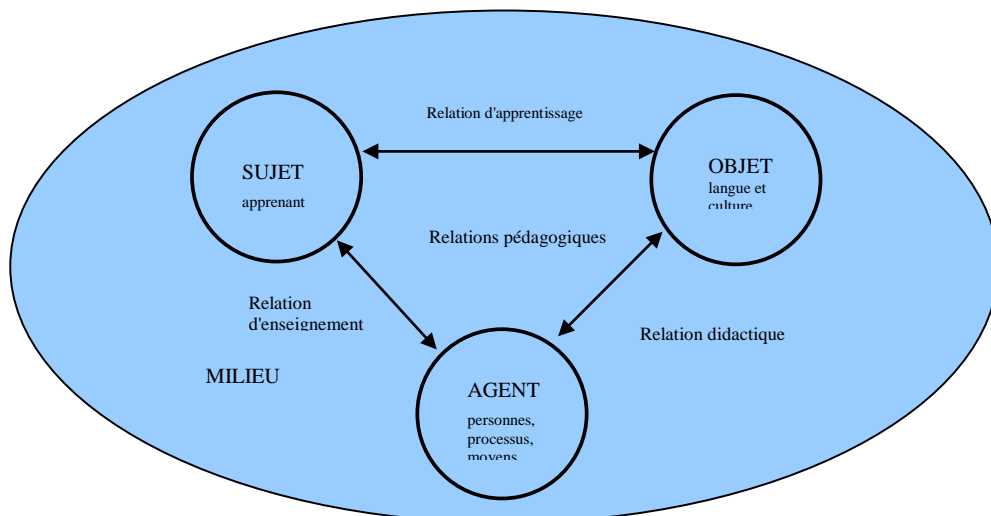
## Le Modèle de Legendre et la situation pédagogique en didactique des langues

Loin des conclusions d'une vision réductrice, le modèle de Renald Legendre présente une certaine valeur heuristique, par l'identification des composantes et de leurs relations dans le processus didactique; la situation pédagogique est définie dans le Dictionnaire actuel de l'éducation de Legendre comme « l'ensemble des composantes interreliées sujet – objet – agent dans un milieu donné », l'apprentissage étant « fonction des caractéristiques personnelles du sujet apprenant, de la nature du contenu des objectifs, de la qualité d'assistance de l'agent et des influences du milieu éducationnel ».<sup>4</sup>

Ce modèle se trouve d'ailleurs à la base de l'étude des grands courants en didactique des langues, une démarche ambitieuse de Claude Germain<sup>5</sup> qui applique ce cadre d'analyse opératoire sur une histoire de l'enseignement des langues couvrant 5000 ans. Il fait la synthèse de la situation pédagogique en didactique des langues (Fig.1) et identifie les acteurs impliqués dans toute relation d'apprentissage des langues: le Sujet ( l'apprenant de la langue seconde), l'Agent (les personnes disposant de ressources, ayant accès aux moyens et maîtrisant des processus), l'Objet (la langue et la culture à transmettre) et le Milieu.

Un rôle notable revient aux relations pédagogiques qui impliquent

- une relation didactique entre l' Agent et l' Objet, dans le sens de la sélection, de l'organisation et de la présentation du contenu
- une relation d'apprentissage entre le Sujet et l' Objet d'apprentissage, dans le sens du rôle que jouent dans l'apprentissage les activités pédagogiques et la langue maternelle
- une relation d'enseignement entre le Sujet et l'Agent, reflétée dans l'interaction enseignant - apprenant et le traitement de l'erreur



*Fig.1 Modèle de situation pédagogique en didactique des langues, au niveau des hypothèses (Germain Claude, 1993)*

## La motivation dans l'enseignement / l'apprentissage des langues étrangères

Les nouvelles techniques d'enseignement et même les méthodes les mieux orientées ne donnent pas toujours les résultats escomptés. À partir de cette observation, Denis Girard<sup>6</sup> montre que lors de la démarche didactique on se heurte à l'important problème de **la motivation** puisque « quel que soit l'âge, un individu n'apprend que s'il a un profond désir d'apprendre ».

Alex Muchielli<sup>7</sup> indique la présence du terme « motivation » dans tous les domaines liés à la conduite humaine: économie, pédagogie, politique ou arts, depuis sa création dans les années '30. Le succès du terme est dû au fait que pour passer à l'action, l'homme doit trouver un sens à son action.

Les facteurs qui influent sur l'attribution de sens constituent l'ensemble des problèmes spécifiques qui préoccupent chaque individu et qui sont reliés à sa biologie, à sa cognition, à son affectivité et à sa conduite. Selon son système de pertinence, l'individu se définit une vision du monde et manifeste des prédispositions sélectives et subjectives. Cette structure motivationnelle a un rôle stratégique, étant intimement liée aux convictions, aux idéaux et à la volonté de l'individu.

Tout ce qui constitue la motivation incite l'apprenant à s'engager dans l'atteinte d'un but et à persévérer dans son accomplissement. Ces principes sont reconnaissables dans le procès d'apprentissage des langues étrangères.

Tandis que l'apprentissage de la langue maternelle est « une opération inévitable », le caractère « spécial »<sup>8</sup> de la langue seconde entraîne des difficultés d'enseignement; au nombre de quatre, selon Girard<sup>9</sup>, ces obstacles sont représentés par l'horaire limité, le manque de la motivation profonde une fois dépassé l'attrait de la nouveauté, l'âge de début de l'apprentissage et les interférences qui se créent entre la langue seconde et la langue maternelle.

Si « de l'enfant apprenant sa langue maternelle, on peut dire...qu'il a la meilleure des raisons possibles d'acquérir une langue: obtenir ce qu'il veut »,<sup>10</sup> dans le cas d'acquisition d'une langue seconde, les ressorts intérieurs procèdent d'une motivation différente et plus élaborée. Elle est si présente, si intimement liée à chaque composante ou relation de l'enseignement / apprentissage, que l'on pourrait la représenter comme **le fond** du schéma du modèle de Legendre (dans la Figure 1, marqué en gris clair)

C'est d'ailleurs la motivation qui détermine, d'après Mackey<sup>11</sup>, la quantité de choses qu'une personne apprendra et le moment de l'apprentissage. Les besoins, les centres d'intérêt, le sens des valeurs, la confiance dans la capacité d'apprentissage et la vision de ce que l'on croit « avantageux » justifient les efforts déployés dans le désir d'apprendre une langue seconde. Mackey conclut que la plupart des théories « s'accordent à dire que plus la motivation est grande, meilleur est l'apprentissage ».



## Formes de la motivation

Dans l'activité humaine, la définition du but et des objectifs et la mise à disposition des instruments nécessaires à leur accomplissement ne suffisent pas. Toute une série de facteurs motivationnels sont nécessaires – ils sensibilisent, réalisent la sélection, stimulent, activent, incitent et soutiennent. La sphère motivationnelle de l'individu comprend *les besoins* (des procès fondamentaux qui signalent les transformations survenues dans l'organisme ou dans la personnalité), *les impulsions* (des besoins en état d'excitabilité accentuée, expressive), *les intentions* (qui supposent l'implication projective du sujet), *les valences* (l'orientation affective vers un certain résultat) et *les tendances* (des forces dirigées avec plus ou moins de précision).

La motivation connaît plusieurs formes, disposées en paires antagoniques: on parle ainsi de la motivation positive ou négative, d'une motivation intrinsèque ou extrinsèque, d'une motivation cognitive ou bien affective. Du point de vue de la productivité, la motivation positive, intrinsèque et cognitive serait habituellement plus productive. Mais l'enseignant doit maîtriser les mécanismes de fonctionnement motivationnel afin de les utiliser de manière appropriée, en maximisant l'effet et le potentiel, selon le contexte et le seuil de l'optimum motivationnel.

Le professeur est, d'après Denis Girard, « le facilitateur d'apprentissage »<sup>12</sup> et son rôle devrait être de relier l'enseignement au plaisir. Au cours de l'histoire de l'apprentissage des langues, l'enseignant était vu comme le modèle, l'autorité qui exerce le contrôle; les approches modernes imposent le modèle de l'enseignant conseiller, la présence sécurisante qui facilite l'apprentissage et développe des stratégies d'apprentissage. C'est à l'enseignant, en l'occurrence le professeur de langues étrangères, que revient un rôle majeur de valoriser le cadre motivationnel de l'étudiant ou de le nuancer, en l'enrichissant.

## Esquisse d'étude sur la motivation des étudiants apprenant le français dans une faculté de sciences économiques

Nous sommes arrivés au cours de notre expérience didactique à la conviction qu'en première année, à l'entrée dans l'université, les étudiants, à de rares exceptions près, n'ont pas encore une motivation bien précisée pour l'apprentissage des langues étrangères.

Dans la tentative d'identifier le profil motivationnel des étudiants en économie de la Faculté des Sciences Economiques d'Oradea, (toutes les spécialisations), la première année d'étude, nous avons procédé au début de l'année scolaire 2007/2008 à un test ad-hoc appliqué aux étudiants. Nous nous sommes proposé de réaliser cette étude empirique à l'aide d'un questionnaire anonyme comprenant dix questions, dont « Pourquoi êtes-vous au cours de français? ».

Sur environ 150 réponses reçues, nous avons procédé à l'analyse aléatoire des 75 réactions. L'essai de classer les réponses nous a conduit vers l'identification de plusieurs catégories, vu le caractère assez unitaire des réponses. Nous avons inscrit les réponses résumant les réactions similaires dans les colonnes 1 et 2, qui tiennent à la motivation intrinsèque et nous avons disposé les réponses de la catégorie motivation extrinsèque dans les colonnes 3 et 4.

Nous n'insistons pas dans cette analyse sur les valeurs quantitatives, parce que nous avons été préoccupé essentiellement de **la nature** de la motivation. La motivation des étudiants se dévoile dans des réponses qui pourraient être réunies dans les catégories suivantes:

- Motivation intrinsèque, affective, positive
- Motivation intrinsèque, cognitive, positive
- Motivation extrinsèque, positive
- Motivation extrinsèque, négative ou amotivé

On constate que la plupart des réponses des étudiants surgissent d'une **motivation intrinsèque** (quasi positive) ayant une portée **affective** – ils ont choisi le français parce qu'« ils aiment la langue », la musicalité, la sonorité, parce qu'ils trouvent la langue plus intéressante, occupant la première place d'après l'élégance et le romantisme. Le facteur volitif est affirmé parfois ouvertement, dénué de toute autre mention (« *parce que c'est comme ça que j'ai voulu, parce que c'est ça que j'ai choisi* »).

Beaucoup de réponses se situent dans la sphère **motivation cognitive intrinsèque**. Les étudiants identifient, au-delà des ressorts affectifs, des besoins cognitifs; ils veulent simplement apprendre, apprendre davantage ou perfectionner leurs connaissances, ayant parfois des objectifs bien précisés: arriver

à très bien communiquer en français, mener une conversation de spécialité dans le domaine choisi, élargir l'horizon de connaissances, porter une conversation avec des natifs français, apprendre différentes choses dans le domaine économique. Certains étudiants sont motivés par la perspective immédiate d'un séjour en France (« *apprendre à bien communiquer parce que cet été j'irai en France pour un mois* »), ou du travail en France même pour une courte période. D'autres ont fait le choix pour le français dans le désir d'acquérir des compétences langagières dans une autre langue que celle connue jusqu'à présent.

Les facteurs extérieurs marqueurs de la **motivation extrinsèque** dans l'apprentissage de la langue seconde sont le professeur de français du lycée et le type d'approche didactique à laquelle ils ont été soumis dans l'école; en général ils sont vus comme des facteurs motivationnels négatifs, car c'est vers eux que portent la plupart des reproches des anciens lycéens. Un bon professeur au lycée est d'autre part le porteur symbolique de toute une culture et il s'avère important dans la motivation de l'étudiant de continuer l'étude d'une certaine langue étrangère, en occurrence le français.

A côté de ces facteurs, une démarche administrative perçue comme contraignante – la répartition vers d'autres langues étrangères à la suite d'un test d'anglais – est rendue **positive**, ce qui relève d'une stratégie d'adaptation et de valorisation de la diversité culturelle et linguistique; force est de préciser que les étudiants apprenant le français ont cependant la possibilité de suivre les cours d'anglais, en groupes de différents niveaux de compétences (« *j'ai raté l'examen d'anglais, mais c'est bien, ayant en vue que j'ai fait plus de français; j'ai opté initialement pour l'anglais mais à ce moment je suis content d'être ici; je n'ai pas voulu être ici, mais je ne crois pas qu'il y ait des problèmes et j'espère que je ne regretterai pas; j'ai n'ai pas eu les points en anglais mais le français a été la seconde option et je l'aime; j'ai raté l'examen d'anglais, mais je suis content parce que j'aurai ainsi la possibilité d'apprendre le français comme il faut; le français a été la deuxième option après l'anglais mais je ne suis pas déçu parce que je voudrais apprendre aussi un peu de français; malheureusement je n'avais pas réussi à approfondir le français dans les années précédentes et j'espère le faire maintenant* »).

Un nombre assez réduit de réponses font référence aux conséquences d'une décision extérieure qui a déterminé leur répartition dans le cours de français. Les étudiants prennent en charge leur niveau d'anglais et s'assument les conséquences d'une maîtrise insuffisante de cette langue. Le manque de nuances pourrait être le résultat d'une attitude contemplative des choses, sans qu'elle soit manifestement **négative** ou hostile. Si hostilité il y en a, elle est reliée à la qualité de l'enseignement du lycée « *je n'ai pas eu la chance d'un professeur qui veuille nous enseigner quelque chose, j'ai raté le teste d'anglais, j'ai étudié 5 ans le français mais je le répète, je suis nulle* ». Cette tendance de culpabiliser peut surgir d'ailleurs d'une situation réelle ou d'une attitude de confrontation et de fronde, spécifique à la personnalité de l'adolescent.

### Réponses des étudiants à la question « Pourquoi êtes-vous au cours de français? »

Motivation intrinsèque, affective, positive	Motivation intrinsèque, cognitive, positive	Motivation extrinsèque, positive	Motivation extrinsèque, négative ou a-motivé
première place pour l'élégance et le romantisme la langue qui semble être la plus intéressante préoccupation pour cette matière depuis l'enfance j'aime cette langue parce que je l'aime j'aime sa musicalité j'aime sa sonorité c'est une langue facile et agréable et je l'ai déjà étudiée j'aime cette langue et je veux l'étudier j'ai commencé à aimer de plus en plus le français parce que je l'aime et j'ai fait	Je veux apprendre le français dans un nouvel esprit besoin d'apprendre une autre langue, à côté de l'anglais langue étrangère facile à apprendre approfondir le français et apprendre des choses intéressantes sur la France j'ai voulu apprendre davantage parce que c'est le français que je connais mieux pour apprendre le français j'aimerais habiter un jour Paris je voudrais fixer les règles de prononciation, apprendre de nouveaux mots, mener une discussion avec un étranger, traduire certains paragraphes mieux apprendre cette langue que je	J'ai raté l'examen d'anglais, mais c'est bien, ayant en vue que j'ai fait plus de français professeur dirigeant enseignant le français, qui m'a inculqué l'amour pour cette langue je n'ai jamais aimé l'anglais, je l'ai appris par obligation j'ai été réparti à cette langue et même si je ne la connais pas très bien maintenant, je crois qu'à la fin de ces années de faculté je réussirai à l'apprendre j'ai été réparti de manière erronée, mais je veux apprendre cette langue j'ai raté l'anglais mais j'aurais voulu dès le commencement entrer au français, parce que je le comprends mieux et peut-être c'est mieux comme	pour avoir raté l'anglais j'ai été réparti j'ai été réparti un score insuffisant en anglais je n'ai pas obtenu les points à l'anglais j'ai été réparti ici je ne me suis pas présenté à l'examen d'anglais j'avais étudié le français dans l'école et j'aurais voulu commencer l'anglais je ne me suis pas penché pour les langues et je n'ai pas eu la chance d'un professeur qui veuille nous enseigner quelque chose j'ai raté le teste d'anglais parce

Motivation intrinsèque, affective, positive	Motivation intrinsèque, cognitive, positive	Motivation extrinsèque, positive	Motivation extrinsèque, négative ou a-motivé
<p>beaucoup d'heures au lycée</p> <p>j'aime davantage le français</p> <p>parce que j'aime cette langue</p> <p>parce que j'étudie le français depuis le cycle primaire, je le comprends et je le trouve plus facile que l'anglais</p> <p>parce que je considère que c'est et ce sera nécessaire d'avoir des connaissances en cette langue et d'acquérir l'habileté de communiquer en français</p> <p>j'espère que je développerai et j'amplifierai mon plaisir de parler en français</p> <p>parce que je n'ai pas préféré une autre langue</p> <p>parce que c'est comme ça que j'ai voulu</p> <p>parce que c'est ça que j'ai choisi</p> <p>cela a été ma première option</p>	<p>trouve très intéressante</p> <p>j'ai voulu suivre ce cours pour apprendre des choses que je ne connais pas</p> <p>pour mieux apprendre le français</p> <p>je veux approfondir mes connaissances car je veux travailler en France même pour une courte période</p> <p>je parle bien anglais et je considère que, si j'ai cette occasion, je ne dois pas rater l'occasion d'apprendre le français</p> <p>parce que je me débrouille mieux qu'en anglais</p> <p>apprendre une autre langue que celle connue jusqu'à présent</p> <p>pour arriver à très bien communiquer en français, acquérir la facilité de communiquer</p> <p>j'espère visiter la France</p> <p>mener une conversation de spécialité dans le domaine que j'ai choisi</p> <p>apprendre à bien communiquer parce que cet été j'irai en France pour un mois</p> <p>élargir mon horizon</p> <p>apprendre différentes choses sur le domaine financier-bancaire français</p> <p>porter une conversation avec des natifs français</p>	<p>ça</p> <p>j'ai n'ai pas eu les points en anglais mais le français a été la seconde option et je l'aime</p> <p>j'ai raté l'examen d'anglais, mais je suis content parce que j'aurai la possibilité d'apprendre le français comme il le faut</p> <p>le français a été la deuxième option après l'anglais mais je ne suis pas déçu parce que je voudrais apprendre aussi un peu de français</p> <p>malheureusement je n'avais pas réussi à approfondir le français dans les années précédentes et j'espère le faire maintenant</p> <p>j'ai opté initialement pour l'anglais mais à ce moment je suis content d'être ici</p> <p>je n'ai pas voulu être ici, mais je ne crois pas qu'il y ait des problèmes et j'espère que je ne regretterai pas</p> <p>je n'ai pas passé le teste d'anglais mais maintenant je suis content d'être ici</p> <p>mieux apprendre le français, puisque j'ai été réparti à cette langue</p> <p>j'ai été réparti ici, mais maintenant je m'en réjouis parce que j'ai fait du français au lycée</p>	<p>que je connais plus de grammaire française qu'anglaise</p> <p>j'ai raté le teste d'anglais, j'ai étudié 5 ans le français mais je le répète, je suis nulle au français</p>

## Conclusions

L'enseignant se doit non seulement de maîtriser les approches théoriques de la motivation, de les identifier ou de les développer là où elles se manifestent; son rôle, dans le souci de développer l'autonomie et l'indépendance de l'étudiant, serait de le rendre conscient des enjeux et de la portée des facteurs motivationnels dans l'apprentissage d'une ou de plusieurs langues étrangères.

Une simple approche contrastive entre le tableau final de notre modeste étude et l'Eurobaromètre<sup>13</sup> de 2001 peut offrir à l'enseignant la perspective de ce qui est la motivation de ses étudiants en première année et de la richesse dont elle pourrait se nourrir. Les facteurs motivationnels recensés par l'Eurobaromètre suggèrent des ressorts d'apprentissage partiellement ignorés à l'entrée dans l'Université: nous apprenons une langue étrangère pour l'utiliser dans les vacances à l'étranger, pour le travail, ci-inclus les voyages d'affaires ou pour la satisfaction personnelle; la langue étrangère nous donne la chance de pouvoir travailler à l'étranger, d'avoir accès à un meilleur emploi dans son pays, de comprendre d'autres cultures et de connaître une langue parlée partout dans le monde; elle nous permet de rencontrer des gens venant d'autres pays ou d'étudier dans un autre pays.

C'est à l'enseignant de mettre en avant ces idées et c'est à l'apprenant d'en profiter.

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# LA MONDIALISATION DE L'ENSEIGNEMENT SUPERIEUR

Dumitrascu Elena

*Université « Ovidius » Constanta, Le Département des Langues étrangères , Adresse de contact : 1, rue Universitatii, Mél : elena\_mam2006@yahoo.com, Téléphone : 0723 708737*

*La grande évolution et croissance de la mobilité des individus, des biens, des informations et des idées, de paire avec les développements mondiaux enregistrés par les technologies de l'information et de communication, ont donné naissance à ce qu'on appelle « la mondialisation ». Aujourd'hui, notre monde est en fait plus « rapproché » et interconnecté qu'il ne l'a jamais été auparavant. Ces évolutions affectent en grande mesure, la situation géopolitique du monde et amplifient le caractère complexe de la société. La mondialisation implique des défis, mais elle offre à la fois des opportunités importantes pour que la communauté engagée dans l'éducation supérieure joue un rôle-clef dans les efforts de façonner l'avenir.*

**Mots clés :** enseignement supérieur, mondialisation, « levier économique », financement, commercialisation du savoir.

Le XXI- ème siècle s'ouvre sur des mutations dont il est difficile de mesurer doré et déjà l'ampleur pour les entreprises et les salariés ainsi que pour la société dans son ensemble. L'accélération de la mondialisation et l'avènement de la « société du savoir » sont actuellement des thèmes largement utilisés, par les gouvernements, par les établissements d'enseignement et par la société civile pour expliquer les transformations qui ont cours dans les établissements d'enseignement supérieur. Ces transformations sont à la fois le fruit de facteurs objectifs comme le développement rapide des technologies d'information et de communication ainsi que les besoins de main – d'œuvre hautement qualifiée<sup>233</sup>.

La chute du mur de Berlin et le démantèlement du bloc de l'Est ont annoncé la fin de la guerre froide et le paysage politique s'est grandement transformé. C'est aussi au début des années 90 que le concept de mondialisation est apparu dans les sphères intellectuelles et politiques pour expliquer les transformations géopolitiques qui ont accompagné la fin de la guerre froide. Phénomène assez complexe, la mondialisation est rapidement devenue une notion largement répandue, si bien que les différentes définitions qu'on peut donner finissent par nous poser en difficulté. Avant de préciser les effets de la mondialisation sur l'enseignement supérieur, il importe d'expliquer ce qu'on entend par ce terme.

Le concept de mondialisation s'est généralisé au début des années 90, alors que la carte géopolitique du monde se redessina, éliminant le bloc soviétique pour le remplacer par des régimes capitalistes. Concept encore nouveau, il était plus ou moins défini par une accélération des échanges économiques, culturels et démographiques entre les Etats.

La Banque mondiale définit la mondialisation comme étant « l'intégration progressive des économies et des sociétés du monde ». L'encyclopédie de l'Internet Wikipédia la décrit comme « les mutations au sein des sociétés et de l'économie mondiale provoquées par l'augmentation spectaculaire du commerce et des échanges culturels mondiaux ». Et la revue britannique *The Economist* l'apparente à la phrase d'une chanson de John Lennon : « *Imaginer un monde sans pays. Ce n'est pas difficile* »<sup>234</sup>.

Il est clair que la mondialisation signifie différentes choses pour différentes personnes. La mondialisation des échanges ne s'arrête pas aux secteurs commercial ou culturel. De multiples influences affectent de nombreux aspects de notre vie quotidienne et donc les stratégies pour faire face à ses défis. L'enseignement supérieur s'inscrit lui aussi dans le phénomène de la mondialisation, notamment par la commercialisation du savoir. Dans un contexte où les progrès technologiques et scientifiques évoluent rapidement, où la population est de plus en plus instruite et où les emplois requièrent un niveau de plus en plus élevé de connaissances et de compétences techniques, l'enseignement supérieur apparaît comme un « levier économique » important.<sup>235</sup> Dans une économie capitaliste fondée sur la compétition et la concurrence, le

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<sup>233</sup> Brouillette, V., Fortin, N., Op.cit

<sup>234</sup> Heyneman, S.P. Op.cit, p.58

<sup>235</sup> Brouillette, V., et Fortin, N. Op.cit.

savoir dénommé « valeur ajoutée » devient un enjeu stratégique parce que les Etats exportent plutôt de la matière grise que seulement de la matière.

