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**REDACTION ADDRESS**

University of Oradea,

Faculty of Economics

University Street, no. 1 - 3

410087, Oradea – România

Phone: 040259/408.109 – Dean Faculty of Economics;

Phone: 040259/408.247 – Journal of Faculty of Economics;

Fax: 040259/408.409

Site University of Oradea: <http://www.uoradea.ro>

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## **PLENARY SESSION**















# ABOUT DEFICIT MANAGEMENT IN THE CONDITIONS OF MARKET INTEGRATION AND GLOBALIZATION

## **Ciutacu Constantin**

*National Institute for Economic Research - Romanian Academy*

*Calea 13 Septembrie 13, Casa Academiei Romane, Sector 5, Bucharest, zip code 050711, Romania, E-mail: constantinciutacu@ien.ro, Telephone: +40 21 3182469*

## **Chivu Luminița**

*National Institute for Economic Research - Romanian Academy*

*Calea 13 Septembrie 13, Casa Academiei Romane, Sector 5, Bucharest, zip code 050711, Romania, E-mail: luminita@ien.ince.ro, Telephone: +40 21 3182469*

*Translated in English by: Pop Anamaria Mirabela*

*Universitatea din Oradea, Facultatea de Stiinte Economice, Str. Universitatii 1, Oradea*

*E-mail: mipop@uoradea.ro*

*Telephone: +40-259-408-799*

*The expansion of the world trade, the unprecedented opening of the national markets, the regional integration and the consistency of globalization represent challenges having in view the management of the internal balances between cashing ins and payments both for the architecture of the international, regional, national and firm economic policies as well as for the farmsteads or individual consumers.*

*The coexistence of the external/commercial and internal/budgetary deficits at the macroeconomic level, simultaneously with the accumulation of some high level of debt for the states, non-financial and financial economic agents, population farmsteads, requires new theoretical and practical approaches, new institutions and policies meant to manage the sustainability of the growth and diminution of the risks of some more and more unpredictable slippages.*

*Keywords: deficit, trade, external/commercial trade balance, economic integration, globalization*

*JEL Classification Code: F10, F12, F15, F13, O10, O24*

## **1. The evolution of the external deficit**

Traditionally, the Romanian people are not fans of the development through deficits or credits/debts.

The culture and the behaviour of the lack of debts has been crystallized, at least in the last two hundred years since the leeches and the small banking institutions appeared on the Romanian territories.

Also, as a biblical inheritance, the Romanians still consider the financial institutions as “parasites”. This is due to the fact that almost never in the history the Romanians have never set up banks to collect their savings and to cover the possible debts through financial intermediation (as a proof of this, currently, more than 90% of the banking capital in Romania is represented by the foreign banks).

In the modern times, the feelings of debt rejection have been supported by the effort of the 80s for the payment off of the external debts.

After 1990, in the political discourse and sometimes in the so-called scientific discourse, more and more there have occurred ideas trying to cultivate and even eulogize the advantages of indebtedness and also to reject its disadvantages in order to stimulate the economic growth and “to improve our image in front of the international financial bodies”.

Thereby, in the last 10 years (1998-2007), Romania’s external deficits have increased almost exponentially: the balance sheet of the current account rises from 2.6 billion euro to 16.7 billion euro (6.3 times), with a weight in the gross domestic product of 3.7% in

2000 and 13.5% in 2007; the deficit of the trade balance has increased from 3.1 billion euro to 21.8 billion euro (6.9 times), the weight in the GDP evolving from 8.4% in 1998 to 17.6% in 2007.

In the same interval, the gross domestic product has increased from 37.4 billion euro to 123.7 billion euro (3.3 times).

As a conclusion, it can be noticed that for the GDP to grow with one unit it is necessary a double increase of the external deficits.

## 2. About the internal indebtedness

The need of financing the economy represents an ascending expansion from 1.3 billion euro in 1998 to 8.07 billion euro in 2006 and 22.1 billion euro in 2007 (table 1); in other words, in the first year of European integration the need of financing has increased more than 2.5 times.

**Table 1: The capacity (+)/need of financing (-) of the institutional sectors**

million lei, current prices

	1998	2000	2002	2003	2004	2005	2006	2007
Total sectors	-1,300	-2,938	-10,668	-18,314	-19,051	-24,570	-28,432	-73,703
Non-financial companies	-1,665	-7,950	-17,701	-25,170	-22,057	-47,414	-16,328	-64,499
Central Bank	-309	-747	-1,190	66	-2,872	103	-4,763	-2,140
Other financial-monetary institutions	-384	477	-198	-1,147	947	-2,378	10,436	-830
Other financial intermediaries	422	319	-135	562	-407	198	719	1,769
Financial auxiliaries	5	-92	60	87	85	195	252	304
Insurance and pension funds companies	-39	-335	248	-219	-590	217	28	-992
Public administration	-1,182	-3,546	-3,025	-2,920	-2,924	-3,332	-7,581	-10,549
Population households	1,815	8,733	10,014	9,879	7,742	23,995	13,564	2,107

Source: Personal interpretation of the "National financial accounts 1998-2007", National Bank of Romania, Bucharest, 2008.

The largest Part of this need is written down in the accounts of the non-financial companies and those of the public administration; they got 87.5% and 14.respectively from the total need of financing from economy.

Regarding the annual final stock of credits, its dimension has increased from 21.5 billion euro in 1998 to 100.9 billion euro in 2007. With regard to the gross domestic product, the credit value represented 47.5% in 2000 and 81.6% in 2007 (table 2).

**Table 2: The credit value on institutional sectors (final stock)**

million lei, current prices

	1998	2000	2002	2005	2006	2007
Total sectors	21,435	38,165	77,654	169,637	237,870	336,680
Non-financial companies	14,460.0	23,377.0	46,615.0	91,055.0	119,080.0	178,345
Central Bank	625	1,174	1,426	808	12,050	1
Other financial-monetary institutions	784	647	1,183	13,065	21,266	30,567
Other financial intermediaries	4,886	12,064	23,737	31,301	28,282	30,939
Financial auxiliaries	3,058	7,375	15,849	14,650	13,829	18,846
Insurance and pension funds companies	7,944	19,439	39,586	45,951	42,111	49,785
Public administration	541.0	673.0	3,324.0	26,904.0	46,500.0	72,776
Population households, total	113	201	592	2,548	5,038	10,717
Gross domestic product	37,397.8	80,377.3	152,017.0	288,954.6	344,650.6	412,761.5
% of credits in GDP	57.3	47.5	51.1	58.7	69.0	81.6

Source: Personal interpretation of the "National financial accounts 1998-2007", National Bank of Romania, Bucharest, 2008.

The credits' institutional structure (table 3) shows some significant changes: first of all it can be noticed that from the total of the non-governmental credit, the foreign currency credits represented only 3% in 1990 and in 2007 their weight reached 55%; in the second place, in the last years the weight of the population households in the total credits has increased (2.7% in 1998, 1.8% in 2000 and 21.6% in 2007), while the public administration reduces its weight from approximately 35% in 2001 to 9.2% in 2007.

**Table 3: The credit structure on institutional sectors (final stock)**

%

	1998	2000	2002	2003	2004	2005	2006	2007
Total credit	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Non-financial companies	67.5	61.3	60.0	56.9	55.5	53.7	50.1	53.0
Central Bank	2.9	3.1	1.8	1.9	1.0	0.5	5.1	0.0
Other financial-monetary institutions	3.7	1.7	1.5	2.9	5.8	7.7	8.9	9.1
Public administration, credits	22.8	31.6	30.6	26.2	23.0	18.5	11.9	9.2
Population households	2.5	1.8	4.3	9.8	12.0	15.9	19.5	21.6
The rest of the world	0.5	0.5	0.8	0.4	0.3	1.5	2.1	3.2

Source: Personal interpretation of the "National financial accounts 1998-2007", National Bank of Romania, Bucharest, 2008.

### 3. The evolution of the debt cover sources

The value of the credits is mainly compared to the gross operating surplus, with the available gross income and with the gross domestic product.

From 1998 to 2006, the data from the national accounts and from the financial national accounts show that the **gross operating surplus** on total of economy increased from 18.1 billion euro to 49.6 billion euro; this represented 48.3% and 50.7% respectively from the gross domestic product.

Out of the total of the gross operating surplus, in 2006, the non-financial companies got 52.5% and the population households 41.6% (Table 4).

**Table 4 : The gross operating surplus on institutional sectors**

million lei, current prices

	1998	2000	2002	2003	2004	2005	2006
Non-financial companies	8,702.4	13,849.1	33,779.0	46,569.4	60,428.4	69,389.6	91,649.6
Population households	9,704.4	21,232.1	38,795.3	43,505.4	59,457.0	63,372.2	72,731.9
Public administration	63.1	623.5	1,742.2	10,238.7	7,167.1	7,525.5	7,901.7
Financial companies	167.4	789.1	2,249.1	1,643.0	2,837.1	2,520.3	2,011.1
Others	-564.8	-827.3	53.8	-5.8	776.7	184.7	363.6
Total economy	18,072.5	35,666.5	76,619.4	101,950.7	130,666.3	142,992.3	174,657.9
Gross domestic product	37,397.8	80,377.3	152,017.0	197,427.6	247,368.0	288,954.6	344,650.6

Source: "Statistical Yearbook of Romania", National Institute of Statistics, Bucharest, different issues and the "National financial accounts 1998-2007", National Bank of Romania, Bucharest, 2008.

During 1998 - 2006, in nominal terms, the gross domestic product increased approximately 9.2 times and the gross operating surplus of 9.7 times out of which 10.5 times at the non-financial companies and 7.7 times at the population households.

The financial position of the non-financial companies (Table 5) shows that their degree of indebtedness with regard to the gross operating surplus (GOS NFC) has evolved from 168.8% in 2000 to 129.9% in 2006.

**Table 5: The financial position of the non-financial companies (million lei, current prices/%)**

	1998	2000	2002	2003	2004	2005	2006
GVA NFC	19,668.3	39,419.1	76,559.1	97,869.6	122,318.3	145,350.9	175,743.6
GVA NFC/GDP(%)	52.6	49.0	50.4	49.6	49.4	50.3	51.0
GOS NFC	8,702.4	13,849.1	33,779.0	46,569.4	60,428.4	69,389.6	91,649.6
GOS NFC/GOS total (%)	48.2	38.8	44.1	45.7	46.2	48.5	52.5
NFC credits	14,460.0	23,377.0	46,615.0	58,879.0	71,683.0	91,055.0	119,080.0
NFC credits/ Total Credits(%)	67.5	61.3	60.0	56.9	55.5	53.7	50.1
NFC	166.2	168.8	138.0	126.4	118.6	131.2	129.9



credits/GOS NFC (%)							
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Source: *Idem Table 4.*

The ratio between their credits and the gross value added (GVA NFC) was of 73.5% in 1998 and 67.8% in 2006.

For the population households, the ratio between the credit value and the gross operating surplus represented 5.6% in 1998, 3.2% in 2000, 42.5% in 2005 and 63.9% in 2006 (Table 6).

**Table 6: The financial position of the population households (million lei, current prices/%)**

	1998	2000	2002	2003	2004	2005	2006
Available gross income (AGI)	25,792.7	58,627.2	101,716.2	116,541.2	156,328.9	176,783.9	204,488.3
AGI PH/ PIB (%)	69.0	72.9	66.9	59.0	63.2	61.2	59.3
GOS PH	9,704.4	21,232.1	38,795.3	43,505.4	59,457.0	63,372.2	72,731.9
GOS PH/ Total GOS (%)	53.7	59.5	50.6	42.7	45.5	44.3	41.6
PH credits	541.0	673.0	3,324.0	10,182.0	15,421.0	26,904.0	46,500.0
PH credits /Total credits (%)	2.5	1.8	4.3	9.8	12.0	15.9	19.5
Credits PH/AGI PH (%)	2.1	1.1	3.3	8.7	9.9	15.2	22.7
PH credits/ GOS PH (%)	5,6	3,2	8,6	23,4	25,9	42,5	63,9

Source: *Idem Table 4.*

Compared to the available gross income of the households (AGI PH), their credits represented 1.1% in 2000 and 22.7% in 2006 (Table 7).

**Table 7: The ration between the internal credit of the public households and the money incomes**

	1998	2000	2004	2005	2006	2007	2008
PH credits (mil. lei)	541.0	673.0	15,421.0	26,904.0	46,500.0	71,507.0	99,210.0
Total fund of net salaries (mil.lei)	6,713.4	11,871.9	32,123.2	40,812.2	48,499.5	61,082.0	73,935.5
% PH credits/total fund of net salaries	8.1	5.7	48.0	65.9	95.9	117.1	134.2
Total money income of PH (mil. lei)	12,297.9	22,831.5	72,557.9	85,220.6	98,935.8	121,073.6	159,408.0
% PH credits /money incomes	4.4	2.9	21.3	31.6	47.0	59.1	62.2

*Source: Processing based on data from the “Statistical Yearbook of Romania”, National Institute of Statistics, Bucharest, different issues and the “National financial accounts 1998-2007”, National Bank of Romania, Bucharest, 2008.*

Comparatively with the money incomes of the households, the credits represented 62.2% in 2008, up against 2.9% in 2000 and with regard to the total fund of net salaries received by the households, the credits were 1.34 times higher in 2008.

#### **4. International comparisons and final remarks**

Regarding the external deficits, especially after 1980, there has occurred the trend of deregulations, based on the promotion of the free movement of goods, services, capital, and the labour force.

In the last decades, we have been actually witnessing a competition in order to forestall the purchasing power of some countries by the others through export. The support of the exports and of the balancing of the trade deficits has led to the development of the theories regarding the competition which, in our opinion, is not necessarily linked only to productivity.

It is, among others, by the braking of the pay rises in countries with high salaries, by the providing of low interest credits by the export production companies, by the transparent or less transparent state aids, by dumping and by the national currencies exchange rate policies.

There are more and more required “the price makers” and “the market makers” and “the price receivers” and “captive economies and markets” respectively. The catching and maintaining of the purchasing power for the importing countries, especially for the population households is done through advertising labelling, through the so-called supremacy and welfare of the consumer and through the unprecedented development of the consumption credits.

In Romania’s case, the export and the import have an extra significance from the perspective of the double deficit (external/commercial and budgetary), which is sanctioned and nourished both by the high interest rates as well as by the impact of the national currency rate of exchange.

For the euro zone countries and for the USA, the power and supremacy of the two currencies seem to represent a much more important factor with regard to productivity.

Romania would need specificity and even autonomy of its economic and commercial policies allowing it to promote some countercyclical measures of economic relaunch.

The deficit management through a triangle of currencies (leu, euro, dollar) represents a balancing exercise with many risks.

The consumption credits in lei or euro, as a stimulus of the economic growth, can complicate the relaunch of the internal competitive economic growth.

The national offer of goods and services cannot meet rapidly, from one day to another, the requirements of different exchange rates and interests, not mentioning those of quality and diversification.

Before any production for export, the Romanian middlemen are facing the situation of not having anymore access to even the internal market; for them, the main objective may be the winning of the national market which is practically a component of the global market.

The national purchasing power, supported by the reduced salaries is forestalled by the import goods. The low salaries ensure a reduced taxation basis and less and less incomes for different budgets, which are skidding towards deficit. The different deficits feed the inflation, maintain the high interests, not allowing the relaunch through consumption nor through investments.

It is hard to believe that in the current conditions, the Central Bank could manage through efficient monetary policies the different effects of the economic turbulences (the collapse of some assets’ value or their exponential increase, the management of the exchange rate through the permanent reference to two reference currencies which have in the background scale economies and monetary bases of hundreds of times more powerful, the use of an internal reference interest

compatible with the inflation and the needs of economic growth through credit). The interest is a productivity lever much more important than the level of salaries or the qualification of the labour force.

The persistence of some extremely high interests in Romania in the last two decades can be considered as the main brake for the modernization and competition of the Romanian companies. The preoccupation, which has become a fixed idea, regarding the maintenance of the competition through low salaries is for many reasons extremely unproductive for the economic growth.

It would be an error to consider the current economic crisis as a simple accident; it is worth trying to explain and understand why the worlds of the last two decades has become tributary to indebtedness in order to support a growth higher than the internal offer of different economies.

In contrast to Say's Law, this offer has not created its own demand; the others' offer, through price and consumption credits, supports the demand and unplugs the real economy from the financial economy.

Currently, the European Union is built on an antagonistic coexistence of three models: that of private indebtedness, that of hypercompetition and the social European one, called "the European triangle of incompatibility".<sup>1</sup>

Based on the Maastricht criteria, in the community countries, the public administration's rate of indebtedness cannot pass 60% of the gross domestic product (GDP); this has generated the skidding of the rate of indebtedness for the companies and for the population households which are not restricted through convergence criteria.

In the same time, we are witnessing the persistent coexistence of the commercial deficits in the USA and the surpluses in some powerful emerging economies (China, India, South Korea etc.).

Regarding the deficits, with their dimension and distribution on institutional sectors and the debt management, the economic globalization leads to unpredictable, many times pervert results and effects. The intermediation and recycling of some deficits and of the others' surpluses bring profits for the financial-banking sector and losses for the real economy of different countries.

Generally, in the last decades, there has been the transition from the preoccupation regarding the debts of the developing countries to the preoccupation for the debt management of the developed countries.

Many economies' funding capacity shows a decreasing trend (table 8).

***Table 8: The funding capacity of some economies (in % of GDP)***

Country	Media 1997-2001	Media 2002-2006	2006
Belgium	4.8	3.9	3.4
Germany	-0.7	3.7	5.2
Ireland	1.6	-1.3	-4.0
Greece	-3.9	-8.4	-9.6
Spain	-1.4	-5.0	-8.1
France	2.0	-0.8	-2.1
Italy	1.4	-0.9	-1.9
Holland	4.6	6.8	7.3
Austria	-1.1	2.5	3.3
Portugal	-6.4	-6.7	-8.8
Finland	7.4	7.0	5.9
Bulgaria	-2.5	-8.0	-15.0
The Czech Republic	-4.0	-4.4	-2.7
Denmark	1.4	3.0	2.4

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<sup>1</sup> Joël Bourdin, Yvon Collin, "Rapport d'information no. 342", Sénat France, 8 avril 2009 (page 196).

Latvia	-8.6	-6.6	-8.9
Hungary	-7.6	-6.9	-5.7
Poland	-4.1	-2.3	-1.2
Romania	-4.8	-5.5	-10.3
Sweden	3.9	6.1	6.3
United Kingdom	-1.4	-1.9	-3.2
EU 27	-0.3	-0.6	-1.8
USA	-2.9	-5.3	-6.1
Japan	2.3	3.4	3.9

Source: OECD, *Perspective economice/ Economic Perspectives*, 1/2008.

As it can be noticed, Romania does not show a positive evolution.

In spite of all these, regarding the weight of the **public debt in GDP**, Romania's situation seems better than that of some developed countries (table 9).

**Table 9: The gross debt of the public administration (% in GDP)**

	1996	2000	2005	2007
Belgium	127.0	107.8	92.1	83.9
Greece	111.3	103.2	98.8	94.8
France	58.0	57.3	66.4	63.9
Italy	120.9	109.2	105.9	104.1
Romania	-	26.5	16.1	13.1
USA	73.4	58.2	63.4	-
Japan	93.9	134.1	164.0	-

Source: "Eurostat" and "National financial accounts 1998-2007", National Bank of Romania, 2009.

Comparatively with different countries of European Union, the public debt and the debt of the Romanian middlemen is still at sustainable levels (Table 10).

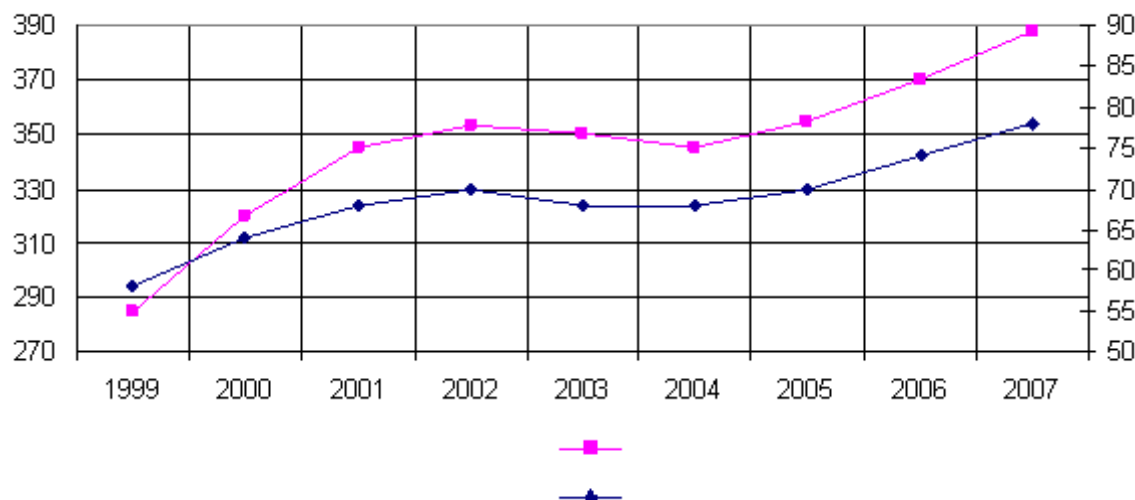
**Table 10: The debt of the euro zone and Romanian middlemen in 2007 (% of GDP)**

	Public debt (1)	Private non- financial sector debt (2)	Total debt (1+2)	The weight of the public debt in total 1/(1+2)
Belgium	84.9	118	202.9	41.8
Germany	65.0	125	190	34.2
Ireland	25.1	218	243.1	10.3
Greece	93.4	101	194.4	48.0
Spain	36.2	200	236.2	15.3
Italy	105	108	213	49.3
France	64.2	140	204.2	31.4
Holland	46.8	205	251.8	18.6
Austria	59.9	135	194.9	30.7
Portugal	64.4	200	264.4	24.3
Finland	35.3	118	153.3	23.0
Euro zone average	61.8	151.6	213.4	28.9
Romania	13.1	43.2	56.3	23.3

Source: J  l Bourdin, Yvon Collin, "Rapport d'information no. 342", S  nat France, 8 avril 2009 and "National financial accounts 1998-2007", National Bank of Romania, 2009.

From 1999 to 2007, in the euro zone the **middlemen's rate of indebtedness** with regard to the gross operating surplus increased from approximately 280% to approximately 390% and in comparison to the GDP the rate of indebtedness increased from approximately 56% to 78% (Graph 1).

**Graph1: The evolution of the enterprises' rate of indebtedness with regard to the gross operating surplus and the GDP in the euro zone (%)**



The indebtedness rate of the non-financial companies with regard to GOS (left scale)

The indebtedness rate of the non-financial companies with regard to GDP (right scale)

Source: J  el Bourdin, Yvon Collin, "Rapport d'information no. 342", S  nat France, 8 avril 2009

In Romania, in comparison to the gross operating surplus, the middlemen's indebtedness evolved from 166.2% in 1998 to 129.9% in 2006, and in comparison to the GDP from 38.7% in 1998 to 34.6% in 2006 (Table 5).

Regarding the rate of indebtedness of the households, the comparison between Romania and different European countries shows significant differences (Table 11).

**Table 11: The households' rate of indebtedness (% with regard to the available gross income)**

Coun try	Holland	United Kingdom	Portugal	Germany	Spain	Belgium	Franc e	Romania
1995	120.0	110.0	63.0	92.0	50.0	58.0	80.0	2.1
2003	200.7	129.2	111.3	104.5	92.4	63.5	60.2	8.7

Source: Bank of France, "National financial accounts 1998-2007", National Bank of Romania, 2009.

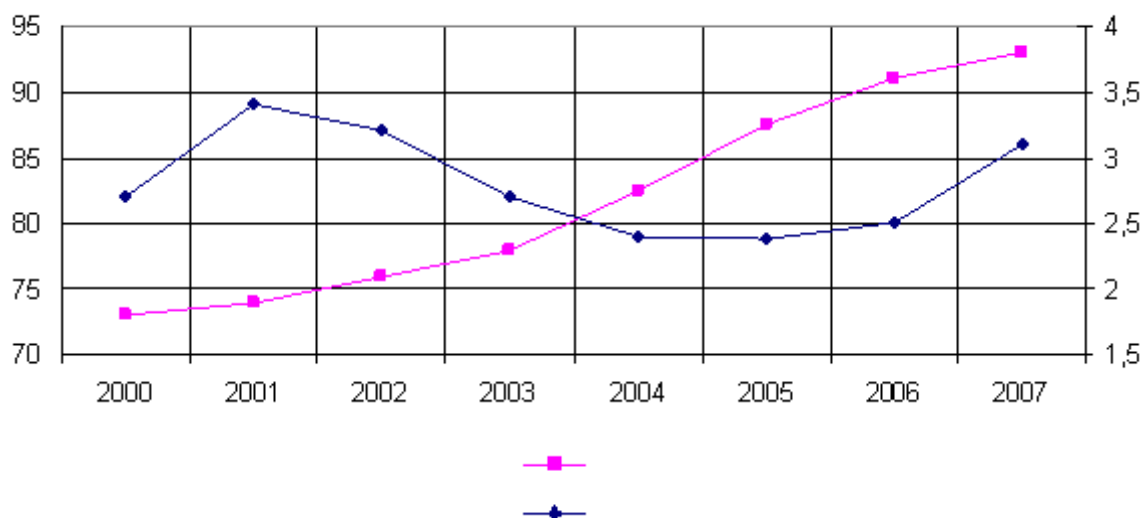
Note: \*-1998

In 2005, the weight of the households' credits in Romania in the available gross income increased to 15.2% and in 2006 increased to 22.7%.

As an average, **the households' rate of indebtedness** in the euro zone **in comparison to the available gross income** increased from approximately 72% in 2000 to 93% in 2007 (Graph 2).

These evolutions justify to a certain extent the assault of the consumption credits coming from the banking system for the population households in Romanian during 2005-2008. The support of the purchasing power of the population and its attraction through credits offered usually in order to create the market for the import products brought by the hypermarkets, represents a phenomenon amputating up to cancelation any effort towards competition through low salaries and high productivity of the Romanian producers.

**Graph 2: The evolution of the population households' rate of indebtedness (in comparison to the available gross income) and the interest rate in the euro zone (%)**



The indebtedness rate of the population households with regard to the available gross income (left scale)

The interest rate (right scale)

Source: J  l Bourdin, Yvon Collin, "Rapport d'information no. 342", S  nat France, 8 avril 2009.

The low salaries and the high interest credits in Romania are the levers supporting the competition of the others' exports and not the production and the Romanian export.

Another image of the differences between Romania and other countries is provided by the **average level of indebtedness per inhabitant**: in 2004, in thousands of euro, this was of 39.8 in Denmark 32.8 in Holland, 26.0 in the United Kingdom, 22.7 in Ireland, 19.7 in Sweden, 18.8 in Germany, 14.5 in Austria, 12.4 in Spain, 11.1 in France, 10.9 in Belgium, 10.3 in Portugal, 6.6 in Italy, 4.7 in Greece and only 175 euro in Romania; in 2008, the equivalent in euro of the population households credits, as an average per inhabitant, increased in Romania to 2,516 euro.

This image seems extremely favourable for Romania, but if we compare the annual levels of the salaries in Romania and in the other countries of the Union, the conclusions change. Also, we cannot forget that the interest rate in the euro zone is somewhere around de 2-3%, while in Romania the interest for the euro credits is at least double and for the lei credits is five times higher. Through all these interests, both the middlemen as well as the population are exposed also to a non-competitive, discriminatory situation.

Usually, for the middlemen if the capitalization is higher than the interest rate, these can borrow; the axiom is working in the euro zone, where, "the norm" is of about 15% for the dividends or profit at an interest rate of approximately 3%.

It is easy to think which capitalization is necessary for the Romanian middlemen with regard to the interest rates for credits and also how it can be judged the equality of treatment on the field of competition and competition policies.

The economic growth regime maintained by the debt expansion has led to the increase of the money supply in a rhythm of 6-12% a year after the euro creation; in the same time, the negotiable payment instruments (debt securities) have increased in the euro zone with 15.7% in 2005, 54.5% in 2006 and 60.2% in 2007.

The financial markets “inflate” the value of the shares and capital and the salaries are traded on the stock exchange, a fact which leads to the delocalization of the production towards low salary countries and to the “profit recycling” through speculative financial operations. Thus, we are witnessing relative deformations of the price of the labour and capital factors.

Contrary to expectations, the commercial surplus of the low salary countries makes the deficit of the commercial partners; it is not anything surprising in these tendencies because the economic science and knowledge must teach people especially how some economic theories and policies do not function.

Axiomatically, if the interests lower, the stock exchange capitalization and the market value of the real estate properties increase. In many countries these enhance in a faster rhythm than the GDP.

The households and the middlemen can thus borrow more, even though the physical number of goods and buildings has not grown. The mortgage on a house allows a higher and higher credit with regard to the usual income.

Regarding the productivity though, in the last hundreds of years, it was not possible for this to grow with more than 2-3% a year. The productivity is a result of the rational knowledge and choices, while the price of the shares and the price of the real estate are the product of the “irrational exuberance.”<sup>2</sup>

The annual growing rhythm of the house price (Table 12) does not correlate either with the GDP or with the evolution of the productivity or of the households’ incomes, just like the price of the shares does not seem to have any connection with the productivity, the GDP or the households’ incomes, including the salaries.

On average and long term, it has been noticed that between 3 and 5% of the value growth for the housing is reflected annually in the increase of the demand for all sorts of goods and services (consumer product goods and services, the demand for the luxury automobiles, refrigerators, holidays etc.).

**Table 12 : The annual growing rhythm for the housing (%)**

Country	1981-1990	1991-2000	2001	2002	2003	2004	2005	2006	2007
Germany	-1.6	0.1	-1.9	-3.3	-2.0	-3.8	-2.0	-1.1	-0.6
Spain	6.6	1.3	6.5	12.8	16.3	14.9	10.9	6.3	3.8
France	7.1	0.1	6.0	6.2	9.3	12.5	13.2	10.1	6.8
Italy	1.6	0.2	6.0	6.6	7.1	7.6	5.2	4.4	3.9
Holland	-2.1	7.8	5.6	4.2	2.4	2.7	3.3	3.1	2.5
Finland	8.6	-1.8	-3.5	8.4	4.5	6.0	5.1	8.5	7.3
Denmark	-0.3	3.1	3.5	1.3	1.1	7.9	15.6	19.2	3.4
United Kingdom	6.8	1.1	6.9	14.6	14.5	10.3	3.5	3.8	8.3
USA	0.9	0.3	5.0	5.2	4.5	7.7	9.3	5.6	1.2

Source: Eurostat, OECD.

The countries with strong currencies generally have other behaviour with regard to the deficit and the debt. The USA deficit, for instance, is the others’ surplus; the important

<sup>2</sup> Alan Greenspan, “Era turbulențelor”, Editura Publică, București, 2009.

problem for the USA is not necessarily the dimension of the deficit but what others do with the dollar surpluses. If these surpluses are used to buy securities, bonds, shares etc. in the USA, the money goes back.

China and Japan's surpluses hold on the exchange rates of their own currencies and increase the value of the dollar's exchange rate. The protectionism is exercised "involuntarily" at a global scale, through the exchange rate and not necessarily through commercial policies.

Romania is far from having the force to take part in such global games, at least until the adoption of the euro currency.

In spite of all these, the current degree of indebtedness of the middlemen and of the households can be a potential for future profit for those who will offer credits.

If we bring into discussion, for instance, only the evolution of the land price, the reliance of the indebtedness seems to provide a future certainty.

For instance, the evaluation of the agricultural surfaces value provides for 1999 an approximate total of 5.4 billion euro which grew in 2005 to 13.2 billion euro.

The lands from outside of built-up areas increased their value from 2.2 billion euro in 1999 to 20.6 billion euro in 2005.

In the last five years (2003-2008), according to the estimations in the Romanian Commercial Bank's report, the price of the agricultural area increased five times, being between 1,000 and 3,500 euro for hectare.

Despite these, the price of the agricultural area in Romania is incomparably lower than that of Ireland (60,000 euro/hectare) or than that of the neighbouring countries (7,000-8,000 euro/hectare in Ukraine and Serbia).

Taking all these into consideration, we think that the real estate market, even though it is blocked in the present, may represent both a prop for the economic growth and also a future generator of instability. The adoption of euro as a currency and the progress in the development of the infrastructures are factors which will make the differences in land prices in Romania unjustified as compared to the European Union member countries.

Generally, though, the surpluses and the plus of saving in the emerging countries are not correlated with the internal investment and capitalization capacities, that is why the debt management in the developed countries and the surplus management in the developing countries represent a challenge for the global financial system.

The global financial balance and the international financial market do not represent an aim in themselves, they must be built in order to ensure an optimum capitalization of the global resources.

For Romania, it is essential what the citizens will spend their money on because it is one thing if they finance the consumption imports and credits and it is a different thing if it is used for the construction, maintenance and endowment of their housing or for the acquirement of new technologies and knowledge or for the innovation and production of new goods.

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### **Popa Ioan**

*Bucharest Academy of Economic Studies, Faculty of International Business and Economics, Mihai Eminescu 13-15, Chamber 1203, Sector 1, Bucharest, e-mail: ioan.popa.rei@gmail.com  
telephone: 0213191990*

### **Belu Mihaela Gabriela**

*Bucharest Academy of Economic Studies, Faculty of International Business and Economics, Mihai Eminescu 13-15, Chamber 1203, Sector 1, Bucharest, e-mail: mihaelabelu2000@yahoo.com, telephone: 0213191990*

*The mainstream approach of international trade (Smith, Ricardo, Heckscher- Ohlin etc.) envisages the national economy as an heterogeneous space of resources and factors and the competitiveness depends upon right chosen industrial and trade policies . This approach centres to the State, the nominal holder of power, but takes little account of the Company, the actual holder of the economic power. At the limit State is considered a large company where decisions are taken centrally and can be implemented directly and fully. The paper aims to differentiate between the virtual advantages of national economies and the real factors of growth and competitiveness in the globalization era. In this respect a new approach is imperative, one that emphasizes the structures that promote the competitive advantages (cf. M. Porter) of a nation. The major companies and their surrounding networks should be seen as poles of growth (cf. Fr. Perroux) which promote a specific economic area. Gravity models can serve to analyze their role in the economic integration process through efficient structures.*

*Keywords: national competitiveness, competitive advantage, growth poles*

*Cod JEL: O40, O41, F10*

The paper intends to make a distinction between the virtual advantages of a national economy (that is those perceived and static) and its real advantages (that is those capitalised, dynamic). In this view, it is required a new approach – which is imperative in the conditions of globalization – the one that emphasises the structures – “the growth poles” – which promotes the competitive advantages of a nation. The gravitational models may serve to the analysis of their role, in the process of integrating the economic spaces through performant structures.

### **1. Competitiveness – between concept and slogan**

Paul Krugman considers the notion of competitiveness a dangerous obsession<sup>3</sup>. Nations do not compete one against the other, like the corporations (the author refers here to the “world’s leading nations” and to the “big corporations”). That is why, “the doctrine of competitiveness is flatly wrong”.

The statement is shocking: it seems to invalidate an entire direction of economic thinking and political action. In fact, it is about a necessary distinction operated above concerning the notion of competitiveness: that between the concept and the slogan.

According to a well spread and easily accessible definition, competitiveness is a comparative concept of the ability and performance of a firm, sub-sector or country to sell and supply goods and/or services in a given market<sup>4</sup>. Therefore, competitiveness means:

- an approach in comparative, relative terms: a country is or not comparative with another market in a certain field, on a certain market
- competitiveness is based on natural factors (resources) and artificial factors (institutions, competences)

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3 Krugman, Paul, Competitiveness: A Dangerous Obsession, Foreign Affairs, March/April, 1994

4 Cf. Wikipedia

- competitiveness can be achieved through industrial policies (the role of the state).

National economies compete one against the other just like big corporations only when they belong to an authoritarian state, in which the macroeconomic decision is made voluntarily, as in the case of a company. Thus, the national economies represent spaces in which the corporations competing among them both on the domestic market as well as on the international market develop.

The notion of competitiveness becomes a slogan when it is used to establish the objectives of economic policy in order to mobilise the resources, to make projections – often unrealistic – regarding the development of the national economy. Such an approach is most of the times counterproductive due to the fact that it tends to substitute to the reality a plan (usually, a voluntary plan), to cover the problems of the present with the promise of a “bright” future.

In these conditions, is it worth speaking about national competitiveness? It is, to the extent to which the state is an important player of the economic space and through its economic, industrial politics that it promotes it can stimulate the competitiveness of certain firms (or sectors).

The preoccupation with competitiveness should be thus in connection only with the field of economic politics. Yet, in the evolution of the international trade theory, the problem of competitiveness has been constantly, directly or indirectly, brought up.

## **2. International trade theory and competitiveness**

The classical approach of international trade (Smith, Ricardo, Heckscher Ohlin etc) has as premise the economic defining of the nation state as a non-homogeneous space of resources/factors, and the problem is reduced to their effective use. Thus, the state is placed in the centre, the nominal holder of the power, but too little is taken into consideration the firm, the holder of the economic power. At the limit, the state is considered a big firm where the decisions are made in a centralised manner and can be implemented directly and integrally.

### **2.1. Productivity**

**2.1.1** In a determined/closed economic space [the national economy] the efficiency of resources [labour] use is made through the labour division [that is specialisation]; in the case of external openness [international economy] the competitiveness, that is the efficiency of the participation to international exchanges, is made through specialisation in the fields with a superior productivity as compared to the foreign countries (absolute advantage theory).

To sum up, this means that the countries are characterised by different levels of labour productivity; each country has to get specialised in the fields in which it has higher productivity; it will export products for which it has superior productivity and it will import products for which it has an absolute inferiority (lower productivity); in these conditions, the international trade is beneficial for these particular countries.

**2.1.2** It is not necessary of an absolute productivity in the specialisation field: a country can get specialised in the field/fields in which it has a lower/symmetrical inferiority, a higher superiority (**relative advantage theory**).

The main arguments: a country which has an absolute superiority in both fields, yet it must get specialised in the field in which it has comparative advantages, that is a relatively higher productivity; it will import goods in the field in which it has a relatively lower superiority; symmetrically, the other country will get specialised in the field in which it has a lower inferiority and it will import goods for which it has a higher inferiority; in this way, both countries will use their resources more efficiently; the international trade is positive sum-game.

More practical (theoretical also) problems are asked regarding this **theoretical model of the international specialisation** (we do not refer to the standard critic: two countries, static character etc).

**i.** How can the differences of productiveness be explained? Are different economic fields equivalent from the point of view of their capacity to capitalize the resources?

No, says Romanian engineer and diplomat Mihail Manoilescu, who is one of the best known economists, in Romania and Latin America, without being taken too seriously by the *mainstream economics*.

Industry has a higher capacity to capitalize that agriculture (a higher intrinsic productivity): therefore, to specialise on industry means progress, on agriculture it means regress.

ii. How is practically achieved this orientation towards the fields presenting comparative advantages?

Naturally, through the action of the “market forces”. Corollary: the international trade, as soon as it appears, is advantageous for all the participants.

Against such an argument there were radical Marxist type theories – the imperialism and the international exploitation, approaches of the 70s and 80s left wing (Chr. Palloix) or tiermondist– the theory of unequal exchange (Samir Amin).

If *mainstream* blames the “market forces” for the structuring of the world economic space (the international division of labour etc.), which leads to the creation of the best world possible, as Voltaire’s *Candide* would say, *the heterodoxists* blame the (capitalist) state and the (capitalist) firm for the unbalanced manner in which the world economic circuit exists and works.

## 2.2. Factors

Another direction of thinking considers that, in the last instance, the endowment with resources (**theory of factor endowment**, or Heckscher- Ohlin) is determining for the international position of a country.

These are the main arguments of this theory: the specialisation model is determined by the differences in endowing with the productivity factors; a country exports goods which intensely use factors (resources) abundant in that particular country; the imports are made up of goods products with factors which are relatively rare in that particular country; the role of the state: the endowment with factors can be influenced by the governmental politics.

Two main observations are required: the national economy (or the national economic space) is considered a “warehouse” of resources – material, human etc – their capitalization being determined by the principles of economicity through the firms; the state has an active role in the economic life, being able to influence the endowment with factors and implicitly the international position (competitiveness) of that economy.

This emphasis of the role of the state in configuring the national economic space and in establishing (improving) the place in the international division of labour becomes a characteristic of what is called the **new international trade theory**: the specialisation and concentration of production leads to scale economies and to “learning effects”; these effects are striking in the high fixed price industries; the conditions of the world market lead to the affirmation of a reduced number of important competing firms; the role of the state becomes significant through governmental intervention; commercial policies etc.

In the middle of the last century, in the international trade theory a certain consensus was reached regarding the main players of the global scale economic development: the big firms and the nation states. But in the space defined on the two coordinates (“private”, “public”) a diversified range of conceptions appears, from those attributing a determining (exclusive) role to the firm (mainly, to trans-national corporations) to those considering that the states (mainly, the leading economies) have the decisive role.

### 2.3. Porter

An attempt of theoretical synthesis, but in the same time, an attempt to redefine the nation state in the global competition is done by M.E. Porter in the well-known work, published in the last decade of the last century<sup>5</sup>.

**The competitive advantage of nations** tries to analyse the reasons for which certain nations are performant in certain industries, using the “diamond” model.

This refers to the four interdependent dimensions of factors explaining the competitive position of a nation.

-The factor endowment: it is, on one side, about **basic factors** (those existing naturally in a country, such as natural resources, climate, geographical positioning, population) and **advanced factors** (those created in that country through investment processes such as communications, technology, research, highly qualified labour force, education).

According to Porter, the advanced factors are those being able to lead more to competitive advantages

-Demand: creates opportunities, consumers, gives an impulse to the innovation and quality increase

-Related industries: create groups of interconnected fields which are internationally competitive

-Corporation strategy, structure and competition: the corporation vision on long term is determining for competitiveness; the level of domestic competition increases the international competitiveness.

Porter states that the countries should export products from those industries in which all four components of the diamond are favourable and they should import in the fields in which the components are not favourable.

### 1. Growth poles

Big firms, as well as the networks they create, should be seen as **growth poles** capitalising a certain economic-national, regional, global space.

The collocation “growth poles” was introduced by the French economist Francois Perroux 60 years ago. “Growth does not appear everywhere at the same time; it becomes manifest at points or growth poles with variable intensity; it spreads through different channels, with variable terminal effects, on the entire economy<sup>6</sup>”.

Adopted subsequently by many authors and used in the economic strategies (especially in the regional development policies), this approach is not understood in a unitary manner as it is proved in literature, the respective notion has rather an intuitive character which also explains its adoption by the political decision instances. In other words, it is about an insufficiently conceptualised collocation. Intuitively, by growth poles are understood certain economic fields or groups of firms within sectors or branches with a capacity to promote the growth in a determined economic space (the national economy).

We mention, though, that for Perroux, the notion of economic space has an abstract character and it does not identify itself with a geographical area.

Yet, in practice, this notion has been used especially for certain areas, regions, cities, being one of the main concepts of the economic geography.

Perroux defines the growth pole as a structure (set) which has the capacity to induce the growth in another structure. From this approach it results<sup>7</sup>: 1) the pole is a concentration of productive elements; 2) the growth is propagated from a focal point, in other words it occurs as a diffusion of the growth and transmission effects (spill-over) from one pole to the environment; 3) due to

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5 Porter, M.E., *The Competitive Advantage of Nations*, Free Press, New York, 1990

6 Perroux, Francois, 1970: *Notes on the Concept of Growth Poles*, apud. translated by A. Gates and A.M. McDermott, *Regional Economics : Theory and Practice*, ed. David L. McKee, New York.

7 R. J. Barry Jones, *Routledge Encyclopedia of International Political Economy*, volume 2, 2001

the fact that big firms act like magnets, they need investments in order to achieve their role and ensure the regional growth; 4) in a developing region or country, a multinational company (having the role of growth pole) can act like a local company with the same favourable effects for the economy.

Perroux considers that the abstract economic space can be of three types: an economic plan; an area of power or influence concentration; a homogeneous aggregate. If he refuses the geographical positioning, he considers that an economic space can be defined voluntarily by an economic plan or it can be the result of a (natural?) concentration of resources and economic forces. In the last analysis, Perroux's theory substantiates the necessity to consciously intervene in order to create and promote the growth poles (let's not forget that one of the best works of the French author is *Techniques quantitatives de la planification* and that the French researcher was the creator and the manager).

Perroux's theory has been specially used in the regional approaches – geographical spaces – and has been developed on the “cluster” network idea. Subsequently, this national approach entered the national and European politics under the shape too, relatively under the influence of ideology, of the development regions.

In the problem which interests us, we must establish which the spaces that can make the object of a competitiveness policy are; it can be, of course, about certain economic areas, an authoritatively administered region, but, in our opinion, about a modern, complex economy.

In the last analysis, what matters is the consequence of an approach or another in the plan of political action: which the determining factors of the orientations in business are, who plays a major role – the firm/state, how welfare is created etc.

## **2. The role of the gravitational models in economy**

The world is not flat, it has relief. The economic space is not homogeneous, but differentiated. Therefore the models taking into account the force centres have probably more explicative force. They are efficiently used in marketing; they are applied in the regional analysis. Yet, we believe that their potential is still not used as explicative models, and then eventually operational models.

The theory concerning the localization of the economic activities was tackled, in time, by many authors: Thomas More – wrote for the first time, in the 15<sup>th</sup> century, about the necessity to divide a place into districts, each district having a centre (a “square/market”); Turgot (the 18<sup>th</sup> century) established the fundamentals of the commercial localization theory, based on three principles (the principle of centrality, the principle of demographic threshold for the implantation of a sales point and the principle of purchases grouping); Weber A. drawn up, in the first years of the 20<sup>th</sup> century, a theory of industrial localization; Hotelling H., in 1930, developed a law for the optimal localization of the duopolies. .

The gravitational models were first suggested by Y. Tinbergen (at the beginning of the 60s). He identified three factors explaining the volume of the commercial fluxes between two countries, that is: the potential export offer from the exporting country, the factors connected to the potential total import demand from the importing country; the factors connected to the resistance to trade.

*The gravitational models* define utility functions for consumers, functions including, on one side, factors connected to localization and on the other side, preference factors.

Using the model developed by de David Huff (1964, 1966), we can evaluate the utility attributed to an exporting country, using the export potential of this country and the distance (the total cost of the logistic operations) to the importing potential.

Thus, the probability to import from a certain country is equal to the utility allotted to that country related to the total sum of utilities of the other exporting countries, considered as possible purchasing markets for the importer.

$$P_{ij} = \frac{U_{ij}}{\sum_{i=1}^n U_{ik}}$$

where :

$P_{ij}$  : probability that an importer  $i$  imports from country  $j$ ;

$n$  : total number of exporting countries

$U_{ik}$ : utility of exporting country  $i$  for importer  $j$

The utility of the exporting country can be defined depending on the distance and attraction of the exporting country, according to the formulae:

$$U_{ij} = S_j^\alpha \times D_{ij}^{-\beta}$$

where:

$S_j$  : attraction of exporting country  $j$

$D_{ij}$  : distance from exporting country  $j$  to importer  $i$ ;

$\alpha, \beta$  : parameters measuring the sensitivity of the importer to the attraction of the exporting country and the distance covered

The model can be written as:

$$P_{ij} = \frac{S_j^\alpha \times D_{ij}^{-\beta}}{\sum S_{ij}^\alpha \times D_{ij}^{-\beta}}$$

Several critics have been addressed to the gravitational models applied in the analysis of foreign trade among which is the fact that the substantiation in the terms of economic science is showing a deficit (in the simplest approaches, it is about the simple adaptation of a defined model in the exact sciences), that a series of important variables for the international economic relations is ignored, as well as, especially, these models' preponderantly explicative character (and not operational).

Yet, the gravitational models allow the outline of a new vision on the relations among firms and states in the world economic space. They emphasise the structuring force of the leading companies – national economies, as well as their power to initiate and stimulate the growth in certain areas/regions of the world. They demonstrate the fact that the world economy does not represent a juxtaposition of national economies, that the world economic space is made up of dominant structures having the role to quicken or, in both cases, that to inhibit the national, regional or global development.

To sum up, a direction of research in the field of international trade can be constituted by the integration of this approach into the *mainstream conception* and, eventually, the attempt to build some operational models which should underlie the decision of economic politics at the national and/or regional level.

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## NEW TENDENCIES IN INTERNATIONAL SPECIALIZATION

**Ignat Ion**

„Alexandru Ioan Cuza” University, Faculty of Economics and Business Administration  
Carol I Boulevard no.22, building B, room B423, Iași, Romania, Email: [ignation@uaic.ro](mailto:ignation@uaic.ro)  
Phone: 0744 623 462

**Ifrim Mihaela**

„Alexandru Ioan Cuza” University, Faculty of Economics and Business Administration  
Carol I Boulevard no.22, building B, room B383C, Iași, Romania, Email: [mihaifrim@yahoo.com](mailto:mihaifrim@yahoo.com)  
Phone: 0745 324 347

*The structural changes that have occurred over the last decades in the highly developed countries have had direct repercussions on the ways of participating to the global labor division. The principle of labor division will be renewed. It will evolve from a logical foundation based on technical skills and efficiency to one based on competence and knowledge. Thus, there will be a change from a technical or “taylorian” labor division to a cognitive labor division.*

*Key words: international specialization, labor division, informational technologies*

*JEL classification: F16, F23*

The development of international trade and the increase in the international financial flow, the growth in the importance of multinational companies and the increase in the international technological transfer, especially in the fields of information and communication technologies, within the frame of a society increasingly based on knowledge, has resulted in an unprecedented intensification of economic interdependence among the countries of the world. This process was caused by a series of tendencies which have manifested themselves in the global economy over the last decades, some of a technological nature, such as the speed and efficiency of transportation and communication, cost reduction, etc., others of an economic nature such as the reduction or elimination of national boundaries standing in the way of international exchange. As a result of the processes of liberalization and deepening of the international labor division, national economies have become increasingly dependent on foreign markets. The technological transfer and the scope of transnational companies have raised new theoretical and practical questions on the optimal capitalization of production factors on a global scale, and on international specialization implicitly.

The very deep changes in global economics have occurred as a result of the process of renewal and modernizing of the economic structures in highly developed countries. The decisive moments in the acceleration of this process were “the Californian revolution of the microprocessor” and genetic engineering. These two represent, in the opinion of M. Richonnier, “the most spectacular component of a new technological revolution, announcing a third industrial revolution by itself”<sup>8</sup>. The new industrial revolution has determined the restructuring of all production and consumption methods and has given birth to “the informational society, in which science, technology, educational and research staff play the key role”<sup>9</sup>.

The structural changes that have taken place in highly developed countries (USA, Japan, Western European countries) in the context of this revolution have had direct repercussions on the ways of participation to global labor division through such effects as: the increasingly extensive implementation of organological specialization models, the

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<sup>8</sup>Richonnier M.; “Des métamorphoses de l’Europe de 1969 à 2000”; Ed. Flammarion; Paris; 1985; pag. 22.

<sup>9</sup> Idem; pag. 15.



renewal and variation of inter and intra-disciplinary specialization topics, the appearance of a new stage in global labor division based on technological specialization, etc.

The first effect derives from the fact that the structuring of production in a vertical way, on stages of the production process and on components of complex products, favors the involvement in the global labor division through specializations of an organological type. These are concerned with the typical components of products which were redesigned according to a modular concept. The standardizing and stylization of composing modules are designed in such a way as to allow the combination of the advantages of their production on a large scale based on automatization and robotization with the benefits of the variation of the range of end products obtained through their assembling.

The renewal and diversifying of international specialization topics is due both to the redesigning of the technologies and production concept of traditional products and to the emergence of new activities and products. While certain industrial products which have become traditional continue to represent the object of international specialization of developed countries, they are obtained in an ever-growing proportion by the use of the new technologies that are specific to the third industrial revolution. The new technologies contribute to the revival of the steel industry, of the chemical industry, of electrical and telecommunications devices, of automobile production, etc.

Nevertheless, within the new structures of international specialization of highly developed countries, the role of propulsion factor of foreign economic exchange, which has been played by the steel, automobile and chemical industries until recently, tends to be taken over by the new activities in the top fields. Out of the new activities, the largest amplitude and implications pertain to information technology, which has become a real industry in the center of which lies the electronic computer, as a "prototype of new products". Information technology, through the introduction of the microprocessor, has given a powerful impulse to telecommunications, air and space industry, electronics and microelectronics industries, to flexible systems production, to biotechnology, to semiconductors and new materials industries. In their turn, aeronautics and space ships industry have stimulated the production of new materials. These are obtained through the combination between some crystals of a certain metal in pure state (boron, etc.) and organic substances (plastic) or inorganic substances (silicone, glass, etc.). They are several times more resistant and lighter than usual metals (iron, aluminium, etc.) and are produced at lower costs. Referring to the importance of new materials, the director of the American design department of Air Force's Space declared that "the only huge progress of the past 300 years is the discovery of new space materials"<sup>10</sup>.

One of the consequences of the new materials and technologies is miniaturization, which is being practiced on an increasingly large scale not only by the USA and Japan, but also by the recently industrialized countries in South-eastern Asia. According to P. Drucker, miniaturization determines a certain "decoupling" of the production of manufactured goods from the production of raw materials. This favors the modern ways of industrial specialization against traditional multifold models such as extraction-processing.

Among other consequences determined by the evolution of the new technologies, several are worth mentioning here: the acceleration of the spread of information technologies, the compression of the economic environment, the technical and geographical restructuring of productive processes, the development of inter-company relations of a partnership type (involving various cooperative agreements and strategic alliances at the international level), the redefining of the ways in which the countries of the world insure their

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<sup>10</sup> Drucker, P.; "The Age of Discontinuity"; Harper and Row Publisher; New York; 1968; pag. 31.

economic growth and development (rather associated with the new technologies than with the natural and energetic resources, production becoming more and more intensive in professional competences, etc.).

These trigger essential changes in the principle of labor division, both at the company level and at the inter-company one. In the course of the expansion of information and knowledge technologies, we witness a de-multiplication of the capacity of transmission and processing of knowledge and information, as well as a process of specialization in these fields. Along the increase of the complexity of economic life, the productive activities are increasingly oriented towards the combination of specialized competencies. The rapid wearing off that competencies are subjected to because of the acceleration of technical changes imposes on companies the elaboration of strategies for creating favorable circumstances for quick assimilation of competencies, through a process of transformation of information into knowledge. As a consequence of these changes at the company level, **the principle of labor division itself will be renewed. It will evolve from a logical foundation based on technical skills and efficiency to one based on competence and knowledge. Thus, there will be a change from a technical or “taylorian” labor division to a cognitive labor division.** The separation of the production activity will be increasingly based on segmentation in blocks of homogeneous scientific knowledge. This knowledge will be subjected to continuous and motivated evolutionary dynamics for the activity of research and transformation of information into new knowledge governed by a restrictive community of specialists.

This new manner of separating economic activity according to the criterion of scientific competencies and knowledge is part of a logic for creating specific resources needed for use in a dynamic perspective, and not so much in the one of simple combination of production factors which is specific to the technical labor division. This change, although very unequal among different countries and economic sectors, will have determining effects on the regional and international localization of economic activity, including the economic relations among companies. Therefore, the determining factors of the international localization of activities envisaged by the cognitive labor division, will evolve from a logic based on comparative costs to a logic of the capacity for creating specific resources, or from a logic of combining generic factors to a logic of creating specific resources on a regional scale (meaning the subdivision of a country) or on an international scale. Any segment of the economic processes in sectors focused intensively on qualified labor and on scientific knowledge will only be located in regions whose benefits are not limited to the availability of generic factors (abundant and often poorly qualified workforce, natural resources), but are able to master the scientific training imposed by the new kind of labor division.

Taking into account the lack of uniformity in spreading these new labor division patterns, there emerges the hypothesis that labor intensive sectors that are organized according to the taylorian labor division principle could now find their place in the process of regional integration, which will also cover countries that are in the course of development, rather than in the process of globalization based on specific research and competencies. In other words, we may witness the coexistence of two types of capital and trade flow, each having its different nature<sup>11</sup>:

**-“globalized” flows** among the highly developed countries of the Triad (USA, The European Union, Japan) and the newly industrialized countries of S-E Asia, which master elements of monopoly over specific competencies; these flows are largely related to the internal exchanges within the Triad;

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<sup>11</sup> Drucker; 1968.; pag. 8.

-**“regionalized” flows** among the countries which belong to the same regional area, with the possibility of extension to less developed countries, but which are endowed with different resources; the integrated areas may represent privileged locations for actions of international states and institutions with the purpose of favoring structural convergence of the member states (industrial and technological policies, financial transfers, investments in sectors that create foreign exchange, etc.), this kind of actions being able to favor the integration of less developed countries.

Over the last decades, international specialization has developed within a context of ever increasing standardization of products, of targeting economies of scale, of configuring a relatively homogeneous demand and in an environment characterized by the capacity of companies to anticipate the quantitative variations of demand. On the other hand, in a more and more insecure environment, companies have had to cope with a dynamic flexibility, imposed by the changes in demand. Because of this fact, some important resources have been directed towards the field of information technology. This determining factor of international specialization is of a different nature than the factors which earlier facilitated economic exchanges among countries. The spread of technologies which involve these flexible processes has had two important effects capable of influencing the dynamics of comparative benefits:

- **a classical effect of technical progress** – in terms of substitution of labor by capital, which entailed a decrease in work intensity of productive processes and, through this, of the relative importance of salary expenses in the manufacturing industry;

- **a specific effect related to the new information technologies** – which made it possible to obtain different products at the same time, or at least to obtain large varieties of the same product, without involving high capital expenses.

This has resulted in a change of the principle of labor division in production units, implying its evolution from a logical foundation based on technical skills and efficiency to one based on competence and scientific knowledge. The increasing role of information and scientific knowledge in the economic activity has determined a growth of the importance of production based on homogeneous competencies and sets of knowledge, which resulted in a functional reconstruction of productive processes. A selection of the relations among companies took place. Vertically structured integration, sub-contractual agreements and market relations are replaced by long term contracts or strategic alliances. These alliances will be organized within a coordinated network. From now on, the criterion of activity location will move from a motivational logic of benefits resulting from comparative costs to a logic of access to specific factors (qualified workforce, positive foreign relations, etc.)

The effects of the technical changes favor the new specialization patterns; the criterion is not anymore simply restricted to cost minimizing. Companies will take into account more and more the access to specific factors which suppose the mastering of the necessary amount of scientific knowledge. This is the reason why countries whose only advantages are the availability of abundant and cheap workforce or of natural resources do not look attractive for the operations of dislocation performed by multinational companies. Dislocations continue to take place, but their determining factors take into account more and more the criteria of positive foreign relations, of quality, of competence and of costs.

Moreover, the innovations of products which are necessary for intermediary consumption (new materials) generally favor exchange among highly developed countries and strengthen the positions of international specializations within the same field at the level of intermediary products. Thus, recent progress in the field of biotechnology already has repercussions over international trade in agricultural raw materials and first-line processed materials, among highly developed and poorly developed countries. New biotechnologies

which appeared in the 70's and were spread in the 80's stand for a generic technology which influences numerous sectors of the economy in general and the agricultural and food industry in particular. The high level of the expenses for research and development and the availability of highly qualified staff transform biotechnology into a field which is reserved for the most advanced highly developed countries. These new products that are already on the market are often substitutes for natural raw materials.

Multinational companies, which represent the key elements of the sector based and geographical orientation of international exchange of merchandise and capital, aim at the exploitation of specific competencies rather than at the simple mix of generic factors.

The spread of the new production management patterns and of the new information technologies, which we have interpreted as a manifestation of the change of the labor division principle towards a logical foundation of competencies and scientific knowledge, is accompanied by phenomena of recovery of comparative advantages which used to be obtained by less developed countries, by the developed countries, in sectors considered traditional from the point of view of the neo-factorial theories of international exchange.

The reduction of the specialization of the developed countries in such sectors should be irreversible and, moreover, it should lead to a wide transfer towards less developed countries, which are able to provide a large amount of work force. However, the recovery of the comparative advantages in these sectors by the developed countries triggers an international reconstitution of productive processes, of international and sectorial specialization types and of the economic activities relocation operations.

Thus, the limitation of certain raw materials or any other production factors becomes relative. These substitution effects will mainly affect the mineral or agricultural raw materials exports from less developed countries towards developed countries; therefore, a long term specialization in scientific competencies can be followed by changes in the products specialization (the erosion of the natural advantages of the less developed countries).

The product life cycle theory (Vernon – 1966, Krugman – 1978, Flam and Helpman – 1987) does not explain this paradox of the return of the advantages, on the same product, to the innovative country. We can exemplify here with the recovery of the comparative advantage of Switzerland, in the field of horology, back in the 90s of the previous century, after intense erosion, a decade before, which occurred as a consequence of the new industrialized countries in South-Eastern Asia. The revival of the so-called traditional or work-intensive industries demonstrate this transformation: a country which possesses specific resources which enable the manufacture of a group of products has a long term advantage. The reversibility of the specialization also occurs at the product level. The countries which possess specific competencies (innovation, human resources, positive foreign relations) can recover the once lost advantages in favor of less developed countries, which limited themselves to imitating these products. Although the above-mentioned theory presupposes a permanent loss of the innovative country's advantage over the imitated and delocalized product, the latest transformations demonstrate that the same country may as well recover the advantage over the product in question. It will introduce two types of innovation which will allow the recovery of advantage over the new types of the original product: procedure innovation and product innovation. The source of these innovations is the absolute advantage the country has in terms of research-development activities and cognitive resources.

This analysis of internationalization on the basis of specific competencies is mostly verified through the polarization-concentration of goods and direct foreign investment exchange between and within the Triad's development poles. The marginalization of the countries endowed with "natural resources" (work force and primary resources) is

expressed by their being increasingly excluded from the international alliances and agreements regarding technology. At the same time, the changes in the orientation and the determiners of direct international investments at the beginning of the 90s of the previous century, confirm the recoil of the logic of the international segmentation of the production processes, based on the exploitation of the advantages related to the comparative costs for the developing countries. As an effect, we witness an intense and rapid growth of direct foreign investments in the last two decades; however, this faces a double reorientation-geographical and sectorial- and a triple change- in terms of nature, determiners, and its forms. **Geographically** speaking, the developed countries are not only the main direct foreign investors, but they are also the main receivers. Countless studies demonstrate that the developed countries have been operating 95% of direct foreign investments since the mid-80s of the previous century, and have been receiving over 80% back. This polarization of direct investments between developed countries is followed by the increase of the direct foreign investments, crossing at the intra-industrial level; as far as **sectors** are concerned, the contribution of direct foreign investments in primary sectors decreases in favor of the manufacturing industry and, more importantly, in favor of services, which represent over 40% of total investments, in contrast with 25% at the beginning of the 70s of the previous century; while the **nature** of direct foreign investments, by the end of the 70%, used to be of the vertical integration type, at present, most of these investments are horizontal; some mutations, in terms of main **determiners** of direct foreign investments, correspond to all these changes, which took place in the complex context of geographical and sectorial orientation. A dramatic decrease of the traditional determiner's role, regarding the factorial endowment, can be noticed. Countless studies emphasize the great importance of technological advantages in the attempt to attract direct foreign investments; as far as the **means or types of direct foreign investments** are concerned, we witness an increase in the direct intermediary forms (join venture agreements, strategic alliances, mergers, acquisitions), at the disadvantage of the creation of majority subsidiaries. Thus, in the context of these fluxes, the acquisitions increased from 67%, at the beginning of the 80s of the previous century, to 80%, at present.

The activity sectors are not so intensely involved in the international segmentation of work based on specific competencies. While the scientific knowledge intensive sectors are much more globalized, the less intensive ones may find their own place, either on a short or on a long term (as long as this inequality will last), in the context of some regionalized fluxes. The developing countries (Mexico in NAFTA) may find a means of international insertion on the basis of comparative advantages. The favorable context created by regional integration may stimulate this process.

While globalization, determined by the activity of great multinational companies, can trigger a process of exclusion of the "naturally endowed" countries from the international fluxes, regionalization creates, at least on a short or medium term, the favorable conditions of a more active participation, on behalf of developing countries, in the global economic context.

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# SOME ASPECTS ABOUT THE LIFE OF GREATEST FEMALE ENTREPRENEUR IN AMERICAN HISTORY, MARY KAY ASH

**Ionescu Gh. Gheorghe**

*Faculty of Economics and Business Administration, West University of Timișoara  
ghghionescu@yahoo.com*

**Negrusa Adina**

*Faculty of Business, Babes-Bolyai University of Cluj-Napoca  
anegrusa@tbs.ubbcluj.ro*

*Lately, feminine entrepreneurship has become a more and more interesting topic for academic, business and at the same time, the political world. This topic has been interesting, on the one hand due to a general interest in entrepreneurship – where woman play an important post – and, on the other hand, admitting the fact that new days, women have a great influence an development of national economy all over the world, creating jobs, wealth and welfare.*

*In our paper present a ethical and successful feminine entrepreneurship also business based on the principles of Christian ethics, respective “Mary Kay Cosmetics”. We try to debate the ethical caryatides of this business. Also, We try to argue the readers, you, of Mary Kay Ash belief, that the slogan “Business is Business” is a cold, selfish and arrogant slogan, and the other hand more truly is Rockefeller’s statement “More than anything else, I value the ability to deal with people”.*

*Keywords: feminine entrepreneurship; Christian ethics; golden rule; beauty consultant; criticism; praise; discipline, planning.*

## 1. Introduction

Being involved in a project focused on “*Feminine entrepreneurship and equal chances*”, I had to do some research concerning the literature on feminine entrepreneurship worldwide, especially in the developed western countries, and, of course on women’s business opportunities within Romanian economy. This research work has opened me a large and fascinating view on the topic of women in business and management.

One revelation of my research activity was Mary Kay Ash, the founder of an international, well-known cosmetics company “*Mary Kay Cosmetics*”, whose development was based on the principles of Christian ethics.

First of all, we have to point out some features of feminine entrepreneurship. Latterly, feminine entrepreneurship has become a more and more interesting topic for academic, business and at the same time, the political world. This topic has been interesting, on the one hand due to a general interest in entrepreneurship – where women play an important part-, and, on the other hand, admitting the fact that nowadays, women have a great influence on development of national economy all over the world, creating jobs, wealth and welfare. (Fiet J.O., 2000). It is enough to underline one single aspect in order to sustain this idea: the percentage of companies having women owners is between a quarter and a third of the world’s business population.

Secondly, women entrepreneurs provide original and new solutions for solving company’s issues, at the same time, they tend to be well-trained and experienced as a reaction to “glass ceiling-invisible barriers” and develop carriers in more challenging and non-discriminatory areas, such entrepreneurship. Despite these progresses, feminine entrepreneurship is still under evaluated and even worse, undermined. According to the literature, women entrepreneurs do not value risk and debts, making them vulnerable in their attempt of getting the needed capital for investment, activity specific to each type of entrepreneurship. (Carter S., 2005).

Thirdly, a major part of the academic literature claims that women have a different behaviour (compared to men, and thus, this is being reflected in their entrepreneurship. Although, within the academic literature, there have been admitted the valuable contributions women brought to the

development of business, providing innovative solutions for the current problems and exploiting new business opportunities. We can find many examples of successful women that may set a real proof of changing the traditional mentality concerning the role of women in our society. (Holmquist C. and Sundin E. 1989).

In the fourth, there are only a few studies focused on women business owners. Researching the literature thoroughly, we can say that women entrepreneurship has been neglected both by the academic world and mass media. The research studies underline the fact that entrepreneurship is a masculine activity, and therefore, the entrepreneurship theories are seen as being “designed by men, for men, and implemented by men.” Feminine entrepreneurship has been seen as an interest of a minority, women representing half of the Europe’s population. Thus, there is no theory or model of feminine entrepreneurship. (Holmquist C. and Sundin E., 1989).

In the fifth place, despite all these aspects reflecting an ignorance of feminine entrepreneurship, there are also a lot of useful topics on feminine entrepreneurship that might be teaching materials for starting and developing lasting businesses, bringing about welfare, such as: features and motivations of women entrepreneurs; development patterns of businesses owned by women; feminine entrepreneurship pattern under the circumstances of social, cultural and economic barriers; characteristics and patterns of feminine management; characteristics of assessing feminine entrepreneurship and management a.s.o. (Carter M. Nancy, Henry Colette, Barbara O’Cinneide and Johnston Kay, 2007).

## **2. Mary Kay Ash, a life dedicated to consumers’ welfare**

Mary Kathryn Wagner was born in a place outside Huston, Hot Wells, Texas, on 12 May 1918. Since a very young age, when she was only seven years old, she had to handle an overwhelming responsibility. She had to take care of his father who was a victim of a deadly disease, at that time, tuberculosis, while her mother was busy all day long, managing a small business, a restaurant in order to provide for the family. In 1935 she marries Ben Rogers having three children, Richard Rogers being the one who helps her later to run her own business. Her marriage falls apart at the end of the War, when Ben returns home. At the beginning of 1940s she gets a job as a sales agent for Stanley Home Products, selling household products. She attends yearly seminars held in Dallas, where the top sales agent used to be awarded the title “Sales Queen” and received a crocodile leather handbag. Next year, challenged by the previous year seminar, Ash receives the “Sales Queen” award. But, instead of the handbag, she only gets a “shinny bream”, bait for night fishing

In 1953, she starts working for another direct sales company “World Gifts”, where, she is promoted as National Training Director. In 1963, she quits her job in protest, after watching the man she trained, get promoted above her, earning twice her salary. At the beginning of august 1963, only one month before her company was established ” Mary Kay Cosmetics”, her second husband, George Hallenback, died of a unexpected heart attack while he was sitting at the kitchen table.

On 13 September 1963, Mary Ash starts her own business, “Mary Kay Cosmetics”, later called Mary Kay Inc. She has started with an initial investment of 5000 USD, helped by her youngest son, Richard Rogers. She purchased the formula of a skin lotion from the family of J.W. Health, a tanner in Arkansas. In the first year, Mary Kay Cosmetics had nine skin care “beauty consultants” (that was the name for sales agents of the new company) and 20.000 USD profit, operating from a small Dallas shop, of about 180 square meters since the second year she starts holding seminars yearly for her sales agents. At the beginning, 200 sales agents worked for her company. In 1966, she marries Mel Ash, her third husband, who dies in 1980. In 1968, Mary Kay Cosmetics went public, thus the company’s shares were available to public at the Stock Exchange. In 1969 she settles the disagreements she had had with the first employees who claimed their rights on the original skin lotion formula bought from a tanner in Arkansas.



These employees have used this formula to start their own rival company, Beauty Control, which has been sold later to a New Jersey direct sales company. In 1969, she grants the first rewards, prizes, pink Cadillacs to her five top sales agents. In 1971 it opened its first international subsidiary in Australia. In 1976, the company is quoted on the New York Stock Exchange. In 1979, Mary Kay Inc. has more 100 million USD profit and for the first time the money received from beauty consultancy and skin revival system is over 1 million USD. Also, this year witnesses an important advertising event; CBS TV Network allows 60 minutes to show the public a portrait of Mary Kay. During the show, the famous TV star Marley Safer, has asked Mary if she “is using God” in advertising her company. Her reply has been very wise: “I’d like to think that God is using me”. Due to the love and appreciation of her customers, young women within the business world, Mary writes three inspiring books, speaking about her own experience in business, all of them becoming bestseller. Thus, in 1981 her first book, an autobiography is published, simply called “*Mary Kay*”, the second one, “*Mary Kay on People Management*” is published in 1984, and, the last one “*Mary Kay: You Can Have it All*” is published in 1995. After a long lasting fight with “Beauty Control”, this company is bought by Richard Heath, a one of Mary Kate Cosmetics’ former employees. Together with his wife Jinger, Heath re-launches this company to compete with Mary Kay Inc.

In 1985, 17 years later the company went public, a group of investors lead by Ash and her son Richard Rogers, bought back almost all stocks, the company becoming a private family business again. In 1987, Mary Kay Ash became Chairman Emeritus of Mary Kay Cosmetics, which meant her retirement, and her son Richard Rogers became Chairman. In 1992, becomes a *Fortune* 500 company. In the following year another international subsidiary is opened in Russia. In 1993, to provide a full image of her company, she established a museum of her company, displaying all important events and stories connected to all top salespersons that brought their contribution to the company’s growth. Due to Mary Kay Inc. entrepreneurship philosophy, the company has expanded on 22 markets including, Japan, Argentina, and Canada. Her devotion and care for her customers, especially for women, made her establish Mary Kay Charitable Foundation, in 1994. This foundation supports cancer research, and four years later she dedicates her efforts to end and help the victims of domestic violence. This is the period when, for the first time she suffers a stroke, but the company expands into Ukraine, Czech Republic and Dominican Republic. In 2000, the company opened subsidiaries in Kazakhstan, Slovakia and Philippines. During 2000-2002, the concern is on redesigning and using new technologies, redesigning the package and finding a new skin cream formula and new products. Richard Rogers is still the CEO of the company. In 2001, on Thanksgiving Day (maybe it was not a coincidence), Mary Kay Ash dies at the age of 83. One year later, in 2003 CBS shows for the first time, a film called “*The Battle of Mary Kay*” whose topic was the rivalry between Mary Kay Ash and Jinger Health, the co-founder of Beauty Control Cosmetics. In 2004 Mary Kay Inc. has been one of the top skin care cosmetics distributors, dealing with 200 products, having an impressive sales force, 1.1 million sales persons (also known as beauty consultants) worldwide, on over 30 markets. The wholesale sales of 2003 got to a record figure: 1.8 billion USD. Also, in 2003, Mary Kay’s grandson, Ryan Rogers, according to his confession in the preface of the latest edition of “*Mary Kay Way*” (2008), was honored to accept his grandmother’s award “The Greatest Female Entrepreneur in American History. This award has been granted as a follow-up of a research conducted by a team of academics from Baylor University, whose purpose was to find out who were the USA’s greatest entrepreneurs. Alongside with Mary Kay Ash, there also have awarded Henry Ford’s grandson and John H. Johnson the prize, the former, “The Greatest Male Entrepreneur in American History”, and the latter, “The Greatest Minority Entrepreneur in American History”. (Mary Kay Ash, 2008).

### 3. Christian Ethics and the principles of business pattern promoted by Mary Kay Ash

From the very beginning we have to present the mission of Mary Kay Cosmetics as it was established and expressed by Mary Ash, as a philosophy: "It's all part of the Mary Kay philosophy – a philosophy based on the golden rule, a spirit of sharing and caring where people give cheerfully of their time, knowledge and experience." We can easily notice that the mission itself expresses the essence of Christian moral "concern/care for the others".

Mary Kay has dedicated all her books to those who believe that "man" and "pride" (the success, according to protestant moral) are two relevant assets for setting up and developing a successful business. At the same time, she dedicated her books to all those employees and to the famous sales force she has created, -characterized by a strong sense of pride- who lead the company to success, and to millions of worldwide SMEs.

Her son, Richard Rogers, Chairman of the company, underlines another aspect of Mary Kay's business philosophy that is: "Most companies create work force to increase the sales of their products". "On the other hand, Mary Kay has created a product to increase the work force to sell it."

A usual question may arise: How could Mary Kay, at the age of 45, with only 5000 USD, manage to motivate her work force, mostly women, who haven't been employed before or just for a short time, for three decades?

It is interesting the fact that, Mary Kay did not encourage bonuses, the right to buy shares or other financial incentives, as all the other corporations used to do. Instead, Mary Kay offered her "beauty consultants", the name of her sales agents, smaller or bigger gifts. Constantly she was an honest supporter and encouraged them. In her autobiography, "Mary Kay: You Can Have It All" she wrote: "Mary Kay Cosmetics is famous for valuing successful people", showing that: We see that, this appreciation, so important, we rely our entire marketing plan on it." She underlines that: "Women need to be appreciated." As far as I have experienced, I know that a woman usually works for being appreciated, when she doesn't work for money." In 1980s Mary Kay was the leader of a sales force sharing the philosophy "leaders make leaders." The basis of this philosophy was a careful choice of career and its evolution starting with sales director, then independent sales director, national independent sales director, position obtained only by 300 women within company's history till 2004.

After presenting all these aspects on business philosophy, we shall analyze in details all 23 principles used in managing her business "Mary Kay Cosmetics" pointing out the Christian protestant moral and culture.

The first principle is "**Golden Rule Leadership**". According to woman and entrepreneur, Mary Kay, Golden Rule is one of the oldest philosophical principles or behaviour norm; unfortunately it is usually ignored by the business world. Mary Kay is a businesswoman who strongly proves that this principle is as meaningful and productive today as ever, in this extremely puzzling, knowledge-based world. In the Book of Mathew (7:12) we can find this golden rule: "Do onto others as we would have others do onto us".

Luther thinks the best way to serve and praise God is by fulfilling your professional duties the best way possible. Also he thinks that giving up your own duties is just a sign of selfishness, and, on the contrary working in the name of a vocation shows God our love. Finally, according to Protestant Lutheran moral, the usefulness of a job and God's appreciation is measured according to morality and the importance of the products manufactured for the community.

The Golden Rule can be noticed in a Christian moral behaviour and also in developing a Christian moral culture. Thus, we can exemplify the faith and activities Mary Kay and her company promoted. There are two important beliefs, known as fundamental rules. First of all, Mary Kay had many unpleasant experiences in her previous career: unkind behaviour, seminars where people were treated as if they did not exist, long, tiresome round trip buses, being hurt and offended by her superiors. All these bad experiences made her draw the conclusion that such treatment and organizational behaviour cannot engender enthusiasm among employees. Thus, starting from the Golden Rule she believes that every leader should ask himself the question: "If I were this person, how would I want to be treated?" Accordingly, within the independent sales force created by Mary Kay, each person can expand and progress independently, without moving up a traditional corporate ladder, because millions of "beauty consultants"/sales persons operate independent retail business dealing directly with their consumers. Hence, each "beauty consultant" sets his/her own goals, productivity and rewards. Maybe the best example of "golden rule" involvement in Mary Kay's business is the "adoptee program". As a result of the bad experience she had with the companies she worked for, when she was 45 years old, Mary Kay wanted to eliminate assigned territories. She successfully did that and, her current system is not practiced by any other retailer. This problem used to create frustrations and complaint. With the new rule, based on the "golden rule", Mary Kay Cosmetics did not and do not have any assigned territories, thus an independent sales director who lives in New York can go on holiday in Florida or take part in a family event in Chicago and, there s/he can get a new team member. No matter where s/he lives in the USA, she will always draw a commission from the company on the retail sales s/he made. An independent sales director in Chicago will take the new beauty consultant under his/her wing and train her/him. The new beauty consultant will attend the unit meetings in Chicago, and take part in local sales contents. Although the Chicago sales director will devote a lot of time and effort to the new beauty consultant, the New York sales director will be paid the commission. This is what Mary Kate has called "adoptee program".

Although, it may seem unusual, the company has thousands of directors, most of them educating and motivating their unit people in other cities. Some have beauty consultants in a dozen or more states. Most of the professionals in retail said that this program cannot work, but despite their opinion it has been working for more decades. Each sales director gets the benefits from her/his unit member in other cities and helps other units' members, in return. By putting into practice this principle, Mary Kay Inc. looks like a big, but extremely united family.

The second principle is "**You Build with People**". According to Mary Kay, leaders are dependant on the performances of their people, and so is the company's success. Thus, we can draw the conclusion, that to Mary Kay, people are a company's most important asset. People are more important than any strategy, or plan, no matter how brilliant it may be.

Christianity was spread by the apostles, they were not scholars or priests, but handworkers, just like Jesus Christ. The Christian religion has been built for and by working people. According to protestant ethics, people are equal no matter what their occupation or job is, there is no better job or occupation, in God's will. Luther was the one who fixed the breakage between priests, considered divinely instituted and the other, normal occupations; which are appreciated equally by God. Accordingly, Mary Kay stated that a company is as good as its people are. She wanted her company's message to be: "We are the apostles of our company."

Creating and increasing an excellent sales force cannot be achieved by developing vertically, going up, but by extending a business horizontally. This provides the independent sales force a deep feeling on personal value. Each member of sales force knows s/he is not competing with the others. Thus, each of them brings an equal contribution. According to Mary Kay's philosophy assets are important to developing and growing of a company, but people are the business itself.

Mary Kay proves this principle with her own experience or, her lack of experience with cosmetics industry, at 45 years old. Still, she was aware of the fact that the power should rely on

recruiting and training sales agents. Similarly she has thought that, after getting the skin cream formula, she should find the best, the most famous cosmetic producer. Following her belief to make her customers happy, she wanted her company not only to manufacture quality cosmetics, but also to be valued by those institutions that checked the manufacturers' quality and ethics. Mary Kay was aware of what an unethical behaviour meant, "to bypass", that is a total failure. She strongly supported consumers' rights. Thus, she has never improvised; she was always looking for people with the necessary skills and qualification to enhance the company's performances and liability. She wanted the best qualified people in the accounting, retail, legal department or technology. It is also interesting her view on the marketing department, which, in her opinion, was the most important one. She admitted people working in this area should have additional skills and natural talent. In order to be able to successfully implement this philosophy, she realized that, she should provide top salaries for top employees. At the same time, she was aware that getting the best qualified people to work for your company, paying them well and training, keeping them, are two different things. It is well-known, that Mary Kay offers a new employee special concern and recognition. Thus, it is frustrating for any employer, who has provided training and trust in an employee, to lose him after a while. Accordingly, Mary Kay Inc. takes all the necessary steps to keep its employees for the longest period possible. Certainly, the principle "Build with people" is a deep ethical one, having its origins in Christianity, in monasteries in general and in the Benedictine ones in particular. In the latter, due to a clear division of work, all the activities were so simple, that no monk could complain of not being able to do them. All monks took part in accomplishing the tasks, setting an example for the neighbouring communities.

The following principle is "**The Invisible Sign**". Mary Kay truly believed that each person is special, that all of us would like to think that we are good people, but it is important to let the others feel the same. This principle originates in the predestination doctrine of Jean Calvin; we all have a hidden talent, which we have to make use of. If we discover it and become successful, we can be saved. Otherwise, we might not be saved. As Mary Kay states in her book: "Every time I meet somebody, I pretend there is an invisible sign hanging from his or her neck, saying "Make me feel important."" Mary immediately replies and this works out wonderfully. The policy of Mary Kay Inc. was the Christian principle that each person is a human being and has to be treated accordingly; each person is special, with particular feelings and abilities. Every one of us wears the invisible sign, that is, each of us is one of a kind. Mary Kay claims that every leader should be aware of the fact that God planted the seeds of greatness within all human being. All of us are important, and a good leader can develop our qualities. Unfortunately, most of us go through life upset, without using our "gifts", without "playing the music God gave us". Mary Kay believes that we only use 10 percent of the gifts God gave us; the other 90 percent are never used. In order to emphasize this Christian principle, Mary Kay reminds us of Grandma Moses, who has started painting at the age of 75, becoming a worldwide artist; but she must have had this talent from the beginning. "Wouldn't it have been a pity if Grandma Moses hadn't fulfilled the artistic calling God gave her?" wonders Mary Kay.

Mary Kay, the woman who has created a business empire, rejects the cold, selfish and arrogant slogan "Business is Business", supported by all businessmen, justifying that it is not their business to make people feel important. She believes that this slogan and the attitude created by it is not a good one and, accordingly leaders should pay special attention to "making people feel important". To support this belief, she relies on Rockefeller's statement: "More than anything else, I value the ability to deal with people." Obviously, this statement is deeply ethical and an important factor in the increase of productivity, that is why the manager should always try to make each employee feel important within the organization. Based on her previous experience both as an employee and businesswoman, Mary Kay believes that employees "do what we, the managers, expect them to do." If we expect them to fulfill their tasks correctly, they will do so,

and vice-versa. Mary Kay is convinced that, people should be granted responsibility and power so that they feel important and not alter their self-esteem. In this case, an employee really feels important, and will direct all his efforts and skills towards the welfare of the company. Obviously, the principle of “The Invisible Sign” reflects the Christian doctrine.

The fourth principle “**Praise People to Success**” is also inspired by the Christian ethics, particularly the predestination doctrine; the successful ones are God’s-chosen ones and deserve to be fully appreciated for their struggle. It also originates in Jesus Christ’s advice “Love thy neighbour as thyself.”

Mary Kay thinks that recognition is the most powerful of all motivating techniques. This belief became an important part of the marketing philosophy. The integration of this principle starts when a “recruit” becomes a “beauty consultant”. During the beauty care seminar, after a woman got a skin treatment, the beauty consultant asks the other guests to bring their own contributions. Women change not only their physical appearance, looking better, but also their emotional state. When women feel more confident about themselves, they also might be interested in buying other products, but, at the same time, in becoming a beauty consultant. This is a new and rewarding experience for most women. After becoming a beauty consultant and providing her first skin care treatment, her sales director will recognize and appreciate her good work. Regardless how many mistakes are made during this first seminar, the new beauty consultant will only be appreciated for her good job. Even if she wants to find out her mistakes, her sales director will kindly tell her: “Let’s talk about what you have done right.” It is well-known that we ask about our mistakes, but, in fact, we want to be appreciated. Only after the new beauty consultant was praised for her strengths, the sales director will criticise her in a gentle manner, the Mary Kay Ash way, that is “sandwich every bit of criticism between two heavy layers of praise”.

The way in which Mary Kay sees recognition is very interesting, not in an inappropriate way, but truly and honestly, involving ethical principles.

Thus, Mary Kay says: “I honestly believe that a 40-cent present and a 100 USD virtual recognition is a lot more worthy than a 100 USD present and a 40-cent virtual recognition. Nevertheless, Mary Kay Inc. is famous for granting important material rewards. Besides offering pink Cadillacs, the company also offers luxury articles such as diamond rings and trips to exotic locations. One of the latest symbols of recognition is “the Diamond Bumble-bee”. This is regarded as the “Crown Jewel” and the person who gets it, is appreciated as royalty. The award ceremony is similar to the Miss America beauty contest.

The Mary Kay worldwide corporate culture not only promotes true recognition and appreciation, but also goes beyond words. Liliya Shershynva from Ukraine confesses: “Mary Kay’s principles help me discover and make use of my talent, to offer people trust in their potential. They help me love people the way they are.” This confession of a beauty consultant, coming from an ex-communist country, is extremely relevant for the essence of Mary Kay organizational culture, from Christian ethics view.

The next principle is: “**The Art of Listening**”. According to this principle, successful managers and leaders are good listeners. According to basic logic, God endowed us with 2 ears and 1 mouth, that is why, we should listen twice as much as we speak. From a managerial view, while listening, the benefit is twofold: first of all, we get the necessary information, and then, most importantly, we make our interlocutor feel important and be aware of our honest appreciation. Regarding this aspect, Mary Kay Ash notices an important and severe aspect, which is the fact that we are taught to read, write and speak, but not to listen. To illustrate this principle, Mary Kay, uses a type of “parable of the ignorant good listener”. She met one of the most successful leaders, who was a very good listener. He worked as a sales manager for a big corporation, without knowing anything about this business. Every time a sales manager approached him with a problem, he didn’t have any answer, because he didn’t have the necessary qualification for the job, but he was mainly a good listener. Thus, no matter what he was asked, he had the same

reply: “What do you think you should do?” Then, his interlocutors came up with suitable answers, he agreed with them, they left content, but paradoxically, they thought their boss was great.

Listening is a well-known and appreciated art at Mary Kay Inc., through which we express our appreciation for the human being who shares with us his/her concerns regarding his/her life, organization and society. The first and the most important habit of the art of listening is to grant the interlocutor your full attention. Nothing should distract our attention while listening.

While listening, we have to take into consideration 2 aspects as results or consequences: the first one is the fact that our employees are a valuable and continuous source of ideas, if we pay them the necessary attention and encourage them to tell them what their opinion is on different topics. This is how we can get many useful ideas and recommendations. The second one is encouraging feed-back and handling it carefully: we should listen to the information received from our employees, confirm receiving their correspondence and read it, validate useful suggestions.

By listening to our employees, we can develop products according to consumers’ needs, designed by them. Mary Kay shows that the inability to listen to people means a serious sign of ignorance shown by managers. She is very straightforward claiming that, fortunately, once we are aware of the importance of listening, it is not difficult to put in into practice. Our employees will let us know what is happening with our business, if they know they are carefully listened to. Regarding this principle, Judy Kaweck, a beauty consultant, says: “this overwhelming company was built on a great love for Mary Kay products and on the art of listening to the consumers’ needs. When they are “pampered”, they learn to use the product, to build trust and thus, out of a strong sense of loyalty, they may become not only a consumer, but also a beauty consultant.” This principle also illustrates clearly the love for our neighbour, a Christian doctrine.

The sixth principle of Mary Kay Inc. is “**Sandwich every bit of criticism between two heavy layers of praise**”. According to Mary Kay’s corporate culture, one should direct his/her criticism at the act, not the person. Sometimes it is necessary for a manager to let the other know that he/she is unhappy with his/her performance, aiming the criticism at the mistake, not the person making it. It is important to express our feelings of discontent, we have to be tactful, otherwise our criticism can be unproductive. It is important to criticize effectively, in a positive way, so that you don’t destroy the employee’s self-esteem, Mary Kay states. Considering this principle, it is productive to create a warm environment, where there should be relationships similar to family links between the employer and the employees. At the same time, Mary Kay Inc. corporate culture encourages a manager to be on the one hand understanding, and on the other hand strict. A cold and formal relationship between employer and employees cannot be very productive. A clear separation between managers and the other employees makes it impossible for work relationships to function, especially when it comes to having an open and sincere talk “from heart to heart”.

At the same time, as shown before, Mary Kay Inc. corporate culture claims managers should be powerful and straightforward. Thus, as a manager, if we are not happy with somebody’s performance, we should not avoid telling him/her that, but express the way we think about the matter.

An important rule is that we should never criticize without appreciating. No matter what the criticism might be, the manager should find something positive to say before and after criticizing, this is in fact the sandwich-technique. It is important to remember the fact that one should direct his/her criticism at the act, not the person. At the same time, the critic has to end in a positive note, not in a malicious, accusing one.

Another important aspect underlines that there is no excuse for a manager to criticize and severely punish an employee when other people are present. Mary Kay believes that it is inconceivable for a manager to criticize only one person out of an entire team. This is counterproductive, not only for the person, but also for the whole team. Nothing is more

damaging for somebody's ego than being criticized in front of the whole team; Mary Kay calls it "an act of unforgivable cruelty". Christian moral also blames this practice, reminding us of how Jesus Christ treated his apostles with love and forgiveness, so that they could spread a healthy religion focused on love and appreciation.

The next principle is "**Be a follow-through person**". A leader and an employee should be the kind of person who can always be counted on and always do what they say they will. According to this principle, we should always keep our word and be a man of honour. Unfortunately, only a small percent of people have this quality and that is why we should appreciate them. This is a very important quality in building trust; people should know they can rely on us. Ideas are very important, but people who create them are priceless. Based on our every-day experience, we notice that there are a lot of people with brilliant ideas, having the best intentions, but we are deeply disappointed the most of them will never be able to put them into practice. Such people are weak managers, according to Mary Kay's corporate culture.

It is important to do what you say you will do and not postpone it. Nothing is more unethical and disappointing than "postponing what we promised to do." The second rule states that we should never promise to do something, we are unable to do. This type of behaviour is considered ethical and trustworthy. The next rule is discipline and planning. Business letter writing is a very problematic issue. Most managers reject the idea of writing and avoid doing what they dislike. We have to consider the other's feelings as they may be offended and irritated when they do not get our reply. Undoubtedly this behaviour is unethical and may ruin the relationship with the customers. In order to avoid this, according to Mary Kay, we have to encourage discipline and planning and we will be regarded as reliable and trustworthy businesspeople, without risking our business relationships. It is important to remember that this principle is one of the 3 principles of Pre-Christian morale developed by Socrates.

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# CHALLENGES FOR ROMANIAN ECONOMY AS AN EUROPEAN UNION MEMBER STATES

**Moșteanu Tatiana**

*Academy of Economic Studies Bucharest, Faculty of Finance, Insurance, Banking, and Stock Exchange, Mihail Moxa, no. 5-7, Sector 1, Bucharest, Zip Cod: 010961*

*Email: tatiana\_mosteanu@yahoo.com, Tel. 021.319.19.01/563*

**Câmpeanu Emilia**

*Academy of Economic Studies Bucharest, Faculty of Finance, Insurance, Banking, and Stock Exchange, Mihail Moxa, no. 5-7, Sector 1, Bucharest, Zip Cod: 010961*

*Email: emilia.campeanu@fin.ase.ro, Tel. 021.319.19.01/264*

*Romanian economy is in an ongoing transformation process starting with 1990. These involve changes of legislation, institutions, human perceptions of economic activity and productivity in order to fulfill the new challenges. Transformation process have gained another status in the context of the evolution of relationships between Romania and European Union. Starting from this idea, the aim of the paper is to present these challenges.*

*Keywords: European Union, economic integration, welfare*

*JEL classification: E6, H0, O1*

## 1. Introduction

Romanian economy is in an ongoing transformation process starting with 1990. These involve changes of legislation, institutions, human perceptions of economic activity and productivity in order to fulfill the challenges of the: (i) transition period, during 1990-2003; (ii) emerging market, during 2004-2006, and emerging country, since 2007. Also, transformation process have gained another status in the context of the evolution of relationships between Romania and European Union (EU) from a candidate country, in 1997, to an acceding country, in December 2004, and a EU member state, in January 2007. This new status in 2007 indicates that Romania fulfills political, economic and institutional criteria and implements the *acquis*. As a result, Romanian has an administrative capacity to transpose European Community legislation into national legislation, to implement it and to effectively enforce it through appropriate administrative and judicial structures.

Therefore, Romanian economy must face new challenges imposed by the EU member state status. Starting from this idea, the aim of the paper is to present these challenges. After a brief introduction, section 2 highlights the challenges for Romanian economy regarding investments, trade, welfare and macroeconomic indicators. Section 3 presents the main concluding remarks.

## 2. Challenges for Romanian economy

### 2.1. Investments

European integration is a problem of investments and income. It consists in the achievement of personal relationships and sharing experiences. Standard of living increases only as a personal investment in the material base, but Romania risks becoming only a consumer market. Integration costs exist because the benefits are great according to economic analysts. The population must be informed of the projects and integration mechanisms, which could make a success through the implementation of European funds to the company.

In long run, integration in the European Union will bring major benefits to Romanian economy. In the short term, it will conduct to the decline of the purchase. Romanian real income will reduce by nearly a tenth. This emerges from a study that investigates the correlation between the average forecast of Romanians salaries and the cost increasing.

Assessment of trade at international level is a very important element for the balance of payments, gross domestic product and economic studies at international and national on short run. The statistical data on trade are useful for the government to establishing trade policies and are used by some organizations that identify the possibilities for extension.

One of the major challenges is when the Romanian economy will be ready to absorb all the European funds. This means that Romanian policies must be oriented to build efficient institutions capable to absorb community funds. But, administrative capacity to absorb post-accession funds proved to be insufficient because of the many institutional weaknesses. As a result, will be necessary important human investment in order to have professional civil servants capable to develop major projects financed by European funds. Totally, 40% of the staff has experience in working with European funds<sup>12</sup>. European funds are still difficult to access, due to lack of responsibility of state bodies. Partnerships between government, unions and employers are missing. Each has a different perception on things and accepts different points of view. There is also an acute lack of dialogue between specialists of ministries, and in this case is recommended for a debate between civil society, trade unions, academics, business and government.

## **2.2. Trade**

After joining the European Union, Romania is part of the Single European Market and should take all changes that come with that status. As a result, we will withdraw from the Central European Free Trade (CEFTA), the European Free Trade Association (EFTA) and the treaties signed with Moldova, Turkey, Israel, Serbia, Montenegro, Albania and Bosnia will no longer be valid. Most of the Romanian trade was held under the Free Trade Agreement (approximately 83.92% of exports and 70.56% of imports) and the European Union was the main trade partner (average 70% of the country's imports and exports were in EU).

Since 2007, Romania applied common European policy that includes: imports in EU without taxes, tariffs common border, the generalized system of preferences (GSP) of EU trade agreements with World Trade Organization and other treaties where the EU is a member. Community signed a set of free trade agreements with Mediterranean countries, Mexico, Chile and South Africa. On the other hand, Romania has adopted new rates for larger countries and some other anti-dumping measures for goods from non-EU countries.

Another positive consequence of integration in the European Union is the increase of foreign direct investments which focus on the industrial sector. This has led to increasing imports in the first period, but also led to improvement of business environment. In contrast, demand for domestic investment fell and focused on equipment import. Foreign direct investment must be addressed in close connection with economic growth, development, because regardless of the political system, it constitutes an important factor of economic and social development through its volume, structure and quality.

Common customs tariff shall apply uniformly throughout the EU and aims at a fair trade by avoiding concentrations in countries with lower rates. This will apply without any right at the national level. As an immediate impact on Romania, the tariffs were reduced and local businesses can access more easily the European goods. There was an exports increase to EU countries that have also contributed to exports in non-EU countries, unlike in Slovakia, for example, which had a different trend in the first year after accession.

Generalized system of preferences (GSP) of the European Union is a system of preferential tariffs for certain goods of emerging and developing countries. Among these countries are: China, India and the countries belonging to the former Community of Independent States (CIS). Starting in

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<sup>12</sup> Oprescu, Gh.; Constantin, D.L.; Pislaru, D. (2005/2006), Analysis of the absorption capacity of European funds in Romania, European Institute of Romania.

January 2006 and until December 2008, the EU has applied the so-called a GSP Plus (appointed to support sustainable development) that expanded the number of products from 6900 to 7200. Romania as a member of GSP Plus, applies preferential treatment to certain countries which will conduct to positive results for businesses.<sup>13</sup>

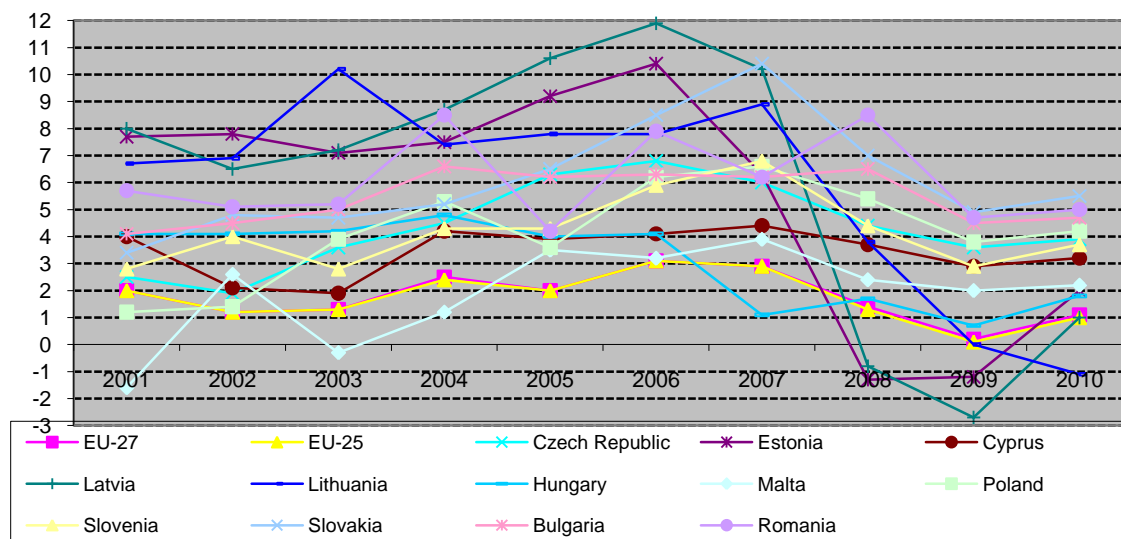
Romania's Integration in the European Union had a minor impact on exports to Iraq since the latter has the same customs tariff for both countries members of the Union and for non-member states. Considering the small volume of products imported from Iraq, the EU integration will not influence significantly the commercial balance.<sup>14</sup>

Trade with Jordan has brought economic benefits just because the EU and Romanian Jordan signed a deal designed to create a free trade zone by 2010. Romanian export to Jordan is concentrated mainly on industrial products and chemicals, and supplies of wood and metal. Also, import of products from Jordan will benefit of the concessions granted by the European Union. Romania import primarily agricultural products and medicines, but their value is not significant<sup>15</sup>.

### 2.3. Welfare

This study intends to demonstrate the effects of European integration of the last two waves of accession in 2004 and the effects on new members starting with 2007. But the results of such a process can be observed on long term; therefore this analysis intends to use the forecasts for the coming years so that the two waves to be somewhat comparative. Figure 1 presents the evolution of economic growth for ten EU member states accepted in 2004 and for the last EU members. It can be seen that in nine cases out of ten (except for Lithuania), the accession (2004) has brought different intensity for economic growth of these countries. Moreover, the trend of the next year shows an increasing which supports the assumption that European integration brings many benefits for member states. In Romania case the next years will demonstrate if this evolution will be also achieved.

Figure 1 Evolution of economic growth (%)



Source: data are from EUROSTAT

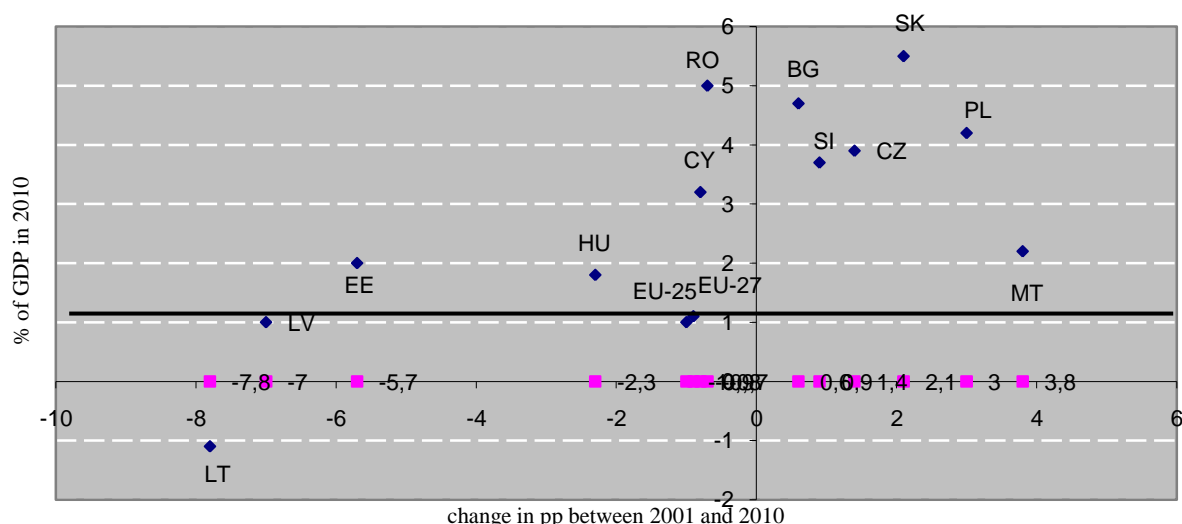
<sup>13</sup> National Commission of Prognosis (2006). The impact of accession on foreign trade experience of the new member states; Cosmin Zaharia (2006). Romania's commercial policy dictated by EU rules

<sup>14</sup> [http://www.dce.gov.ro/Materiale%20site/Indrumar\\_afaceri/impact\\_aderare\\_afaceri/Fisa\\_impact\\_Irak.htm](http://www.dce.gov.ro/Materiale%20site/Indrumar_afaceri/impact_aderare_afaceri/Fisa_impact_Irak.htm)

<sup>15</sup> [http://www.dce.gov.ro/Materiale%20site/Indrumar\\_afaceri/impact\\_aderare\\_afaceri/impact\\_aderare\\_afaceri\\_iordania.pdf](http://www.dce.gov.ro/Materiale%20site/Indrumar_afaceri/impact_aderare_afaceri/impact_aderare_afaceri_iordania.pdf)

Based on EUROSTAT forecasts for economic growth of EU member states, we may identify the trend during 2001-2010 and group the countries in the following categories: (i) countries with an increasing GDP (Malta, Poland, Slovakia, Slovenia, Czech Republic, Bulgaria); (ii) countries with a decreasing GDP but with an economic growth over EU average (Romania, Cyprus, Hungary, Estonia, Latvia); (iii) countries with a decreasing GDP but with a real GDP growth bellow EU average (Lithuania). Important changes had been made in Malta, where economic growth will increase with 3.8 percentage points (pp), and Lithuania, where real GDP will reduce with 7.8 pp.

Figure 2 Evolution of economic growth (%)



Source: data are from EUROSTAT

When it comes to the new EU members countries and the impact of this status it can be seen also that the situation is favorable, although the case of Romania is a little different from that of Bulgaria. Adhesion and expectations have already been felt since 2006, prior to integration, which led to a significant economic growth. Although many countries are deeply affected by the current financial situation, Romania has great expectations based on an economic increasing of more than 2 percentage points in 2008, in contrast with other countries examined. Serious decline is expected to produce in Estonia (from 6.3 in 2007 to -1.3 in 2008), Latvia (from 10.2 in 2007 to -0.8 in 2008) and Lithuania (from 8.9 in 2007 to 3.8 in 2008).

Evolution of the Romanian society in all plans confirms that there are not areas known not to be fundamental changes. Uninterrupted economic growth, Romania is the country with the largest growth of GDP in EU, the measures taken in the social field (increasing wage income, pensions, the minimum gross salary), enhance the investment process reflect a healthy trend for the restoration of balance macroeconomic, progress achieved in the sustainability of public policies, increasing the country's international credibility and attractiveness to stimulate domestic economic environment for international business community.

All these impressive results in Romania occurred in the context of accession to the European Union due to the long process of integration to fulfill the requirements of being a member of the community.

Integration in the EU has stimulated and stimulates further economic growth and foreign investment, but puts pressure on inflation and to exchange rate volatility according to the specialized economic studies. The immediate effect of the integration will not be distinguishable;

either for economy or for the capital market and the benefits of the accession should be expected on a longer term.

The empirical studies point out the existence of a positive correlation between economic integration and growth rates of GDP per capita, but there is not a causal relationship between these two variables. The integration helps to stimulate convergence only if it has an influence on long-term growth potential of the economy. Economic integration may induce permanent effects on economic growth as a result of the development of research-development and realization of innovations. European data suggests the positive impact of integration on macroeconomic stability, but the growth potential of the economy on long run it is ambiguous. However, economic integration contributes to a better allocation of resources by reforming factor markets. This is an operation especially at micro level, with the goal of improving the business climate through regulation and liberalization.

### **3. Conclusions**

Analyzed the impact of direct foreign investments on the Romanian economy, we find that the role is double: (i) as a financial flow it plays a complementary role, quantitatively, the transition process, by supplementing insufficient resources of the country in the process of adapting to free market mechanisms, creating jobs, developing activity by stimulating domestic production, through contracts of unproductive or coproduction, increasing exports; (ii) as an investment flow, it plays a structural and qualitative role, because it generates flow of advanced technologies, increases the walk of the job and contributes to the expanding of the private sector.

Regarding the commercial trade, Romania is seen more as a nation that offers great development opportunities where we can work and where to carry out successfully activities. Romania is not considered a market in which you can only transfer activity for low cost of labor. These changes are primarily due to changes in socio-economic conditions in Romania in recent years.

The macroeconomic situation is obviously influenced by the current international situation. The effects of global financial crisis are felt indirectly and in Romania through five channels: the commercial, financial, of trust, exchange rate and the effects of wealth and balance. Regarding the effects of the international crisis on trust it can be seen less willingness from investors to Romania, but also for neighboring states.

The next step after integration will likely be the Economic and Monetary Union. Romania plans to adopt the single currency in 2014-2015, but there are certain issues which must take into account the criteria to be fulfilled. According to the forecast in Romania, estimates for 2008 were an increase in GDP of 9.1%, with more than 6% in 2007. Future actions must be the result of political cooperation.

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# THE INTELLECTUAL CAPITAL OF UNIVERSITIES

**Brătianu Constantin**

*Academy of Economic Studies, Bucharest*

[cbratianu@yahoo.com](mailto:cbratianu@yahoo.com)

*The purpose of this paper is to present some of our research results concerning the intellectual capital of universities. This is an important topic of the intellectual research area since universities are knowledge intensive organizations. They contain basic operations for knowledge generation, knowledge sharing, and knowledge transfer. Their intellectual capital potential is really great, but only some of them are able to transform this potential in operational intellectual capital. Although universities have learning processes as basic production processes, they are not necessarily learning organizations since they do not have high operational intensities for their integrators.*

*Keywords: intellectual capital, integrator, knowledge, learning organization.*

## **Introduction**

Universities are social institutions with long life cycle. In Europe, the oldest universities are about 800 years old. The venerable Bologna University dates from 1088, and the famous Oxford University dates from 1187. Those days universities differed quite a lot from what we consider to be a university today. Main activities associated with those days universities were collecting knowledge, preserving it and passing it on. Generation of new knowledge was not a part of university's mission. A professor was mostly a scholar and not a researcher. Knowledge was considered to be complete and static in time. Thus, the purpose of professors was only to transfer this knowledge body to the students. The first universities were followed by a second generation of universities founded by religious or political powers (Harayama, 1997). Their primarily purpose was to create and train necessary professional elites to serve the institutions of State.

In 1809, Wilhelm von Humboldt established the Berlin University, based on a new paradigm. According to his vision, a university should approach knowledge scientifically. It should *produce* knowledge, not *re-produce* it. Von Humboldt was a revolutionary thinker, who attempted to do away with a whole series of basic components of traditional university education. "According to Humboldt's conception, research progress contributes to the elaboration of a system of values that has an influence beyond the walls of academic institutions." (Harayama, 1997: p.9). By comparison with the new German university model, the French *Grandes Ecoles* and *Polytechnic Institutes* accord a great deal of importance to immediate, concrete, and practical problems. The new university paradigm introduced by von Humboldt is founded on the unity and the complementarity of the functions of teaching and research. "*The subjects to be taught are composed not only of already consolidated knowledge, but also of those elements that remain to be discovered. Therefore, the teaching and learning process through the activities of research.*" (Harayama, 1997: p.13). Knowledge generation transforms the university into a *knowledge intensive organization*, which fits excellently with the new requirements of the creative class and the knowledge society (Florida, 2002; Florida, 2007).

## **Intellectual capital**

Many researchers agree that intellectual capital has a significant importance for obtaining a competitive advantage and for the capacity of an organization to create value (Stewart, 1999; Sudarsanam et al, 2003; Peltoniemi, 2006). The origins of this field appeared with the acknowledgement of the significant differences between the book value and the market value of a company. In the last years, the research efforts intensified, showing the importance of the domain, but also the difficulty of expressing the intangible. Although, in the last decade, knowledge management and intellectual capital mainly appeared in the context of private

companies, there is an increased interest for public organizations, such as universities and research centers. This is mainly due to the fact that universities have as main goals the production and the dissemination of knowledge (Sanchez et al, 2006).

As the competition among universities grows tougher and tougher, focusing both on luring valuable students and professoriate, and on raising funds, these institutions need to perform as close to the excellence level as possible. They should, as well, manage their communications sector as transparently as they can, for the public to know what they should be praised for. For companies, performance communication is usually done by means of traditional financial and accounting mechanisms. The financial report constitutes one of their legally provided obligations. Anyway, it is largely recognized by various specialists that the traditional financial and accounting systems have limitations, mainly because they do not illustrate what happens in the realm of the intangibles, whose proportion goes up these years. That is why many companies initiated systems of intellectual capital evaluation. This is a challenge for universities much more than for other categories of organizations, seeking to properly assign and develop their intelligence. The most valuable resource at a university's disposal is made of its professoriate and students, together with the relationships they establish and the organizational procedures. Universities are knowledge creators and disseminators, by means of the outcomes of the research they perform, of publications and of students which incorporate both explicit and tacit knowledge (Leitner, 2002).

- Considering this context, intellectual capital evaluation is a well chosen starting point for a better academic management of intellectual capital, in order to increase competitiveness, but may serve, in the same time, as a tool for reporting to the stakeholders what has happened in the university from the knowledge development point of view, contributing to transparency and trust increase. These two components constitute the most important reasons why a university should implement an intellectual capital evaluation model.

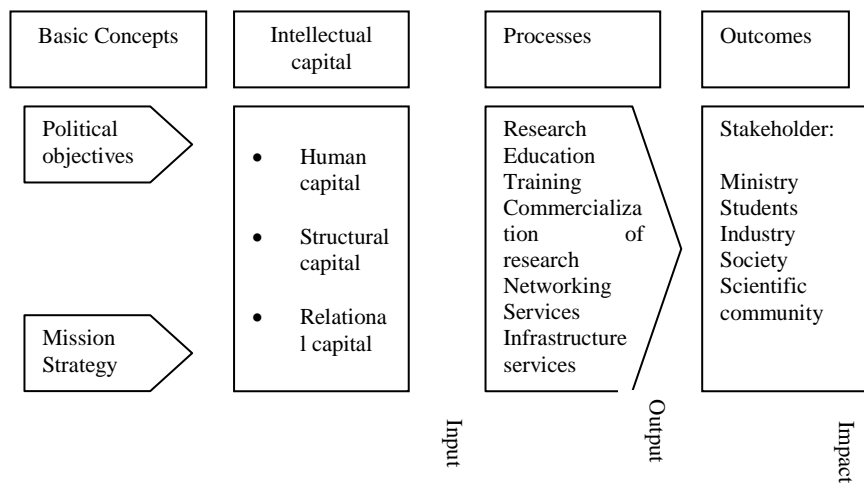
Literature mentions a variety of models for evaluating intellectual capital, and the list is expanding. This happens because it is quite difficult to design a metrics for something which appears to be rather shapeless, intangible and, not in the last place, because, intellectual capital increases its importance for specialists, who ceaselessly look for trustworthy ways to approach it. More than that, this multitude of approaches signals that there is no universally accepted, adequate enough model (van den Berg, 2002). Among the most used models in the evaluation of the intellectual capital we can mention: Market to Book Value, Economic Value Added, Tobin's Q Ratio, The Balanced Scorecard, EFQM, Skandia Navigator, Sveiby's Intangible Asset Monitor, Intellectual Capital Services' IC-Index, The Technology Broker's Audit, Real Option Theory, Citation-weighted Patents etc. In the last years, more and more attention is paid to the Intellectual Capital Statement, which allows a company to report on its intangible, invisible assets as well. The most well known such statements are the one developed by the Danish Ministry of Science, Technology and Innovation and the one developed in the MERITUM program, a multinational IC research initiative.

- Up to this moment, references regarding the evaluation of intellectual capital in a Romanian university are almost missing. The countries which developed such methodologies, considering the particularities of their higher education systems, are, selectively, Austria, Spain and Germany. Anyway, although some of the indicators they use may be illustrating some specific elements of their higher education system, they may be adapted to some other national education systems. Starting with 2001, the Austrian Ministry of Education, Science and Art has initiated a study on the possibility of IC reporting for Austrian Universities (Leitner, 2002). In 2002, the aforementioned Ministry issued a new law in higher education (UG 2002), whereby they provide that



every Austrian university should publish Intellectual Capital Reports (Wissenbilanz), starting with 2006. The details are to be established by means of a decree.

The proposed model for the Austrian universities is illustrated in fig.1. Up to 2005, two Austrian universities and five research centers have published this sort of statements. Several Spanish universities and research institutes are, as well, preoccupied to evaluate their intellectual capital and to publish statements. The Autonomous University of Madrid got involved in a project on this theme, whose results will be made public at the International Conference on Science, Technology and Innovation Indicators (Lugano, November 15-17, 2006). The paper which is going to be presented reflects the experience of the Spanish University aforementioned with respect to the Strategic Matrix, a tool developed in a more complex program, the Observatory of European Universities. The Autonomous University of Madrid was the only university actively involved in the five thematic dimensions defined within the Observatory: Funding, Human Resources, Academic Outcomes, Third Mission and Governance. Sanchez et al. (2006) argue that this matrix can be adapted in an IC format, with small adaptations, but with greater impact and utility. Therefore, in order to develop an IC report with indicators, the research team used as starting point this strategic matrix, selecting intuitively some indicators that observe the characteristics of IC indicators according the MERITUM project.



**Figure 1 – Intellectual capital model for universities**  
(Source: Leitner, 2005)

### Knowledge dynamics

Knowledge is one of the most important component of the intellectual capital. Knowledge is the result of processing information. Since it is a concept with a complex semantic, it is difficult to be defined. Some authors prefer to use metaphors in order to give the meaning of knowledge (Andriessen, 2006). Some others prefer to work with operational definitions, which are good enough to be used, but remain fuzzy and incomplete. One of the mostly used one is the following: “*Knowledge is a fluid mix of framed experience, values, contextual information, and expert insight that provides a framework for evaluating and incorporating new experiences and information. It originates and is applied in the mind of knower. In organizations, it often becomes embedded not only in documents or repositories, but also in organizational routines, processes, practices, and norms*” (Davenport & Prusak, 2000: p. 5).

In any organization, there are two distinct types of knowledge: individual knowledge and organizational knowledge. Individual knowledge belongs to every organization member and it can be accessed only with the individual acceptance. By organizational knowledge we understand all the knowledge which can be integrated at the organization level from individual knowledge of

its members and from incoming knowledge fluxes from the external environment. Even if the human resources of any organization is composed of the total number of its employees, the organizational knowledge is not the sum of all individual knowledge. Individual knowledge is composed of tacit knowledge and explicit knowledge. Tacit knowledge can be obtained from the direct individual experience and it is kept in the unconscious zone of the brain. Explicit knowledge can be detached from its owner and processed at the group or organizational level. At the individual level, each concept becomes clearly defined when there are both components, tacit and explicit knowledge (Bratianu, 2006). Tacit knowledge is non-rational because it is used without being conscious of it (Polanyi, 1983). Tacit knowledge is similar to practical knowledge and it is the “knowing what” of a knowledge body, meanwhile the explicit knowledge approached the theoretical knowledge and it is the “knowing how” face of the same knowledge body. Explicit knowledge is transferred through communication and it can be explained. At the organizational level, only the explicit individual knowledge can be integrated into a new body of knowledge. The tacit knowledge remains at the individual level due to its implicit nature and it can be used only as much as its holder can do it and only as much as its holder is a member of this organization.

### **Universities as knowledge intensity organizations**

In achieving the *Lisbon Strategy*, the universities play a crucial role, based on knowledge. As the studies show, the European universities are not ready to fulfill their role in achieving the *Lisbon Strategy* (2007). In this moment, the European universities are characterized by a low innovation rate, weak connections with the business environment and unsatisfactory politics of human resources management, making their situation more complicated. Although Europe is a society with a high level of education, only 21% out of the working population are graduates, less than the USA (38%), Canada (43%) or Japan (36%).

In this new context, an important challenge for universities is that of increasing the demand by ensuring the excellence and the quality. The culture of excellence should be created in universities. Excellence is a rarely characteristic of a whole university, but often of a certain group. The nature and intensity of the research varies among countries, types of organizations and universities. Each university has to value its potential and has to identify and improve it. This means financing not only the centers that already achieve the excellence, but also of those who have the potential to become an excellence center. The main factors that can determine the demand's increase are:

- Increasing the flexibility and the adaptability. Universities have to become learning organizations, in order to adapt to the changes of the external environment (Bratianu, 2007a). They have to increase flexibility in order to ensure a high level of education and to respond promptly to the changes in the labor force. The graduates' integration represents a major social responsibility of universities. Education should ensure not only knowledge acquirement, but also the creation of certain abilities, such as: team work and entrepreneurial spirit. In the process of education, the technology potential should also be used.
- Ensuring the education access. The main ways to do this are: increasing the education diversity and mobility, improving the professional orientation, creating personalized learning directions and so on. Credit systems for studies and social spaces for accommodations make universities more attractive (Bologna Declaration, 1999).
- Ensuring a better communication. Universities have to communicate better to the society the values that they offer, investing more in marketing, both in and outside the country.
- Improving the human resources. Universities have to improve the human potential, the most important factor of quality in the high education system and in research. This improvement has to be both qualitative and quantitative. In order to do this, they have to

attract, develop and keep talents in a university career. Excellence can be ensured only in an open, transparent, competitive atmosphere. Effective mobility, just as the virtual one and innovation should be encouraged and rewarded.

- Increase diversity. Universities are and should stay diverse regarding the language, the culture, the systems and the traditions. In the same time, they have to ensure the compatibility between national regulations, not to induce barriers. Mutual recognition of qualifications and competences show a minimum level of organization through common standards.

Universities have to create a new type of social contract in order to strengthen the public responsibility of the universities for the programs they offer, for the personnel and own resources, meanwhile the public authorities are responsible for the strategic orientation in the education field. Universities have to have the autonomy that allows them to adopt the necessary changes. In this way, universities can adapt to the society's changes and to assume their responsibility for achieving the objectives. Autonomy implies control of major assets such as estates, and of staff; it also implies a readiness to be accountable both to the internal university community – both staff and students – and to society as a whole (Lisbon Declaration, 2007).

Universities should develop its intellectual capital and transform it into a competitive advantage. Intellectual capital has three main components: *human capital*, *structural capital* and *relationship capital* (Stewart, 1999; Sveiby, 2001). Human capital consists of knowledge, experience, competence, intelligence, creativity, cultural values and attitudes. Structural capital includes management relationship, organization structure, development and the relationship capital refers to the marketing relationship and it is very important for any organization. Creating the knowledge management in universities is vital, just as it is for other organizations in other fields (Kermally, 2002). Knowledge management ensures the performance increase in the decision making process, the time reduction of achieving the “products” (for example, a new educational program or a research) and determines the improvement of academic and administrative services. Knowledge management determines the improvement of knowledge sharing. In this way, the individual knowledge of a certain person can add value to an organizational level. Still, it is difficult to convert personal knowledge and to make them available for the other members of the organization.

## Discussions

Theoretically, universities should be considered the main knowledge intensive organizations. Teaching and learning represent knowledge transfer processes, and research is the necessary background for knowledge generation. Also, professors and students represent the most important resources of tacit knowledge. Taking into account these above arguments, the level of individual knowledge and intellectual capital should reach its maximum level. Moreover, a generic university should be a learning organization. Our research shows that most universities, especially those from the former socialist countries are not such learning organizations. *“The paradox may be formulated as follows: although a university is an organization based on learning processes, it is not necessary a learning organization. It can become a learning organization if and only if there is at least a strong integrator to assure the transition from individual learning to team and organizational learning.”*(Bratianu, 2007a: p. 375). Also, it would be important to advanced from adaptive learning to generative learning. Most universities are far from being learning organizations due to some mental and functional barriers. Identifying and evaluated these barriers would help in designing adequate solutions to transform these universities in successful learning organizations, able to complete on the new global market of higher education.

A key argument in understanding this paradox is the university intellectual capital. Our recent research shows that we can shift the perspective from which we look at *intellectual capital*, in such a way that its generation process can be analysed and improved. Thus, by placing intellectual capital in a central position, we look at its roots, rather than at its branches. In this way, the value of intellectual capital depends on some organizational mechanisms which we will name *integrators*. They have the power to bring together primary constituents and to integrate them in the intellectual capital of the entire organization, using synergy, as if it were the process of projecting a system. By introducing the concept of *integrator* (Bratianu, 2007b; Bratianu et al., 2007) we opened new ways of researching the *dynamics* of organizational intellectual capital, as well as the practical ways of developing it as a potential, respectively, of turning it into a managerial action.

We defined the *integrator* concept as follows: “*An integrator is a powerful field of forces capable of combining two or more elements into a new entity, based on interdependence and synergy.*” (Bratianu et al., 2007: p.273). The synergy effect can be generated only when there is a field of forces able to align them in a perfect timing and rhythm. This field of forces is capable of integrating individual knowledge, individual energy and power and individual motivation. The final energy and motivation effect represents more than just the summation of individual motivation and knowledge. The interdependence property is necessary for combining all elements into a system. The synergy property makes it possible to generate an extra energy or power from the working system.

Management is by its own nature an integrator, more than that, it is a generic and rather flexible one. It acts upon the individual knowledge transforming it into organizational knowledge, and upon the individual intelligence transforming it into organizational intelligence. The management integrator can act upon both explicit and tacit knowledge, generating explicit organizational knowledge and tacit organizational knowledge (Andriessen, 2004; Baumart, 2001; Davenport & Prusak, 2000; Debowski, 2006; Nonaka & Takeuchi, 1995). A university is a highly nonlinear value system. If the academic management is based on linear thinking patterns (Bratianu and Murakawa, 2004), and linear decision making processes, the integration effect will be very small. We are considering especially universities from the former socialist countries, where the linear thinking and decision making is still very powerful and very inefficient. In these situations, the academic management is a poor integrator with very little synergy effects on the organizational intellectual capital.

Just continuing this above idea, the vision and mission statement of universities make them knowledge organizations. Vision or the strategic intent is the “*leveraging of an organization’s internal resources, capabilities, and core competencies to accomplish the organization’s goals in the competitive environment*” (Hitt, Ireland & Hoskisson, 1999: p.24). Vision means a projection into the future of the organization, a projection capable of a strong motivation and inspiration for all members. An application of this vision in terms of products to be offered and markets to be served constitutes the company mission. Thus, the strategic mission is externally focussed. An effective strategic mission establishes an organization’s individuality, and it should be inspiring, exciting and relevant to all stakeholders (Dess, Lumpkin & Eisner, 2006; Thompson & Strickland, 2001). Together, the vision and mission constitutes a powerful integrator, which acts especially on the emotional intelligence and core values of all the members.

## Conclusions

The fundamental competences of a generic university are: teaching, learning and research. All of these are knowledge dynamics processes. Moreover, a university may have activities of technology transfer and consulting for the external business environment, which means also knowledge processes. Thus, a university is a knowledge intensive organization, and its

intellectual capital has a very high potential but a rather low operational intensity, due mostly to its management.

The individual knowledge should be integrated within a university. This integration process can be done by some powerful fields of forces, we call *integrators*. They are based on two main characteristics: interdependence and synergy. This new concept we introduced helps us to understand the generation process of the intellectual capital, and thus how to proceed in order to increase the synergy effect in the final output. This field of forces is capable of integrating individual knowledge, individual energy and power and individual motivation. The final energy and motivation effect represents more than just the summation of individual motivation and knowledge.

Knowing all this, how can it be explained that a university, having the highest density of knowledge, is not necessarily an intensive knowledge organization? The answer can be found by identifying the significant integrators in the respective university and by evaluating their impact on the process of generation and developing of intellectual capital. In every university, the management is by its own nature an integrator, more than that, it is a generic and rather flexible one. It acts upon the individual knowledge transforming it into organizational knowledge, and upon the individual intelligence transforming it into organizational intelligence.

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# ECONOMIC- FINANCIAL CRISIS IN THE NATIONAL AND INTERNATIONAL CONTEXT

**Berinde Mihai**

*University of Oradea, The Faculty of Economics, Contact address: Str. Dogarilor nr. 12, Sector 2, 20553, Bucuresti, Romania, Email: mihai.berinde@yahoo.com, Telephone: +40720077777*

*The current crisis has started off in the financial-banking system. In the second stage, as an effect of the financial crisis, the economic crisis occurs. In the beginning, it was no clear vision for the need of anti-crisis actions; the effects of the crisis in the context multilateral and globalisation drivers of the world economy were also ignored. A professional approach is needed concerning the state interventions into the economies, in order to prevent occurrence of 'economic nationalism' or of forbidden protectionist measures. Individual solutions at the level of one state cannot enjoy long lasting success in this fight against the crisis effects. Resolving the problems induced by the current crisis cannot take place but in the context of taking into consideration three dimensions: globalisation, regionalisation and national policy. In adopting the anti-crisis measures it is also necessary to keep in mind the role of international trade.*

*Key words: financial crisis, economic crisis, anti-crisis actions, international trade.*

## **1. Reading the signs of crisis**

It is a known fact that the current crisis has firstly started off in the financial-banking system. The globalisation process made the effects of the crisis to be felt much wider, in the sense that practically it has influenced the world economy, as it could not be localised at the level of one country or one region. This is what caused the crisis effects to be felt through the powerful shock onto the banking sector, greatly influenced by the decrease of trust in the inside of the system, which led to a series of blockages of liquidities.

Attempts by certain bankers or politicians to minimise the effects of the crisis, asserting that 'there is a solid banking system' in one country or another, naturally proved to be mere statements, with no practical value in the globalisation context in which we have to live.

In the second stage, as an effect of the financial crisis, the economic crisis occurs, particularly keeping in mind the importance of the financing in promoting economic development. Thus, accessing bank loans became more difficult for producers and investors directly affecting the delay in accomplishing some projects with direct impact for the economic development. At their turn, the consumers see themselves constraint to give up loans, due to more difficult access on one hand and loan conditions becoming unfavourable. This way, by reducing consumption this ceased to represent an engine for industrial development.

What we can all notice regarding the approach of the crisis is that absence of professionalism determined at the level of the decision factors a certain lack of vision with regards to this and the assessments made at certain stages to prove to be incorrect sometimes or anyway incomplete.

This situation led to a much too frequent call on the crisis effects, which has been called at times financial, at times economic, in order to explain the incapacity to maintain the economic growth or to explain sometimes quite brutal interventions in the economy and justify choice of certain measures otherwise difficult to accept by the society in normal conditions.

Therefore it can be noted that, in the beginning, the current crisis was given rather less attention with no clear vision for the need of anti-crisis plans and without having in mind its effects in the context of multilateral and globalisation drivers of the world economy.

## **2. The institutions involved in assessing and weighing the crisis effects**

As mentioned just earlier, in a globalised world it is hard to accept the possibility to identify solutions to tackle the crisis effects only through national and regional measures. Therefore,

bearing in mind the size of this, most institutions and authorities, at international, national and regional level have approached ways to minimise the impact of the crisis.

In this way, the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD) are more preoccupied with the effects of the financial crisis and by the measures of remedy in the banking system.

In their turn, the World Trade Organisation (WTO) and the United Nations Conference on Trade and Development (UNCTAD) have taken action to inventory the adopted measures for tackle the crisis negative effects and to assess the way in which the crisis affects the international trade and its financing.

In the same time, at regional level the main 'actors' in the world economy (European Union, MERCOSUR, APEC, EFTA etc) have been preoccupied to identify measures to fight against the crisis.

We must note that the states gained a bigger freedom to act, within their competencies, through more frequent and more profound interventions into the economies, in their attempt to put things back on their right track. In these circumstances, a professional approach is needed concerning these interventions in order to prevent occurrence of 'economic nationalism' or invoking the crisis for taking certain measures, which in normal conditions would not be permitted, being considered as forbidden protectionist measures.

### **3. The economic context in which the crisis must be put to an end/resolved**

Taking into account the size of the globalisation process of the world economy certain international principles and practices must be kept in mind which cannot be and must not be completely distorted by the anti-crisis measures.

Thus, it must be clear to all of us that individual solutions at the level of one state cannot enjoy long lasting success in this fight against the crisis effects. In addition, such an approach would only lead to disconnecting that state from the international economy mechanisms and promoting anarchy, which cannot represent a solution for the 21st century. Hence, the possible solutions must be identified in the context of the practices, mechanisms and commitments taken upon by the states in multilateral plan. On the contrary, through inadequate interventions things can go very wrong to deregulation of the international trade, which would mean going back in time to the way things used to be 60 years ago.

When approaching the international contemporary economy we must keep in mind the three major dimensions:

- Globalisation, which implies rules and mechanism agreed at multilateral level in the field of commerce and international finances. Member States participate in agreeing these rules and mechanisms but are unable to stop their globalisation. This approach was confirmed by the failure of numerous manifestations of the society towards the phenomenon of globalisation but which have not enjoyed any success at all.

- Regionalisation which, in essence is nothing else than the application at regional level of the rules and mechanisms which have agreed at international level, therefore a reflection of globalisation at regional level. This is the result of proliferation of the agreements of regional economic integration and refers particularly to projects of local interest, such as: transport corridors, energy infrastructure, energy markets, free trade areas or custom agreements. The Member States of such a region cannot ignore such an approach as this could lead to excluding themselves from all regional projects, which would no doubt have negative effects on the economic side.

- National policy, which in essence can particularly be translated into making investments into building their own expert capacity who should be able to turn the globalisation and regionalisation effects for the benefit of the national interest. It is now high time for in the crisis



situation to see if these specialists are well enough prepared to identify compatible measures in view of reducing the crisis effects.

Resolving the problems induced by the current crisis cannot take place but in the context of taking into consideration these three dimensions.

#### **4. The main effects of the crisis**

These effects have settled in the financial, banking and economic fields.

As a consequence, in the financial-banking sector there can be noticed a de-capitalization, a lack of liquidity necessary to supports of the big projects of economic development and a decrease of trust amongst banks as well as between banks and their clients.

In the economic sector the effects of the crisis have also made visible through:

- Reducing direct investments, which lowered already by 20% in 2008 compared to 2007, and for 2009 the forecast is a further decrease. As a consequence of reducing the volume of available credit and increase of their costs we are now witnessing a decrease of the profit rate which becomes more and more unable to stimulate.
- Control over the international market as a consequence of commercial credits becoming more expensive.
- Decrease in number of financing possibilities for trade by resorting to guaranteeing the export credit, to measures to promote exports etc.
- Increase in number of requests for anti-dumping investigations and safeguard clause in the context of the world market sensitivities growing. Such a situation could lead in 2009 – 2010 to increase in number of measures of economic defence having direct effects on the world trade.

#### **5. Possible action ways against the crisis**

International and regional institutions as well as national authorities, applied different measures, in order to limit the effects of the crisis.

Therefore, in the financial sector a number of actions have materialised, mainly targeted to:

- Allocating certain important sums for recapitalisation of banks in difficulty.
- Supporting banks through granting state guarantees.
- Making funds available for banks for ensuring the necessities can be covered.
- Guarantee for the banking deposits for both individual clients as well as for important companies.
- Recapitalization of Agencies for credit guarantee – for export loans and for those meant for SMEs activity.

In the economic-financial sector, the main activities aimed at:

- Allocating funds for supporting certain sectors (automobile, aeronautics, metallurgy and construction).
- Increasing customs taxes for importing certain products (Mercosur, Rusia, India, South Chorea).
- Decreasing the number of customs points for certain goods, thus obstructing the imports (Indonesia).
- Introducing discretionary import licenses (Argentina).
- Introducing of certain import overtaxes due to reasons such as difficulties in the trade balance (Ukraine).
- Financial support of certain exports either through increasing the level of VAT which is reimbursed (China), either through subsidising agriculture exports (EU).

The approach style of anti-crisis situations is different. Hence, at national level, some countries announce measures or protectionist measures programme. Inside EU there are certain national approaches to subsidy of a sector little affected by the crisis (automobiles France, Germany and Spain). Following on from a less harmonised approach, EU became more coherent in the anti-crisis program, more precisely:

- The funds allocated from public funds for banks and companies represent state aids. In this context of state aids EU took measures to ensure authorising procedures take 24 hours compared to 90 days prior to the crisis. These must stay within the community principles in the field and must stay connected to the restructuring and viability programs of technological modernisation. State Aids have a limited character (end of 2010). It must be proportional (correctly dimensioned) and either periodically monitored and must be stopped as soon as the crisis factors cease to be there, or conditioned by significant contributions from the beneficiary side (which could be carried on even after the economic situation is re-established) and be designed so that these reduce the negative collateral effects onto the competition.

- Measures of subsidy for exports should not constitute serious breaking of the principles established by WTO.

- Introducing overcharges for import or increase of custom taxes and to be accepted in the context of the rules agreed within WTO, respectively for difficulties in the trade balance, measures for safeguard the anti-dumping measures.

Therefore, this is the proof that in the European approach a great importance is given to the 'fine-tune' of the international regulations and not at all giving up these or promoting a primitive protectionism.

## **6. Proposals of actions anti-crisis in Romania.**

In identifying the most adequate measures to fight against the crisis, I appreciate the following to be important:

- Drafting an anti-crisis program in accordance with the measures discussed and agreed at European level. This would be a supplementary confirmation with regards to our belonging to Europe and would facilitate connecting the Romanian economy.

- Identifying the important sectors for the Romanian economy and which through supporting measures to have the chance to become viable.

- Involving the best specialists with economic activity background which should allow identifying the possible mechanisms for intervention and necessary conditions for ensuring efficiency, including increasing the responsibility of the state aid measures beneficiaries.

- Identifying the available names for various interventions in the economy and driving these firstly towards the viable sectors and in the conditions established by the European mechanisms.

- To develop the measures adopted by EU with regards the trade policies to tackle the effects of the crisis keeping in mind that policy in the trade sector is not a national competency, but community competency.

- Promoting the interests of Romania in negotiations with UE with regards to the trade policies.

- Identifying the necessary measures for financing the trade and promoting these in the European context (aid to guarantee the credits for export).

- Adopting a coherent national program to support SME activity which can create jobs and which can contribute to reduce the impact of the crisis.

In promoting these activities it is very important to avoid mistakes which could lead to:

- Cutting off from the commitments and discussions of action against the crisis established at European and international level.

- Superficial or unprofessional approach of the state aid measures, which would considerably reduce the competitiveness of the Romanian economy.

- Brutal and unprofessional intervention in the economy which would cancel the effects of the economic restructurings of the past 20 years, would consolidate non-reform mentality and would excessively increase the costs post-crisis for return to normal market mechanisms.

- Invoking the economic crisis in order to make interventions in economy to satisfy certain limited interests of economic, political or exaggerated interests from the social point of view nature.

- Ignoring the motivation on medium and long term and exacerbation of certain interventionist measures having emergency character which would cause disorder on medium term a Romanian economy, fragile, with market mechanisms at an early stage.

In adopting the anti-crisis measures it is necessary to keep in mind the role of international trade in the context of the current economic crisis.

Practically, WTO is currently working on an inventory of all measures with trade profile adopted by the Contracting parties and candidate countries at WTO. The appeal launched by WTO is for the measures against the crisis stay within the legal instruments negotiated at multilateral level and international commitments taken on by Contracting Parties. WTO's concern is also to avoid the anti-crisis measures adopted and does not represent more or less camouflaged to increase the protectionism which could have dramatic effects for distortion of international competition. Supporting this approach starts from the assumption that trade is a solution for the problems generated by the current crisis and it represents by no means a cause of that.

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## **INTERNATIONAL RELATIONS**

**Benea Ciprian**

*University of Oradea, Faculty of Economics Str. Universitatii No. 1 e-mail: c\_benea@yahoo.com  
tel.: +40 751 24 99 75*

*This article presents the great connection which exists between the technological development which has reverberation in communication field and how a state can exercise its power on international stage, how can consolidate its will and power, and how can it manipulate the environment with communicational tools.*

*Keywords: communication, geopolitics, state power, maritime states, land states*

*JEL code: F02*

Geopolitics is the “analysis of geographical influences upon power relationships in international politics.”<sup>16</sup> Geopolitics is constructed on two concepts which made its core nucleus: territory and power.<sup>17</sup> One of them, territory – or geography – is the most stable factor upon which the power of the nation depends.<sup>18</sup> But power of one state and the projection of its power depend on technical means developed by that state and which can promote that power. And the state that can adapt the technical means to its geographical position and its geographical peculiarities can promote better its power on regional and/or global stage. Put shortly, the state’s geographical position is sustained and valued in terms of power through technical means; here we must bring in debate the technical means as *transportation and communications*.

Good transport facilities permit the utilization of the resources of a wider area. Good communication facilities permit better and opportune information for the government. Both of them permit and sustain the centralization of political decision in a state. With mobile armies the rebellions can be swiftly suppressed. The rapidity of communications enables the central government to supervise the local officials effectively, thus preventing the disintegration of the state. The radius of efficient military action depends on the state of transport and communication.<sup>19</sup>

As the means of communication were used more and more by states with great geographical size, there could be identified the advantage derived from their size; they become much stronger, and could subjugate their smaller neighbors more easily. Put in a few words, the fate of the nations and of civilizations has often been determined by a differential in the technology;<sup>20</sup> and here if we mention the importance of communication means, there could be seen easily their importance for state’s power.

If we look for example to the relation between political unification and centralization and the road system, it would be easy to discover the importance of communication for the state.<sup>21</sup> Each empire built roads and maintained them in a good state. And as a consequence of these facts we should expect, that whenever an improvement in the technique of transport and communication occurs, which is not counterbalanced by an increase in the weight of equipment nor by a rise in

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16 Enciclopedia Britanica

17 Mircea Malița, Zece mii de culturi, o singură civilizație. Spre geomodernitatea secolului XXI, București, Editura Nemira, 1998, p. 117

18 Hans J. Morgenthau, Politics among Nations. The Struggle for Power and Peace, New York, Alfred A. Knopf, Fifth Edition, 1973, p. 112

19 Stanislav Andreovski, Military Organization and Society, Berkeley and Los Angeles, University of California Press, 1971, p. 79

20 Hans J. Morgenthau, op. cit., p. 121

21 Stanislav Andreovski, op. cit., p. 80

the relative effectiveness of defence, the size of political units *and their influence on regional or global scale* will tend to grow.<sup>22</sup>

But the control upon geographical space is different, and it depends upon the type of economical and political organization of a specific nation.<sup>23</sup>

And now we would proceed to the analysis of this aspect. Looking upon France's example, we could trace the following conclusion: a couple of centuries before French Revolution, there could be identified *two Frances*.

One was the *commercial state* represented during Revolution by Girondins, whose leaders came from the department of Gironde and the trading city of Bordeaux. Theirs was a mercantile network of French coastal and riverine cities, notably Bordeaux, Toulon, Marseilles, Nantes, and Lyon, connected to other cities around the world by a *fleet* of trading ships and protected by *naval power*.<sup>24</sup> Such power could be applied even at the global level, but only to spatially concentrated targets (other trading cities).

France two was the *territorial nation-state* represented at the time of the Revolution by the Jacobins, with a national capital in Paris, national bureaucracies, national communications along a road network with Paris as its center (the routes nationales), and national military power concerned (partly) with controlling the unruly provinces.

In the aftermath of the Revolution this pattern was exceptionally clear as the territorial France state had to take the port cities back from the trading interests, who sought a federal solution to France's problems rather than the "enlightened despotism" that would emerge in the person of Bonaparte.<sup>25</sup>

In this way, these two Frances coexisted, but when Napoleon acted in order to take away the commercial port-cities, he pursued this action with the motivation regarding the extending the territorial power of the France state upon the whole Europe, including the European part of Russia. But this French struggle was a part of a greater struggle which took place in Europe, with implications much more profound. It was the struggle between France and England. While France worked to perfect its territorial state in order to achieve a hegemonic position, England worked in order to give a perfect commercial nature to its state.

Looking from macro-technical (and geopolitical) point of view, there could be identified two types of states within European system:

- *trading states*, which are mercantile in character and generate wealth through trade;
- *territorial states*, which generate wealth through the occupation and exploitation of territory and are thus disposed to militarism.

It is noteworthy to be mentioned that the geographical disposition of one state can push it to be a trading state or a territorial one; but to the geographical disposition there must be added the national character.

A country which has long seashores, or has great openness to the sea, could become a very important trading state, which will generate its wealth through trade, and which will protect its maritime communication lines with its naval power. It needs fewer bureaucrats concentrated especially in its ports. Countries such as England, The Netherlands, and USA are good examples in this regard. It must be mentioned that USA became sea power after there was identified an "aggressive impulse", as there had been identified the possibility regarding the creation of a route through the Central-American Isthmus.<sup>26</sup>

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22 ibidem, p. 79

23 Edward W. Fox, *The Emergence of the Modern World: From Seventeenth to the Twentieth Century*, Cambridge, MA., Blackwell, 1991, pp. 1-2

24 ibidem, p. 60

25 ibidem, p. 61

26 Alfred T. Mahan, *The Influence of Sea Power upon History. 1660 – 1783*, New York, Dover Publications, Inc, 1987, p. 26

States as Russia and France generate wealth through exploitation of a territory and centralize almost all their decisions in their capital cities. For this reason they need a great bureaucratic apparatus, concentrated in big cities, and of course, in their capitals. This kind of states will tend to develop communication networks which will have the main hub in their capital cities, and which through these communication networks, would provide the exploitation of a contiguous territory. In this moment we could identify the importance of railway and road systems for this kind of states.

As a commercial state, England pursued a different path regarding its communication policy: in order to provide the possibility for maximization of its capital accumulation, England was pushed to trade its knowledge and industrial capacities, for others agricultural products, which made the fleet an indispensable element for controlling a vast maritime network with global coverage; and the telecommunication networks became the technical means which helped the fleet and navy to rise their efficiency. It is simply to note that England pursued an insular geopolitics, concentrated on its fleet development.

But if there is brought into debate the strategic and military factors which influence the way a state conceives its communication networks policy, we could identify that the blockade and the commercial fleet's following up in the open sea works only against a commercial state, and fails when it is pursued against a territorial state. For example, during the American Revolutionary War, the blockade made by England's fleet against American coasts was inefficient, and the following in the open seas, senseless. This was due to the fact that the American Republic was a commercial state, but in the same time, it was part of a self-sufficient territorial economy.

The situation was different in France's case: although France is the first territorial state, it has sufficient peculiarities of a commercial state, and the blockade directed against its coasts hit the target. This pushed Napoleon to focalize upon "continental system" in order to become self-sufficient.

Even with the England's success against the first territorial state, at the beginning of the 19-th century, the insular geopolitics, which counted on the long fleet's arm, would be contested from three directions:

- 1) the *nation-state* (a version of the territorial state), governed by an efficient bureaucracy;
- 2) the *efficient terrestrial communications*, due to the invention of railway system and telegraph, which combined, created the possibility for appearance of great size political entities, which covered greater geographical areas;
- 3) the appearance, in the first part of 20-th century, of the possibility to use *air power*. For England this was of utmost importance because it mean that England wasn't anymore an island; it couldn't protect with its fleet its seashores, protection which was efficient only against the maritime power.

We can say that the appearance of territorial-state and its bureaucratic apparatus depended in the greatest measure upon the technical advance and the evolution in the land transportation – the appearance of railway transport which provided an efficient land transport – and in the instantaneous communications – electric telegraph. To the end of 19-th century it was possible from technical point of view, the creation of national territorial states, with a reduced maritime component. The railways and electrical telegraph provided the maintenance of a more efficient centralized control than during the period when it was provided by technical means as postal services, channels, national roads, or mechanical telegraph.<sup>27</sup>

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27 Mark W. Zacher and Brent A. Sutton, *Governing Global Networks. International Regimes for Transportation and Communications*, Cambridge, Cambridge University Press, 1996, p. 181

Furthermore, once there appeared the railway and telegraph networks, there were identified changes in four directions, with impact upon states' policy and administration:<sup>28</sup>

- 1) the geographical area occupied by the state increased;
- 2) the scope of state's functions multiplied and diversified;
- 3) there highly manifested the administration's bureaucratization;
- 4) the state's role and political representation in international affairs changed and diversified.

In this way, the rise of communication efficiency and the bureaucratization changed in a great measure the geopolitical balance in the favor of territorial nation-states,<sup>29</sup> providing means for the great size states' administration (such as Canada, USSR/Russia, SUA, Brazil).

Taking account of the importance of transportations and communications for administration, all empires and states paid a special attention to the development and smooth functioning of communications, to the point that "the subject of communications ... occupies a crucial position in the organization and administration of government, and as a consequence, in the Western empires and civilization."<sup>30</sup>

And the great jump registered in the field of spatial technologies – the appearance of communication satellites – brought great changes regarding the way in which classical geopolitics presented by Mackinder was to be regarded. If he presented a rule which contained valid realities for 19-th and 20-th centuries, 21-st century opens a new era: that which regards the using of satellite communications in a possible space war.<sup>31</sup>

Now the Mackinder's rule regarding the control of Eastern Europe and Heartland takes another shape:

- Who rules the circum terrestrial space commands the Earth;
- Who rules the Moon commands the circum terrestrial space;
- Who rules L4 and L5 commands the Earth-Moon system.<sup>32</sup>

But what could be written as a conclusion of those mentioned above is the following fact: *the nation who chooses to develop the best set of technologies and geo-strategies in order to manipulate the environment, to create wealth, and to project and protect the state's power, tends to become a hegemonic power.* Each change in technology of communication and transportation fields has greatest geopolitical implications, because they change the state's capacity regarding the control upon territory, the projection of that state's power, and the protection of its citizens.

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31 Revista "Cadran Politic", Anul I, Nr. 5-6, Iulie-August, 2003, pp. 16-17

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## GEOPOLITICS AND TRANSPORTATION. UNITED STATES AND PANAMA CANAL

**Benea Ciprian**

*University of Oradea, Faculty of Economics Str. Universitatii No. 1 e-mail: c\_benea@yahoo.com  
tel.: +40 751 24 99 75*

*This article presents the great connection which exists between the realization of Panama Canal and the rising power on United States; and how this state, after the construction of this canal, could promote efficiently at global level its interests.*

*Keywords: maritime communication, geopolitics, insularity*

*JEL code: F02*

The American supremacy owes much to its geographical position. Being on the North American land mass, having to the North a big country – the second country on the earth by the surface – but with a population which is under 30 millions, and in the South a country which pays attention due to its population and seashore length in the Gulf of Mexico, but not for its surface or economic strength, USA has a certainty of the fact that none of them could start a military assault against it. Of course, there were exceptions, like that tried during WW1 by Zimmerman (then German Foreign Minister), through which Germany tried to win on his side and against USA the Mexican state, promising to help it; but this action didn't have any success.

But a much greater importance is the fact that USA has “good” neighbors on the West and East, because there it is “guarded” by two water extents, which act for its security as two buffer zones. USA has a great certainty that it would not be attacked by a land power (such as Mexico or Canada); furthermore, after it bought Alaska from Russia (March 1867) this certainty would be even higher. The only possibility to attack this country – if we don't take into consideration the intermediate ballistic missiles or intercontinental ballistic missiles – could come only from a great maritime power, and which could, through its long fleet's arm, touch the American territory with its navy (this meaning that the ships could arrive close enough to American seashores) or with the airplanes which could take on from the navy.

But this thing could be possible only if the USA didn't possess a fleet which provided means for its security, and didn't have possessions in the Pacific Ocean, from where it could supervise hostile acts which could be directed against it. Hawaii, Samoa, Johnston, Palmyra, Fanning, Jarvis, Wake, Guam, Okinawa are but a few points from where USA supervise the Pacific Ocean's immensity.

But we cannot forget the following thing: USA is “forced” to be a maritime power because only in this way it can proceed to sell its products and to be present every where on the Earth; in the same time, the length of its seashores to the Atlantic Ocean and the Pacific Ocean – which are important factors regarding its maritime propensity – its natural resources – which permit it to build and maintain a great maritime fleet – and the acknowledge of the fact that it is better to prevent than to treat – which means that it is better to check all the seas which touch her territory than to protect only its seashores – impose this country to be a great maritime power.

Furthermore, taking account of the New Orleans's importance, where there is the mouth of Mississippi river, and of the importance of this river's basin for USA economy and security, the security of the Caribbean Sea and of the Gulf of Mexico, are of the greatest importance; of course, the security of Florida peninsula is of the greatest importance for Southern and Eastern parts of USA. The unshipping of a land army on this peninsula could generate great troubles for USA; and its shape impose that it could be better protected from the sea, not from the land. This is due to the fact that any peninsula could be better protected from the sea than from the land.

The uncertainty of unshipping of a hostile army imposes that a peninsula should be protected from the sea; this kind of defense permits a quicker interception of the enemy's fleet and hinders its desire to unship troops on the peninsula. The impossibility of precise identification means that in case a peninsula is protected only from the land, the defense troops could be *dispersed*, making much harder for them to defend in case of a massive attack. For this reason, a submarine fleet which have an eye upon the coasts (and upon the possessions from the high seas) are more important for its security than a strong land army.

What was missing to America in order to exercise its power in the Caribbean Sea, in the two oceans which wet its coastlines, and why not on the entire Earth, was its incapacity to *concentrate its fleet*. After USA took from Spaniards possessions in the Atlantic and Pacific oceans, it pursued a canal building in Panama Isthmus. When this canal's building was pursuing – with its huge importance for global economy – the geopolitical factors had a greater predominance for American leadership. Through its construction, the USA wins the advantages of insularity, which means its capacity to concentrate its navy.<sup>33</sup> This canal facilitates the *quick* concentration of the navy. Without this impressive project the USA would have played an important role only on regional level, and wouldn't have had the capacity to influence the affairs on the continents which border the Pacific and Atlantic oceans.

After the transformation of Atlantic Ocean into a fortified area (through the application of Monroe doctrine), the USA sustained that it could even commence a war, in order to maintain the inviolability of Western hemisphere.<sup>34</sup> In this way USA could expand its commerce and political influence, and could proceed to territorial annexation – it could become a great power without appealing to a policy of force.<sup>35</sup> Even from the beginning of their history USA followed up a policy of expansion with great tenacity; after 1794, through a series of treaties there were established the borders with Canada and Florida, in America's advantage. It was opened the Mississippi river for American trade and navigation; there was bought Louisiana from France (1803), a huge territory, together with the aspirations for Spanish territories such as Florida and Texas – bases for the future American sea power.<sup>36</sup>

In 1845 President James Polk explained that he pursued the Texas' annexation in USA because it was necessary to avoid that this state to become an "ally with or dependent by a foreign nation much stronger than itself", transforming in this way into a great menace to American security.<sup>37</sup>

The Louisiana's selling was made by Napoleon the 1-st, because this territorial acquisition means with certainty the "rising of US power, and here we had already given to England a maritime rival, which sooner or later would beat its great proud."<sup>38</sup>

But an aspect with greater implications was another thing: there was manifesting a desire from a newcomer to enter the select club of most powerful nations on the Earth. And this took place in the second part of the 19-th century – when Great Britain, then being considered the greatest power on Earth, took the second place, after US. In 1875, US got an upper hand upon Great Britain in manufactures' production,<sup>39</sup> and to the end of the century US energy consumption was greater than that of Germany, France, Austro-Hungary, Russia, Japan, and Italy, taken together.<sup>40</sup>

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33 Halford Mackinder, *Democratic Ideals and Reality. A Study in the Politics of Reconstruction*, New York, Henry Holt and Company, 1942, p. 60

34 Henry Alfred Kissinger, *Diplomația*, București, Editura Bic All, 2002, p. 30

35 *ibidem*, p. 31

36 *ibidem*, pp. 26-27

37 David Newton Lott, *The Presidents Speak*, New York, Holt, Rinehart and Winston, 1969, p. 95

38 Thomas G. Paterson, J. Garry Clifford, Kenneth J. Hagan, *American Foreign Policy: A History*. Lexington, Massachusetts: D.C. Heath, 1977, p. 60

39 Henry Alfred Kissinger, *op. cit.*, p. 31

40 *ibidem*, p. 31

Once the US entered the phase of accelerate economic growth, its political power was felt more and more, and US perceived that it must proceed to translate this power into a more important position on international arena. Beginning with this period US started to build its commercial fleet and navy; and in 1889 Captain A. T. Mahan exposed a series of principles which promoted the development of military navy by US.

As a matter of fact, President Theodore Roosevelt was the first president which insisted that US duty was to make felt its influence on global level and presented the American interests on international arena in terms of national interest. For this purpose, the US needed the creation of movement organs which could promote this position on global stage. And the development of maritime capabilities by this new power was of crucial importance. Roosevelt considered US as a power member in the great powers club, and in case that US interests collided with that of others, America had to mobilize its resources in order to impose its interests;<sup>41</sup> and for this reason this president was the one which gave to Monore's doctrine the most interventionists' interpretation, identifying it with the epoch's imperialist doctrines.

The optimism generated by the idea of "Evident Destiny" and the desire of some important personalities – the most notable being that of Roosevelt – looked for taking out USA from their isolationist position. William Seward, Secretary of State during Johnson Administration considered that US had inevitably to exercise their commercial preeminence in "Pacific Ocean, in its inlands, and on continents which borders it."<sup>42</sup> He wished American producers to conquer the Asian markets, and for attaining that, the US should first remove the foreign concurrence on the northern part of Pacific Ocean and to get the access in the most important ports in that region. He pursued the acquisition of Alaska Peninsula from Russia; his successors hadn't renounced the idea of the expansionism policy, the Pacific Ocean being the most important interest area for American foreign trade. After the Civil War, US wanted to develop commercial settlements in this area, claiming more islands and coral atolls in central Pacific. Some of them were of the most strategic importance: the Samoa and Hawaiian islands. In 1898 Samoa signed a treaty with US through which there was provided a maritime base in Pago Pago. In 1879 Great Britain and Germany concluded similar treaties which were focalized on Samoa archipelagos.

But Hawaiian islands were (and are) of greater importance and have a greater strategic importance, because their occupation by a power hostile to US means a direct menace to American commercial interests (especially those regarding the trade with sugar), and a menace to American continent's security, because US couldn't check and defense itself from Pacific Ocean its Western coasts. And as a consequence of an unabated policy, in 1894 the Hawaiian Islands were annexed by USA.

The expansionist spirit fully manifested in the decade 1890-1900, and a noisy group (which gathered more and more sympathizers) manifested the desire regarding the foreign territories' conquering; the group had as leaders: Albert Beveridge, Henry Cabot Lodge, T. Roosevelt, and A. T. Mahan.<sup>43</sup> The tensions, and after that, the war between Americans and Spaniards in 1898, were the consequences of such a policy. All essay – which were successfully touched by Americans – had as central purpose the abolishment of other power's access to the close space of US, especially in Caribbean Sea; these were indispensable premises regarding the exertion of US power in Panama Isthmus zone, area on which depended the possibility of American power's expansion.

Although the French started the workings at the Panama Canal, the Americans looked to identify ways which could permit them to exercise the control in the area where the canal was to be

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41 ibidem, p. 33

42 George Brown Tindall și David E. Shi, *America, o istorie narativă*, București, Editura Enciclopedică, vol. II, 1996, p. 602

43 ibidem, p. 605

fulfilled; they went even further: they followed the workings initiated by Universal Company of Inter Oceanic Canal regarding the connection of the two oceans in Panama area.

The economic development of US and the looking for possibilities which could facilitate the external markets' conquering had risen the importance of commercial fleet and of navigation. And as the commercial fleet's protection could be provided only by a navy, there appeared the necessity for such a navy's construction. "The necessity of a navy" told Mahan "is a direct resultant of a commercial fleet's development, which is peacefully, and disappears in the same time with it, the only exception being that one where a nation manifests aggressive tendencies and keep its navy as a part of its military corps."

And the same author sustained that when the maritime trade would get again its normal attention from American leadership, the interests linked to commercial navigation would sure bring the navy to life. He went even further and said that "it is possible that when there will be a certainty the possibility that a canal could cut the Panama Isthmus, the aggressive impulse would be strong enough to lead to the same result"<sup>44</sup> – those regarding the construction of a war fleet be US, as an element which could provide US with the means which could help it to influence the global affairs. Captain Mahan was to be a light for guidance for Roosevelt, as a prophet and teacher, in the same time, regarding the construction on an isthmian canal.

Roosevelt regarded the canal's construction in a very different way in comparison with important personalities of its time; if for some leaders there was a welcome thing to speak about the fulfilling of the Columbus dream, to name it a huge step in civilization area, or as Lesseps sustained, to bring a huge contribution in development of global trade, Roosevelt had a very different vision: for him the canal's fulfilling, first and last, mean not a vision regarding commercial aims, nor the universal utility of the canal. For him it mean always the vital way, the indispensable way, to the global destiny for the United States.<sup>45</sup>

He had a special vision regarding its country's destiny: he saw the US as a power which would command the two oceans, united through a constructed canal, being in the possession, being operated, supervised, and fortified by his own country. The canal would to be the first step taken for American supremacy on seas.<sup>46</sup> Doesn't matter how big and important, or admirable would be other benefits as a result of canal's construction, they worth only a secondary importance, for Roosevelt.

Once the isthmian barrier would be put aside, the Caribbean Sea would become – as Mahan said – not only an area where the commercial currents would manifest with great intensity, but a vital military path. In that moment USA would need military bases in Caribbean Sea, which, "as a result of their natural advantages, susceptible to be protected, and being close to the strategic problem [the canal] would permit the navy to stay closer to the scene as any opponent." With the Mississippi river entrance and exit provided – its basin being the permanent military operational base for USA – and with the Caribbean possessions in its hands, with the safe communications among these bases (the Mississippi base being included), with adequate military preparations, for which US disposed of all necessary means, their preponderance resulted "from their geographical position with a mathematical precision."

A member of Senate, Lodge, the closest Roosevelt's friend, sustained even before 1900 that the canal's existence made the Hawaiian Island's possession a necessity, while Senator Morgan sustained that even Cuba should be controlled by the Americans, taking account of its geographical position regarding the Panama Isthmus.

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44 Alfred Thayer Mahan, *The Influence of Sea Power upon History. 1660 – 1783*, New York, Dover Publications, Inc., 1987, p. 26

45 David McCullough, *The Path Between the Seas. The Creation of the Panama Canal 1870-1914*, New York: Simon & Schuster Paperbacks, 1977, p. 250

46 *ibidem*, p. 250

After the American – Spanish War, the US became more active in Caribbean Sea area;<sup>47</sup> after the American victory over the Spaniards, then Secretary of State Hay entered negotiations with the British ambassador, Julien Pauncefote, in order to obtain the British's consent regarding the American plan for a canal construction in the Isthmus of Panama. Hay and the British ambassador made quick steps, and as a result, USA got the right to construct and operate the canal. This treaty was signed on February 5, 1900. But the Senate would refuse the treaty's specifications; the reason was this: if a canal would be open to all vessels, in time of peace or war, doesn't matter under which flag they navigate, this would mean that it would pose an additional menace to US security; it would mean an additional duty, an additional geographical point where the American navy should watch. But if it is "fortified by us, it becomes one of the greatest source of American maritime power."<sup>48</sup>

After President McKinley's death, Roosevelt asked Hay to renegotiate his first treaty regarding Panama Canal. And there appeared the first treaty of Roosevelt's administration. It provided the US the possibility to undertake all the necessary steps in order to protect the Canal "against the injustice and disorder", this meaning in fact the possibility to fortify the Canal area. It was signed in the greatest secrecy in the morning of November 18-th, 1901, while President Roosevelt declared himself "delighted."<sup>49</sup>

This was to be the first important move of his mandate: and it regarded the construction and control upon Panama Canal. Even if the Canal didn't existed, the US would have manifested a special preoccupation in relation to Caribbean Sea; and regarding the actions made in that region by any hostile power.

And the US, through the help given to Panamanian secessionists during 1903, would obtain the greatest benefits: "We conquered the Panamanian area", eulogized Roosevelt later. He conquered it, but by biting down the Latino-American pride.

But this Canal would provide the rise of American power on global stage; digging it, the USA fulfilled the aim regarding the turning to account of its geographical position. It constitutes that element which is the base of American maritime power, because this canal watched by US is the path through which there could be made the juncture of American navies from Atlantic and Pacific oceans.

*It created for the United States the capacity to concentrate its military fleet. Creating for the US, through its realization, the advantage given by **insularity**, the Panama Canal and the American bases situated in Pacific Ocean, gives to American power the capacity to influence in an overwhelming way the Far East affairs, element which couldn't pass unchecked by the fear and suspicion of the Siberian "Bear".*

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# EXPLORING THE CONCEPTUAL UNDERPINNINGS OF THE CREATIVE INDUSTRIES

**Bobircă Ana**

*Academy of Economic Studies Faculty of International Business and Economics 13-15 M. Eminescu Street, ana.bobirca@rei.ase.ro, +40213191990*

**Cristureanu Cristiana**

*Academy of Economic Studies Faculty of International Business and Economics 13-15 M. Eminescu Street, cristiana.cristureanu@rei.ase.ro, +40213191990*

**Miclăuș Paul-Gabriel**

*Academy of Economic Studies Faculty of International Business and Economics 13-15 M. Eminescu Street, paul.miclaus@rei.ase.ro, +40213191990*

*This research is formulated in the context of increasing global recognition that creative industries are becoming progressively more important components of modern post-industrial knowledge-based economies. As momentum builds to prioritize this field of activity within economic development policies, the need for a more encompassing creative industries theoretical underpinning is becoming crucial for its understanding and competitive development. Therefore, the paper highlights that, despite the recent, rising tide of interest, even the most basic terminology is unsettled. We start by emphasizing the determinants of creative industries' development. We then draw particular attention on how the literature defines this sector and provide a proposition for a conceptual framework. We conclude with some implications suggested by these analyses.*

*Keywords: creative industries, creative sector, knowledge-based economy*

*JEL code: L89, O14, O30*

## 1. Introduction

Creative industries have grown considerably over the past century, with the most rapid and scattered expansion occurring throughout the past two decades. A hundred years ago, at the dawn of the 20th century, fewer than 10% of working people were employed in the creative sector of the economy. Less than 15% of the workforce was engaged in such activities in 1950. But over the past two decades, creativity has become the driving force of the world economy and the creative sector has exploded.

Today, from between 25% to more than 30% of workers in the advanced industrial nations work in the creative sector of the economy, engaged in science and engineering, research and development, technology-based industries, in the arts, music, culture, aesthetic and design industries, or in the knowledge-based professions of health care, finance and law.

Indeed, in the last few decades the world has undergone considerable economic and social structural changes. The shift that Marx chronicled, from an agricultural to an industrial capitalist system, that substituted one set of physical inputs (land and human labor) for another (raw materials and physical labor), is now followed by a new type of transformation, which is fundamentally based on human intelligence, knowledge and creativity.

This research is formulated in the context of increasing global recognition that creative industries are becoming progressively more important components of modern post-industrial knowledge-based economies. Not only are they thought to account for higher than average growth and job creation, they are also vehicles of cultural identity that play an important role in fostering economic, social and cultural diversity. During the last decade a number of governments around the world have recognized this fact and started to develop specific policies to promote them.

This mainstreaming of what was once considered a sector of marginal interest, which received limited attention from researchers, has led, in the developed countries, to a growing body of



analysis, statistics and mapping exercises on the relationship between culture, creative industries and economic development. However, the sector is still poorly understood and scientifically documented, and many governments, especially in the developing countries, remain to be convinced of its potential to stimulate national competitiveness.

As momentum builds to prioritize this field of activity within economic development policies, the need for a more encompassing creative industries theoretical underpinning seems compulsory for its understanding and competitive development.

Hence, in the remainder of this paper, we highlight how, despite the recent, rising tide of interest, even the most basic terminology is unsettled. We start by emphasizing the determinants of creative industries development. We then draw particular attention on how the literature defines this sector and provide a proposition for a conceptual framework. We conclude with some implications suggested by these analyses.

## **2. Determinants of the Creative Industries Development**

The focus on creative industries in national or regional competitive strategies has been attributed to the demise of a Fordist mode of production, which was centered on cost imperatives and secured through a national, Keynesian regulatory regime. With integrated international markets and the advent of new technologies, there has been a search for new sources of competitive advantage. And the critical ground for new forms of competition has been an economy in which creativity and innovation play a prominent role (Lash and Urry, 1994).

A number of studies have highlighted the economic significance of creative industries in late capitalism, documenting their contribution to employment, value-added production, and exports (Markusen and Schrock, 2006; Power, 2002). Recent studies have also acknowledged that a number of trends crystallized during the second half of the twentieth century and are likely to persist well into the twenty-first, determining both the rise in interest and the development of creative industries, now officially endorsed as a policy shift even in the developing world (Wyszomirski, 2002).

First, with the rural sector accounting for an ever-smaller share of GDP, the drivers of growth are mainly urban activities.

Second, the urban sector is now dominated by service activities that together account for three quarters or more of urban GDP in most countries. In the core areas of mega-cities, services are virtually the only employers, with manufacturing having moved to suburbs and edge cities.

Third, the fastest expanding component of this urban services sector is composed of a number of business services and creative industries with high value added. In the former category, marketing, financial, legal, and accounting services are included. The latter category comprises the more information technology-intensive activities such as design, publishing, multimedia, software development, video entertainment and movie making.

Fourth, a steady decline in transport costs and a continuing shift in the mix of products consumed—towards lighter items of higher value—is beginning to negate the desirability of dispersing urban centers and of locating urban centers close to natural resources. These trends could lead to a greater concentration of the population in a few, geographically favored and polycentric urban areas (clustering).

Fifth, in the high-income countries and to an increasing extent in the middle-income ones as well, up to one third of GDP growth derives from rising total factor productivity. These gains in productivity are the result, by and large, of product, process and functional innovations allied with improvements in the management of firms in the effective assimilation of information technology, and in allocative efficiency across the entire economy (Greenaway et al., 2002; Lawrence and Weinstein, 2001; Levine, 1997).

Sixth, the pace of innovation is directly associated with the supply of skilled workers, a rising proportion of whom work for the creative industries, with the scale and quality of university

infrastructure, with investment in research (Lederman and Maloney, 2003), and with the focused acquisition of innovative capability in selected areas.

Seventh, and finally, urban centered growth is powerfully facilitated by a liberal yet effective regulatory framework that promotes competition, combined with institutions that protect economic rights.

These determinants of creative industries expansion in the early twenty-first century demand a fresh approach to development. While global competition in the creative economy is a wide-open game, its key element is no longer the trade of goods and services or flows of capital, but the competition for people. This research starts from the premise that the economic leaders of the future will not likely be emerging giants like India or China that are becoming global centers for cost effective manufacturing and the delivery of basic business processes. Rather, they will be the nations and regions within nations that can best mobilize the creative capacities of their people and attract creative talent from around the world.

### **3. Conceptual Underpinnings of the Creative Industries**

The shift towards a knowledge- and service-based economy thesis continues to provide the main dimension of the obligatory background for the analysis of the creative industries. The *locus classicus* of these ideas is represented by Bell's work, who lays out the argument that the profit centers of the economy are shifting away from mass-produced goods and towards services and information.

The formal origins of the creative industries terminology are in the UK Government's establishment of a Creative Industries Task Force, in 1997. Since then, the standard definition – in terms of activities which have their origin in individual creativity, skill and talent and which have the potential for wealth and job creation through the generation and exploitation of intellectual property – has not changed drastically (Howkins, 2001; Hartley, 2005; Cunningham, 2006).

The creative industries are defined in this approach in terms of an industrial classification. Although there have been many critiques of this course of action (Roodhouse, 2001; Florida, 2002; Hartley, 2005), the broad notion that an industrial classification should proceed on industrial lines is seemingly on firm foundation.

Creative industries fit uneasily into this framework. First, because they determine a reconfiguration of the boundaries between non-material activities and industry, by implying organizational and genealogical links across such fields as advertising, design, architecture, visual arts, crafts, performing arts, fashion, film, interactive games, music, television, radio, publishing, research and development, software. Second, because the standard industrial classification system was developed over half a century ago when the economy could be categorized by the type of industrial activity in which a firm is engaged and the nature of its material inputs and outputs. Since then, however, the economic system has become considerably more complex and service-oriented (Beinhocker, 2006; Foster 2006). Consequently, creative industries represent a loose concept that can benefit from analytic anchors.

We therefore propose that a more encompassing theoretical foundation for the creative industries can be provided. This paper argues that the conceptual confusion derives from two primary sources: (1) the implicit use of different definitional criteria for determining which activities are to be encompassed within the creative sector, and (2) the conflation between seeking to establish a baseline or benchmark for measuring effective development and striving to construct a conceptual framework for the design and implementation of development policy initiatives.

The intent here is to explore both theory and experience to provide a range of definitional choices.

After thoroughly reviewing and integrating an extensive body of research and policy, four definitional approaches emerge, each representing a distinctive focal point for assessing the

characteristics of the sector: (1) product/service, (2) producing organization, (3) central production process and (4) occupational/workforce groups.

*The product/service perspective* poses two different challenges: (a) the dual nature of creative products as simultaneously private consumer goods and as public collective goods and (b) the debate over which products are to be considered similar. As to the first question, finding ways to describe, categorize, and measure the “public good” value of arts activities and creative products has tormented economists, sociologists and policy analysts. On the one hand, a general consensus has emerged that the full value of the arts and culture is not captured by economic assessments of their status as consumer goods, their price, or profitability. In contrast, neither a conceptual consensus nor satisfactory methods have emerged for expressing the non-economic, or cultural, value of artistic products or creative services. As to the second concern, Caves points out that creative products exhibit an “infinite variety” and can be differentiated from one another both vertically and horizontally (Caves, 2000). This variability has many implications for the actual production and consumption of creative products, offering a universe of choices and asserted distinctions to creators, consumers, and policymakers.

*The producer/supplier perspective* seems to employ different terms for essentially equivalent production clusters. While creative corporations operating in the commercial area are commonly referred to as “industries” (e.g. the publishing industry), those operating as nonprofit or subsidized organizations refer to themselves as “fields” (e.g. the museum field). On one hand, this means that this definitional perspective tends to artificially separate what might otherwise be considered inter-related components of single industries (for example, commercial theater is often regarded as separate and distinct from subsidized theatre, yet it is obvious that they influence and inter-relate to one another; only the former is included in statistics on the copyright industries). On the other hand, the clustering of nonprofit arts organizations in juxtaposition to the entertainment industries has meant that each identifies itself as producer/supplier of different types of creative goods and services.

*The production process perspective* has the process of creativity as a defining characteristic. This is evident in the term “creative industries” itself and in the recent trend towards the allocation of public funding depending on excellence in creativity (Wyszomirski, 1999). However, there are other potentially defining processes to be considered. Certainly in the heritage industries, preservation would seem to be the core production process. Alternatively, Richard Caves has suggested that risk-taking and risk management may be another defining characteristic shared by both commercial creative industries and nonprofit artistic fields (Caves, 2000; Hodson, Arthurs and Lavine, 1999).

*The workforce perspective* exhibits a number of unresolved issues. First, few individuals in these occupations would consider themselves part of a common workforce (Venturelli, 2001). Second, the difficulty of determining the characteristics of a broad creative workforce may have been exacerbated by the use of common, existent analytical occupational categories. Third, within each occupational group, there are many sub-categories where workers tend to locate their occupational identity, which makes it difficult to envision a single, broad, interdependent workforce and, in turn, impede constructive efforts to cultivate this workforce as a matter of explicit policy or planning. Fourth, individually none of these occupations has sufficient mass necessary to attract sustained economic or political attention. Without some aggregate construct, it is difficult to generate the kind of attention and understanding necessary to gain the awareness of policymakers and to inform debate about what measures might support and advance the creative industries both collectively and separately (Jeffcutt, 2001).

#### 4. Concluding Remarks

Evolutionary economists have long argued that economic growth is caused by the growth of knowledge. Cultural economists have long argued that the creative arts, broadly conceived, produce knowledge. The concept of creative industries puts these two observations together.

What has been added in this paper is the further observation that this takes place in a multifaceted context, with specific product/service characteristics, production process organization, workforce and producer/supplier structure and behavior.

We have argued that creative industries are not well defined as a set of *industries*, as in the standard definition. The hypothesis has been that these definitional problems stem from the fact that cultural industries differ from many other types of industries in fundamental and important ways: few other industries generate products that possess not only public and private economic value, but also, as Throsby argues, cultural value along a number of dimensions (Throsby, 2001); much of the critical infrastructure of the producing “firms” and creators is external to these organizations and individuals; the occupations of the creative sector are unevenly professionalized and have little shared identification, either with one another or as part of a broad industrial or sectoral construct.

Our implicit proposal has been that rather than relying on any single perspective to establish the parameters of creative industries, a comparative application of each defining perspective may result in a composite, and therefore more accurate map than any single perspective can produce.

An encompassing theoretical underpinning for creative industries economics can advance towards a generalized re-conception of the *creative economy* as distinct from the ‘information society’ or ‘knowledge economy’ and as not just another public goods sector, but as essential to the process and structure of economic and socio-cultural evolution.

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# THE GLOBALISATION AND THE MULTITUDE OF ITS CONTRADICTORY INTERPRETATIONS

**Boghean Carmen**

**Boghean Florin**

*Faculty of Economic Sciences and Public Administration, University of Suceava, University Street, no.9, 720225, Romania, Phone: ++040230520263, Fax: ++040230520263, carmenb@seap.usv.ro, florinb@seap.usv.ro*

*The globalisation is a long-debated topic, omnipresent in the media discourse, in the specialty literature, and also in the daily conversations. The opinions expressed on this set of processes that mark all the aspects of our life are often antagonist; that is why, for a better understanding of the globalisation, we need to make a personal and objective analysis. The globalisation phenomenon is one of the most controversial topics of discussion, both in the academic and business environments, as well as for the regular citizen. As specialists or mere observers, we all feel the globalisation effects, one way or another.*

*Keywords: globalisation process, technological progress, human society, globalisation critics.*

*JEL CLASIFICATION: F02*

## **Introduction**

Globalization is likely to represent the vastest in scope and most widely discussed phenomenon. The interest in this topic is very high due to the effects it has within the ranks of the companies, of the states and of the common people. The globalisation is not solely a destructive force, as the sceptics sustain, but a phenomenon that has the capacity to improve the economic performances and the daily life of each of us. The difficulty of approaching such a controversial topic derives precisely from the vast preoccupation with the effects implied by this phenomenon.

Globalisation is a reality of the contemporary world engendering inter-connected manifestations and repercussions at all the levels of the human activity – the economic, political, cultural, scientific and ecological levels. The term in itself is very fashionable, its use being often rhetorical. Already turned into a cliché, the term bears different meanings, according to the one defining it in a particular context.

Throughout time, the globalisation has been defined in different ways, according to the purpose of its use, there existing diverse nuances. At present, there is no such thing as an all comprehensive and incontestable definition of the concept.

Beyond all the controversies the phenomenon of globalisation gives rise to, there is one certain thing: we are witnessing an extremely complex phenomenon, which determines an increase in the interdependencies between all the world economic entities and which, implicitly, affects all of us. The purpose of globalisation must be to insure an environment which is adequate to the evolution of the international system, to the equity, security, transparency, as well as to an improved global governing, meant to ensure a larger distribution of opportunities and the inclusion of the marginalised ones.

The greatest danger for a new concept is to be turned into a cliché, into a stereotypical formula; to put it differently, into a sum of common places which substitute themselves to the lively, real process, failing to seize and render its complexity and evolution. From that moment on, the process of wearing out of meaning for the notion in question and for the interest it had given rise to is only a matter of time.

## **1. It is globalisation a cliché?**

The cliché encompasses distinctive aspects, in the same formula; that is why it gives the impression that it is explanatory; in reality, it gives way to confusion. The substance of the new

cliché comes from common perceptions which, once joined, do not offer a real view on the process we are talking about nor on the forces nourishing its evolution. Such common perceptions are as follows: we live into a fast-changing world under the impact of the technological progress; what is taking place in a region at one point in time, will have, sooner or later, an influence on other regions of the world; the evolution of nowadays world is taking place on an „American direction” or a direction meeting many American interests; no matter how promising, the contemporary evolution is rather out of control, has something chaotic in it, which does not predict anything good; the national state finds it harder and harder to cope with the problems posed by the globalisation. Each of these sentences contains elements of truth. The problem is that their agglomeration without discernment facilitates a process of amalgamation which does not help us to clarify things.

The globalisation represents an essential direction of the contemporary development. We deal with an extremely important process; we must discern its complexity and understand its impact on our life. As long as we acknowledge the fact that we are talking about a process that is modelling our existence, there is nothing more dangerous than wearing the cliché glasses when we deal with the globalisation. In this case, we will only notice the problems to which we have access through our own lens dioptries, while the chances of understanding what is happening around us will be close to none.

The cliché does not bear nuances; everything is either black or white. The approach by means of the cliché implicitly leads to simplistic approaches, by virtue of which the globalisation is either an entirely positive process or an entirely negative one. Actually, an essential proof of the use of the cliché in tackling this phenomenon is the fact that, in the specialty literature, there prevail either the hyper-optimistically visions, that induce a toned-down image of the process we deal with, or the approaches painting the globalisation in dark colours, as a source of all the wrong-doings of this time. In the absence of such a necessary process of clarification, the perpetuated meaning of globalisation is the one given by Zygmunt Bauman, who sees it as an undefined, disorganised and self-propelled phenomenon. It is said to be characterised by the „absence of the core, of a control stand, of a decision board, of a managerial board. The globalization is a different name for <the new world disorder>”<sup>50</sup>

The globalisation is seen as an accomplished phenomenon, the different meanings under which the term circulates going unnoticed. Thus, there is created a common space where the globalisation concept circulates with different meanings, generating confusion and misunderstanding. On the other hand, there are very few analyses that regard the phenomenon in its entire scope, which illustrates the fact that the specific research is at a rather involved level. The typical study is the one focused on a specialised domain. To a certain extent, this is a good thing, as this is the only way we can aspire to extensive research meant to synthesise the general tendencies in the evolution of the phenomenon in question. But it is here that a change of meaning occurs. Although centred on a particular domain, the studies detach conclusions for the entire process of globalisation. It is especially the studies done from an economic viewpoint that occupy the debate space on the globalisation theme and „talk” on behalf of the process as a whole. Once set up, such approaches lead to the neglecting of other extremely important problems, raised by the evolution of the globalisation, such as its political, cultural and ecological impact. From any viewing angle we would look at things, the adequate conceptualisation of this process is an imperative need.

## **2. The Hyperoptimists of the Globalisation Process**

In order to judge the globalisation in a balanced way, it is recommendable to attempt to represent to ourselves the greatest interpretations of this process. This is a very important scientific

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<sup>50</sup> Bauman, Z., *Globalizarea și efectele ei sociale*, Editura Antet, București, 2002,p.59.

approach; at the same time, it bears an important psychological connotation, as it is rare that people not embrace avidly a new phenomenon they cannot comprehend clearly. The specialty literature distinguishes three great approaches of this process, three interpretations of great social impact. There are the authors who talk about globalization as of an accomplished phenomenon, the analysts who manifest a hyper optimism regarding the possibilities and the potential of the new process; and, just as in any other important process, we can also distinguish the opposing trend, the pessimists' one which either minimizes - if not really denies - the advantages of the globalization, or insist on its negative consequences, especially on those of a social order.

Finally, we also encounter a moderate interpretation, characterized by the promotion of a balanced approach where could be found the novelty elements brought about the globalization and also the costly processes it induces. In the specialty literature, the hyperoptimists are also named hyperglobalists. What characterises this orientation is first of all the fact that the years of affirmation of the globalisation are considered to be representing a new era in the evolution of the human society, a completely distinct stage. A stage imposed by new processes, which models our existence more, and more and that we will have to take into account more and more in the organisation of our social activity. Which would be the defining traits of this new stage?

The triumph of the global market, which essentially modifies the classical rules of the international economical and political game. The global market means the extension of the competitive rules at the world level. There are several factors facilitating this process: the disappearance or the important reduction of the customs barriers and the diminishing of the transport costs. This way, the producers in a region can compete with the internal producers in another region or, to put it differently, „the demand and supply of goods functions more and more at a global level: the companies provide goods all over the world and must face the competition from the foreign companies”<sup>51</sup>

The hyperglobalists promote an economical prospect, reason by virtue of an economic logistic, which they consider fundamental in nowadays world. The coronation of this vision: a “boundless world”, a global market which has been set up or is on the point of being set up. In such a world, the national governments play a limited part, the part of „drive belts” for the international capital, of „intermediate institutions” crashed between the local, regional and global requirements. By virtue of these interpretations, the fundamental tendency of the age we are crossing is the denationalisation, the nation states being nothing else but „a transitory way of organisation for the administration of the economic problems”<sup>52</sup>

The new stage the hyperglobalists are talking about also generates a new pattern of losers and winners. The North-South divide is no longer relevant. The reality of the contemporary world illustrates a much more complex architecture. It is marked, among others, by the rise of new states which traditionally belonged to the developing countries (to the South) and which took or are about to take a leap into the category of the developed states (to the North). This process was made possible by the intelligent revaluation of the new economic context, by the use of the globalisation flows in the interest of one's own development. Nobody denies the fact that we are dealing with a pronounced polarization between losers and winners. But, in many interpretations, this is not a rule; it is not necessarily a game amounting to nil. Once more, the emphasis is laid on training, on the states' or regions' availability to take advantage of the new forces of the globalisation, to order their own strategies according to a radically changed economic reality.

Beyond the authors' peculiarities or the approaches stemming from different ideological inspirations, the globalisation is seen as a new age of the human society, where everything is

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<sup>51</sup> Held, D., et comp., *Transformări globale – Politică, economie și cultură*, Editura Polirom, București, 2004, p.180.

<sup>52</sup> Ohmae, K., *The End of the Nation State*, Publishing by Free Pr, United States, 1995, p.149.



changing - not only the state and the governments, and „the framework of the human action” as such is redefined.<sup>53</sup>

### **3. Sceptics of the globalisation process**

Lately, there has been an increase in the number of the works dwelling, in a critical manner, on the process of globalisation, pointing out either to the unfounded character of many of its assertions, either to its negative social consequences. „The more we have examined the problem, the more superficial and unfounded the assertions of the most radical advocates of the economic globalisation have become”<sup>54</sup>. That is why the quoted paper is pervaded by a „moderate scepticism” that takes the shape of a here and there vehement questioning of the globalisation, at least as it appears „in the view of its most extremist followers”. The authors even express their conviction that the globalisation „is but a myth”.

1. The current economy, so much internationalised, is not without precedent: it is one of the numerous distinct climates or stages of the international economy, since the moment of appearance of the modern economy based on the development of the industrial technology, widely spread since 1860. To some regards, the current economy is less open and integrated than the regime that prevailed between 1870 and 1970.

2. The authentic transnational companies are relatively rare. The majority of the companies are national companies that are involved in the international trade, having an important national location of the assets, productions and sales, so we cannot notice an apparent tendency of development of the real international companies.

3. The capital mobility does not produce a massive investment migration and a massive migration of labour from the advanced countries to the developing ones. What we notice here is a greater concentration of direct foreign investments (DFI) within the ranks of the advanced industrial economies, while the Third World remains marginalised both regarding the investments and the trade, with the exception of a small minority of recently industrialised states.

4. As even a part of the globalisation extremist sustainers acknowledge, the world economy is far from being really „global”. Most of the trade, of the investments and of the financial flows are concentrated in the triad Europe-Japan-North America, and this domination is not likely to cease too soon.

5. These major economic powers have, consequently, the capacity, especially when they coordinate policies, to exert powerful governing pressures over the financial markets and over other economic tendencies. The global markets are thus situated, without any doubt, beyond any regulation and control, although the preoccupations and objectives of the economic governing are limited by the divergent interests of the great powers, the economic doctrines prevailing within their élites.

From an analytical point of view, Hirst and Thompson are trying to introduce some order in a pronounced chaotic debate, proposing delineation between two notions considered as essential: globalised economy and inter-national economy. Actually, these concepts express the two meanings of the notion of globalisation: the powerful meaning, radical, fixed by the notion of globalised economy, and the weaker meaning that coincides with what the author names inter-national economy. Even if the above-mentioned notions can also exist in a „disordered combination”, the authors consider that the installing of the conceptual framework proposed by them could shed light in a confused and more and more redundant discussion.

The distinction between the two concepts stems from the different role allotted to the state in the two visions. In the inter-national economy, the state maintains very important prerogatives and leads the process of opening the national economy to the international one. We can say that the

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<sup>53</sup> Albrow, M., *The Global Age: State and Society Beyond Modernity*, Stanford University Press, Stanford University Press, Chicago, 1996, p.85.

<sup>54</sup> Hirst, P., Thompson, G., *Globalizarea sub semnul întrebării*, Editura Trei, București, 2002, p. 17.

state is in itself an actor of globalisation, assumes this role and attempts to minimise the costs. It will be preoccupied with stimulating trade and foreign investments, seen as modalities of intensification of the relations between the distinct national economies.

The more the international actors become numerous, the more the national specialisation and international divide impose themselves as forms of adjustment to an extremely dynamic reality. In the last analysis, the state's role is to assimilate the requirements of the globalisation process, but this appears not as something imposed, but, on the contrary, as something assumed, as a victory condition. This is the main characteristic of the inter-national economy: the existence of an active state in the administration of the national problems and also in the spirit and sense of the globalisation processes. That is why, the authors underline: „The antonym of a globalised economy is not an economy oriented towards the interior, but an open world market, based on trading nations, regulated more or less by the public policies and the supranational agencies”<sup>55</sup>

Another characteristic of the same economy: the existence of a superpower meant to organise the international activity in a certain way, to create the organisms of cooperation and opening towards the world. This role was fulfilled by England in the first period of assertion of the international economy (1870-1914), by the USA in the second period, marked by the end of the last world conflagration. Its pillories are: the World Bank, International Monetary Fund, World Organisation of Trade, all of them created on the initiative of the USA with the purpose of stimulating cooperation and of preventing processes of national closure.

The globalised economy implies a gathering and a subordination of the processes that took place at a national level, even their deregulation by virtue of the logic implied by the global market. That is why the state bears a smaller and smaller importance, its role being undertaken by the multinational companies, which become essential economic actors. The global market and its logic are the ones dictating in this economy, the market being little sensitive to the social problems. „The global markets cannot be controlled and the only way to avoid failure, as a nation, company or person, is to be as competitive as possible”<sup>56</sup> Competitiveness is the supreme law of the new stage and it must subsume everything.

The global organisms the new economy should benefit can take into account only the economic criterion, of competitiveness and performance. The sceptical orientation is, in our opinion, a moment of real awareness: a reaction to the uncritical enthusiasm, to the premature acclaim of „global realities”. This is the orientation in which we must read the sceptical position, if we desire to have a reasonable approach and to destroy its advantages. It appears as a kind of protest to the address of the hyperglobalism exaggerations, using its real vulnerabilities. Nobody can deny that there were really thriving periods of trade and exchanges, as was the one in 1860 until the beginning of World War I. The sceptics' positions to this respect seem to be even better expressed by Gellner and Breuilly, who mentions: when it comes to globalisation, the XXth century ends on a déjà-vu tone: the economies of the world are just as interdependent nowadays as they were in 1913.<sup>57</sup>

The big mistake of the sceptics is that, in their tentative to show that mankind does not go through a globalist age; they do not orient their attention to the new elements that appear in the evolution of the society. Thus, their attitude is somehow bookish, inspired by a critical attitude towards the specialty literature, and not by a careful reading of nowadays' world realities. The sceptics miss the really revolutionary technical changes lying at the basis of the new globalisation age, and do not manifest a real availability to examine the phenomena and process appeared in the last years. Their purpose seems to be that of showing that the hyperglobalists' basic

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<sup>55</sup> Idem, p.36.

<sup>56</sup> Ibidem, p.22.

<sup>57</sup> Gellner, E., Breuilly, J., *Nations and Nationalism - New Perspectives on the Past*, Cornell University Press, New York, 2009.

statements lack consistency, which may be true. In our turn, we consider that many positions expressed by the hyperglobalists are mainly rhetorical, speaking about a fake reality. The sceptics excel when it comes to identifying facts, situations which contradict the hyperglobalists' basic statements.

## Conclusions

What we consider to be new in nowadays process of globalisation are the interwoven consequences brought about by the meeting between new phenomena or between classical ones that go through distinctive qualitative stages of evolution. Consequently, we deal with a new reality, configured by the confluence of certain processes. It is very important to understand the complex nature of globalisation, without which we are unable represent to ourselves the phenomenon and its evolution.

The connexions between different interpretations of the globalisation no longer represent a mere academic debating theme, but are converted into an almost prevailing feeling. Regardless of the way we draw on it, whether we acknowledge or reject it, it represents an element of building our social, political and cultural being. Finally, this gives rise to another interpretation of the globalisation: it is no longer approached as an academic subject, being treated from the viewpoint of its consequences. This change in the receiving process has a precise explanation: the risks that come out from the extension of the globalisation process are not theoretical. This send us to at least two sets of problems, both with a political meaning: the way the globalisation is perceived and which its practical consequences in people's life are. The new process is no longer associated with the „great systems”, but with the daily life; it is no longer somewhere, in the distance, but accompanies our own existence, influencing it.

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## ENTREPRENEURSHIP AND FEMALE ENTREPRENEURSHIP

**Bugnar Nicoleta**

*Universitatea din Oradea, Facultatea de Științe Economice, Str. Universității Nr. 1, 410087 Oradea, email: nbugnar@uoradea.ro, tel:07224744922*

**Bodog Simona**

*Universitatea din Oradea, Facultatea de Inginerie Electrică și Ingineria Informației, Str. Universității Nr. 1, 410087 Oradea, email: sbodog@uoradea.ro, tel:0740091828*

*The entrepreneur is synonymous with the developer, the factor that organizes the production process, is responsible for economic decisions concerning what is produced, what quantities and by what methods of production. In the United States entrepreneur is often defined as "someone who starts his own small scale business"; in England was associated with business firms operating in new areas, innovative; France assumed small enterprises, sometimes reduced to the level of families. On the other hand, if you look at entrepreneurship in terms of news brought - in products, system management, technology - it is clear that should be the corporate privilege to be able to make major strategic changes.*

*Keywords: entrepreneurship, female entrepreneurship, development*

*Cod JEL lucrare: F53*

### **Size and development of entrepreneurial phenomenon**

Classification of a company or economic entity in the category of entrepreneurial knew different views; for example, in the United States entrepreneur is often defined as "someone who starts his own small scale business"; in England was associated with business firms operating in new areas, innovative; France assumed small enterprises, sometimes reduced to the level of families. On the other hand, if you look at entrepreneurship in terms of news brought - in products, system management, technology - it is clear that should be the corporate privilege to be able to make major strategic changes. In these circumstances, we can say that entrepreneurship should not be characterized by the size of a company, but by the spirit of initiative, creative attitude, innovation, risk taking; entrepreneurship that can occur at the firm, individual, social group or community level, being evaluated by the performance that they generate and by the ability to cope with changes that may occur in the market.

As defined in the MacMillan Dictionary of Modern Economics<sup>58</sup> the entrepreneur is synonymous with the developer, the factor that organizes the production process, is responsible for economic decisions concerning what is produced, what quantities and by what methods of production.

Among the causes that lead to the emergence, development and success of entrepreneurial initiatives we can include: obtaining a profit, a gain corresponding effort, obtaining the so-called "independence" in financial terms and the activities developed (entrepreneurs have the opportunity to truly respect what they want to deal with and what they believe that generate a significant profit), the ability to implement and capitalize on an idea, a niche market, a category of customers, an opportunity for other business unknown by other entrepreneurs, desire innovation. However, we can say that the defining element of entrepreneurship is the innovation and change, whatever that is manifested in the economic, social, technological, etc.

In the study conducted by GEM (Global Entrepreneurship Monitor) and presented in the country report of Romania 2007 - Monitoring the global entrepreneurship, are taken into the record business from Romania in international comparison:

- lack of tradition, of business and entrepreneurship education before 90's, during the socialism;
- unfavorable business environment in the transition period of 90's;

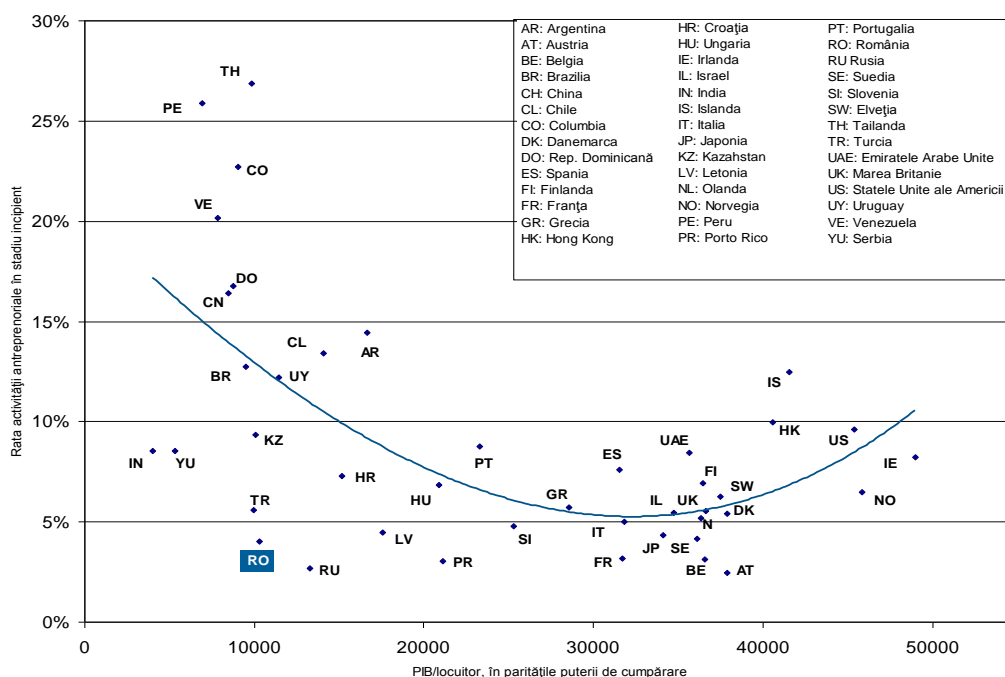
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58 \*\*\* - MacMillan Dictionary of Modern Economics, 1999, p. 216.

- the period of growth after 2000: the acceptance by the population of jobs offered by large firms, being perceived as being at low risk.

Figure no. 1

### Entrepreneurial activity from Romania in international comparison



Source: Global Entrepreneurship Monitor - Global Report 2007.

Explanation for the relatively low level of development of entrepreneurship in Romania can be found in the restrictions faced by small firms, in terms of resources and their vulnerability to environmental change and uncertainty, good understanding of the factors and mechanisms that explain the development of firms (CEBR - Human Capital in Romania).

#### Factors of influence of female entrepreneurship

To demonstrate the directions and guidance in business of the entrepreneurial European firms, there was a research whose results were presented in the publication *Key figures on European business with a special feature on the factors of business success*<sup>59</sup>. Target of this study were enterprisers from the 15 Member States, companies established in 2002 with an activity at least until 2005 and who were led by original founders or entrepreneurs. The main results and conclusions obtained will be present below.<sup>60</sup>

One of the issues investigated relate to the relationship between *business success and it's innovation* - see figure 2 and figure 3. Most entrepreneurs (among those who were the subject of research) have developed businesses based on innovations in terms of products (14% of all enterprises that have survived), following innovations in terms of market (10%) innovation in

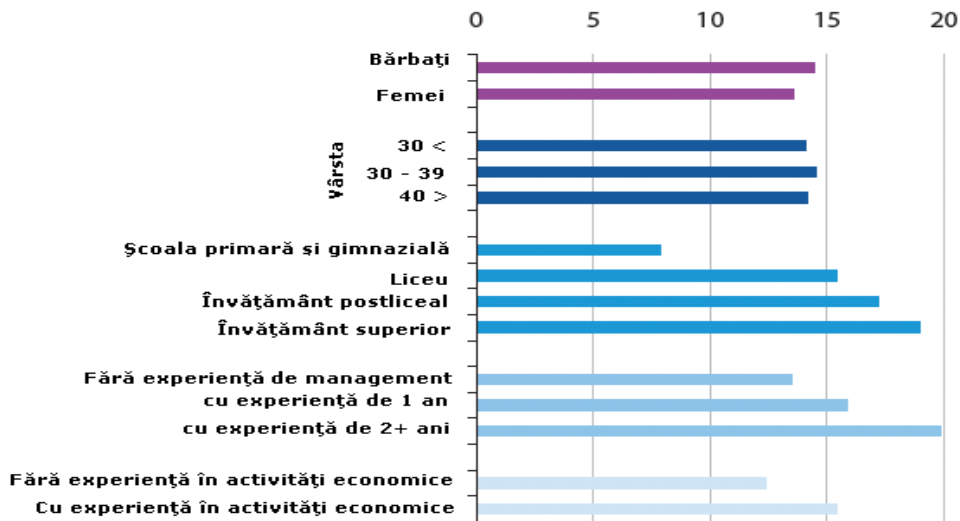
<sup>59</sup> <http://ec.europa.eu/Eurostat/europeanbusiness>.

<sup>60</sup> Key figures on European business with a special feature on the factors of business success, EUROSTAT, 2008, p. 116 – 130.

terms of processes (7%) and organizational innovation (6%). If innovation processes, there are some similarities, namely, the inclination toward innovation among entrepreneurs with managerial experience, also this type of innovation has been influenced considerably by age and sex - men or individuals under the age of 30 years are more willing to seek innovation process. In this respect, it should mention that at the innovation processes are associated with industry and construction activities in which women are not too involved.

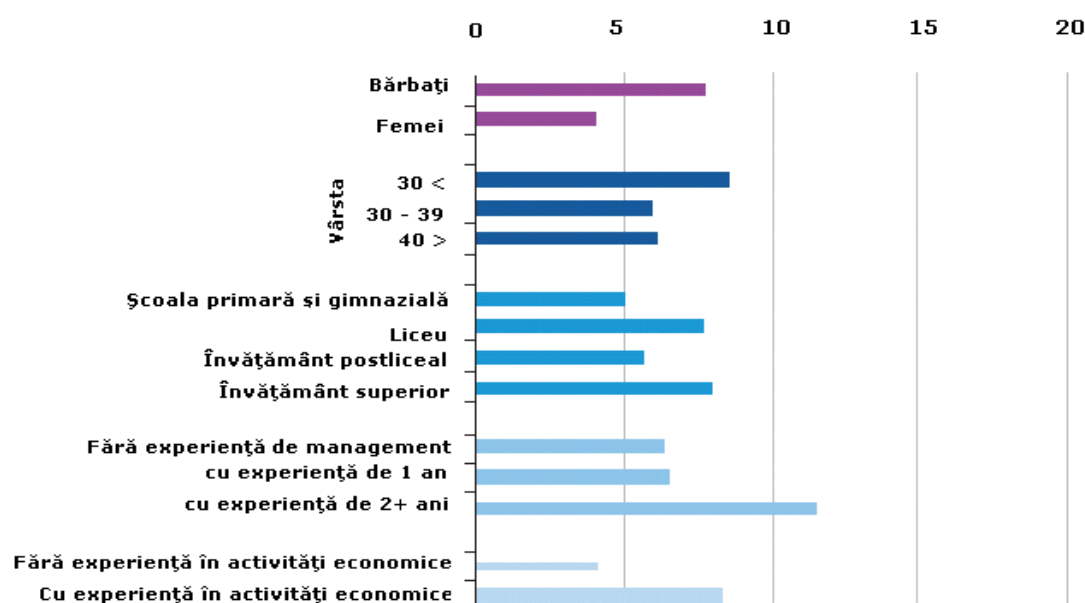
*Figure no. 2*

**Enterprises established in 2002, which survived until 2005:  
the percentage of entrepreneurs that have introduced innovative products (%) (1)**



Source: Eurostat (FOBS)

**Enterprises established in 2002 which survived until 2005:  
entrepreneurs' percentage reporting that they have introduced innovative processes (%) (2)**



Source: Eurostat (FOBS)

From research done on the relationship between *entrepreneurship success and the field of activity* results that a much higher percentage of male entrepreneurs (unlike women) have established businesses in construction, the same was true for most Member States with regard to industry, with women entrepreneurs who opt for trade and services. Regarding the educational level of entrepreneurs, it is notable that those with higher education were not setting up businesses in the construction field. Regarding experience, experienced entrepreneurs were tempted to open a business in industry or construction, and those without experience were focused on other areas. Another segment of this research concerns the link between *business success and some characteristics of entrepreneurs*. Thus, we find differences between countries and that women are more entrepreneurs in the new member states (who have joined EU in the period 2004-2007), also show clear differences in level of education of entrepreneurs from different countries. In all countries, except Luxembourg, most entrepreneurs had no previous managerial experience. Instead, most entrepreneurs who had experience in a field have decided to open business in that area. The largest proportion of experience in the field is observed in Luxembourg and Portugal, while the highest percentage of entrepreneurs without experience in the field of activity is recorded within the new Member States, Bulgaria and Romania

**Enterprises established in 2002 which survived until 2005:  
the type of entrepreneurs (%)**

	<b>Gen</b>	<b>Industriy</b>	<b>Construction</b>	<b>Fields distributive</b>	<b>Other services</b>
<b>Avarage (1)</b>	<b>Men</b>	<b>13.1</b>	<b>21.0</b>	<b>27.4</b>	<b>38.5</b>
	<b>Women</b>	<b>8.6</b>	<b>2.2</b>	<b>41.4</b>	<b>47.9</b>
<b>BG</b>	<b>Men</b>	12.5	5.2	52.3	29.9
	<b>Women</b>	7.6	2.6	63.4	26.3
<b>CZ</b>	<b>Men</b>	21.1	20.8	25.2	33.0
	<b>Women</b>	7.4	0.6	33.7	58.3
<b>DK</b>	<b>Men</b>	8.0	18.7	22.7	50.7
	<b>Women</b>	8.1	1.9	32.2	57.9
<b>EE</b>	<b>Men</b>	11.8	9.6	39.1	39.4
	<b>Women</b>	11.3	3.2	34.5	51.1
<b>FR</b>	<b>Men</b>	14.6	45.6	19.7	20.1
	<b>Women</b>	21.1	15.0	25.3	38.6
<b>IT</b>	<b>Men</b>	9.5	27.5	22.8	40.3
	<b>Women</b>	10.3	3.1	36.7	50.0
<b>LV</b>	<b>Men</b>	16.9	8.0	37.1	38.0
	<b>Women</b>	8.6	2.9	46.6	41.9
<b>LT</b>	<b>Men</b>	18.7	10.6	39.2	31.4
	<b>Women</b>	12.0	2.9	47.4	37.7
<b>LU</b>	<b>Men</b>	1.7	10.1	20.1	68.2
	<b>Women</b>	3.8	2.9	31.8	61.5
<b>AT</b>	<b>Men</b>	8.2	14.3	23.2	54.2
	<b>Women</b>	5.0	2.1	27.5	65.4
<b>PT</b>	<b>Men</b>	15.9	19.5	29.9	34.6
	<b>Women</b>	14.9	5.0	42.4	37.7
<b>RO</b>	<b>Men</b>	13.6	6.3	42.8	37.3
	<b>Women</b>	6.7	1.6	55.6	36.1
<b>SI</b>	<b>Men</b>	14.0	21.4	23.0	41.6
	<b>Women</b>	7.1	3.2	29.5	60.2
<b>SK</b>	<b>Men</b>	22.4	27.2	27.5	22.9



	<b>Women</b>	9.6	1.3	41.7	47.5
<b>SE</b>	<b>Men</b>	8.8	19.3	17.5	54.4
	<b>Women</b>	9.6	4.2	20.6	65.7

(1) Average based on data for: Bulgaria, Czech Republic, Denmark, Italy, Lithuania, Luxembourg, Austria, Romania, Slovakia and Sweden.

*Source:* Eurostat (FOBS)

One of the most complex field studies on female entrepreneurship in Romania was developed by CEBR - Center for Entrepreneurship & Business Research in 2007. The main *conclusions* of this study reveal us several factors that influence the activity of a female entrepreneur<sup>61</sup>:

- prospective women entrepreneurs have an average age of 35 years, and work experience of about 8 years. Most of them (62%) have education or training in management and business management;
- while new and potential women entrepreneurs says that their main motivation to go into business is the opportunity to obtain higher incomes, SMEs women owners believe that their main motivation is the detection of business opportunities that they wanted to take advantages from them;
- the social status associated with the developer and the feeling of respect for these are the factors influencing the perception of positive decision to become entrepreneurs;
- the existence of a positive entrepreneurial models stimulates the activity of women entrepreneurs in Romania; 38% of women who have not yet started a business but intends to do, declares that they have friends who are entrepreneurs in their social circle (family, friends); compared with men entrepreneurs, women still have fewer examples of entrepreneurship; this result confirms results obtained in empirical studies at the international level and supports the idea that women, due to their exclusion in time of economic and social life, have fewer examples of entrepreneurship;
- women tend to establish business smaller than those established by men entrepreneurs. Considered as criterion for the size of the business the initial number of employees, it is 3 in women case and 4 in men's. However, businesses of women entrepreneurs in Romania tend to grow faster, with a growth rate of 39% compared to a 31% in men case;
- women entrepreneur from Romania involves more than entrepreneurs in international business. 13.2% of the products or services of the companies created by women are dedicated to exports while this percentage is 13.14% for men.

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# MANAGING CHANGE IN AUTOMOTIVE INDUSTRY IN CENTRAL AND ESTERN EUROPE

## **Cărăgin Andreea Raluca**

*Academia de Studii Economice Facultatea Relații Economice Internaționale Mihai Eminescu Street, Nr. 13-15, Et. 2. Sala 1205, Sector 1, Bucharest Email: andreea.caragin@gmail.com 021.319.19.00*

## **Paraschiv Mihai Dorel**

*Academia de Studii Economice Facultatea Relații Economice Internaționale Mihai Eminescu Street, Nr. 13-15, Et. 2. Sala 1203, Sector 1, Bucharest Email: dorelpar@inde.ro 021.319.19.00*

## **Paraschiv Liana**

*Academy of Economic Studies, Bucharest, Romania Email: paraschiv\_liana@yahoo.com 021.319.19.00*

*This article critically analyzes the reasons for developing international business activities in CEE. Primarily a short overview of global strategy is presented. In order to succeed in today's global Marketplace, a company must be able to quickly identify and exploit the occurring opportunities. Then, focusing on CEE region, the key success factors in developing companies in this region are presented. The strategic options are either green field investments or acquisitions. In that case, global companies headed in Western Europe or USA can identify critical success factors for developing international business in CEE. These factors are critically assessed in order to develop a clear vision for going global strategy in the CEE context. Then, towards the end, the article shows the switches in Foreign Direct Investments in CEE focused on higher value-added activities in automotive industry in the region.*

*Key words: globalization, strategy, international business*

*JEL Clasification Code: F 23, M 13, M 16*

## **1. Argument**

Globalization has been one of the most significant developments in international business during the last decades. More and more companies have become, and many more would like to become, global in their operations. Which are then some factors which have served to drive this growth and spread of globalization? Some of the more important factors include the following:

### *(a) Deregulation of trade/Open markets/fall down of communist economies in CEE*

More and more markets have opened up to the aspiring global business. Even markets which have traditionally been very difficult to move into, such as China, are now open. Japan, at one time highly protected against foreign companies, has opened up in recent years.

### *(b) Global competition*

Partly as a result of freer world trade, we have seen the growth of global competitors. Even companies that have traditionally been very insular in their outlook and approach to business and marketing have woken up to the recognition that increasingly their competitors operate in global markets. One approach to dealing with local competition is for companies to go global themselves.

### *(c) Risk spreading*

Nowadays, more than ever, the global business environment is much more dynamic and complex. In particular, financial and other global trading systems mean that markets can change overnight. Global operations enable the business to spread the risks of sudden downturns and changes in economies and markets.

### *(d) Economies of scale/Experience curve effects*

Usually, global business involves increases in the scale of operations of an organization. As such, it enables a company to achieve potentially large economies of scale and/or experience curve effects which would be restricted if only domestic markets or relatively few overseas markets were targeted.

### *(e) Supply chain management*

A further impetus to developing global strategies by organizations has been the desire to manage the supply chain more effectively - so, for example, some companies have been prompted to go global in order to secure access to low-cost labor or raw material supplies. Sometimes companies are prompted to go global in order to gain access to skills which are simply not available in domestic markets, such as research and development, design, manufacturing skills.

(f) *Global enabling technologies and skills*

These perhaps facilitate the growth of global business and strategies rather than prompt it. Increasingly, global business strategies may be developed through access to new technologies and skills. So, for example, developments in information technology and databases facilitate the growth of global strategies and positions. These databases enable the construction of detailed customer profiles across the globe by cross-matching this intelligence to other databases, such as economic data, socio-economic groupings, geo-demographic data and so on.

## 2. Literature review

Global strategy was analyzed by different researchers, including **Porter (1979, 1986 and 1996)**. He was the one that described the forces governing competition in an industry, creating also the known Porter Model which includes the threat of new entrants, the bargaining power of customers, the threat of substitute products or services and the bargaining power of suppliers. He considers that the essence of strategy formulation is coping with competition – Porter (1979).

In co-operation with **Bartlett, Ghoshal** researched successful enterprises on international markets. They found three types of internationalization, differing in structural approach and strategic capabilities. The types were dubbed *Multinational*, *Global* and *International*. Due to the faster changing environment, they see a further need for adaptation with a drive toward a company that masters not one, but all three of the strategic capabilities. They named this ideal-type thus created the *transnational enterprise*. **Bartlett, Ghoshal (1995)** described also the main characteristics of the transnational organization: integrated network configuration of assets and activities, flexibility due to specialization and the facility of learning due to the multiple innovation process.

**Stremersch and Tellis (2004)** considered that in today's business environment there are significant advantages to be gained from the global scope, configuration and co-ordination of a firm's international activities. Expanding the company globally can lead to the increase of their profitability in ways not available to purely domestic (companies serving only their national market) companies.

The differences in economic development and the diversity of cultures conduct to local marketing strategies in CEE according to **Czinkota, Gaisbauer and Springer (1997)**. Some of the key factors tend to inhibit this growth are revealed. Cultural factors are limiting the growth of global business and particularly standardized global strategies are different, depending on the national culture. Cultural differences exist in different parts of the world with these differences often being substantial.

## 3. Going Global within the CEE Economic and Business Environment

In a global economy, companies market their products internationally and strive to optimize their global cost structures. They are searching for an optimal global sourcing and manufacturing footprint, to source materials and components competitively and locating production in countries where the biggest cost and quality advantages can be obtained. Sourcing and manufacturing in low-cost countries has become an imperative for competing successfully on a global scale.

In this context, Central & Eastern Europe has attracted large foreign investments since the early 1990s. From 1995-2002 Poland has attracted cumulative foreign direct investments of more than \$45 billion, the Czech Republic more than \$35 billion, which constituted 24% and 48% of their 2002 GDP. EU accession has again raised interest in this region. But there are now questions

about CEE's fundamental attractiveness and future competitiveness, in particular when compared with China. In this respect, there are many misperceptions about CEE which may hinder companies from optimal investment decisions to the detriment the companies themselves (Wadell, K, BCG Poland, 2005).

### ***Investing in the automotive industry in Central & Eastern Europe***

The automotive sector was one of the fastest growing sectors in the Central & Eastern Europe before 2009, primarily due to the significant amount of brown and green field investments either operative or currently being planned. It is expected that other automotive manufacturers will establish their operations in the region and thus will generate significant opportunities for supplying companies to serve the needs of Original Equipment Manufacturers (OEM's). It was forecasted that more than 3 million car units are to be produced annually in the CEE region by the year 2010.

Locating a value creation activity in the optimal location for that activity can have one or two effects: it can lower the costs of value creation and help the firm to achieve a low-cost position, thus sustaining a cost leadership strategy, and/or it can enable a firm to differentiate its product offering from that of competitors, thus sustaining a differentiation strategy

The differential in labor rates is large enough that the gap between them will remain substantial for the foreseeable future, even if there are double-digit differences in the rates at which they grow. In fact, without a major economic dislocation, the gap in real wages will actually increase in absolute value, at least for the next several years. In addition, the "hidden" costs of going global will shrink as companies scale up, ascend the learning curve, and stabilize their supply chains.

When developing and assessing strategic alternatives, it is important to remember that companies competing in international markets confront two opposing forces: reduction of costs and adaptation to local markets. In order to be competitive, firms must do what they can to lower costs per unit so that customers will not perceive their products or services as being too expensive. This often results in pressure for some of the company's facilities to be located in places where costs are low, as well as developing products that are highly standardized.

### ***Labour cost convergence will take at least several decades, keeping CEE labour costs attractive in the medium term***

The EU accession of CEE countries has raised the concern that existing wage differentials towards Western Europe will now quickly disappear, possibly rendering further investments unattractive. Today, the difference in the average hourly compensation of production workers between Germany and "New EU" countries can sometimes be as high as 90%. With forecasted growth rates of around 2% in Western European countries and 5% to 7% in "New EU" countries, labour cost convergence will take several decades because the differences in growth rates are quite small.

However, in addition to pressures to reduce costs, managers also must attempt to respond to local pressures to modify their products to meet the demands of the local markets in which they do business. This modification requires the company to differentiate its strategy and product offerings from country to country, reflecting differences in distribution channels, governmental regulations, cultural preferences, and similar factors. However, modifying products and services for the specific requirements of local markets can involve additional expenses.

### ***Improving Research and Development***

The much lower cost of engineers and skilled research staff in FMEs allows companies to dramatically increase the amount of R&D they do—often achieving three to five times as much

development for the same budgets. Another advantage of R&D centers in FMEs is that they are often very good at developing lower-end value-for-money products.

International companies have established over the last years their R&D and customer support centers and this have generated a crisis of personnel. Employment rate for the approximately 7000 IT science graduates per year is 100%. Moreover, there is a strong personnel fluctuation, to the disadvantage of Romanian-owned SMEs. In 2006 Romania's IT market value reached 176.5 million euro, an 18.4% increase as compared to 2005, making it one of the fastest growing markets in Eastern Europe. Integrated system services received the highest revenues of the IT market, accounting for 24.3% of the market, while hardware and installation sectors made up for 17.8%. The Romanian IT service market grew by 20% up to 210 million euro in 2007 alone and IT investments are expected to grow by a similar percentage in 2008. The competition is tough in the sector and both national and international companies will fight for investments destined for IT services.

Changes in strategy relevant for CEE region:

- *Opportunity of developing the emerging economy beyond low-cost strategy* (for example, develop R&D sector in the region like Nokia, Renault, Emerson and Microsoft in Romania). The first way of emerging global companies offered low cost products and services by utilizing relatively inexpensive personnel but the second generation has developed an additional competitive edge through cost innovation.

- *Cost innovation strategy*. Innovation is associated with developing new products and services or adding more functionality and features to existing ones. Customers migrate to CEE determining companies to produce and offer value added services for this region (compared with 90's when production was designated for Western Europe, like subcontracting in textiles and leather industry, called *lohn* operations).

- *Develop a functional product in the emerging country and then bring it home through global learning phenomenon*. Multinationals exploit the full potential of innovations developed in foreign subsidiaries and integrate flow of ideas from delocalized branches in company core competencies.

R&D localized in emerging economies in CEE is a major success factor for tailoring goods and services to these burgeoning local markets. Another advantage of R&D centers in CEE is that they are often very good at developing lower-end value-for-money products (for example Logan Car produced by Renault in Mioveni City, Romania continued by opening Renault Technologies Romania, a key location for R&D for Renault Group delocalized in Romania ).

### ***The Continuing Cost and Capital Advantages in the region***

A major driver of the move to CEE remains the opportunity to make very large—and sustainable—reductions in both operating costs and capital investments. Companies that globalize their cost structures to include CEE can realize important savings in costs of their products while reducing capital requirements by similar amounts.

Another important source of the FME advantage is lower capital-investment requirements. Lower capital investments can mean significant savings on the balance sheet. In terms of total return on capital, the combination of lower product cost and lower capital investment can have a big impact on the total economics of a business. Two fundamental factors reduce the need for capital in FMEs: first, less expensive plant infrastructure, machinery, and equipment (PME); and second, the opportunity to replace substantial amounts of costly technology with human labor services.

**The power of buyers** can capture more value by forcing down prices, demanding better quality or more service and generally playing industry participants off against one another, influencing industry profitability. A customer group has negotiating leverage if: there are few buyers, or each one purchases in volumes that are large relative to the size of single vendor (high fixed costs and low marginal costs amplify the pressure on rival to keep capacity filled through discounting); the

industry's products are standardized or undifferentiated; buyers face few switching costs in changing vendors; buyers can credibly threaten to integrate backward and produce the industry's product themselves if vendors are too profitable.

**The threat of substitutes** is real because a substitute performs the same or a similar function as the industry's product. The main threat is coming from Asia. When the threat of substitute is high, the profitability, and often growth potential, suffers. The threat of substitute is high if: it offers an attractive price-performance for automotive products; the buyer's cost of switching to the substitute is low. Technological changes or competitive discontinuities in seemingly unrelated business can have major impacts on industry profitability. Improvement in advanced materials, for instance, allowed them to substitute steel in many automotive components. The distance between the assembly plant and subcontractor, provider of spare parts is vital in automotive industry, especially for emergency cases when a certain part is needed in short time. For this reason, CEE is placed better than Asia.

**The rivalry among existing competitors** takes many forms, including price discounting, new product introduction, advertising campaigns and service improvements. A high rivalry limits the profitability of the automotive industry. The automotive industry profit potential depends on the intensity with which companies compete and on the basis on which they compete. The rivalry degree is high if the competitors are numerous or are equal in size and power and without a leader inside the industry; the industry desirable practices go unenforced; industry growth is slow and it will precipitate fights for market share; exit obstacles are high because of such things as highly specialized assets or management's devotion to a particular business; the rivals are highly committed to the business and have aspirations for leadership, especially if they have goals that go beyond economic performance in the particular industry (employment or prestige); firms cannot read each other's signals well because of lack of familiarity with one another, diverse approaches to competing goals. As Porter said, the strength of rivalry reflects not just the intensity of competition but also the basis of competition. The profitability is influenced by the dimensions on which competition takes place, if the rivals converge to compete on the same dimensions. Furthermore, rivalry is especially destructive to profitability if it gravitates solely to price because price competition transfers profits directly from an industry to its customers. Price competition is most liable to occur if products or services of rivals are nearly identical and there are few switching costs for buyers encouraging competitors to cut prices to win new customers; fixed costs are high and marginal costs are low creating intense pressure for competitors to cut prices below their average costs, even close to their marginal costs, to steal incremental customers while still making some contribution to covering fixed costs; capacity must be expended in large increments to be efficient; the product is perishable creating a strong temptation to cut prices and sell a product while it still has value.

The strength of the five competitive forces determines the industry's long-run profit potential because it determines how the economic value created by the industry is divided. Considering all five forces, a strategist keeps overall structure in mind instead of gravitating to one element. So, the strategist attention remains focused on structural conditions rather than on fleeting factors. The strength of the competitive forces affects prices, costs, and investment required to compete, so, the forces are directly tied to the income statements and balance sheets of automotive industry participants. The five competitive forces provide a framework for identifying the most important automotive industry developments and for anticipating their impact on automotive industry attractiveness. Shifts in structure may be caused by changes in technology, changes in customers needs. Changes in automotive industry structure are shifting threat of new entry changing any of the obstacles described above; changing supplier or buyer power; shifting threat of substitution; new bases of rivalry, taking into account that eliminating rivals is a risky strategy.

#### **4. Conclusions**

The need to adapt and innovate in automotive industry will require organizations to better use their human capital, as there is still a big gap between wages in western countries compared with CEE region. In this respect emerging economies from CEE still remain a profitable key location in terms of production costs but also by providing solid basis for companies to create market differentiators due to the skilled labour force and good training of local personnel, which can lead to a global learning flow of information within the company branches. Companies acting in CEE are transforming the value for money equation. Thus, we consider that the implications of present paper are relevant for both academic and managers in global companies acting in CEE.

The understanding of industry structure guides the manager toward good possibilities for strategic action, which may include any or all of the following: positioning the company to better cope with the current competitive forces; anticipating and exploiting shifts in the forces; and defining and shaping the balance of forces to create a new industry structure that is more favorable to the company. The best strategy exploits more than one of these possibilities.

Europe is facing a fundamental change in its manufacturing strategy due to the economies which can be realized by locating the production in some key locations which reveal important labor savings, transport cost saving and qualified work force.

Moreover, the CEE countries entered the European Union, which means no more duties and other taxes at commodities exchange.

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## THE FINANCIAL CRISIS OR THE ECONOMICAL CONFLICT?

**Cioban Costel-Ioan**

*Arhiepiscopia Sucevei si Rădăuților Suceava Universitatea "Alexandru Ioan Cuza" Iasi Scoala Doctorală de Economie Str. Mihail Sadoveanu nr. 62 Abis Fălticeni ciobanc@gmail.com costel.cioban@yahoo.co.uk tel. 0722/581232*

**Luca Mihaela-Ioana**

*Universitatea "Stefan cel Mare" Suceava Facultatea de Stiinte Economice si Administratie Publică*

*It is hard to believe that today, in the 21st Century where the informational technology, the speed used by the news or data access, some confidential, are no longer a problem or are not done with the same difficulty as 70-80 years ago, it is not credible the declaration that justify the lack or the impossibility to react promptly on an world economical or financial disaster. It seems as a hidden concern of some countries or economical entities with global interests, which along with the risk of being affected by the economical chaotic movement, it stimulates and leads this phenomena knowing that in the end will rebuild the trust forward to the economical activity, will realize a valuable rise and will conquer new influential zones that in normal competition situation will be hard or impossible to be obtained.*

*Keywords: risk, financial disaster, global interest, economical chaotic movement.*

*Cod JEL lucrare: F: International Economics*

What we see today is a silent conflict or maybe an economical competition? I think that is a smother conflict by the uproar crusade of the good against the evil, a fight started and carried on with a lot of noise and efficiency after the September eleven events 2001. Although there are many victims, not only deceased and injured but also unemployed persons, victims of a non-profitable economy, people rejected by the society. The fundaments itself of the society are affected. The national or multinational industries are the main actors of this economical crusade where they fight with or without the complicity or the help of the states. In this conflict the white collars from the economy, which do not believe in anything and do not recognize any rule except that of the maximum profit, play upon the economical laws, do not respect any type of ethics and have only one religion: the spread of the influential areas. In this conflict everything is allowed ...at least, if we have to believe the recent official report of the French deputy Bernard Carayon<sup>62</sup>, who made a list with the newest techniques in this field. Presenting such an unfair practice proves, once more, that nothing can stop the economy warriors, especially when they are sustained by their own state.

In 1989, the end of the ideological conflict marks the unquestionable victory of the capitalism that was followed by its adoption by most of the states. Romania, Bulgaria, Poland ..., join France, Germany, the Great Britain.... In the end the entire world is agreeing with the geo-economical framework that will be govern the economical relations: the liberalism. Even China that is theoretical still communistic applies (wonderfully nowadays) over the market economy model. Only two countries, Cuba and North Korea (the most known and mediated) hanged on different motives. But how long? We should not forget that we live in the globalization era and that of ...change. And a change provokes panic....

But has the conflicts disappeared? Not at all. Au contraire. As a result of wakening the national movements, there will be more wars, some of them in the middle of Europe (the former Yugoslavia) or elsewhere in the world. What changes in a fundamental way is the nature of the

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62 French parliamentary, born on 01.10.1957, UMP party member UMP (Union pour un mouvement populaire)

conflicts and of belligerents. Starting with 1989, the battles are no longer carried to conquer new territory or to obtain autonomy or independence the conflicts became especially economical. The main battles between states with the help of or for the profit of the multinational companies are before all commercial.

Economical conflict – a new concept <sup>63</sup>, is difficult to be defined. For most part of the international relation specialists, a war is only military. This is also the definition from the Larousse dictionary, 2004 edition: “ War means using the army force to resolve a conflict situation between two or more organized collectivities: clans, factions, states. It consists that each adversary tries to determine the other to obey its force”. Form this point of view will not longer apply this definition in case of economical conflicts. Although on the other hand this definition applies on an economical conflict. If a war means to impose to the other your own will then this economical variant follows the same objective. The problem is whether to obey the concurrence or to destroy it.

We shall see what international actor will impose its supremacy, a hegemony that express itself by knowing the characteristics values of this new frame of the free market, almost unanimous accepted after 1989. By “value” we understand all that is characteristic to a society model from the social system point of view, way of life, ethics, rights, customs, cultural identity.... It is not relevant to have the market as referential point taking into account the fact that from Beijing to Cairo, from Moscow to Washington, from Paris to Pretoria we have different visions of the world. The systems and the models of society differ very much. The market becomes global, but not it's values or its culture. “The world is finite but the diversity of approaching it is non finite.”

<sup>64</sup> The problem is which values will dominate in this geo-economical framework, and which states will be port flag but there is no other good vector then the economy to stimulate the citizens' behavior which unfortunately, most of the time, is reduced to the simple role of consumers. The globalization does not think, it is not something else, to paraphrase Heidegger<sup>65</sup>, just only the desire of power, hidden by the mask of changing desire.

Beyond the necessity of a lexical reformulation some strongly denies the existence of an economical war. The philosopher and the magistrate Patrick Viveret consider that “the idea of the economic war is a pure invention”. <sup>66</sup> It is not only but a forgery to determine the nations from the industrialized countries to accept and to swallow the ultra-liberalism pill and to scarify the social advantages on the burning altar of globalization. This analysis suffers from a fundamental error. To recognize the existence of an economical war means the opposite to offer the necessary means to resist and to maintain, as much as it can, its own social model of every country. This concept of economical war is the opposite of the liberal theories, which sustain that the exchanges and the commerce guaranteed the peace between people. It is fair enough but this situation remains available until the moment when something that you own or can obtain and offer to trade becomes the desire object of a customer who wants to become himself a seller for that “something”. If we look at the drama of the industrialized societies (colonization and world wars), it becomes very hard to let ourselves in the taking care of the pacifist virtues of the “docile commerce”. Auguste Comte<sup>67</sup> and Karl Marx believed both of them in “the industrial

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63 It is not entirely new. From the beginning of the 20th Century there were several books with this matter, such as the economical war book on peace term of the German writer S. Herzog, or Henri Hauser's on named German methods of economical expansion (Paris, Armand Colin, 1917) or Anton Zischka Japan in the world context (Paris, Payot, 1934)

64 Dominique Wolton, *L'Autre Mondialisation*, Paris, 2004

65 Martin Heidegger (26 September 1889 – 26 May 1976), German philosopher

66 “La guerre économique n'est pas une fatalité”, under the edition of Serge Cordellier, *La Mondialisation au delà des mythes*, Paris, La Decouverte, 2000

67 Isidore Marie Auguste François Xavier Comte, 17 January 1798 – 5 September 1857, French philosopher one of the sociology founders. He introduced and explained the term altruism

sociability”. But Marx knew that the capitalism system logic would not allow the avoidance of the conflicts between nations. On the same line was situated Raymond Aron<sup>68</sup> who anticipated that as long as no transformational force will not be able to impose the peace and a correct partake of the world’s treasures, we shall continue to live in a “warlike peace”.<sup>69</sup>

Parallel to these geo – strategically problems of the end of the 80’s, the world was liable to some other changes that will modify the rules of the international concurrences. From now on to compete does no longer mean to contribute, along with the others to obtain the same result, but to conquer as many markets as possible to neutralize and to ruin the competitors from the economical race. The information became the most efficient weapon of this unleashed concurrence. Along with the appearance of the new technology from the informational and communication field, the sensible point of an industry is moved from a product to the information that allows the conservation of the product competitiveness or its services. Moreover, this is not the most important type of information for the international competition. What matters the most is less tied up by the product or the service but more on the way of selling. The international economical competition is not winnable or less and less only by technological performances. The mere report price-quality does not always make the difference. Most of the time the competition can be won by knowing and preparing the place through the human factor before receiving the commercial proposal the capacity to determine and to set strategically targets, to stimulate the evolution and then to motivate all the possible means to determine to take a decision for the wanted purpose. There is no economical competition non-influenced direct and indirect by privates and public factors. States need new information to maintain the position on the international level and to help the national companies.

In an époque where the informational offer hugely increased, becoming the engine of this hyper-competition, the power belongs to the most informed one, at the given moment. The winners are those who manage to gather, to analyze and to synthesize quickly and coherent all the available information in their activity domain. Almost 90% of this informational stock is available due to the data base, mass media, specialized publications, colloquiums, forums... the last 10 % are considered to be the most important and sensible ones, which are obtained generally from closed sources and illegal. The cruelest battles between the international economic actors are on these 10%.

The “economical intelligence” concept breaks through at the beginning of the 90’s and it illustrates the changing of the international paradigm. After this new approach of the international commercial and politics relations we pass from the ideological war era to that of the power placements. Even if there is no official definition for the economical intelligence, let’s say that it is about those necessary techniques to protect, collect and analyze the susceptible information in order to help the world or company’s leaders to take the best decisions for their organization. In the middle of this concept: information.

Before becoming a commercial weapon, the information made the object of numerous international studies, the first domain being the military one. In the civil sector, especially in the commercial business, the information is the one of the most efficient to destabilize the opponent. There are many examples to illustrate this radicalization of the economical reports<sup>70</sup>, whose consequences lies down over the social costs and social cohesion between states. Presently the economic war makes more victims than the assault of the international.

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68 Raymond-Claude-Ferdinand Aron, 14 March 1905 — 17 October 1983, was a French philosopher, sociologist and political scientist

69 Raymond Aron, *Paix et guerre entre les nations*, Paris, Calman-Levy, 1984

70 Ali Laidi, *Les secrets de la guerre économique*, Paris, Seuil, 2004

The information is in the same time the stake and the object of the international economical competition. It becomes real VAT for industry or state. Each must protect their own informational territory and to know it as possible of the concurrencies one.

Defeated by abandonment the planned socialist economy ended on the forgotten things box of the history. The big conqueror of this historical battle is the market economy. Presently sustained by the globalization, the liberal economy seems to have no obstacle in front of it. Accepted by everyone, adored by some, constitutes the horizon, the final destination to go all of us. Though as the defeated command economy, the liberal one has its own myths. The most naive one: the invisible hand of the market, which can be enough to settle the commercial rapports. "Let the market to act and the economical success will be guaranteed," repeated by the liberals. Although, everyone can see that at the results level, there is a dimension problem. This rule has as basis a completely false postulate. As the invisible hand to act, it would be necessary that the rule of the free concurrence to be the same for everyone. Is it? Pure concurrence and perfect one does not exist! It is long time ago when the realist and serious economists buried it in honors given by its rank of big chimera.

If the perfect concurrence is a utopia neither the market can be real. It is parasite by all kinds of force that have nothing in common with the economical practice. Will Adam Smith himself really believed in the "invisible hand of the market" which governs the economical rapports? It is true that his thinking way is not based on this formula, which is rarely used in its books. Adam Smith considered being a mistake to let the economical agents, especially the merchants to perform by their own. On the contrary it is necessary for those to be controlled and to be imposed several restrictions. "Commerce which should be a unity feature, a friendship relation between nations, individuals, it became the cause to provoke the biggest discord and animosity. The ambition and the caprice of the kings and ministry were not all over the last Century more fatale for the Europe's serenity then the jealousy of the merchants and the fabricants. The violence and the injustice of those who rule the people are an old evil for which, knowing the human kind, I don't think that will be a cure. But the mediocre rapacity, monopoly spiritual of the merchants and the fabricants – which cannot and should not characterize the humans- even if it exists, it could be avoid to trouble the serenity of the people or of them."<sup>71</sup> Some economists think that this competitiveness is categorical ominous. Among them is John Nash<sup>72</sup> American mathematician and economist who won the Nobel price in 1994 for his studies on the theme of games theory.

There are numerous the situations<sup>73</sup>, which demonstrate the existence of tensionate relations between states, their economy, and multinational societies. Some understand before the others that can be allies politically speaking, remaining in the same time fierce on the economical level. It is the case of the United States, which wanted to be first by the beginning of the 90's even they have to use force for that. The September 11 day 2001 offered a huge pretext to involve more in others countries economical problems. On the motif of fight against terrorism, it tries to dominate the entire international transport and not only.

The economical war is bitter behind the scene but also in front of it. Customs barriers, authorized quantities, subventions for the national producers, support for export are so many forms of disguised protection. There are clear and visible signs of a real battle, which the nations perform between themselves. With the perspective of a international commerce almost without custom rights in the future, starting with 2015-2020, the economical battle is moving to the regulations

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71 Adam Smith, *Avutia natiunilor*, Bucuretti, Întreprinderea poligrafică "13 December 1918", 1962

72 John Forbes Nash, Jr. (born June 13, 1928) is an American mathematician and economist whose works in game theory, differential geometry, and partial differential equations has provided insight into the forces that govern chance and events inside complex systems in daily life. His theories are still used today in market economics, computing, accounting and military theory.

73 Ali Laidi, *Les secrets de la guerre economique*, Paris, Seuil, 2004

field regarding the environment protection, food safety, minimal guarantees for those who work. These rules mean norms establishments in different domains: the resources control, the food safety, and the working children, union rights... in these conditions the commercial diplomacy must be careful that these new norms to not affect their own economy, but only to strike the economical dynamic of the concurrence. To be the best it is not important to produce you must know very well the market and the concurrence, protecting in the same time the strategically information. The most sensible domains in this confrontation are the assurances, the banks, the audit and the consultancy, which are the main consumers of information. The world competition is cruelest. The winners have been chosen between the most able once, those who manage to obtain the useful information before the others.

There are few countries, which prefer a force strategy to face the challenge regarding the economical security and economical information. The Great Britain and the Northern Countries with Suede as leader are very well developed in the economical espionage, while France is at the bottom of it. In Germany the problem of force is still taboo for the Germans to debate an increase of it. In Spain, Italy, Portugal, Belgium ... the problem is far away. In the same time, in the East Europe this aspect is almost inexistent because most of the new comers in the EU are satisfied by the Americans protection. Will these economical strategies mark the comeback of the Marxist domination of the economy over the policy? I believe not. The way in which the state are developing the economical strategies demonstrates, on the contrary, that the policy is that to lead and choose the egoist way of competition than the altruist and generous one of the cooperation. And so the globalization has the tendency to reduce itself, most of the time to a world market where the major powers are confronted. Beyond protecting the economical interests, each country fight to maintain its own socio-cultural model. The free market, far from gathering the people it can divide and lead those to the radical relations between them.

Although far from being a handicap the cultural diversity represents a great wealth. It is for the "human specie" as necessary as is the bio-diversity for all the living things," it is written on the Universal declaration regarding the cultural diversity adopted by the UNESCO in November the 2<sup>nd</sup> 2001. The main threaten that hovers over this diversity it is constituted by the economical hegemony of some states. Economy will remain the main enemy of the world's plurality as long as it will not be governed and dominated by the political conscience, which seems to be common for all the people. "The fundamental element is the incontestable interdependence between nations, which it not a guarantee for peace, as we want to believe, but it is mostly a guarantee for war: why? Because this interdependency between nations is an economical one and not a consensual and wanted one established at the political level; otherwise because it is the result of a technical or material process, and not a simultaneously one, political or rational."<sup>74</sup>

....financial crisis, economical or maybe an economical conflict? No, I want to believe that the humanity path goes to collaboration and consent....or maybe not?

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74 Jacques Maritain (18 November 1882–28 April 1973) was a French Catholic philosopher. Raised as a Protestant, he converted to Catholicism in 1906. An author of more than 60 books, he is responsible for reviving St. Thomas Aquinas for modern times and is a prominent drafter of the Universal Declaration of Human Rights.

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## TRANSPORTS BETWEEN NECESSITY AND DESIRE

**Cioban Gabriela-Liliana**

*Universitatea "Ștefan cel Mare" Suceava Facultatea de Științe Economice și Administrație Publică Str. Universității nr.13 Suceava 720229 Universitatea "Al. I. Cuza" Iași Școala Doctorală de Economie gabrielac@seap.usv.ro tel. 0722/728198*

**Iacob Daniela**

*Universitatea "Ștefan cel Mare" Suceava Facultatea de Științe Economice și Administrație Publică*

*Usage of new technology in the transport area represents an important challenge, which must be applied with purposes related to the environment protection, competitiveness, security and capacity. The new technology can also contribute to efficient logistic solutions in the transportation area. In our country the insufficient development of the infrastructure and the inefficiency of the means of transportation are obstacles for the socio-economical development and the social integration. This is one reason we need investments to ensure an adequate infrastructure – rehabilitation of the railways for the goods transportation and the development of the road infrastructure at all levels. The road transport became not only a vital instrument of production but also the main way of terrestrial transportation by guaranteed a strong mobility for the person and goods.*

*Keywords: Infrastructure, road traffic, safety systems, ITS-Intelligent Transport Systems, ICT-Information and Communication Technologies, APTS-Advanced Public Transport Systems, EMS-Emergency Management Systems, ETC-Electronic Tax Collection;*

*Cod JEL lucrare: F: International Economics*

The Romanian actual priorities are tied up by the creation of a functional market economy and by the capacity of dealing with the competitors from the European Union. To realize these objectives we need the existence of a development infrastructure in the transportation area, which is nowadays the basics of every economy, having a determinant role in development of the society and the human kind in general. It is an activity that appeared along with the human existence. The physical limitations of the human body regarding the distances crossed on foot and the quantity of transported goods, determined the development of a wide range of transportation means. The transportation sector has different aspects, simplifying and generalizing, we can talk about three major branches: infrastructure, vehicles and financial administration.

The transport constitute an important branch of the national economy, due to ensure the development of the production processes and the organic bond between the raw materials, the processing and fabrication units and the distribution units of the goods through the country, in the volume, at time and the necessary directions, due to the interests and the development rhythm of the national economy.

A main characteristic of the transportation is the seasonal oscillation of the services requests, due to the frequency of solicitude in the peak season and in the extra season. The transportation services cannot be held; the means of transportation are moving along with the loaded merchandise no matter the usage level of the capacity of a transportation mean. At the end of the drive the transport service is done and the non-usage of the capacity of a transportation mean for a given period is no longer recuperate.

The trial of losses reduction in this sector of the transportation and its development can be done as introducing the permanent technical progress, where there are new means of transportation with new capacity, speed rise, comfort, security, traffic safety, and environmental protection, regularity as well as the assurance of the territorial cohesion of the Romania with the EU

members. All the above represents a general objective, an essential condition for the development of the transport infrastructure, the durable development of the economy and the improvement of the quality of life.

### **The importance of the transportation in the national economy**

The evolution of the transportation is the result of society's maturation and the transports are a branch of the material production. Transports as a sector of the national economy, represents extend of the production processes until the productive or non-productive consume places, and any delay or deregulation of the transport had repercussions over the entire gearing of the market economy of a country.

We can say that in this situation the circulation of the goods and of people represents an essential condition of unfurling the normal life and the transport possibilities condition the economical cooperation between the branches of the material production and the exchange values and the harmonious evolution of the entire regions of the country.

Romania by its geography represents a crossroad zone of the international thoroughfare transportation that bonds North and South Europe as well as its West and East. The transport network ensures the relation with the neighbor's entire network and with those of the Europe and Asia.

Although Romania has the advantage of its geographical position, it has a poor system of transport and the lack of invested capital in this area become more and more a barrier for the economical evolution of the country. That's way the insufficiency development of the main roads can lead to lose the advantages offered by the geographical position on the transit routes West – East and North – South.

One of the fundamental elements of inter human relations are constitutes by the communication means, which ensures a unitary character of the entire complex of the social life. There are necessary investments; to ensure an adequate infrastructure that plays an important role for the integration of the internal market, and fortifies the geographical value of Romania as a transitory route rehabilitation of the railways for the goods transportation and the evolution of the road infrastructure at all levels. These necessities have unfurled different ways of connection among them the transportation become an important significance having a special influence over the infrastructure and the socio-economical geography.

The transport represents an important sector of the economy, due to its direct contribution to the Gross Domestic Product as well as its role in the circulation of goods and for the VAT of the other branches. Going to the capital economy and to the evolution of the economy and rises of the life quality, should lead and respond to the entrepreneurial system for the new requirements and it also appeared new types of affaire for the needs of the automobilists. There are constructions of utilities along the roads to cover some necessities as gas, food, and shelter.

Transports represent a main role because it assures the connection between producer and consumer, the movement of the raw materials to the processing centers establishing the connection between the cities of our country with other states.

The evolution of the economical exchange, of the tourism and the continual growth of the road traffic implied the construction of a highway in our country since 1966. if Romania had 113 km of highway in 1990, now it has 185 in advance, which means that the construction of highways in Romania is about 10 km a year.

The invention and the mass production of the vehicles have transformed the Romanian 's lives in the 20th Century. In the last century the traveling was expensive and difficult with a defections infrastructure – a lot of rural roads very difficult to travel.

The auto means of transportation develops technical and commercial high speed, which is very important for the transportation of the perishable goods.



The means of transportation have a well-defined role in the transportation activity; the usage of each mean of transportation is characterized by a series of advantages and disadvantages economic-organizational regarding the capacity, continuity, rapidity, commodity, economy, of the transport which limits the usage conditions in the national economy of the means of transport. The road transport becomes not only a vital instrument of production but also the main way of terrestrial transportation guaranteed a durable mobility for the people and goods.

The evolution of this infrastructure by rising the number of the buses, trolleybuses, trams, subways, and their status, the comfort, the number of the possible lines, the schedule used, the average capacity of a bus, the speed average in the city, the usage of the advanced technology, the number of the adequate stations and the distance between them, the existence of the refuges (covered, illuminated, with banks, ticket booth, or mechanic sellers machines), the information of the public over the public transportation network, the education of the workers of these vehicles, educational action for the traveler public, the implication of the authorities in the public transportation an the major interest, the usage of bicycles by creating special roads for it, as an alternative to the traffic jams, the reduction of the environment costs associated and the safety of the transportation.

The usage of the bicycle is hard to be done because is considered the “vehicle of the poor” and another reason it may be the lack of parking space, of special roads for bicycles, their theft, the perspiration produced to the user, the lack of quality equipments and of the information sources, as well as the lack of knowledge of the bicycle user for the legislation.

The usage of scooters is considered a necessity in the big cities, where it represents an excellent means of transportation by ruling it among the crowd ness of the city.

Another mean of transportation, which is considered an “antidote” for the traffic and why not for the weekend fun, is the ATV that is commercialized in different variants of motorization.

For some businessmen the usage of helicopters, of small airplanes, for the meeting affairs, for filming, or taking picture of some zones, becomes a necessity, not only a hobby.

In the last two decades in our country have appeared huge rises regarding the transportation and especially the road one. From their appearances – the automobiles – have been rolled for the gas consume, especially petrol.

Today in Romania there is a major percent of automobile owners, some have two or more. Their number raised considerably in the last year. The usage of such a great number of internal combustion engine which burn so much oil, it brought not only the rise of the carbon dioxide, but also other types of pollutants which affected the human health. Many productions were in the vicinity of the human density- the center of the cities.

Today’s system of transport examination is using three major themes: the usage of the energy, the impact over the health system and the reason we travel. Because more carbon emissions come from the transportation their part between the railway, highways, aerial and naval presents a perspective of the energy exchange or of the climate.

It is hard to establish the transportation impact over the climate exchange. The automobiles market was always in a continual rise and many passengers prefer traveling with their own cars. The usage of the public transportation by the passengers can lead to the avoidance of the crowd ness, jams and also can diminish the time between two points.

The completeness of the road infrastructure and the modernity of the roads to the European level can contribute to the speed rise of the goods and passengers, intensifying the internal competition but also creating new business opportunities for the Romanian companies. Along with the disappearing of the last restrictions in the services domain, the Romanian companies will become real competitors for the original firms in the countries with developed economies.

The transport demands rose as the development of the technologies, information and communication. (Information and Communication Technologies – ICT). Transport and the logistic services were strongly influenced by the spread of the electronic commerce that imposes

for the transport and services operators to distribute and shape the operations, the commercial strategies and the practice. In order to realize some touristy, affaires, treatments, education transportations we need to develop an Intelligent Transport System (ITS – Intelligent Transport Systems), which can be defined as an assemble of subsystems based on electronics, telecommunication, and information advanced technology and its purpose is to rise the efficiency and the safety of the transportation.

The base subsystems of the ITS structure are the following:

1. ATMS – Advanced Traffic Management Systems;
2. ATIS – Advanced Traveler Information Systems;
3. AVCS – Advanced Vehicle Control Systems;
4. CVO – Commercial Vehicle Operations;
5. APTS – Advanced Public Transport Systems;
6. EMS – Emergency Management Systems;
7. ETC – Electronic Tax Collection);

All these subsystems of the Intelligent Transport Systems must be place in applications for a better development of the road traffic.

The modernization of the road, naval, railway infrastructure will permit the optimization of the mean of transportation usage, the rise of the average speed and the fluidity of the traffic and the enlargement preferences of the beneficiaries in competitiveness conditions.

Thus, for using the road network at full capacity ATMS must offer a diversity of services such as:

- The traffic lights control according to the traffic requirements;
- Automatic control of the panel with variable messages and that of a guidance signs for the route;
- Video camera surveillance;
- Transport supervise;
- Geographic informational administration by using the GIS systems;
- Information about the evolutions of the transport;
- Radio information of the passengers;
- Television broadcast with transport information;
- Internet access at traffic information;
- Watching the vehicles using GPS or other systems;
- Automatic management of the parking;
- Automatic detection and incident management;
- Aerial surveillance operations with direct video transmissions;
- Automatic integration with the police and firemen squad;
- Integration with advanced systems for highways, etc

For the traffic surveillance and for the automatic gathering of the traffic data are using classic detectors with inductive loop, which collects every minute data regarding the occupational traffic jam and the speed used by the vehicles. There are also used in the traffics lights crossroads to command the traffic lights for the vehicles that enter on the secondary area. They are tested as radar sonic detectors.

The usage of the modern technology allows the control, the monitor of the traffic, providing data with classification and speed of the vehicles, automatic detection of the incidents and other advantages for the fluidization of the traffic, rise the circulation speed in the rush hours, diminish the accidents number, improve the incidents management and other special events.

ATIS - Advanced Traveler Information Systems is another principle according to the optimization of the traffic. It also uses different technologies (maps, schedules), which allows the passengers to inform about the transport network and the possibility to choose the most efficient means of transportation (car, train, bus), the route, the time, etc.

The passenger's information before or during the voyage can be a static one (with events planned that rarely are modified) or in real time (current information, available at some point).

These two types of information differ by the fact that the static one is considered a information before the journey take place, (constructions and planned maintenance activities that diminish the traffic lane; special events that generates a traffic increase; tax information (price, pay options, information regarding the transport – journey tickets, schedules, ticket buying options, routes;- information regarding the multimode transport, connections, services; regulations for merchandise transportation – restrictions over the high, weight, dangerous materials; information about the parking – geographical position, cost, possible routes to the destination). The information in real time can be used both before the journey and during it – (traveling conditions, possible alternative routes, respecting the schedule, the parking status, the anticipate duration of the journey until the destination, identifying the next stop of the train, bus, etc).

We can say that one of the main new policy of the transportation is the improving of the traffic safety, the diminishing of the accidents victims caused by the road transport and especially the encouragement of the new technology development by introduction of new secure vehicles and of the ITS systems (ITS – Intelligent Transport Systems). This type of system can allow the avoidance of the unexpected situations related by traveling and the assurance of its continuity, the reduction of the time spent on the transfer between different types of transportation.

The economical evolution of a country, of economy in general is not to be done without the transport. They assure the progress of the industry and agriculture production, the goods and people circulation. It has also facilitated the access to the natural resources and stimulates the exchanges.

The transport with a 7% weight of the Gross Domestic Product represents the second service category, after the commerce, as importance in the tertiary sector and at the same time an activity with a contribution to the economical growth equivalent as the agriculture. The transportations have a constant evolution in the annual rhythm of high-rise. The transport strategy starts from the premise of increasing the transportation activity in GDP from 7 % presently to minimum 10 % in 2015. As Romania to align at the average standards of the European Union, in order to extend and connect its own transport networks with that trans-European, it is necessary to apply for the financial program ISPA. This ISPA program started in 2000 and it is unfurling in several European states form Center and East Europe: Romania, Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Poland, Slovakia and Slovenia. Through this program Romania receive 240 million euros / a year, distributed almost equal between the infrastructure projects and that for the environment.

## **Conclusion**

The transport represents the most important part of the contemporary society and of the economical activities organized against the distances. It is strong connected with the human society; it appeared along with it, it is not a purpose in itself but a way of developing a multitude a practical purposes. The first passenger's services started in Germany in 1910, the first passenger's route in the USA started in 1914.

The transport determines all the economic-social life, and its development constitutes an important objective of each economical policy state, assuming a particularity regarding the other branches of the economy. The main difference is the characteristic of being a service creator – defined as useful moving effects in space for the merchandise and people, terrestrial, naval, aerial, - and not tangible products.

The terrestrial transport is the widest one. People can move by themselves or using different means of transport that use human labor, such as bicycle, or can use the animal traction for carriages or other types of tools. The widest and the most efficient way of terrestrial transportation use vehicles with liquid fuel engines

The transport as sector, knows different stages of world development, the countries confronted by a series of impediments, which need to be removed to allow an evolution of the reciprocal economical relations.

An efficient transport infrastructure connected to the European transport network leads to a competitiveness economical growth, facilitates the integration in the European economy and allows the development of new activities in the internal market.

Differences that appear in these services from different countries are due to a number of factors: the existence of state monopole; the traditional structure of the market; the disparity of the fiscal, administrative and commercial rule; the general trust in national policies of modal orientation; a multitude of different technical rules, which sometimes can be incompatible; interests groups that prefer separation over the opportunities rise and challenges to competition.

To guarantee good functional conditions of this service, it was defined a series of rules that must be obeyed by the communitarian transporters regarding the security, professional skills, social dispositions, eliminating the technical, fiscal and social distortions of the free concurrence.

In this way it can supply transport services from a state to another by the communitarian transporters without discrimination.

These rules are about to be implemented to Romania by the end of 2013. They intend to satisfy the economical, social, and environmental needs of the society, diminishing in the same time to the minimum the unwanted impact upon economy, society and the environment.

Taking into account the fact that for the transportation sector it has allocated the most part of the EU funds, for thematically priorities, due to the precarious infrastructure and of vehicles states as well as the negative tendencies recorded in the last few years regarding the productivity of the consumed resources.

It desired the modernity of the transport sector with the purpose of gaining a high level performance over the environment protection, human health and passenger's safety. By developing the Modernity and maturation project of the priorities axes of trans- European transport (TEN-T) on Romania, in the purpose of unfurling a sustainable system of transport integrate with EU networks, to reduce significantly the time spent on traffic, the improvement of the safety and the quality of services to the main destinations at national level in EU framework as well as for the passengers and for the goods, and the diminishing the side effects over the environment as well as the accidents those with victims at 1 million passengers by 20 % until 2015.

To minimize the adverse effects of the transportation over the environment it has established a distinct strategy at national level – compatible to the new policy of the EU for the environment protection in the transport field, methods, monitor and control means for the polluted emission and greenhouse gas effect and for noise provoked by the transport activities. It will be done the cartography of the noise emission provoked by the transportation to establish the proximal modality to protect the population and the environment.

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## ASPECTS REGARDING THE COUNTRY RISK AND ITS RATING

### **Ciumaş Cristina**

*“Babeş-Bolyai” University Faculty of Economics and Business Administration Teodor Mihali Street, No. 58-60, 400591, Cluj-Napoca cristina.ciumaş@econ.ubbcluj.ro Tel: 40 + 0264-41.86.52/3/4/5*

### **Văidean Viorela-Ligia**

*“Babeş-Bolyai” University Faculty of Economics and Business Administration Teodor Mihali Street, No. 58-60, 400591, Cluj-Napoca viorela.vaidean@econ.ubbcluj.ro Tel: 40 + 0264-41.86.52/3/4/5*

### **Manţa Ştefan**

*“Babeş-Bolyai” University Faculty of Economics and Business Administration Teodor Mihali Street, No. 58-60, 400591, Cluj-Napoca stefan.manta@osecluj.ro Tel: 40 + 0264-41.86.52/3/4/5*

### **Moldovan Florina Aurica**

*Goldey-Beacom College 4701 Limestone Road Wilmington, DE 19808, USA mldvn\_florina@yahoo.com Tel: +1-302-998-8814*

*Is Romania affected by the country risk? Country risk, especially the score given by the rating companies is meant to lead to economic growth or recession. Is it possible for only one grade to have that much impact upon the economy? The truth is that such a rating has multiple repercussions not only at macroeconomic level but also at the microeconomic one. The real question is how reliable and especially how objective are these ratings?*

*Key-words: country risk, country rating, business environment rating*

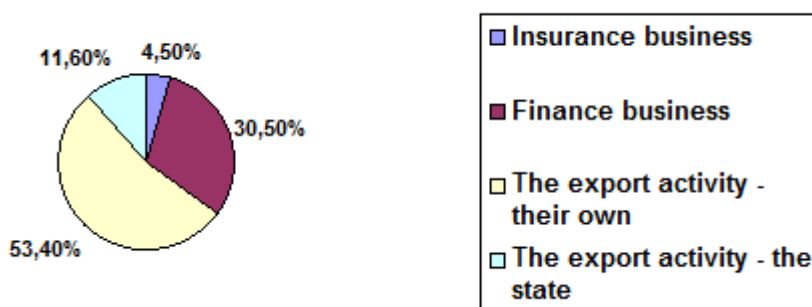
*JEL Code: F14, F59*

Country risk reunites the possibilities that an institution may enlist losses, mainly due to the exposure towards the partner countries. These losses may be caused by economic, social, political or natural events which may or may not be controlled by the government of that country. Thus, the rating obtained by each country is designed to present the investors a clearer image of the possibilities that they have in establishing business relations with foreign partners or the possibility of business internationalization.

Created in 1991 with the support of Organization of Economic Co-operation and Development (OECD) and also with the help of the COFACE French insurance company, EXIMBANK has the main objective of sustaining foreign trade, of encouraging the export and especially the production designated for export. It grants credits in favorable conditions to the public and private societies with a Romanian headquarters if they can prove the compliance of some criteria, like: firm contracts, irrevocable letters of credit, various bank guarantees, etc.

Eximbank basically helps exporters by offering specific products and services designed to encourage the foreign trade of Romania. Their products are: export credits, guaranteed loans for export, export security to stimulate the development of goods and complex products with long manufacturing cycle, warranty export freight, letters of bank guarantee, commercial information about business partners, insurance policies of export credits and long-term, policies of credit insurance for export production, policies of buyer credit insurance and ensuring exchange rates.

Figure no.1. The structure of Eximbank customers exports depending on how they are supported



### Eximbank ratings compared to Coface ones

The intention of these two companies is to support foreign trade transactions, but especially the possibility to offer relevant information to their clients about the countries in which they place their business activities. So, these companies offer explicit data about the financial status of their partners, about the economic and global context of the partner country.

The method Eximbank elaborated is a combination of quantitative and qualitative analysis, comparable with the techniques used by the great rating agencies and its results score and classify the analyzed countries into five risk categories: Aa, Bb, Cc, Cd, Dd, synthesized as follows:

Table no.1 Eximbank ratings

Class	Score	Class risk definition
Aa	100-53	payment difficulties appear impossible
Bb	52-37	payment difficulties and losses are possible
Cc	36-24	payment difficulties and moderate losses appear to be predictable
Cd	23-15	serious payment problems, including possible rescheduling
Dd	14-0	appreciable losses appear to be inevitable

Source: Ciumaş, C., *Asigurări generale*, Editura Casa Cărţii de Ştiinţă, Cluj-Napoca, 2007, pag.298-302

Aa category is characterized by a high inability to pay. Furthermore, the countries classified in Bb category are characterized by the possibility of payment difficulties and minor losses. Cc rating stands for the countries where these risks and losses are moderate. In the last part of the classification categories, Cd is specific to countries with serious payment problems and the rescheduling of payments is possible. The last risk class, Dd, is for countries characterized by losses which are regarded as unavoidable.

We'll further present the methodology used by Eximbank as for the assessment of the country risk. Eximbank assess country risk on short term based on two categories of factors: economic factors and political factors. The weight of these two categories in the final score is equal, each sharing 50% of it.

<b>I. Economic factors:</b>	<b>II. Political factors:</b>
1. the development level of the country; 2. real growth rate of GDP; 3. the payments' balance; 4. inflation ; 5. export dependence ; 6. reserves in months of imports ; 7. coverage of imports by exports ; 8. short-term debt ; 9. external payments situation.	1. current state of governance; 2. government economic policy; 3. internal tensions; 4. international position; 5. debt restructuring; 6. experience of bilateral relations .

1. The development of the country, expressed in GDP per capita, is assessed on a scale from 0 to 10 points:

GDP per capita USD	SCORE
0-500	0
500-1000	1
1000-2000	2
2000-3000	3
3000-4000	4
4000-5000	5
5000-6000	6
6000-7000	7
7000-8000	8
8000-10000	9
Peste 10000	10

2. The pace of real GDP growth may receive a maximum of 10 points:

The pace of real GDP growth (%)	SCORE
under - 1	0
-1 – 1	2
1 – 3	4
3 – 5	6
5 – 8	8
over 8	10

3. The situation for the balance of payments is calculated as a percentage ratio of the balance of payments and GNP. It is estimated by a maximum of 10 points.

Balance of payments /G.N.P.	SCORE
under -10	0
-10 – -5	2
-5 – -3	4
-3 – -1	6
-1 – 2	8
over 2	10

4. Inflation rate in the reference year (current year) can receive a maximum of 5 points.

Inflation rate (%)	SCORE
over 50	0
30-50	1



20-30	2
10-20	3
5-10	4
under 5	5

Considering its development for the last four quarters, a correction factor of + / - 1 is applied.

5. Dependence on exports is calculated as the ratio between the revenue percentage of the main product exported and the total value of exports – up to 10 points.

Revenues from the main exported product (%)	SCORE
over 55	0
55-50,1	1
50-45,1	2
45-40,1	3
40-35,1	4
35-30,1	5
30-25,1	6
25-20,1	7
20-15,1	8
15-10,1	9
under 10	10

Depending on the international market situation a coefficient of -1 may be applied for a negative trend and +1 otherwise.

6. Coverage of imports by exports is calculated as the ratio between the percentage of exports and imports, up to 10 points.

Coverage degree (%)	SCORE
under 80	0
80-100	2
100-110	4
110-120	6
120-130	8
over 130	10

7. Reserves in months of imports - up to 15 points

Reserves (months)	SCORE
Under 1 month	0
1-2	4
2-4	6
4-6	9
6-9	12
over 9	15

8. Short-term debt as a percentage to total external debt - up to 15 points

Short-term debt / Total debts (%)	SCORE
over 25	0
20-25	3
15-20	6
10-15	9
5-10	12

under 5	15
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9. External payments position is determined as the ratio between external debt service and export  
- maximum 15 points.

External payments (%)	SCORE
over 70	0
60-70	3
50-60	5
40-50	7
30-40	9
20-30	11
10-20	13
under 10	15

## **II. Political factors**

1. Current state of the governance - maximum 20 points, given for:

- Inefficient governance, frequent changes of undemocratic governments, corruption - 0 points;
- Effective governance, regular and normal government changes - 20 points.

2. Government's economic policy - maximum 15 points, refers to:

- Economic unstable, incoherent, and unfavorable policy regarding the foreign capital - 0 points;
- Reasonable consistency, relatively restrictive regime regarding the foreign capital - 7 points;
- Good consistency, favorable regime of foreign capital - 16 points.

3. Internal tensions - maximum 15 points:

- War - 0 points;
- Social, ethnic, political, racial, cultural, religious tensions –if they don't appear, 2 points will be assigned for each.

4. International position - maximum 20 points:

- International sanctions - 0 points;
- Relative isolation - 5 points;
- Relationships - 10 points;
- Good relations with major economic powers - 15 points.

5. The restructuring of debts - up to 3 points:

- Payments' cuts-0 points;
- Failure in negotiations with IMF - 3 points;
- Repeated rescheduling - 6 points;
- Rescheduling - 9 points;
- No problems - 15 points.

6. Experience with bilateral relations - maximum 15 points:

- Default - 0 points;
- Difficulties in rescheduling - 1 point;
- Rescheduling flawlessly - 3 points;
- Delays - 5 points;
- Small delays - 10 points;
- No problems - 15 points.

Depending on the analyst's judgment, a correction of up to 5% can be made.

*The final score* (index of country risk) is calculated as follows:

$$\text{Final Score} = (\text{Economic score} \times \text{Political score}) / 100.$$

Depending on the score obtained, the countries are classified into the above presented 5 categories. Country Risk Assessment by Eximbank is done not only to substantiate their decisions but also for providing consultancy services in this field for exporters.

On the other hand, Coface wants to facilitate trade at the global "business to business" level, offering four lines of services to its customers, such as total or partial outsourcing of trade management, the financing and the protection of revenues (credit insurances, credit reports, claims management and factoring services). Besides the resulting rating for each examined country, Coface gives a distinctive mark for the business environment of the country that can considerably vary from country rating.

Coface characterizes the business environment of a country in the same manner in which it determines the country rating. Countries are studied based on seven categories of risks that are meant to characterize the economic climate and business. By these ratings, Coface presents relevant information about the financial, legal system of the country with a strong emphasis on the correctness of the system, emphasizing whether the business environment of the country is favorable to inter-company transactions or not.

This new system is implemented on the basis of two modules. The main idea of the new rating system is based on the experience of Coface to analyze the quality of the available information about companies and the legal protection for the creditors. Ratings based on the experience of Coface are supplemented by a second module based on the quality of the institutional network, which tries to reflect how the weaknesses of this system may further influence companies. In this part public services are particularly included (government, education, health, infrastructure), the respect of the people towards the law system, corruption etc.

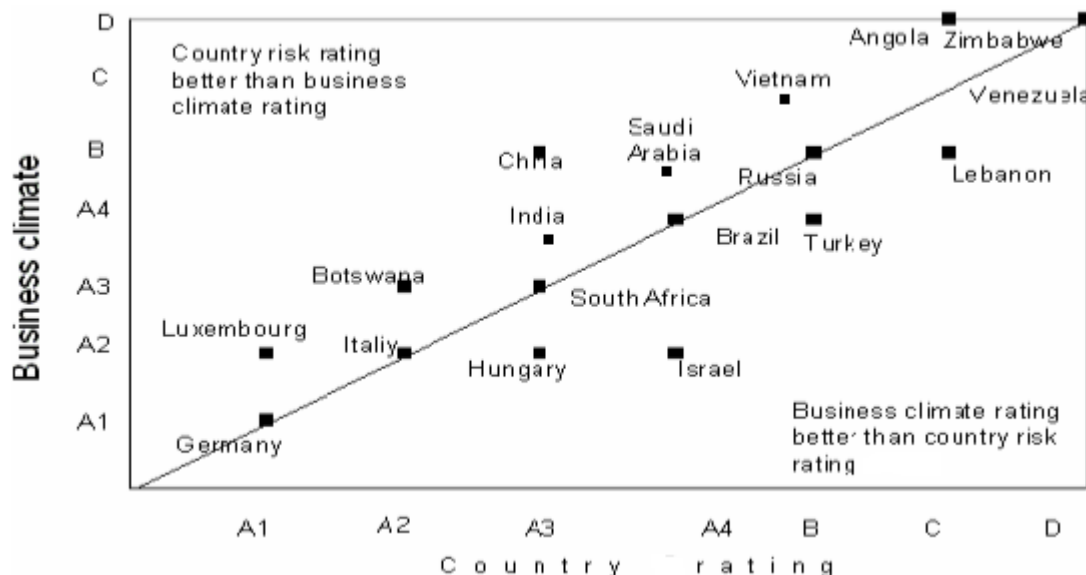
Based on these criteria Coface currently assesses 150 countries. Moreover, the highest possible grade is A1 and the worst is D. The following table summarizes the ratings granted by Coface:

*Table 2 Business environment ratings*

A1	The business environment is very good. Corporate financial information is available and reliable. Debt collection is efficient. Institutional quality is very good. Inter-company transactions run smoothly in environments rated A1.
A2	The business environment is good. When available, corporate financial information is reliable. Debt collection is reasonably efficient. Institutions generally perform efficiently. Inter-company transactions usually run smoothly in the relatively stable environment rated A2.
A3	The business environment is relatively good. Although not always available, corporate financial information is usually reliable. Debt collection and the institutional framework may have some shortcomings. Inter-company transactions may run into occasional difficulties in the otherwise secure environments rated A3.
A4	The business environment is acceptable. Corporate financial information is sometimes neither available nor sufficiently reliable. Debt collection is not always efficient and the institutional framework has shortcomings. Inter-company transactions may thus run into appreciable difficulties in the acceptable but occasionally unstable environments rated A4.
B	The business environment is mediocre. The availability and the reliability of corporate financial information vary widely. Debt collection can sometimes be difficult. The institutional framework has a few troublesome weaknesses. Inter-company transactions run appreciable risks in the unstable, largely inefficient environments rated B.
C	The business environment is difficult. Corporate financial information is often unavailable and when available, it's often unreliable. Debt collection is unpredictable. The institutional framework has many troublesome weaknesses. Inter-company transactions run major risks in the difficult environments rated C.
D	The business environment is very difficult. Corporate financial information is rarely available and when available usually unreliable. The law system makes debt collection very unpredictable. The institutional framework has very serious weaknesses. Inter-company transactions can thus be very difficult to manage in the highly risky environments rated D.

In most cases, i.e. for 93 countries, the rating of the business climate coincides with the country rating. For 39 countries, Coface has given a lower rating for the business climate as compared to the country rating. Furthermore, for 18 countries, Coface has given a higher rating for the business climate compared to the country rating.

Figure no. 2 Business environment ratings compared to country ratings



Even if the system and the scoring process is calculated through a different methodology by Eximbank and Coface, the marks provided by these companies revealed the same features to a great extent, Coface taking advantage of achieving a more detailed analysis. The big plus that Coface brings compared to Eximbank is that it manages not only to analyze the global and country specific issues but the business environment as well.

### Conclusions/ Critical points

The methodology used by Coface is based on the elements of qualitative analysis and the methodology used by Eximbank is mainly based upon quantitative analysis. Although both Eximbank and Coface offer support for the institutions developing foreign trade, it is very important to follow the objectivity of the presented data. Easily such institutions may have a role in handling the economy. Companies in this area should be equidistant and "cold" in their analysis furthermore avoiding making games for their personal interest or even avoiding the political attempts to change the image of the actual economic situation.

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# TIME EVOLUTION OF MATHEMATIC MODELS OF CURRENCY CRISIS

**Colomeischi Tudor**

*„Ștefan cel Mare” of University Suceava, Faculty of Economics and Public Administration, street Universităţii, no. 13, city Suceava, code 720229, tudorc@seap.usv.ro, telephon 0744-359299*

**Macovei Anamaria Geanina**

*„Ștefan cel Mare” of University Suceava, Faculty of Economics and Public Administration, street Universităţii, no. 13, city Suceava, code 720229, anamariam@seap.usv.ro, telephon 0740-151367*

*The current period, characterized by a worldwide very significant economic instability, imposes an increasing attention focused on the currency crisis phenomenon. In this work we propose a review of the main approaches made on the mathematic models of the speculative attacks on the currencies.*

*Keywords: devaluation, currency crisis, speculative attack, international reserves, model.*

*JEL code: F31, F21.*

## **1.Introduction**

Several economies of some states in Europe, South-East Asia or Mexico confronted during the last decade of the previous century with strong currency crisis, generated by the starting of several attacks with speculative character directed towards the exchanges controlled by the government. Depending on their chronological succession and on the way of tackling the problems, the models of the currency crisis divide in three categories: models of first generation currency crisis, models of second generation currency crisis, models of third generation currency crisis (or models of contagion).

## **2.Models of first generation currency crisis**

The first generation models has been funded on the idea that the speculative attacks are generated by the inconsistency on long term of the governmental policies referring to the fix exchange rate. For example, the exclusive enhancement during a period of time of the currency amount, as an effect of the trial made by authorities for elaborating the monetization of a more accentuated fiscal deficit may cause the reduction of the international supply level, leading to the start of a speculative attack. In these situations, the government renounces to the fixed currency exchange and the currency depreciation takes place. These models studied the causes and the consequences of the currency crisis in Argentina (1978-1981) and in Mexico (1982). They proved that a deficit on long term of the external payments balance might lead to a decrease of the governmental supplies, making impossible the intervention on the market of the central bank.

The models of crisis of the payment balances were starting from the idea that the lack of balance in payments is the consequence of some too expansionist monetary and fiscal policies. The main indicators that defined the crisis of the payments balance were: the increasing high rate of the rising monetary amount, the decreasing rate of the state supplies and the budgetary deficit. In the conditions in which the private sector opts for the acquisition of foreign actives in exchange for the excess of local currency in circulation, the central bank will be obliged to recur to supplies, their level starting to decrease. If the central bank does not succeed in recurring to external loans in order to restore them, the supplies will continue to decrease, reaching a critical point in which the currency can fall down as a consequence of a sudden speculative attack.

Beyond the simplicity and the easiness with which they can be applied, the first generation models also present several weak points. Firstly, we cannot treat equally the behaviour of the public sector compared to the behaviour of the private sector. Thus, while the behaviour of the private sector (represented by speculators) is perfectly reasonable, this ones intuit very well the

subsequent evolution of the events, the public authorities have a rigid behaviour, being unable to produce quick reactions and measures on medium and long term which to protect the currency. Secondly, the concrete data of the currency crisis from the subsequent years infirmed the hypothesis that the main cause of the collapse of the exchange rates regime would be the insolvability. We observed that almost all the governments which were confronted to currency crisis at the end of the 80's and the beginning of '90's disposed of important currency supplies that allow them to defend their currency. In conclusion, the first generation models showed how in which the inconsistency of the macroeconomic policies of the government may occur a speculative attack on the fixed course of the currency.

### 3. Models of the second generation currency crisis

The analysis of the data offered by the currency crisis stressed upon certain lacks of the first generation models. Thus, with the help of these models, we could not explain certain crisis that appeared in the European monetary System, which were not confronted to significant fiscal or current account deficits. The second generation models analyse the crisis of the exchange rates regime produced without the existence of an excessive internal demand or an external lack of balance. These models are built on the waiting theory fundament. We suppose that the speculative attack itself can generate the devaluation of the currency, even in the conditions of a consistent policy of the fixed exchange regime. This thing significantly differentiates them from the first generation models. The production of the attack becomes thus a necessity, but also a sufficient condition for relaxing the governmental policy. The depreciation of the exchange rate appears as a natural consequence of this relaxation, making the attack become reasonable.

One of the most representative and mostly used model of second generation was realised by Obstfeld (1994). The model analyses the cost that the authorities have to bear if they renounce to the fixed rate, cost that will stimulate the government to maintain as much as possible this stability. The fixed rate will be maintained as long as the state will be able to cope with the inflationist pressures, being not forced to bear this cost. The first hypothesis is the opening of the national economy and the identification of the internal prices level at the same level with the price of the currency. The authorities aim to minimize the loss function:

$$L=(y-y^*)^2 + \beta \varepsilon^2 + C(\varepsilon), \quad (1)$$

where:  $y$  represents the level of the result (the production),  $y^*$  is the goal of the result for the government,  $\varepsilon$  represents the variation of the exchange rate (the price of the currency) and  $C(\varepsilon)$  is the cost of maintenance of the fixed rate. For determining the “ $y$ ” production we used the Phillips curve augmented on the basis of the expectances:

$$y = \bar{y} + \alpha(\varepsilon - \varepsilon^e) - u, \quad (2)$$

where:  $\bar{y}$  represents the natural level of the result,  $\varepsilon^e$  is the variation of the exchange rate estimated by those who elaborate the internal prices policy, on the base of the advanced information and  $u$  is a shock, having the average zero. If  $y^* > \bar{y}$ , this one will determine a dynamic inconsistency which will have as effect the authorities' acceptance of realigning the cost of the rate. This dynamic inconsistency can be explained as follows: we suppose that  $\varepsilon^e$  is constant and the government chooses “ $\varepsilon$ ” after they observe the shock “ $u$ ”. If a revalorization of the course takes place (that is a negative variation) the costs will decrease, tending towards a minimal value  $C(\varepsilon)=c_{\min}$ , while the devaluation of the course (that is a positive variation) will determine the increasing of the costs towards the maximal value  $C(\varepsilon)=c_{\max}$ .

During the first step of the model, we leave aside the costs in the relationship (1), starting from the predetermined constant value  $\varepsilon^e$ . Replacing the expression of the production from (2) in the function of the loss (1), we obtain the value of “ $\varepsilon$ ” for which the loss is minimal (the derived of the function “ $L$ ” in rapport with “ $\varepsilon$ ” is null). This value of “ $\varepsilon$ ” replaced with the expression of “ $y$ ” in the relationship (2) will lead us towards the production level expression  $y$ . Further, replacing

the expressions of “ $\varepsilon$ ” and that of “ $y$ ” in the loss function from the relationship (1), we obtain the expression of the loss in regime of variable rate:

$$L^{VAR} = \frac{\beta(y^* - \bar{y} + u + \alpha\varepsilon^e)^2}{\alpha^2 + \beta}.$$

If the state adopts the policy of a fixed exchange rate, then the variation “ $\varepsilon$ ” of the rate will be zero and the loss in the regime of fixed rate is:

$$L^{FIX} = (y^* - \bar{y} + u + \alpha\varepsilon^e)^2.$$

In the second step of the model we also introduce the fixed cost  $C(\varepsilon)$ . In this case, the government accepts the devaluation of the rate only in the case in which the economic loss afferent to the fixed rate is higher than the one which corresponds to the flexible rate. So, the system will be viable only when the level of the shock “ $u$ ” is high enough that  $L^{VAR} + c_{max} < L^{FIX}$  or low enough that  $L^{VAR} + c_{min} < L^{FIX}$ . The revaluation, respectively the devaluation of the rate will appear when the shock “ $u$ ” will be from outside the interval  $[u_{min}, u_{max}]$ . The two extremities of this interval represent the limit values of the shock between which the state may maintain the fixed exchange rate. In order to effectively calculate the two values we solve the equation:

$$L^{VAR} + c = L^{FIX}.$$

In the two variants  $c = c_{max}$  and  $c = c_{min}$ , after solving the equation from above we obtain:

$$u_{max} = \frac{\sqrt{c_{max}(\alpha^2 + \beta)}}{\alpha} - y^* + \bar{y} - \alpha\varepsilon^e \text{ și } u_{min} = -\frac{\sqrt{c_{min}(\alpha^2 + \beta)}}{\alpha} - y^* + \bar{y} - \alpha\varepsilon^e. \quad (3)$$

We can further suppose that the shock “ $u$ ” is uniformly distributed on an interval  $[-\mu, \mu]$ , with  $\mu > 0$ . The government will abandon the fixed rate only in the case in which “ $u$ ” is not situated in the interval  $[u_{min}, u_{max}]$ . Considering the uniform distribution of “ $u$ ” on the interval  $[-\mu, \mu]$  and the natural supposition  $(u_{min}, u_{max}) \subset [-\mu, \mu]$ , we obtain:

$$M(\varepsilon) = \frac{\alpha}{\alpha^2 + \beta} \left[ \left( 1 - \frac{u_{max} - u_{min}}{2\mu} \right) (y^* - \bar{y} + \alpha\varepsilon^e) - \frac{u_{max}^2 - u_{min}^2}{4\mu} \right]. \quad (4)$$

We can determine the manner in which the reasonable expectation about the variation of the exchange rate  $M(\varepsilon)$  is influenced by the variation of the exchange rate estimated by those who elaborate the internal prices policy  $\varepsilon^e$ . We derivate (4) in rapport with  $\varepsilon^e$  and we obtain:

$$\frac{\partial M(\varepsilon)}{\partial \varepsilon^e} = \begin{cases} \frac{\alpha^2}{\alpha^2 + \beta}, & u_{min} > -\mu \\ \frac{\alpha^2}{\alpha^2 + \beta} \left( \frac{1}{2} + \frac{y^* - \bar{y} + \alpha\varepsilon^e}{2\mu} \right), & u_{min} = -\mu \\ \frac{\alpha^2}{\alpha^2 + \beta}, & u_{max} = -\mu \end{cases}$$

Because the first derivate of a function in a certain point represents the slope of the tangent at the graphic of the function from that point, the values obtained above describe the slope of the graphic of the function  $M(\varepsilon)$  given by the relationship (4) on the three intervals taken into account. From the previous result we can observe that in two different situations the function  $M(\varepsilon)$  from the relationship (4) has the same slope: for those values of the shock “ $u$ ” higher than  $-\mu$  and as well as when  $u_{max} = -\mu$ . From the economic point of view we can interpret as follows: if  $\varepsilon^e$  takes high enough values so that the maximal accepted value of the shock arrives at the inferior limit of the interval  $[-\mu, \mu]$ , and the expectations of depreciation of the rate will be similar to those from the case of the free flexible exchange regime.

In order to obtain the equilibrium condition, we calculate the fixed point of the function  $M(\varepsilon)$  from the relationship (4). The state of perfect equilibrium supposes that the reasonable expectation regarding the variation of the rate in the following period  $M(\varepsilon)$  coincides with the prevision of those who determine the price. Thus, the equilibrium will be obtained by solving the

equation  $M(\varepsilon)=\varepsilon^e$ . Replacing the expression of  $M(\varepsilon)$  from the relationship (4) in the previous equation results the following equation:

$$\frac{\alpha}{\alpha^2 + \beta} \left[ \left( 1 - \frac{u_{\max} - u_{\min}}{2\mu} \right) (y^* - \bar{y} + \alpha \varepsilon^e) - \frac{u_{\max}^2 - u_{\min}^2}{4\mu} \right] = \varepsilon^e.$$

In order to solve this equation we will introduce the expressions of  $u_{\max}$  and  $u_{\min}$  from (3), because  $u_{\max}$  and  $u_{\min}$  are them too functions of  $\varepsilon^e$ . We notice that the previous equation has several solutions, so there will be several states of complete equilibrium. The situation of the multiple equilibria is influenced by the structure of the national economic activities as well as by the preferences of the state. For example, if the private sector concentrates its economic preferences on small values, the state cannot engage the envisaged balance. The power of the fundamentals reflected in the state policy as well as the market structure have an important influence on the multiplicity of equilibria. An important conclusion of the above presented model shows that an event that had previously a small enough probability may have devastating consequences in the conditions of an incomplete structure of the economy, leading thus to the start of a self-fulfilling currency crisis.

#### 4. Models of the third generation currency crisis – contagion models

In time, there were certain crisis propagated from a country to another, but this phenomenon was not due to substantial modifications of the fundamental macroeconomic data of the respective economies. It is in this way that we arrived to the phenomenon of contagion, explained by the mechanical behaviour. The third generation models are based on this concept appeared more recently in the specialty literature – the contagion. By contagion we understand the phenomenon of propagating or of correlating certain shocks between different countries, beyond the fundamental relationships between them and beyond the common shocks. From the analysis of these crisis we deduced the existence of some relationships between the price of actives and the exchange rate from a certain country and that of other emerging states. The appearance of these relationships can be explained, on one hand, by the action of the same factors or it can be the effect of some similar reasons as the policies adopted by the very developed countries, which can similarly influence the emergent states. These crisis are known in the specialty literature as “monsoonal crisis”. On the other hand, a speculative attack from an emerging state can lead to modifications of the fundamentals from another emerging state: for example, a devaluation of a currency can imply the decreasing of the prices competitiveness in another country. This second type of crisis is called “spillovers”. Thirdly, the crisis from certain countries can propagate abroad through channels too, as the way of perceiving the existing information or expectations and the opinion regarding the market, without influencing the fundamentals of the economy of the respective countries. The economic literature call these crisis simply – “contagion”.

The models of contagion has at their base a model of currency crisis constructed by Masson (1998), starting with the crisis from Mexico (1994-1995) and Thailand (1997). These currency crisis generated powerful pressures on the exchange rates and on the prices of the actives on other emergent states’ markets. Like his predecessors, Masson starts from the idea that a devaluation may take place when the currency supplies reach a certain critical point. The evolution of the fundamental macroeconomic variables may not necessarily have a certain tendency, but if the external debt surpasses a certain value then the shocks produced in the current account can determine the apparition of a crisis. The expectations for a crisis are evidenced in the loan costs paid to the external. Thus, the value of the external debt (presupposed, for simplicity, as being exogenous) becomes an essential variable for the existence of the multiple equilibria, as the high interest rates, due to the increasing of the debt costs, can push the supplies beyond the level that produces the devaluation.

The model includes two emerging states. The external environment (represented especially by the interest rate in the industrialized countries  $r^*$ ) is supposed to be known. Firstly, the model has in



view the first country. We suppose that an external debt “ $D$ ” expressed in domestic currency has been accumulated, for which we pay a variable interest, but for simplification we consider that there are not other net capital flows. Until a point that generates a crisis, the authorities finance any deficit (or surplus) of current account, determining some changes in the level of the supplies. The source of incertitude is represented by the shocks on the commercial balance “ $T$ ”. If they are powerful enough as to determine at a certain moment “ $t$ ” a reduction of the supplies  $R_t$  under the critical level  $\bar{R}$ , then appears the devaluation. If  $S_t$  represents the spot exchange rate at the moment “ $t$ ” (the price of the currency) and  $S_{t+1}^d$  its value in the next period in the case of devaluation (thus we have  $S_t = S_{t+1}$ ), then, the for the obligations in domestic currency, the ex-ante return on active is given by the relationship:

$$M_t \left[ \ln \left( \frac{(1+r_t)S_t}{S_{t+1}} \right) \right] \square r_t - \pi_t \ln \left( \frac{S_{t+1}^d}{S_t} \right) - (1-\pi_t) \ln(1+\delta) = r_t - \pi_t \ln(1+\delta) \square r_t - \pi_t \delta,$$

where  $\pi_t$  represents the probability of producing a devaluation, „ $\delta$ ” is the proportional dimension of the expected devaluation and  $r^*$  plays the role of the free-risk exchange rate.

Moreover, we will further observe that the probability to produce a crisis will be also influenced by those expectations that lead to multiple equilibria.

The modifications appeared in the supply level will thus be given by the relationship:

$$R_{t+1} - R_t = T_{t+1} - (r^* + \pi_t \delta)D. \quad (5)$$

At the moment  $t+1$  a crisis will emerge if:

$$R_{t+1} - \bar{R} < 0. \quad (6)$$

From the relationships (5) and (6) it results that the probability, calculated at the moment “ $t$ ” for a currency crisis to emerge at the moment  $t+1$  will be:

$$\pi_t = P_t[T_{t+1} - (r^* + \pi_t \delta)D + R_t - \bar{R} < 0] \quad (7)$$

Using the notations:  $b_t = T_t - r^*D + R_{t-1} - \bar{R}$ ,  $\alpha = \delta D$  și  $\Phi_t = M_t(b_{t+1})$ , we obtain

$$\pi_t = P_t(T_{t+1} - r^*D + R_t - \bar{R} < \alpha \pi_t \delta D) = P_t(b_{t+1} < \alpha \pi_t). \quad (8)$$

Expressing the probability  $\pi_t$  in terms of cumulative distribution in function of the variation of  $b_t$ , we may write:

$$\pi_t = F_\sigma(\alpha \pi_t - \Phi_t), \quad (9)$$

where  $F_\sigma$  is the cumulative distribution function of a normal distribution of variance  $\sigma^2$ . The relationship (9) defines the investors’ formulation of expectations. Both members of the equation depend positively on  $\pi_t$ , the existence of multiple equilibriums will be possible. A necessary

condition for this will be that  $z = \frac{\alpha}{\sqrt{2\pi}\sigma} > 1$ , which means that the slope of the cumulative

distributive function is more inclined in a certain point than the left member of the same relationship. This can be also interpreted as a condition imposed on the level of the external debt and on the increasing of debts’ level in case of a crisis, because  $\alpha = \delta D$ , referring to the standard deviation of the shocks in the commercial balance, “ $\sigma$ ”.

We can also identify a condition on  $\Phi_t$ , more precisely an interval of values for this one. The interval for the multiple equilibria is defined by two tangency conditions between the LHS and the cumulative distribution function, conditions obtained when the fundamentals are very good, respectively very poor. In particular, if we consider  $w = \sqrt{2 \log z}$ , then the two conditions of tangency define for  $\Phi_t$  the following interval in which are possible the multiple equilibria:

$$\alpha F_1(-w) + \sigma w < \Phi_t < \alpha F_1(w) - \sigma w. \quad (10)$$

The inequality (10) is in itself a condition on the supplies. If these ones surpass a certain value, then the crisis is lightly probable, while if they decrease under a certain minimum, the outbreak of a crisis is almost certain. Between these values  $\Phi^{\min}$  și  $\Phi^{\max}$  multiple equilibria may take place. In the second part of the model we present the relationships with other emergent markets. Further, the effects of spillover and the monsoonal effects, introducing the interactions between the reference country and other emerging economy by means of the competitiveness effects on the commerce. For simplicity, we suppose that all the structural parameters are identical in both countries. We will determine the probability of producing a devaluation in the first country depending on the probability of devaluation in the other country.

The model finally presents the three channels through which the crisis from different states may coincide in time. The monsoonal effects may take the form of the modifications of  $r^*$  (for example the rate of the interest in The United States) or of  $\bar{S}_t$  (for example the exchange rate dollar-yen). The spillover effects can be represented by the modifications appeared in the initial level of the exchange rate in the second country. In the end, the contagion is illustrated by the expectations regarding the devaluation from the second country, which will directly influence the probability for a devaluation to emerge in the first country. The mathematic model described above has been successfully used for explaining the spreading of the speculative crisis in various emerging economies in South-East Asia in the period 1997-1998.

## 5. Conclusion

In time, a multitude of models of speculative attacks on the exchange rate were developed. The last works have dealt more and more with the research of the propagation of currency crisis starting from the similar characteristics and the interdependences between the countries.

But we cannot say that, together with the apparition of the contagion models, considered as being the most important third generation models, the problem of the speculative attacks on the currency of a country has been completely explained and solved. There are also a lot of aspects to be explained for elucidating the theory of situations of currency crisis, of the causes and the mechanisms of transmitting the crisis. The current financial and monetary environment, characterized by a great dynamism, is in a continuous transformation and we can expect it to offer us further examples that determine new research of the specialty literature representatives.

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## IMPLICATIONS OF GLOBALIZATION ON THE WORLD ECONOMY

**Culiță Gica Gherghina**

*Univesitatea "Constantin Brâncoveanu" Facultatea Management Marketing în Afaceri Economice Brăila Str. Rubinelor nr 16-18 ggnegrea@yahoo.com 0726149444, 0762383026*

**Niculcea Silviu Petrișor**

*Universitatea „Constantin Brâncoveanu” Pitești Facultatea Management Marketing în Afaceri Economice Brăila Brăila, Str. Rubinelor nr. 18 ucb\_braila@yahoo.com*

*One of the issues of maximum interes to our century is the analysis of implications of globalization on the world economy and this proves to be even more important now in the middle of financial crisis. Forecasts from the World Bank are very optimistic on achievemem sot, we wanted to emphasize that opimiste feedback on the evolution of the global economy even when the crisis started in America to carry roller. If globalization is responsible for most of the generating causes of the crisis remains to be analyzed in the paper where I tried also to propose some measures that make it necessary to work for all the world countries, both developed and developing.*

*Keywords: globalization, crisis, developed countries, developing countries*

F02

To have power, being powerful is the desire of the moment, more than ever. Ways to obtain power, however, differ, depending on the elements and tools available<sup>75</sup>.

The phenomenon of globalization is and will continue to be at the center of the economists preoccupation and in the future is very important to analyze the implications that they generate, and will generate at the level of world economy as a whole and on different categories of countries.

Peter F. Drucker, the "father of management," says: "the best way to predict the future, is to create it". Starting from this premise, the World Bank, in the report, Global Economic Prospects - Managing the Next Wave of Globalization<sup>76</sup>, conduct an analysis of the phenomenon of globalization and its influence in the coming years.

According to the report, population growth will be vital for future global events. Current world population of 6.5 billion inhabitants, is expected to reach 8.0 billion by 2030, with an average growth of 60 million people annually. Over 60% of this increase will occur in developing countries. Both, the European Union and Japan<sup>77</sup> are expected to decrease in population and increases in most developed countries are based on the migration phenomenon. The population of the largest countries of the world, China continues to grow but at a pace lower than in other developing countries. With a growth rate much faster, India, will certainly exceed China, becoming the most populated country of the globe. Labor worldwide will increase from just over 3 billion, and is currently at 4.1 billion in 2030, with a growth rate higher than population growth. Globalization and economic growth will have an uneven impact, resulting in structural changes, loss of jobs in certain sectors and regions and remain behind the savings. Increased per capita income on average by 3.6% per year, what will happen in developing countries, will be unequal regions, with higher values in South Asia and Eastern Europe. That income distribution will be characterized, further inequality, being influenced by equipping households but also by sectorial

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75 Gica Gherghina Negrea (Culiță) – South-South Cooperation (PhD Thesis), Tribuna Economică, Bucharest, 2007, Introduction.

76 [www.worldbank.org/gep2007](http://www.worldbank.org/gep2007)

77 From 128 millions in 2005 to 117 millions in 2030.

changes caused by migration from rural to urban areas or from countries with low incomes to those with high incomes.

As regards employment, it is expected that the segmentation of the labor market of the agricultural and non-agricultural (especially for unskilled workers), due to urban migration from the rural areas in search of jobs paid better. This will cause an upward trend of wages in rural areas, exceeding the growth rates of urban employment, a phenomenon that would not occur in the absence of rural-urban migration. The report suggests that this would be the determining factor of decreasing the share of workers in agriculture in the horizon 2006-2030, from 51% today to less than 35% in 2030<sup>78</sup>. Due to population growth, this means only a slight decrease of agricultural labor, but an increase of over 1 billion people of the city.

Another problem in determining income distribution is changing so-called "primary qualification" (skill) which, according to the report, shall be determined by reporting wage skilled workers in the unskilled workers. According to study authors, the share of skilled workers is approximately 32% in developed countries and only 10% in those in development. It is expected, also an increase skilled workers.

The report estimated about Millennium Development Goals, global poverty will be reached in 2015 at 11.8% versus 20.2% in 2003. It provided that purpose, was somewhere below the 14%. Poverty will be reduced in most regions, except Sub-Saharan Africa. Until 2030, the percentage of those who live under \$ 1 per day would represent nearly 8% of the population in developing countries, ie almost 55 million people and world production will increase from 35 trillion dollars in 2005 to 72 trillion dollars in 2030 (at the exchange rates and constant prices), with an average increase of 3% - more specifically, 2.5% in high income countries and 4.2% for developing countries. However, incomes in developing countries in 2030 will represent less than one fourth that of the developed countries. This would mean that countries such as China, Mexico or Turkey, will have an average standard of living of Spain today.

It predicts that, despite population growth, the number of people living in absolute poverty - with less than \$ 1 a day - will reach 550 million, from 1.1 billion as at present. Similarly, the number of people living with under \$ 2 per day can reach from 1.9 billion to less than 800 million inhabitants. In conclusion, it is considered that poverty will decrease, despite population growth.

Developing countries, once considered as "periphery" of the global economy, will become the "engine" of the global economy. Share in world production will increase from a fifth currently in third in 2030.

Global economic integration will enter a new phase. The share of trade in GDP in all developing economies will increase and services will be the most dynamic in the next 25 years.

One of the problems facing humanity already, and it appears that will have an important impact on the world we live in 2030, is the degradation of the environment. If income inequality and poverty is central to debates about the effects of globalization, the issue of energy and environmental impact of carbon should not be neglected, because the long term may increase overall problems. Lost from sight during the 90's and early 2000, the energy returns to attention, with reported increases in oil prices, and with the alarming manifestations of global warming. In our country, moreover, can be observed in recent years, but especially this year, very high temperatures for the winter, even with more than 7 degrees Celsius, compared to previous similar period.

In terms of future economic growth, averaging 3% per year, a growth of energy consumption with an average of 2% per year. It is assumed that this growth will generate more than one price increase of 1.4% per year. Demand for gas, tends to increase, exceeding the one for oil and coal, as the policies and technologies tend to focus to the less polluting fuel. As a result, noted the

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78 Gica Negrea (Culiță) – Globalization – long term forecasts of the World Bank, Tribuna Economică, nr. 8-2007.

attempts of Russia, the country with the largest reserves of gas and the main supplier of the European Union not only to increase the price of methane gas. Renewables (wind, the tides, solar, etc..) and nuclear energy, tend to increase the share in consumption, but are far from able to meet requirements. Adoption widespread need imposed by the introduction of charges for the use of polluting fuels and stimulate investment in energy technologies, to facilitate their use.

Stagnation or even decrease in production in developed countries and growth in developing countries will lead to changes in trade in fossil fuels. The effect will be produced mainly as a result of selling of highly-polluting technologies from developed countries to developing ones, that are enjoying now the "unconscious" benefits of industrialization.

Of course, these forecasts may be affected long term by a series of internal factors, especially macroeconomic policies chosen and external – like world crisis. The authors report helps ensure that it took into account the influence of periods of recession, regional conflicts or crises similar to those with which the world has faced over the past thirty years. Proved that the world economy has increased during 1980-2005, despite some major events: the crisis of external debt of countries in Latin America, the disintegration of the Soviet Union, the Asian crisis and the tragedy of 11 September 2001. These events have had only short-term effects on global growth and have very little influence on the evolution of the phenomenon of globalization of the economy. Unfortunately, the situation had thought might be even better than forecasted, taking into account the possible discovery and implementation of technology and innovation business, which could accelerate globalization.

But now the world faces one of the biggest world crises. This was not foreseeable by any company profile and so the global confidence in these companies dropped a lot. Predictions seem to crash, pessimism overtake the most optimistic of analysts and lack of trust prevails.