L'enseignement supérieur, lui aussi, subit des influences mondiales. Pratiquement aujourd'hui tous les pays ont trois ambitions dans ce domaine.<sup>7</sup> Premièrement, la demande d'accès à l'enseignement supérieur augmente partout dans le monde et le nombre des étudiants progresse rapidement. Quel est le résultat ? Il y a peu de pays où l'enseignement supérieur soit réservé à une petite élite. L'enseignement supérieur est devenu un « enseignement de masse ». Confrontée avec la difficulté grandissante du fait d'être une communauté, l'université s'efforce à résoudre le dilemme de la concentration gigantesque.<sup>236</sup> La démocratisation de l'accès à l'enseignement supérieur comme résultat des politiques de chances égales a eu comme effet la création d'universités gigantesques ou l'idée d'être une élite a laissé peu à peu la place à une banalisation du savoir, un savoir stéréotypé et standardisé.

La seconde ambition de tout pays est d'améliorer la qualité de son enseignement supérieur. Au cours des vingt dernières années, le rôle de l'enseignement supérieur dans la société a évolué. Tout en restant la « conscience de la société », les universités ont assumé des fonctions plus pragmatiques : leur but étant celui de fournir de la main d'œuvre qualifiée et de produire des connaissances et non pas de transmettre le savoir pour le savoir. L'enseignement supérieur sera jugé d'après ses résultats et sa contribution au développement national. Les critères d'évaluation de l'enseignement dans cette nouvelle université seront différents du passé. L'assurance de la qualité deviendra plus complexe à mesure que les universités diversifieront leurs missions. Il était du seul ressort des universitaires, qui étaient les seuls à pouvoir juger de qualité de l'enseignement. Dans l'avenir, le croisement des disciplines restera probablement le principal mode de développement de l'enseignement supérieur.

On peut s'attendre à ce que de nouvelles méthodes d'évaluation des performances apparaissent et à ce que de nombreuses études comparatives soient réalisées dans l'ensemble de l'enseignement. Face à la multiplication des possibilités d'enseignement à distance et des autres formes d'apprentissage électronique, y compris la télévision et Internet. Mais, l'apprentissage électronique et la mobilité internationale des étudiants soulèvent des problèmes en ce qui concerne l'assurance de la qualité. L'un et l'autre obligent à examiner comment évaluer et contrôler le processus d'apprentissage lorsqu'il a lieu hors du cadre éducatif ou loin de l'établissement qui le parraine ? La réponse : on évalue ce qui reste l'élément central, c'est-à-dire, les acquis.

Une troisième ambition commune à toutes les universités du monde est d'égaliser les chances de tous en offrant des bourses aux étudiants doués issus de milieux défavorisés. En Roumanie, par exemple, suite à l'analyse et à l'évaluation du système national d'enseignement, la Cour des Comptes<sup>10</sup> - en qualité d'autorité suprême de contrôle et d'audit a formulé des recommandations qui ont été transmises aux entités auditées et au Parlement Roumain- le principal organe législatif- qui a adopté une série de lois et de normatifs visant la stratégie de développement de l'enseignement roumain pour la période 2007-2010. Parmi les recommandations formulées par la Cour des Comptes on peut retenir quelques-unes : appuyer, du point de vue social, les étudiants par : des crédits d'études garantis par l'Etat, la mise en œuvre d'un système de bourses d'études en fonction de la performance scolaire ; un programme national ( dénommé générique « Euro 200 ») d'octroi d'aides financières à hauteur de 200 Euros par élève /étudiant est actuellement en cours de déroulement en Roumanie, ayant pour but de stimuler l'acquisition d'ordinateurs.

La réalisation de ces trois ambitions coûte cher et peu de pays sont en mesure de financer leurs universités uniquement sur fonds publics. Comment l'enseignement supérieur peut-il parvenir à financer ses ambitions et maintenir son objectif traditionnel de service public ? représente un problème mondial et d'actualité. Etant confrontées à l'augmentation du nombre des étudiants et à la montée des attentes en matière de qualité et d'équité, les autorités publiques sont dramatiquement démunies et risquent fort de le rester. Le grand instrument de l'Etat est d'ordre financier et l'autonomie de l'université est réglée par celui-ci. C'est l'Etat qui la garantit sous forme d'un financement de base qui permet aux universités à long terme et indépendamment des influences politiques, de prévoir et de poursuivre leurs objectifs de recherche et d'enseignement. Les crédits versés par l'Etat en Roumanie, par exemple, aux universités publiques représentent environ 50% de leur budget de fonctionnement. C'est à chaque université de s'organiser pour financer le reste, ce qui conduit à une grande similitude des stratégies et des objectifs de gestion, qu'elles soient publiques ou privées. Pour boucler leur budget, les universités ne peuvent agir que dans quelques directions.

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<sup>236</sup> Berchem, T., Op.cit.

Les sources de financement des établissements d'enseignement supérieur devraient, selon la Banque mondiale, être très diversifiées. Elle propose une série de moyens : encourager la privatisation, augmenter les frais de scolarité, hausser les tarifs des droits d'inscription, établir des partenariats avec les entreprises dans le domaine de la recherche et de l'enseignement, rechercher des dons privés, commercialiser des espaces, des équipements et des produits de recherches et de l'enseignement ( ex : en facturant des loyers pour les installations qu'elle mettent à disposition et en augmentant le recouvrement des frais généraux).

<sup>10</sup>La contribution de la Cour des Comptes à la soutenabilité financière du système éducationnel par les recommandations formulées. <http://www.tcontas.pt/eurosai/eurosailacefs/Docs/ptf>

Ces moyens sont déjà largement utilisés dans les pays occidentaux. L'évolution la plus récente des universités d'Europe a soulevé des questions comme celles-ci : Quelle est la mission de l'université ? Qu'est-ce que l'université veut et peut offrir à la société ? Qu'est-ce que la société attend de l'université ? Les réponses doivent nécessairement avoir des influences sur la formation universitaire. Le débat tourne autour des pôles d'orientation à court/ à long terme. Le risque du court terme ne tient pas compte de la richesse d'une formation universitaire qui consiste à habilitier les diplômés à acquérir, sur la base d'une formation large et fondamentale, la capacité de ne faire face à des défis qui n'existaient pas encore au moment de leur formation<sup>1</sup>. La séparation des disciplines est le résultat de cette politique à court terme. L'interdisciplinarité, la transdisciplinarité est la condition sine qua non des choix raisonnables et responsables pour les défis de l'avenir. Dans le but de produire les savoirs nécessaires pour construire l'avenir, les universités doivent établir des structures et des procédures explicites qui puissent contrebalancer « l'idéologie du temps limité » en créant les prémisses pour le développement à long terme des différentes formes de savoir qui transcendent le besoin d'applicabilité immédiate.

Le processus de Bologne qui a commencé en 1998 à la Sorbonne, avec quatre pays- la France, L'Allemagne, l'Italie et l'Angleterre- s'est vite élargi avec les sommets de Bologne (1999), à 40 pays. Avec la construction de l'espace européen de l'enseignement supérieur, l'Europe vit actuellement une période exceptionnelle de réformes des structures d'études. Aujourd'hui, nous sommes les témoins d'un changement de paradigme dans l'organisation et le fonctionnement de l'enseignement supérieur. La plupart des débats sur l'enseignement se concentrent généralement sur de sujets tels que la structure institutionnelle et la gouvernance (c'est-à-dire l'autonomie financière et organisationnelle), la mobilité des enseignants et des étudiants (la liberté de l'enseignement), la responsabilité de l'université et l'éthique. Toutes les activités de l'université doivent être régies par les principes de la liberté, de l'équitablement et de l'égalité.

Les universités aujourd'hui doivent contribuer à la solution de problèmes fondamentaux concernant la qualité de la vie et doivent donner substance à une citoyenneté basée sur l'éthique. Ces principes doivent être la base des efforts aboutissants à des découvertes scientifiques et des applications pour favoriser le bien-être global. L'autonomie et la liberté représentent les fondations institutionnelles de toute université, mais quoique nécessaires elles ne sont pas suffisantes pour pouvoir offrir à la société moderne les réponses dont elle a besoin. Les jeunes gens attendent de l'université plus que la simple transmission des savoirs mais ils cherchent des cohérences, des connexions, des corrélations avec les autres disciplines et ils ont besoin pour cela qu'on leur transmette des valeurs et des jugements de valeurs. Les étudiants, une fois entrés dans l'université, désirent donner un sens à leur vie. Les universités devraient offrir aux étudiants des opportunités et de nouveaux moyens de faciliter leur quête du sens de la vie ; ils doivent pouvoir bien gérer leur propre vie : avoir la capacité d'apprendre, d'écouter, d'interagir, d'être actif, de résoudre des problèmes, de comprendre d'autres cultures et religions, et d'être conscient de la propre identité culturelle et individuelle.<sup>4</sup> En même temps, afin de former une société pouvant effectivement utiliser ce savoir précieux et les ressources humaines bien préparées, l'université choisit sagement de nourrir le désir de responsabilité sociale, de dignité personnelle, le plaisir de voir autorise à utiliser ses capacités intellectuelles au mieux et la capacité de vivre heureusement avec soi-même et avec les autres. Dans le milieu de l'enseignement, la corruption et les nombreuses tentations apparaissent régulièrement. La pression exercée sur la conduite par le système de la science est très bien connue : publier plus rapidement, finir avant la concurrence, fabriquer même des méthodes ou des résultats, donc mentir.

Puis, le système invite à la fraude individuelle et a la transgression et la responsabilité demeure individuelle. Les tentations du système universitaire sont plus subtiles : l'exploitation des étudiants, la dépendance, l'abus dans les examens, la discrimination des sexes.

Le comportement dans le milieu universitaire est lié à notre devoir d'éduquer. Il n'existe pas de société sans compétences et il n'existe pas de compétences sans un élément de comportement social. La lutte contre la corruption dans l'enseignement supérieur est aujourd'hui un problème mondial aux enjeux considérables. Le processus de Bologne permet aux Etats membres d'harmoniser leurs systèmes d'enseignement supérieur pour permettre la mobilité des étudiants et des enseignants. L'UNESCO a publié de nouvelles directives d'accréditation qui permettent aux universités de tous les pays du monde de comparer la qualité de leurs programmes. La volonté d'une université de se comparer aux autres semble liée à sa capacité de démontrer qu'elle n'est pas corrompue.

## Conclusions

En conclusion, si l'université européenne tient à créer un espace de l'enseignement supérieur attractif et compétitif, elle doit donner des réponses aux nouveaux défis, tout en préservant les caractéristiques culturelles essentielles qui ont contribué à sa grandeur dans le passé : l'autonomie et la liberté socialement responsables, l'universalisme culturel des savoirs, la communauté d'apprentissage tout au long de la vie, avec ses caractéristiques distinctives de la mobilité et de la concurrence, combinées à la solidarité. L'université européenne doit recouvrir ses racines et les valeurs académiques d'origine, sur lesquelles elle a été fondée ; elle doit les adapter au nouveau contexte, afin de jouer un rôle crucial et stratégique dans la construction d'un monde développé et pacifique. Selon Heyneman, S.P., « *il y a un modèle d'enseignement supérieur qui « marche » de plus en plus et il s'applique à toutes les régions du monde. C'est le modèle dans lequel les établissements d'enseignement supérieur sont eux-mêmes capables de financer leurs propres objectifs. Il est de plus en plus évident que l'enseignement supérieur a un rôle unique à jouer dans la cohésion sociale d'une nation, mais ce rôle peut être négatif ou positif : négatif, il modèle un comportement non professionnel ; positif, il est à la hauteur des normes de conduite internationale.* »<sup>237</sup>

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# ENGLISH LANGUAGE CERTIFICATES - MEETING REQUIREMENTS OR SIMPLE FASHION -

**Horea Ioana**

*University of Oradea, Faculty of Economics, Universităţii 1, ihorea@uoradea.ro, 0259408799*

*The aim of the paper is to investigate the way in which internationally acknowledged language certificate tests are perceived. The questionnaire method, applied to a sample group of students, was implied in order to reveal various aspects of the expectations about these tests and certain opinions on their usefulness. Assessing several criteria, particular features concerning the perception of these tests can be remarked as initial baggage of the new students to work on and build next – as the study was conducted on first year students and thus outlines previous intakes.*

*Key words: internationally acknowledged language certificates, statistical overview, assessment of views*

## **Introduction**

Few researchers have studied the relevance of certain types of tests in assessing the English language skills [1]. It is rather on the sites of the centres involved or the partner institutions that one can find opinions and guidance regarding the latter. Students, in their turn, hear about the tests on special channels (mostly from teachers in high school or from colleagues, school-mates) as these examinations represent products of ‘small scale economy’, not having a very large circulation. They are clearly not designed for the large masses, but, nor are they confined to the persons involved in the educational system, as international language certifications are required for all emigrants or people looking for jobs in a foreign country. Still, it seems and it is fairly natural that the educational system is the one responsible for the implementation and dissemination of the said testing services among the youth. At the same time it can be noted that public exposure depends highly on the respective centres’ policy, marketing strategy or publicity campaign.

## **Research method**

For a concrete determination of the needs and expectations of the students we conducted an investigation based on the questionnaire method. This form, as seen in Table 1, provides quick, extended and relevant data, easy to manipulate, compare and assess. As for the contents, it was designed to identify certain aspects. Thus, it first reveals the visibility, for the Romanian candidates, of various types of tests for language certification, and the source of their information. Then, it outlines the students’ opinions on the tests they have heard of, regarding certain criteria quantifying fame, relevance, usefulness, necessity, difficulty, affordability and effectiveness. Next, the expectations in terms of recognition are disclosed by asking all students to indicate – from a list of eight most commonly identified in the discussions with those that have taken one such tests and claim for equivalence – the ones that hold true for them in the view of a prospect registering for one of the examinations they know. This step should be the most important in understanding the misconceptions or farfetched outlooks and correcting their attitudes towards the tests in order to prevent future disappointments or inappropriate complaints.

1. Tick in the blanks next to the names of the tests for English Language Certificates you've heard of:  
TELC \_\_ ; LCCI \_\_ ; IELTS \_\_ ; CAE \_\_ ; BEC \_\_ ; FCE \_\_ ; TOEFL \_\_ ; other (name: \_\_\_\_\_).
  
2. Where did you find about such tests?  
Teachers\_\_ ; Colleagues\_\_ ; Internet\_\_ ; Brochures\_\_ ; Mass-media\_\_ ; other (specify: \_\_\_\_\_)
  
3. In the columns corresponding to each test you have heard about, give a mark from 1 (minimum) to 10 (maximum), considering the criteria specified in the first column:

Criteria \ Test	TELC	LCCI	IELTS	CAE	BEC	FCE	TOEFL	Other: _____
Fame on the Romanian market								
Relevance (credibility in certifying the level of knowledge)								
Usefulness (bringing/offering various benefits)								
Necessity (being required on the international market)								
Difficulty (needing special preparation)								
Affordability and value for money								
Effectiveness (Rewarding and fulfilling expectations)								

4. Tick from the following those that you would expect in terms of further acknowledgement after taking one of the examinations specified:

- by the Romanian Ministry of Education, instead of the Baccalaureate Examination in English \_\_\_\_\_
- by the Romanian Universities, instead of entering examinations in English \_\_\_\_\_
- by any future teachers, as replacements of marks for the tests within future education programs \_\_\_\_\_
- by international companies, in order to get jobs in Romanian subsidiaries \_\_\_\_\_
- by managers of various firms involved in relationships with foreigners \_\_\_\_\_
- by companies in English speaking countries in order to get jobs abroad \_\_\_\_\_
- \_\_\_\_\_
- by diplomatic institutions (consulates, embassies) in order to obtain a visa \_\_\_\_\_
- by academic institutions (universities, research centers) in order to get scholarships abroad \_\_\_\_\_

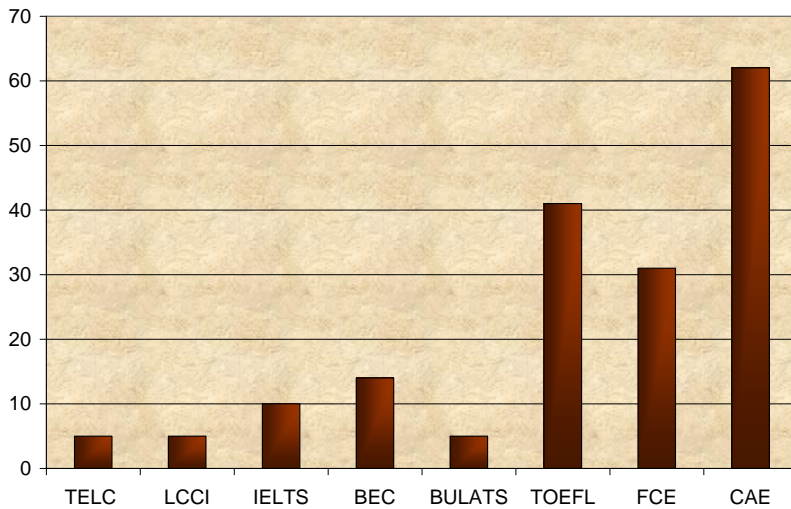
*Table 1. Questionnaire applied to a sample group of 1<sup>st</sup> year students in Economics and Law*

### **Synthesizing, classifying and assessing the results**

Applied to a sample group of first year students, 80 in number, the questionnaire provides information as for how much the high school graduates know about the English language competence tests of international recognition and exactly which they would consider more appropriate and why. The responses at the first question are synthesized in Figure 1, where we can note the number of answers certifying student's knowledge of the named tests. The chart makes it clear that there are certain tests obviously leading on the market, while others are barely heard of at the level of high school education and with the young university students.

The fact that TOEFL has a good score, as well as CAE or FCE, implies that, the students have been told about the most relevant examinations necessary for obtaining scholarships or maybe jobs in the USA, respectively in Europe. For the USA, the TOEFL is indeed world-famous – and it is also adapted to the CEFR (Common European Framework Reference) [2] –, while for Europe the Cambridge certificates seem to have taken the leading position, especially the advanced level, being heard of by most of the students asked. The middle positions are occupied by other two Cambridge products, the Certificate for Business English and the International English Language Testing System, much less famous than they should be, perhaps, for students in Economics. One examination named by some students, as for 'other' types, was the

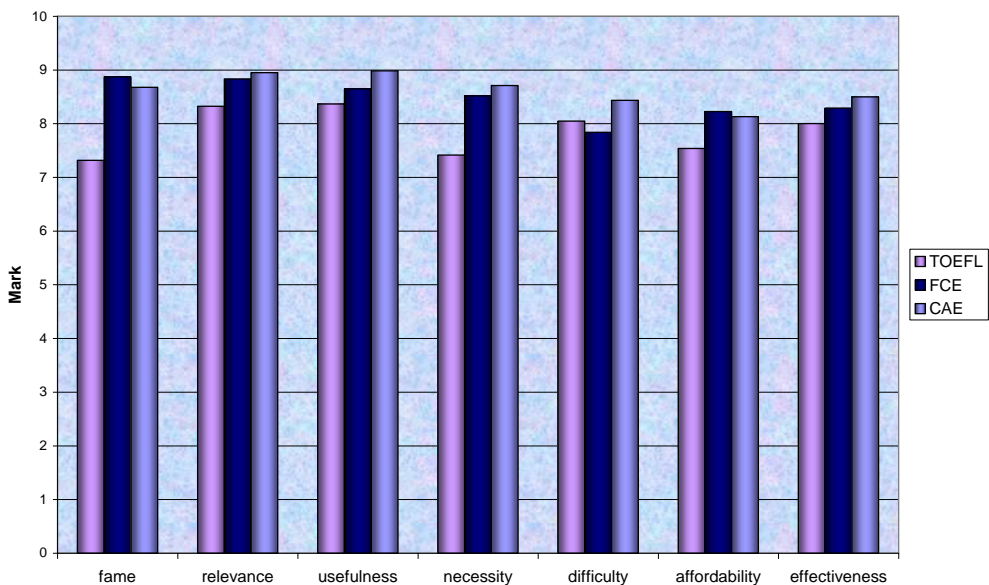
Business Language Testing Service, whereas The European Language Certificate and the one awarded by the London Chamber of Commerce and Industry were heard of rather by chance.



*Figure 1. Responses*

The results obtained from the third question were statistically operated on, being introduced into a calculation programme. They were such grouped that analysis could be further developed on similar levels. This approach will thus show a fair assessment, comparing outcomes alike. The relevance of this separation is obvious taking into account that it is only this way that results with high representation – and thus very little margin of error (as providing an average based on numerous instances) – can be distinguished from the ones with poor occurrence – which therefore present increased inaccuracy (their average being calculated from rather few examples, and thus not really pertinent).

The classification of the results will follow the averages of the marks given by the students, considering the seven criteria mentioned in table 1, question 3. Hence we can notice differences between the tests as well as, within the same test, between the various aspects implied by the given criteria.



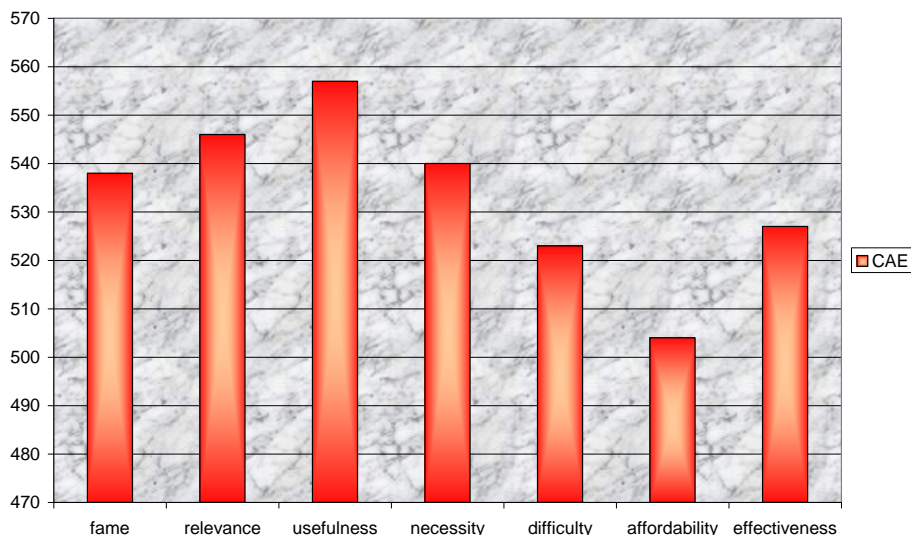
*Figure 2. Situation of most famous tests*

Considering the first group, that of the most relevant testing ‘products’ on the market, as seen in Figure 2, we may notice from the very beginning a discrepancy between what is believed and what was previously proved as a fact regarding the fame of the tests. For instance, while coming here on the first place as viewing its fame on the Romanian market, the First Certificate in English had just before proved to be the third only.

It can herewith be detected that TOEFL seems to be the less famous or necessary and has an overall qualification visibly poorer than the other two tests, which is understandable as it is known to be useful especially for the USA, a destination not very close for Romanians to take. While the two most famous Cambridge certificates hold really comparable positions, it can nevertheless be remarked that the Advanced English certificate is perceived as the more relevant, useful, necessary, efficient and, what is natural, the more difficult. All in all, it gets the highest average, if summing the criteria marks, as it does not run below 8 but reaches as much as 9, the highest level here.

For the most appreciated test, CAE, a more thorough investigation was conducted, and the total points gathered were taken into consideration, for a better observation of the concerns or worries as well as of the favourable opinions regarding this test. Analyzing the whole length of the scale, the extended area will easily hold true for the fact that the differences between the various criteria are much more relevant, as seen in the chart drawn in Figure 3.

A real concern for the affordability is remarked but it can be set against the very high usefulness, and the relatively small problem generated by the degree of difficulty, as compared with the impression of relevance and necessity that it triggers in the minds of the students, will create a successful combination so there is no wonder that this test acquired the bets rates. There isn’t harmony but a special balance governing the relevant criteria, which proves a winning formula. One aspect is still to be debated: that of the rather low effectiveness, given by the high expectancies, as it will further be seen from the answers for the fourth question of the questionnaire.



**Figure 3. Total points acquired by CAE**

The second group brings about less important information as it is assessed from a very small group, as aforementioned, and therefore not proving enough consistency and reliability. The fact that there are rather few people familiar with some of the tests mentioned here is explainable; the European Language Certificate, for instance, does not insist too much on its product recognition, simply stating their conformity with CEFR and mentioning the advantage of enhancing the CVs [3] are not enough. Still, the results obtained are represented in the chart provided by Figure 4, with TELC and LCCI proving most constant in their medium evolution, with BEC getting good qualifications but being perceived as rather unnecessary, IELTS obtaining lowest rates of fame and effectiveness, but seeming to have gained quite big

relevance and usefulness and BULATS, showing rather inconsistently the highest usefulness combined with low necessity.