In conclusion, the world in 2030 will depend on the choice of the Member: will choose managed globalization or direct it. To be prepared to We are the economic policies required to bring "poor world" on the road to economic growth through investment in education, infrastructure, human resources development, by accepting change, not through resistance to change.

Necessary so the following measures:

- and increase the grant amounts provided as development assistance to mitigate the negative effects of globalization;
- global trade liberalization in the World Trade Organization, can generate opportunities for poor countries. The most important task in this respect is the resumption of Doha Round and achieving an agreement to reduce trade barriers for products in world development, especially agriculture and the intensive manufactured;
- creation and development of international mechanisms to provide the necessary resolve any disputes.

But more important than any measures that would be the world to work together to find solutions to implement them seriously so that the global economic crisis effects to be less negative impact on the countries.

„In this era of globalization, advanced technology and a global economy tripolare, developed countries, in transition or developing - have made an essential - that import substitution is not the solution. It seems that there are solutions which differ Raul Prebisch's view, but offers hope of solving the problems of countries in the periphery of the global economy. Globalization is here and will remain, must accept that, but current world order should be channeled to the developing world, through joint efforts”<sup>79</sup>.

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79 Professor Lawrence R. Klein - South and East Asia: Leading the World Economy, 13th Raúl Prebisch Lecture, United Nations Conference on Trade and Development, Geneva, 2 November 2005, pag. 3.

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## REGIONAL DEVELOPMENT AND THE ROLES OF INSTITUTIONS

### **Daea Alexandra Renate**

*University of Craiova, The Faculty of Economics and Business Administration, Drobeta Turnu Severin, Adrian Street, no.174, Romania alexandradaea@yahoo.com 0723610538*

### **Puiu Carmen**

*University of Craiova, The Faculty of Economics and Business Administration, Drobeta Turnu Severin, Călugareni Street, no.1, Romania cypuiu@yahoo.com 0745087609*

### **Stanciu Marieta**

*University of Craiova, The Faculty of Economics and Business Administration, Craiova, Bucharest Road, bl.A18, ap.5, Romania mstanciu@yahoo.com 0743099509*

*The internationally accepted definition of sustainable development is referring at the obtaining the satisfaction the needs of the present without compromising the ability of future generations to meet their own needs. Sustainable development is a means to an end, or an approach to decision-making, rather than an ideal outcome or final achievement. Development, in this context, is any process that enhances the wellbeing of people and their environment. Development is sustainable when it achieves stable or increasing wellbeing over time for both people and the environment.*

*Keywords: globalization, crisis, development, institutions.*

*Cod JEL: F4: Macroeconomic Aspects of International Trade and Finance*

### **1. Regional development**

The internationally accepted definition of sustainable development is referring at the obtaining the satisfaction the needs of the present without compromising the ability of future generations to meet their own needs. Sustainable development is a means to an end, or an approach to decision-making, rather than an ideal outcome or final achievement. Development, in this context, is any process that enhances the wellbeing of people and their environment.

Development is sustainable when it achieves stable or increasing wellbeing over time for both people and the environment. Sustainability is another term often used. Government initiatives need to promote growth and innovation by (in each of these areas, government has already made moves to strengthen the performance, but more can be done):

- Enhancing the existing innovation framework.

- Developing, attracting and retaining people with exceptional skills and talents who are able to innovate and increase our overall productivity.

- Focusing government resources to maximize the impact of innovation across the whole economy.

- Focusing government resources to maximize the impact of innovation across the whole economy.

Whole regions, especially sub-Saharan Africa and Caribbean/Central America, were virtually excluded from the benefits of global economic growth. Despite these sign of distress, there was little adverse reaction to globalization until the shocks (the Asian economic crisis from 1997, the anti-globalization movements and current global crisis).

In order to achieve sustainable development were proposed the following indicators: for population (population growth; ageing population; migration; ethnic diversity; regional population change) and for economic growth and innovation (economic performance and GDP; balance of trade in goods and services; financial status; regulatory and business climate; industry and regional development; science and technology).

Today, the debate over economic development centers on the appropriate role for states and market in development process. Economic regionalism has reached flood tide and is having a

significant impact on international economy and, at the same time, the nation-state remains the dominant actor in both domestic and international economic affairs. (Gilpin, 2001:4)

The Rio Declaration states that human beings are at the centre of concerns for sustainable development and that they are entitled to a healthy and productive life in harmony with nature. The goals of sustainable development can only be achieved in the absence of a high prevalence of debilitating illnesses while population health requires poverty eradication.

There is an urgent need to address the causes of ill health and their impact on development, with particular emphasis on women and children, as well as other vulnerable groups of society such as people with disabilities, elderly persons and indigenous people. Fundamental changes in the way that societies produce and consume are indispensable for achieving global sustainable development. All countries should strive to promote sustainable consumption and production patterns, with the developed countries taking the lead, and with all countries benefiting from the process, based on the principle of common but differentiated responsibilities.

Globalization will liberalize the world economy from unnecessary bureaucracy and trade barriers; when nation states remove all barriers to global competition, the movement of goods and services, capital, multinational operations and financial institutions will bring greater efficiency to and better utilization of the resources at international level. (Lee and Carter, 2005:12)

## **2. Governance for sustainable development**

Governments, relevant international organizations, the private sector and all major groups should play a critical role in striving to change unsustainable consumption and production patterns. This would require urgent action at the international, regional and national levels. Human activities are having an increasing impact on the integrity of ecosystems that provide essential resources and services for economic activities. Managing the natural resource base in a sustainable and integrated manner is essential for sustainable development. In this regard, it is necessary to implement strategies to protect all ecosystems and to achieve integrated management of land, water and living resources, while strengthening regional, national and local capacities.

Governance for sustainable development is about ensuring the processes and institutions are in place to embed sustainable development approaches at the level of the world economy. Governance for sustainable development is a key issue at the level of international interactions also. Good governance is vital in balancing social, economic, environmental and cultural issues and therefore in making good sustainable development decisions. For example, the European Union defines good governance as:

- Openness (institutions should work in an open manner).

- Participation (the quality and effectiveness of policies depend on wide participation from conception to implementation).

- Accountability (roles need to be clear and each institution must explain and take responsibility for what it does).

- Effectiveness (policies must be effective and timely and decisions must be made at the appropriate level).

- Coherence (policies and action must be coherent and easily understood - coherence requires political leadership and a strong responsibility to ensure a consistent approach within a complex system; regional and local authorities must be involved).

The government's goal for regional development is sustainable economic growth for communities, as an essential part of sustainable development. Regional development strategies focus on local resources and strengths that can support sustainable economic growth.

For regions with acute needs, the strategies address inequalities due to weaknesses in the local economy, as well as other causes of social and economic disadvantage. Regional development concentrates on working with local stakeholders such as local and central government, business –



in order to develop regional partnerships, to create a shared vision and to build economic development capability.

Working together is pivotal to achieving sustainable development. The roles of the respective players are all different, and each has different but significant contributions to make. Sustainable development is most likely to be achieved when all sectors interact constructively. Most issues cannot be resolved by one sector acting alone.

The role of central government is to create the conditions that lead and encourage sustainable development at a national level. Within that broad role, government can influence activity in the way that it manages its investments (such as research, education and other activities); in the use of its powers to pass legislation and to use coercive powers; and in the services and benefits it funds or delivers.

It can also influence activity internationally by the activities it supports or carries out itself. Government activity needs to be based on a reasonable level of community support and it needs to be well considered.

The latest experiences have proved that the sustainability of the market economic system is by no means guaranteed. The Asian financial crisis from 1997 clearly demonstrated that the market economy is not without its costs. John Dunning distinguishes between three types of failures of the capitalist system:

- A failure of markets: moral hazard, inappropriate macroeconomic politics, excessive speculation (property and stock market), an inappropriately valued currency, manipulated exchange rates, cross-border and intra-firm transfer prices, bad timing of short-term debts, presence of a strong black market and abuse of monopoly power.

- A failure of institutions: inefficient functioning of the regulatory and supervisory systems, an inadequate legal and financial infrastructure, shortcomings in the protection of ownership rights, lack of accountability and/or transparency and inadequate standards in financial reporting.

- A deficiency of moral virtues, which lies at the core of the failure of the markets and institutions. (Dunning, 2003:145-146)

A development strategy has sometimes been likened a map of where the society is going. The development process is too difficult for us to write down today a map of where the economy will be going over the next ten years because it will require too much information and this knowledge is not currently available. While, in principle, a development plan could map out how the economy would respond to the myriad of different contingencies that might occur in the coming years, in practice this is seldom done. By contrast, a development strategy is a living document: it needs to set forth how it is to be created, revised and adopted, the process of participation, the means by which ownership and consensus is to be obtained, how the details will be fleshed out.

The development strategy fulfils several functions as it sets forth its vision for the future:

All societies are resources-constrained; poor countries even more so. Beyond general resource constraints are the constraints on the capacity of government, the limitations on the number of issues, which it can pursue. While there are many pressing needs, it is imperative that the development strategy set priorities. In traditional economic theory, prices perform all the coordination that is required in an economy. Having a sense of where the economy is going is essential: if, for instance, an economy is moving to the next age of development, the appropriate infrastructure, human capital and institutions have to be in place. If any of this essential ingredients is missing, the chances of success will be greatly reduces. Not only must there be coordination of different agencies within and among levels of government, there must be coordination between the private sector and the public and among various part of the private sector. The process of constructing a development strategy may itself serve a useful function, in helping build a consensus not only about a broad vision of the country's future and key short- and medium-term objectives, but about some of the essential ingredients for achieving those goals. If the transformation of society is at the centre of development, the question becomes how to

bring these changes about; one of the major roles of the development strategy is to serve as a catalyst, for example by identifying the areas of a country's (dynamic) comparative advantage. Identifying these areas and publicizing such information is a public good and as such is a responsibility of government.

### **3. Conclusions**

To be effective, this attempt to serve as catalyst will need to embrace the ambitious goal of encouraging society-wide transformation. Part of the government's role as a catalyst is undertake projects that can lead to social learning – that means projects from which the country can draw widely applicable lessons (for instance about the viability of an industry).

A project that demonstrates that local participation in education and local control of rural schools increases school accountability (as in El Salvador) or student performance (as in Nicaragua) could be replicated nationwide (or indeed, even worldwide), with limited additional resources. Indeed such local involvement can itself be a catalyst for community-based development efforts that go beyond education. Seeing development as a transformation of society also has clear implications for where the locus of development efforts must be and how the process of assistance must be organized.

-Why imposing change for the outside cannot work. Effective change cannot be imposed from outside. Indeed, the attempt to impose change from the outside is as likely to engender resistance and give rise to barriers to change, as it is to facilitate change.

-Ownership and participation. Key ingredients in a successful development strategy are ownership and participation. Ownership is essential for successful transformation: policies that are imposed from outside may be grudgingly accepted on a superficial basis, but will rarely be implemented as intended.

In order to achieve the desired ownership and transformation, the process that leads to that strategy must be participatory; development can not be just a matter of negotiations between a donor and the government; development must reach deeper and it must involve and support groups in civil society because these groups are part of the social capital that needs to be strengthened and they give voice to often-excluded members of society, facilitating their participation and increasing ownership of the development process. By involving these groups, the process of strategy formulation may be able to elicit the commitment and long-term involvement that is necessary for development strategy to be sustainable.

-The need for inclusion and consensus building. One of the obstacles to successful development has been the limited ability of some countries to resolve conflicts; this ability is an important part of social and organizational capital. Reforms often bring advantage to some groups while disadvantaging others. There is likely to be greater acceptance of reforms and a greater participation in the transformation process if there is a sense of equity about the development process, a sense of ownership derived from participation and if there has been an effort at consensus formation.

Many examples have showed the importance for instance of consensus formation in achieving macroeconomic stability. By contrast, a decision to, for example, eliminate food subsidies that is imposed from the outside through an agreement between the ruling elite and an international agency is not likely to be helpful in achieving a consensus - and thus in promoting a successful transformation. (Dunning, 2005: 84-95)

Trade is important for developing countries to improve their access to wealth and to their participation in the world economy. All the changes happened in the global business environment have tremendous political, economic and social implication on the global business environment.

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# THE MULTINATIONAL COMPANIES AND THE LOW-COST MARKETS OF SOUTH-EAST ASIA

**Diaconu Laura**

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

*In order to be considered a low-cost market, the cost advantage of one or more factors of production offered by a state – generally, a developing one – must be exploited by the multinational firms. Therefore, we may speak about these markets only after 1970-1980, when some significant political, cultural and technological changes allowed the multinational companies relocate their production in these countries, through foreign direct investments. Next to China and Central and Eastern Europe, the low-cost markets of South-East Asia represent another main region on which the multinationals, determined by the location advantages, establish their production subsidiaries. The main purposes of the present paper are to identify the factors that have stimulated the foreign direct investments in the South-East Asian region and, also, to analyze the evolution of these low-cost markets.*

*Keywords: multinational company, low-cost market, foreign direct investments, developing state, location advantages*

*JEL Classification: F21, F23*

## 1. Introduction

The term of low-cost market refers to that region or country that has the low cost advantage of one or more factors of production (labor force, land etc.)<sup>80</sup>. Generally speaking, these markets are located inside the developing or emergent states and are exploited especially by the multinational companies. These firms, relocating their manufacture in the developing regions or countries through foreign direct investments, have the opportunity to produce, with very low costs, goods which will lately be sold at much higher prices, due to the well-known brand that they are wearing. Consequently, in order to be considered low-cost markets, the advantages offered by them must be exploited by the multinational companies. Regarding this aspect, we may speak about the low-cost markets only after 1970-1980, when the trade and investments have been opened and the global markets occurred.

We may notice that, nowadays, the developing states represent a great opportunity for multinational companies to grow and intensify their 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 the developing countries were only 18% from the total amount of FDI, in 1996 this percentage rose up to 33%, exceeding 100 billion dollars<sup>81</sup>. While these investments are widely interpreted as heralds of a major restructure of the global economy, the emerging markets are considered to be the source of the future growth.

At a global level, next to China and Central and Eastern Europe, the low-cost markets of South-East Asia represent another main region on which the multinationals, determined by the location advantages, establish their production subsidiaries. Between 1988 and 1997, the recently industrialized states from this region attracted great amounts of foreign direct investments (FDI), which played an important role in compensating for some lacks of the national technology and organizing abilities. So, if in 1980 the proportion of the investments' inflow in the South-East

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80 See PriceWaterHouse Coopers, „Low-cost Country Sourcing”, 2005, <http://www.pwc.com/extweb/pwcpublishations.nsf/docid/B038BC9F3CEB6DC9852570CE007815F5>, accessed in June 2006.

81 UNCTAD, World Investment Report 1996, United Nations Conference on Trade and Development, New York, 1996.

Asia was about 7% of the world investments, in 1997 this percentage totaled 16%. It was not only about the low production costs of these states, but also the sustained economic growth rates, the highly skilled labor force, the large national and regional markets, as well as the possibilities of developing the infrastructure that attracted the FDI.

## **2. The Evolution of the Foreign Direct Investments in the South-East Asian Low-Cost Markets**

The Asian area has a diversified experience with the FDI. The percentage of the sales, in the manufacturing sector, owned by the multinationals' subsidiaries at the end of the '80s was about 40-50% in Singapore and in the four ASEAN states (Indonesia, Malaysia, Filipine and Thailand), in Korea and Hong Kong of 21,5% and, respectively, 17,3%; a similar situation to Hong Kong was in Taiwan. Yet, the aggregates in their gross dimension, such as the percentage of the foreign subsidiaries in the sales from the manufacturing field or the rate of the FDI in the national capital accumulation, do not necessary point out the global importance of the FDI in the industrialization process. For example, in Korea the foreign subsidiaries owned a quarter of the exports of manufactured products, value which is much greater than their small percentage in GDP or in the gross capital accumulation. In the basic field of the economy – the electrics and electronics' sector – the percentage owned by the multinationals' subsidiaries was about 63-73% in the '90s<sup>82</sup>. This is why an important role at the economic development of Korea and Taiwan was played not only by the national firms but also by the investments of the multinationals in some key-sectors of the economy.

One of the most important features of the multinationals which invested in the low-cost markets of South-East Asia is that the FDI were mainly focused on the exports, compared to the FDI from other developing regions. This aspect reflects the political efforts of using the investments in a larger context of the developing strategy. The biggest economies of the first wave of the recently industrialized states had a restrictive approach, based on the cost-benefit analysis of the FDI's net contribution to the promotion of the national enterprises and to the development of the local technological abilities. Singapore, that had a more open policy, also used various measures to direct the FDI to the strategic fields. Compared to the economies from the first industrialized states, the second wave of the industrialized countries had a less restrictive approach regarding the FDI. In the second half of the '80s, there have been adopted more liberal regulations regarding the FDI, which coincided with the concerted measures to accelerate the exports of the manufactured products and with the rapid changes in the firms' competitive position both from Japan and from the states of the first industrialization wave. The most impressive investments' increases occurred in Korea, Hong Kong, Singapore and Taiwan, where the exports promoting policies were more correlated to the FDI, fact that determined not only the rapid orientation towards the manufacturing products, but also the substantial growth of the high-tech exports<sup>83</sup>. Yet, this phenomenon must be regarded with scepticism because the contribution of the second industrialized states to these sophisticated exports consisted more in assembling various imported equipments, which required medium or low skills.

The strategy successfully used by ASEAN countries to attract the multinationals' FDI consisted in facilitating the investments between these states. There are two explanations for implementing such a strategy. First of all, ASEAN has to compete alone to other regional blocks or growth zones, such as MERCOSUR or China, and, consequently, it is necessary "to stress its critical mass as a community of closely co-operating economies as opposed to a club of individualistic

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82 Ramstetter, E.D. (ed.), *Direct Foreign Investment in Asia's Developing Economies and Structural Change in the Asia-Pacific Region*, Westview Press, 1991.

83 UNCTAD, *Trade and Development Report 1996*, United Nations, Geneva, 1996.

nation-states”<sup>84</sup>. Secondly, ASEAN region is a developing market inside which the multinationals are looking for taking advantages of the regional division of labor, process that requires a close cooperation between these states.

**Table no 1** Priority Policies to Encourage Foreign Direct Investments into and within ASEAN

<i>Policy/measure</i>	<i>Applicable at the level</i>	
	<i>Intra-ASEAN</i>	<i>Trans-ASEAN</i>
<i>Measures to ensure regional political and economic stability</i>		
<i>Extension of AFTA block</i>	++	+
<i>Reduction in restriction on foreign investors</i>		
<i>Removal of all barriers on participation of foreign corporations</i>	+++	+++
<i>National treatment for the foreign firms</i>	+	++
<i>Creation of an enabling environment for FDI</i>		
<i>Establishing a good quality industrial support</i>	+++	++
<i>Establishing a good physical and commercial infrastructure</i>	++	+++
<i>Predictably and transparency of all the laws and regulations</i>	+++	+++
<i>Stimulating highly skilled labor force</i>	+	+
<i>Harmonization of FDI policies in all the ASEAN states</i>	+++	+++
<i>Harmonization of all the ASEAN corporate laws and regulations</i>	+++	++

Source: Adapted from Mirza, H., „Reviving FDI Inflows in Southeast Asia”, *Institute of Southeast Asian Studies (ISEAS)*, Singapore, 2001, pp. 8-10

In order to stimulate both the FDI in ASEAN region and the investments between these states, there were adopted some measures and policies, showed in the table no. 1. The importance of implementing the measure/policy is indicated by the number of the pluses, where „+++” means a high priority, „++” a medium one and „+” suggests a low priority, that decision being less necessary.

The Asian crisis from the end of the last century highlighted some macro-economic weaknesses of the low-cost markets, fact that significantly influenced the attracted FDI. In order to identify the attractiveness degree of the South-East Asian countries for the FDI, before and after the crisis of the '90s, Bartels and Freeman conducted a study on 110 multinationals, according to which the states were classified in four main categories: “winners”, “survivals”, “laggards”, “underdogs”<sup>85</sup>. In the “winners” category have been included those countries regarded by the multinationals as attractive before the crisis and very attractive after the crisis. Among the ten Southeast Asian countries, only Singapore has improved its position from this point of view, after the crisis

84 Mirza, H., „Reviving FDI Inflows in Southeast Asia”, *Institute of Southeast Asian Studies (ISEAS)*, Singapore, 2001, pp. 6-7, <http://www.gapresearch.org/finance/publications.html>, accessed in July 2008.

85 Bartels, F.L., Freeman, N.J., „Multinational Firms and FDI in Southeast Asia. Post-Crisis Changes in the Manufacturing Sector”, *ASEAN Economic Bulletin*, vol. 17, no. 3, 2000, pp. 324-340.

(despite the fact that it has no longer the labor low-cost advantage, due to the fact that it confronts with a labor force deficit), Thailand maintaining its attractiveness for the foreign investors. So, these two states can be considered “winners”. At the time of the survey, 48% and, respectively, 42% of the multinationals investigated were about to implement their FDI plans in Singapore and, respectively, in Thailand.

The “laggards” are those states which, before the crises, were considered attractive by the multinationals but, after that moment, their attractiveness diminished. Malayezia, Filipine, Vietnam and Indonesia are included in this category but, of all these, only Indonesia was considered to be unable, until recently, to project effectively the economic and business policies, having a volatile political environment.

The “underdogs” category includes those states which did not show a high degree of attractiveness for the multinationals, either before or after the Asian financial crisis. There are states such as Brunei, Cambodia, Laos or Myanmar which, generally, prior to 1997 did not encompass factors attractive for FDI, with the exception of some location specific advantages in Brunei (oil and gas reserves). Moreover, Cambodia, Laos and Myanmar are considered to be unstable from the economic and political point of view.

The “survivors” category refers to those countries regarded by the multinationals as unattractive before 1997, but which managed to increase their attractiveness after the financial crisis. The Asian reality showed that no country is included in this category: none of the Indochina’s four members are considered to have a location specific disadvantage, able to be translated, through exogenous shocks, into a location specific advantage.

Yet, even after the crisis, the South-East Asian region was considered an important low-cost market for 68% of the 110 multinationals surveyed. Moreover, 84% of the respondents indicated strong or very strong investment commitments to South-East Asian region as a whole; 61% of these companies have planned big future corporatist investments. According to the survey, at the beginning of the XXI<sup>st</sup> century, no other region seemed to compete with the low-cost markets of South-East Asia, from the point of view of the possibilities to attract the FDI, excepting China. The multinational companies had a global perspective that prioritized, after China and South-East Asia, the low-cost markets of the Central and Eastern European Union (55%), the North-East Asia (52%), the NAFTA states (48%), South Asia (45%), the attractiveness of the low-cost markets of South America being of only 29%. From all the South-East Asian countries, the ASEAN ones - Indonesia, Malayezia, Filipine, Singapore and Thailand – were generally preferred by the multinationals, compared to the Indochina states – Brunei, Cambodia, Laos, Vietnam and Myanmar.

The reason for which the multinational companies preferred these countries of South-East Asia has changed during the time: if in the ’60s the desire to have access to the great potential offered by the host market prevailed, at the beginning of the XXI<sup>st</sup> century the multinationals were firstly attracted by the availability of the cheap, highly skilled labor force, by the low distribution costs, by the financial aid of the governments, as well as by the local reliable partners. Yet, there are some risks that threaten the multinationals with subsidiaries on the South-East Asian market, such as the political instability, ambiguous governmental regulations and the problems related to the infrastructure. Due to all these difficulties, many of the 110 multinationals surveyed considered that the South-East Asian region was not fully able to respond to the requirements of the “new economy”.

At all the inconveniences mentioned above may also be added the increase, from the last five years, of the operational and production costs, with a higher rate than the efficiency and productivity growth. This is one of the reasons for which, nowadays, it can be noticed a decrease in the amount of the foreign direct investments, attracted especially by the ASEAN region. Correlating the evolution of the FDI from this area with its specific features and analyzing the consequences of the entrance of the multinationals on the low-cost markets, we can estimate that

the problems the ASEAN states confront with in attracting the foreign investors are mainly caused by their success. Representing an important pole of attraction of the FDI, not only between 1988 and 1997, but also at the beginning of the XXI<sup>st</sup> century, the ASEAN members have rapidly developed, fact that determined the increase of the incomes' level. This proves that the advantages pursued by the multinationals inside the emerging countries will gradually disappear because these economies, while developing, are loosing their low-cost markets' characteristics.

### 3. Conclusions

Considering all the aspects mentioned above, we can argue that, on **short term**, *the low-cost markets of South-East Asia are very attractive for the multinationals* due to the fact they offer not only the advantage of the low-cost of the factors of production, but also some other fiscal and legislative facilities. Yet, on **long term**, *the advantages may become disadvantages* if there is no strict control of the products' quality made in these states, any mistake having a negative influence on the reputation of the firm involved.

Another conclusion that results from analyzing the case of the South-East Asian region is that, on **long term**, *the advantage of the low cost of the factors of production will disappear*, these markets loosing their low-cost characteristic. The explanation consists in the fact that the foreign direct investments, attracted by a state, significantly influence the economic development of that country, aspect that will lead to an increase in living standards and, consequently, of the production's costs.

In a **future research** it will be interesting to determine the *impact that the nowadays financial crisis will have on the FDI inflows* in these countries. Moreover, it could be of a great importance to *analyze the measure in which the South-East Asian low-cost markets will still represent*, after a few years, *a pole of attraction for the multinationals*. This future study could start with the identification of the economic progress made by the low-cost markets and of its impact on the costs' evolution of the factors of production.

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# ELEMENTS FOR PROGNOSIS OF STEEL PRODUCTION IN ROMANIA IN THE CONTEXT OF THE WORLD ECONOMIC CRISIS

## **Dimitriu Sorin**

*Politehnica University Bucharest, The Faculty of Science and Engineering of Materials , The Contact Address: Bucharest Chamber of Commerce and Industry, Bd. Octavian Goga, 2, Bucharest, sorin.dimitriu@ccir.ro, 021.319.01.32*

## **Dumitriu Gabriela**

*Contact Address: Bucharest Chamber of Commerce and Industries, Bd. Octavian Goga, 2, Bucharest, gabriela.dumitriu@ccir.ro, 021.319.01.32*

## **Voicu-Dorobanțu Roxana**

*Bucharest University of Economics, Faculty of International Business and Economics, Piața Romană, 6, Bucharest, rovodo@gmail.com, 0733014657*

*The paper presents the situation of the Romanian steel industry in the context of the international economic crisis. The reduction in production due to the general effects of the crisis, the increase in imports and a downward trend of exports have impacted on the overall evolution of the industry, that is confronted with sector benchmarks and EU requirements, such as the greenhouse gas emissions reduction.*

*Keywords: steel industry, prognosis, Romania*

*JEL: L61, O14*

The consumption of steel products in the European Union (EU-27) has reached in 2007 the level of 193.2 million tons, approximately 16% of the total world consumption of the same products. In the case of Romania, the level is close to 2.5% of the total EU consumption, with a consumption of 4.8 million tons, causing estimation for 2008 of 4.6 million tons and for 2009 of 4.5 million tons. The figures are higher than the projected number of 4.3 million tons from the 2007 Steel Industry Restructuring Programme, sanctioned through the Governmental Decision 655/2007, thus proving a larger internal market for steel products.

## **The current technological level in the steel industry in Romania**

The current technologies and equipment present in the steel industry have reached the theoretical limitations, from the point of view of the specific consumption. The main production flows used currently in Romania are the same as all around the world, that is:

- core – furnace – convertor (BOF – Basic Oxygen Furnace) – continuous casting – hot/cold lamination - adjustment
- used iron – electric furnace (EAF - Electric Arc Furnace) – continuous casting - hot cold lamination - adjustment

In secondary steel industry the following procedures have been used:

RF and VD for the degasing treatment of steel in vacuum

LF for steel refining

AOD for the advanced decarburization of inox steel

The injection of powders from Calcium alloys and refining flows

The injection of wires made of special alloys

The advancements in the lamination process, less spectacular than the advancements in the production sector, have been oriented towards the reduction of the usage of resources, the increase in automation and, implicitly, the more rigorous controlling of the technologies and quality, the compactness of the flows and the adjustment of equipment to the deformation requirements of the new types of steel from the HSS and UHSS generations. The two main procedures of production (BOF and EAF) have reached maturity, and have a reduced rate of

advancement, the main concern being the improvement and generalization of the continuous casting of thin steel bands, thus leading to energy savings.

The main elements of performance benchmarking in industry (closely followed by the Romanian industry), at the current technological level and environmental protection requirements, are the following:

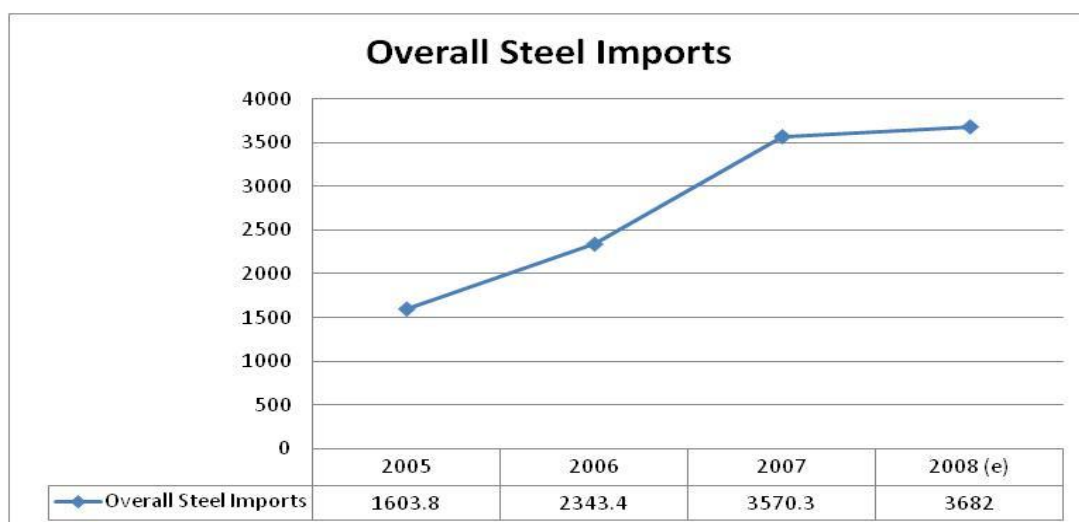
- the weighing of the production procedures: BOF 66,3% ; EAF 31,2%
- the weighing of continuously casted steel: 92,4%;
- the weighing of continuously casted thin bands: 5%;
- productivity in tons per person: 600 – 700;
- productivity of the steel production equipment in tons per hour: BOF = 353; EAF = 141;
- the integrated energy consumption, MJ/t : BOF = 16800; EAF = 6200;
- workload in hours/person/ton : BOF = 1,8 ; EAF = 0,5;
- CO2 emission in tons CO2 per ton of steel: BOF = 1,96; EAF = 0,47.

### **The reduction of Greenhouse Gas emissions**

The EU Directive regarding the reduction in the emission of greenhouse gas trading aims at improving the situation in the case of greenhouse gas emissions, thus lowering the level from 2020 to 21% of the level from 2005. In Romania, there is currently underway an analysis of the risk of reallocation of emission certificates (the reallocation refers to the switch in the interest of the investors towards countries where the environmental requirements are less constrictive) towards the units that have implemented the BATs- Best Available Technologies. The entire steel industry is considered, as well as the profitable companies, in which the level of Gross Added Value is more than 25% of the sales. The Romanian companies should have a correct assessment of the risk of relocation, in order to fully benefit from a suitable approach in the allotment of emission certificates and the possibility of compensation in case of an increase in the price of electricity.

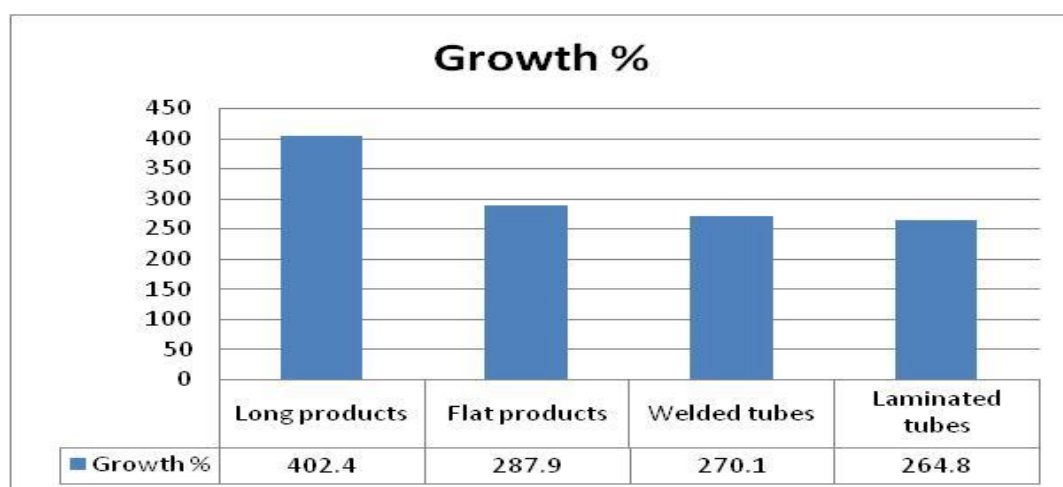
### **The Impact of the increase in imports of steel products**

The steel industry in Romania is currently undergoing an unprecedented increase in the total import of steel products. Out of the total imports, the most aggressive are the ones coming from the European Union, with more than 70% of the entire amount. The evolution the overall steel imports for the past 4 years is presented in the next figure:



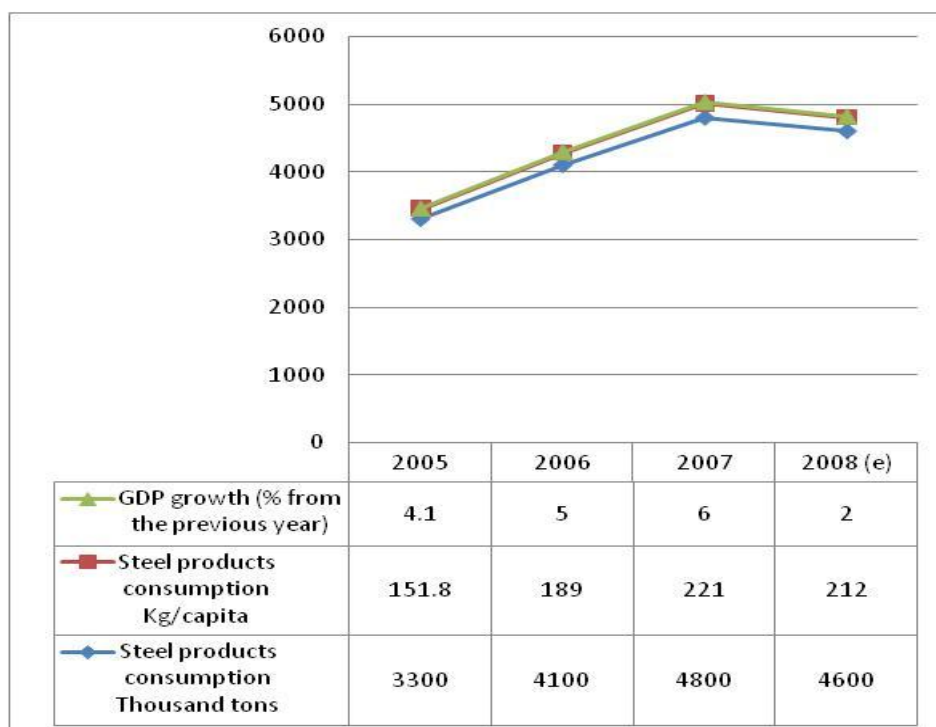
**Figure 1: An evolution of the Romanian Imports of Steel 2005 - 2008**

A more detailed evolution of imports in 2007 as compared to 2004 is the situation presented in Figure 2:

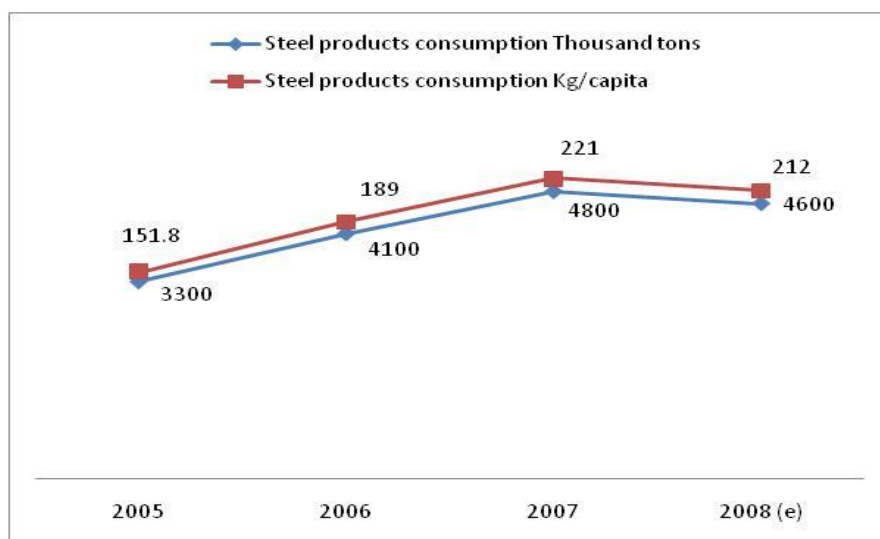


**Figure 2: Detailed growth of imports 2007 from 2004**

The steel consumption in Romania for the analyzed period of time is presented in Figure 3 and 4. It is obvious that the evolution of the steel consumption has followed to the letter the evolution of the GDP, thus proving an intense correlation between the two variables.

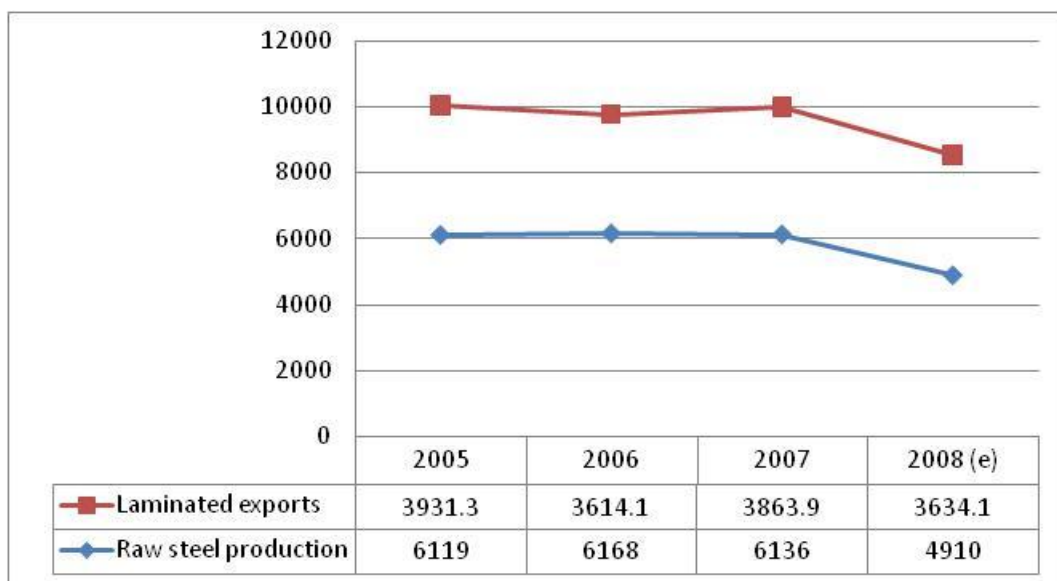


**Figure 3: Evolution of the consumption of steel products in Romania 2005 – 2008 as compared to the GDP growth**



**Figure 4: Consumption of steel products in Romania 2005-2008**

Compared to the previously presented evolution is the consumption, the production followed a more tempered pattern, and, more importantly, a downward trend:



**Figure 5: The evolution in the production of raw steel and exports of laminates in Romania 2005-2008**

It is possible that the increase in imports (with 230% in 2008 from the level in 2005) has been caused or facilitated by the protectionist policies regarding the cost of oil, electricity and transportation from the EU countries exporting to Romania and/or the Romanian extreme restrictions, imposed the EU Directives (such as the supplementary expenses for environmental protection). Based on this protectionist tendency, to be also followed in the near future, it is possible to imagine the application of measures such as the identification of new ways of restricting the imports of steel products, based on direct trade relations with countries outside the EU, or the putting in practice of anti-dumping measures.

### **Prognosis for the future steel production in Romania**

It is expected for both the steel production and the consumption of finite products to decrease during 2009 as well as, probably, 2010, due to:

- the steep decline in the construction sector without a near future solution to the problem
- the decline in the automotive industry and chemical sector
- the existence of important stocks of steel, sold currently at prices lower than the production costs
- the difficulty in accessing credit lines under favorable conditions
- the decrease in the demand of steel products for export

The measures taken in most companies and steel producers all around the world, as well as in Romania, for reducing the steel production, may cause a recovery of the world steel industry at soonest during the second half of 2010. Unfortunately, these measures have created disturbing social issues, by causing massive layoffs.

In conclusion, it is to be expected a major change in the structure of the world and national steel market, leading to a stabilization of it with a lower number of competitors.

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# AN ANALYSIS OF THE ROMANIAN GOOD GOVERNANCE INDICATORS AND THEIR INFLUENCE ON THE ECONOMY COMPETITIVENESS

**Drumea Cristina**

University Transilvania Brasov, Eroilor 29, +40723248000, [cristinadrumea@yahoo.fr](mailto:cristinadrumea@yahoo.fr)

**Keul Melinda**

University Transilvania Brasov, Eroilor 29, +407444455344, [keul\\_m@yahoo.com](mailto:keul_m@yahoo.com)

*Virtually all government decisions carry economic implications thus the quality of those decisions is vital for the well being of the general population. We see today an increased implication of the State in the day to day management decisions of the economy, not only in Romania but worldwide. Many companies, while not undertaking business with the State, are thriving or contracting due to its actions. The link between the government competence and economy's competitiveness is thus established. This paper looks at the Romanian government track record for the most recent years and suggests a composite metric of governance evaluation.*

*Keywords: competitiveness, governance, metrics analysis*

*JEL classification: O38, H11*

## **Good governance aspects**

There are several aspects that contribute to a good practice in governing, either at the company's level, or at national echelon.

We begin with the definition specified by the World Bank<sup>86</sup> to the Good Governance concept, as being the government's aptitude to:

- ensure political transparency and voice for all citizens;
- provide efficient and effective public services;
- promote the health and well-being of its citizens, and
- create a favourable climate for stable economic growth.

On the same note, we define through the same organism that strives to clarify the facets of the concept, the Demand for Good Governance<sup>87</sup> (DFGG), which refers to the extent and ability of citizens, civil society organizations, and other non-state actors to hold the state accountable and to make it responsive to their needs. In return, this DFGG enhances the capability of the state to become transparent, accountable, and participatory in order to respond to these demands.

Many authors strive to identify those indicators of good practices in governance, in order to achieve essential meaning in analysis, thus enabling an accurate breakdown of the situation.

We will refer to a few characteristics that, in our view synthesise the most important lines of the broader picture presenting Romanian economy. The indicators are not new as such, but combined in a different manner than usual, enabling an interpretation of their influence on the mechanism of one of the aspects of performance, the good governance.

## **Good governance indicators for Romania**

First of all, on *predictability*; a search on the representative archive of the government official journal found more than 12 thousand post factum alterations published since 1990, in other words, more than two changes per working day in the last 18 years. This is concerning in terms of strict manipulation of data, plus in terms of good understanding and transmitting information. It has also a relevant influence on the construction of the aggregated indicators that quantify

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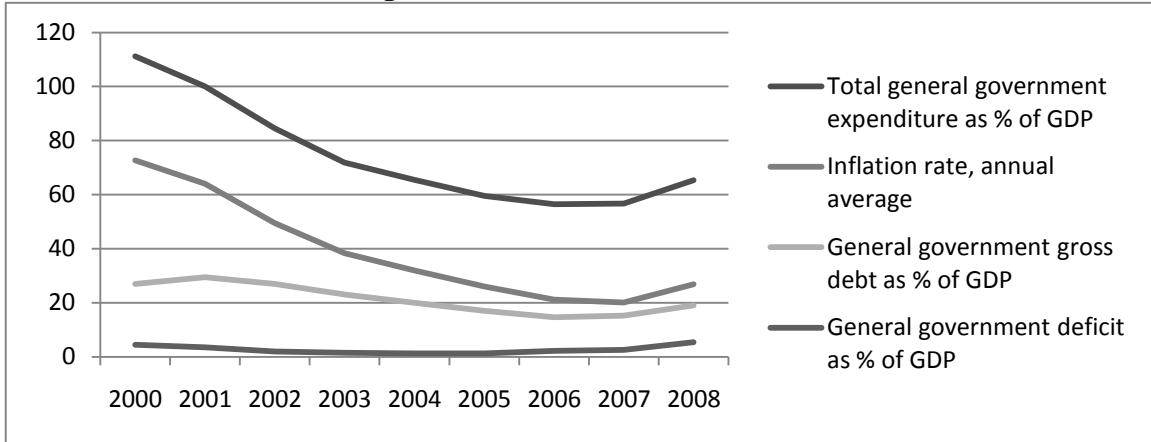
86 <http://www.worldbank.org.>, reference to PECSA Programme (The Program to Enhance Capacity in Social Accountability).

87 [http://www.worldbank.org.kh/pecsa/page\\_en.php?page=21](http://www.worldbank.org.kh/pecsa/page_en.php?page=21), reference to Glossary.

general and specific situations in official reports. We consider this factor as indicating a poor predictability of the Romanian system, with business depressing consequences.

A second aspect refers to a series of *four indicators measuring public interference with business and household*: tax level, inflation, account deficit, public debt. Romania applied several tax levels and systems since 1990. The current rate of 16% for both corporate and individual revenues was recently modified by adding a fixed tax which affects mainly small companies that were more or less exempted. The immediate consequence of the latter is a contracting economy in terms of businesses closing or being put on stand-by. As a midterm perspective, it is expected that companies would be relocated outside borders in more tax friendly environments, such as immediate vicinity of Bulgarian or Hungarian economies.

**Figure 1 Good Governance Indicators for Romania (2000-2008)**

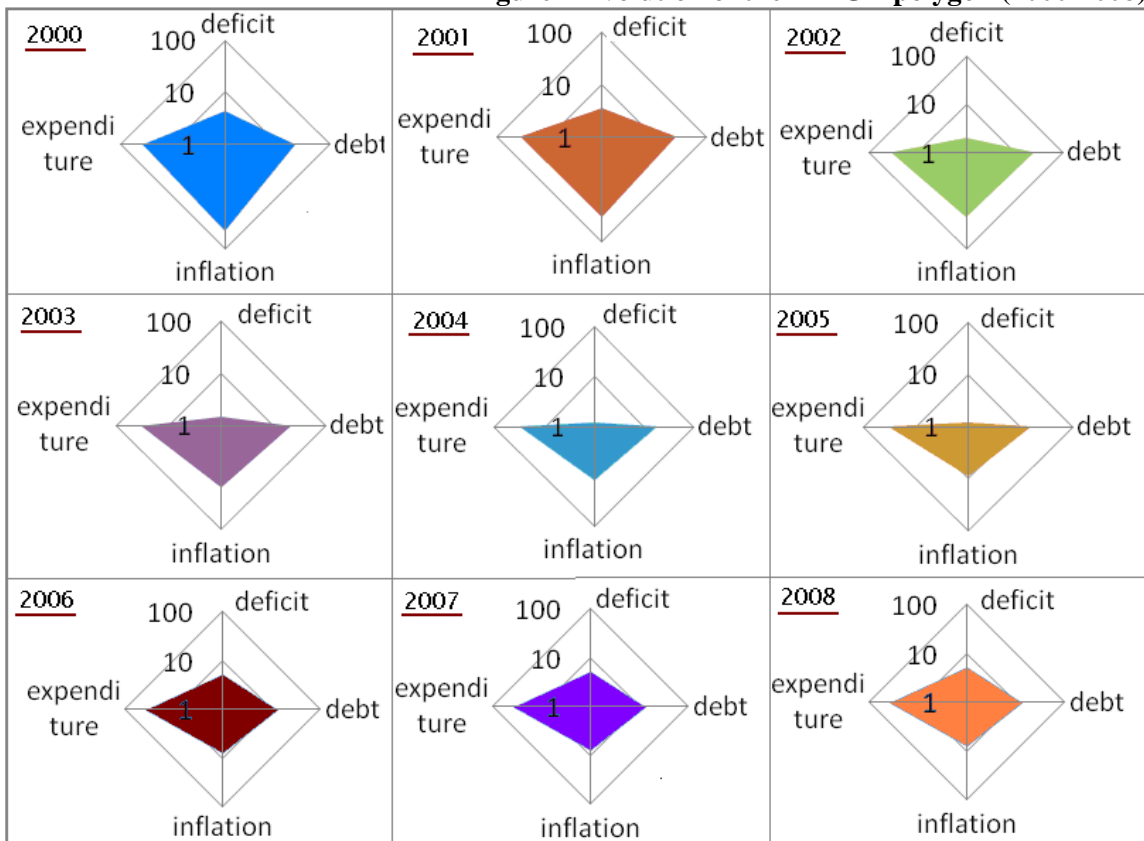


Sources of data: Eurostat, INSSE

The account deficit, public debt and inflation are depicted in the first table. We would make a different representation of these indicators, in order to illustrate the evolution of the polygon created between the four main indicators (general government Expenditure, general government Deficit, Inflation rate and government’s Gross Debt) and we will label this the EDIGD Polygon. As we can see in Figure 2, the polygon’s evolution gives an image of the link between the four indicators, thus enabling us to consider that *the performance of the government is improving as the area of the polygon decreases*.

The graphic representation is more illustrative for the combined indicators, showing an improvement of the quality of the governance between 2003 and 2006, at least in terms of the specific aspects taken into consideration.

**Figure 2 Evolution of the EDIGD polygon (2000-2008)**



Sources of data: Eurostat, INSSE

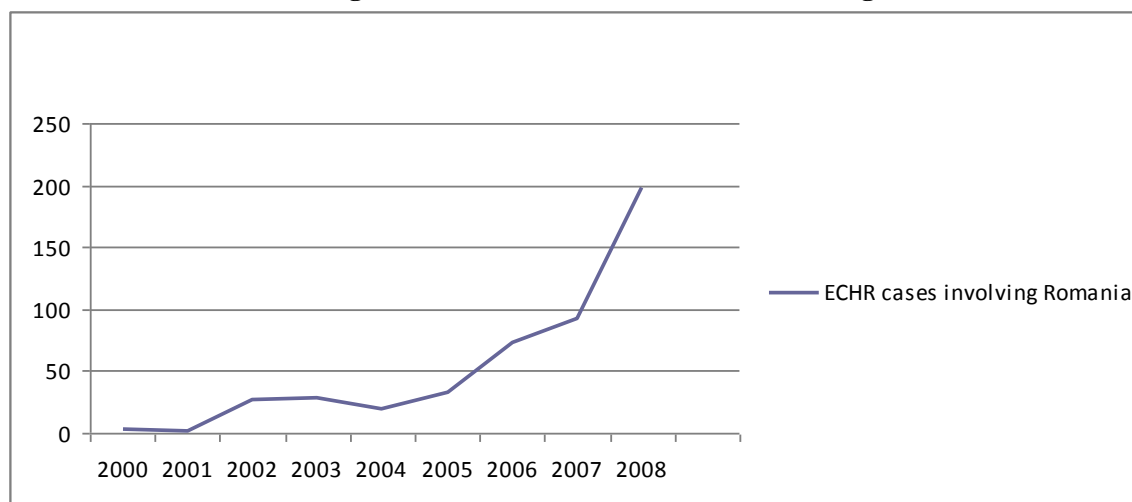
A third facet of the problem refers to the *absorption of EU Funds* by the Romanian economy. The inherent difficulties to access the funds due to stringent demands and format of the projects are understandable due to lack of experience in meeting the requirements of the EU in the proposals. However, this is a direct assistance on the competitiveness alignment of the new members to the dynamics of the EU environment. Not being able to access a direct factor in competitiveness improvement is to ignore the very first rule of entering in a new environment: know your competitors and learn how to act in order to create a competitive advantage.

For Romania, there is a significant percentage (not aggregated data available) of funds returned to the EU due to failure to absorb. This metric follows the capability of the Romanian institutions to create projects and to allot funding according to the EU regulations. An improvement in governance would be evidently indicated by a reduction in this figure.

Lastly we would discuss the number and volume of cases lost by Romania at ECHR (European Court of Human Rights). We consider the dynamic increase of cases involving Romania (as shown in figure 3) as being indicative of the issues in the *Romanian justice system*. Actually, this indicator is similar in intention and interpretation with the aggregate indicator Rule of Law, used by the World Bank in its Annual Report [2].



**Figure 3 Evolution of ECHR cases involving Romania (2000-2008)**



Source of data: ECHR

On the same line, we refer to the number and volume of cases opened by OLAF (The European Anti Fraud Office). In fact, OLAF reported that in 2007 the most cases it dealt with were involving Romania. This is particularly impressive, in a negative sense, as Romania had just joined the EU. This is indicative of the struggle uphill for the law enforcement agencies. Unfortunately, the Romanian government seems quite unable to moderate the situation and OLAF had to step in. The 2008 activity report is expected for soon.

Infringement procedures opened against Romania: As part of the feedback mechanism established in the EU, the infringement procedures are indicative of the capacity to follow the European directives. We associate a lower number of infringement cases with better governance. All these aspects of the same concept join up a broader picture, connecting the good practices in governance and the competitiveness. We believe there is an undoubted connection between the two and an alteration of the governance indicators, as well as an improvement can bring significant mutations in the global competitiveness.

## **Conclusion**

The good governance is a mosaic of State actions. Currently, the metrics we have examined are showing an important gap between Romania and most European states.

We consider that while the Romanian governance improved since 2000, some indicators are screening worsening performance which is taking its toll on the Romanian economic competitiveness.

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# ANALYSIS OF THE ROMANIAN CURRENT ACCOUNT SUSTAINABILITY

**Dumitriu Ramona,**

*“Dunarea de Jos” University Galati, Faculty of Economic Sciences, 59-61 Nicolae Balcescu Street, 800001, Galati rdumitriu@ugal.ro 0748 - 917 045*

**Stefanescu Razvan,**

*“Dunarea de Jos” University Galati, Faculty of Economic Sciences, 59-61 Nicolae Balcescu Street, 800001, Galati rzn\_stefanescu@yahoo.com 0741 - 731 937*

*This paper explores the sustainability of the Romanian current account. For this purpose we test the stationarity and cointegration of the monthly credit and debit transactions of the current account. It results these time series have unit roots for levels values, but they are stationary for their first differences. We find that the debit and the credit transactions are not cointegrated so the current account deficit could not be considered as sustainable.*

*Keywords: Romanian Current Account, Sustainability, Cointegration*

*JEL Classification: F40, C22, C32*

## Introduction

This paper approaches the perspectives of the Romanian current account sustainability. In the recent years Romania experienced significant deficits of the current account and their perpetuation could become a serious constraint for the macroeconomic policies.

In the last decades the problem of external disequilibrium was largely approached in the specialized literature. A clear distinction between sustainable and unsustainable foreign trade disequilibrium was made by Mann (2002). A sustainable disequilibrium occurs when the exports and the imports converge on a long-run. In that case significant changes in the macroeconomic policy are not necessary. An unsustainable disequilibrium occurs when exports and imports don't converge on a long-run. In the absence of an active implication of the government this situation could lead to significant increases of the interest rates in order to attract foreign capitals.

For the analysis of the current account sustainability we used several methods. The most reliable seemed to be the cointegration techniques which allow analyzing if exports and imports are moving together on a long-run. A simple model proposed by Husted (1992) could be used in studying the cointegration between exports and imports. Arize (2002) provided a similar framework based on the equation:

$$M_t = a + b X_t + e_t \quad (1)$$

where:  $M_t$  refers to the imports of goods and services;

$X_t$  refers to the exports of goods and services;

$e_t$  is a stationary process.

A current account is considered as sustainable if  $M_t$  and  $X_t$  are cointegrated and the slope coefficient  $b$  is statistically equal to 1.

The cointegration techniques were applied in the current account sustainability analyze for several countries. Bahmani - Oskooee (1994) proved that Australian exports and imports will converge in the long-run. Hollauer and Mendonça (2006) tested the cointegration of Brazilian exports and imports using monthly data and we found the balance of accounts was sustainable. Verma and Perera (2008) found that Sri Lanka current account deficits are unsustainable. Erbaykal and Karaca (2008) examined the foreign deficit of Turkey and concluded that, although exports and imports are cointegrated, the slope coefficient of their regression is not statistically equal to 1.

The analysis of the Romanian current account sustainability has some particularities. First, the importance of the current account components other than exports and imports has to be taken into consideration. Second, it has to be adapted to the significant changes that occurred in the last decades. In this paper we analyze the cointegration between the credit transactions of the current account instead of the exports and the debit transactions of the current account instead of the imports. We apply tests of stationarity that allow taking into account the structural breaks. The remaining part of this paper is set out as follows. The second part approaches the data and methodology we used. The results of the analyses are presented in the third part and the fourth part concludes.

### Data and Methodology

In this analysis we employ monthly data of credit and debit transactions of the Romanian current account provided by the National Bank of Romania. Our sample covers the period from January 2005 to February 2009. Because of the significant seasonality of these values we apply ARIMA (Autoregressive Integrated Moving Average) technique to obtain seasonally adjusted values. We use four variables:

- X for natural logarithms of seasonally adjusted values of credit transactions from the current account;
- M for natural logarithms of seasonally adjusted values of debit transactions from the current account;
- d\_X for first differences of X;
- d\_M for first differences of M.

We use two unit root tests for analyzing the stationarity of the four time series: the classic Augmented Dickey Fuller (ADF) and a test proposed by Saikkonen and Lutkepohl (2002) and Lanne et al (2002) which allows taking into account the structural breaks. For selecting the numbers of lagged differences we apply four criteria: Akaike Info Criterion (AIC), Final Prediction Error (FPE), Hannan-Quinn Criterion (HQC) and Schwarz Criterion (SC).

After we drew conclusions about the stationarity of the four variables we study the cointegration between credit and debit transactions. We start with the classical Engle-Granger method (1987) which consists in performing a regression between the two variables and testing the stationarity of the resulted residuals. We continue with much powerful lambda-max and trace cointegration tests proposed by Johansen (1995) and then with the nonparametric test developed by Breitung (2002).

### Empirical Results

We begin to test the stationarity for levels values of the debit and credit transactions taking into consideration, as Figure 1 suggests, intercept and time trend as deterministic terms. The results of the ADF test are presented in the Table 1. It suggests that we cannot reject, for both time series, the null hypothesis of a unit root.

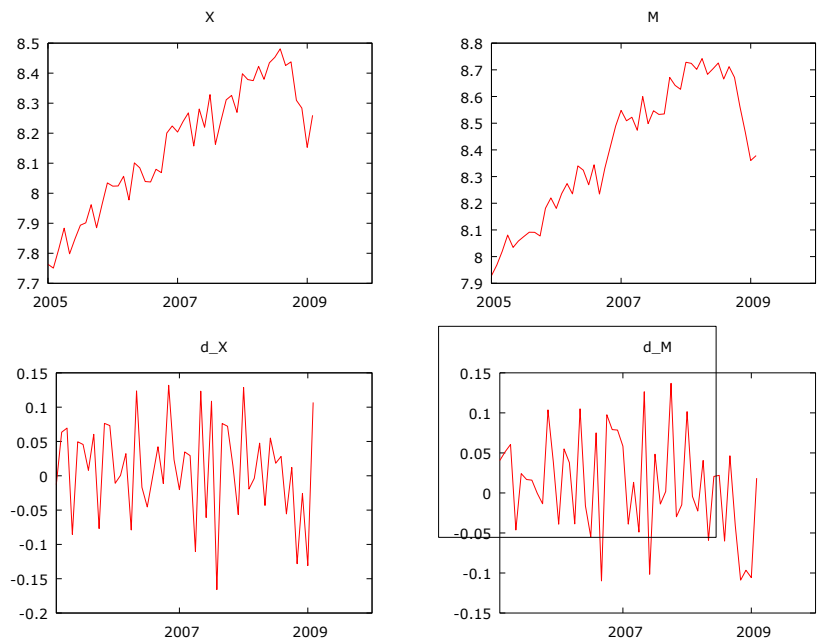
**Table 1** - Augmented Dickey Fuller Unit Root Test for levels values of the two variables (with intercept and time trend as deterministic terms)

Variable	Lagged differences	Test statistics
X	AIC, FPE, HQC, SC: 4	-0.7034
M	AIC, FPE: 4	1.2819
	HQC, SC: 1	0.8484

We also apply the unit root tests with structural breaks with two kind of shift function for the structural breaks: with impulse dummy and with shift dummy. The results confirm that debit and credit transactions are not stationary (see Table 2).

**Table 2** - Unit root tests with structural breaks for levels values of the two variables (with intercept and time trend as deterministic terms)

Variabl e	Shift Function	Break Date	Lagged differences	Test statistics
X	Impulse dummy	2007 M8	AIC, FPE, HQC, SC: 1	-1.3678
	Shift dummy	2007 M8	AIC, FPE, HQC, SC: 1	-1.2776
M	Impulse dummy	2007 M5	AIC, FPE: 4	-1.6431
		2007 M5	HQC: 1	-1.1041
		2007 M5	SC: 0	-1.3690
	Shift dummy	2007 M11	AIC, FPE, HQC: 1	-1.3072
		2007 M10	SC: 0	-1.4052



**Figure 1** - Evolution of the debit and credit transactions for level values and for their first differences

We test the stationarity of the first differences of the debit and credit transactions using only intercept as deterministic term (see Figure 1). The results of the ADF tests indicate that we can reject the null hypothesis of a unit root for the two variables (Table 3).

**Table 3** - Augmented Dickey Fuller Unit Root Test for the first differences values of the two variables (with intercept as deterministic term)

Variable	Lagged differences	Test statistics
d_X	AIC, FPE, HQC, SC: 0	-10.7925***
d_M	AIC, FPE: 2	-2.5786*
	HQC, SC: 0	-8.0202***

\* Indicates that results are significant at 10% level;

\*\*\* Indicates that results are significant at 1% level of significance.

We continue the analysis of the stationarity performing the unit root tests with structural breaks for the first differences of the debit and credit transactions. It resulted that both time series are stationary (Table 4).

**Table 4 -** Unit root tests with structural breaks for the first differences values of the two variables (with intercept as deterministic term)

Variable	Shift Function	Break Date	Lagged differences	Test statistics
d_X	Impulse dummy	2007 M8	AIC, FPE, HQC, SC: 0	-9.2245***
	Shift dummy	2007 M8	AIC, FPE, HQC, SC: 0	-2.7008*
d_M	Impulse dummy	2007 M10	AIC, FPE, HQC: 1	-4.5583***
		2007 M5	SC: 0	-6.9244***
	Shift dummy	2007 M6	AIC, FPE, HQC, SC: 0	-2.8939*

\* Indicates that results are significant at 10% level;

\*\*\* Indicates that results are significant at 1% level of significance.

We apply the Engle-Granger cointegration technique starting with a regression with M as dependent variable. A slope coefficient of 1.155 resulted (Table 5).

**Table 5 -** Cointegration regression (Dependent variable: M)

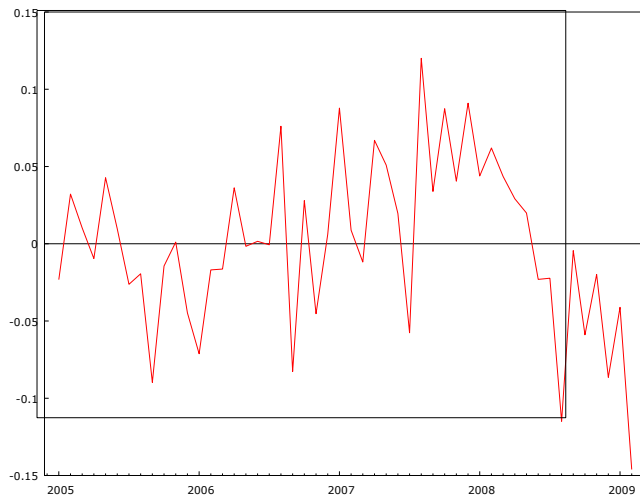
Variable	Coefficient	Std. Error	t-statistic	p-value
const	-1.01697	0.314551	-3.2331	0.00222***
X	1.15522	0.0385731	29.9488	<0.00001***
R <sup>2</sup>	0.949203			
Durbin-Watson statistic	1.3789			

\*\*\* Indicates that results are significant at 1% level of significance.

We analyze the stationarity of the residuals with ADF tests. The graphical representation cannot indicate a single form of the deterministic terms so we use two variants: with only intercept and with intercept and time trend (see Figure 2). The results indicate that the residuals are not stationary, so we find no evidence of the cointegration relation between the two series.

**Table 6 -** Augmented Dickey Fuller Unit Root Test for the residuals of cointegration regression

Deterministic terms	Lagged differences	Test statistics
Intercept	AIC, FPE, HQC, SC:1	-1.9684
Intercept and time trend	AIC, FPE, HQC:3	-0.6495
	SC:1	-1.9206



**Figure 2 - Residuals of the cointegration regression**

We continue the cointegration analysis with the two lags Johansen tests with no restriction on intercept. In Table 7 there are presented the results of lambda-max test that suggest a cointegration rank of 0.

**Table 7 - Johansen lambda-max test for cointegration between the two variables (with no restriction on intercept)**

r	Test statistic	Critical values		
		20%	10%	5%
0	11.5	10.1	12.1	14.0
1	2.4	1.7	2.8	4.0

The results of trace test, presented in Table 8, indicate also a cointegration rank of zero. In these circumstances we reject the hypothesis of cointegration between debit and credit transactions.

**Table 8 - Johansen trace test for cointegration between the two variables (with no restriction on intercept)**

r	Test statistic	Critical values		
		20%	10%	5%
1	2.4	1.7	2.8	4.0
0	13.9	11.2	13.3	15.2

We apply the non parametric Breitung test for the case with no drift. The results indicate a cointegration rank of zero, so we reject the hypothesis of cointegration between the two variables.

**Table 9 - Breitung test for cointegration between the two variables (case with no drift)**

H0	H1	Test statistic	Critical value	
			10%	5%
r = 0	r > 0	143.75	261.00	329.90
r = 1	r > 1	11.37	67.89	95.60

## Conclusions

In this paper we analyzed the Romanian current account sustainability. We investigated the stationarity of debit and credit transactions and we found that the two time series had unit roots for level values, but are stationary for the first differences. We proved, using several techniques, that debit and credit transactions were not cointegrated so the Romanian current account deficit was unsustainable.

The research over the Romanian current account could be extended by using other foreign trade variables with nominal and real values. It could be also continued by studying the global crisis implication in the external equilibrium.

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## ASSESSMENTS AND CONTROVERSIES ON THE ROLE OF THE INTERNATIONAL FINANCIAL INSTITUTIONS – IFIS - WITHIN A GLOBALIZED MARKET

**Enciu Adrian**

*The Academy of Economic Studies Faculty of Finance, Insurance, Banking and Stock Exchange 6, Romana Square, Bucharest, Romania E-mail: adrianenciu@yahoo.com 0744.676.092*

**Dumitrescu Bogdan Andrei**

*The Academy of Economic Studies Faculty of Finance, Insurance, Banking and Stock Exchange 6, Romana Square, Bucharest, Romania E-mail: bdumitrescu@hotmail.com 0722.268.342*

*The world economy registered within the last decades a series of transformations which had as a result astounding economic growth, yet also violent crises, a maturing of the international cooperation with positive effects, yet also negative aspects as a consequence of interconnections that allowed the external transfer of economic unbalances. Under the pressure of globalization, internationalization and increasing complexity of the markets, the future of the International Financial Institutions – IFIs and their role appear as a challenge to change, yet they also raise a series of questions on the reasons of their existence. We try to explain the present system of international financial institutions and debate upon several ideas regarding the future thereof. At the same time, the study emphasizes controversies on the manner said system managed to get involved and solve the problems of the world economy.*

*Keywords: international financial institutions, multilateral development institutions, globalization, international capital flows*

*JEL Classification: F33*

Within a world economy of globalization, internationalization and increasing complexity of the markets, yet of periods marked by crises as the recent one, the future of the International Financial Institutions – IFIs and the role thereof appear as a challenge to change, yet they also raise a series of questions on the reasons of their existence. Said aspects represented points of interest for many economists and politicians. Some of them limited themselves to carrying out assessments on the achievements of said institutions, others went further trying to draw the lines of their evolution.

In Europe, the speed of European economic integration, the carrying out of the unique market by gradually eliminating intra-European barriers in performing financial services also raised a question on the role of the European credit institutions in the future and on the way they may generally bring added value.

Except for the European Bank for Reconstruction and Development, IFIs were created the moment there was a control on the international capital flows and when the financing of the less developed countries was limited. A characteristic of the last decades was the globalization and internationalization of the capital markets. At the beginning of the 1980s, an increase of the capital flows towards the emergent markets started to manifest, on the grounds of recycling the incomes from oil. Yet this presented a slowing down due to the crises of debts in 1982. After a period of macroeconomic stabilization, the private capital flows “exploded” at the beginning of the 1990s, when direct foreign investments portfolio investments and non-banking credits represented the main source of funds for developing the world countries. Given this evolution, after year 2000, the IFIs loans decreased as percentage on market to only a few percentages of the total capital flows, given almost 40% in 1990, thus resulting a reducing of the importance thereof. In this context we may say that the IFIs share becomes more and more subjective as crediting orientates itself more to the private sector and financial integration is larger. The logic of the IFIs interference and, in connection thereof, the role of said institutions are questioned by the economic globalization and the increase of private sector role as vehicle of the economic development.

The IFIs traditional operating way demonstrates that said institutions were the favorite creditors of the world governments, special intermediates of the capital flows, of saving from richer countries to the investors in the poor countries, the IFIs traditional model being that of attracting funds from the international capital markets such as to lend them to governments. The IFIs characteristic feature is given by their multilateral nature, that is the occurring errors have repercussions on any other stockholder states, this representing a bigger obstacle than the bilateral problems which may occur from a private relationship creditor-loaner. On the other hand, said institutions present the advantage that the credit risk generally manifests in extreme cases.

In *Christopher Hurst* and *Eric Peree's* opinion, both economists at the European Investment Bank, the international environment created a preferred creditor, IFIs, which cannot be duplicated by the private sector. For said creditor the cost of providing capital is low, as the probability of exerting the guarantees is reduced, that means that IFIs uses its credits on a non—discriminating basis, cost-plus. As the market has to take into consideration the political risk, this risk does not equally manifest in the case of IFIs. These institutions represent the preferred creditors and may offer loans at, or under the market interest, this being valid even in the case of a global capital market. If the international capital markets do not manifest a drop, the political risk premium correctly reflect the lack of certitude in crediting each country, lack of certitude that occurs due to the quality of the economic management. The risk that a govern might not be able to deal with the duty service is low in a country that is stable from the macroeconomic point of view, where the monetary and fiscal policies are adequate and the capital flows are wisely and correctly invested. Moreover, IFIs credits private projects, which is not the case of providing credit lines by private creditors. This also determines the use of funds in a clearly specified way, the Institutions' role manifesting from assessing the project file to offering technical assistance with projecting and implementing said project. The cheap financing from IFIs could divert public investments from said projects. More than that, the political feature of the packet that comes together with the credit changes the nature of investment, such that other countries may also benefit of credit (by international auctions for the necessary consumables for carrying out the project, by fulfilling minimal requirements regarding the environmental protection, etc.).

*Hurst* and *Peree* characterized IFIs as “*funds wholesalers that lack the retail trading network.*” That means that IFIs has in view large projects, the small ones being extremely expensive and ineffective for them. Even if large projects present a convenient return, there cannot be excluded small investments that may bring a major contribution to the economic development. The result is that IFIs may distort investments from the latter to large projects that require an intensive financing. A solution was financing sectorial projects, yet the problem that occurred is that IFIs personnel does not poses the local knowledge necessary to successfully implement small projects. In financing said activities, IFIS assigned the management of the project to the local parties or counselors. The expansion of credits to larger and larger projects does not simply mean providing credit lines to governments. If IFIs financing did not have an impact on the quality of investments and, therefore, on the economic growth, the crediting effect would be harmful.

Internationalization and globalization of the financial system cannot but have effects on IFIs activity and role. While the financial system globalization would reduce the imperfections of the market, the present financial crisis has demonstrated that the gregarious spirit of said international financial markets continue to determine an increased volatility of the capital flows.

The financial markets did not manage to anticipate financial crises and, therefore, the flexible foreign crediting helped the support of the ineffective management in different countries. Another consequence of the gregarious spirit is that the countries may stand negative consequences, with no connection to their economy.

Other economists, such as *Jannik Lindbaek*, former Executive Vice President at the International Financial Corporation and former President of the Northern Investment Bank and

Neil Gregory from UK Overseas Development Administration consider that, except for the traditional action model of IFIs as preferential creditor, IFIs also plays an important part under the conditions of an increased volatility: *the international crisis management and allotting resources under uncertain conditions*. Said part strongly manifested during the present world economic crisis period and gave a new reason for founding such institutions.

In general, the information on the macroeconomic conditions are collected and analyzed by independent rating agencies. The practice demonstrated that the resulted information thereof may be altered, imperfect, and in this context IFIs vision on the economic policies plays an important part for future prosecutions (especially in case of IMF). When having in view a financing, IMF bases on said prospections and uses them in establishing the conditioning policy applied to the debtor. If IMF does not have enough resources such as to set credit lines into action, the task is divided between regional IFIs even if said collaboration is different from the financing model of the long term development – the classical IFIs role. The macroeconomic conditioning imposed by IFIs under these circumstances have an important role, being adopted by other institutions and represent the grounds that provide the use of funds for carrying out adequate reforms, and not an ineffective management.

Another role that IFIs may further on assume results from *increasing loans towards the private sector*. Many activities considered until now as the natural domain of the state may be more effectively carried out by the private sector. Moreover, there appeared as natural within the last few years that governs sell on a larger scale the state companies such as to ameliorate the level of public debt. Said evolution also hints at a more closely implication of the private sector in developing the new infrastructure by partnerships between public and private sectors. If the implication of the private sector in the development process appeared recently, its crediting by IFIs started long ago. The International Financial Corporation and BIRD started even from 1960's to function in this regard and, the other regional institutions also started to support the private sector. Certainly, the private sector crediting implies assuming political, commercial risks and specific regulating risks for this sector.

Another aspect of IFIs activity that we would like to emphasize refers to the evolution of the role that they have in *developing regional capital markets* seen both in the sense of obtaining the necessary resources for crediting and, by the intermediating services delivered or requested within regional markets.

It is well known the fact that the existence of several powerful national financial and banking markets represents another key factor in the process of economic development. Numerous studies demonstrated that financial development goes hand in hand with economic development, that is IFIs treasury and capital market operations may play a role in development, on condition that their actions stimulates the market and lead to a know how transfer to local national institutions. IFIs participates into the development of the capital markets first of all by collecting funds within larger and larger bond issuing on said markets. Nevertheless, taking into consideration the entire development of the capital markets, the share of the issues carried out by IFIs given total Issues tends to diminish.

If we take into account the structure of said bond issues, we may consider that in a world of free capital moves and increase of the appetite of investors for investments in a less used currency, IFIs also enlarged the set of currencies in which they borrow. There were cases as the case of the Hungarian forint, wherein IFIs initiated the first issuing programs of international markets for certain currencies, being the only issuers in that currency. Such pioneering operations created or contributed at the consolidation of the developing states markets, with a direct effect on the trust in their national currency. Later on, going in the same direction, governs and the private sector managed to obtain resources necessary to funding the deficits or development projects.

We consider that this tendency of *taking a loan in the currency of the emergent states* could give to IFIs a new role and a new reason for existing for the next few years. A first observation in this

situation is that a loan from IFIs in a particular currency does not automatically mean a *know how* transfer towards that country and a development of the national capital market. The crediting of the public sector on international markets is usually carried out in major currencies. The loans in new currency are usually changed by swap operations with non-resident investors. International investors may find the titles issued by international financial institutions in the currency of the attractive emergent states that are not submitted to a credit risk.

Another economist, *Pasquale Lucio Scandizzo* professor at the Rome University and former President of the Italian Institute of Studies in Economic Planning, approaches another aspect of IFIs role. On his opinion, *the increase of crediting the private sector brings IFIs in competition with commercial financial institutions*. When IFIs credits the private sector offering a large range of associated financial services, the competition with the commercial banks becomes obvious. Besides the facilities that come out of an official framework, IFIs have a number of other advantages including tax exemption, large capitalization and relatively low return required by shareholders. The capital payment in IFIs has a cost. At the same time, the more or less non-profit character thereof does not imply the lack of return of their own capital. The normal approach for IFIs is to assess credits as if they were 100 % financed by loan. The return of the own capital is linked to the governmental interest rate of the reference countries. This return is lower than the return of a private bank. If IFIs are cheaper than other financing sources, it is normal that the investors from the private sector look first for IFIs. For the public sector, the total project packet and the loan conditioning clearly differentiate IFIs credits from those of the private creditors. The project assessment in case of the private sector loans is similar to the analysis of risk assessment in commercial banks.

Professor Scandizzo establishes two extreme variants of the role of crediting the private sector by IFIs. Said variants are:

- IFIs should focus on one or two products – in comparison with commercial banks that offer a large range of products and the competition will manifest only on a reduced market segment;
- IFIs should base on the market at the maximum and intervene only when there is no doubt on the need of complementarities of the offered services, meaning a development of the interventions in support of the commercial banks sector (guarantee schemes, A / B credits, support in credit union trades).

We think that there are several sensible points in the two proposals. In the first variant it is possible that IFIs act in sectors where to present competitive advantages, given commercial banks and substitute them, and in the second variant it is not very clearly solved the complementarity problem. On the market it is ascertained that, together with the increase of the capital markets and holding of bank assets, the banks look for future profits especially in the area of consulting. In fact, everything that IFIs do with a project of the private sector, including the political risk insurance, can be carried out by a private bank as well, yet at a different cost. Then, where could we appreciate that the domains that make that IFIs and commercial banks differentiate mutually trouble themselves and therefore require a complementarity in action? The extreme whereat IFIs would situate depends on the local factors and the consensus of the shareholders on the role of public banks in general.

An interesting approach of the IFIs role in the future comes from another banker. In his opinion, *Jean-Francois Rischard*, not so long before Prime Vice President for Europe at the World Bank, considers IFIs multilateral institutions that might play a *leading part in the global public policy*, defined as policy whereat participation and the effects of its being applied have an international and multidisciplinary character. He considers that the role of the international financial institutions might re-orientate towards being charged with supporting the participation of developing countries to the global public policy networks. This includes the focus on constructing the institutions, promoting adequate governance, spreading information and establishing a knowledge basis allowing all interested parties to contribute at debating a public

policy problem. Rischard ascertains that, taking into account the position they have at present, IFIs are in an ideal position for initiating such a policy. Irrespective from states, private jobbers and NGOs, said institutions do not represent private interests. Their mandate is that of promoting the integration of world economy in sustainable terms from the social and environmental point of view. IFIs could also lead to identifying said problems of public policy that require a global engagement and could provide an institutional umbrella for the mediation between different involved parties. At last, they could assist in monitoring the applying of the global public policy. Based on these two roles, IFIs could act besides their original role in the future. IFIs should be thought as part of the global public policy network of the future. Within said role, they could provide not only financing, yet other categories of services, such as global know how services by stressing the informal character able to facilitate the operative access to information or partnership global services.

Far from these considerations, we consider that the traditional model for IFIs remains that of institutions structured to finance large infrastructure public projects. It is not questionable whether said model lost its validity, yet the political and economic world registered some changes. Crediting stressed upon project financing and IFIs progressively delegated projecting and implementing projects to third parties. It is important to notice the consolidation of the private sector as development agent and IFIs desire to participate into this process. Whereas small steps may be made in this direction, a direct consequence of crediting the private sector and competition with commercial banks is that the commercial approach must also be applied to IFIs. Conducting this logic to the extreme, some say that IFIs will return back to the traditional model and, others sustain that they could orientate towards the private sector. A midline for said institutions would be their action as agents or subvention donors (grants) that they should provide together with the credits. The crisis demonstrated that, even in developed countries, there might exist market drops to justify the intervention of the public sector this way.

IFIs role is that of financing the official development as important part of the external resources flows necessary to developing countries. IFIs should support the policy, institutions, necessary infrastructure for promoting the economic growth, should protect the environment and encourage the private sector. As countries reach success in their development, their request for IFIs services will decrease, due to the fact that said countries will have an easy access to international capital market. Except for the last two years, the flows realized by official financial institutions halved as share in the long term resources of the developing countries, reflecting the larger access to the capital markets of said states and as a smaller request for official assistance in financing public sector investments. Yet, private flows are focused to a restricted range of countries, sectors and borrowers: 75% of the capital net private flows go to a dozen of countries including the largest developing countries, leaving over 100 developing countries with a reduced access to financing. Even in that countries receiving a private capital, crediting is limited to certain sectors such as extractive industry, infrastructure and the financial sector. The private flows will not go to education, health, etc, characterized by long gestation periods and low return. Therefore, although many traditional destinations for the resources of IFIs have access to private financing, there remain a large number of companies, sectors and countries that continue to need IFIs implication for financing.

We consider that IFIs will continue to exist, as financing alternative. Yet, to fulfill their mandate, IFIs should continue to offers services in a selective way and become more capable to respond to an integrated world, in a continuous change.

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# STRATEGIES OF CORPORATE SOCIAL RESPONSIBILITY IN THE EUROPEAN UNION

## **Joldeş Cosmin**

*Bucharest Academy of Economic Studies Faculty of International Business and Economics 13-15, Mihai Eminescu Street, Sector 1, Bucharest, Code 010511, Romania  
cosmin.joldes@achieveglobal.ro  
0723506870*

## **Iamandi Irina Eugenia**

*Bucharest Academy of Economic Studies Faculty of International Business and Economics 13-15, Mihai Eminescu Street, Sector 1, Bucharest, Code 010511, Romania  
irina\_iamandi@yahoo.com 0723690072*

*The present paper emphasizes the corporate social responsibility (CSR) state and development strategies in the European Union and at the level of the Romanian business environment. The aim of the paper is to present the similarities and differences in the above mentioned strategies. We intend also to analyse the relationship between the Vision – Mission – Values system in the case of a company and its CSR actions, in order to present the main categories of CSR initiatives in Romania.*

*Keywords: Corporate Social Responsibility, Corporate Strategy, Vision – Mission – Values System*

*JEL Classification: M14*

## **CSR in the European Union**

After the adoption of the Lisbon Strategy in the spring of 2000, the European Union has proposed as one of its strategic objectives in the next 10 years to become the most competitive and dynamic knowledge-based economy in the world, able to maintain a sustainable economic growth, providing more and better jobs and maintaining a greater social cohesion.

Starting from this objective and stressing the substantial contribution of private sector in achieving the above mentioned goals, the European Council called, in particular, the social responsibility of companies regarding continuous improvement and learning process, effective organization of work, equal opportunities, social inclusion and sustainable development. After the summit in Lisbon, corporate social responsibility in Europe has become a priority.

In this sense, a High-Level Group of National Representatives on Corporate Social Responsibility<sup>88</sup> was established at the end of 2000 in the European Union, in order to maintain a continuous dialogue between Member States on the most appropriate and effective practices of CSR and to develop and implement a harmonized strategy at the Community level in the same field.

The objectives of a structured exchange of information on CSR national policies and initiatives especially envisage three main directions: understanding and evaluating the national public policies on CSR (mechanisms, factors, barriers and determinants of success); analyzing and promoting concepts, tools and practices of CSR; developing a common framework at the European level for national public policies in order to promote and stimulate CSR.

Thus, in July 2001, the European Commission published the declaration called *Green Paper*, for promoting a CSR framework in Europe. A year later (on July 2002), the communication *CSR: A Business Contribution to Sustainable Development* appeared, through which the European Commission was proposing an articulated CSR strategic plan. In October 2002, the European Commission designated a forum on issues on CSR in Europe (*The European Multi-Stakeholder Forum on CSR – CSR EMS Forum*), that had as its main objective to promote the experience

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<sup>88</sup> [http://ec.europa.eu/employment\\_social/soc-dial/csr/country/CSRHLG\\_mandate.htm](http://ec.europa.eu/employment_social/soc-dial/csr/country/CSRHLG_mandate.htm).

exchange between companies, establishing common lines of conduct and determining standards for assessment instruments.

In late June 2004, the Forum has submitted a final report (*EMSF on CSR – Final Results and Recommendations*), the result of more than 20 months of discussions and negotiations between partners in the business world, unions, NGOs, civil society, social partners, observers and representatives of the academic environment. In addition, unions have played an active role with regard to CSR in Europe, especially because the European Trade Union Confederation (ETUC) presented a series of CSR priorities and development challenges. Also in 2004, the General Directorate for Employment and Social Affairs of the European Commission has synthesized into a comprehensive document (*ABC of the Main Instruments of Corporate Social Responsibility*) the main mechanisms companies can appeal to in order to strengthen effective CSR policies and strategies.

On 14 June 2005, the European Commission organized a conference on social responsibility of small and medium enterprises, a topic less discussed before and considered of secondary importance. In its final report from June 2004 the Forum recognized the importance of CSR for SMEs and emphasized the differences in CSR approach between SMEs and MNCs.

On 22 of March 2006, the European Commission published a communication entitled *Implementing the Partnership for Growth and Jobs: Making Europe a Pole of Excellence on CSR* and launched the European Alliance for CSR.

The nature and characteristics of corporate social responsibility vary between different Member States and from one cultural context to another. In some countries, CSR is integrated into national public policies (examples: Bulgaria, Cyprus, Denmark, Finland, France, Germany, Portugal, Sweden etc.), letting companies a rather restricted area of voluntary corporate social involvement, while other countries have developed more initiatives to attract public attention and socially responsible practices are left to companies (examples: Estonia, Greece, Ireland, Great Britain, Netherlands, Slovenia, etc.), starting from the premise that the role of government and public authorities is to encourage and support opportunities for corporate involvement and not to build formal and strict structures for directing corporate involvement.

In comparison with USA, CSR in EU enjoys a greater politicization of being addressed primarily at the macroeconomic level. Although the contribution of private actors to develop CSR is vital, they operate within a national or European framework assumed more or less voluntarily.

In 2007, the European Commission, through the High Level Group of National Representatives on CSR in Europe, has developed a summary of CSR policies in the 27 EU Member States<sup>89</sup>. The compendium illustrates both the similarities and differences between national CSR policies. Although very different from one country to another, these strategic objectives are often similar and cover issues such as: promoting dialogue within all categories of stakeholders and public-private partnerships; strengthening the credibility and transparency of CSR practices and tools; attracting public attention; increasing knowledge and dissemination of best practices in the field; and ensuring a stronger and more consistent connection between the objectives of sustainable development and public policies.

For an exhaustive presentation of the information at the level of the 27 Member States, data were structured in three main categories: policies that promote progress in the direction of CSR, policies aimed at ensuring transparency on CSR, and initiatives expressed in other public policies that have a positive impact on CSR.

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89 European Commission, General Directorate for Employment, Social Affairs and Equal Opportunities, High Level Group of National Representatives on Corporate Social Responsibility (CSR HLG), *Corporate Social Responsibility – National Public Policies in the European Union*, Brussels, Belgium, 2007, pp. 1-95, [http://ec.europa.eu/employment\\_social/soc-dial/csr/csr\\_compendium\\_csr\\_en.pdf](http://ec.europa.eu/employment_social/soc-dial/csr/csr_compendium_csr_en.pdf).



### **Conceptual framework of European public policies on CSR:**

According to above mentioned synthesis made by the High Level Group of National Representatives on Corporate Social Responsibility in Europe, the conceptual analysis of CSR at European level is presented as follows:

#### **1. Promoting CSR:**

- Attracting public attention;
- Research;
- Public-Private partnerships;
- Business incentives (e.g. corporate awards and recognitions);
- Management.

#### **2. Ensuring transparency on CSR practices:**

- Principles and codes of conduct;
- General framework of social reporting;
- Management systems and social/ecological labels;
- Socially responsible investments;
- Advertising;
- Others.

#### **3. Developing public policies to support CSR:**

- Sustainable development strategies;
- Social policies;
- Environmental policies;
- Public procurement;
- Trade and export policies (e.g. promoting OECD Lines of Conduct);
- Others (development and fiscal policies).

*Source: European Commission, Directorate General for Employment, Social Affairs and Equal Opportunities, High Level Group of National Representatives on Corporate Social Responsibility, Corporate Social Responsibility - National Public Policies in the European Union, Brussels, Belgium, 2007, p. 3, [http://ec.europa.eu/employment\\_social/soc-dial/CSR/csr\\_compendium\\_csr\\_en.pdf](http://ec.europa.eu/employment_social/soc-dial/CSR/csr_compendium_csr_en.pdf).*

Thus, at the level of individual countries, only policies and initiatives that are directly related to CSR were analyzed, apart from some other national policies that are addressed in annual plans for national reform.

### **CSR strategies in Romania**

Seen by Kotler & Lee as “a commitment to improve community well-being through discretionary business practices and contributions of corporate resources”<sup>90</sup> and defined by the European Multistakeholder Forum on CSR as “a concept whereby companies integrate social and environmental concerns in their business operations and in their interactions with their stakeholders on a voluntary basis”<sup>91</sup>, *corporate social responsibility* is today part of the strategic approach of the companies that are acting in the Romanian business environment. CSR policies were first launched in Romania in early '90, rather as a fashionable corporate behaviour or as an

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90 Ph. Kotler, N. Lee, *Corporate Social Responsibility: Doing the Most Good for Your Company and Your Cause*, John Wiley & Sons, Inc., New Jersey, USA, 2005.

91 European Multistakeholder Forum on CSR, *Final results and recommendations*, 29 June 2004, [http://www.ec.europa.eu/enterprise/csr/documents/29062004/EMSF\\_final.report/pdf](http://www.ec.europa.eu/enterprise/csr/documents/29062004/EMSF_final.report/pdf).

extent of the European policies. Later on they became part of the companies' strategies. From the early beginning, CSR was seen not as mandated by law or imposed by external forces, but undertaken by the companies "in a manner that meets or exceeds the ethical, legal, commercial, and public expectations that society has of business"<sup>92</sup>. The current Romanian CSR market value is around 30 million Euros<sup>93</sup>. Although CSR is an area still at the beginning of the road in Romania, this concept is increasingly present among the national business environment.

CSR initially emerged in the Romanian business environment through the multinational companies, such as Lafarge, Coca-Cola, Holcim, Carpatciment, Zentiva, Orange Vodafone, Petrom-OMV, which are still its main promoters at the national level. As previously declared, like any other imported concept, subject to a need of accelerated assimilation, CSR in Romania was initially imposed more as a fashion rather than the result of the full awareness of all the stakeholders' needs<sup>94</sup>.

In Romania, like anywhere else, the process of defining the future development direction of any company, no matter it refers to the domestic or international market, is expressed by the system: Vision – Mission – Values of the company and its strategic objectives. This exceeds the current analysis of the company, taking into account the opportunities and future threats. Even if the CSR policies may fit within the Vision – Mission – Values system of any company, only during the last years CSR was in some cases part of the Romanian corporate strategic approach. While mission statement answers the question: "Why are we on a market?", vision statement provides the answer to the question: "Where are we going to?". Most companies develop both a vision statement and a mission, but only few of them define their CSR policies accordingly. On the other hand, in a summary of a very recent date published by a specialized magazine<sup>95</sup>, the market analysts also consider that in the present Romanian market there is a rather low concern in terms of strategic approach of CSR long-term influences on the communities to whom it is addressed.

As the market is becoming increasingly competitive, companies have begun to become aware of the economic and social potential of CSR in the process of consolidating corporate image and reputation, as a prerequisite for the long-term success. This is why CSR recently began to be present in the business strategies of Romanian companies, no matter their size.

Even if in Romania the most important CSR initiatives are focused on the environmental field, we may observe also a consolidation of the CSR in case of the social and cultural-educational areas, which actually situates the national market in line with other developed markets. However, in comparison with the most developed countries, CSR involvement in Romania neglects the following areas: medical and scientific research; highly developed cultural projects; civic and human rights; some controversial social causes like drug use and sexual minorities; management of donations of goods<sup>96</sup>. The most important categories of CSR projects carried out by companies in Romania in 2007-2008 period refer to the following social implication areas<sup>97</sup>:

- Environmental protection* (e.g. Alexandrion Group Romania, Cosmote, Elpreco, Lafarge Romania, Mol Romania, Petrom, United Business Development, Vodafone Romania);

- Social issues* (e.g. A&D Pharma, Cardinal Motors, E.ON Gaz, Intercontinental Bucharest, McDonald's Romania, Prod Ardealul);

- Civic behavior* (e.g. Angst Romania, Coca-Cola HBC Romania, Pro TV, Procter & Gamble Romania, Tuborg - URBB, UPC Romania);

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92 <http://www.bsr.org>.

93 A. Ardelean, CSR – Tot mai verde, BIZ Magazine, No. 170, 1-15.11.2008, p. 21.

94A. Diniță, Responsabilitatea socială în România – de unde și încotro?, 2006, [www.responsabilitatesociala.ro](http://www.responsabilitatesociala.ro).

95 A. Ardelean, CSR – Tot mai verde, Revista BIZ, Nr. 170, 1-15.11.2008, p. 23.

96 Idem, p. 26.

97 A. Ardelean, CSR - Tot mai verde, BIZ Magazine, No. 170, 1-15.11.2008, pp 33-41.

- Human rights* (e.g. Banca Transilvania, Baneasa Investments, Ginkgo & Sarantis Romania, The Body Shop, Romanian Radio Broadcasting Company, Romanian Television);
- Health* (e.g. Carrefour Romania, Dedeman, Petrom, Philips Romania, Prais Corporate Communications, Vodafone Romania);
- Education* (e.g. BRD-Groupe Société Générale, Holcim Romania, IBM Romania, Motorola Romania, Orange Romania, RBS Bank Romania);
- Research* (e.g. Agricola International Bacau, Continental Automotive Romania, Fujitsu Siemens Computers, Gorenje Romania, Siveco Romania);
- Art and culture* (e.g. Automobile Bavaria, Brand Management, Electrica, Pambac, Piraeus Bank Romania, TNT Romania, Zentiva);
- Sport* (e.g. BCR Leasing IFN, BRD-Groupe Société Générale, Mobexpert, CRE Trust, and Zentiva).

Budgets allocated to CSR projects by Romanian companies can range from several thousand Euros or US Dollars, in small enterprises, up to several million, in large companies. Most of the big companies present in Romania made public their CSR budgets and allocated in 2008 greater amounts than, or at least equal to, those invested in 2007 in social projects. This trend shows that CSR is on an ascending trend in Romania.

### **Conclusions:**

The CSR initiatives once present only in Western Europe are now part of the day by day activities of the companies also acting in the Romanian business environment. Companies in EU are supported in their socially responsible activities by the national public policies, meanwhile this type of support is rather insignificant in Romania. The good part is that also the companies in Romania begin to realize the great strategic potential of developing social actions.

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# SPANISH HOTEL INTERNATIONAL EXPANSION: EVOLUTION AND TENDENCY. THE ROLE OF EASTERN EUROPE.

**Driha Oana**

*University of Alicante Faculty of Economic Science Campus de Sant Vicent del Raspeig Ap. 99 E 03080 Alicante Telephone: +34/9655903400 Ext.2533 e-mail: Oana.Driha@ua.es*

**Julián López Milla**

*University of Alicante Faculty of Economic Science Campus de Sant Vicent del Raspeig Ap. 99 E 03080 Alicante Telephone: +34/9655903400 Ext.2533 e-mail: j.lopez@ua.es*

*The Governments of developing countries consider international investment as an engine of their economies. Explanations of foreign direct investment (FDI) are closely associated with internationalization, which is a result of globalization of international investment. Lately, Eastern Europe countries started to be often chosen by tourists and considering this, the multinationals jointed their clients outside their national markets. In this paper we are going to expose the determinants of the Spanish hotel internationalization and the role of Eastern Europe in this process.*

*Key words: Spanish FDI, internationalization, Spanish hotel companies, Eastern Europe  
Top JEL: F23, L83*

## **1.-Introduction**

The Governments of developing countries consider international investment as an engine of their economies. Explanations of foreign direct investment (FDI) are closely associated with internationalization, which is an effect of the globalization of international investment. Service entry modes can be divided into non-equity entry modes (i.e. firm is transferring knowledge through contractual agreement) and equity entry modes (i.e. firm is transferring not just knowledge and capabilities, but also capital through FD, by its own or with some others firms). The second group is the one that gives the company more control, greater financial risk and higher resource commitment. Tourism activities can be internationalize beyond the FDI concept in many ways, but the most common are franchise, management and lease agreement, on one hand, and joint venture and wholly owned subsidiary (WOS), on the other hand.

The dynamic of the economic world and the patterns of the global competition determined the strategy of the companies, that are looking for internationalize these activities. One of the basic questions, and a critical decision of this process, that researchers and also managers have to face to, is: *“What strategy should use the multinational enterprise (MNE) to enter into a foreign market in its internationalization process?”*.

The main objective of this paper is to reveal the evolution and changes that the Spanish hotel sector is living from the beginning of 2000 until 2007, and to underline the role of the Eastern Europe because this region seems to enjoy highly competitive real estate prices, proximity to the origin markets, specially the German one, governmental facilities for FDI, progressive approach of tour-operators to these area, lower tax burden<sup>98</sup> and moderate country risk besides others advantages. Even if the FDI in the hotel industry is not that high, the WOS entry mode in the foreign markets it's still one of the favorite strategy of the Spanish chains, but not in Eastern Europe.

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98 Corporate taxes in EU countries, compared with the Spanish one is lower, and in the case of Easter Europe countries is even lower. Romania for example is applying 16% approved by Law 343/2006, while EU average is 24.5%. In Spain this tax is superior of than in the majority of the Easter Europe countries, excepting Malta that applies 35%. Bulgaria, Cyprus, Latvia, Lithuania, Hungary, Poland and Romania approved a corporate taxes lower than 20%, but Turkey, Estonia, Slovenia, Czech Republic and Malta exceed 20%.

## 2.- Spanish hotel international expansion: evolution and tendency in the last decade

Latin America seems to be the top destination of the Spanish hotel companies with Mexico and Dominican Republic in the first two positions of the rooms offer associated with the Spanish hotel chains. Still Eastern Europe also is a very interesting touristic destination for the Spanish MNE's (Table 1).

Table 1: Destinations ranking of Spanish hotel offer (rooms)

Nr.	Country	2000	2007	Nr.	Country	2000	2007	Nr.	Country	2000	2007
1	Mexico	13,432	37,432	24	Cyprus	379	1,307	35	Romania	-	463
2	Dominican Rep.	22,892	35,537	25	Turkey	2,096	1,258	36	Czech Rep.	213	421
9	Bulgaria	787	6,118	31	Serbia	-	578	44	Poland	-	243
11	Croatia	5,821	4,694	34	Malta	-	470	50	Hungary	-	159

Source: Author's own elaboration.

Spanish hotel companies generally use management contract and WOS through FDI (specially in Latin America) at the time that US hotel companies<sup>99</sup> are using basically franchise and management contract. The Spanish hotel industry seems to be one of the hotel industries that most use wholly owned subsidiary. The question is *why?*. According to the literature, the Spanish hotel industry is situated in a first stage of this process, which seems to be a gradual one (Johanson and Valhne, 1977; Ramón, 2002).

After the incorporation of the new types of hotel business, like condo hotel, multi-property, fractional-property or vacation club, included into the concept of resort, the evolution of the international expansion of the hotel industry started a new stage of development. These new types permitted the higher synergies between hotel sectors and companies from others sectors like the real estate or construction. Actually, there are two tendencies: first, constructing new *resorts*, specially in the Latin-American region, given that the financial institutions, hand in hand with the hotel chains, and sometimes with the real estate companies, started to form hotel investment enterprises and second, there is a tendency of acquiring new city hotels.

Summing up, the hotel industry is characterized by a strong change of its products, and the Spanish one, like some others, nowadays, seems to consider the tourist not only as a simple consumer, but also as an investor. This way is much easier to finance a quick and rapid growth without assuming too many risks.

## 3.- Sample and methodology

Hotels industry as a soft service one is characterized by the possibility of separation between the capital investment and the management skills. This can explain the low level of the foreign properties and also the possibility of getting along the internationalization without considering FDI<sup>100</sup>.

The analysis is based on data obtained from primary and secondary sources. Secondary data comes from a literature review of determinants of international expansion of MNEs, specially service firms, and from the annual reports Hostelmartket, of the hotels chains that develop their

99 Following Hotels Magazine (2008), the US companies along with the British IHG are the leaders of the world ranking. The first Spanish hotel chain, Sol Meliá, is situated in the 12th position and the second, NH Hotels, in the 14th.

100 There is a strong unbalanced relationship between the Spanish hotels FDI growth overseas and the quick growth of the hotels operated by the Spanish companies in the international market. Between 2000 and 2007, the annual growth rate of Spanish hotel FDI was near 1.34%, mine while, the annual hotels growth rate was 11.22% in terms of rooms and 11.73% in terms of hotels.

activities in Spain. Primary data proceed from the questionnaires applied to the 63 Spanish hotel firms that operated at least one hotel overseas during the period 2000/2007.

The dependent variable is EM=1 if it is franchise agreement<sup>101</sup>, EM=2 if it is management contract, EM=3 if it is leasing contract, EM=4 if it is joint venture and EM=5 if it is wholly owned subsidiary. The higher it is the value of the dependent variable, the greater control and investment involvement has the MNE, which suppose less flexibility for the parent firm in terms of variety in its international position.

There are a few studies that test the determinants of enterprise internationalization, but the majority proposes a cross section model. Due to the inexistence of a longitudinal section and to the abundance of cross section researches, we proposed a multinomial logistic regression model with panel data, so that an evolution and tendency can be underlined.

#### **4.- Literature review and formulation of hypothesis**

Trying to discover the factors that influence in the MNE decision of entry mode from the syncretic approach, we assumed that there are at list two types of determinants: country's specific factors and firm's specific factors.

##### ***Country's specific factors***

One of the most important decisions in the internationalization process is the option for the entry mode into the foreign markets. If a MNE is thinking of entering into a foreign market, the managers of the firm should decide the level risk and the degree of control and resource commitment that they desire. That's why the MNE should consider not only its characteristics, but also the ones of the country where is going to start its activity. As there are several problems when entering in international markets, like the environmental uncertainty, that can be translated as economic and social uncertainty and as legal and political instability, Contractor and Kundu (1998a, 1998b, 1999) stipulates that *country risk, ceteris paribus*, should be consider as an important determinant of the entry mode decision.

In the previous literature we identified two tendencies. On one hand, there are studies that sustain that perceiving higher country risk is perceived suppose less resource commitment assumed by the firm (Gatignon and Anderson, 1988; Kim y Hwang, 1992; Agarwal y Ramaswamy, 1992; Contractor and Kundu, 1998b, 1999; Ramón, 2000, 2002; Pla and León, 2004; Quer *et al.*, 2007; Berbel *et al.*, 2007). On the other, Fladmoe-Lindquist and Jacque (1995) determined that a high level of political, economic and social volatility will imply a lower use of the franchise agreement in the service firms. This can be interpreted also as a direct relationship of country risk and entry mode.

Given that previous studies of internationalization of hotel industry proved empirically an inverse relationship of the target country risk and the entry mode and the above remarks, we consider the next hypothesis:

**H1: Entry modes of the Spanish hotel chains will be inverse related to the target country risk.**

*Cultural distance*<sup>102</sup> refers to the possible differences that can exist between the origin country and the target country, in the way that the people understand certain behavior (Quer *et al.*, 2007). Actually, when the MNE decides to transfer work methods and try to create certain capabilities, it have to be considered the possibility of success in creating this capabilities in the target country. As Buckley and Casson (1998) underlined, cultural distance can be the sum of the learning, adaptation and trust-building costs, and as Pine *et al.* (2000), Xiao *et al.* (2008) and Heung *et al.*

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101 It is considered as the less risky thinking of the resource commitment, the control and the financial risk.

102 Hofstede (1984) defined it as "the collective programming of the mind which distinguishes the members of one human group from another", in this sense the culture "includes systems of values; and values are among building blocks of culture".

(2008) reveals, the more cultural distance is perceived, the MNE rather higher degree of resource commitment<sup>103</sup>.

We found studies that tested empirically a direct relationship between the cultural distance and the entry mode (Buckley and Casson, 1998; Barkema and Vermeulen, 1998; Contractor and Kundu, 1998a, 1998b; Ramón, 2000, 2002; Chang and Rosenzweig, 2001; Sánchez and Pla, 2006), an inverse relationship (Goodnow and Hansz, 1972; Gatignon and Anderson, 1988; Kogut and Singh, 1988; Li and Guisinger, 1991; Rothaermel et al., 2006; Álvarez, 2006; Quer *et al.*, 2007), but also a statistically lack of significance (Contractor and Kundu, 1995; Azofra and Martínez, 1999; Berbel *et al.*, 2007). All this conduce us to the following hypothesis:

**H2: Entry modes of Spanish hotel chains will be positively related to the cultural distance.**

*The level of the economic development* of the target country may influence the decision of MNE's entering mode (Contractor and Kundu, 1998a, 1998b; Ramón, 2000, 2002; Pla and León, 2004; Berbel *et al.*, 2007). Our hypothesis is:

**H3: Entry modes of Spanish hotel chains will be positively related with the level of the economic development of the target country.**

*The degree of the penetration of foreign investment into the target market* is an internationalization determinant that wasn't considered in many studies. Dunning and McQueen (1981) stress that *ceteris paribus* the countries that got a high penetration of foreign investment are the ones where the foreign companies will tend to use more equity entry modes based on follow the clients strategy. There are basically five studies in the hotel industry that have taken into account this variable (Dunning and McQueen, 1981; Contractor and Kundu, 1998a, 1998b; Ramón, 2000, 2002) and only Ramón determined a positive relationship, while the others didn't found statistically significance. Based on the above observations, we formulate the following:

**H4: Entry modes of the Spanish hotel chains will be positively associated with the level of penetration of foreign investment into the target country.**

#### ***Firm's specific factors***

For a competition in equal terms of a foreign firm and a local one, is necessary that the foreign one poses ownership advantages that allows it to internalize, if it's the best option, knowledge and capability into a new subsidiary. This means that the MNE needs financial and managerial support that can be assured by a great *size*. In the hotel environment there are studies that corroborate the affirmation of Gatignon and Anderson (1988) that the entry modes with high control degree are less used in large operations (Contractor and Kundu, 1998a, 1998b; Pla and León, 2004; Quer *et al.*, 2007). Ramón (2000, 2002) determines the opposite and Berbel *et al.* (2007) concludes that the firm's size got no statistical significance. Although, our hypothesis is based on direct information obtained from hotels managers which consider the company's size as a very important factor to decide the company's entry mode in foreign markets. Contractor and Kundu (1998b) tested this kind of information for the U.S. hotel industry, and Ramón (2000, 2002) and Berbel *et al.* (2007) for the Spanish one, and they determined basically an inverse relationship. Our hypothesis is:

**H5: Entry modes of the Spanish hotel chains will be negatively related with the firm's size.**

The traditional view considers the firm to adopt gradual changes in its entry modes starting with the license agreement (franchise in our case) and finishing with the wholly owned subsidiary at the time that the *international experience* increase (Johanson y Vahlne, 1977; Erramilli, 1991; Agarwal and Ramaswamy, 1992). The other vision is the nontraditional one, which sustain that

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103 Contractor and Kundu (1995) considers the possibility that cultural distance can become a barrier for the international expansion due to three perspectives: the learning costs, the adaptation costs of their products/services to the conditions of the foreign market and to its culture, and the interaction with the suppliers and with the labor that implies the use of local inputs.



high international experience assures greater knowledge of the foreign markets, and it can give more flexibility and capacity in evaluating and anticipating the behavior of potential partners. The international experience which can be expressed in two ways<sup>104</sup>, according to the theory, is playing a very important role in the process of international expansion.

**H6: Entry modes of Spanish hotel chains will be positively associated with the international experience.**

**H7: Entry modes of Spanish hotel chains will be negatively associated with the international degree.**

## 5.- Results and discussion

The table 2 provides the results of the four multinomial regressions used to verify and test the hypothesis proposed earlier, given the correlation of the independent variables. According to the results obtained, the development level of the destination, its risk degree, its cultural distance and the firm's size are the most important variables in the MNE choice of an entry mode.

Table 2: Logistic multinomial model estimates <sup>a</sup>

Independent variable	Model 1	Model 2	Model 3	Model 4
GDPpc	0.000(0.000)*		0.000(0.000)**	
FDI/PIB	0.035(0.033)	0.054(0.021)**	0.044(0.017)**	0.057(0.212)**
Cultdist	9.057(1.311)***	10.143(1.157)***	8.133(1.071)***	10.219(1.210)***
Crisk		0.053(0.224)		0.057(0.206)
Size	-5.255(1.699)**	-5.115(1.321)***		
Intexp	-0.144(0.079)*	-0.180(0.068)**		
DOI			11.582(1.805)***	13.552(2.450)***
Wald chi2	<b>90.91</b>	<b>123.81</b>	<b>80.90</b>	<b>105.62</b>
	<b>Prob&gt;chi2=0.000</b>			

<sup>a</sup> Values of beta coefficients. Standard values in brackets. \*\*\*Significance of more than 1%; \*\*Significance of more than 5%; \*Significance of more than 10%.

Spanish MNEs that are looking for security in their investments will chose destinations with a high level of development (H3) and previous FDI (H2). Country risk (H4) is no longer such an important barrier as at the beginning of the process. Dunning and McQueen (1981) concluded that in the hotel industry is more likely to find FDI in highly competitive markets characterized by a higher GDPpc and greater FDI/GDP ratio.

The others Eastern Europe countries were explored by the Spanish hotel companies in the vacation and leisure slope, fundamentally in the ones situated in the Mediterranean Basin. Sol Meliá was the leader in 2000 with its 23 hotels and 7,190 rooms in Croatia and Turkey. The city hotel Spanish chains, that do not have the same national experience, started their international expansion only at the end of 2000 and the beginning of 2001, when NH Hotels acquired the Dutch chain Kransnopsky and the German Astron. This could be a relevant explanation of the lower degree of city hotel offer generally and also in Eastern Europe (Table 3).

Table 3: The Spanish hotel offer in the Eastern Europe

Year	Nr. Hotels	Nr. Rooms	% Hotels/Total	% Rooms/Total	RO Hotels	RO Rooms	%RO Hotels	%RO Rooms
2000	34	9,296	8.65	9.34	-	-	-	-

104 First, as number of years passed since the first operation overseas, and second, as firm's degree of internationalization (number of countries were MNE is operating multiplied by the foreign hotels divided on the total hotels).

<b>2001</b>	42	11,825	8.28	9.67	-	-	-	-
<b>2002</b>	34	8,335	5.75	5.98	-	-	-	-
<b>2003</b>	40	10,604	6.07	6.76	1	225	2.5	2.12
<b>2004</b>	42	11,575	6.65	7.16	-	-	-	-
<b>2005</b>	47	12,658	6.93	7.49	1	78	2.12	0.61
<b>2006</b>	41	12,357	5.92	6.76	3	463	7.31	3.74
<b>2007</b>	60	15,815	7.03	7.46	3	463	5.26	2.94
<b>Leisure hotels 2007</b>	49	14,909	81.66	<b>94.27</b>	1	305	33.34	<b>65.87</b>
<b>City hotels 2007</b>	11	906	18.34	<b>5.73</b>	2	158	66.66	<b>34.13</b>

Source: Author's own elaboration.

Romania, before joining the EU has been chosen as a destination of the Spanish hotel MNEs, but not through direct investment, due to its economic and cultural conditions (according to the information obtained from the managers). However, two years before Romania entered into the EU, NH Hotels decided to enter in the Romanian city hotel market and in 2006 the leisure chain RIU opted for a vacation and leisure hotel in the Black Sea coast even if in 2003 things didn't work out as planned.

## 6. Conclusions

In conclusion, the study indicates that the Spanish hotel industry tends to involve itself to a greater investment in: areas culturally different from Spain because of the difficulties of evaluating properly the behavior of the partners; countries with a higher GDPpc and FDI/GDP ratio, as a proxy of the country's infrastructure and of the safety of the direct investment.

In these areas, Romania still has to work hard, but given that is now a member of the EU, there are more opportunities of attracting FDI and this means a great possibility of progress and development of its economy and society.

As Bulgaria, Romania should exploit its Black Sea coast and all its natural resources even if this doesn't suppose a direct entrance of FDI into the real estate property, but to improve the infrastructures, the price/quality relationship and even the possibility of developing the newest hotel products (e.g. condo hotels or multi-property) taking advantage of the presence of Spanish real estate companies in the Romanian sector.

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## THE FREE ZONES- INSTRUMENTS OF ECONOMIC INTEGRATION, BETWEEN TRADITION AND PRESENT SITUATION

**Mangra Mădălina Giorgiana**

*University of Craiova, Faculty of Economics and Business Administration, Craiova, Strada Calea Severinului, bl.319, ap.18, Dolj madamangra@yahoo.com 0766243144*

**Daea Alexandra Renate**

*University of Craiova, Faculty of Economics and Business Administration, Drobeta Turnu Severin, Adrian Street, no.174, Romania alexandradaea@yahoo.com 0723610538*

**Stanciu Marieta**

*University of Craiova, Faculty of Economics and Business Administration, Craiova, Bucharest Road, bl.A18, ap.5, Romania mstanciu@yahoo.com 0743099509*

*The emergence of the free zones, some of them created in the second half of the 19th century, presents socio-economic advantages regarding: the introduction of modern technology in these zones, gaining incomes from the granting of plots of land, the use of the local human resources, the creation of new infrastructures in the transports from the respective areas, the drawing of foreign and local investors, the development of the international relations and exchanges. Countries establishing free-trade zones usually are characterized by non-competitive domestic industries and regulatory frameworks, and this is one way in which they gain access to foreign investment and markets. Such zones sometimes lead to technology transfers to host countries. Trade and transfer of technology represents a work program adopted at the Doha Ministerial Conference aimed at increasing flows of technology to developing countries.*

*Keywords: free trade zone, infrastructure, investments, international relations and exchanges.*

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Free-trade zones are defined areas, also called export processing zones, normally located near transport nodal points and designated by governments for duty-free import of raw materials or manufacturing components intended for further processing or final assembly and their re-export afterwards. Such products are exported to markets in other countries. Successful free-trade zones tend to have a plentiful supply of relatively cheap and adequately skilled labour. Countries establishing free-trade zones usually are characterized by non-competitive domestic industries and regulatory frameworks, and this is one way in which they gain access to foreign investment and markets. Such zones sometimes lead to technology transfers to host countries, but often that is not an objective of companies establishing operations in them. Trade and transfer of technology represents a work program adopted at the Doha Ministerial Conference aimed at increasing flows of technology to developing countries.

Trade and labour standards are one of the new trade issues. It is concerned with the question whether trade rules should be used to promote minimum labour standards in exporting countries. Like others of these new trade issues, it has actually been around for some time. The 1919 constitution of the International Labour Organization had the adoption and promotion of labour standards as a main objective. Some consider that the concept of "fair labour standards" derives from Article 23 (a) of the Covenant of the League of Nations in which members endeavoured "to secure and maintain fair and humane conditions of labour for men, women and children both in their own countries and in all the countries to which their commercial and industrial relations extend".

Trade and investment are, also, one of the new trade issues, even though some rudimentary rules on investment formed part of the Havana Charter. The issue is concerned with the relationship between trade and investment as factors in international economic relations and the emergence of

investment as a market access issue. Broadly speaking, for a long time, trade and investment tended to be regarded as separate policy issues. Today, the two are increasingly regarded as complementing each other. In a situation of declining border protection, investment flows can stimulate new trade patterns and strengthen older ones. In other cases, firms are more or less forced to invest and produce in target markets because high tariffs make importing an unrealistic option.

The WTO Singapore Ministerial Conference established in December 1996 a Working Group on the Relationship between Trade and Investment to examine this issue. Competition represents the way firms behave in the market place and how they respond to the actions of other suppliers and consumers. Underlying the idea of competition is the assumption that supply and demand are limited, at least in the short term, and that firms must strive obtain their share of the available resources. In ideal conditions, competition between firms would be based on price and the ability to innovate and respond to changes in the market. There would be no impediments to the operation of the price or market systems.

In the real economy, human ingenuity, high entry barriers to some industries, efficiencies of scale obtainable from large-scale operations and other factors combine to impair perfect competition in various ways. This may lead to economic rents being accorded to some firms, but without any obligation on their part to let the consumer benefit from this situation. Governments recognize this, and in many countries they seek to protect, where necessary, competition through antitrust laws and competition policy. Most economies are becoming internationalized, and government approaches to trade policy, i.e. their assessment of the extent to which foreign firms and their products should be allowed to compete in the market, therefore can be of critical importance to the level of competition prevailing in the market.

Fair competition, in trade policy, represents the proposition that international trade should be conducted within the non-discriminatory rules of the multilateral trading system. Sometimes this is also known as the level playing field. One element of fair competition in trade is that competition is kept within certain bounds. Otherwise, antidumping measures, countervailing duties, etc., may apply. In competition policy, fair trade means the conduct of business in conformity with usually pro-competitive laws.

Equitable competition is a concept based on the assumption that there ought to be some degree of international harmonization of labour, environmental and other standards seen to affect the cost of production to achieve a framework in which firms compete on more equal terms. The wisdom underlying this concept is that countries permitting inadequate standards give their firms a cost advantage which translates into enhanced international competitiveness for them.

Trade and environment are viewed by some as another of the new trade issues. It is concerned with the issues arising from the interaction between measures to expand international trade and those aimed at protecting the environment. There is a view that virtually all trade-environment issues fall within one of the following categories: (i) the trade effects of environmental regulation of protection, (ii) the trade effects of environmentally related product standards, (iii) the use of trade measures to secure international environmental objectives and (iv) the environmental effects of trade and trade liberalization. Hoekman and Kostecki list four main reasons offered by its proponents for the inclusion of this issue in the WTO agenda. First, production and consumption activities in one country may have a detrimental environmental impact on other countries. Second, some environmentalist groups have propounded the view that trade itself is bad for the environment because of its potential to spread pollution. Third, some consider that environmental measures and policies are bad for trade because they might allow countries with low environmental standards to be more competitive than those that have to bear the cost of higher standards. Fourth, environmental policies may unnecessarily restrict trade as shown in the tuna cases. There is much argument about the possibility that differences in environmental standards might lead to cost differentials which could be exploited by those enjoying lower costs. The

proposition that trade measures ought to be used in support of environmental objectives generally is not favored by trade-policy makers because it might lead to a whole new array of protectionist measures only tenuously connected with the aim of environmental protection. Still, some multilateral environment agreements already contain significant measures covering international trade. A work program is now under way on these issues in the WTO Committee on Trade and Environment.

The concept of *free trade zone* is defined generally as a geographic area – *free harbor/port, free deposit, and free airport* – found on the territory or at the frontier of a country, a space where the goods have free access that was created in order to develop freely the economic relations.

The notion of *free zone* means in the opinion of the specialists in this domain an area limited by natural or artificial frontiers, within which the merchandise is loaded, stored, processed or delivered/shipped, being excepted from customs duties or restrictions (1).

Other authors use the term of *economic free zone*(2) which is different from the *customs union* or the *free trade zone*, being underlined the fact the goods that enter in a free economic zone undergo essential changes, new values being created. From the almost 23 terms(3) that name the *free zones*, the notion of *tax haven* is to be remembered.(4).

No matter the terms used, it is important that the free access of the goods in the free zone and the customs facilities represent a modality of drawing the foreign capital and stimulating the foreign investments. But these opportunities mean the stimulation of the manpower and an adequate infrastructure. The activities of industrial processing must be oriented towards export, towards increasing the quality and the operability to the level of those zones users' requirements.

The legislative approach in this domain targets the control and management of the free zones which signifies a certain liberty of action in the allocation of the resources (for the access of the goods adapted to the market's requirements), in the introduction of new technologies, but also restrictions imposed on the investors regarding the respect for the environmental protection norms and the lack of involvement in the country's security problems.

The foreign investments in the free zones are made in industry, agriculture, human resources, constructions and commerce, tourism and banking services. The foreign investors can participate in the administration and management of their investments, they can transfer a quote of the profits in their country and their funds and material assets can not be nationalized or expropriated.

The introduction of the free zone regime is a right that belongs to local authorities that must make a feasibility study in their documentation regarding the opportunity for the creation of a free zone, specifying the geographical, social, economic frame and the potential partners and investors as well as the human resources. The entire documentation must have the approvals regarding the property right on the respective land, other ones from the Environment Protection and Supervision Agency, the Urban Development Commission and the Ministers of competence. The regime of free zone has a long historical tradition, the certification of the first such zones in the Galati and Braila ports dating since 1834-1836, their objective being the development of trade. In 1866, facilities were granted to the Greek traders making businesses in the Danube ports. The economic importance of these two free zones declined as consequence of the Germany and Austro-Hungary's intervention and promotion of their merchandises. Sulina was also under the same regime of free zone, and during 1870-1931 many goods transited through it in their way to the Near East and Middle East. The most important fact is the Senate voted a project of law stipulating, besides the imports of various goods, the re-exporting of these or their transformation into raw materials and also the creation of enterprises. The rules for re-exports without customs restrictions, the conditioning of goods by packing, shape, quality, unlimited storage in customs warehouses are only some of the articles from the 1931 Law for Free Zones, that were still valid in the moment of the Law 84/1992 elaboration and some still are.

The present free zones in Romania, six of them, were introduced by law(5), commercial and financial facilities being granted to them by the State administration, in order to promote the international exchanges, the drawing of foreign capital for the introduction of modern technologies and increasing the possibilities of using the national economy's resources.

The free zones Brăila, Galați, Sulina were recreated and the free zones Constanța-Sud, extended till the harbor complex Basarabi, and Giurgiu were appointed by Governmental Decisions.

#### ***Sulina Free Zone***

Due to its position, Sulina, the port situated where the Danube flows in the Black Sea, had become porto-franco in 1870 as consequence of the necessity to develop commerce especially for the merchandises exported from the Mediterranean basin and other countries. During 1871-1875 almost 9750 ships had passed through Sulina, known as a European gate. All the privileges of the Sulina port were abrogated in 1931 even though the status of porto-franco and implicitly, of free zone(6), had lead to the development of commerce on the Danube, to the increase of ships and merchandise traffic, to the economic progress of the town and the prosperity of the traders making commerce with the exterior.

The free port of Sulina is created in 1978 due to its geographical position influencing the international, maritime and fluvial traffic of Romanian or foreign goods and the extending of the economic relations with countries from South-East Europe and the Near and Middle East. By its creation as a free port, the volume of the import and export operations through chambers of commerce grew and the cooperation with foreign firms and the creating of commercial companies were encouraged. The activities specific for the regime of free zone intensified in 1993 and were made by economic agents, users of this zone, with the approval and on the basis of the licenses granted by the Sulina Free Zone Administration, created by the reorganization of the External Commerce enterprise, which functions as an autonomous direction, based on the principles of economic administration and financial autonomy. The object of activity is represented by:

- goods and services meant for import or export;
- processing or transforming goods for re-exports;
- exploiting of the basins, wharfs, platforms, deposits, equipments and installations;
- collaboration with economic agents in the investments made;
- industrial production;
- hotel services.

The goods prohibited to be imported on the Romania's territory are not admitted in this zone and the dangerous merchandises must be stored in locations specially created in conformity with the present legislation. The ships with activities in the port of Sulina can land in the established points and are exempted from the duties payment when passing through Sulina channel.

#### ***Constanța-Sud and Basarabi Free Zone***

The existence of a free zone in the Constanta port is mentioned during the period 1880-1883, being abolished afterwards. The Constanța- Sud and Basarabi free zone including two platforms to which a third one was representing harbor territory was added was created not until 1993. The two free zones are administrated by an autonomous direction, respectively the Constanța-Sud and Basarabi Free Zone Administration which deals with:

- manipulation, storage, selection, measurement, packing, processing, fabrication and marking of the merchandise;
- stock exchange and financial-banking operations;
- renting and taking in concession parcels of land;
- the ships' freighting, agency, supply;
- granting licenses to economic agents for activities in this zone.

All the activities realized have the approval not only of the zonal authority but also of the Minister of Transports. The Constanța-Sud free zone, because is linked to all transportation means (terrestrial, maritime, fluvial, air), offers opportunities for:

- renting or taking in concession plots of land or buildings;
- terminals for oil or chemical products, cereals and transport means;
- industrial, commercial and stock exchange activities;
- possibilities for on-going international projects.

Since contracts of concession on 50 years time were signed with Romanian or foreign physical and juridical persons, there is a danger of the concessionaires giving up their contracts due to the imposing of taxes on goods or income tax, fact that would lead to the decrease of the investors' number, of the investments' volume and of the exports' value which would bring about the growth of the commercial deficit and the liquidation of some businesses but also sending employees in unemployment and to the growth of the underground economy.

### ***Brăila Free Zone***

Brăila was declared free port in 1836 and kept on functioning under that regime until 1883. Due to some reasons of external nature (customs warehouses in old ports all around Europe) Brăila free zone was abolished in 1940. Consequently to a number of Governmental Decisions modified and completed in 2000, the Braila free zone was created and it was formed by three perimeters with a port. The Administration is also an autonomous direction having the same attributes as the other free zones, such as:

- organization of auctions;
- giving licenses to the economic agents;
- giving in concession plots of land and buildings.

On the surface of the three perimeters, there are 61 Romanian and foreign firms that realize export-import, processing and presentation activities and 18 firms that have rented storing locations. All the firms are customs duties, approvals payments, TVA and income tax exempted. Due to its position at the frontier with Moldova and Ukraine, the Braila Free Zone offers to its users fiscal and customs facilities, access to railway, maritime and fluvial transport means and to cars of any tonnage, but also customs or technical consultancy, possibilities of manipulating the merchandises and storing them on platforms or in warehouses.

Among the opportunities of economic development offered to the private entrepreneurs, it can be mentioned:

- realization of a performing infrastructure;
- amplification of the technological transfer and industrial processes modernization's operations;
- subcontracting with local economic agents;
- growth of available jobs' number;
- creation of an industrial park oriented towards the information and communication technology.

### ***Giurgiu Free Zone***

One of the most important Danube ports (7), with opening for the commercial relations with the Balkans and the Middle East, Giurgiu has become a free zone in 2000. The Giurgiu Free Zone Administration, functioning as an autonomous direction has the following activities:

- giving in concession terrains to the investors;
- renting plots of land and various locations for production, commerce, services related activities;
- granting licenses to the users in this zone.

This free zone offers the possibility of loading the ships with oil products since it has an oil terminal but it also has a developed railways network and an adequate road infrastructure. The productive commercial companies develop industrial activities and the exports of finite products are stimulated. The Giurgiu free zone is property of the state and was created to promote the



international commerce and draw foreign capital. Due to the possibilities of using the ports and fluvial capacities of the Danube but also the capacities of industrial processing, agricultural and storage ones, this free zone is predicted to become one of the largest European economic free zones.

### ***Curtici-Arad Free Zone***

Curtici-Arad Free Zone (8), created in 1999, the most recent and dynamic from the Romanian free zones, it represents a factor of economic and social competition, generating various services regarding:

- circulation of the financial-banking capital;
- hotel services;
- public alimentation;
- consultancy;
- control of goods' quality and quantity;
- internal and international dispatching.

Located at the frontier with Hungary, this free zone is situated on a European road, railway and air corridor which draw the investors. The existence of concession, renting and association contracts permits the users to make investments as well as production, processing, storing and commerce activities. New jobs were created by the development of small and middle enterprises, those contributing at the regional and county development but also to the external relations.

In conclusion, the existence of the six free zones offers, by their functionality, the following advantages:

- gaining incomes from the concessions;
- using the local human resources;
- the realization of new infrastructures;
- the introduction of modern technologies in all the free zones;
- promoting of international relations and exchanges.

The creation of new free zones, next to the traditional ones, had for consequence the drawing of investors with foreign or autochthonous capital, the introduction of modern technologies, the realization of merchandise stocks necessary to the national economy and the carrying on of commercial and industrial operations.

The location of these zones next to or inside some transport ways (maritime or fluvial ports - Sulina, Galați, Brăila, Constanța-Sud, airport-Otopeni, railway), that are constitutive part of the Romanian state's territory, permits the transit of a large volume of import-export merchandises.

There is a possibility of creating new free zones at the frontier with Moldova (Ungheni, Albița) or Ukraine (Giurulești) in points with maximal commercial affluence.

It must be taken into account however that almost 10 years are necessary for a free zone to become functional and the rhythm of involvement of the foreign investors is not constant.

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# OPERATIONAL RISK IN INTERNATIONAL BUSINESS: TAXONOMY AND ASSESSMENT METHODS

**Marinoiu Ana Maria**

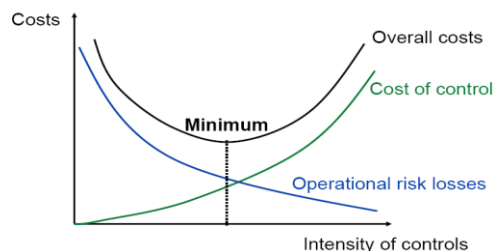
*Bucharest University of Economics, Faculty of International Business and Economics, Piața Romană, 6, Bucharest, anamarinoiu@yahoo.com, 0722701525*

*The paper aims at presenting the classifications and the assessment methods for operational risk according to international regulations (ie. Basel 2), in the context of its importance as a managerial tool for international business. Considering the growing complexity of the organizational and operational structures of the multinational companies, it is of utmost importance to quantify a risk that may cause on the short run considerable damage to the profits and cash flows of the companies and even to its existence.*

*Key words: operational risk, theories, international business*

*JEL:G32*

Organizations that may have focused a few years ago on delivering one or two similar products constructed in one location to a single, homogenous group of clients have evolved into true multinational enterprises. Nowadays, manufacturing may take place in a number of locations around the world, and in each location different styles and variations of the product line may be developed. Manufacturing competencies are kept distinct from the skills required to develop an efficient distribution capability. Distribution is also likely to be a multi-location activity, and in each location a variety of different channels may be employed to reach clients. With so many flexible issues, the management and control problem of a modern firm is enormously complex. One has to efficiently coordinate intelligent, motivated individuals, who in many cases represent the value of the organization, to execute an intricate and sophisticated process. These individuals must retain some scope for personal challenge and reward, while the organization overlays a structure for achieving stability and growth to ensure product quality, at the same time delivering a return on capital for the shareholders. All these factors constitute a varied range of potential risk sources, hence underlining the necessity for a risk management strategy for the companies involved in national and multinational activities. Another explanation as to why firms pursue risk reducing strategies in a risk management framework is presented in Amihud and Lev (1981), who argue that imperfect monitoring and contracting allow managers to take actions that are in their own best interest and not necessarily those of shareholders. A third interesting explanation, this time focused on operational risk, is that operational risk management optimises the loss versus control, as shown in the figure below.

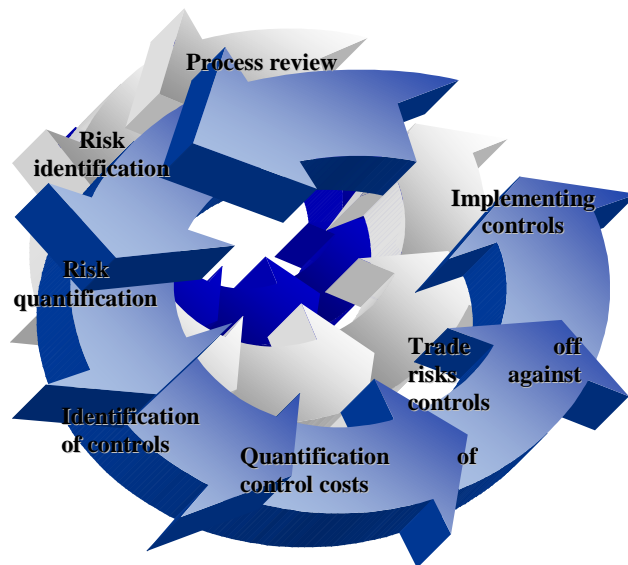


**Figure 1 The Optimization of loss versus control trade off by using operation risk management**

Therefore, indicators quantifying risks from an objective point of view offer both managers as well as shareholders the opportunity to rely on simple and easy-to-use instruments in order to

determine a best-practice course of action. In practice, risk management methods fall into two major categories: risk adjustment and risk analysis (probabilistic risk analysis). The latter uses instruments and methods such as sensitivity analysis, probability analysis, decision-tree analysis, Monte Carlo simulation etc.

There are many examples of how an incomplete knowledge of risks can lead to inefficiencies or worse. Three broad classes of problems can arise from a failure to manage risk: (i) a potential compounding of unintended bets and uncompensated exposures to risk, (ii) unwarranted over-diversification or the reverse, concentration, and (iii) misallocation of resources. Hence, the management of operational risk requires a process of risk and control assessment, as presented in the figure below. The present paper deals with stages 2 and 3 in the scheme, presenting the classification and assessment methods for operational risks.



### Classification of operational risks

In response to the growing awareness of operational risk and the need to manage it, the regulatory community is providing guidelines from defining operational risk to establishing guiding principles on the quantification of operational risk. Therefore, several competing classification schemes have become available in the operational risk services market.

The seven operational risk loss event groups recommended by the Basel Committee are:

1. Internal Fraud
2. External Fraud
3. Employment Practices & Workplace Safety
4. Clients, Products, & Business Services
5. Damage to Physical Assets
6. Business Disruption & System Failures
7. Execution, Delivery, & Management Process

The operational risk classification methodology proposed by Zurich IC2 lists five major risk classes and their associated subcategories.

#### 1. People Risk:

- Employee Errors (general transaction errors, incorrect routing of transaction, *etc.*)
- Human Resource Issues (employee unavailability, hiring/firing, *etc.*)
- Personal Injury – Physical Injury (bodily injury, health and safety, *etc.*)
- Personal Injury – Non-Physical Injury (libel/defamation/slander, discrimination/harassment, *etc.*)

- Wrongful Acts (fraud, trading misdeeds, *etc.*)

## 2. Process Risk:

- Business Process (lack of proper due diligence, inadequate/problematic account reconciliation, *etc.*)
- Business Risks (merger risk, new product risk, *etc.*)
- Errors and Omissions (inadequate/problematic security, inadequate/problematic quality control, *etc.*)
- Specific Liabilities (employee benefits, employer, directors and officers, *etc.*)

## 3. Relationships:

- Legal/Contractual (securities law violations, legal liabilities, *etc.*)
- Negligence (gross negligence, general negligence, *etc.*)
- Sales Discrimination (lending discrimination, client discrimination, *etc.*)
- Sales Related Issues (churning, sales misrepresentation, high pressure sales tactics, *etc.*)
- Specific Omissions (failure to pay proper fees, failure to file proper report, *etc.*)

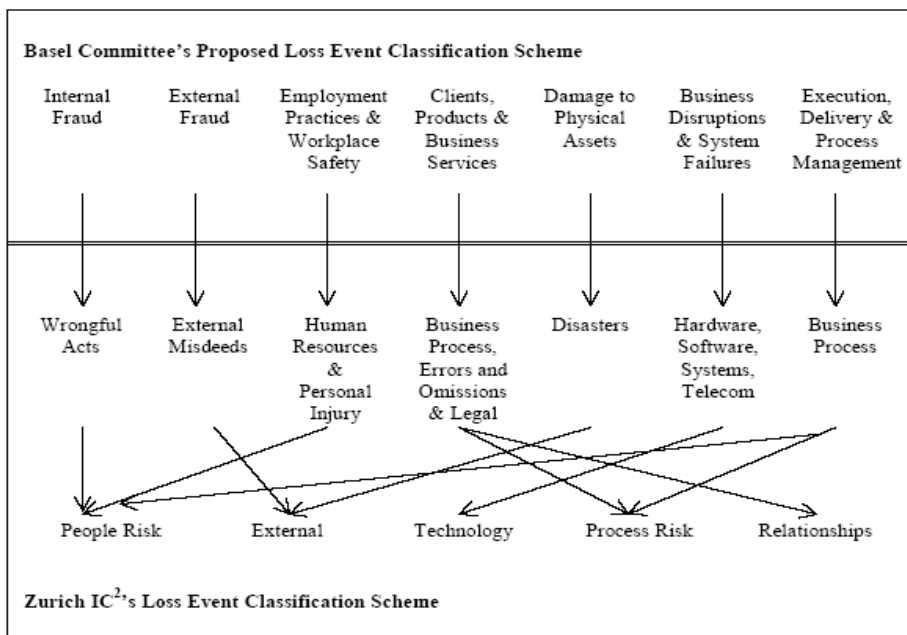
## 4. Technology:

- General Technology Problems (operational error – technology related, unauthorized use/misuse of technology, *etc.*)
- Hardware (equipment failure, inadequate/unavailable hardware, *etc.*)
- Security (hacking, firewall failure, external disruption, *etc.*)
- Software (computer virus, programming bug, *etc.*)
- Systems (system failures, system maintenance, *etc.*)
- Telecommunications (telephone, fax, *etc.*)

## 5. External:

- Disasters (natural disasters, non–natural disasters, *etc.*)
- External Misdeeds (external fraud, external money laundering, *etc.*)
- Litigation/Regulation (capital control, regulatory change, legal change, *etc.*)

A transference from one of these classification method to the other is possible, as presented by Alvarez in GARP (Global Association for Risk Professionals) studies.

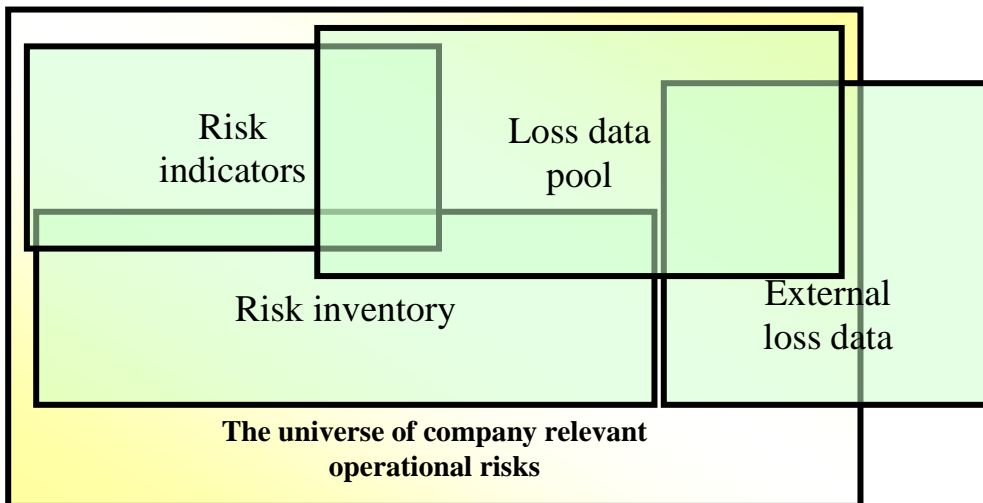


**Figure 2 Mapping illustration between the Basel Committee's proposed operational risk event classification scheme and Zurich IC2 format. (Alvarez, 2002)**

### Methods for assessing operational risk

In literature, many authors support the risk analysis approach, emphasized by the increasing use of risk-analysis techniques. However, one reason for a wide-spread acceptance of risk analysis is that it is affected by the practical implementation methods.

There are several methods that may be used for assessing the level of operational risk that a company has to deal with. Each of these methods has its advantages, as well as its downfalls in terms of benefits for the company. For the control of the universe of operational risks, the risk measuring instruments complement and overlap each other, as shown in the figure below. In the following pages, some of these methods are briefly presented.



**Figure 3: Risk measuring instruments, according to GARP (Global Association of Risk Professionals), 2001**

#### 1. Scalars

The first method is the use of simplistic business scalars (such as revenues, costs, assets, funds under management and volume of payments) to measure operational risks. This approach makes no attempt to explicitly measure differences in risk between units, as the scalars available for use are in many cases poor proxies for risk. The scalars may be, depending on structure of company, industry, legal requirements, and internal processes:

Indicators of human risk

- Overtime
- Fluctuation
- Period of employment

Indicators of process risk

- Degree of automation
- Delays in transactions
- Range and bearing of projects

Indicators of technological risk

- Age of system
- Degree of utilisation of system
- Duration of breakdown

Indicators of product risk

- Age of product
- Number of products

-Product range and scale

## 2. Benchmarks

Under this approach, amounts of economic capital held by similar business lines in other banks are used to determine the appropriate amount of capital for each unit. This approach has the merit of being relatively quick and easy to apply, but it is a proxy measure rather than a real quantification. Moreover, benchmarks relate to companies with different products, different markets (particularly if they are overseas) and different internal processes. One of these benchmarks may be considered the Operational Value-at-Risk for the industry, a parameter that succeeds at eliminating some of the problems presented above.

<b>OpVaR<sub>ij</sub> =</b>	<b>Probability of event</b>	<b>X</b>	<b>Loss given event</b>	<b>X</b>	<b>Operations exposure</b>	<b>X</b>	<b>Quality index</b>
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For any combination of business segment i and type of risk j, the following parameters need to be calculated:

- Probability of loss event, PE
- Loss given that event, LGE
- Operations exposure, OE
- Quality index, assumed to be independent

## 3. Statistical analysis

The statistical approach is faulty due to the poor quality and quantity of internal data available, especially when it is applied “bottom-up”. The foundation of any thorough analysis of operational risk is data integrity and quality. If data are sparse, biased, and incomplete or flawed, the outcome of any analysis will be suspect at best; meaningless at worst. Because of this fundamental relationship between data quality and trustworthy results, the process of data gathering must be as diligent as the quantitative analysis. When categorizing operational risk loss data, the traditional approach is to group the loss events based on their causes.

Even more fundamentally, the statistical approach (using internal or external data) will not reflect recent changes in risk profile, either inside or outside the company. Another important issue is that the measurement of risk and allocation of economic capital, using a history of internally collected data, may act as something of a disincentive to collect the necessary data or record losses in a transparent fashion. Basically the statistical analysis, as well as the creation of a statistical model, is based on the scalars presented above, therefore, fundamentally flawed, due to their disadvantages. However, a statistical analysis, based on dynamic indications such as the OpVaR, as seen in rolling correlation with the other indicators of the company and industry, and in a matching set with its determining factors (after applying a factor analysis) may prove to be a method worthy of taking into consideration.

## 4. Scorecards

The use of operational risk “scorecards”, composed of forward-looking risk indicators is another important method, used by several important companies. The scorecards can be used to allocate business units a pool of operational risk capital that has been calculated by other means (for example, by benchmarks or statistical analysis). The scorecard approach avoids many of the problems inherent in analysis of historical data, and can be much more forward-looking, by capturing the knowledge and experience of the experts who design the scorecards. However, the data collection problems are transferred to the collection of risk indicators, which can also suffer from quality issues. And the reliability of the output becomes quite dependent on the experts

employed to design the metrics and weightings within the scorecard. It is possible that a badly designed scorecard could produce results completely at dissonance with reality, intuition and the actual history of losses. The expert panels goes through a structured process of identifying the drivers for their risk category, and then forming these into questions that could be put on scorecards. Some of these questions ask for quantitative data (for example, staff turnover rates), others for qualitative judgments (such as the rate of change in different businesses), and still others are simply yes/no questions (such as indicating compliance with certain group policies). These questions were selected to cover drivers of both the probability and impact of operational events, and the actions that the bank has taken to mitigate them. The following few examples illustrate the range of scorecard questions:

- Fraud: What percentage of your unit's staff is on business growth/sales performance/profit performance-based remuneration?

- Process: What percentage of your unit's staff did not take 10 days' consecutive leave in the last 12 months?

- Personnel: Do you have a formal and documented business continuity plan, which addresses personnel failure (e.g., the non-availability of key personnel)?

The application of a mix of the methods presented above may have the following three stages. Firstly, calculating the total operational risk economic capital for the group (using a combination of statistical methods and benchmarks). Second, allocating this total between the different categories of operational risk (e.g., fraud, IT, personnel, legal, compliance, etc). Third, allocating the capital for each category to individual business units using the results of a scorecard particular to that category, and a volume scalar also selected for that category (e.g., number of staff for personnel risks). Most importantly, the capital allocations to business units can then be disconnected from each other and scaled according to changes in the individual unit's risk scores and scalars. This is important because it stops the capital allocation process being a zero-sum game, where a unit might be penalized as a result of other units improving their scores rather than through deterioration in the unit's own profile. Instead, each unit is given strong incentives to manage and reduce its operational risks, independent of actions taken by any other unit, since the reduced risks would subsequently be reflected in reduced economic capital allocations.

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## STRATEGIC ALLIANCES: FROM SUCCES TO FAILURE

### **Bugnar Nicoleta**

*Universitatea din Oradea, Facultatea de Științe Economice, Str. Universității Nr. 1, 410087 Oradea, email: nbugnar@uoradea.ro, tel:07224744922*

### **Meșter Liana**

*Universitatea din Oradea, Facultatea de Științe Economice, Str. Universității Nr. 1, 410087 Oradea, email: lmester@uoradea.ro, tel:0745419739*

### **Petrica Dana Maria**

*Universitatea din Oradea, Facultatea de Științe Economice, Str. Universității Nr. 1, 410087 Oradea, email: danamester@yahoo.com, tel:0726684622*

*Over the past few years, the strategic alliances had been increasingly common. The term “strategic alliance” can mean many different things, but the commonly used meaning entails a joint corporative effort by two or more companies working towards agreed upon goals. Despite their undisputed advantages, more than half of the alliances that are made during a year are a total failure. As any process, it has its advantages and its disadvantages, and it takes a lot of work, from each partner, in order to make the alliance complete its goals. There are some principles that must be observed and after all, making a strategic alliance is not as easy as it may seem before a complete analyze.*

*Keywords: strategic alliances, benefits, risk of failure*

*Cod JEL lucrare: F53*

### **The concept of strategic alliance**

Strategic alliances are agreements between firms in which each commits resources to achieve a common set of objectives. Companies may form strategic alliances with a wide variety of players: customers, suppliers, competitors, universities or divisions of government. Through strategic alliances, companies can enhance your competitive positioning, are eligible for entry into new markets and share major risks or costs of development projects<sup>105</sup>.

International strategic alliances materialize in cooperation agreements between companies, sometimes competing companies, for the exchange or sharing of activities or economic areas. These alliances, known as alliances or global strategic partnerships, means business arrangements whereby two or more partners cooperate in mutual benefit, which is designed specifically to support and strengthen the competitive advantages of partners.<sup>106</sup>

The purpose of alliances is to minimize risk while maximizing profits. Alliances can be formed in the department of marketing, sales and distribution in common, joint production, design collaboration, technology licensing and research and development. Relationships can be vertical - between a seller and a customer, horizontal - between suppliers, local or global. For small businesses, strategic alliances are a way to work with others toward a common goal while not losing their individuality. Alliances are a way to collect rewards of team effort.

Alliances are often confused with mergers, acquisitions and outsourcing<sup>107</sup>. Although there are similarities in the conditions under which a business may consider these solutions, they are far from being the same. Mergers and acquisitions determine permanent changes in the structural mode in which the company exists. Outsourcing is simply a way to acquire a functional

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105 Steve Steinhilber – Strategic Alliances: Three Ways to Make Them Work, 2008, p. 58.

106 Danciu, Victor – International Marketing. From traditional to global, Economic Press, Bucharest, 2001, p. 244.

107 Stephen I. Glover, Craig M. Wasserman – Partnerships, Joint Ventures & Strategic Alliances, 2003, p. 1127.

company. An alliance is a business-to-business collaboration. Another term that is commonly used in conjunction with the alliance is establishing a business network.