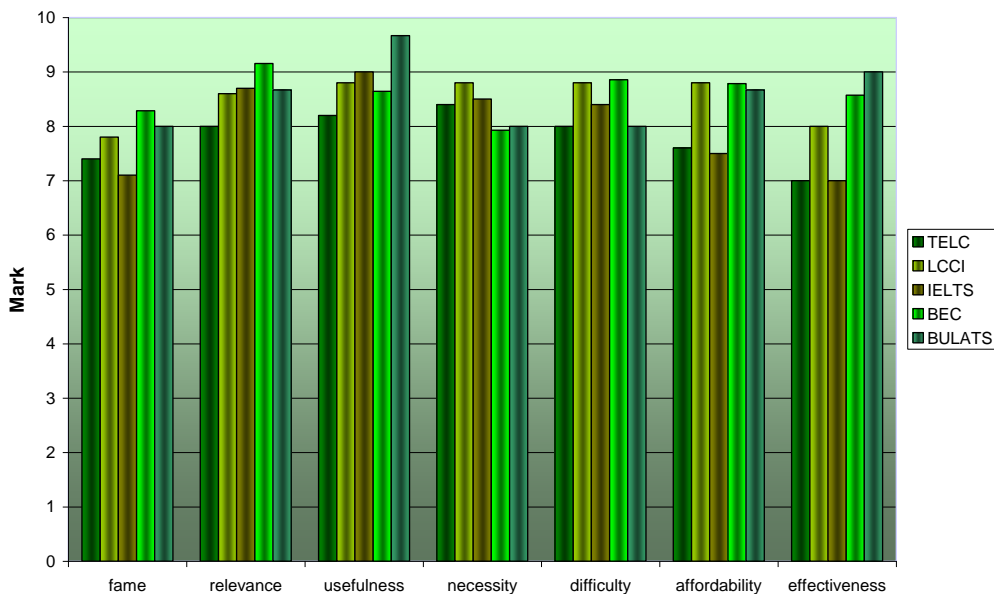


Figure 4. Situation of less famous tests

### Comments on the aspect of acknowledgement

The fourth question in the questionnaire reveals the students expectations in terms of further acknowledgement of the international language certificate tests, in general. The eight items which the students considered, in the questionnaires, are presented in the same order but shortened headings, in Figure 5, where the percentages of the student’s replies can be noted.

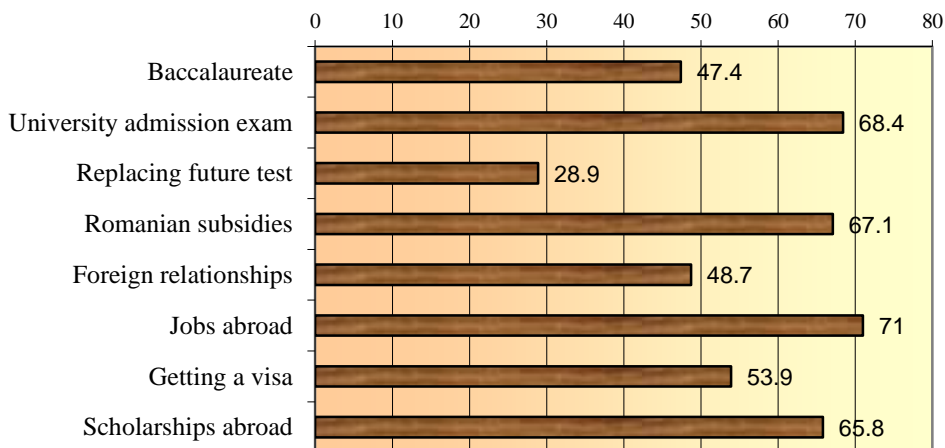


Figure 5. Percentages of expectations concerning further acknowledgement

As foreseeable, the expectation that companies in English speaking countries would acknowledge these certificates from candidates to the jobs they offer abroad, is the highest. 71% of the students questioned considered this as one of their expectations in terms of acknowledgement. The percentage could have been even higher, we would dare to say, as, indeed, it is mostly this that the usefulness of the tests mentioned consists in; when applying for all but the most insignificant jobs abroad, language certificates of

international recognition are not only accepted but even required. These basic data should be provided and thoroughly clarified by the centres themselves, which those with best designed sites do. [4]

Surprisingly enough, the second position is detained by the item referring to acknowledgement by the Romanian Universities instead of admission examination in English, exceeding 68%, which is rather concerning, as there is no connection between the two things; the Romanian higher education system functions on regulations from the Ministry of Education and a certificate of linguistic competence will not normally replace the examination for admittance to any institution of higher education, maybe except particular cases, depending on the autonomy of the institutions. The same is valid for the baccalaureate or any other future examinations in English. Even if the percentages are smaller for these items, their existence, getting closer to 50 % and respectively to 30%, are really worrying as all these are signs of a major misunderstanding and misperception of the true value and nature of these tests. Expectations of permanently, from then on, being given credit for any future tests in English on the basis of once having passed a test for international recognised certificate of linguistic competence is rather absurd. That would not only be lacking common sense, for reasons easily noticeable, from evading or not respecting any curricula to the impossibility of equivalence of a grade in one test with dozens of marks further needed to complete one's education throughout university or other learning programmes, but also get to finally demolish the whole educational system with no need of foreign language studies beyond the level of the 11<sup>th</sup> or 12<sup>th</sup> grade when high school students generally sit for such exams of linguistic certificates.

International companies could indeed require certificates even for local jobs (in Romanian subsidies), though it is not a very relevant matter, and thus the percentage obtained by the item may be a bit too high. Anyhow, it is nothing harmful here as long as it may become a trend or even a must with the opening of the Romanian economy to the international market. It will surely become more relevant in the future, so it seems to be more of a forecast. Almost the same percentage is acquired by the item referring to the recognition by academic institution in getting scholarships abroad. As in the case of getting jobs abroad, this percentage should be higher as it is also a primary reason why this testing system was implemented. Still, it depends also on the students needs, and it may be implied that they do not want to take those steps (jobs or scholarships abroad). They may be considering sitting for the examination for a different reason, from that of being en vogue and all the friends or colleagues taking it, to that of wanting to please parents or teachers or that of simply seeing how it is or wishing to test his or her own abilities, skills and knowledge of English. Other reasons, as being demanded by the Romanian employer engaged in business with foreign partners or as wishing to obtain a visa are being represented in the chart and, in our point of view, are both quite correctly assessed, in terms of relevance, as the percentages show.

As a conclusion, we may note that the questionnaire shed light on some important aspects regarding the expectancies students attribute to the test for language certificate internationally recognised. Misunderstandings as for the acknowledgements provided should be identified and corrected in order to prevent future disappointments. Another remark is that especially the students in Economics should be better informed about the tests on their speciality, and it seems to be a duty of the English teachers in Faculty of Economics to guide them towards tests as BEC, BULATS or LCCI.

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# OPPORTUNITIES AND DISAPPOINTMENTS WITH STUDENTS HAVING ACQUIRED AN INTERNATIONAL CERTIFICATE OF LINGUISTIC COMPETENCE

Horea Ioana

*University of Oradea, Faculty of Economics, Universităţii 1, ihorea@uoradea.ro, 0259408799*

*Based on the direct and everyday work in class, this paper brings into debate a problem noticed with the new generations of students joining the English language classes of non-philological profile. Because certain signs of misunderstanding as for the scope of the acknowledgement provided by the internationally language certificates, and especially concerning its appliance within the university system, have been noticed with the freshmen of the latest years, a thorough investigation of the matter seemed appropriate. It revealed that careful consideration should be given to the needs of those who registered in, sat for and passed a recognised examination in English, taking into account the set of expectations some of them had mistakenly assumed.*

*Key words: acknowledged competence, expectations fulfilment, tests' further recognition*

## **Disputed usefulness and controversial benefits**

It seems that the younger generations are more and more inclined to sit for an internationally recognized examination in order to obtain a language certificate. It is not only the desire to learn and test own knowledge of the foreign language, but it increasingly develops into a kind of a fashion among the high-school students. There is nevertheless much right in their taking such an endeavour as the Romanian opening towards the global market implies appropriation of internationally applied rules and regulations in what knowledge assessment is concerned, as well. The certifications recognised world-wide, as those following the Standard European Framework, for instance, started to be adopted and promoted, as sure proofs of Romania's integration into the abovementioned context where such certifications are required.

Doubtlessly appreciated, useful and even necessary in future interactions with other countries, these certificates may not show their real value in everyday situations and activities within the home country. Seemingly remote and rather improbable benefits, occurring mainly in case of applying for scholarships abroad, for jobs or residence in a foreign country, prove ineffective and insufficient to the more and more demanding young generation that invests in something and expects full and immediate reward. Psychologically, this expectation translates into rather negative emotional responses from the students having passed one of the said examinations, in front of the realities of the educational system they are involved in.

Not really aware of the true nature of these certificates' scope of acknowledgement, some students have strong and sometimes revolted claims of permanent and total recognition of the certificate they had obtained during high school years. Hence, teachers are more and more often faced with the situation of students demanding their certificate's equivalence with highest grade in further examinations regardless of any curricula, attendance or any practical language training that belong to the higher education syllabus. Such situations are as unpleasant as they are frustrating, with the teacher having to explain a logical banality as that of the unlikeliness of meeting the said claim.

On the other hand, there is the category of students having passed an internationally recognised examination and, seeing no incoming opportunities of benefiting from their 'investment', in the near future, get disappointed and somewhat confused, wondering about the usefulness and purpose of their hard work and expenditure, an attitude not at all helping in their development and further approach or trust in the educational system. This may cause a real loss as long as it is only best quality students that are referred to here, given the fact that it is these who will undertake the sacrifices and hard work of the preparation for an examination of that nature.



## Investigative approach

A quick survey was applied to students that have sat for an examination for one of the internationally acknowledged certificates of linguistic competence and, besides statistic information as the type of test, when they sat for it, the method of preparation or the grade obtained, it also comprises questions relevant for collecting data and opinions on the anticipations they had had, the accomplishments they felt afterwards, any shortcomings they might have noticed or, possibly, letdowns they came across.

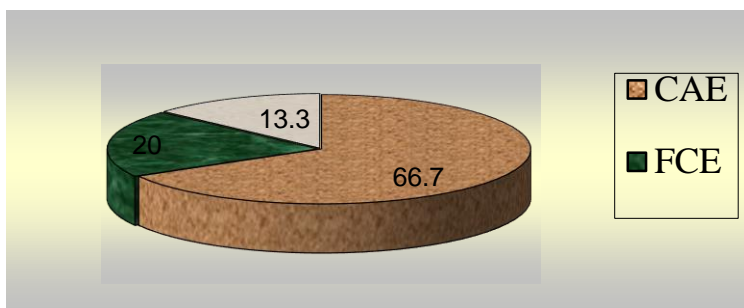
Applied to a sample group of 15 students having passed a test as discussed above, the assessment device followed, as shown below, in Table 1, the pattern of seven rapid answer queries of a statistical nature and three more questions, engaging more complex responses, that gave freedom of expression and opportunity to share thoughts and feeling concerning the subject.

1. Which of the internationally acknowledged English Examinations did you sit for?  
Test name: .....
2. Did you pass it? (tick)  
No..... / Yes.....
3. With what grade?  
Grade.....
4. When did you take it?  
Year .....
5. How old were you?  
Age.....
6. Where did it take place?  
Location .....
7. How did you prepare for it? (tick)  
Individually .....; Private tuition .....; Language centre .....; School .....
8. Why did you go for it? (mention your reasons and specify your expectations):  
.....  
.....
9. What did you accomplish by taking/ passing it? (mention benefits)  
.....  
.....
10. Are there any disappointments? (describe)  
.....  
.....

*Table 1. Survey applied to a sample group of 15 students having taken, prior to coming to the university, an internationally acknowledged examination for an English language certificate*

## Interpretation of results

With a hundred percent positive answers at the second question, it is obvious that all participants interrogated passed the examination they sat for. As the answers at the first question make clear, the majority, 66,6%, sat for the Cambridge Advanced Examination, but there were also 20% with First Certificate Examination, and two students having sat for other tests (BULATS, respectively TOEFL) as seen in the diagram presented in Figure 1.

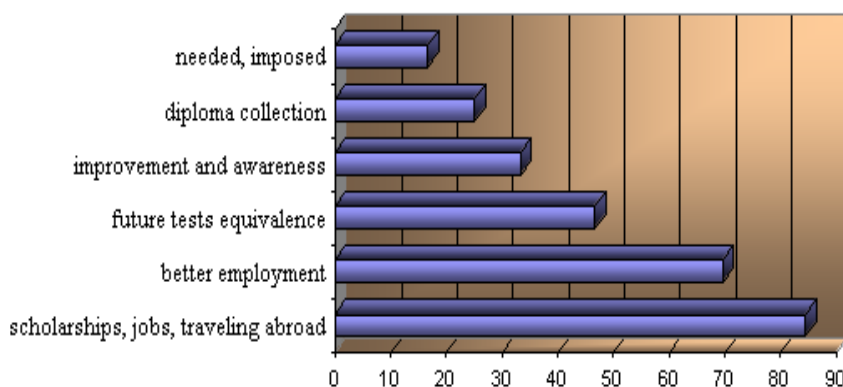


**Figure 1. Percentages of tests taken**

Rather low grades were obtained, as the answers to question three of the survey reveals, with 66,6% receiving a C and only 13,3 an A. Anyway, this type of scoring is itself controversial, researchers finding it insufficiently justified by the test developers. A “C” means 60% achievement of the total drills in the examination.

Most of the students took this examination at the age of 18, during their last year in high school and the venue for the CAE was with no exception the “Emanuil Gojdu” Highschool even though some of the students were attending other high schools (especially the Economic Highschool). In what the way of preparing for the examination was concerned, all but two underwent private tuition, half of them took some preparatory classes in their school two, and a sixth prepared individually.

As for the answers at the eighth question, we can see in the chart represented in Figure 2 that students know precisely that the certificate is particularly useful for getting a scholarship, a visa or permission to work abroad, but they would prefer a larger recognition within Romania and its educational system. Among the reasons for sitting for the exams, we can identify that most students thought it to be helpful in getting a good job later, some students mentioned it being necessary – imposed be the teachers or asked by the future employer –, others only wanted another diploma or ran for it out of an ambition, while others just wanted to find out their level of knowledge of the language and to improve it.



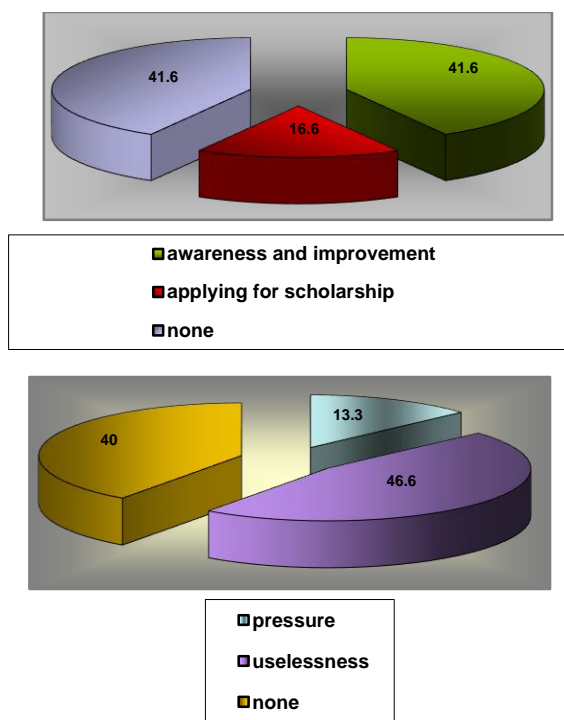
**Figure 2. Motivations for taking the examination**

The wish to acquire awareness and understanding of the skills and knowledge of English they possess seems indeed, on an international scale, to be preoccupying the students engaging in the endeavour of running for tests of the kind [1, 12-17]. Some of the students involved in the present survey specified that they liked preparing for it and that is an interesting point, as it is clearly known that whole classes in certain highschools are taught with a view towards the examination, so the English classes they take are truly preparatory for this particular goal, i.e. they are of a special character. The washback phenomenon, the effect of the tests on teaching and learning, is by now well-known and much discussed in the literature of speciality. “Where impact occurs in the form of teaching and learning directed towards a test, both intended positive or unintended and perhaps negative effects are generally referred to by the term

washback” [2, 114]. Interesting is, as the chart shows, that for more than a third this tended to become a purpose in itself, they taking the examination, along with the preparation for the testing, mostly for the sake of it, for getting aware of their abilities and thus knowing what to do to improve them.

Another point that seems to be of great importance is that if the majority of the students were aware that an international certificate of language competence would be useful in working, learning or travelling abroad – applying for a job, for a scholarship, or simply requiring a travel visa – , there were rather enough students relying on the fact that this certificate will be automatically equivalent with a high grade in any English exam that may follow or will bring them the ‘benefit’ of not having to sit for any other examination in English within the Romanian educational system. With almost fifty percent of answers denoting such opinions it is no wonder that a feeling of fulfilment is hard to achieve and, hence, the discontent and claims that rise. As other researchers stated, EFL tests are mainly and primarily not more than indicators of what the level is and how it should be improved: “the final grade can be useful for an overall indication of language ability; individual paper scores would add rich and useful information that could provide feedback to the instructional process” [3, 530].

The upshots of the tests, satisfactions or disappointments, felt since having passed the examination and obtained the certificate are assessed following the answers for the last two questions of the survey, and can be seen in Figure 3, broken down on benefits (a) and disappointments (b).



*a. Benefits*

*b. Disappointments*

*Figure 3. Outcomes*

While 40 % of the students declare there are no disappointments at all and they are completely satisfied with the examination and its outcome in terms of personal achievements, some, it is true that very few, 13.3%, sound off the pressure they have been put through during testing, considering it difficult to sit for, rather tiresome and quite stressful. It is just 16.6 % of the students that have so far benefited from their certificates when applying for a scholarship and 41.6 % perceive its usefulness in guiding them for future learning by making them aware of the level of knowledge they detained, while another 41.6 percent show the discontent of not seeing any benefits at all, as for now, at 1.5 or 2 years after the examination. This dissatisfaction, correlated with the uselessness they claim, in 46.6 %, when inquired about

disappointments, makes it clear that their anticipations were not really according to the real objectives of the test developers and the facts contradicted their expectations.

Thus, we can conclude that if this type of testing is a real asset and very effective for the development of language skills, one easy but important thing that needs to be done is informing candidates correctly, precisely and with no exaggerations, about the benefits they could await.

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# INTERNATIONAL PATHWAYS ON APPROACHING THE DILEMMA: LOCAL OR GLOBAL WHEN COMPETING TO BECOME TRANS-NATIONAL

**Judeu Viorina - Maria**

*Univeristatea Agora, Facultatea de Drept și Științe Economice , Piața Tineretului nr.8, email: viorina@univagora.ro, tel. 0722.762.939*

**Abrudan Maria – Madela**

*Univeristatea din Oradea, Facultatea de Științe Economice, Str. Universității nr. 1-3, Oradea, 410087, email: mabrudan@uoradea.ro, tel. 0723.958.516.*

## *Resume*

*Any action is being developed to achieve a certain purpose, to get a certain target. This is what differentiates the rational world from the irrational one. The success depends on lots of factors and of the established objectives. If the objectives are realistic the success may get along, but if not any target plan will be compromised. The new world global economy is characterized by a new technological basis, by extending and diversifying the business environment relations and a new way of interdependent when talking about national and international.*

*Key words: trans-national, competing, internationalization, local, global, cultural diversity, values.*

## **The process of internationalization**

*We are witnessing an unprecedented transfer of power from people and their governments to global institutions whose allegiance is to abstract free-market principle, and whose favored citizens are soulless corporate entities that have the power to shape and break nations."*

*Joel Bleifuss*

The process of internationalization of the business environment shows the great diversity of the nowadays world and imposes the approach of a corporation strategy that should take into account these realities.

One of the major characteristics of the nowadays business environment is the tendency to become international in order to emphasize the economical life. The process of internationalization entered in the phase of emergency, based on a strong system of trans-national interdependencies in commerce, production and in the financial field.

There are some aspects of the economical and social life that reflects the results of the internationalization. Among these can be noted the followings: the global marketing – the marketing strategies answer the requirements of the globalization and promote this process, the global science and technology – even if the sources are in the developed countries, the global research is based on global resources and the target is also global, the world financial global system – the economy is based on a network that implies banking and capital, national and international bodies and regulations, the infrastructure I communications – the technical process perfect the transport, mass media and a global sending and receiving information.

The main economical processes that sustain the tendency of internationalization is present in all the productivity and services fields and the promoting factor of this attitude and way of living is the trans-national company.

The internationalization of the company is an objective process. The reality shows that on the way of their development, the company tends to overcome the local limits first, then the national and regional borders are being crossed over and finally to extend their activity in the global environment, and this action is being accomplished by moving towards the exterior, by crossing the limits. This has as a basis the expansionism of the market forces, their tendency to invade the environment and to include them as a whole. The process of the company's internationalization is a gradual one that has many stages to come, stages that define the specific motivations to the global market.

When talking about trans-national there are some reasons why the companies want to become international – trans-national in their development process they are looking for some important devices in order for their company to be a global successful one.

Here in this paper we note some of them.

Looking for the efficiency - in the main time there is the complementary one of reducing the costs. The main idea is to reduce the costs of production, low level of payment of with the working force, with the tools and the production materials. In this process there are integrated also the research and development procedures.

Looking for resources is probably the most important issue. Here, mainly, the problem is about finding and exploring the natural resources. And, if these natural resources do miss into the original country the company is forced to look for them into other areas, so the development and the enlargement of the company takes place.

The company can also look for other stimulus, for example the financial ones, because there are some Governments that offer some stimulus for the corporations that invest in the countries that are being on their development process. In these areas there are also different partners, local partners that are willingly to work together, using the joint-ventures in order to explore and to use he resources. For the countries, mainly companies, that uses the joint-ventures methods. There is also a very important issue to take into account, and thus being the access to technology, to high-tech technology or to the possibility of developing some new technologies. Looking for the efficiency is the main motivation of the companies and in the process this dephragmentates geographically the production on stages, according to the resources on which the area has, things that differ upon the local levels.

There are some inputs that are considered to be common, but are capable to be introduced in separate productive units, when talking about the geographically position.

Looking for the new markets may be considered also a very important one that goes hand in hand with the pat of looking on the efficiency. The companies want to extend their markets on countries where there are a great number of consumers or where the buying force is greatly held by the consumers. Here an important issue is the analysis of the market and a way that the country may become attractive for the Mother company. An issue to be taken also into account is the money problem involving the transportation costs, the costs on the costumers, the costs of the working force, the quality of the infrastructure and the institutional development.<sup>238</sup> These companies whose main purpose is to look for the new markets, produce, mainly, global standardized goods.

A trans-national company offers great benefits to its actioners by diversifying their own portfolio. These companies are more protected by the international diversifications risks. And there is all about the equilibrium between the risks in the areas they extend and the diversification because the fluctuation in the host country may be predictable. The extension of the company towards the exterior is accomplished in a well defined business environment by using a great cultural diversity where the national cultures coexist with the subcultures. These companies that become trans-national function on a certain mentality and a certain way of understanding things. The cultural approach depends on the dominant mentality, on the management attitude connected to the final product, to the market issues and to the financial problems.

Considering the business global, business environment a market, “these trans-national companies think global and actions local”.<sup>239</sup> On the way of the experience growing on the internationalization process the companies adopt and perfect the methods of approach in the business environment, the tendency is being imposed by the requirements of assuring the competitiveness and efficiency at a global level.

The business management in a global economy bears the title of a real challenge, the challenge of internationalization and cultural diversity.

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<sup>238</sup> Enright, M., *The roles of regional management centers*, Management International Review, Special Issue, 45 (1), forthcoming, 2004, p.78

<sup>239</sup> Fatehi, Kamal, *International Management. A cross cultural and Functional Perspective*, Prentice Hall, 1996.p.67

## Is it a dilemma? Local or global?

Globalization through the increased mobility of people, economic liberalization, new communication technologies, and industry consolidation means the emphasis the importance of cultural diversity within and between states.<sup>240</sup> The potential trend towards trans-nationalization is raising concerns for the ability of the global communities to note and mingle the differences in all aspects of cultural expression including language, creative expression, values, ideas and histories. The importance of cultural diversity to social, economic, and political agendas is gaining field for the moment in international discussions and has been recognized as so. However, recognition and understanding is at varied levels. For some industrialized countries, trade and the vulnerability of national cultural models in a rules-based environment is the driving force. For other organizations and nations, interest arises from social cohesion, human security and prosperity objectives. For the most part, international discussions have yet to result in concerted action. One thing is clear – the current global environment will require a global approach to cultural diversity initiatives.