Rosabeth Moss Kanter, a professor at Harvard University, having an experience of over 20 years in various companies participating in strategic alliances and partnerships, compares these alliances with different couples' marriages. Such alliances are seen as equivalent of corporate "friends with benefits"<sup>108</sup>. The partners combine their forces to achieve their strategic objectives without a marriage or engagement. Commitment is a little over a chum to share the rent, but not much. For example, some alliances between airlines allow links - loyalty programs to customers - but also the continuation of competition; for example, American Airlines and British Airways compete across the Atlantic, while OneWorld Alliance partners globally. The smart ones can take advantage of the chance to peek inside the operations of a partner to learn new skills. This was a goal of NUMMI, the former alliance between General Motors and Toyota to make small cars, Toyota has received many skills learned through this alliance.

### **The methodology for establishing a strategic alliance**

Strategic alliances are becoming increasingly more and are a common tool for expanding the company. Businesses use strategic alliances to:

- obtain advantages of scale;
- increasing competitiveness of domestic and global markets;
- products development;
- developing new business opportunities through new products and services;
- expansion and market development;
- increasing exports;
- diversification and creation of new business;
- reducing costs.

Literature presents mostly as motivations: entering new markets, develop business in a particular area, sharing risks, reducing costs of research – development, partners' experience, etc.

To fully understand how they operate and expand these strategic alliances, we should explain why they appeared on the market. Earnings that such alliances generate are determined, in most cases, by the access to a particular technology or a management system. Companies can reach a market without the need to form their own distribution channels or can run an efficient production without further investment in a factory, etc.

However, because of the risk of loss of control over the know-how, we can ask what alternative forms of organization - the license, its subsidiaries, mergers - have proved to be insufficient. Reasons given by companies were: the size of investments required, the time needed by the company to make its presence felt on the market and less exposure to risk.<sup>109</sup>

There are two important *factors* in the expansion of these alliances, factors brought into question more often in recent years:

- *first factor* go to the grind control<sup>110</sup>: the technology and implicit know-how is spreading faster than ever and production processes involving a particular technology is copied through benchmarking; under these conditions the companies have access to existing technology on the market in question simply by their presence here;

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108 \*\*\* - Harvard Business Review on Strategic Alliances by Harvard Business School Press - 2003 – p. 124.

109 Hamel, Gary; Yves, Doz; Prahalad, C. K. – Collaborate with Your Competitors and Win, Harvard Business Review, January – February 1989, p. 139.

110 Johansson, Johny – International Alliances: Why Now ?, Journal of the Academy of Marketing Science, Fall, 1985, p. 56.

- *the second factor* goes to the urgent need to compete in several markets simultaneously; this presence is necessary to analyze customers and competitors monitoring, in these circumstances strategic alliances allow firms to expand resources management.

Once taken the decision to form an alliance is needed to determine the factors that led to the decision, what do you look through this alliance? Typical business objectives can be either: the production capacity or the technological expertise. Some criteria to be considered are: corporate culture, hidden agendas, and internal commitment.

For businesses seeking ways more complex there are many companies specialized in arranging strategic alliances. Association of Strategic Alliances is a non-profit organization dedicated to managing resources, exchange of best practices, and supporting professional development of those involved in strategic alliances. They provide information on strategic alliances and links to members who are professionals in the organization of alliances.

In essence, to form a strategic alliance, the companies should:

- define their business vision and strategy to understand how an alliance fits their objectives;
- evaluate and select potential partners, process based on the level of synergy and capacity of businesses to work together;
- develop a working relationship and mutual recognition of potential opportunities to partner;
- negotiate and implement a formal agreement, which includes systems for monitoring performance.

Alliances must be part of any plan as the recession continues. For new companies and smaller organizations, alliances can reduce costs with dual activities, while enabling the parties to pursue their own paths. Smaller organizations can reach through a network, in places where they were never able to reach on their own. Non-profit organizations can form strategic alliances to share potential donors or the offices' costs.

It looks so tempting. But alliances are fragile and difficult to make to last.

Chrysler has received an ultimatum from the Obama's administration: to complete a strategic alliance with Fiat or otherwise is threatened to leave the business. Indeed, they lost an alliance with Nissan, which was part of the bail proposal presented by the Chrysler in November. So Chrysler could find a partnership with Fiat its last hope for sustainability. Expected benefits include scale economies by using common platforms for uncompetitive products, access to new global markets for Chrysler, and other brands for Chrysler dealers in the U.S. To achieve all this without selling Chrysler back from a foreign owner, it's recommended an alliance rather than a merger.

The "8 I's" concept, of professor Rosabeth Moss Kanter<sup>111</sup> identifies factors that make alliances and partnerships to succeed, bringing benefits to all parties:

1. *Individual excellence*. Both parties must be strong, because weak partners can't raise each other.
2. *Importance*. The relationship must have strategic importance. If it is occasionally it does not worth the trouble.
3. *Interdependence*. The most powerful and lasting alliances arise between the parties that are different in some respects and need each other to carry out an activity that would not carry otherwise.
4. *Investment*. A sign of commitment is the willingness to invest in the partner's success.
5. *Information*. Transparency helps to build a solid relationship. If you do not want your partner to know too much about you, why walk into an alliance?
6. *Integration*. There must be many points of contact between organizations that link them in common activities.

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111 \*\*\* - Harvard Business Review on Strategic Alliances by Harvard Business School Press - 2002 – p. 86.

7. *Institutionalization*. A formal structure and the governing board shall ensure objectivity, and that there are considered also the alliance's interests, not only of each company separately.

8. *Integrity*. Trust is essential. Alliance tears through processes and conflict when partners do not act ethically towards one another or not endeavor to contribute to the success of others. Therefore Chrysler has a long way to go to profit from a relationship with Fiat.

Alliances seem a way out for organizations that wish to remain independent but need to reduce costs, to enable larger scale or to obtain rapid a largest segment of the market. Seems easy, but still is difficult to do.

### **Benefits of strategic alliances vs. disadvantages their**

Strategic alliances are tool for implementing corporate goals. Although no alliance can provide all the objectives of a company, when achieved, alliances may result in the following *benefits*<sup>112</sup>:

- *access to new distribution channels*: an alliance can be structured so as to give a company access to new channels of distribution, which otherwise would be difficult or costly for penetrated;
- *access to new technologies*: many alliances are being made to give it to companies to new technologies through licensing or other contractual types;
- *access to capital*: one of the main reasons why small businesses turn to alliances is just that, so they have access to new sources of funding for growth and development of new products or services;
- *access to international markets*: in a global economy, multinational alliances that allow the penetration of international markets present real benefits; alliance with a company that has assets already on the foreign market, who knows the culture and the competition on the market, offers much more security and opportunity for success than trying to penetrate that market individually;
- *reducing costs and uncertainty*: alliance with a partner can lead to sharing the costs and risks caused by a new product, entering a new market, etc.
- *increase competitive ability*;
- *increase the credibility*: for a newly established company can be beneficial the alliance with a partner already known, which enjoys market recognition;
- *access to new or existing products*.

All these indisputable advantages of strategic alliances have increased their number in a very dynamic rhythm. In order to create benefits for their members is necessary that the 8 written principles to be respected just by all members. Otherwise, we are dealing with "reverse of the medal", namely instead of the benefits members will feel the *disadvantages* of strategic alliances:

- *lack of total control*: by definition, alliances involve the sharing of control of common objectives and implementation strategy for achieving them; lack of control over the business can create significant problem if there are misunderstandings or differences between the alliance partners;
- *high rate of failure*: if it does not start with good intentions from both sides, there is a high rate of failure in these transactions; failure is often due to differences in organizational culture, non realistic expectations, inability to agree on the direction or decisions, or the inability of a party to bring the expected benefits (e.g. new technology, customers, distribution channels);
- *adverse impact on the flexibility of the participants*: alliances may limit the flexibility of participants, not letting them to take part in other alliance, acquisitions, mergers or other transactions; the absolute key in this is the commitments made by the parties of the alliance by signing the contract; the contract may be set to ban the competition to the partner or to ally;

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112 \*\*\* - How to Form and Manage Successful Strategic Alliances de Canada Industry, Science and Technology Canada, Strategic Business Research Group – 1990, p. 42.

- *depending on partner*: alliances may cause dependence against the other partner; this affects performance and affects the dependent partner's performance, leading ultimately to the failure of the weak partner;

- *commitment of time and resources*: successful alliances require a strong commitment to staff and management and a significant amount of capital and other resources; sometimes it becomes difficult for partners to invest time in league resources, and also can distract managers from activities outside the alliance.

Given the many disadvantages of strategic alliances, and especially an increased risk of irreversibly damaging the company by any small distraction, a very detailed analysis of the partner and contract goals appears to be more than necessary.

Regardless of the view formulated should be noted that these strategic alliances with any company can achieve goals that before were not possible to achieve on an individual basis. In these circumstances we can say that the strategic alliance is an effective response to changing conditions on the world market.

Regardless of how to implement the market, an international strategic alliance is usually a collaboration between companies, even between potential competitors, cooperation which can include any part of the value chain, although the focus is limited to production, research - development and distribution.

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## FINANCIAL GLOBALISATION

**Minica Mirela**

*Universitatea Eftimie Murgu Resita Facultatea de Stiinte Economice si Administrative Piata Traian vuia nr.1-4, Resita minica\_mirela@yahoo.com Tel: 0754582757*

**Frant Florin**

*Universitatea Eftimie Murgu Resita Facultatea de Stiinte Economice si Administrative Piata Traian vuia nr.1-4, Resita florin\_frant@yahoo.com Tel:0727799387*

*The paper presents transformations that have occurred in the process of financial globalization on various countries and the role that credit plays in monetary policy.*

*Keywords: financial globalization, credit, monetary*

*Cod JEL: G15 - International Financial Markets*

During the past twenty-five years, the world economy has undergone profound changes. The adoption par China, India and the former USSR states of the market economy led to the apparition of the *One Unique World*, characterised by powerful global competition. The result is a global economic transformation at an unprecedented rate and with an unprecedented purpose in history. Especially Asia (50% of the world population and 25% of the world GDP), register a remarkable growth and it is expected to continue do develop at a constant rate of at least 6% per year, for another generation to which is added the more and more sophisticated technological capacity.

A liberalisation comparable to that of the markets of goods and services took place on the financial markets. One has eliminated the constraints regarding the credit granting, the regulations concerning the withdrawal of the deposits and one has liberalised the capital movements. These measures have profound consequences both at the microeconomic level (increase of the possibilities or companies' financing, a better remuneration of savings) and macroeconomic (changes among the transition channels of the monetary policy).

The development of the international financial markets was firmly supported around the 1980s, when Margaret Thatcher and Ronald Regan came to power, and they imposed a programme aiming at the elimination of the State from the economy, enabling the market mechanism to play its role. This meant imposing a strict monetary discipline, which resulted initially in the world's plunging into recession and the acceleration of the crisis's start, because of the external debt in 1982. The world economy needed several years to recover – in Latin America this period is called *the lost decade* -, but the recovery took place. Beginning with 1983, the global economy benefited from a long, almost uninterrupted period, of expansion, reaching a point where they can be considered really global markets. The evolution of the exchange rates, of the interest rates and of the prices of financial titles form different countries are strongly inter-correlated.

The financial globalisation started at the end of the '50s, with the creation of the Euro-dollars market. The passage to a system of oscillating exchanges between 1971 and 1973 marks the end of the Bretton Woods system. It is the first step towards financial liberalisation. This liberalisation is justified through a better distribution of economies at the planetary level. The increasing liberty of the capital movement enables the institutional investors, especial insurance companies and pension funds, to rapidly move large amount of money and the possibility to influence the economic policies of the States.

Between 1988 and 1998, the percentage of the capital flow (investments of portfolios, short-term financing and direct investments in circulation – entries – exits) double in the world GDP, evolving from 7 to 15%. Thus, the financial flow increased form 5 to 11% form the world GDP. But the phenomenon evolves, limited only to the developed countries that represent 86% of the

GDP beginning with 1988, and especially the purely financial flows, predominant, which increased from 7 to 17% of the GDP. The main beneficiary: the USA that succeeded thus to drain the world savings-resources in order to finance the own consumption, but also the investments and innovations of the “new economy”.

The financial globalisation, under its present dominant form, of market finance, underwent its expansion during the ‘70s, following the explosion of the Bretton Woods system and of the shaking of the exchange rates stability. The prospect appeared thus the substantial gains through the speculation of the currencies, while the industrial and commercial operators had to protect themselves against the exchange risks. And thus the exchange markets appeared, suddenly very dynamic, and with them the first proposals of limitation of the speculation scope (The famous tax on monetary transactions, proposed by the Nobel prize laureate for economy, James Tobin, was reactivated in 1978).

The financial globalisation - through the private financing of development - through the financial markets – did not reach its goal, that of taking over the relay of a public and banking financing, which dramatically diminished as a result of the crisis of debts, at the beginning of the ‘80s (although the public assistance in view of development was resumed): on the contrary, the phenomenon of mondialisation brought its contribution in worsening persistent difficulties, offering the Southern elites the possibility to invest much more easily in the North the riches that the powerful internal inequalities allow, in general, to accumulate. And in general it is much simpler to speculate the Nasdaq coefficient, than to invest in Brazil, Nigeria, Russia or India.

Among the developed countries, Japan has become one of the most inaccessible countries in terms of commercial flows, and its multinationals stopped their development in the most serious manner more than 10 years ago. But the things are not the same in the finances field. Owning 20% of the GDP, the Japanese capital flows trebled in 10 ears. Japan owns 15% of the percentage of the purely financial flows: it is the country feeding to the maximum the financial mondialisation.

With a capital flow of 47% of the GDP, the Untied Kingdom constitutes the most internationalised nation among the great developed countries. It owns 11% of the capital flow and 9 % of the purely financial flows. But Germany doubled it: the German flows of capital represent 12% of the world flow, is not within the sphere of the great powers of financial mondialisation. In the USA, the capital flows represent only 10% of the GDP (3 percents more than 10 years ago) and 15% of the world flows of capital, but with only 11% of the purely financial flows. In the financial plane, like in the other domains, the world power of the Americans is based first of all on the scope of the own internal markets. This situation does not prevent the USA to be by far the first beneficiaries of the financial globalisation. An essential part of the capital flows obviously compensates the colossal deficit of the American balance of payments. Quasi permanently during 20 years, this deficit phenomenon underwent a fantastic acceleration during these past 10 years: 2 billion dollars excess in 1980. 79 billion dollars deficit in 1990, 341 billion in 1999 and 1845 billion in 2008! And this situation has not raised, up to now, any feeling of anxiety as regards “Uncle Sam’s” solvability, as the insolent health of the dollar proves it, especially in comparison with the Euro. These flows / fluctuations are fed by Japan (at the level of 107 billion dollars in excess last year) and Europe (42 billion), but no less by the Southern countries. The ensemble of the developed countries propelled, according to the O.C.D.E. estimations, 209 billion dollars of the savings – towards the rest of the word., precisely last year; the amount of which a significant part circulated under the form of a recycling of dirty money (come from corruption, drugs, Russian mob). Thus one witnesses an extraordinary concentration of the financial patrimony in the North: the capitalisation of the stock and titles markets of the USA, Europe and Japan represented 92% of the world’s total in 2008.



## **The Credit**

In the United States, the monetary policy seems to influence much more the credit contracting than the investments at the level of households. The contraction rate of households' bank loans fluctuates proportionally with the level of the interest rates, unlike the investment behaviour that depends too little on the interest rates fluctuations. This phenomenon confirms the importance of the credit's transmission channel. The economy stabilisation during the past years was based mostly on the household credits. According Brender and Pisani (2006), two mechanisms played a remarkable role: the refinancing of the older loans and the distribution of the new loans., the existence of the advance payment option, anticipating a progression of incomes, saved the families with debts already contracted from a difficult situation in the context of the economic stagnation.

What happens in Europe? The interests at which banks grant credits slowly adapt themselves to the fluctuations of the short-term interest. There are asymmetries in the increase or decrease of interest, in the sense that loan interests increase more rapidly than they decrease. Moreover, there is a rather accented heterogeneity in the European countries' reactions to similar fluctuations of the short-term interest.

The relation between the short-term and long-term interests seems to have recently changed: whereas in the 1980s the fluctuations of the long-term interest slowly followed those of the short-term interests, these relations became weaker in the 1990s. a recent study underlines that the effect of a variation of the interests of the Central Bank on the market interests becomes more and more uncertain and ambiguous along the increase of the due date. In other words the variation of the reference inters will be transmitted rapidly and almost totally of the short-term interests, but its effect on long-term interests will be less clear.

Another finding of recent studies is their closer and closer connection between the American and European long-term interests. The calculus of correlation clearly indicates it: quasi-null at the beginning of the 1960s, the correlation continually increased and consolidated beginning with the model of the 1990s. The reduced size of the European title markets could explain the engine role of the American market. Researchers ask themselves if maybe the European Central Bank lost any influence on the inters curve, its fluctuations being more and more influenced by the fluctuations of the American curve. Nevertheless, the variation cannot be guided only by the American interests; at least on a short term., the market arbitrations give birth to recoil forces anchored in the anticipations of future reference interests. Then, the European long-term interests seem to react more systematically than in the past at the European conjectural signals. At least, at the middle of the 1990s. the long-term interest tend, like in the USA; to contract when the activity is intensified and to expand when it decreased, which was not the case in the 1970s and 1980s. This modification of behaviour is related to a better mastering of inflation. We must remark however that this process is less manifest than on the other shore of the Atlantic, the European interest fluctuate less systematically as reaction to the conjectural indicators than the American interests. A paradox would be the reaction of interests of the Euro area more powerful at the conjectural indicators than the European ones (Goldberg and Leonard, 2003).

As regards the structure of credits, we remark a lack of homogeneity in Europe. In Austria, for instance, the percentage of the consumption credits from the total of the credit granted to household was around 40% in 2002, compared to less than 5% in the Netherlands. In the Euro zone as a whole, the mortgage credit is predominant, representing, like in the USA, almost 75% of the credit to households in Spain or in Ireland, the mortgage credit is exclusively on the variable interests, in Germany and in France, the credit has a fixed interest. The manner the risks inherent to the long-term loans are assumed will play an important part in the role of credit as transmission channel for the monetary policy. If households borrow at variable rates, there is the risk of a possible increase of the future interests. If the loan is made at a fixed interest, there is the

risk,. If the economic activity slows down, to witness a progression of income below expectations (they will have to face then a debt surplus, above the expected one).

The specialists' opinions are divided when it comes to the effects of changes on the financial markets., according to some, the financial liberalisation was one of the determining factors of the world high growth rates. According to others, the financial liberalisation provoked the financial crises in Asia, Mexico, Russian, Argentina, which led to the reduction of growth.

The recent researches reading the economic growth imperatively underline the necessity of structural reforms for the increase of the credit markets flexibility, of goods and services, as well as of the labour market flexibility. These reforms allow a more efficient allotment of resources and a more intense use of manufacture factors. They generate more powerful stimuli in the favour o innovation that stimulates the long-term economic growth.

As regards the credit market, in an economy there the companies are subjected to certain credit constraints, a higher macroeconomic volatility (for instance as a result of certain productivity shocks or a high increase of demand), tends to reduce the efficiency of the investment in innovation and consequently the stimulus to innovate. The wider the scope of the macroeconomic shock and the narrower the companies' cash flow in the recession period, the more risky the investment in innovation. Hence the negative effect of the macro volatility on the investment in innovation and thus on the medium economic growth. Obviously the more rigid the credit constraint facing the entrepreneurs, the more negative the effect of macroeconomic volatility on growth. The stricter the credit constraints, the weaker the firms' capacity to overcome the liquidities shocks in the recession periods, and consequently the weaker the motivation to invest in research-development.

The effect of a counter-cyclic budgetary policy is to reduce the negative impact of a recession on the company' s capacity to contract loans and to invest, for instance by increasing the foreign demand of products or making more liquidities available in the firms' benefit. Thus., the stricter the credit constraint, the more positive the effects of a counter-cyclic policy on the medium economic growth. The representatives of the endogenous growth talk about the capacity of substitution between the financial development and the budgetary counter-cyclic (anti-cyclic).

The anti-cyclic budgetary policies allow the action of the automatic stabilisers. The effects of these policies are different depending on the phases of the economic cycle. In the recession phase one stimulates the resuming of the economic growth by reducing taxes and increasing budgetary expenditure. On a short term the budgetary deficit will increase. In the expansion phase the aggregated demand is braked, in order to diminish the effects of the economy's overheating by increasing taxes reduction of the budgetary expenditure.

By comparison with the USA, the Euro zone countries are characterised by a more reduced financial development, especially as regards the stock market and the private titles market. The bank loan is obviously more elaborated in Germany but, on the contrary, the social and private tittles market is less developed. Moreover, the American economy perfected a very complete system of innovation financing, system still deficitary in the continental Europe..

Form the theoretical studies regarding the relation between the financial development and economic growth, three prediction follow:

- The weaker an economy from the financial development viewpoint (in other words, the stricter the credit constrains), the more negative the effect of the macroeconomic volatility in the long-term growth ;
- The weaker an economy form the financial development viewpoint, the more positive the effect of the counter-cyclic policies in the long-term growth;
- The liberalisation of the product market or the labour market tend to intensify the positive effect of a counter-cyclic budgetary policy on the long-term growth, especially in an economy where the firms are subjected to certain credit constraints..

Aghion, Angeletos, Banerjee and Manova (2004) tested the first prediction listed above based on certain time data for several countries. First, they effect a regression in transversal section across 70 countries for the period 1960-1995 and show that the figure of increase of GDP per capita are negatively correlated with the macroeconomic volatility (measured through the variation of the increase figure during this period). These authors reach also the conclusion that the effect of the shocks of the raw materials prices on growth is more powerful as the level of financial development is weaker.

Aghion, Barro and Marinescu (2005) analyse the effect of the budgetary effect on the long-term growth, based on certain time data among the OCDE countries. Their first results confirm the second and third prediction. In these studies, the financial development is estimated through the ratio of the private credit, i.e. the value of credits awarded by financial intermediaries to the private sector, and the GDP of the respective country.

The role of the financial market in the development of a country and of a region is beneficial as long as there is a natural macroeconomic correlation between the capital flows and the macroeconomic indicators and the speculative impulses are kept under control.

Many opinions are expressed on the sense of blaming the present financial system for the contemporary global crisis, accusing especially the banks for a abusive and corporatist shareholders policy.

The exceptional performances of the world economy cannot make us forget two fundamentally new phenomena appeared in these years: the increase of disbalances, of an unprecedented scope, and a world new economic and financial structure, very different from that which existed in the 1970s.

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# ENTREPRENEURIAL BEHAVIOUR ANALYSIS IN THE INTERNATIONALISATION PROCESS OF GLOBAL BORDER TYPE SMALL AND MEDIUM SIZED ENTERPRISES

**Nițu-Antonie Renata**

*University of West Timișoara Faculty of Economics and Business Administration 16, J.H. Pestalozzi Street, 300115, Timișoara renate.nitu@feaa.uvt.ro 0723313346*

**Feder Emőke-Szidónia**

*University of West Timișoara Faculty of Economics and Business Administration 16, J.H. Pestalozzi Street, 300115, Timișoara emoke.feder@feaa.uvt.ro 0742542901*

*In the European and global framework, small and medium-sized enterprises (SMEs) in order to survive the intense competition must expand, meaning that internationalisation has to be an inevitable stage in their strategic evolution at a certain moment in time. The aim of this article is to create a theoretical model regarding the configuration of internationalisation, by taking in consideration various possibilities for the Global Border type SMEs. This type of firms are particular, because of their specific internationalisation behaviour, which may pursue different paths of evolution, as a manner to enter the home market and foreign markets, based on the knowledge incorporated in the offered goods and services, but from the perspective of the moment chosen, as for the start of the internationalisation process.*

*Keywords: SME, Global Border, internationalisation process, entrepreneurial process*

*JEL Code: F: International Economics, F23: Multinational Firms; International Business*

## 1. Introduction

In the context of a globalising and more and more integrated world market, new rules of the competitive game are making their appearance, so that internationalisation emerge as an unavoidable stage in the strategic evolution of small and medium sized enterprises (SMEs), generally, and of those from the Romanian economy, in particular. If the stage models and the incremental internationalisation theories regarding SMEs represented the dominant paradigm of the XX century, the appearance of the Global Border type SMEs, which has the tendency to internationalise in a contradictory manner against the stage models and the incremental theory, imposed a new paradigm. Additionally, the entrepreneurship and the internationalisation process which determines the firm behaviour, in order to create value through opportunity exploration and enabling of a unique set of available resources. In the mentioned conditions, befall opportune to analyse the entrepreneurial behaviour of the Global Border type SMEs in their process of internationalisation, in order to elaborate a theoretical model regarding the configuration of their international development.

## 2. Literature Review – the Internationalisation Process of Global Border Type SMEs

Concerning the process of SME internationalisation, research activities emphasize three main theoretical approaches: the stage approach, the resource-based approach and the network approach. The stage approach describes internationalisation as a linear, sequential and reactive process. The knowledge gained by the firm, as result of the experienced on foreign markets, permits to surmount the psychological distance between firm and markets, and the adoption of a decision, in order to assure a better and more complete exploitation of opportunities. The resource-based approach explains the firm internationalisation phenomena by taking in consideration their specific capabilities, which assures a competitive advantage. The network approach, in order to explain the motivations and modalities of internationalisation, emphasise the importance of the firm's place in its industrial network. By blending the internationalisation level of the firm with the internationalisation level of the market, the stage type

internationalisation can be identified, in which the strategy is linked to the knowledge development necessity, to the adaptation resources and to the exploitation of relations within the network (Johanson, Mattsson, 1988). In the light of these theoretical approaches, the SME internationalisation appears as a complex and heterogenic process. The majority of the models following up the configuration of international development of these firms are of incremental gradual internationalisation type, through a series of evolutionist stages which needs the mobilisation of an increasing and more and more important set of resources and competences (financial, material, relational, learning competences, etc.) (Bell et al., 2003). Networks permits and/or facilitates the insertion of firms in the international flows (Gemser et al., 2004; Etemad, 2005; Coviello, Munro, 1997), while the strategies of internationalisation, elaborated by the firm, depends on its relations in and to the network. In these conditions, the concept of resources and competencies correlates the three traditional theoretical approaches and permits the identification of causes which determines the passing of the firm through the envisioned given steps, in the internationalisation process, from the stage approach (Laghzaoui, 2007).

Recent empirical researches evidenced that some small and medium sized enterprises are internationalised from the moment of their conception or in the first years of their life and activity (International New Venture/ Global Start-up/Global Border) (Etrillard, 2004, 2006; Oviatt, McDougall, 1994; McDougall, Oviatt, 2000; Torres, 2004). Consequently, rapid and almost instant internationalisation of the new firms requires a framework of reference. The interfering changes in the world economy, the evolutionary levels registered by ICT, the existence of business networks and the rising experience of managers, are factors generating an increasing number of market niches and a demand growth for specialised goods. In these conditions, Global Border type SMEs becomes highly competitive, registering rapid growth or the possible potential for substantial growth. In many cases, they ignores their home market and enters directly foreign markets, in developed countries from economic and technologic point of view (lead markets) or having activity concomitantly, simultaneously and competitively also in their home market and international markets (Bell 1995). Therefore, in one hand, the gained knowledge through international experience does not represents any more as central factor in the internationalisation process, requiring to take in consideration other explaining factors, internal and external to the firms (McDougall, Oviatt, 2000, Gemser et al., 2004). On the other hand, the recalled researches does not sustain the idea that stage approach is an exception in the internationalisation process of the SMEs, but rather confirms the important place of the approach in the respective process (Coviello, McAuley, 1999). What makes the difference in the internationalisation of the two SME categories is the time factor. In the Global Border type SMEs appears an early internationalisation compared to the moment of their conception; the rest of the SMEs are differentiated by the time necessary to begin their international activity (McNaughton, 2000) and through the speed of their international development (Jones, 1999). In other words, the international behaviour of SME's, indicated by the entry mode, the considered foreign countries and the development stages, also has a temporal dimension. Additionally, entrepreneurial (McDougall, Oviatt, 2000), financial and technological (Beamish, Dhanaraj, 2003) resources, are recognised as important for firms, in order to assess existing opportunities in foreign markets (Laghzaoui, 2007).

### **3. Entrepreneurial internationalisation of Global Border type SMEs**

The process of entrepreneurship and internationalisation determines the firm behaviour, in order to create value, through the exploitation of an opportunity and by potentiating a unique set of available resources (Johanson, Vahlne, 2003).

The international entrepreneurship integrates, in one hand, the general acception of internationalisation, as a firm level activity, which overpass the national boundaries (Wright,

Ricks, 1994), and on other hand, the characteristics of entrepreneurial orientation, as innovative, proactive and calculated risk-assuming behaviour (Covin, Slevin, 1989).

Generally, SME internationalisation appears as an entrepreneurial behaviour in time, based on a composite manner on innovation, proactivity, calculated risk-taking and value creation (Covin, Slevin, 1991; Jones, Coviello, 2005). Because of this reason, for the Global Border type SMEs the internationalisation behaviour is indicated by the answer of the firm and of the entrepreneur to the changes appeared at a certain moment in the composition of internal and external factors to the firm (Figure no. 1).

The entrepreneur, depending on his competencies, level of innovation and inclination on assuming risks, will have to combine resources within the firm (physical capital, organisational capital, human capital) in order to assure its competitive advantage, in the conditions in which the structure of the firm has to be adapted to the business environment in which acts the firm. This structure will model the international behaviour of the firm and in the last instance its performance, measured through financial and non-financial results.

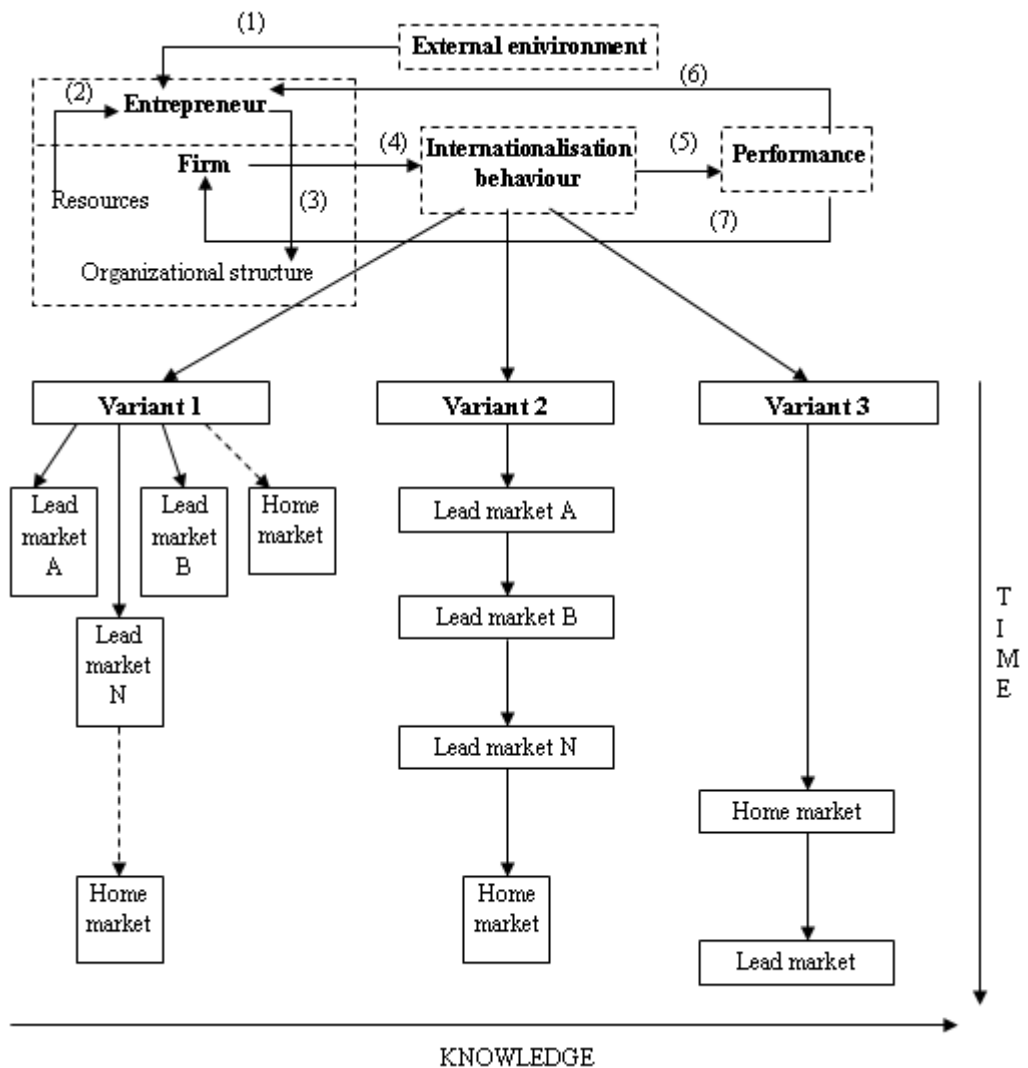
In the conditions in which, within the frame of Global Border type SMEs, knowledge is a basic competence and a source of competitive advantage (Autio et al., 2000; Ericksson et al., 2000; McNaughton 2001), goods and services offered are extremely specialised, firms being straight forced to globalise in order to be efficient.

Thus, Global Border type SMEs are international from conception or are internationalising in a short time after (Bell et al., 2003).

Their international implication can be realised in parallel, within the home market and the international market, situation in which the origin country is developed from economic and implicitly technologic perspective. In some cases, the international implication of the firm precedes its development on the domestic market or this even can be ignored, the firm being oriented directly and exclusively on foreign lead markets, such as USA or the European Union (Figure no. 1 – Variant 1).

Also, Global Border type firms may internationalise successively on international markets, as at the end to orient on domestic market (Figure no. 1 – Variant 2). This manner of internationalisation implies substantial initial finances to assure product and market development costs. Firms will be beneficiaries of the advantage of first mover and if successfully penetrates lead markets, will obtain sufficient resources in order to rapidly internationalise, and on other markets, else they will be compelled to search for other capital resources.

It is also considerable the situation of Global Border type SMEs which internationalise suddenly, after initially being focused for a long time only on the domestic market. This decision of internationalisation is linked to changes occurred thanks to management buy-out and implicitly changes in management, the takeover of the firm by another already internationalised one or the firm is taking over an internationalised firm (Figure no.1 - Variant 3). In this case, additional human and capital resources appear, experience in international marketing is gained, these having favourable effects on the international expansion rigidity of the firm.



**Figure no. 1. Entrepreneurial internationalisation scheme for Global Border type SMEs**

In all the cases, entrepreneurs are proactive, adding substantial value to offers through targeting small and specialised global market niches (Bell et al., 2003).

As the internationalisation behaviour of the enterprise is developing in time, performances will have an impact on its behaviour in the future, through an iterative organisational learning process.

#### 4. Conclusions

The concept of resources and competencies bounds the traditional theories of SME internationalisation and makes closer to the new phenomenon, called Global Border. What differentiates the internationalisation process of the two categories of SME is the time factor, in the conditions in which entering new markets entail that both categories to be innovative within the process, in order to generate performance in time. Consequently, internationalisation appears as an entrepreneurial behaviour process of the SMEs in time, result of the relations between the entrepreneur with the internal and external environment of the firm. What makes the Global Border type SMEs so particular is their internationalisation behaviour, which may pursue different paths of evolution, as a manner to enter foreign markets, based on the knowledge

incorporated in the offered goods and services, but from the perspective of the moment chosen for the start of the internationalisation process.

The presented model is theoretical, being necessary its empirical validation, at the level of SMEs in the IT sector from Romania, in the conditions in which the analysis, in its generality, does not take in consideration the moderating effects of the business environment hostility upon the entrepreneurial behaviour, which will constitute, also, another future empirical demarche.

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## THE WORK FORCE MIGRATION ABROAD AND ITS ASPECTS IN AN EMERGENT ECONOMY-ROMANIAN MARKET

**Nistor Costel**

*Universitatea "Dunărea de Jos" din Galați Facultatea de Științe Economice Str. Nicolae Bălcescu nr. 59-61, Galați, România cos\_nis@yahoo.com tel.: 0236460467*

**Muntean Mihaela-Carmen**

*Universitatea "Dunărea de Jos" din Galați Facultatea de Științe Economice Str. Nicolae Bălcescu nr. 59-61, Galați, România mihaela\_c\_muntean@yahoo.com tel.: 0236460467*

**Manea Ludmila-Daniela**

*Universitatea "Dunărea de Jos" din Galați Facultatea de Științe Economice Str. Nicolae Bălcescu nr. 59-61, Galați, România manea\_danielaludmila@yahoo.com tel.: 0236460467*

*The contemporary migration is considered a phenomenon that proliferates rapidly, its main engine being the globalization. According to the United States Division of Population, the international migration currently includes approximately 200 million persons, the amount is double as compared with the one registered 25 years ago.*

*Keywords: migration, employment, highly qualified persons*

*Cod JEL: J6*

Before 1989 the people's migration was mainly due to ethnical reasons, over 60% of the emigrants being of other nationalities than the Romanian one, especially Germans, Hungarians and Jewish people and the targeted countries being Germany, Hungary, Israel, but also the United States of America. The year 1990 is regarded as the peak of the contemporary Romanian emigration from the quantitative point of view. The borders opening and placing the country's evolution on a relative trajectory determined almost 100.000 Romanians to leave the country. The illegal migration developed during the 90's when an increasingly number of persons tried to reach the European Union countries in search for a work place on the black market or even to get involved in other illegal activities. In 2002 the illegal migration exceeded by 20 – 30 % the legal migration.

The work migration, temporary or circulating has become an important component of the Romanian migration over the last few years. Currently there are approximately 2 million Romanians employed abroad in non-temporary activities, which represents about 10% of the Romanian population. According to the Open Society Foundation, which conducted a significant research on the national level regarding the Romanian work migration between 1990 and 2006, there are three different stages:

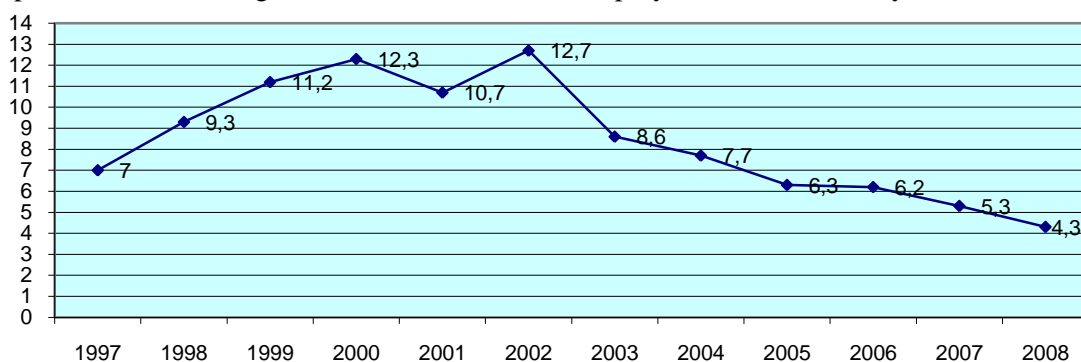
- the first stage, between 1990 and 1995, is characterized by a migration rate of 3 per 1.000 dwellers, the targeted countries being Israel, Turkey, Italy, Hungary, Germany.
- the second stage between 1996 and 2001 with a migration rate of 7 per 1.000 dwellers who intended to find a job in Spain, USA or Canada.
- the last stage, characterized by the cancellation of the Schengen visa (2001-2006), and which registered a huge migration of 28 per 1.000 dwellers who intended to find a job in Italy, (40% of the total migrating persons), Spain (18%), Germany (5%), Hungary (5%), Israel (6%).

The official figures submitted by the Department of Labor and Employment Abroad refer only to the work contracts signed through the Work Force Migration Department or through some private agencies. Thus the number works out at 13.270 in the first three trimesters of 2007. The targeted countries change, the top position being held by the USA (57,6 % of the total) followed by Italy, Cyprus and Germany registering smaller percentages.

In Romania, 65% of the money sent by those employed abroad is to be found in consumption, only 35% being placed in investments and savings. The National Bank of Romania estimates that the amount of money sent in our country by the Romanians working abroad rises up to 1.753.5 million US\$ in 2004 and to 4.440,9 million US\$ in 2007, amount that represents 4,51% of the Romanian GPD in 2007. For the Romanian economy this amount plays a very important part, being the second source of external financing after the direct foreign investments (that works out at 6.482,8 million US\$ in 2005).

The characteristics of the Romanian person that migrates for work is according to the Work Force Migration Department, the low or medium qualified worker, aged between 25 and 35, coming from the center, west, south or south-east of the country. The Group of Applied Economy estimates that 50% of the Romanians that have migrated usually come from rural areas and 21,5% from small towns. Since the poverty rate is higher in these areas mentioned above and as the education is a way of protecting against poverty, it can be said that a part of these amounts are sent by people coming from poor families but it can not be estimated the extent in which they contributed to the decrease of poverty rate from 25,1% in 2003 to 15,6% in 2007. The only significant difference is in the case of young people aged between 15 and 24, their employment decreasing by 5 % in 2007 compared with 2006. Among those receiving money from their relatives that work abroad, 11% invest in constructions, 4% in setting up a business, 3% in purchasing equipment and 3% in buying lands. According to the Work Force Migration Department 52,65% of the migrating people are women, therefore a significant number of children are left at home, aspect that may have serious repercussions on their further evolution, especially on their physical and mental health. The work migration of a number of 2,2 million people (according to the most pessimistic estimation of the Work Force Migration Department) has influenced the labor market indicators by decreasing the unemployment rate and the rate of work force participation.

We present in the next figure the evolution of the unemployment rate in January 1997 – 2008:



The highly qualified work force influences differently the countries that encounter this phenomenon. Currently on the world level, there is an increasingly demand for highly qualified personnel and that fact that Europe's top specialists choose to migrate especially to Canada and USA is one of the most challenging aspects that Europe is facing.

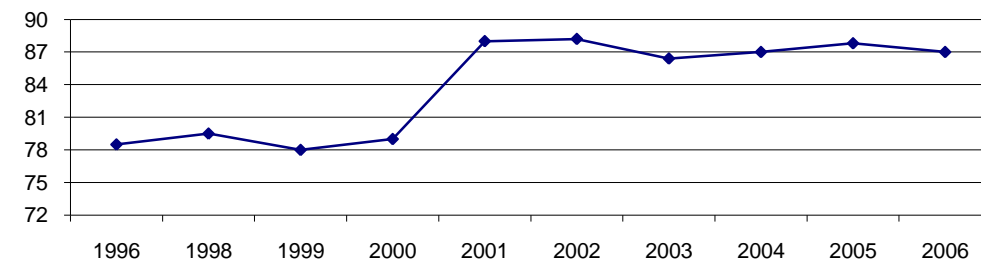
Although many highly qualified persons choose to live and work in other countries than the native one, either in search for higher income or better living conditions, they do not necessarily succeed to hold the same positions they previously had or they simply choose to perform other occupations. This particular phenomenon was called the *intelligence waste*. During the debates held on this topic over the last few years another concept started to be used namely that referring to the exchange of specialists: *brain exchange*.

In 2007, 26,4% of the persons that decided to change their residence country are persons that graduated a faculty and 53,8% are high-school or post high-school graduates. Thus the *white-*

*collars* exodus has become an important issue for the Romanian labor market as even for a small number of current emigrants that have intellectual occupations might be actually very important for diminishing the existing discrepancies on the labor market.

Over the first years after our country opened its borders, the Romanians migrated in countries like Israel, Turkey and less in Italy, Hungary and Germany. Beginning with the second half of the last decade they started to migrate in other countries like Spain, USA and Canada. Beginning with 2002, the Romanians may freely circulate in the Schengen space. In the recent period, the migrating fluxes mainly targeted Italy and Spain.

**Population percentage aged between 15 and 64 of the total Romanian population registered in the city halls (Spain) (%)**



Source: Instituto Nacional de Estadística <http://www.ine.es>

Moreover the weight of the women that migrate for work increased significantly and the weight of the migrating workers from the rural areas reached the one attained by the urban one. The Romanians found work places abroad especially in economic sectors like constructions (mainly men) agriculture (women and men but mainly men) and domestic services (mainly women). Over the last 17 years, the Romanians have worked without any legal documentation mainly in Turkey, Italy and Spain in economic sectors like domestic services, agriculture and constructions. Obviously the insufficient capacity of the Romanian authorities to manage the migration phenomenon has brought about to the worrying increase of the illegal migration.

According to the European legislation, the workers free circulation is a fundamental right. Thus the Article 39 of the European Community Treaty states that the EU citizens are entitled to look for a work place in another member state, to work and live in another member state as well as to enjoy equal chances regarding the access to work places and work conditions. In the attempt to manage the complex implications of the new states adhesion to the EU between 2004 and 2007, many member states adopted a new series of transitional measures concerning the free circulation of workers coming from the new member states.

The following figure shows some data provided by Eurostat which relies on the number changes of the population total and on differences due to the natural increase of the population when calculating the net migration (immigration minus emigration in a certain space for a certain period of time). The data cover the period between 1960 and 2002, a period when migration in Europe encountered significant changes: second world war reconstruction and the economic increase from the 5th and 6th decade of the last century that emphasized the destination position of some European countries (from the central and north part of the continent) and changed the south in a reservoir of intra-European migration.

Thus, Denmark, Germany, Great Britain, Ireland, France, Hungary, Austria, Belgium, Italia, Greece, Spain, Luxemburg, Holland, Portugal and Malta officially announced their decision to restrict the free circulation of the Romanian workers whereas states like Estonia, Finland, Poland, Slovakia, Czech Republic, Cyprus, Sweden, Slovenia, Lithuania, Latonia and Bulgaria decided to allow the Romanians on their labor markets. In return, Romania decided to apply the reciprocity

principle. One of the modalities to have access to the work places from abroad is EURES, a specialized network of the European Commission and of public services of employment from the EU member states, Norway, Liechtenstein, Island and Switzerland which aim at facilitating the work force free circulation within the EU territory by providing support both to employers and to applicants.

#### Net migration\* in the European Union member states (thousands)

Country/ Year	1960/64	1965/69	1970/74	1975/79	1980/84	1985/89	1990/94	1995/99	2000	2001	2002
Austria	1	9.9	19.1	-3.1	3.3	14.4	48.7	7.2	17.3	17.3	26.1
Belgium	14.1	16.7	9	7.2	-7.1	8.2	18.8	11	12.9	35.8	40.5
Bulgaria	-0.1	-1.7	-7.6	-21.4	0	-51.3	-49.1	0.2	0	7.3	0
Czech Republic	-16.6	-0.3	-21.7	2.1	-6.5	2.3	-5.8	10.1	6.5	-8.5	12.3
Cyprus	-	-2.1	-29.5	-0.6	0.4	2	9.6	5.3	4	4.7	6.9
Denmark	0.9	1	6.4	2	1.1	6.4	10.6	15.7	10.1	12	9.6
Estonia	-	-	8.2	5.2	5.3	3.5	-21.8	-8.7	0.2	0.1	0.2
Finland	-11.2	-18.9	1.3	-7.3	4.1	2.5	9	4.2	2.4	6.2	5.3
France	303.7	95.4	114.8	33.8	52.3	49.8	22.5	-1.6	45.9	64.2	65
Germany	162.9	220.7	175.1	12.7	1.8	332.2	562.6	204.5	167.8	274.8	218.8
Greece	-41.2	-35.8	-24.8	56.7	17.2	24.4	58.1	22.5	12.2	33.9	32.1
Ireland	-20.9	-14.8	10.3	10.1	-6.6	-32.9	-1.4	15.7	26.2	45.9	32.6
Italy	-81.4	-84.4	-36.9	19.3	-27.8	-2.5	108.9	117	181.2	125.8	350.1
Leetonia	17.6	11.6	11.7	8.7	6.4	12.4	-22.7	-14.8	-3.6	-5.2	-1.8
Lithuania	2.8	3.9	8.6	4.2	6.8	12.5	-18.5	-22.5	-20.3	-2.5	-2
Luxemburg	2.1	0.9	3.9	1.4	0.4	2.2	4.1	4.2	1.9	2.8	2.6
Malta	-	-	-	-	-0.8	1.3	1.2	0.7	1.4	2.2	1.8
Great Britain	59.9	-44.7	-32	-11.3	-11.6	60	71.8	137.3	168.5	184.3	126.5
Holland	3.9	9.6	26.7	35.7	14.2	27.4	41.4	31	57	56	27
Poland	-6.3	-21.1	-73.5	-41.9	-24.3	-41	-15.2	-14	-19.7	-16.8	-12.7
Portugal	-78.3	-169.7	-45	88.8	4.5	-45.4	7.3	31.2	50.1	58.7	70
Romania	-	-	-	-	-18.7	-20.1	-110.8	-12.4	-3.7	0.4	-1.6
Slovakia	22	-5.3	-9.8	-3	-5.6	-3.5	-7.5	1.9	1.4	1	0.9
Slovenia	-1.9	3.5	3.1	8.5	2.4	3.8	-2.7	0.3	2.7	4.9	2.2
Spain	-109.7	-30.1	-32.1	28.2	0.8	-19.7	20.1	94	351.5	242.6	223.7
Sweden	10.6	24.6	6.9	16.7	5.2	24.1	32.5	9.6	24.5	28.6	30.9
Hungary	0.9	0.9	-1.6	-1	-11.8	-26.7	18.2	17.4	16.7	9.8	3.5

*Net Migration\* is calculated as differences between population growths and natural growth; annual averages for intervals*

#### The net migration\* in countries from the 2004\*\* and 2007 stage of EU integration (thousands)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Bulgaria	0	0	1	0	0	0	-221	7	0	0	0
Czech Republic	10	10	10	12	10	9	7	-43	12	26	19
Estonia	-21	-16	-13	-7	-7	-1	0	0	0	0	0
Leetonia	-23	-14	-10	-9	-6	-4	-5	-5	-2	-6	-10
Lithuania	-24	-24	-23	-22	-22	-21	-20	-3	-2	-6	-10
Poland	-19	-18	-13	-12	-13	-14	-410	-17	-18	-14	-9
Romania	-16	-21	-19	-13	-6	-3	-4	-558	-2	-7	-10
Slovakia	5	3	2	2	1	2	-22	1	1	1	3
Slovenia	0	1	-4	-1	-6	11	3	5	2	4	2
Hungary	18	18	18	18	17	17	17	10	4	16	18

*\*Net Migration is calculated as differences between population growths and natural growth; annual averages for intervals*

*\*\*Mata and Cyprus were not bincluded*

*Source: European Statistical Yearbook, Eurostat (<http://epp.eurostat.ec.europa.eu>)*

The majority of migrating workers have access to the lowest salaries on the respective labor market which influences their living standard in the destination country. In some cases the life quality of the migrating workers proves to be inferior to the one they had before leaving Romania. In some situations the migrating workers that return in the country face difficulties concerning their social reintegration and/or reemployment. Therefore the migration of the work force abroad leads to sustainable human development when it is associated with quality occupation.

The most important work force deficit is identified in those regions with the highest migration rates. Thus the migration of the young population from certain places endangers the working of the traditional mechanisms of solidarity between generations from the community level deepening some social conflicts. Only the orientation towards investments in the local economy or setting up of some businesses might contribute to the development of the business environment, leading to local/community development in a sustainable manner.

## Conclusions

After a period in which there had been praised the effects of the international migration on the unemployment and pressure decrease on the labor market, currently Romania is facing a lack of people. Therefore a demographic crisis is frequently mentioned, pro-natalist policies, the number of the Romanians working abroad, the difficulties of the companies in search for employees, the return of those that left temporarily are topics frequently tackled.

Huge discrepancies between the dimension of the generations before and after 1989, the ageing of the population will probably emphasize the labor market issues.

If we take into account the arguments connected with the international migration, the situation becomes even more complicated. Romania is a country that has been exporting work force for years. The recent estimations regarding the number of Romanian persons working abroad exceeds millions. Until 2007 the trend was an ascending one and even if between 2007 and 2008, although very unlikely that the emigration should have started to decrease, is also unlikely that the decrease to be a spectacular one. Moreover the number of emigrants hides a *trap*: the international migration is a selective phenomenon and those who leave are especially young people. The population ageing process identifies a new source of increasing in the international migration.

On the one hand, the international migration may be considered one of the sources for the labor force market problems. On the other hand there might also be one of the solutions. The temporary and trans-national character of the fluxes migration makes possible the migration re-orientation towards its original space.

Investments made in order to decrease the personnel deficit by replacing the technology and work productivity increase are the most frequent strategies. Searches are focused towards the nearest space, on the country level at most and less across the borders. Immigration, at least the legal one, does not seem an attractive strategy for the Romanian companies.

The lack of a migration tradition, some rather strict rules imposed by an immigration policy that complies with the European standards might be the cause of the unusefulness of this strategy.

The European level of work place occupation is increasing steadily. This aspect is stated in the trimestrial analysis of the EU labor market. In the last trimester of 2007, the EU work place occupation rate registered an increase of over 800.000 work places. The main reason of this increase was the performance registered on the German labor market (where the unemployment rate decreased by 1,6% up to 7,9%), Poland (-3,8%) and the new member states. On the whole, the work force occupation rate on the EU level increased to 66% (increasing from 65% in 2006) and the unemployment rate decreased to the level registered at the beginning of the 1970's (up to 6,9% from 7,7% as it was in 2006), according to the Eurostat analysis (it was not taken into

account the effect of the financial and economic crisis that had a negative impact upon all EU member states, in Romania the number of unemployed people exceeding 513000 in March 2009).

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# CORPORATE SOCIAL RESPONSIBILITY: VOICE OF THE WORKFORCE IN A MULTINATIONAL COMPANY

**Petrache Ana-Maria**

*PhD Candidate, Academy of Economic Studies of Bucharest Economics and International Business Contact Details: Sat Brătești, Nr. 114, Comuna Șirna, Județul Prahova, Cod: 107551, România anamariapetrache@gmail.com 0040745086465*

*The paper identifies in a valuable manner an attribute of corporate social responsibility, represented by the care towards internal stakeholders. Taking the pulse of the human resources also rebounds into signals given to the company on how to reestablish / improve the workers' satisfaction and, consequently, the efficiency of their work. The data are veridical, however, in order to protect the confidentiality of the MTC, let's name it "Alpha". The analysis suggests that Central and Eastern European Markets embrace in a large extent the core values of the company, they behave and react similarly to world-wide personnel. The results help us gauge employee satisfaction and provide input to business planning, management decision-making and company strategy development. They also offer insight into how Alpha's core values are being embraced throughout the company.*

*Keywords: corporate social responsibility, stakeholder, voice of workforce, contingent worker*

*J53, M51*

## **Introduction**

As this paper focuses on the relationship between the workforce with diverse drivers within multinational companies, there will be made reference to the World Business Council for Sustainable Development's definition of CSR: "CSR is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as the local community and society at large" (WBCSD, 1999).

### ***Voice of the Workforce (VoW)***

The relationship between the job satisfaction and employee turnover has been one of the most widely studied, but least understood relationships in the organizational behavior literature (Spencer, 1986).

The studies on turnover have focused on only one of several alternatives open to individuals faced with dissatisfying work situations, *leaving*; it has ignored the alternative strategy of attempting to change such situations. The proposed relationship between employees' efforts to change dissatisfying work situations and turnover is implicit in much of the work of Albert Hirschman (1970, 1974). He extensively studied responses to declining firms in terms of *exit* and *voice*. The two terms refer to two options that members or clients of an organization have when responding to an economically dissatisfying relationship with that organization. The source of dissatisfaction might be declining quality of the organization or declining quality of its products. To voice dissatisfaction is to try to change a problematic situation, and to exit is simply to withdraw from and leave the problematic situation. Most of Hirschman's work is grounded in economics and thus focuses primarily on the clients of an organization using voice or exit rather than on its members using these options (Spencer, 1986). Hirschman's concepts are gaining increasing attention in the organizational behavior literature (Farrell, 1983). This attention is not limited to studies of employee turnover; other relevant work includes research on absenteeism, political behavior, organizational due process (Spencer, 1986).

Analyzing Hirschman's terminology applied in the "financial market discipline", one of the three distinct theoretical perspectives on firm governance, "exit" (in the case of hostile takeovers) and



“voice” (in the case of shareholder activism) ensure the alignment of shareholders’ and managers’ interests (Zeitoun and Osterloh, 2008).

In the “employees’ voice” perspective, *shareholders* and *employees* are viewed as the most salient stakeholders whose interests should be safeguarded (Zeitoun and Osterloh, 2008). Both parties should protect their interests through a representation on the board of directors or through other mechanisms that allow them to influence strategic decisions. The focus is on three main forms of employees’ voice in the context of firm governance. *First*, employees’ voice can be fostered by *co-determination rules*, which means that mechanisms for shared decision-making between workers and investors are arranged. This shared decision-making can happen at the board level if, for example, one third of the board seats are allocated to employees. Moreover, codetermination can be constituted at the plant level by establishing works councils. Mandatory co-determination laws, both at the board level and at the plant level, are a wide-spread phenomenon in European countries. *Second*, employees can voice their concerns through *unionization*. Unions negotiate with employers on topics such as wages, conditions of employment, or protection against layoffs. These protections impose rigidities on the firm, which need to be weighed against incentives for investment in firm-specific human capital. *Third*, a *consensus-oriented corporate culture* can nurture employees’ voice. Employees are involved in the decision-making process of the firm’s management even though they do not have formal control rights (Zeitoun and Osterloh, 2008).

### ***VoW at Alpha***

The framework in which can be placed the voice of workforce – annual survey which measures the employees’ position related to the company’s core values (perceived as business principles) – is associated with a key performance indicator of the social dimension of the CSR (Sachs et al., 2006 and personal contribution)

This paper aims to analyze how the strategic values of Alpha, a multinational company, guide the daily activities performed by workers in different regions in a cascaded approach.

At Alpha, looking from a CSR perspective, voice of workforce gathers individuals’ feedbacks related to the way that the core values of a company are shared and embraced by the personnel. The VoW’s results are presented at the board level by managers in charge with the employee’s satisfactions – as a key performance internal indicator for their own assessment – action which can be integrated into the third above mechanism, specific to companies with consensus- oriented corporate cultures.

### **Method and Results**

Alpha is a multinational company which implemented VoW for more than five years ago.

Each March, the survey is available online in 25 languages, and confidentiality of individual results is strictly protected. The outcome revealed in August of that respective year is displayed in a summarized manner, by a subcontractor that ensures objectivity and independency in processing the data. The results help the company gauge employee satisfaction and provide input to business planning, management decision-making and company strategy development. They also offer insight into how Alpha’s core values are being embraced throughout the company. Targets are then set at the business group level.

Results and next steps are shared with employees at the work group level.

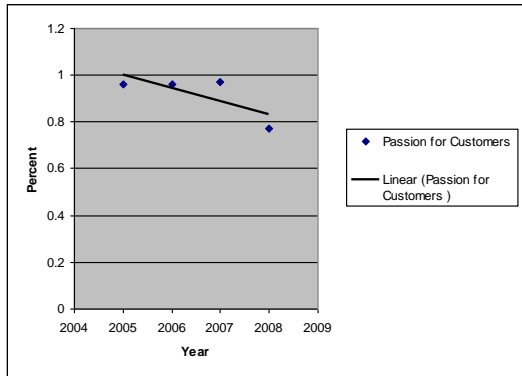
The analysis comprises **three** stages: a temporal approach which follows the evolution of six indicators of the voice of workforce survey, a geographical cross-distribution of the eight variables of the survey and a comparison of the survey’s observations with regard to Alpha’s employees and contingent workforce. The samples observed consist of replies to an annual survey addressed to over 80000 respondents. For an in depth study of the allotment of the responses, a geographical view is taken into consideration at world-wide (WW) level versus

Central and Eastern European Countries, Emerging European Markets (cluster made of: Albania, Bulgaria, Bosnia and Herzegovina, Croatia, Serbia, Montenegro, Slovenia, Malta, Moldova, Macedonia) and Romania. To the preexisting sample there are added two more variables: *achievement and contribution* and *trust and respect*. In order to have a more reliable sample, the eight core values of the company which were the main inputs of the regression, estimated through the least squares method, have been detailed into 44 observations – that consists the primary data for analysis. The last part of the paper aimed to focus on the differences in perceptions / treatment of the direct and indirect workers.

**Temporal analysis**

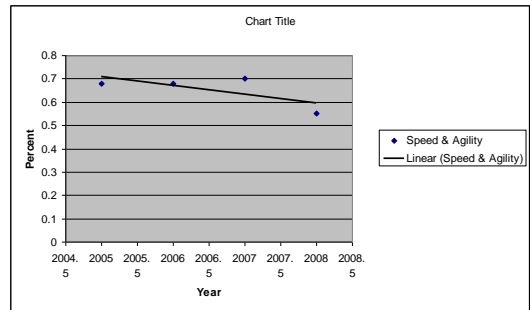
The six variables examined are: employee engagement (E\_E), meaningful innovation (M\_I) and passion for customers (PAS\_CUST), results through teamwork (RES\_TEAM), speed (SPEED) and uncompromising integrity (UN\_INT) within four years, 2005-2008. The generic trend of their evolution is ascendant for the first three years. However, there is a visible decrease in value of four of the six calculated variables in 2008, as it can be noticed in Figures 1 to 6.

Figure 1: Passion for Customers: 2005-2008



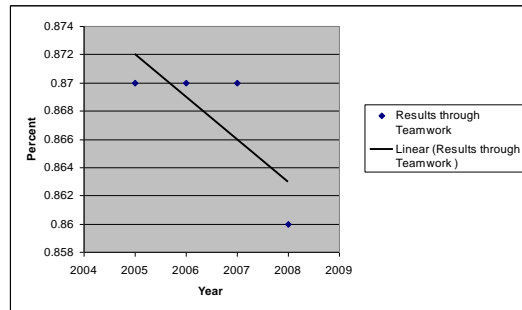
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Figure 4: Speed and agility: 2005-2008



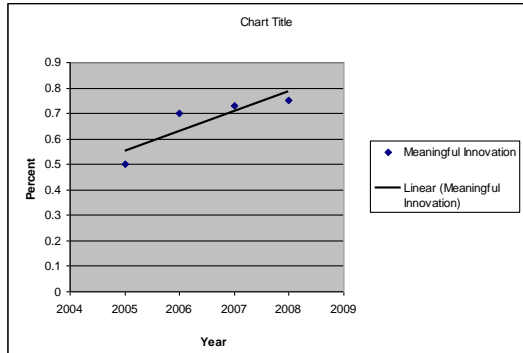
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Figure 2: Results through Teamwork: 2005-2008



Source: own processing

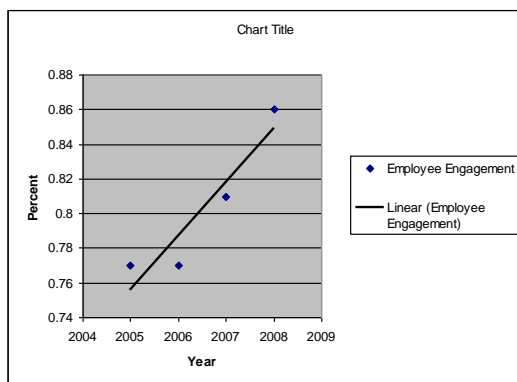
Figure 5: Meaningful Innovation: 2005-2008



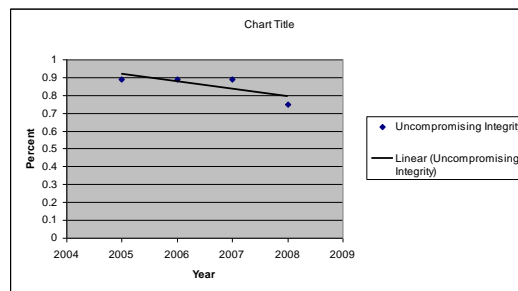
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Figure 3: Employee Engagement: 2005-2008

Figure 6: Uncompromising Integrity: 2005-2008



Source: own processing



Source: own processing

The reason of this severe decline, most significantly observed in the slump of the speed and agility can be explained by the increase of the meaningful innovation. “Alpha” implemented new applications which could have influenced the turnaround time dedicated to particular tasks. Studying the associated descriptive indicators (see Table 1), there is evidence that the passion for customers has the highest average value, followed by results through teamwork and uncompromising integrity.

Table 1: Descriptive indicators for the six variables obtained in 2005-2008

	E_E	M_I	PAS_CUS T	RES_TEA M	SPEED	UN_INT
Mean	0.8025	0.67	0.915	0.8675	0.6525	0.855
Median	0.79	0.715	0.96	0.87	0.68	0.89
Maximum	0.86	0.75	0.97	0.87	0.7	0.89
Minimum	0.77	0.5	0.77	0.86	0.55	0.75

Source: personal processing

### Geographical analysis

When considering the geographical analysis of the distribution of survey’s results, the research question was: *In which extent were the global results (WW) influenced by the local results?*

The findings of the analysis constitutes an easement for the company’s decision makers, as the emerging countries whose survey’s results are compared to the average outputs are considered to understand and behave differently the core values of the company.

I have grouped the region as following: WW and CEE, WW and EEM and WW and Romania, for each two variables I interpreted the regression equation, obtained using the method of ordinary least squares.

#### 1. WW and CEE

Estimated Equation:  $WW = 0.7194048877 * CEE + 0.1412786017$   
(0.0000) (0.0743)

The F-Statistic value (61.5981517327) is big with a very low  $p$  (0.0000) and R-squared value (0.594587361864) is significant; therefore the above equation estimates well the model. Moreover, as t-Statistic (7.848449) with a probability of 0.0000 demonstrates that the results in CEE consistently influence the world wide values.

#### 2. WW and EEM

Estimated Equation:  $WW = 0.4921150189 * EEM + 0.3339219377$   
(0.0000) (0.0000)

The F-Statistic (32.16991) and its associated  $p$  value (0.000001) back up the assertion that in general the model of linear regression is applicable. The R-squared value (0.433733) is significant; therefore the above equation estimates well the model. Moreover, t-Statistic (5.671852) with a probability of 0.0000 demonstrates that the results in EEM consistently influence the world wide values.

### 3. WW and Romania

Estimated Equation:  $WW = 0.7527322404 \cdot ROMANIA + 0.1540027322$   
(0.0000) (0.0000)

The F-Statistic value (37.67947) is big with a very low  $p$  (0.000000) and R-squared value (0.472888) is significant; therefore the above equation estimates well the model. Moreover, as t-Statistic (6.138361) with a probability of 0.0000 demonstrates that the results in Romania consistently influence the world wide values.

Further to analyzing the above equations, there is evidence that Central and Eastern European Emerging Markets embrace in a large extent the core values of the company, they behave and react similarly to world-wide personnel. Taking into consideration the coefficients of the independent variables, we can notice that the regions – viewed as compact blocks - approach average results in a descending scale, as follows: CEE, Romania and EEM.

### *Employees versus Contingent Workers*

As there have been used different questionnaires for employees and contingent workers, the analysis of the voice of workforce is rather ineloquent. The questions in the survey for contingent workers are classified into fourteen categories: preliminary questions, general issues, career developments, communication, job satisfaction, direct manager, pay & benefits, performance appraisal /management, HR procedures, work procedures, employee development / training, teamwork, respect, suppliers of benefits. The author aims to analyze in depth the way that these categories of workers are voiced in a future paper.

### **Conclusions:**

The paper identifies in a valuable manner an attribute of corporate social responsibility, represented by the care towards internal stakeholders. By understanding the patterns of what different types of employees seek in the workplace, organizations can craft work arrangements, compensations, benefits and career development opportunities to be most effective and attractive from both employees and employer's perspectives. Taking the pulse of the human resources also rebounds into signals given to the company on how to reestablish / improve the workers' satisfaction and, consequently, the efficiency of their work. Voice of workforce is a key performance indicator which allows the company to build appropriate action plans. The average scores which assess the way that the company's core values are daily lived encompasses in a veridical and integrative manner also the central and eastern European results. There is not possible to make comparison between employees and contingent workers with regard to respecting the six / eight variable widely measured, as the surveys track different aspects.

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# FOREIGN TRADE MULTIPLIER IN ROMANIA BEFORE AND AFTER ACCESSION TO THE EUROPEAN UNION

**Pop-Silaghi Monica Ioana**

*Babeş-Bolyai University Faculty of Economics Cluj-Napoca, Romania Email: monica.pop@econ.ubbcluj.ro Phone: 0040722837987*

*In this paper we compute the foreign trade multiplier on Romanian exports and imports data during 1990-2008. Our motivation comes from the need to determine the trade performance and trade efficiency using proper indicators. The multiplier of foreign trade is highly quoted in the literature but little empirical work –even the easiest one– is done particularly in the case of Romania. We compare direct calculus based on time series data and simple regression analysis results. Based on these results, we conclude that foreign trade multiplier proves to be difficult in explaining correctly the relationship between trade and income for the Romanian case.*

*Keywords: foreign trade multiplier, open economy, marginal propensity of imports*

*JEL Code: F10*

## **1. Introduction**

The multiplier became of great importance in economic literature, especially after Keynes has discussed it in his famous book “General Theory of employment, interest and money” in 1936. The author sees the theory of multiplier as an integral part of his conception of employment. In his opinion, the multiplier tells that when an increase of global investments occurs, the income will grow with the level of multiplier of investments [5].

Harrod developed a multiplier for the foreign trade, on the same principles as the ones of Keynes multiplier of investments [2]. The multiplier of foreign trade shows how much increases the national income at a one-unit growth of exports [1]. But can we rely on this indicator when characterizing the trade performance of a country?

As studies like [1] and [6] argues on the importance of computing the multiplier of foreign trade when characterizing the trade performance, the objective of this paper will be to compute the trade multiplier and interpret the results on the empirical data of the Romanian economy. Our motivation toward this study comes also from the general task of finding the most suitable tools for empirically analyse the trade performance and efficiency for Romania.

To pursue our goal that consists in trying to compute the multiplier, we will calculate it in a deterministic way. We will investigate how the multiplier performs on the Romanian case, considering yearly data from 1990 to 2008. Results are helpful to see the impact of trade upon the economic growth of Romania particularly through the multiplier indicator. This indicator is much discussed from the theoretical perspective but we found very little empirical work, particularly for the case of Romania or other emergent countries.

The paper develops as follows. Section 2 introduces the formalization of the foreign trade multiplier. Section 3 computes the multiplier using the direct way supplied by the multiplier formula, for successive years. Section 4 tries to estimate the indicator for the whole period of study, using the regression technique from econometrics. Section 5 will discuss the results and conclude the paper.

## **2. Foreign trade multiplier: theoretical aspects**

We will present the derivation of the foreign trade multiplier as in [1]. Reviewing [2] is useful for a reader interested how the debate over the indication evolved, when Keynes and Harrod proposed their ideas.

Richard Kahn (1931) was the first who generated a formal idea of a multiplier, applied for the economic topic of employment. He made the assumption that there is a distinction between wage goods and capital-intensive goods industries. Later, Keynes (1936) developed an income multiplier. We will shortly review the formal derivations toward the formula of the multiplier.

In a closed economy, the Keynesian equation of income states that, where  $Y$  is the income,  $C$  the consumption,  $I$  the investments and  $G$  the government consumption. The consumption can be expressed as a function of the level of the income  $C = cY$ , where  $c$  is marginal propensity to consumption. Furthermore, the marginal propensity to consumption can be stated as  $s = 1 - c$ ,

where  $s$  is the marginal propensity to savings. We should note that  $\frac{\partial C}{\partial Y} = c$  with  $\frac{\partial C}{\partial Y} > 0$ . If the

assumptions that consumption is endogenous is made and we consider that it depends on income; investments and government consumption thus the equation of the income can be rewritten as  $Y = cY + I + G$ . Therefore, we can infer that

$$Y = \frac{1}{1-c}(I + G) = \frac{1}{s}(I + G) \quad (1)$$

which represents the equation for the multiplier of investments. Therefore, the multiplier effect of investments to income is directly proportional to the marginal propensity of consumption. If the propensity to saving lowers to zero, the multiplier tends to infinite and if it is equal to 1, there is no consumption and the multiplier becomes 1.

Considering an open economy, the Keynesian model is extended as  $Y + M = C + X$ , where  $M$  represents the imports and  $X$  the exports. If we assume that investments are exogenous and we fix them at a given level  $I = I_0$ , the global demand is  $C = C_0 + cY + I_0$  where  $C_0$  represents the autonomous consumption. By replacing the global demand in the above-mentioned equation, we obtain

$$Y = \frac{1}{1-c}(C_0 + I_0 + X - M) \quad (2)$$

If we are interested how the national income varies at a growth of exports, we can compute the partial derivative of income with respect to exports, in an open economy,  $\partial Y / \partial X = 1 / (1 - c)$ .

Assuming that imports vary linear with the levels of national income,  $M = M_0 + mY$  - with  $m$  the marginal propensity to import, we can derive the formula of the trade multiplier:

$$M_x = \frac{1}{1 - c + m} \quad (3)$$

The multiplier of exports has a low value as the marginal propensity of imports is high, respectively as the degree of openness of the country based on imports is higher. It also depends directly with the marginal propensity to consumption.

### 3. Direct estimation of the foreign trade multiplier

A first handy calculus for estimating the foreign trade multiplier is based on the above-mentioned formulas where

$$m = \frac{\Delta M}{\Delta Y} = \frac{M_1 - M_0}{Y_1 - Y_0} \text{ and } c = \frac{\Delta C}{\Delta Y} = \frac{C_1 - C_0}{Y_1 - Y_0} \quad (4)$$

where indices 0 and 1 represents 2 successive periods of time.

Simply applying the formulas (3) and (4) for two successive periods of time for the Romanian data from 1990 to 2008, we obtained the results of table 1.

**Table 1 Multiplier of exports (or foreign trade) on the period 1990-2008, computed for every two successive periods of time**

<b>Year</b>	<b>Multiplier</b>
1990	-
1991	2.176103
1992	1.596276
1993	2.156263
1994	2.227097
1995	1.960436
1996	1.837958
1997	2.345988
1998	4.5226
1999	1.79271
2000	1.588561
2001	1.634728
2002	1.461164
2003	1.501683
2004	0.816769
2005	-2.19231
2006	1.219734
2007	0.781878
2008	0.91956
Mean	1.574844

*SOURCE:* Own calculus on data from Statistical Yearbook of Romania, 2007, Eurostat, World Bank indicators for years 2007 and 2008

We observe that the values obtained are high and very unstable, fact that determines us to be strongly uncertain in what concerns the relevance of this indicator. We can evaluate the results, for examples stating that in the year 1992 with respect to the year 1991, the national income grew for 1.59 times at a unit grow of exports. An interesting value is that obtained for the year 2005, when the propensity to consumption exceeded 1. During this year, a high number of loans were given and the consumption increased a lot. This fact meant that the multiplier effect of exports on income vanished. The situation came to normal in the year 2006 when income grew 1.21 at a unit growth of exports. However, we can see that the accession of Romania to the European Union did not bring a very positive impact if we observe solely the multiplier indicator of foreign trade performance. A detailed analysis in the structure of exports would give us a more specific view on this aspect. The complete liberalisation of foreign trade after the year 2004 when Romania became a full member of the European Union meant the increasing of exports but also the increase in imports. Much of these imports were consumption oriented and this is revealed through the negative sign of the indicator in 2005 and small values in the next years. As a policy recommendation, we would state here that in order to achieve a better trade performance, Romania should focus on importing more technological goods and exports more value added products. In this way, steps to diminish the gap between Romania and the other old members of the European Union would certainly being taken.

It is difficult to express a general opinion about this indicator, as the values are calculated in chain, but we definitely can say that for Romania the instability is highly expressed by the multiplier of foreign trade.

More, if we want to assess a value for the overall study period, the only alternative is to consider the mean of the values which is 1.57 When we computed the standard deviation, we, however



obtained a high value for these values so there is no doubt that another techniques of computing the multiplier are required.

#### 4. Regressions for assessing the multiplier of foreign trade

The idea of computing the multiplier with regressions comes from the formulas (4) by passing them to limit. Therefore,

$$m = \frac{dm}{dy} \text{ and } c = \frac{dc}{dy} \quad (5)$$

Therefore, equations (6) can be derived.

$$\begin{aligned} M &= mY + M_0 \\ C &= cY + C_0 \end{aligned} \quad (6)$$

Regressions can be employed directly with these equations, or considering their log form. Bairam (1997) specified in a similar way the multiplier of foreign trade, while Ghani used those specifications to compute the multiplier for more than 60 countries [4].

We will consider therefore, the following regressions:

$$M = mY + M_0 + \varepsilon_M \quad (7.1)$$

$$C = cY + C_0 + \varepsilon_C \quad (7.2)$$

$$\log M = m \log Y + m_0 + \varepsilon_m \quad (7.3)$$

$$\log C = c \log Y + c_0 + \varepsilon_c \quad (7.4)$$

We will try to estimate the parameters  $m$  and  $c$  by simple linear regression, during 1990-2008, for the case of Romania. As we have only 18 observations we intend to test the stability of the multiplier, by removing out of the model the first and the last statistical observations. Therefore, we will employ the analyses on 3 samples: 1990-2008, 1991-2008 and 1990-2008. We will estimate the multiplier both using the equations (6) and using the log forms of those equations.

Table 2 depicts the results.

**Table 2.** Estimating parameters  $m$  and  $c$  using linear regressions

Equation	m/c	F stat	T stat	DW statistic
7.1	0.42	8687.315	93.2	1.24
7.2	0.67	329.6809	18.15	1.076
7.3	1.076	5848.332	103.2	1.83
7.4	0.99	9259.222	96.22	0.83

*SOURCE:* Own calculus on data

As we can see from table 2, t statistics for all coefficients is high enough in order to pass the Student test for the significance of the regression coefficients. Therefore, the hypothesis that the regressions coefficients do not differ significantly from 0 is rejected. In order to determine if the exogenous variable (in our case  $Y$ ) influences in a significant way the values of endogenous variables (in our case  $M$  and  $C$ ) we employed the variance method, by applying the F-test. As we can see, the computed F statistics is high, which express the fact that, based on the sample data, the exogenous variable influences in a significant way the dependent one. The Durbin Watson statistic shows that in the case of the log regression for  $m$  we can for sure accept the null hypothesis of no autocorrelation of errors.

In order to validate the regressions, we need to perform tests on the residuals. A first test is the one of the normality of the residuals. As we have a small sample (with only 19 observations), have applied the Lilliefors test [3]. The results of the Lilliefors tests showed us that we can rely

on log versions of the data as residuals are smaller than in case of using real levels. We also performed stability tests which revealed that log regressions are more stable than direct regressions. Therefore, we have another reason to consider log regressions as being better estimators for the marginal propensity to consume and to import indicators<sup>113</sup>. Table 3 depicts the values of the foreign trade multiplier, computed with both methods, with log regressions and with direct regressions. We can observe that lower values are obtained with regression techniques than when computing the multiplier on two successive years.

**Table 3.** The foreign trade multiplier

<i>Equations</i>	<b>Multiplier value</b>
7.1, 7.2	1.33
7.3, 7.4	0.92

A value of 0.92 of the multiplier of foreign trade, states that an increase with one unit of exports leads towards a smaller increase in the income.

## 5. Conclusion

In this paper we tried to compute the Harrod multiplier of foreign trade for the case of the Romanian economy. Our motivation was to check if the multiplier could be used as a valid indicator for characterizing the trade performance of a country.

We started the paper by formalizing the multiplier of foreign trade. Therefore, we presented and computed the multiplier using two techniques: one based on the successive yearly data, and one based on the regression technique. The study period was between 1990 and 2008 and we considered nominal values in national currency for the GDP, imports and the national consumption. The critical years that changed more the situation were years 2004, 2005 when since Romania was full member of the European Union.

Starting from the theoretical presentation of the multiplier developed in section 2, this indicator was conceived for characterizing the influence of the foreign trade on the income of a country for two successive periods of time. Therefore, probably, the results of section 3 are the ones that come closer with the economical theoretical foundation of the multiplier. But, as the values vary substantially from year to year on the study period, this indicator cannot represent a reliable one for our purpose of characterizing the relation between external trade and the income, before and after accession to the European Union. We can notice that for the first half of the period the multiplier values are around 2, and for the second half of the period, the values are about 1.5. It follows that for the period of transition, with high inflation and quite high economical instability high values of the multiplier are obtained. As the economy gets more stable, the values of the multiplier are lower.

Computing the multiplier using regressions, we concluded that using log values of the data is more significant than using direct nominal values. We performed tests for the regression residuals and, under some small concerns we can say that the regressions are valid. Although statistically we can base only on the log computations, the obtained value is far apart from the values of table 1. The overall value of the multiplier is smaller than in the case when using successive periods estimations. Therefore, the conclusions do not remain the same. Even more, if no log data would be considered for the regressions, the overall results come closer with the reality. But, in this case, the statistical tests are not any more fulfilled, due to high variability of the input data.

Relying on the overall multiplier value computed with regressions, we can infer a lower influence of foreign trade on the gross domestic product. Anyway, the value we obtained is comparable

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113 Table with results on Liliefors test and stability test can be provided upon request

with the ones of [4], which reports a wide range of values for the Harrod foreign trade multiplier for different countries. Reviewing the findings of [4], no inference pattern can be drawn out, as between less developed and developing countries with a high value for the multiplier (like Brazil, Panama, Dominican Republic etc.) we can find countries with a good welfare as South Korea, Ireland, Italy etc. Developed countries like Austria, Germany, US, Spain, Sweden have a multiplier around unity, but in this category there are countries like Argentina, Uruguay, Nepal, Nigeria etc.

Based on our analysis, we can conclude that the Harrod foreign trade multiplier is not a good indicator for characterizing trade performance. Regarding this direction, our results could be influenced by the fact that we had only 19 yearly data available for analysis. Probably, the equations used for estimating the propensity to consumption and to imports should be more specified, and other relationships or supplemental variables need to be adopted for this.

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# THE EFFECTS OF FOREIGN INVESTMENTS ON ROMANIAN ECONOMY

**Popa Lucia Ramona**

*Universitatea „Constantin Brâncoveanu” Pitești Facultatea Management, Marketing în Afaceri Economice Brăila, Str. Târgoviștei nr. 3, Bl E2, Sc.3, Ap. 53 lucia\_ramona10@yahoo.com 0766237311*

*The Romanian economy is marked by great micro and macroeconomic instability generated by the transition to a functional market economy. The direct foreign investments play an extremely important role among others in the formation of fixed capital necessary for the optimum operation in the framework of organizations, retechnologization and innovation by which the production costs are lowered and implicitly the improvement of their quality, the stability of balance of trade through the increase of exports, in attracting the workforce and also in the improvement of their professional skills. In the same time the FDI may have negative effects on the budget in the implementation stage owing to some tax facilities granted, to the rise of imports through the invested equipments but also the increase of unemployment by reorganization of private companies.*

*Keywords: Foreign investments, economic development, transnational corporations*

*Cod JEL lucrative: F 39*

## **The effects of foreign investments on Romanian economy**

In the context of the transition from a centralized system to a functional market economy based on competition, on the relation between supply and demand, an important role has the flow of foreign capital.

The effect caused by the foreign capital on the economy has two dimensions. On the one hand this plays a complementary role in the context of transition, as it supplements the limited financial resources of the country and reduces the effects generated by the unstrained state of economy, and on the other hand they have an important structural role in overcoming inefficiency and difficulties by using modern technological flows, managerial experience and economic administration.

By means of direct foreign investments it can be achieved:

- making of capital, as FDI contribute to a certain extent to the formation of fixed capital. Thus only the FDI flows out of which are subtracted FDI for the acquisition of production means already existing contribute to the formation of fixed capital that is new investments, reorganization investments, made in order to make some previous acquisitions profitable ( assets or corporate stock) and the rise of stock capital in the existing companies.

Therefore for estimating FDI which contribute to the formation of capital, the value of FDI made for acquisitions must be known.

- technological transfer and innovation activity. The specialists consider that one of the most important contribution of the direct foreign investments is represented by technology transfer, a special role in this way belonging to transnational societies. They can make the technology transfer either through internalization (transfer to branches) or externalization (franchise, licensing, technical assistance, etc). As compared to externalization, the technology internalization, by means of FDI is faster and cheaper, assuring in the same time the access to all technical assets, organizational company. The problem which arises is the way the access to technology is made as transnational offer already obsolete technology and if there are local capabilities to work with the new technology and to get profit.

The access to technology and advanced knowledge is more important than the invested amount and the technology import determines quite often a research activity for adapting them to the conditions of the host country. From technological perspective FDI determine the introduction of new technology which entails the manufacture and commercialization of a new product or price

reduction of an already made product, the introduction and development of new abilities of working with the new technology in the case of FDI which also imply the technology flows.

This advantage is very important for the host companies as these make use of depreciated and obsolete technology which may lead to the production of low quality goods having weak performances. Since direct investment presupposes the transfer of advanced technology, modern production techniques and know-how, the receiving company will register superior performances as regard productivity and products quality, which will determine the increase of their export competitiveness. Furthermore, the technology infusion may cause local undertaking effects by stimulating innovation in organizations, others than those in which the investment was made;

- the improvement of products quality which are competitive on the external market due to the fact that the Romanian products do not tally from qualitative point of view, not corresponding to the needs, requirements, changes on the wide world, many Romanian firms lost contracts with strategic partners;

- substantial price and production costs reduction, enlarging the external productivity of local producers and of exports;

- impact on competition, on resources, ownership relations and of economic policy. Sometimes the impact may also have a negative influence because transnational corporations use the superior market force to annihilate competition. That is why a series of laws as that of bankruptcy, competition, capital market have the role of avoiding such situations;

- influences on political, social, cultural field through a direct exposition of the economy of the host country to the political and economic system of other countries, attitude towards work, industrial relations and foreign workers, customs and behavior norms different from foreign societies;

- introduction of a new type of management in which the employees are directly interested in the good development of the organization which makes investments in the qualification and specialization of the staff and motivates them professionally and financially.

- attraction of redundant workforce because of reorganization of large companies, of bankruptcy of other societies or from the students attending schools. The impact of FDI on the workforce is influenced by great investors who generate new working places and pay higher wages than national companies, engaging young well-trained specialists, who contribute to the increase of labor productivity. The creation of new working places represents one of the positive effects generated by "greenfield" type investments. The number of new working places created by foreign investors represents the indicator of special importance for the governments of the receiving countries but considering the economic effects on a long term, it is more important the quality of the created working places than their number. The creation of working places which need qualified workforce presupposes transfer of knowledge and the permanent preoccupation for professional training, with favorable effects on the quality of human factor in the host country.

- the improvement of the level of workforce training when the foreign companies make investments in activities which presuppose a raised qualification of the employees, the foreign investors will pay an increased and permanent attention to the improvement of the staff of the organization receiving them. Furthermore, it may appear the phenomenon of knowledge diffusion acquired like that, if the employees of such companies direct to other sectors or start developing activities on their own.

- decentralization of activities and the development of market economy in which the competition is regarded as a positive factor of companies in attracting customers with quality goods at competitive prices;

- the use of external market segments proper to those who make investments, balancing imports with exports but also the commercial deficit.

-the increase of local firm efficiency and competitiveness that will be able to improve qualitatively the management level and that of production, and if they became the suppliers of foreign investors companies, they have access to new technologies or diversify their own production to face the competition caused by the presence of new economic agents on market.

- export promotion, the improvement of foreign trade structure. In a first stage of transnational expansion, the commercial balance of the host country might be negative because of the massive imports made by the branches- machines, equipments, raw materials, but once the export started, the balance also improves.

-decrease of the loan values to which Romania must resort to balance the budget deficit and the commercial one by adding to the GDP of the host county and by supplying supplementary income to the state budget by taxes and fees;

- the appreciation of the exchange rate and of payment balance. In case of FDI it must be made a comparison between the entrance flow of the project and the present value of the future income flows, using as an updating factor the rate of interest on the international market from which the respective country may borrow funds.

Usually the future flows updated are higher than the invested capital, because the rate of return in the developing countries is lower than the rate of interest on the international market accessible to these countries. Furthermore by means of FDI, currency is saved by substituting imports and also takes place the appreciation of the exchange rate.

- the support of privatization and restructuring process. In case of large public companies offered to be sold, when the local companies do not have enough funds for their acquisition and becoming profitable, FDI are the only solution. By privatization they benefit from financial flow, technology, know-how and from the quality of local workforce. Reorganization can be attained on three levels:

1. intersectorial restructure starting from the primary sector, passing from industry to services, the tendency being that of raising importance of the tertiary sector;

2. intrasectorial restructure from industries having a poor productivity, intensive in workforce, to intensive industries in knowledge and technology which register increase productivity.

3. company restructuring by utilizing a modern technology and by achieving some great value added activities;

- international economic integration, as it determines a better connection to international economy and an amplification of economic growth owing to a more efficient work division.

The role of foreign direct investments is to produce a sustainable development within the economy of the host country through the contributions brought to the increase of the level of work force engagement, of the standard of living and of GDP.

On the other hand the investments can generate negative effects which are sometimes inherent and generally become manifest on a short term, their appearance being closely related to the investment implementation or their becoming efficient:

- negative impact on the budget owed, on the one hand, to tax facilities given to foreign investors by the incentive policy, which has as an immediate effect the decrease of budgetary income. In the same time the increase of the number of the unemployed as a result of privatization and reorganization of public companies generate supplementary budget expenses, as the redundant workforce is not immediately absorbed by developing activities. On the long term, once the investments become mature, an increase of the state budget income can be registered owing to the taxes and fees paid by the newly set-up companies and their employees. It is to be noted that in the maturity stage of the investment, it is likely to appear unfavorable effects in case in which the transnational companies use specific mechanisms, especially that of transfer prices, with the aim to reduce the taxation burden by artificial decrease of fees and taxes owed to the host state budget.

- increase of imports, negatively reflected on the balance of trade is caused by the import of machines and equipments financed by the foreign investor, without which the implementation of the investment could not be possible. When the retechnologisation activity becomes evident in the growth of productivity and competitiveness, a decrease of the trade deficit can be registered especially when the foreign investor is export oriented or substitution of imports.

Negative effects on the payment balance appear when the foreign companies make loans abroad and then concentrate on a rapid recovery of the investment by using some techniques of tax evasion (transfer prices on high royalties).

- the increase of unemployment because of private companies reorganization with the aim of a rapid activity efficiency. A reduction of the working places in private companies can be registered but this disadvantage is insignificant in case in which the restructured companies benefit from the raise of efficiency and competitiveness, a situation in which, through training effects, may generate new working places through developing new activities which are in increase or decrease.

Beside there negative effects inherent on a short term, FDI may have a negative impact on a long term, especially in those countries which do not have a clear and coherent economic policy. For example, in an economy in which a number of transnational societies made investments it is unlikely that the optimum of each should coincide with the optimum of the host country economy, and, especially that the result of these decisions taken by societies from different domains should correspond to the optimum of aggregate of host country economy. In the lack of a clear economic policy even if all the players are reliable, the country in dispute may confront with economic unbalance owed to actions of foreign investors. When also the foreign investors held the monopol, in most cases they generate more negative social and economic effects than those registered in the situation of state monopol, but when the monopol position is competed by the existence of protectionist measures, then the negative effects on the social, economic level on the environment are amplified.

The direct foreign investment have become the most important external finance source for the world states, no matter the level of development, because unlike the bank borrowings and portfolio of investments are affected in a smaller extent by the financial crisis.

Romania's economy needs a substantial volume of foreign investments in order to balance economy and reduce the differences it has as compared to most European states.

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## ASPECTS OF ORGANIZATIONAL CULTURE

**Potecea Valeriu**

*Universitatea Româno – Americană, București, Facultatea de Relații Comerciale și Financiar-Bancare Interne și Internaționale, Bvd. Expoziției 1B, valeriu.potecea@rau.ro, 0722729353*

**Cebuc Georgiana**

*Universitatea Româno – Americană, București, Facultatea de Relații Comerciale și Financiar-Bancare Interne și Internaționale, Bvd. Expoziției 1B, srdgeorgiana@yahoo.com, 0728578293*

*In the last twenty years world-wide companies tried to adapt their organizational culture to the external environment and to the new challenges. Recent crises put to the test organizational culture, in the sense that only companies with a strong and versatile culture resisted financially and psychological on international markets. The biggest treat for today's organizations is remaining the same.*

*Keywords: organizational culture, management, rules*

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In the last twenty years world-wide companies tried to adapt their organizational culture to the external environment and to the new challenges. Recent crises put to the test organizational culture, in the sense that only companies with a strong and versatile culture resisted financially and psychological on international markets. To give a significant example, in our opinion, take the differential culture of General Motors and Toyota. GM is confronting great financial and organizational problems while Toyota is still going on the market. It is known that Toyota has an old and very consolidate organizational culture and it succeeded to create a philosophy called “toyotism”, while GM neglected this aspect for many years. The biggest treat for today's organizations is remaining the same.

To illustrate this fact I will take the following example: from the biggest 100 companies of the 90's today only 16 are still on the market. In a top of the Fortune magazine from 500 important companies today only 25 are still included as being important and representative.

These dramatic changes in the internal environment of the organizations are explainable if we consider the transfer from industrial economy to the informational economy. For the first time in 1991 companies invest more in high-tech technologies and communications rather than in primary sectors such as mining, agriculture, constructions etc

The theory that we are in the informational economy stage is revealed by the fact that in the last twenty years companies produced more information and innovation than in the last 5000 years. A weekly edition of the New York Times or of the Herald Tribune contains more information that could accumulate a person in the XVII century in a lifetime.

### **1. Organizational culture – part of the managerial science**

Every organization has a culture, which reflects its history, managerial approach, managerial styles, attitude versus risk, relationship with competition, suppliers, and, of course, employees. Organizational culture is about human resource, because founders, CEO's and employees are humans.

If we try to define what is organizational culture we could say that represents a system of symbols, traditions, habits, values and organizational behavior shared by the company's members.

At the beginning of the 80's researchers began to be interested in organizational culture. This was one of the fields where theoreticians were more aware than the practitioners about the importance of the organizational culture in the life of companies and about how it can change in better or in worse their performances. The reason that practitioners ignored till then organizational culture is

very simple, they consider it to be a safe value, a state of mind that exists but we are not entirely aware of until somebody asks you about it or you must compare your culture with a different one. E. Schein identified three levels on culture's manifestation:

**-First level includes artifacts-** this level is represented by symbols and tangible products such as architecture, design, clothes, technology, habits, myths, history etc. The wealth of an organization reflects and influences its organizational culture.

**-Habits and values** adopted and implemented by the employees. Agreements, objectives, rules, ethical behavior, all these are developed in the internal environment of the companies. These represent the line between good and bad, guiding the organization. Rules could be transformed from formal in laws and informal in social behavior.

**-Basically presumptions about life and human behavior-** represent the deepest level. It contains the employee's beliefs, convictions, and behavior in the organization. Although there are intangible and abstract there are the most important.

Through culture organizations try to express their continuity in time and to obtain legitimacy in the field and on the market. It's a mix between economic organization- tangible values and culture- intangible values.

A first approach of organizational culture in management belongs to T. Peters and R. Waterman in their book "*In Search of Excellence*", they illustrate best the connection between organizational culture and managerial work.

They consider organizational culture "as a result of managerial efforts in orientate employees towards excellence". An organization can express very well through past achievements. Every company is created to serve a goal, purpose through human resources. These goals are more important than all other company's components because they dictate the organizational structure.

There are considered to be the fundamentals of work activities, respectively to the responsibilities associated to work. The organization's goals are influenced by public opinion, tax payers and clients. If does not exist demand on the market then the organization could not exist. This means that all organizations need to gain legitimacy, material and human resources, permanent customers, constant relationships, stability and organizational values. For productive organizations is very important the proportion between expenses and results and the economic effect, if the production is profitable or not.

The value's system represents an ensemble of interdependent ideals and it is characterized by a coherency that justifies every constituent component of the organization in comparison with others. It serves as a guide and evaluation system.

Values are shared by individuals or by groups, but there are more than just inputs. There resemble with attitudes and with elements of personality. These attitudes have their origins in the employee's subconscious and after that are implemented in the organization's culture.

D. Parnett and J. Legros set some professional values in six steps:

**-Wage-** money are considered to be an essential reason of conduct

**-Freedom or autonomy-** independence and the desire of not being part of a hierarchy.

**-The reputation-** the need of admiration, the attributes of power.

**-Stability** – to obtain it people accept tasks and jobs that don't like establishing a negative environment.

**-Organizing-** in the first place are planning, discipline, rules.

**-Solving problems-** because of the need to be remarked the employees try to solve problems more efficiently.

Changing organizational culture presume changing organization's members mentality and instrumental values. The need for change could be caused by low performance or new adopted strategies, reduced capacity of adaptation to the external challenges etc.

## 2. Organizational Culture Typologies

In every field of research we need schematization and classifications. The classification operations presume utilization of criteria and leads to an established order by the researcher. Organizational culture is a complex phenomenon and that's why we have to apply typological analyze to its main variations. Establishing a typology of the organizational culture allows us to choose better from such diversity. Numerous authors tried to establish models or typologies of organizational cultures.

Time has a crucial role in a culture of a community and in business as well. Depending on time factor, that is the way how organizations project time, at least two ways of cultures can be met:

**-monochronic culture**, where time is perceived in a linear way (the absolute time), as a way that lies from past, through present to future, which is segmented (on stages) and tangible (after calendar). This culture is specific to North European organizations and to North America, where can be met a strict schedule of activities, promptness in tasks and activities' achievement, punctuality in business relations, perseverance and consistency in goal achievement.

**-polychronic culture**, has a different perspective on time (the relative time), pertaining to his flowing, related to events' development and life facts. Two or more activities are performed simultaneously, in competition or alternatively. Events' development is more likely determined by the imperative of the moments, rather than a preset plan. Organizations from Latin America or Middle East offer a lot of examples, emphasizing the involvement of people and business' executions rather than planning. A great importance have the preservation and development of interpersonal relations, the adjustment to the general culture climate, to the foreign environment, the fulfillment of goals of the involved parts, the respect of partner's "image" and the assurance of cordial relations.

Based on organization's structure, in literature there were delimited three types of cultures:

**-Bureaucratic culture** - characterized by a no clear style, based mainly on approved norms and procedures. This culture assumes a rigid, centralized hierarchy. This type exists in every country and brings a lot of discomforts.

**-Administrative culture** – that is production-oriented. It is the culture of organizations sensitive to change and very adaptive to change.

**-Technical culture** - it is typical to industrial organizations, based on "know-how".<sup>114</sup>

## 3. Organizational Culture in Romanian companies

An attempt to identify some characteristics of organizational culture in Romanian companies can be risky and mainly empirical. Any analysis must take into consideration the different forms of ownership. However, according to a study of Human Synergistics Romania<sup>115</sup>, three main traits were spotted out: exaggerate competitiveness, conventionalism, and self-development.

**Exaggerate competitiveness.** Everything is turning around win – loose concept. People constantly try to prove that they are better than their colleagues, not only to fulfill organization's goals. This need to prove often exceeds the space of primordial task and can be found in every situation, no matter how insignificant it is. Every idea, once expressed, becomes sacrosanct, and people are willing to fight for it. When loose the dispute, Romanians prefer to retreat instead of recognizing the defeat.

**Conventionalism.** Even looks like a paradox, Romanian companies seem to have a fair doze of conventionalism that is the inclination for respect, even apparently, of rules and procedures. This inclination is a reaction of people in front of increased aggressiveness of organization and

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114 Hofstede Geert (2001), *Culture's consequences*, 2nd edition, Thousand Oaks, CA:Sage

115 Human Synergistics Romania (2006), *Cultura organizationala in companiile romanesti*, analize si tendinte

represents a simple escape gate from individual responsibility. Rules become more important than ideas as is emphasized in the following statement: "This is a brilliant idea; unfortunately, we have a rule that ban it". Lack of conventionalism, doesn't necessarily mean, as we can be tempted to consider, the constant brake of rules, but the recognition of their role in helping work, and when they don't, the rules must be changed.

**Self – development.** This is a more paradox dimension. Romanian companies seem have a high level of future orientation, towards quality and creativity. This characteristic doesn't derive only from proverbial Romanian capacity of "setting free from difficulties", but also from a sincere concern of organization's members for doing a quality job. This tendency, manifested in all top-companies, shows how important is organizational culture and internal environment in building-up an appropriate and capable work practice in Romania.

A fundamental differentiation between work environment from Romanian organizations and from western countries is the management system. In Romania, the organizational culture seems to be relationship-centered, rather than task-center, as it is outside. Another serious problem of Romanian managers is their difficulty to delegate, and if they succeed to do it, rarely refrain themselves from over controlling the delegate, causing lack of motivation.

Organizational culture represents the most important factor in companies' development, outrunning national culture and specific cultures such as monochronic or polychronic cultures. Organizational culture represents a mix of inputs from founders, managers, employees and collaborators. In Romania, the organizational culture must experience a significant adjustment in order to meet the needs of organizations' members.

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## ABOUT THE ECONOMIC CRISIS

**Rujan Ovidiu**

*Academia de Studii Economice București Facultatea de Relații Economice Internaționale*  
ovrujan@yahoo.com, ovidiu.rujan@ase.ro 0746181444

**Tartavulea Ramona**

*Academia de Studii Economice București Facultatea de Relații Economice Internaționale*  
ramona.tartavulea@yahoo.com 0721154828

*The economic crisis that the global economy is facing nowadays has started with the financial crisis of the U.S financial system. We are talking about an unprecedented speculative bubble at global level which has overcome the previous bubbles, created by the dotcoms or the pyramidal games (such as Caritas) at national or regional level.*

*The financial crisis, apparently caused by deficient risk management, is a null sum game, in which the wealth gains are made private and loses are socialized. The epicenter is the U.S, where favorable conditions are created to facilitate the real estate credit (a home for each family); institutions to guarantee these credits where created by the state and the interest rate was reduced a lot. The main vector for triggering the crisis was the credit default swap created by JP Morgan.*

*Keywords: economic crisis, exchange rate, metal reserves*

*Cod JEL: F5, G1*

The economic crisis that the global economy is facing nowadays has started with the financial crisis of the U.S financial system. We are talking about an unprecedented speculative boom at global level which has overcome the previous booms created by the dotcoms or the pyramidal games (such as Caritas) at national or regional level.

The financial crisis, apparently caused by deficient risk management, is a null sum game, in which the wealth gains become private and loses are socialized. The epicenter is the U.S, where favorable conditions are created to facilitate the real estate credit (a home for each family); institutions to guarantee these credits where created by the state and the interest rate was reduced a lot.

An important wheel in the market economy is the one connecting the capital price with the interest rate: the decrease of interest rate determines the capital price to increase (inclusive the real estates). The increase in real estate prices has encouraged the mortgage credit, and so the bubble started to enlarge by issuing financial instruments which proved to be harmful.

The financial derivatives are titles bounded to a financial instrument, merchandise or indicator, with the purpose of negotiating financial risks on the financial markets.

The mortgage credits (and afterwards other credits too) were over secured, and the financial titles issued this way and guaranteed by assets (ABS - asset-backed security or MBS - mortgage-backed security) have highly increased and spread widely. They promised high earnings and appeared to have a low risk degree. A lot of banks, investment societies and pension funds have made large investments in such financial products.

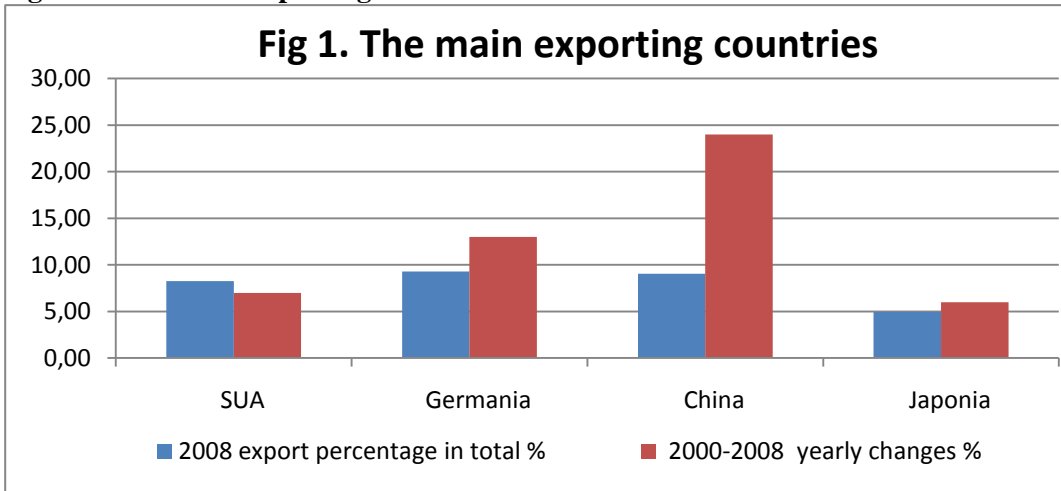
As the interest rate in the US (and other countries) has increased and the price of real estate has decreased, the speculative bubble has deflated. The weight of toxic assets in the balance of financial institutions was so high, that many of them have gone bankrupt. The lack of faith between banks has led to stagnation of crediting, inclusive of the production crediting and so the crisis has affected the real economy.

The decrease of production (by closing some unities, shortening the working hours) has led to decrease in the incomes and in the demand. The demand for imports is decreasing more than the one for local products, so that countries with a large weight of export in production are more affected by this diminishing of demand than others.

The world trade is decreasing. In crisis conditions, if the demand decreases, the prices decrease too, also the international prices and the relation between currencies change.

The most important world exporting countries are: Germany, China, USA and Japan (Figure 1)

**Figure 1: The main exporting countries**



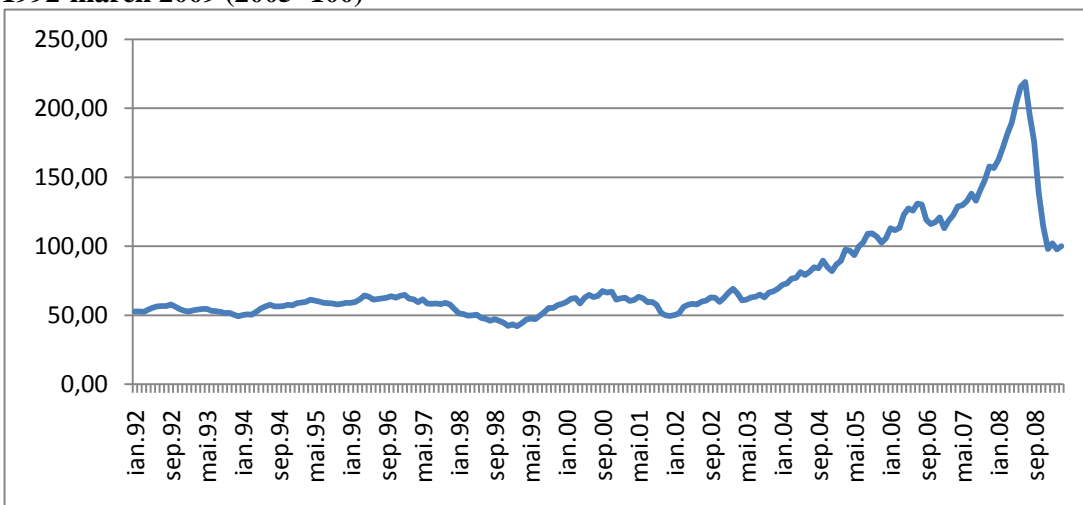
Source: WTO, World Trade 2008, Prospects for 2009, Press/554

After many decades of USA being the largest world exporter, in the last years Germany has taken the lead, and China has taken the place of Japan (3), and most recently it became the second world largest exporter, outrunning The United States.

For the large exporters, the US represents one of the most important selling markets. USA is today the world largest importer. The diminishing of the US demand for import, as a result of the crisis, has affected strongly Germany, China and Japan. All of these countries have searched a solution to compensate the decrease of extern demand (especially from USA) for their products by stimulating intern demand for consumption and investments.

As the world import has decreased, the prices for the primary commodities which are traded widely have also decreased (Figure 2).

**Figure 2: The primary commodity price index in world trade – monthly average figures Jan 1992-march 2009 (2005=100)**



Source: IMF Database, April 2009

The most spectacular decrease of commodity prices has occurred in the summer of 2008.

The most important commodity products are metals and oil, and their prices have followed the group trend, having a harsh evolution.

The price for oil has also decreased, more than the metal. As the commodity prices have decreased in the USA, China and other countries, the idea of investing in the so called “hard assets” has appeared.

Theoretically, from shares you get dividends, from loans you get interest and from real estate you get rent. The holding of raw materials implies expenses (stocking costs, depositing costs), and doesn't offer any direct payments. So why would anyone invest in raw materials? Just like the other assets, these are subjected to price fluctuations. The fluctuations depend on the demand in the industry and the storage capacities. If we look at the evolution of these prices in the past 15-25 years, we observe that the current price is higher than a few years before, but it seems to be getting more stabile. Anyway, increases in price at the level of the first semester of 2008 are unlikely, so the possession of commodity stocks doesn't appear to be the optimum investment. If the United States has great capacities for oil storing<sup>116</sup>, that means that China should increase the ones it has, which implies great investments. So it would make more sense for China to invest in transforming the coal (which is a plentiful resource for them) into gas.

A complicated issue in the process of adjusting the financial economy to the level of the real one is tied to dollar value, as an international currency, in connection to other currencies. In the last years the dollar exchange rate has decreased, mainly because of the chronic deficit of the US trade balance and budget.

The decrease in comparison with SDR was not spectacular, because the dollar has a big percentage in the SDR basket, but has been spectacular in comparison with the euro (figure 3) and the renminbi (figure 4). We cannot predict the future evolution of the dollar in comparison with other currencies.

From the year 1995 to 2000 the exchange rate of the dollar in SDR has increased with 25%, and then it reversed, decreasing with 30%.

**Figure 3: the Euro-dollar exchange rate**



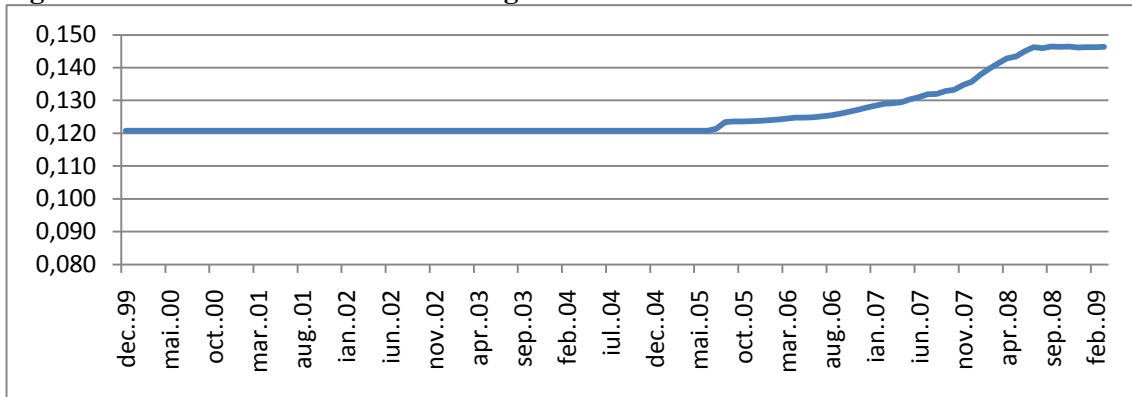
Source: IMF Database, March 2009, Der Spiegel apr.2009

We observe that the dollar exchange rate has decreased with 85% from 2001 to 2008, and increased with 20% in the second half of 2008.

116 The oil reserves in USA and China are modest. The largest reserves, in 2007, were in Saudi Arabia – 264,2 mrd. Barrels, Canada – 180 mrd. Barrels, Iran– 138,4 mrd. Barrels etc. (Handelsblatt, 21.04.2009)

The Chinese currency has been in an almost fixed exchange rate to the dollar until June 2005, then it increased its value by 30% until June 2008 and since then the exchange rate is relatively constant. After June 2005, the renminbi-dollar exchange rate is similar to the euro-dollar one.

**Figure 8: The Renmibi to Dollar exchange rate**



Source: People's Bank of China, Statistics, 1999 - 2009

China holds large dollar reserves because of the great US deficits in trade balance with China.<sup>117</sup>

### **China's strategy: trading reserves for resources**

Considering that China had large deposits of longer-dated US Treasuries, The Central Bank had to react at the global crisis situation by elaborating a strategy to decrease exposure to the dollar, which affected the stability of its national reserves.

The first step that The Central Chinese Bank did was to divest itself of longer-dated US Treasuries in favour of shorter-dated ones.

Another idea was to buy strategic resources, which prices have decreased because of the financial crisis, with two benefits at once: helping the Central Bank to decrease exposure to the dollar, holding hard assets with chances to make greater profit (because of their decreased current prices). We can say that from a geopolitical view China appears as a strategic player on the world scene, seeking to gain a favorable position considering the present global crisis.

On a large view, we can say that China's strategy and its actions in the recent global context might have major implications over the dollar's evolution, the American economy and over the international financial system. That why it is so interesting to find out which is China's strategy, how it will be implemented and how it will affect the other economic and politic actors.

Officially, China's reserves are of \$1,95 trillion. Regarding the composition of these reserves, according to the most recent Treasury International Capital (TIC) report, China has holdings of US Treasuries of \$696 billion, but it seems like the amount is likely to be bigger than that figure, since some of the purchases of Treasuries made by the UK and Hong Kong should actually be attributed to China's Central Bank. China also holds US government-sponsored agency debt (Fannie Mae and Freddie Mac paper).

On the other hand, the assets holdings of FED have highly increased in the past months, because the purpose of the US Treasury to recover the American financial system, but the percentage of best assets (AAA) was reduced to a quarter of the total, in comparison to three quarters last year. Taking in consideration the increased risk aversion of international investors, there are more and more buyers for the US Treasuries, which offer increased safety at lower profit margins. So, that takes significant pressure off of China to soak up the new issuance of US debt.

<sup>117</sup> We can say that China, Japan and other countries are financing the American deficit. Some say that the USA consumes Chinese products with money from the Chinese, and the Chinese are maintaining their growth based on the request of Uncle Sam (Yves Thr  ard, Le Figaro, le 12 avril 2009).



The estimate of the total exposure of China's central bank to dollar denominated assets is about 70%. This has generated concern among Chinese officials, a desirable situation being a total exposure to the dollar of 50% or less of the total reserves. That would provide more safety in the case of an excessive decline in the value of the dollar.

In order to achieve this objective, China would have to converse existing dollar denominated assets in value of \$450 billion in new assets, and accomplish this without triggering a global dollar panic.

Fang Shangpu, deputy director of SAFE (State Administration of Foreign Exchange), has made a declaration (18 February 2009) concerning the amount of US government bonds held by China, stating that they included not only the investments from the reserves, but also from other financial institutions. The main principle in reserves management for China is ensuring safety and the value of the reserves.

Considering the evolution of the „subprime” crisis from the USA into an international financial crisis, the Chinese officials declared that changes in the global market have been closely followed and measures were taken to evaluate and remove risks. Obviously Chinese officials were aware, for several years now, of the increasing risks of too great exposure to the dollar. So it is hard to suppose that they failed to formulate strategies designed to limit that exposure to safer levels.

So the rising question is: which is China's strategy to decrease exposure of its reserves to the dollar?

According to the researches of de Rachel Ziemba of RGE Monitor, in the first two months of 2009, China has made deals for buying hard assets worth over \$50 billion.

On 23 February 2009 there was an article in China Daily, which presented that as part of the National Energy Administration's three-year plan for the oil and gas industry, the government is considering setting up a fund to support firms in their pursuit of foreign mergers and acquisitions. Fang Shangpu, deputy director of SAFE, added that more measures will be introduced to support firms seeking to expand overseas. The analyst Han Xiaoping said it is time for China to convert some of its capital reserves into resources reserves, considering the fact that global oil prices have fallen 70% last year, to about \$40 a barrel.

Jiang Jiemin, the president of PetroChina, said that the low share prices of some global resource companies provide China new opportunities. Investments in hard assets, so called „wealth deposits”, natural resources or shares from exploiting companies (with small prices because of the financial crises) seemed like a good solution for using China's financial resources, considering the high risk of financial investments.

It is interesting to analyze the effect of this converse financial reserve in resources strategy to the evolution of the dollar.

First we have to consider the currencies used for the transactions. If the resources buys are made in dollars then the impact on the dollar as main reserve currency might be minimum. If other strong currencies are involved in the transactions, then the international role of the dollar could be undermined.

China suggested at the G20 meeting that the SDR should be used as an international exchange currency in the place of dollar. The proposition was considered to be unreasonable. It would be possible to include the Chinese currency in the SDR basket, considering this country's share of the global economy.

The details of implementing the strategy of decreasing exposure of China's reserves to the dollar are still unknown; there could be swaps among the various state-controlled entities and private Chinese investors or some opaque means. It is obvious that China will continue to buy resources as long as their prices stay low, the estimation of transactions is of a total \$35 billion/month.

Anyway the financial economy of China is closer to the real one in comparison to other countries.

At global level it is time for the adjustment of the financial economy to the real economy. In this period there shall be redistribution of wealth and final results of the null sum game. The measures implemented at a large scale by the economic powers (G20) and the IMF is leading to the end of the crises.

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## THE HIGH -IMPACT OF FRANCHISING ON ECONOMIC AFFAIRS IN SOME OF THE EU MEMBERS

**Scărlătescu Iuliana**

*Universitatea Constantin Brâncoveanu din Pitești, Facultatea Management Marketing în Afaceri Economice Pitești, Adresa: Găvana III, Bl. M5a, Sc. A, Et. I, Ap. 1, Pitești, Argeș E-mail: iuliana\_scarlatescu@yahoo.com, Telefon: 0722335135*

**Mărăcine Mihaela**

*Universitatea Constantin Brâncoveanu din Pitești, Facultatea Management Marketing în Afaceri Economice Pitești, Adresa: Găvana III, BL B3 , Sc. A, Et. 4, Ap .9, Pitești, Argeș E-mail: mihaela.maracine@yahoo.com Telefon: 0733960511*

*International companies prefer the franchise as it is very difficult to manage a business from distance and create a network of locations at low costs. Once the franchise is offered, the company gets away with the concern that contracting a location, with the clients' stress and other operational expenses, attracting his franchisees' capitals, increasing investments and profit. These advantages would be economizing advertising budgets, partly sustained by the franchised or by the franchisees' local experience that is also important and even defining.*

*Thus, the franchise may give the name offered by the "tendencies' guru", John Naisbitt: **"the most successful marketing concept ever created"**.*

*Key words: franchising, economic affairs, international brands, economic globalization.*

*Cod JEL: M2*

Globalization has become an implacable objective process that develops at great speed, and comprises the quasi-totality of the world states, an irreversible reality, so that any country that prepares its future must prepare itself to face it. The economic dimension of globalization has undoubtedly a great importance, it is a cause and a matrix force of the globalization processes in all fields of activity. The enormous growth of integrated commerce at transnational level, the competition at local and regional level, the end of national economies are only a few examples regarding the economic dimension of globalization.

The link of this economic dimension of the globalization process is represented by the **franchising operations** that, in many cases, are an important component of the internationalization strategy of companies.

Being 150 years old, this modality of business comprised the entire planet.

In short, franchising represents putting into practice the fundamental pedagogical principle: **"Teach me how to become successful by myself."**

The French Association of Normalization names the franchise "a method of collaboration between a franchiser company and one or more beneficiary companies, on the other hand. The franchise involves the ownership of one or more signs of attracting clientele as well as owning the know-how that could be transmitted to the beneficiary companies."

Businesses for which franchises is said to work best have the following characteristics:

- Businesses with a good track record of profitability.
- Businesses built around a unique or unusual concept.
- Businesses with broad geographic appeal.
- Businesses which are relatively easy to operate.
- Businesses which are relatively inexpensive to operate.
- Businesses which are easily duplicated.

Today, a franchise is a way to make a business with the most rapid growth in the world. More than 600,000 franchise businesses are spread on the American continent, generating sales of billions of dollars. More than 40% of retail sales of products and services in the USA are made in a franchised system. At every 12 minutes a new franchise starts somewhere in the USA. We may undoubtedly say that the franchise is the success story of this decade.<sup>118</sup>

Franchise Europe studied a list of more than 5,000 franchises operating in Europe with a turnover estimated at 200 billion US dollars. These numbers show that the European potential is much higher. At European level, Spain is the country with the largest number of franchises (13,000 units), followed by Great Britain with 10,000 units, and on the third position is Germany with 6,000 franchise units.

Today, in the world, more than 4,900 business systems generated into ten franchises per system, at least. At the level of the most developed countries, the franchise generates more than 40% of the total turnover.

We may distinguish some common elements such as the fact that the franchising system implies the existence of a physical or juridical person, called franchiser, who set up a certain fabrication process or method of making a business with goods or services; the franchiser starts looking for some independent, eager and capable entrepreneurs willing to promote his processes or method, which gives them the right and the license necessary for producing and selling those goods or services.

With a population of 460 million people, and a total gross domestic product of U.S. \$12 trillion and average per capita purchasing power of almost U.S. \$28,100 (IMF estimates), the European market offers a significant opportunity to franchise companies from other global regions.

### **Franchising in France**

France has a long history in franchising, which dates back to the 1930s when a knitting company started to “franchise” its business model. It was around the 1970s that franchising clearly started to grow and to appear in all sectors of the economy, parallel to the development pattern in the United States.

According to the European Franchise Federation, France has become the largest franchising market in Europe with total sales of U.S. \$51.6 billion and more than 929 franchisors. This dynamic market continues to experience steady growth holding an average of 10 percent growth annually since 2000. In addition, French franchises have also experienced strong growth outside of their national territory with more than 230 brands present in international markets.

The French market is mature and highly-competitive, but offers many opportunities for new concepts, business models and commodities that fit the market’s needs and conditions.

Fitting a market need does not connote plopping a profitable product or service in a market where it doesn’t exist. Though a business may flourish in the United States, or in the United Kingdom, economic and cultural factors may limit its success in continental Europe, especially in France. Fitting market conditions is just as important as fitting market needs. Even if there is a need, if market conditions are not favorable to your business it will be difficult to franchise. A successful franchisor has a sound fruitful concept and is ready to adjust the business model and or contract conditions as appropriate to mesh with French market environment and regulations. Prime location for retail concepts is essential and therefore the real estate element becomes a major issue for the investor or the local business partner. When taking over a retail location, companies or individuals are often subject to a substantial start-up fee or “fonds de commerce.” Contract conditions with local potential partners need to be thoughtfully planned out to appropriate for such unique costs. One should take the proper steps in researching the extra expenses that may compromise the typical business plan and presupposed financing. In doing so,

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118 [www.franchise.org](http://www.franchise.org).

the franchise firm also creates a partnership that is mutually beneficial which maximizes the chances of success in the long run and assures a profitable royalty scheme.

The French franchising market is challenging. Unlike Mexico and Canada that provide geographically and culturally-friendly franchise expansion opportunities, even well-established brands names will probably not enjoy high-brand recognition in France. The French Franchise Federation has been a pre-eminent player in the sector for many years and was the first federation in Europe to develop a code of ethics that later became adopted by the European Franchise Federation. The federation maintains a list of service providers, consultants and experts in different fields devoted to support those that wish to franchise. On the upside, if a franchisor follows the right steps, the French franchise market can also be rewarding and profitable. Prime examples are McDonald's and Century 21 that have become ubiquitous in their sectors and respectively claim France as one of their most or the most profitable market in Europe.

The United States has always been perceived as a source of innovative concepts and efficient business methodologies. With more than 30 U.S. franchises, America is the first country of foreign origin for franchises that have been established in France. The majority of those are in services, the industry that is still the most promising. Until recently, the French environment was not the most favorable to private businesses that provide personal services. These services include childcare, elderly assistance, gardening, janitorial, tutoring, personal assistance at home for the disabled and the sick. Personal services were considered too expensive and not always culturally-accepted, limiting their development in franchising. Traditionally the cost of labor would make it challenging for this type of service to be economically-viable. In addition, for certain cases, the French have also been accustomed to having the government take on some responsibilities rather than a private company.

However, in May 2005 for example, the French government passed a new law making it easier for the development of personal-service jobs. The main objectives of the new law are to make it more attractive and economical for clients to use personal-service providers, simplify access to the industry and implement a standard payment method (Universal Service Checks). France has invested greatly to acknowledge and professionalize the personal-service sector. Given this new legal environment, U.S. franchises providing personal services may find new opportunities in the French market. They can take advantage of tax reductions, simplified registration processes and reduced entry barriers. Since the implementation of the Universal Service Checks last January, French companies including franchises in this industry have been proliferating. According to industry sources, the market has grown 8 percent in just a few months, with certain enterprises reporting a doubling of their clientele.

Many foreign businesses have chosen France as a gateway to Europe. For example, the Paris region ranked first in Europe in welcoming international businesses, according to a Ernst & Young-European Investment Monitor study. Given the maturity of the French franchising market, its convenient location in Europe, and the truly international local show, the franchise companies should consider France as an ideal European springboard. Overall, the economic, commercial, legal and financial conditions for franchising in France are quite promising.

### **Franchising in United Kingdom**

From many points of view the United Kingdom presents an excellent first market in which to establish a successful franchised operation and from which to springboard into continental Europe. Many major multinational franchisors, such as McDonald's, YUM! Brands and Holiday Inn-InterContinental Hotels Group have established small European regional offices here from which to attack and subsequently support the growth of their other European country markets.

There are many plus points, including: one of the largest local markets (60 million in a densely populated area, twice as densely populated as France and nine times the United States); second highest GDP (after Germany which has a population of 82 million) and personal disposable

income 20 percent above the European average; 15 cities with populations in excess of 250,000; an easy cultural fit for “English language” home-country franchise systems and teams; a large pool of potential country franchisees with which the company can easily communicate in its own language; leading banks that understand and actively support the substantial franchising sector: in excess of 750 franchise systems; and a national franchise association which is very active in the promotion of franchising and is one of the leading franchise associations in Europe. United Kingdom represents a flexible market in which new, overseas concepts can readily establish themselves, either with a small country-owned start-up to prove a concept in European beachhead operations, or by finding a country master franchisee, area developer or even, (but generally only on a limited scale) direct franchisees.

Another very important point to remember about the U.K. market is that despite its large population, it is geographically relatively small and it has proved quite possible for a U.K. franchise system to develop the entire market from its own office, perhaps occasionally with remote field staff, supporting the entire national network.

The British Franchise Association, which views itself very much as the guardian of ethical franchising in the United Kingdom, has strict membership criteria and will require all members of such networks of regional master franchisees to satisfy its criteria so that if one does not qualify, none can be members individually. In addition, and this is a fairly new development which is being hotly-debated currently, the BFA seems to be taking the position that it will require an overseas franchise firm to have proved its concept works in the United Kingdom before permitting it to recruit individual franchisees here.

Perhaps one of the most unexpected benefits of franchising in the United Kingdom in the first wave of European expansion is the relatively benign legal environment. A growing number of continental European markets have franchise-specific laws, requiring amongst other things formal pre-contract disclosure. There are laws which can penalize misrepresentations in the sale of franchises, but do not present problems for properly-structured franchise companies that are approaching marketing to the United Kingdom sensibly and that take sound local legal advice. Adapting the home country’s franchise agreement (or master franchise agreement) for use in the United Kingdom is generally a relatively straightforward matter and the U.K.’s legal system in general makes doing business in most sectors straightforward with more care needed in a limited number of regulated sectors such as the financial services and health sectors. Generally a limited number of changes are required to ensure enforceability of key contractual provisions in the United Kingdom jurisdiction. Currently the U.K.’s legal regime (strictly speaking English and Scottish law are separate, though with relatively few differences material to franchising) again unlike a number of contractual jurisdictions—will not imply an undertaking into the ongoing relationship to behave in good faith and reasonably.

Franchising has proved very successful across the usual commercial sectors in the United Kingdom, and of course as in every sophisticated economy, there is always a thirst for new concepts and niche services. Perhaps one of the few negatives is the high cost of real estate: retail concepts in particular should carefully investigate this aspect with good local commercial brokers before deciding on their real estate strategy and where to locate their first, crucial outlets.

### **Franchising in some of the East European Countries**

Thus, in more than half of the franchised chains present in Bulgaria joined in the last five or six years. Generally, foreign franchisers own their units in Bulgaria and do not give in the franchise rights to their franchisees. Since the Bulgarian market has a small size as compared to that of other markets, the franchisers give in the master franchise for the entire region (Balkan or East Europe), to the companies in West Europe. Similarly, in Hungary, at present, there are approximately 400 franchise businesses, half of them of foreign origin. McDonald’s can be considered the franchisers’ leader, not only in Hungary, but in all Central and Eastern Europe,

with a successful trans-national development strategy. Other successful franchises are Pizza Hut, KFC, and Burger King.

In Poland there were more than 200 networks, including 12,000 franchised units and more than 13,000 employees. The most franchised systems originate in the European Union (61.9 %), and the largest networks in the USA, France and Germany. American franchises are well-known in the whole world and they came first in Poland and popularized the concept. The first franchiser in Poland was McDonald's, in 1992, and now the most spread fast food chain (207 restaurants, 166 are in the property of McDonald's, and 41 of them are sub-franchised). (Business Poland, 2006)

In 1994 and 1996 in Romania there was an economic growth and various international companies entered the Romanian market. The first classical franchise was McDonald's in 1995. This franchise recorded results that could be compared to the worldwide ones. Presently, a franchise appears in more than 80 activity fields, but we cannot talk about a universally applicable form as a way of making business. A study of International Franchise Association indicates that 18% of the franchise systems are in fast food, and 11% in non-specialized distribution.

Just like in many other countries in Central and Eastern Europe, the most and the widest spread franchises here are the ones in distribution. The next ones are the companies providing services (financial, hotel, advertising); there is a small number of the ones in production as a result of the large costs when entering the market (distribution – fashion, jewels, electrical appliances, electronic ones, oil products - 87 networks; financial, hotel, advertising, human resources - 78 networks; industry - furs, refreshments, construction materials, - 6 networks). (ARFR)

**Romania** is represented by a number of 460 **franchise networks**, the brands originating from **21 countries**; the turnover at the end of **2007** was **1,500,000,000 euro**, unequally divided on activity sectors; an interesting fact was that the industry networks have only 3.5% of the total networks, and they contribute with 43.6% at the turnover obtained by the franchised system.

*Repartition of the turnover on sectors*

SECTOR	TURNOVER (EURO)	%
Distribution	146,000,000	20
Services of which:	266,000,000	36.4
* financial, public, human resources, maintenance	206,000,000	28.2
*fast food, food products	32,000,000	4.4
*hotel industry	28,000,000	3.8
Industry	318,000,000	43.6

The comparative evaluation of franchise networks importance in the total of networks and turnover, according to the activity field shapes an idea of activity efficiency in this system. The distribution networks are the most numerous, the first explanation being that entrance barriers (seen through their costs) are insignificant.

Activity field	No of networks %	CA (EURO)
Distribution	50,9	20
Services	45,6	36,4
Industry	3,5	43,6
TOTAL	100	100

The development of these franchise networks does not require large investments and their contribution to the added value is not spectacular. These businesses serve more to the entrepreneurs' particular interests and less to macroeconomic objectives of Romania.

The Department of Commercial Studies of the USA reports that less than 5% of franchised businesses ceased their activity or failed any year after 1974. Statistics are very impressive when

compared to the estimations of small businesses that vary from 30% to 65% depending on the source.

**In conclusion, franchising could and should be a successful adventure both to the franchisers and to the franchisees, to all those led by ethics, passion, vision and innovation, to all those who want to get a franchise or develop the franchise network.**

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# THE IMPACT OF THE INTERNET ON TRADING – A THEORETICAL APPROACH ON THE INVESTOR

**Voicu-Dorobanțu Roxana**

*Bucharest University of Economics, Faculty of International Business and Economics, Piața Romană, 6, Bucharest, rovodo@gmail.com, 0733014657*

**Marinoiu Ana Maria**

*Bucharest University of Economics, Faculty of International Business and Economics, Piața Romană, 6, Bucharest, anamarinoiu@yahoo.com, 0722701525*

*The paper presents the theories behind the impact of the Internet on financial trading from a theoretical approach of the attitude of the investor. The paper answers by referring to international literature on the subject to questions such as: Why are the investors switching to online trading? Why is the volume of trading so much larger after the implementation of the online means of communication?*

*Keywords: financial trading, Internet, theories*

*JEL: D03, D53, D83*

The Internet alters the way information reaches an investor, especially the quantity of information an investor may obtain at any moment in time, an extraordinary effect of it being the important reduction of fixed and marginal costs of the production of financial services. In the same train of thought, a series of important online brokerage companies are small sized and relatively new on the market, and the investors are more and more beginners, a fact caused by the generalization of trading in the masses, more so with the emergence of Internet, than in the past, when the access to the markets was limited for the trained, informed investor. The direct placing of orders may lead to a false feeling of security and control over the result of the transaction; the huge amount of information available online allowing either the confirmation or the infirmation of expectations, the real-time feedback and the fast selection of available actions. Assuming that the intermediaries eliminated by online trading have the only function of facilitating trading, one may conclude that the investor has an obvious and quantifiable gain by reducing trading and execution costs. This conclusion has a downfall, the case in which the intermediary provides more than facilitation that is the intermediary has an advisory role in the trading process<sup>119</sup>.

The Internet provides the investor with an immense amount of financial advice; however the quality of these pieces of advice has an extraordinary volatility, without taking into consideration the number of frauds and manipulation attempts. The main problem that arises is the fact that the beginner investor, overwhelmed by the amount of information, incapable of discerning between correct and useful information and a manipulation attempt, shall hesitate to pay for financial advisory services from a broker, hence causing a reduction in the sources of income for the company offering this type of services. These „virtual losses” of income may be recovered by the introduction of an advisory tax in priced packages of services, such as the case of a client of an online brokerage house paying an annual fee proportional with the size of the account, to which the commission fees for each transaction shall be added.

As stated previously, based on the research of Barber & Odean (2000) and Glaser & Weber (2004), Internet has altered the way people invest by increasing the level of trust of the investor, by providing a false sense of knowledge and an illusion of control, but also by modifying the fundamentals of investment decision making. It has been proven that, more and more the information received by an individual in order for him to make prediction based on and take decisions, the confidence of the individual in the accuracy of the predictions made shall increase

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119 Barber, Odean (2002).

faster than the precision of the predictions<sup>120</sup>. Actually, the precision of the predictions starts to decrease when the level of information saturation is reached, from that point on being created just the illusion of knowledge.<sup>121</sup>

In theoretical models, the over-confident investors have a higher trading frequency, as well as a higher speculation level than the investors with a lower confidence in their own assumptions. Moreover, the over-confident investors have less diversified portfolios (thus with a higher risk), lower expected utility rates and contribute to a higher volatility of the market in which they act.<sup>122</sup> Empirical studies, such as the one conducted by Barber & Odean in 2000, have emphasized the fact that, after the switch to an online brokerage trading account from a phone brokerage trading account, the investors have acted more frequently and more speculatively. Balasubramanian, Konana & Menon list in 1999 „the perception of power” as one of the seven basic reasons that cause the switch to online brokerage by an individual investor. Frequently, in literature, the discussion about the increase in the confidence level of the investor while online appears as an answer to the question related to the increase in trading volume. In like situations, a two-pronged approach may be encountered: the ”over-confident” investor, previously described and the „opinion differences”. The former has already been discussed, while the latter is motivated, at least at a theoretical level, by the research from 1985 and 1989 of Hal Varian. Varian generalizes the paradigm average value – volatility in order to allow the use of different previous probabilities. Each investor has his own probability distribution, previously created and subjective, for the value of a risky asset. It is assumed that the values are normally distributed and have different average values. In his research, Varian (1989) has proven the fact that the trading volume is essentially determined by the differences in opinion. The net equilibrium volume for an investor depends exclusively and directly on his deviation in opinion from the average values. Harris & Raviv (1993) assume the fact that the investors start from the same assumptions, they receive public information, which they interpret in different ways (for example, by using different actualization functions for the probabilities), hence causing differences in opinion. Kandel & Pearson (1995) model the differences in opinion as it follows: the investors receive a public signal that is the sum of two variables: the liquidity of a risky asset and a random error factor, whose average value is the difference in opinion. Morris (1995) and van den Steen (2001) have shown in their research that the differences in opinion depend on rationality. Shiller (1999), Barberis & Thaler (2003), Hong & Stein (2003), and Diether, Malloy & Scherbina (2002) consider the differences in opinion to be yet another form of over-confidence: the investors assume that their information and their valuation abilities are better than the others.<sup>123</sup>

The literature on overconfidence assumes the fact that the investors over-estimate the precision of the information, therefore the models take into consideration the research in psychology known as „calibration literature” (Lichtenstein, Fischhoff, Phillips (1982)). In a study from 2002, Dorn & Huberman analyze through an online questionnaire the link between the psychological variables (over-confidence) and economic variables (the portfolio return). The questionnaire was applied to a set of investors – clients of an brokerage house, and the results of the empirical research have underlined the fact that over-confidence does not explain the additional variation in the trading volume. The results have been contradicted by the research made in 2004 by Glaser & Weber, whom have worked with the *à la lettre* psychological definitions.

The present paper shall not go into detail about the psychological aspects of the research on over-confidence, the issue being on the one hand explained briefly in the psychology literature, as

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120 Oskamp (1965), Slovic (1973), Peterson & Ritz (1988).

121 Stewart, Heideman, Moniger & Reagan-Cirincione (1992), Keller & Staelin (1987, 1989).

122 Odean (1998).

123 See Odean (1998) underlining the fact that the investor is more over-confident in his own ability to interpret an information, than in the information per se.

related to economics issues, and on the other not the aim of the literature review presented hereby.

In practice, in the models considering the investors' over-confidence start from the assumption that this is an ingrown trait and, therefore, constant and consistent in time.<sup>124</sup> Still, there are models<sup>125</sup> that assume the level of over-confidence changes drastically overtime, being a function of the previous successes and/or failures. For example, the investors are overconfident at the beginning of the period of time (for instance, at the introduction of a new trading technology); if they are successful in their assumptions / predictions, the level of confidence increases, thus causing an increase in the volume and frequency of the trading. The research of Glaser & Weber, as well as those of lui Dorn & Huberman, previously considered, reveals the fact that there is no intrinsic link between the level of over-confidence and the trading volume. Therefore, the variation in the trading volume observed after the introduction of a new technology for connecting the investors and the brokers and markets has different causes.

Coming back to the impact of the Internet on the investor, one must mention the fact that the type of information received by the investor is also altered. By facilitating real-time comparisons and by enhancing the need for fast information, the Internet leads to daily or short term trading, more than on short and medium term trading from the past, when the investor was checking the status of his investments once a day with the help of the financial newspapers.

All these considerations, with the results of the experimental research regarding speculation bubbles<sup>126</sup>, have confirmed the fact that the implementation of the new trading technologies has facilitated (being still under discussion the percentage of cause versus facilitator) the speculation dot.com bubble of 2000 and the influence of today's economic and financial crisis.

Moreover, it is extremely important to consider the theoretical assumptions of a like situation, with the increase in the need for efficiency on the Romanian market, the implementation of direct-to-market technologies in the Romanian brokerage houses and the accession to European markets.

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124 Jonsson & Allwood (2003) and Glaser, Langer & Weber (2004).

125 Gervais & Odean (2001).

126 According to the research of Smith, Suchanek, Williams (1988), Caginalp, Porter & Smith (2000) and Schiller (2000), there are various conditions that facilitate the apparition of a speculative bubble: the number of non-experienced investors is larger than the number of experienced investors, the uncertainty towards the future value of an asset as opposed to the risk (see the risk-uncertainty dichotomy), the more money to invest.

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## **EUROPEAN INTEGRATION**

## ORIENTATION DES ENTREPRISES ROUMAINES VERS L'EXTERIEUR – LA POLITIQUE ECOLOGIQUE DANS L'UNION EUROPEENNE

**Belaşcu Lucian**

Université „Lucian Blaga” de Sibiu Faculté des Sciences Economiques Sibiu, str. Calea Dumbrăvii nr. 17 Email : lucian\_belascu@yahoo.com Tel : 0269-210375

**Stanciu Oana**

Université „Lucian Blaga” de Sibiu Faculté des Sciences Economiques Sibiu, str. Calea Dumbrăvii nr. 17 Email : oanaalexa@yahoo.com Tel : 0269-210375

*In the present, the protection of the environment represents one of the global problems of human kind, closely related to the economical development. The protection of the environment can be characterized through dynamism, its evolution following the technological development and the complex problems with which the world economy is also dealing. The developed countries dispose of many organizations, of governmental and non-governmental associations and organisms, founded and with an evolved infrastructure, which are leading activities and have a powerful influence in the domain of environment protection. In Romania, once joining the European Structures, the law elaborating process is currently being elaborated, an important step being represented by the development of the environmental Law.*

*Keywords: environment protection, ecological information, ecological products*

*JEL Classification: Q57, M31*

En Europe de l'Ouest déroulent leur activité des partis politiques écologistes, qui soutiennent une législation de plus en plus complexe dans le domaine de la protection de l'environnement. Aux Etats-Unis fonctionnent d'autres types d'organisations, par rapport à l'Europe mais, leurs préoccupations sont similaires, et dans beaucoup de cas bien plus efficaces: World Watch Institute de Washington est l'un des plus prestigieux instituts qui élabore des analyses interdisciplinaires à caractère global, des préoccupations importantes se manifestant en ce qui concerne le danger du dépassement de certains seuils dans l'utilisation des ressources de la planète, du maintien de l'équilibre écologique etc.<sup>127</sup>

En Roumanie, dans le cadre de la Loi de la protection de l'environnement, on souligne l'importance de la participation des organisations non - gouvernementales et de la population à l'élaboration et à l'application des décisions concernant la protection de l'environnement. Dans ce contexte, ***l'information d'environnement*** représente un lien entre l'ensemble des acteurs qui "jouent" sur la scène économique et sociale. Par l'amélioration de l'accès du public à l'information disponible sur l'environnement on suit, d'un côté, l'appui conscient de la décision de ce domaine et, de l'autre, un renseignement et une éducation du public en vue de l'élimination de certains moyens non - durables de consommation.

***Le fait d'ignorer les problèmes d'environnement***, tant dans la société roumaine, mais aussi sur la plan global, ***a plusieurs causes*** entre lesquels on distingue: les difficultés économiques avec lesquelles se confrontent la plupart des membres de la société; l'insuffisance ou même le manque de l'éducation; le manque d'un renseignement complet et incorrect; le manque d'une législation adéquate etc. Mais on ne peut pas omettre le fait que la réaction de la société à l'impact de la dégradation de l'environnement est conditionnée, dans une mesure significative, à côté de l'existence et le fonctionnement du système législatif, par un soutien financier adéquat.

Bien de fois, la période contemporaine a été dénommée "l'époque informationnelle". Les modalités concrètes de production, communication, connaissance etc. ont connu une évolution

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127 [www.worldwatch.org](http://www.worldwatch.org).

rapide, déterminée par de nombreux facteurs, entre lesquels ceux technologiques sont primordiaux. En ce contexte, l'accumulation, la transmission, la transformation et la dissémination de l'information représentent des actions essentielles.

Retrouvée devant une dégradation continue de l'environnement, l'humanité essaie de construire un nouveau type de développement – le développement durable, qui suit l'harmonisation, à long terme, des nécessités de la production et de la consommation, d'un côté, et la protection d'un environnement propice à la vie, de l'autre côté.

Dans la perspective des éléments antérieurement énoncés, les politiques écologiques doivent viser au moins deux aspects, c'est-à-dire: le management écologique, par lequel on suivra l'amendement de toutes les décisions politiques, économiques et sociaux du point de vue écologique et l'information écologique.

**L'information écologique** est un élément qui comporte aux moins deux composantes: du point de vue technique, les informations transférées vers les utilisateurs ou ceux intéressés doivent être de bonne qualité, la transmission pouvant s'effectuer sur toute forme de support; la communication avec le public et le changement de la mentalité (et ultérieurement, pour conséquence, des comportements) par rapport à l'environnement. Le comportement écologique s'obtient seulement suite à la connaissance de la problématique dans sa totalité et complexité.<sup>128</sup>

Lors de la période suivante, les politiques des pays membres de l'Union Européenne auront une dimension écologique. Tous les projets d'actes normatifs devront tenir compte de l'impact de leur application sur l'environnement. Ainsi, **les points clé des stratégies de protection de l'environnement seront**:<sup>129</sup> le partenariat entre les autorités centrales et locales, agents économiques et public; la répartition des responsabilités entre les protagonistes du développement; l'établissement de certains standards minimaux concernant la protection de l'environnement; la stimulation fiscale ou économique pour les produits et les services "amis" de l'environnement; la nécessité de l'information et de l'éducation du public; la stimulation de la recherche-développement dans le domaine de l'environnement.

Il s'impose, également, la création de certaines structures de relations publiques dans toutes les organisations impliquées dans le domaine de la protection de l'environnement, par l'intermédiaire de ces structures pouvant se réaliser une communication efficiente, les informations circulant plus rapidement à l'intérieur de chaque établissement, mais aussi entre établissements et la société civile, la masse - média etc.

Une politique économique qui affiche pour objectif **une croissance "modérée" et "respectueuse" par rapport à l'environnement** signifie qu'accorder à l'environnement toute l'attention méritée réduit la réalisation des objectifs de protection de l'environnement à un problème d'appréciation discrétionnaire, secondaire par rapport au rythme de croissance économique. Dans l'avenir il ne sera plus suffisant à mettre en évidence à l'aide de certaines formules équivoques les difficultés d'intégration de la politique économique et de la politique de protection de l'environnement, en gardant une conception "réparatrice" sur la politique de protection de l'environnement.<sup>130</sup>

A présent, dans le cadre de la stratégie d'ensemble **concernant les politiques de protection de l'environnement** on distingue deux orientations caractéristiques, **la stratégie à caractère anticipatif et la stratégie d'intégration**.<sup>131</sup>

**La stratégie à caractère anticipatif** s'est réalisée, progressivement, au cours des vingt dernières années par l'application de différentes méthodes. Ces méthodes ont inclus: **des prédictions**

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128 Iosif, Gh. et al., Ecomarketing des sociétés commerciales, Ed. Tribuna Econom., Bucarest, 1999, p. 201.

129 Brown, R.L., Eco-économie. Création d'une économie pour notre planète, Ed. Tehnică, Bucarest, 2001.

130 Constantinescu, N.N., L'économie de la protection de l'environnement, Ed. Politică, Bucarest, 1976.

131 Stoian, M., Ecomarketing, chap. 7, Editions ASE, Bucarest, 2003.

concernant la croissance économique et le progrès technique dans certains secteurs qui peuvent influencer la qualité de l'environnement tout comme l'évolution de la consommation de ressources naturelles et du niveau de la production de déchets, *l'extension de l'utilisation du principe "qui pollue paie" et l'évaluation des prix des ressources*, l'utilisation à plus grande échelle des *études d'impact écologique* dans le cadre de la conception et de la planification des projets, *le contrôle plus puissant de la production*.

*La stratégie d'intégration* est souvent étroitement liée à la stratégie à caractère anticipatif, celles-ci se complétant réciproquement. Après la déclaration de 1985 et la Déclaration de Rio, les pays membres de l'OCDE accordent une importance particulière à l'intégration. Dans ce contexte, l'intégration peut se manifester sous deux formes: dans le domaine de la *formulation des objectifs des politiques de protection de l'environnement*; et dans le domaine du *perfectionnement des moyens pour atteindre ces objectifs* tant à l'intérieur de l'environnement, qu'aussi dans les relations de l'environnement avec les secteurs de l'économie.

Les menaces qui planent sur l'environnement ont commencé à être prises en conscience par les "écologistes" et de divers experts les dernières années seulement. La catastrophe de Cernobîl, de 1986, a déclenché une première prise de position générale sur le plan mondial, concernant les problèmes écologiques. En ce moment, l'opinion publique a compris qu'un accident important, qui affecte du point de vue écologique une région du globe, peut avoir des conséquences extrêmement graves et dans les autres régions (certaines très éloignées).

Après 1989, on peut parler d'une généralisation rapide de l'intérêt des divers organisations et organismes, des spécialistes et de la média concernant l'acuité et l'importance des "problèmes écologiques". Qu'il s'agit du processus de réchauffement de la planète, ou de la diminution de la couche d'ozone en Antarctique, de la dégradation écologique de la forêt amazonienne, ou de la perte de la bio-diversité, l'intérêt montré aux problèmes écologiques semble être devenu une sorte de "mode".