It is important to emphasize the growing importance of cultural diversity in the international policy agenda, and to highlight the varying levels of discourse in efforts to stimulate discussion on building international consensus on the importance of cultural diversity.

Organizations around the world has been realizing the cultural diversity within organization is not a negative aspect, rather can facilitate organizational stalk for glory. However it is not an easy task to manage employees with different cultural backgrounds. Nevertheless there are many policy guidelines that can make task easy. On a broader perspective, cultural diversity can be manage through communicating - creating awareness among all employees about diverse values of peers through communication, cultivating - facilitating acknowledgement, support and encouragement of any employee' success by all other workers, and capitalizing - linking diversity to every business process and strategy such as succession planning, reengineering, employee development, performance management and review, and reward systems strategies. There are many different innovative ways that organizations have adopted to manage diversity. If cultural diversity can be managed effectively, there is a potential to use diverse workforce for organizational benefits.<sup>241</sup>

The international business literature note several reasons why global diversification and firm performance should be positively related. First, markets are not perfectly integrated, thus involvement in more than one national market serves to balance out regional macroeconomic trends that are less than perfectly correlated. As a result, the trans-national companies should experience greater market performance since investors recognize and reward performance stability. The greater spread across international markets reduces the risk profile of the corporation's overall portfolio of business units, which in turn should have a salutary effect on corporate performance. Second, international diversification may yield cost advantages by allowing the firm to expand in its domain of distinctive competence and boost production economies without resorting to product diversification. This also allows cross-subsidization between markets. Third, market imperfection theory suggests that trans-national can exploit their home monopoly advantage (e.g., intangible, firm-specific assets such as technology and brand name recognition) by increasing their international presence. Finally, international diversification can boost market power by allowing the firm to arbitrage tax regimes, obtain more accurate environmental information, and raise barriers to entry.

The hypothesis that international diversification and firm performance should be positively related has been tested in numerous ways such as tracking company performance longitudinally as global expansion occurs comparing the performance of two or more groups of firms differing in their international involvement, and examining the regression effects of foreign involvement on firm performance. Unfortunately, research findings have been contradictory, suggesting that other factors may be responsible for the observed results.

The trans-national company considers the global market as being essential for the cultural development; the company sees the entire world as a unique market. The practices of multinational strategies offer new standardized products and it addresses to a much extended global market. The trans-national company

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<sup>240</sup> Bartlett C., Sumantra, *Managing Across Borders: The Trans-national Solution*, Boston: Harvard Business School Press, 1989, p.112.

<sup>241</sup> Enright, M., *The roles of regional management centers*, Management International Review, Special Issue, 45 (1), forthcoming, 2004, p.79

coordinates the subsidiaries in the world in order to have maximum benefit of the economies by choosing also to be fit for the local requirements. The control of the Mother company on the subsidiaries is more emphases and is being accomplished by using the planning and information centralized actions.

Success in the next twenty years will stem from successful joint ventures and alliances. Where once a global company simply sold its product or imposed a taste and multinationals geared the names or colors of identical products to the results of market research, the survival of trans-national will depend on flexibility in managing cultural diversity. Primarily, this entails the successful management of a multi-cultural workforce in a global context. But it also means being able to vary services across cultures: not simple marketing ploys imposed from outside, but an understanding of how culture drives differences from within. These differences may appear trivial, but they are profoundly culture-driven. The development of genuinely trans-national business organizations therefore requires managerial approaches and systems which allow for variations deriving from such diversity. This might be 'national' cultural diversity between nations, races or ethnic groups (eg. in a two-nation joint-venture), intra-national diversity involving the range of cultures within a single nation (eg. in the USA), or internal cultural diversity where managers need to deal with foreign-owned trans-national companies in their own country (eg. a British manager dealing with a Korean manufacturer in the UK). All this is well known, and there is indeed a burgeoning literature on the management of cultural diversity. But the problems go deeper than is often appreciated: it is not simply a matter of minding manners or learning to deal with varying attitudes to punctuality. These are the surface manifestations of much deeper differences in mental structures.

In the management of cultural differences the multicultural aspects are less important outside the company and more important is the overcome of the multicultural diversity inside the corporation. And this is because the trans-national company hires leading personnel and working personnel in and from the entire world. The multicultural approach is being built from outside to inside.

The creation and the forming of the organizational structures are influenced by a complex of factors. Factor that are objectives such as: the economical conditions, technological and political conditions and subjective like: the options of the management. One of the major factors that determine the organization procedures is the cultural value system, mainly the national culture. In the context of the internationalization and globalization of the economical life, the cultural diversity becomes an essential premise regarding the institutional system. In the stage of the internationalization means also the integration of the subsidiaries in a multinational corporation system. The subsidiaries lose a big part of their decisional autonomy, the strategy decisions will be taken by the superior manager from the headquarter. The trans-national company sees the world as a strategy of planning, organizing, framing the personnel and controlling the actions as being a global perspective.

As noted in another paper there are 3 stages of the company's becoming trans-national:<sup>242</sup>

- The initial internationalization phase, the so called fist landing, when the company values on the international level its own specific advantages, the competences and the abilities that made possible the entrance on exterior, the technological marketing and financial power.
- The implantation in the third country, the so called go-negative phase, here are valued the local abroad advantages, the company starts to develop the commercial and production capacities on the local markets and adopting the strategy on the local level. The way and methods of thinking and acting depends on the specific local measures.
- The final globalization phase is based on the advantages of the global strategies that present the market as being an entire, unique economical entity.

The global-local dilemma is in the centre of the relation between the Mother Company and its subsidiaries. On one side the global integration means the development of the actions in a similar way in all the world and markets, and on another side means to particularize the business on each market where the corporation functions.

The trans-national corporations represent the main reason and agent of the contemporary economy globalization. The phenomenon seen as an economic one is that of fully developing. This entity is formed of a Mother company, as I said it before in the paper, and its subsidiaries, that is being characterized by the

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<sup>242</sup> Lemaire, J.P., *Developpement international de l'entreprise, strategies d'internationalization*, Dunot, 1997, p.204-228.



production internationalization, that is based on a set of information and a set of international human resources, material and financial resources that promote at a global level a certain network of own values. These values offer to the company power and unique features. I consider these values to be the individualism for the companies; the things that individualize one company from another.

The trans-national corporation is for sure an organization where dominant is the hierarchical character in talking and implementing the decisions.

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# PRINZIPIEN DER FASSUNG WISSENSCHAFTLICHER ARBEITEN

**Onița Adina**

*Universitatea din Oradea, Facultatea de Științe Economice, str. Universității nr.1, tel. 0259 432830*

*The present paper focuses on main principles of academic writing. The structure of the scientific paper, the ethical principles and features of the author, the steps in the scientific research are presented in this paper.*

In der wissenschaftlichen Arbeit spielen eine sehr wichtige Rolle die ethischen Prinzipien des Wissenschaftler. Die wissenschaftliche Arbeit bezieht sich nicht nur auf individuelle Aktivitäten sondern auch auf das Mitteilen eigener Ergebnisse. Die gesammelten Daten müssen einen Endzweck haben. Die Form, die der Wissenschaftler für seine Arbeit findet muss jedem verständlich sein. Es muss ein Gleichgewicht zwischen der Form und dem Inhalt geben.

Umberto Eco stellt die Bedingungen einer wissenschaftlichen Arbeit dar. Er meint, dass der Wissenschaftler eine Thema wählen soll, die dem anderen bekannt ist. Man muss über den Forschungsgegenstand neue Aspekte ans Licht bringen oder ihn wiederinterpretieren, aus einem anderen Standpunkt. Der Forschungsgegenstand soll den anderen nützlich sein.

Man muss auch Daten zur Überprüfung der These zur Verfügung stellen.

Was versteht man unter Forschung? Die erste Bedingung der Forschung ist das Dokumentieren. Der Forscher muss alles über das Thema wissen; alle Daten und Aspekte der Forschungsgegenstand, die bis jetzt entdeckt wurden, müssen ihm bekannt sein. Der Forscher muss auch gewisse Eigenschaften haben. Er muss eine grosse Neugier, Einbildungskraft und Arbeitskraft beherrschen. Und nicht zuletzt soll er seine Neigung zu Forschung beweisen. Die wissenschaftlichen Arbeiten müssen neue Meinungen darstellen, die alten Meinungen unter die Lupe nehmen und originelle Lösungen vorschlagen. Es gibt in der Forschung verschiedene Schritte die der Wissenschaftler folgen muss. Der erste Schritt ist die Dokumentation. Die Etappe spielt eine wichtige Rolle. Dem Forscher muss nichts unbekannt sein, was über seine Thema geschrieben wurde. Wenn er die Daten der anderen Forscher nicht kennt, kann er zu den selben Lösungen kommen. Der Forscher muss noch einige Arbeitstechnik beherrschen, denn sie wird ihm zu seinem Ziel bringen.

Man kann die wissenschaftlichen Arbeiten nach verschiedenen Kriterien teilen. Man unterscheidet die wissenschaftlichen Arbeiten nach dem Stoff, das benutzt wurde: primäre Forschung, wenn der Forschungsgegenstand unter die Lupe genommen wird und sekundäre Forschung, wenn es um die kritischen Arbeiten die über den Forschungsgegenstand geschrieben wurden. Man kann der Forschungsgegenstand nach dem Ziel des Authors unterscheiden. Einige Arbeiten sind für einen didaktischen Zweck geschrieben. Andere wissenschaftliche Arbeiten sind für jeden gedacht.

Nach der grundlegenden Herangehensmethode kann man die analytische und synthetische Methode unterscheiden. Die analytische Methode bezieht sich auf einen einzelnen Aspekt, auf ein Phänomen. Die synthetische Methode konzentriert sich auf Gesamtheit, auf ein System. Diese zwei Methoden schließen sich nicht aus sondern die Synthese bezieht sich auf Ergebnisse der Analyse.

Die Dimension der Arbeit ist auch ein Kriterium, aber es gibt keinen Zusammenhang zwischen der Länge und dem Wert der wissenschaftlichen Arbeit. Man kann die wissenschaftlichen Arbeiten nach der Übertragungsmöglichkeit unterscheiden. Es gibt Arbeiten die mündlich oder schriftlich übertragen werden. Die Form der Arbeit unterscheidet sich dadurch.

Der Forscher muss die bibliographischen Daten der Arbeiten vorstellen. Diese Daten sind als der Ausweis der Arbeit gedacht. Die bibliographischen Daten geben uns weitere Informationen über die Arbeit; diese Informationen sind in strenger Ordnung zugeordnet.

Die Notizen spielen eine wichtige Rolle in einer Arbeit. Sie stärken die Verbindung der Arbeit mit der Bibliographie. Grundsätzlich sind Fuss- und Endnoten sparsam zu verwenden. Wichtige Argumentationsschritte gehören in den Haupttext, unwichtige sind wegzulassen. Fuss- und Endnoten dienen dazu, Ergänzungen und Erläuterungen anzufügen, die im Haupttext eher störend wirken, beispielsweise längere kommentierte Literaturverweise. Im Allgemeinen sind heute Fussnoten üblicher als Endnoten. Fussnoten befinden sich am Fuss der Seite, auf der eine Anmerkung gemacht wird, Endnoten am Schluss des Textes. Sie werden in der Regel mit einer 1

bis 2 Punkt kleineren Schrift formatiert.

Mit der Entwicklung des Internet kann der Forscher Informationen von hier sammeln. Es gibt viele Möglichkeiten, es gibt echte Bücher, aber auch Inhaltsangaben. Die Daten haben einen dynamischen Charakter, sie verändern sich ständig.

Der Haupttext der Arbeit soll in Times New Roman 12 Punkt oder Helvetica 11 Punkt (oder einem vergleichbaren Schrifttyp) bei 1,3-1,5-zeiligem Abstand geschrieben werden. Der

rechte Seitenrand beträgt 3,5 cm, der linke Rand 2,5 cm. Die Blätter werden einseitig bedruckt,

die Seiten durchlaufend nummeriert. In der Regel wird das Deckblatt nicht nummeriert,

d.h. das Inhaltsverzeichnis beginnt auf Seite 1. Gliederungspunkte werden im Haupttext optisch hervorgehoben. Tabellen werden fortlaufend nummeriert und mit einem Titel versehen. Ebenso werden Abbildungen fortlaufend nummeriert und mit Titel versehen.

Die Gliederung steht auf dem zweiten Blatt der Arbeit. Zu jedem Gliederungspunkt wird die Seitenzahl angegeben, auf der der Gliederungspunkt im Haupttext zu finden ist. Die Gliederung muss in sich schlüssig und logisch nachvollziehbar aufgebaut sein. Es empfiehlt sich, die einzelnen Gliederungsebenen dezimal zu nummerieren. In der Regel sollte bei Seminararbeiten die Gliederung nicht über die vierte Ebene hinausgehen. Ein Gliederungspunkt sollte sich immer auf einen in sich geschlossenen Text beziehen.

Der Haupttext einer wissenschaftlichen Arbeit besteht grundsätzlich aus den drei Elementen: Einleitung, Hauptteil, Schlussteil. Während die Funktionen und inhaltlichen Elemente der Einleitung und des Schlussteils im Prinzip für jede Form der schriftlichen wissenschaftlichen Arbeit gelten, hängen die Struktur und der Aufbau des Hauptteils in hohem Masse von der methodischen Anlage, der Themenstellung und dem formalen Charakter der Arbeit ab.

Die Einleitung dient der Einführung in die Inhalte der Arbeit. Sie liefert einen Überblick über das Thema der Arbeit, die Problemstellung und das Erkenntnisinteresse. Zusätzlich sollte hier deutlich gemacht werden, wie der Verfasser/die Verfasserin das Thema bearbeitet und die Arbeit aufbaut – damit stellt die Einleitung aus übergeordneter Perspektive das Bindeglied für alle nachfolgenden Kapitel dar. Die Funktion der Einleitung liegt vor allem darin, den inhaltlichen Rahmen der Arbeit abzustecken und den Leserinnen und Lesern kurz und prägnant eine Übersicht über die inhaltlichen Voraussetzungen, die zentrale Fragestellung und die inhaltliche Argumentation der Arbeit zu liefern. Eventuell nötige, erste grobe Begriffsklärungen und Probleme bei der Bearbeitung des Themas können in der Einleitung thematisiert werden. Eine wissenschaftlich präzise und umfassende Begriffsklärung und eine vertiefte Erörterung der relevanten Theorien erfolgt aber erst im Hauptteil der Arbeit.

Im Hauptteil bei empirischen Arbeiten, in denen mit Methoden der empirischen Sozialforschung Daten selbst erhoben werden, bietet sich folgende Gliederungslösung an: Kapitel zu Ansatz und Theorie: Hier werden die theoretische Einbettung des Themas und der Stand der empirischen Forschung zum Untersuchungsgegenstand dargestellt. Auf dieser Grundlage werden anschliessend die Hypothesen formuliert und erläutert. Kapitel zur Methode: Hier werden detaillierte Angaben zu der Konzeption, der Art und der Durchführung der empirischen Erhebung gemacht. Dazu gehören insbesondere Angaben zur Grundgesamtheit und Stichprobe, zu den eingesetzten Erhebungsinstrumenten und -techniken und den verwendeten statistischen Verfahren und Kennwerten. Kapitel zu Auswertung und Resultaten: Die Ergebnisse der Untersuchung werden hier in der Regel gemäss der Reihenfolge der Hypothesen dargestellt; eine weiterreichende Diskussion der Daten und ihre Interpretation in bezug auf die Forschungsfrage und die Hypothesen erfolgt hier noch nicht. Kapitel zur Interpretation: Im Rahmen der Interpretation der Daten wird dargelegt, welche Bedeutung die empirischen Ergebnisse im Hinblick auf die Fragestellung der Arbeit und die Hypothesen haben; die einzelnen Resultate werden hier erläutert und hinsichtlich ihrer Bedeutung bewertet. Bei theoretischen Arbeiten, in denen nicht die Darstellung selbst erhobener empirischer Daten im Vordergrund steht, ist die inhaltliche Strukturierung des Hauptteils stark von Thema und Fragestellung abhängig (z.B. in Seminararbeiten). Eine Gliederungslösung, die auf alle Arten von Arbeiten anwendbar ist, kann angesichts der Vielzahl möglicher Themen und Fragestellungen hier nicht angeboten werden.

Im Schlussteil werden die Erkenntnisse aus den einzelnen Kapiteln des Hauptteils zusammengefasst, verglichen, miteinander in Beziehung gesetzt, diskutiert und im Hinblick auf die Fragestellung der Arbeit abschliessend bewertet. Vergleichbar mit der Einleitung hat auch der Schlussteil der Arbeit eine übergeordnete Funktion, indem hier noch einmal der Gesamtzusammenhang aller Kapitel und Ergebnisse vorgestellt wird. Zugleich hat der Schlussteil die Funktion, die eigenen Ergebnisse in Beziehung zu bereits vorliegenden empirischen Daten und

vorhandenen Theorien zu setzen und sie einer abschliessenden Bewertung zu unterziehen: Welche neuen Erkenntnisse liefert die Arbeit und welche Konsequenzen hat dies für das wissenschaftliche Verständnis des Untersuchungsgegenstandes? Ferner kann im Schlussteil auch ein Ausblick auf offene Fragen und weiteren Forschungsbedarf erfolgen.

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## **Hauptteil**

Bei empirischen Arbeiten, in denen mit Methoden der empirischen Sozialforschung Daten selbst erhoben werden, bietet sich folgende Gliederungslösung an:

**Kapitel zu Ansatz und Theorie:** Hier werden die theoretische Einbettung des Themas und der Stand der empirischen Forschung zum Untersuchungsgegenstand dargestellt. Auf dieser Grundlage werden anschliessend die Hypothesen formuliert und erläutert.

**Kapitel zur Methode:** Hier werden detaillierte Angaben zu der Konzeption, der Art und der Durchführung der empirischen Erhebung gemacht. Dazu gehören insbesondere Angaben zur Grundgesamtheit und Stichprobe, zu den eingesetzten Erhebungsinstrumenten und -techniken und den verwendeten statistischen Verfahren und Kennwerten.

**Kapitel zu Auswertung und Resultaten:** Die Ergebnisse der Untersuchung werden hier in der Regel gemäss der Reihenfolge der Hypothesen dargestellt; eine weiterreichende Diskussion der Daten und ihre Interpretation in bezug auf die Forschungsfrage und die Hypothesen erfolgt hier noch nicht.

**Kapitel zur Interpretation:** Im Rahmen der Interpretation der Daten wird dargelegt, welche Bedeutung die empirischen Ergebnisse im Hinblick auf die Fragestellung der Arbeit und die Hypothesen haben; die einzelnen Resultate werden hier erläutert und hinsichtlich ihrer Bedeutung bewertet.

Bei theoretischen Arbeiten, in denen nicht die Darstellung selbst erhobener empirischen Daten im Vordergrund steht, ist die inhaltliche Strukturierung des Hauptteils stark von Thema und Fragestellung abhängig (z.B. in Seminararbeiten). Eine Gliederungslösung, die auf alle Arten von Arbeiten anwendbar ist, kann angesichts der Vielzahl möglicher Themen und Fragestellungen hier nicht angeboten werden.

# THE STYLE IN THE LANGUAGE OF PROMOTIONAL LITERATURE

Pop Anamaria Mirabela

*Universitatea din Oradea, Facultatea de Științe Economice, Str. Universității 1, Oradea*

*mipop@uoradea.ro, +40-259-408-799*

*Abstract: Advertising is an inevitable part of the modern capitalist consumer society whose outstanding feature is its competitive fight. The aim of advertising is to be catchy and easy to remember. Advertisers use language quite distinctively: there are advantages in making bizarre and controversial statements in unusual ways as well as communicating with people using simple, straightforward language. Copy-writers are well-known for playing with words and manipulating or distorting their everyday meanings. They break the rules of language for effect, use words out of context and even make up new ones.*

*Key words: advertising, ads, language, rhetorical devices*

## 1. Introduction

In its simplest sense, the word “advertising” means “drawing attention to something”, or notifying or informing somebody or something. You can advertise by word of mouth, quite informally and locally, and without incurring great expense. But if you want to inform a large number of people about something, you might need to advertise in the now familiar sense of the word, by public announcement.

Advertising as we know it today has undergone major transitions from its early forms. Trademarks as symbols on objects to represent its creator have been in use since thousands of years BC. The urge to connect objects with their manufacturer and to create that relationship between the user and the creator establishes the foundation for all forms of advertising that have come since. In the beginning of industrialization, when advertising for commodities first came about, imagery was mostly used to represent the product and to depict the desirable effect of such new products on its users. Most advertisements at the time were aimed at women—white homemakers—and promoted goods to make their life more convenient. The first advertising agency was founded in 1843. To accommodate the growing demand for advertising space in newspapers, these early advertisers were mostly in charge of selling the space in the paper rather than the actual design. It was not until the early 1880s that advertising agencies became responsible for the content of the ads which included more than simply securing the space in the publication, but also writing, designing and illustrating the ad. Victorian era ads are text heavy and read like an instruction manual accompanied by illustrations. From today’s perspective these early advertisements are too busy to be arresting and the overall unity and identity of a company is missing. This began to change after the turn of the century when Peter Behrens was the first designer to create a full identity system for a company (AEG). However, trademarks and identity design were not truly embraced until the mid 20th century.

In the course of time, people tried more and more to differentiate their products and began to find out new ways of presenting. They started to accentuate the visual aspect of the advertisement. With the expansion of colour printing and colourful posters the streets began to revel in colours. These posters were ancestors to modern billboards. As the economy and the trade were expanding during the 19th century, the need for advertising grew. Gradually, advertising transformed into a modern, more scientific and sophisticated conception. New visual techniques have been launched. Not only the content of the message is important, but also the form. The creativity of copy-writers, who are finding new ways, leads to the richness of various forms of advertising.

People who criticize advertising in its current form argue that “advertisements create false wants and encourage the production and consumption of things that are incompatible with the fulfilment of genuine and urgent human needs”.<sup>243</sup> According to Dyer, advertising is an irrational system which appeals to humans’ emotions and to anti-social feelings which have nothing to do with the goods on offer.<sup>244</sup> Advertisements usually suggest that private acquisition is the only avenue to social success and happiness – they define private acquisition and competitiveness as a primary goal in life, at the expense of less tangible rewards like better health care and social

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<sup>243</sup> Dyer, Gillian, *Advertising as Communication*, London: Routledge, 1982, p.3.

<sup>244</sup> Cf. Gillian Dyer, *Op.cit.*, p.3.

services. It is said that the consumer economy diverts “funds from socially useful and human needs and make us greedy, materialistic, and wasteful.”<sup>245</sup>

On the other hand, those who defend advertising say that it is necessary,, economically speaking and has brought many benefits to society, contributing to “society’s wellness and raises people’s standard of living by encouraging the sales of mass-produced goods, thus stimulating production and creating employment and prosperity.”<sup>246</sup>

## 2. Advertising as communication

### 2.1. The language of advertising

Advertising language is a “loaded language”.<sup>247</sup> Its primary aim is to attract the attention favourably towards the product or service on offer. Advertisers use language quite distinctively: there are advantages in making bizarre and controversial statements in unusual ways as well as communicating with people using simple, straightforward language. Copy-writers are well-known for playing with words and manipulating or distorting their everyday meanings. They break the rules of language for effect, use words out of context and even make up new ones. However, simple and direct language and modes of address can still be used to attract attention and add emphasis to a picture. The use of the imperative mode is very common in advertising: “Buy this”, “Try some today”, “Don’t forget”, “Treat yourself”.

Catching the audience’s attention and imagination and helping memory are the main functions of advertising language. The public’s memory is also helped by brand names, slogans and catch-phrases, rhythm and rhyme, fragments of songs or verse and endless repetition.

The language of advertising is able to “take on any form that is required for communicating its message, thus covering and utilizing the entire linguistic continuum”.<sup>248</sup> Speaking the language of recipients is one of the major requirements of successful sales talk.

### 2.2. Linguistic means used in advertising language

#### 2.2.1. Phonology

Advertising language often uses the techniques similar to those in poetic texts. The advantage of so-called mnemonic devices (rhyme, rhythm, alliteration and assonance) is the mnemotechnical effect. It guarantees that the receiver of the advertisement better remembers the text and recalls it at the right moment.

##### a) Rhyme

Rhyme is a pattern of “identity of sound between words or verse-lines extending from the end to the last fully accented vowel and not further.”<sup>249</sup> Rhyme refers to sounds, not spelling. It is commonly found in jingles, slogans and headlines.

e.g. “Eukanuba gives their teeth the strength they need.”<sup>250</sup>

##### b) Rhythm

The aim of advertising is to be catchy and easy to remember. One of the devices how copywriters can reach it is to use prosodic features – intonation, rhythm and lexical stress - because they have a great emotional and mnemonic effect. Copywriters often use language with rhythmical arrangement. The listener or reader need not notice it and he perceives it only subconsciously. The result is that the text is memorable and linguistically neat. If the rhythm has some regularity, it is called metre. “Metre is a pattern composed of rhythm groups (feet) consisting of similar

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<sup>245</sup> Cf. *Idem, ibidem*.

<sup>246</sup> Dyer, Gillian, *Op.cit.*, p.4.

<sup>247</sup> Leech, Geoffrey, N., *English in Advertising: A Linguistic Study of Advertising in Great Britain* (English Language Series). London: Longman, 1972, p. 76.

<sup>248</sup> Sternkopf, Sylva-Michele, *English in Marketing: International Communication Strategies in Small and Medium- Sized Enterprises*, Frank & Timme GmbH, 2005, p.210.

<sup>249</sup> *Concise Oxford English Dictionary* 2004

<sup>250</sup> [www.eukanuba-eu.com/](http://www.eukanuba-eu.com/)

or identical patterns of stressed and unstressed syllables. (...) Metrical scheme may easily pass unnoticed.)<sup>251</sup> English poetry has various types of metrical feet. Among the most important belong *an iamb* (an unstressed syllable followed by a stressed syllable: x /), a *trochee* (a stressed syllable followed by an unstressed one: / x), a *dactyl* (a stressed syllable followed by two unstressed syllables: / x x), a *spondee* (consisting of two stressed syllables: / /), a *pyrrhic* (two unstressed syllables: x x), and *an anapest* (two unstressed syllables followed by a stressed one: x x /). Advertisement slogans often benefit from the metrical regularity:

e.g. “Flatter your figure with Dietrim.”<sup>252</sup> This slogan is composed of three dactyls.

/ x      x / x      x / x x

'flæ/tə(r) jə(r) 'fl/gə(r) wɪð 'dæl/ə/trɪm

### c) Alliteration

Alliteration can be defined as “literary technique, in which successive words (more strictly, stressed syllables) begin with the same consonant sound or letter.”<sup>253</sup> It is widely used in advertising slogans.

e.g. “Performance. Prestige. Passion for Innovation.”<sup>254</sup>

### d) Assonance

Assonance is a linguistic device, in which the same vowel in successive stressed syllables creates a vowel harmony. It is not so obvious type of scheme as alliteration.

e.g. “How much reality can you handle?”<sup>255</sup>

### e) Graphic aspect of the text

The graphic aspect of the text deals only with graphic elaboration of the text. Almost all printed advertisements exploit from the fact of being printed. Copywriters have to decide how to make the layout. The selection of script, its colour, type and size is the inevitable part of making a good advertisement. However, not only this may contribute to the final effect. The other possibilities are:

- *Unpredictable spelling of words* (“Beanz Meanz Heinz”, “4ever”, “Bar B Q”, “süper”, etc.)
- *Higher frequency of low-frequent letters* that produce outstanding sounds (“X” is very popular: “Xerox”, “Botox” and use of palato-alveolar consonants /tʃ/, /f/, /dʒ/).
- *Unexpected print of letters* - whether the size or their shape is similar to some object and this object replaces the letter.
- *Acronyms and initialisms with graphic exploitation* – the letters of abbreviation create the first letters of words. The effect is highlighted by means of colour, size or layout:

e.g. “XTROVERT. XPLOSIVE. LOVE THE COLOUR. COLOR XXL”

<sup>251</sup> Leech, Geoffrey, *Op. cit.*, p.186.

<sup>252</sup> [www.vitabiotics.com/dietrim/](http://www.vitabiotics.com/dietrim/)

<sup>253</sup> <http://www.wikipedia.org/>

<sup>254</sup> [http://www.clevelandjewishnews.com/pdf/MANN\\_Jewelers.pdf](http://www.clevelandjewishnews.com/pdf/MANN_Jewelers.pdf)

<sup>255</sup> [www.samsung.com/](http://www.samsung.com/)

f) Transliteration

Using of transliteration in advertisement is not so frequent, but when occurred, it makes a positive result. It definitely attracts reader's attention. Transliteration means the transformation of foreign words into English. Usually the spelling of the foreign word is different but the pronunciation in these special cases is the same as English:

e.g. "BE COINTREAUVERSIAL."<sup>256</sup> (COINTREAU is the name of French alcoholic drink)

2.2.2. Lexical and morphological aspect

f) Adjectives

While reading the advertisement, the reader may notice the hyperbolic character of the language. This exaggeration causes increased number of comparative and superlative adjectives. The product is better, nicer, newer, and tighter and the customer is happier and more satisfied. The product offers more information, more entertainment, more comfort, more than any other product.

Adjective	Pharmaceuticals	Bottled Water	Cosmetics	Shampoo	Soap	Cereal	SUV	Jeans	
Alive		2	4	6	6	5	2	5	2
Clear		2	9	8	2	4	0	0	0
Comfortable		1	0	2	0	0	0	9	10
Crunchy		0	0	0	0	0	10	0	0
Fresh		0	7	3	6	6	5	0	0
Good-looking		1	0	10	5	0	0	5	9
Good value		3	3	2	5	5	4	9	3
Happy		3	0	6	1	1	2	3	2
Healthy		7	10	4	5	3	10	0	0
Large		0	3	0	2	0	1	10	0
Loud		0	0	3	0	0	0	1	1
Pure		6	9	6	5	6	3	0	0
Reliable		2	0	1	0	0	0	10	0
Rugged		0	2	0	0	0	0	9	9
Safe		9	2	3	1	1	1	10	0
Small		2	1	2	0	0	0	0	1
Strong		7	0	2	2	3	1	7	2
Stylish		0	0	8	8	0	0	6	10
Tasty		1	1	0	0	0	9	0	0

Source: [www.stanford.edu/class/linguist34/](http://www.stanford.edu/class/linguist34/)

a) Epithet

is a descriptive word or phrase, which "An adjective expressing some quality, attribute, or relation, that is properly or specially appropriate to a person or thing; as, a just man; a verdant lawn."<sup>257</sup> There are two types of epithets: *epithet constans* (commonly used stereotyped collocation, e.g. heavy rain, bright day) and *epithet ornans* (decorative). In advertising, most widely used are epithets like fresh, new, gentle, creamy, silky, delicious, beautiful, ideal, excellent, unforgettable, eternal, etc., and, accordingly, the gradational forms of them.

<sup>256</sup> [www.becointreauversial.com/](http://www.becointreauversial.com/)

<sup>257</sup> <http://www.brainyquote.com/words/ep/epithet161070.html>



### b) Foreign words

Foreign words are used in advertisements to emphasize the origin of the product or exclusiveness of the product in relation to particular country:

e.g. “La crème de la crème of lipcolour.”<sup>258</sup>

French word ‘crème’ evokes the impression of good-class French cosmetics. Even more, the phrase ‘crème de la crème’ is taken from French and it means ‘the best people or things of their kind’.<sup>259</sup>

### 2.2.3. Semantic aspect

Each linguistic expression has its literal meaning. Literal meaning denotes what it means according to common or dictionary usage (or more exactly, what “the reader is most likely to assign to a word or phrase if he or she knows nothing about the context in which it is to be used.”<sup>260</sup> The same linguistic expression, however, may have also its figurative meaning. It connotes additional layers of meaning and evokes associations; for example, the word ‘professional’ has connotations of skill and excellence. It is not possible to give an exhaustive account of the connotations of the expression, because connotative meanings, which have been evoked in an individual, depend on people’s entire previous experiences and on conventions of community. Therefore, the connotations of the same expression will differ slightly from person to person. Furthermore, the same denotations can have different connotations in different context. Vestergaard and Schroder believe that in advertising language, the most frequent word for ‘acquisition of product’ is ‘get’, and not ‘buy’, because ‘buy’ has some unpleasant connotations, like ‘money’ and the parting with it.<sup>261</sup>

For people, associations are very powerful, so the advertisers pay attention to this aspect of language. They play with colours, because colours may have various positive or negative connotations: innocence / snow / ice / race, and others for white; passion / blood / stop signal / fire for red etc. They must be careful about the target group, because each culture may have different connotations to the same expressions: in Chinese and Indian tradition, white is the colour of mourning, death, and ghosts. In India, white also stands for peace and purity. Red colour in Eastern European countries may have slightly negative connotation in relation to the identification of communism with “socialist” red.

A *trope* is “a word or phrase that is used in a way that is different from its usual meaning in order to create a particular mental image or effect.”<sup>262</sup> It is a figurative expression. In what follows, we provide a list of most important tropes used in advertising language: personification, simile, hyperbole, and metaphor. In relation to semantic aspect of language, antithesis, polysemy, and homonymy are defined.

### c) Personification

Personification is a term used mainly in literature to name the figure of speech, which “involves directly speaking of an inanimate object, or an abstract concept, as if it were a living entity, often one with specifically human attributes. These attributes may include sensations, emotions, desires, physical gestures and expressions, and powers of speech, among others.”<sup>263</sup> The readers of advertisements usually do not register or realize that there is used personification in the text. It is used very widely – in all the expressions like “...(name of a facial crème) gives you silky skin”, “...(name of a product) fulfils your wishes” or “Dirty kitchen? Nothing cleans it up like ... (name of a cleaner)” are on the base of personification of a brand name: a cleaner ‘cleans’, but even thought, cleaning is an activity proper to human beings.

### d) Simile

Simile is defined as “a direct, expressed comparison between two things essentially unlike each other, but resembling each other in at least one way.”<sup>264</sup> Usually, similes are marked by use of the words ‘like’, ‘than’, ‘as’ or ‘as if’. We may also find comparative constructions used when comparing two things or two situations: “as...as”, “so...as”.

<sup>258</sup> [www.sephora.com/](http://www.sephora.com/)

<sup>259</sup> *Oxford Advanced Learner’s Dictionary*, 2001

<sup>260</sup> <http://www.wikipedia.org/>

<sup>261</sup> Vestergaard, Torben, Schroder, Kim, *The Language of Advertising*, New York: Basil Blackwell Inc., 1985, p. 94.

<sup>262</sup> *Oxford Advanced Learner’s Dictionary*, 2001

<sup>263</sup> <http://www.wikipedia.org/>

<sup>264</sup> <http://home.cfl.rr.com/eghsap/apterms.html>

e.g. “Ibuleve gel as fast & effective as pills? Now there’s clinical evidence.”  
“Breakfast without orange juice is like a day without sunshine.”<sup>265</sup>

#### e) *Hyperbole*

A hyperbole is “the deliberate use of overstatement or exaggeration to achieve emphasis. Businessmen and manufacturers use the figure of speech to advertise their goods in as attractive a way as possible.”<sup>266</sup>

e.g. “No other pain-relieving gel works like Deep Relief.”<sup>267</sup>

#### f) *Metaphor*

Central to much of modern day advertising in glossy magazines is the use of metaphors, similes, and analogies. Metaphors are interesting because depending on how individual’s perceptions, interests, experiences and motivations they can lead to different interpretations. A single metaphor can be worth a hundred words of copy. Typically defined as statements and/or pictures that cause a receiver to experience one thing in terms of another, these literary devices can efficiently communicate additional information and transfer meaning between a referent and a brand. Metaphors can also stimulate deeper levels of processing because of their interest value and because they stimulate curiosity about a brand. The word metaphor is derived from the Greek word “*metapherein*” meaning “to transfer.” According to *Webster’s Third New International Dictionary* a metaphor is defined as follows: “A figure of speech founded on resemblance, by which a word is transferred from an object to which it properly belongs to another in such a manner that a comparison is implied though not formally expressed.”<sup>268</sup> A metaphor is a form of comparison, a rhetorical trope, classified as a direct comparison or crossmapping across two or more seemingly unrelated subjects.

Lakoff and Johnson in their book, *Metaphors We Live By*, define metaphor as “statements and/or pictures which cause a receiver to experience one thing in terms of another.”<sup>269</sup>

e.g. “Clearly, Mother Nature is a romantic.”

In advertising, a metaphor usually creates a comparison between the product or service and some other quality the advertiser wishes to be associated with the product or service advertised:

e.g. “One touch. One light, effortless touch and she realized freedom was something you feel.”<sup>270</sup>

This advertisement is for Revlon face powder. The sentence indicates that the freedom is actually the powder, because when you put the powder on your face, you will feel free.

There are two types of metaphor: verbal and visual. *Visual metaphors* do not relate only to words, but they depict relationships between a product or service and some object or visual element with qualities that the advertiser wishes to attribute to the product or service. In print advertising, visual metaphor is widely used, because it takes advantage from the possibility to accompany the text by the image.

Advertisements for perfumes often without the body text but with the picture of a young beautiful model in light transparent dress use a metaphorical implication: a perfume will ‘cover’ you in the same way like the dress gently covers the woman in the picture.

There are cases, in which a famous person stands for and represents the whole brand. The qualities of him or her are attributed or aligned with the qualities of the product. Sasha Cohen, a famous figure skater, represents the unstoppable quality and charm of the product, a bracelet:

e.g. “UNSTOPPABLE *Charm* SASHA COHEN HAS IT. So does her Citizen Eco-Drive.”<sup>271</sup>

#### g) *Antithesis*

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<sup>265</sup> [www3.fertilethoughts.com/forums/archive/index.php/t-321565.html](http://www3.fertilethoughts.com/forums/archive/index.php/t-321565.html)

<sup>266</sup> <http://www.languageinindia.com/march2005/advertisingenglishhongkong1.html>

<sup>267</sup> [www.sorenomore.com/testimo2.html](http://www.sorenomore.com/testimo2.html)

<sup>268</sup> *Webster’s Third New International Dictionary*,

<sup>269</sup> Lakoff, George, Johnson, Mark, *Metaphors We Live By*, Chicago: University of Chicago, 1980, p.8.

<sup>270</sup> [www.revlon.com/](http://www.revlon.com/)

<sup>271</sup> [www.citizen.co.jp/english/](http://www.citizen.co.jp/english/)

“Antithesis is a figure of speech, which uses the same or similar structure to express two opposite ideas so as to achieve the effects of emphasizing the meaning and the contrast. The figure has the characteristics of harmonious combination of sound and rhyme, balanced syllables, sharp rhythm and compendiousness. The combination of pleasant senses of vision and hearing often stimulates the good feelings of readers and arouses consumers’ buying desire.”<sup>272</sup> Antithesis relates to words, clauses or sentences. It is based on antonyms (words of opposite meaning) or opposite ideas:

e.g. “Talks inside. Shouts outside. New 2006 Fiesta.”<sup>273</sup>

### **3. Conclusion**

Advertisers play a major role in shaping society’s values and habits. In general, the success of advertising depends not on its logical proposition but rather on the fantasies it provides. The world of ads is a dream world where people and objects are taken out from their material context and given new symbolic meanings, placed on hoardings. Everything means something to somebody, whether people realize it consciously or it stays in their unconscious. At the same time it is important to note that the creator behind meaning—even if it is incredible vague—brings their own background and collection of connotative meaning and associations to the piece. By overlaying image with words—which are in themselves signifier—we create a wide array of meaning that can be various and that is completely arbitrary. As we are confronted with images and text, our mind starts to associate all of the signifiers within a construct with our own personal experiences, knowledge, emotions and feelings. So even if the creator of such a construct never intended for it to have any meaning it is as good as impossible to rule out any associations for the viewer.

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<sup>272</sup> <http://www.languageinindia.com/march2005/advertisingenglishhongkong1.html>

<sup>273</sup> [www.ford.com/](http://www.ford.com/)

# THE USE OF WORDPLAY AND IDIOMS IN BRANDS

**Pop Anamaria Mirabela**

*Universitatea din Oradea, Facultatea de Științe Economice, Str. Universității 1, Oradea, mipop@uoradea.ro, +40-259-408-799*

*Abstract: English advertising exploits from the high adaptability of the English language which enables the creators of advertisements to use word puns, figurative language, and to mix individual styles and types of texts. Brands have an extraordinary capacity to compact complex and subtle nuances of differences in values, beliefs and desires. Combining the history of a particular brand with careful marketing manipulation of its current ideological profile as demonstrated in advertisements, sponsorship, use by high-profile celebrities etc., a brand becomes a powerful instrument.*

*Key words: brand, language, wordplay, idioms*

## **1. Introduction**

### ***1.1. Brands. Defining the concept of brand***

Brand is defined as a label of ownership: name, term, design, or symbol. However, today it is what it does for people that matters much more, how they reflect and engage it, how it defines their aspiration and enables them to do more. Powerful brands can drive success in competitive and financial markets, and indeed become the organization's most valuable assets.

The most compact and potent of visual signalling systems, brands allow consumers to express complex beliefs and values instantaneously. But as the lifestyle message becomes the product, companies need to constantly monitor and precisely shape what it is that the brand signifies.

The general presumption regarding the question how brands have become ever more powerful and omnipresent in the landscape of contemporary consumption is that the increasing shift towards brands simply reflects our culture's on-going obsession with displays of wealth and status: the big name brand signalling that you can afford the best. While there is no doubt truth in this view (especially amongst those from economically disadvantaged backgrounds eager to signal success) it neglects or obscures an understanding of how most brands and consumption patterns have altered over the last two decades.

The rapid rise in importance of brands in the 80s coincided with a political landscape epitomised by Ronald Reagan and Margaret Thatcher which (breaking with the questioning of wealth for its own sake which had begun with the middle-class Beats and the Hippies) saw no stigma in success. Within this Yuppie worldview, a brand's capacity to signal that you could afford the best was clearly desirable and the shift away from brands (or, at least, to obscure, smaller brands) which began in the 60s was reversed.

However, even before the 80s were over, this rather simplistic language of brands was beginning to be overstepped by something far more complex: the Lifestyle Brand. When Benetton began a series of advertising campaign which featured neither their clothes nor the message that their brand was the most costly, they demonstrated an understanding of the fact that more and more consumers wanted brands which signalled the values and beliefs of potential consumers - and that, for many, these values and beliefs were (if not anti-success, wealth and consumerism) at least seeking to display concerns and philosophies which went beyond a purely materialistic definition of the good life.

The rise of the lifestyle brand parallels the rise of social fragmentation and communication breakdown which lies at the heart of the post-modern condition. While only a generation or two ago one's identity was prescribed according to traditional groupings of class, religion, nationality, region, race, ethnic background and so forth, the world has today rapidly become one enormous, undefined and unstructured mass where identity is more problematic.

## 2. The verbal impact of brands

Brands have an extraordinary capacity to compact complex and subtle nuances of differences in values, beliefs and desires. Combining the history of a particular brand with careful marketing manipulation of its current ideological profile as demonstrated in advertisements, sponsorship, use by high-profile celebrities, etc., a brand becomes a powerful instrument in the activity of an enterprise.

What people desperately need in the world today are signalling systems which allow them to project and advertise their own personal values and objectives. The added value of a brand is semiological: what it allows the consumer to say about him or herself. That is, what the consumer is paying over the odds for is an adjective and if this is just the right one then it is remarkably good value for money. In the process, the product ceases to be an object such as a jumper or a bottle of beer, and becomes the signification of that object - or, more precisely, the signification of the way of life around which the brand has come to be positioned.

It is, therefore, of the greatest importance that those whose job it is to promote and shape the future of particular brands have a full and accurate understanding of what their brand *says* and to compare and contrast this message with what numerically and economically significant clusters of current and potential consumers wish to say about themselves. The starting point for such an analysis might be verbal:

fun ----- serious/ concerned  
active ----- contemplative  
wealth oriented -----street  
urban ----- rustic  
hot -----cool  
laid-back -----controlled  
formal -----casual  
hard -----soft  
unisex -----gendered  
positivistic -----nihilistic  
minimal -----baroque

Brand names communicate denotatively and connotatively. When it comes to naming the product in the first place, there is considerable purpose to invest it with particular meanings and associations. The manufacturer has to give the product a name in the mass market. The name should do more than just label and identify the product: it should also bring associations to it which will help the product sell. The names given to cosmetics and other beauty products recall images of beauty, cleanliness and sophistication: Sunsilks, Dove, Sephora. Sometimes the names of the products convey scientific authority: Clinique, Normaderm. Men's toiletries (not "beauty products") also have evocative names: Denim, Old Spice. It does not take much imagination to work out why there are cars called Jaguar, Mustang, Corvette.

## 3. Linguistic means used in brands: wordplay and idioms

### *Wordplay*

Wordplay (or pun) is a rhetorical device that often relies on the different meanings of a polysemic word, the literal and non-literal meaning of an idiom or on bringing two homonyms together in the same utterance to produce a witticism. Punning is frequently used in commercial advertising to attract the reader's attention and maintaining her/his interest in keeping with the AIDA principle whereby the language of advertising must attract the Attention of the prospective buyer, maintain her/his Interest, create a Desire, and get her/him into Action.<sup>274</sup> By playing with the similarity of form and the difference in meaning of given lexical items, the advertiser entices the reader to grasp the double meaning conveyed by the message, as if it were a sort of puzzle, as a result, Tanaka observes, "the effort made by an audience in recovering the intended effects of the advertisement is actually increased by punning".<sup>275</sup> Moreover, the reader is gratified for having understood the witticism, this contributing to fulfilling the text's conative function. Delabastita defines wordplay as a textual phenomenon, a fact of language which is inextricably linked to the structural features of language,<sup>276</sup> puns are also intimately bound up with the culture of a

<sup>274</sup> Cf. Lund, J.V., *Newspaper Advertising*, New York: Prentice-Hall, 1947, p.63.

<sup>275</sup> Tanaka, K., *Advertising Language*, London and New York: Routledge, 1994, p.64.

<sup>276</sup> Delabastita, D., *Introduction*. In D. Delabastita (ed.), *Wordplay & Translation*. Special Issue of *The Translator*, 2(2),1996, p.129.

language, reflecting particular values, tastes and lifestyles. Furthermore, because of their humorous effect, puns are ideally suited to render commercial advertising witty, effective and memorable, as required by most big companies worldwide.

A really good pun can work miracles. However, there are examples of adverts lacking brand identity. Almost any competing brand could use these lines.

**Moss Security:** Alarmed? You should be.

**Wyborowa Vodka:** Enjoyed for centuries straight.

**Pioneer:** Everything you hear is true.

**The Economist:** For top laps.

**Range Rover:** It's how the smooth take the rough.

**Holiday Inn:** Pleasing people the world over.

**Casio:** Precisely what you're looking for.

**Weight Watchers** Taste. Not waist.

**Frozen Meals:**

**Northern Telecom:** Technology the world calls on.

**Zanussi:** The appliance of science.

*Source:* [http://www.e-sgh.pl/cia/lexical\\_stylistic\\_devices.pdf](http://www.e-sgh.pl/cia/lexical_stylistic_devices.pdf)

In the following table, the brand name appears, but as the solution or promise rather than part of the fun.

**Flowers Fine Ales:** Always pick Flowers.

**Barbados:** Barbados. Goodness. Gracious.

**Finish Detergent:** Brilliant cleaning starts with Finish.

**British Steel:** British Steel: British mettle.

**First National Bank of Chicago:** First relationships last.

**Kenco Really Rich Coffee:** Get Rich quick.

**St. Ivel Shape Yogurt:** Get your family into Shape, without them even noticing.

**Kodak Gold:** Is your film as good as Gold?

**Asda:** It 'asda be Asda.

**HMV:** No HMV, no video.

**Ritz Crackers:** Nothing fitz like a Ritz.

**John Deere Tractors:** Nothing runs like a Deere

**Mumm's Champagne:** One word captures the moment. Mumm's the word.

**Money Magazine:** Reap the rewards of Money.

**Red Star:** Send your parcels Red Star and pull out all the stops.

**Tetley Tea:** Tetley make teabags make tea.

**Tic Tac Candy:** Tic Tac. Surely the best tactic.

**Impulse Deodorant:** You just can't help acting on Impulse.

*Source:* [http://www.e-sgh.pl/cia/lexical\\_stylistic\\_devices.pdf](http://www.e-sgh.pl/cia/lexical_stylistic_devices.pdf)

In the following table, the brand goes to work, inextricably part of the pun.