Il est à remarquer la similitude des problèmes écologiques avec les problèmes concernant la pénurie d'énergie (générées par les deux chocs pétroliers), la pénurie d'eau potable etc. Cette prise en conscience de l'existence d'une limite des ressources naturelles, jointe au constat alarmant d'une explosion démographique sur le plan mondial a déterminé un intérêt réel de la part de toutes les organisations qui peuvent décider dans ce domaine.

Même une organisation comme la Banque Mondiale, jusque là plus sensible aux problèmes du développement économique, qu'aux problèmes de la protection de l'environnement, a commencé à être préoccupée par les problèmes écologiques. Un autre trait de l'étape actuelle est celle que les accidents considérés secondaires dans la hiérarchie des préoccupations de l'opinion publique sur le plan mondial (la marée pétrolière, la dégradation écologique des forêts, la pollution de l'eau phréatique) ont commencé à être appréciés comme de vrais "crimes" écologiques et sanctionnés en conséquence.<sup>132</sup>

Il est évident qu'au début du troisième millénaire, les problèmes visant la protection de l'environnement se distingueront considérablement de ceux du début des années '90. Les mesures de protection de l'environnement prises jusqu'à présent dans les pays développés n'ont pas pu empêcher l'apparition par la suite de certains phénomènes extrêmement négatifs concernant l'environnement. Outre cela, cette nouvelle génération de problèmes concernant la protection de l'environnement nécessite une intervention rapide et urgente, comme par exemple, la pollution par des sources diffuses d'émission (la pollution de l'eau phréatique dans l'agriculture) ou les problèmes globaux (par exemple, "l'effet de serre").

La promulgation et l'introduction de la législation d'environnement par l'Union Européenne dans les pays membres et non seulement, a eu comme effet la réduction des émissions de SO<sub>2</sub>, NO<sub>x</sub>

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132 Constantinescu, N.N., Problèmes globaux de l'humanité dans la lumière du concept de développement économique, Ed. Politică, Bucarest, 1982.



dans l'air, du phosphore dans l'eau, en déterminant l'amélioration de la qualité de l'eau, de l'air et du sol. Malheureusement, ces réalisations sont loin de régler les problèmes générés par la pollution, dans les conditions où la population est exposée continuellement aux concentrations de substances nocives disposées dans l'eau, dans l'air, dans le sol.<sup>133</sup>

Les spécialistes d'environnement ont établi quels sont les **"problèmes clé"** de l'environnement (**tableau 1 – Les problèmes clé de l'environnement**). Malgré tous les progrès enregistrés, l'industrie manufacturière continue à avoir une contribution significative à la pollution de l'environnement. Le développement des activités dans le domaine des transports, l'utilisation des combustibles fossiles dans le secteur énergétique, la pratique d'une agriculture intensive à impact négatif sur l'eau et le sol, la non - implication des facteurs de décision, tout comme la non - éducation de la population dans l'esprit de la protection de l'environnement empêchent l'obtention d'effets positifs dans la conservation de l'environnement.

La protection et la conservation de l'environnement sont souvent associées à des coûts élevés et des pertes d'emploi. En réalité, ça c'est un faux problème, par contre, la protection de l'environnement et l'utilisation efficiente et rationnelle des ressources naturelles conduisent à la diminution des coûts, à la croissance de la compétitivité des produits et à la création de nouveaux emplois.

Tableau 1. Les problèmes clé de l'environnement

<i><b>Problèmes clé générés par les effets destructifs sur l'environnement</b></i>	<i><b>Les processus enregistrés au niveau de l'environnement dans les pays membres de l'UE</b></i>
Changements climatiques	☆
Acidification	○
Destruction de la couche d'ozone	☆
L'ozone troposphérique	☆
Les effets nocifs des substances	○
Les déchets	☆
La biodiversité	☆
Les eaux intérieures	○
L'environnement marin et de côte	☆
La dégradation du sol	☆
L'environnement urbain	○
Les risques naturels et technologiques	□

Source: Agence Européenne d'Environnement (www.eea.europe.eu)

#### **Légende:**

☆- développement et protection réduite de l'environnement au niveau des Etats où se manifeste ce phénomène;

○ - très peu de changements ou pas du tout;

□ - inexistence des mesures et des instruments de protection et conservation de l'environnement.

A présent, le but de la politique de l'Union Européenne est la "croissance économique" en même temps avec le maintien des emplois et d'un environnement sain et propre. Cela peut se réaliser par la mise en place des stratégies et des politiques économiques, de la législation d'environnement par l'information, l'éducation et l'instruction de la population, par

133 www.eea.europe.eu.

l'accordement de stimulants fiscaux et par la pratique d'une politique active dans le domaine du marché du travail. Le succès de la réalisation de l'*intégration environnement - emplois* se réalisera si tous les facteurs impliqués, voire l'autorité publique, les organisations non - gouvernementales et financières, les syndicats, les secteurs de recherche, l'industrie, les transports, l'agriculture, la population sont préparés à coopérer et, ainsi, à apporter une contribution à la réalisation de ce but.

Dans ce sens, c'est la *Commission Européenne* qui a un rôle important, tout en créant le cadre nécessaire pour le soutien de chaque action qui se déroule au niveau local, national et régional, en assurant la manifestation des initiatives politiques nécessaires, voire:<sup>134</sup>

- *application de la législation d'environnement* dans des zones aux eaux polluées, dans des zones où il y a de grandes quantités de déchets industriels et ménagers;

- la mise en place de la législation d'environnement doit se réaliser en même temps avec une infusion importante d'*investissements de capital et avec la création de nouveaux emplois*;

- l'assurance des ressources financières nécessaires pour l'*élaboration de programmes et projets qui contribuent au développement économique, à la création de nouveaux emplois*, en s'assurant ainsi un développement durable.

La politique écologique au niveau de l'UE a parcouru de nombreuses étapes, et malgré aux nombreuses pièges issues interposées dans son développement, a enregistré des progrès significatifs.

Pour l'avenir, on envisage l'intégration des considérations écologiques dans les priorités politiques et économiques au niveau régional. Une partie des difficultés peut être dépassée par l'activité de la Commission, alors que d'autres nécessiteront une collaboration soutenue entre les parties impliquées. Les plus grandes difficultés sont liées à la réticence des pays membres de se subordonner aux agences sur - nationales ou de faire des compromis en matière de politiques économiques. La difficulté de l'UE dans la mise en place des politiques écologiques symbolise les forces conflictuelles et les contradictions qui ont caractérisé cette organisation dès ses débuts. Celle-ci inclut la nécessité de l'unité en diversité des priorités nationales et les impératifs sur - nationaux et la distribution du pouvoir entre les différentes organisations et niveau de gouvernance. En dépit de tout ça, l'UE enregistre des progrès dans la solution de ces problèmes.<sup>135</sup>

Dans le cadre de l'UE, plus de 5,8 millions d'hectares sont cultivés avec des produits écologiques, en existant enregistrés 140.000 fermes écologiques, ce qui représente un pourcentage de 3,4 % de la totalité de la surface agricole. Dans la plupart des pays européens et spécialement dans les pays de l'Union Européenne, les fermes écologiques déroulent leur activité par le biais d'un système d'inspection et certification bien défini. En général, il n'y a pas de statistiques précises concernant le volume de la demande de produits agroalimentaires écologiques. Les chiffres présentés portent sur l'ensemble de ces produits, sans faire des différences sur des catégories ou types. Mais, en réalité, la demande totale est bien plus grande, le nombre des consommateurs potentiels étant bien plus grand que celui des consommateurs effectifs, tel qu'il résulte de nombreuses études réalisées sur ce thème.

En partant des aspects mentionnés ci-dessus, les producteurs et les distributeurs cherchent de diverses *solutions pour réussir l'extension de ces marchés*, entre lesquels on remarque: la présence des produits dans les grandes chaînes de distribution de détail; la constance de l'offre; des prix compétitifs; l'information des consommateurs pour ce qui est des bénéfices de la consommation de ces produits; la mercatique efficace des produits, qui ne créent pas de confusion au sein des consommateurs mais, par contre, les aider à choisir les produits.

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134 <http://ec.europa.eu>.

135 Bran, F.; Ioan, I., Ecosphère et politiques écologiques, Ed. ASE, Bucarest, 2001, p. 179.

En données concrètes, *l'évolution des surfaces destinées à la culture des produits écologiques et du nombre de fermes certifiées écologiquement au niveau de l'Union Européenne* à la fin de 2005 se présente ainsi (tableau 2):

**Tableau 2. Evolution des surfaces destinées à la culture des produits écologiques et au nombre de fermes écologiques dans le cadre de l'UE**

Pays	Surface cultivée écologiquement (ha)	% par rapport à la surface agricole totale	Nombre des fermes écologiques	% par rapport au nombre total des fermes agricoles
Autriche	359,076	14,09%	20,310	11,49%
Belgique	22,994	1,65%	720	1,30%
Chypre	1,698	1,18%	225	0,00%
République de Tchéquie	254,982	5,97%	829	2,18%
Danemark	150,482	5,59%	2,892	5,02%
Estonie	58,000	6,52%	1,013	2,50%
Finlande	147,588	6,66%	4,359	5,35%
France	560,838	1,89%	11,402	1,76%
Allemagne	807,406	4,76%	17,020	4,05%
Grèce	288,486	3,15%	8,427	0,71%
Irlande	35,266	0,81%	978	0,65%
Italie	1,067,102	6,96%	44,733	2,08%
Lettonie	104,235	4,20%	2,873	0,00%
Lituanie	64,545	1,86%	1,811	2,70%
Luxembourg	3,231	2,54%	72	2,44%
Malte	13	0,13%	5	0,00%
Pays-Bas	48,765	2,52%	1,377	1,31%
Pologne	167,740	0,99%	7,183	0,38%
Portugal	233,458	6,12%	1,577	0,36%
Slovaquie	93,943	4,19%	195	2,59%
Slovénie	23,499	4,64%	1,742	2,24%
Espagne	807,569	3,16%	15,693	1,37%
Suède	200,010	6,58%	2,951	3,67%
Grande Bretagne	619,852	3,94%	4,285	1,82%

Source : Institut de Recherche pour l'Agriculture Ecologique – FiBL Suisse 2006

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## THE M-COMMERCE – A CATALYST FOR THE DEVELOPMENT AND INTEGRATION OF ROMANIA

### **Bob Constantin**

*Academy of Economic Studies Bucharest Faculty of Commerce 6, Romana Square, 1st district, Bucharest, postal code: 010374, postal office 22, Romania Phone: +04 0213191996 E-mail: constantinbob@com.ase.ro*

### **Grigorescu Dan-Razvan**

*Academy of Economic Studies, Bucharest, Romania Faculty of Commerce 6, Romana Square, 1st district, Bucharest, postal code: 010374, postal office 22, Romania Phone: +0722858046 E-mail: dangr31@hotmail.com*

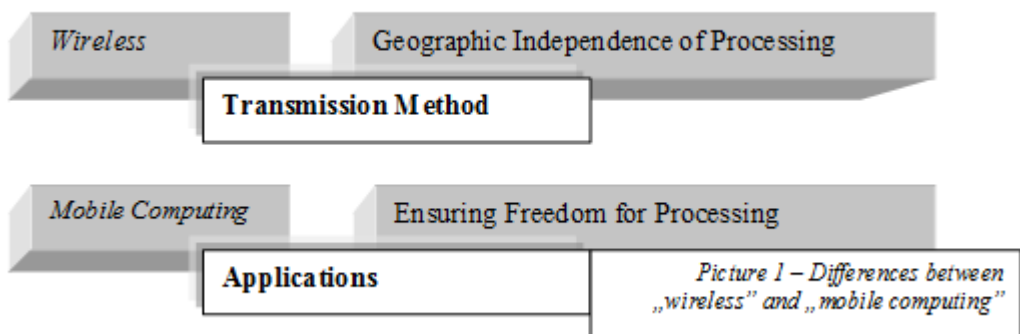
*The mobile environment is very complex: there are several ways for the construction/ development of a wireless network, each approach requiring specific applications. Effective use of mobility involves simultaneous coverage of the real-time functionality plus an efficient "store-and-forward" system for transactions and queries/filters. There is lots of information to absorb. Globalization and tough competition require products and services developed at high-level standards on international markets. E-Commerce and M-Commerce operations can be complementary to traditional commercial activities. Certain industrial sectors are more suited to E/M-Commerce processes and naturally they are in a more advanced stage of development. The global evolution and market integration, compulsory requires that Romanian business media and public politics to follow the trends.*

*Keywords: E-Commerce, M-Commerce, complexity, integration, business development*

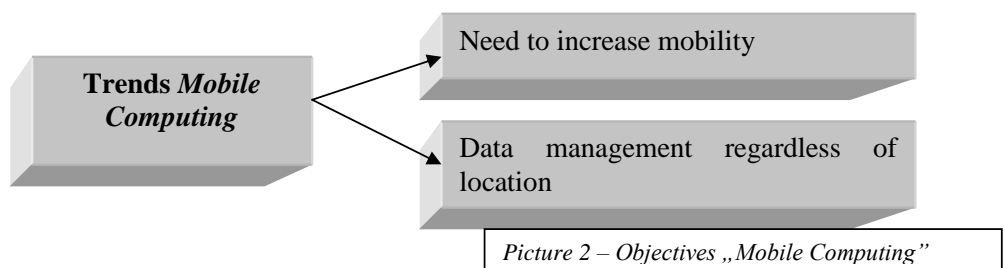
*Jel Classification: M1(M10, M15), M2(M20), O3(O33)*

Services for mobile users have grown rapidly and have contributed to changing the nature and purpose of communications. A main element of a "*Mobile Computing*" (teleprocessing system – wireless, ubiquitous, nomad) environment is the fact that the user is no longer required to adopt a stationary position in the network (access to personal/business information being granted to people moving into a various area). In general, the terms "*wireless*" and "*mobile*" are not synonymous. *Wireless* covers the method of transmission. The expanding area of cellular capabilities facilitates the development of integrated networks. The purpose for "*wireless*" becomes the geographic independence of processing. On certain market segments, wireless communications have registered significant progressions, thus stimulating developments in related fields (technical, regulatory, security, legal, business models).

The term "*Mobile Computing*" is focused on applications; it describes the ability to provide electronic data processing, regardless of the location of the user. Transfer options for "*Mobile Computing*" include a number of environments: infrared, cellular, compressed radio transmissions, microwave, satellite services. The goal for "*Mobile Computing*" is to provide freedom/autonomy in processing, users being able to connect to the network anywhere and at any time (picture 1).



Mobile users can be both consumers and providers of data<sup>136</sup>. For example, the employee in the field can start a business-related activity by acquiring and forwarding orders from customers. The operation of the kind meets important business requirements: scaling down the manufacturing cycle, as well as increased flexibility in relation to the consumer. A relevant candidate for "Mobile Computing" conducts activities/businesses involving steps like: (frequent) transmission / reception of messages (E-mail) while travelling; (plentiful) checking / updating of information; real time access to company's software / databases. Each activity creates specific requirements in terms of technology, equipment and software. The mobile environment is very complex: there are several ways for the construction/development of a wireless network, each approach requiring specific applications. Some configurations can be designed more for "messaging" than to support heavy-duty file transfers. In other cases, it is not intended for the wireless network to allow the conclusion of certain types of business. "Mobile Computing" requires new methods for network/information management based on (at least) two visible trends: the need to increase mobility, the possibility of a data management independently of location<sup>137</sup> (picture 2).



Mobility and portability create new markets and applications, combining the users of technology with "personal computing" capabilities. Vertical-type and niche "mobile computing" applications are already present - monitoring supply chains / distribution routes, points of retail. For mobile users there are also common applications E-mail oriented and information / data processing services. Network managers must evaluate technological alternatives (equipment / wireless services) depending on the profile of the target company. Users should have the freedom to

136 Amy J.C. Trappey, Charles V. Trappey, Felix T.L. Lin, Automated silicon intellectual property trade using mobile agent technology; Robotics and Computer-Integrated Manufacturing; Volume 22, July 2006  
 137 Augst, S.G.; Wilson, D.T., A primer for navigating the shoals of applying wireless technology to marketing problems. 2005; Journal of Business & Industrial Marketing

access people and information in accordance with the job requirements (by default, with the objectives of the company). In general, wireless systems are based either on radio waves (terrestrial or satellite) or on optical communications (infrared). The multitudes of mobile devices - with increasing performances - lead to a growing market of mobile communications, as well as to an enhanced commerce.

The Internet revolution has brought forward two major players: North America (USA) and Europe. Throughout the process, the U.S. showed readiness (speed) in adopting new rules and Internet technologies, while in some areas, the approach of (Western) Europe has been relatively conservative (limited to adopting US innovations). Mobile commerce is a chapter where the two players are close in terms of competitiveness. Europe has adopted a harmonised standard for digital mobile communications<sup>138</sup>, working as true also for the phone generations<sup>139</sup>. A single standard encourages mobile telecommunications (one can receive / make calls / data transfers in any European country), creating economies of scale for operators and service providers (who can sell products to a more numerous population)<sup>140</sup>. The result of this policy was the rapid development of mobile technologies.

WiMAX<sup>141</sup> success, especially in areas where other broadband Internet options are already implemented, will (largely) depend on the creation of new categories of services – custom-made access to broadband ("personal broadband"). Personalized access to broadband will not be restricted by geographical location (it will always accompany the user; the performances will be maintained, regardless of location). No restrictions to Internet services and sites visited by users will be engaged and it will be sufficiently "intelligent" to be "aware" of the location and the context/framework in which a user accesses a network and its applications<sup>142</sup>.

A greater dissemination of residential networks, an increased appreciation for mobile communications and for all types of digital content (voice, data, music, video) are elements contributing to increased demand for broadband connections. Companies take into account the portfolio of solutions for broadband access that provides mobility without interruption. In the future, the attempt to define categories on communications (voice, data, fixed, mobile) will disappear, and users will focus on technologies that offer the best opportunities to meet needs. Mobile broadband access will connect various areas, becoming more reliable and more affordable for ordinary consumers.

Be it the *triple play* (Internet access at high speed, television and telephone services), mobile VoIP services, mobile TV services<sup>143</sup> or converged fixed-mobile services, applications are becoming the main elements for the business models of service providers. Increasing need for high-speed connections and improvements in the quality of services (QoS / Quality of Service) constitute a good opportunity for WiMAX. Suppliers are trying to launch revenue generating

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138 GSM/Global System for Mobile Communication

139 (standard) UMTS (Universal Mobile Telecommunications System; allows high speeds data transmission, a wide range of multimedia services)

140 Balasubramanian, S.; Peterson, R.A.; Järvenpää, S.L., Exploring the implications of m-commerce for markets and marketing. 2002; Journal of the Academy of Marketing Science

141 WiMAX Forum (Worldwide Interoperability for Microwave Access) describes the broadband wireless Internet access technology as an alternative to the classical systems by cable or DSL

142 Kauffman, R.J., Techatassanasoontorn, A.A., Does one standard promote faster growth? An econometric analysis of the international diffusion of wireless technology

143 expenditures in television services on mobile phone will exceed 6.6 billion USD, at international level, until 2012 (study conducted by Juniper Research and quoted by Mediabuyerplanner.com). According to the study, in 2012, television services on mobile phone might reach almost 120 million customers in over 40 countries. Advertising will be part of the income related to television services on mobile phone. It is estimated that the largest percentage of revenues for such services will come from subscriptions and "pay-per-view" facilities. The largest markets for television services on mobile phone will be, according to the study, U.S., Japan and Italy

services that will differentiate them from other competitors. If the satellite and cable TV operators can use the existing networks, the new entrants must find an effective way to consumers. A quick and economically viable way to become supplier of *triple play* services is the adoption of WiMAX, which allows an operator to provide, in reality, *quad play* (because any service provided can be fixed or mobile). A CATV operator can diversify his offer with the help of WiMAX, by adding high-speed Internet or VoIP telephony. Instead of these applications to be stationary (available only in certain locations), WiMAX allows the operator to make the services available to subscribers, regardless of their location (picture 3).

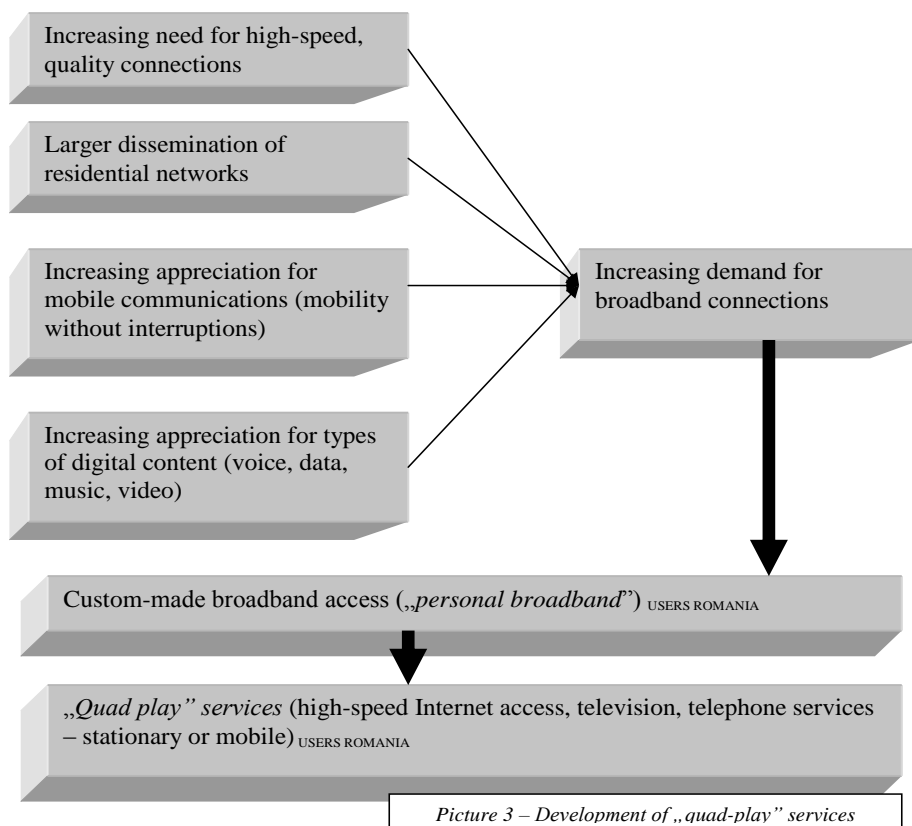
By using more frequent cellular services an already limited spectrum becomes crowded. Over-population may cause losses in quality due to calls blocked / lost, "cross talk" effects (unwelcome insertions during calls). The process of maximizing the use of the spectrum involves (among others): the creation of new services, reducing operating costs, e-commerce applications close to market evolutions. A solution may also be developing services for personal communications.

By building a wireless infrastructure, the mobile environment provides applications and services necessary to the user. Two important features also appear: remote communications and remote data access<sup>144</sup>. Typically, real time communication systems required people to manage their activities around a pre-determined area (office, warehouse, point of sale etc.). By eliminating the space constraints, people can become more efficient, more creative, more flexible (qualities essential in the process of acquiring a competitive advantage). Using laptops (PDAs) in critical applications - sales automation, distribution, customer service - becomes a typical practice.

Wireless systems allow businesses to operate in real time, integrating mobile users into corporate information systems. Applications require independence from infrastructure and flexibility to support various communication protocols. Effective use of mobility involves simultaneous coverage of the real-time functionality plus an efficient "store-and-forward" system for transactions and queries/filters.

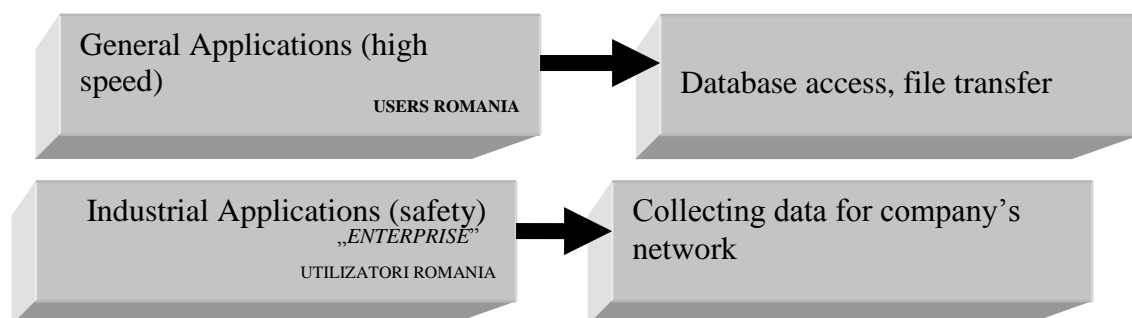
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144 Jiang-Liang Hou; Bird J. G. Chen, Mobile agent technology and application for online global logistic services; Industrial Management + Data Systems; 2004; ABI/INFORM Global



Picture 3 – Development of „quad-play“ services

To compensate signal problems, modem manufacturers take action to equip cellular networks with equipments using advanced protocols for error correction. Wireless modems have evolved – integrated transceiver/receiver, portable and compact data modem. There are at least two market segments for cellular modems: industrial applications (including areas related to retail, storage, production facilities; the systems, at reasonable speeds, are used in general for data collection, facilitating the connection of hand-held devices to the corporate network); general applications (for higher speeds; the users of mobile computing requiring connectivity/mobility within the LAN; are used for transmitting/receiving E-mail, access to databases, file transmission) (picture 4).



Picture 4 – Market segments for cellular modems

There are (still) a number of barriers with respect to widespread adoption of mobile commerce. Thus, business models for mobile commerce are still evolving. Security can be a problem, and

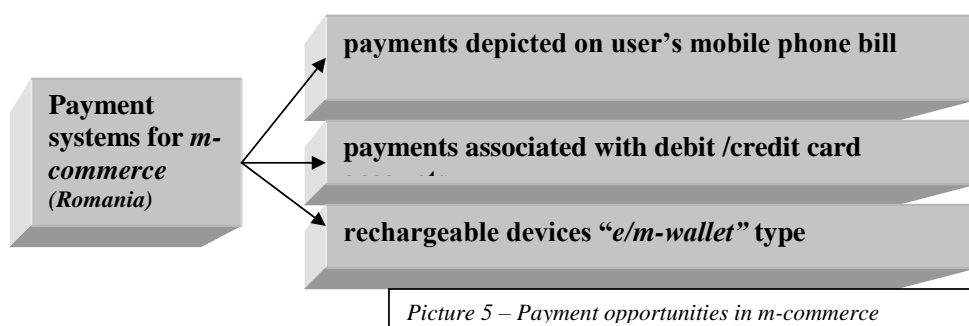


spam and unsolicited advertisements can create discontent. Legislation and regulations can play key-roles in the success of mobile commerce. Legislative developments should be adapted to the specific challenges of the mobile communications industry and to its unique needs. The lack of general standards affects the international expansion of mobile commerce. Sometimes, the lack of a global standard may seem useful: a focus on local needs will help (probably) technology to develop faster, but problems may occur with respect to *roaming* between different regions. Mobile commerce is developing at different speeds in different parts of the world (Japan and South Korea adopt new technologies on regular basis; mobile banking services can be popular in areas where conventional banking systems are not up to date).

In the context of mobile commerce, there is a wide variety of payment processes. In the case of telecom operators, the payment for mobile commerce services can be found on user's bill. Alternatively, payment may be made with a credit (debit) card, rechargeable devices such as "*e / m-wallet*" being also tested. For wireless access to services not provided by network operators, payments should be associated with accounts of debit/credit cards (picture 5). A main problem is authentication<sup>145</sup>. In order the mobile transaction to work, it should be easier to use and a more reliable method than cash payments<sup>146</sup>.

Mobile commerce security is a special problem, being subject of many technical and standardisation initiatives. The intention is to make mobile services - "*e-bill / e-wallet*" for online purchases - safer, more protected against viruses and software attacks. Platforms are built on strong security technologies, rigorously designed, spread over hardware and software architectures in order to define a trustworthy work environment, to protect the device / terminal during both booting and operations. Platforms take also corporate size. Mobile security is more than simply protection against new viruses and online attacks. It refers to protecting critical assets and information related to businesses.

The global and European environments represent real opportunities but they require an increase in competitiveness (from a local company). Entering new markets asks for a significant amount of flexibility and versatility in order to reach new targets of clients. Local companies will be able



Picture 5 – Payment opportunities in m-commerce

to involve themselves in international transactions pending their ability to rapidly integrate and to make use of modern technologies. Electronics and communication technology provide an opportunity for small and medium-sized enterprises to compete globally on international (and regional) markets as well as to look for global partners.

145 Ksi-opolski, Bogdan, Kotulski, Zbigniew, Adaptable security mechanism for dynamic environments, Computers & Security, Amsterdam: May 2007, Vol. 26, Iss. 3

146 Kohli, Rajiv; Susan A. Sherer; Ayelet Baron, Editorial--IT Investment Payoff in E-Business Environments: Research Issues; Information Systems Frontiers; Sep 2003; ABI/INFORM Global

E-Business can be a very rewarding venture, but it should not be undertaken lightly. There are lots of information to absorb. Globalization and tough competition require products and services developed at high-level standards on international markets. E-Commerce and M-Commerce operations can be complementary to traditional commercial activities (a company can use the Internet to sell “conventional” products, delivered by “conventional” means, due to a contact or contract run via the Net). In certain cases, M-Commerce and E-Commerce could encompass a distinct commercial undertaking when selling and delivering digital products over the Net. Certain industrial sectors are more suited to E/M-Commerce processes and naturally they are in a more advanced stage of development.

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# MILESTONES THEORETICAL AND CONCEPTUAL MIGRATION STUDY IN INTERNATIONAL

**Chipea Floare**

*University of Oradea Faculty of Socio-Human Sciences 5, University Street. fchipea@yahoo.com  
0722 560515*

*The article presents some theoretical benchmarks used in explaining the behaviors specific to the international migration, invoking the concepts, widely used in the analysis of the phenomenon: the migration flows, areas of origin and destination; differences in economic, cultural, social and symbolic capitals between the two areas in the production of migration; characteristics of the labor market segmented of the areas of destination; relative deprivation of households in the areas of origin, the constitution of a specific culture of migration, the role of migration networks and the institutions in autosupporting the process. It is emphasized the idea that a comprehensive theoretical model with high explanatory and predictive power is still only one goal.*

*Keywords: structural factors, social networks, transfer of capitals N0: General*

In this material we propose to present the main contributions to the theoretical guidance in this area only intended to indicate the main themes and concepts of specialized language for the use in any possible concrete approach. Therefore, our intention is not to make a critical and evaluative presentation of the theories of migration. The lines of analysis presented are selected from a work which became famous in the area,<sup>147</sup> confronted and completed by national contributions, which will be listed on the mileage. It is specified in this context that the specialized literature is so rich in approaches of explaining the behavior of spatial migration of individuals that there were more attempts typologization of theories, a kind of "metatheories" in the field. If we only take into question the perspectives of sociology and economy, we believe that the most appropriate classification of the theories of migration is the one that distinguishes between approaches of level macro mező and migrosocial, including those which take into analysis the structural factors, social networks and institutions and the elements of social capital, culture of migration.

## **The Theory of Neoclassical Economy**

It was one of the dominant theoretical construction in the field of migration during the 60s-70s, being built around the question why? The specific theory is the favouring of the role of economic factors in explaining the migration flows (at the macro level) and also in explaining the individual decision to migrate ( the micro level).

The explanation of the migration flows<sup>148</sup> in the case of this theory takes into account the differences emerged between the demand and the supply of labor, reflected in the difference between the level of wages. In countries and geographical areas characterized by a relative poverty of capital, including the low demand of labor in comparison with the offer, the salary will be decreased compared with that in the countries or areas where the situation is reverse. In these circumstances, labor will take advantage of its mobile character and it will move to areas where to maximize the economic profit. The same logic determines the migration of highly skilled professionals to countries rich in capital, they aimed to maximize the reward from investment in human capital in a poor country. In the outlook of the supporters of this theory, the international

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147 Massey and others, 1998, *Worlds in motion. Understanding international migration to the end of the millennium*, Oxford: Clarendon Press.

148 Arango, Joaquim, 2000, *Explaining migration: a critical view*, *International Social Science Journal*, p.284.

migration flows become balancing mechanisms of the internal weaknesses on the labor market at the global level. Thus, in time, the pressure between the two antagonistic movements (population-capital-population) determined trends of reducing wages in the rich country and a growth in the poor one, which would entail the reducing of economic disparities. The attenuation of the differences between wages will determine, ultimately, the reduction of migratory flows, to a stop. The explanatory model based on a hypothetical presupposition of the unbundled access to information and of the absolute freedom of movement of labor, leaving out the aspects of the economic, cultural or political context of migration. In terms of individual motivation (micro analysis), neoclassical theory holds that the decision to migrate is a rational kind, the individual, calculates and evaluates the monetary benefits of this action and respectively the wage gains, to obtain an acceptable job at the destination, plus benefits and quality of environment (natural, cultural and social) and also the structure of opportunities that the migrant will have access through the migration, comparing them with those they would obtain if the property remained immobile in the country home. In the same time the individual takes into account individual travel costs, materialized in the cost of travel, the survival in the country of destination until finding a job, the difficulty of adapting to a new job to a new market of labor and the effort to learn a new language and to adapt to a new culture, the psychological cost of the disruption of the old relationships and establish new ones, and the losses suffered by the household, with the departure of the migrant. The decision to migrate is positive if the result of the calculation performed by an individual is positive and will be oriented to the destination which will offer the greatest reward in relation to individual skills. The migration becomes – considers Arango – a form of investment in the human capital.<sup>149</sup>

### **The new economy of migration**

Firstly, the new theory of migration concerns the individual and his intention to migrate, in the broader context, taking account his family, its position in the social structure and of the community prestige. Thus the families or households decide upon the migration of some members adopting strategies to minimize the risk at home, concerning the loss of income, unemployment or inflation, by diversifying sources of income, primarily with the raising of money sent home by migrants. Secondly, the new theory introduced in the explanation of the decision to migrate not only the difference in wages between the country of origin and the country of destination through the reporting of the income to the household income distribution in the community of origin by introducing the concept of relative deprivation. As a result of migration in the communities of origin imbalances occur between families with migrants, who have the additional resources generated by remittance of money from abroad, compared with non-migrant families who can not cope with continuous growth of prices and other economic factors. Therefore the factor that triggers migration consists of the position that a household occupies in terms of income in the community of origin and not of the absolute income of the household. Thus one of the important consequences of the phenomenon of migration at EU level is to increase the likelihood of migration in the households without migrants, as a result of rearranging positions in the distribution of income and relative amplification deprivation..

### **The (dual) segmented labor market**

The theory introduces in the analysis a new concept, namely that of labor market for dual employment, which includes a primary sector, consisting of jobs and good working conditions, generous benefits and the possibility of upward mobility and a desirable secondary sector, with low-skilled jobs and unstable conditions of heavy or dangerous work and poor opportunities for upward mobility. Local workers avoid the jobs in the secondary sector because of the drawbacks

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149 Idem, p.285.

mentioned, mainly low wages, preferring unemployment. Transforming secondary sector in one attractive for the local employment, by increasing wages is not an adequate solution whereas it would entail an increase in salary range in other areas, which would generate structural inflation. If previously, the demand for skilled labor in the secondary sector was satisfied by the female labor force, adolescent employment and the population from the rural areas, social and demographic changes in these specific categories of people have reduced the potential for their employment in jobs with bad payment, unqualified and unstable. In these circumstances the immigrants become the most attractive labor force from the perspective of the employer, who no longer need to choose the strategy of increasing earnings, with negative consequences for inflation. On the other hand, the employment situation in the secondary sector of the country of destination is acceptable from the perspective of migrants. No matter how small the wages would be in this sector there are higher than in the country of origin. Also, at least initially the migrant is not put in a position to integrate into the culture of destination, and social prestige associated with employment place is not affected because it is identified with that obtained in the country of origin.

The theory was centered on what happens in the country of destination, clarifying to some extent, why this employment outside is accepted while developed economies are faced with unemployment spectrum, but are reproached that leave out many processes, relations that accompany migration. And in this context it highlights the relevance of observations made by Arango <sup>150</sup>, "... a theory which states that international migration is driven by demand and excludes all the factors of" push "can not aspire to explain only a part of reality"

The development of ethnic communities of migrants and the studies that have been devoted them led to identification of a third segment of the labor market: ethnic enclave (economic), companies associated with the property of the immigrants"<sup>151</sup>.

According to the above theory, the particularity of the enclave lies in combining the characteristics of primary and secondary sector, which creates new opportunities for the mobility for immigrants and the possibility of using of a previous investment in the human capital features present in the primary sector but absent in the secondary. The studies of the authors recalled have shown that the immigrant community development are needed at least two conditions:" the presence of immigrants with sufficient capital and entrepreneurial skills "and "renewing the labor force of the enclave through sustained immigration"<sup>152</sup> ".

### **The historical structural tradition (dependency theory and the world system theory)**

Dependency theory provides a macrostructural perspective, centered around the idea that capitalist development gave rise to a global order characterized by the existence of a center, characterized by industrialized countries which develop asymmetric relations with less developed countries, which represents the periphery, and which are required a structural dependence of the center. From the perspective of this theory, migration, including international one does not represent only one of the mechanisms contributing to the perpetuation of capitalist order which leads to greater impoverishment of the underdeveloped areas. Its role consists in highlighting the structural mechanisms in explaining migration as a counterweight to psychologizante theories, focusing on individual factors, derived from neoclassical theory.

The world wide system theory develops the idea of global world order promoted by the dependency theory. The most representative exponent, Immanuel Wallerstein conducts a comprehensive analysis of the occurrence of a "world system" and of way of the gradual

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150 Arango, Joaquim op. cit., p. 290.

151 Portes, A., Wilson, K., 1996, Immigrant enclaves: An analysis of the labor market experiences of Cubans in Miami. in Robin Cohen (ed) "The sociology of Migration, Brookfield, Vermont, U.S.: Edward Elgar Publishing Company Gurak, Douglas, p. 315.

152 Idem, p.314.

incorporation in new states order, discussing the existence of three concentric zones: center, consisting of dominant powers; semiperiphery and periphery, each having distinct roles in the international division of labor. Key concepts in the world system theory are the role (which relates to structure the relationship of a country with the rest of the world countries and the international division of labor.) the dependence and the vulnerability of the country fluctuation in the world, and both are presumed to have effects on performance and the degree of economic development. The basic idea is that the dominance of the developed countries of the capitalist center of the world, which strengthens its position through penetration of underdeveloped areas in searching of resources of raw materials, cheap labor and new outlets. In terms of migration, the main effect is the emergence of a class of individuals stemming from the traditional community and migrates more conveniently to more propitious areas or to urban areas (in the first phase) or to countries from the center of the world economy. The factors leading to the emergence of this category of persons are: modernization of agriculture activities which entail reducing the need for employment and, implicitly, the creation of surplus of labor in rural areas, the development of extractive industry of raw materials which attract mainly the local employment from rural areas, such taking them from their traditional environment, the insurance policies of labor practiced by foreign firms, by the international corporations to provide low wages, for small periods of time, especially with female labor.

### **The theory of migration networks**

The interest in networks of migrants occurred in particularly at the end of last century and to overcome the theoretical reduction perspective concerning a kinship networks, those based on common origin and their role, including the atomized migrant torn from the context and the environment of origin. The empirical evidence of kinship networks those based on the common origin and its role including the integration of individuals in the new environment of destination, while maintaining them at the same time in relation with the old environment the extent of the clandestine forms of migration, the importance of family reunification as the inability of the political factors to control the migration flows have brought to the fore the theme of migrant networks<sup>153</sup>.

The theory of migrants network is trying to integrate disparate elements into a unitary construction, based on the centrality of networks in explanation and on highlighting the dynamic and cumulative migration features. The perspective proposed is one of the interconnected areas: the area of origin considered as community and area of destination, addressed the ethnic immigrant community. The role of social and symbolic relations of the community of origin is the fact that these links are established, it provides information about the possibility of emigration for potential migrants, the support arrangements for finding the most reliable and cheapest arrangements to overcome the prohibition of entry into the country of destination, support in finding a job and housing and providing livelihoods for a period of starting searches, insurance and social emotional support. Once maturing the migration networks increase the accessibility of the migration strategy, reducing the selectivity phenomenon. The inclusion of each new individual network entails the possibility of extending the phenomenon, broadening the circle of those who have access to the network resources, increasing them at the same time. The process is thus viewed from a dynamic perspective going to a moment of its development which can exist independently of factors which have generated it, being able to autosupport itself, having certain characteristics and mechanisms of the constituent networks<sup>154</sup>. In this sense, the empirical

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153 Gurak, Douglas, Caces, Fe., 1992, Migration Networks and the Shaping of Migration systems. În Kritz. M., Lim, L., Zlotnik, H., (eds.), „International migration systems – a global approach”, Oxford; Clarendon Press, pp. 153 – 154.

154 Guilmoto, CZ, Sandron, F., 2001, The Dynamics of Internal Migration Networks in Developing Countries, "Population: An English Selection, 13 (2), pp.135-164.

research (including Romania) have stressed the important role of family relations, friends, acquaintances in facilitating access to the destination area.

### **The institutional approach**

The theory is centered on the study of institutions that develop in the process of migration, institutions with a unique specificity. The institutions are considered very heterogeneous, ranging from agents and companies, individuals, state institutions involved in the process of migration, regardless of their legal character and to voluntary organizations involved in this process. The agents analyzed, are those who speculating the economic opportunities offered by the difference between the large number of individuals wishing to emigrate and restrictions on entry, of employment, residence or legalization of the situation in the most developed countries deal with the facilitation of entry, transport, finding a job, housing, etc. to obtain documents. In the country of destination on the other hand, voluntary organizations providing support to migrants, fighting for their rights in certain cases, providing them with material and legal aid etc<sup>155</sup>. Therefore, this approach is closely related to the other and, in particular to the theory of migrant networks, deepening the formal and informal ways to support realization of migration flows, contributing to autosupporting phenomenon to a certain stage.

### **Migration approach from the perspective of social capital**

In 1987, in an analysis of Mexican migration to the U.S., conducted by Douglas Massey and his collaborators introduced the concept of networks of migrants in terms of social capital, thus opening a new line theory, the inclusion of migration networks in the sociological concept of social capital (understood as social relationships based on trust, solidarity and reciprocity)<sup>156</sup>. The theory uses a dynamic perspective on the migration analyzing the benefit of international migration when the migration networks have developed, contributing to increased profits by reducing costs and risks associated with the process, including increasing the likelihood of future occurrence of this phenomenon, through attracting potential migrants. Moreover, Massey and his collaborators have tried to unite the perspective of migrant networks and the institutional perspective in social capital theory, considering that in time individuals business and organisations become better known and institutionally stable to immigrants, constituting another form of social capital, that migrants can rely for access to foreign markets for labor.

### **The systemic approach**

The systemic perspective of trying to capture the dynamic nature of migration, integrating aspects involved in this process, both in the area of origin and destination based on the idea that international migration can be understood by migration flows, between a group of countries that exchange a relatively large number of migrants between them.

The intention of the approach is to overtake the complexity of the phenomenon by including in the analysis the factors that intervene at different levels: macro, meso, and even if to a lesser extent, micro, actioning in different contexts: economic, political, social, demographic from a temporal perspective, taking into account the historical elements and the process that changes in the course.

### **Conclusions**

We believe that from the presentation of the main theoretical orientations in explaining the migration of labor several general considerations can be stated:

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155 Massey and others, 1998, op.cit., p.44.

156 Massey and others, 1987, Return to Aztlan. The social process of international migration from Western Mexico. Berkley and Los Angeles: University of California Press, p.170.

As emerges from an overview on the main approach, the individual decision to emigrate or to remain immobile is more complex, being taken in the context of different cultural, historical, political, community elements that can not be excluded from the analysis.

Migration theories are based on socio-structural ideas that start from the macro level (citing factors related to economic structure, wage differentials and differences in demand for labor), then being completed at mező by intermediate elements, the type of migration networks and most recently, the social and symbolic resources (capital). "In any case in the research of migration the missing link between systemic perspectives, usually macrostructure and medium theories (mező), is focused on social integration"<sup>157</sup>. Looking upon very profound issues of the relative immobility in the context of globalization, Thomas Faist suggests that none of the migration theories, taken separately has no explanatory power on the concrete migration behaviors. Moreover, stakeholders in the analysis are consistent with others, who in many cases, in relatively similar contexts in the same structural restrictions induce certain individuals (from specific local resources, continuing with the regional and national individuals, who can not be transferred across borders at the pleasure reach and up to protectionist policies of some countries of destination) resulting in immobility. There are also additional factors, such as a lack of international labor power and the lack of implementation of international agreements on protection of migrants.

The factors which generates border migration may act in opposite directions, combining the different ways and generating specific effects depending on the local contexts in which they are produced, being driven by international policies.

International migration, seen as a constant history of social life, which acquires new dimensions and structures in contemporary society is a very complex phenomenon, conditioned by multiple factors, which are at multinivelar level. On the other hand, obvious attempts to build theoretical models of highly comprehensive, with an increased degree of generality and predictability didn't have the expected effects. The solution, we believe is the coverage of the study of particular phenomena, recorded in cultural, political, social distinct contexts, with the intention of studying the multiple levels, the effects on areas of destination, but also of those of origin detecting the ways of combining the specific factors to each particular context.

Therefore, we consider that, although taken separately, none of the theories described has a complete explanation value from which can be ideas, concepts and perspectives can be taken as hypotheses to be tested in concrete contexts.

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# THE CROSS-BORDER COOPERATION EXPERIENCE BETWEEN ROMANIAN AND HUNGARIAN ECONOMISTS. THE IMPACT OVER THE DEVELOPMENT OF BIHOR HAJDÚ-BIHAR EUROREGION

**Dodescu Anca**

*adodescu@uoradea.ro, University of Oradea, Faculty of Economic Sciences*

**Chirilă Lavinia**

*lcipleu@agerbihor.ro, University of Oradea, Faculty of Economic Sciences*

*This paper analyzes the particular situation of the economists from Bihor and Hajdú-Bihar County who are members of different professional organizations and who play an active role in raising the grade of structural funds absorption in the general context of the changes determined by the country's joining the European Union as well as in the particular context of the Bihor - Hajdú-Bihar euroregion, a context which, by means of cross-border exchange, have the great facility to transfer the knowledge between the Romanian and Hungarian economists and share both experience and problems encountered in the profession exercise, aspect that brings direct benefits for the development of Bihor - Hajdú-Bihar euroregion, empowering the occupation of economist.*

*Key words: economist occupation, cross-border cooperation, regional development, euroregion*

## Introduction

One of the European Union's great missions is to reduce disparities between euroregions. This purpose requires a cohesion policy promoting constant improvements in competitiveness and employment. By stimulating cross-border cooperation, it helps regions that are less prosperous or are suffering from structural problems to improve competitiveness and to achieve a faster rate of economic development in a sustainable way<sup>158</sup>. In order to accomplish this European Commission introduced the INTERREG programme that is designed to strengthen economic and social cohesion throughout EU, by fostering the balanced development of the continent through cross-border, transnational and interregional cooperation.

The present research will focus on Interreg III, which is a Community initiative that aims to stimulate interregional cooperation in the EU from 2000 to 2006. It is financed under the European Regional Development Fund (ERDF). The strands A, B and C of this initiative support cross-border, transnational and interregional cooperation to encourage an harmonious and balanced development of the European territory for which more than EUR 6 billion were available between 2000 and 2006. The guidelines for 2000-2006 take into account the experiences gained during the period 1994-1999 and they aim to reinforce these results by ensuring that the regions and territories concerned co-ordinate their efforts and co-operate in an effective manner. They must also implement their strategies and common programmes, as well as put into action their common administrative structures to ensure the development of the programmes, their co-ordination, and the selection of projects, the management and the monitoring of the programme implementation<sup>159</sup>.

This paper analyzes the particular situation of the economists from Bihor and Hajdú-Bihar County who are members of different professional organizations and who play an active role in raising the grade of structural funds absorption in the general context of the changes determined by the country's joining the European Union as well as in the particular context of the Bihor - Hajdú-Bihar euroregion, a context which, by means of cross-border exchange, have the great facility to transfer the knowledge between the Romanian and Hungarian economists and share both experience and problems encountered in the profession exercise, aspect that brings direct

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158 [http://ec.europa.eu/dgs/regional\\_policy/index\\_en.htm](http://ec.europa.eu/dgs/regional_policy/index_en.htm)

159 Guidelines for the Community initiative INTERREG 2000-2006, [http://ec.europa.eu/regional\\_policy/sources/docoffic/official/guidelines/index\\_en.htm](http://ec.europa.eu/regional_policy/sources/docoffic/official/guidelines/index_en.htm)

benefits for the development of Bihor - Hajdú-Bihar euroregion, empowering the occupation of economist.

**The project: “THE COOPERATION OF THE ECONOMISTS FOR THE DEVELOPMENT OF THE BIHOR – HAJDÚ-BIHAR EUROREGION”, contract RO-2006/018-446.01.01.02.06, financed through the program PHARE CBC 2006/INTERREG IIIA Romania – Hungary.**

**The main objective** of the project entitled „*The cooperation of the economists for the development of the Bihor – Hajdú – Bihar euroregion*”, financed through the Phare CBC 2006 Programme, is the establishing of contacts and lengths between the economists from the border area, through the professional associations of economists, in order to involve them in the raising of structural funds absorption in the Bihor – Hajdú-Bihar euro region; as well as promoting the Romanian-Hungarian cooperation between institutions and local communities through the professional associations of economists from the border area, for equilibrate economic and social development of the entire area, with benefits for both Romania and Hungary. The objectives of the project include the unfolding of cross-border cooperation activities for the members of professional associations of the economists from the Hajdú-Bihar, Hungary, and Bihor County, Romania, to facilitate professional experience exchange; preparation for the members of the professional association of economists from Bihor County and Hajdú-Bihar County to become change factors in the institutions and community, in order to raise the absorption grade of structural funds in Bihor - Hajdú-Bihar euroregion; knowledge transfer from the Hungarian partners, of the experience that resulted from the post-admission integration process and accession of structural funds; institutions and communities support for regional development. Activities taken in this project have the purpose the visible active implication of economists in cross-border cooperation<sup>160</sup>.

The economists involved in the project are members of the General Association of Economists from Romania – Bihor branch (60 persons) and members of the General Association of the Economists from Hungary, Hajdú-Bihar county (15 persons); There are also analyzed **4 professional organizations** of accountants, auditors, assessors, fiscal consultants: CECAR, CAFR, ANEVAR, CCFR from Bihor County, Romania. There are also included institutions from the both counties Bihor and Hajdu-Bihar as follows: **10 institutions from Bihor County, Romania:** North – West Regional Development Agency – Bihor branch, The General Directorate of Public Finance Bihor, The House of Health Insurance Bihor, Court of Accounts Bihor, Chamber of Commerce and Industry Bihor, The Oradea City Hall, The Treasury of Oradea, The County Pension House Bihor, The Authority of Public Health Bihor, The Police Inspectorate Bihor and **3 institutions from Hajdú-Bihar County, Hungary:** Chamber of Commerce and Industry Hajdú-Bihar, The Debrecen Town Hall, The County Council of **Hajdú-Bihar**.

***Which are the main problems that economists from the Bihor – Hajdú-Bihar euroregion encounter?***

Even though it has been made progress, the integration and structural coherence of the border areas is still affected by serious deficiencies at the level of inter-institutional trans-border cooperation, of the forums organized to facilitate the approach between neighbor institutions and neighbor citizens, the objectives and measures followed in this project look to eliminate the constraints identified and consolidate institutional, economic and human relationships between the two border regions, through trans-border cooperation of professional associations of economists. At the meeting that took place in 2007 between the representatives of The General Associations of Economists From Romania, Bihor branch, and The General Association of the Economists

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160 Project financed through PHARE CBC 2006/ INTERREG IIIA Romania – Hungary, Ref. nr. RO-2006/018-446.01.01.02.06

from Hungary, Hajdú-Bihar county, it was identified the fact that the members of the two associations face similar problems: first of all, the problem of professional partition, towards which it was identified the need of some actions to strengthen the relationships with the professional organisations of accountants, auditors, assessors, fiscal consultants etc. and to define the common interests of the occupation of economist; secondly, the need of information and training in the field of project management for attracting structural funds, considering the belonging of the two countries at The European Union and the opportunities that come from this fact for the occupation of economist, the experience of the Hungarian homologues in accessing structural funds since Hungary is a European Union member being the object of an experience exchange in the present cross-border cooperation project, through which the problems identified can be solved<sup>161</sup>.

***The first study that was taken analyzes the similarities and differences between The General Association of Economists from Romania – Bihor branch and The General Association of Economists from Hungary – Hajdú -Bihar County:***

Similarities	Differences
<ul style="list-style-type: none"> <li>- both associations from Romania and Hungary where formed in order to defend and promote the occupation of economist;</li> <li>- the conditions that one has to accomplish to become a member of these two associations of economists from Romania and Hungary are the same: to have graduated from a higher economic education (BA degree, Master degree, Doctor degree);</li> <li>- the two Associations have approximately the same main objectives: <ul style="list-style-type: none"> <li>o raising the prestige of occupation of economist;</li> <li>o militates for professionalism and full civic responsibility of the members;</li> <li>o promotes economic research at a theoretic and applicative level;</li> </ul> </li> <li>- the two Associations have common actions foreseen in the Statute such as: <ul style="list-style-type: none"> <li>o organises conferences on major themes for the promotion of economic science and of the conclusions that come from it;</li> <li>o creates departments, groups, commissions in order to study and debate the economic, theoretical and practical economic problems.</li> </ul> </li> <li>- the economists who are members of the two Associations come from diverse institutions such as: Town Hall; County Council; Chamber of Commerce and Industry; The</li> </ul>	<ul style="list-style-type: none"> <li>- the Bihor branch of The General Association of Economists from Romania is a legal entity while the Hajdú-Bihar branch of The General Association of Economists from Hungary it is not a legal entity at it is represented as a legal entity only at national level;</li> <li>- the major difference identified is that the Hajdú-Bihar branch of The General Association of Economists from Hungary has a much more elementary hierarchic structure of administration compared to the Bihor branch of General Association of Economists from Romania who is organized very strictly with a Board Council, Special Commissions on different themes and a Censor Commission.</li> </ul>

161 Project financed through PHARE CBC 2006/ INTERREG IIIA Romania – Hungary, Ref. nr. RO-2006/018-446.01.01.02.06

General Directorate of Public Finance; The House of Health Insurance; Court of Accounts.	
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Table 1: The similarities and differences between The General Association of Economists from Romania – Bihor branch and The General Association of Economists from Hungary – Hajdú - Bihar County

*The second study that was taken analyzes the similarities and differences between The National Association of Assessors from Romania – Bihor branch and The National Association of Assessors from Hungary – Hajdú -Bihar County:*

Similarities	Differences
<ul style="list-style-type: none"> <li>- both associations from Romania and Hungary where formed in order to defend and promote the occupation of assessor and promote the methods and techniques specific of assessment;</li> <li>- the conditions that one has to accomplish to become a member of the association of assessors is to follow some training courses and promote an exam that gives him the right to exercise the occupation;</li> <li>- the members of the organisations are both obliged to attend courses in order to improve and up-date their knowledge.</li> </ul>	<ul style="list-style-type: none"> <li>- the Bihor branch of The National Association of Assessors from Romania – Bihor branch is a legal entity while and The National Association of Assessors from Hungary – Hajdú -Bihar County it is not a legal entity at it is represented as a legal entity only at national level;</li> <li>- the differences between the two branches come from the different legal organization of the associations – Hajdu-Bihar is represented only at national level and they have local offices that do not have the ability to make decisions for their own, while Bihor branch has its own president and organizational structure.</li> </ul>

Table 2: The similarities and differences between The National Association of Assessors from Romania – Bihor branch and The National Association of Assessors from Hungary – Hajdú - Bihar County

*The third study that was taken analyzes the similarities and differences between the Chamber of Financial Auditors from Romania and the Chamber of Financial Auditors from Hungary:*

Similarities	Differences
<ul style="list-style-type: none"> <li>- neither of the organisations of auditors has a local branch with legal entity, they are both submitted to the central authority;</li> <li>- both associations from Romania and Hungary where formed in order to defend and promote the occupation of assessor and promotes the methods and techniques specific of assessment;</li> </ul>	<ul style="list-style-type: none"> <li>- The accession to this occupation is more difficult in Hungary as the process lasts about 14 years until you become a auditor with full rights, and the most difficult part is that during the last phase of work experience that lasts for 3 years the candidate has to practice this occupation 36 h/week on the attentive supervision of an auditor without being paid.</li> </ul>

Table 3: The similarities and differences between the Chamber of Financial Auditors from Romania and the Chamber of Financial Auditors from Hungary

***The fourth study that was taken analyzes the similarities and differences between the Chambers of Fiscal Consultants from Romania and the Chambers of Fiscal Consultants from Hungary:***

Similarities	Differences
<ul style="list-style-type: none"> <li>- neither of the organisations of fiscal consultants has a local branch with legal entity, they are both submitted to the central authority;</li> <li>- the organisation militates for the high quality of the services offered by the financial consultants;</li> </ul>	<ul style="list-style-type: none"> <li>- in Romania, in order to become a financial consultant one needs to have graduated from university with economic profile, have a 5 years experience in the financial – fiscal field and promote an exam organised by the Chamber of Fiscal Consultants from Hungary;</li> </ul>

Table 4: The similarities and differences between the Chambers of Fiscal Consultants from Romania and the Chambers of Fiscal Consultants from Hungary.

***The fifth study analyzes the similarities and differences between The Body of Expert and Licensed Accountants of Romania – Bihor branch and The Body of Expert and Licensed Accountants of Hungary – Hajdú -Bihar branch:***

Similarities	Differences
<ul style="list-style-type: none"> <li>- the Associations have the same main objectives: the promotion and assurance of a professional and modern environment for the development of the occupation;</li> <li>- the qualification of authorised accountant can be obtained in approximately the same conditions both in Hungary and Romania: if he has medium studies and an experience of 3 years;</li> </ul>	<ul style="list-style-type: none"> <li>- The Corp of Expert Accountants and Authorized Accountants from Romania – Bihor branch is a legal entity with autonomy and hierarchical structure at local level while in Hajdú -Bihar the branch that works there depends totally on the central organism;</li> <li>- in Hungary it does not exist the title of expert accountant, they have only the authorized accountant;</li> <li>- in Romania the qualification of expert accountant can be obtained after graduating from University with economic profile, one has to pass an admission exam to do a 3 years stage and at the end if he passes the final exam he becomes an expert accountant.</li> </ul>

Table 5: The similarities and differences between The Body of Expert and Licensed Accountants of Romania – Bihor branch and The Body of Expert and Licensed Accountants of Hungary – Hajdú -Bihar branch

### ***Conclusions and Suggestions***

The analyzes that were taken together with „*The forum of the economists from the Bihor – Hajdú – Bihar euroregion*”, cross-border event organized as an activity of the project, show that there is a synchronization between the professional associations and organisms from Bihor County, Romania and Hajdú –Bihar County, Hungary and between the interests, proposal and scientific approaches of the economists from the two countries, and more specific from the Bihor - Hajdú - Bihar euroregion, towards the problems and aspects that economy faces nowadays.

As it can be seen in the studies that we developed the similitude between the professional organisms in the two countries are not few, and the most important difference encountered is regarding the fact that Hungarian professional organisms do not have local independence. This proves that Romanian and Hungarian economists might have free access on each other market, fact that would strengthen the regional development and the regional cohesion.

At „*The forum of the economists from the Bihor – Hajdú – Bihar euroregion*” it was identified as a major problem that concerns economists lately the global economic crises. The common current that is brought by the crises is the rediscovering of the road to labor, redefining the moral values of citizens and turning back to agriculture and tourism. The best solution at the moment for the two countries to attract foreign investment however is the absorption of structural funds.

The forum had the aim of bringing together economists from different institutions of the two counties to help them understand the process of writing a structural fund project. As a result of the debates were identified 12 new project ideas as follows: Summer school - gastronomic creation camp in the euroregion including regional specific meals; The road of the wine(Bihor – Hajdu-Bihar) on the Ieru valley; Identification of the finance needs in the Bihor – Hajdu-Bihar euroregion; Romanian – Hungarian information business center; Forming trans-border partnerships – Work experience for the economist students; Cooperation and experience exchange in the Bihor – Hajdu-Bihar euroregion; Centre for training sightsman in the Bihor – Hajdu-Bihar euroregion; Romanian and Hungarian students in practice stages in the field of tourism in the Bihor – Hajdu-Bihar euroregion; Study regarding the reasons of the delay of constructing the highway between Debrecen and Oradea; Combined tourism mountain (Padis) – spa (Hajduszoboslo); The knowing of the legislation from the two countries to help the foreign investors come in this euroregion; Fast road between Debrecen and Oradea.

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## ROMANIA – FRUITS AND VEGETABLES EXPORT POTENTIAL ASSESSMENT

**Dumitrescu Marie-Jeanne**

*Romanian Trade Promotion Center*

*Contact address: Apollodor Street, nr. 17, Bucharest - 5, Romania*

*E-mail: mdumitrescu@traderom.ro*

*Telephone: + 4021 318 50 54*

*During 2003-2007, Romania was a dynamic exporter of fruits and vegetables, recording an annual average growth in value of 5.4%. This trend was driven mainly by the excellent performance of fruits exports, which registered an average growth of 8%. Yet, fruits and vegetable exports in 2008 showed an important decreasing of nearly 17% compared to a year earlier. Consequently, Romania remains a net importer of fruits and vegetables, though is among the 20 largest exporters in the world, with around 67 million Euros of exports in 2008.*

*Romania has significant strengths in the fresh fruits and vegetables sector, especially the quality and safety of its products, but there are several factors that negatively affect its competitiveness. These include the high fragmentation of agricultural land and the profusion of small-scale subsistence farms, unable to produce for either the domestic or foreign market.*

### **A. Production**

Romania's total production of fruits and vegetables reached about 15 million tons in 2007, with vegetables sector accounting for nearly 80%. Nevertheless, the vegetables sector seems to be more dynamic than the fruits sector as regards the production performance.

***Romania's main fruits and vegetables production in 2007***

Fruits	Volume (1000 tons)	Vegetables	Volume (1000 tons)
Total production, of which:	3058	Total production, of which:	11821
Apples	375	Potatoes	3498
Plums	204	Cabbages	1120
Pears	49	Melons and watermelons	703
Walnuts	39	Tomatoes	555
Cherries	24	Onions (dried)	312
Strawberries	16	Sweet peppers	280
Peaches	8	Beans	42
Apricots	6	Peas	7

*Source: FAOSTAT*

### **B. Distribution and domestic market characteristics**

Distribution channels of fruits and vegetables are grouped in 2 categories:

- Short distribution channel – direct sales and local producers' markets
- Traditional distribution channel – wholesale (distributors, importers) and retail markets (hyper and supermarkets, open markets, specialized shops)

Marketing and sales to the public are the most important functions at the retail level. The structure of the retail trade for fruit and vegetables offers the consumer the possibility to make a choice from various points of sale, the most important being:

- specialized fruit and vegetables shops;
- hyper / supermarkets;
- open-air markets;
- producers / farmers.



Domestic supply could be structured in two main categories: local production and imports. There are two season peaks: summer and winter. Imports are frequently used during the winter season, when supply is mainly provided by distributors and specialized companies. Internal offer is not covering the entire 12 months of the year, so there are some shortages between summer and winter. More over, changing climate has affected the products quality, so that local producers cannot comply with the standards requested by the retailers. In this context, domestic demand is covered by significant imports.

There is a visible change in Romanian consumers' behavior. These consumers request high quality products and, ultimately, they are willing to pay a higher price for a good product. There is also a relatively limited consumers segment which is loyal to cheap products, the quality factor being ignored.

The main fruits sold by retailers in Romania remain the bananas, followed by oranges. The exotic fruits are a special category and Netherlands is the main supplier for Romania. Supplying exotic fruits is relatively difficult since there are only few importers for Romanian market. Exotic fruits cover a limited segment of demand represented by higher incomes consumers. Big retailers are developing promotion activities in order to encourage exotic fruits sales.

### C. Trade

Romania's trade deficit widened, mainly due to heavy exports decrease compared to last year (-16.6%). Over the last 5 years, imports were growing faster than exports, mainly in the vegetables sector.

***Romania's trade balance of fresh fruits and vegetables***

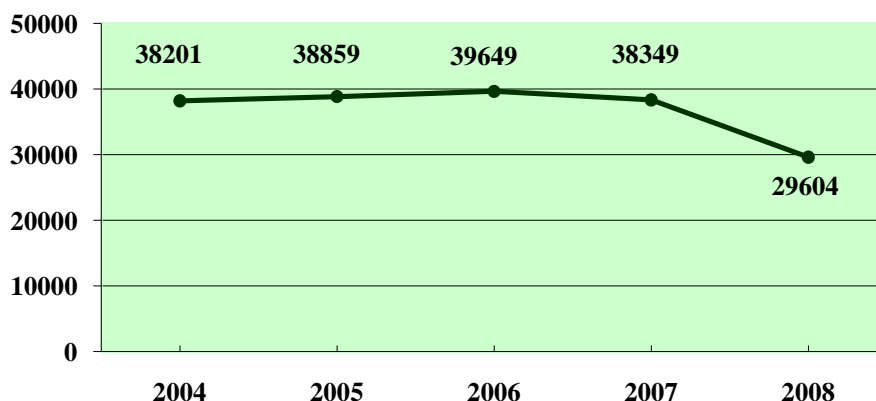
	2007	2008	Annual growth 2007-2008 (%)
Exports (1000 Euro)	80922	67467	-16.6
Imports (1000 Euro)	382245	384190	0.5
Balance (1000 Euro)	-301323	-316723	5.1

Source: ITC, data processed by RTPC

#### ***1. Fresh fruits***

During 2003-2007, Romanian fruits exports value rose, in average, by 9%. Yet, during 2008, it registered a 22.8% decline compared to year ago and compared to a 3.3% rise in 2006.

***Export trend of Romanian fruits, 2004-2008 (1000 €)***



Source: ITC Trademap, data processed by RTPC

Main importing countries of Romanian fruits in 2008 were Germany (34.2% of total Romanian fruits exports), Italy, Turkey, Slovenia, Croatia, Russian Federation, Hungary, Bosnia & Herzegovina and Croatia. Main fruits exported by Romania on these markets were walnuts, apricots, cherries, peaches, plums, berries and apples.

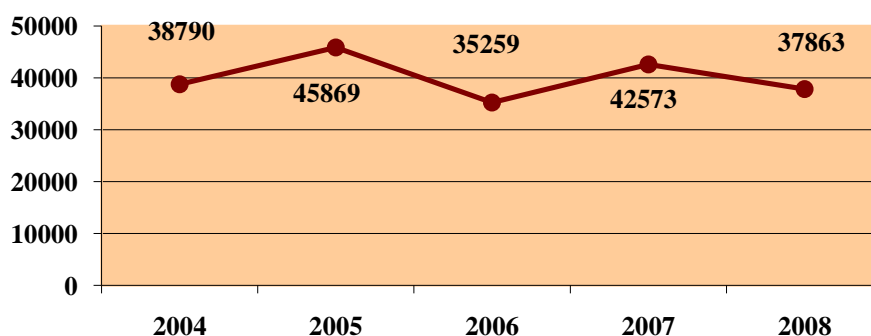
Considering the average annual growth rate of demand, potential export markets for Romanian fruits classify in three main categories:

- Markets with an average annual growth rate of 50 – 100% : Armenia and Ukraine;
- Markets with an average annual growth rate of 25 – 50%: Georgia, Kazakhstan, Cyprus, Lithuania, Moldova, Russian Federation, Morocco, Egypt, Turkey, Slovakia and Belarus;
- Markets with an average annual growth rate of 15 – 25%: Bulgaria, South Africa, Syria, Indonesia, Latvia, Poland, Kuwait, Jordan, Thailand, United Arab Emirates, Iceland, Ireland, Netherlands, Estonia, Czech Rep., Slovenia, Bosnia & Herzegovina and Hungary.

## 2. Fresh vegetables

During 2003-2007, Romanian vegetables exports value rose, in average, by 8%. Yet, in 2008, it registered an 11.1% decline compared to year ago and compared to a 20.7% rise in 2006.

*Export trend of Romanian vegetables, 2004-2008 (1000 €)*



*Source: ITC Trademap, data processed by RTPC*

Main importing countries of Romanian vegetables in 2008 were Italy (60.7% of total Romanian vegetables exports), Germany, Austria, France, United Kingdom, Moldova, Hungary, Denmark, Poland and Bulgaria. Main vegetables exported by Romania on these markets were tomatoes, green peppers, mushrooms, eggplants, potatoes, carrots, onions and garlic and cucumbers.

Considering the average annual growth rate of demand, potential export markets for Romanian vegetables classify in three main categories:

- Markets with an average annual growth rate of 50 – 100%: Ukraine, Georgia and Kazakhstan;
- Markets with an average annual growth rate of 25 – 50%: Russian Federation, Poland, Czech Rep., United Arab Emirates, Slovakia, Syria, Lithuania, Thailand, Turkey, Latvia and Armenia;
- Markets with an average annual growth rate of 15 – 25%: Spain, Denmark, Norway, Algeria, Hungary, South Africa, Kuwait, Bulgaria, Jordan, Tunisia, Morocco, Belarus, Estonia, Bosnia & Herzegovina, Cyprus, Iceland, Azerbaijan, Moldova, Malta and Turkmenistan.

## D. SWOT analysis for fruits and vegetables sector

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>- Favorable natural conditions for fruits and vegetables production</li> <li>- Traditionally very good produces (quality, safety and flavor)</li> <li>- Very diversified range of products (many varieties and cultivars)</li> <li>- Average use of chemical fertilizers is 8-10 times lower than in EU countries</li> <li>- Good opportunities for organic production of fruits and vegetables</li> <li>- Competitive advantage in several sub-sectors such as mushrooms and berries, due to the size of Romania's forests (which are the largest in Europe) for wild mushrooms and to well developed greenhouses for cultivated mushroom</li> </ul>	<ul style="list-style-type: none"> <li>- Production relatively dependent on weather conditions</li> <li>- High fragmentation of agricultural land (including orchards) due to government policies to give back the land to old owners</li> <li>- Low concentration of production (many small, individual growers)</li> <li>- Inadequate infrastructure facilities for harvesting, storage, packing, transportation) due to lack of investments in new technologies</li> <li>- Poor and incorrect irrigation systems</li> <li>- No domestic market organization in order to provide support for producers and to set up market strategies</li> <li>- No certification and no proper marking and labeling of products in order to provide to consumers information regarding the quality and safety of products</li> <li>- No public or private priorities and targets</li> <li>- Lack or limited possibilities to perform laboratory analysis in order to improve the quality of production and to fight against specific pests</li> <li>- Lack of information regarding market regulations and prices</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>- Growing demand for convenience and healthy products</li> <li>- Growing demand for high value-added products</li> <li>- Growing demand for organic products (if certified)</li> <li>- Strengthening supply on regional markets</li> <li>- Development of agro-tourism</li> <li>- Export refunds and subsidies granted through operational programmes developed within producers organizations</li> <li>- State aid granted to young farmers, for establishment of producers organizations, compensations for less favored areas, promotion and advertising of agricultural products</li> <li>- Preferential market access deriving from the new EU membership status, based on FTAs</li> <li>- EU's obesity policy and healthy eating campaigns could stimulate demand for fruits</li> <li>- Quality schemes and geographical indications policy</li> </ul>	<ul style="list-style-type: none"> <li>- EU market for fruits and vegetables is almost saturated</li> <li>- Concentrated buying power of major retail chains</li> <li>- Abandonment of farms</li> <li>- Frequent changes of the weather conditions (drought or floods)</li> <li>- Changes in government policies and interests</li> <li>- Competition from other important exporters (EUROMED countries, Balkan countries)</li> <li>- Additional market requirements: sustainable production, recycling of materials, safeguarding biodiversity, social accountability</li> </ul>

## E. Conclusions

- Fresh fruits and vegetables are "sensitive" agricultural products so they are, usually, highly protected when imported (tariff or non-tariff barriers), in almost all importing countries.
- Some fresh fruits and vegetables are highly perishable products, so they are, usually, traded at regional level, except some exotic varieties and cultivars. Trade is based on a proximity relationship between importers and exporters.
- Usually, trade is also based on a preferential treatment mutually granted through a free trade agreement between importing and exporting countries.

- d) Romania has a great export potential for fresh quality fruits and vegetables, even organic products, especially those with growing level of production, but not enough capitalized on exports.
- e) Romania faces fierce competition from EUROMED countries, Balkans, Middle East countries, CIS and some EU countries.
- f) Romania has to comply with EU standards and regulations regarding the fresh fruits and vegetables market:
- g) Romania has to comply with the social requirements: *Social Accountability 8000* (SA 8000) is a universal management system for companies seeking to guarantee the basic rights of their workers.
- h) Romania has to comply with the environmental market requirements
- i) Romanian exporters should take into account the importance of using Ecolabels and fair-trade labels to their produces

#### **F. Main challenges for Romania's fresh fruits and vegetables sector**

- a) Establishing clear priorities and objectives both at public and private level in order to address it adequately
- b) Developing a sustainable and high performance agricultural sector
- c) Strengthening national and EU legislation on food safety and quality
- d) Developing programmes for farm monitoring and inspection
- e) Training quality and safety issues to different stakeholders in the food chain
- f) Introducing GAP (Good Agricultural Practice standards on fruits and vegetables, developed by EUREP – Euro-Retailer Produce Working Group) in order to have a good management system in place to deal with quality, hygiene and environment matters
- g) Promoting and encouraging formation of producers organizations
- h) Introducing integrated channels of distribution
- i) Sector branding

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# THE RELATIONSHIP BETWEEN TOURISM AND SUSTAINABLE DEVELOPMENT IN THE EUROPEAN CONTEXT

**Frunză Ramona**

University "Al. I. Cuza" Iasi The Center of European Studies Adress: Street Carol I, no. 11 E-mail: ramonafrunza@yahoo.com Tel.: 0745/455305

**Pascariu Gabriela Carmen**

University "Al. I. Cuza" Iasi, The Center of European Studies Adress: Street Carol I, no. 11 E-mail: gcpas@uaic.ro Tel.: 0740/237969

*Issues of European tourism industry have become to the fore in recent years, partly as a result of political and economic moves towards increasing European integration and unity. Having into consideration these facts, we propose in this article to analyze the importance of the tourism industry in the sustainable development process and to see how peoples choose to spend their holidays in different places of the world, in function of the some factors that assure a sustainable tourism.*

**Keywords:** tourism, sustainable development, European challenges

**JEL Classification:** A0, O1, Q5, Z0

## 1. The connection between tourism and sustainable development

In time, the concept of *sustainable development* has witnessed many attempts to define but it seems interesting that the Brundtland Commission that says: „, the essence of sustainable development is the way we must organize ourselves so as to consume land resources to satisfy our own needs and aspirations so as to not compromise the expectations of future generations to satisfy at the turn their needs”<sup>162</sup>.

We believe that sustainable development is a very dynamic concept with many dimensions and interpretations, seen as a permanent process of change, very connected to the local area needs and priorities. The fact that many professionals do not need a single definition of this concept leads naturally to an awareness that no matter how we define, the problem is the same and is called: *the need to ensure a sustainable future to the world peoples and to the planet Earth*. To achieve this goal there must be a broad international cooperation, a very careful management of the process, political implication and much dedication. In short, all these involve the changing of behaviors of individuals so as to contribute of an economic growth based on sustainable development. Active involvement of people can be realized:

- Acting for poverty eradication, changing unsustainable patterns of consumption and production, protection and management of natural resources for economic and social development;

- Promoting dialogue and cooperation, regardless of race, illness, religion, language, culture and tradition;

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<sup>162</sup> In terms of this definition, paraphrase, in short - for a clearer understanding - a variant of The Fable of the Golden Duck, of Aesop. Under it, once was a poor farmer that could hardly maintain his numerous family. He prayed constantly for help and in a night his prayers has brought an answer through a dream. It said that the next morning he will have to go to the village and to buy the first duck that he will see and if he take care of it, it will make every day a golden egg which will benefit his children and descendants. The next morning, the poor farmer went to market as instructed in the dream and went home first duck that has seen it in the market. In the second morning, to his great joy, he found near the duck a gold egg, small and brilliant. The same thing happened the next morning. The farmer was now quite rich and happy but soon began to be envious of the village chief who was richer than him. So, he wanted to become the richest with the help of his duck. He had forced the duck, successfully, to make two eggs every morning and then even three. But soon, the exhausted duck has died. The duck from this story is undoubtedly the generous benefits of natural resources. If we use them as required by sustainable development, without avarice, they will satisfy our needs without compromising the ability of survivors and satisfy their needs.

- Acting for stable partnerships with all major groups, respecting the independent roles of each of them;

- Providing assistance and participating in programs of sustainable development.

So, the human resources can contribute to the sustainable development process if they acting on the directions set out above. A very important sector that should be taken some measures in this regard is the tourism. This is a rapidly developing sphere of human activity, reflecting the changing economic and social conditions which underlie modern views of individual freedom of expressions through consumer choice, and the new technologies of transport and data communications which make it possible for large number of people to spend their leisure in distant places.

All these changes present both opportunities and challenges for the tourism industry. Five key issues or challenges can be identified from the literature<sup>163</sup>:

-The need to get more accurate and uniform statistics on the size and economic contributions of tourism;

-Pressure to compete more effectively with other recreational and entertainment options.

This is particularly a challenge for many small and medium enterprises that make up a substantial part of the tourism industry in many destinations;

-The need to deal with increasing diversity amongst tourists. We refer here to the fact that the markets for tourism will become increasingly diverse in terms of cultural backgrounds, age, family structures and experience, creating challenges for the development of products and the management of the interaction between tourists and hosts and tourists and other tourists;

-The need to ensure that infrastructure development and maintenance keep pace with growing demand. We mention that, in this case, infrastructure refers not just to the transport systems and built facilities, but also to the training and education of the human resources of tourism;

-The need to ensure sustainable tourism development. This becomes a dominant philosophy, with the preservation of social and environmental assets and the well-being of the host community becoming primary objectives. Hunter C. introduced four different approaches to sustainable development based on the four types of sustainability<sup>164</sup>:

**Table no.1**

<b>Types of sustainability in tourism</b>	<b>Characteristics:</b>
<b>Very weak sustainability</b> type or tourism imperative scenario	<p><i>Status:</i> tourism at its early stages</p> <p><i>Criteria:</i> tourism activities do not generate more degradation</p> <p><i>Benefits:</i> tourism is an alternative form of development; creates more employment; increase environmental protection</p> <p><i>Costs:</i> creates certain antagonistic impacts</p>
<b>Weak sustainability</b> type or product-led tourism scenario	<p><i>Status:</i> tourism is developed</p> <p><i>Criteria:</i> sustain tourism activities and develop new products</p> <p><i>Benefits:</i> improvement of the local economy and employment; assist preservation practices of surrounding destinations; expansion and diversification of tourism planning</p> <p><i>Costs:</i> conserve only existing infrastructure and products.</p>
<b>Strong sustainability</b> type or environment-led	<p><i>Status:</i> tourism at its early stages</p> <p><i>Criteria:</i> environmental management utilization</p>

163 Faulkner, B., Moscardo, G. and Laws, E., Tourism in the twenty first century. Lessons from experience, Cromwell Press, London, 2001, p. 30.

164 Hunter, C., Sustainable tourism as an adaptive paradigm, in Knowles Tim, Diamantis Dimitrios and Bey El-Mourhabi Joudallah, The globalization of tourism and hospitality: a strategic perspective, Cromwell Press, London, 2001, pp. 115-116.

tourism scenario	<b>Benefits:</b> environmental quality; economic and employment growth; specialized tourism destination <b>Costs:</b> Only in circumstances lacking focus and commitment
<b>Very strong sustainability</b> type or neotenous tourism scenario	<b>Status:</b> Tourism at its exploitation and involvement stages <b>Criteria:</b> Absolute preservation of resources <b>Benefits:</b> Protection of renewable and non-renewable resources; long-term environmental attractiveness <b>Costs:</b> tourism growth is limited; tourism development is sacrificed in cases where other sectors employ better environmental practices; tourism development is abolished to minimize generation of negative environmental impacts.

**Source:** adapted after Hunter, C., 2001

Analyzing the table, we can observe that the tourism sustainability depends by the efforts submitted, by the degree of involvement of the empowered organisms (private and public), the adoption and application of appropriate legislation and regulations necessary for tourism development, the taking of measures that protect the environment, efficient and systematic financing of tourism projects, attracting investments from the private sector to develop tourist facilities and services (by providing investment incentives to attract these investments), training staff and improving all tourist activities - human resources development in tourism, the involvement of local communities in tourism development, tourism marketing and tourism promotion efficiency for all regions and for private firms, an effective and sustained management of the tourism sector. Of the four scenarios of tourism described in *Table no.1*, we consider that the last, which refers to *a very strong sustainability type of tourism* (neotenous tourism scenario) is the most desirable in any European country and not only.

In the context of sustainable development, tourism finds its natural place, bringing to the fore the idea of satisfying the needs of tourists and tourism industry, closely related to the environment protection and to the opportunities for the future. Sustainable tourism involves optimal use of resources (including biological diversity), minimizing the negative impact of economic, socio-cultural and ecological, maximizing the benefits on the local communities, national economies and on the conservation of the nature. As a consequence, sustainability refers to the structures and management to fulfill these goals. The goal of achieving sustainable tourism must be subordinated to national and regional plans for economic and social development.

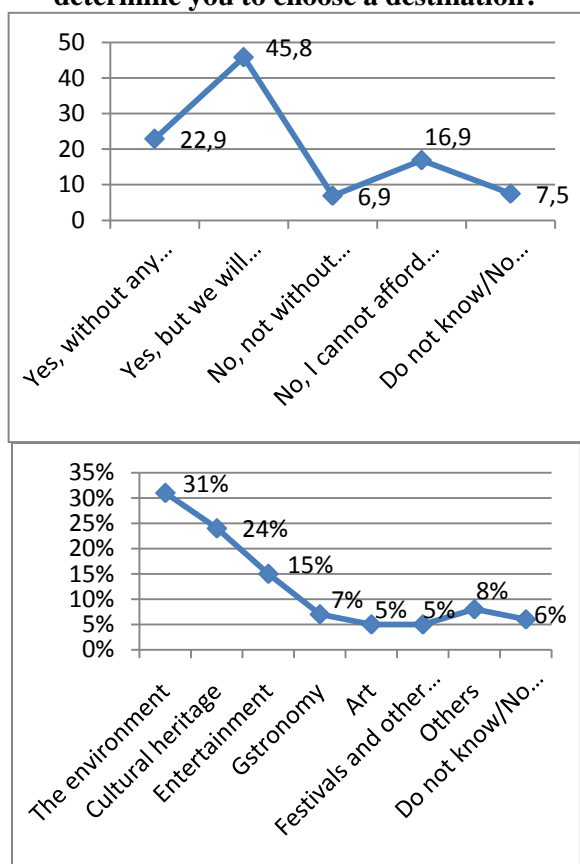
## 2. The tourism among Europeans

The sustainable tourism indisputably contributes to the economic development of any state. But to have him, should respect some exigencies (we talking here primarily by an offering to tourists of impeccable conditions, the existence of a clean environment, etc.). In this direction, the European Commission had realized for the year 2009 a report (Eurobarometer)<sup>165</sup>. To find the opinions of the population, it was adrees some questions like:

Grafic 1. Will you have the necessary financial resources to be able to afford to take your planned holidays in 2009?

165 \*\*\*Eurobarometer, European Commission, (2009), Survey on the attitudes of Europeans towards tourism. Analytical Report .

**Grafic 2. Which are the factors that determine you to choose a destination?**



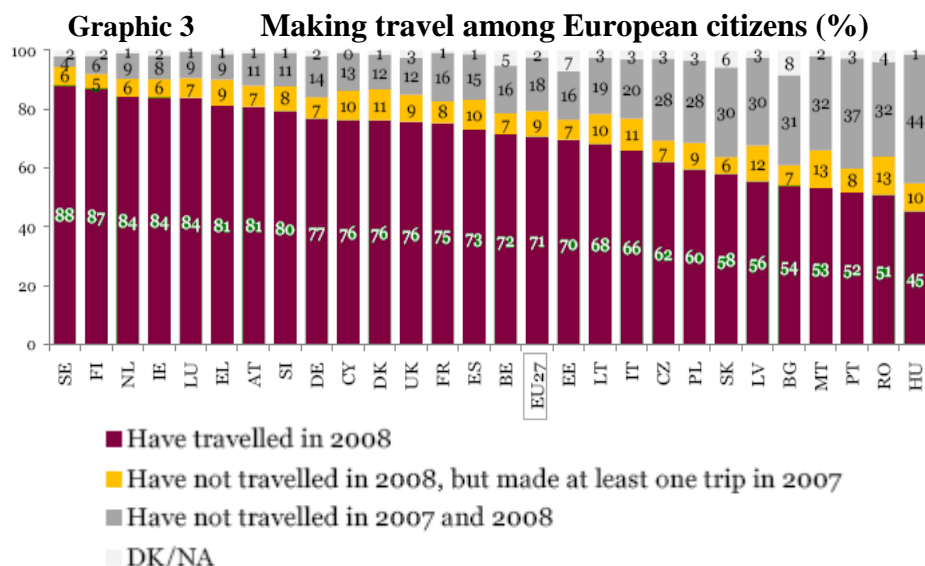
**Source:** Eurobarometer, 2009

The number of persons from Romania who answered at questionnaire was 675. We observe in the graphic 1 that a great part of repondents need to make extra savings for be to able to afford to take their planned holidays in 2009 (45,8%), and 6,9% don't have the necessary financial resources for this thing.

Another result of the Eurobarometer refers to the factors that determine the choosing of a destination. The questionnaire was applied to 1726 persons from the EU. So, when deciding on holiday destinations, most Europeans named the location's environment (e.g. its overall attractiveness) as the key consideration (31%). Cultural heritage (24%) and the options for entertainment (15%) were the second and third most widespread responses in regard to factors that influenced a choice of destination. These three categories dominated the responses in each Member State; the rest of the listed attractions were considered as having a major influence on holiday decisions by significantly fewer Europeans (gastronomy: 7%, arts: 5%, festivals, events: 5%). Eight percent cited other reasons and 6% had nothing to say.

An interesting question of the study sounds like: „During 2008, how many times have you travelled for business or private purposes where you were away from home for a minimum of one night? Did you make a trip in 2007 where you were away from home for a minimum of one night?%”





**Source:** Eurobarometer, 2009

Analyzing the answers of the European populations (from EU 27), we see that almost nine out of 10 Swedes and Finns (88% and 87%, respectively), and 84% of Dutch, Irish and Luxembourgers had travelled at least once during 2008. In Hungary, on the other hand, only 45% of citizens had made a trip during that period. Other countries at the lower end of the distribution were Romania (51%), Portugal (52%), Malta (53%), Bulgaria (54%), Latvia (56%) and Slovakia (58%). Hungary and Portugal (44% and 37%, respectively) had the highest proportion of interviewees who had not made any trips in 2007 or 2008. In Sweden and Finland, the share of non-travellers was 6% or less. The proportion of respondents who had not travelled in 2008, but who had made at least one trip in 2007 ranged from 5% in Finland to 13% in Romania and Malta.

In Romania, the number of trips is the lowest in Europe because it does not promote a sustainable tourism. To can speak about a sustainable tourism we should elaborate a set of strategic objectives which relate to: the encouraging of an tourism favorable of a sustainable local tourism through the involvement of local resources, the predominant participation of local actors, the support of the SME sector, the correlation of the development of transport with the sustainable tourism, the stimulation of the market segments that correspond to sustainability (whose behavior and motivations put accent on the reputation of the cultural, social, ecological values of the receiver space), the adoption of a system of indicators for evaluating the sustainability of tourism in the receiver regions, preventing and reducing the territorial and ecological impact of tourism by reducing seasonality, territorial planning, the adoption of some appropriate instruments for the reduction of the territorial disparities, the promotion of a responsible tourism by improving access to tourism, the stimulation of new behavior of production and consumption, the improving training and the level of life of workers in travel, etc.<sup>166</sup>.

All these objectives wish to materialize a *model of tourism development*, that to answer of the needs of tourists and receiving regions, preserving and improving the chances of the future generations by access to tourism. These can be achieved through an interaction between public and private institutions, providers of tourism and population. We believe that the most appropriate system for sustainable tourism development, especially in regions in development, is represented by the public and private partnership. In the use of public-private partnerships as a

166 Pascariu, G.C., (2006), *Evolutii si tendinte in turismul international. Fluxuri, pietee, politici* (Evolution and trends in international tourism. Flows, markets, policies), Sedcom Libris Publishing House, Iasi, p. 190.

way of promoting sustainable development is necessary to respect the following principles<sup>167</sup>: the application of an integrated management system of the quality of destination, the conservation of the originality and authenticity of destination, the ensuring of an equilibrium between the economic, social and environmental objectives, the precaution and the prevention in the adoption of decisions, the reporting at the trends in the evolution of behaviors and of markets, the reporting to the permanent interests of tourists and the implementing of a strategy to stabilize the target markets, the information, the cooperation and the transparency, the improving of the free market mechanisms.

## Conclusions

Human resource development in tourism industry should be a priority to offer quality services expected by the tourist market and requires a systematic approach to the design needs of staff and establishing ways of training necessary to provide qualified personnel both in the public sector and in the private. It is also essential to use techniques and methods of marketing tourism: setting goals and marketing strategies and developing a promotional program. Marketing activities must take place at the government offices of tourism, the local tourist office and tourism private sector because the development of a positive image of the new tourist area on the tourist potential markets is very important.

Increase tourism product of the values enshrined in the relevant international standards, involves, on one hand, the initiation and promotion of actions which include the conduct of a process of educating and training, a mentality adequate to the current type of development, and on the other hand, the emphasis of a sustainable development. This emphasis involves a balance between negative and positive outcomes of conducting tourism activities.

A priority in the process of sustainable development held in our country is the component that includes the activities of planning, operational planning and tourism as an integral part of sustainable development strategy of the area, region or country. To achieve a sustainable tourism, you need an integrated approach, partnerships with stakeholders.

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167 Pascariu, G.C., (2006), op. cit., pp. 194-195.

## THE COMPARATIVE ADVANTAGE IN ROMANIA'S INTRA-COMMUNITARY COMMERCIAL RELATIONS

### **Gagea Andreea Mihaela**

*Academia de Studii Economice, București Facultatea de Cibernetică, Statistică și Informatică Economică Adresa: Șos. Ștefan cel Mare, Nr. 6, Bl. 15A, Ap. 35, Sector 1, București. E-mail: andreeagagea@yahoo.com Telefon: 0745387307*

### **Grigore Liliana**

*Academia de Studii Economice, București Facultatea de Relații Economice Internaționale Adresa: Str. Fildeşului, Nr. 8, Bl. C2, Ap. 5, Sector 3, București. E-mail: liliana.grigore@yahoo.com Telefon: 0721108462*

### **Stănculescu Anca Maria**

*Academia de Studii Economice, București Facultatea de Relații Economice Internaționale Adresa: Bd. Știrbei Vodă, Nr. 4, Bl. 2, Sc. 4, Et. 5, Ap. 139, Sector 1, București. E-mail: sam33ro@yahoo.com Telefon: 0730511997*

### **Georgescu Bogdan**

*Academia de Studii Economice, București Facultatea de Marketing Adresa: Str. Istriei, nr. 10, sector 3, București. E-mail: georgescubogdanmk@yahoo.com Telefon: 0722208372*

*The article identifies the relative advantages that Romania has undertaken in its commercial relations with the European Union by the analysis of a system of indices of the revealed comparative advantage, meant to reflect the complex issues of change in the structure of Romania's external trade.*

*In this respect, four indices of the comparative advantages considered relevant were selected, the reality captured by the four criteria being sufficiently diverse to reveal the comparative advantage, in an economic sense and with a high statistical significance.*

*It should be noted, however, that the analysis of the comparative advantage in Romania's foreign trade and the interpretations made are applied to international trade flows in goods.*

*Keywords: international economic relations, external trade, specialization, revealed comparative advantage indices.*

*JEL: C10, C43, F14, F41.*

External trade analyses always require supplementing *quantitative* data with *qualitative* details, provided by structural analysis indicators. Other tools of macroeconomic analysis combine the structures of exports and imports in order to highlight the *quality of international trade*.

*The proportions theory of factors of production, Heckscher-Ohlin*, explains international trade of complementary goods by the difference in availability and intensity of production factors. Therefore, on a market characterized by perfect competition, trade in complementary goods takes place due to comparative advantages arising from differences in endowments in factors of production.

Among the first studies that try to estimate the comparative advantage in commercial relations between countries is *Liesner's*, in 1958. The indicator proposed in this study is a very simple one, thus leaving much room for the many further improvements that followed. The index is calculated as the ratio between a country's exports for a product and the exports for the same

product made by a group of countries, which were in the study the European Economic Community<sup>168</sup>.

The most popular index used to quantify the relative advantages occurred seven years later, in 1965, belonging to *Bela Balassa* whose name it bears. This index is essentially based on the same idea, of the comparison of a country's exports for a certain product to the exports for the same product made by a group of countries, considered as a reference, but it does not directly compare the exports for the certain product, but their weights in the total trade, which was actually a significant improvement.

*The revealed comparative advantage index* defined by Balassa, for an economy engaged in international trade, is based on the assumption that a country with a competitive economy specializes in the development and international trade of certain goods only to the extent to which it owns a certain superiority or an advantage in their production, which is either the ownership of the necessary factors of production or of a technological nature. The relation for the analysis proposed by Balassa is actually a comparison between the share of the products within an industry in a country's exports, and the share of the same products in world exports:

$$ACR2_{kt} = \frac{X_{ikt} / X_{it}}{X_{nkt} / X_{nt}} = \frac{X_{ikt} / X_{nkt}}{X_{it} / X_{nt}}$$

From the two equivalent ways of calculating this indicator in the formulas presented earlier also result the two equivalent interpretations of this index. If the value of the index is greater than 1, a comparative advantage is relevant for the sector or product. Of course that this indicator also allows for a number of criticisms and improvements that have not delayed to appear, but the popularity of index hasn't been too much affected.

One of the most significant such criticisms is that the Balassa Index does not take the imports into account or, more specifically, the share of imports for different product groups in total imports. In this respect, in 1991, *Vollrath* proposes three indices which he considers relevant in assessing the comparative advantages and which names as follows: *the relative commercial advantage*, *the relative advantage log for export* and *the revealed competitiveness*. Among these three indices, the first one respond very well to the necessity to bring imports in estimating the comparative advantage, by calculating the difference between the original index and its homologous for imports, as follows:

$$ACR3_{kt} = \frac{X_{ikt} / X_{it}}{X_{nkt} / X_{nt}} - \frac{M_{ikt} / M_{it}}{M_{nkt} / M_{nt}}$$

This index becomes comparable to zero and the results, positive or negative, are interpreted as a compared advantage or disadvantage.

Another important index, which also takes into account both the share of exports and the share of imports is the index proposed by *Damien Neven* in 1995:

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<sup>168</sup>  $ACR1_{kt} = X_{ikt} / X_{nkt}$ , where:  $X_{ik}$  is the export of country i for product k;  $X_{nk}$  is the export of a group of counties n for product k; t – the time period corresponding to the analysis.

$$ACR4_{kt} = \left( \frac{X_{ikt}}{X_{it}} - \frac{M_{ikt}}{M_{it}} \right) \cdot 100, \text{ unde } ACR4_{kt} \in (-10\%, 10\%)$$

A country has a comparative advantage in the industry or branch "k" is positive, when the  $ACR4_{kt}$  is positive, due to the high degree of international specialization for the products in this industry. Thus, we can deduce that the share of the products in the industry "k" in total exports is higher than the corresponding share in total imports.

When the  $ACR4_{kt}$  is negative, the country has a comparative disadvantage, as an expression of a strong dependency on imported products in the industry "k"; the country does not produce or is not able to produce these goods.

Essentially, the revealed comparative advantage proposed by Neven has the same interpretation towards value zero. The difference to Vollrath's index is that it focuses on the relations between the two streams for the country concerned, leaving aside the comparability with the reference group or world trade, thus showing a higher distance from the original index of Balassa.

It is often possible for a country to record a comparative advantage in terms of the indicator  $ACR4_{kt}$ , and yet, to record a deficit for the certain product because of the general level of imports higher than the level of exports. The indicator proposed by *Greenaway* and *Milner*, in 1993, surprised exactly the existence or non-existence of the trade deficit for a sector or product. The indicator is determined as a share of the deficit in the total trade recorded for the product:

$$ACR5_{kt} = \frac{X_{ikt} - M_{ikt}}{X_{ikt} + M_{ikt}}$$

This indicator, which has an interpretation similar to that of the indicator  $ACR4_{kt}$ , actually makes an equivalence between the deficit and comparative disadvantage, which is still a fairly restricted view and totally different from the previous indices, therefore they are not comparable. Other approaches have remained faithful to the Balassa Index, just trying some corrections. For example, Balassa's index is not centered; if a country has a comparative disadvantage for a given product, the index varies between 0 and 1 for that product, and if, on the contrary, there is a comparative advantage, the index may vary, in theory, from 1 to infinity. Therefore, in 1998, *Dalum*<sup>169</sup> proposes an index that varies from -1 to 1, the index being thus centered around 0. This index thus brings a correction to Balassa Index.

In 2000, *Proudman* and *Redding* have reflected the fact that the arithmetical mean of the Balassa Index calculated from the indices related to products groups on different levels of detail, is not equal to 1. At first sight it is natural to assume that in the case of a country with an index value above 1 for some sectors (i.e. comparative advantage), while for others an index value lower than 1, overall, the average is around 1, thus reaching an equilibrium between the sectors for which there is an advantage and those for which there is a comparative disadvantage. The authors found that things are not in accordance with reality because of the way the original index and its average per sectors are calculated, and not due to a comparative advantage or disadvantage registered at a global level, which could ultimately lead to erroneous interpretations. Therefore, another variant of the index calculation was proposed, in which it becomes normalized in relation

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169 The index proposed by Dalum:  $ACR6_{kt} = (ACR2_{kt} - 1) / (ACR2_{kt} + 1)$

to its average, so that the average of the comparative advantage indices for a country, is always equal to 1<sup>170</sup>.

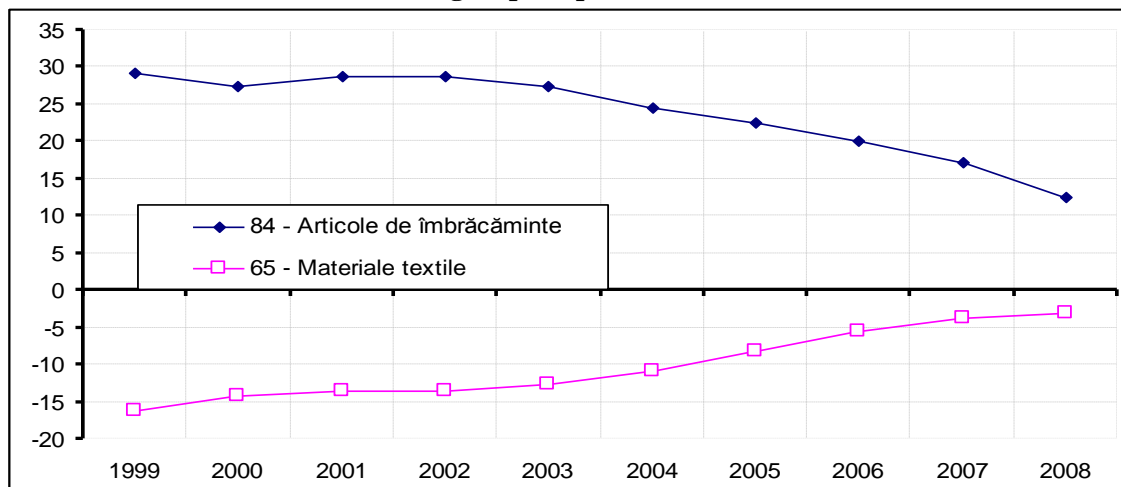
Another approach to the comparative advantage, frequently encountered in the literature, is that which introduces a means of quantifying the production of a country, usually GDP, in calculating comparative advantage indices.

Because of the fact that the different ways of calculating the index of comparative advantage are not equivalent, on the contrary, they capture different aspects of reality from complementary approaches, for the analysis conducted for Romania there were selected four of these indices: ACR2, ACR3, ACR4 and ACR5. In this way, we found that the reality captured by each of these indices is diverse enough to reveal the comparative advantage that Romania has undertaken in the trade with the EU in its new composition.

Thus, for the indices ACR2 and ACR3 which, by the means of calculation, raise the issue of a group of countries as a reference, the intra-communitary trade has been used. The data being viewed from an EU perspective, the effect of decreasing Romania's trade deficit for different sections or groups of products, turns mostly on the indicator ACR5, as this is the only one that does not use weights of the groups of products concerned, in the sense of improvement. For the other indicators, the share of a certain product in total should be approximately the same, whether using the cif prices or f.o.b. Taking into account that the main emphasis will be placed on the dynamic evolution of these indicators, and the cif / fob ratio is approximately constant over time, we consider the conclusions of the analysis as significant and relevant in this respect.

In order to analyze the evolution over time of Romania's degree of specialization compared to the EU-15 (*Figure 1.*) and to the EU-27 (*Figure 2.*), between 1999-2008, the indicator proposed by Damien Nevén is used, as it highlights the evolution in time of the revealed comparative advantage index for the two divisions of SITC Rev. 3. The results show that Romania's highest level of specialization compared to the EU is in the production of clothing and the lowest level of specialization (comparative disadvantage) is in the textiles sector.

**Figure 1. The evolution of Romania's comparative advantage compared to EU-15, for two groups of products**

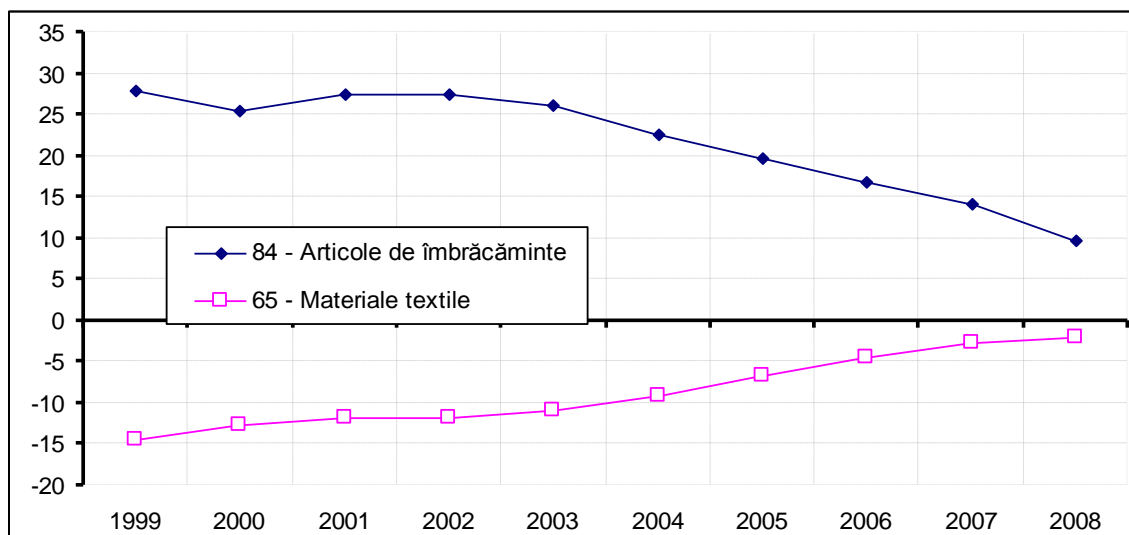


Primary data source: *Eurostat*.

170 The comparative advantage indicator elaborated by Proudman și Redding:

$$ACR7_{kt} = \frac{X_{ki}/X_i}{\frac{1}{m} \cdot \sum_{k=1}^m X_{ki}/X_i}$$

**Figure 2. The evolution of Romania's comparative advantage compared to EU-27, for two groups of products**



Primary data source: *Eurostat*.

Lately, one may notice a decreasing trend of the comparative advantage for clothing and an increasing trend of the comparative advantage for textiles. Last year, IACR for clothing decreased by -21%, mainly due to the total exports' growth at a much faster pace (8.57%) than the exports' growth for the goods in the SITC division 84 (*Table 1*). Therefore, we can assume that direct export is beginning to show a more dynamic evolution.

**Table 1. The analysis of Romania's comparative advantage index variation for 2007-2008**

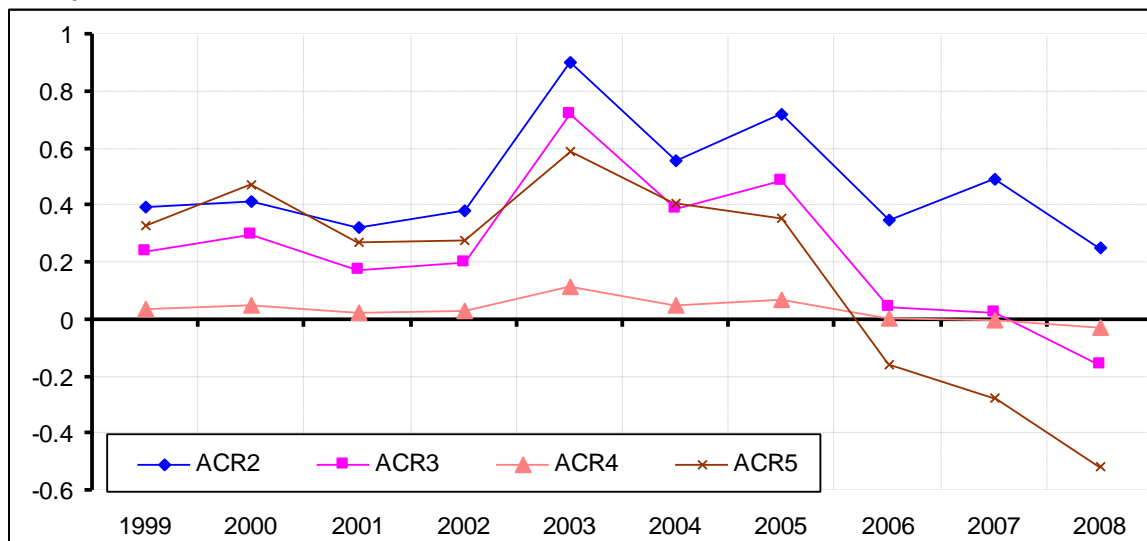
Formula		2007	2008	Variation (%)
Export 84	1	2883051025	2275353705	-21.07827
Total export	2	18258018758	19823556953	8.57452
1/2*100	3	15.79060173	11.47802945	-4.31257
Import 84	4	525977296	604350882	14.90056
Total import	5	31935267358	36244688542	13.49423
4/5*100	6	1.64701078	1.667419162	0.02040
IACR (3-6)	7	14.14359095	9.810610287	-4.33298

Source: Data processing COMEXT, *Eurostat*.

Because of the different components underlying the construction of the four indicators of the comparative advantage (ACR2, ACR3, ACR4, ACR5), they do not provide redundant information. This does not mean that if one of the indicators shows comparative advantage, automatically, other indicators will show the same result. Therefore, the imposition of four conditions, involving different angles of approach, is to is meant to achieve a rather restrictive filtering of the results. An example is shown in *Figure 3*., where the product group "059-Fruit juices" presents comparative advantage throughout the whole period, according to three

indicators - ACR3, ACR4 and ACR5 but it does not present comparative advantage according to the classical Balassa indicator.

**Figure 3. The evolution of Romania's comparative advantage for the product group "059-Fruit juices"**



Primary data source: Eurostat.

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## THE ROMANIAN COMPANY IN THE EUROPEAN SYSTEM

**Paul Tănase Ghiță**

*Academy of Economic Studies of Bucharest, Faculty of Economics Romana Square no.6  
daniela\_virjan@yahoo.com 0723068120*

**Virjan Daniela**

*Academy of Economic Studies of Bucharest, Faculty of Economics Romana Square no.6  
daniela\_virjan@yahoo.com 0721525984 ; 021/3191900-int.293*

*Firms, although have the same economic purpose in any geographic or economic space would represent a very different world. Even in the context of integrating each company has its identity is its numerous features, which show in this respect their diversity, depending on which distinguish groups of smaller firms or larger, in which the peculiarities are considered sufficiently obvious to generate differences which induce significant economic impacts both nationally and globally. In all their businesses in the European Union has an essential role in ensuring the production of goods and services to the population and economy in this part of the world and not only are the most important source of entrepreneurial skills, innovation and jobs. World firms from the European Union exists and operates with two speeds - a European (single) and other national-European different more or less from one country to another.*

*Keywords: business, SMEs, competitiveness, efficiency, integration*

*JEL Classification:*

The European Union, as any integrationist group, has been conceived and exists mainly as an answer to the numerous issues of this part of the world's countries and people. But the said issues are not limited to being internal to each country, but also zonal-regional and international-global. The solving or attenuation of the issues confers numerous economical advantages and maybe more to member countries, thus confirming the hopes that stood at the base of the incorporation demarche. In such context, which is sometimes more complex and more difficult than we had sketched, the economical units of Romania enroll with what they have their own but also in common with the companies whose incorporation already is more or less recent history. Acting in such a frame, the companies of Romania gear more and more into the web of direct and indirect relations own to the European economical space which evolves towards a specific identity, own, characterized by the tendency of creating and strengthening a unit founded on diversity.

Forasmuch diversity is founded on peculiarities, we first observe that companies in our country position themselves in the European economy by advertising several of their socially and economically relevant characteristics. By comparing to the state of other EU members we observe that our country's economical units together achieve an average per inhabitant and employee output which places us on one of the final places compared to companies in other countries of the EU. The idea that their size does not allow better parameters is being discussed and from this situation also comes the their relatively low competitive capacity. Their efficiency as a whole does not rise to the level of the European countries averages, though this does not apply to all Romanian companies, few actually being in good shape.

Compared by categories in accordance to the juridical and statistical definition adopted by the EU, Romanian companies mostly cluster in the categories of small and medium companies. The percentage of large and very large companies in the total of companies in our country visibly puts us below the average European level and extremely low compared to those belonging to developed countries. We stress these aspects in the idea of a qualitative vision, known that qualities too (good or bad) can often be quantified by number, quantity. The effect of scale economy, at least the potential effect, is directly proportional to the size of the company but their way of administrating, their management can better or worse fructify it. And because under this

aspect we are not well positioned, we can conclude that we have much space to increase our efficiency, which space we must make better use of, especially in large companies. It would of course be a grave mistake for small and medium companies to neglect this object, which companies represent the majority and their actual total contribution would be sensibly greater than large and very large companies.

Quite interesting is the fact that this negative efficiency delay is present at all levels of Romanian companies (very large, medium and small) but the greatest of differences mostly affect small and medium companies. Making up for these delays, coming close to the efficiency levels of companies in the richer countries of the EU remains simply an issue of time, unfortunately this applies to longer or shorter periods of time, not from day to day or year to year. The European funds which benefit Romanian companies are truly important towards acting in this direction but not enough and especially depend on the proper use of these funds and us increasing efficiency in the domains we suffer most.

Most interesting is that in the EU the highest efficiency rates are registered in large and very large companies (with 250 or more workers) whom cover 32% of the total work force and produce 43% of all added value. The number of large and very large companies account in the total of European companies as 0.2%. But in Romania the companies which belong to this class represent less than 1% of all and produce more than 55% of all added value and 37% of the brute product of the financial exercise. Given the great difficulties with which our country's SMEs, including fund management, with a low crediting rate, assessed to around 24% of that of the EU, where they go up to 78%-80%. The most frequently encountered reasons to why SMEs crediting is difficult are : the quasi-inexistence of business consultation, bureaucracy, high taxation, low levels of fiscal deductions for investment. We would also point out that the average size of Romanian companies is, both totally and by all 4 categories officially known, inferior to the European average – in terms of capital, personnel, turnover, profit, added value, a.o. This falling behind is especially worrying in regard of investment volumes and direct export. Of course, the superiority of European companies is obvious but this does not rule out the results of the empirical studies which prove that there also are Romanian companies belonging to all classes which are working fine in terms of just about all we have mentioned here.

In terms of a prevailing type of enterprise micro, macro, medium or large in the total employed population, the situation is as follows: Austria, Belgium, France, Greece, Italy, Spain and Sweden are prevailing micro, Denmark, Ireland , Luxembourg and Portugal are prevailing SMEs, in Finland, Germany, Netherlands and UK are prevailing large enterprises, etc.. In the EU, SMEs have a role in employment, and the most important place of micro that fare enjoying the increased attention of governments in the economic policy that they promotes.

Taking into account the level of economic development and the position of Romania as a country situated at the threshold between the small and medium enterprises, which is much closer to the upper limit of small countries, companies or enterprises are taken in consideration by their resemblances, and differences in relation to the other EU countries. They have a specific transformation process and a noticeable dynamic in order for them to be included in the idea of diversity. We can mention some specific issues: the slower formation of more modern features by firms today, a much less dynamic in terms of their number in the last decade (formation, disappearance, concentration, centralization, mergers, etc.). ; the number of Romanian companies copied faithfully the evolution of the economy cycle, the share of large firms and very large in the total number of firms is much smaller than in the EU, the share of private firms mostly lies clearly below the level of EU in five essential economic indicators in 2004, small and medium enterprises recorded higher levels than large ones and very high turnover (57%) and the result of gross exercise (63%), etc..

In Romania, the current types of SMEs have appeared in two ways: by the privatization of state companies and by the free initiative of individuals or associations of people (of Romanian

nationality and / or foreign) that, to satisfy their interests and have taken corresponding risks. Concerning the concept of SME it is used in the same sense and with essentially the same characteristics as in the EU, where also the same legal criteria were adopted, but the statistics still lingers some inconsistencies, that probably will disappear soon or will be very much closer to the EU. However, we have a specificity that is not encountered in other countries ;, there aren't (at least officially) enterprises with zero employees, because the law does not allow it, SMEs are required to have at least one employee, and in recent years proposals have been advanced by the government that starting of 2006, micro-enterprises must have at least 5 employees, but the discontent which it generated, led to secondary concern and abandon.

The total number of existing active enterprises grew; over 99% are SMEs, and the turnover which they have achieved is at 57.5% of the total national economy. Also, the class size of SMEs, small enterprises are the most numerous and have a share of 88% in all existing enterprises in Romania and 89% in SMEs. The Share of this class of enterprises in the total turnover of companies in the country according to their calculations, is reaching approximately 34%, and in the turnover of SMEs amounted to 58%. As a weird spot of our economy, small enterprises realized sales of own activities, which reached a share of 96% of the turnover of large enterprises (with over 500 employees). The conclusion is obvious - SMEs are prevalent, they are in an undisputed number, but their contribution to economic activity is at lower weights of most European countries.

Overall dynamics of SMEs, in a sense, hide a very complex evolution of types of activities or economic sectors. The Number of SMEs registered in constructions has an annual growth rate of over 23 percent, while agriculture growth rate was 9.2%, 9% in industry and in services 13%. As a result of such dynamics important changes were made in the number of SMEs by sector of which the most significant are :

- From all SMEs, the most numerous are those which operate in the services which also includes wholesale and retail trade, whose share fell from 80.6% in 2000 to 72.5% in 2007;
- Rapid growth of construction under the expansion of urban and residential infrastructure, **Sapard** modernization and others determined the doubling number of the share of SMEs in this sector in the total SME;
- the Number of small and medium enterprises in the industrial sector developed maintaining its share at the same percentage values for the whole period;
- Agriculture has undergone a slow and sinuous evolution regarding the number of SMEs which resulted in reducing their share to 3.1% in 2000 to 2.8% in 2007;
- Size of small size industrial firms is superior to other areas and the services sector is by far dominated by micro enterprises, while the size of the small and medium enterprises in this field are compatible (close) with those of the same size category that are acting in construction and agriculture;
- Tendency during 1999-2007 there is evolution in the balanced territorial profile number of SMEs, without a noticeable sensitivity to reduction of existing gaps;
- Statisticians and authorities in the field of SMEs and disclose existing tendencies to assert a specialization in sectors of SMEs from different regions (Bucharest-Ilfov in services and construction, South and South-East - the agriculture, Center, West and North - West - industrial profile, etc.).

Regarding the dynamics of SMEs by 2000, in Romania it can be observed two important phenomena taking place under the overall state of the economy: a more spectacular dynamic, with higher numbers growth trend of the economy, a slower dynamics number in years with the difficulties in the economy. Among the classes of SMEs, the highest availability in this regard in other countries have micro-enterprises with zero employees and then those with 0-9 employees. In our country the highest availability is of their micro (0-9 employees). Explanations are related to the fact that their existence and functioning of capital required is much lower and their owners

make special efforts in the form of labor, transport, built spaces, land, etc..., Accepting all that because the enterprise is the source of support for their existence. In this small class there the largest number of situations in which there is no question of profit (profit residual), but only an income to support spending.

SMEs in Romania, as well as those from other countries, have important contributions in the economy and investments that they made, and private investments have the most important role. Involving SMEs in the economy induces inevitably participation in the creation of new value, or value added, along with depreciation of fixed capital from the gross value added - the source of its own finance for any company. The share of direct exports of SMEs in total direct exports made to all existing enterprises was 49%, and all size classes and increased contribution to this indicator, but the most spectacular was the evolution of class enterprises with 100-249 employees whose exports have increased by 54% so far above the other two size class whose exports increased by 38% and 43%. Another criterion on enterprise activity is the gross result of the financial year, which places us in terms of the goal of economic profit in a capitalist economy in the reception of the profits that can be reached by deduction of units illustrating opposite phenomena, being positive shows that it is possible.

All these issues together with others to which we have referred shows us that the situation of SMEs in our country is determined under favorable domestic business environment. This requires them directly or indirectly through the way in which the two variables of capital importance move: the application of international and local products of competitors from other countries. If demand for local products will be down and the competition of foreign origin will increase, inevitably difficulties faced by SMEs will increase, and vice versa. The most profitable trend, keeping in mind the entry in the EU is tightening of competition from other countries, and facing such situations and acting for concomitant expansion in domestic demand for local products, SMEs have more opportunities that can be addressed in line: increasing the share of sales to existing customers and retention of their orientation to new market segments, using new techniques and technologies for production, attracting investment in new fields of action, increasing receptivity to clients' problems and demands of their quality or punctuality, increasing accountability to promote products etc.

If we talk about the challenges of entering the EU we say that all these problem should be the subject of intense concern and that we open the prospects closest to the potential existing in Romania, so we benefit from openings offered by the EU.

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# THE COMPETITIVENESS OF THE ROMANIAN EXPORTS DURING THE EU INTEGRATION PROCESS

**Giurgiu Adriana**

*University of Oradea, Faculty of Economics, Contact address: Oradea, Universitatii str. 1, post code 410087, Bihor, Romania, E-mail: agiurgiu@uoradea.ro, Telephone: +40259408416*

*This paper focuses on finding out the leading sectors with high potential to maintain and consolidate the comparative and competitive advantages of the Romania's exports and analyses the change in the pattern of Romanian export specialisation by estimating RCA indexes over time. The study provides an in-depth analysis of the shifting export specialisation and links this analysis to the Romanian export potential. Further, the study uses the revealed comparative advantage framework to analyse the extent of export competition between Romania compared to the EU economy. It argues that the degree of competition among EU will intensify in the presence of growing trade liberalisation, competitive pressures, and the changing structure of world demand, and as a result, this study calls for a reassessment of the factors that influence Romania's export competitiveness, and for a reorientation of the Romanian exports.*

*Keywords: export competitiveness, Romania, economic indicators, methodology, external trade, economic integration, European Union, specialization, competitive and comparative advantages*

*JEL Classification Code: F12, F13, F14, F15, F17, F20, F41, F42, F43, F47.*

## **1. Introductory remarks**

Romania and the entire EU are facing now a changing international reality. Currently financial markets are in a severe crisis that has started to spill over to the real economy. Policy makers around the world are working to restore confidence in the financial system.

In 2008, volatile commodity, food and energy prices and the weakening of the dollar against the euro have influenced economic developments. These developments underline the need for Romania to further enhance its adaptation capacity to external shocks by developing a knowledge-based economy and boosting competitiveness through continued commitment to the EU Growth and Jobs Strategy.

The post-World War II era has been characterised by high growth rates in the world economy and a progressive reduction in barriers to international trade and investment. Productivity increases in agriculture and manufacturing, and more recently in services have been a major driver in the generation of income and wealth. There is massive empirical evidence that open economies are richer and more productive than closed economies. Studies focusing on income *level* find that one percentage point increase in the share of trade in GDP raises the level of income by between 0.9 to 3 per cent<sup>171</sup>. In an overview of studies about the income effects of openness, Lewer and Van den Berg (2003) found that a percentage point increase in the rate of growth of international trade increases the growth rate of the economy by about 0.22%. It is hard to believe this is a permanent effect, but even if it dies out after 10 years, income is still about 2.5% larger.

The link between openness and income is convincing, but it is more difficult to establish an empirical link between *trade policy* and income<sup>172</sup>. Moreover, it is hard to identify empirically which factors limit openness and the accompanying productivity gains. The theoretical channels between openness and productivity are clear (such as reallocation of resources, more competition, economies of scale, bigger variety of products, innovation, and knowledge spillovers), but their quantitative importance less so.

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<sup>171</sup> Examples are Badinger (2005), Frankel and Romer (1999), Frankel and Rose (2002), Wacziarg and Horn Welch (2003) and the overview of Nordas et al. (2006).

<sup>172</sup> See Nordas et al. (2006) and Wacziarg and Horn Welch (2003), among others.

Romanian exports competitiveness should be therefore at the centre of domestic economic analysis, along with the recent changes of the Romania's productivity growth, which is the key driver of competitiveness in the long run.

For these reasons, the present paper analyses different factors that may have an impact on competitiveness, such as the openness in trade and the comparative and competitive advantages of the Romania's exports, and analyses the change in the pattern of Romanian export specialisation by estimating RCA indexes over time. These are even more important because the recent researches pursued by the EU Commission and its economic specialists concluded that "the lack of knowledge of export markets and regulations in other countries are the main trade barriers. Import tariffs and duties are less important."<sup>173</sup> So, it is important to understand that the competitive advantages do not come from protectionism, quota or preferential access to the market. On the contrary, they lead to stagnation, low levels of entrepreneurial abilities and low motivations of the private sector towards efficiency, quality, innovation and product development.

## **2. Theoretical hypothesis and research methodology**

Trade openness is generally considered to be a sectoral growth driver, as it improves the allocation of resources, increases the size of the market, allows for greater competition and increases the chances of attracting investment. One particularly important aspect is intermediate trade, as it allows industries to increase their competitiveness by importing cheaper, more sophisticated and more diverse inputs for production and new technologies. Another is trade in services, where the comparatively low level of current international transactions and the enduring restrictions due to regulatory barriers suggest a high potential to raise productivity and growth by opening markets and thereby increasing specialization and economies of scale.

The evolution in time of the trade specialisation is a phenomenon reflecting structural changes in the entire economic system of a country. In general, it needs time to make these changes because the comparative advantages in trade are not gained in a short time, especially because they are structural by definition. If the phenomenon is a rule, there are some exceptions, for example, when there are drastic changes in the ways of production as being determined by external factors, such as the spreading of a complete technology or vast institutional changes (for example, to take into consideration the situation of former communist countries which acceded the EU in 2004 and 2007, respectively).

A major importance in studying the foreign trade's performance and the export competitiveness of an economy is given by the profile of the specialisation, usually measured with the help of the comparative advantage, measured by different indicators, their choice depending on several factors, which relay on the main features of its economy. As a result, the specific analysis carried on in this paper implied the use of several indicators attentively selected and calculated (i.e. *the indicator of Revealed Comparative Advantage - RCA, Michaely indicator, Lafay indicator, Grubel-Lloyd inter-branch trade indicator*), pointing out advantages and disadvantages of each indicator from the point of view the characteristic aspects and influences of the Romanian external trade during its EU integration process.

For these considerations, the use of the *Indicator of the Revealed Comparative Advantage (RCA)*, proposed by B. Balassa in 1965, was found appropriate for the analysis of the export competitiveness of Romania, being well known that it compares the relative size in a sector in a certain country in the total of exports made by that country with the relative size of the exports of a certain sector in a certain area given the exports of that particular area.

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<sup>173</sup> European Commission, Unit B4, Economic Analysis and Evaluation, DG Enterprise and Industry (2009), *European Competitiveness Report 2008*, Luxembourg: Office for Official Publications of the European Communities, 2009, p. 36

The computing formula of the indicators and the research methodology used in this paper are presented in another paper (see: Giurgiu, Adriana (2008)<sup>174</sup>).

### 3. Analyzing the Competitiveness of the Romanian Exports during 1991-2006

In what follows we are going to present the results we obtained regarding Romania's comparative advantage during 1991-2006, while trying to join the EU, for all the sections of products classified upon the Combined Nomenclature (CN).

**Table 1: Evolution of Romania's export and import during 1990-2006 (%)**

Year	Evolution of exports (US dollars) expressed in %	Evolution of imports (US dollars) expressed in %	Evolution of exports (Euro) expressed in %	Evolution of imports (Euro) expressed in %
1990	-44.931820	+9.046161	-59.589331	-19.969241
1991	-26,147186	-41,619019	-35,149293	-48,740771
1992	+2,297773	+7,542955	-9,558428	-4,814522
1993	+12,124685	+4,201949	+24,650194	+16,148425
1994	+25,735895	+9,000307	+23,381896	+6,978404
1995	+28,596976	+44,577296	+18,312040	+32,615949
1996	+2,199747	+11,257054	+5,579188	+14,844635
1997	+4,292429	-1,355488	+15,744615	+9,464344
1998	-1,530068	+4,946809	-0,923818	+5,253678
1999	+2,228379	-10,821085	+7,797297	-5,618939
2000	+22,151526	+23,662025	+41,318792	+42,953561
2001	+9,819620	+19,126771	+12,853721	+22,493129
2002	+21,809398	+14,795525	+15,351360	+8,675142
2003	+27,350736	+34,335966	+6,398637	+12,228045
2004	+33,146481	+36,088062	+21,269374	+23,961134
2005	+17,697512	+24,095747	+17,533668	+23,924128
2006	+17,193207	+25,389378	+16,158167	+25,108003
Average	+9,060899412	+12,60414194	-9,735594384	+9,735594353

Source: Personal computations based on statistic data provided by The Romania National Statistic Institute

**Table 2: The Romania's rate of GDP growth, 1989-2006, basis in chain**

Year	Real evolution of GDP (%)	Year	Real evolution of GDP (%)
1989	-5,8	1998	-4,8
1990	-5,6	1999	-1,2
1991	-12,9	2000	2,1
1992	-8,8	2001	5,7
1993	1,5	2002	5,0
1994	3,9	2003	4,9
1995	7,1	2004	8,3
1996	3,9	2005	4,1
1997	-6,1	2006	7,0

Sources: Personal computations based on statistic data provided by: European Institute of Romania – Impact Studies (PAIS II), p. 9, for the period 1991-1994; for the period 1995-2003, The Annual Report of the National Bank of Romania, 2003, p. 218; The Annual Reports of the National Bank of Romania regarding the External Payments Balance Sheet and the Investment Position of Romania, 1991-2006; The

<sup>174</sup> Giurgiu, Adriana (2008), *The Leading Economic Sectors Building Comparative and Competitive Advantages in Romania's Foreign Trade*, Theoretical and Applied Economics, Asociatia Generala a Economistilor din Romania - AGER, vol. 5(5(522)), pages 11-44, May.

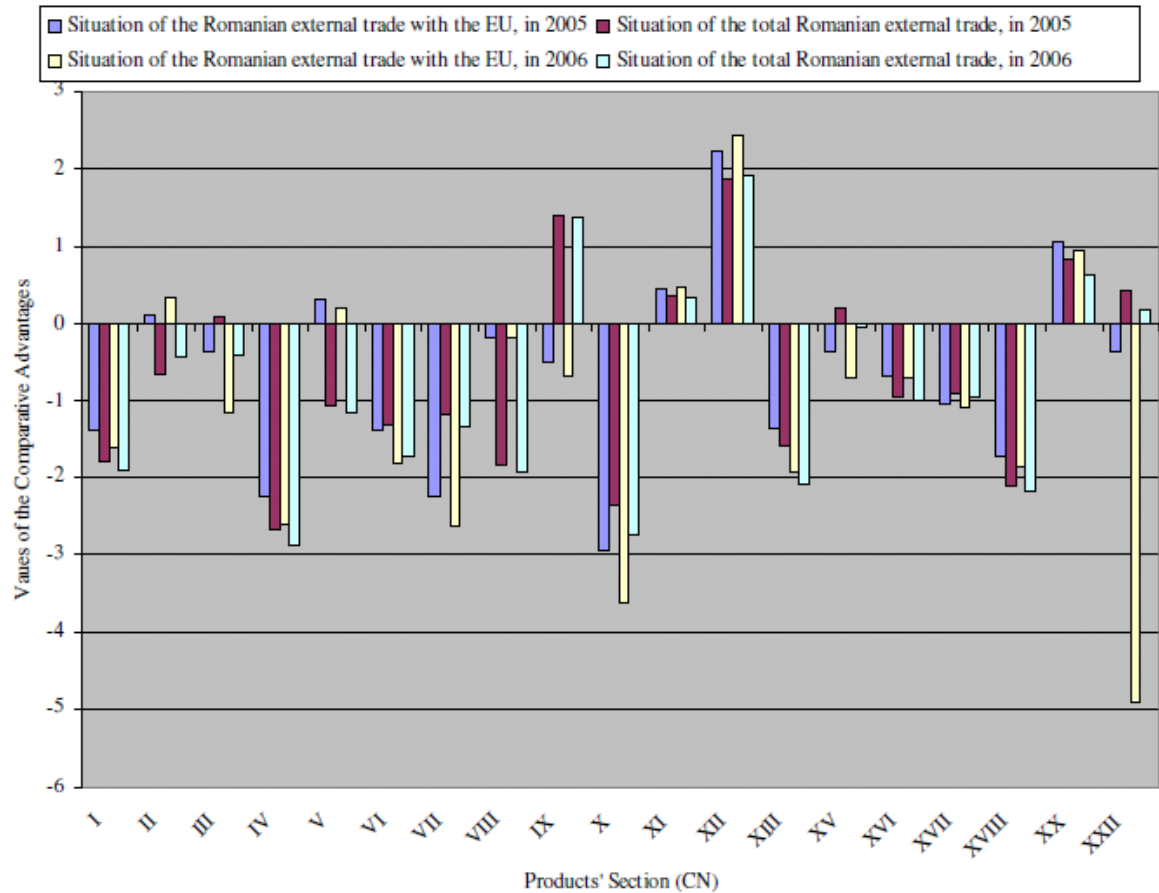


**Table 3: The evolution of Romania's external trade apparent comparative advantage, 1991-2006**

Sections of CN	Year	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
I		1,69	1,10	1,16	0,92	0,35	1,04	1,49	-1,12	-0,07	-0,20	-1,05	-0,92	-0,44	-0,92	-1,78	-1,91
II		-2,28	-3,10	-2,83	-0,91	0,39	1,15	-0,04	-0,33	0,15	-1,05	-0,85	-0,59	-1,70	-1,34	-0,67	-0,44
III		-1,08	-2,57	1,42	0,52	1,35	1,64	1,74	0,31	0,66	-0,69	-0,42	-2,50	-0,97	0,29	0,09	-0,41
IV		-3,11	-3,19	-2,87	-2,04	-2,73	-2,44	-1,86	-2,47	-2,34	-2,37	-2,40	-2,09	-2,34	-2,55	-2,68	-2,87
V		-1,97	-1,82	-1,58	-1,14	-1,59	-1,92	-1,77	-1,71	-1,14	-1,05	-1,42	-0,85	-1,18	-1,32	-1,06	-1,14
VI		-0,51	0,03	-0,53	-0,17	-0,33	-0,51	-0,70	-1,59	-1,36	-0,92	-1,21	-1,46	-1,45	-1,38	-1,31	-1,71
VII		-0,47	-1,06	-1,23	-0,54	-0,86	-1,19	-1,17	-1,53	-1,19	-1,18	-1,63	-1,30	-1,23	-1,07	-1,18	-1,32
VIII		0,46	-1,63	-1,57	-1,14	-1,79	-2,28	-1,91	-2,27	-1,91	-1,63	-1,74	-1,65	-1,72	-1,66	-1,83	-1,92
IX		1,60	2,24	2,35	2,44	1,99	2,48	2,51	2,65	2,47	2,40	2,15	1,85	1,86	1,73	1,40	1,38
X		-0,79	-2,42	-2,19	-1,63	-1,32	-2,21	-1,84	-2,72	-2,12	-1,61	-1,63	-1,56	-1,79	-1,80	-2,35	-2,75
XI		0,68	-0,30	0,23	0,41	0,34	0,36	0,29	0,24	0,15	0,20	0,24	0,23	0,31	0,34	0,35	0,33
XII		0,89	0,80	1,61	1,79	1,81	1,99	1,67	1,60	1,59	1,60	1,85	1,79	1,89	1,86	1,87	1,90
XIII		0,02	0,66	0,61	0,55	0,37	0,06	0,07	-0,05	0,04	-0,14	-0,40	-0,47	-0,70	-1,06	-1,58	-2,09
XV		1,31	1,43	1,66	1,29	1,25	0,81	1,13	1,00	0,80	0,77	0,39	0,39	0,29	0,40	0,20	-0,06
XVI		-0,26	-0,84	-1,29	-1,19	-1,52	-1,86	-1,69	-1,76	-1,17	-1,00	-1,01	-0,81	-0,96	-0,88	-0,97	-1,00
XVII		1,68	0,68	0,48	0,19	0,10	0,09	0,21	-0,18	0,09	-0,11	-0,40	-0,34	-0,52	-0,98	-0,93	-0,97
XVIII		-2,68	-2,60	-3,08	-2,72	-3,41	-3,34	-3,15	-2,83	-2,57	-2,70	-2,61	-2,47	-2,53	-2,16	-2,10	-2,18
XX		3,47	2,80	2,21	1,57	1,50	1,43	1,23	1,18	1,10	0,99	1,09	1,02	1,05	1,09	0,84	0,64
XXII		0,70	-1,03	0,40	0,06	-0,86	-1,61	-1,92	-1,66	-0,09	0,25	0,48	1,18	1,24	0,71	0,43	0,18

Source: see Giurgiu, Adriana (2008), *The Leading Economic Sectors Building Comparative and Competitive Advantages in Romania's Foreign Trade*

**Graph 1: The situation of Romania's external trade comparative advantages in 2005 and 2006**

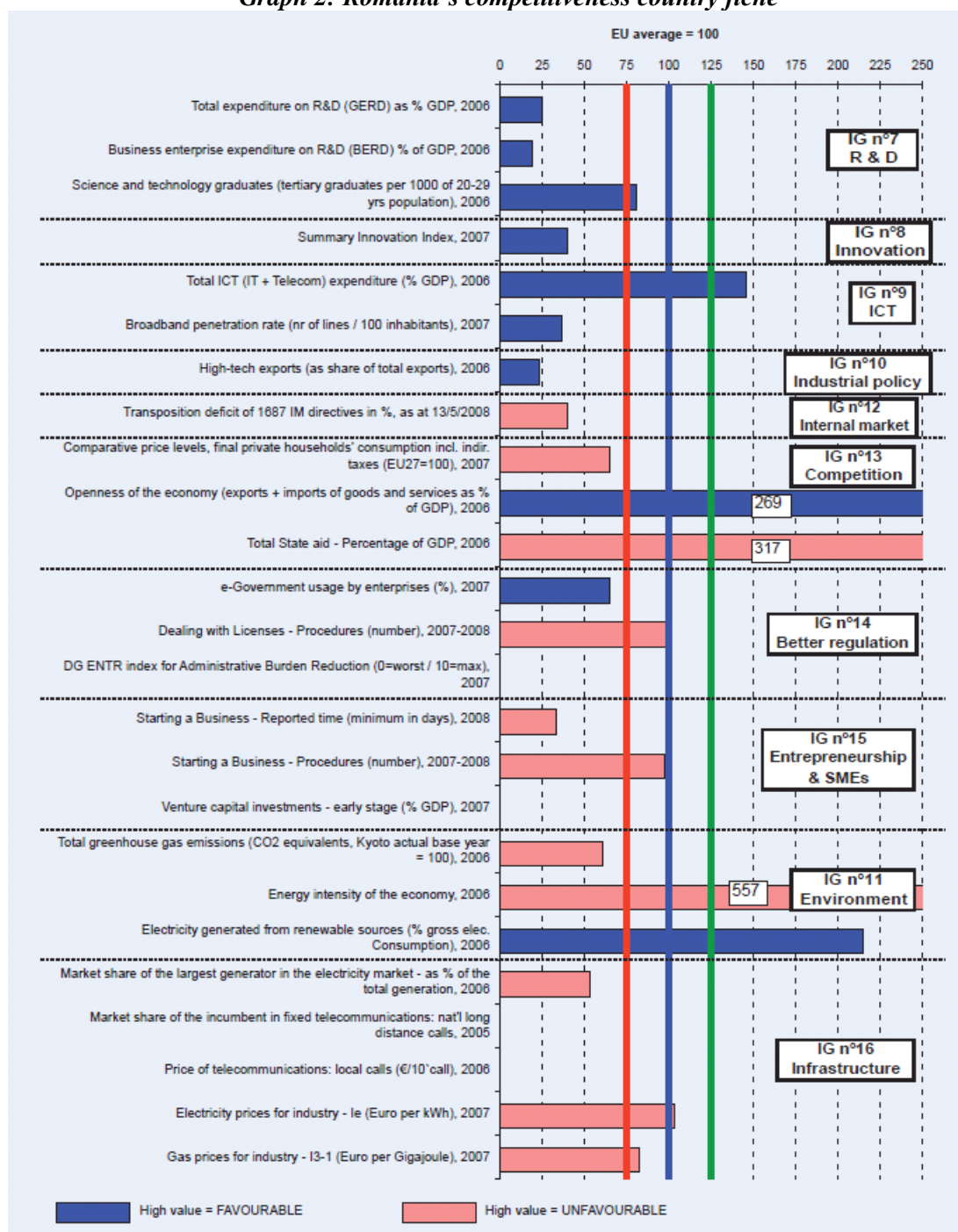


Source: see Giurgiu, Adriana (2008), *The Leading Economic Sectors Building Comparative and Competitive Advantages in Romania's Foreign Trade*

### 3. Analyzing the Competitiveness of the Romanian Exports after joining the EU, in 2007

In what follows we are going to present the results regarding Romania's export competitiveness as an EU Member State.

**Graph 2: Romania's competitiveness country fiche**



Source: European Commission, Unit B4, Economic Analysis and Evaluation, DG Enterprise and Industry (2009), European Competitiveness Report 2008, Luxembourg: Office for Official Publications of the European Communities, 2009, p. 188

The country fiche gives a snapshot picture of the competitiveness profile of Romania after joining the EU<sup>175</sup> and presents the performance of Romania in the policy areas covered by the microeconomic pillar of the Lisbon agenda, as it is presented into the *European Competitiveness Report 2008*. The openness indicator at EU level refers to extra-EU trade, while the openness indicators at Romania's level refer to total external trade (so intra-plus extra-EU trade). Providing a common framework for all Member States, the integrated guidelines for growth and jobs specify the overarching objectives to be pursued in each policy area constituting the microeconomic pillar. The link of these policies with competitiveness – taken here as the “capacity to grow” – is well established<sup>176</sup>. Higher productivity growth is the main channel through which these policies improve competitiveness.

#### 4. Conclusions

The analysis in this paper tried to be pragmatic, making use of the best available data and research methods even though both are far from perfect. Despite the statistical challenges, the findings for 2007 and later (as much it was possible), are remarkably robust and stable compared with the findings in earlier papers. They show us that Romania had the indicator of export openness for total manufacturing goods more than double in the analyzed period. The office machinery and computer industry deserves special attention, as its openness indicator outperforms all the other sectors in the last years. Other industries with high indicators of export openness for Romania aggregates are radio, TV and communication, scientific instruments, and not to forget, leather, textiles and footwear. The motor vehicles and other transportation equipment industries also export a great part of the production within Romania, especially after joining the EU.

Those industries which increased their export openness most between in the last years in Romania were office machinery and computers; radio, TV and communications; leather and footwear, and clothing, a situation quite similar to the EU level. Radio, TV and communications, and to a somewhat lesser extent leather and footwear, appear to be industries where domestic demand is largely met by imports, as other transportation equipment, machinery, and motor vehicles have high import penetration indicators for the last years in Romania.

In the longer run, further adjustment of external imbalances could come from recent FDI driven improvements in export competitiveness<sup>177</sup>. In the first three quarters of 2008 export growth accelerated and exceeded import dynamics for the first time since 2004. While the economic downturn in the Euro Area (representing 70% of Romania's exports) may significantly dampen export performance in the short run, it is expected that once demand by the Euro Area will pick-up, the trade channel will play a more prominent role in boosting growth.

The improved export competitiveness has in particular been reflected in the composition of exports, showing an increasing share of higher value added products<sup>178</sup>. Furthermore, in spite of relatively low volumes, export market shares (as a percentage of world exports) have doubled from 0.15% to 0.3% between 2000 and 2007, in line with most other recently acceded Member States. And finally, notwithstanding increasing labour shortages and higher wage claims, the

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<sup>175</sup> The source and a short description of the indicators used in the country fiche are presented at the end of the *European Competitiveness Report 2008*. See European Commission, Unit B4, Economic Analysis and Evaluation, DG Enterprise and Industry (2009), *European Competitiveness Report 2008*, Luxembourg: Office for Official Publications of the European Communities, 2009, pp. 194-196.

<sup>176</sup> For example, see *European Competitiveness Report 2007* for a review of empirical evidence.

<sup>177</sup> Between 2000 and 2007, roughly 30% of all FDI inflows went to the tradable sector, leaving Romania in a middle position between on the one hand Bulgaria, Latvia and Estonia (with an average of 15%) and Czech Republic, Hungary and Slovakia with an average of 45%. See Pauwels, Stefaan (09.01.2009).

<sup>178</sup> For example, see Pauwels, S. and L. Ionita (2008).

exporting sector has managed to maintain profit margins<sup>179</sup> thanks to favourable export price developments. Furthermore, the improved exports performance until Q3-2008 has also been fuelled by a real effective exchange rate adjustment, from previously overvalued levels.

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<sup>179</sup> Profit margins as proxied by the difference between manufacturing unit labour cost developments and the export deflator. See Pauwels, Stefaan (09.01.2009).

# GLOBALISATION AND EXPORT COMPETITIVENESS: A THEORETICAL APPROACH

## **Giurgiu Adriana**

*University of Oradea, Faculty of Economics, Contact address: Oradea, Universitatii str. 1, post code 410087, Bihor, Romania, E-mail: agiurgiu@uoradea.ro, Telephone: +40259408416*

## **Dodescu Anca**

*University of Oradea, Faculty of Economics, Contact address: Oradea, Universitatii str. 1, post code 410087, Bihor, Romania, E-mail: adodescu@uoradea.ro, Telephone: +40259408109*

*Over the past two decades, globalisation has given a boost to world trade, has grown one and a half times faster than world output, and the difference has even been considerably higher in recent years as world trade growth accelerated very strongly. More and more goods and services have entered the markets, and domestic companies have increasingly engaged in international trade. So what is the export competitiveness of an economy in the global market? Despite its acknowledged importance, the concept of competitiveness is still misunderstood, and a discussion of its underpinnings remains a central task. Competitiveness is nowadays a central preoccupation of all countries in an increasingly open and integrated world economy. In this paper, we will try to generally define competitiveness and particularly, we will focus on defining the export competitiveness, in order to offer a conceptual framework for a better understanding.*

*Keywords: export competitiveness, globalisation, economic theories, economic integration*

*JEL Classification Code: F01, F02, F10, F12, F13, F15, F41, F43, F47.*

## **1. Introduction**

Competitiveness is a central preoccupation of all countries in an increasingly open and integrated world economy, characterized by the tendency of freer trade, and even more nowadays, which are very challenging times – for Europe and for the global economy. We take the opportunity to look at Europe's economy and the external and internal dimensions of Europe's competitiveness from a broad perspective and to focus particularly on the growing challenge of globalization, because it is recognised that these two dimensions are closely related, as well as they are also related to the current situation - the economic crisis, its impact on Europe as a whole and on the world economy.

Developments in the international economy had always a particular impact on the EU, reflecting its very open nature and its strong dependence on international trade and financial flows. But it is important that we recognise the global nature of this crisis, in which public authorities everywhere are confronted by the adverse effects of the market turbulence on their own economies and financial systems. And it is important to recognise that despite these difficulties, we have not lost the things that have made the real economies of the EU so successful in recent years, notably our skilled workforces, our dynamic businesses and our openness to trade. That's why we will further discuss how the external performance of the EU relates to key internal dimensions including integration, flexibility and competition, drawing attention to policy changes that are necessary to maintain and improve Europe's competitiveness.

## **2. Defining competitiveness**

Despite its acknowledged importance, the concept of competitiveness is still misunderstood, and a discussion of its underpinnings remains a central task. This is the reason why, in this paper, we will try to define competitiveness, focusing on the export competitiveness, and offering a conceptual framework for understanding its causes.

So what do we mean by “competitiveness”? For many people, competitiveness is a disconcerting word, suggestive of pressures to change and constant adjustments. And these pressures can have personal and social costs, as well as very large benefits – we need to stay competitive for the long-term welfare of the people of each economy.

What does the word “competitiveness” mean to economists? In a narrow sense, it is often used to refer to international price competitiveness as measured by various indicators of effective exchange rates.

For Michael E. Porter, Christian Ketels and Mercedes Delgado, “*competitiveness* is a country’s share of world markets for its products”.<sup>180</sup> According to this definition, the authors further argue that this “makes competitiveness a zero-sum game, because one country’s gain comes at the expense of others”<sup>181</sup>. This view of competitiveness is used to justify interventions to skew market outcomes in a so-called strategic industrial policy, including subsidies, artificial restraints on local wages, and intervention to devalue the nation’s currency. In fact, the authors agree that “lower wages or devaluation *make a nation more competitive*.”<sup>182</sup>

Although widely used in economics and business management, the usefulness of the concept, particularly in the context of national competitiveness, is vigorously disputed by economists, such as Paul Krugman, who argues that “As a practical matter, however, the doctrine of ‘competitiveness’ is flatly wrong. The world’s leading nations are not, to any important degree, in economic competition with each other.”<sup>183</sup>

Eurostat’s Concepts and Definitions Database (CODED) defines competitiveness as “The ability of companies, industries, regions or supranational regions to generate, while being and remaining exposed to international competition, relatively high factor income and factor employment levels on a sustainable basis.”<sup>184</sup>

The European Central Bank analyses developments according to a whole host of such indicators. This concept of competitiveness is linked to the “external performance” of a country, typically measured in terms of export growth, shares of export markets or current account balances. Developments in price competitiveness have always been important drivers of an economy’s ability to compete in international markets. But in recent years, other factors have become increasingly important in the face of the structural changes engendered by globalisation. These relate to export specialisation, which includes the range and the quality of the products a country exports, and the particular markets it exports to. In this regard, it is important that a country takes advantage of its high technological advancement and well-educated labour forces, to produce higher quality and more sophisticated goods and to redirect its exports towards strongly growing markets.

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<sup>180</sup> Michael E. Porter, Christian Ketels and Mercedes Delgado (2008), *The Microeconomic Foundations of Prosperity: Findings from the Business Competitiveness Index*, The Global Competitiveness Report 2007-2008, p.2, electronically available at the following web address: [http://siteresources.worldbank.org/EXT/EXPCOMNET/Resources/2463593-1213989126859/03\\_Porter\\_GCI\\_ch1&2.pdf](http://siteresources.worldbank.org/EXT/EXPCOMNET/Resources/2463593-1213989126859/03_Porter_GCI_ch1&2.pdf).

<sup>181</sup> Idem.

<sup>182</sup> Idem.

<sup>183</sup> Krugman, Paul (March/April 1994), *Competitiveness: A Dangerous Obsession*, Council on Foreign Relations, Inc., Foreign Affairs, electronically available at the following web address: <http://www.foreignaffairs.com/articles/49684/paul-krugman/competitiveness-a-dangerous-obsession>.

<sup>184</sup> Eurostat’s Concepts and Definitions Database (CODED), , electronically available at the following web address: [http://ec.europa.eu/eurostat/ramon/nomenclatures/index.cfm?TargetUrl=DSP\\_GLOSSARY\\_NOM\\_DTL\\_VIEW&StrNom=CODED2&StrLanguageCode=EN&IntKey=16438235&RdoSearch=BEGIN&TxtSearch=COMPET&CboTheme=&IntCurrentPage=1](http://ec.europa.eu/eurostat/ramon/nomenclatures/index.cfm?TargetUrl=DSP_GLOSSARY_NOM_DTL_VIEW&StrNom=CODED2&StrLanguageCode=EN&IntKey=16438235&RdoSearch=BEGIN&TxtSearch=COMPET&CboTheme=&IntCurrentPage=1), last consulted on april 5<sup>th</sup>, 2009.

Looking even more closely into the domestic structure of an economy we come to the notion of productivity. As Krugman notes, “national economic welfare is determined primarily by productivity in both traded and non-traded sectors of the economy”<sup>185</sup>.

Productivity and competitiveness are two different concepts, but there are close links between them. More broadly defined, “competitiveness” includes a notion of relative productivity. Under this definition, the most competitive economy is the one with the best prospects for “generating” highly productive firms, contributing to longer-term economic growth and, ultimately, to the welfare of its citizens.

Wealth is actually created by the productivity with which a nation can utilize its human, capital, and natural resources to produce goods and services. According to Michael E. Porter, Christian Ketels and Mercedes Delgado, “Productivity ultimately depends on the *microeconomic* capability of the economy, rooted in the sophistication of companies (both local and subsidiaries of multinationals), the quality of the national business environment, and the externalities arising from the presence of clusters of related and supporting industries. Unless microeconomic capabilities improve, sustainable improvements in prosperity will not occur”<sup>186</sup>.

True competitiveness, then, is measured by productivity. Productivity supports high wages, a strong currency, and attractive returns to capital—and with them a high standard of living. Many nations can improve their prosperity if they can improve productivity.

Recent advances in trade theory have stressed the connections between the external and internal dimensions of competitiveness, which have become increasingly relevant in a globalising economy. Some of the latest economic models of trade<sup>187</sup> see global competition as a selection mechanism, in which only the most productive firms do business outside their national borders.<sup>188</sup>

These new models also stress the importance of countries’ institutional framework which may make market access easier and push domestic firms to innovate. According to this body of economic knowledge, continuing efforts to promote stronger competition and further market integration appear to be important tools for supporting and enhancing the global competitiveness of one economy firms.

### **3. Globalisation and export competitiveness - EU as an example**

Applying these theoretical concepts of competitiveness to the external dimension of an economy, there arrive two questions: how do we assess the external competitiveness; how are firms performing in globalised markets?

Globalisation has given a boost to world trade over the past two decades, world trade having growing 1.5 times faster than world output, and the difference has even considerably higher in recent years as world trade growth accelerated very strongly. Transport costs have dropped dramatically, as have tariffs, and the surge in information and communication technology has facilitated a global exchange of goods and services as well as globalised supply chains. More and more goods and services have become tradable, and domestic companies have increasingly engaged in international trade.

And as Romania is an EU member state, we have to specify that the EU, and especially, the Euro Area, has actively contributed to this rise in international trade. The EU and its member state have a long history in trading, but the openness of the euro area has increased that business

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<sup>185</sup> Idem.

<sup>186</sup> Michael E. Porter, Christian Ketels and Mercedes Delgado (2008), *The Microeconomic Foundations of Prosperity: Findings from the Business Competitiveness Index*, The Global Competitiveness Report 2007-2008, p.2, electronically available at the following web address: [http://siteresources.worldbank.org/EXT/EXPCOMNET/Resources/2463593-1213989126859/03\\_Porter\\_GCI\\_ch1&2.pdf](http://siteresources.worldbank.org/EXT/EXPCOMNET/Resources/2463593-1213989126859/03_Porter_GCI_ch1&2.pdf).

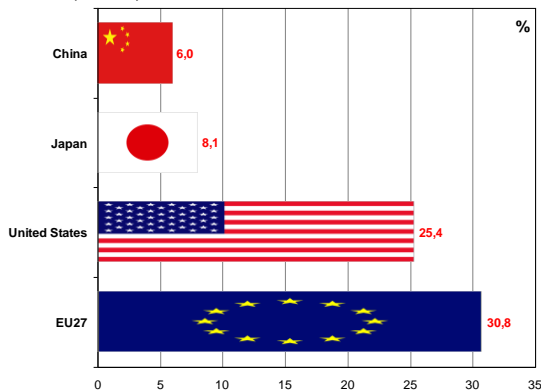
<sup>187</sup> For an overview, see, for instance, Bernard et al (2007).

<sup>188</sup> See, for example, Melitz and Ottaviano (2008) and Ottaviano, Taglioni and di Mauro (2009).



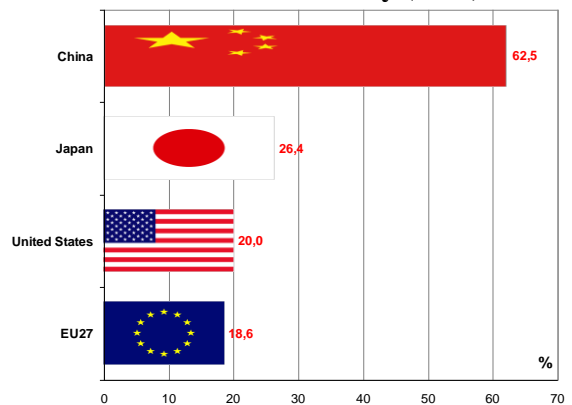
markedly. In the mid-1990s, exports of goods and services from the euro area were equivalent to around 30% of GDP; now they are equivalent to around 34,05% of GDP, and even 44% of GDP, if we consider the founding members of the euro area, only<sup>189</sup>. Earlier observers who said that European integration could lead to a closing vis-à-vis the outside world have proved to be utterly wrong, because quite the opposite has happened.

**Table 1: Share of (current) GDP in World GDP (2008)**



Data Source: World Bank; Share =  $GDP_i / GDP_w$

**Table 2: The EU in the World Trade. Degree of Insertion in World Economy (2008)**



Data Source: Eurostat (Comext, Statistical regime 4), IMF, World Bank; Ratio =  $(Imports + Exports, excluding Energy) / GDP$

Obviously, Europe's trade has grown not only because of Asia's, and particularly China's emergence as a fully-fledged trading partner, but also by the growing role of the central and eastern European countries. But even though EU is roughly comparable in size to the United States, the euro area is about ten percentage points more open, and is much more open than Japan, despite its larger size. This is an indication, if there was more necessarily, of why Europe has a key stake in global economic developments.<sup>190</sup>

Europe's openness is also remarkable in international finance: over the past decade, the stock of outward and inward foreign direct investment has virtually doubled as a percentage of GDP. And even more strikingly, the euro area is more open financially than other advanced countries, like the United States and Japan. In 2007, international financial assets and liabilities of the euro area, as a percentage of GDP<sup>191</sup>, reached almost 160%, compared with about 135% for the United States and 90% for Japan.<sup>192</sup> And this explains why Europe is largely exposed to the current global financial crisis and it underscores to which extent Europe has an important stake in global financial stability. Greater openness in trade and finance has of course, created new challenges, which have rarely been as visible as today.

And just as with the global financial crisis, global trade integration calls for constant adjustment. As low-cost competitors have emerged, the advanced economies have recorded some losses in

<sup>189</sup> Based on own computation relaying on data posted by EUROSTAT at the following web address: [http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search\\_database](http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search_database).

<sup>190</sup> See Trichet, Jean-Claude (26 February 2009), *The external and internal dimensions of Europe's competitiveness*, Institute of International and European Affairs, Dublin.

<sup>191</sup> ECB (6 November 2008), *Euro area international investment position and its geographical breakdown (as at end-2007)*, electronically available at the following web address: <http://www.ecb.int/press/pr/stats/bop/2008/html/ba081106.en.html>.

<sup>192</sup> Trichet, Jean-Claude (26 February 2009), *The external and internal dimensions of Europe's competitiveness*, Institute of International and European Affairs, Dublin.

world export market shares. These losses partly reflect the mechanical effect of the increasing shares of the new entrants, but the challenge for advanced economies remains: to adjust their export portfolios according to their technological comparative advantages, towards higher quality products, and towards products that are more skill-intensive and capital-intensive.

So what is the comparative advantage an economy, and especially, of the EU and of the euro area in the global economy? Recent ECB analysis<sup>193</sup> has looked at so-called *Balassa indices of revealed comparative advantage* (RCA). According to these indices, a country specialises in a specific product or sector, if the share of that product or sector in the country's exports is higher than the share of that product or sector in world exports. This analysis suggests, somewhat surprisingly, and in contrast to other advanced economies, that the euro area specialisation overall has not changed much over last 15 years. There has been neither a decline in the specialisation in labour-intensive products, nor the expected shift towards more research-intensive production. This might reflect structural rigidities that constrain the ability of euro area firms to adjust rapidly, but it could also mean that euro area firms have so far not been under significant pressure to make substantial changes in their specialisation - particularly in medium-high-tech exports.

But this general picture for the euro area does however not necessarily hold for all euro area countries, and obviously, not for all other advanced economies in the world. Overall, there have been substantial differences in the export performance across individual countries. And euro area countries have witnessed significant differences in cost competitiveness since the launch of the euro. This explains why the ECB has always said that an appropriate peer surveillance of the evolution of competitiveness indicators, including cost competitiveness and unit labour costs was of the essence.<sup>194</sup>

#### **4. Competitiveness, the crisis and the challenges for policy**

Turning to the current difficulties in the international economy, which are having such a strongly negative impact on all advanced economies, we should retain the fact that for many years, the most developed countries in the world have been a great success story: openness to trade and a high degree of flexibility have allowed these countries to benefit substantially from globalisation during the last decades. They now have a very high income per capita, and are characterised by a skilled workforce, a flexible labour market, moderate taxation and a business-friendly regulatory environment.

None of these advantages have been lost as a result of the global financial crisis. But crucially for them, this unprecedented international shock has come at the same time as their economies have been undergoing a necessary rebalancing in the composition of their growth, intensifying the challenges they face. In particular the construction and the banking sectors need to adjust.

The governments are acting resolutely to redress the situation. With the public finances, important action is being taken to make immediate savings, and plans are being drawn up for a return to compliance with their Recovery Strategies. A fiscal policy that convincingly reduces future public deficits is indeed absolutely essential for all of them. In addition, measures have been taken or are under way to recover lost competitiveness and to exploit the countries' comparative advantages in their high-tech, high-skills industries.

What is crucial at this moment for all economic policy actors, is to take measures that are both supportive in the current environment and in the longer-term interests of the economy. Many developed countries, despite some progress, still exhibit structural impediments triggered by a

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<sup>193</sup> For more details, see di Mauro and Forster (2008), providing an update of the earlier analysis by Baumann and di Mauro (2007).

<sup>194</sup> ECB (2008), Monitoring labour cost developments across euro area countries, Monthly Bulletin, November 2008, pages 69-85.

rigid legal and regulatory environment. Unemployment is a clear concern right now in many advanced economies, and we surely do not want to lose human capital or scar a large proportion of the people of working age. Wage restraint would help a lot in this respect. More generally, in order to minimise job and output losses related to the current downturn, it is vital that governments and social partners pursue four objectives:

- First, wage setting needs to take account of the competitiveness and labour market conditions in a responsible and timely manner.<sup>195</sup>
- Second, national authorities should pursue straight and courageous policies of spending restraint especially in the case of public wages. A prudent fiscal stance should be always in place.
- Third, a deeper integration of markets is crucial to foster competition and open product and labour markets. Measures that hinder free competition and cross-border trade must be avoided. In this context, it is of the utmost importance to resist protectionist measures.
- Fourth, the necessary reforms that enhance competition and improve long-term growth prospects must be implemented.

Especially in these difficult times such reforms are very important in all developing and developed countries to counteract the economic downturn and limit its negative impact on employment. The price of delaying reforms is particularly high at the current stage. For many years, we have been saying that we need structural reforms – more openness, more competition. The crisis offers us the opportunity and the obligation to seize the moment and implement the right reforms. These would help the economy overcome the crisis and be stronger afterwards.

As a lesson from the current crisis, we should consider ways how to strengthen the surveillance of competitiveness within our economies and regions. This should help countries to build stronger buffers in good times, to avoid excessive increases in unit labour costs, and in other words, this would prevent from again extending public and private spending beyond sustainable levels and experiencing difficulties similar to the current ones.

## 5. Conclusion

Globalization has increased the importance of local conditions in the competitiveness of companies and countries, consequently requiring that every country to compete based on its productivity as a strategic development platform for a widening array of activities, and is driving rapid improvement in the business environments of more and more countries.

But in these very challenging times, it is not easy for all economic policy-makers to reach agreement on the way forward. There are numerous policy areas that must be addressed, and it is difficult to make progress on all aspects of competitiveness simultaneously. Every country must pursue best practices in terms of policy choices and infrastructure development across all aspects of the business environment, while resolutely addressing the challenges of the global financial turbulence, the global imbalances and the resulting global slowdown. Countries need to offer advantages as business locations, not just minimize weaknesses. A unique development path for each country is often needed, which reflects its natural resources, location, unique historical and cultural assets, and state of competitive advantages in an array of fields. Looking forward, all these will continue its efforts to make the economy stronger, more flexible, more resilient and more prosperous. In many ways, the EU is an excellent example of some of the characteristics that foster global competitiveness – in its openness, its flexibility and its high levels of education. Some things will of course have to change. But none of the positive characteristics are lost nor should they be lost in the crisis. The open nature of an economy, associated with its flexibility and adaptability means that it will be well placed to benefit greatly from the eventual recovery and to compete effectively in the global economy in the future.

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<sup>195</sup> DuCaju et al. (2008).

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# INTERDEPENDENCES BETWEEN THE PUBLIC ADMINISTRATION AND PRIVATE BUSINESS ENVIRONMENT IN THE CONTEXT OF ECONOMIC CRISIS

**Grigorescu Adriana**

*National School of Political Studies and Public Administration, Bucharest, Romania Faculty of Public Administration Address: 6, Povernei Street, Sector 1 E-mail: adrianag@snsa.ro; adrianag4488@yahoo.com Phone number: +40724253666*

**Balalia Alina Elena**

*Academy of Economic Studies, Bucharest, Romania Faculty of Commerce Address: 6, Piata Romana, Sector 1 E-mail: alina.balalia@com.ase.ro Phone number: +40729012574*

*The main aim of the UE is to protect and sustain its citizen's expectations by harmonizing the national politics and strategies in order to generate better results. At this moment we have three main actors: Private Business Environment (PBE), National Public Administration (NPA) and European Public Administration and institutions (EPA). The complexity of their interactions and dependences is increasing faster and requires, in our opinion, a new approach as European socio-economic integrated system (ESEIS). We are focusing on the interconnections identification in a normal procedure and the play role in actual global crisis the Europe, but not only, is facing with. The conclusions shows that at the European level has to be identified proper mechanisms for coordinating, implementing and control, by a better structured (EPA) of the strategic plans of sustainable economic development and healthy business environment.*

*Keywords: business, public administration, strategy, integrated system, economic crisis*

*JEL Classification: M1(M10,M16),M2(M21),M3(38),F5(55),H7(77)*

## Introduction

According to the Treaty of Lisbon<sup>196</sup>, which highlights that social cohesion is a concern of the European model by itself, legal framework and legal instruments necessary for the efficient cooperation between EU member States are established in order to meet the expectations of citizens, to assort the national public administrations with the European one and subsequently to generate response from the private sector in respect of sustainable development, efficiency, stimulation of the competition, increase of quality, rational use of resources and environmental protection.

The existence of complementary processes such as economic growth, stability and social cohesion within the European model emphasizes the need for reinforcement and providing support to private sector by the institutions of the EU or by national public administrations (NPA). To achieve a sustained economic growth within the European model, the existence of a number of policies regulating the market is essential. These policies have to be developed by EU institutions and endorsed by the governments of the member states in their national strategies and field policies. The unification and the imposition of uniform standards and regulations of the market, directly applicable to the all areas of private sector create the right context for developing a complex system. In its dynamic this system is governed by the interactions between the European Public Administration (EPA)<sup>197</sup>, through European institutions and the private business environment (PBE).

As we mentioned before, the European Union has a number of instruments operating, for the public sector as well as for the private one, such as: *the legislation* - through which minimum

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196 European Union, Lisboa Treaty, European Union Official Journal, C 306, 17.12.2007, [http://europa.eu/lisbon\\_treaty/full\\_text/index\\_ro.htm](http://europa.eu/lisbon_treaty/full_text/index_ro.htm)

197 Note: At this moment there is no definition for EPA. So, in our opinion it is formed by the EU institutions, formal and informal networks/associations of NPAs (as EUPAN), other institution involved in managing the topics related with European citizens.

standards (imposed in order to obtain a higher quality of life of citizens) and mechanisms in all fields of economic and social life are established; *the executive power* - able to decide common lines of action, forms of support for these lines or forms of coercion and / or penalty; *the budget* - which together with the help state can provide financial support to implement appropriate mechanisms to achieve the aimed objectives; *the knowledge and information management* - designed to collect, systematize and process the intra and extra communication information and to design major targets of the socio-economic community. The implementation of policies to stimulate growth beyond the borders of a state, the oversight and the power of coordinating the economic and monetary unit are major vectors of the integrated development.

### **Collaboration in the context of European integration**

The PBE of a new community state member states that this status has an impact upon its existence, on its development or on its activities through consequences such as: increasing competition, the compulsory application of standards, access to labor market and European capital. Although these measures highlight the mechanisms of market economy integrated as a core element of the connection established between EPA, NPA and the private sector, the panoramic picture is much more complex. The social components concerned develop *the European citizen* and *the European consumer* adding new valences, higher requirements and higher expectations. The European single market is beyond the concept of "laissez-faire" market as it also accepts other rules than those strictly commercial, such as employment standards, educational and research funding programs, imposed limits on environmental protection etc. Therefore, we believe that European integration is not just the result of unification of the markets, in fact consisting in implementing policies of social cohesion and calling into play the European socio-economic integrated system (ESEIS). The three structures EPA - NPA - PBE interact in ESEIS and connections between them are outlined in figure 1.

Regarding the European integration the contribution of the European Economic and Social Committee (EESC) is notable. This Committee is working to develop a substantial expertise. This objective implies the participation of the Committee in the economic and social life of the country from which the members in question are. Also concerning the European integration we can highlight interdependencies between PBE and EU institutions through the Committee. It performs a dual role, on one hand to accumulate concerns and wishes of civil society organizations, and on the other hand to provide information relevant to these organizations. Thus, the EU institutions are directly or indirectly connected to the private sector, which includes a wide range of legal forms, from big corporations to microenterprises or even authorized person. Decision-making process in the EU is large and involves institutions from the highest level, such as the Commission, the Council (EC) and European Parliament (EP) as well as the advisory bodies, composed of the EESC (European Economic and Social Committee) and the Committee of the

Regions (CoR). In figure 2 we represented the mechanism of interaction between the public sector – EPA and NPA and the private sector - PBE with the assistance and the involvement of EU institutions, for the particular case when EP approves the Commission proposal without changes<sup>198</sup>.

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198 Figure created upon the scheme presented in Guide to EU institutions for everyone, Brussels, 2007, p 8.

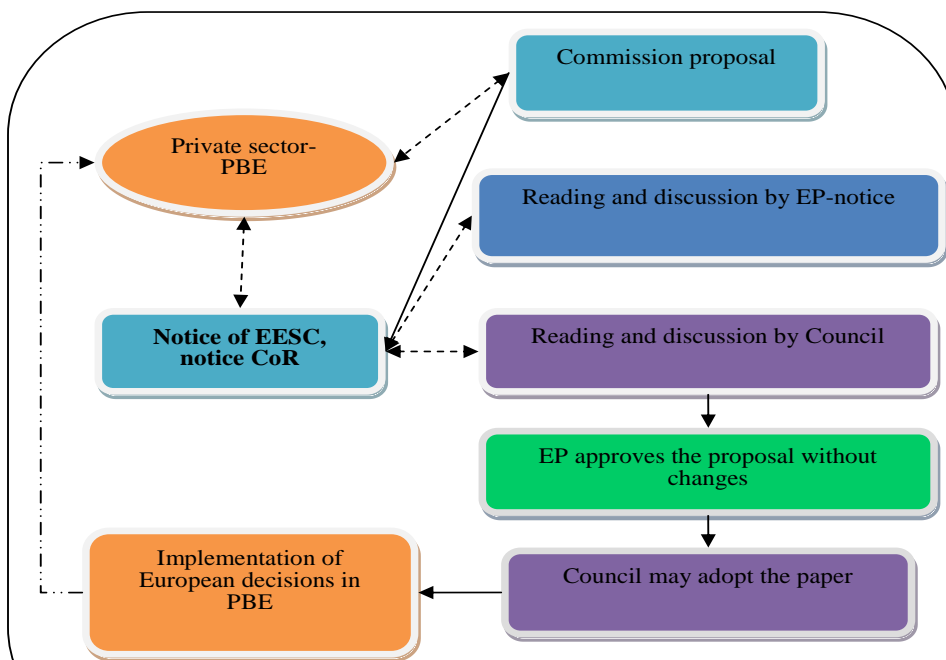


Figure 2. Interdependences between the PBE and the institutions of UE

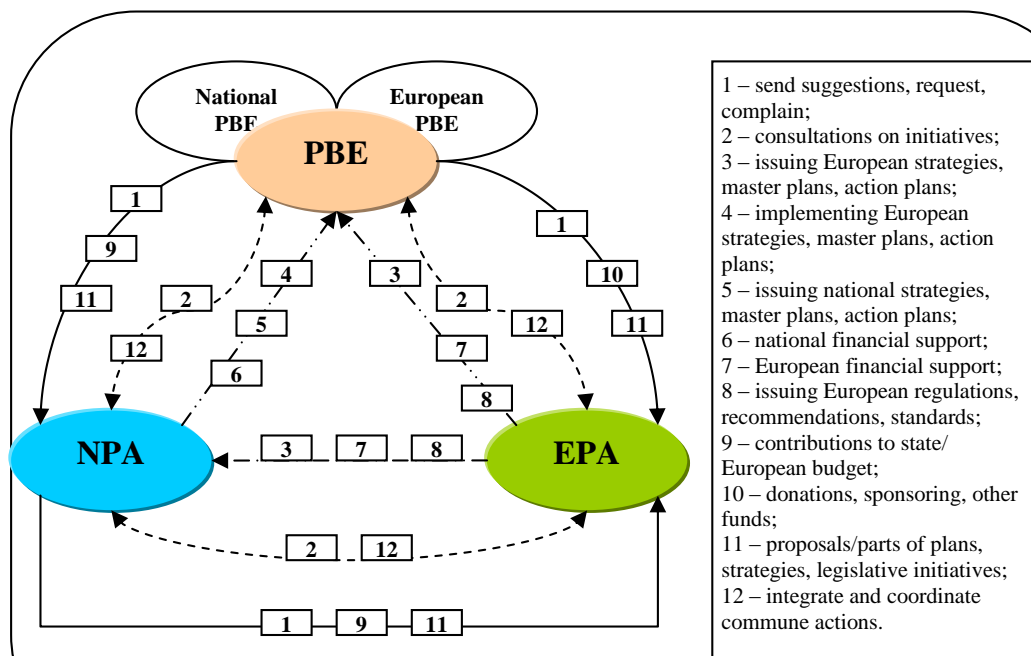


Fig.1 Interconnections between PBE-NPA-EPA

EESC opinion shall be granted after prior consultation with members of the groups which include PBE at national and/or European level. EESC, the body representing the organized civil society in the EU is strongly anchored in the economic and social realities of Europe and is trying to

apply the right of initiative of people covered by the Treaty of Lisbon. Concerning the figure we can note that beyond the advisory relationship within the EESC, which may be considered an input into EU decision-making system, is also found the output generated by the acts adopted and materialized in the effective implementation of European PBE decisions.

In order to highlight the involvement of the private sector in EESC, in the following notes we will continue to emphasize certain aspects that define this Committee. Established by the Treaty of Rome in 1957, the Committee is a European advisory body in which are represented various categories of economic and social activities in the EU. It provides the representatives of interest groups in Europe with a formal platform to express their views on EU issues. It consists of 344 councilors from all EU Member States, grouped in three: *Employers*, *Employees*, *Various activities*. EESC plays an important role in the decision making process within the EU because before the adoption of certain economic and social policy decisions, this committee must be consulted and its opinions are forwarded to the institutions of the highest level, such as the Council, Commission and Parliament. Through the functions which it meets, EESC is the institution that ensures the bond between the civil society, which is encouraged to be involved in the design of public policies in the EU and higher institutions, which are sent grievances of the European citizens. The promotion of a more active and responsive society is aimed to shape a more democratic society in the EU.

The concerns of the Committee on civil society were incorporated into a manifest-program entitled "*Program for Europe: the proposals of civil society*"<sup>199</sup>, which has three main objectives: one prospective, one political and one institutional. The prospective objective surprises the vision of the Committee on the necessary actions to be taken by Europe in order to strengthen the future in accordance with the world dominated by the current crisis. Using the principles and measures proposed, a special importance is assigned to the private sector and SMEs are known to be important links in the value chain. Regarding the political objective we can note that it aims to be a manifest to the other European institutions to achieve the common goals of Europe. The proposals for the European institutions on the challenges that Europe will face in future years are included in the institutional objective through the introduction of EESC ideas in debates. These targets are interconnected and converging to fulfill the same purpose, the one to develop a model based on solidarity.

In an area characterized by the mobility of goods and factors of production according to the economic theory of integration it is stated that "private economic activities and economic policy makers must be consistent."<sup>200</sup> Private economic activities must adapt to the conditions imposed by the intersection of supply and demand throughout the Union, by providing products and services suitable for the market, even in the context of the current crisis.

### **Collaboration in the crisis conditions**

As the financial crisis is expanded on the scale of the global economy, it triggers new situation for the community, exacerbating the existing problems, such as poverty, social balance, vitality and innovation of European enterprises, natural resources, energy or migration. Decreased demand for products and services, reduced exports, declining investment, tight credit conditions are just some of the issues affecting national economies and the exponents of PBE. The complexity of socio-economic life has determined the transformation of the financial crisis into a strong economic crisis, which although began in the U.S., is affecting the European states as well, enabling to discuss at the time being a *global crisis*.

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199 <http://eesc.europa.eu/events/2009-04-15-programme-for-Europe/index-en.asp>

200 Dinu M., Socol C., Marinaş M., European economy. A synoptic exposure, Editura Economică Publishing House, Bucharest, 2004, p. 141.



Identifying the implications of the economic crisis on the PBE goes to the appearance of certain initially negative signals that are subsequently converted into effects on national economies on three components: financial, economic and social. From the financial perspective we notice that the states are dealing with the decreased liquidity in the banking system, the increase of the public budget deficit and the increased cost of financing the private sector. The economic effects are the reduction rate of economic growth, the removal of many SMEs from the market, the increase of unemployment rate and the contraction of the volume of foreign direct investment. Insecurity of employment and inability to return bank loans in the long run by individuals are the social effects that affect local, national and international communities.

Linking PBE with PNA and PEA in this context becomes an urgent need to design national strategies and the EU one which have to define the mode of state intervention in the economy and the forms of community support. If PBE had an impressive growth rate based on excessive buying behavior of consumers (Romania could be taken as an example) who asked for luxury goods and exclusive services, above the economic crisis, during this period they are determined to steer for and eventually to invest in products and services at a decreased price or rate. The diversification of products, the concentration on potential markets, identifying new sources of raw materials, technology solutions which allow significant cost reduction, productivity growth or identifying new markets are some of the actions that may concern PBE in order to counter the effects of the crisis. In all these actions, the role and the involvement of the state are vital because of the measures of support and protection which it decides. Thus, investment in infrastructure, facilitating access to scientific research and innovation, providing incentives for SMEs, increasing social protection measures, access and stimulating the attract of external grant funding, offering support of the state budget for some promotion campaigns for products and services<sup>201</sup>, represent a small part of the measures that PNA can take to support PBE<sup>202</sup>.

During this period, pressure caused by low economic growth on living standards, especially in the poorest countries of the Union - The EU 10 (the last 10 countries integrated in the EU) will be exerted, which generates a certain guidance to support them as a priority in the process of balancing the PBE and improving social protection systems<sup>203</sup>. EPA's concern and involvement in combating the effects of economic crisis is highlighted by the actions it has already done and that are wished to be expanded.

The report prepared by Elisa Ferreira<sup>204</sup> (PSE, Portugal) shows the position of the European Parliament over the economic recovery Plan proposed by the European Commission and indicates that the proposed size of the Community Plan for European economic recovery, amounting to only 30 billion, represents only 15% of the necessary budget. The remaining 170 billion is left to the Member States and, therefore, to asymmetric capabilities to fight the crisis, which could lead to large imbalances. The coordination of the national plans of improvement becomes a priority and must adapt each program to the specific needs of the State concerned, taking into account the common interest, common set of strategies so as to ensure a multiplier effect as strong as possible, especially in terms of employment and social protection.

*The European Economic Recovery Plan (EERP<sup>205</sup>)*, developed by the EC to face the present economic crisis concerns both directions in the short term and long-term and encourages the

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201 \*\*\*, Master Plan for Romanian Tourism Development 2007 – 2026, <http://www.turism.gov.ro>

202 <http://www.europarl.ro/view/ro/press-release> (Articles about national plans of economic recovery)

203 \*\*\*, Global financial crisis affects the EU 10, but governments and central banks take appropriate measures, Bucharest, 30 October 2008 available at [www.worldbank.org](http://www.worldbank.org).

204 \*\*\*, Draft Report on a European Economic Recovery Plan, (2008/2334(INI), Committee on Economic and Monetary Affairs, Rapporteur: Elisa Ferreira, Committee on Budgets, 15.1.2009, <http://www.europarl.europa.eu/sides>

205 \*\*\*, A European Economic Recovery Plan, COM(2008) 800 final, Brussels, 20/11/2008, [http://ec.europa.eu/commission\\_barroso/president/pdf/Comm\\_20081126.pdf](http://ec.europa.eu/commission_barroso/president/pdf/Comm_20081126.pdf)

mobilization of the economic and social environment together with the civil society at European level to overcome the economic crisis that affected both businesses and people. Short-term measures are aimed at stimulating demand, maintain jobs and restore confidence, followed by measures which support the budget stimulation together with investments. In the second situation, the demand will be stimulated while making the pan-European investment in sectors relevant to the future, such as ecology, research, innovation, infrastructure to determine the sustainable development of society. For the purposes of supporting the private sector to avoid distortions of competition the Plan also supports the existence of state subsidies controlled. Partnerships between the public and private sectors are encouraged in the above areas through environmental design cars, efficient buildings in terms of energy, increase investment in education and more.

The members of the EESC have commented on aspects of the EERP supporting the private sector, among them we consider three to be relevant for this paper: that bankruptcy is estimated for around 1 million companies, promoting PPP projects with the support and involvement of the European Investment Bank and the request of the position of the European Commission against those who bear fault for generating financial crisis. We consider the assessment for bankruptcy for so many companies for which EU is unable to protect them, dramatically, but through the support of PPP projects the private sector shares the benefits and especially the risks of a business, with EIB.

Companies, particularly SMEs, are addressed in the recovery plan which aims to offer them further support. This support consists of requiring payment of the invoices issued by SMEs, within a month by the public authorities, facilitating access to public contracts and the removal of micro-imposed requirement to prepare annual accounts. The European Commission intercepts in this plan the fact that is relevant to recognize the essential role of the representative business organizations and that these must be integrated systematically, whenever they are relevant, in all the European committees of experts opinion, the high level groups or other appropriate forums. Recognizing the importance of consultation on a regular basis with representatives of the private sector by the European Commission can provide exposure to a clear perspective on how things are carried out into practice. PBE to overcome the economic crisis requires the support of EU institutions.

## **Conclusions**

The perception of the interconnections between PBE, EPA and NPA, the need of dialogue and the need to define the PBE and the civil society as key interlocutors of the European Union, generates changes in thinking that will prove long-term effectiveness. Through social dialogue and solidarity mechanisms, the European model proves capable, in the context of the current global crisis, to implement measures to mitigate and / or counter the effects of the crisis and to support sustainable future development. The private sector manages to communicate the requirements and complaints related to EU policies in a formal and organized framework, through the Committee, which they implement in the reports issued after the members discuss them. If we look from the perspective of the EU institutions to the private sector we find that the adopted acts concern the citizen and often have implications on economic agents.

In the economic crisis case we see the emphasis that is given to the private sector, especially SMEs, representing 99.8% of the entire enterprise sector. In this paper we outlined some of the directions proposed by the EU institutions on the private sector for the purposes of overcoming the current situation, but it becomes intriguing to follow to what extent they will be put into practice. In respect of the European policies in the economic, social and environmental area, the objective must become global sustainable development. Private sector commitment to environment and to community is a pillar of strength in starting and strengthening sustainable activities.

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9. \*\*\*, Proposal for a Council Regulation on the European private company statute, Brussels, 25 June 2008.

## THE EUROPEAN BUSINESS CYCLE

### **Ifrim Mihaela**

*„Alexandru Ioan Cuza” University Faculty of Economics and Business Administration Carol I Boulevard no.22, building B, room B383C, Iași, Romania Email: mihaifrim@yahoo.com Phone: 0745 324 347*

### **Ignat Ion**

*„Alexandru Ioan Cuza” University Faculty of Economics and Business Administration Carol I Boulevard no.22, building B, room B423, Iași, Romania Email: ignition@uaic.ro Phone: 0744 623 462*

*The construction of European Monetary Union has raised several questions about the existence of a common business cycle, a European one. The lack of cyclical synchronization would complicate the monetary and fiscal policies in the Union, being a negative factor as regards the fulfilling of the necessary conditions for the existence of an optimal currency area. Like so many other economic issues, there is not a unanimously agreed verdict on this matter either. Thus, some authors sustain the asymmetry and heterogeneity of European business cycles and the existence of national cycle "clusters", while others identify a number of similarities that determined them to promote the idea of a single European cycle.*

*Keywords: European business cycle, correlation, synchronization of business cycles*

*JEL classification: E32*

### **Introduction**

One of the major concerns of the European monetary policy decision makers is the economic differences between the euro area member countries. This is because a common monetary policy cannot be effective for countries being in different phases of the business cycle. So, we can identify at European level a "one size does not fit all" problem, which could threat the support for the European Monetary Union. The country being in recession will prefer an expansionary monetary policy, while the country experiencing a boom would prefer some more restrictive measures. This problem would disappear if we could speak about the existence of a common business cycle, a European one, with a high degree of different cyclical stages synchronization between countries. Accelerating the integration process was sometimes motivated by the need to eliminate the disparities between European countries, resulting in a closer economic correlation. However, a more pessimistic vision believes that integration will mean a stronger trend toward industrial specialization and regional concentration of similar industries as a result of pursuing the economies of scale. Thus, the industrial shocks will turn into regional shocks and the business cycles of the European countries will become even more divergent. In this context, our aims are to identify some characteristics of the European business cycle, the correlations between different European countries' cyclical movement and the factors responsible for their synchronization or non synchronization.

### **Chronology of the European business cycles**

The tradition of a national forum responsible for dating the business cycles in the United States resulted in creating a similar institution within the European Union. Thus, in 2003, The Center for Economic Policy Research (CEPR) has established a committee whose mission has become to complete a chronology of expansions and recessions in the euro area since 1970. To achieve this chronology CEPR used the principles established by NBER (National Bureau of Economic Research), but different primary data used and the quarterly, not monthly analysis made the

results not be the same as those of Americans. According to CEPR<sup>206</sup>, cyclical episodes in the euro area between 70-'90, were:

*Table 1. Chronology of euro area business cycles*

TROUGH	PEAK
1974 3 <sup>rd</sup> quarter	1975 1 <sup>st</sup> quarter
1980 1 <sup>st</sup> quarter	1982 3 <sup>rd</sup> quarter
1992 1 <sup>st</sup> quarter	1993 3 <sup>rd</sup> quarter

Thus, the Committee identified three recessions in the euro area for the period examined, from the third quarter of the year 1974 to the first quarter of 1975, from the first quarter of 1980 to the third quarter of 1982 and from the first quarter of 1992 to the third quarter of 1993. According to CEPR, the recessions of 70s and 90s were more pronounced and also synchronized between countries. In both periods, employment, investment and industrial output fell along with the Gross Domestic Product. In the 80s, the recession is moderate, but longer. Gross Domestic Product does not have a pronounced decline, but rather a stagnation, but employment and investment decline to a greater extent. Starting with the first quarter of 2001, GDP of the euro area experienced a contraction, for the beginning of 2002 to see a slight resurgence. Employment has increased somewhat, but industrial production has given weak signs of recovery. However, this period is considered rather a prolonged pause in the growth of economic activity, rather than a full-fledged recession. CEPR announced on 31 March 2009 that economic activity in the euro area reached its peak in the first quarter of 2008. The peak marked the end of an expansion that began in the third quarter of 1993 and lasted 57 quarters.

Even if these data are based on the overall evolution of aggregate GDP in the euro area and the evolution of industrial production, the periods of peak and trough are not common for all the European countries. The issue of synchronizing the business cycles of the euro countries calls into question the very idea of an optimal currency area through the inefficiency of applying a common monetary policy. Different responses to external shocks or the existence of different internal shocks seriously put into question the existence of a border line effect regarding the European cyclical correlation.

### **Business Cycle correlation**

Various studies on the correlation of business cycles in European countries have reached different results. Thus, Artis and Zhang<sup>207</sup> argue in 1999 the existence of a better European cycle synchronization, while in 2001 Inklaar and De Haan<sup>208</sup> reach the conclusion that the periods of cyclical convergence are alternated with those of divergence, this being a defining feature of the euro area.. These results contrast with the vision that the deepening of European integration will mean a better synchronization of business cycles.

To support a theory or another, Massmann and Mitchell conducted in 2004 a study based on European industrial production for the past 40 years using several methods of mathematical modeling and performing correlation between the first 12 countries of the euro area. The

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206 Business Cycle Dating Committee of the Centre for Economic Policy Research;  
<http://www.cepr.org/press/dating.pdf> .

207 Michael Artis; Wenda Zhang; "Further Evidence on The International Business Cycle and the ERM: Is There a European Business Cycle?"; Oxford Economic Papers; no.51; 1999.

208 Robert Inklaar; Jakob de Haan; " Is There Really a European Business Cycle?" Oxford Economic Papers no. 53; 2001.

conclusion reached by these authors is the coexistence of convergence and divergence periods. On average, the correlation coefficient between the European business cycles is positive and high, but its dominant feature is a strong volatility. Thus, in the second half of the 70s the cycle correlation coefficient amounted to 0.8, for the second half of the 80s to fall close to 0.

A similar analysis on pairs of countries is made by Uwe Bower and Catherine Guillemineau<sup>209</sup>. According to their study, the highest coefficient of business cycle correlation, of 0.85, was obtained by the pair of states Belgium-Italy. Fairly high correlations were observed for the pairs Spain-Portugal, Belgium-France, Germany-Austria or Germany-Holland. The weakest correlations were obtained between states situated at large geographical distances, although this is not always true. For example, a negative correlation existed between Germany and Finland, affected asymmetrically by the same external shock, the collapse of communism in Europe. The unified Germany was experiencing a boom of the business cycle when Finland was already in recession following the collapse of the Soviet Union, one of its main trading partners. Overall, the lowest correlation was obtained in the period 1981-1988, with a coefficient of 0.18 and the highest during the years 1993-2000, with a coefficient of 0.73. The year 1997 seems to be an important benchmark as regards the better business cycles correlation of the EMU countries, then being signed the Stability and Growth Pact and fixed the implementation timetable of the common European monetary policy.

M. Camacho, G. Perez-Quiros and L. Saiz<sup>210</sup> talk about the existence of clusters formed by states that have experienced cyclical fluctuations closed as time and amplitude. They extend the study to all EU states, even if they are not yet part of EMU. A first cluster includes countries such as Cyprus, Estonia, Latvia, Lithuania, Romania and Turkey. The main characteristics of this group are short duration of expansions (with the exception of Turkey are below the European average) and large amplitude of the recessions. The length of expansions seems to be equal to the length of recessions and thus the gains of first are canceled by the latter.

The second group includes the Nordic countries, the Czech Republic and Slovakia, whose cycles are characterized by brief and mild recessions and convex expansions. On average, the expansions amount 33 months and the recessions 13 months. In absolute terms, the amplitude of expansions is two times higher than the amplitude of recessions.

The third cluster containing the majority of EU-15 countries is composed of economies with lower amplitudes of both expansions and recessions. The average duration of expansions is 28 months and of recession is 18 months. The amplitude of expansions is slightly higher than of recessions, both being generally moderate.

The last group includes Ireland, Hungary and Poland, whose business cycles generally have atypical features. Their expansions are very long (the average is 44 months) and recessions are very short (9 months). The amplitude of expansions is 3 times higher than that of recessions, which made them very convex. Thus, these countries have achieved very good economic results during the recent years' expansions.

Very different cyclical movements in European countries have made even Michael Artis, a supporter of the existence of a common European business cycle, to become somewhat more skeptical. Thus, in 2003, he says that "the European business cycle is a more elusive phenomenon than we might have expected, whilst some European countries seem 'to stick together', there are many which do not."<sup>211</sup>

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209 Uwe Bower, Catherine Guillemineau; "Determinants of Business Cycle Synchronisation across Euro Area Countries"; European Central Bank; Working Paper Series no. 587; February 2006.

210 Maximo Camacho; Gabriel Perez-Quiros; Lorena Saiz; „Do European Business Cycles look like one?"; Journal of Economic Dynamics and Control; vol. 32, nr. 7, 2008.

211 Michael Artis; "Is there a European Business Cycle?"; CESifo Working Paper no. 1053; 2003; pag. 4.

Even if overall cyclical correlation in the European Union is relatively low and volatile, Massmann and Mitchell believes that the business cycles of the euro area can be compatible even if they are not converging<sup>212</sup>. This would imply a closer cyclical movement, decreasing the cyclical disparities. Any reduction of these disparities means actually an increase in correlation between European business cycles. In this context, it is interesting to analyze the factors that determine this reduction of disparities and a better cyclical synchronization.

### **The determinants of cyclical synchronization**

The intensity of foreign trade appears to be the most important determinant of the synchronization of business cycles in the euro area. A stronger synchronization of national business cycles is determined only by the intra-industry trade, by the existence of similarities in industrial structures of EU countries. Basically, similar industrial specialization means a development of intra-industry trade and a stronger cyclical correlation cyclical, with similar responses to similar shocks. The problem occurs when integration leads to a regional industrial specialization. In this situation, especially the neighboring countries could achieve a better cyclical synchronization and a more effective common monetary policy.

Another determinant of the business cycle synchronization is monetary integration. This may lead to a better synchronization by reducing the monetary policy asymmetries. However, monetary integration has a major impact on trade through exchange rate stability. But monetary integration can sometimes cause a weaker synchronization of economic cycles. The existence of a single currency and the lack of an exchange rates mechanism in the hands of national monetary authorities determine only real sector adjustments in case of an external shock. The exchange rate mechanism often works as an extremely important instrument of adjustment in the event of exogenous shocks.

Financial integration may lead to a stronger synchronization of business cycles by affecting the demand in different countries. The decline of a capital market means a decline of demand in the countries whose investors are affected by the fluctuations in that falling market. Contagion effect of fluctuations in financial markets is reflected in the cyclical fluctuations of the financial integrated countries. But financial integration may as well stimulate specialization of production through reallocation of capital, which will lead to a different exposure to industrial shocks and a weaker synchronization of business cycles.

### **Conclusions**

Even if it has argued that the steps taken by the European Union toward monetary integration has meant a stronger correlation of the business cycles in European countries, the reality shows that we can not yet speak of a "monotonous" trend toward a European business cycle. For most of its history, the cyclical movement in European Union meant a succession of convergence and divergence periods. Some European countries seem to have more similar business cycles, but there still persists high differences between different groups of states. A common monetary policy would be more effective if national business cycles should be closely correlated. Being in distinct cyclical phases, various European countries will not benefit from the same monetary recipes. Closer commercial ties, the integration of financial markets, the convergence towards monetary integration are just some necessary conditions for a better correlation of macroeconomic structures. But the business cycle remains the most complex economic phenomenon, closely related to most intimate economic foundations. To speak of a genuine European business cycle we should speak first of a deep, complete integration of all the

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212Michael Massmann; James Mitchell; "Reconsidering the evidence: are Eurozone business cycles converging?"; National Institute of Economic and Social Research Discussion Paper no. 210; 2003.

economic, institutional, political, commercial, industrial etc. structures in the European Union member states.

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# **OIL COMPANIES' CLIMATE CHANGE DISCOURSE. CASE STUDY: EXXONMOBIL'S DISCOURSE ANALYSIS**

**Ildiko Ioan**

*Academy of Economic Studies Bucharest Faculty of Agri-Food & Environmental Economics 6th Piata Romana RO 030173 Bucharest Romania ioanildiko@yahoo.com +4021.319.19.00/250*

**Zamfir Andreea-Ileana**

*Academy of Economic Studies Bucharest Faculty of Management 6th Piata Romana RO 030173 Bucharest Romania zamfir\_andreea\_ileana@yahoo.com +4021.319.19.00/250*

**Constantin Florentina**

*Academy of Economic Studies Bucharest Faculty of Agri-Food & Environmental Economics 6th Piata Romana RO 030173 Bucharest Romania fconst2000@yahoo.co.uk +4021.319.19.00/250*

*Actions for both adapting and mitigating climate change (CC) are fewer and smaller than it is necessary. A possible explanation for this is that CC cannot be perceived directly and the reaction to it depends on how it is communicated.*

*Our paper aims to demonstrate that important CC stakeholders construe misleading messages and to identify their persuasion means. In doing so we analyzed how CC relates to its non-discursive support (the physical process), pinpointed the subjects of CC debate and analyzed the rhetoric of CC discourse used by one of the most important private oil companies, and that is ExxonMobil.*

*Keywords: climate change, discourse analysis, ExxonMobil*

*JEL Classification: M10, M14, M16.*

## **1. Non-discursive Climate Change**

“Climate change” is a code through which scientists have attempted to represent that *global temperature is rising because of human activities*. “Climate change” refers to more and less than it can be derived from the meaning of the component words. It means more because the human causation and global scale are presumed, and it is less because only temperature and rising are understood.

Thus, by recontextualizing “climate change” in a scientific paper that describes the shift from one geological era to another, the phrase refers only to the physical process. The cause of this process is not represented. Than the phrase is used in a regional study, it means a change at that level, not a change at global level. Nevertheless, this meaning could be misleading because climate is determined by three elements – solar radiation, general circulation of air masses and terrain. Only terrain’s change will transpose in a regional climate change. If this is not the case, solar radiation or air circulation changes are the causes and these processes undergo at global level.

We note that that “climate change” is enriched with additional meanings that cannot be derived entirely from the meaning of the component words. This could explain why the United Nations Framework Convention on Climate Change (UNFCCC) uses “climate change” than it presumes a human causation and “climate variability” than non-human caused variations are meant.

Climate is defined as the state, including a statistical description, of the climate system, using surface variables such as temperature, precipitation, and wind (IPCC, 2007). Meanwhile “climate change” represents the rise in average surface temperature. Thus, “climate change” represents less than the physical process. On the other hand, climate variables are not discrete. A change in temperature will indicate that other variables are changed too. Moreover, among the three surface variables mentioned above, temperature is the most constant one. Therefore, the change in temperature could be interpreted as an observable symptom of a changing climate. In addition, “change” could be interpreted as an increase or decrease of a climate variable (temperature in this case), but the phrase only indicates “a rise in average surface temperature”.

The same reality – the global process and its causation – is represented by other codes. These could be divided according to their relation with “climate change” in two categories: derived and not derived codes.

In the first case, we note that the same representation is intended than an explanatory adverb is used or than the phrase is simplified. In order to emphasis the causes there are instances than “*anthropogenic* climate change” is used, while there is also a “*climate*” policy that addresses the same reality. One possible explanation for avoiding the explanatory adverb could be the state of scientific certainty at different moments. The occurrence of the physical process was the one confirmed firstly by science, while the human cause of this process was acknowledged latter by the scientific community (IPCC, 2007).

In the second case, we bring in attention other two phrases used to represent the same reality – “greenhouse effect” and “global warming”. Although all three are in use today, there are differences both in their content (meaning) and in their usage in different periods.

“Greenhouse effect” describes the process of warm retention in the atmosphere, while “global warming” refers to the rise in surface temperatures. Both presume that human activities are the causes.

Looking back, we could also describe an evolution. “Greenhouse effect” was the denomination proposed by Swante Arrhenius in the nineteenth century. This was picked up in 1980 to “point out a possible human influence on climate. Soon one has realized that this could be confused with the natural greenhouse effect and proposed another phrase – “global warming”. This phrase has lasted until the 1990” when it was replaced by climate change. The second shift could be explained in two ways: 1. related to the physical process - global warming presumes that the climate will be warmer everywhere and will remain as such for a while, but performing models forecasted regions/periods with cooler climate/seasons than today, and also a possible global cooling after a while; 2. related to the social perception of the process - was proposed by Poole (2006) who claimed that “global warming” was replaced on purpose by US government officials because it has suggested a change that will make inhabitable the Earth, while “climate change” represents future very similar to present, with places more or less favourable for living.

## **2. Climate Change Debate**

CC is a strongly debated subject. But the debate was not always the focused on the same issue. Firstly, the focus was on the process itself – does or does not happening, then it shifted to the human agency, and now it is about the consequences and actions needed. Thus, Crist (2007) suggests that since climate change is now a fact, it is worth focusing more on consequences where uncertainty is legion.

“Climate change” is beyond its physical dimension an invitation for action. Firstly, by assuming that humans are the causes, and not a natural process beyond their power and will, it results that they has to be the ones who do something to prevent the process. Secondly, if a change takes place in the environment humans will need to adapt to it. These also could be considered as reaction stages. Thus, Huq (2006) argue that two and a half decades ago the focus was on preventing CC through mitigating emissions, while now adaptation has to be twined with mitigation, because some effects of climate are inevitable.

The scientific debate is not entirely settled (since the “climate consensus” was already criticized by Corcoran (2006), but it has given a consistent explanation of the processes and also provided indications on what is to be done. In addition, CC information is now a mighty flow that reaches far in society.

Despite these premises, appropriate action is lagged, a strong emphasis being on the need to be more active. Since developed countries already have a climate policy, there is a global market for greenhouse gas emissions, renewable energies have stronger support as ever, businesses disclose their contribution to climate change mitigation we could say that society is already active. Thus,

the issue is not to be active, but to be more active. What more active means could be approximated by looking to the gap between what is needed and what is achieved? Research done in this respect has revealed that the difference between active and more active is huge. What prevent an appropriate reaction to climate science's findings is therefore considered an issue of communication and is researched as such using semiotics and discourse analysis. Some of the outcomes are contradictory. Gare (2007) explores the semiotics of global warming and finds that market, as a field defined by Bordieu, has overlapped all facet of life and this transferred the debate to individuals or institutions that do not have the expertise needed to handle it. Therefore, the blend of CC messages that often contradict themselves is not convincing enough to change behaviour. Discourse analysis of CC related articles, web pages and ads in UK has brought Ereaut and Segnit (2006) to the conclusion that climate change discourse "looks confusing, contradictory and chaotic". Nevertheless, solutions are viewed differently. Gare (2007) considers that in order to have more meaningful climate change messages it is necessary to restrain market's field by heavily taxing advertising. Thus transnational corporations will have less power to corrupt semiotics through rhetoric that undermines people's capacity to think rationally. Ereaut and Segnit (2006) consider that the most effective way of stimulating climate-friendly behaviour is to treat this activity as a brand to be sold, thus expanding again market's field.

### **3. Oil Companies' Climate Change Rhetoric. Case Study: ExxonMobil's Discourse Analysis**

One possible cause for unconvincing CC messages is considered businesses that construe misleading statements. Therefore we will try to: (1) demonstrate that important stakeholders in CC use misleading messages; and (2) identify their means of persuasion.

As stakeholders we considered oil companies since their main product is an important carbon dioxide source. Only private oil companies that act at global scale were envisaged because they are comprised in the category of transnational corporations.

The text to be analysed is comprised in the 2007 sustainability report issued by the largest private oil company – ExxonMobil (PIW, 2008). In this report the company has included a climate change chapter in which it presents scenarios, policy, statements, actions, research done and others. Moreover, ExxonMobil was involved in disinformation campaigns on climate change.

ExxonMobil addresses CC in the Environmental Performance chapter of the Corporate Citizenship Report issued in 2007. The chapter comprises four themes: environmental management, CC risks management, environmental impact, and biodiversity protection. CC and biodiversity protection are pointed as *priority issues*. CC accounts for five of the twelve pages and is addressed using four "Closer look" frames and two sections. The "Closer look" frames comprise CEO's (Rex W. Tillerson's) statement, summary of actions to reduce GHG emissions, GHG reporting, and help for Canadian consumers, while the sections present in detail how GHG are reduced in energy production and how consumers' use of energy is improved, both having an outlook of solutions toward 2030.

We focused mainly on the CEO's statement because in Global Reporting Initiative (GRI) (2002) guidelines such statements are subject of evaluation, as an indicator of the credibility with internal and external users.

The first paragraph aims to persuade the reader that the focus of public policy debate on the company should be large, but it is too large. This is supported by a reasoning based on asserted facts. These facts construe two images: 1. they represent the size of public debate considered acceptable and suggest that it is a large one; and 2. they represent a tiny company against the issues of public policy concern. In this way a twofold goal is reached: justifying the intense public debate regarding ExxonMobil (it is not because ExxonMobil have done something that attracted public attention, but because there is a general problem, beyond the company's capacity to influence it) and downplaying the debate actors (efforts invested in such debates are wasted, or

could be used for something else). Nevertheless from the reasoning some facts are left out (perhaps on purpose): the 1989 oil spill from the Exxon Valdez tanker that is considered one of the most devastating man-made environmental disaster ever to occur at sea and the funding of CC denial research (ExxonSecret, 2007). These could explain at some extent the part of debate considered by the company larger than it should be.

The large size of public policy debate is construed by asserting that three public policy concerns are merging (energy security, economic growth, and environmental protection), evaluating the state of public policy issues as “unusual confluence”, and by using a metaphor that creates a spatial image of the position occupied by energy companies (“three-way intersection”). The contrast of these large problems with the scale at that the company operates is created by stating the company’s account in world energy needs, by using a figure instead of text, and by evaluating it (“no more than 2 percent”).

The second paragraph reveals that the pressure of legitimate concerns alters the objectivity of estimations regarding CC variables. This is based on the assumption that more legitimate the concerns are more they create a pressure on estimations. The legitimacy of concerns is reasoned using both facts (rising greenhouse gas emissions) and assumptions (global economic growth is desirable and continuous). Thus, the legitimacy of CC concerns is construed as an immutable fact that will create a pressure on estimation. Than are asserted as facts several tendencies in estimating CC variables (energy demand, alternative energy, petroleum based technologies). The alteration is emphasised by an evaluation of these tendencies (“there is all too often also a tendency”).

Further, the CEO prepares the reader to not expect something spectacular on short run and/or to over appreciate the results of CC mitigating actions undertaken by ExxonMobil. This is putted as a reasoning to support the claim that managing climate change will take decades. In reasoning there are used facts (“climate change challenge has been decades in making”) and it is assumed that CC is so complex that it is difficult to demonstrate it even if there are available facts which are evaluated as “without question” (warming of earth’s average temperature, ecosystems showing signs of warming, emissions and concentration of carbon dioxide).

Oil companies’ contribution to CC is downplayed by truncating or misrepresenting facts. Thus, carbon dioxide is “one of the several greenhouse gases” like it has the same role to play in CC with other gases. In fact, carbon dioxide is the most important greenhouse gas (it accounts for more than half – 64% – in global warming). As significant sources of carbon dioxide there are presented fossil fuel burning and changes in land use. This not contradicts real facts but it distorts them. Indeed this is the order, but fossil fuels have a lot more contribution than land use change. Nevertheless, in low developed countries land use change has a larger contribution, and in general, data on this source are uncertain.

The need to take action is responded in the next paragraph. According to this ExxonMobil already took actions and these are based on risk management principles. The actions are augmented by emphasising that they are “several” and by evaluating them – “substantive”. Following the recommended link we have found that in 2007 GHG emission were reduced with 5 million metric tones, of which 3 millions are reduced by efficiency actions and 2 millions by changes in activity and improving measurement. In the second case there is no indication which is the relative contribution, despite the fact that improving measurement means reduction only in records. Nevertheless it is pointed out that the 5 million tone reduction is equivalent to removing 1 million cars form US streets. Using risk management principles is a “must” for ExxonMobil and it is supported by playing on the readers economic rational – “...actions most likely to achieve benefits at the lowest cost.”

Finally, Rex W. Tillerson construe as good collective implication and opinion diversity. The engagement of all, including the company, is a “must” and therefore the different views, such as the support of CC denial research, become justifiable.

We could conclude that CEO's statement comprises several misleading messages and uses as main means of persuasion *logos*. Reasoning is based on facts and assumptions; in some instances facts are truncated and/or distorted, possibly on purpose; there are construed immutable facts that will justify uncertainty, and immutable goods that indicate what is valued by the company and that justify its highly criticized involvement in denying CC and its human agency.

It is to mention that the company is using images related to renewable energy (e.g. photo: CEO attending a speech; graphs: greenhouse gas emissions (absolute and normalized), greenhouse gas emissions reduction from ExxonMobil action in 2006 and 2007, hydrocarbon flaring from upstream oil and gas production, distribution of greenhouse gas emissions from use of petroleum). This suggest that ExxonMobil has a right to expand its activity so that to include renewable energy generation. This "right" is given by the company's concern with climate change and its efforts to change the situation.

The colours used in the text of the report are also suggestive. The colours assigned to the text become meaningful for the sense of the discourse. These colours could be sense-making devices, working at different levels of abstraction according to the individual's perception capacity. Each colour signifies and induces a different emotion and feeling, and is associated with diverse common things. ExxonMobil's text is partly written with green colour. The most common associations of green are found in nature, meaning hope, growth, spring and regeneration. Lately, the green colour became the symbol of environmentalism. Therefore, companies often use green to indicate that they are environmentally friendly.

#### **4. Conclusions**

Climate change represents a reality that escapes direct perception. Although a simple phrase it could be misleading itself since it refers to more and less than it can be derived from the meaning of the component words. In addition, there are several phrases used to represent the same reality. Climate change debate has undergone several stages and now it settled on the need for more action. The delay in acting is explained by several studies which are focusing on communication and which reveal that CC messages come from many sources and crush in an inconclusive and endless public debate.

Messages construed by important CC stakeholders could be evaluated as misleading since they use truncated or distorted information, and construe immutable facts and goods that justify both uncertainty and slowness in action. On the other hand, these companies invest a lot in "greening" their image and preparing their future role as energy providers.

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## CONSIDERATIONS REGARDING ROMANIA' S DEVELOPMENT THROUGH INTEGRATION

**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*

*Romania's accession to European Union, a solid economic structure and more developed, has a positive effect on our country as a consequence of the pressure on achieving a state of compatibility, but it is not sufficient for our sustainable development, which depends on the mobilization of our internal skills, according to a unique strategic vision, in line with the national priorities, concerted with the community ones.*

*The moment of accession, already confirmed, does not, however, automatically bring Romania closer to Europe and that is because reducing the distance that separates us from the community is not only a political, legislative or technical problem, but a development one, depending on our own capacity to gather all necessary forces for sustainable development.*

*Key words: European integration, development strategy, sustainability*

*Cod JEL: F02*

Romania's EU accession is one of the major challenges that have arisen in its history. Apart from being perceived as a simple process of "joining" an economic and geographical area, the process of Romania's accession in EU should be addressed in its complexity.

The insertion of Romania in an integrative group has the meaning of merging in a homogenous mixture. A body functions as a "whole" unit when none of its parts is seen as distinct. This is a fundamental right and, also, the logic of European integration: the Member States, applying the same set of rules, are involved in a mechanism, increasing the system through a synergistic action. Any disfunctionality endangers the operation of the whole mechanism and, therefore, must be remedied. This logic applies regardless of the level of integration or the subsystem in question, be it economic, social or political.

The real challenge that a state entering this grouping must face is the efficient use of the system energies, in transforming them in favorable elements for their development, which generates positive effects on all.

From another viewpoint, another challenge is to preserve "the national fingerprint". Even if the rule of open systems is applied, the experience has shown that nations which have a common base of characteristics, had this tendency for collaboration, with beneficial effects.

The way in which Romania's economy evolves, pre - and post - accession in the European Union, represents a strong challenge, as the successful integration into the European model represents, ultimately, Romania's modernization. The economy transition to the phase of sustainable development and the raising of competitiveness, in terms of a broader international opening through European integration and globalization, changes the approaching ways.

We must recognize that the state of Romania's development does not totally correspond to its potential, the economy still having many characteristics specific to underdeveloped countries, being not very competitive and with a still low potential for convergence. Structural transformations have taken place in the absence of a project of social and economic reform, the European integration often taking the place of such a project. But focusing only on accomplishing the EU requirements was not sufficient for modernizing the Romanian economy.

The European economic model, which we joined, means economic growth, social cohesion and convergence. If you do not know to sustainably use this opportunity, Romania will be condemned

to underdevelopment. Thus, the process of economic development imperatively requires giving up the strategies of survival and making the transition to sustainable development strategies.

Romania cannot overpass its backwardness in many areas, in comparison with developed countries and can solve the real problem regarding the relatively low capacity of its economy to cope with the pressure of international competition and also, regarding the unfavorable tendency of specialization in activities based on low and medium technology and increased resource consumption of traditional resources - activities having a low contribution to the added value, only focusing at maximum its efforts in achieving high rates of economic growth and in restructuring and modernizing the economy branches, ensuring also economic and social stability. This is important now more than ever, when Romania must overcome the problems brought by the economic crisis.

Thus, as a result of institutional transformations that took place in Romania and of the openings required by the integration into the European Union, redefinitions and shifts in the fundamental public policies (economic, industrial, commercial, agricultural, services) became necessary. It also became necessary to highlight the impact of accession on the development profile of the national economy, to apply some active development policies simultaneously with broad reform of social protection.

Although accession and integration are still found in the poorly informed public perceptions, as expressions of one and the same goal, between them there is a net distinction, both in conceptual layout, and operational aspects.

The integration process began in the period when Romania was still a candidate country for accession, taking the form of "Europeanization", for all structures in society as a whole. The integration process will continue for many years now, engaging the Romanian society as a whole, with its various entities in the economic, social, technological, cultural or educational areas, involved in the European structured dialogue.

The process of legislative harmonization of laws, made by assimilating the *acquis communautaire* and by establishing some systems for public policies coordination, aimed to assure compliance with the accession criteria, creating the conditions which, although are strictly necessary, are not in any way sufficient for the successful integration.<sup>213</sup>

The compatibility status is just a favorable environment, but not a determining factor for competitiveness. Assimilating the Community regulations do not automatically lead to achieving performance comparable with the European partners and cannot compensate for deficits in vision and own initiatives. Similarly, the public policies, no matter how carefully are designed and coordinated, cannot replace the foundation of a sustainable economic growth.

The substantive issues of European integration refer to the adaptation of Romanian enterprises to the competitive pressure of the single market, the progressive economic convergence, the advance in the direction of knowledge society and of implementing the European social model.

On the qualitative side, which in post-accession period becomes essential, the management of the European integration process involves the formulation and translating into action, by the Romanian society, some valid answers to the question "How do we integrate ourselves?".<sup>214</sup>

The potential advantages of integration can become effective only according to the ability of each Romanian company or institution to fructify, based on their own strategies and on the adopting the best European practices, both the valences of the harmonized legislative framework and the opportunities offered by the single market. The insufficient preparation for such functionality generates constraining effects and high costs for integration, in which case Romania's strengths

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213 Schimmelfennig F., Sedelmeier U.; Governance by conditionality: EU rule transfer to the candidate countries of Central and Eastern Europe, *Journal of European Public Policy*, Nr. 11(4), 2004, pp 669–687.

214 Angelescu, C., Dinu M., Dragomirescu H. (coord.); *România și Uniunea Europeană: calitatea integrării*, Editura Economică, București, 2006.



would refer only to issues such as the low cost of skilled labor force, facilities for foreign investments and attractive conditions for industries in course of outsourcing.

On national plan, in more than two years after joining the European Union, in the current concerns regarding integration the dominant logic of conformation, although it is improper for post-accession development.<sup>215</sup> The quality of integration must be seen as a key variable of the Romanian model of development.

Post-accession development cannot be based on verifying the fulfillment of some formal criteria, but on designing and implementing strategies and programs, in a vision arising from own priorities concerted with those established at Community level.

This implies the existence of competences for strategic thinking: "not acting according to a strategy represents a major vulnerability, highlighted - and not at all justified - by the increased turbulence of the business environment; therefore, for Romanian companies, any manifestations of "strategic skepticism", maintained by the limitations of some conceptual skills, but also by the more convenient alternative of improvisation, represents, probably, the highest risk of failure in competitive confrontation"<sup>216</sup>.

Therefore, approaching the construction of a development strategy in line with community structures should be based on corresponding to the national interests, but also on sustained participation in joint European projects.

The successful integration of Romania in the European Union involves mobilizing its own skills, individual and organizational, as micro-foundations for the development of national economy and for achieving economic convergence and social cohesion in the enlarged European Union.

The accession to the European Union should be seen for Romania, rather as an essential factor of sustainable development and not an aim in itself, from which benefits would arise automatically, without effort on our part.

Repeatedly, the integration has been placed among the stimulating factors for transformation towards notable economic performance, so it can act as a catalyst for development. It is important to note that development through integration does not mean post-development, but it expressed gradually, through the procedure of adopting a set of reforms before accession.

On the other hand, the membership status is not a guarantee for economic development, although it is true that this status exerts a positive effect on the major premises of long-term development and creates great opportunities for the exploitation of a strategy of sustainable development.

Sustainable development, recently become a goal shared by more and more countries, aims firstly, to establish on long term three basic components: economic growth in sustained rhythms, continuous improvement of living standard and of social welfare and maintaining the ecologic balance, preventing and/or reducing pollution and improving environmental quality. Therefore, the development sustainability aims consistent and constant pursuit of these objectives, implementing concrete policies.

In the approach to address the long-term development of Romania, we should also have in mind the context of accession in the European structures: one very special, moment in which Europe maintains its fundamental objective to become the strongest economy in the world, although is currently required to meet effectively the challenges of crisis. This adds an extra reason for Romania to go on the road ensuring performant functioning, both internally as well as externally. However, the firm option to adopt the European model, represented for Romania a major event in its historical development, the integration into the European Union being seen as a solution to

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215 Dragomirescu H.; România în Uniunea Europeană: dezideratul calității integrării sub condiția proactivității, în România în Uniunea Europeană. Calitatea integrării. Creștere. Competență. Ocupare, vol 2, Economie Teoretică și Aplicată, Supliment, simpozion 23 noiembrie, AFER, pp 9-15.

216 Dragomirescu H.; Competențele – miză strategică a competitivității în noua economie, în C. Angelescu (coord.), Educația economică. Actualitate și perspective, Editura Economică, București, 2003, pp 199-205.

many problems of society in search of modernization and economic transformation, an opportunity for economic relaunching.

The moment of accession, already confirmed, does not, however, automatically bring Romania closer to Europe. This is because reducing the distance that separates us from the community is not only a political, legislative or technical problem, but also a development one.

To give the correct meaning for development through integration, we must approach this concept from as many angles as possible. Each side brings out a part of its complex content and only a concomitant approach can assure for the development through integration the valences we expect.<sup>217</sup>

*Integration must be a purpose.* An active society, institutionally structured and based on resources cannot admit integration as an exogenous phenomenon. Integration does not come by itself and must not be allowed to just happen, without being accompanied by policies for guidance in this purpose. Integration is a set of policies covered from a stage to another, from simple to complex, from surface to depth and aiming to model the entire political-economic and social system.

*Integration is a functional system.* All integration models are perceived as integrated systems with functionality for a defined purpose. Being in a functional system wider than the economic borders of a country must be an assumed option, in the sense that wishing to benefit from the effects of such a position, you must operate in the parameters of the system agreed as a purpose. That is why an adherent to the integrated system cannot be accepted unless it meets the functioning procedures of the system.

*Integration is a process.* Accession to an integrated operating system follows the rules of a step-by-step process. The process aims to adjust to existing rules, and this is the case of Romania, which adheres to a well-defined system. Integration has both advantages and disadvantages, related to the ability of being directly or indirectly participant in modeling the integrated system.

*Integration is a tool.* In a world of interdependences and of speedy communication, the option for integration has proven to be the most viable, from the perspective of development and of ensuring prosperity for society in Europe, in reasonable periods of time. This process has the advantage of going through the historical stages of integration in periods much shorter than those consumed by those already in the system.

*Integration is a mix of policies and institutional building.* The principles of democracy, the market economy and the resistance to European competition, although appear as expressions of great generality at first sight, a deeper approach shows a methodology aiming both the whole and its component parts.

The definitions of integration cannot be generalized, as choosing one or another, and only accepting their simultaneously application we can understand the directions for development through integration.

Development through integration can only be based on the values of democracy and market economy. To put them into practice, we need a solid institutional building, which is not sufficient, as it needs stability and administrative and managerial capacity to ensure their transformation from spirit into process. This can happen only using human resources and behaviors, and from this point of view, the most important role is played by the educational reform.

Development through integration means simultaneously addressing issues of micro and macroeconomic development and in terms of resistance to the competition in the single market means structural reforms.

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217 Pop N.; Dezvoltarea pentru integrare – cazul României, în Iancu Aurel (coord.), Dezvoltarea economică a României, Competitivitatea și integrarea în Uniunea Europeană, vol. II, Editura Academiei Române, 2005, pp 985-998.

Development through integration brings benefits to both parties only if the partnership is built on the mutual powerful forces and based on mutual commitment to growth and prosperity in the long term.

As regards the way in which Romania can meet the challenges of globalization, in the sense of better valorificating opportunities, it can be said that development by integrating favors it, as a global confrontation being a member state is beneficial. Therefore, development through integration must follow the rationality of integration and its meanings, in their dynamics and their permanent reference to the phenomenon of globalization.

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# LA ROUMANIE ET L'ADHÉSION ACCÉLERÉE À LA ZONE EURO

**Lacrois Yvonne Iulia**

*Academy of Economic Studies of Bucharest, Faculty of International Business and Economics, Piața Romană nr.6, room 1203, sector 1, Bucharest, yvo\_lro@yahoo.com 0724936572*

*Accession to the European Union (EU) requires, according to the Treaty of Amsterdam, the integration into the Economic and Monetary Union and also for euro, to become the national currency for all member countries. The new world economical situation has proved the fragility of the Eastern (ex-communist) economies and has emphasized the idea according to the new EU state members, should be allowed to start using euro as their current currency under special conditions, as being members of the BCE but without having places in BCE board.*

*Key words: European Monetary Union, euro, nominal convergence, real convergence*

*Code JEL: E42*

## **1. Introduction**

L'adhésion à l'Union Européenne (UE) suppose, conformément au traité d'Amsterdam, l'intégration dans l'Union Economique et Monétaire et implicitement l'adoption euro comme monnaie de circulation, après une certaine période.

Grace à l'interconnexion des économies européennes, suite à la croissance du degré d'intégration économique, une union monétaire entre tous les pays de l'UE est inévitable, mais elle détermine aussi l'apparition de certains risques économiques pour les participants.

En effet, il existe deux catégories d'opinions concernant la réalisation de l'union monétaire entre les pays européens. Une vision est basée sur la composante monétaire, c'est-à-dire l'utilisation du taux d'échange pour corriger les décalages économiques existantes entre les pays participants et elle supposait une intégration monétaire rapide, sans discrimination parmi les participants. La deuxième vision concernait la composante économique qui propose le taux d'échange comme instrument principal pour éliminer les déséquilibres et suppose un passage graduel conditionné par l'accomplissement de certains critères de convergence. En 1992 les pays membres ont donné leur accord sur l'option de l'intégration graduelle à condition de l'accomplissement des critères de convergence.

## **2. L'union Economique et Monétaire**

Le moment de lancement pour attirer le stade d'Union Economique et Monétaire (UEM) a été le traité de Maastricht qui a mis en place la stratégie de réalisation de l'UEM concentrée sur deux directions:

- établissement des étapes de parcours par les états membres pour participer à l'UEM;
- établissement des critères de passage à euro.

Le processus de passage à euro des nouveaux états membres débute au moment de l'adhésion de ceux-ci à l'Union Européenne. La deuxième étape suppose de la part de nouveaux membres de l'UE l'implémentation des programmes de convergence et la coordination des politiques économiques avec les autres pays membres. Aussi dans cette étape les nouveaux états membres adhèrent au Mécanisme des Taux de Change II (MCE II), ceci supposant la liaison de la monnaie nationale de la monnaie euro et l'engagement de maintenir l'évolution du taux d'échange dans une bande de fluctuation. La participation à MCE II doit se réaliser avec au moins deux ans avant l'adhésion effective à l'UEM.

Dans l'étape finale de l'UEM, les nouveaux états membres doivent respecter les critères de convergence, renoncer à l'indépendance de la politique monétaire et au mécanisme du taux

d'échange comme modalité d'ajustement des déséquilibres dans l'économie et respecter le Pacte de Stabilisation et Croissance qui se trouve à la base de MCE II.

### **2.1 La convergence nominale**

L'accomplissement des critères de convergence établis par le traité de Maastricht représente un effort nécessaire pour l'admission des pays dans l'union monétaire et en même temps responsabilise les états qui entrent en UEM, en garantissant la convergence avec la politique monétaire commune.

La stratégie de Maastricht axée sur la convergence, accorde une importance accrue à la convergence nominale définie par les éléments suivants:

- stabilité des prix: le taux d'inflation dans les états membres ne doit pas dépasser avec plus de 1,5% les taux d'inflation de premiers trois pays avec le taux d'inflation le plus bas;
- convergence du taux d'intérêt: les intérêts nominaux à long terme ne doivent pas dépasser avec plus de 2% la moyenne des taux d'intérêt de premiers trois états avec le taux d'intérêt le plus bas;
- stabilité du taux d'échange: la garde des marges normales de fluctuation prévues par le mécanisme d'échange du Système Monétaire Européen pour une période au moins de deux ans avant l'examen, c'est-à-dire respecter les demandes imposées par MCE II;
- position fiscale saine: le déficit budgétaire de chaque état membre ne doit pas dépasser 3% de son Produit Intérieur Brut (PIB) et la dépense publique moins de 60% de PIB.

### **2.2 La convergence réelle**

Même si le Traité de Maastricht fait référence seulement aux critères de convergence nominale, au moment de l'adhésion à l'UE des pays de l'Europe Centrale et de l'Est avec des structures économiques différentes de celles des économies de l'Europe de l'Ouest, la convergence réelle a été mise en discussion comme ayant une importance majeure dans l'assurance d'un très grand degré de cohésion économique des pays de l'Union Européenne.

Ainsi, au manque de la stipulation dans les traités de certains critères de convergence réelle, on prend en discussion principalement les suivants aspects:

- le degré d'ouverture de l'économie (exprimé par le poids de l'export et de l'import dans le PIB);
- le poids du commerce bilatéral avec l'UE dans le commerce extérieur total du pays respectif;
- la structure de l'économie (c'est-à-dire le poids dans le PIB des secteurs économiques du pays respectif);
- le PIB/habitant.

Les critères de convergence nominale établis à Maastricht sont de plus en plus contestés dans les conditions actuelles de la mobilité internationale des facteurs de production. Conçue initialement pour un groupe de pays riches, avec des économies solides, l'UE a accepté dans les derniers ans l'adhésion de certains pays moyen-pauvres, avec des économies très différentes de celles des états ouest-européens et, conformément aux traités d'admission, elle demande à ceux derniers une convergence rapide vers les niveaux des économies avec les meilleures performances de la zone UE.

Même si les pays candidats ont signalé les conditions trop strictes imposées par la convergence nominale et la nécessité de leur ajustement en fonction du spécifique des économies de l'Europe de l'Est, la Commission Européenne et la Banque Centrale Européenne ont invoqué toute une série d'arguments pour maintenir l'obligation de participer au MCE II et pour l'application des dispositions Maastricht dans le contexte du respect du principe du traitement égal.

## **3. L'UEM et les nouveaux entrés dans l'UE**

Quand on parle d'une relaxations des conditions d'admission dans la zone euro, on prend en compte la révision des critères de convergence nominale, spécialement la réduction de la période nécessaire pour parcourir le MCE II de deux à un an. Mais cette mesure n'aurait pas de soutien

sans une base solide représentée par la réalisation de la convergence réelle, parce que l'accomplissement des critères de convergence dans un délai plus court pourrait avoir un impact négatif sur le rythme de croissance économique avec des conséquences directes sur la réalisation des critères de convergence réelle.

Dans le dernier temps, l'action de la BCE d'offrir aux nouveaux états membres du soutien s'inscrit dans la politique de l'UE pour la gestion de la crise actuelle, par la coopération plus étroite entre l'UE et ses voisins, au but de maintenir la stabilité dans une zone euro plus large.

Parmi les nouveaux états membres de l'UE, l'Estonie, la Lituanie et la Slovénie sont entrées dans le MCE II en 2004 très rapidement après l'admission dans l'UE, suivies par la Lettonie, la Malte et la Slovaquie en 2005. Mais seulement quatre pays ont respecté le programme initial d'adoption de la monnaie unique européenne et ils sont passés déjà à euro: la Slovénie au 1er janvier 2007, le Chypre et la Malte au 1er janvier 2008 et la Slovaquie au 1er janvier 2009. Les autres pays du vague d'admission de 2004 comme la Tchéquie, l'Hongrie, la Pologne, ne sont pas encore entrées dans le MCE II. Le refus de l'Estonie, la Lituanie et la Lettonie a été motivé par les problèmes liés à l'inflation de ces pays.

Tenant compte de la réaction de BCE de devenir créateur de dernier instance pour les pays qui ne se trouvent pas dans la zone euro, est-ce que il devrait permettre aux nouveaux états membres une admission accélérée à la zone euro, dans des conditions plus permissives?

Le traité de Maastricht conçu et finalisé par un groupe de pays ayant des économies stables, a validé l'idée que pour passer à euro les états candidats doivent premièrement accomplir les critères de convergence nominale, et après leur intégration monétaire ils réaliseront aussi l'harmonisation de leurs structures économiques.

Avant la rentrée dans le MCE II il est recommandé de toucher un niveau élevé de convergence pour minimiser le risque des attaques spéculatives. Autrement, la participation au MCE II dans le cas des économies en transition où il existe des déséquilibres macroéconomiques, pourrait provoquer la sur-évaluation de la monnaie nationale, des intérêts élevés, des interventions massives sur le marché monétaire, des attaques spéculatifs ayant des conséquences négatives sur la stabilité du taux d'échange.

#### **4. La Roumanie et l'euro**

La Roumanie se propose entrer dans la zone euro en 2014 en respectant les critères de converges nominales et réelles.

*Figure 1. Les étapes de l'intégration de la Roumanie dans l'Union Economique et Monétaire*

- 1. le 1er janvier – l'adhésion à l'Union Européenne*
- 2. Après l'admission dans l'UE, la participation au MCE II, des efforts pour respecter les critères de Maastricht (programmes de convergence)*
- 3. Au commencement du 1er janvier 2014 l'adoption de l'euro (établissement des détails techniques, inclussivement la fixation de la période de circulation duale)*

Voyons dans quelle mesure la Roumanie accomplit les critères de Maastricht. Au présent, il existe des différences notables entre les niveaux spécifiés dans le traité et ceux enregistrés par la Roumanie pour au moins trois indicateurs: inflation, déficit budgétaire et intérêts à terme. Conformément au rapport de surveillance de BCE, le taux d'inflation à la fin du 2008 a été de 7,85%, soit un niveau largement supérieur à la valeur de référence de 4,1 % définie par le Traité. Même si les pressions inflationnistes sont assez élevées dans cette période, les prévisions pour 2009 indiquent une désinflation car il s'agit d'une valeur de 5,1% selon les estimations des grandes institutions internationales.

Les taux d'intérêt à long terme sont ressortis à 7,7% en 2008, soit au-dessus de la valeur de référence retenue pour le critère de taux d'intérêt.

Le leu roumain ne participe pas encore au MCE II mais s'échange dans le cadre d'un régime de change flexible. Ainsi, les fluctuations du taux de change enregistrées en 2008 nous permettent d'affirmer que la Roumanie accomplit ce critère.

Concernant les critères fiscaux, la position de la Roumanie est pour le moment confortable, ayant un déficit budgétaire de 5,4% en 2008 et une dette publique de 13,6% même année, conformément à la méthodologie ESA 95. Mais dans la situation économique actuelle pourrait apparaître des problèmes avec le déficit budgétaire s'il n'existe pas une priorité pour accroître les revenus budgétaires, la pression des dépenses publiques étant très élevée dans les prochaines années. Le plus important des critères de convergence est celui lié à l'inflation car au tour de lui gravite les intérêts à long terme, mais aussi la stabilité du taux de change.

*Figure 2 – Critères de Maastricht, la convergence nominale*

Indicateurs de convergence nominale	Critères de Maastricht	Roumanie 2008
Taux d'inflation (pourcentage, moyenne annuelle)	<1,5 pp de plus que la moyenne des inflations des trois États membres avec les meilleurs résultats (4,1% *)	7,85
Taux d'intérêt à long terme (pourcentage par an)	<2 pp de plus que la moyenne des trois États membres, au plus, présentant les meilleurs résultats en matière de stabilité des prix (6,2% *)	7,7
Taux de change (par rapport à l'euro) (au dépréciation/dépréciation maximale par rapport à la moyenne sur 2 années, en pourcentage*)	+/- 15%	+9,7 / -14,6
Déficit public** (pourcentage en PIB)	inférieur à 3%	5,4
Dette publique** (pourcentage en PIB)	inférieure à 60%	13,6

\*niveau de référence

\*\*conformément à la méthodologie SEC95, La procédure du Déficit Excessif – avril 2009

Source: BNR, 2009, Colloques de politique monétaire

La convergence réelle a été très rapide si on considère la croissance du PIB/habitant de 26% de la moyenne européenne en 2000 à 41% en 2007, mais elle représente encore un obstacle pour la Roumanie parce que le degré moyen d'ouverture de l'économie a été de 76,6% en 2006. Il existe le potentiel de réalisation rapide de la convergence réelle si on change les fondements de la croissance économique, c'est-à-dire encourager les investissements et les exports et ajuster la consommation. La structure de l'économie est très différente de celle de la zone euro, ce qui suppose une période plus longue de temps pour comptabiliser le niveau de développement économique du pays avec celui de l'UE.

*Figure 3 – Critères de convergence réelle, PIB/habitant*

	EUR					PPS*				
	2000	2003	2006	2007	2008	2000	2003	2006	2007	2008p
UE-25	20 200	21 900	24 900	26 100	26 300	20 000	21 600	24 600	25 800	26 100
Roumanie	1 795	2 419	4 530	5 743	6 365	5 000	6 500	9 100	10 500	11 300
% en UE-25	8,9	11,0	18,2	22,0	24,2	25,0	30,1	37,0	40,7	43,3
Bulgarie	1 700	2 300	3 300	3 800	4 400	5 300	6 700	8 600	9 300	10 000
Tchéquie	6 000	7 900	11 100	12 300	14 200	13 000	15 200	18 300	20 000	20 200
Hongrie	5 100	7 400	8 900	10 100	10 500	10 700	13 100	15 000	15 600	15 500
Pologne	4 900	5 000	7 100	8 100	9 500	9 200	10 100	12 400	13 400	13 800

\*) parité du pouvoir d'achat standard

p) prévision

Source: BNR, 2009, *Colloques de politique monétaire*

## 5. Conclusions

La Roumanie a reçu une recommandation de la part du Fonds Monétaire International concernant l'adoption unilatérale de la monnaie euro avant 2014, mais cette approche, dans la vision des autorités roumaines, ne représente pas une solution viable pour l'économie. Une telle action produira des déséquilibres majeurs dans l'économie et supposera le passage à un Conseil Monétaire et l'établissement d'un taux fixe euro/leu, mais elle ne serait pas tellement difficile à accomplir tenant compte du degré élevé de l'utilisation du euro dans l'économie roumaine et elle aurait un effet bénéfique pour la croissance de la confiance des investisseurs et du rating de pays. L'adoption rapide de la monnaie euro présenterait des bénéfices concernant l'application d'un programme conséquent à long terme axé sur des politiques macroéconomiques, la stimulation de la croissance économique soutenable par la disparition du risque de change, la croissance du rythme des reformes structurelles non réalisées et un progrès plus grand au plan de la convergence réelle et nominale. En même temps, ce jugement présente toute une série de désavantages comme l'impossibilité d'utiliser les instruments de politique monétaire (taux de change et intérêt) pour l'ajustement économique à court terme, la persistance des coûts de transaction plus grands associés au risque de change, ce qui pourrait limiter les investissements et la croissance économique, la possibilité d'ajourner certaines reformes structurelles et de la relâche des politiques macroéconomiques, spécialement en plan fiscale et salarial.

En ce qui concerne la Roumanie, il est très probable qu'une aggravation de la crise financière internationale attardera le processus d'adhésion à la zone euro.

Si la Roumanie ne réussira pas réduire l'inflation pendant l'an suivant, et que le processus de désinflation soit soutenable, alors la cible d'admission dans la zone euro sera en retard. Au fur et à mesure que ce processus de désinflation sera consolidé, le critère concernant les intérêts à long terme pourra être accompli.

Même si dans le calendrier de l'adhésion de la Roumanie à la zone euro est prévue comme date –cible l'an 2014, suite aux évolutions économiques récentes on parle de 2015 comme limite pour le passage à euro.

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# THE IMPROVEMENT OF THE CAPABILITY TO ATTRACT CAPITAL TO THE NEW EU MEMBER STATES, FROM THE PERSPECTIVE OF THE INSTITUTIONAL BACKGROUND OF THE FOREIGN DIRECT INVESTMENTS

**Láng Eszter**

*University of Debrecen H-4028 Debrecen, Kassai út 26. E-mail: eszter.lang@econ.unideb.hu  
Tel.: +36 52 41 65 80 Intern.: 77045*

*The political-economic transformation in the economy of the post-communist countries hasn't resulted automatically in a modern mixed economy, additionally institutional vacuum has been arisen. The paper shortly surveys the deficiencies which have to be solved soon. The author establishes according to previous researches that determinants of the destination of the foreign direct investments are the infrastructural and institutional circumstances, so the foreign direct investments rather extend than diminish regional disparities. In consequence the development of the infrastructure and the human capital is extremely important, moreover the author enhances the importance of the economic regulation to be part of a comprehensive, long-term, growth-orientated economic and social policy.*

*Keywords: FDI, transformation, institutions, EU, new member states*

*JEL Classification Code: F01*

Dans les économies des anciens pays socialistes, nous assistons à un immense changement fondé depuis deux décennies sur une profonde reconstruction politique-économique. Mais les mouvements de la transition n'ont pas mené automatiquement à une société moderne d'économie mixte. De plus, ils ont entraîné un vide institutionnel (institutional vacuum) (Grogan – Moers (2001)). Pour surmonter celui-ci et établir une nouvelle architecture institutionnelle il fallait introduire une masse de modifications et mettre en oeuvre les bases d'une économie moderne (établir les institutions de l'économie de marché comme la mise en place d'un système bancaire à deux niveaux en remplacement de l'ancien système, instaurer le marché de capitaux et la Bourse, les institutions modernes d'État qui servent à réguler la vie économique – p.ex. les différents établissements pour la surveillance du marché, la régulation de la concurrence, les institutions de la politique monétaire ou du travail etc. Donc, nous assistons à des développements positifs. Pourtant, de sérieux problèmes persistent.

Intégrer les nouveaux Etats-membres est un véritable défi pour l'Union européenne : les niveaux de vie, les habitudes politiques, les comportements économiques ont si longtemps différé que l'adaptation complète au fonctionnement européen doit prendre du temps. Et cette intégration est non plus un véritable défi pour les nouveaux membres. Si l'on prend en considération tout ce que devait être changé, l'un des devoirs les plus urgents était l'introduction des réformes aux niveaux micro- et macroéconomique qui ont mis sur pied les institutions soutenant l'économie de marché, et qui ont rendu possible le développement du secteur privé par la privatisation et/ou la fondation de nouvelles entreprises. En même temps, ces pays – indépendamment de leurs niveaux de développement, leurs passés historiques et situations géographiques – ont dû ouvrir leurs marchés devant les capitaux étrangers pour pouvoir soutenir et augmenter leur compétitivité sur le marché mondial et pour pouvoir mieux s'y intégrer. Enfin, pour rejoindre l'UE, ils devaient remplir les critères de base<sup>218</sup>, c'est-à-dire les conditions prescrites par le Conseil européen de Copenhague en juin 1993 pour les États candidats désireux d'adhérer à l'Union européenne.

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218 des institutions stables garantissant la démocratie, la primauté du droit, les droits de l'homme et le respect des minorités, une économie de marché viable et la reprise de l'acquis communautaire (droit communautaire).

Le capital étranger, surtout les investissements directs étrangers ont contribué à la modernisation des économies des anciens pays socialistes: les entrées d'IDE sont de nature à procurer des atouts dynamiques du transfert de technologies et de connaissances et de la création et augmentation des compétences. Au cours des années 90, les stratégies de développement ont laissé place à une libéralisation progressive des conditions d'investissement.. Selon *Hymer (1960)* les firmes investissent à l'étranger pour tirer profit de leurs avantages spécifiques tels que la possession des technologies avancées, d'une main-d'œuvre qualifiée ou d'une bonne connaissance des marchés internationaux. *Dunning (1981)*, à travers le paradigme « O.L.I. » synthétise un grand nombre d'arguments relatifs à la multinationalisation des entreprises, affirmant que les FMN investissent à l'étranger dans le but d'exploiter simultanément trois types d'avantages : les avantages spécifiques de la firme (*ownership specific advantages*), les avantages de la localisation du pays d'accueil (*location advantages*) et les avantages liés à l'internalisation des coûts de production (*internalisation advantages*).

Le développement économique à long terme exige plus qu'une simple stimulation de l'investissement et de l'esprit d'entreprise. Dans la dernière décennie, le rôle des institutions dans le développement et la croissance économique se mettait au premier plan, s'évoquant de plus en plus comme élément clé pour la croissance<sup>219</sup>. De bonnes institutions engendrent la croissance (*Acemoglu 2001*) économique et celle du commerce (*Anderson – Marcouiller 1999*), et, inversement, la croissance génère de meilleures institutions (*Rodrik – Subramanian 2003*).

Le rôle fondamental des institutions pour engendrer la croissance est mis en évidence par *Rodrik, Subramanian et Trebbi (2002)*. Dans le cadre des avantages de la localisation c'est le système institutionnel à qui, on accorde une importance particulière, distinguant des „institutions, à savoir celles qui protègent les droits de propriété et qui garantissent l'exécution des contrats, soutiennent la dynamique de croissance, renforcent la capacité de résistance aux chocs et facilitent la répartition des charges socialement acceptable en cas de chocs et crises. Il faut donc mettre en place quatre types d'institutions: les institutions nommées créatrices de marché qui servent à protéger les droits de propriété et garantir l'exécution des contrats. En leur absence, les marchés n'existent pas ou fonctionnent mal. Les institutions de réglementation des marchés s'occupent des effets externes, des économies d'échelle et des informations imparfaites<sup>220</sup>. Aussi, il faut mettre en place des institutions de stabilisation des marchés, qui agissent pour garantir une inflation faible, réduire au minimum l'instabilité macroéconomique et éviter les crises financières<sup>221</sup>. Un quatrième type d'institutions correspond à celles qui légitiment les marchés, donc, qui fournissent une protection et une assurance sociales, organisent la redistribution et gèrent les conflits<sup>222</sup>.

L'entrée des flux d'investissements directs étrangers suppose un système d'institutions cohérent, efficace et de confiance. Un pays marqué du niveau insatisfaisant de l'infrastructure et du manque de la base institutionnelle n'est pas attirant pour les investissements étrangers. En ce qui concerne les pays en transitoire d'Europe Centrale et de l'Est, il y a de nombreuses études qui s'occupent du rapport de leur système institutionnel avec leur capacité à attirer l'IDE. *Wiesniewski (2005)* prend l'exemple de la Pologne pour prouver le fait que les investissements directs entrés au pays ne tendent pas à diminuer les écarts entre les régions, ils les augmentent encore. Le cas de la Pologne démontre que les régions qui ont continué à se développer et se renforcer étaient celles qui possédaient une infrastructure et un capital humain suffisants. Cela est caractéristique à long

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219 notamment, sous les aspects: protection des droits de propriété, structures de réglementation, qualité et l'indépendance de l'institution judiciaire et compétence bureaucratique.

220 Ce sont, par exemple, les organismes de réglementation des télécommunications, des transports et des services financiers.

221 Ce sont, par exemple, les banques centrales, les régimes de change et les règles budgétaires.

222 Ce sont, par exemple, les systèmes de retraite, les dispositifs d'assurance chômage et autres fonds sociaux.

terme. L'étude de Wiesniewski renforce les résultats de mes recherches (*Láng 1983*) d'autrefois sur la France, où j'ai abouti à une même conclusion.

*Nathalie Fabry et Sylvain Zeghni (2006)* examinent la situation de onze pays en transition. En composant cinq variables indépendants (indices statistiques composites) ils dirigent leurs attentions sur le montant d'influx de capitaux directs étrangers et sa dépendance de ces variables. L'indice ER (Enterprise Reform) créé par EBRD évalue l'efficacité des réformes portées sur les entreprises. Cet indice quantifie des critères comme l'importance du soutien d'État aux entreprises (en cas positif il s'agit d'une diminution), le développement du système d'imposition, le taux d'emploi dans l'industrie par rapport à la population active ou la croissance de la productivité.

L'indice C (Competiton policy) montre l'efficacité de la politique de la concurrence, qui contient le succès du mouvement de privatisation du point de vue quantitatif et qualitatif (donc, il mesure le taux des entreprises privées et l'effectivité des firmes privatisées).

Le CPI (Corruption Perception Index) créé par Transparency International en 1993 exprime la perception de la corruption (IPC). Cet indice est construit à partir de plusieurs sondages d'opinion d'experts se prononçant sur leur perception du niveau de corruption dans les secteurs publics d'une centaine de pays. Par cet indice, on peut classer les pays sur une échelle de 0 à 10; 0 indique un degré de perception de la corruption élevé et 10 indique un degré de corruption perçu comme étant très faible.

L'indice EHE (Expenditure on Health and Education) montre le taux des dépenses d'éducation et de santé par rapport à PIB.

Le CIV (Civil liberties) est un indice évaluant la prépondérance des droits de l'homme.

Les résultats de l'examen confirme l'hypothèse selon laquelle les réformes institutionnelles et la capacité d'un pays à attirer les capitaux étrangers se lient. Parmi les variables examinées, l'indice ER joue un rôle prépondérant. Dans l'Union européenne, en dehors du PIB par tête c'est à cet indicateur que nous attribuons une signification majeure dans la capacité d'une nation à attirer l'IDE. On trouve deux autres variables, les indices C et CP qui contribuent significativement à la capacité d'absorber des flux considérables d'IDE.

Le fait que les circonstances institutionnelles pèsent d'un grand poids pour les pays qui ont récemment adhéré à l'UE ne doit pas nous étonner, car ces États ont dû adapter l'acquis communautaire avant leur adhésion, ainsi, les facteurs spécifiques deviennent plus importants, par exemple l'environnement de l'entreprise (ER), pour les investisseurs.

Les pays postcommunistes font la base de la recherche de *Bevan, Estrin et Meyer (2004)*, qui soulignent eux aussi, que le développement institutionnel permet de recevoir plus d'IDE au pays d'Europe Centrale et de l'Est.

Un article sur les pays baltes (*Heiskanen 2006*) présente leur rôle croissant dans le mouvement d'internationalisation des petites et moyennes entreprises finlandaises. Les États baltes ont une forte capacité pour attirer les investissements dont la cause se trouve dans la large gamme de services locaux pour soutenir les entreprises. Ici il n'y a qu'un seul élément d'institution qui est souligné comme facteur de motivation.

Dans une recherche faite en Hongrie (*Az üzleti...2006*) les sondés<sup>223</sup> ont trouvé que la préparation générale du pays concernant le cadre juridique et le système de réglementation de bon niveau par rapport aux autres était la meilleure. Par contre, l'opinion concernant l'harmonisation de l'administration publique, l'établissement du cadre institutionnel et la sécurité sociale, a été beaucoup moins favorable. L'environnement économique ne peut pas encore assurer le fonctionnement transparent et calculable du marché. Le manque de stabilité favorise la corruption. Selon la prise de position (*Position...2009*) de la Chambre de commerce hongro-américaine, publiée le 2 mars 2009, l'une des causes les plus importantes de la crise actuelle,

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223 512 interviews.

particulièrement vigoureuse pour la Hongrie tire son origine de la corruption exerçant une influence nuisible sur les décisions commerciales et politique économique. La transparence est un facteur crucial pour un bon climat économique. Les politiques économiques transparentes influent positivement le comportement des investisseurs qui cherchent la clarté et la prévision, ce qui permet de minimiser les risques de mauvaises et coûteuses surprises. Donc, il faut mettre les décisions de la vie économique plus transparentes et calculables, surtout à l'égard de décisions publiques (concernant les circonstances d'autorisations et de procédures, les bénéfices, la régulation de prix, les charges publiques, de même, dans le cas des entreprises à influence d'État ou de gouvernement local (selon propriété, gestion, régulation de prix).

Par conséquent, les pays en transformation ont encore de nombreux devoirs à accomplir dans le domaine du développement du système institutionnel. L'adaptation des institutions est assez lente par rapport à l'évolution des facteurs conjoncturels, et difficile à mettre en œuvre: il est donc important de ne pas négliger l'adaptation pendant la phase où les facteurs conjoncturels sont favorables, pour assurer le long terme. Les programmes économiques doivent s'appuyer sur un large consensus social et le renforcement du système d'institutions servant à développer l'économie. Pour cela, à mon avis, la régulation économique doit devenir partie intégrante d'une politique économique d'ensemble et à long terme orientée vers la croissance. De nos jours, dans les nouveaux Etats de l'Union Européenne, existe une conception d'équilibre d'approche fiscau-monnaire à un horizon à trop court terme. Pourquoi? Nous en connaissons les causes et de plus, nos problèmes liés à la crise actuelle nous y obligent également. Ce qui est certain, c'est que les institutions peuvent changer et qu'elles exercent un effet durable sur le développement. Dans telles circonstances, il y a même une certaine marge de manœuvre. Les agences gouvernementales pour le développement d'entreprises par exemple peuvent former activement la stratégie d'industrie de l'Etat en appuyant les entreprises et en les dirigeant vers les objectifs généraux de développement et contribuer encore plus directement à la réussite de la stratégie industrielle et à la compétitivité économique. Par conséquent, le système d'institutions servant au développement économique peut être renforcé dans ce domaine.

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### **Luhan Ionuț Dragoș**

University: "Alexandru Ioan Cuza", Iași Faculty of Economics and Business Administration  
Address: Carol I , No 11, 700506 Iași, Romania Phone: +40 0232.201.000, mobile: +40 0740.147777 Email : luhan.dragos@yahoo.com

*Integration into the European Union has caused significant changes in the economic environment of enterprises in our country. New opportunities and chances inaccessible in the previous period are opening, but also new challenges to overcome which is vital for the continuity of their operation. The problem becomes even more sensitive in terms that for many of the managers these companies can be like "their children" in whose creation, functioning and development have contributed and allocated more effort and resources.*

*Keywords: economic environment, common market, managers, competition*

*JEL Classification : F02, F00*

### **1.Introduction**

Romania's entrance in the European Union has imposed and imposes the adoption of measures for the organization of firms to operate efficiently in the single market and, on a wider scale, on a global market. They must enter in the general world movement of deregulation, removal of obstacles for a continental or global trade and to deal with generalized competition. New confrontations arise from the specific economic single market, characterized by free movement of goods and services, people and capital, and joint execution of applied research projects.

Organization and functioning of the common market have created a new economic environment, characterized by a considerable potential of modernization and innovation, by a great wealth and diversity of the compounding countries cultures and by the possibility to achieve beneficial effects of synergy. This new economic environment, political and social, strengthening the priority of competition is conducive to achieving significant increases in productivity and competitiveness of the companies that manage to follow the generalized process of deregulation and remove national barriers.

In this framework, Romanian companies should become enterprises with European vocation and even global and to respond quickly, through a suitable adjustment in front of competitors in these markets. Those enterprises, which through a rapid mobilization are able to acquire new dimensions of European companies, sell their products on a vast market at competitive prices, which contributes directly to a continuous development in terms of profitability.

Companies carrying on an unsatisfactory activity in the internal market are necessary to remodel its business according to new conditions in order to remain on the market, otherwise, in the conditions of generalized competition, being forced to close down.

However, to operate in the new European economic environment, companies must operate quickly appropriate changes, organizational changes, technological and social, which influence their current and future competitiveness.

Achieving the necessary reorganization requires the heads of enterprises to identify and impose measures for change and the employees of these enterprises must understand and contribute to developing and implementing these changes. At the same time, institutions must ensure, through the measures they take, optimal operating conditions of enterprises on international markets, providing an optimal framework for competitive activities.

For an effective functioning on the large international market, it is necessary to cope with the large number of changes, which requires the implementation of top powers linked to the activity modernization and innovation and a relocation of their professional specialization in relation to

new operation conditions. In terms of operation change on the new markets Romanian companies need to adapt very quickly, imposing an increase in activity in this market by adopting a strategy adapted to the dimension of external business affairs. This requires that each company analyze its own situation establishing a strategy compatible with the European or even global market of development and ensure their effective implementation.

To adopt a new external dimension should ensure timely financial and legal structure necessary to operate with increased competitiveness in the European single market. With this, it is necessary to acquire the principles and methods of managing specific to the international activities that would ensure certain competitiveness of its products on new markets.

Effective functioning of Romanian enterprises on the international market also requires the implementation of a good informational system, which among other functions would enable the business monitoring at any time of other competing companies for that, depending on the situation, be able to react promptly or adopt the most appropriate measures, be able to continuously monitor the game of European or global existing or potential competitors.

Romania access to the European Union puts in front of business the knowledge of new rules of the game on the international market in a strong competitive environment. Will hold those businesses that know these rules of the game and take early legal, financial and production structures, to enable them to conduct competitive activities in the new international context in which they operate.

## **2.The main changes in the economic environment of firms from integrating into the European Union**

In order to strengthen the market position and exploiting opportunities for establishing of the single market companies must adopt appropriate measures and strategies that lead to modification of their economic environment.

The measures envisaged for the formation of the single market presents different degrees of difficulty in their implementation, the effects on the economic environment may be felt either in the short term such as harmonization of technical rules, the liberalization of capital movement, the conducting of joint research, either on the medium term, such as taxation approach, harmonization of monetary policies, the establishment of the Community patent and the industrial protection, either on the long term for example, the single currency in all countries, harmonization of the VAT, opening in considerable proportion of public markets, harmonization of the European social law.

In this context, the major changes envisaged in the economic environment of business aims the economic structures field, the field of economic legislation, the field of economic exchanges, financial resources and costs, tax burdens and administrative regulations, science and technology, environmental protection.

Regarding economic structures are operated transformations that aim closeness of consumer goods needs of member countries, near the national media and social tax, expanding operations at European level in terms of strategic alliances, partnerships, acquisitions and mergers of businesses.

In the field of economic legislation seeks deregulation of business, such as removing obstacles to the creation and development mind enterprises, especially EMU, and providing the legal framework for the establishment at Community Groups European Economic Interest, which facilitates cooperation between enterprises in order to achieve some joint projects in the areas of sales, research, production, projects financed by the European Investment Bank.

Field of economic exchanges is marked by the emergence of new trade flows between countries and European Union members, especially between small and medium enterprises as a result of reducing the formalities and reduces customs costs at the borders. It also shows increasing flows of capital between member countries, strengthening competition and widespread, extending from



the location of industries in different European Union countries, and thus closer to customers as a result of eliminating tax barriers, technical, legal and free provision of development services as a result of the possibility of undertaking, and every citizen to borrow from banks or call the security systems in any country in the European Union.

Amendments to the financial resources and cost concerns the possibility of obtaining new business finance lower cost, for example, loans and insurance cheaper and lowering costs of trade formalities.

Burdens and administrative regulations shall be amended to reduce the tax burden due deregulation business activities and enhancing competition, lowering the level of indirect taxes as a result, in particular the harmonization of tax sites.

Changes in science and technology are addressed in particular the development of cooperation between countries in research-development efforts to focus on strategic industries (such as electronics, informatics, and biotechnology).

Social change that is affected aiming to increase social întrepătrunderii the community as a result of free movement of people, mutual recognition of diplomas and qualifications, even if for a certain period of time are foresee maintaining cultural barriers, legal or nationalist nature. It wants to develop programs to improve working conditions and promoting measures to increase employment protection legislation and improve the member countries: pay, during working time, overtime, annual leave, conditions of employment and licensing, retirement etc.

Changes in environmental regulations aimed at the harmonization of member countries on the prevention of environmental degradation and tempered the obligations in this regard. The most significant changes that they cause is addressed to the single market competition, in both suppliers and the customers. Thus, the intensity of competition increases especially in industrial sectors, and particularly if the food industry, automobile, telecommunications, pharmaceutical, textile, usually high-tech industries become more vulnerable as a result of eliminating non-tariff barriers of entry.

In many fields, in addition to increased competition between the old producer, add and impact on market entry of new competitors, which leads ultimately take changes in customer behavior and also change their profile, if providers cooperation and service as a result of industrial restructuring. In this context, companies have to set focus more on clients than on the behavior of producers of competing, becoming a key requirement of the industry changes and their effects on the structure and behavior of customers buying them.

Intensifying competition may generate a number of effects on the industrial structures of the European Union, such as the disappearance of a number of companies will not be able to adapt to new conditions in order to be competitive; relocation of certain production units of firms in geographical areas characterized by productivity and high production costs lower, by buying companies with aggressive marketing "of the European Union outside of businesses located within its capacity to strengthen the marketing or production target markets, and they propose to entering or acquiring technology rated as important, the purchase of small businesses, although that is in a competitive disadvantage are sufficiently attractive to businesses of greater scale, making acquisitions and mergers to integrate vertically so that can be controlled both upstream and downstream of the manufacturing process, processing of mergers and joint ventures to strengthen the power and therefore the position with regard to increasing capacity, collaboration on the distribution and research - development. These potential changes will affect the structures of industrial conditions in which competition will take place, thus becoming essential to provide risk managers that they cause changes and their impact on their businesses.

### **3.Implications of access to European market for Romanian**

Because companies in our country to work and develop in terms of current economic environment, their managers must have a good knowledge of the European single market. Firstly,

a very important aspect is that the market has an important economic potential, which can be exploited to better the country fails to resolve a number of issues that affect businesses, problems can be grouped into two categories, namely those of horizontal and vertical nature. Category of problems that returns to horizontal resolution of the Romanian state has a direct impact on all sectors of activity, while the problems are with vertical-specific business sector and businesses within them. Between the two categories of problems are closely related because, while the horizontal nature of problem solving to ensure the macroeconomic level to ensure a smooth and effective employment in the organization and functioning of the common market in Romania, the problems of vertical as their resolve issues specific to various sectors and undertakings arising from the application of principles and data solutions to general problems.

Among issues of horizontal nature, common to all sectors of activity, are part of the tax on the public markets, those with social problems in the financial and legal rules relating to the Community to scientific research and patent law .

Issues of tax shall as a result of differences between the fees that reflect national fiscal policies in Romania and those that have been harmonized within the European Community, in particular VAT and excise duties. These problems must be dealt with very carefully, since bringing them to the average level of the European Union may cause a significant change of the budgetary revenues, then the differences need to be covered from other resources available.

Troubleshooting on opening their markets to allow all EU countries in terms of existing competition. Solving these problems optimally is hampered by the existence of enterprises of national interest, protected under one form or another by state enterprises without state support, not face competition in the common market will be forced to close its doors unless manage a rapidly growing competitiveness in the Community.

Problems with financial and legal to be resolved relates in particular to those relating to freedom of movement of capital and services on the legal status of companies, taking into account the constraints arising from national here, particularly under the balance of payments.

One category of problems affecting large enterprises is that relating to adoption and compliance with a set of rules concerning the conditions to be met by the products, works or services performed by different companies to be accepted in all countries of the Community. This involves the removal of existing protectionism masked some national policies and harmonization of national rules regulating the community.

Solving the optimal problem of horizontal effect and has direct influence on issues of vertical features leading to the private sectors of activity and businesses. The incidence and influence of the regulations adopted by dealing with the horizontal is greater or less in relation to particular business sectors and enterprises. Thus, for example, there are a number of sectors operating in an environment governed by the national character, such as, for example, food production enterprises, the construction, transport, insurance etc. which in terms of adapting these rules to the requirements of the Romanian market, will have to be made by agreement with the existing organization and functioning, consistent with those of the European Union. Of course, there are sectors less sensitive to changes that will take place that will quickly resolve problems which amounts compared with other more sensitive in this report, such as, for example, those with financial.

Overall, dealing with the horizontal nature of the Romanian state should be done very carefully to ensure harmonization with the necessary regulations in the European Community, but to create difficulties in the competition, by applying their difentele sectors. Given that some of Romania recorded a deficit of performance in comparison with the common market, it is necessary that the national economy to be taken in the economic, to create a favorable environment and revitalization dinamizării activities to face competition that will face them on the European market.

In adopting these measures and in dealing with the horizontal, the Romanian state should take into account that competition in the common market is not only the level but also at the level of national economies, imposing the analysis with the greatest risk of the impact they can produce, without falling into dirigism and damaging protectionism.

Businesses, in turn, should make for their measures to be applied in dealing with horizontal nature of the state, applying the program of restructuring and upgrading, and using advanced methods and techniques in relation to their requirements on a competitive market and competitive.

Decisions that managers take in connection with the operation of firms in the economic, must be in particular the following: product demand and conditions for achieving competitiveness, finance company business model and organization of the company.

As regards the application of products and conditions for achieving competitiveness managers must constinetizeze that feature is the location of its European markets in a permanent state of imbalance between demand and supply, a situation amplified by the race for new products with a life expectancy becomes shorter and must be supplied in versions increasing number, which requires a distinction more pronounced production processes. European market saturation factor reinforces the importance of "fashion" in the new sectors of industry (such as electronics equipment, furniture), which before were not influenced by this factor and reducing the level of resources and higher prices for certain raw materials that make processing the number of meals they can not be sustained economically, imposing either the relocation of certain industries, or shift towards the manufacture more value added. In this context, the EU strategy can not be other than the performance of successive transitions, which means creating new products with strong technological content and operation of rapid technological advance stages before the saturation and decline of the life-cycle products.

Regarding the financing of business enterprise, a crucial element of the funding is to maintain the interest rate on long-term at a higher level than the inflation recorded as a result of monetary policies of the Member and ensure a global balance between the coins. In this context, it must opt for funding in real terms and take the practice to waive the use of loans, which would be repaid in the long term in terms of high inflation. Currently, the debt much more expensive one (in the positive rates of interest) whereas under high pressures to reduce cash-flow needs. Another source of funding is the exchange, but not all companies qualify to participate in it and of those participating, only a small proportion may benefit from the advantages in terms of their size and prestige. In this context, the company, its financial independence depends on the speed with which they are obtained the necessary financial resources (especially domestic) and decisions are taken regarding the establishment of profitable and unprofitable products, dispense with the latter to finance the mission strategic.

The model of the organization must adapt to current conditions in the economy should be given importance to both business flexibility as a result of saturation of demand and continued diversification of the demands of beneficiaries, and promoting technical progress, which presupposes the existence of hand high qualified.

The complexity of management increases the need for broadening the range of products and accelerate the renewal of its high degree of uncertainty regarding the accuracy of the information and the reaction of markets and increasing volume of information. In this context, particular importance shall submit a waiver to the movement of information on vertical and hierarchical ladder adoption model horizontal movement to facilitate timely resolution of various problems arising from the emphasis of competition.

#### **4. Conclusions**

Integration into the European Union is and will continue to be a major challenge for companies in our country, challenge that succeeds the post December one, when he moved from planned

economy to market economy and would lead to a maturation process for many of them as regards the operation in the new European context.

New mutations of the economic environment, with direct influence on business, require them to have well formed and more informed personnel, human skills becoming very important, the use of electronic equipment requiring lifting personnel qualification and adoption of other management.

Success depends largely on the one hand the implementation of measures provided by management, training and ability to convince the staff on the implementation of new strategies, the intuition, experience and skills of their leaders innovative spirit and creative, the build a culture of top business, generating economic performance, all designed to achieve adequate economic performance, on the other hand, waiving the previous mentalities and outdated.

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# STUDY ON THE BUSINESS ENVIRONMENT IN ROMANIA IN THE CONTEXT OF THE INTEGRATION IN THE E.U. (ANALYSED PERIOD 2008-2009)

**Nan Anca Petruța**

*Babeș-Bolyai University, Faculty of Economics and Business Administration, Cluj-Napoca, Teodor Mihali Street, No. 58-60, email: anca\_nann@yahoo.com, Phone 0744582312*

**Borza Georgiana**

*Babeș-Bolyai University, Faculty of Economics and Business Administration, Cluj-Napoca, Teodor Mihali Street, No. 58-60, email: georgiana.borza@gmail.com, Phone 0745661655*

*In the context of the alignment with the European standards, the business environment in Romania is faced with great challenges, being subdued to constant pressure, resulted both from the economic and the legislative registers.*

*The present paper proposes itself to show how attractive our country is from the point of view of the business environment, the investors' confidence in this domain, as well as the way in which this is affected by the world crisis.*

*Key words: business environment, investors' confidence, world crisis*

*JEL Classification: G<sub>01</sub>, O<sub>16</sub>*

## **1. Introduction**

Romania is in the top of the destinations for foreign investments coming off third in the region after Poland and Czech, in what concerns the number of workplaces created due to the achievement of the investment projects, according to a research carried out by the advisory and audit company Ernst & Young.

On a European level, our country takes the fifth position in the top of the most attractive destinations for investments, so that 10% of the foreign major companies questioned by E&Y take into consideration Romania for the extension of their activity. The most important competitors are Poland, for which 18% of the investors opt, Germany, 16%, Russia, 12%, and France, 11%.

According to another research Ernst & Young published in April 2008, Romania occupied the first position in the classification of attractiveness for investors in the region of South-East Europe, followed by Turkey. "In 2007 Romania had a score of 58%, but in 2008 its percentage reduced to 52%. Unlike Romania, Turkey improved its performance, gaining a qualifier of 50%, this tendency favouring the Turkish state", declared Fabrice Reynaud, senior manager of Ernst & Young<sup>224</sup>. The purpose of this research is the measurement of the foreign investors' perceptions regarding the activity of South-East Europe for direct foreign investments, in order to compare these perceptions with the real situation of the investments and to reflect the opportunities for the states in the region.

The fluctuations of the Romanian economy and the impact of various destabilizing factors make an emerging economy as that of Romania feel the effects of the international fluctuations, dictated by the most powerful men in the world, that is why the research of these phenomena experienced on an international level is of real interest.

## **2. Romania among the first 50 countries with favourable climate for the business environment**

According to the annual rapport carried out by the World Bank "Doing Business 2009", which analyses the favourable climate for the development of new businesses in 181 countries on the basis of 10 indicators, Romania occupies the 47<sup>th</sup> place in the classification of the states that have

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224 "Rămânem în topul destinațiilor pentru investiții străine", [www.wall-street.ro](http://www.wall-street.ro), 2009.

the most favourable business environment. It measures how easy it is to start on a business or to end it, to pay taxes, to recruit people, or the way in which the state protects the investors.

Our country has been surpassed by countries like the Arabian Emirates (46), Bulgaria (45), Armenia (44), Hungary (41), or Slovakia (36). Still, Romania occupies a very good place in the classification regarding the initiation of a business (place 26), the procurement of a credit (place 12), and the efficiency with which the commercial litigation is treated (place 31). Also, a very good place is occupied due to the protection of investors, Romania thus taking the 36<sup>th</sup> position, and the external commerce, too (place 40).

But Romania's most serious problem is the tax payment system. Thus, it takes 202 hours to pay the 113 taxes imposed to start on an undertaking. This situates Romania on place 146, after countries like Brazil, Egypt or Albania. On the first position in what concerns the number of taxes imposed by the state is Maldives, followed by Qatar, where only one tax is paid, and Sweden, with only two taxes.

The first place in the classification of the states with the most favourable business environment is occupied by Singapore, because of its very friendly laws regarding bankruptcy and work force.

On the second place in the general classification is New Zealand where it one takes the fewest time to start a business. The following place is occupied by the United States which presents extraordinary facilities in what concerns the work force: to employ and to dismiss an employee being extremely easy. Also, in the USA, it is very easy to obtain a construction license, which is released in only 40 days.

The classification carried out by BM and IFC relies on the time and cost indicators for the observance of the public administration requirements with regard to the initiation of a business, the functioning, the commercial activity, and the closing of the business. This classification does not take into consideration variables like the macroeconomic politics, or the quality of the infrastructure, the volatility of the currency, the investor's perception, or the crime rate.

### **3. The business environment in the conditions of the crisis**

World financial crisis has brought about fundamental changes in the native business environment, in the managers' and entrepreneurs' mentality, and it considerably reduced the investors' aversion at risk.

Specialists recommend that in whatever investment initiated in this period there has to be bared in mind the trend of the microeconomic indicators (consumer price, inflation, unemployment), in such a way that the investment be optimized according to the realities of the market. Before the beginning of the investment, it is recommended that one make a detailed market study, with the segmentation of the target and the analysis of the target-public's buying force.

According to the information declared by the Ionuț Maftai, senior consultant within Ensign Management Consulting for Wall-Street, managers are much more realistic. There are a lot to learn from the crisis periods, as for example: inexperienced situations faced by the relatively new companies, which have exclusively known periods of growth since their establishment, the uncertainty of the future steps in the life of the company; then, the lack of liquidity, which up to now was within reach, the deterioration of some commercial relations that once seemed permanent. There are new lessons, which managers will seize on, but, at the same time, they also represent steps forward for economy.

The effects of the financial and economic crisis will be strongly felt by our country, but these are estimated to be smaller than in the case of other countries because:

- Romania has one of the smallest shares of export in the GDP, which means a more reduced effect of the contraction of external markets; the export of goods and services is in Romania around 30% as compared to 41% in Poland, 63% in Bulgaria, 80% in Czech and Hungary.
- Romania has a share of non-governmental credit in the GDP of around 40%, which is a lot under the average from other European countries.

- Romania has one of the most reduced rates of dependence of energetic imports.
- Romania has an important economic sector, besides markets (agriculture, constructions with self-administration, etc).

#### **4. Investors do not trust anymore the business environment**

Confidence in the business environment fell in 2008 world wide, on the background of the world economic crisis which led the majority of the financial companies to ask the governments for help so as to be able to maintain themselves on the waterline, shows a research worked out by Edelman Trust Barometer.

The greatest losses of confidence were registered in Ireland, where 83% of the respondents said that they had lost their confidence in companies. In Japan, the number of those who gave the same answer was of 79%, while in the US, this was of 77%.

The economic problems that the business environment encounters determine the entrepreneurs to look on the investment plans with a sceptical eye. The index of confidence in the business environment has descended drastically, to -8 points from the previous level of 80 points, as it is shown by another survey carried out by the Oesterreichische Kontrollbank (OeKB). Romania is on the fifth position in the region regarding the confidence in the business environment, after the investments have visibly diminished in the area, the most seriously affected being Ukraine and Russia, where the index has descended to -10. Nonetheless, Bulgaria, Czech and Romania registered the lowest decline of investments, the most affected sectors being the real and the industrial ones.

Also, the region of central and East Europe deals with the same problem when it comes to the investors' confidence, index that has decreased as far back as winter, and almost half of the foreign companies which operate in the area believe that the next six months the situation will get worse, according to the OeKB survey.

The situation seems more severe in Ukraine, which three months ago had one of the best scores. This happened because of the political problems which had postponed the fight against the crisis and had frozen a rescue package from the International Monetary Fund (IMF).<sup>225</sup>

#### **5. Year 2008 – internal retrospection**

##### *The evolution of the main sectors of the economy in 2008*

Tabel no 1: The evolution of the Gross Domestic Product (GIP) in some member states of the EU

GDP	YEAR 2008
Romania	7.1
Belgium	1.2
Germany	1.3
Estonia	-3.6
Spain	1.2
Lithuania	3.1
Holland	2.0
Polond	5.4
Sweden	-0.2
UE(27)	0.9

Source: EUROSTAT

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225 "Investitorii nu mai au încredere în mediul de afaceri românesc", [www.newschannel.ro](http://www.newschannel.ro), March 2009.

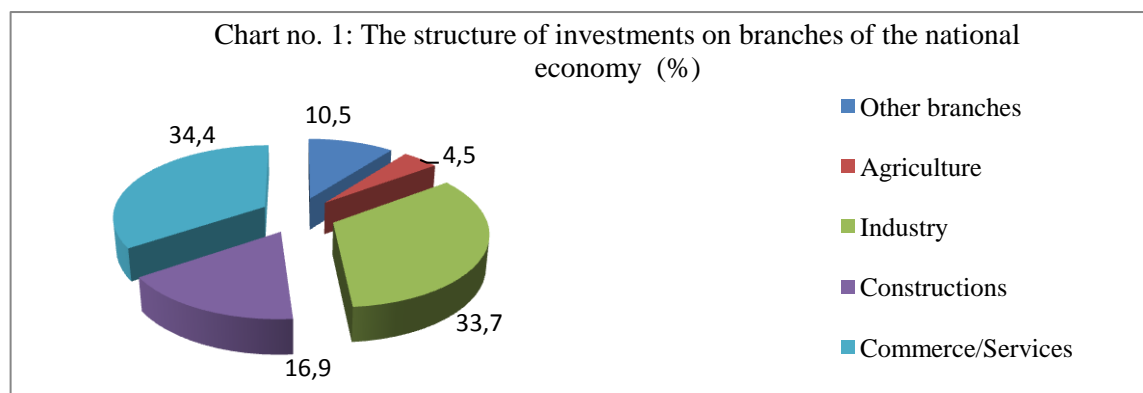
The gross domestic product for 2008 was 503,958.7 million lei current prices, on the increase in real terms with 7.1% comparatively with 2007. For the formation of GDP, the activities from services and constructions contributed positively, the two sectors having together a share of 60% in the GDP, and the volume of activity from the sector of constructions increased with 26.1% with regard to the year 2007. Agriculture, forestry, and pisciculture increased their activity volume with 21.4%. In 2008, the volume of net taxes on product increased with 5.8% as compared to year 2007. Thus, the gross value added, which includes the results from agriculture, constructions and services has registered a growth of 1.3%.<sup>226</sup> The analysis of the factors that have contributed to the growth of 7.1% of the GDP underlines the dominant contribution of services (+2.6%) and constructions (+2.3%). Industry has contributed with only 0.3%, although it has a share of 22.9% in the GDP.

The performance of the Romanian economy was not surpassed by any of the member states of the European Union, being followed by Poland, which has registered a growth of 5.4% of the GDP.

### ***The structure of direct foreign investments in 2008***

The value of direct foreign investments' flows for the year 2008 were of 9,024 million euros<sup>227</sup>, increasing with 24.5% as compared to year 2007, covering 53.5% from the deficit of current account, from which with contribution to capital 2,767 million euros, reinvested profits 1,756 million euros and other capitals 4,501 million euros.

### ***The structure of the investments on branches of the national economy***



Source: INS, "Evoluția economico-socială a României în anul 2008", March 2009

As compared to the last year, there have been registered increases in the agriculture branch (+3%), in constructions (+2.9%), in commerce and services (+0.4%), as well as decreases in industry (-5.3%) and in other branches (-1%).

### ***The structure of imports and exports***

Romania's export of goods increased in 2008 with 13.8% by comparison with 2007, while exports augmented with 9.4%, evolution that deepened the commercial deficit with only 3.4%, to 22,52 billion euros, show the data published by the National Institute of Statistics (NIS).

The commercial deficit, computed FOB-CIF in the year 2008 was of 82,654 billion lei (22,52 billion euros), with 9,914 billion lei (747,8 million euros) bigger than in 2007.

<sup>226</sup> INS, Buletin statistic lunar 1/2009.

<sup>227</sup> The Romanian National Bank, provisory data.



The value of the intracommunity exchange of goods in 2008 was of 86,946 billion euros (23,657 billion euros) at sent items and of 142,448 billion lei (38,734 billion euros) at received items, representing 70.5% of total exports and 69.1% of total imports.

The difference between the dynamics calculated based on the values expressed in lei and the one calculated based on the values expressed in euros was determined by the depreciation of the national currency in the months January-December 2008, with values that are situated in the interval of 8% - 14.2%, as compared to the corresponding months of the year 2007, shows the NIS press release.

In 2008, the exports to the countries out of the European Union (EU) had the fastest rhythm of growth, of 20.2%, that is up to almost 9,96 billion euros, while the delivery of goods to the other 26 community states increased with 11.2%, up to almost 23,66 billion euros.

Last year too, imports from non-member states of the EU grew with 18.1%, up to 17,4 billion euros, and the import of goods from the EU grew with 5.9%, up to 38,73 billion euros<sup>228</sup>.

## **6. Year 2009 – a new challenge!**

In the first part of the year 2009, the tendency of contraction of the economic activity will aggravate, as a consequence of the world crisis.

Even so, the Romanian Agency for Foreign Investments (RAFI) sustains that Romania is still attractive, especially in what concerns sectors like auto industry, energy, IT and infrastructure. The signals received from the investors are quite good. “The majority of investors with whom the Romanian Agency for Foreign Investments hold discussions from the beginning of the year with regard to the implementation of projects in Romania did not lose their interest in the offer of our country. Starting with January 2009, RAFI monitors 12 projects of investments amounting to 719 million EUR (3,015 new workplaces), so that we are entitled to consider that this year, too, the direct foreign investments (DFI) will not avoid Romania, which will preserve a top position in the regional classification per countries depending on the DFI attracted value”, declared Sorin Vasilescu, director of RAFI, for the “Gândul” magazine. He specified that, from the signals received by now from the investors, Romania’s agreement with IMF did not change too much their initial plans.

In January 2009, the flux of direct foreign investments attracted by Romania registered the value of 912 million euros, on the increase with 51.2% comparatively with the similar period of 2008 (603 million euros).

To be mentioned that in January 2009 the deficit of the current account was financed entirely by the DFI, the highest percentage deriving from participations to capital, respectively 49.6%. In what concerns the investors’ nationality, who publicly announced that they want to come in Romania, approximately 65% of them are from member states of the EU, 15% from the rest of Europe, the difference being covered by the USA and Asia. While Romania attracted over nine billion euros last year in direct foreign investments, Hungary attracted only 500 million euros (to which it is added the Mercedes investment), and Bulgaria benefited from the DFI to a value of about 5,4 billion euros<sup>229</sup>.

Among the advantages of Romania, we recall:

- Access to the EU market (500 million consumers) and to second biggest market from East and central Europe (after Poland).
- Sustained economic growth in the last years (over 6% on average).
- Competitive taxation (unique quotation of 16%).
- Relatively well qualified work force at low costs.

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228“Exporturile României au crescut în 2008 cu 13,8%, iar importurile cu 9,4%”, [www.bloombiz.ro](http://www.bloombiz.ro), February 2009.

229 “În ciuda crizei, România bate Bulgaria și Ungaria la investiții străine, Gândul Magazine, April 2009.

### ***Estimations on the external environment***

The new projection emphasizes the decline of the global economy. International production and commerce strongly reduce their paces, entering the negative zone.

The investors' confidence suffered a major decline. Production decreases in numerous advanced economies, also amplified by the internal demand's decline, which limits itself more than it was previously anticipated. The escalation of the global financial and economic crisis, in the last months of the year 2008, raised the incertitude of the growth perspectives in the advanced economies, the same effects existing also in the emergent countries<sup>230</sup>.

It is considered that the economic situation will get worse in 2009, decreases being estimated for the majority of the member states and a contraction of the economic activity with 1.9% of the GDP in the euro zone. Romania's main commercial partners will reduce their GDP in 2009: Italy with 2%, Germany with 2.3%, France with 1.8%.

### **7. Conclusions**

The Romanian economy cannot be isolated from the world one, on the contrary, its influences will be greater and greater. The effects of the global crisis are hardly at the beginning and 2009 will be the year when they will be more strikingly visible.

In Europe there are strong inflationary pressures and, as 70% of Romania's commercial exchanges are with the EU, it is natural that these be also felt by the Romanian economy.

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230 www.scribd.com, Raport buget 2009.

# ROMANIAN AGRICULTURE IN EUROPEAN PERSPECTIVE

## **Nistor Ioan**

*Babeş-Bolyai University, Faculty of Economics and Business Administration, Cluj-Napoca, Teodor Mihali Street, No. 58-60, email: inistor@econ.ubbcluj.ro, Phone 0745678242*

## **Nan Anca Petruța**

*Babeş-Bolyai University, Faculty of Economics and Business Administration, Cluj-Napoca, Teodor Mihali Street, No. 58-60, email: anca\_nann@yahoo.com, Phone 0744582312*

## **Borza Georgiana**

*Babeş-Bolyai University, Faculty of Economics and Business Administration, Cluj-Napoca, Teodor Mihali Street, No. 58-60, email: georgiana.borza@gmail.com, Phone 0745661655*

*The integration of Romania within the European Union determines Romanian agriculture to be faced with great challenges, such as the alignment with the norms imposed by the Common Agricultural Policy, as well as the inclusion within an extremely dynamic competition market.*

*The present paper attempts at illustrating the effects that the Romanian integration within the EU has upon agriculture, upon the application of the Common Agricultural Policy and the financial crisis which covers this field as well, together with the research for solutions directed towards reducing the effects of the crisis and relaunching the rural economy.*

*Keywords: agriculture, common agricultural policy, financial crisis*

*JEL Classification: Q<sub>13</sub>, Q<sub>14</sub>*

## **1. Introduction**

Romania has become a member of the European Union on the 1<sup>st</sup> of January 2007. Romania is the country where more than a third of European Union farmers live, while Romanian agriculture represents approximately ten percent of the value of agricultural production in the EU. The contrast between these two figures illustrates both the huge potential of economic growth, together with an increase of the income level and workforce employment offered with the accession to the EU common market, as well as the challenges that Romania has to face in order to take advantage of this potential. Three main challenges can be noted in this respect: the first one is the accomplishment of the requirements imposed by the agricultural community *acquis*; the second is the decision concerning the way in which the key common agricultural policies should be introduced, including the need of increasing the department's power of absorbing the financially significant support programmes of the European Union; the third challenge –which may be considered the most significant of all –is assisting Romanian agriculture in the process of modernization, so that it may be able to benefit significantly from the opportunities offered by the integration within the EU common market<sup>231</sup>.

In the field of agriculture the advantages are fewer during the first year of the accession, but in the long run the integration of Romanian agriculture will lead to: an increase in agricultural productivity (through the adoption of the *acquis*, and especially, through the access to funds directed towards agriculture and high technology), uplifting the development of medium (up to 50 ha) and large (over 100 ha) agricultural exploitation, improving the access on the EU market and the disappearance of all commercial barriers, a slowdown of workforce migration from agriculture towards the industrial sector.

Agriculture has been awarded an increased degree of attention in the accession process due to the following reasons: agriculture is under the effect of the instruments used by the common

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231 Manole V., Stoian M., *Tribuna Economică*, no. 22, 4th of June 2008, p. 82.

agricultural policy, of veterinarian and phytosanitary commercial policies; over 30% of working population in Romania is involved in this field. Likewise, Romanian agriculture is characterized by a dual structure, consisting in the coexistence of two basic forms of agricultural production, one of subsistence and semi-subsistence and the other of production for the market.

At present, there is a significant difference between the performances of Romanian agriculture and those of the EU, the profitability of Romanian agriculture being inferior to that of the EU. The process of increasing the natural potential of agriculture depends upon the combined efforts of all the decision factors involved.

## **2. Applying the Common Agricultural Policy**

The objective of the common agricultural policy (CAP) is that of offering a reasonable life standard to farmers, high quality food products at fair prices to consumers and that of protecting our rural patrimony. This policy has evolved in order to answer to the needs of our society. Thus, food safety, together with the protection of the environment, the rapport of good value for money and the cultivation of plants used for biological fuel have an ever-increasing importance. In this respect, CAP is oriented towards consumers and taxpayers, while also offering EU farmers the liberty of producing according to the demand on the market.

Upon considering this problem from the perspective of Romanian agriculture, we ask ourselves if the EU is promoting a certain 'European pattern of agriculture'. According to the European views, European agriculture must be enduring, productive, competitive and spread all over Europe (including underprivileged and mountainous areas). The agricultural field should continue to ensure an equitable lifestyle, to contribute to the keeping of rural areas, to conserve nature and bring a considerable contribution to life vitality in the rural areas. It must be able to answer to the concerns expressed by the consumers and citizens in general regarding the availability, the price, the quality and safety of the products destined for consummation, the protection of the environment and the guarantee of animals' welfare<sup>232</sup>.

As for the current situation of the Common Agricultural Policy, the following tendencies<sup>233</sup> are being shaped:

- the reduction and/or elimination of production subsidies;
- the drastic reduction of the stimulation of market measures;
- ever-increasing support for the elimination of CAP budget;
- premature and unfounded euphoric state concerning both the stability, safety and security of food products and European solidarity;
- the naivety, irresponsibility or even interest of the major European decision factors, who continue to keep European farmers away from the results of contemporary bio-technology.

## **3. General Presentation of Romanian Agriculture**

The EU integration is probably the most powerful pressure factor for the rapid reformation of Romanian rural agriculture and economy, given the necessity of a successful inclusion within the European rural economy. The Romanian rural economy, widely dominated by agriculture, is still weakly integrated within the market economy. In the current context of market economy, the welfare of the citizens living in both in the rural and urban areas, together with that of the producers, depends upon the understanding and application of marketing techniques.

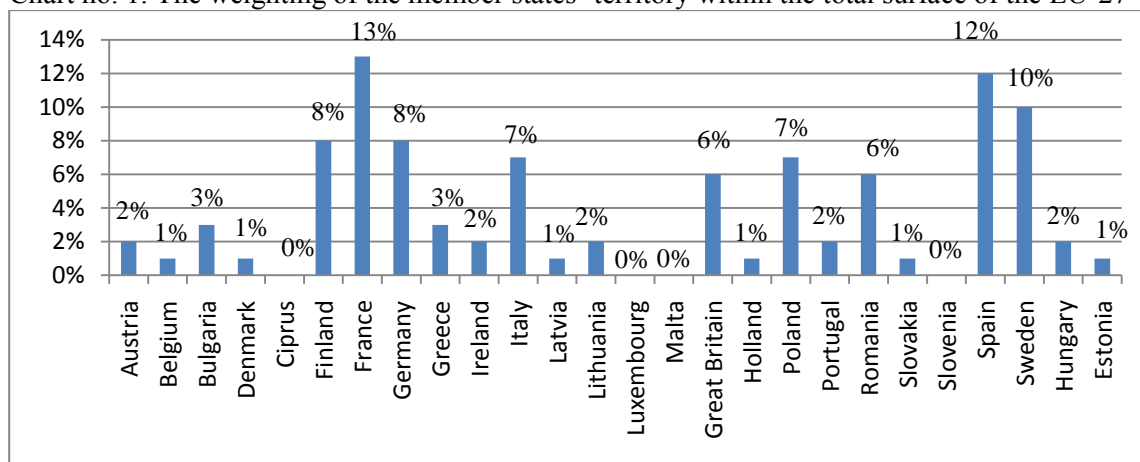
Romania, with a territory of 238.391 km<sup>2</sup>, almost equal to that of Great Britain (244.820 km<sup>2</sup>), occupies the ninth place among the 27 member states of the European Union, after France, Spain, Sweden, Germany, Finland, Poland, Italy and Great Britain.

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232 „Politica agricolă comună (PAC) și agricultura în Europa-întrebări frecvente” [www.ec.europa.eu](http://www.ec.europa.eu).

233 Șoimu V., Lumea Satului, no.3, 1-15 February 2009.

Chart no. 1: The weighting of the member states' territory within the total surface of the EU-27



As it results from the chart above, Romania's territory represents approximately 6% (5.51%) of the total 4,325,787 km<sup>2</sup> which represents the UE-27.

Of the 23.8 million ha of Romania's territory, 14.7 million ha (61.7%) consist in agricultural area, out of which 9.4 million ha represent tillable land. From the point of view of its agricultural area, Romania occupies the 7<sup>th</sup> place in Europe after Spain, France, Great Britain, Germany, Italy, Poland, and from the point of view of its tillable land, it occupies the 5<sup>th</sup> place after Spain, France, Germany and Poland.

In what concerns the gross domestic product (GDP), we mention that the share of the agricultural sector within Romania's GDP has decreased significantly in the last 4 years, from 12.6% in 2004, it dropped to only 7.1% in 2008.

According to a report of the European Commission, Romania and Bulgaria have the lowest agricultural production in the European Union, as compared to the other member states, and this situation will be maintained throughout the following years. The average production/output in Romania and Bulgaria is of approximately 3 tones/ha and might increase lightly during the following 6 years, while in other countries such as France or Germany, the average production per ha is double, that is 6 tones/ha. The average in the EU, including former communist states, is at present of about 4.7 tones/ha. According to the report which contains predictions for the markets and agricultural revenues in the EU, for the years 2007-2014, the production of grain in Romania might remain below its potential, despite the restructuring which is in full process. The draught seems to be the main reason for this situation, as it was in the case with the low production in 2007 as well. The unfavourable weather conditions have also affected countries in Western Europe, the agriculture in France and Germany having to suffer damages caused by flooding. In the course of the following 6 years, according to the report, the situation will be improved because of the favourable market conditions, the access to a unique market and implementation of the common agricultural policies<sup>234</sup>.

#### 4. The World Crisis Includes Romanian Agriculture as well

Although it is placed far from the epicenter of the financial crisis and has reached a record dynamics this year, Romanian economy is not completely sheltered from the effects of the decline which has kneeled down the great international markets.

234"România nu va reuși să devină un competitor important în agricultura UE până în 2013", [www.topbusiness.ro](http://www.topbusiness.ro).

The feeling of fear is widespread among farmers, in the context of the financial crisis and the pessimistic predictions concerning the economic results for next year. The market of agricultural products is the first victim of the recession but productivity and credit accession are currently considered problematic to producers<sup>235</sup>.

85% of Romanian economy depends upon external economic factors, being vulnerable to every economic shock produced on any international market. The Romanian agricultural sector is currently in a very vulnerable situation compared to the decline on the world market. The effects of the economic crisis will be especially felt in the medium and long run, particularly in the sectors of rural development and investments in zootechnics, which will lead to an enhancement of the current differences between the Romanian and European agricultural sectors.

The situation is quite vulnerable because of the weak capitalization of the economic operators on each branch, the lack of investments and the dependence upon imported goods. The most affected sectors are and will be that of providing credits for agriculture, of investing in it and that of capitalizing the production in the situation in which the production costs will be very high. The effects will also be felt when financing every production cycle, but also when lacking liquidities for the payment of current needs.

At present, considering the fact that there are no functional mechanisms meant to ensure a certain protection to farmers, it becomes unfavourable to be a farmer. However, if a unitary action strategy will be set, which also includes an infusion of capital in the development and functioning of these markets and in organizing farmers, then it will be a great advantage to activate on this market. Romania will not only produce for the purpose of covering internal demand, but also for the common market, and in this context, the possibility of new negotiations on the common market should be deeply analyzed, considering the current situation.

In this uncertain context, the solutions for diminishing the crisis and relaunching rural economy are:

- the stimulation of agricultural production;
- the optimization of the structures of agricultural technologies: intensive, conservative.
- the reduction of the VAT with the following consequences:
  - reduction of prices, increase in sales, stimulation of the agricultural and food production;
  - reduction of budgetary incomes – with an influence upon the investment capacity;
  - stimulation of investment in rural economy (small and medium scale processing and service enterprises).

## 5. Conclusions

In our country, agriculture is not exploited to its full potential, being left on many occasions at the end of the priority list. If we wish to be equal to our European partners, definitely, the producers will have to leave behind subsistence agriculture and re-orient towards the modern one. At present, it is necessary to support the rise of the agricultural production through stimulating voluntary union of lands in order to be exploited more efficiently, as well as through increasing the importance of zootechnics in agriculture. In order to increase its production and quality, it is proposed, among other things, to stimulate ecological agriculture, but also sectors such as fruit growing, vegetable growing and viticulture.

If in the near future awareness will not be raised towards the fact that agriculture is a national priority which needs to be financed more than passive economy, we risk entering into a dangerous game, with very serious consequences from an economic and social point of view, consequences that can be turned into protests and discontent on the part of the population.

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235 Mihaela Mocanu, „Agricultura românească vulnerabilă în fața crizei”, [www.gazetadebistrita.ro](http://www.gazetadebistrita.ro).

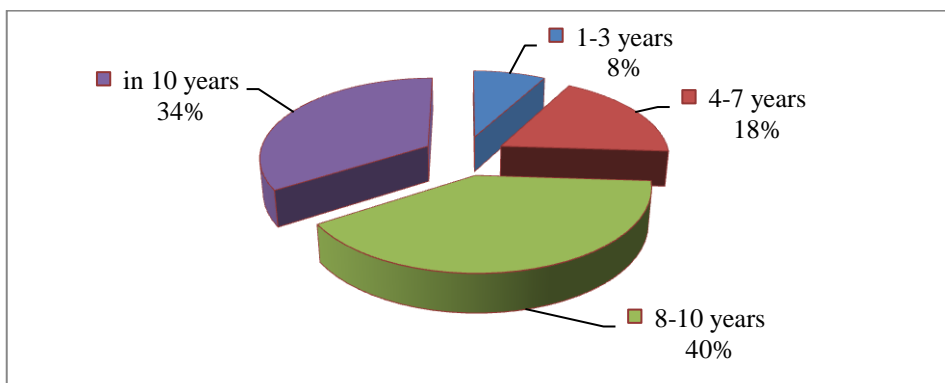
The agricultural sector is part of a state's active economy and represents that domain that can save Romania from a deep economic crisis, because it is the only sector that can still bring direct additional value to the Romanian state, also ensuring food safety for its people.

An advantageous integration of Romania within the EU must be done by taking into consideration at least two conditions which are: compatibility between Romanian and European structures and reaching the performances that would allow its stability on the common market. These performances cannot be obtained without the development and modernization of agricultural structures. But, Romania does not possess the resources of rich countries and neither a top managerial experience that would enable it to create, in a short period of time, the best agricultural structures. That is why it is necessary the usage with a maximum of efficiency of the existent resources.

### **Opinion Poll...**

According to the opinion poll realized by Sergiu Costache and published at the national conference of agricultural insurance, march 2009 "In how many years will Romanian agriculture reach the level of the European average?" most of the people who were questioned consider that it will be aligned to European standards in approximately 10 years.

Chart no. 2: How many years will it take Romanian agriculture to reach the level of the European average?



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# THE TENDENCIES OF ROMANIAN TRADE AFTER THE ADHERATION TO EUROPEAN UNION

**Neculiță Mihaela**

„Dunărea de Jos,, University, Galați The Faculty of Economic Sciences 59-61, Nicolae Balcescu Street neculitam@yahoo.fr, 0751.205715

**Mazilescu Vasile**

„Dunărea de Jos,, University, Galați The Faculty of Economic Sciences 59-61, Nicolae Balcescu Street vasile.mazilescu@ugal.ro, 0732.640834

**Sarpe Daniela**

„Dunărea de Jos,, University, Galați The Faculty of Economic Sciences 59-61, Nicolae Balcescu Street d\_sarpe2000@yahoo.fr, 0723.500623

**Lupasc Ioana**

„Dunărea de Jos,, University, Galați The Faculty of Economic Sciences 59-61, Nicolae Balcescu Street ioanalupasc22@yahoo.com, 0723.906460

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*Romania has considerably changed its views in commercial politics concurrently with his adhesion to the European Union, thus becoming member to a huge community market with neo-liberal views. The concept of free exchange was not completely new to Romania at the time of its adhesion due to its having signed several regional agreements of free commerce. Also, the importance of the phenomenon entailed by its inclusion as a full right member on to the unique market would result in an economic endeavour considerably bigger than the previous regional agreements.*

*Keywords: liberalization of commerce, exterior trade, commercial politics, economic growth, customs fee, European Union market*

## Introduction

According to O.C.E.D., the liberalization of commerce represents a strong stimulus of the economic growth and a key factor to including individual economies into the world economy<sup>236</sup>. Therefore, free commerce is thought to be crucial for a developing economy since it stimulates economic growth, ensures access to the world market and also improves access to several goods and services.

The paper presents the Romanian EU integration concerning commerce and is structured into three chapters:

1. Problems concerning the EU adhesion.
2. Lining up to the European customs fee - consequences.
  - The impact of adopting the unique customs fee on the corn trade;
  - The impact adopting the unique customs fee on the live stock trade;
3. Disadvantages following the European Union adhesion.

In keeping with the economic theory, the views are divided. There are views according to which free trade brings benefits only for those industries which have reached the maturity stage and so can fight against competition on their own<sup>237</sup>.

According to Mihail Manoilescu, a practical protectionism, achievable through the customs fees collection, offers the possibility to maintain high salaries, thus increasing labour productivity, which also means high rate salaries, increased profitability as well as substantial particular

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236 \*\*\*, OCED Work on Trade, Organization of Economic Co-operation and Development, Paris, 2008

237 Shafaeddin, S.M., Trade Liberalization And Economic Reform In Developing Countries: Structural Change Or De-Industrialization, UNCTAD, 2005, page 13



capital, which eventually causes the appearance of a vicious circle in productivity as well as in benefits. Even if commercial policies inescapably affect the volume of commerce, there are no solid grounds to assert that they will exert any influence on the economic growth, influence which is similar to the change in volume occurred in external trade because of factors such as the decrease in the transportation costs or the increase in the global request.

Regarding Romania's trade balance, it is a known fact that in the countries where the customs protection is extensive and the strategies for the substitution of imports do not succeed in achieving their goals, the abolishment of the customs fee will inevitably result in a significant increase in imports. The free circulation of funds also has the tendency to increase the payment insufficiencies which discourages investments in any industry that produces commercial goods. With reference to Romania in its first year from the European Union adhesion and the liberalization of the international trade, although the absolute increase in imports is net superior to that in exports, the commercial deficit for 2007 is the biggest as compared to the one recorded from 1991 up to the present; within relative values conversely, the situation is somehow different, in the sense that the forwarding of exports to imports reached the lowest values in 2007 as compared to 2006, i.e. 13,65% as compared to 16,15% in exports and 24,88% as compared to 25,11% in imports.

On a short term, the effects of the exterior trade liberalization can be easily identified in a reduction of the good production, both agricultural and industrial, as a consequence of the competition on the European Union market. This decline is to be observed in the competitive intensity of the traditional key areas in exterior trade, while the presupposed allotment of productive resources in new categories of products to which Romania would have got comparative advantages is not very obvious.

### **1. Problems concerning the European Union Adherence**

Romania's adhesion to the European Union does not imply its full integration into the community's structures. The integration is a gradual phenomenon, which is to be decided not so much at the level of the international treaties' board, but rather at the level of companies, provided that the proper amount of resources is ensured so as to create competitive areas in keeping to the European standards and mechanisms of commercial policies used by the member states.

As far as the Romanian commercial policy is concerned, the European authorities have been concerned with the precarious use of non-tariffary barriers (anti-dumping, anti-subsidy taxes). The critiques were mainly directed against the legislative system vacuum in Romania and against the reluctance to use invisible barriers as an essential part of its commercial policy<sup>238</sup>. Paradoxically enough, the Romanian authorities prove the European Union fears concerning a possible increase in the protectionism level, under certain circumstances only and provided the conditions imposed by the enforced legislation and observed. Romania's stand is somehow justified if one is to consider the tricky combination of precarious data used in employing the non-tariffary European protection mechanisms of the local business environment, and of the considerable lack of experience in exploiting them, considering the short period of time from the European Union adhesion.