**Absolut Vodka:** Absolut magic.

**Citibank:** Because the Citi never sleeps.

**Frosted Chex:** Chexcellent, or what?

**Quavers Snacks:** Do me a Quaver.

**Thomas Cook:** Don't just book it, Thomas Cook it.

**Nytol Sleeping Pills:** Good mornings follow a good Nytol.

**IBM:** I think, therefore IBM.

**Abbey National** Investments with Abbey endings.  
**Building Society:**

**Cutty Sark Whisky:** Live a Cutty above.

**Comet Electrical** Lowering prices forever, that's Comet sense.  
**Stores:**

**Arthur's Cat Food:** Nothing else is Arthur's good.

**Skoda Favorit:** Put your money on the Favorit.

**Farley's Baby Food:** So Farley's, so good.

**Thomas Cook Travel:** Take a Thomas Cook at our prices!



**Immac Depilatory:** The look is Immac-ulate

**Visa Delta Debit Card:** Visa's Delta blow to cheques

**Cadbury's Wispa Candy:** You can't keep quiet about a Wispa Candy:

**Campari Aperitif:** You'll find there is no Camparison.

**Wike Farms Cheese:** You'll Wike it too.

*Source:* [http://www.e-sgh.pl/cia/lexical\\_stylistic\\_devices.pdf](http://www.e-sgh.pl/cia/lexical_stylistic_devices.pdf)

The following advertisement by MG Rover Cars promoting its Land Rover is an example of wordplay which exploits the homonymy between spring meaning “a long thin piece of metal in the shape of a coil” and spring as “the season of the year between winter and summer”, which is particularly pleasant in England. In turn spring is portrayed as a man or woman receiving advice on “how to be beautiful”, thus providing a good example of what Haug calls Warenasthetic, that is the aestheticization of commodities, whereby advertising makes products appear as pleasing and appealing as possible.<sup>277</sup> The message in small print consists in fact of a list of instructions corresponding to the different stages of what appears to be a kind of beauty treatment. The association between the various phases of manufacturing a metal spring and the routine activities aimed at acquiring an ideal figure is obtained through the metaphorical use of the verbal phrases “feed yourself”, “take a dip” and “stretch [...] your entire body”.

How to be beautiful. First, feed yourself through a furnace.

ANOTHER

Then take a dip in hot oil. (About 10000C should be OK.)

BEAUTIFUL

After that, get blasted by small metal balls. Finally, stretch

ENGLISH

and compress your entire body to the limit 250,000 times.

SPRING.

Then, and only then, can you be fitted to the most stunning 4x4.<sup>278</sup>

### 3.2. Idioms

“An idiom is an expression (i.e. term or phrase) whose meaning cannot be deduced from the literal definitions and the arrangement of its parts, but refers instead to a figurative meaning that is known only through conventional use. In linguistics, idioms are figures of speech that contradict the principle of compositionality (the principle, which tells that the meaning of a complex expression is determined by the meanings of its constituent expressions and the rules used to combine them).”<sup>279</sup>

Idioms have multiword character, they are fixed and they have common figurative meaning. The phrase ‘to be in the same boat’ has the literal meaning ‘to be in the same boat’, and also the idiomatic figurative meaning ‘to be in the same difficult situation’. We write more about figurative meaning in a part Semantic aspect. A proverb is a

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<sup>277</sup> Haug, W.F., *Kritik der Warenästhetik*. Frankfurt am Main: Suhrkamp, 1971, p.15.

<sup>278</sup> *The Telegraph Magazine*, 1997

<sup>279</sup> <http://www.wikipedia.org/>

type of idiomatic construction. It is “a well-known phrase or sentence that gives advice or says something that is generally true.”<sup>280</sup>

e.g.: ‘Too many cooks spoil the broth.’

It means that if too many people are involved in something, it will not be well done. Copywriters use idioms and proverbs in advertisements, because these constructions are familiar to most potential customers in a society. The idiom or a proverb in a text may be used without formal changes, or in a creative way, where an element of a proverb or idiom is slightly changed or replaced by another word to create a pun and, consequently, a connection with a product. If the picture accompanies the text, the picture usually does not represent the figurative - and, of course - correct and common meaning of the idiom, but it represents the image and representation of the literal meanings of its constituents.

e.g. “Challenge us – and get yourself a *bigger slice of the cake*.”<sup>281</sup>

An idiom ‘a bigger slice of the cake’ means a share of the available money or benefits that you believe you have a right to. A picture represents two happy young women eating a cake.

Idioms that have both a literal and an idiomatic meaning are often used creatively in wordplay. Idioms vary from being semantically opaque such as to break the ice meaning “to say or do something to make people feel relaxed and comfortable”, to being semi-opaque such as to pass the buck meaning “to pass the responsibility”, or being relatively transparent such as to see the light meaning “to understand”. Idioms that are difficult to recognize are those that have a literal as well as an idiomatic meaning, such as to go out with somebody, to take someone for a ride, to put one’s feet up, to pull somebody’s legs, to have cold feet, or to put something on ice.

e.g. *Thorntons new chocolates bars. Not everyone’s a fruit and nut case. Thorntons bring you a new selection of chunky chocolate bars. Milk chocolate. Dark chocolate. Autumn Nuts. Toffee. Winter Nut and Fruit. And Ginger. You’re spoilt for choice. So spoil yourself.*<sup>282</sup>

The advertisement promotes a new selection of chocolate bars produced by *Thorntons*, the famous British chocolate company since 1911. The witticism is created by playing with the idiom “to be a nut case” which means “to be mad or to behave in a strange way”. *Thorntons*, the advertiser intends to say, is not at all made but wise, because it does not limit its range of products to fruit and nut chocolate bars, like its competitor Cadbury, but it offers a delicious variety of fillings. The play on words - based on the literal and idiomatic meaning of the word nut as well as the addition of fruit and to form the coordinated noun phrase fruit and nut - which evokes Cadbury’s “fruit and nut chocolate bars” - has the effect of making *Thorntons* stand out to the detriment of its business rival, thus conveying what in advertising is known as the Unique Selling Proposition.<sup>283</sup> This is a clear example where knowing about the specific cultural context that gives rise to an ad is often essential to disambiguate the subtle intended meanings conveyed by the creative use of promotional language.

#### 4. Conclusion

Generally speaking, wordplay (or pun) is a witticism that relies for its effect on playing with different levels of language, i.e. phonological, graphological, morphological, lexical, syntactic, and textual. Puns and idioms are frequently used in commercial advertising as a rhetorical device to promote a given product or service by creating humour, attracting the reader’s attention and adding persuasive force to the message. They also reflect the cultural preferences and traditions of a country, therefore they can be fruitfully used for pedagogic purposes to raise awareness of the specific linguistic and cultural features of the foreign language.

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<sup>280</sup> *Oxford Advanced Learner’s Dictionary* 2001

<sup>281</sup> [w1.siemens.com/](http://w1.siemens.com/)

<sup>282</sup> *The Guardian Weekend*, 1997

<sup>283</sup> Goddard, A., *The Language of Advertising*, London and New York: Routledge, 2002, p. 4.

# PROJECTS – NEW METHODOLOGICAL APPROACHES IN THE NEW MILLENIUM

**Sim Monica Ariana**

*Universitatea din Oradea, Facultatea de Științe Economice, Str. Universității 1, Oradea, msim@uoradea.ro, +40-259-408-799*

*Abstract: Considering English as the global language of science, technology, and international relations, many countries around the world consider the teaching of English a major educational priority (Crystal 1997; McKay 2000). However, English as a Foreign Language (EFL) is often taught under unfavorable conditions, and, as a result, high school graduates are not always competent users of English. One important alternative is to take advantage of the continuing advances in multimedia technology and to make an effort to integrate this technology with in-class instruction. In this paper I will try to focus on new methods of teaching English that can be used to complement and reinforce traditional in-class instruction – including multimedia projects.*

*Key words: English, computers, technology*

The 20th century has seen an immense amount of activity in language teaching methodology that is why some have called it the Age of Methods (Richards and Rodgers 1986). During this period a number of new methods drew attention and struggled for adherents. It is a fact that multimedia technology can help with some difficulties associated with the EFL situation, such as large class sizes and mixed-ability students. This explains the growing number of schools/universities with facilities for students to access computers and audiovisual equipment.

Due to several reasons, teaching English does not always accomplish its objective and leaves students without an adequate level of proficiency in English. Of course, a major issue is the environment itself, the lack of English speakers for students to interact with. On the other hand, there are many researches that support the use of multimedia technology for foreign language instruction (Jonassen 2000; Kitao 1995; Kang 1999; Pino-Silva 2002, 2004; Stepp-Greany 2002). Some of the reasons for using multimedia technology in the classroom as resulted from the above mentioned researches are:

- allows students to work individually at a computer, at their own pace, and according to their own needs;
- helps teachers to deal more effectively with a large group of students;
- makes the introduction and presentation of content more dynamic and attractive for students;
- increases student motivation due to the interactive nature of the activities;
- promotes a task-based approach to learning;
- allows students to experience real-life and communicatively meaningful language situations and contexts; and
- introduces a variety of print, audio, and visual materials that match different student learning styles and preferences.

Consequently, in order to meet the growing demand and the increasing need for proficiency in teaching foreign languages, The Foreign Language Laboratory has been founded and it is mainly used for the teaching-learning process of foreign languages within the Faculty of Economics in Oradea being an integral multimedia environment consisting of 16 computer stations. It receives about 360 students per week. Activities performed in this laboratory both complement and reinforce what is being taught in the classroom. Every student in the Faculty of Economics attends at least a two hour session of foreign languages per week in the first two years of study. This laboratory enables teachers to alternate the traditional language instruction using the communicative approach, with the more modern approach of using computer presentations at a computer station.

Students work on computers which we hope in very short time, to be loaded with multimedia software programs such as *Focus on Grammar*, which leads them through a series of activities selected by the teachers according to each student's particular level and need. While using the computer program, students typically focus on formal aspects of grammar, although they work on listening and reading activities as well. What we actually do week by week is to encourage students to interact in the foreign language, to speak it fluently at least as long as their

project presentation may last; sometimes they are also encouraged to look up for the meaning of new words using the on-line dictionaries, not only for the meaning, but also with their pronunciations.

Students are divided in pairs or groups and are offered some project topics; they have to choose one topic for their pair/ group which is going to be their practical part of the final mark. The exercises associated with the video materials are conducted before, during, and after the video presentation, which are known as the stages of *previewing*, *viewing*, and *post-viewing* (Gower, Phillips, and Walters 1995). These stages are designed to maximize student understanding of the subject matter, which will in turn increase motivation and involvement.

- *Previewing* activities activate students' prior knowledge and raise their expectations relating to the content of the video. At this stage the teacher can prepare vocabulary lists, reading texts, and comprehension questions about the video so students will start reflecting about what they know of the topic.
- *Viewing* activities give students practice in both content-based and form-focused tasks that require them to use top-down and bottom-up processing. Activities include answering multiple-choice questions, filling in the blanks, drawing inferences, and listening for the gist (Antonini 2004).
- *Post-viewing* activities give students the opportunity to evaluate and comment on the video and the associated activities. Students answer various open-ended questions about the video in terms of their personal enjoyment and the relevance of the content. At this stage they are required to reflect and write about the content of the video, which encourages them to think critically about the subject. At first they can write their comments in their native language, but they are progressively required to express themselves in the target language (Pino-Silva and Mayora 2004).

This methodological approach tries to implement a program that seeks to raise in the student an autonomous attitude toward learning a language and the integration of multimedia technology as a reinforcement of in-classroom activities. All our students of a certain proficiency level (intermediate and above) in our programme must complete a self-directed project each semester, and they are allotted a number of marks for its completion. We have found it helpful to be fairly specific about project options, as described below. We refer our current students to successfully completed projects from previous years, which are kept on file in our self-access centre to serve as examples. The guidelines we provide to the students have proved effective in helping them clarify what they want to do and what they can realistically complete within the time limits imposed.

Students are encouraged to choose a project that is interesting to them and that they feel will best meet their needs as learners of English. They are invited to devise their own projects, which the instructor must approve. However, many students opt for one of our suggested projects. Since we encourage students to choose a project that best meets their needs as English language learners, we present the ideas for projects mostly under skills labels, such as reading or writing, but in fact, all of the projects described below involve several skills. The reading/vocabulary project, for example, requires either oral discussions or written summaries. Projects do not have to be done by individual students, although that seems to be the most frequent choice. Some pairs or small groups of students have successfully completed projects. Many projects reflect the students' interest in their future studies, though just as many aim at general English improvement. We use projects to introduce the new study topic, or to escape from the traditional reading/translating of texts. Sometimes there are students who come to ask for a project topic linked to the subjects discussed during the class as they may find them appealing for their skills, ability, and creativity.

The implementation of project work differs greatly from one instructional setting to another. In some settings, fairly non-elaborated tasks, confined to a single class session, are labeled as projects. In other settings, elaborate sets of tasks establish the process for completing the project and span an entire instructional unit; in settings like these, the benefits of project work are maximized because students are actively engaged in information gathering, processing, and reporting over a period of time, and the outcome is increased content knowledge and language mastery. In addition, students experience increased motivation, autonomy, engagement, and a more positive attitude toward English. Although project-based learning presents challenges for teachers and students (Beckett 2002; Eyring 1997), most project-work proponents assert that the advantages outweigh the disadvantages.

The sources for their project usually come from the Internet as it provides the resources necessary to carry out authentic projects and analysis, and thus develop the communicative competence of foreign language students. Among the benefits of Internet use in the second and foreign language classroom, the most important are:

- Increased motivation and participation by students (Warschauer 1996).

- More opportunities to interact with the target language and content area because students spend more time on task (Kasper 2000b).
- Greater integration of reading and writing skills and opportunities to practice them in meaningful contexts.
- The possibility to implement pedagogy based on problem solving and critical thinking (Warschauer 1999).
- More self-paced autonomous learning that is learner-controlled rather than teacher-controlled (Mak 1995).

It is important to recognize that in many situations not all schools have the resources and space to install and maintain a multimedia center. Nevertheless, it is a challenge for language teachers to seek ways to improve our classes, and there are plenty of ways for teachers to begin to install at least the beginnings of a multimedia lab. Sometimes all that is needed to take the biggest step in the direction of using other methods of teaching foreign languages is a change of teachers' attitudes toward technology. Teachers can begin little by little, such as transitioning from audiocassettes to CDs. Technology is prevalent, and it is the teacher's role to think about how to acquire it and integrate it into the curriculum.

Another shortcoming we had to face when using projects for English learning was that not all the students successfully accomplished their task, meaning that sometimes it was just a copy-paste activity, other times they were not able to present and discuss their presentations without reading from the computer screen all the time. In some cases, project work is merely a source of entertainment and a break from routine classroom activities. Though projects often focus on challenging, real-world subject matter, students are often solely concerned with the visual attractiveness of their projects, paying little attention to content and language learning. In these settings, teachers often reinforce this misdirected attention by assessing student projects according to their visual appeal, ignoring students' gains in language and content learning.

Nevertheless, whatever teachers use in the classroom, it is not going to do the job for them. Teachers have a great responsibility to choose materials, to advise and develop the multimedia activities and to train students in their proper use. Still, there are situations with too much teacher control, we find teachers who dictate each step of the process without giving students any voice in defining the project. Generally, such excessive control inhibits students from taking responsibility for their own learning and developing a sense of ownership toward the project. Project work can be more effective when teachers relax their control, when students regard the teacher as a guide (Sheppard and Stoller 1995), and when students provide feedback on the experience so that projects can be improved each year. Finding the proper balance between teacher guidance and student autonomy enhances the advantages of project work in the language classroom.

## Conclusions

Anyway, with all the strong and weak points this kind of approach may hold, we think that one of the most important things learned from the teaching English through project work experience was the understanding that technology use in language instruction must be based on sound pedagogical and theoretical principles, and that both teachers and technology are part of an interrelated system.

We believe that projects can be easily integrated into any teaching situation because topics and specifications can change to fit the students' ages, interests, backgrounds, and proficiency levels.

No matter how rich the classroom input or how stimulating the activities therein, most students are unlikely to learn everything they need to succeed in a class that meets for only a limited number of hours weekly. We have to provide more opportunities for using and interacting in English, and we must respect our students' rights and interests as individuals to exercise choice in their foreign language study. Involving students in doing projects is just one way we may help them gain confidence in their ability to manage their own learning.

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# TEACHING ENGLISH IN SEVERAL CENTRAL AND EASTERN EUROPEAN COUNTRIES

**Sim Monica Ariana**

*Universitatea din Oradea, Facultatea de Științe Economice, Str. Universității 1, Oradea, msim@uoradea.ro, +40-259-408-799*

*Abstract: The Central and Eastern European countries find themselves at present, following a period of transition in all domains, education included. One of the greatest challenges is providing sufficient foreign language education so as to meet the growing demand especially after along period of time when foreign languages were seriously and damagingly neglected. This paper is an attempt to briefly present the way English language is taught in several Central and Eastern European Countries as well as to underline the importance of this educational process and maybe to offer some applicable solutions to teaching English in Romania.*

*Key words: education, English, methodology*

## **Historical Background**

The critical changes which took place in the former Communist bloc following the events of 1989/1990 prompted a huge influx of native speakers of English as teachers and entrepreneurs. It has been a period of dramatic struggle to meet the growing demand for communication in a foreign language, especially English.

That phase is now over and countries in the Central and Eastern Europe like Hungary, Poland, the Czech Republic and Slovakia, Romania and Bulgaria are flourishing stable democracies. Many of those countries were admitted to the European Union and are now sometimes referred to as “the New Europe”.

The term Central and Eastern Europe (CEE) is still used by telecoms companies and government agencies as a convenient label for the countries east of Germany including Hungary, Poland, Czech Republic, Slovakia, Romania and Bulgaria, the Baltic states (Lithuania, Latvia, Estonia) and south to the Balkans (Slovenia, Croatia, Serbia, Albania, Bosnia Herzegovina). Russia, Ukraine, Moldova and Belarus can also be included for convenience. Yet the present paper will only focus on a few of the above mentioned countries, namely Hungary, Poland, the Czech Republic and Slovakia, Romania and Bulgaria. The focus on these countries is extremely interesting since the situation of the main international communication languages in central and Eastern Europe changed considerably due to the political and economic upheavals of 1989.

For centuries learning of foreign languages was a stable component of the general culture of educated people in Eastern Europe. Before the Second World War, the learning of at least one living language, not to mention the learning of Latin or Greek as well, was widespread in the stated region. Moreover, certain countries have openly and traditionally expressed their preferences for a particular foreign language (e.g. Romania and Bulgaria for French, Hungary and Czechoslovakia for German).

The end of the Second World War was the beginning of a new historical period for CEE countries; they fell under the domination of the Soviet Union and were forced to give up the connections and links with Western Europe. For the teaching and learning of foreign (western) languages process it was a painful change as they were all suppressed leaving room only for Russian as a compulsory subject for all levels of education.

From the 1970 onwards the introduction of a second foreign language (English, French, and German) was possible even if only at a voluntary basis, but it gradually becoming standard. In Romania, because of the image of French as great language of culture and opening, this language remained the first foreign language learnt (60% of pupils, meaning 1.2 million French learners) (Ferenc, Peluau, 2003: 95). While English was in a second position throughout the country, it held first place in Bucharest.

Times have changed in Central Europe. Along with political and economic changes have come changes in the educational system. A fair description of the educational background in CEE states must start with the fact it is undergoing a radical period of transition: new laws are debated, new programs are being re-conceived, new priorities are set.

After 1989 there was a radical change in the approach of foreign language teaching. The need for English language instruction to meet overwhelming demand at all levels of instruction challenges governments to provide large number of English teachers while, at the same time maintaining the same quality of education.

For instance, in Romania in 1990 there was decree that made the teaching of a foreign language compulsory starting with 8 years of age. While the demand of English is increasing, there is a shortage of qualified English teachers. Moreover few language graduates choose teaching because of the low remuneration of teachers. In some cases teachers weak in English language skills or lacking training are hired to fill the gap. Other times native English-speaking training professionals can make a substantial contribution during this time of expansion. There are many challenges and difficulties to overcome. "Training new teachers, designing new programs, and making effective use of native English speaking teachers are some of the issues they face in developing English language teaching" (Schleppegrell:1991).

## **English education in Central and Eastern Europe**

English is taught at all levels in CEE countries: at primary, secondary and high schools, universities, colleges and special courses for adults. Recognizing the importance of early learning of foreign languages, the Central and Eastern European governments would like to make English available for all students starting in early stages of education(second, third grades). These children receive from about two-three hours of English weekly in the second-third grades up to four-five hours per week in the secondary or high schools.

### **Poland**

Since the democratic revolution and the collapse of the Soviet sphere of influence, the language teaching situation in Poland has changed dramatically. Previously Russian was taught in primary and secondary schools almost exclusively. Now Russian is taught very little, and naturally English has become very popular.

In high school most students study German or English, at some schools both. A lack of qualified teachers of English and the very poor pay that teachers receive here in public schools means that from city to city and from school to school the amount and quality of ELT varies greatly. There are either two or four hours of English per week, for four years. The aim is to bring students to a pre-intermediate level at the end of studies. There is no firmly established curriculum, so schools make their own decisions about what books and methods to use in teaching.

There are enough schools – both public and private – in larger cities or more out-of-the-way places. In Poland, as other areas of Eastern Europe, public school teachers must somehow believe that less is more, not only when it comes to salaries, but also about materials. On the other hand, it is the private sector that provides the majority of English teaching jobs. There are private schools operating all over Poland, although they are more likely to be found in the mi-to large-sized cities. In private schools the curricula and other benefits they provide are less structured than in their public sector counterparts. It's important to understand that private schools are businesses that aim to profit from tuition. Consequently, some of them care more about the bottom line than they do about providing high quality language instruction or about the teachers they employ. Classes at private and public schools are usually forty-five or fifty minutes long, which count as a teaching hour.

"The instructional settings and teacher – student relationships observed in English classes at secondary and university levels in Poland by an American senior Fulbright lecturer are characterized by very formal instructions with heavy emphasis on pronunciation and grammar exercises, large classes with little opportunity for individual participation beyond answering questions and reading passages aloud, and no visual aids other than maps and scenic posters. However, motivation to study English is strong."(Muchisky, Dennis: 1985) Other shortcomings of the teaching-learning process in Poland, but also in most CEE countries are the formal, rigid, sometimes adversarial teacher-student relationship, limited materials that often have to be shared. Nevertheless, tests applied to third year university students reveal a high proficiency in mastering English. Usually a normal class consists of a number of students ranging from 25-30, and they study English from two to six hours weekly (those planning on advanced English learning were enrolled in a six hour weekly program).

The methodology used to be a combination of the grammar-translation, reading and audio-lingual methods. Class size limited the individual participation of each student; there is a large amount of memory work, the error correction being seen as a necessary part of the teaching process.

The university study program last for four years, students spend more than 2500 hours in English classes, an average of 22 hours a week. Classes last up to 45-50 minutes each and students have as a result classes with as



many as 20 up to twelve different instructors every semester. The problem with English teaching process is that it does not focus more on what is considered to be EFL classes, meaning listening comprehension, grammar, translation, conversation and composition. Most of the time is being eaten up by courses like: Introduction to Literary Theory, History of England, History of the United States, Phonology, Phonetics, Text Analyses etc. Teacher-student relationship is formal and materials, even more numerous than for high school are not enough.

Nevertheless, the very close history shows quite remarkable headways in teaching methodology, there are different types of exercises for improving grammar, speaking, listening, materials are diverse. Things that still need to be worked on are the student-centered class and the teacher-student relationship.

We cannot underestimate the efforts and precious support supplied by the foreign embassies (The Cultural Service, Department of Linguistic and Educational Cooperation, Alliances Francaises, the British Counsel, the Cultural Centre.) in the promotion and flourishing of pluri-lingual teaching, as well as the continuous work of practitioners and policy-makers. Their collaboration with the Ministry of Education and the associations of language teachers has only served the cause well.

## **Czech and Slovak Republics**

“Before I left to teach English in Prague, I didn’t know what to expect. A friend of mine was teaching there...some people painted idyllic pictures of happy students and satisfied teachers, teachers who could flit to the park in between classes while they worked 25 hours a week.” (Johnson, *Lessons from a Teacher in Prague*).