In the context of international trade, the problem gets a major significance, since it concerns both the competitiveness of imports and the promotion of exports. Eventually, the responsibility to support its own interests, even on the common market place is entirely left in the hands of the Romanian authorities.

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238 Developing A Romanian Response To EU Policy Requirements Regarding Both Customs Tariffs And Trade Policy, page 7

## 2. Lining up to the European customs fee - consequences

Concerning the mutations induced by the implementation of the unique customs fee in the internal market, one needs to take into consideration the graphic pattern of the impact of a customs import fee on a small country, like Romania, esp. on its trade with agricultural food products such as corn and livestock. Due mention should be made to the fact that the phrase “small country” means the power to influence, through its trade, the demand and offer on the global market; however, as it is well known, the power is rather weak.

### The impact of adopting the unique customs fee on the corn trade

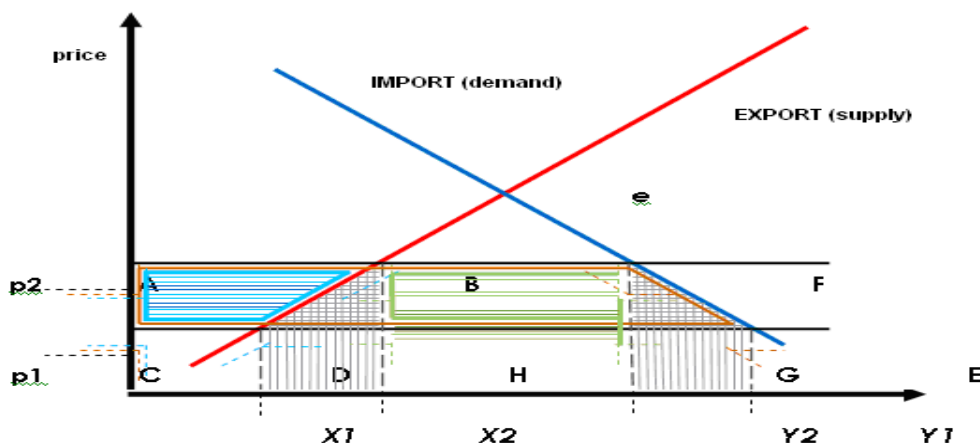


Figure no. 1 The community customs fee impact on the trade corn

p1	p2	X1	X2	Y1	Y2
14,2	47,3	37962,89	75689,94	9753,8	127113,87

$A_{ABCD} = (75.689,94 + 37.962,89) * 33,1 / 2 = 1.880.954,34$  EURO (benefit of the producers)

$A_{CEFA} = (127.113,87 + 9.753,8) * 33,1 / 2 = 2.265.159,94$  EURO (consumers' loss)

$A_{HGFB} = (127.113,87 - 75.689,94) * 33,1 = 1.702.132,08$  EURO (benefit of the state)

$A_{DHB} = (75.689,94 - 37.962,89) * 33,1 / 2 = 624.382,68$  EURO (net loss)

$A_{GEF} = (127.113,87 - 9.753,8) * 33,1 / 2 = 1.942.309,16$  EURO (net loss)

$A_{DHB} + A_{GEF} = 2.566.691,84$  EURO (entailed net loss)

The common customs fee increases the internal price from 14,2 unities to 47,3 unities, so that the surplus of the producer increases with the area of the trapeze  $ABCD$ . The difference of 33,1 unities will be allotted to the sampling form of the State Budget, the total of revenues being given by the area of the rectangular  $HGFB$ . In such a case, those who lose are the consumers, due to the fact that they will be forced to pay a higher price than the one previous to the adhesion period, consequently reducing the use of this product; the authenticity of this situation is supported by the value increase in the exported quantity in 2007.

Likewise, there appears a reduction in the surplus of the consumer equal to the area of the trapeze  $CEFA$ . As a result, a percentage of the consumer's loss is transferred to the Government during the process of budgetary cash equal with the area of the rectangle  $HGFB$ , and, another percentage is transferred to the internal producers, the area of the trapeze  $ABCD$  respectively.

Further on there are two amounts to be identified, the areas of the triangles  $DHB$ ,  $GEF$  that are not to be found neither in the budgetary cash nor in the producer's surplus. The two areas represent the net loss in terms of the gain resulted from the alteration in the customs fee, i.e. the costs

continued by Romania as a direct consequence of the price change under the circumstances of a free trade.

### The impact of adopting the unique customs fee on the livestock trade

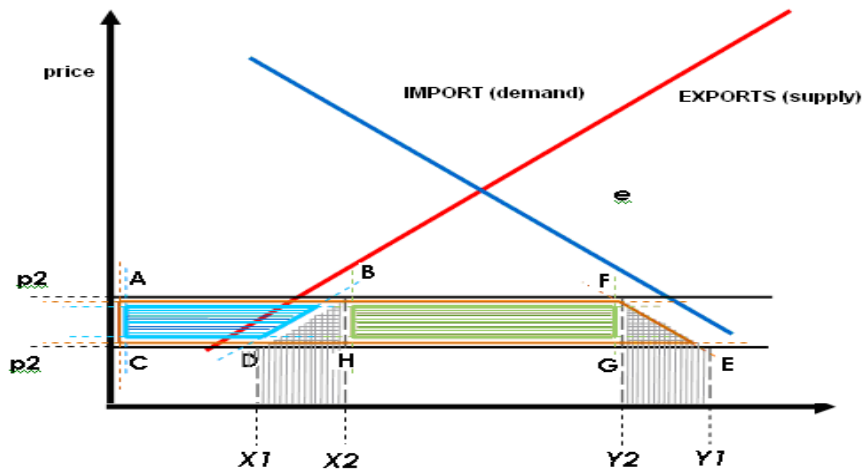


Figure no. 2 The impact of the customs fee on the livestock trade

p1	p2	X1	X2	Y1	Y2
15,4	26,2	41866	56389	21197	24973

$A_{ABCD} = (56.389 + 41.866) * 10,8 / 2 = 530.577 \text{ EURO (benefit of producers)}$

$A_{CEFA} = (21.197 + 24.973) * 10,8 / 2 = 249.318 \text{ EURO (consumers' loss)}$

$A_{HGFB} = (41.866 - 24.973) * 10,8 = 182.444,4 \text{ EURO (benefit of the state)}$

$A_{DHB} = (56.389 - 41.866) * 10,8 / 2 = 78.424,2 \text{ EURO (net loss)}$

$A_{EGF} = (24.973 - 21.197) * 10,8 / 2 = 20.390,4 \text{ EURO (net loss)}$

$A_{DHB} + A_{EGF} = 98.814,6 \text{ EURO (entailed net loss)}$

Similarly to the corn trade, adopting a unique customs fee brings about an increase in the internal price, directly connected with the evolution of the customs fee, and simultaneously entailing an increase in the producer's surplus with the area of the trapeze  $ABCD$ . The budget of the state will boost in its turn by the customs fee sampling, the area of the rectangle  $HGFB$  more exactly.

The increase of the customs fee, and implicitly of the internal price, works to the disadvantage of the consumers, the surplus of which decreases by an equivalent sum to that of the area of the trapeze  $CEFA$ . Due to the loss suffered by the consumers the trade alteration determined by the appreciation of the customs fee can easily be analysed.

Likewise, a percentage of the consumers' loss is transferred to the government by cashing the revenue brought in by the tax, equal only to the amount of the rectangle  $HGFB$ , and another percentage is claimed by the local producers, amount which is equivalent with the area of the trapeze  $ABCD$ .

Apart from the benefits allotted to the economic organizations and to the producers, the consumers' loss takes in the areas of the triangles  $DHB$  and  $EGF$ , which are not to be found in anybody's gain. Therefore, the two areas stand for the net losses caused by the enforcement of the customs fee or by the quantification brought about by the setting forward of the state's benefit as well as of the producers because of the consumers' loss.

### 3. Disadvantages of the adhesion to the European Union

For the upcoming future, Romania is supposed to spend more than EURO 25 milliards in order to align itself to the European Union standards. Most of this sum will be paid by Romanian physical and juridical persons. The costs of the adhesion that the Romanians are to sustain can be divided as follows: public costs that will be covered from the state budget and private costs that will be covered by commercial organizations and individual costs that will be covered by each Romanian citizen.

The European Union adhesion also involves, except for the economic and social costs, not only a huge increase in prices but also a significant decrease in the population's power to buy. Romania has been forced to adopt the European norms concerning fair competition. As a result, the energy delivery below the market costs is no longer possible, whether we are talking about natural gases, electricity or about the thermal agent. Observing the European norms excludes, all of a sudden or gradually, the direct subventions (un-transparent) or indirect (hidden) allotted to support the energy costs. Likewise, these costs need to be increased. The prices of the energy need to cover the costs, including those connected with the pollution reduction.

Romania's adhesion costs are expected to be higher than in any other country, the most important reason being the current situation in agriculture. The structural reform of agriculture should have a double oriented goal: on the one hand, the reduction of population's number working in agriculture; and on the other hand, the expansion of the farms, which means increasing efficiency in agriculture.

Another issue that needs the attention of the decisional Romanian body is represented by the labour force. The impact of the trade liberalization on the labour force occupation has been until recently ignored by the competent authorities, mainly because the expected results were thought to be positive. However, free trade and the investments in a certain production process can determine the concentration of funds in a field expected to record considerable results to the disadvantage of another, thus affecting in a negative manner the labour force caught up in the disfavoured area. The inequity of income has been amplified both within states and between them, although not completely because of the customs fee eradication. Concerning the developing countries, a substantial percentage of the labour force occupies low productive agricultural areas. When such countries suddenly open their agricultural areas for countries that have a much more efficient organization, these are confronted with a sudden deterioration in the level of prices for agricultural products and implicitly a reduction in the income of the economic agents caught up in specialized activities<sup>239</sup>.

These are only some of the risks and obligations and Romania comes up against and that we all need to undertake during the extremely complex process of integration in the European structures for the hope of a better future. The disadvantages of Romania's integration in the European Union are already visible in the daily life and one needs to accept the fact that the advantages of this process are rather to be seen on the long run, in the future.

## Conclusions

As compared to the several orientations of the local commercial policy so far, it can be said that the economic environment still needs cohesion, harmonization and concern with the setting up of a neutral, transparent and stimulus-based business environment, which, despite the numerous attempts and efforts made, couldn't be yet accomplished.

The multitude of economic policies needs to consider the rehabilitation of the commercial policies' concept, as interface between local policies and the demand of the market.

However, this rehabilitation process comes up against many obstacles such as the reluctance to cooperate and the political will at the level of the Parliament, of the Government and of the other

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239 \*\*\*, New Thinking On Trade Policy And Development, Socialist Group in the European Parliament, Geneva, 2007

influential public institutions. Until Romania's alignment to the common policy, Romania has manifested a complete lack in coherent commercial policies, wandering on the transition sea, and the statement that "exports are the country's top priority" has only a hypothetical value.

As a matter of fact, exports have been the weakest link of the economic policies promoted ever since 1990 up to the present, its amount value being constantly surpassed by that in imports, and its quality diminishing from one year to another.

Consequently, although in the developed countries - a status that Romania aims at as well - the external sector has a significant role in sustaining and encouraging the internal economy, in Romania it can be observed a relatively different situation due to the fact that the internal environment makes efforts to support the external one, and the commercial policy that should make up the driving force of the external commerce is most often than not flawed.

An alarming signal is constituted by the deterioration of Romania's trade balance because the issue of the trade balance situation is not exclusively the concern of the foreign trade but of the entire national economy.

The commercial policy needs to be reconsidered from top to bottom in keeping with the alignment to the European norms and regulations. It should not be omitted that, from the point of view of the geographic position or of the production factors, a nation without trade is, undoubtedly, a nation without future perspectives. In consequence, commercial policies are all the more important as they guide the external trade to benefits or losses. That is why the national production power needs to be reassessed, together with the comparative and competitive advantages that can be put to use, with a view to better aligning the national economy to the global economic circuit and to guaranteeing its future progress.

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# CONFLICT RESOLUTION IN FRENCH WORKING SYSTEM

## **Onica-Chipea Lavinia**

*University of Oradea Faculty of Law Avenue G-ral Magheru no.5 laviniachipea@yahoo.com  
0741.24.73.72*

## **Banciu Viorica**

*University of Oradea Faculty of Socio-Human Sciences 1, University Street. banciu\_vio@yahoo.com 0766.54.98.47*

*The paper aims to capture the characteristics of resolving conflicts at work in the French law system achieving a detailed presentation of the Prud'Hommes Council, which is one of the French courts of resolving such disputes. The organization, jurisdiction, procedure for cutting labor conflicts in the latter are elements which are capable of comprehending a wide sketch of its originality and specificity.*

*Keywords : the labour jurisdiction, The Council of Prud'hommes, competence  
K4: Legal Procedure, the Legal System, and Illegal Behavior*

### **1. General considerations regarding the plurality of solicitor's offices of competence in the field of the labor law**

In the French law system there is a plurality of solicitor's offices regarding the resolving of the work litigation<sup>240</sup>. Despite numerous cases brought before the Council of Prud'Hommes, this court is not by far the only one which intervenes in order to solve the disputes arising within the employment relationship. Thus, administrative judges are often included in the legal order and repressive judges are called to carry out prosecutions concerning these relationships according to the density of criminal coverage of this sector and the place of the criminal charges in the labour code. Moreover, most of the non-repressive jurisdictions outside the Council of the Prud'Hommes have the opportunity to cut labor disputes: courts of first instance, the high court tribunals, the tribunals of commerce, the judges of civil cases who cut each year an abundant solicitor's office giving solutions that contribute to the formation of the jurisprudence in the field of employment relationships.

As it was found in French speciality literature<sup>241</sup>, the same problem, for example firing a union delegate, can be subject to the administrative judge who decides on the regularity of the administrative authorization to fire, initiated by the inspector of work and who decides upon that offense, which would have been committed by that employer for the reason that a trade union delegate hasn't been reintegrated after the cancellation of the administrative authorization. The above-mentioned situation may also be addressed to the Council of Prud'Hommes, which decides upon the application for damages and compensation presented by the union delegate who had not been reintegrated in his position after the cancellation of the administrative authorization.

To the extent that the administrative jurisdictions, punitive or social, do not always approach to the issues in the same way and do not always retain identical solutions, difficulties may occur in determining what an entrepreneur or an employee is entitled to do. On the other hand,

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240 Verdier, J-M, Coeuret, A., Souriac, M-A. Droit du travail, 12 éditions, Éditions Dalloz, Paris, 2002, p.561 și urm.

241 Mazeaud, A., Droit du travail, 4 éditions, Librairie générale de Droit et de Jurisprudence, EJA, Montchrestien, 2004, pp.151-152.

another consequence of plurality of the solicitor's offices regards a technical aspect namely the plaintiff may hesitate in choosing the competent courts to resolve that dispute<sup>242</sup>.

## **2. Le Conseil de Prud'Hommes**

This court, with specific tasks in the field of employment relationships, has its origins in the Old Regime, when there was a parity court in Lyon charged to judge disputes between the silk manufacturers and their workers. It was suppressed during the French Revolution, and, after several years of the abolition of them, Napoleon received, during a passage through Lyon, a request for reestablishment of the jurisdiction concerned. After returning to Paris, Napoleon promulgated the Law from March, the 18<sup>th</sup> 1806 through which a council of prud'hommes was held at Lyon. The formula has been extended since 1809, and the parity mechanism established in 1848. Over time, these councils have undergone numerous reforms, among which the most important was that in 1979, achieved through the Law Boulin, which has made an extension of these councils in the entire French territory, the state taking the responsibility to their operation<sup>243</sup>. In other words, a generalized law Bouli generalized the institution mentioned giving it a monopoly of jurisdiction in a broad field<sup>244</sup>.

As noted previously, the institution known as the Council of Prud'hommes does not intervene only concerning the economic activities referred to in the Decree establishing such bodies. Currently, as a result of territorial generalisation, there is at least one council in each range of the high court tribunal. Each board is basically split into five sections covering all economic activities: industry (workers and employees in industry), trade and services (workers and employees in the trade), agriculture (workers and employees in the agricultural professions referred to in Article . 131-2), different activities (all employees even if employers do not belong to any industry or trade, or agriculture). Each board includes at least eight councilors for a section (ie a total of 32 advisors on all sections or more than 40 if there is a department of agriculture).

The doctrine highlights a number of characteristic features of this institution, namely:

- It is composed solely of elected judges, as in the case of the court of commerce. The presidency of a judge is removed and those interested, employers and employees are judged by their fellow, because the law did not progress any suggestion that they be nominated by employers' organizations. Electorate asked to choose counselors is very diverse, workers from the age of 16 years, even the unemployed foreign worker having the right to participate in elections<sup>245</sup>. In order to be elected to the councils a person must be aged 21 years and have French nationality, since it is to judge in the name of "French people". The opportunity to be elected is also granted to the retired for 10 years after their withdrawal from activity. Electoral lists are drawn up taking into account the documents submitted by the Mayor, to the institution. Voting takes place in sections, during work, without attracting the loss of pay, being held in a place located near the workplace, with proportional representation based on the lists of candidates presented, generally by trade union confederations and employees organisations.

Appeals referring to the electorate to eligibility, and to regularity at receiving the lists of candidates are, according to the law, the competence of the court of first instance (art. L 513-3, 513-11 N and L, R and S of 513-108 C. trav.). Councils are fully renewed from 5 to 5 years. The judge becomes a 'judicial warrant' separately from the political mandate (as in the case of members) or the professional office (as a delegate elected by the personnel)<sup>246</sup>.

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242 Călinoiu, C., Jurisdiction labor law. Theoretical and practical aspects, Editura Lumina Lex, Bucharest, 1998, p.57.

243 Leș, I., Comparative judicial systems, Editura All Beck, Bucharest, 2002, p.369.

244 Pélissier, J., Supiot, A., Jeammaud, A., Droit du travail, 22 édition, Editions Dalloz, Paris, 2004, p.1215.

245 Călinoiu, C., op.cit., p.58.

246 Mazeaud, A., op.cit., p.160.

- Another feature of this organism is its parity character, the council of Prud'hommes being composed of an equal number of employees and employers (Art.L 512-1). This general principle of parity attracts the duty of chairing the board alternatively as the obligation to use, in case of vote division, to the presence of a judge of instance who intervenes as a third party and whose vote decides between them (art.513-3). He has also the effect of removing any possibility of resorting to a single judge, including when it is competent to hear the appeals. However, parity is attenuated when the board sends a case to be solved by one or two reporting advisers (art.L 516-2).

They are the expression of a conciliatory jurisdiction, having the mission to ensure the disputes settling through conciliation (L 511-1). Each section includes an office of conciliation and a conciliation court office (art.511-1) and the attempt of conciliation is the first phase of the Prud'hommes court (not an easy advance). However, the exceptions to this rule are multiplied, while the conciliation has not ceased to be in decline at the beginning of the century, so that the conciliation stage has the main effect, today, for many times, only to extend the duration of trial<sup>247</sup>.

- Prud'hommes Advisers have the status of magistrates in order to ensure the administration of justice, and their pay reverts to the state budget since 1979. This regulation resulted in an improvement of the status of advisers, in the plan of their remuneration, of their protection and of their training. (art. L 514-1,2 and 3). The adviser status differs in certain points depending on the college they are part of, of employers or of employees.

Prud'hommes councils are empowered to resolve all individual disputes arising out of the contract of employment whatever the profession of petitioners or the number of requests made. This regulation excludes the idea of collective conflict from the field of the arbitrary competence of these councils. However, the case the jurisprudence tends to give a broader sense to the notion of individual dispute, it is enough to oppose one employer to more employees taken separately, when they "do not cut pursuing litigation in the field of collective interests." Material competence has a feature of public order, such that any convention which seeks to amend the rules of such competence is void.

In determining the territorial jurisdiction of the Council of prud'hommes more rules are actioning. Thus, the competence belongs to the board in the territorial area where the institution is, where the employee works. If, however, the employee's workplace is not fixed, the power to resolve the dispute belongs to the council in whose territorial range the employee is domiciled. In both situations the worker has the option of announcing the council about the place where the commitment has been contracted or the place where the employer has been established (art.R 517-1). This option is independent of the nature and workplace and exercising is left to the free choice of the employees. Any clause that would waive the rules above is hit by absolute nullity. According to the French law, in order to determine which activities belong to the competence of the Council of prud'hommes we must take into account the main activity of the entrepreneur in order to determine the competent section (industry, commerce, agriculture, various activities) (article L. 512 -- 2). The employee's profession has no importance. Instead, it will be considered the professional status of employees regarding the staff, who are the only the competence of the sections where they are placed. The staff can submit their dispute with the employer neither before the tribunal of commerce nor before a judge of the court.

The procedure of settling labor disputes by Councils of Prud'hommes is governed by common law rules in matters covered specifically by the new code of Civil Procedure (NCPC), with the exception of special rules contained in art. R and S 516-1 - from the labor code.

The individual employee action against the employer or the employer's against the employee or former employee, is governed by general rules applicable to legal actions: justification of interest,

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247 Pélissier, J., Supiot, A., Jeammaud, A., op.cit., p.1220.



respecting certain terms (the prescription of 5 in 5 years of action in payment of the wages), etc.. Despite its patrimonial character, the action brought by the employee before prudommal jurisdiction against the employer or his legal representatives under his contract of employment has solely a personal character, it could not be exercised by representation. In case when several persons submit the action, the judge will give the junction of the case, but the assessment of the application will be made separately in respect of tax calculation resort.

The union's action before the Council of Prud'homes can take two forms. Thus, when the law allow the union may substitute the employee, but with his consent, if the employee is in a weak position or action occurred following the implementation of a collective agreement. The union exercises in such cases, an individual action for the benefit of the union. It may however take action in its own name and through individual litigation, if the collective interest of the profession makes it necessary (art. L. 411-11).

The council receives a request by the Secretary - Registrar either in writing or orally. The Secretary - Registrar shall convene the defender in front of the office of conciliation and annoucrs the complainant. Convening means legal citing in justice.

According to Art. R 516-4 C. trav., Personal presentation of the parties (or a representative of the moral person) before the council represents the rule alongside the mission of the conciliation board and orality of the procedure which is carried out. Exceptions to the rule mentioned, can be admitted only providing the proof of a legitimate interest . Thus, the trustee will be the part prevented to defend by the exceptional reasons.

Assisting the parties through is governed by a special regime, justified by the applicable jurisdiction. Representation by lawyer is not the only way possible. According to art. R 516-5 C. trav. parties may resort to representing the interests of their dispute through temporary or permanent delegates of trade unions, workers and employers. Court of Cassation concludes in this respect in order to ensure the right that any person has as his own problem to be resolved by an independent and impartial tribunal (Article 6 CEDH), a prudommal counselor pursuing a prudommal defense as delegate of his union organization may not engage in this mission of support and representation before the council whose membership he is. He may however call in an employee or an employer from the same industry (the idea of professional solidarity) and in the case of an employer member of his entreprise or an associate.

According to Art. L 511-1 C.trav. attempt of conciliation of the parties represents the first assigned mission given to a prudommal judge. It is an inaugural and compulsory phase of the court and which runs in front of the office of conciliation, it actually playing a double role. On one hand, " it is trying to reconcile the parties"<sup>248</sup>. This prior attempt of conciliation is a substantial element of the procedures, and without it the procedure is hit by absolute nullity. In case when conciliation is achieved, it a report of conciliation will be draft, which has the nature of a genuine contract concluded before the judge, equivalent to a transaction presentation but was reinforced by its binding.

On the other hand, the conciliation office is invested with power to take provisional measures, limiting the listed art. R 516-18 C. trav. Orders issued in these cases are enforceable and likely to appeal.

If the attempt of conciliation of the parties did not work, before the debate in court, is an intermediate stage is regulated, namely the one that involve the research of the facts by a rapporteur counselor. It is an original instruction of the prudommal process covered expressly by art.L516-2 and R 516-21 C.trav. Sending the case to a rapporteur counselor may be decided either by the office of conciliation or by the court, which may designate one or two adviser for this purpose. They have the mission submit the case to the court preceding to investigations.

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248 Art. R 516-13 Codé de travail.

Presenting the outcome of their investigations to the council through one or two reports, reporter counselors propose a solution which, in most cases, the council pleased to validate

Regarding the competent court to settle the case, the so-called general rule of uniqueness of the court is applied. Thus, all the applications derived from the same contract of employment between the same parties, should be addressed to a single court, under the sanction of inadmissibility of the application. (art.R 516-1). Applying this rule and concerning the employment relationships and prohibiting successive processes between employee and his employer, gave rise to many debates, because in many cases it appears to be too strict and even inappropriate.

Conducting trial is governed by two principles, namely: the principle orality, which corresponds to requirements of simplicity and speed, each side having the opportunity (but not the obligation) to report and expose the claims and that of the contradictoriness that allows the debate of the issues put in discussion by expressing points of view, even contradictory to them. Evidence regime, exceptions, counterclaim requests are governed by the rules of common law, respectively those of the new code of civil procedure.

The office of the county prudommal court can still seek the reconciliation of parties in the terms of the common and procedural law possible to ascertain their eventual agreement under the same conditions.

The judge settles disputes under the rules of law that are applicable (article 12 NCPC), including the here collective labour conventions respectively customs that are incident to them. The rule prohibiting the founding of the decision of fairness applies to the council of prud'hommes.

Normally, the verdict is given by the office of the court. Parties shall be convened before by the letter of the Secretary-Registrar. Office of the court is composed of two advisers, of the employers (employer) and two advisors of the employees and the decision will be taken by the of majority vote. If the councilors are in partition, the debate will resume in the office, this time chaired by a judge of the court. This judge of separation should not know the whole dispute, but only on points upon which an agreement could not be achieved. He will confer together with the prudommal judges or possibly himself alone.

The decision is notified by the Office of Registry (article R 516-42), and the notification importance lies in the fact that from that moment the, it runs the period of exercising the ways of appeal. The legal dispositions allow the provisional execution when this is possible (eg in the case of provisional decisions taken by the office of conciliation, etc.).

The prudommal council is integrated in the judicial body. The appeal against the decision of the council is to call the Social Chamber of the Court of Appeal, composed of career judges. The deadline for exercising the call is one month from notification of the decision. The call is only possible where the object of the request is over a certain figure, called "the resort level" and it is reviewed annually. If the subject request does not exceed this figure, the board's decision is evident when prudommal council decides ultimately. Judgments on claims with indefinite value (eg. annulment request for a disciplinary sanction) are always likely to appeal.

Generally declaring the appeal suspends the execution of the decision, but, however, there are cases when provisional execution may be ordered. The provisional execution is carried out on the full right regarding the set of emergency measures decided or by the office of conciliation. A long time, the Councils of Prud'hommes were deprived of any jurisdiction to intervene immediately in case of emergency only parties having the opportunity to submit to the great tribunal courts. The decree of September the 12th, 1974 and then the Law 18 of January 1979 required that each council should be provided of appeal, outer the sections. This structure has the competence to take any measure which does not face any serious challenge or justify the existence of a dispute or to prevent imminent damage. Judge of the records, it may, even in the presence of a serious dispute, to decide any measure of conservation or restoration of a pending case. Thus, it may order the resumption of employment contract, the return of a representative of

staff, a sanctioned employee, a striker or a pregnant woman, fired illegally. The measures which the provided structure can be taken by ordinance not listed within limits (except for those falling within the jurisdiction of the Bureau of Conciliation), but they always have a provisional character and lack of authority of res judicata.

Order on demand is a procedure that allows the president of a court to order, at a simple request of either party without the knowledge of the other, taking of emergency measures. Court of Cassation decided in this connection that, according to art.182, al.2 of the Code of Civil Procedure, the President of the Great Instance has the jurisdiction over such claims in prudommal problems.

### 3. Conclusions

Representing one of the most important areas of labor law, labor jurisdiction problem formed the subject of permanent concern. Although there are elements of specificity concerning the terms of states practice, taking into account the traditions of each country, the mechanism of relationships between state, unions and employers' organizations, interest in issues of jurisdiction can be considered an element that characterizes all systems of law.

A foray into comparative law, in this case the French system, the way in which disputes are settled at work is absolutely necessary for the correct understanding and evaluation of the whole system of jurisdiction of labor existing in our country.

The organization and functioning of Councils of Prud'Hommes one of the French courts from the field of labor relationships (along with civil solicitor's office, commercial, criminal and administrative work) may be reference points for Romanian legislator which will certainly have to continue the specialization of labor jurisdiction in the Romanian system.

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# A PERSPECTIVE ON THE ROLE OF THE EUROPEAN NEIGHBORHOOD POLICY IN THE PAN-EUROPEAN INTEGRATION

**Pascariu Gabriela Carmen**

University "Al. I. Cuza" Iasi, The Center of European Studies Address: Street Carol I, no. 11 E-mail: gcpas@uaic.ro Tel.: 0740/237969

**Frunză Ramona**

University "Al. I. Cuza" Iasi The Center of European Studies Address: Street Carol I, no. 11 E-mail: ramonafrunza@yahoo.com Tel.: 0745/455305

*The European Neighbourhood Policy introduces a new approach in the EU external relations with its interest neighbourhood; its strategic role is to provide a system which can allow the Union to set its external limits, without risking having new dividing lines in Europe. Yet, apart from the opportunities it provides, the ENP also shows some limits which risk depriving it of the pursued impact. The purpose of this research was to analyse the ENP system and identify, on the one hand, the elements of added value in the EU relations with Eastern Europe and, on the other hand, to set the measures that are compulsory for a real ENP contribution to the creation of a region of prosperity, stability and security in the area.*

*Keywords: European Neighborhood Policy, European Union, Pan-European Integration*

*JEL Classification: A1, R1, O0*

## **1. The general context of the European Neighborhood Policy**

The last European Union enlargement wave, called the «big-bang» enlargement, fundamentally changed the geopolitical context in Europe and created the conditions for the Union external vocation. Included in the founding projects, but marginalized by adopting the neo-functional integration method, the external dimension of the integration process had difficulty in being visible and remained in the field of inter-governmental cooperation. Nowadays the Union is organized enough and can become strong by strengthening its political dimension, in order to actively contribute to world peace and prosperity.

Consequently, interested in increasing its role on the external level, the European Union initiated a more and more coherent process of regional cooperation and openness within its geographic proximity in the last two decades, defined by three interest areas: Central and Eastern Europe, the Western Balkans and the Mediterranean Sea. The common elements of the different regional approaches were the following: peace, stability, promotion of shared values (especially democracy and fundamental liberties), commercial development and integration. The most successful component of the foreign policy was clearly the enlargement process. Yet, the Union enlargement cannot continue forever; at least, not concerning the option to maintain the present integration structures and the political unifying perspective. The limits of the institutional system, the low level of social cohesion, the weak European solidarity and identity, the difficulties to balance and coordinate the national policies for the functioning of the internal market and achievement of joint objectives, are only the most visible aspects which draw attention on the fact that the European union has reached the critical point in the enlargement process. Under these circumstances, the essential strategy aspect concerning the future of the EU was to find a system which could ensure the balance between the need to set the EU external limits and the provisions of the creating treaties. On the one hand, according to article 40 of the European Union Treaty, any European state can require accession to the Union, if it meets the shared values of the member states and the accession criteria. Despite the difficulties it meets and its less favourable external image, The Union maintains its attraction force and certain neighbouring countries have

already expressed their European tendency<sup>249</sup>. On the other hand, the more and more deepened intra-European disparities due to the accession of countries with a low development level show serious disintegration risks, able to go so far as to turn the European area into a purely free exchange area.

Consequently, forced from the outside to include new members and from the inside to steady its structures and make its functionality more efficient, The Union developed a new approach in the external relations with its neighbouring countries, at the border between cooperation and integration.

The Copenhagen European Council of December 2002, stating that *“the present enlargement creates the conditions for a Union with strong perspectives for sustainable development and for taking over an important role in consolidating stability, peace and democracy in Europe and abroad”*, mentioned that the European Union *is interested in strengthening the regional and cross-border cooperation relations with its neighbouring countries, “in order to fully develop the regional potential” [...] and to “avoid the risk of new European division lines”* (The Copenhagen European Council, Dec. 2002: 7). The European Council underlined thus the Union’s Intention, shown by the Council for General Affairs and External Relations of November 2002, to develop new relations with its Eastern neighbouring countries, depending on the level of their economic and political development, in order to promote the frame of a “Wider Europe”.

The solution advanced by the European Commission came in March 2003, within the Communication „Wider Europe – Neighbourhood: A New Framework for Relations with our Eastern and Southern Neighbours” ( COM (2003) 104 final); it was briefly the project “Wider Europe – The new Neighbourhood”. In its essence, the Communication offered new perspectives of political and economic integration for the countries that cannot be accepted, for the time being, as members of the EU<sup>250</sup>, in order to create a security, prosperity, sustainable development and good neighbourhood area, *a «ring of friends» at the Union external frontiers, characterized by close and pacifist relations based on cooperation*”. The new set of foreign policy measures was subsequently grouped under the name of „**The European Neighbourhood Policy**” (ENP), in the Commission Communication of June 2004<sup>251</sup>, which is presently a frame document of the ENP, together with the Communication concerning the creation of the New Neighbourhood Instrument of July 2003. The year 2004 also meant the beginning of implementing the ENP (The adoption of the Country Report and Action Plan), aiming at clarifying and structuring the EU commitment through the Contribution of the General Affair and External Relation Council, of the European Parliament and of the European Council. By its new policy, The Union has undertaken, conditioned by the achievement of certain criteria, to support the neighbour partner efforts to *„diminish poverty and create a prosperity and common value area, based on high economic integration, more powerful political and cultural relations, strong cross-border cooperation and common conflict prevention*”. For the most advanced countries, the Union „advances” even *the perspective to participate in the internal market, as well as the possibility to accede progressively to certain communitary programs in the cultural, educational, environmental, technical and scientific fields*. The European „Generosity” can be explained by the fact that, in the absence of an accession motivation (like in the case of the enlargement strategy), the offer had to be attractive enough, on the one hand, to limit the pressure from the EU neighbour countries to accede to it and, on the other hand, to make them undertake the necessary measures to develop a security and stability area on the European continent. During the closing session of the ECSA-World Conference of December 5th – 6th 2002, Romano Prodi made a synthesis, in the most

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249 For example, Moldova, Ukraine, Georgia and the countries from the Western Balkans. COM (2004)373 final, Brussels, 12 May 2004.

250Liberty, democracy, respect for the human rights and the fundamental liberties and the lawful state.

251 COM (2004)373 final, Brussels, 12 May 2004, page 5.

successful way, of the EU strategy essence towards the new neighbours: "*sharing everything with the Union but institutions*".

So, the strategy of the European Neighbourhood Policy was drawn so as to lead to the tracing of a „ring of friends” at the EU borders which share the EU objectives and fundamental values, countries which are under strong cooperation with the member states, also including a high level of economic and political integration<sup>252</sup>. The method put forward in the strategy paper supposes: the definition of a *shared set of principles and values*, as well as *joint commitment to observing them*; a *bilateral framework*, integrated in the cooperation regional dimension, mainly aiming at the stability and security at the EU external borders; the definition, by mutual agreement with the partners, of some *objectives and priorities in key domains*, depending on each country realities; the *ENP periodical evaluation* and adaptation depending on the evolutions of the partner country; *setting certain reference economic and political criteria*, to allow for a clear and transparent evaluation of each country progress in meeting the undertaken requirements through the action plans; *the EU progressive engagement, subordinate to meeting the objectives of the action plans*; the Union will not provide new advantages if the partner country lacks progress; *ensuring coherence between the ENP instruments and the complementary policy instruments*; the ENP will be thus a reference framework; *the ENP integration in the security Strategy*, through contribution to strengthening the regional cooperation aspects and the mutual promotion of the EU objectives in the field of the Common Foreign and Security Policy; *generating added value*: clearer emphasis on the regional and bilateral adapted objectives; new territories; the passage from simple cooperation and trade mutual liberalization, in the short run, to the integration in the internal market, in the long run; strengthen political cooperation and even open progressively certain community programmes; new financial instruments; new contractual relations by adopting the European Neighbourhood Agreements.

In summary can appreciate that, the ENP method had proposed the development of the cooperation relations within a new reference frame, defined in relation to key objectives related to stability, security and sustainable development, based on the three EU current pillars: internal market, justice and internal affairs, foreign and security policy.

In the ENP, was integrated neighborhood area for the regional equilibrium and the European security strategy, respectively: Mediterranean Region (the countries participating in the “Euro-Mediterranean Partnership”, also called “The Barcelona Process”: Algeria, Egypt, Israel, Jordan, Lebanon, Libya<sup>253</sup>, Morocco, Syria, Tunisia and the Palestinian Authority<sup>254</sup>), Eastern Europe (“New Western Independent States” – Moldova, Ukraine, and Belarus – and Russia) and Southern Caucasus (Georgia, Armenia, Azerbaijan).<sup>255</sup>

As a result of those specified, we can say that through the integration and regional cooperation context, the ENP is able to stimulate the beginning of a large area of stability, peace, prosperity

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252 COM (2004)373 final, Brussels, 12 May 2004, page 5.

253 Within the Barcelona Process, Libya is just an observatory.

254 Cyprus and Malta, Euro-Med partners, have lately become Union members, while Turkey is included in the pre-accession Strategy.

255 As an element of specificity, Russia, the most important partner in Union’s Eastern neighbourhood, takes part in the ENP only through association; the bilateral relations take place parallel to the neighbourhood policy, but separately and the joining elements are provided by the objective similarity and the common financing. The strategic partnership has in attention the creation of four common areas (Common European Economic Space)<sup>255</sup>: an economic area (including special provisions concerning environment and energy); a common space of liberty, security and justice; a cooperation area in the security field and an area of research, education and culture. The situation is mainly the result of the issues raised by the EU influence in the area, leading to a dynamics of the EU-Russia relations based on certain procedures and mechanisms different from those adopted within the relations with other countries of the ENP.

and free movement which could be called, according to the European Parliament proposal, “**the pan-European and Mediterranean Region**”. Its identity elements would be *the joint action areas*– political, economic and security areas, based on sharing certain *values*: the rule of law, democracy, the fundamental liberties, human rights<sup>256</sup>.

## **2. The ENP opportunities and limits in relation to Eastern Europe.**

Mainly developed on the existing regional cooperation agreements, the ENP marks a new approach in the EU external relations with its Eastern “interest” neighbourhood, both through the system of organizing the neighbourhood relations (integration according to the concentric circle pattern) and through the adopted method (bilateral framework); the passage from cooperation and commercial flow liberalization to integration on the internal market on the short term; the correlation, for the first time, of the internal instruments with the external instruments. In fact, the ENP suggests a system of strengthened cooperation in the economic, social and politic fields, having at its core the economic and commercial integration. The strategic objective is that of ensuring the stability and security of the EU Eastern borders through a process of “Europeanization” of the neighbouring countries which could strengthen at the same time the Union role in the region and on the world political and economic stage.

**The ENP opportunities** are mainly related to: *the clearer structuring of the EU policies and actions, by insisting on priority objectives* within a unitary strategy which correlates the foreign policy objectives with the internal policy objectives; *strengthening the EU position on the international level* and increase the Union potential to contribute to peace and security on the continent and beyond; *stimulating the economic and administrative reforms* in the neighbouring countries, promoting the European pattern of the social market economy and supporting the implementation of a sustainable democracy system based on the European shared values; *stimulating the Eastern European countries in adopting the standards of good governing and European common values*, especially: liberty, democracy, observance of human rights and fundamental liberties, the lawful state; *organizing a political and cooperation framework in the field of justice, internal affairs and foreign policy*; even though, for the time being, the ENP does not provide instruments to develop this dialogue, they will come out of the cooperation process necessary to implement the action plans, providing thus important elements of added value in relation to the political “integration”; *managing more efficiently the common borders* (by improving the cooperation conditions related to migration, asylum, visa policies, border traffic, terrorism and organised crime prevention) and the association of the partner countries to certain aspects of the EDSP and CFSP (conflict prevention, crisis management, and so on); *promoting solidarity, the feeling of belonging to an area of the specific system values, especially by strengthening cooperation in the cultural, education, professional training and youth mobility*. The ENP will support the development of human resources, implementation of the Bologna process in the neighbouring countries and will extend the participation of these countries in the communitary programmes; *improving the technical and financial assistance from the EU*, the neighbour country emphasis on priorities through a progressive and differentiated approach established within bilateral agreements; *minimizing the borderline effects* in the EU Eastern borders, as well as *externalizing the integration benefits* upon the new neighbours, by setting the EU external limits, at least from the current point of view and *creating a favourable framework for sustainable development* through commercial flow liberalization, improvement of the investment climate, macroeconomic balance, improvement of competitiveness and transfer of technology and know-how; *minimizing the risk for certain dividing lines between the EU and the*

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256 The European Parliament Report on the Commission Communication , Wider Europe and the new frame for the Eastern and Southern Europe neighbour relations, (document COM(2003) 104), 5 November 2003, p. 20.

*neighbour countries*, which generates instability and insecurity effects in the area, with a negative impact on the member states; *strengthening the EU position at the international level* and increase the Union potential to ensure peace and security on the continent and in the world. Consequently, we may appreciate that the ENP provides a favourable context for the EU external relations with its new Eastern neighbours and has potential especially to support the economic development processes in the partner countries as well as the regional stability and security strengthening through cooperation in the JIA and CFSP fields, to minimize the discrepancies between the EU and the neighbour countries, to promote the European values in the region and abroad and increase the Union role as a global actor.

At the same time, the European Neighbourhood Policy shows certain **limitations** whose impact can go from the “Simple” reduction of the EU efficiency of action, to the deep reconsideration of the whole impact. The following aspects can become limits:

- *The ENP reflects the European Union prevailing position on the regional level, without providing the neighbour countries with a political cooperation structure attractive and strong enough to make them accelerate the “Europeanization” process;*
- *The beginning of the ENP takes place under the circumstances of a lack of balance between commitments and conditionality, minimizing the Union chance to act not only as directional and instrumental leadership, but also as structural leadership*<sup>257</sup> (by attracting periphery in a cumulative process of development and integration);
- *Although the political dialogue is meant for the cooperation in the JIA and CFSP fields, they do not mention clearly the dialogue mechanisms and instruments, risking to deprive the mutual actions of the efficiency and coherence necessary to achieve the ENP multiple objectives;*
- *The difficult coordination of instruments and actions;* the multiple complementarities of the ENP with different Union policies and actions mean the development of mechanisms to correlate the specific instruments in order to coordinate over 300 actions mentioned in the action plans; the EU strategy has not developed yet such mechanisms, except perhaps, for a NNPI, hence the risk of overlapping and inefficiency in using the resources.

On the whole, it comes out that the ENP provides the opportunity to balance the EU external limits, having important strategic opportunities both for the EU and for the Eastern partners. It still remains to talk about its capacity to promote efficiently a pattern for development and cooperation at the regional level which removes the temptation of accession and ensures a broad pan-European area of prosperity, stability and security. An essential part in the efficient management of the relation between opportunities and limits in implementing the ENP, apart from the necessity of certain reconsiderations of the ENP system itself (aspects to which we will make reference in the conclusion chapter), will be played by the border countries and re

### 3. Conclusions and recommendations

The analysis realized in 2006 on the first stage of implementation of the ENP, and the proposals of the Commission from 2007 included in the Communication “A Strong ENP”, draw attention to reduced efficiency and to the ENP limits, despite the results already obtained. This communication in 2007 propose a set of actions with potential to transform ENP into complementary a genuine policy of enlargement, but the proposals remain punctual. Seems rather an effort for searching some solutions for revitalizing the force of attraction of EU and for maintaining its power to promote the processes of Europeanization in the region. It remains to be seen if the EU will have the force to integrate the various approaches adopted in foreign relations

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257 Denysyuk, V., (2005), Politique de voisinage de l’Union Européenne. Quelques transformations sur le régime commercial régional en Europe (Neighborhood Policy of the European Union. Some changes on the regional trade regime in Europe), in Journal of Common Market and the European Union, no. 485, p. 114.



in the regional plan in a strategic concept which to be unitary and coherent, that in perspective to allows it an active role in the region and at global level.

In conclusion, in order that the bordering countries valorise 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, even more remote, of the two countries accession to the European Union. From this point of view, functionalism would lead to the creation of a pan-European and Mediterranean region, *organized after the pattern of concentric circles: a hard nucleus* made up of the European Union (at a high integration level), operating as a diffusion pole of certain transformative processes in its Eastern and Southern neighbourhood to develop a wide area of stability, security and prosperity; a number of third countries, the most developed, participating in the *internal market*, and the last group participating only in the *free exchange area*. The idea, advanced by Jacques Delors within the proposal for the creation of a federation of country-nations, was appreciated in the 90's as a solution to the deepening-extension dilemma in the integration strategy of the EU, and later as a solution to the failure of the Constitutional Treaty.

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# GENERAL CONSIDERATIONS ON THE APPLICATION OF ART. 90 OF EC TREATY, NATIONAL VEHICLE TAX REGIME

**Petria Licuța**

*"Constantin Brâncoveanu" University - Pitești Faculty of Management Marketing in Economic Affairs - Rm. Vâlcea e-mail: licutapetria@yahoo.com. tel.0751125689*

**Cebuc Maria - Iuliana**

*"Constantin Brâncoveanu" University – Pitești Faculty of Management Marketing in Economic Affairs – Rm. Vâlcea e-mail: iuliacebuc@yahoo.com. tel.0729080711*

*Vehicle tax, regardless of the name under which it was perceived, respectively special tax for cars and vehicles, the pollution tax, generated so many discussions both on the amount and on the legality. The tax was initially perceived from the 1<sup>st</sup> of January 2008, under the name special tax for cars and vehicles in accordance with the previous provisions of art.214 index 1-art.214 index 3 of the Taxation Code, and from the 1<sup>st</sup> of July 2008, under the name of pollution tax, according to the provisions of Law no. 50/2008. The rules from the Taxation Code as well as those from Law no. 50/2008 interfere with the provisions of community rules, to the extent that by domestic rules it is established, for the products of other states, a greater tax than those which are applicable to the national products.*

*Key words: Vehicle tax, European legislation, tax law, compatibility*

*JEL classification: K34*

## **1. Prior notions**

Vehicle tax, regardless of the name under which it was perceived, respectively special tax for cars and vehicles, tax on pollution, generated so many discussions both on the amount and on the legality.

Special tax for cars and vehicles has been perceived starting with January 01<sup>st</sup>, 2007 under the provisions of art. 214 index 1 - 214 index 3 of Taxation Code. The fee was introduced in Taxation Code by Law no. 343/2006<sup>1</sup> and was initially perceived for all vehicles. After changing the Law no. 343/2006 by G.E.O. no. 110/2006<sup>2</sup>, special tax was levied on cars and commercial vehicles except those specially equipped for disabled people and those exempted under art. 214 index 3 of the Taxation Code.

After July 07<sup>th</sup>, 2008, the fee for cars and special vehicles has been replaced with tax on pollution perceived under G.E.O. nr. 50/2008<sup>3</sup>, art. 214 index 3 index 1 -214, being repealed by art. 14<sup>th</sup> of the Ordinance.

By G.E.O no. 50/2008, shall be charged pollution produced by cars registered in Romania after the date of August 01<sup>st</sup>, 2008, according to the established criteria for tax calculation. Romanian Government has justified the need for O.U.G. no. 50/2008 which established tax on polluting vehicles through the fact that to ensure environmental protection is necessary to adopt measures ensuring compliance with the applicable Community law, including the Court of Justice of the European Community, taking into account that these measures should be adopted in an emergency regime to avoid adverse-negative legal consequences of the current situation.

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1 Published in O.M. of Romania Part I no. 662/01.08.2006.

2 Published in O.M.of Romania Part I no. 1028/27.12.2006 approved with amendments by Law no. 372/2007, published in O. M. Of Romania no. 899/28.12.2007.

3 Published in O.M. of Romania Part I no. 327/25.04.2008, G.E.O. no. 50/2008 was modified and completed by G.E.O. no. 208/04.12.2008 published in O.M. no. 825/08.12.2008, repealed by G.E.O. no. 218/10.12.2008, published in O.M. no. 836/11.12.2008 and G.E.O. no. 7 /18.02.2009 published in O.M. no. 103/19.02.2009.

## **2. Compatibility of the taxation system stipulated by domestic law with art. 90 provisions of the EC Treaty**

The problem which must be cleared is if the provisions of the inland law which established the special tax for cars and vehicles and tax on pollution are compatible or not with art. 90 of the EC Treaty.

In the following we briefly analyze the compatibility of former provisions of art. 214 - index 1 214 – index 3 of the Taxation Code (now repealed by Article 14 of Government Emergency Ordinance no. 50/2008) and the provisions of the GEO no. 50/2008, Article. 90 of the EC Treaty.

### ***a) Compatibility of the provisions of art. 214 index 1 - 214 of index 3 with the tax law***

Under the former provisions of article 214 index 1 of the Taxation Code special tax is charged for cars and vehicles, including commercial vehicles including except those equipped for people with disabilities and tax-free vehicles under art. 214 index 3.

According to art. 214 index 2 special fee is levied at the first registration of cars and vehicles in Romania. From legal provisions set out followed that special fee for cars and vehicles was paid at the first registration in Romania, by natural or legal persons as appropriate, who effectuated registration for new cars produced in Romania, as well as for new cars and second hand cars imported from the Community or other states.

From the wording of the former provision of art. 214 index 2 arises that special tax was not paid for cars and vehicles registered in Romania in case they were later sold and reregistered. According to art. 90 part 1 of the Constitutive Treaty of the European Union, “No Member State shall impose, directly or indirectly, on the products of other Member States any internal taxation of any kind in excess of that imposed directly or indirectly on similar domestic products”. Furthermore, according to art. 90 part 2, “no Member State shall impose on the products of other Member States any internal taxation of such a nature as to afford indirect protection to other manufacturing sector”.

Community legislation aims principally to ensure free movement of goods between the Community under normal conditions of competition by removing any form of protection resulting from the application of direct and indirect domestic taxes which are discriminatory against products coming from other Member States (E.C.J. Decision in Weigel Case, 2004).

Therefore community regulation tends to prevent any tax discrimination between imported products and similar domestic products. As it can be seen, art. 90 of the EC Treaty does not prohibit the establishment of internal taxes for registering motor vehicles and cars, but it only prohibits discriminatory taxation of products coming from other countries.

By domestic provisions set out above Romania created a taxation system that allows protection of domestic products by applying similar taxes on imported products, which exceeded the residual value of the vehicles. And, accordingly, the tax system imposed by Romania in the registration of cars and vehicles is incompatible with the provisions of art. 90 of the EC Treaty.

Because there is incompatibility between the internal and the Community laws, the question which arises is which one of the two types of rules has priority.

The solution to this problem is detached by the Romania’s Constitution and jurisprudence of The European Court of Justice. In this respect, we underline that Romania became a member of the European Union on January 01<sup>st</sup>, 2007 under the Accession Treaty of Romania and Bulgaria to the European Union ratified by Law no. 157/2005<sup>4</sup>.

According to art. 148 par. 2 of the revised Constitution of Romania, “as a result of the accession, the provisions of the constituent treaties of the European Union, as well as the other mandatory community regulations shall take precedence over the opposite provisions of the national laws, in compliance with the provisions of the accession act”.

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4 Published in O.M of Romania no. 465/01.06.2005, Part I.

According to art. 148 par. 4 of the Basic Law, "The Parliament, the President of Romania, the Government, and the judicial authority shall guarantee that the obligations resulting from the accession act and the provisions of paragraph (2) are implemented."

Therefore the constitutional provisions clearly show that the Community regulations take precedence over contrary provisions of domestic laws.

European Court of Justice has stated in Decision stated in Costa / Enel (1964) that "Community law and national law of Member States, is an independent legal order that has priority in being applied even upon the subsequent national law."

So that, Community rules take precedence over the provisions of Law no. 343/2006 which introduced special tax for vehicles and cars. The fact that the rules stipulated in art. 214 index 1 and art. 214 index 3 of the Taxation Code were not compatible with Community rules can be demonstrated by the fact that on 20 March 2007, the European Commission has unleashed the "infringement" procedure (violation of treaties) against Romania, being called in question the tax calculation method because for old vehicles the residual value was exceeded, and the second-hand cars sold by Romanian citizens were not charged when sold same as those imported were.

From those stated above, we appreciate that the rules stipulated by the Taxation Code which instituted special tax for vehicles and cars, were not compatible with Community rules, the tax being lawlessly collected and as such it should be returned upon request to the concerned person.

We specify that the provisions of art. 11 of G.E.O. no. 50/2008 for the establishment of pollution tax, which stipulates that "the tax resulted as difference between the amount paid by the taxpayer between January 01<sup>st</sup>, 2007 – June 30<sup>th</sup>, 2008 as a special tax for vehicles and cars and the amount resulting from application of provisions concerning pollution tax on vehicles is reimbursed based on a procedure established in the application rules of the ordinance " are not applicable because under the constitutional provisions and art. 1 of the Civil Code, civil law disposes only for the future, not having retroactive nature.

#### ***b) The compatibility of the provisions of G.E.O. no 50/2008 with the rules of the community right***

As we have pointed out, by G.E.O. no. 50/2008 it has been established a pollution tax, this tax being retrievable from the 1<sup>st</sup> of August 2008 for the vehicles from M(1)- M(30) and N(1)-N (3) category, with the exception of those provided by law.

According with the 4<sup>th</sup> article letter a) from the ordinance, the payment obligation of tax interferes on the occasion of the first registration in Romania as well as setting- back in circulation of a vehicle after the ceasing of an exception or exemption stipulated on the articles 3 and 9, and the tax is being calculated by the efficient fiscal authority (art.5, 1st alignment).

Subsequent to G.E.O. no. 218/2008 (recalled G.E.O. no. 208/2008 coming into force on 15 December 2008), the pollution tax was removed for the cars M (1) and N (1) with the pollution regulation Euro 4 which is registered for the first time in Romania or in other Member States of the European Union during 15 December -31 December 2009 included.

This tax is retrievable for the vehicles registered for the first time outside the European Union which are registered in Romania.

Concerning the original provisions of the G.E.O. no. 50/2008 it has been sustained that these provisions are contrary to the community regulations because the pollution tax is perceived only for the new and second-hand cars imported while for those registered in Romania and resold, the tax is not anymore retrievable.

In this case, the problem which is going to be imposed to be cleared is that to establish if the regulations stipulated on G.E.O. no. 50/2008 are compatible with the regulations of the community right respectively with the provisions of art.90 from the EC Treaty.

From our point of view we consider that if the tax stipulated by the G.E.O. no 50/2008 is a pollution tax (as it is called by the legislator), it is normal that this tax should be retrievable for the new vehicles manufactured in our country and for the new and second-hand vehicles

manufactured in the community states or in other states and registered for the first time in Romania, as they pollute during their entire duration of functioning.

The fact that for the vehicles manufactured in Romania and registered after the sale, the pollution tax is not anymore retrievable, as for those imported it is not considered to be discriminatory, because for those vehicles the pollution tax was retrievable at the first registration in Romania, and it cannot be retrievable just once at the first registration and not for each registration after the sale, because it is the same car in question.

What has to be taken into consideration in order to establish if the domestic regulations are compatible with the community ones, is if by the domestic regulations is protected the internal production, as the discriminatory taxing cannot be argued by reasons of ecological degree.

Concerning this aspect, the following can be mentioned: if initially the government has justified the necessity of adopting the G.E.O. no.50/2008 in order to assure the environment protection, meaning that the retrievable tax on basis of this normative act was a pollution tax, from the G.E.O. no. 218/2008 preamble, concerning the alteration of the G.E.O. no. 50/2008 for the establishment of the pollution tax for the vehicles, it results that this normative act was adopted in order to establish the internal sector of vehicles affected by the international financial crisis and in order to assure the keeping of the working places in the Romanian economy.

Accordingly the national fiscal regulation is susceptible to decrease the importation of vehicles originated from other countries and to influence the consumers' choice in the purpose of redressing them to the new and second-hand products found on the Romanian market, this aspect leading to the breach of the principle of free circulation of goods, controlled by the EC Treaty.

The fact that a protection of the internal production of vehicles has been followed results from the way in which the government has proceeded to the alteration of the quantum of this tax. Or beginning with 19 February 2009 the pollution tax has been reduced with a third in contrast with the tax applicable during 15 December 2008- 19 February 2009, but however, the retrievable tax during this period is double in contrast with the one applicable during 01 July-15 December 2008. We consider that the tax increase/extension has represented/constituted an essential criterion in order to reduce/cut down the importation of vehicles.

Another problem which is imposed to be elucidated/ cleared up is to establish if the provisions of the art.90 from the EC Treaty are applicable also in the case of the products imported from other countries which are not Member States of the European Union.

From the provisions of the 2<sup>nd</sup> alignment of the art.90 from the EC Treaty it results that a Member State cannot apply to the products of a different country direct taxation in order to protect indirectly other fields/areas of activity. As a result, the community provisions are applicable only to the Member States of the European Union and not to the states outside/beyond the community.

Against the facts above mentioned we consider that the initial/primary regulations/rules of the G.E.O. no.50/2008 are in contradiction to the community rules/regulations only in the case in which the pollution tax exceeds the residual value of the car (see the pertinent cause/cause related to Nadasdi and Nedeth).

Concerning the rules/regulations stipulated by subsequent alterations of the G.E.O. no.50/2008, we consider that these rules/regulations are contrary to/in contradiction to the rules/regulations of the community right, as through/by the domestic dispositions is being protected the internal field/area of vehicles, in this way being breached the provisions of the art.90 from the EC Treaty.

### **3. Final dispositions/ conclusions**

Having in view the necessity to protect the environment and taking into account the principle of "the one who pollutes will pay" we consider that the pollution tax must be paid at the first registration in Romania of the vehicle, irrespectively of the country in which this is manufactured.

At the calculation of the pollution tax what does not have to be taken into account is the fact that a vehicle as it is older, the pollution tax must be less justified by the fact that this has a less duration of functioning, as the vehicle is older the number of kilometers run is greater and the pollution produced is greater in proportion to the pollution produced by a new vehicle.

Implicitly, the criterion according to which the tax level must be established is the one of the number of kilometers run, justified by the fact that a person who uses the vehicle once, twice a year as it is the case of the persons coming from the countryside, this person does not have to pay a tax which is equal to the tax of a person who goes daily with the vehicle.

We agreed with this because a vehicle that moves daily pollutes more than a vehicle that moves very rare and runs less kilometers.

For this reason, we consider that the pollution tax must be included in the fuel equivalent value, so that the tax level will be according to the number of kilometers run by each vehicle.

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## EUROPEAN FUNDS ACCESSING – OPORTUNITY FOR THE DEVELOPMENT OF ROMANIAN AGRICULTURE<sup>258</sup>

### **Pitulice Ileana Cosmina**

*Academia de Studii Economice București Facultatea de Contabilitate și Informatică de gestiune București, Piata Romana, nr.6, sector 1 [ipitulice@cig.ase.ro](mailto:ipitulice@cig.ase.ro) (021)319.19.00*

### **Gorgan Cătălina**

*Academia de Studii Economice București Facultatea de Contabilitate și Informatică de gestiune București, Piata Romana, nr.6, sector 1 [cenusacatalina@yahoo.com](mailto:cenusacatalina@yahoo.com) (021)319.19.00*

### **Laptes Ramona**

*Universitatea Transilvania Brasov Facultatea de Stiinte Economice Brasov, Colina Universitatii nr.1, corpul A, etaj III [ramonaprecup@hotmail.com](mailto:ramonaprecup@hotmail.com) (0268)419.304*

### **Popa Adriana Florina**

*Academia de Studii Economice București Facultatea de Contabilitate și Informatică de gestiune București, Piata Romana, nr.6, sector 1 [adriana.fp@gmail.com](mailto:adriana.fp@gmail.com) (021)319.19.00*

*The European funds are the instruments used for putting the Union policies into practice, a wide range of activities, including the agriculture, being financed by them. In order to align the Romanian agriculture to the European standards, our country was granted with irredeemable European funds in the pre-accession period (the SAPARD program). As a full rights member of the European Union, it will continuously benefit from irredeemable sums allocated from the European Agricultural Fund for Rural Development. The objective of this paper is to analyze, by the means of an empirical research, the opinions of those directly involved in the accession of the funds (the final beneficiaries), regarding the way the SAPARD projects and those financed from post-accession European funds develop.*

*Keywords: agriculture, sustainable development, SAPARD funds, structural funds, financing funds*

*Paper's JEL Code: O0*

### **Introduction**

At the end of the 80's, the international community has begun to deepen the concept of sustainable development, originally brought into question in the World Commission on Environment and Development entitled "Our Common Future", also known as the Brundland since 1972. By the international agreement expressed in the Declaration of Rio de Janeiro and the adoption of the 21st Agenda, the sustainable development became a global strategic option for the XXIst century. The main problem of the sustainable development "is the reconciliation between two human aspirations, supporting the need to continue the economic and social development, but also the conservation of the status of the environment, as the only way to increase the quality of life."<sup>259</sup>

Gradually, the concept of sustainable development has entered in agriculture, in response to the shortcomings of the conventional agriculture. In the early 2000, the Romanian specialists have found that the main deficiencies faced by the Romanian agriculture are due to the following reasons<sup>260</sup>:

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259 The National Strategy for the Sustainable Development of Romania, July 1999 - Romanian Government, Department for Central Public Administration Reform, Nova Printing House, Bucharest, 1999.

260 Idem.

- the lack of viable types of farms in terms of the diversity of forms of ownership, management and exploitation of the agricultural resources so that efficient technologies, from the economic and ecological point of view, can be used;
- the lack of systems and structures of agricultural production, capable of providing enough crops to supply the organic demand;
- the decapitalization of most of the farms;
- the application of an inefficient system of financial support to the farmers;
- the engrossment of the supply systems of the farmers and the sale of their products;
- the failure of various advisory services for the farmers;
- the lack of an appropriate policy for the protection of the farmers in the regard of production and disposal of goods on the internal and external market.

### **The general framework of financing by irredeemable European funds**

One of the main problems of the agricultural sector in our country was for sure the under financing. Besides other benefits to our country, the Romania's accession to the European Union has turned into an opportunity to finance the economy. If prior to acquiring the status of country with full rights in the EU, Romania has received financial support through the PHARE, ISPA and SAPARD programs, the period 2007-2013 is the first step to support our country through the Cohesion Policy of the European Union. In the pre-accession period, the Romanian agriculture financing was accomplished by the SAPARD program.

The SAPARD program is a financial instrument offered by the EU in order to help the member states who filed the application for accession to the EU pre-accession in agriculture and rural development. Romania was beneficiary of this program which continues to run and will be ended at the end of 2009.

The priorities that were identified in field of agriculture and sustainable development in the pre-accession period are:

- improving the structures for the processing and marketing of the agricultural and fishing products;
- food quality control, veterinary control and phyto-sanitary control;
- improving the infrastructure for rural development, rural economy development and human resources;

In our country, the process of absorbing the European money through the SAPARD program wasn't free of obstacles. Last year, the European Commission took the suspension decision, after an action on the performance audit program in Romania.

The European pre-accession funds granted according to the EU regulations were intended to ensure a gradual training of the farmers and the Romanians producers and not only, so that their entry on the European Union market were possible.

The quality of member with full rights in the EU obtained by Romania in 2007 has opened the door to new financing alternatives in agriculture, which take the form of the structural funds.

The structural funds are post-accession funds, supplied by the European Union, whose purpose is to provide financial support to the member states. By this means, the investments in education, research, agriculture, infrastructure, development of SMEs and measures for rural development are supported. A special attention is given to the less developed regions in order to strengthen the economic and social cohesion in the European Union.

For 2007-2013, the priority objectives of the structural funds are:

1. The Convergence Objective, which promotes the development and structural adjustments of the regions that recorded delays in the development process;
2. The Objective of Regional Competitiveness and Employment that support the regions which are not eligible for the Convergence Objective;
3. The European Territorial Cooperation Objective, which supports transnational regions, counties and areas. Complementary to these funding instruments, in Romania, the funds allocated



by the European Union under the Common Agricultural Policy and Common Fisheries Policy can also be accessed. Thus, the European Agricultural Fund for Rural Development (EAFRD) support the increasing of the competitiveness in agriculture, the rural development and the quality of life improvement in the rural areas, while the European Fisheries Fund (EFF) supports the investments for the development of the living aquatic resources, the upgrading of the fishing crafts and the processing and marketing fishery products improvement.

Presently, the National Rural Development (PNDR) is developing for the sustainable development of Romanian agriculture. The management authority of this funding program is the Ministry of Agriculture and Rural Development and the payment authority is the Payments Agency for Rural Development and Fisheries.

**The general objectives of PNDR** are: to increase the competitiveness of the agri-food sectors and forestry, to improve the environment and the rural area, to improve the quality of life in the rural areas, the diversification of the rural economy, the starting and operation of the local development initiatives.

**The specific objectives of PNDR** are:

- to facilitate the transformation and modernization of the dual structure of the agriculture and forestry, as well as of the related processing industries in order to make them more competitive and to contribute to the economic growth and income convergence in rural areas (where possible), along with ensuring the conditions for living and environmental protection in these areas;
- the maintenance and improvement of the environmental quality in the Romanian rural areas, through the promotion of a sustainable management, both in the agricultural and forestry areas;
- the management and facilitation of the transition of labor from agriculture to other sectors for ensuring a proper standard of living from the social and economical points of view.

The total budget allocated to Romania by this financial program, during 2009-2013 is EUR 6,875,817,062. With this financial support, the Romanian agriculture has the possibility to change its appearance.

We need to specify that both SAPARD funds and EU structural instruments don't act alone, but apply the co-financing mechanism. In most of the cases, the EU structural funds are co-financed from public resources of the member state and, in many areas, the private financial contribution is needed. In this context, the following question is naturally raised: Will the current economic crisis prevent the access to the European money?

The state authorities believe that Romania can cross this difficult time in all areas of activity, if it will demonstrate the ability to attract much of the money Europeans through viable projects, and agriculture will not make exceptions.

Starting from these considerations, we intended, on the basis of interviews conducted with the management of some agricultural companies, to analyze the opinion of those directly interested in accessing funds (final beneficiaries), on the development of the SAPARD projects and of those financed from EU post – accession funds, the information and support received from the authorities, the prevailing destinations of the European money, the costs associated with preparing the necessary documentation for a project and the intention to access the European money from 2009 to 2013.

### **The research methodology**

The first part of the paper is based on an analysis of the financing instruments offered by the EU member states and of those which are in the process of pre-accession, while the second part contains a positive research, by conducting an empirical study which outlines the process of accessing structural funds in Romania and the difficulties faced by the entities from the agriculture sector involved in this process. The empirical research is based on 12 interviews conducted with the management of some agricultural companies on the theme of the European

funds accession. The fields of activity in the twelve operating companies are: crops of camp plants, breeding, processing of agricultural products, wine making. The interview was structured in two parts: the first questions concerned the pre-accession SAPARD funds accession, while the second part included questions related to the post-accession funds.

### **The analysis of the received answers**

Of those interviewed, 11 respondents have accessed funds through the SAPARD program. The only company not accessing such funds had its own resources to finance the investments.

The funds accessed through the SAPARD pre-accession program have been used by the beneficiaries for the purchase of agricultural equipment and machinery in order to modernize the farms (the companies included in the sample working in the field of culture plants) or for the construction and / or modernization of the plants processing agricultural products (modernization of a dairy factory, building a meat-processing factory, building a wine making factory).

The proper preparation of a project to access the European money is one of the key points of its success. Starting from this consideration, among the 11 companies that have accessed SAPARD funds, 8 went to consultants for preparation of documentation.

Depending on the type of projects financed from SAPARD funds, the respondents stated that the access lasted between 6 months and 2 years.

All those interviewed considered that Romania's accession to the European Union has brought benefits to their companies. Their arguments were various: the ability to access the irredeemable funds, the granting of subsidies per unit of area, but also easier and cheaper access (the absence of the customs duties) to the sources of supply in Europe and the possibility of exporting Romanian products to the European countries.

The second part of the interview concerned the non-reimbursable funds that Romania will benefit during 2007 - 2013 as a full member of the European Union. Two of the questions raised were regarding the degree and the sources of information for companies regarding the possibilities of accessing post-accession funds for agriculture, as well as assessing how the state authorities support the beneficiaries or the potential beneficiaries in the process of accessing.

All the respondents considered that they were informed about the opportunities of the European post-accession funding, the sources being various: media, Internet, state authorities involved in the accession process (eg, the county offices of payments for rural development and fisheries), consultancy firms, participation in seminars and even colleagues in the same area.

However, only 4 of the respondents consider that they received support from the state authorities in the process of accessing the EU post-accession funds, while 8 respondents described the support from the state as insufficient or nonexistent. As an argument, the insufficient information on funding, programs and loans with low interest was mentioned.

Considering the European funds a major advantage for a company in order to support its investments, 10 of those surveyed have expressed the intention to submit projects to access the irredeemable funds, the purpose being the investments in the updating the technology and/or construction of factories for processing the agricultural products (the Measure no 121 „The modernization of the farms“ and the Measure no 123 „Processing, food industry“). As about the other two companies, one has not expressed the intention to submit such a project, while the management of the second one stated that the inconsistency and the uncertainty of the rules for the elaboration and development of the documentation, inherent in a funding program barely started, lead to postpone the moment of submitting a project.

For the majority of the companies participating in the interview, the lack of comprehensive information on post - accession irredeemable funds represents an obstacle in proposing a large number of projects. 9 of those surveyed considered that, if it would be better informed, would access more European money, because these funds represent a major advantage in improving a

business. The other 3 respondents considered that there was sufficient information on European funding opportunities and the possibilities to access them.

The management of two of the companies included in the sample of interviews considered the costs associated with the preparation and submission of a project as another impediment in accessing the European money. All the other representatives of the companies considered, though, that those don't represent an obstacle in the way of accessing European funds, because the benefits obtained are significantly higher than those costs and there are consulting companies that accept that most of the costs resulting from the elaboration of documentation to be settled in during the performance of investment process.

The last question addressed to the respondents referred to the development of the submitted projects. Thus, 6 of those surveyed haven't yet projects in progress, one of the companies considered that the development of the project corresponds to the expectations, while for the other 5 respondents the projects financed from non-reimbursable funds post-accession do not meet the expectations in terms of the mode of operation, the arguments being the excessive bureaucracy, the unacceptably long period between the time of approval and that of contracting, the deficiencies of the approving the projects declared eligible procedure.

### **Conclusions:**

The preparations for the accession to the European Union assumed the allocation of grants in order to reduce the development disparities between our country and other member states for various fields of activity, among which the agriculture. The funds allocated at the European level have been distributed to the beneficiaries who submitted eligible projects by the SAPARD program. The majority of the interview respondents have accessed pre-accession funds for updating the technologies.

And as a member of the European Union, Romania benefits of EU funding grants destined to its continuous development in order to reach the standards of the other member states. For accessing and managing these EU funds, the Romanian government puts in place an institutional system in accordance with the European requirements, which is available to the potential beneficiaries of funds. The carried out research revealed that, from the beneficiaries of funds point of view, the support from the authorities is insufficient.

However, considering the fact that the irredeemable funds represent an opportunity to streamline a business, 83% of those interviewed expressed their intention to submit projects to access post-accession funds for agriculture, even if they stated that they wish they were better informed.

As a continuation of the research conducted in this paper, we can analyze to what extent the economic crisis will allow companies in the agricultural sector to access the European funds in the future, considering the fact that every project involves a co-financing that, in adverse economic conditions, few companies can afford.

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**EXPORTING STABILITY VERSUS IMPORTING INSTABILITY:  
THE FUTURE OF THE EUROPEAN UNION AS AN INTEGRATIVE POWER – PAPER  
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**Ploae Cătălin**

*OVIDIUS University of Constanta Faculty of Economic Sciences Str. Făgetului, Nr. 140, Bl. ST5, Sc. B, Apt 125, Et. 5, Constanța E-mail: [catalinploae@gmail.com](mailto:catalinploae@gmail.com) Phone: 0723740854*















# PROS AND CONS OF THE EUROPEAN NEIGHBOURHOOD POLICY

**Ploae Alina-Anghelina**

„Alexandru Ioan Cuza” University of Iasi Faculty of Economics and Business Administration  
Doctoral School of Economics Str. Făgetului, Nr. 140, Bl. ST5, Sc. B, Apt 58, Et. 5, Constanta E-mail: [alinatimoasca@yahoo.com](mailto:alinatimoasca@yahoo.com) Phone: 0722980025

*Looking at the extreme diversity of conditions and the wide geographic spread of European Union (EU)'s neighbours one has to admire the courage of EU policy makers to design a single set of policy with similar objectives, tools and methodology. Through the European Neighbourhood Policy (ENP) the EU wishes to encourage modernization and reforms in its neighbourhood and to establish a 'ring of friends'. Implicitly it also hopes to dampen the 'membership zeal' of its Eastern neighbours. The more successful a neighbour country will be in implementing a comprehensive political and economic reform agenda, the closer will it come to EU standards. Why should neighbour countries therefore abstain from pursuing membership as the ultimate objective? Why should they be satisfied with an alignment on EU legislation and EU foreign policy without having a say in EU decisions? Having in mind the above-mentioned, this paper analyses the pros and the cons aspects of the ENP implementation.*

*Keywords: Neighbourhood, membership, European borders*

*JEL Classification: F59*

## **Introduction**

Right from the start the European Communities (EC) have followed a two-track approach: cultivate close neighbourly relations with those countries that are not eager or fit to join, while being open to those wanting to join. In 1973 the EC succeeded in a perfect symbiosis of the dual track approach: three European countries – UK, Ireland and Denmark – joined the Community, after a 10-year negotiation process. In parallel, the EC 9 established a “European Free Trade Area” with five countries (Austria, Switzerland, Sweden, Finland, Iceland and Norway) that felt unwilling to ask for full EU membership. From 1973 to 1995 EU-EFTA relations symbolized a highly successful model of European Neighbourhood Policy. It contained already the basic ingredients of its 2004 version: free trade, approximation of regulations and political dialogue. The abolition of essentially all intra-European trade barriers made EFTA the first trading partner for the EC9. Several EFTA countries aligned themselves of EC legislation, especially that relating to the internal market, thereby promoting European-wide approximation of rules and regulations. Last but not least, the EC engaged in an increasingly close political dialogue with its EFTA partners, both bilaterally and multilaterally.

When the European map was redrawn in 1989, the EU quite naturally pursued its traditional tracks – free trade relations and close cooperation in areas of common interest – with its new Eastern neighbours. As early as January 1990, the European Commission proposed to build the future relations with the countries of Central Europe upon Article 238 of the Treaty, i.e. free trade, financial assistance, and political dialogue. Very wisely, the Commission proposed not to prejudge eventual EU membership. The nature and intensity of future relations would depend on the progress of new neighbours would make in critical areas like rule of law, respect of fundamental human rights, multiparty systems, free elections and market economy that were include in the “Copenhagen Criteria” in 1993.

The period from 1990 to 2003 resembles the one from 1960 to 1972. It opened a new chapter of EU neighbourhood relations: for Central Europe, accession very rapidly became the preferred option. Only the duration and the final shape of that process were uncertain. With its Mediterranean neighbours, the EU reinforced its neighbourhood relations. In 1995 it launched the “Barcelona Process” with a view to transforming the

Mediterranean into an “area of peace, stability and prosperity”. Again the EU relied on familiar instruments: free trade, financial and technical cooperation, dialogue. With Central Europe enlargement completed in 2007, the EU finds itself confronted with familiar challenges as 15 years ago after the implosion of the Soviet Empire.

The European Neighbourhood Policy, conceived and developed even before enlargement had taken place, was designed “to avoid drawing new dividing lines in Europe and to promote stability and prosperity within and beyond the new borders of the Union”<sup>261</sup> Obviously, these goals raise questions about the means for and prospects of success of such an ambitious endeavour. In the words of former Commission President Romano Prodi, the new neighbourhood policy is to offer “more than partnership and less than membership” to partner countries on the basis of “sharing everything with the Union but institutions”<sup>262</sup>.

### **Pros aspects of the European Neighborhood Policy**

Starting from the two quotes: “[...] the ENP has the potential to foster economic growth in neighbouring countries,<sup>263</sup> but [...] it seems clear that incentives seem likely to be the ENP’s weak point.”, we can take the key theme of poverty, which has been playing in the background throughout. The best remedy for poverty is economic growth, as long as this growth is distributed relatively evenly. And the best instruments to boost growth are an effective trade policy and improvement of property rights, the regulatory framework and macroeconomic policy. The EU pays close attention to both instruments, at least in its communications on Neighbourhood Policy. It is much more difficult to turn these words into deeds, however, especially because the neighbouring countries will have to do most of the work themselves.

The challenge lies with the neighbouring countries, then. They will also benefit the most in economic terms. More openness between the EU and its neighbouring countries will benefit above all the trade performance of the neighbouring countries; the impact on the EU will be small. And better institutions are an economic necessity above all for the neighbouring countries themselves; the EU’s interest lies in the greater stability on its external borders.

But the EU can certainly help its neighbouring countries to take up the challenge. Firstly by identifying and then giving practical support to good initiatives launched by the neighbouring countries. There is some scope for providing financial assistance for changes in institutions, but its effect will be limited. The EU applies the most efficient instrument, trade liberalisation, very cautiously, however. It is offering the neighbouring countries only very limited access to the internal market for goods, services, capital and people. And it is certainly not offering the neighbouring countries the prospect of membership at this stage. With its neighbourhood policy the EU looks beyond its borders, but it still wants to maintain these borders or even reinforce them, as is evident from the restriction of migration from Ukraine following the recent enlargement of the Schengen Area and the restriction of trade with Moldova following Romania’s accession to the EU.

Despite the considerable wave of critics towards the newest EU’s foreign policy tool, both from academics and politicians, it would be a partial approach to neglect all of the positive results that

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261 European Commission (2003): Communication from the Commission to the Council and the European Parliament. Wider Europe – Neighborhood: a New Framework for Relations with our Eastern and Southern Neighbours, COM (2003) 104 final, available at:

<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2003:0104:FIN:EN:PDF>

262 Romano Prodi - A Wider Europe - A Proximity Policy as the key to stability "Peace, Security And Stability International Dialogue and the Role of the EU" Sixth ECSA-World Conference. SPEECH/02/619 Jean Monnet Project. Brussels, 5-6 December 2002, p. 5, available at:

<http://europa.eu/rapid/pressReleasesAction.do?reference=SPEECH/02/619&format=HTML&aged=0&language=EN&guiLanguage=en>

263 Dodoni and Fantini (2006) and Milcher and Slay (2005).

brought the ENP's implementation. The European Commission in its press release from November 2005 have already pointed out several achievements of ENP: negotiation and adoption of seven Action Plans; progress with Ukraine on Market Economy status, visa facilitation and energy issues, setting up a border assistance mission on the Moldova – Ukraine border; expanding political dialogue with Mediterranean partners, including, for the first time, the creation of sub-committees to launch regular discussions on democracy, human rights and governance; fact that international financial institutions (IFIs) are beginning to take the ENP Action Plans as the basis of their strategic agenda for operations with partner countries<sup>264</sup>.

ENP is often criticized for its blurred perspectives and its generality. Nevertheless some authors like N.Hayoz, F.Kehl and S.Kuster in "The Potential Flexibility of Deliberate Ambiguity – The EU's Relations with the Regimes in its Eastern Neighborhood", argue that: "In its potential ambiguity the ENP can be used flexibly according to the different challenges faced and posed by the regimes present in the countries it cove. [...] It can take account of the local situation, the specific needs as well as potential for mutual benefit. [...] EU can react quicker to changes within countries, which previous cooperation models were sometimes slow to grasp."

The expected advantage of ENP's flexibility is its possibility to adapt itself to changing circumstances and evolving challenges. The first time when ENP indeed "reformed" itself was when it included the Southern Caucasus states, previously not considered to be EU's neighbors. Due to the Georgian "Rose Revolution" this approach has instantly changed. Finally importance and position of this Region was recognized and by the decision of the Council adopted on June 14, 2004, the three countries of Southern Caucasus were included in the EU's European Neighborhood Initiative.

In the same spirit ENP is going now through upgrading process, as we could seen on the example of the ENP strategy paper presented in December 2006 by the European Commission in which it proposed to strengthen the relations with EU Neighbors by offering them further going incentives. It emphasized need for: enhancing economic and trade development (including "behind the border" elements and liberalization of trade flows among partner countries, with a certain level of asymmetry if appropriate), facilitating mobility and managing migration (visa facilitation, removing obstacles to legitimate travel, e.g. for business, educational, tourism, official purposes), promoting people-to-people exchanges (educational, cultural, youth and research exchanges; civil society exchanges, and enhanced civil society participation in ENP; exchanges between regional and local authorities), building a thematic dimension of the ENP (enhanced multilateral and bilateral dialogue with ENP partners in key sectors, like energy and transport networks), strengthening political cooperation (more active EU role in regional or multilateral conflict-resolution efforts, including participation as appropriate in civil and military peace-keeping missions), enhancing regional cooperation<sup>265</sup>.

The eventual success of the ENP in terms of fulfilling its transformative aims partly depends on the attitude of the countries involved. EU's neighbours vary to a large extent both in terms of their Europeanness and in terms of their commitment in practice to the principles of democracy, rule of law, human rights and good governance. It is highly debatable whether the ENP can be effectively utilized to leverage reforms in those States. Besides their poor democratic credentials, a majority of the neighbouring countries have many priorities in their internal and external policies of which closes links with the EU are jus one. Both the EU and its neighbours need to

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264 European Neighborhood Policy: A year of progress, European Commission Press Release, Brussels, 24 November 2005, IP/05/1467, available at:

<http://europa.eu/rapid/pressReleasesAction.do?reference=IP/05/1467&format=HTML&aged=1&language=EN&guiLanguage=en>

265 European Commission (2006): Communication on „Strengthening the European Neighborhood Policy”, Brussels, 4 December, COM(2006)726 final, available at:

[http://ec.europa.eu/world/enp/pdf/com06\\_726\\_en.pdf](http://ec.europa.eu/world/enp/pdf/com06_726_en.pdf)

maintain a working relationship with key players such as the US and Russia and with other international organizations such as the Council of Europe, the OSCE and even the UN. Whether the EU can succeed in democratizing its wide neighbourhood outside the context of enlargement therefore remains a big question for the Union and for its global actorness.

### **Cons aspects of the European Neighborhood Policy**

Many critical voices are referring to ENP's objectives. On the one hand we have a policy that aims to bring stability and prosperity within EU's neighborhood as European Security Strategy mentions: "It is in the European interest that countries on our borders are well-governed. Neighbors who are engaged in violent conflict, weak states where organized crime flourishes, dysfunctional societies or exploding population growth on its borders all pose problems for Europe".<sup>266</sup>

Evidently EU foreign policy is not based on purely altruistic principles, however, a balance should be present between EU's own interests and the interests of its direct Neighbors. The analysis of ENP's objectives defined in the European Commission Strategy Paper suggests, however, a different reality: "Since this policy was launched, the EU has emphasised that it offers a means to reinforce relations between the EU and partner countries, which is distinct from the possibilities available to European countries under Article 49 of the Treaty on European Union. The objective of the ENP is to share the benefits of the EU's 2004 enlargement with neighbouring countries in strengthening stability, security and wellbeing for all concerned. It is designed to prevent the emergence of new dividing lines between the enlarged EU and its neighbours and to offer them the chance to participate in various EU activities, through greater political, security, economic and cultural co-operation."<sup>267</sup>

According to A. Primatorova the order in which the priorities are presented within ENP's Strategy Paper is a reflection of the actual objectives of EU: "The explanations start not with what the ENP is about but jump into what it is not about. It is quite odd to present a policy in this way- not through what it wants to achieve but through what it is eager to avoid."<sup>268</sup>

Furthermore, still referring to the ENP's objectives we should distinguish those who aim at providing security around EU's borders and those that concern economic relations with ENP partner states. The balance between the two is hard to be achieved since EU is more anxious about the security of its external borders than worried about increasing trade exchange with neighbours, who continue to remain negligible for EU's market (it is particularly true for Eastern European countries). This hypothesis can be as well applied to democracy promotion within ENP. For those states EU incentives are more likely to help to stabilize existing regimes than to influence a bottom-up reform process. The "common values" such as strengthening democracy and the rule of law, respect of human rights and fundamental freedoms or protection of minority rights, which have been so strongly articulated in Commission's official documents, remain empty declarations.

Other critics point out that ENP's geographical scope is over-extended and that it naturally creates a sort of competitiveness among Eastern and Southern EU's Neighbors. But what is more important and can be perceived as an obstacle to ENP's effective functioning, cleavages and misperceptions can be observed within EU's policy agenda as each member state naturally pursue its own interests regarding Neighborhood.

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266 European Security Strategy (2003): A Secure Europe in a Better World, 12 December 2003, Brussels, pp.7

267 European Commission (2004): Communication from the Commission. European Neighborhood Policy. Strategy Paper, COM (2004) 373 final, available at:

[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)

268 Primatarova A. (2005), pp. 34

Other critical views state that ENP embraces countries which differ too strongly one from another. M. Emerson divides EU's Neighbourhood into two groups: those countries that have already concluded Action Plans with EU and those that for various reasons lack this legal instrument. Among countries with Action Plans he distinguishes the "willing" partner states (like Moldova or Ukraine) and "passive" ones (example of Azerbaijan). On the other hand, countries with which Action Plans are not yet signed are either "reluctant" (like Algeria) or explicitly "excluded" (Belarus). The author suggests that ENP toward countries that really want cooperation is not being upgraded and remains at the same level as towards reluctant or excluded ones. Indeed, sharing a border with EU is one of the most important denominators within ENP. EU imposes the same policy to all of the countries even though they fundamentally differ in terms of political regimes, economic systems and cultural particularities, consequently it may fail to face all the challenges posed in those various regions by applying a "one-size fit all" policy. In most of the official documents and public statements European Commission is strongly arguing that ENP is based on ownership and partnership principles. However, EU is both politically and economically much stronger, this means that there is no place for an equal partnership. ENP is therefore on the path dependency towards the enlargement policy and is often conceived as a pre-stage for future accession. Nevertheless, it leaves membership question without a clear answer.

The question of membership perspective should be mentioned again. Why should partner state agree to align on EU legislation and EU foreign policy without having an influence on EU decisions and without benefiting from EU budget funding? As the example of European Free Trade Association (EFTA) shows, economic integration with EU has been successful for countries that weren't member states and it was their own choice. States like Norway or Liechtenstein refused to integrate with EU politically, but they searched for economic integration that would only benefit their already well-functioning economies. ENP countries, on the contrary, in most cases do not represent strong market economies, therefore it is at the core of their interest to follow the EU integration model that would give them a say in decision making process of EU's market regulations. Taking into account these massive waves of critics it is more possible for the Commission to continue making propositions that aims at restructuring of the ENP.

The innovative features of the ENP seem to offer a promising future for the EU and its neighbourhood policy in wider Europe. However, the weakness of the ENP combined with the domestic and international circumstances prevailing in this broader area brings about an uncertain outlook for the future.

## **Conclusions**

Is the ENP adequate to deal with the outsiders? Will it foster a friendly neighbourhood and a 'ring of friends'? The challenge is enormous, given the problems faced by the neighbours, and requires an ambitious policy response, that the ENP certainly is. But the ENP requires much of the neighbours, and offers only vague incentives in return. The hovering ghost of enlargement will not vanish if 'all but institutions' proves to be meaningless, and fostering reform—much less conflict resolution—will be an uphill struggle. The member states will need to be more serious about setting clear benchmarks (and standing by them consistently) and offering concrete incentives (even when they perceive these to be costly to themselves) if the ENP is to meet its core objectives.

A clearer incentive structure, attached to clearer and well-ordered priorities, would give the EU better tools for fostering fundamental reform in the neighbours. And while there is an undeniable need for reform in the neighbours, there is also an undeniable need for all the neighbours to cooperate with one another. Strengthening the multilateral and/or regional elements in the ENP would help to tackle not just the cross-border problems that affect the EU but also those that affect all of the neighbours.



We should be aware of the new situation that EU is facing both internally and externally. This is no longer community of 15 states but 27, and its borders don't finish at Odra River but around 1000 km further to the East. The strong voices of New Member States toward revising ENP will only intensify and it should not be taken by Westerns as impudence, but recognized as a legitimate defense of the national as well as EU interests. It seems unacceptable to leave other Europeans that have made an effort and proved their commitment to the democratization process, outside EU borders without any perspective of joining the "European family".

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## ROMANIAN VS. EUROPEAN SOCIO-ECONOMIC “IDEAS”

**Puiu Ovidiu**

*Universitatea Constantin Brâncoveanu din Pitești Facultatea Management – Marketing în Afaceri Economice Adresa de contact: Pitești, Calea Bascovului nr. 2 A Email: ucb\_prorectorat@yahoo.com Telefon: 0248. 21 26 27*

**Șerbănică Cristina**

*Universitatea Constantin Brâncoveanu din Pitești Facultatea Științe Juridice, Administrative și ale Comunicării Adresa de contact: Pitești, Calea Bascovului nr. 2 A Email: cpantelica@yahoo.com Telefon: 0248. 21 26 27*

***Study financed through Romania's National Plan for Research, Development and Innovation: Developing academic interdisciplinary research to support Romania's universities competitiveness at international level (Code: 91-058/2007/ANCS/CNMP)***

*This paper highlights the role of socio-economic research in the European Research Area, while putting focus on emerging trends in the field. In the meantime, the paper presents and analysis the projects that won the “Ideas” competition: ERC Advanced Investigators Grant (at European level) and Exploratory Research Projects (at Romanian level), in the Socio-economics Sections. The conclusion is that Romanian projects are more narrowly focused (even if their formulation is by far very complex) and fit very well the general objectives of FP7 activities in Social Sciences and Humanities. Finally, the paper proposes a simple schema that could frame Romanian research projects in socio-economic field.*

*Keywords: socio-economic research, “Ideas” competition, trends in socio-economic research*

*JEL Code: A1, I2*

### **1.Introduction. Socio-economic research in the European Research Area**

*European societies are changing very rapidly and we need to better understand how and why. The dynamics of science and technology interact with social, economic and political developments and this leads to new production, consumption and learning models. Activities that aim at a stronger engagement of society in the debates on the directions of research are an essential part of a modern research policy environment. This is where the “Socio-economic Sciences and Humanities” (SSH) and “Science in Society” (SIS) programmes of the Directorate-General (DG) for Research make a valuable contribution.*

*(José Manuel Silva Rodríguez, Director-General of DG Research, European Comission)*

In a changing world characterized by the accelerating globalization of research and technology and the emergence of new scientific and technological powers – notably China and India – the European Research Area (ERA) is more than ever a cornerstone for a European knowledge society. The Lisbon European Council in March 2000 endorsed the objective of creating the European Research Area that combines a European «internal market» for research, where researchers, technology and knowledge freely circulate, effective European-level coordination of national and regional research activities, programmes and policies and initiatives implemented and funded at European level (European Comission, *The European Research Area: New Perspectives*, 2007).

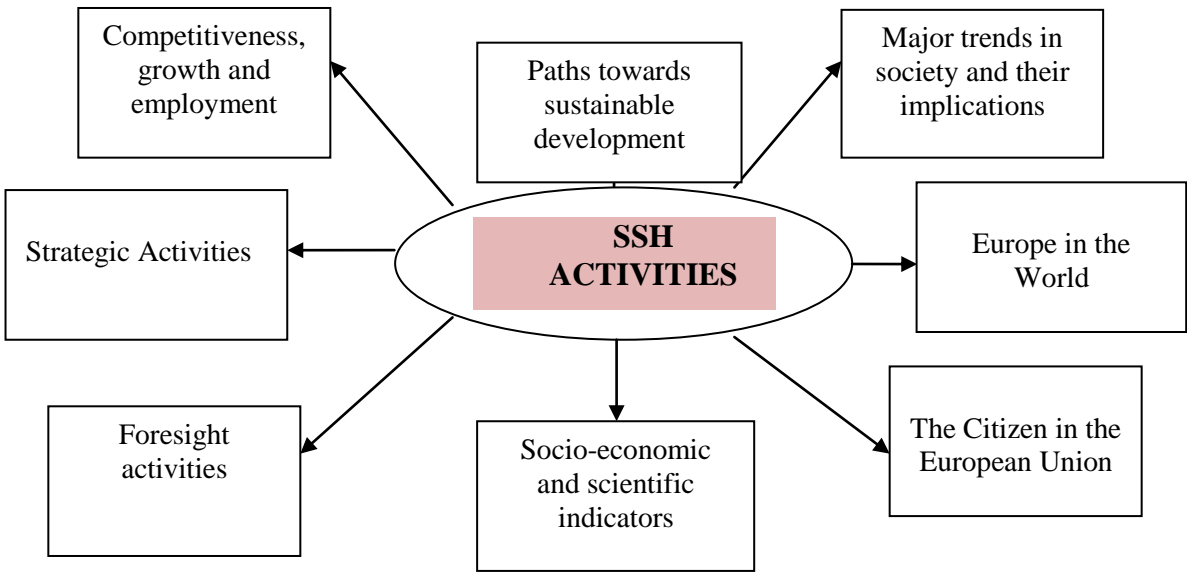
The **socio-economic research** theme is in widespread use in the ERA funding programmes and elsewhere. In the Fourth Framework Programme, for instance, there was a programme entitled ‘Targeted Socio-Economic Research’ (TSER) and in the Fifth Framework Programme which succeeded it in 2000, there were numerous calls for proposals to carry out socioeconomic research related to information society technologies and to other issues of relevance to EU policy. In the Sixth Framework Programme, which came on stream in 2003, there were signs that the

phrase ‘research in the social sciences’ was replacing ‘socio-economic research’ at least in the programmes related to issues of citizenship and governance (Huws U, 2004). Under the Seventh Framework Programme - run from 2007 to 2013 - “Research in Socio-economic Sciences and Humanities” remains one of the main research themes.

Within the European Research Area, socio-economic research should facilitate an understanding of the complex interactions between humans and nature. It can be used to investigate the social and economic costs and benefits of various scenarios, and for helping to find the causes and solutions to problems (European Commission, *Socio-economic Sciences & Humanities and Science in Society in 2007*, Highlights of the Year, 2008). The purposes of socio-economic research may be: to improve human knowledge and understanding in the general and abstract sense of adding to the existing store of knowledge (this could be the case, for instance, in much academic research); to improve public policy (this could apply in the case of a great deal of research carried out or commissioned by public authorities or charitable trusts); to improve the quality of human life (this could apply in the case of health-related or environmental research, or research related to the development of new products and services or the improvement of existing ones; indirectly, it could also relate to a range of research whose aim is to improve industrial organization or economic competitiveness).

The 7<sup>th</sup> Framework Programme (FP7) focuses on building a better understanding of the socio-economic challenges facing Europe, such as economic growth, employment and competitiveness, social cohesion and sustainability, quality of life etc. Its Socio-economic Sciences and Humanities (SSH) activities are implemented by means of the Work Programme and are grouped into eight areas:

Fig.no.1. *Social Sciences and Humanities Activities in FP7*



The broad objectives of FP7 have been grouped into four categories: Cooperation, **Ideas**, People and Capacities. For each type of objective, there is a specific programme corresponding to the main areas of EU research policy. All specific programmes work together to promote and encourage the creation of European poles of (scientific) excellence. The specific programme ‘**Ideas**’ – that will be in debate within this paper - aims to reinforce excellence, dynamism and creativity in European research and improve the attractiveness of Europe for the best researchers in “**frontier research**”. In terms of the official documente, “frontier research pursues questions irrespective of established disciplinary boundaries. It may well involve multi-, inter- or trans-

disciplinary research that brings together researchers from different disciplinary backgrounds, with different theoretical and conceptual approaches, techniques, methodologies and instrumentation, perhaps even different goals and motivations” (Kafatos F., 2009).

## 2. “Ideas” Programme in the European Union

At the European level, the “Ideas” Programme is managed through the European Research Council (ERC), through two types of projects: (i) ERC Starting Independent Researcher Grant and (ii) ERC Advanced Investigators Grant. Applications can be made in any field of research - including the social sciences and humanities - with particular emphasis on the frontier of science, scholarship and engineering. Specific socio-economic proposals can be submitted in the Social Sciences and Humanities (SH) section, in the first panel (SH1: **Individuals, institutions and markets**), on the following topics:

SH1\_1 Macroeconomics, growth, business cycles

SH1\_2 Microeconomics, institutional economics

SH1\_3 Econometrics, statistical methods

SH1\_4 Financial markets, banking and corporate finance

SH1\_5 Competitiveness, innovation, research and development

SH1\_6 Consumer choice, behavioral economics, marketing

SH1\_7 Organization studies, strategy

SH1\_8 Human resource management, employment and earnings

SH1\_9 Public administration, public economics

SH1\_10 Income distribution, poverty

SH1\_11 International trade, economic geography

SH1\_12 Economic history, development

The first *ERC Starting Grant Competition* has started in 2007: from the 9167 applications submitted, 201 proposals were put on the “priority list”, while other 229 proposals were put on reserve list for getting funded. The first call for *ERC Advanced Grants* started in 2008; in total 2167 proposals were submitted to this call. The distribution of proposals per domain was the following: 41.5% in Physical Sciences and Engineering, 30.5% in Life Sciences, 17.5% in Social Sciences and Humanities and 10.5% in the Interdisciplinary Research domain. **52 proposals are expected to be funded in Social Sciences and Humanities**, from which 14 in the SH1 (Individuals, institutions and markets) panel:

*Table no.1.* Social Sciences and Humanities Funded Projects in ERC Advanced Grants.  
Panel SH1: Individuals, institutions and markets

No.	Project title	Host country
1	Social capital and enforcement of informal contracts in developing economies	BE
2	Labor Markets, Economic Fluctuations and Monetary Policy	ES
3	Evaluation and management of collective long-term risks	FR
4	Regulating Retail Finance	DE
5	Game Theory and Applications in the Presence of Cognitive Limitations	FR
6	Quantitative dynamic macroeconomic analysis of global climate change and inequality	SE
7	Nonparametric and Semiparametric Methods in Economics and Finance	UK
8	Bounded rationality and social concerns in decision processes: theory, experiments, and applications	IT
9	Money, Liquidity and the Aggregate Economy	UK
10	Bounded Rationality in Industrial Organization	UK
11	How do values influence the functioning of institutions and the effects of	IT

	policies?	
12	Information and Competition	ES
13	Policy and Culture in the Development Process	CH
14	<i>On defining and implementing re-distributive policies* (on the reserve list)</i>	BE

BE= Belgium, ES = Spain, FR = France, DE = Deutschland, SE= Sweden, UK = United Kingdom, IT = Italy, CH = Czech Republic

As it can be seen, three projects come from United Kingdom, two from Spain, Italy, France, Belgium and one from Deutschland, Sweden and Czech Republic. Projects can be hardly grouped after JEL classification: nevertheless, some of them are **macroeconomic approaches** (labour markets, economic fluctuations, monetary policy, macroeconomic analysis, aggregate economy, redistributive policies etc.), while others can be included to **Mathematical and Quantitative Methods** (nonparametric and semiparametric methods: JEL: C1, Game theory - JEL: C7). The “social” approach appears twice (social capital, social concerns) and the same with “bounded rationality”. It should be noted that a special attention is paid to **general economics** (relation of economics to social values) or to **cultural economics** (relation of economic policy and culture).

### 3. “Ideas” Programme in Romania

The Exploratory Research Projects “Ideas” have as main goal the development of the knowledge broadening in all the research domains, including the socio-human sciences, both by fundamental research and by advanced research in order to solve complex issues, of frontier, by obtaining new knowledge regarding processes and phenomena, by formulating and validating original suppositions, concept models and theories. There are also some **derived objectives**, that refer to: (i) promotion of original research and increase of research capacity, with favorable implications on the international competitiveness of the Romanian research, (ii) increase of full-time researchers financed through research projects, as well as funding of PhD positions, encouraging/promoting researchers’ formation in an environment of high scientific quality and (iii) increase of the Romanian research visibility on international level, especially European, by increasing the quality and the better knowledge transfer.

The 2008 Romanian Competition for “Ideas” Exploratory Research Projects was organized around 32 areas of interest. For the “Economics” Section, there were 244 submitted projects, from which only 76 have been proposed for funding. A brief analysis of these projects highlighted the following issues and results:

**-40% of the projects aimed at the creation of economic models or at modeling economic phenomena:** (*econometric models, operational models, operational-behavioral model, nonlinear models, mathematical-statistical models, multicriterial models, conceptual models, neurofuzzy modeling etc.*); **a significant part of the projects was devoted to exploratory research or anthropological research, scenarios, analysis, interdisciplinary approaches, best practices etc.**

**-by subject, most of the projects relate to macroeconomics** (*fiscal policy, labour market policies, decentralization, price balance, environmental policies, public performance, economic development etc.*), **finances and accounting** (*accounting standards, financial reporting, auditing etc.*), **management and marketing topics** (*leadership, decision process, learning organizations, corporate governance, intellectual capital, consumer behavior, corporate social responsibility, blogs - as marketing tools etc.*); *not least, there are some projects related to IT topics* (*software quality, mobile application, TIC, e-learning strategies etc.*);

**-at a sectorial level, most of the projects aimed at SMEs**, but there are also themes related to *corporations, educational institutions, health organizations or public entities*;

-24% of projects use the concept “**knowledge**”: *knowledge management, knowledge based-economy, knowledge-based society, knowledge-based leadership etc.*

-20% of projects use the concept “**European**”: *integration in European Union, European business environment, convergence with the European Union, European values, European level etc.*; at the same time, there are some approaches related to the new member states, international markets, emergent countries or global economic environment;

-there are also some other widely used concepts: **competitive/competitiveness** (14%): *sustainable competitiveness, competitive position, competitiveness and dynamism, national competitiveness etc.*, **risk/uncertainty** (risk analysis, operational risk, uncertainty – volatility - risk), **sustainable/sustainability** (sustainable development, sustainable strategies etc.), **efficiency** (economic efficiency, social efficiency, investment efficiency etc.). It should be also noted that there were other two descriptives: **intelligent** (intelligent development, intelligent organization, intelligent systems etc.) and **creative** (creative control, creative industries etc.) that were used prevalently.

#### 4. Conclusions. A comparison between Romanian and European socio-economic “Ideas”

The comparative analysis of the two types of competitions should first take into account their objectives: thus, if the European competition aims to reinforce excellence, dynamism and creativity in European research and to improve the attractiveness for the best researchers in frontier research, the Romanian one has as a main goal the development of knowledge in all the research domains, in order to solve complex issues of frontier, with favorable implications on the *international competitiveness of the Romanian research*.

The first major difference between the two programs can be seen in the topics addressed by them: at the European level, there is a preference for **general economics**, while at a national level one can find more focused researches, often with a sectorial application. For example, a theme on "competition" topic is addressed - at a European level - through a project like *Information and Competition*, but more narrowly at a national level, through a project like: *Transformations in the competitive behavior of institutional and economic actors in the European business environment*.

Analysis of issues used in the two types of projects shows that Romanian projects are much better anchored in the overall objectives of FP7's socio-economic field: the eight priority themes identified at the European level can easily find a correspondent in Romanian projects (*competitiveness, growth and employment, strategic activities, sustainable development etc.*).

Probably the most obvious difference arise from the titles of research projects: if European project titles have, on average, 5 words per title, Romanian projects' titles have, on average, 11 words/title. As a general observation, most European projects aim to establish links between two or three economic phenomena (*labor markets, economic fluctuations and monetary policy, money, liquidity and the aggregate economy, information and competition etc.*). Analysis of the Romanian projects' topics can lead to the creation of a simple scheme:

Research Object	Research subject	In the context of...
(Develop, create) a model/ modeling Exploratory research Analyses, anthropological research etc.	Financial reporting Decision process Accounting standards Fiscal policy Labour market policy etc.	Knowledge-based society/ economy European Union Competitiveness and growth Sustainable development

This scheme framed all Romanian winning projects in the 2008 “Ideas” Competition (“Economics” Section) and can still be used by economists and academics in launching (successfully) a project proposal.

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# ASPECTS REGARDING THE EVOLUTION OF TOURISM IN TERMS OF REGIONAL DEVELOPMENT IN THE NORTH-EAST REGION OF ROMANIA

**Scutariu Adrian Liviu**

“Ștefan cel Mare” University of Suceava, Romania Faculty of Economics and Public Administration Str. Universității nr.13, 720229 Suceava, Romania [livius@seap.usv.ro](mailto:livius@seap.usv.ro) (+40) 230 216147, int. 297

**Năstase Carmen**

“Ștefan cel Mare” University of Suceava, Romania Faculty of Economics and Public Administration Str. Universității nr.13, 720229 Suceava, Romania [carmenn@seap.usv.ro](mailto:carmenn@seap.usv.ro) (+40) 230 216147, int. 294

*The European Union regions are medium length territorial units created with the purpose of absorbing efficiently the funds from the European Union for regional development and also for interpreting and examining the regional statistics. Our work intends to observe aspects referring to the evolution of the tourism in regional view, focusing on the North-East region compared to the other regions. The tourism indicators had a negative evolution after 1990, some progresses have been recorded in the latest years. The tourism in regional view is supported by the Regional Operational Plan, through which, in the period 2007-2013 the firms can access financings for the sector development. In this Plan, which has 5 axes, one of them concerns the tourism and has some specific objectives. The tourism can lead to a general regional development of the regions by stimulating the economic activities connected to it.*

*Key words: regionalization, regional development policies, tourism, North-East development region of Romania, Regional Operational Programme*

*JEL Classification: R58,L83*

## 1. Introduction

This paper begins with a short presentation of some aspects regarding the regionalization and the regional development in the European Union. Next, we analyze the evolution of the tourism in the North-East region as compared to the other regions of Romania, based on certain indicators, and finally we draw some tourism development perspectives offered by the regional development policies of E.U.

## 2. Aspects regarding the regional development in the E.U.

Considering necessary some considerations about the frame in which we will develop the tourism activity subject – the regional one – we will succinctly synthesize some aspects concerning regions, regional development and the role of tourism in the regional development policy.

The *region* concept appeared at geographers at the beginning of the twenty century, and nowadays there are some accepted definitions that can be found in the economic literature. Various senses can be assigned to the term *region*. So, one can consider that the *region*<sup>269</sup> has a *material component*, the territorial cutting, on which the *relational component* is projected, they being in a permanent association.

The definition adopted by The Europe Regions Meeting in The Statement on Regionalism in Europe in 1996 considers the *region* as being *the territorial public entity corresponding to the very next level below the state and endowed with a government that has its own political powers*<sup>270</sup>.

There is no definition to contain all the aspects that characterize a region. Common to all

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269 Pușcașu Violeta – Dezvoltarea regională, Ed. Economică, 2000, p.10.

270 \*\*\* Declarația asupra Regionalismului în Europa, Adunarea Regiunilor Europei, 1996, art. 1.



definitions given to the region is the idea of space as entity, so the most significant statement that can be made about it, is that it represents *a unit, which includes a limited number of zones, of medium size and territorially adjacent*.

Regarding E.U., medium size territorial units called regions have been created here, which besides the role of interpret and research regional statistics, they also have the purpose of efficiently absorb the E.U. funds for regional development. At present time, the actual tendency in the E.U. is the one of decisions decentralization.

Regionalization became in this way a common tendency of the territorial organization of European states evolution, besides the one of decisions decentralization, the regions being the responsible structures for institutional convergence ensuring of the E.U. member states. Although the regions apparition is not necessarily a consequence of the E.U. regional development policy, the high level of funds for the achievement of its general objective (obtaining economical and social cohesion) had an important contribution on regionalization.

*The regional development*<sup>271</sup> means not only the boost and the diversification of the economic activities, the private sector investments boost, the contribution at unemployment decrease and living improvement, but a whole environment of supporting and adaptation of the durable actions that converge with the competence domains of the region.

Since 1998 one can talk about regional development in Romania, too, which has as purpose, just like in the E.U., the development disparities reduction among the 8 regions of the country.

**The regional development policy** strengthens the role and the responsibilities of the local public administration and of the regional organisms in the economical and social development of each settlement and of the development regions, in the same time with the reduction of government institutions involvement in such activities. One of the objectives is the reduction of the economical and social disparities existing among diverse E.U. regions, focusing on the balanced development stimulation and the disadvantaged zones revitalization; it stimulates the economic growth and the SME sector development acting on some significant fields for development such as: transports, agriculture, urban development, environment protection, employment and professional training, education, chance equality, etc.

One of the ways which E.U. uses for the achievement of these objectives is the creation of *The Structural and Cohesion Funds* (especially The European Fund Regional Development), which are the financial instruments that E.U. uses to eliminate the economical and social disparities among regions, with the goal of economical and social cohesion achievement.

The policies and plans of regional development in the last years take into account more and more the tourist sector, as a strategic sector for providing a dynamic and durable economic growth, of certain regions with an important tourist potential.

### **3. The evolution of tourism in the North-East region compared to the other Romanian regions**

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

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271 Puscașu Violeta – Dezvoltarea regională, Editura Economică, București, 2000, p. 87.

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 since 2003 it has increased, both at the national and at the North-East region levels (table no.1).

**Table no. 1. Accommodation existing capacity in development regions among 1991 - 2006**

- 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
1996	288206	18814	134489	23641	17010	22028	26493	36513	9223
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
2006	287158	18968	134560	20827	14816	21423	26816	37025	12723

Source: Territorial statistics 2002, INS, Bucharest, p. 327-336; The Statistical Yearbook of Romania, INS, Bucharest, 2002, p. 784, 2003, p. 839, 2004, p. 713, 2005, p. 740, 2006, p. 740 and 2007, p. 758.

In terms of development regions, the areas with the highest number of accommodation places in 2006 were: the South-East followed by Center, North-West and West regions. We see that the South-east region has almost a half of the total accommodation places which exist at the national level.

Like the number of accommodation places, 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%, but in 2006 it reached 33,6%. In the North-East region, the index is taking the general tendency of diminishing at the national level, but in 2006 it increases with almost 2%; it is the lowest index of all regions (table no. 2).

**Table no. 2. Indices of net using the capacity in function in regional view among 1991 - 2006**

-% -

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
1996	40,7	35,9	47,2	45,1	43,8	33,7	32,0	38,9	43,5

<b>2001</b>	34,9	30,2	42,3	29,2	44,9	36,9	31,9	28,2	32,2
<b>2002</b>	34,0	28,9	38,2	27,1	45,0	39,1	32,8	28,8	31,9
<b>2003</b>	34,6	29,2	37,8	28,7	44,4	38,7	35,5	28,5	35,9
<b>2004</b>	34,3	29,5	39,2	27,7	44,5	35,9	33,2	29,4	35,3
<b>2005</b>	33,4	27,2	37,8	28,1	40,6	34,7	32,2	29,5	38,1
<b>2006</b>	33,6	28,9	36,8	30,5	38,8	36,3	32,1	29,5	38,0

Source: Territorial Statistics 2002, INS, Bucharest, p. 327 – 336. The Romanian Statistical Yearbook, INS, Bucharest, 2002, p.784, 2003, p.839, 2004, p.713, 2005, p.740, 2006, p.740 and 2007, p.758.

A descending tendency is noticed in the case of the “Passing the night” index, which has begun to increase, slowly however, since 2002 (table no. 3). This evolution is explained by the modest life conditions which made that the majority of Romanian people not be able to afford going on holidays. Also, the continuing decrease of the quality of the tourist services has made the wealthy people spend their holiday abroad.

**Table no. 3. Stayings overnight in the tourist units in regional view among 1991 - 2006**

									-thousands-
<b>Year</b>	<b>Total</b>	<b>North-East</b>	<b>South-East</b>	<b>South</b>	<b>South-West</b>	<b>West</b>	<b>North-West</b>	<b>Center</b>	<b>Bucharest</b>
<b>1991</b>	31927,0	3064,0	9505,4	3512,0	2730,0	2936,8	3259,9	4659,3	2259,6
<b>1996</b>	21837,9	1894,9	7114,1	2207,3	1791,9	1892,0	2194,3	3337,7	1405,7
<b>2001</b>	18122,0	1406,0	5602,0	1759,0	1745,0	1933,0	2118,0	2591,0	968,0
<b>2002</b>	17277,0	1332,0	5214,0	1623,0	1691,0	1909,0	2132,0	2316,0	1060,0
<b>2003</b>	17845,0	1451,0	5154,0	1704,0	1643,0	2034,0	2251,0	2431,0	1177,0
<b>2004</b>	18501	1490	5397	1782	1648	1939	2221	2665	1359
<b>2005</b>	18373	1436	5139	1807	1602	1836	2290	2782	1481
<b>2006</b>	18992	1599	4854	1941	1641	2006	2363	2930	1658

Source: Territorial Statistics 2002, INS, Bucharest, p. 327 – 336. The Romanian Statistical Yearbook, INS, Bucharest, 2002, p. 784, 2003, p. 839, 2004, p. 713, 2005, p. 740, 2006, p. 740 and 2007, p. 758.

These indicators show that tourism activity had a decrease after 1990, but it has begun to slowly increase in the latest years.

#### **4. The tourism development perspectives in the North-East region offered by the regional development**

In the North-East region there is a tourist potential not fully exploited, and the tourism is one of those areas which do not require huge investments. For some projects resources from the European Funds can be obtained.

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.

The Regional Development Agencies (ADR) have an important role in the mechanism of regional development. ADR is a generator of economic and social development of the region, it elaborates and promotes strategies, attract resources, identifies and implements financing programmes and offers services for the stimulation of the durable economic growth, of the partnerships and entrepreneurship spirit.

Operational Programmes (PO) are a sectoral particularization of the investments to be made in various fields and are prepared by a ministry or a public institution responsible with the elaboration of several policies and are implemented by the Regional Development Agencies. The Regional Operational Programme (POR) 2007-2013 (Regio) is one of the Romanian Operational Programmes agreed with E.U., financed through The European Fund for Regional Development (FEDR), being a very important instrument for implementing The National Development Strategy and regional development strategies. FEDR supports the E.U. regions which have a GDP per inhabitant under 75% of European average. The Programme is accessible to all the 8 development regions of Romania. The strategic objective of Regio consists in supporting an economic, social, durable and territorial balanced development of all the regions of Romania, according to the specific needs and resources, focusing on supporting durable development of the increasing urban poles, the improvement of the business environment and the basis infrastructure, in order to made the Romanian regions, especially the low developed ones, attractive places for investments.

The total budget allocated through Regio is approximately of 4,4 billions euro in the first 7 years after accession (2007-2013). The E.U. financing is of approximately 84% of POR budget. The rest is from national funds, public co financing (14%) and private co financing (2%).

In order to prevent the economic and social disparities increase, already existing among regions, the ones low developed received higher funds; through this Programme, 724,09 millions Euro (16,32% of Regio funds) were allocated for *the North-East region*.

The fact that tourism is important and that it must know a better development in Romania, and of course in the North-East region, is demonstrated also by its presence in the frame of the Priority Axis 5 from the 6 ones of the Regional Operational Plan – Regio (POR). Next, we shortly present its content.

***The Priority Axis 5 from the POR is called The development and promotion of tourism.*** The Investments in tourism and culture will allow the development regions to use the advantages offered by their tourist potential and cultural heritage in identification and strengthening of own identity, in order to improve the competitive advantages in sectors with high added value and high qualitative and cognitive content, on the traditional markets, as well as on the new markets<sup>272</sup>.

The capitalization of the tourist attractions in certain zones of the country can contribute to the economic growth of some urban centers in decline, by favoring the apparition and development of local firms, transforming zones with low economic competitiveness into attractive ones for investors.

It is expected that the implementation of this Priority Axis of Regio, by improving the infrastructure in the tourist zones, the accommodation and entertainment services and by a sustained promotion of Romania on the national and international level, to determine a tourism demand increase for Romania, as European tourist destination.

The Priority Axis 5 has **3 major domains of intervention**<sup>273</sup>, which come to solve the problems that tourism has:

- 1. „The restoration and durable capitalization of the cultural heritage, as well as the creation /modernization of the related infrastructures”.**
- 2. „The creation, development, modernization of the tourism infrastructure for the capitalization of the natural resources and increase of tourist services”.**
- 3. „The promotion of the tourist potential and the creation of the necessary infrastructure, in order to increase the attractiveness of Romania as tourist destination”.**

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272 Programul Operational Regional 2007-2013, Ministerul Dezvoltării, Lucrărilor Publice și Locuințelor.

273 Idem.

The effects of the tourism development are not to be neglected. Thus, the development of tourism attracts the development of other related areas, too. 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<sup>274</sup> 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, (amavings), 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.

## **5. Conclusions**

Analyzing some tourism indicators, in regional view, we observed that after 1990 the tourism had a descendent curve, but it has had a positive evolution in the latest years (the accommodation capacity has grown, the number of arrivals and of passing the night have grown too, only the index of utilization and the average duration of stay remaining at low levels).

The tourism can turn into an important factor of economic growth, determining the development of some economic activities connected with tourism. The North-East region possesses an important potential for developing the mountain, cultural or religious tourism.

A small growth has been noticed in the latest years of the tourism which is estimated to continue. Still, the tourism from this region is not developed at the existing potential level, and there are some problems such as an underdeveloped infrastructure.

The regional development policy through the Regional Operational Plan, supports in the period 2007-2013 the firms by the possibility of accessing financings for the sector development. In this Plan, which has 5 axes, one of them concerns the tourism and has some specific objectives that concern many of the problems that this field of activity faces at this time.

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# EDUCATION PERFORMANCES, STRATEGIES AND EUROPEAN COOPERATION FOR LIFELONG LEARNING: THE CASE OF ROMANIA

**Son Liana**

*University of the West of Timișoara Faculty of Economics and Business Administration  
Timișoara, 16 Pestalozzi Street, [liana.son@feaa.uvt.ro](mailto:liana.son@feaa.uvt.ro), tel. 0722399300*

**Carica Grațiela Georgiana**

*University of the West of Timișoara Faculty of Economics and Business Administration  
Timișoara, 16 Pestalozzi Street, [gratiela\\_carica@yahoo.com](mailto:gratiela_carica@yahoo.com), tel. 0744764002*

*The paper aims to analyse the synthetic indicators identified and adopted for education and the benchmarks for 2010, according to the revised Lisbon Strategy, in order to highlight the performance and the educational progress in Romania and in the EU member states. Also, the paper points out the necessity to develop a national strategy for lifelong learning, in cooperation with the European strategy and programs on education and training.*

*Keywords: lifelong learning, education benchmarks, education strategy*

*Cod JEL: I21; I28*

## **1. The Lisbon strategy and the concept of lifelong learning**

The European Union's development strategy, launched at the European Council of Lisbon on March 23-24, 2000, has defined as purpose the transformation of the EU area in the most dynamic and competitive economy, with sustainable economic growth, more and better jobs and an increased social cohesion in the next ten years. *Lifelong learning* is one of the main elements of this long-term strategy and a central component of the European social model, with goal is the improvement of skills and qualifications necessary for the integration on the labor market.

A very good general education is considered to be essential even from the early years of life and continuing with all the learning stages, from pre-primary education through primary and upper secondary education until tertiary education (university and post-university). Furthermore, the learning process doesn't end in this point, the skills achieved needing a permanent learning and a target of this process becomes *lifelong learning*. **Lifelong learning** (LLL) has become a key concept for every educational institution and a guiding principle for the development of education and training policies. After the Lisbon Summit, the European Commission has launched a series of political documents aiming that, on the one hand, based on some European debates, to induce changes in educational policies and practices and, on the other hand, to follow the progress made by the EU member and candidate states in the implementation of the lifelong strategy and to reduce the present barriers on education.<sup>275</sup>

The Memorandum on Lifelong Learning has adopted a work definition for lifelong learning according to The European Strategy for Labor Force Occupation, "*as a deliberated, wide activity of permanent learning in order to improve the knowledges, skills and competences*"<sup>276</sup>. New competences require more skills (creativity, critical view, European dimension, active civic participation<sup>277</sup>), with direct implications on the increase of a person's capacity to find a job. The education and lifelong training include all learning activities carried out by an individual that contributes to his personal development, to his active citizenship and /or to his capacity of

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275 Lifelong learning encounters many barriers, starting from time, money and person's availability to study.

276 E.C.C. "Lifelong Learning Memorandum", Brussels, 30.10.2000 SEC(2000) 1832.

277 The EEC Communication, "Making a European area of lifelong learning a reality", 21 Nov 2001 COM(2001) 678.

employability. The Conference of The European Council on 2005<sup>278</sup> has placed education and training on a core position in the revised Lisbon Strategy for more and better jobs and development. The European Parliament Recommendation on 2006<sup>279</sup>, as well as the 2007<sup>280</sup> Report pointed out the necessity of selecting a new set of synthetic indicators for education referred to: reading, mathematics and science skills; foreign languages skills; ITC skills; civic skills; “learning to learn” skills. According to Wim Kok<sup>281</sup> Report, in the European Union about 150 million Europeans didn’t reach a fundamental level of secondary education in 2001 and only 20% of the citizens had a bachelor degree, compared to 39% in the USA. The European Council has adopted five benchmarks to be achieved at European level by 2010, in order to emphasize and evaluate the recorded progresses related to the implementation of the “Education and training 2010” Working Programme. Table 1 includes these benchmarks based on the arithmetic average of the EU member states performances in 2000 and 2006, and the reference values for 2010:

**Table 1 Progress in education on the five benchmarks during 2000 – 2006 and the benchmarks set for 2010**

Benchmark	2000	2006	2010
Early school leavers (18-24, %)	17,3	15,3	< 10
Low-achievers in reading (15-year-olds, %)	18,7	18,2 (2003)	Decrease with at least 20% of the % of children with low achievement in reading
Upper secondary attainment (20-24, %)	77,3	79,1	85%
MST graduates (per 1000 young people 20-29)	9,3	11,9 (2005)	15%
Lifelong Learning Participation (% of adults, 25-64)	7,1	9,9	12,5%

Source: Commission of the European Communities "Progress towards the Lisbon objectives in education and training. Indicators and benchmarks 2008", publication based on document SEC (2008) 2293

## 2. Education levels and the progress of nonfinancial aspects

### 2.1. Basic competences for everyone

Problematic aspects concerning basic competences for all EU citizens are related to early school leavers, increase of the education level to upper secondary education, and fundamental skills.

a) Early school leavers represent the percent of the population aged 18-24 years old with a lower secondary education level. For 2010, EU has set the objective to reduce the number of those who leave school too early to 10% among the young population. As a tendency, if in 2000 the EU average of early school leavers was 17.6%, it reduced to 14.8% at the end of 2007. Among the 27 member states, the situation is much more different. There are some performer states with a very low percent of the young population that have abandoned the school system too early. Therefore, the states with the lowest school abandonment in 2007 were: Slovenia (4.3%), Poland (5.0%), Czech Republic (5.5% in 2006), Lithuania, Slovakia (7%). Also in some states, in 2007, this level was under or close to the 10% goal: Finland (7.9%); Hungary, Austria (10.9%); Ireland (11.5%), Netherlands, Sweden (12% who refthistered an increase of the rate of the school abandon); Belgium, Denmark (12.3%). Unfortunately, in some states, school abandonment is high/even very high: Iberian countries (Spain, Portugal more 31%), Italy (19.3%), Romania (19.2%).

Figure 1 Early school leavers, %

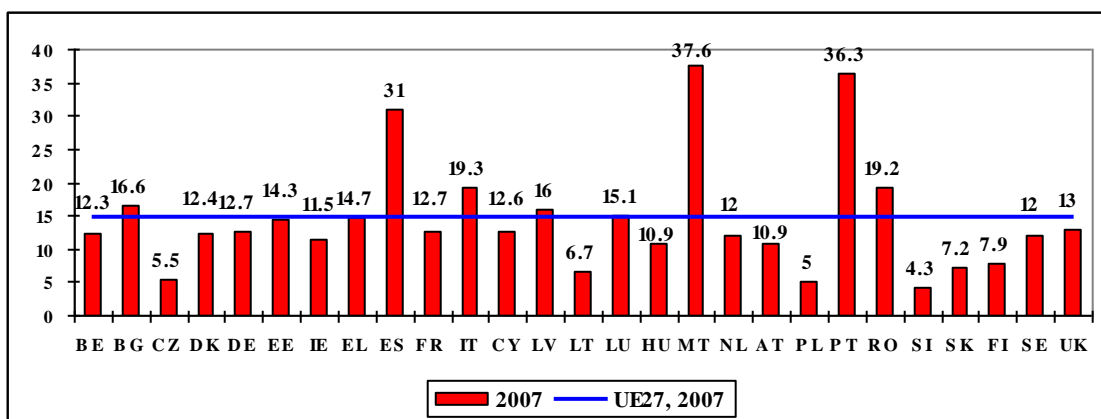
278 Council of the European Union Brussels, 23.03.2005 (04.05) 7619/1/05 Rev 1 Presidency Conclusions.

279 “Recommendation of the European Parliament on key competences for lifelong learning“ 30.12.2006.

280 Council of the European Union, „Council Resolution of 15 November 2007 concerning education and formation as essential factors of Lisbon Strategy” (2007/C 300/01).

281 Wim Kok "Enlarging the European Union Achievements and Challenges", Report to the European Commission, European University Institute Robert Schuman Centre for Advanced Studies 26 March 2003.



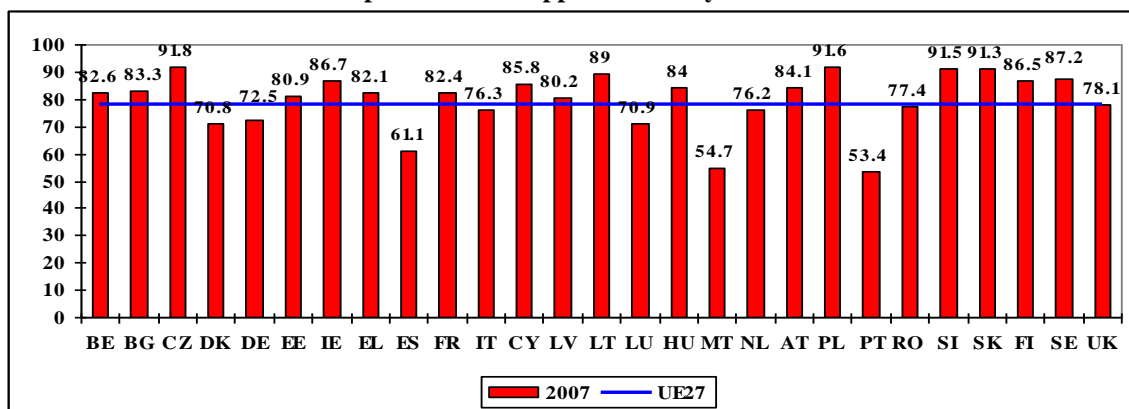


Source: Eurostat

If, at the EU level, we can talk about a progress in the decrease of the number of those who abandoned the educational system too early then it will have to be more accelerated to get closer to the target objective set for 2010.

**b) The increase of the study level to upper secondary education.** The percent of the young people (aged 20-24 years old) who graduated upper secondary institutions has known only a slight increase after 2000, without registering significant progresses in reaching the reference level, which forecasts that until 2010, 85% of the young people between 20-24 years who will graduate the upper level of the secondary institution (3 Long ISCED Level).

**Figure 2 Percent of the population aged 20-24 years old having completed at least upper secondary education**



Source: Eurostat

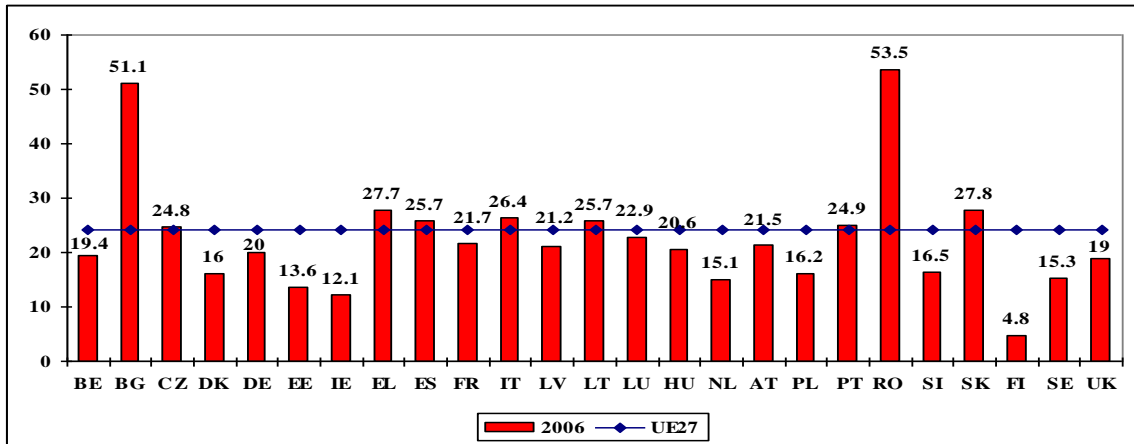
Even if in the last years they registered important progresses, Portugal and Malta are the weakest performers from this point of view, along other countries with a low percent. Although, since 2006 in many new member states, the performance has exceeded the reference level set for 2010, 4 communist countries registered 90%: Czech Republic, Poland, Slovenia, Slovakia. In Romania the education level progressed slowly, the percent of the young people with secondary education increased with 1% to 77% in 2006, level that placed the country on the 20th place among the EU member states<sup>282</sup>, exceeding developed countries (Italy, Poland, Germany). From the point of view of young people education, in 2006 the countries with the lowest results in EU were Spain

<sup>282</sup> According to Laurent Cohen-Tanugi, En vue du Conseil Europeen de printemps et de la Presidence Francaise du Conseil de l'Union Europeenne, Rapport d'etape, Mission «L'Europe dans la mondialisation» 15.01.2008.

or Portugal. *EU 27 registered progresses in the increase of the education level of young people to upper secondary education, but a more accelerated rhythm to reach the target is necessary.*

**c) Essential competences – literacy.** EU has set for 2010 that the level of the 15 years old pupils with low achievement in reading to decrease with 20% compared to 2000, reaching this way 17%. In 2000, the percent of pupils with low achievement in reading was 21.3%<sup>283</sup>.

**Figure 3 Low-achievers in reading, %**



Source: OECD, PISA 2000-2006

As tendency, the results of those with low achievement in reading haven't improved, as a matter of fact they have deteriorated<sup>284</sup>, growing with more than 10% between 2000-2006, to 24.1%. In the top of the performance scale we find Finland (4.8%), Ireland (12.1%). With low performances, on the last positions are Romania (53.5%); the weight of those with a high degree of illiteracy has increased with more than 10% since 2000. *In the EU, the process didn't lead to a reduction of those with a lower literacy degree; the targets advanced for 2010 were not achieved.*

## 2.2. Participation of adults to lifelong learning

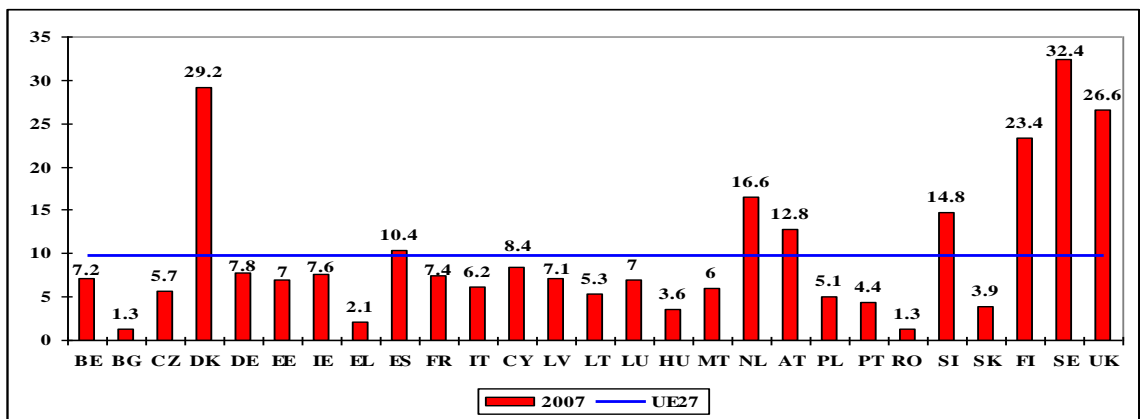
Pursuing a higher attending level of adults to permanent education, for 2010 the EU set as target a 12.5% of adult population in working age (25-64) to attend to lifelong education and training. As tendency, in the EU, this participation has increased from 7.1% in 2000 to 9.7% in 2007<sup>285</sup>.

**Figure 4 Participation to lifelong learning (LLL), %**

283 EU digit: weighted average based on the number of pupils submitted and on data gathered from 19 countries (LU, NL, UK weren't representative in 2000, their results being placed between brackets and excluded from calculations).

284 Council of the European Union, Common Project Report of the Council and Commission for 2008 according to the progresses made concerning the implementation of the „Education and training 2010” W.P., 5723/08 Bruxelles, 2008.

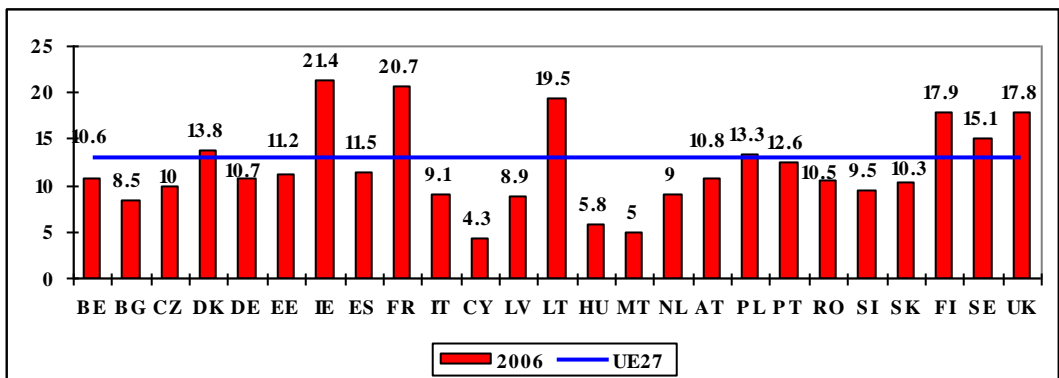
285 Commission of the European Communities. "Progress towards the Lisbon objectives in education and training". Indicators and benchmarks 2008", publication based on document SEC (2008) 2293.



### 2.3. Mathematics, science and technology graduates (MST)

In 2010 the total number of mathematics, science and technology (MST) graduates in the EU should increase to at least 15%, along with the simultaneous reduction of sex differences. The number of the MST graduates in the EU-27 registered an important progress with almost 200.000 in 2006 compared to 2000, which means an increase of about 29,1%, overcoming already the 15% benchmark set for 2010.

Figure 5 Mathematics, science and technology (MST) graduates, %



Source: Eurostat

In 2006, the best performances regarding graduates with diplomas (ISCED 5-6) as completion of university and post-university studies in mathematics, science and technology at 1000 people between 20 – 29 years had been registered by Ireland, France, Lithuania, Finland, Sweden, United Kingdom. In states like Czech Republic, Italy, Netherlands, Austria, Poland, Portugal, Romania, Slovak Republic, the annual growth rate exceeded the growth rate of EU-27, approaching to the community average. The Slovak Republic, Portugal and Poland achieved a strong annual growth of the number of MST graduates (>12%).

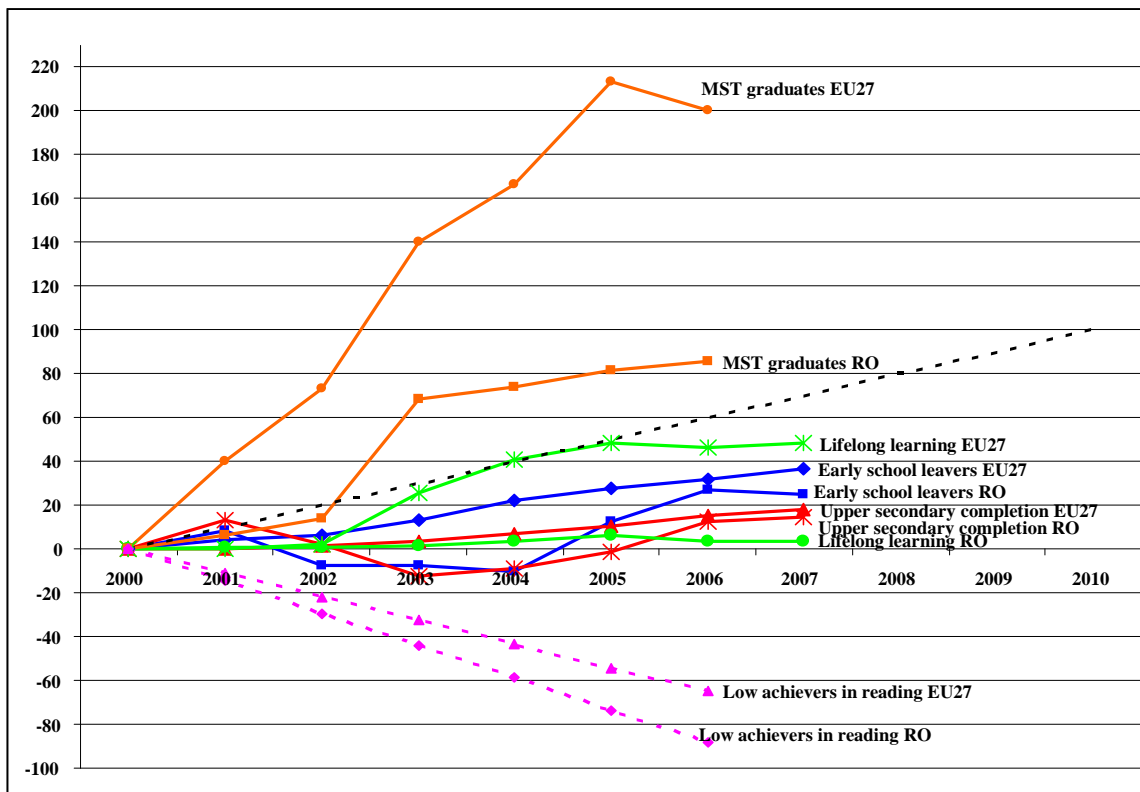
### 2.4. The progresses made towards the benchmarks set for 2010

In 2008, the E.E.C. analyzed the progress made in achieving the objectives in education. During 2000–2007, EU states have achieved performances concerning all five benchmarks for 2010 – excepting literacy. Although, the progresses are different for the states, all of them having areas in which they have good performances or on the other side, in which they have weaknesses, being far from the benchmarks set for 2010 and where they require active recovery<sup>286</sup>:

286 ECC "Progress Towards the Lisbon Objectives in Education and Training, Indicators and benchmarks" Brussels 2008.

- 1) Most of the EU states made significant progresses in increasing the level and quality of education, for the purpose of acquiring new skills. Finland, Sweden, Denmark, United Kingdom, Ireland, Poland, Slovenia are states which exceeded the compound objective of all five benchmarks set for 2010 and still progress; four states – France, Netherlands, Belgium, Spain – have an average performance below the targets set for 2010 and made no progresses.
- 2) The EU performance in education and training is equal to the best level in the world in states like Australia, New Zealand, Canada, and USA. The general performance of EU-27 hides differences between the member states. Thus, 60% of the persons between 5-29 years old attend schools and higher education, compared to USA and with 18% more than in Japan.
- 3) About 108 million people still have a low educational level, representing 1/3 of the labor force. One out of seven young people (6 million people aged 18-24) pass only compulsory education; one out of seven people aged 4 years old are excluded from the educational system (the ones with great needs, the immigrant's children, those coming from families with low social status).
- 4) The involvement in LLL has become a reality in Sweden, United Kingdom, Denmark as well as in other non-member EU-27 states (Norway, Iceland), *countries that have developed coherent and comprehensive strategies in lifelong learning*. Persons aged 25-64 having an upper secondary education are 3 times more ready to attend to lifelong learning.

**Figure 6 Overview of progress towards the five benchmarks in EU-27**



Source: own calculations based on Eurostat data, PISA 2006

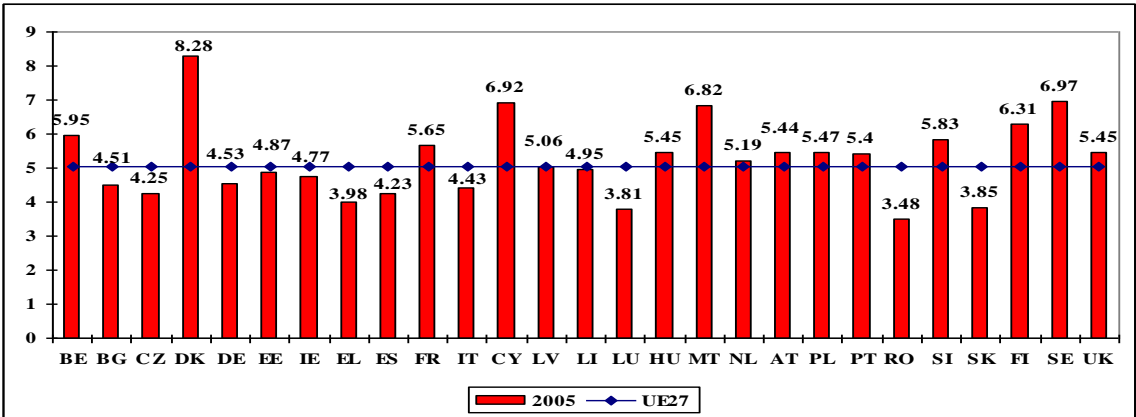
Romania (figure 6) is placed on the last positions for most of the objectives set by EU-27 through the Lisbon Agenda, these objectives being very hard to reach by the Romanians. The following figure shows the progress made by Romania, compared to the EU average, towards the five benchmarks during 2000-2006/2007. The starting point (in 2000) is set to zero and the target set for 2010 is 100. The annual results are measured compared to the benchmarks of 2010 (= 100).

The diagonal line shows the progress asked in order to achieve the average benchmark of EU. A progress of 1/10 (10%) towards the benchmark must be registered every year in order to achieve the benchmark. If one line is under the diagonal, the progress is not enough: if the line is above the diagonal the progress is stronger than it is necessary in order to achieve the benchmark. If the line is declining, there are major problems leading to a weaker situation<sup>287</sup>.

### 3. Education expenditure

The progress towards new educational benchmarks, as well as the improvement of quality of skills required on the labor market, involves a series of costs, considered to be the main block for the performance in education. These are connected mainly to the investments in education, and the indicators taken into account in this analysis concern the percentage of the expenditure (public and private) on education of GDP. The public expenditure on education as a percentage of GDP highlights the proportion of the financial national accomplishment assigned by the government to educational services during a financial year. In 2005 almost 90% of the European investment in educational institutions (all levels combined) was covered from public sources, through direct support of the educational institutions expenditure, through the support of the students and their families with loans and scholarships or through the transfer of public subsidies for educational activities to private companies or non-profit organizations. There are great differences between the European countries concerning the investment in education as a percentage of GDP, if we consider the educational level and performance.

**Figure 7 Public expenditure on education as a percentage of GDP**

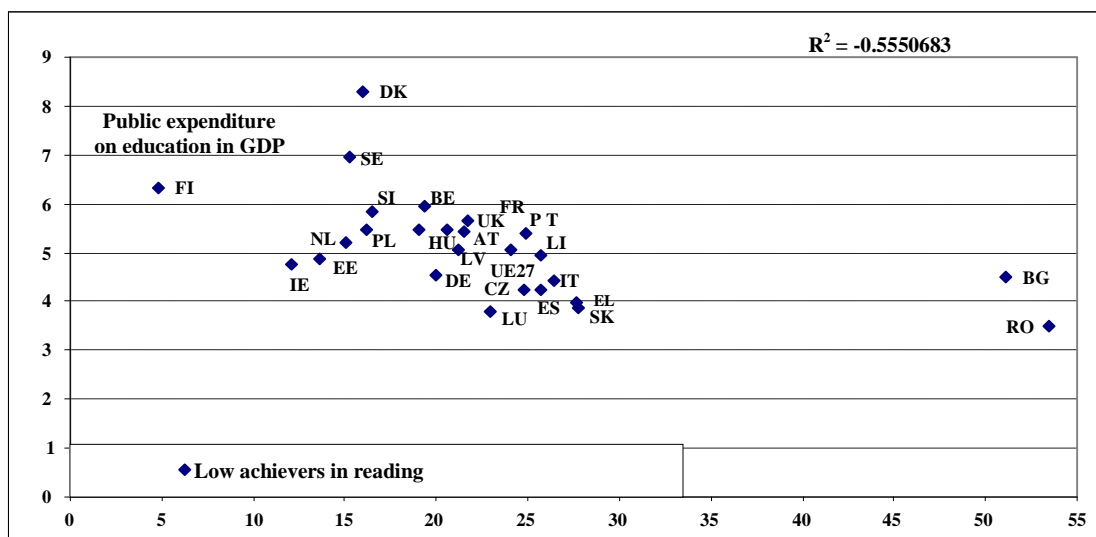


Source: Eurostat

In 2006 Romania has managed to approach the EU member states average concerning public expenditure on education as a percentage of GDP. It still remains an important gap concerning the value of the budget assigned for education by the EU member states, generated by the GDP related to the number of inhabitants. For example, Romania had a five times lower budget available for education than Netherlands, a country with two time smaller population. The percentage of the public expenditure on education didn't increase at the European average of 2005, even if they reached 4.3% in 2007. In 2008, the estimated data show a slight reduction.

287 In the case of the LLL, it must be considered the fact that there were many breaks between time series (2003).

**Figure 8 Correlation of the public expenditure on education and literacy in GDP, 2007**



Source: Eurostat, C.E.E. "Progress towards the Lisbon objectives in education and training. Indicators and benchmarks 2008", Commission staff working document, publication based on document SEC (2008) 2293

The achievements in education are correlated with the public expenditure on education. Figure 8 shows that there is a direct relation between the public expenditure on education as a percentage of GDP and the degree of literacy: Romania has the most reduced percentage of GDP assigned on education and the lowest literacy degree.

#### 4. Strategies and European cooperation in terms of education and formation

EU member states and the European Commission have reinforced the political cooperation through the "Education and formation 2010" Working Programme that integrates former actions on European education and formation, especially education and professional training within the Copenhagen process and establishes a connection with the Bologna process. The main common objectives for the EU education and formation systems are: the improvement of quality and effectiveness of education and formation systems; the facilitation of the access to education and formation and the opening of the EU education and formation systems abroad. "Education and Training Work Programme 2010"<sup>288</sup> sustains the actions of the EU member states in order to achieve these objectives. It is implemented through the open method of coordination, using indicators and benchmarks for monitoring the registered progress. For this purpose it is essential to develop national LLL strategies, with a comprehensive vision that cover all types of lifelong education and formation levels, to provide a strategic vision and a coherent set of priorities and to identify the resources necessary for different measures, to include a transparent system for the recognition of former education and to focus on the quality of education.

In Romania, the educational reform has begun with the organization of the educational system in order to respond to the specific needs of teaching for children, young people, adults, on their lines of interest and according to the their cognitive capacities and natural skills. At the same time, the system must respond to present and future needs (in normal and crisis condition) of the labor market, so that the obtaining of the certificates, diplomas related to the graduation of education cycles to allow the insertion of persons in labor field. The measures of administrative decentralization and funding based on performance criteria have as purpose the optimization of

<sup>288</sup> The Education and Training 2010 Working Programme.

integration on the labor market. Likewise, it is necessary to improve permanent formation, to expand the specific educational offer as a response to market needs. Thus, for 2009, it is being foreseen the approval of lifelong strategy that approaches also the causes leading to low achievement in education.<sup>289</sup> The current financial crisis absolutely requires a higher coordination between the skills provided by educational systems and the demand on the labor market. The purpose is to improve the adaptation capacity and professional integration of adults, both of recent graduates and those that are already active. Effective measures must take into consideration the access to a fundamental and qualitative education for all children, to improve the educational level and to prevent the abandonment of studies, in order to provide to the population essential skills and competences necessary for the future improvement of these skills<sup>290</sup>

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290 E.C.C. "New skills for new jobs: to anticipate and meet the needs of the labor market concerning different skills" CCE COM (2008) 868 final, Brussels, December 16, 2008.