In the years that have elapsed since the Velvet Revolution there seems to be an equal demand for English in both republics, thus, many Western backed language schools have been joined by many private schools run by locals. The demand for native speakers of English is still strong: “You only need to glance at the *Prague Post* to see that teachers are still in high demand around the two republics” (Teaching English in the Czech Republic and Slovakia, [www.jobmonkey.com](http://www.jobmonkey.com)). By the way, in any given week, 95 percent of the jobs listed in the *Prague Post* are for English teaching positions. The simple explanation is that the Czech educational system is massively underfunded. Thus, the teachers who actually speak English at an international level have been drawn to multinational firms and the like, leaving only the least talented to teach at the secondary school level. It's a sad thing for the students. Besides, English is an optional subject

As far as schools are concerned, there are both public and private schools. According to a teacher at one of the larger private schools in Prague, when asked what the future of English teaching was: “the demand itself will not change over the next several years. It will remain high. However, the mode of offering classes will evolve. More small private schools will pop up, and there will be a greater need for private teachers. Studying English has already lost much of its novelty among Czech students, but that doesn’t mean that the demand will fall.” (Teaching English in the Czech Republic and Slovakia, [www.jobmonkey.com](http://www.jobmonkey.com)).

The Czech Language and a foreign language (English, German, French) are the mandatory exam subjects. The exam from each of these subjects takes 15 minutes and it is oral. Students draw one question out of 30 for each exam.

As the economic transformation of these economies continues, more and more Czechs and Slovaks will need to learn to speak English in order to get by in the international business world

## **Hungary**

In Hungary, since the change of the regime, the school system has become very complex. As a result, first year students in secondary schools range from absolute beginners to advanced learners. The number of students is about 30 or fewer in an average class, but classes are usually split during language classes, so there are about 12-18 students in an average English class. Everyone is required to choose at least one language for the school-leaving exam, and speaking English (and other languages) means all kinds of advantages in education and in getting jobs. As a negative result, language learning has become very exam-oriented, especially in the case of English, which is probably the target language in Hungary.

There is also a shortage of professional English teachers in Hungary. There used to be lots of Russian teachers, but as now no one cares about Russian, many of the former Russian teachers are retrained in special programmes to teach English in secondary schools.

Hungarian teachers of English feel more confident of the teaching style the grammar translation method represents. Students are taught many unnecessary explicit rules. The most neglected skill is listening. The most often applied texts are stories, mostly used for reading aloud. Listening and reading comprehension tends to be

checked by sentence by sentence translation. The vast majority of classes are monotonous and boring because of lack of variety of tasks. Most of the classes were teacher-fronted; pair- and group-work was not widely used. Both teachers and students used the mother tongue excessively.

Sometimes an enormous amount of effort, time, money and enthusiasm is wasted, as students at average secondary schools are not streamed according to their levels, but tend to be placed in beginners' groups with students who have done less or no language study.

Fortunately, things seem to be changing these years. More and more teachers are trained and taught to apply new methodologies, concentrating more on language as a means of communication rather than just rules. Also, many native speakers come from GB and the US and teach many classes one additional hour a week.

## **Romania**

In Romania, the study of foreign languages is given special attention now that we are free from communism. It goes without saying that English is number one but French and German even Italian and Spanish are also studied in many Romanian schools. The study of foreign languages begins in the second grade and continues until the end of high school.

At primary school stress is laid on the oral aspect of the language. In the fifth grade elements of grammar and phonetics are introduced in order to give the students the possibility of studying by themselves. In the sixth grade the study of a second language is introduced. At this level i.e. elementary school, there are schools with intensive classes where students have four hours a week.

At high school level there are "normal" classes having three hours a week, "intensive" classes with four hours and "bilingual" classes with seven to nine hours a week. For the bilingual classes we invite native speakers to teach conversation classes, culture and civilization, history and geography. The Romanian teachers teach the "English Book". In Romania we have a national curriculum and the books are made up with British specialists and the students and teachers can choose from three textbooks. Even if English is studied as a foreign language a lot of Romanians know English very well, the Romanians being well known for their ability of learning foreign languages. At university level students study with native speakers as well as with Romanian professors specialized in Great Britain and USA.

The programmes have undergone a constant revision process; the same can also be said for the textbooks. These textbooks as well as the teachers' own production and the use of foreign methods have succeeded in replacing old teaching methods. It is only now that we can state that after a continuous struggle to improve the old, inefficient methods the communicative model dominates the methodological and didactic programmes.

Previously, the traditional English class consisted of reading and translating exercises, endless grammar drills. Unfortunately, even if today we like to consider that English classes exercise the different areas necessary for language competence, work through discussions, focus on the senses or sensory reactions, the situation is not always the same. Sometimes learning groups are too large and reading and translating exercises are too many. Another shortcoming of the education process is that classes are still too much teacher-oriented. Thus, the picture is not quite as rosy. Above and beyond the pervasive lack of materials, an increasing gulf has widened between urban and rural situations where the lack of qualified personnel significantly reduces the quality of education.

The modern approach in teaching in general and teaching English in particular means innovation, communication, team work, adaptability, flexibility and problem solving. It is a difficult road from extremely rigid conditions to a more open environment.

## **Conclusions**

As stated in introduction, the aim of this paper is to review some important issues of the educational system in several CEE countries and thus here are some preliminary conclusions of the research:

- There have been major changes at all levels, education included, in all CEE countries after the 1989 revolutions;
- The importance of foreign language teaching became of utmost importance in all the studied countries;
- Even if there were a lot of difficulties to overcome, progress in teaching English in all the countries presented, is easy to be noticed;

- There are still problems to deal with in all the countries researched: proper and sufficient teaching materials, student-oriented approach, homogeneity between cities and countryside areas;
- There is a strong motivation for learning English in all the studied countries.

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# INTERCULTURAL DIALOGUE & INTERCULTURAL COMPETENCE. AN EXAMPLE OF GOOD PRACTICE: BUCHAREST UNIVERSITY OF ECONOMICS. THE FACULTY OF BUSINESS ADMINISTRATION (IN FOREIGN LANGUAGES)

Suciu Marta-Christina

*Academia de Studii Economice București, Facultatea de Economie, Catedra de Economie și Politici Economice, Piata Romană nr.6, sector 1, București, email: christina.suciu@gmail.com; 0740609859*

*In view of the accelerated processes related to globalization and pan-regional integration, the issues of intercultural dialogue and intercultural competence have become more visible in the international literature. While globalization poses challenges, it also offers powerful opportunities for the higher education community to play a key role in shaping and reshaping the future.*

*Key words: intercultural dialogue, intercultural competence, intercultural sensitivity, intercultural development inventory, intercultural effectiveness, the bilingual and multilingual university*

## 1. Introduction

**MOTTO:** *“Dialogue between cultures has always been a feature of European integration. The EU has been a community of cultures and values built on the principle of respect for diversity... In the 21st century, Europe faces a new challenge. We need to foster respectful exchanges of views between individuals and groups of different cultural backgrounds on an equal basis. We want to go beyond multicultural societies, where cultures and cultural groups simply coexist side by side, where they live “parallel lives”. We need to become intercultural societies where plurality of cultures cooperates in dialogue and in shared responsibility. 2008 as the European Year of Intercultural Dialogue is an important part of this effort to move beyond tolerance and towards a genuine intercultural Europe. Intercultural dialogue is a long-term need. Let us build on this positive attitude, and make breaking down the barriers between the peoples living in the EU our shared priority for 2008. Let us not just exist together, but let us live together, in respect and mutual understanding!”*

Ján Figel, Commissioner for Education, Training, Culture, and Youth, ***Intercultural dialogue as a long-term priority for the EU***, Conference “*Intercultural Dialogue as the Fundamental Value of the EU*”, Ljubljana, 7 January 2008

The paper aims to debate the issues of *intercultural competences*, *intercultural sensitivity* and *intercultural dialogue* as main challenges and opportunities for Romanian universities. The paper refers to various concepts used in the wide-ranging debate ongoing about *cultural diversity*, *cultural dialogue*, *intercultural dialogue* and *intercultural sensitivity*. Starting from the amplified process of *universities internationalisation* and *academic mobility* over the last decades that have prepared the ground for *intercultural dialogue on university campuses*, the paper presents an example of a Romanian best practices: *The Faculty of Business Administration (in foreign languages)-FABIZ*.

## 2. Cultural diversity, cultural sensitivity and intercultural dialogue. Multicultural versus intercultural societies

Council of Europe defines **cultural diversity** as “an essential condition of human society, brought about by cross-border migration, the claim of national and other minorities to a distinct cultural identity, the cultural effects of globalisation, the growing interdependence between all world regions and the advances of information and communication media” (Council of Europe, 2007). Cultural diversity describes a situation characterized by the presence, within the same geographical area and/or institution, of group and individual players who have different cultures. This concept is quite similar to that of a “multicultural situation” where cultures and cultural groups coexist (Taylor, 1992; Semprini, 1997). According to a recently carried out survey of day-to-day interaction among people belonging to different cultures in Europe (Ján Figel, 2008). that took a snapshot of a week in the life of people living in the 27 EU member states:

- two thirds of respondents said they *interacted* with at least one person of a different religious, ethnic or national background.
- almost three quarters believe that people of different backgrounds can enrich the cultural life of their countries.
- over four fifths were convinced about the benefits of intercultural dialogue, particularly for the young generation.

**Cultural sensitivity** has been identified as a crucial predictor of success in *cross-cultural environments* (Bhawuk, Brislin, 1992). Bhawuk and Brislin have demonstrated that *cross cultural sensitivity* is a crucial variable in a variety of situations which call for interaction with people from cultures other than one's own, ranging from job performance during international assignments to tourism and international economic relations. To be *effective* in another culture, people must be interested in other cultures, be sensitive enough to notice cultural differences and also willing to modify their behavior as an indication of respect for the people of other cultures.

Milton Bennett has introduced a **Developmental Model of Intercultural Sensitivity (DMIS)** for measuring *intercultural competence*, using a scale which goes from *ethnocentrism* to *ethnorelativism* via the stages of minimisation and acceptance of cultural difference (Bennett, 1993). **Intercultural Development Inventory (IDI)** was developed by Bennett and Hammer (1998) as a means to objectively measure intercultural sensitivity. It is a psychometric instrument for measuring *cross-cultural competence* and training needs, for both individuals and groups.

Aiming to shift from a multicultural to an intercultural society means to focus more on *intercultural competence*, *intercultural effectiveness* and *intercultural dialogue*.

**Intercultural dialogue** is fast becoming an issue of central importance for many international organizations, especially the Council of Europe. The *White Paper on intercultural dialogue* from the Council of Europe and the *Rainbow Paper from the Civil Society Platform for intercultural dialogue* show that intercultural dialogue is a complex issue. In January 2008, Slovenia's Presidency of the EU has launched the **European Year of Intercultural Dialogue**. Other international organisations are also active in this area. UNESCO's *Universal Declaration on Cultural Diversity*, adopted by 185 member states in 2001 is a major international instrument aimed at preserving and promoting *cultural diversity* and *intercultural dialogue*. The *UN General Assembly* addressed this topic in a recent high-level dialogue on *intercultural co-operation* (October 2007).

According to the Council of Europe definition intercultural dialogue is "an open and respectful exchange of views between individuals and groups belonging to different cultures that leads to a deeper understanding of the other's global perception" (Council of Europe, 2007). As highlighted in a recent report (E. Poglia, M. Mauri-Brusa, T. Fumasoli, 2007) in this definition:

- 'open and respectful' means 'based on the equal value of the partners';
- 'exchange of views' stands for interactions that reveals cultural characteristics;
- 'groups' stands for every type of collectivity that can act through its representatives (family, community, associations, peoples);
- 'culture' includes everything relating to ways of life, beliefs and other things that have been passed on to us for generations, as well as the various forms of artistic creation;
- 'global perception' stands for values and ways of thinking.

Education and training mark out the path to *social inclusion* and *active citizenship*, which are fundamental for *cohesive societies*. In a *world of cultural diversity*, of migration, *education opens doors*. As highlighted by the German Presidency as an inspirational motto "Education unites!"

### 3. Education and cultural diversity. From intercultural sensitivity to intercultural competence and effectiveness

The recent debates have tended to be more practically oriented, addressing aspects of *good intercultural teaching practice* (for example in languages) focusing on the *intercultural competence* which requires to shift from "intercultural awareness and sensitivity" to "*intercultural effectiveness*" (Salo-Lee, 2007). In the last decades there are many initiatives that focus on the *multicultural nature of the present-day world* and the desirability of a *positive intercultural approach*. For instance a recent report by the *Finnish Ministry of Education* suggests that these various education proposals have to be brought under a single and coherent conceptual umbrella of "*Education for global responsibility*" (Kaivola & Melén-Paaso, 2007).

*Transnational education* has an important contribution to the ongoing debate on academic recognition and equivalence of academic qualifications. The *Global Alliance for Transnational Education (GATE)* is an organization that describes itself as a "...strategic partnership of non-government organizations, multinational corporations, national associations, government agencies and institutions of higher education that have come together to assure quality in a rapidly globalizing education and human resources market" (GATE, 1997). As *transnational education* continues to expand countries are becoming increasingly aware of the need to offer a 'high quality product' in all aspects. Such provision includes not only offering quality courses, but in many cases, the 'educational package' delivered in the English language or in other international language that for many students are a second or a foreign language.

Universities are manifesting today more and more on within an *international framework* because of the nature of what they do, notably training & research. So a willingness to co-operate with universities in all countries and likewise to value the culture of others is (or at least should be) an essential part of their operations. University internationalisation has been on the increase since 1980, thanks to the launch of the *ERASMUS programme* (1987), the *Sorbonne Agreement* (1998), the *Bologna Process* and the *Education and Training 2010 Work Programme*. In addition, various national, regional and institutional policies have been implemented with the express aim of attracting a greater number of students or the best of them (through scholarships and grants). The idea of the *bilingual & multilingual university* gains a new dimension. The continuous use of at least two working languages is viewed as a central element in the mission of universities to promote a broad intellectual and social dimension in the content of *new economics* and *knowledge-based society*. In the general framework of the *Bologna Process* the "convergence" designed by European policies gives a major boost to *intercultural dialogue* by providing the common ground from which it can be launched.

The *bilingual & multilingual approach* is important in promoting greater international activity at the university, within English, French, German and other international academic, cultural or language partnership and networks. A bilingual course ensure that students can learn rapidly to operate in a bilingual environment. *Language* appears to be a key factor in deciding where people choose to study. The main factors which determine a person's choice of where to study thus appear to be language, proximity and the historical, geographical and commercial ties between a student's country of origin and the country he or she chooses. Other important factors, according to the OECD in its recent *Education at a Glance 2007*, may be the academic reputation of a university or its programmes, the flexibility of its programmes, the limitations of tertiary education provision in the home country or restrictive university admission policies at home, and finally government policies to facilitate credit transfer between home and host institutions.

A *constructive intercultural dialogue* within a university, together with sustained interest in *intercultural communication* as a subject for research, is gradually becoming an essential requirement for a present-day university that is dedicated to perform successfully in the long-run.

Researchers in higher education studies, and university managers keen to attract students and to ensure that their institution is competitive, often debate issues such as the "*psychological climate*" on campus, which is shaped by typical forms of teacher behaviour, by the administration and students themselves, by methods of communication, but also by strategic choices on the part of the institution (for example *valuing co-operation or competition among students*).

### ***Intercultural literacy, intercultural competencies and skills & intercultural communication***

Although the higher education system seem at present to have a clear ascendancy over the "*schooling of the mind*" and the "*search for truth*" so dear to the followers of *Humboldt tradition*, the interculturality of present-day societies challenges teachers and students to look for powerful instrument with which to pursue the "*search after truth*". It is "*formative*" to learn that it diminishes our performance if we limit ourselves to the common perceptions of the world provided by one culture alone, when we know that there are other visions and points of view which are just as valid as our own for interpreting and "managing" the world.

Interculturality not only has "*academic efficiency and effectiveness*"; it also has *heuristic value* that becomes obvious when we are required to address interdisciplinary complex issues regarding: epistemology, ethical involvement, etc. From this point of view *intercultural dialogue* is particularly important in the scientific field whose basic paradigms are rooted in *culturally based visions*: social sciences, law, economics, educational sciences, environmental sciences, etc.

### **Ethics of intercultural dialogue**

Universities should promote the principle of "*cultural respect*" that require respect for all persons involved in *intercultural communication*, as individuals, regardless of their origins and cultural choices. According to the *principle of the "sustainability" of intercultural dialogue* outcomes communication must be a "*win-win*" situation: the benefits produced by intercultural dialogue may vary, but there must be benefits, and there must be no detriment to any of the interlocutors.

Research on *intercultural competencies & skills* often helps to fine-tune models, by focusing on one or other of the facets of *intercultural communication*. For example, G. Chen and W. J. Starosta (1996) describe a model which focuses on four elements: communication skills, personal attributes (including the capacity for "*social relaxation*"), psychological adaptation (including the ability to cope with stress), and cultural sensitivity. In a field-oriented approach *the Canadian Foreign Service Institute's Centre for Intercultural Learning* offers and comments on a list of basic competencies for *intercultural effectiveness*. These include: sensitivity and respect; self-awareness and knowledge of one's own culture; commitment to organisational learning. Kim (2001) examines the importance for good intercultural communication of: *cognitive components* (starting with "mere" familiarity with the various codes and rules applied in communication), *affective components* and *operational components* (for example good time management).

University institutions have to introduce "*intercultural literacy*" into their curricula. These could impart a limited body of basic knowledge of intercultural realities, along with a few skills and attitudes which would enable people to manage the specific scenarios of *intercultural dialogue*. This would not be a "new subject", but a small-scale exercise taking up little time (for example: 2 or 3 ECTS credits out of the curriculum as a whole). An example in terms of ECTS credits is the degree of *European Master in Intercultural Communication* (EMICC), a course that uses the formula of "*Eurocampuses*" managed jointly by a *network of nine universities* in different European countries.

## **4. An example of best practice. EMICC network and the European master's degree programme in intercultural communication**

EMICC is a network of European universities offering a joint programme of studies in *intercultural communication*. Current partner universities are: Anglia Ruskin University, Cambridge, United Kingdom; Institut National des Langues et Civilisations Orientales (INALCO), Paris, France; Universidade Aberta, Lisbon, Portugal; Universität Bayreuth, Bayreuth, Germany; Universitat Jaume I, Castelló, Spain; University of Jyväskylä, Jyväskylä, Finland; University of Lugano, Lugano, Switzerland (manages the EMICC Secretariat); University of Tartu, Tartu, Estonia; University of Utrecht, Utrecht, Netherlands.

As a first step in this process of integration a *joint semester for students from universities in the network* was introduced. Students travel to the location of one of the partner universities, along with the teachers involved. The teachers are from all the EMICC universities and offer courses which they have designed together. Study semesters of this kind, attended by about 120 students, have been held on the following campuses: Jyväskylä (2002), Bayreuth (2003), Brussels (2004), Cambridge (2005), Lisbon (2006), Lugano (2007). These study semesters are recognized by all the partner universities as an integral part of their respective master's courses in intercultural communication (or other courses). Courses are taught in English and divided into four modules:

Intercultural Theories, Competence and Training; Linguistic and Semiotic Approaches to Cultural Diversity; Citizenship and Identities; Intercultural Communication in Context. The university hosting the current year's Eurocampus offers participants courses in the host country's language, history, culture and political system plus, of course, the necessary support services. At the end of *the Eurocampus* the host university awards a *Certificate of Advanced Studies in Intercultural Communication*, worth 30 ECTS credits.

## **5. A Romanian case study. The Faculty of Business Administration (in foreign languages)-FABIZ**

This case study concerns issues addressed in order to manage the intercultural dialogue by our university. The majority of courses offered by *the Bucharest Academy of Economic Studies* (ASE) are taught in Romanian. There are, however, Faculties which offer courses taught in foreign languages, as follows:

- *Bachelor's programs*: Faculty of Business Administration (in foreign languages)-FABIZ (English, French, German); Faculty of Economic Cybernetics, Statistics and Informatics (English); Faculty of Accounting and Management Information Systems (English); Faculty of International Business and Economics (English).
- *Master's programs*: Faculty of Business Administration (in foreign languages)-FABIZ (English, French, German); Faculty of Accounting and Management Information Systems (English, French); Faculty of Management (English); Faculty of International Business and Economics (English).

*Faculty of Business Administration (in foreign language) FABIZ* is hosting "*culturally different*" students and is guiding their studies. FABIZ brings together people from different nationalities, different cultural backgrounds, people with different opinions, different characters, personalities. The diversity and the cultural variety makes this faculty more interesting and fascinating to come to. This faculty was created in 1990 and now there are both Romanian and foreign students (from more than 50 countries). The *mission of the faculty*: to train students with professional capabilities to satisfy both the development needs of the multinational companies based in Romania and also the demands of the Romanian companies interested in developing their activities at an international level. This faculty can be considered as *an example of good practice for a modern multilingual university* (students study in English, French and German) that facilitate *intercultural dialogue*. It is famous in Romania for the high level quality of the comprehensive training package and programs in the areas of economic sciences.

The high and complex level of studies is accompanied by the opportunity to get international experience through scholarships and training periods offered by: *The German Service for Academic Exchange (DAAD)*, *The French-Speaking University Agency*, the *Service for Cooperation and Cultural Activities of the French Embassy*, *Socrates/Erasmus* mobility programme, as well as *the Romanian Ministry of Education and Research*. *Master's degree courses* extend this basic training, ensuring further specialization in the field of Business Administration. The Faculty runs the following Master's programmes: *Master of Finance and Management Control* (taught in French) in partnership with *the University of Orleans*; *Master of Business Administration* (taught in English and Romanian), and *MBA in Entrepreneurial Management* (taught in German) in partnership with *Fachhochschule Gelsenkirchen*.

Within FABIZ student body we may identify cultural differences arising from the national provenance of students. The efforts of university managerial staff to foster *intercultural dialogue* focus essentially on ensuring that the university operates properly in creating practical bases for *good intercultural communication*. Other initiatives concern academic teaching methods. For instance I try to use students' cultural differences as a teaching aid in courses and particularly in seminars, informal and research activities (for example, conducting a comparative analysis of economic and political systems in the students' countries of origin). Another measure which enables foreign students to connect better with the local cultural environment is the provision of opportunities for direct contact with local traditions and everyday cultural life. A positive attitude emerge from the willingness of teachers and home students to promote some initiatives such as social events and get-togethers by groups, with the aim of integrating minority groups (foreign students, but also those from national ethnic minorities) into everyday academic life. I believe it would be helpful if the questionnaires used to assess the climate on the faculty level (notably the generic "*level of student satisfaction*") should be expanded to include an "*indicator of integration*" of students individually (for example: "*working mostly alone or in groups*") and of student groups (for example: "*how do foreign and native students typically interact? Do foreign students mainly stick together in national groups or do they take part in other groups?*").



As a brief conclusion I consider that as multilingual and transnational education programmes continue to proliferate in Romania, we may expect for a corresponding increase in *intercultural competence and intercultural dialogue*.

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# UNE PERSPECTIVE FRANCOPHONE DES AFFAIRES EN ROUMANIE

**Stefanica Mihaela**

*The « Titu Maiorescu » University, The Faculty of Economic Studies, Bucuresti, Str. Rotunda Nr. 4b, Bl. H19 Bis, Sc A, Ap. 3, Sector 3, Cod Postal 032703, mihaelaxpreda@yahoo.com, 0740067613*

**Iacob Simona**

*The « Spiru Haret » University, The Faculty of Romanian Language and Literature , Bucuresti, Str. Vlaicu Voda nr. 26, bl. V82B, sc. 1, et. 2, ap. 10, mirelasimonaiacob@yahoo.com, 0723199011*

## *Resume*

*La cooperation franco-roumaine, fondee sur des relations bilaterales multiseclulaires, longtemps axee sur les domaines politiques et culturelles s'est diversifiee a present. Ses objectifs sont la modernisation de la Roumanie et son integration dans les structures euro-atlantiques et europeennes. Les entreprises francaises se sont engagees dans le processus du developpement economique de la Roumanie, faisant de la France le premier investisseur etranger et l'un des pricipaux partenaires commerciaux. De meme, c'est a eux qu'appartient l'initiative des actions de mecenat dans la culture, les actions sociales et le sport , grace aux institutions de la francophonie et des agences des Nations Unies ( PNUD et UNICEF).*

*Mots-cle: francophonie, affaires, investissements, societes francaises.*

A l'époque ou presque tout le monde parle affaires en anglais, peut-on en imaginer une perspective francophone?

La politique europeenne axee sur l'unité dans la diversité a trouve son expression dans l'initiative de la Commission Europeenne de faire de 2008 l'année europeenne du dialogue multiculturel.

On sait bien que la France et la Roumanie sont unies par une longue tradition d'amitié et de coopération. Les Roumains ont toujours apprecie et aime la culture, la litterature, l'histoire et la langue francaises, qu'ils ont apprises a l'école, a l'universite et en famille. Nos influences latines communes aident les Francais se sentir comme chez eux en Roumanie. Ils sont surpris d'entendre leurs interlocuteurs roumains s'exprimant dans un francais parfait.

Des organismes ayant une longue activite ont favorise cette presence et cette permanence francaise chez nous, en ce sens je peux mentionner l'Institut Francais de Bucarest, les trois centres culturels de Cluj-Napoca, Iassy et Timisoara, les cinq alliances francaises de Brasov, Constantza, Craiova, Pitesti et Ploiesti, ainsi que la lycee francais „Anna de Noailles” de Bucarest.

A part cette communaute culturelle, les relations franco-roumaines sont toujours aussi étroites sur le plan economique. La France, l'un des partenaires privilegies de la Roumanie, se situe immediatement apres l'Italie et l'Allemagne, comme le pays exportateur favorise par les entrepreneurs roumains.

Les rapports entre nos pays continuent a se developper inclusivement par la presence des compagnies francaises comme Renault, Michelin, Alstom, Gaz de France, Orange, Accord, des protagonistes importants dans l'économie roumaine.

L'integration de la Roumanie dans l'Union Europeene represente une occasion, sans doute, favorable, les opportunités et l'accès au marche communautaire permettant le renforcement des relations franco-roumaines.

Parmi les facteurs qui ont stimule les societes francaises a investir en Roumanie on peut mentionner:

- un rapprochement culturel assez fort du point de vue linguistique et historique, ce qui a determine une serie de societes a preferer la Roumanie aux autres pays de la region;
- une serie d'avantages naturels, particulierement le potentiel agricole important et la proximite géographique de l'Union Europeenne;
- une main d'œuvre competitive concernant le prix et la qualite.

Les societes francaises ont participe tres activement au processus de privatisation: 75% des 60.000 personnes engagees par celles-ci appartiennent a des societes qui ont fait partie du secteur public roumain, comme: Dacia (Renault), Apa Nova Bucarest (Veolia) Lafarge-Romchim, BRD – Groupe Societe Generale.

Pour que les affaires franco-roumaines soient vraiment francophones, le Service de coopération linguistique et éducative de l'Ambassade de France a par la promotion du français dans les écoles et les universités, offre un programme d'expertise dans la formation et l'enseignement pour assurer l'avenir de la francophonie.

De nombreux projets d'urgence ont été mis en œuvre comme par exemple:

- la modernisation de l'enseignement bilingue dans les filières francophones par l'introduction des modules d'enseignement de certaines disciplines non-linguistiques en français et une attestation de la langue française reconnue dans le cadre européen commun de référence pour le baccalauréat;
- l'éducation par l'information dans le milieu rural défavorisé, le développement des centres de documentation et d'information (CDI) dans les écoles rurales en vue d'entraîner les communautés locales à développer l'éducation pour tous et de réduire l'absentéisme des élèves;
- la formation des interprètes et des traducteurs de haut niveau par un partenariat entre les départements des études françaises des universités roumaines et les grandes écoles de traducteurs et d'interprètes de France.
- Le plan pluriannuel de formation en langue française pour les fonctionnaires roumains ayant pour but de protéger la connaissance et la pratique de la langue française dans les institutions publiques de Roumanie.

Enfin, plus de 240 accords entre les universités ont été conclus directement entre les institutions d'enseignement supérieur français et roumains, illustrant la densité des échanges franco-roumains.

Au cadre de ces accords, l'Université „Titu Maiorescu” a des échanges avec les universités de Paris et d'Orléans.

Depuis 2001, chaque année au mois de mars, a lieu le forum francophone des emplois, organisé par la Chambre française de Commerce, Industrie et Agriculture en Roumanie, avec l'Ambassade de France (Mission Economique) et avec l'Agence Universitaire de la Francophonie (AUF).

Son but est celui de mettre en contact direct les étudiants et les futurs employeurs potentiels, représentants des sociétés françaises en Roumanie, dont le dynamisme est illustré par les projets des investissements en Roumanie.

On peut affirmer que les progrès que notre pays a fait dans les plus importants domaines financiers ont abouti à la diminution du risque de crédit jusqu'à un niveau qui amène d'importantes chances à l'obtention du degré du point de vue investissement. Parmi celles-ci figurent:

- la réduction du niveau de la dette publique gouvernementale
- la diminution du taux d'intérêt
- la réduction du taux d'inflation
- la poursuite des réformes structurelles
- le maintien du déficit budgétaire à un niveau soutenable

L'agence Moody's a annoncé que „l'adhésion de la Roumanie à l'Union Européenne a déjà un impact notable à l'échelle microéconomique, induisant des effets positifs sur l'entier cadre économique”.

Il faut souligner notamment le fait que la Roumanie sera le bénéficiaire d'importants fonds provenant de l'UE, réclamés par le perfectionnement du cadre institutionnel et le développement de l'infrastructure.

Le dynamisme des firmes françaises se fait visible par le nombre croissant des investissements „greenfield” comme ceux de Auto Chassis International de Pitesti (plus de 60 millions euro), la Société Nationale de Roulement, qui a investi environ 10 millions euro à Sibiu et Elbromplast – groupe Plastivaloie à Timisoara. Saint-Gobain et Faurecia investissant 7 mil. Euro et respectivement 100 mil. euro.

On peut retenir aussi les investissements de certaines PME comme GPV Enveloppes et Energom à Cluj ou Delfi Puls (informatique) à Bucarest, Parisot, d'autres plus petites, impliquées traditionnellement dans les industries basées sur la main d'œuvre (confections chaussures, transportation du bois, meubles, comme Parisot, par exemple, qui produit pour Conforma, Ikea ou Mobexpert, mais aussi dans l'industrie mécanique, électrique et électronique et en ingénierie en général.

Les compagnies étrangères, en général ont réalisé l'année passée le plus grand nombre de majorations de capital dans le secteur bancaire, énergétique, automobiles, retail et real estate, leur valeur cumulée dépassant 1,2 mld euro, selon l'office National du Registre de Commerce (l'information datant du 12 mars 2008 – [www.zf.ro/article\\_164497](http://www.zf.ro/article_164497)).

Pour cette année (n.a. 2008) ARIS (Agence Roumaine pour les investissements étrangers) estime le niveau des investissements étrangers à environ 7 mld. euro.

On a trace ici un bref aperçu, assez sommaire, des implications françaises dans l'économie roumaine, en relevant la place privilégiée du partenariat français.

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# THE USE OF METAPHORS IN TEACHING STUDENTS OF ECONOMICS

Vasiloaia Mihaela

Universitatea „George Bacovia” din Bacău, Facultatea de , Strada Pictor Aman nr. 96, mihaelavasiloaia@yahoo.com, 0040-740-200628

Drugus Liviu

Universitatea „George Bacovia” din Bacău, Facultatea de Management, Strada Pictor Aman nr. 96, liviusdrugus@yahoo.com , 0040-732-401582

*Abstract: As in many other fields, English has increasingly become the universal language of the economic field, which means that professional and academic economists have to publish in English in order to further their careers. This demand for English (English for Special Purposes) for economics and business is inherent in the nature of business management. Even more, some undergraduate and graduate economics students seeking to continue their education or to be employed in foreign institutions have increased their demand for ESP courses. Thus, this study of metaphors in economic texts is useful and takes advantage of rhetorical thinking as a didactic tool to simplify what would otherwise be sometimes too complex for students to understand.*

*Key words: metaphor, economics, language, understanding, didactic tool*

## Introduction

Although there has been a long debate on the existence of metaphors in economic texts, their presence cannot be denied. The pervasiveness of metaphors in economic discourse makes the language of economics less abstract and more manageable in concretizing, objectivising or even humanizing economics concepts. Economics metaphors are basic models for economic processes in human society.

As in many other fields, English has increasingly become the universal language of the economic field, which means that professional and academic economists have to publish in English in order to further their careers. This demand for English (English for Special Purposes) for economics and business is inherent in the nature of business management. Even more, some undergraduate and graduate economics students seeking to continue their education or to be employed in foreign institutions have increased their demand for ESP courses. Thus, this study of metaphors in economic texts is useful and takes advantage of rhetorical thinking as a didactic tool to simplify what would otherwise be sometimes too complex for students to understand.

## Metaphors in economics

Metaphor is so widespread that it is often used as an “umbrella” term to include other figures of speech (such as metonyms) which can be technically distinguished from it in its narrower usage. Lakoff and Johnson argue that “the essence of metaphor is understanding and experiencing one kind of thing in terms of another.”<sup>284</sup> In semiotic terms, a metaphor involves one signified acting as a signifier referring to a different signified. In literary terms, a metaphor consists of a literal primary subject (or **tenor**) expressed in terms of a figurative secondary subject (or **vehicle**).

The linking of a particular tenor and vehicle is normally unfamiliar: we must make an imaginative leap to recognize the resemblance to which a fresh metaphor alludes. Metaphor is initially unconventional because it apparently disregards “literal” or denotative resemblance (though some kind of resemblance must become apparent if the metaphor is to make any sense at all to its interpreters). The basis in **resemblance** suggests that metaphor involves the **iconic** mode. However, to the extent that such a resemblance is oblique, we may think of metaphor as **symbolic**. More interpretative effort is required in making sense of metaphors than of more literal signifiers, but this interpretative effort may be experienced as pleasurable. While metaphors may require an imaginative leap in their initial use (such as in aesthetic uses in poetry or the visual arts) many metaphors become so habitually employed that they are no longer perceived as being metaphors at all.

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<sup>284</sup> Cf. George Lakoff, Mark Johnson, *Metaphors We Live By*, Chicago, University of Chicago Press, p.5

George Lakoff and Mark Johnson illustrate that underlying most of our fundamental concepts are several kinds of metaphor:

- a) **orientational metaphors** primarily relating to spatial organization (up/down, in/out, front/back, on/off, near/far, deep/shallow and central/peripheral);
- b) **ontological metaphors** which associate activities, emotions and ideas with entities and substances (most obviously, metaphors involving personification);
- c) **structural metaphors**: overarching metaphors (building on the other two types) which allow us to structure one concept in terms of another (e.g. “Rational argument is war” or “Time is a resource”).

They also note that metaphors may vary from culture to culture but argue that they are not arbitrary, being derived initially from our physical, social and cultural experience.

In 1982, Willie Henderson opened the discussion of metaphor in economics, pointing to the scarcity of analyses of metaphor in economics, in spite of the “wide and deliberate use of metaphor in economic texts.”<sup>285</sup> A year later, Deidre McCloskey argues that metaphor should be investigated in the frame of an economic criticism whose objective should be finding out “how arguments sought to convince the reader.”<sup>286</sup> In our opinion, the problem of defining the “economic field” is still open. If in the modern times, the economic field was strictly confined to the material production of goods, the postmodern times are enlarging the economic field by including the larger and larger spectrum of services. Or, services are so largely defined that the economic field is including now almost any human activity. It is really difficult to make a list of activities that are not “collecting, combining and consuming means for attaining proposed ends”. (See any of Drugus articles at the Bibliography). Although the fields are becoming more and more transdisciplinary it is recommendable to make the necessary differences among economic, financial, business and/ or managerial matters.

The language of economics (business and financial aspects included) has received considerable attention in recent years. McCloskey analyses economic texts to show, for example, how rhetorical devices may be used to suppress uncertainty and to give the impression that what is presented is an unassailable fact. The work which has had the most far-reaching implications for the way metaphor is considered is Lakoff and Johnson’s, which will be discussed more fully below. The role of metaphor specifically in economics writing has also received some attention. Henderson’s article “Metaphor in Economics”, mentioned above, classifies metaphors used in economic discourse into those which are also applicable more generally, those which have become conventional tools in economic description and more original metaphorical images dealing with specific situations. Metaphor is clearly an important consideration in the economics textbooks in current use, and an understanding of metaphor thus has relevance for pedagogy in English courses for economics students. Insights into metaphor in general will hopefully be of assistance to students whose mother tongue is not English in their struggle to comprehend economics texts. In our opinion, not only the economics students are to be considered when discussing about metaphors used in teaching, but all specializations need (more) such consideration. Especially non-economics students are to be offered more metaphorization in their understanding of what economics is.

Charteris-Black thinks that metaphor is in fact an essential feature of technical discourse and plays an important role in making it easier to understand. “Meanings may be realized by word choice that differs what is in some sense typical or unmarked, and anything approaching technical language for example, tends to become noticeably more complex if one simplifies it by removing the metaphor.”<sup>287</sup>

In fact, writers on economic issues have used metaphor to illustrate their arguments since Aristotle.<sup>288</sup> However, the importance of metaphor in economics was recognized with the works of Henderson and McCloskey on economic rhetoric and they are probably for most economists the only approach for studying economic discourse.

Many authors are using the term of metaphor for any kind of comparison or metonymy. This could be named “metaphor in the large sense”. We do agree the idea that the real metaphor (in the strict sense) is when we are using the verb “to be”. So, for example, “an organization is a machine” is a metaphor in the strict sense, but when we say “organizations are functioning like machines” this is only a comparison, or a metaphor in the large sense, i.e. a less strong figure of style. In literature we find out that one of the most used “so called” metaphors in

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<sup>285</sup> Willie Henderson, *Metaphor in Economics* in “Journal of Socio-Economics”, 21(4), winter 1982, pp. 363-377

<sup>286</sup> D. McCloskey, *The Rhetoric of Economics* in “Journal of Economic Literature”, June 1983, vol. XXI, pp. 481-517

<sup>287</sup> J.J. Charteris-Black, *Metaphor and Vocabulary Teaching* in “ESP Economics, English for Special Purposes” 33(2), 1998, pp.59-60

<sup>288</sup> Examples of metaphor use in Aristotle, *The Politics*, include property as *tool*, apud McCloskey, op. cit., p.490

economic texts is *market*. In an article, “Fools fight for favor in the court of Mr. Market”, in *Financial Times*, John Kay considers that he views market as an “anthropomorphic and voting metaphor.”<sup>289</sup> Here is how he describes the two types of (in his vision) metaphor: “The anthropomorphic metaphor is hierarchical. ‘We might ask the *market*’ City folk will say, but only if they occupy very senior positions or are leading specialists in their field. Such individuals are privileged by direct access to *Mr. Market* himself. The most discreetly influential figures in the city and on Wall Street display the style and mannerisms of *Mr. Market*’s courtiers. The voting metaphor is democratic. Every one’s opinion counts although some opinions count for more than others. Views are weighted by the amount of money behind them ...”<sup>290</sup> Kay also presents *market* as “a silly old fool who occasionally makes assets available to Berkshire Hathaway beyond their fundamental value”.

As we can observe the whole text is highly metaphorical, seasoned with sarcasm and irony. Of course, we wouldn’t expect an article on an economic issue to be subjective, to abound in figures of speech, but here we must also take into account the journalistic style. Finally, if we use EMMY (End Means Methodology)<sup>291</sup> we may conclude that the author’s end was well served by using metaphors and comparisons as true and adequate means. Metaphors, in most general sense, are real economic tools (means) for attaining some political objectives (ends). So, we do include metaphorization as an economic component of any pedagogical or literary/ journalistic text. The economic dimension of words, phrases and sentences is to be discussed largely in a further article.

Newspaper articles and television commentaries have different audiences from textbooks, and the journalist has to be entertaining as well as informative. Frequently journalists use metaphor in an attempt to make the prose more lively and interesting. For example, the accurate but dull *fall* may be replaced by *tumble*, *plummet* or other verbs in the interest of variety. A stimulating style is always the objective, as the following examples of some of the more imaginative prose encountered illustrate:

“The funeral hush that has draped the Hong Kong futures and derivatives market of the last few days continued yesterday.”<sup>292</sup>

“Investing in Japanese equities is a bit like entering into an arranged marriage - on the surface you know what you are getting into but the finer points is a mystery.”<sup>293</sup>

Lakoff and Johnson state that human thought is largely metaphorical and metaphorical language is only possible because of the deeper metaphors that exist in our conceptual systems. An example, out of the many they give (also illustrative for the present study), is “Time is money” – and from here related expressions used to describe time (abstract), such as: to waste time, to save time, to budget time, to invest time, to use time.<sup>294</sup> This metaphor came into the English language around the period of the Industrial Revolution, when people started to be paid for work by the amount of time they worked. Thus, the factory led to the institutional pairing of periods of time with amounts of money, which formed the experiential basis of this metaphor. Since then, the metaphor has been realized in many other ways. The budgeting of time has spread throughout American culture.<sup>295</sup> Anyway, we took the advantage here to underline that “Time is money” is a true metaphor in the strictest way...

The examples of metaphors in economic texts are as numerous as in any another type of discourse. Economic publications offer a rich metaphorical material for study. Here are some of the many examples of metaphors I came across when reading *Financial Times*:

- a) “But in spite of meeting these criteria, the marriage of HRE and Depfa was unlikely to transform to German banking market [...]”<sup>296</sup>

The definition of the term “marriage” in MacMillan English Dictionary is “the relationship between two people who are husband and wife”. In the ample it is associated with two institutions, Hypo Real Estate Holding AG (HRE) and Depfa Bank Plc (Depfa). The synonymic

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<sup>289</sup> John Kay, *Fools fight for favour in the court of Mr. Market*, in *Financial Times*, Tuesday, July, 24, 2007, p.11

<sup>290</sup> Idem, *ibid*.

<sup>291</sup> Liviu Drugus, Drugus Liviu, (2004) Ethics is Political Economics. Moral behavior is Good Management, in: *Philosophy for business*, Issue number 9, 13th June 2004, See at: <http://www.isfp.co.uk/businesspathways/>

<sup>292</sup> Extract from South China Morning Post’s Business Post supplement 11/3/94, p.11

<sup>293</sup> Idem

<sup>294</sup> Cf. Lakoff and Johnson, *op. cit.*, p. 5

<sup>295</sup> Cf. A. Hewings, *Aspects of the Language of Economics Texts* in “The Language of Economics”, Macmillan, London, 1990, pp.37-38

<sup>296</sup> Extract from the article *German banks’ merger urge* in *Financial Times*, Tuesday, July, 24, 2007, p.16

economic term is *merger*, but the author chooses a metaphor to facilitate and enhance understanding and also as a tool in the journalistic style.

- b) “The oil services sector is considered ripe for consolidation [...]”<sup>297</sup>
- c) “[...] instead of cutting money, they have now got to spend it.”<sup>298</sup>
- d) “Falling profits are among the most obvious threats to the stock market.”<sup>299</sup>
- e) ”Price rises for Russian energy supplies started to bite.”<sup>300</sup>

As Henderson pointed out, a number of what were originally metaphors have become conventionalized in the language of economics, and can now be better considered as technical terms than living metaphors. Such terms as *equilibrium*, *float*, *inflation*, *leakage*, *boom*, *liquidity* and *slump*, are now so familiar in the jargon of the subject that their metaphorical etymology is not immediately obvious. More obscure terms too often have metaphorical origins but become fossilized as the technical jargon of the subject, e.g. *straddle*, *strangle*, *call*, *put*, *cover*, *hedge*, *volatility*, *leverage*, etc. Since these terms are part of the specialized lexicon of the field and not generally used in a metaphorical way, they will not be considered for the purposes of this paper. However, it should be pointed out that the boundary between what is a fossilized or dead metaphor, and what is living, is far from clear-cut.

The pervasiveness of metaphors in economic texts makes the language of economics less abstract and more manageable in concretizing, objectivising and even humanizing economics concepts. Economic metaphors are basic models for economic processes in human society.

We think that metaphors are supposed to facilitate and enhance understanding, not hinder it. Hence, they can be used as a didactic tool to simplify what would otherwise be too complex for students to understand. In order to fulfill this task effectively, the teacher himself needs to have some knowledge of the use, function and interpretation of tropes. He may adopt them according to his students’ needs or their cultural background and this is perhaps the influence that metaphors should have on ESP courses for economic classes.

This study of metaphors in economic texts will be useful in determining the relevant aspects in which a consideration of metaphors might help students get into texts besides contributing to the building of a theory of text-types different from the traditional taxonomy of literary versus non-literary texts.

The pervasiveness of metaphors, in economic texts (and other types) is eroding the precariousness of the long held preconception that metaphors are exclusively a sign of literature, a linguistic ornament. On the contrary, metaphors are not an embellishment of one what already knows, but a vehicle for new insight made available by the interanimation of new terms.

The ESP teacher himself needs to be aware of the different rhetorical strategies and models used in economics and he can adopt them to his students’ needs or he can adopt them to his students’ cultural background. English has clearly become the world’s predominant language of business, research and scholarship.

The finding that metaphors are such a prominent part of business reports has a number of possible pedagogical applications in our country. Students of business and economics who wish to understand the subject must be aware of the metaphorical nature of much of the description, and be able to interpret it when they come across it. Its importance is confirmed by even a cursory glance at the title of some recently assigned readings such as “Doomsday Models” and the “Chicken Little” Syndrome: or “the computer that cried ‘wolf.’”<sup>301</sup> This importance has been demonstrated for economics textbooks, where the emphasis has mainly been on metaphor as a component of the theoretical underpinning of the subject's basic assumptions and theories. Even if the metaphor underlying a term has now become obscure, analysis of its origins could give insights into the meaning, and act as an aide-mémoire. When considering living metaphors, an appreciation of the distinction between the literal and the figurative would be highly desirable to bring a critical mind to bear on readings.

There appear to be three main reasons why such work would also be useful for tertiary students in the area of business and economics: getting to grips with the subject matter, background knowledge of the subject area and stylistic awareness. As for grasp of subject matter, as noted above, understanding of terms may depend on appreciation of metaphorical links, or may be assisted by such an insight. A discussion of these associations would

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<sup>297</sup> Extract from the article *Transocean agrees \$18bn deal*, op. cit., p.18

<sup>298</sup> Extract from the article *Hayard set for his first BP challenge*, op. cit., p.20

<sup>299</sup> Extract from the article *Reasons for reassuring for robustness of the market* op. cit., p.28

<sup>300</sup> Extract from the article *Belarus purges its gas oil chiefs*, op. cit., p.4

<sup>301</sup> Cf. Geoff P. Smiths, *How High Can a Dead Cat Bounce?: Metaphor and the Hong Kong Stock Market*, Hong Kong Papers in Linguistics and Language Teaching 18, 1995, pp. 43-58.



be a useful check for testing definitions of key terms. Co-operation with teaching staff in subject departments would be highly desirable here.

Secondly, a common complaint about undergraduates is the inadequate amount of background knowledge available for a critical interpretation of subject matter. This background knowledge is of significance not just as a repository of facts to draw on when required, but also intimately affects the process of reading itself. A critical reading strategy based on expectations from one's own background schemata is likely to be much more effective than treating a text as a dose of information to be ingested and assimilated. Wide reading on topics of interest could be stimulated by focusing on such sources as business publications (Financial Times, The Economist, Sunday Morning Post etc), where the reports are well written and informative.

Thirdly, awareness of style, genre and tone in writing is an area where many students are in need of improvement. The tone and style of journalistic reports are different from those of textbook chapters or economic essays in ways which may be obvious to native speakers but not so apparent to second language students. Reading exercises to identify different tone and stylistic elements would be a useful prelude to instruction on writing reports in an appropriate genre with the required degree of formality.

One pedagogical application which has been used with a fair degree of success is project work of the kind currently undertaken in ESP courses for economics and business students in Romanian universities. For example, first year economics students are required to assemble a business portfolio as part of their first year English for Business English course. This portfolio is based on an investigation of some current activity or events, such as the stock market or property prices, and serves as the basis for written and oral reporting. Information is largely obtained from media reports, as current information cannot be found in textbooks. As media reports are normally presented in a journalistic style, there has to be some transposition into a more suitably formal style before it is acceptable in an academic context.

One of the main advantages of such project activities is the motivating factor of dealing with current and relevant topics. Many "international" editions of the main North American economics textbooks are somewhat culture-bound in their choice of examples, and can be a struggle for students from places such as Romania. Similar activities could be devised at the secondary level also, for example assembling a notional equity portfolio and compiling charts to follow its vicissitudes over the year. This would give practice in various skills and provide a suitable focus for oral or written reporting. Given the popularity of stock market investment among small investors in the general population our country (normally referred to as "retail investors" by the media), this could also be a useful survival skill in later life.

Metaphors are a common and important feature of contemporary financial journalism, and any understanding of the language of stocks and trading requires an appreciation of this. Tropes function not only as stylistic devices, but are fundamental to the perceptions of both academics and professionals in the field. Newspaper articles on financial dealings could be a source of relevant and motivating authentic texts for use in the ESP classroom for students on economics and business courses.

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