# REMITTANCES AND DEVELOPMENT: CHALLENGES AND OPTIONS FOR ROMANIA

**Son Liana**

*University of the West of Timișoara Faculty of Economics and Business Administration  
Timișoara, 16 Pestalozzi Street [liana.son@feaa.uvt.ro](mailto:liana.son@feaa.uvt.ro), tel. 0722399300*

**Carica Grațiela Georgiana**

*University of the West of Timișoara, Faculty of Economics and Business Administration  
Timișoara, 16 Pestalozzi Street [gratiela\\_carica@yahoo.com](mailto:gratiela_carica@yahoo.com), tel. 0744764002*

*This paper aims to focus on the importance of remittances and their use for development in the origin countries of the migrants. The analyse of some indicators for Romania highlights some opportunities and tools to increase their role in reducing poverty, to improve the access to capital markets, to encourage diaspora involvement in project of economic development (reducing the transfer cost, better access on financial services etc.).*

*Keywords: migrant remittances, economic development, poverty*

*Cod JEL: F24; F34; G18*

## **1. An overview upon the remittances trend in Romania**

Global crisis affects the entire world: the economy is slowing down, the international markets are strongly influenced by the conjunctural factors, conducting to a global system who difficultly can be governed and stabilized, with negative implications for all states, companies and persons. In the context of these complex issues, to manage the resources and their repartition for specialization in dynamic industries and development becomes a big challenge. One of the potential sources is the remittances of emigrants. Remittances are the most tangible and the least controversial link between migration and development.

### ***1.1 Money transfer flows from emigrants – more stable and contracycli***

Remittances (fund) transfers increased since 2000, with annual rates of over 15% until 2006, becoming stable and considerable financial resources. The world official remittances reached \$397 billion, in 2008, increasing with 7% compared to 2007 (eventhough in 2007 the increase compared to 2006 was more then 11%) and with over 113% compared to 2002 (\$170 billion). According to the available data from World Bank for 2008, developing countries are the main receiver tank, with inflows of \$305 billion, growing with 8.5% compared to 2007; in Europe and Central Asia, the amount of the inflows of remittances was \$53 billion. As the financial crisis is emphasizing, it is considered that in 2009, the remittances of emigrants could decrease with 5-8%, from \$305 billion in 2008, in contrast to the growth of over 10% in previous years.<sup>291</sup> Despite the announced decrease, remittances will remain high, given that these flows are more resilient than private capital flows and public aid dor development. The "resilience" is explained by the fact that many migrants, even when faced with a hostile environment (increased unemployment), do not choose to return to their home countries and continue to send money to their families in difficulty. However, the crisis has affected all countries, creating additional uncertainties.

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291 Ratha Dilip, Mohapatra Sanket "Revised Outlook for Remittances Flows 2009-2011: Remittances expected to fall by 5-8 percent in 2009", Migration and Development Brief, World Bank, March 23, 2009.



**Table 1 Remittances flow to developing countries, 2002-2008**

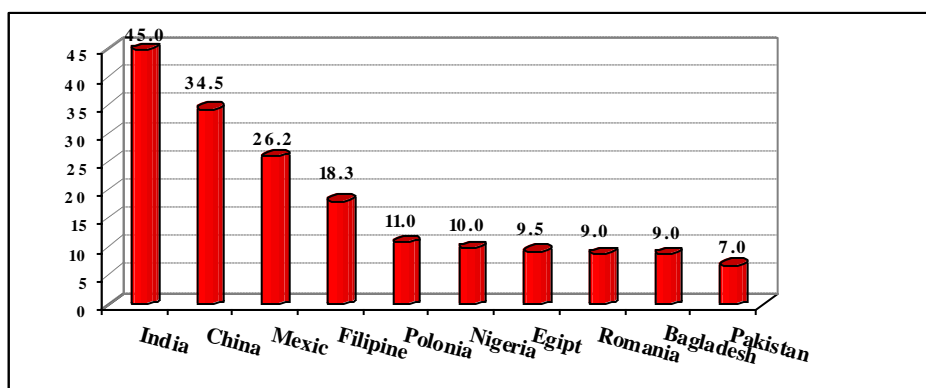
		2002	2003	2004	2005	2006	2007	2008e	2009	2010	2011
World	US\$ billion	170	207	235	268	307	371	397			
	Increase, %		21.7	13.5	14.0	14.5	20.8	7.0			
Developing countries	US\$ billion	116	144	164	195	229	281	305	290	299	317
	Increase, %	21	25	14	18	17	23	9	-5.0	2.9	6.3
Europe + Centr. Asia	US\$ billion	14	16	22	31	38	50	53	48	50	53
	Increase, %	11	13	43	41	23	31	5	-10.1	4.2	7.5

e = date estimate

Source: Ratha Dilip, Mohapatra Sanket, Revised Outlook for Remittance Flows 2009-2011: Remittances expected to fall by 5 to 8 percent in 2009, Migration and Development Brief, World Bank, March 23, 2009

Data on migrants' references shape very different situations between countries: large countries receive important amounts, but the share of remittances in GDP increases, when developing countries are considered. Romanians living abroad have sent home the equivalent of \$9 billion (about €7 billion) in 2008, level that places Romania on the eighth rank in the world top.

**Figure 1 Top recipient of migrant remittances among developing countries, billion USD, 2008**



Source: World Bank (2008). *Migration and Remittances in the World Factbook*, Washington D.C

Total remittances have two standard components: *personal transfers* (including capital transfers towards household and social benefits) and *employee's compensations*. The *Balance of Payments Manual* (6th edition, BPM6) "personal transfers" are replace the item „employee's remittances" from BPM5, these being included as an additional item in BPM6. According to BPM6, workers' remittances are "current transfers made by employees to residents of another economy" and "personal transfers are defined independently of the source of income of the sending household, the relationship between the households, and the purpose for which the transfer is made".<sup>292</sup>

292 IMF, International Transactions in Remittances: Guide for Compilers and Users, Final Draft, Statistics Department, December 2008, [www.imf.org](http://www.imf.org).

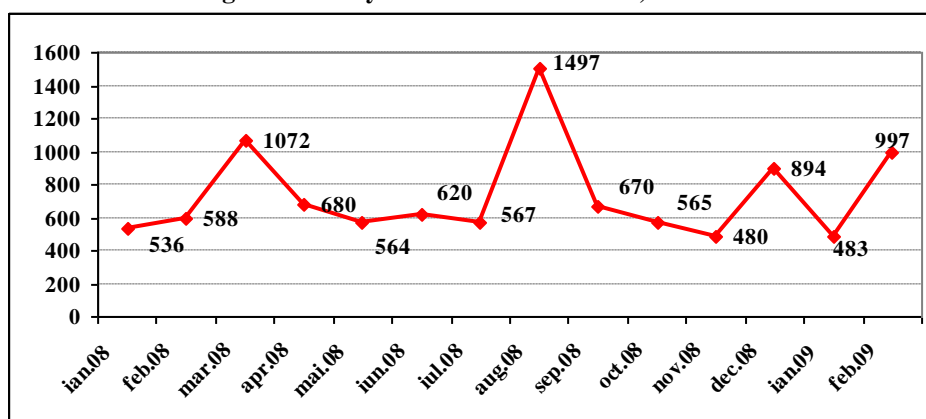
**Table 2 Romania Workers' remittances, compensation of employees, and migrant transfers,**  
(\$ million)

	1994	1995	1996	1997	1998	1999	2000	2001
<b>Credit (entries)</b>	11	9	18	16	49	96	96	116
Workers' remittances							2	4
Compensation of employees							94	112
<b>Debit</b>	5	2	2	1	6	8	6	5
								<b>Remitt. % of GDP, 2007</b>
	2002	2003	2004	2005	2006	2007	2008e	
<b>Credit (entries)</b>	143	124	132	4,733	6,718	8,533	9,000	5.6%
Workers' remittances	7	14	18	3,754	5,506			
Compensation of empl	136	110	113	954	1,157			
<b>Debit</b>	7	8	8	33	57	351		0.2%

Source: World Bank, Migration and Remittances Factbook 2008, Romania  
Remittances Data, World Bank, march 2009, [www.econ.worldbank.org](http://www.econ.worldbank.org)

D. Rath states that "Unlike private capital flows, remittances tend to rise when the container economy suffers an economic downturn following a financial crisis, natural disaster, or political conflict".<sup>293</sup> In Romania, the transfers of funds from abroad made by individuals (resident and non-resident) has been decreasing since mid - 2008, growth in December was due to specific period (holidays etc.). Also, in the first two months of this year remittances were about 32% higher compared to the same period last year, which in February 2009 were €997 million, an increase of almost 70% compared to February 2008. Even if the National Bank of Romania from the monthly Balance of Payments, in the Current Transfers chapter, also includes other income and the most of them are Romanian immigrants' remittances, whereas the remittances outflows from Romania are low, data on inflows are prelevant.

**Figure 2 Money transfers from abroad, € million**



Source: BNR, Balanța de Plăți, Comunicate lunare de presă, 2008-2009, [www.bnr.ro](http://www.bnr.ro)

There are many reasons that contributed to a doubling of remittances to developing countries from 2002 to 2008: from better measurement and statistical records, to reducing shipping costs or increasing income and stocks of migrants, especially the number of from poorer countries. This is why developing countries are since 2000 the receivers of 70-75% of total transfers. Basically, in the last decade, remittances have represented the second largest source of external financing,

<sup>293</sup> Ratha D., "Increasing the macroeconomic impact of remittances on development" G-8 Outreach Meeting on Remittances, Development Prospects Group, World Bank Nov 28-30, Berlin, 2007.

along with flows of foreign direct investment (FDI), becoming more important than official development assistance (official development assistance, ODA). Thus, after 2000, they have increased rates greater than 15% annually, proving even contracycle, growing in actual crisis, and more stable inflows of foreign currency than direct investment. Consequently, money transfers should be taken into account as real levers for development. The financial crisis of this decade has taken into consideration the problem of management financing source, domestic and international funds, in order to guide them towards development projects.

### 1.2 The cost of remittances

Reducing the cost of remittances transfer is a benefit for all retail payments. Frequently, the total cost of remittances transfer is not always definite to consumers, because it exist a number of component variables, such as transaction cost, the exchange rate applied and eventually changed margin and speed of transfer services.

**Table 3 Inflows of remittances into Romania, by origin countries**

	2005	2006	2007			2005	2006	2007
<b>Total (million €)</b>	<b>3.033</b>	<b>4.358</b>	<b>4.987</b>					
Italy	1.174	1.599	2.092		Ireland	48	73	81
Spain	656	1.019	1.299		Austria	29	38	94
US	294	545	176		Switzerland	27	56	29
Germania	216	137	226		Nederlands	25	36	50
United Kingdom	126	216	267		Israel	24	26	n.d.
France	78	102	Rman		Canada	23	47	n.d.
Greece	63	95	140		Belgium	23	41	72
Portugal	57	74	74		Others	170	253	268

Source: V. Lazea, Impact of Remittances on Romania's Balance of Payments, N.B.R., 2008

The most important corridors for which there are comparative data on the cost of remittances to Romania are Germany, Spain, Italy and United Kingdom. Since data on the cost of money transfers from these countries in Romania is provided by the World Bank<sup>294</sup>.

a) *Costs of transfer* are the most visible component and can vary significantly among market players; they are representing the task that the sender is paying at the starting point and it varies with the sent amount, in the specific values.<sup>295</sup>

b) *Exchange Rate Fee*: An important part of the cost of remittances is exchange rate spread, which is not quoted / cited in the transfer fee. Even if remittances are usually paid in U.S. in U.S. dollars or euro in EU countries, there is a majority of such transactions paid in local currency and which require replacement operations. To avoid fluctuations in exchange rates or other changes in the structure of fees charged, data from the World Bank are realised through a survey in a corridor on the same day, providing an image at a moment, the total cost being different time.

c) *The speed of transfer*. The survey covers mainly cash-to-cash transactions, or the quickest means available. Transfer speed is indicated on each product offered. If banks will not make cash transactions, but handle account-to-account, the time taken to perform the service will be greater than the "next day". For March 2009 transfer speed has been standardized into 6 categories: less than 1 hour, the same day, next day, 2 days, 3-5 days and 6 or more days. World Bank data are collected for the first 8-10 major suppliers in each corridor, including both primary operator transfer Money Transfer Operator (MTO) and active banks on the market. In some markets it

294 The World Bank Group – Remittance Prices Worldwide, [www.remittanceprices.worldbank.org](http://www.remittanceprices.worldbank.org).

295 In some cases there are taxes and expenses at destination (these were not detected in the BM database).

operates several banks or agents MTO (therefore there must be included eighter more banks or more MTO). Chosen companies cover most of the market shares.

Table 4 and Figure 3 include the cost of transfer for an amount of 135 euros sent in Romania, Germany, Italy and Spain and 105 euros from United Kingdom, between 2008 and February 2009.

**Table 4 Cost of transfer and its structure, 2008-February 2009**

	Germany				Italy				Spain				United Kingdom			
			Total cost				Total cost				Total cost				Total	
Total	fee €	RE%	%	€	fee €	RE %	%	€	fee €	RE%	%	€	fee €	RE%	%	€
2008:	29.2	2.73	24.39	32.93	10.12	0	7.5	10.11	8.89	0	6.59	8.9				
MTO	26.0	1.63	20.89	28.20	10.43	0	7.7	10.44	9.10	0	6.74	9.1				
Banks	32.5	3.82	27.89	37.65	5.16	0	3.8	5.16								
Nonb									7	0	5.19	7.0				
2009*	18.7	0.61	14.47	19.73	9.61	0	7.1	9.61	8.25	030	6.41	8.6	8.1	3.77	11.5	12.1
MTO	20.0	0.82	15.63	21.10	18.0	0	13.3	18.0	8.88	033	6.90	9.3	8.1	3.77	11.5	12.1
Banks	18.4	0.55	14.14	19.09	6.0	0	4.44	5.99								
Nonb									2.00	0	1.48	2.0				

Nonb – nonbanks

RE - Exchange Rate Fee

2009\* -first quater

Source: World Bank, Remittance Prices Worldwide, [www.remittanceprices.worldbank.org](http://www.remittanceprices.worldbank.org)

Table 5 contains the same costs, but the sum of 330 euros transferred from the three countries and 264 euros from UK.

**Table 5 Cost of transfer, 2008 - February 2009**

	Germany				Italy				Spain				United Kingdom			
			Total cost				Total cost				Total cost				Total cost	
	fee €	RE %	%	€	fee €	RE%	%	€	fee €	RE %	%	€	fee €	RE %	%	€
Total 2008	29.2	2.73		38.2	16.92	0	5.13	16.93	17.19	0	5.21	17.2				
MTO	26.0	1.63		31.38	18.16	0	5.5	18.15	18.32	0	5.55	18.3				
banks	32.5	3.82		45.11	5.16	0	1.56	5.15								
nonb									7	0	2.12	7				
2009*	19.5	0.61		21.5	13.55	0	4.11	3.56	9.85	0.3	3.28	10.8	1.37	3.7	8.08	21.3
MTO	23.5	0.82		2.62	18.24	0	5.53	18.25	10.6	0.3	3.55	11.7	1.37	3.7	8.08	21.3
banks	18.3	0.55		20.21	6	0	1.82	6.01								
nonb									2.00	0	0.61	2.01				

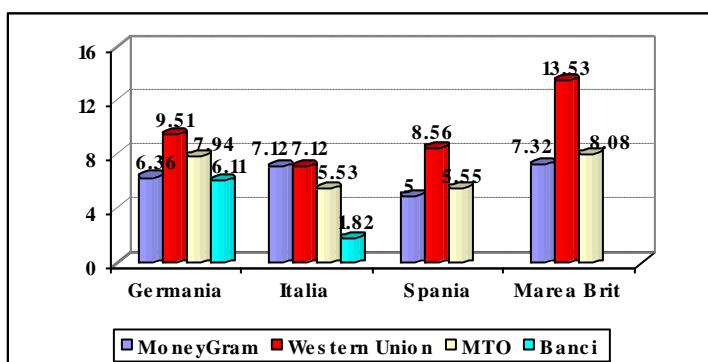
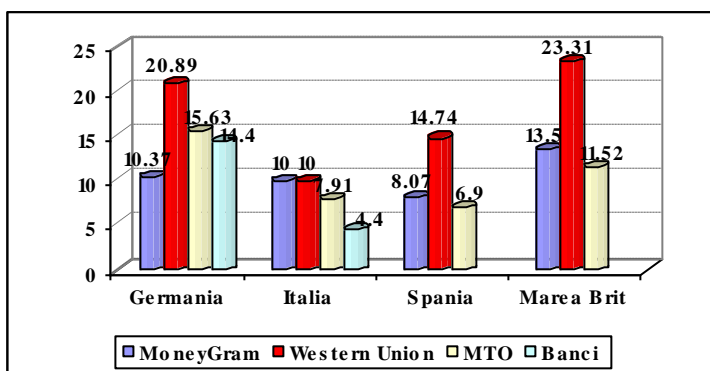
RE - *Exchange Rate Fee*

Source: World Bank, Remittance Prices Worldwide, [www.remittanceprices.worldbank.org](http://www.remittanceprices.worldbank.org)

The purpose is to suggest a reform of the global transmission money system and ways to expand financial services to more users. The remittances flow is performing also on informal channels (drivers, friends, other informal intermediaries), instead of using the formal sector, mainly due to bank fees. Thus, the banking commission for a total of 330 Euros transfer from Germany to Romania in 2008 was over 45 euros, because of additional fees and exchange rates. The highest cost comes to the fast system of transfer (Western Union and MoneyGram), existing significant differences between the perceived costs for the four analysed corridors. Thus, for the same

amount (330 euros) the transfer is double from UK to Romania compared to the Italy–Romania corridor.

**Figure 3: Cost of transfer in Romania for 135 Euro**



**Figure 4: Cost of transfer in Romania for 330 Euro**

Source: World Bank, Remittance Prices Worldwide, [www.remittanceprices.worldbank.org](http://www.remittanceprices.worldbank.org)

A summary on the dynamics of money transfer cost, even if it does not allow some stable conclusions on long term, indicating a decrease in costs in the first two months of 2009 compared with 2008, so regressive costs on all ways of transfers and non banking.

## 2. Opportunities to use remittances for development

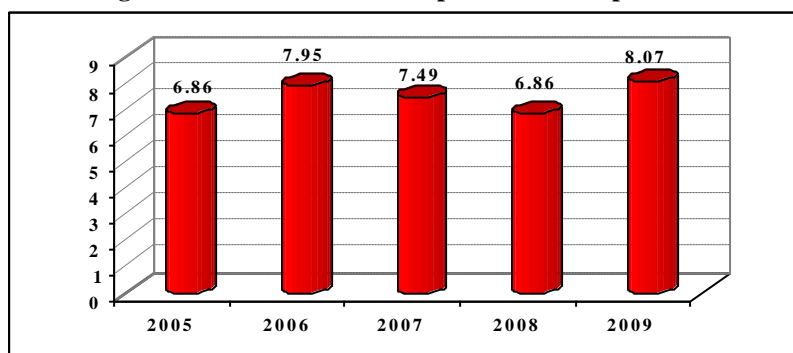
### 2.1. Remittances can reduce poverty

Migration generates substantial welfare gains and reduces poverty. Country of origin benefits are mainly through remittances, which are often regarded as the most direct link with the process of economic development. A first issue concerns the role of remittances in reducing poverty, being various studies, investigation in this regard in literature. Thus, cross country records show that an increase of 10% per capita remittances leads to a decrease of 3.5% of the share of poor people. In Romania, even if the share of remittances in GDP is not at same level as the one in small countries (approximately over 10%), the absolute volume is significant, and their use in private consumption is more than appropriate, especially now in the period of the current crisis.<sup>296</sup> Figure 5 includes share of remittances in private consumption during 2005-2009, respectively the years with the biggest growth, but also 2008 considered as the beginning of the crisis and 2009 the most affected. For this year, we calculated a volume of remittances of \$8.300 billion, applying a reduction of 8% compared to 2008. The crisis year 2009, according to the above, increases the role of remittances in private consumption and in reducing poverty. Maybe it should be remembered that a high number of immigrants means a decrease in population, but in periods of

<sup>296</sup> Agenda, Annual Meeting of the International Agricultural Trade Research Consortium: Immigration and Labor in a Global Economy, Washington, DC, January 7, 2008.

crisis in particular, there is no risk of a steep increase in unemployment, the determinant factor for the degree of poverty.

**Figure 5 Remittances as % of private consumption**



Source: C.N.P. Proiecția principalilor indicatori macroeconomici pentru 2009-2013, Prognoza de primăvară, 28.04.2009; World Bank, Migration and Remittances Factbook 2008, Romania **Remittances Data**, march 2009

## **2.2 Remittances improve the access of countries to capital markets**

The role of remittances in economic development is increasingly present in literature, noting that specific situation is present in each country, but that on long term these effects are not conclusive. However, these funds are used mostly to finance costs of education and health, for consumption, for small entrepreneurial projects.<sup>297</sup> However, they may contribute to the relaxation of credit constraints on small businesses, operating as a lever for financial access of households and access to capital markets for financial intermediaries. A conventional measure of the burden of external debt includes external debt ratio to exports of goods and services, and it may include remittances.

**Table 6 Romania: Export of goods and services and external debt (MLT)**

	2002	2003	2004	2005	2006	2007	2008
Export of goods, (\$bn)	2.326	3.000	3.590	5.056	7.005	9.455	12.780
Export of services (\$bn.)	13.877	17.662	23.553	27.688	32.480	40.559	49.546
Total export – X, (\$bn.)	16.203	20.662	27.143	32.724	39.485	50.014	62.326
MLT Debt (€bn.)	15.0	15.9	18.3	24.6	28.5	38.473	48.1
MLT Debt (\$bn.)	14.183	17.986	22.727	30.593	35.760	52.659	70.325
Remittances (\$bn.)	1.43	1.24	1.32	4.733	6.718	8.533	9.000
Export+remittances (\$bn.)	16.346	20.786	27.275	37.457	46.203	58.547	71.326
MLT/X, %	87.33	87.05	83.73	93.49	90.56	105.29	112.83
MLT/X+remittances, %	86.77	86.53	83.33	81.67	77.40	89.94	98.60

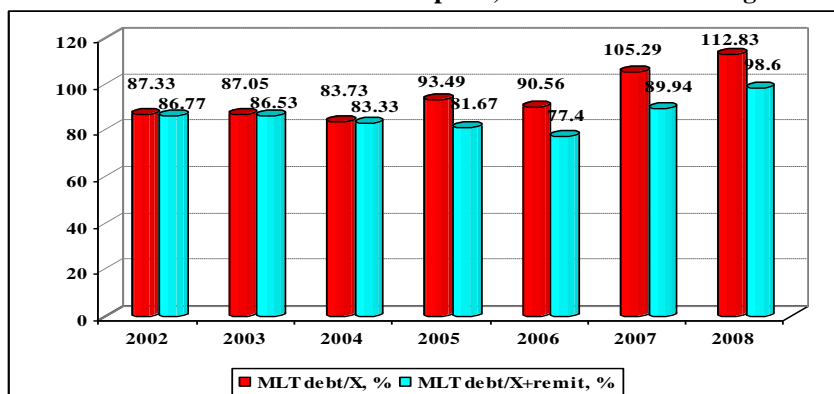
Source: BNR, World Bank, WTO – International Yearbook of Statistics, [www.wto.org](http://www.wto.org)

The measure indicates the ability of the country to pay, especially in terms of foreign exchange availability. Data on external debt of Romania are from the National Bank of Romania datas, those concerning the export of goods and services are provided by the World Trade Organization and remittances are under the World Bank data. External debt includes medium and long-term debt (MLT debt) and short-term debt (ST debt), expressed in dollars at the annual average rate.

297 Ratha Dilip „, Development Implications of Migration and Remittances: The International Remittances Agenda”, Annual Meeting of the International Agricultural Trade Research Consortium: Immigration and Labor in a Global Economy, Wasghinton, DC, January 7, 2008; Dayton-Johnson, J. (2007) “Gaining from migration, towards a new mobility system”, OECD, Paris.

Including remittances in creditworthiness assessments would lead to improve country rating and thus increase confidence of potential creditors. As a country that receives significant remittances, Romania can take measures to ensure that these entries are reflected in the sovereign rating.

**Figure 6 Share of external debt in total exports, without and including remittances**



Source: own calculations

### Some conclusions on policy options

Mostly the nearest time interval that migration is linked to remittances, whose role it is difficult to quantify, drawn into the national productive circuit. There is in this sense, some policy options to encourage diaspora involvement in projects of economic development. For this, the first step is a communication strategy with the diaspora that will lead to better information on economic opportunities in the country, looking on financial sector for orientating the remittances to development projects. A number of measures considered to contribute to this, would be related to issues such as: *i*) Increased access to banking services: increasing the availability of bank accounts, information on various savings instruments to promote formal channels of transfer of money; *ii*) Governments should not tax remittances or the direct allocation as/ of expenditure financed by remittances; *iii*) In some countries, the emission of bonds abroad has led to funding for the development of cash funds particularly important (especially if the country has a large stock of foreign diaspora), and especially in difficult conjunctural periods (eg. economic and financial crisis); *iv*) Reducing costs of remittance transfers etc.

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# THE DYNAMIC ANALYSIS OF ROMANIA'S INTERNATIONAL ECONOMIC RELATIONS WITH THE EUROPEAN UNION

## **Stănculescu Anca Maria**

*Academia de Studii Economice, București Facultatea de Relații Economice Internaționale Adresa: Bd. Știrbei Vodă, Nr. 4, Bl. 2, Sc. 4, Et. 5, Ap. 139, Sector 1, București. E-mail: [sam33ro@yahoo.com](mailto:sam33ro@yahoo.com) Telefon: 0730511997*

## **Gagea Andreea Mihaela**

*Academia de Studii Economice, București Facultatea de Cibernetică, Statistică și Informatică Economică Adresa: Șos. Ștefan cel Mare, Nr. 6, Bl. 15A, Ap. 35, Sector 1, București. E-mail: [andreeagagea@yahoo.com](mailto:andreeagagea@yahoo.com) Telefon: 0745387307*

## **Orzan Mihai**

*Academia de Studii Economice, București. Facultatea de Marketing Adresa: Str. Mihai Eminescu nr. 13-15, sect. 1, cod 010511, camera 1406, București. E-mail: [mihai.orzan@ase.ro](mailto:mihai.orzan@ase.ro) Telefon: 0722318323*

## **Georgescu Bogdan**

*Academia de Studii Economice, București Facultatea de Marketing Adresa: Str. Istriei, nr. 10, sector 3, București. E-mail: [georgescubogdanmk@yahoo.com](mailto:georgescubogdanmk@yahoo.com) Telefon: 0722208372*

*This paper carries out a description of Romania's external trade evolution with the EU Member States using an indicators' analysis of different aspects in the international trade. In this way, the dynamic analysis of the factors influencing Romania's recent international trade relations aims to complete the picture of the national economy's situation, but also to highlight its possible trajectory. The analysis conducted through the external trade exchange indices reveals some positive progress for the Romanian trade in the process of European integration.*

**Keywords:** international economic relations, external trade, indicators for external trade exchange ratio.

**JEL:** C46, F40, P45.

Generally, the enlargement of the European Union determined a trade increase in the enlarged Union without affecting trade flows with extra-comunitary countries. European agreements signed by each candidate country have allowed free trade between the European Union and its new members on the basis of reciprocity, but have been put into operation in an asymmetrical manner, with a faster liberalization on the side of the European Union and holding some restrictions in a few sectors. Thus, these countries have rapidly become important trade partners for the European countries.

Romania's external trade has known for a long period of time a cyclide evolution with a general tendency of growth. In present, the external trade is in an ascending phase. A general characteristic for the external trade's activity, especially after the year 2000, is its faster growth compared to the GDP's and other macroeconomic indicators', reflecting in a more pronounced way Romania's gradual opening to the international economic system.

Beginning with the year 2003, the external trade evolution is characterized by a serious deterioration of the trade deficit. In the last four years, the rapid growth of the imports generated a permanent trade deficit, slowly oscillating from a year to another, but with an acceleration tendency in its chronic state. The most significant trade deficit was recorded in the period 2007-2008.

In the same order of ideas, it is obvious that Romania's commercial relations with the EU became the main component and the general trade's „engine” for Romania. As a consequence, the evolution tendency for the total export and import flows is similar, in dynamic and fluctuation, with the EU trade's evolution. In the context of the EU's integration process and the commercial

stimulatives` policies, Romanian foreign trade with the EU is in an ascending phase, necessary for a country which has as a target the full integration in the EU.

According to the most recent studies, in most countries in view, imports and trade deficits with European partners tended to increase. Having considered these evolutions, it is most likely that Romania will register a high increase of the imports from the European Union, also due to the maintaining of its high economic growth based on internal consumption. Thus, European Union's contribution to Romania's trade deficit might increase in the following years.

Exports' evolution in the near future will be mostly influenced by 3 factors: the evolution of the leu's rate of exchange, the changes in the dynamics of the production for exports and exports structural changes, and the changes in the trade policy due to the adhesion to the European Union.

The fact that exports are generating revenues, while imports are causing payments, has gradually led to the design and implementation of a macroeconomic system of indicators of a dynamic comparative analysis for the two international trade flows (*Figure 1.*), which is frequently used in countries' reports.

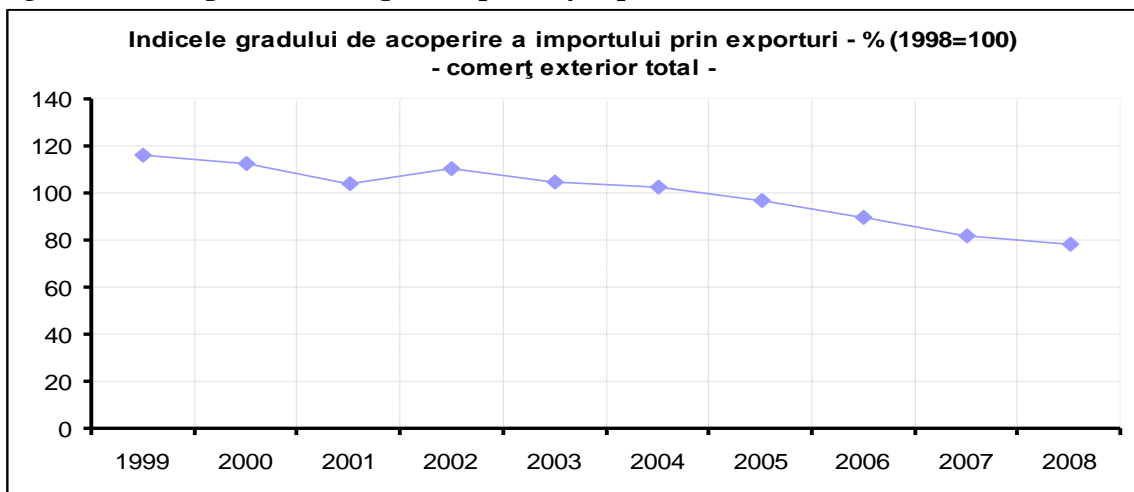
This system of indicators is based on several established ways of evaluating the external trade effectiveness, methods used by Eurostat in the European Union and The National Bank of Romania.

A first indicator of this system is *the degree of coverage of imports by exports* which characterizes the evolution of the imports of goods` coverage by exports of goods comparative

with the reference period: 
$$IGA = \frac{I_{(X)}^v}{I_{(M)}^v} \cdot 100$$

In Romania, the decreasing trend noted in the period 1998-2008 (*Figure 1.*), leads us to the pertinent conclusion of a serious deterioration of the commercial balance over the 10 years period.

**Figure 1. The degree of coverage of imports by exports in Romania's external trade**



Primarily data source: *The National Statistical Institute.*

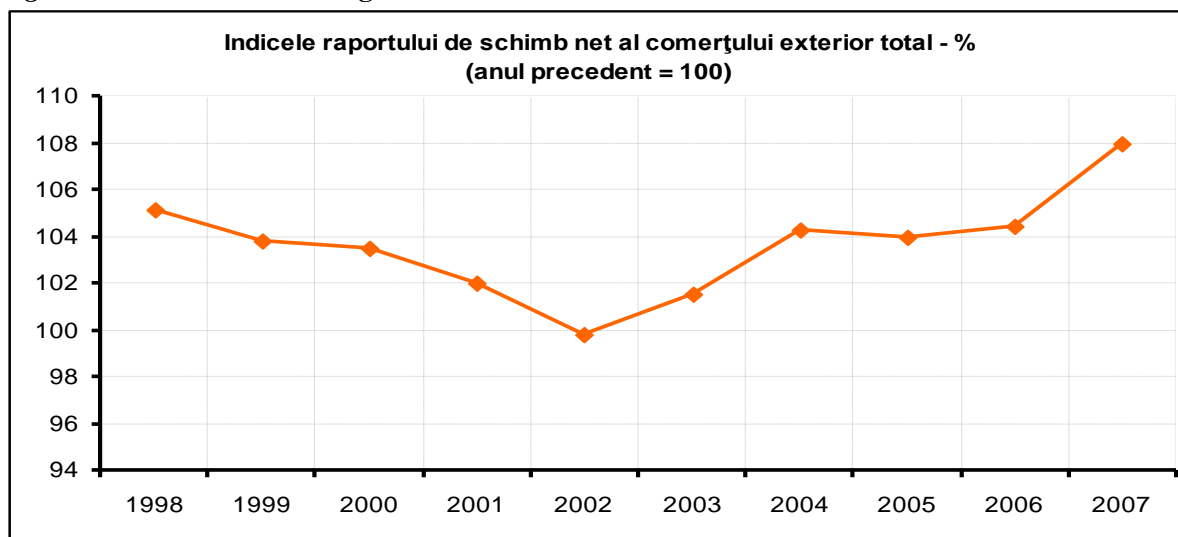
For reasons that are based on trade policy facts, it is necessary to separate between the evolution of trade physical volume and its unit value. This can be done by calculating the trade exchange ratio index.

The index for trade net exchange ratio is often used in international macroeconomic analysis, revealing the efficiency with which the country participates in international trade. Thus, it characterizes the efficiency of external trade evolution compared to the referenced period.

The net trade exchange index is determined as the ratio between the export price index and

$$\text{import price index: } IRSN = \frac{I_{(X)}^{vu}}{I_{(M)}^{vu}} \cdot 100$$

**Figure 2. Trade`s net exchange index for Romania`s total external trade**



Primary data source: The National Statistical Institute.

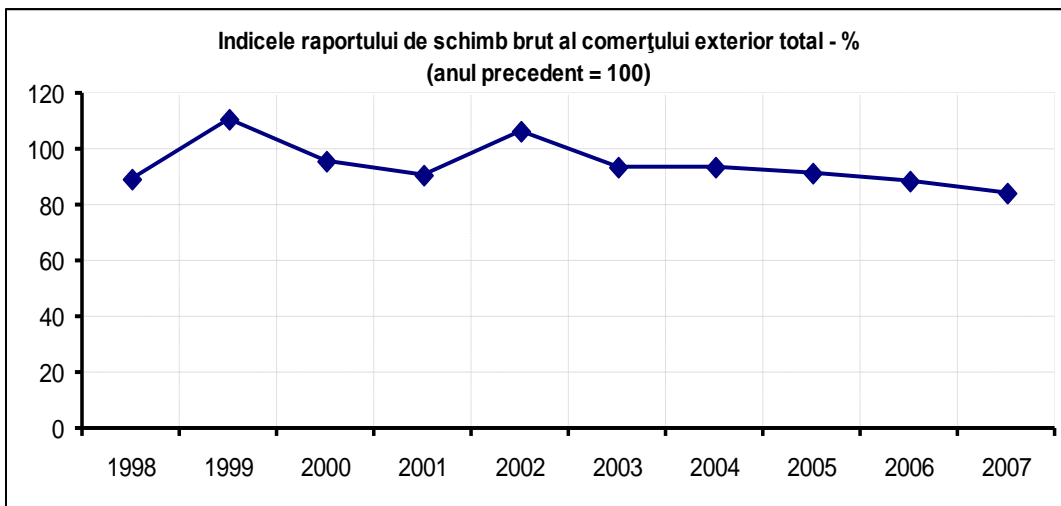
The net trade`s exchange index for Romania`s case (Figure 2.) has been increasing in the last period considered for the external trade with the EU and for the total foreign trade, which is normal given the significant share of trade with the EU in Romania's exports, especially since 2007, the year of Romania`s EU membership. Indices had values over 100 percent, reflecting a favorable aspect for the country's economy, showing import inflation. Thus, the indicator summarizes that export prices rose more than import prices, which has the effect of an overall relative cheap imports compared with the base year.

When comparing the export`s physical volume index with the import`s physical volume index we obtain the index of the gross exchange, which shows the structural changes in the external trade

$$\text{of the country: } IRSB = \frac{I_{(X)}^q}{I_{(M)}^q} \cdot 100$$

The gross exchange index obtained from the analysis realized for Romania (Figure 3.) noted a favorable trend for a possible option of reducing the deficit of external trade trade. After the year 2003, the indices had a decreasing trend, thus reflecting an improvement in exports, meaning that each unit of measurement of imported goods was "paid" with more than one unit of measurement of exported goods compared to the reference period of the previous year.

**Figure 3. The gross exchange index for Romania's total external trade**



Primary data source: The National Statistical Institute.

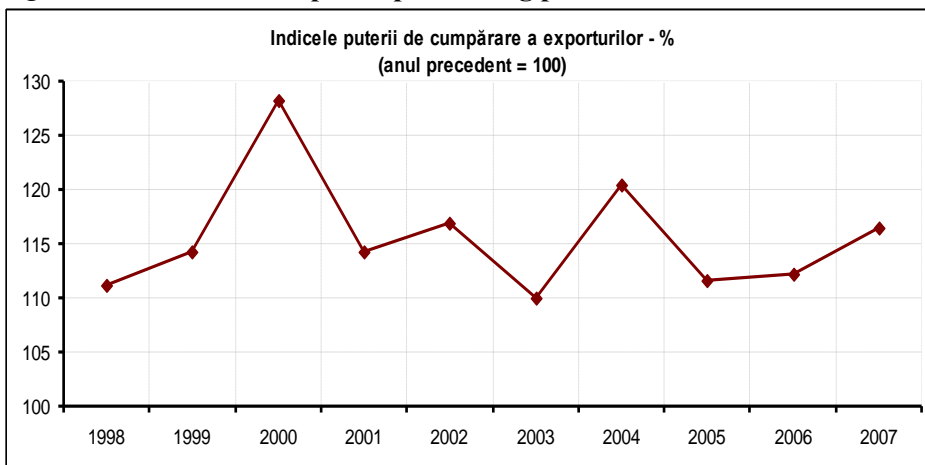
The index of export's purchasing power is the result of the net exchange index's conservation with the index of quantitative export volume and compares the differential change in export and import prices with the quantitative growth of exports:

$$IPCX = \frac{I_{(X)}^v}{I_{(M)}^{vu}} \cdot 100 = \frac{I_{(X)}^q \cdot I_{(X)}^{vu}}{I_{(M)}^{vu}} \cdot 100 = I_{(X)}^q \cdot IRSN \cdot 100 = I^q(M^*)$$

Where:  $I^q(M^*)$  is the index for imports obtainable on account of the exports made, which shows how it could import more from the reference year so that the trade balance was not affected.

As stated in a previous paragraph, the index net exchange ratio may increase, as it is desirable in principle, but it may appear the negative effect of a quantitative reduction because of some high prices on the external market. Therefore, by including a physical volume index in the index of purchasing power, we wish to surprise the adverse effect. Such a result is desirable to be above 100 percents and growing, as it was achieved in 2007.

**Figure 4. The index of export's purchasing power in Romania's external trade**



Primary data source: The National Statistical Institute.

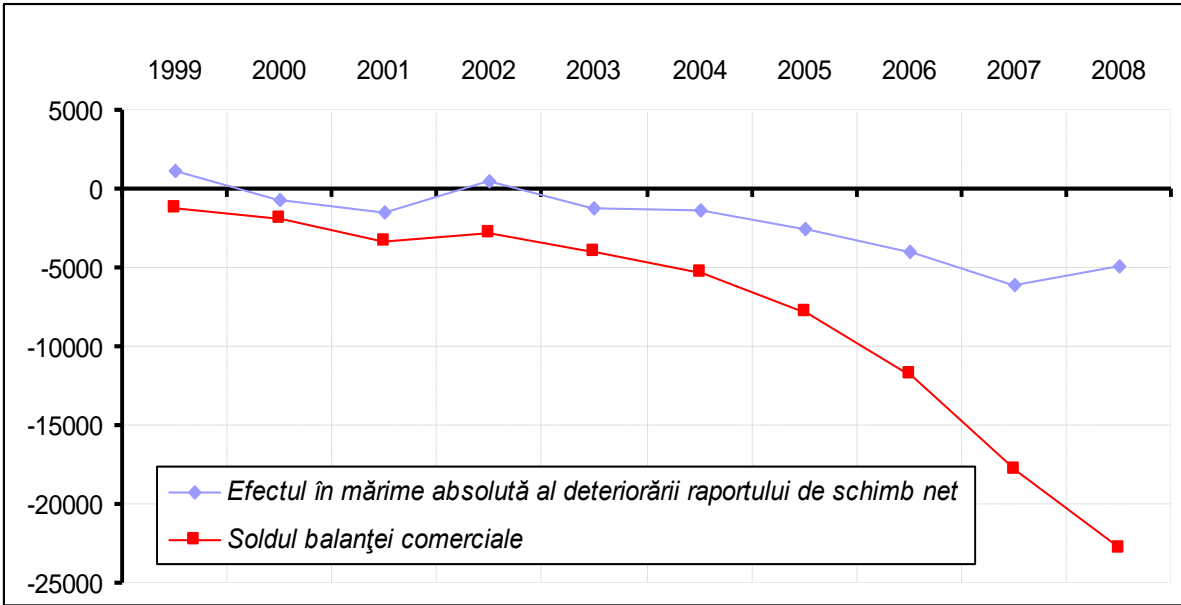
The index of the income from the trade exchange ratio experienced a sinuous trend (*Figure 4.*), with short periods of growth followed by a reduction. The fact that the index of purchasing power noted a slight increasing trend since the year 2005, shows the orientation of Romanian exports rather to markets of higher value products and not an unjustified increase in prices. This conclusion is reinforced by the increasing of the diversification and the intra-industry trade for the years 2006 and 2007.

Another indicator usable for economic decisions is the effect of the absolute value of the external trade net deterioration and its influence on the country's trade deficit.

From the influence of the absolute value of price changes on revenues from exports, we decrease the change in prices' modification on payments from imports, and the result is eventually compared with the trade deficit:  $\Delta RSN = \Delta_{(X)}^p - \Delta_{(M)}^p$

The increasing of the negative values for this indicator over the entire period analyzed (*Figure 5.*) highlights once again the trade chronicle external deficit. In 2008, the downward trend of the indicator knows a slight increase in an absolute value.

**Figure 5. The effect in absolute value of the net exchange trade's deterioration**



Primary data source: *The National Statistical Institute.*

While the causes for the important deficits in the analyzed period mostly tend to maintain after Romania's adhesion to the European Union, the coverage sources until present seem to become more fragile. It seems more likely that the adhesion to the European Union, at least in the short run, will even deepen the intra-comunitary trade deficit, which will increase the share of the European Union's deficit in Romania's total deficit.

However, the adhesion to the European Union also implies an improvement of Romania's image in the international economic relations. This may allow for an easier access to other sources of financing in the international financial markets a possible deficit.

In conclusion, one of the musts for maintaining Romania's macroeconomic stability is the trade deficit decrease, as quickly as possible.

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# REALITIES IN THE PENSION INSURANCE IN THE EUROPEAN UNION COUNTRIES

**Szarka Arpad**

*University of Oradea – Faculty of Economical Sciences, Oradea, 1 . Universitatii St., postal code 410087, Telephone 0744472241, Fax 0259-437662, E-mail: szarkaarpad@yahoo.co.uk*

*Ever since the moment Romania acceded to the European Union starting 01.01.2007 social security for migrant workers, either Romanian citizens or belonging to the European Economical Space has become an objective necessity.*

*Taking into consideration the conceptual specificity and different regulations of insurance systems for pensions as a full part of national security systems – social protection – there are legal corresponding instruments by which the coordination for provision granting are achieved between community states.*

*The regulations adopted by the European Commission are mandatory and directly applicable in all their elements to all community countries, and in case of conflicts with national law, community instruments prevail.*

*The present paper underlines the main issues for regulations and some practical aspects concerning the insurance in case of old age social risk.*

## **I. The settlement method concerning the determination and establishment of the pensions in the European Union territory**

Starting from 01.01.2007, considering Romania's adherence at the European Union, the community legislation has become an important issue for our country as well in its relations with the other states affiliated to the European Union.

The precursory years of negotiating the conditions, which need to be respected in order to adhere to European Union, have prepared the terms of implementing the community aquis

In order to decrease the difficulties that are present on an international level in regarding the social security, a legal frame has been created unanimously accepted at a European level, which approaches the coordination of the social security system inside the European Union territory.

This coordination regards the elimination of those elements of the national law, which in some cases overstep the borders of the step creating a legal vacuum encouraging the plurality of pension rights.

The coordination of social security regimes does not encourage the creation of an autonomous social security system specific to migrant workers as the national system can survive, but these become permeable in correlation with other social security systems.

As the community regulations are directly applicable and mandatory in all European countries in case of conflict with the national law, the clauses of the community normative instruments shall prevail.

The principles that are on the basis of the coordination of the migrant workers rights are the following:

- ***the equality of treatment*** between the citizens of member states in the sense of granting the same rights , as well as imposing the same obligations similar to the citizens of Romania and for the other states from the European Union, who travel within the European Union, with the view to deploy professional activities or to settle in these states;
- ***the determination of the applicable legislation*** so that a person is not subject to multiple social security laws. The general rule is to apply the laws of the state where the person is employed, resides, or has their residence;
- ***the totalization of insurance periods*** (length of service) with a view to establish and approve the rights, which means that the institutions empowered to establish the rights that the migrant worker is eligible for, takes into consideration the periods of time in which their insurance has

been covered by their state as well as the length of service covered for in the other member states.

The rule of proportional calculation (*pro rata temporis*) is to be applied when establishing the pension quantum, which means that every state in question shall grant a pension right calculated depending on the person's contribution period to the social insurance system in the state in question;

- **the export of provisions** represents the right of the migrant worker to benefit on the residence territory for the provisions acquired from the state on whose territory they have been insured.

The legal community instruments concerning social security are the following:

- **the Council Regulation (EEC) no. 1408 June 1971** on the application of social security schemes to employed persons, self employed persons and to members of their families moving within Community;

- **Council Regulation (EEC) no. 574 from March 21 1972** laying down the procedure for implementing regulation (EEC) no. 1408 June 1971

## II. The establishment and payment procedures of pension rights in the territory of the European Union

The following institutions are involved are generically involved in the solving the applications for pension rights:

- **the competent institution** is the one empowered to receive the application and to assure the connections between the involved institutions in solving the demand. The competence of the institution is determined by the solicitor's residence and all involving institutions recognize the registered application;

- **the institution in cause** is the social insurance institution that the last place of residence depends on, in which the solicitor has been subscribed, acquiring length of service. For instance, if the last place in which the solicitor has been insured is situated in Bihor county, the County Pension House in Bihor is the competent institution to manage the pension file, for the length of service fulfilled in Romania.

In order to establish the pension rights, next step is to file the below mentioned documents.

The documents must be accompanied by instruments, which prove the accomplished insurance periods, identification information concerning the solicitor, respectively the European forms:

- E202 -Application for old age pension
- E203 -Application for survivor's pension
- E204 -Application for disability pension
- E205- Certificate concerning the insurance history
- E207 -Certificate concerning the career of the insured person
- E210 -The notification of the pension resolution
- E211 -The summary of the pension resolutions
- E001 – Request Form/Information Communication, Request/Form Transmittal

The interested person individually forwards the retirement documents to the competent institution who sends a copy of the forms depending on the required type of pension to each involved institution in the member states in which the worker has been insured.

Along with the European forms the Romanian institution shall send any available documents, which can be used by the competent institution from the other European states so as to establish the pension right.

Every institution in cause shall send their own form E205, which confirm the insurance period or its equivalent accomplished by the solicitor under the laws of the respective member state.



In order to establish the pension rights each involved institution shall precede to the totalization of the insurance period for the double calculation of the pension – the national one as well the community one – made according to pro rata temporis principle.

After the issue of each pension resolution along with forms E 210 filled in by competent institutions of each member states who have solved the solicitor's pension application, the competent institution shall issue its one resolution and shall fill in form E 211.

The form shall be sent to the pension solicitor along with a copy of all resolutions.

The competent institution shall send a copy of this form to the institutions in cause, and also a copy of its own resolution.

The monthly pension rights established and definite for each country that has recognized the accomplished length of service are paid through the bank system in the currency of the member states (EUR, POUNDS, RON)

So as to pay the pension, the institutions in cause, respectively the territorial pension houses use bank information either the ones in the connection forms sent by the competent institutions or the ones confirmed by the beneficiary in the transfer statement abroad, accompanied by the documents attesting the bank details, and also a copy of the owner's identification instrument showing the present residence.

### **III. The calculation of the pension rights**

The specificity of the calculation procedure is in the fact that, within the pension right settlement they use comparatively and independently for each member state the fulfillment of the pension terms, respectively the granting of the most advantageous rights. When a community pension file is analyzed, the national pension, the theoretical pension and the community pension is determined:

#### **1. Old age pension**

*The national pension* is settled following the current Romanian laws, taking into account the length of service accomplished in Romania. In the public system the quantum of the pension at the registration date is determined by the multiplication of the yearly medium points accomplished by the insured person during the length of service with the value of a pension point at the date of registration.

The yearly medium point accomplished by the insured person is determined by multiplying the number of points resulted by summing up the yearly points accomplished by the insured to the number of years corresponding to the complete length of service.

The yearly point of the insured is determined by dividing to 12 the score resulted in the respective year, by adding the number of points in every month. The number of points resulted in every month is calculated by reporting the individual monthly gross wage along with extras or the insured monthly income which was the calculation foundation of the social insurance individual contribution to the medium monthly gross wage in the respective month.

*The theoretical pension* results from summing up of the number of points accomplished in Romania to the medium point of the period insured in the other state, dividing the result to the complete length of service.

#### **2. The early old age pension:**

The quantum of early old age pension is settled in the same way as for old age pension, the difference being that the assimilated periods are not taken into consideration at the length of service.

The insured persons who have accomplished at least 10 years over the complete length of service can ask for early old age pension with the reduction of the pension age by 5 years

### **3. The partial early old age pension:**

The insured persons that have accomplished complete length of service as well as those with up to 10 years over the complete length of service can apply to a partial old age pension with the reduction of the retirement age with 5 years the most.

The quantum of the partial old age pension is settled from the quantum of the old age pension by diminishing it, depending on the length of service accomplished and number of month with which the retirement age has been reduced.

### **4. Invalidity/ Disability pension:**

When establishing a disability pension, the persons insured who do not have a complete length of service at the date of registration, are granted bonus service, which results from the subtraction of the complete length of service and the accomplished service when the person is granted in disability group.

The persons who have at least half of the necessary service foreseen by current laws, the bonus service results as a difference between the complete lengths of service and the necessary one.

The resulted bonus service cannot be higher then the service the insured person could have accomplished at the age of disability.

The yearly point of the insured persons for the bonus service is:

- **0.75** point for group I of disability for those who are fully incapacitated.
- **0.60** point for group II of disability for those who are fully incapacitated, but do not need to be cared for.
- **0.40** point for group III of disability for those who are disabled but not fully incapacitated.

For those in group I of disability a companionship amount shall be granted, which is the equivalent of the minimum economy wage.

### **5. Survivor's pension:**

Children and the surviving spouse have the right to survivor's pension, if the deceased is already retired or fulfills the terms of pension.

The survivor's pension is calculated as follows depending on:

- payable old age pension or the one at which the deceased would have had the right to in the terms of law;
- group I disability pension if the sustainer's death has occurred before the fulfillment of the terms for old age pension.

The quantum of the survivor's pension is settled in percent and depending on the number of successors:

- One successor - **50 %**;
- Two successors - **75%**;
- Three successors and more - **100%**

### **6. The revision of pension rights established in the terms of a law prior to the application of the regulations contained in the community normative instruments:**

According to the terms of Regulation 1408/1971 and Regulation 574/1972, the person whose rights are established according to the current legislation before January 1<sup>st</sup> 2007, can require the revision of the pension rights so as to benefit from more advantageous rights.

If the request is submitted in 3 years time from January 1<sup>st</sup> 2007, the established rights are gained from this date forward.

## Examples:

### Old Age Pension:

The applicant XY, born on the 1st of January 1949, *residing in Germany*, city of Bonn, with the personal Romanian numerical code of insurance 2490101054016, and the German social identification number 23 010149 S 132, was *insured both in Romania and in Germany*, and as a result, applies for *the determination of the pension rights, beginning with the 1<sup>st</sup> of January 2007*.

The necessary elements, which are the basis of the determination of the pension right, are the following:

- the applicant has achieved the following length of service:
  - in Romania – 20 years
  - in Germany – 10 years
  - total of the length of services: 30 years
- The foreseen length of service: 26 years
- Years spent in Romania: 22 years
- Points achieved in Romania: 17
- Points for additional pension: 2
- Total points achieved in Romania: 19

By applying the stated theoretical part, the procedure of calculation is the following:

- the score achieved during the insurance period of the other EU country:  $17 / 22 = 0,77$
- theoretical pension :  $(19 + 10 \text{ years} \times 0,77) / 26 = 1,03$  points
- community pension :  $1,03 \times 20 / 26 = 0,79$  points

**Results:** after doing the double calculation, the annual average score of the national pension was determined: **0,5** (established according to the presents calculation module, according to the stipulations of the national legislation) against the score of the community pension: **0,79** (determined as a result of the presented model). As a result, the most favorable pension is: *the community old age pension*.

The other types of provisions granted in the Romanian social system are applicable correspondingly in the community countries, coordinated according to the principles shown.

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# QUELQUES ASPECTS CONCERNANT LA SITUATION D'EXCEPTION DE L'UNION EUROPEENNE SUR LA SCENE DES RELATIONS DE DROIT INTERNATIONAL

**Timofte Claudia Simona Cleopatra**

*Universitatea din Oradea Facultatea de Științe Juridice Oradea, str B.Șt.Delavrancea 31 e-mail: [clau\\_timofte@yahoo.com](mailto:clau_timofte@yahoo.com) telefon 0742926251*

*The understanding of the decisional process in the EU is very close to the determination of the EU identity, answering to a lot of questions concerning the quality of the EU like as an international organization, her relations with another organizations and the relation with the international law.*

*We point out the relation between the European legal order and the international one. Because the set up of the EU is base on a treaty which generates obligations, she encourages the member states to respect their obligations first of all to the European system.*

*Keywords: European Union, international organism sui generis, a new international legal order*

*Cod JEL: K*

## 1. Introduction

Tenant compte des racines spirituelles de l'Europe on peut soutenir qu'une série des traces de sa vie se matérialisent dans un certain type des institutions et dans une certaine vie politique, sur lesquelles les penseurs consacrées ont réfléchi le fil du temps sur l'effort de découvrir la meilleur forme d'organisation et de management.

Le principe explicative invoqué pour mettre en relation la vie sociale avec le système institutionnel a été celui de la légitimité.

Dans l'esprit européenne a été toujours débattue le problème de la légitimation: dans une négociation des formes institutionnelles appropriées qui dans le cas d'échec amenaient les révolutions; dans le fondement des hommes, tenant compte de la conviction qu'ils fassent ce que doit faire comme il faut, qui en fait a amené l'esprit technocratique de la légitimation démocratique<sup>298</sup>.

## 2. Appréciations et discussions sur le sujet

La Démocratie a la capacité de mettre en marche les mécanismes par lesquelles le système institutionnel exprime la volonté populaire, il lui donne le cadre institutionnel d'affirmation et il lui offre des garanties du respect les options d'une société par le personnel qui travail dans les institutions. Pour celle-ci, il est nécessaire un mécanisme de contrôle, d'une part le respect des lois, d'autre part l'honnête des actions de ceux qui sont investies avec le rôle de dirigeant. La libre choix des „scénarios” de développement d'une société qui s'élabore dans une mode doctrinaire et s'est soutenues par des divers forces politiques, comme la classe politique qu'elle en matérialise, deviennent des conditions de bases d'un régime politique démocratique, comme d'ailleurs écrivait Norberto Bobbio. Dans la mesure du développement du pratique de la démocratie dans les derniers deux siècles, aux ces composantes s'ont été ajoutés une séries des principes liées au contrôle démocratique des institutions de pouvoir, de la légalité de leurs actions, de la manifestation des parties politiques, de la séparation des pouvoirs de l'état de sorte que la démocratie n'est plus seulement un idéal de vie sociaux politique, mais une réalisation réelle dans des formes de plus en plus variées<sup>299</sup>.

La détermination des éléments qui définissent le régime politique démocratique aide la compréhension du mode spécifique de l'organisation et du fonctionnement de l'Union

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298 Verola Nicola, L' Europa legittima. Principi e processi di legittimazione nella costruzione europea, Passigli Editori, 2006.

299 Norberto Bobbio, Il futuro della democrtzia, Einaudi, Torino, 1995.

Européenne qui, dès ses débuts, n'a pas été construite après le model d'un état et donc elle ne s'est pas proposée de développer un mécanisme institutionnel dans le quel se retrouver les dimensions de la démocratie interne de la vie politique.

Les débuts de cette construction ont été sans doute liés de la solution des problèmes économiques concernant la production du charbon et de l'acier qui préoccupaient les six états fondateurs de la première Communauté. Ils ont été des problèmes sectoriels, dans leur résolution les six états souverains ont établies de mettre en marche un mécanisme institutionnel à une composante supranationale, mais aussi avec la préoccupation de respecter les attributs de la souveraineté de chaque une. Le caractère de l'organisation internationale était différent et seulement les bons résultats qu'elle a obtenus ont fait que ni les milieux politiques, ni celles académiques de ne pas se préoccuper de mettre la Communauté dans une certaine catégorie des sciences politiques. Les tentatives de transférer les éléments de la construction économique dans le plan politique ont été sorties à l'échec. Mais, il est claire que la légitimité de la Communauté se trouve dans la volonté des certains états de rapprocher les souverainetés dans un mécanisme institutionnel qui a un caractère démocratique garantie juridiquement et s'exprime dans le respect de la volonté de chaque participant, consentie dans les Traités.

Les compétences de chaque institution ont été précisés dans les Traités ratifiés de chaque état, les rapports entre eux ont été établies de plus en plus rigoureusement, mais la société européenne s'est trouvée dans la situation dans laquelle ce complexe institutionnel de l'Union Européenne mettait sa marque sur la vie quotidienne des hommes sans qu'ils puissent décider sur les options, sans pouvoir se prononcer sur les politiques qu'ils les tolèrent.

La consolidation de la construction européenne, accompagnée par l'élargissement des états membres dans des vagues successives qui ont fait qu'aujourd'hui l'Union se groupe dans les 27 états membres, a permis l'introduction de la citoyenneté européenne, de la monnaie unique, a conduit à la réalisation des quatre libertés, à la création d'un espace européenne de justice, liberté et sécurité, dans lequel l'attention est redressée vers le développement harmonieuse des toutes les régions de l'Union.

On peut constate que, la compréhension du processus décisionnel dans l'Union Européenne est étroitement liées à la détermination de l'identité de l'Union, répliquant à une série des questions concernant l'encadrement dans une organisation international, ses rapports avec les organisations et avec le droit international. Dans la littérature de spécialité se montre que, dans la famille des organisations internationales, l'UE a une place spéciale parce que réalise un projet d'intégration économique et politique, supranationale, mais rejetant les catégories traditionnels de construction et de lois internationale<sup>300</sup>.

Les membres de l'UE ont investit ses institutions avec beaucoup des pouvoirs internes et externes, qui ont donnés naissance aux situations internationales compliqués. Dans l'UE, ses états membres sont et restent des entités souveraines qui signifie que ses domaines de compétence ont été le résultat d'un transfère des compétences du niveau national au niveau supranational. Les états ont une „sensibilité” internationale quand l'application des règles européennes dépasse leurs obligations établies dans les Traités face aux états tiers et aux organisations internationales, face aux obligations desquelles elles ne sont pas acquittés.

La situation de l'UE s'approche le plus de celle des états fédéraux, dont ses constitutions réservent des espaces très large d'autonomie aux entités sous-fédéraux, l'action internationale du quelles peut provoquer des conséquences et peut affecter l'ensemble de la fédération. L'Absence de la personnalité juridique internationale acquitte les entités sousfédéraux des réactions internationales directes. En contraste avec celle-ci, la souveraineté internationale des états

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300 A.M. Lickova, European Exceptionalism in International Law, in: European Journal of International Law, vol. 19, n.3, pp. 463-490.

membres de l'UE peut les exposer après aux obligations internationales qui proviennent des actes erronés des institutions supranationales.

Les membres de l'UE ont été obligés de faire face aux plusieurs défis auparavant de l'apparition de la Cour Européenne des Droits de l'Homme et des organes judiciaires de l'Organisation Internationale pour le Commerce. Dans ces institutions, les états européens trouvent des difficultés semblables aux difficultés que les gouvernements fédéraux traditionnels se confrontent. Les gouvernements se rencontrent avec les défis qui proviennent des effets internationaux de la capacité légale internationale, où les actes manquent dans un mode paradoxale ou bien sont incomplets.

Un des auteurs écrit à un moment donné, que la complexité de la législation de l'UE fait que la situation internationale des états membres soit plus difficile d'un jour à l'autre. Par conséquence, tel l'UE que ses membres ont introduit des stipulations légales pour régler ces problèmes, pour donner à l'UE une présence internationale flexible.

Tenant compte de cet aspect, quand un état membre négocie sur la scène internationale, il a aussi en subsidiaire l'agenda européenne, mais quand l'UE négocie de hors elle, elle n'est plus souveraine parce que la souveraineté appartient aux états membres. Dans une fédération, les unités composantes d'habitude n'ont pas la personnalité juridique légale internationale donc la responsabilité internationale revient au gouvernement fédéral.

Chaque entité politique, soit-elle un état souverain, soit un organisme supranational donne une responsabilité à chaque niveau politique pour l'engagement international. Les nations organisées sous une forme fédérale de gouvernement, en générale, partagent la direction des relations externes vers le gouvernement fédéral. Son exécutif respecte les droits et les obligations internationales qui résultent de l'exercice de ce pouvoir avec des effets légaux sur le plan interne. On peut dire que l'UE a reçu une expérience fédérale qui est réfléchi dans les pratiques de sa propre politique extérieur. Après 50 ans de l'existence, l'UE essaie d'appliquer une ordre légale dense parce que le processus de l'intégration européenne est devenu aujourd'hui à générer une entité unique. Parfois qualifiée comme une organisme internationale *sui generis*, l'UE a développé une ordre légale spécifique, s'engageant à créer une organisation supranationale composée par les états membres et leurs propres citoyennes. Son point de départ se trouve dans le Traité de Rome, ainsi devenant un acteur important sur la scène internationale. La législation secondaire est dérivée elle aussi du Traité de Rome et par conséquence, elle a été qualifiée comme supranationale. Celle-ci signifie que les décisions européennes ne sont pas prises en générale par le vote de l'unanimité, mais avec la majorité simple ou qualifiée. La nature supranationale de l'ordre légale de l'UE est associée à l'effet direct du droit européen et avec la primordialité de ses stipulations devant les normes des différents états, dans un mécanisme efficiente et intense.

Dans les dernières décades, cet effort a reçu une dimension internationale. Les Communautés ont achevé des nombreux traités et ont adhéré aux différents instruments juridiques internationaux dans la mesure que l'UE est devenue l'acteur principal dans la majorité des organismes internationaux. Même dans ces conditions, la consolidation des lois de la politique extérieur de l'UE est encore divisée. L'Article 281 TCE établit la personnalité juridique internationale de celle-ci, mais ses stipulations ne relèvent rien des circonstances sous lesquelles peuvent être exercées dans le nomme de l'UE.

Il n'est pas simple de présenter le cadre de la politique extérieure de l'Union parce qu'elle est construite sur les éléments qui se changent tout le temps. Premièrement parce que l'existence d'un pouvoir international UE/EC est très peu expliqué et dans la majorité des cas est reconnue seulement une émergence progressive de celle-ci. Deuxièmement, une fois identifiée est difficile de déterminer quand sa compétence est supranationale ou quand a quelque chose à partager avec les états membres qui sont également intéressés dans les mêmes problèmes avec l'UE. Même quand les deux points sont clarifiés, la détermination ne peut jamais être définitive parce que les

compétences supranationales de l'UE peuvent varier. Ces incertitudes affectent les états membres et aussi les parties tiers. Chaque compétence supranationale s'implique dans la vie des états membres qui peuvent être sujets des sanctions de la part de l'UE si leur comportement international enfreint les pouvoirs qui sont déjà attribués à l'autorité supranationale. Les frontières sont relatives claires en ce qui concerne le respect des compétences traditionnelles du CE sur le plan externe parce qu'elles sont précisées dans l'article 131 TEC. En revanche, les états membres doivent être vigilants dans les zones où la compétence du CE est au début. Dans ce cas, les obligations internationales corrélatives des états membres ne sont pas claires. Les parties tiers trouvent des difficultés dans les nombreux problèmes de la politique extérieure parce qu'il n'est pas clair qui a la compétence de répondre pour : les états membres, les Communautés ou l'Union.

Dans plusieurs problèmes, les institutions européennes ont été capables de reprendre la direction des relations extérieures réalisées autrefois par les états membres. Mais, dans beaucoup d'autres domaines cette habileté n'existe pas encore. Parce que les actes internationaux des états peuvent être un domaine de la politique supranationale, l'ordre légal de l'EC a développé efficacement les mécanismes de prévention et de sanction d'un possible conflit entre eux tellement que ces situations ne sont pas sans solution. Le système légal de l'UE se conduit après la loi internationale des traités et seulement occasionnellement un traité spécifique constate son propre régime de conflit des lois.

Les conflits normatifs liés à la politique extérieure des états se peuvent naître des obligations des états de l'UE appelées à respecter deux ordres légaux différentes, européenne et internationale. Il est relativement facile d'identifier les solutions pour les conflits normatifs si chaque système est considéré séparément parce que, chaque système normatif aspire à favoriser son propre système des lois face aux normes qui viennent d'un ordre extérieur. Comme une conséquence de ce fait, la résolution des conflits des normes favorise le système légal de l'auteur. Mais le problème qui se pose sur la relation entre l'ordre légal européen et celui international. Parce que la construction de l'UE a comme base juridique un traité créateur des obligations, elle encourage les états membres d'honorer leurs obligations premièrement face au système européenne.

Quand la Cour Européenne de Justice a annoncé la nature *sui generis* de l'ordre légal supranational et l'a qualifié comme étant *une nouvelle ordre légale internationale*, un ordre par elle-même est entré en contradiction avec *les traités internationaux habituels* et a ignoré le fait que le Traité de Rome a été signé sous la forme d'un traité international et comme méthode d'amendement a utilisé les voies habituelles des traités internationaux.

La spécificité des conflits des traités consiste dans le réalisme des définitions avec lesquelles opèrent. Si l'accord ne contient pas aucune stipulation dans ce sens, dans ces conditions s'appliquent les règles interprétatives de la Convention de Vienne concernant les Traités internationaux.

Le traitement des conflits qui surviennent dans des différentes circonstances se fait dans une mode obligatoire tenant compte de la nature du sujet des parties impliquées et de la chronologie de l'apparition de ces conflits. Il faut qu'on tienne compte de l'article 30 (4) de la Convention de Vienne sur les Traités qui établit cet ordre.

Sur la base de l'article 30 (4b), le traitement des conflits des normes se résout par la protection de la validité des instruments incompatibles. Les parties engagées simultanément par deux ou plusieurs accords sont invitées à choisir quel devoir honorera et quel devoir il négligera, dans la vertu de cette élection.

Le Traité de Rome a créé la Communauté Economique Européenne (EEC), entré en vigueur au premier janvier 1958 et il est prévu que par l'engagement dans les Traités les états membres n'enfreignent pas les engagements antérieurs auxquels ils sont parties. Mais cette nouvelle situation a été un réel défi pour l'EEC parce que les états membres étaient signataires du GATT qui est

animé par le principe du libre commerce et la clause de la nation la plus favorisée interdisant toute forme de discrimination commerciale.

Les Communautés ont réalisé une intégration régionale dont ses propres efforts externes peuvent solliciter des mesures discriminatoires. Le résultat antonyme a été résolu en fin partiellement par le texte GATT et par les signataires de cet organisme qui ont arrivé à un consensus, non sans répondre de la résistance à ce qu'on appelle *status quo*. Dans ces conditions, l'article 307 se lire ainsi :

*Les droits et les obligations qui ressortissent des accords qui précèdent le Traité du 1<sup>er</sup> janvier 1958, comme celles assumés avant l'accès dans la Communauté ne seront pas affectés par les stipulations de ce Traité.*

Celle-ci c'est une première envisagement de la flexibilité avec laquelle est traité le conflit des normes.

*Alors quand des accords pareils ne sont pas compatibles avec ce Traité, les états membres ou les états en voie d'adhésion prendront toutes les mesures pour éliminer toutes les incompatibilités, et les états membres négocieront jusque l'adoption d'une attitude commune.*

Peu de temps après l'apparition de la politique commerciale commune (CCP), certains états membres ont reçu l'autorisation de garder les engagements des traités commerciaux bilatéraux antérieurs qu'elle ont eu avec les états tiers. Ces exceptions ont été arrêtées le 30 avril 2005.

Ainsi on constate que l'intégration européenne est une construction trouvée en permanence dans un processus de développement et qui, par conséquence a comme but l'affirmation des pouvoirs supranationales qui essaient d'introduire des autres compétences externes.

Le système légal de la Communauté est maintenant suffisamment centralisé et avec des solutions claires aux problèmes des rapports entre ses Traités et les Traités avec les tiers. La Conférence de Vienne fait référence à la responsabilité des états, mais la Cour de Justice des Communautés Européenne demande aux états membres de renégocier les traités avec les tiers parties qui sont incompatibles avec la lois européenne.

Le teste de la spécificité de la lois européenne a été donné par le passage de la GATT à l'OMC, quand les Etats Unies d'Amérique ont attaqués le tarif douanière commune de la Communauté, qui a été défendu par celle-ci montrant qu'il se construise par un Union qui actionne comme agent distincte des échanges commerciales internationales.

Regardant le paysage régionale et après le paysage internationale des relations internationales entre les états on constate que toutes les états membres sont parties à la Convention Européenne des Droits de l'Homme et aussi sont partie à la Charte des Nations Unies, mais même l'UE n'est pas.

En contraste avec celles présentés au-dessous, les obligations des états membres de l'UE assumés par la Charte des Nations Unies n'ont pas affecté négativement la construction européenne, par contre, les institutions de l'UE fassent un effort considérable d'implémenter les obligations qui découlent des arrêts des Nations Unies dans les états de l'UE.

*Dans ce sens, le système légal européen, conformément à la Convention Européenne des Droits de l'Homme a été considéré conformément à la lois de l'UE.*

Les états de l'UE ont été cités devant la Cour Européenne des Droits de l'Homme parce qu'elles n'ont pas respectés la législation de l'Union. Telle était le cas Mathews quand un citoyen britannique s'est adressé à la Cour Européen des Droits de l'Homme parce qu'il habitant en Gibraltar a été empêché par l'état britannique de participer aux élections pour le Parlement Européen.

D'ailleurs ont apparue des conflits de lois quand se sont implémentés des arrêts des Nations Unies en ce qui concerne le terrorisme qui ont affecté les intérêts de certaines compagnies. Elles ont demandé à respecter la législation européenne, qui n'est pas adaptée aux stipulations de l'arrêt du Conseil de Sécurité des Nations Unies.



### 3. Conclusions

Nous sommes d'accord avec l'opinion majoritaire de la littérature de spécialité qui considère que dans les relations internationales le mode de légitimation de l'UE se fait de plus en plus respecté, et le droit européen devient une base des relations externes des pays membres. On peut dire que « l'exception européenne » fait son chemin dans le cadre de la loi internationale de l'UE, et celle-ci construit sa politique externe tenant compte des stipulations du droit international.

Par conséquent, les états membres de l'UE doivent mettre en conformité les politiques externes bilatérales ou multilatérales avec les politiques communes de l'UE face aux états tiers.

Les membres de l'UE doivent donner leurs meilleures qualités diplomatiques, en ce qui concerne les relations externes avec les tiers et d'essayer d'amener les états qui veulent adhérer à l'UE conformément à la politique de l'UE.

Par ces considérants on voit le processus de l'intégration européenne comme un continu défi, ouvert vers le nouveau et au développement pour résoudre tous les problèmes internes et externes de l'UE.

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# PHILOSOPHY AND METHODS OF EXAMINING THE IMPACT OF THE EUROPEAN REGIONAL POLICY

**Trón Zsuzsanna**

*University of Debrecen, Faculty of Economics and Business Studies Address: Kassai str. 26, C ép. 8, Debrecen, H-4028 Hungary Telephone: +36-52-416-580 / int. 77049 E-mail: zsuzsanna.tron@econ.unideb.hu.*

*It is a very generally accepted view that financial support received from the European Union generates a large growth surplus. The potential effects of the structural funds calculated in model simulations carried out by the European Commission support these positive expectations. However empirical studies of the real effects of the funds are few and far between measuring the growth surpluses attributed to the process of catching up with richer EU economies. The aim of the present paper is to remedy this contradiction by introducing the general philosophy and methods of the examination of the regional policy of the European Union.*

*Key words: European Union, regional policy, evaluation methods*

*JEL classification codes: F02, F15, R10, R11, R19, R50, R58*

One of the major aims of the regional policy<sup>301</sup> of the European Union is to help reduce the existing income gap between the richer and poorer regions (in other words to reduce the economic and territorial disparities). The other major objective of this policy is to reinforce employment and to deal with the problem of social exclusion (i.e. to reduce social disparities). In order to achieve these aims the Union spends significant sums on programmes designed to realise these objectives.

An examination of the almost twenty year experience of this policy at community level leads us to ask to what extent the objectives have been reached, and how effectively and appropriately European taxpayers' money has been spent. A well-founded answer to these types of questions can be given after an analysis of the policy, and the answers can help to formulate future policy.

## **The concept and development of evaluation in EU practice**

Evaluation of regional policy is relatively recent in the history of the Union; at the beginning, (1975-1988) for various reasons<sup>302</sup>, appropriate systems of evaluation were not employed (Bachtler – Michie 1995). In 1988 however, when the European Commission received a large

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<sup>301</sup> In this paper the regional policy of the EU, the cohesion policy of the EU, and the structural policy of the EU are used as synonymous conceptions, which refer to the working of the European Union Structural Funds and the Cohesion Fund. These are the main tools which the Union uses to help the economic and social cohesion of member states and regions. In the period examined in this paper – before 2006 – four structural funds were in operation: the European Regional Development Fund, the European Social Fund, the orientation section of the European Agriculture Guidance and Guarantee Fund, and the Financial Instrument for Fisheries Guidance. The Cohesion Fund provides financial support for larger programmes to develop environmental and transport infrastructure. The financial supports of the structural funds are provided on the basis of the regions laid down as the 'target areas' or 'Objectives', or within the framework of the so-called Community Initiatives. The Cohesion Fund can be applied for by the least developed member states, which before 2006 were Greece, Portugal, Spain and the new member states. For details of the new system which came into operation in 2007, see the following internet page: [http://ec.europa.eu/regional\\_policy/policy/object/index\\_en.htm](http://ec.europa.eu/regional_policy/policy/object/index_en.htm).

<sup>302</sup> Bachtler and Michie (1995) list three reasons in their paper; (1) before 1988 community aid and money devoted to regional development in member states were mixed together, (2) the division of duties between administrative bodies was badly co-ordinated, and (3) the evaluation methods were very different throughout Europe, particularly in that they lacked community guidelines.

role in the distribution of Union funds, conflict between the Commission and member states became more intense. In this way the most important and longest established aim of evaluation was to ensure accountability (Batterbury 2006). From this time on, the Commission nominated the regions which were to receive financial aid, approved the development plans, and exercised oversight on development expenditure. The fact that these were the most significant items of the Union's budgetary expenditure further strengthened the demand for accountability<sup>303</sup>. As a result of these developments, the evaluation system, monitoring, financial management and auditing became stricter and more widely established in the EU, together with the attendant legal responsibilities. The situation is complicated even further by the fact that during the process of evaluation a large number of organisations must be included, from the programme managers and partners, through the regional and national authorities, right up to the various Union institutions, but in terms of the results achieved through Union expenditure and the achievement of the programme, *each organisation has different interests*. (Bachtler – Wren 2006)

Constructing an evaluation system for the programmes in the member states is not at all simple, since there is no monitoring regulatory system at the community level. The need for monitoring is evident in the Council regulations concerning the common budget, but nothing is said about how to create it in practice. For the 2007-2013 budgetary period the European Union only issued working papers and guidance documents to assist the evaluation process, and did not deal with the establishment of a regulatory system for programmes which affect the common budget<sup>304</sup>.

In the EU the basic *aim* of evaluation (or monitoring) is not to provide an ex post analysis of the flow of funds, but “to provide support for the background examination of the execution of the development programmes” (Forman 2001:211). The *task* of monitoring, according to Rechniczek – Lados (2004:257) is “to account for the developments leading to regional development and the advancement of programmes, and in this way to their evaluation.” Like Forman (2001) they also point out that monitoring is not simply a financial and administrative control, but much more: following the course of development programmes, continually evaluating them, providing feedback on the achievement of goals as well as an evaluating and systemizing the regional effects of development.

Although the terms ‘evaluation’ and ‘monitoring’ have distinct meanings, in international and Hungarian literature they are regularly used as synonyms. For the reader, the difference can perhaps be felt in the difference between the micro and the macro level, since evaluation refers to macro-, while monitoring to micro level evaluation. (Bradley 2006:190).

How do we evaluate? How can the existence of a policy be justified; how can we prove that the money spent in the framework of regional policy has been spent well? According to Molle (2006:2) two things must be measured. First, we must show that the policy has reached its objectives, in other words that it has been *effective*. Secondly, we must demonstrate that no money has been wasted, in other words that the policy has been *efficient*. The demonstration of effectiveness and efficiency help us in the process of evaluation.

The first step of every evaluation is that we must understand the logic of the intervention, which obviously implies understanding what we wish to achieve, and how we wish to achieve it (see EC 2001:5 and EC 2006:4). The key elements of the logic of intervention are inputs, project (or activities), outputs, results (short term or initial impacts) and outcomes (or longer term impacts). See Figure 1. Often a SWOT analysis is associated to this structure.<sup>305</sup>

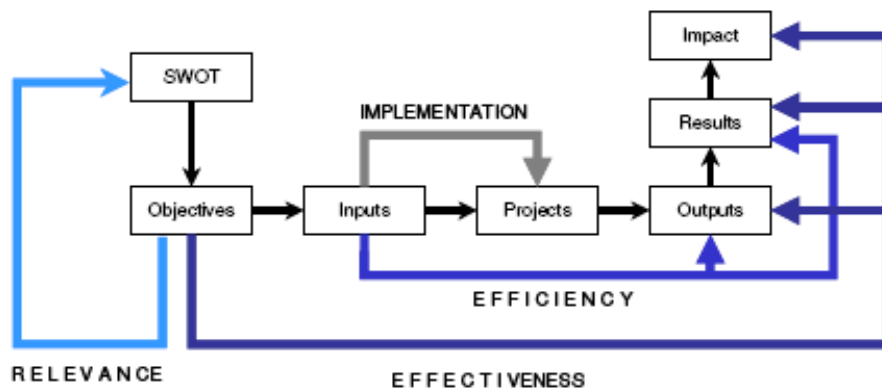
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303 The increasing interest in the evaluation of the EU cohesion policy can be described as an international trend, driven worldwide by the demand for a legitimisation of and justification for governmental intervention. (Bachtler – Wren 2006).

304 See [http://ec.europa.eu/regional\\_policy/sources/docoffic/working/sf2000\\_en.htm](http://ec.europa.eu/regional_policy/sources/docoffic/working/sf2000_en.htm) for details.

305 We will return to this diagram in the last chapter.

**Figure 1. The key elements examined during the evaluation of EU regional policy.**



Source: Molle 2006:5.<sup>306</sup>

By completing the evaluation we are able to answer not only the research question's accountability criterium (referring to the appropriacy of the expenditure of tax payer's money); with the help of the evaluation we are also able to improve the results of a certain phase of the development policy, that is planning, programming and implementation – in other words we can improve performance (effectiveness and efficiency). Taking all this into consideration we can refer to this process as learning. (Molle 2006:2)

### Types of Evaluation

The complexity of evaluation mentioned above (arising mainly from the divergent interests involved) is deepened by the fact that it can appear in many forms. The guidelines and working documents that act as regulations only create the framework, while the national and regional environment, the institutional system and the nature of the execution are all different. The culture of evaluation and the administrative capacity for such tasks also differs between member states. While there is a strong tradition of evaluating regional development in the northern European states, in southern states, such as Greece and Italy, the specialised evaluation has not yet become an integral part of the administrative system (Bachtler –Wren 2006:149).

Evaluation also differs from programme to programme. A programme can include many areas of intervention (its aims can be related to physical or economic infrastructure development, human resources, research, technological development and innovation environmental goals, support for small and medium-sized business etc.), and a selection of financial instruments can help its implementation, which can bring improvements for many beneficiaries. In addition to this the co-financing of the programmes stipulates state- or private capital contributions, which further complicates the picture.

Thanks to the great interest shown towards evaluation, the EU cohesion policy and its accompanying *methodology* have also moved to the centre of attention and have become *disputed* areas. This is not surprising considering the sums devoted to the policy<sup>307</sup> and the policy's role, but we must be aware that there are many different types of analyses and methodologies.

The origin of most disagreements concerning evaluations is that they are based on differing philosophical foundations. The modern practice of evaluation can be traced back to three philosophical traditions; positivism, constructivism and realism. *Positivism* is based on the idea that it is possible to obtain objective knowledge if we make observations (Tavistock Institute –

<sup>306</sup> For the same diagram see EC 2001:9 or EC 2006:4.

<sup>307</sup> On the basis of the financial plan referring to 2007-2013, the goals of the EU cohesion policy can make use of 35.7% of the full union budget, which translates to 347.41 billion Euros.

GHK – IRS, 2003:21). Separate individuals should, if they employ the same tools of observation and analyse their results with objective techniques, arrive at the same results. The positivist tradition searches for regularity and laws (just as in natural science) and the description of regularity arises from the aggregation of individual elements. However there are many limits to the pure form of positivism, for example it is difficult to observe reality, it is difficult to observe it totally and the observer is part of reality and can therefore change the environment etc.

The limits of positivism led to the formation of the so-called post-positivist schools. The most radical development, and the one which rejects most of positivism's assumptions, is *constructivism*, which rejects the existence of 'objective' knowledge. *Realism*, concentrates on the various interconnections, the elements, or the framework assumptions, in order to help the interpretation of explanations. This approach attempts to reveal the individual elements of the programmes and policy background mechanisms. (Armstrong – Wells 2006:263-266, Tavistock Institute – GHK – IRS, 2003:22)

Different *evaluation methods* are used for the different philosophical approaches. Positivism remains the dominant philosophical tradition in the analysis of the effects of the structural funds. This involves mainly top-down evaluations with the help of statistical techniques. Top-down analysis means the collection of aggregated macro-level secondary data (such as regional unemployment time series or industrial location cross-sectional data), which are analyzed with different statistical methods for example time series regression analysis or full econometric models, but input-output analysis and computable general equilibrium (CGE) models are also used (Armstrong – Wells 2006:264). Bottom-up approaches are used in the positivist model inasmuch as micro-level data are collected and an attempt is made to aggregate them and generalise them to the whole.

The realist approach tends to prepare studies based on large sample-size surveys of beneficiaries, similarly to postal or telephone questionnaires, or more in-depth and narrower-focused interviews. In other words this approach concentrates on particularities and on peculiarities, as opposed to the positivist approach which searches for generalisations, empirical regularities. (Armstrong – Wells 2006:265)

The content of the evaluation can change as the programme progresses, and can include evaluation before (ex-ante), during (mid-term) and after (ex-post) the programme. Different evaluation methods can be applied to individual *stages* or levels (see Table 1) A comprehensive description of individual evaluation methods can be found on the Union's evaluation homepage<sup>308</sup>.

It can be seen from the table that micro (bottom-up) and macro (top-down) approaches can be found among the various methods. For the *micro-level analyses*, such as the cost benefit analysis there is a familiar and well-established research background (Mishan 1988), but the literature examining the *macroeconomic effects* of the community's interventions also enjoys a solid research base (see e.g. Romp – De Haan 2005). The two approaches have radically different methodologies, as can be seen in Table 2, although recently attempts have been made to integrate the two approaches (see Bradley et al 2005).

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308 This can be reached at the following web address:

[http://ec.europa.eu/regional\\_policy/sources/docgener/evaluation/evalsed/sourcebooks/method\\_techniques/index\\_en.htm](http://ec.europa.eu/regional_policy/sources/docgener/evaluation/evalsed/sourcebooks/method_techniques/index_en.htm), last consulted on April 20th, 2009.

Table 1: Methods and levels of evaluation

Methods of evaluation	Levels of evaluation		
	Before (ex-ante)	Ongoing (mid term)	After (ex-post)
<i>Sociology type methods</i>			
1. SWOT analysis	++	+	
2 Document analysis	++	+	+
3 Personal interview		+	++
4. Focus group	+		++
5. Case study			+
6. Personal observation		+	
7. Expert panel	++		+
8. Questionnaire survey			+
9. Delphi method	+		
10. Comparison (benchmarking)	+		
<i>Parameterizable, exact methods</i>			
11. Geographical Information System (GIS)	+	+	++
12. Cost benefit analysis	++	+	+
13. Shift-share analysis		+	++
14. Regression analysis		+	++
15. Factor analysis	+	+	++
16. Input-output model		+	++
17. Econometric model		+	++

Note: ++ refers to the most frequent evaluation level for methods used at more than one level

Source: Reznitzer – Lados 2004:267

Table 2: Trade-off between micro- and macro-approaches

	Micro (bottom-up)	Macro (top-down)
<b>General structure</b>	Informal , flexible, use of subjective elements	Formal, complex, objective, based on behavioural theory
<b>Level of disaggregation</b>	High (individual projects)	Low (aggregated, whole economy)
<b>Use of theories</b>	Weak (judgemental)	Strong (macroeconomics)
<b>Model calibration</b>	Judgemental, informal	Scientific, econometrics
<b>Policy impacts</b>	Implicit/ranking	Explicit/quantified
<b>Treatment of externalities</b>	Usually ignored	Usually explicitly modelled

Source: Bradley et al 2005:7

For the rest of this paper we will examine the effectiveness of the Union's regional policy, and for this examination the best methods are mostly case studies, model simulations and econometric analysis. In these fields the literature is extremely rich; this paper only intends to draw attention to the differences between evaluation types and is in no way designed to present a comprehensive summary. In the last chapter of the paper, despite the differing methods, we will try to draw some kind of conclusion regarding the efficiency of the operation of the structural

funds and to establish some criteria on the basis of which a more efficient use of aid may be achieved.

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# ASSESSING THE IMPLEMENTATION OF REAL CONVERGENCE IN ROMANIA

**Ungureanu Mihai Dragos**

*Permanent Representation of Romania to the European Union, dragos.ungureanu@yahoo.com, 0744542651*

**Stoian Florin Bogdan**

*„Lucian Blaga” University of Sibiu, The Faculty of Economics*

**Ionescu George Horia**

*The Romanian-American University, The Faculty of Internal and International Commercial and Financial-Banking Relations, Bd-ul.Expoziției Nr.1b Bucharest, gionescu@rau.ro, 0744754752*

**Vilag Ruxandra Dana**

*The Romanian-American University, The Faculty of Internal and International Commercial and Financial-Banking Relations, Bd-ul.Expoziției Nr.1b Bucharest, rruxaa@yahoo.com, 0721613346*

*The convergence is an essential objective of the integration process of Romania in the European Union. Minimizing gaps in the level of development that arise between Romania and the average European Union can not be achieved solely through the use of market forces-they rather polarize and create divergences. So, are required, specific tools and mechanisms (economic models for assessing growth, the approximation of the real convergence of sigma and beta type). Economic transformations which are occurring globally, and increased aversion to risk have contributed to the significant decrease of capital flows to Romania; have increased also pressures on exchange rate - was recorded a cumulated depreciation of more than 30% of the national currency since August 2007. In early March, Romania called on the European Union and International Monetary Fund in order to support the balance of payments' stability, taking into consideration the massive decreases in flows of external capital-matter what cause polemics among economists and that impact a generalized scale of the economy.*

*Keywords: convergence, European Union, real convergence*

*JEL classification: F15*

## **I. Introduction**

Although it was introduced in analysis with a spatial scale that has undergone a process of transition in Europe, the concept of convergence began to enjoy more attention in the last 4-5 years, being induced by the last two enlargement waves of the European Union. This has replaced the phrase approach founded on the principle of restructuring, assessing also the integration of new EU Member States in the context of achieving a long-term economic growth. The convergence is an economic category, which has won popularity among economists not only because of the catching up of gaps that it involves, but also because of its usefulness in the validation of several models of economic growth. The concept can be examined from several perspectives: *real convergence* describes the convergence of income levels, reflecting the convergence of nominal price level convergence, while *institutional convergence* implies institutional harmonizing legislation. We can also talk about the convergence of business cycles, convergence behavior, and convergence of social stratification.

## **II. Assessing the implementation of real convergence in Romania**

For such an assessment we need to compute the place that Romania has in the European Union rankings in terms of GDP per capita. It should also be defined and evaluated the rate of advancement of Romania to the convergence with the developed countries, taking into account the pace of their growth. From an economic point of view, Romania stands still in a marginal position in comparison with developed countries. For example, compared with 252,004 the EU



average, Romania GDP per capita, calculated at the exchange rate, was 8,1 times lower, and calculated according to purchasing power parity (PPP) was 3,1 times smaller. Compared with the average of the ten countries that joined the European Union in 2004, the GDP per capita of Romania in 2004 were 2.35, i.e. 1.75 times lower, according to data provided by Euro stat. Among the 28 states and candidate countries in 2004 (EU 27 + Turkey), Romania is in the 26-ed position (before Bulgaria and Turkey), rating made according to GDP per capita expressed in euro according to the PPP. If it goes beyond the European area when analyzing the position of Romania based on per capita average income we observe that Romania recorded better positions. However, the spread between the extremes is more significant than at the European level. Among the 208 independent countries and territories, Romania is ranked according to GDP per capita by far the most extreme cases, but the worldwide media, presents the following values of key macroeconomic indicators:

**Tabel no.1: Statistical data for Romania<sup>309</sup>**

INDICATORS	2007
Population (mil.)	21.55
$\Delta\%$ population $_{n/n-1}$	0
The average life $_{women}$ (years)	76
The average life man (years)	69
GDP $_{USD}$ (mil)	166
$\Delta\%$ GDP $_{n/n-1}$	6
$\Delta\%$ IGP $_{n/n-1}$	5
Net Direct Foreign Investments (%GDP)	6
Internet users (to 100 peoples)	24
Unemployment (% from the total labor market)	6

To answer the question if Romania manages to complete the process of convergence to the European Union and at the top of most developed countries worldwide in terms of GDP per capita, Romania's progress should be compared with developments in other countries or groups of countries. If progress is defined by the annual average growth of GDP per capita and we analyze the rhythm of Romania in relation to other countries or groups of countries we can easily see that the convergence of Romania is not only very difficult to achieve, but becomes almost an illusion, considering that the disparities are becoming larger, and the annual growth of Romania slower between 1990-2004 or even negative in the 1980-2003 period.

Even if the calculations for analysis and prediction require a long series of data, using the interval 1980-2000 for Romania becomes slightly unrealistic, given that the two decades are not typical in terms of continuity and economic stability. In that period, the Romanian economy has faced a profound and acute crisis, the centralized economy (in the 80's) has revealed its inefficiency and lack of capacity to innovate and to adapt, and on the other hand the transition to a new system (in the 90's), consisting in a general and profound restructuring of the whole economy (the technological and organizational concept of property management, economic and social, institutional system, etc..) developments that led to a profound negative trend of the national economy. Changes began to report positive results since 2000, when economic stability and functionality have been achieved on the basis of new principles. So that idea should be supported to achieve convergence scenarios, in the case of Romania to be considered growth rate since 2000 just because they are considered reliable for an assessment of the future evolution of the Romanian economy - 2000 was categorized as representing the start of a normal development.

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309<http://www.worldbank.org.ro/>

Between nominal and real convergence there must be a right balance, as a forced nominal convergence is not sustainable and can explode in time, like inflation, which can be artificially taken down.

Achieving nominal convergence implies the fulfillment of criteria established by the Maastricht Treaty<sup>310</sup>, namely price stability, long-term interest rate, exchange rate stability, fiscal sustainability position.

The process of catching-up of the countries in Central and Eastern Europe is influenced by the quality management of the two types of processes - the convergence of real and nominal convergence, the last inducing constraints for economies that wish to join the euro area. The process of nominal convergence has been privileged in relation to the real convergence, since its implementation requires a lower horizon of time. Joining the euro area will not be realized until after reaching the full criteria for nominal convergence, set in Maastricht on the inflation rate, interest rate long-term deficit and debt, and the stability of nominal exchange rate.

According to the European Central Bank, during April 2007 - March 2008, Romania has registered an average annual Harmonized Index of Consumer Prices (HICP) of 5.9%, clearly superior to the reference value of 3.2%<sup>311</sup>. Retrospective analysis over a longer period shows that, in Romania, inflation measured by consumer prices was placed on an evident descending trend, although initially recorded a very high level. The process of disinflation has been in the context of strong growth of real GDP, which exceeded the level of 5.0% almost every year since 2001. Reducing inflation was based on the accelerated growth of labor income, which exceeded 20% over several years. In the period between 2005 and mid 2007, the evolution of import prices has helped the process of disinflation due to the considerable appreciation of the national currency against the euro. Analysis of recent developments indicates that the annual HICP rate has accelerated from about 4% in January-July 2007 up to 8.7% in March 2008. Significantly increasing of food, import prices increase as a result of the depreciation rate since mid-2007 and increasing raw material prices on international markets, and substantial advancement of real GDP supported by increased domestic demand, continued to increase inflationary pressures. The increase in labor income reached 20.2% in 2007 compared to the previous year, being high net to productivity growth and thus leading to a significant increase in unit cost of labor.

Until 2008, Romania has not been the object of a decision of the European Union Council on the existence of excessive deficit. Given the budget deficit of 5% in 2008 and the possible evolutions of macroeconomic balances in 2009, chances are very high for things to change in this respect. In 2007 Romania registered a budget deficit of 2.5% of GDP, below the reference value of 3%. The share of public debt in GDP was 13.0% in 2007, being lower than the net reference value of 60%. Further fiscal consolidation is necessary for Romania to maintain a share of the deficit lower than the reference value and to fulfill the medium-term objective specified in the Stability and Growth Pact. We think that taking into consideration the terms of current economic and financial conditions and in view of the fact that 2009 is an election year, this goal will be almost impossible to achieve. In the convergence program is defined as the deficit adjusted for cyclical effects, which are not temporary measures approximately 0.9% of GDP. Regarding other fiscal indicators in years 2006 and 2007, the magnitude of the deficit has not exceeded the share in GDP of public investment.

In the period between 1 January 2007 (date of accession to the EU) and 18 April 2008, the national currency did not participate in ERM II, but was traded under a flexible exchange rate. In the reference period 19 April 2006-18 April 2008, the leu has been subject to depreciation

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310 The Maastricht Treaty does not mention explicit criteria on real convergence, which involves the reduction of disparities between countries regarding the level of prices and productivity, involving increase revenue of the developing countries to the level existing in developed countries

311 computed according to the Maastricht Treaty

pressures until mid July 2006, then, it has appreciated significantly against the euro. Since August 2007, noted currency depreciated against the backdrop accentuated aversion to risk from international financial markets, as a result of financial turmoil and intense concerns on deepening current account deficit and inflation inflammation. In general, in most of the reference period, the Romanian leu was quoted at levels above the average net rate of exchange against the euro recorded in April 2006, under a relative high degree of volatility.

The differences between short-term interest rate from the three months EURIBOR were tempered, easily exceeding 2 percentage points at the end of 2007, before increasing to 5.1 pp in the three months that ended in March 2008.

In March 2008, the rate of real effective exchange rate in relation to the euro stood at a level above the average historical net recorded in the last ten years, and the real bilateral compared to the same currency easily exceeded these values. However, real economic convergence makes difficult any assessment of the historical evolution of real exchange rate. Regarding other external developments, since 2002, Romania registered a progressive increase in the deficit of current account and capital balance of payments, which stood at 13.5% of GDP in 2007. Although significant external deficits may be partly generated by the alignment of an economy such as Romania, deficits of such magnitude raise sustainability, especially if they persist for long periods. It seems that very large deficit recorded recently has caused also an overheat of the economy. From the perspective of financing, net inflows of direct investment covered almost entirely by external deficit in 2006. However, lately, a significant deficit was financed by net inflows of other investment in the form of foreign loans contracted by the banking and non banking sector. In this context, the net international investment position of Romania has deteriorated from -19.3% of GDP in 1998 to -46.6% of GDP in 2007. In the reference period April 2007 - March 2008, long-term interest rates were on average at 7.1%, higher than the reference interest rate criterion.

### **III. Conclusions**

The harmonization of the two types of processes - the real and nominal convergence – is the solution to stimulate the process of catching-up of our economy. Romania recorded a slow convergence of the monetary variables (inflation rate and interest rate) in accordance with the criteria set in Maastricht. The public finance situation is favorable in the spirit of these criteria, but shows a low degree of economic modernization. The real convergence process could be stimulated by promoting a mix of expansionist policies, but the process of disinflation would be affected in the absence of a flexible offer. This is the consequence of structural reforms over the economy, to improve economic incentives, as well as attracting foreign capital. Such advocacy for policies to boost supply is justified by the prospect of joining the euro area (and prior to ERM2) authorities would have only fiscal policy tools, whose use will be constrained by the Stability and Growth Pact. Another reason has its explanation in the increasing integration of markets, increase competitiveness, which requires domestic companies to ensure the sustainability of economic growth.

From the Romanian perspective, the coordination of economic policies including the interactions between policy decision at national level and at the supranational level (especially the European Commission and European Central Bank), as representatives of the interests of Member States (especially in the areas of fiscal and monetary).

Motivation of coordination on the economic level is found in growth of interdependences of the Romanian economy and that of other European Union countries (70% of Romania's trade is done with the European Union), the proper functioning of the single internal market and achieving economic and monetary union (adopting the euro and fulfilling the Maastricht criteria on inflation rate, the nominal interest rate on long-term budget deficit, public debt and low fluctuation of exchange).

Adopting the euro should not be viewed as an end in itself, so that the training should be reviewed in the light of cost-benefit analysis. In other words, the timing of joining the euro area is a matter of temporal optimization. In fact, it should include two phases: the first refers to the fulfillment of a sustainable nominal convergence criteria and the second stage involves carrying on a basic criteria for real convergence criteria which are not stipulated in any explicit strategy in the post or in the Convergence Program of Romania. Convergence is about revenue, price convergence, the convergence of productivity, education standards, infrastructure development, economic and social cohesion, structural convergence with EU economies etc.

The Convergence Program of Romania should achieve simultaneous convergence of real and nominal convergence in the relationship with the European Union. Prerequisite for achieving this objective is to implement a combination of appropriate macroeconomic policies that ensure the continuation of disinflation and maintaining external sustainability. Without continuing the process of disinflation, limiting deepening current account deficit, increase predictability and performance of fiscal policy over the medium term, high absorption of European funds and strengthen structural reforms, the objectives of the Convergence Program should remain just good intentions. It's looking to a founded concept of a mix of macroeconomic policies by matching monetary policy and exchange rate policy with fiscal policy, income and structural reform. Macroeconomic projections are based on macroeconomic analysis sensitivities, on the impact of wage growth, agricultural production and the depreciation of exchange rates on the macroeconomic framework. Analog, in terms of long-term sustainability of public finances there sensitivities analysis on the budget and public debt. An advantage is the correlation of macroeconomic indicators of the monetary tax, resulting in an increased effectiveness of macro policies in solving failures faced Romanian real economy.

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# RELATIONSHIP AND CAUSALITY BETWEEN ECONOMIC GROWTH RATE AND CERTAIN DISEASES IN THE EUROPEAN UNION

## **Unița Lucian**

*University of Oradea Faculty of Medicine and Pharmacy Contact address: Oradea, Ady Endre str. 30 / 2, post code 410002, Bihor, Romania E-mail: lunita@uoradea.ro Telephone: +40744890996*

## **Straciuc Oreste**

*University of Oradea Faculty of Medicine and Pharmacy Contact address: Oradea, Piata 1 Decembrie, Nr.10, Bihor, Romania E-mail: orestex@yahoo.com Telephone: +40744869600*

## **Maghiar T. Traian**

*University of Oradea Faculty of Medicine and Pharmacy Contact address: Oradea, Piata 1 Decembrie, Nr.10, Bihor, Romania E-mail: dmaghiar@uoradea.ro Telephone: +40722393784*

## **Borza Ciprian Tudor**

*University of Oradea Faculty of Medicine and Pharmacy Contact address: Oradea, Piata 1 Decembrie, Nr.10, Bihor, Romania E-mail: cborza@uoradea.ro Telephone: +40733050751*

*The objective of this paper is to further research the already established relationship between economic growth and health by using the results of some previous works and applying them on the recent data, in order to find out if the economic growth rate in the current European Union member countries is connected to the growth rates of various diseases. In this respect, based on the existing economic theories, this paper examines if the results found out in the above refereed scientific works apply when regressing different types of variables in the EU member states for the period of 1995-2007. The results turn out a positive relationship between the health of population and the GDP, and that the causality in the relation between the real GDP and the economic growth is directed from the economic growth to the diseases growth rates.*

*Key words: Health Policy, European Union, Economic Development, Human Resources, GDP, Economic Growth, diseases*

*JEL Classification code: I10, I11, I18, I19, O15, F02.*

## **1. Introduction**

Basic books on economics offer a simple view to the relation of the GDP and human well-being. For example: "Large differences in income are reflected in large differences in the quality of life. Richer countries have more automobiles, more telephones, more televisions, better nutrition, safer housing, better health care, and longer life expectancy." (Mankiw 2004, p. 537)

Easterlin and Angelescu (2007) studied the quality of life, and show that the material well-being has objectively increased, but phones and TV have not made people subjectively better off. Furthermore, Frey and Stutzer (2002, p. 56) discovered a connection between self-reported health and happiness rates and in this respect, the quality of life can somehow be explained by life expectancy or any other health related indicator. As there is a connection between health and economic growth, it must be admitted that Mankiw has a point even in the subjective sense.

The purpose of this paperwork is to further research the relationship between economic growth and health by testing if the results of some previous works hold with new data. The main interest is to find out, if the rate of economic growth in the current EU member states is related with the growth rates of different diseases, because the interpretation of the theories makes us to expect a negative relationship between the variables studied (Järvi, 2007).

Since there is not yet any distinct theory or model that would explaining these relationships, the issues of growth and health are of interest not only to economists, but they are also topics in general discussion, newspapers, politics etc.

## 2. Theoretical Background

“A Contribution to the Empirics of Economic Growth” by Mankiw, Romer and Weil (1992) is an article often referred to economic growth, especially because they incorporated the human capital into the Solow growth model, which was a really important improvement. Kendrick (1976) estimated also already in 1969 that a big part of the total capital stock is human capital: “over half of the total U.S. capital stock was in the human capital”. The augmented Solow model reflected by the  $Y = K^{1/3} \times H^{1/3} \times L^{1/3}$  equation, shows us that the output is produced with a combination of physical capital (K), human capital (H) and labour (L). We will test further on how the growth rates of diseases and GDP are related.

### *Health of the human capital in economic theories*

Mankiw, Romer and Weil (MRW) described human capital as gain of education, but now, the human capital is considered to be a complex input with much more sources than only knowledge capital. For this reason, Knowles and Owen (1995) incorporated health capital into the Solow model by using life expectancy as a proxy for health capital. One may use also the health care expenditure per capita (HCE), as it was done in an extension of the MRW model by Heshmati (2001), whose results were analogous with the ones in the MRW model. He also notes that HCE has significant and positive effects on economic growth and the speed of convergence. On the other hand, when the HCE is included in the growth model as a variable of health, the coefficient of human capital variable becomes insignificant (Heshmati 2001).

The results by Knowles and Owen suggest that the relationship between income per capita and health capital is stronger than the one between income per capita and education level of the human capital. However, Weil (2006) argues that health is less important as an explainer of the income differences between countries than both human capital acquired by education and physical capital. Kaldaru et al. (2004) suggested that not all the changes in GDP and in health are directly related via human capital contribution.

**Health and income – positive or negative relationship?** If we agree that health determines the quality of human capital, it is normal to assume that health has a positive influence on productivity and economic growth. Going forward on this idea, health also affects GDP through higher wages and less absence from work. Besides the direct effects on growth, according to Weil (Weil 2006), there are numerous indirect effects, such of: higher incentive to acquire education and the raising of investment and physical capital per worker, if people who live longer start saving for retirement.

Figure 1 illustrates the relationship between life expectancy at birth and the national income per head of Samuel H. Preston (1975). The curve is based on scatter-diagram and shows a clear logically correlation between health and GDP.

Bloom et al. (2001) indicate that health, measured as life expectancy, has a positive and statistically significant effect on economic growth, suggesting that one year improvement in life expectancy contributes to four percent increase in output, and this way, the result is only slightly stronger than the effect found in most other studies.

A study by Weil (2006) shows that if there were not health differences between the countries: the income ratio between them would reduce by 12.7 percent, when the adult survival rate (ASR) for men is used as a health measure. The largest part of reduction came from the lower part of the distribution, meaning that the effect of health on GDP is



Figure 1

strongest among the poor countries. The importance of health was fairly larger when using the age of menarche for women as a measure.

Other authors showed significant effects of ASR on the economic growth rates for low income countries. Bhargava et al. (2001) show that for the poorest countries, a 1% increase in ASR was associated with an approximate 0.05% increase in the growth rate. For sure, health has an economically important effect in determining income differences among countries, but it worth remembering that this effect is far from the dominant source of the cross-country income variation: “A world in which health was equalized among countries would still have 90 percent of the cross-country income variance left intact” (Weil 2006).

Against the approach of Weil, Acemoglu et al. (2006) did not hold population constant when investigating the effect of the life expectancy at birth on economic growth, and therefore, their method is better to use when trying to estimate the effects of health changes on economic growth per capita, both changes in health and population growth caused by increased life expectancy being included in the model. Unfortunately, the results did not give evidence that the large exogenous increase in life expectancy would lead to a significant increase in per capita economic growth. According to Acemoglu the capital-to-labour and land-to-labour ratios are reduced, which then diminishes the labour productivity and reduces the income per capita. The authors further argued that “this initial decline is later compensated by higher output as more people enter the labor force. This compensation can be complete and may even exceed the initial level of income per capita if there are significant productivity benefits from longer life expectancy”. Acemoglu et al. (2006) also noted that when the accumulation of the capital is slow, the direct effect of an increase in population may reduce income per capita even in the steady state and that the benefits from health can be limited if some factors of production, for example land, are supplied inelastically. An interesting result is that life expectancy is higher in countries with income distributed more equally. Clarke and Islam (2003) found that “Equity is important in increasing social welfare and in particular health”, and that “health status is unlikely to be strictly proportional to income, and relatively small transfers to the poor from the rich can be expected to improve overall health levels”. Resuming, the existence of the relationship between health and economic growth can be explained in three ways (Järvi, 2007), as follows: increased income causes better health; reverse causation: healthier workers are more productive and thereby income increases as well; some external factor causes the changes in health and in wealth.

Kaldaru et al. (2004) stipulate that economic development and growth have traditionally been considered as a precondition for improvements in health. However, this view changed recently when *The Commission on Macroeconomics and Health* pointed out that the improvements in health are important for economic growth and it is more difficult to achieve sustainable growth in countries where people have poor health and low level of education. Pritchett et al. (1996) have used such variables, knowing the direction of the relationship: “The fact that using different, nearly orthogonal, components of income to estimate the elasticity produces generally higher (and tolerably similar) results provides strong evidence in favour of a causal and structural relationship running from income to mortality”. Using structural microeconomic, Weil (2006) estimates on the direct effect of health on individual income, and shows a relation going to the other direction. The effects of health on GDP growth rates, when measured as adult survival rates (ASR), are depending on the level of GDP. The effects on economic growth aren't remarkable at high levels of GDP, being difficult to attain increases in ASR and those will mainly increase the proportion of the elderly in the economy. On the other hand, it can be expected to see significant effects of ASR on economic growth because its contribution to the labour in the first years in the countries with lower levels of GDP. The ASR has significant positive effects on growth rates, until a given level of GDP is reached. Once the level is crossed, the net effect of ASR approaches zero. For a few countries with high GDP levels there was even a negative and statistically significant net effect (Bhargava et al. 2001). Corresponding results for other health indicators



were also found by Barro and Sala-i-Martin (1999). In the developing countries where the starting point in health is lower, the gradual improvements can have significant benefits, for example, the life expectancy and infant mortality. For the developed countries, it's impossible to improve health dramatically, because the health levels are already high and probably at limits (Järvi, 2007). Against all above mentioned theories, Clarke and Islam (2003) explained the possibility of the relation between health and economic growth turning to negative because of the biological limits of human beings (improving health outcomes becomes increasingly difficult when the starting points are already high), environmental externalities of growth (pollution associated with the increasing economic growth) and less healthy diets (especially in the developing countries, where wealth is a new phenomenon reflected in the consumption of fatty or high cholesterol foods and increased rates of smoking and alcohol use).

### 3. Testing the European Union data

This empirical part will test if the relationships discussed above prove for the mental and heart related diseases in European Union (Järvi, 2007), because these diseases were revealed by the ECHI<sup>312</sup> project, carried out in the framework of the Health Monitoring Programme and the Community Public Health Programme 2003-2008, as being the main causes of death in the EU. We will test how the average growth rates for examined health indicators are related to growth rates of real GDP per capita, between 1995 and 2006. As earlier discussed, the direction of the causality is not clearly reflected and the regression could have been done therefore on the opposite way as well. Then the changes in the GDP growth rate per capita would have been exogenous, and the changes in the growth rate of diseases endogenous variables. As the results of regression later indicate, this might have been the correct direction of the causality and therefore it could have been a better approach for the research. On the other hand, changing axes does not change the relations and exactly the same conclusions can be construed, no matter which way the regression is done. The data used comes from the *WHO Health for All database 2008* (Järvi, 2007) and from the European Commission, *Dissemination of health information and data*<sup>313</sup>, and includes the following four variables: real gross domestic product per capita measured in PPP\$ (code 0270), mental disorders incidence per 100000 inhabitants (code 2390), hospital discharges due to circulatory system disease per 100000 inhabitants (code 2450) and Hospital discharges due to ischemic heart disease per 100000 inhabitants (code 2460). The codes above refer to the organizing system of the variables in the database. The growth rate of incidence and hospital discharges of the diseases are used instead of mortality rates because those are direct indicators of the changes in current health (Järvi, 2007). Had mortality been used, it would have been important to notice that the time of diagnose is unknown, as is the proportion in which the disease has been related to the growth rate of GDP per capita since that year. Even if the year and proportions could have been estimated from the medical information of the disease, the changes in health that caused the death in the period in question might have happened before year 1995, which is the first year in the sample. The sample cannot even be expanded much, as there is not enough data available. Due to the limitations on data availability, not all the countries were presented on the period in question, because only 22 out of 27 EU member states had enough data for regression. Cyprus, France, Luxembourg, Malta and United Kingdom were those excluded. For testing the variable "mental", there was data only from 11 countries, which already makes it really hard to get significant results. Drawing conclusions from these limited data should be done therefore with consideration.

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312 Please, see the The ECHI (European Community Health Indicators), on [http://ec.europa.eu/health/ph\\_information/dissemination/echi/echi\\_en.htm](http://ec.europa.eu/health/ph_information/dissemination/echi/echi_en.htm), last visited on 15.04.2009.

313 Idem.

The relationships founded between the average annual growth rates of GDP and the three health indicators are used as a base when analyzing the deeper meaning of the results (Järvi, 2007). All the values used further on are logarithmic, and each indicator is presented in its own scatter plot and a line of best fit is drawn to each graph. *Mental disorders* are between the few measurable indicators of how healthy people are psychologically, and it is appropriate to study this variable here.

The study of relationship in *Figure 2*, between growth rate of GDP per capita and incidence of mental disorders, shows a negative linear relationship meaning that better mental health is related to faster economic growth (Järvi, 2007). Unfortunately, there was data available only from 11 countries and therefore the result rests ambiguous. A closer look exposes that the negative slope

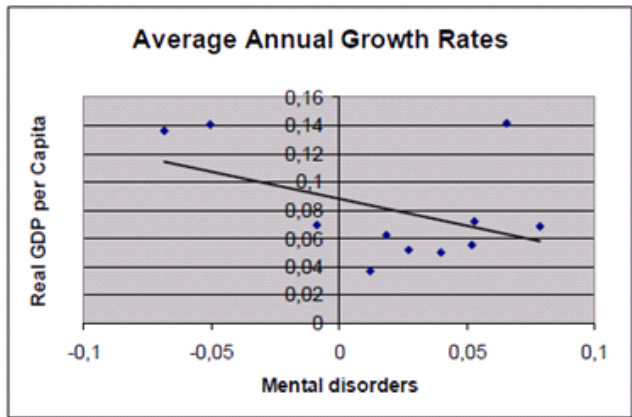


Figure 2

of the line of best fit is only caused by two extreme points at the top left corner on the scatter plot. If these points were removed, the relationship would turn positive. The relationship would still be positive even if the third point at the top right corner of the scatter plot was removed. The three points above all the others represent the Baltic countries, in order from left to right: Lithuania, Latvia and Estonia. The P-value 0.16 of the relation (extreme points included) indicates that the result is not significant statistically (Järvi, 2007).

The different kinds of heart diseases are common in the whole developed world, and therefore it was appropriate to have them represented as well. First variable of this type in this study are the circulatory system diseases. *Figure 3* shows a better fitting line for hospital discharges after a circulatory system disease, than the one for mental health. The amount of data has also been doubled. The data are available from 22 countries and so, the results are more reliable. Also here it is possible to discuss if the three points at the 0.14 line of the GDP per capita growth are such extreme points that the positive slope of the trend line was caused by them. In this case, if the points were removed the trend line would still have a positive growth coefficient. The result for this regression (extreme points included) is also significantly different from zero at 95% confidence level. The P-value of X variable is 0,049.

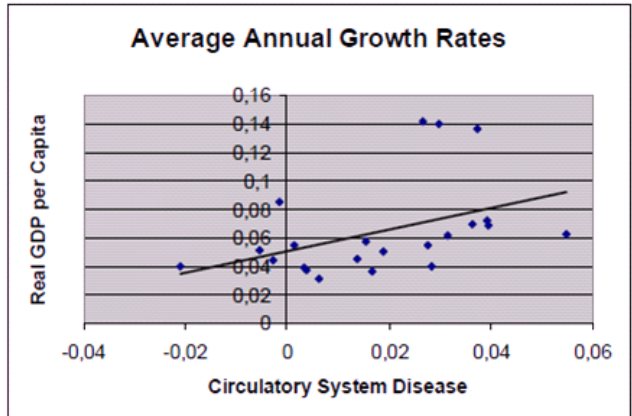


Figure 3

Ischemic Heart Disease is another consequence of the general term *heart disease*, and shows us another outcome, giving more weight to these types of diseases, and being also interesting to see if the two types of heart disease have the same kind of relation in economic growth. *Figure 4* shows us that there is no relationship between the growth of GDP and the hospital discharges after an ischemic heart disease. The P-value for this regression is 0.98. The data comes from the same 22 countries observed for the Circulatory System Disease and conduct to

the conclusion that it does not have the same kind of effect on economic growth as the Circulatory System Diseases had (Järvi, 2007).

### Concluding remarks

There are three different patterns of observations and three regressions of which only one has statistical significance. Therefore, it is natural to analyse mainly the results of economic growth related to the growth of hospital discharges due to circulatory system disease. The interesting thing in this relationship is its positive slope, i.e. as the number of the discharges grows faster, so does the growth of GDP accelerate, which can be also interpreted as that countries with higher growth rates are offering hospital services more often than the ones with lower growth rates, even if the need would be the same (Järvi, 2007).

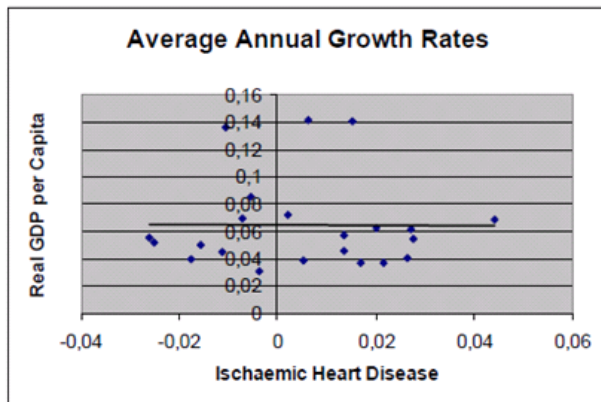


Figure 4

This is opposite to the hypothesis that economic growth and better health would vary towards the same direction, and so, the relationship between health and economic growth can turn out to be negative, as it was found also in the study made by Barro and Sala-i-Martin (1999, p. 454).

In conclusion, the relationship between health and economic growth is at least two-ways, and there is a positive one, as the results of this paperwork indicate us, even if the study suffers from the lack of data (Järvi, 2007). The direction of causality in the relationship is likely to go from the economic growth to the growth rates of the diseases, or we can express it as follows: the higher the economic growth, the higher the usage of hospital services and thereby discharges, while the incidence of the diseases remains unchanged. The result can also be seen as supporting evidence to the theory according to which in wealthier countries the relationship between health and economic growth can even turn out to be negative, but this relationship must be studied more before drawing any general conclusions.

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# THE EU IMPORT REQUIREMENTS FOR MEDICAL DEVICES BY COMPARISON WITH THE USA AND THE GHTF GUIDELINES

## **Unița Lucian**

*University of Oradea Faculty of Medicine and Pharmacy Contact address: Oradea, Ady Endre str. 30 / 2, post code 410002, Bihor, Romania E-mail: lunita@uoradea.ro Telephone: +40744890996*

## **Maghiar T. Traian**

*University of Oradea Faculty of Medicine and Pharmacy Contact address: Oradea, Piata 1 Decembrie, Nr.10, Bihor, Romania E-mail: dmaghiar@uoradea.ro Telephone: +40722393784*

## **Straciuc Oreste**

*University of Oradea Faculty of Medicine and Pharmacy Contact address: Oradea, Piata 1 Decembrie, Nr.10, Bihor, Romania E-mail: oresterx@yahoo.com Telephone: +40744869600*

## **Uivarosan Diana**

*University of Oradea Faculty of Medicine and Pharmacy Contact address: Oradea, Piata 1 Decembrie, Nr.10, Bihor, Romania E-mail: cosmin.uivarosan@gmail.com Telephone: +40749999777*

*Medical devices and supply companies are under enormous pressure to fulfill trade requirements dictated by current global markets, especially by the EU, although it is largely recognized that the innovative medical devices and procedures can considerably improve diagnostics and shorten therapeutic cycles. There are more than 8000 generic medical device groups where some devices contain drugs. The EU increases the demand for better regulatory frameworks to ensure that products entering the market are safe and efficient, even if they are essential for people's health and quality of life, and the industry that provides them plays a significant role in the economy. New treatment methods and innovative products are not easy to position in the EU market, and for this reason, one of the major issues for companies developing and producing medical devices is to be updated on the regulatory requirements and implement them.*

*Keywords: Common Trade Policy, European Union, imports requirements, USA, GHTF guidelines, trade regulations, ISO*

*JEL Classification code: F02, F13, F55, F29.*

## **Introduction**

Medical devices and supply companies are under enormous pressure to fulfill trade requirements dictated by current global markets. Simultaneously, the medical devices become even more important in the health care sector, because innovative medical devices and procedures can considerably improve diagnostics and shorten therapeutic cycles. Against this backdrop, international standardization of products and prices, entry into emerging markets, product bundling and integrated treatment solutions are gaining in importance. For the moment, there are more than 8000 generic medical device groups where some devices contain drugs. This is the main reason why the EU increases the demand for better regulatory frameworks to ensure that products entering the market are safe and efficient, even if they are essential for people's health and quality of life, and the industry that provides them plays a significant role in the economy. New treatment methods and innovative products are not easy to position in the EU market, and for this reason one of the major issues for companies developing and producing medical devices is to be updated on the regulatory requirements and implement them in the process. Besides, providers wishing to stand out from the competition need creative strategies, quality marketing, targeted branding and customized service. All of them have to develop and implement best-in-class operating models that help them outperform the market.

## 1. Defining the medical devices

According to the European Union<sup>314</sup> definition, "Medical devices are [...] articles which are intended to be used for a medical purpose. The medical purpose is assigned to a product by the manufacturer. The manufacturer determines through the label, the instruction for use and the promotional material related to a given device its specific medical purpose. As the directive aims essentially at the protection of patients and users, the medical purpose relates in general to finished products regardless of whether they are intended to be used alone or in combination. This means that the protection ensured by the directive becomes valid for products having a stage of manufacture, where they are supplied to the final user. Following this concept, raw materials, components or intermediate products are as such normally not medical devices. Such raw materials may need to present properties or characteristics which are determinant for the safety and quality of finished devices. It is therefore the responsibility of the manufacturer of finished devices to select and control by adequate means his raw materials or intermediate products".

The concept of "finished device" does not imply that a device when reaching the final user is already in a state ready for use. Prior to use further preparatory processing, preparation, configuration, installation, assembling, adaptation or fitting to the needs of the user or patient may be required. Examples:

- sterilisation of medical devices supplied non-sterile;
- assembling of systems;
- configuration of electronic equipment;
- preparation of a dental filling;
- fitting of contact lenses;
- adaptation of prosthesis to the needs of the patient.

The aforementioned activities are normally not manufacturers' activities if they are carried out by the final user as part of the use or preparation for use. In this context a distinction needs to be made between a typical professional activity performed by a healthcare professional and processing and assembling activities done by a specialist for such processing.

The definition of the term "medical device" together with the definition of "accessory" is determinant for the delimitation of the field of application of Directive 93/42/EEC. A slight difference exists between the definition in article 1(2) (a) of Directive 93/42/EEC and in article 1(2) of Directive 90/385/EEC.

Following the latter directive, accessories are by definition medical devices, whilst following Directive 93/42/EEC, a distinction is made between "devices" and "accessories". Therefore within the meaning of Directive 93/42/EEC, accessories are products in their own right and, although being treated as devices (article 1(1)) do not follow, as a general rule, the classification of related devices in conjunction with which they are used. Accessories are therefore following Directive 93/42/EEC to be classified in their own right.

This means that medical devices are everything from band aids to x-ray machines, contact lenses, hip implants, pacemakers, crutches, hospital beds and in vitro diagnostic devices.

Medical devices are usually divided into subgroups. In Europe medical devices are divided into three different groups; active implantable medical devices (AIMD), general medical devices and in vitro diagnostic devices (IVD). These groups are recognized and used by other countries as well. The main difference between countries is how these devices are regulated. In some countries medical devices are regulated as drugs and in other countries there are special regulations for medical devices (Brolin, 2008). Medical devices can in turn be regulated as one

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314 EUROPEAN COMMISSION, DG ENTERPRISE, Directorate G, Unit 4 - Pressure Equipment, Medical Devices, Metrology, MEDICAL DEVICES: Guidance document, MEDDEV 2. 1/1, April 1994, available at [http://ec.europa.eu/enterprise/medical\\_devices/meddev/2\\_1-1\\_\\_\\_04-1994.pdf](http://ec.europa.eu/enterprise/medical_devices/meddev/2_1-1___04-1994.pdf), last consulted on April 5th, 2009

group or regulated separately, usually as one of the subgroups. In Europe general medical devices are divided into non invasive devices, invasive devices and active devices. An active medical device is a device that requires a source of energy to function. An invasive medical device is a product that in some way enters the human body. The device is then called invasive, surgically invasive or implantable depending on how the device is entering the body and the time it is introduced to the body. An in vitro diagnostic device is a reagent, reagent product, instrument or system used to examine samples from human tissues or fluids to gain information. In vitro diagnostic devices are also divided into subgroups (Landvall, 2007).

When it comes to the *classification of the medical devices*, they are usually divided into different classes. Some countries have separate classification systems for general medical devices, active medical devices for implantation and in vitro diagnostic devices while other countries classify these products after the same system. All classification systems are risk based. Classification of medical devices is necessary to apply correct regulations and quality systems (Brolin, 2008).

In the United States medical devices are classified as class I (General Controls), II (Special Controls) or III (Pre-market Approval) devices where class III devices represent the highest risk and require more control. Medical devices are classified through a classification database found at the FDA homepage and are given a seven digit number based on the product category (9).

In the European Union general medical devices are classified as class I, class I sterile, class I measuring, class IIa, class IIb or class III where class III devices represent the highest risk. Active implantable medical devices are not classified and in vitro diagnostic devices have their own classification system. Information on the European classification system is found in MEDDEV 2.4/1. The classification rules are found in Annex IX of Directive 93/42/EEG (Landvall, 2007).

The Global Harmonization Task Force (GHTF) described further down has developed a recommended classification system where medical devices are divided into class A, B, C and D where class D represents the highest risk. This system is however a recommendation to regulatory authorities and not to companies. Information on the GHTF recommended classification system is found in the GHTF document “Principles of Medical Devices Classification” (Brolin, 2008).

A nomenclature is usually given to a medical device when it is classified. There are two international nomenclatures that are very common:

- *The Emergency Care Research Institute* (ECRI) nomenclature called the Universal Medical Device Nomenclature System (UMDNS). The UMDNS terms are harmonized with the classification system of the USA and exist in ten languages (2).

- *The Global Medical Device Nomenclature* (GMDN) codes. The GMND code is built according to EN ISO 15225 and is collaboration between the EU, EFTA, USA and Canada (6). The GMDN terms only exist in English but can be translated with special software. This nomenclature system is required for registering a medical device within the EU (8).

Both systems consist of defined terms that describe a group of products with similar characteristics. The GMDN system is developed from 6 different nomenclature systems and the UMDNS system is one of them. GMDN and UMDNS harmonize with each other but GMDN has more terms and is therefore preferred (10).

## **2. Quality Management Systems**

Manufacturers of medical devices need to apply suitable quality systems for their products. The requirements differ on the risk of the device and are usually dependent on the product class.

Good Manufacturing Practice (GMP) is the most common requirement but there are also other quality guidelines (GXP's). There is Good Clinical Practice (GCP) describing quality requirements for clinical trials, Good Laboratory Practice (GLP) describing quality requirements for laboratories and research organizations to ensure consistency and reliability of results, Good

Distribution Practice (GDP) for proper distribution of medical products and Good Vigilance Practice (GVP) (Brolin, 2008).

These guidelines and several others have been established by International Conference of Harmonization (ICH) and have been adopted by USA, EU and others. Most countries have their own variations of the guidelines and these are usually found at the homepage of the competent authority.

The International Organization for Standardization (ISO) has developed a standard for quality management system for medical devices called ISO 13485. This standard is based on ISO 9001:2000 and helps companies implement and maintain a quality management system. This standard is by many countries recognized as a way to reach Good Manufacturing Practice. The most important medical device standards concern biocompatibility ISO 10993, clinical trials ISO 14155 and risk management ISO 14971. Active medical devices are also subject to ISO/IEC 60601 and medical devices including software are subject to IEC 62304 (Landvall, 2007).

### **3. Regulation of Medical Devices**

Manufacturers of medical devices need to adjust to the regulatory framework in the country where the product is sold. This constitutes a great problem for manufacturers, especially for companies selling their products in several countries. Competent authorities worldwide have begun to realize the problem and collaborate to harmonize the regulations (Brolin, 2008).

**The Global Harmonization Task Force (GHTF)** is a group of representatives from regulatory authorities in USA, European Union, Japan, Australia and Canada that work to harmonize the regulations for medical devices and improve the safety, effectiveness and quality of the devices. The group has developed guidelines for pre-market evaluation, post-market surveillance, quality systems, auditing and clinical safety/performance. Many countries have begun to adopt these guidelines or follow the United States Food and Drug Administration (FDA) regulations or the European Medicines Agency (EMA) regulations. Medical device requirements are basically the same in most countries but are implemented in different ways (5).

#### **USA**

The FDA regulates food, drugs, medical devices, biologics, cosmetics and radiation emitting products in the USA. FDA's Center for Devices and Radiological Health (CDRH) is responsible for regulating manufacturers of medical devices. Medical devices are regulated under the Federal Food Drug & Cosmetic Act (FD&C Act) Part 800-1299 (Brolin, 2008).

Manufacturers importing medical devices into the USA must designate a United States agent, register the establishment, list the device, manufacture according to the quality system requirements and file a Premarket Notification 510 (k) or a Premarket Approval. A post marketing surveillance system is required (21 CFR Part 803). Medical devices are divided into Class I, Class II and Class III where class I devices represent the lowest risk and class III devices represent the highest risk. Most Class I devices and some Class II devices are exempt from a Premarket Notification 510 (k). Class II devices generally require a 510 (k) while Class III devices require a Premarket Approval. Devices shall be given a device product code consisting of two numbers and three letters describing what type of device it is. Regulation for establishment registration and medical device listing is found in 21 CFR 807. The establishment registration shall be renewed once a year and the device listing updated once a year between October 1st and December 31st. Good manufacturing Practice (GMP) shall be applied according to 21 CFR Part 820 (Brolin, 2008).

Some devices of Class I are exempt from GMP requirements (9). The international standards for risk management ISO 14971 and biocompatibility ISO 10993 are accepted (10).

#### **European Union**

The European Medicines Agency (EMA) is a decentralized body of the European Union (EU) whose responsibility is to protect human and animal health through the evaluation and



supervision of medical products for human or animal use. This information is found at the EMEA homepage. Medical devices are subject to Directive 93/42/EEG and must be CE-marked before entering any country in the EU. Active implantable medical devices are subject to Directive 90/385/EEG. Manufacturers of drugs and medical devices who want to sell their product to a country in the EU only submit one single marketing authorization application to the EMEA. The documentation shall be written in English, French or German. A manufacturer that does not have a registered place of business in the EU shall designate a single authorized representative in the European Union (Brolin, 2008).

Medical devices are divided into class I, class IIa, class IIb and class III where class I also have the subclasses sterile and measuring. The devices shall have a GMDN code. All medical devices exempt class I devices require the involvement of a Notified Body. Medical devices and their accessories are treated as medical devices. Medical devices must meet the essential requirements in Annex I of Directive 93/42/EEG. Standards are used to meet and demonstrate compliance with the essential requirements. Manufacturers of medical devices must have a quality system (4). ISO 13485 is normally used (Landvall, 2007). Clinical trials are required for active implantable devices, class III devices and invasive devices for long-term use of class IIa and IIb. Instructions for use are not necessary for class I and IIa devices if they can be used safely without them. A registration of a product is valid for five years (4).

#### **4. Discussion**

EU and USA have similar requirements for registration of medical devices and are striving to harmonize their requirements with the GHTF guidelines. A company can go far by following the requirements of the European Union, USA or GHTF.

The main requirements are usually a local representative, a Certificate of Free Sale from the country of origin, import license from the competent authority in the import country and registration of the company and the product. To accomplish this it is necessary to fulfill the essential principles, classify the product, apply Good Manufacturing Practice and risk management, follow the labeling requirements and establish a documented post market surveillance system (Brolin, 2008).

Technical documentation is also necessary and shall in most cases be submitted with the registration application. This is where the requirements differ. The essential principles are mainly the same in the countries examined but there are some differences and therefore it is necessary to look at these requirements country by country.

The requirements on risk management for medical devices vary depending on the classification of the device. ISO 14971 is sometimes a requirement or as in most cases a recommendation. Clinical trials are required for more high risk devices. The devices that require clinical trials are about the same in all countries. Special requirements can be that the clinical trials must include people of the nationality of the country of interest. Labeling requirements are generally the same. The language shall be adjusted to the country where the product is sold. Instructions for use are not always necessary depending on the class of the device. Class I devices and sometimes class II devices (depending on the classification system) do not always require instructions for use if the device can be used safely without it.

A documented post market surveillance system is necessary for all medical devices. The main difference here is the responsibility of the sponsor and the manufacturer. The time for maintaining distribution records varies between two years and five years or the product's life time. In extraordinary cases, the time is longer. A company must be aware of the timeframes of the registration process in different countries. This kind of thinking and strategic planning saves time and money (Brolin, 2008).

## **Concluding remarks**

USA and EU have similar requirements for registration of medical devices and are striving to harmonize with the GHTF guidelines. Classification of medical devices is usually done in accordance with the EU system, FDA system, GHTF guidelines or by catalogue. The nomenclature is UMDNS codes or GMDN where GMDN seems to be the most common variant. Main requirements are a local representative, a Certificate of Free Sale from the country of origin, import license from the competent authority in the import country and registration of the company and the product.

Quality management systems and risk management systems are both in USA and EU required, except for medical devices class I. Certificates of ISO 13485 and ISO 14971 are required or recommended.

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## PENSION SYSTEM AND THE FINANCIAL CRISIS

**Utureanu Simona-Luize**

*Universitatea Ovidius Constanta Facultatea de Stiinte Economice Alea Universitatii nr. 1  
simona\_utureanu@yahoo.com +40723341715*

**Nicodim Liliana**

*Universitatea Ovidius Constanta Facultatea de Stiinte Economice Alea Universitatii nr. 1  
nicodimlili@yahoo.com +40744207197*

*The pension fund assets are affected as well by the financial crisis. It is advisable to avoid abrupt policy changes in response to the immediate conditions. Pension systems are designed to function over very long time periods. When rare circumstances are encountered, the short term responses we can get can potentially have negative consequences, on the long term, on the capacity of pension systems to reliably provide adequate levels of retirement income. Without basically modify the system design, measures to mitigate the consequences on the relatively small number of retiring individuals can be considered. The need for diversified multi-pillar pension systems, which are able to manage risks and provide protection to individuals, is strengthened by the current crisis.*

*Key words: pension, reform, crisis*

*JEL code: J11, J32*

In many countries, pension reform is in the center of attention on public debates. Because of its social and macroeconomic implications, pension reform deals with policy makers, practitioners, and academia. Aging societies, stressed by the pressure of globalization determine the need of a diverse reform of the pension system. Therefore, in order to promote longer working lives, countries have to reform their pension systems. And also in order to ensure that people can actually work longer, countries have to change their labor markets. In addition, the working population, including youths, need to get motivated to start contributing to the pension scheme. These needs could be satisfied by using a multipillar pension scheme, which allow more flexibility in individual retirement decisions. Nevertheless, a well-developed financial market is required.

### **Population Aging and Fiscal Implications for Pension Schemes**

Birth and fertility rates are drastically decreasing and the average age of the population is constantly growing, as shown by international studies. This means that the population is both decreasing and ageing in more and more states.

The effects of population ageing on a global scale start to be more and more visible after all these trends started to appear few years ago. Romania is in the same situation, even more severe than the European average. Recent international studies (carry out by the World Bank, the International Monetary Fund, the European Union, the European Bank for Reconstruction and Development, the United Nations and the Romanian research institutes) point out the same conclusions: Romania's population is rapidly decreasing and ageing. Unless adopting the crucial reforms, this will lead to the blast of the demographic bomb in a few decades.

### **Some statistical facts<sup>315</sup>:**

- Romania's population has decreased by 1.8 million inhabitants during 1990-2008, from 23.2 to 21.4 million inhabitants;
- until 2050, Romania's population is set to decrease by a supplementary 4-5 million inhabitants, to achieve 16-17 million residents (according to research conducted by EU, WB, IMF and the UN);

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- the most pessimistic scenario shows a possible decrease to 13.3 million inhabitants by 2050 (according to research by EBRD published in 2008);
- the birth rate in Romania decreased from 13.7‰ in 1990 to 10‰ in 2008 and is set to continue declining;
- the fertility rates in Romania decreased from 2.3 new born babies per woman in 1989 to 1.0 new born babies per woman in 2008 and stagnated at this level during the last 12 years;
- the average age of mothers at their first birth giving increased 22.3 years in 1990 to roughly 26 years in 2008;
- life expectancy in Romania increased from 70 years in 1990 to 74 years in 2008 and continues to rise.

**These statistical data illustrate that** the population is rapidly decreasing and ageing, and this process looks quite irreversible.

The public pension budget is stressed by the decreasing and ageing population. It has to rely on fewer contributors to support more beneficiaries. Romania's demographic problems show that its public pension budget is no longer sustainable in its current form and needs a major reform, to avoid collapsing sometimes during the next decades.

For this matter, in 2007, Romania introduced the private pensions system, based on the model tested and recommended by the World Bank. The multipillar private pensions system includes the 2nd pillar – mandatory schemes - and the 3rd pillar – voluntary schemes. At the moment, over 30 countries all over the world have such a system established – most of them are in Central and Southern America and in Central and Eastern Europe. In the CEE, no less than 11 countries run such a system.

**In the public pensions system**, the state collects contributions from employees and redistributes the money among existing pensioners. Demographics show that this relocation logic is no longer viable, as contributor's numbers will decrease and the number of pensioners is already increasing.

A way out of this impasse takes is the private pensions system, allowing each active person to save for their own future retirement.

According to Eurostat estimations, the European Union statistic office, the Romanian population will reduce with another 4.5 millions of citizens in the period 2008-2060, reaching 16.9 millions. Romania will experience the forth percentage decrease from EU regarding this matter (-21%) after Bulgaria (-28%), Latvia (-26%) and Lithuania (-24%). Also, the dependency rate of old people (the rate between retired population and total population) will triple its amount in this period, from 21.3% this year to 65.3% in 2060; Romania is going to be one of the countries with the largest retired population from Europe. The Eurostat prediction shows that Romania will reach from the current circumstances - when for each retired person (a person older than 65 years) we have an amount of 4.7 adults with working age – to the situation in which a retired person could be supported by only 1.5 adults with working age.

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
EU-27 (1)	478.1	480.4	481.1	482.2	483.0	484.5	486.5	488.6	490.9	493.0	495.1
Euro area (1)	302.2	304.5	305.2	306.2	307.5	309.0	310.9	312.9	314.9	316.7	318.4
Belgium	10.2	10.2	10.2	10.2	10.3	10.3	10.4	10.4	10.4	10.5	10.6
Bulgaria	8.3	8.3	8.2	8.2	7.9	7.9	7.8	7.8	7.8	7.7	7.7
Czech Republic	10.3	10.3	10.3	10.3	10.3	10.2	10.2	10.2	10.2	10.3	10.3
Denmark	5.3	5.3	5.3	5.3	5.3	5.4	5.4	5.4	5.4	5.4	5.4
Germany	82.0	82.1	82.0	82.2	82.3	82.4	82.5	82.5	82.5	82.4	82.3
Estonia	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.3	1.3	1.3
Ireland	3.7	3.7	3.7	3.8	3.8	3.9	4.0	4.0	4.1	4.2	4.3
Greece	10.7	10.8	10.9	10.9	10.9	11.0	11.0	11.0	11.1	11.1	11.2
Spain	39.5	39.6	39.8	40.0	40.5	41.0	41.7	42.3	43.0	43.8	44.5
France (1)	59.7	59.9	60.2	60.5	60.9	61.3	61.7	62.1	62.5	63.0	63.4
Italy	56.9	56.9	56.9	56.9	57.0	57.0	57.3	57.9	58.5	58.8	59.1
Cyprus	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.8	0.8
Latvia	2.4	2.4	2.4	2.4	2.4	2.3	2.3	2.3	2.3	2.3	2.3
Lithuania	3.6	3.6	3.5	3.5	3.5	3.5	3.5	3.4	3.4	3.4	3.4
Luxembourg	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.5	0.5	0.5	0.5
Hungary	10.3	10.3	10.3	10.2	10.2	10.2	10.1	10.1	10.1	10.1	10.1
Malta	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Netherlands	15.6	15.7	15.8	15.9	16.0	16.1	16.2	16.3	16.3	16.3	16.4
Austria	8.0	8.0	8.0	8.0	8.0	8.1	8.1	8.1	8.2	8.3	8.3
Poland	38.6	38.7	38.7	38.7	38.3	38.2	38.2	38.2	38.2	38.2	38.1
Portugal	10.1	10.1	10.1	10.2	10.3	10.3	10.4	10.5	10.5	10.6	10.6
Romania	22.1	22.0	21.9	21.9	21.9	21.8	21.8	21.7	21.7	21.6	21.6
Slovenia	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Slovakia	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4
Finland	5.1	5.1	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.3	5.3
Sweden	8.8	8.8	8.9	8.9	8.9	8.9	8.9	9.0	9.0	9.0	9.1
United Kingdom	58.2	58.4	58.6	58.8	59.0	59.2	59.4	59.7	60.1	60.4	60.8
Croatia	4.6	4.5	4.6	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4
FYR of Macedonia	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Turkey	63.5	64.6	65.8	66.9	67.9	68.8	69.8	70.7	71.6	72.5	73.4
Iceland	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Liechtenstein	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Norway	4.4	4.4	4.4	4.5	4.5	4.5	4.6	4.6	4.6	4.6	4.7
Switzerland	7.1	7.1	7.1	7.2	7.2	7.3	7.3	7.4	7.4	7.5	7.5

(1) Break in series, 1998.

Source: Eurostat (tps00001)

Table 1: Total population - EUROSTAT

According to the CCD study, until 2050 Romanian population will reduce with approximately 23%, till 16.7 million citizens, in the case the fertility will remain the same as in the last years, at 1.3 children per family. These numbers are a little bit more optimistic than the ones offered by United Nations Organization, according to which, at the middle of the century, Romania would have only 14.9 million citizens. The specialists say, it is bad that the rate of old people will increase from 19.3% (the rate registered at the end of 2005), to 39% in 2050; this means there will be 85 old persons for each 100 adults, compared to 34, as it is in the current situation.

	2005	2010	2020	2030	2040	2050
EU-27	16.6	17.5	20.6	24.5	28.1	29.9
Euro area	17.5	18.5	21.4	25.6	29.6	31.1
Belgium	17.2	17.5	20.5	24.7	27.3	27.7
Bulgaria	17.2	17.8	21.7	25.6	29.2	33.5
Czech Republic	14.0	15.5	20.8	23.6	26.8	31.0
Denmark	15.0	16.3	20.0	22.6	24.7	24.1
Germany	18.6	20.4	22.6	27.5	31.1	31.5
Estonia	16.4	16.9	18.7	21.2	23.1	25.7
Ireland	11.2	11.8	14.7	18.3	22.2	26.2
Greece	18.1	18.8	21.1	24.6	29.2	32.5
Spain	16.8	17.2	19.8	24.7	31.2	35.7
France	16.5	16.8	20.7	24.2	26.8	27.3
Italy	19.5	20.5	23.3	27.5	33.1	35.3
Cyprus	12.1	13.4	17.2	21.0	22.9	26.1
Latvia	16.5	17.4	18.4	21.3	23.5	26.1
Lithuania	15.2	16.1	17.5	21.4	24.4	26.7
Luxembourg	14.2	14.6	16.5	19.8	22.3	22.1
Hungary	15.6	16.7	20.3	22.3	24.8	28.1
Malta	13.2	14.2	19.4	22.4	22.5	24.7
Netherlands	14.0	14.9	18.8	22.5	24.6	23.5
Austria	16.0	17.7	20.0	25.1	29.3	30.4
Poland	13.1	13.5	18.2	22.6	24.8	29.4
Portugal	17.0	17.7	20.3	24.3	28.5	31.9
Romania	14.7	14.8	17.1	19.8	24.9	29.6
Slovenia	15.3	16.5	20.4	25.1	28.4	31.1
Slovakia	11.6	12.3	16.3	20.8	24.1	29.3
Finland	15.8	16.9	22.6	26.1	26.7	27.0
Sweden	17.2	18.3	21.2	23.1	24.6	24.3
United Kingdom	16.1	16.6	19.5	22.9	25.9	26.6

Source: Eurostat (proj\_tbp\_pop)

Table 2: Proportion of the population aged 65 and over – EUROSTAT

The aging phenomena is a global one, it is not concerning only Romania. The problem is the way the population is aging. From this a series of economic and social complication are resulting, which can be pretty bad.

More clearly, the problem is the degradation of the rate between active and inactive population. CCD study forecast that at the middle of the century 62 elders will depend on the contribution of 100 adults, an increase with 130% than in our days when 100 employees support 27 elders.

Depending how the governments deal with the shortfall in revenues, they could finance pension-scheme deficits in full or, they might partially default on pension promises, by delaying pension payments or failing to index benefits. The balance between the two options will be politically determined as pensions are just one of a range of competing demands for limited public resources. The main difficulties will be observed in countries that have overall fiscal deficits and rely on external debt financing that has become increasing difficult to refinance with the global credit crunch.

In some cases (as recently occurred in Argentina) countries that have introduced funded second pillars may be tempted to re-allocate the portion of the social insurance contributions that previously went to pay-as-you-go schemes back to the public schemes. Although this might address short term cash flow issues, it does not improve the overall public net-liability position and it risks having negative long term consequences on the individual benefit position. In addition to diminishing the diversification of the overall retirement system and placing workers at the risk of future benefit reductions if the system cannot remain viable over the long term with the increased liabilities, this will also close funded account when asset values are low, locking in losses and precluding members from the opportunity to benefit from any recovery in prices.

### **Short-term reactions**

Firstly, governments should try to avoid, in the short-term, slowing down the reform. Limiting the contributions for the private pension fund, in the current period, could cancel the possibility that the member would receive larger pensions in the future.

This is valid especially for now, when the participants could buy assets for relatively low prices and as a consequence they could accumulate potentially high gains.

In the same time, investments are looking for state titles which are perceived as being the safest instruments, but having small gains which can limit the possibility of having high pensions. While, analyzing the active investment models, from developed countries, can be concluded that despite the significant variation and the volatility of the market, a diversified portfolio can drive to a high level of savings for retirement.

Secondly, governments should recognize that the actual financial crisis is an extremely rare event. Therefore, it needs temporary measures for counteracting the crisis effects; this is more useful than structural changes in the politics. Moreover, the taken measures should be carefully designed, once applied it could be difficult to quit using them.

Thirdly, governments should not underestimate the positive potential of the institutional investors (like pension funds) which can have positive effect upon the financial system.

Developed countries, regulated and supervised the pension funds and were able in the past to get over shocks (like in Chile case) by buying commercial bonds, partially compensate by the decrease of the access to bank loans.

The following short-term measures should be considered.

A public information campaign should be established to explain the current situation and define the benefits of different pension schemes, informing the public of the instability of investments, providing detailed information on the real and estimated effect on benefits for workers of different age groups, and describing minimum measures to protect the poorest and most vulnerable part of the population.

A limited and time-bound support program for the small group retiring in the middle of the crisis should be considered. Without a doubt, there are some, first and foremost, low income workers with lower saving levels who might, even under a phased annuity purchase or withdrawal program, be required to liquidate their reduced accounts in the short term. This group could be assisted through programs that can offer a minimum return guarantee, similar to what has been provided in the banking system in response to the crisis.

The pay-as-you-go systems should be helped to remain financially viable and keep protecting the benefits of low-income workers. As recommended above, in many cases the government may need to provide additional financing for public pension schemes to replace a decrease in the collection of workers contributions.

### **Medium-term reactions**

The financial crisis provides a strong reason for all countries to reassess the design and implementation of policies to best achieve the core aims of retirement systems. Considering the medium term, for the following issues special care should be considered.

The management of financial and other macroeconomic risks should have a better diversification. The multi-pillar system should include elements of a well targeted social pension or minimum guaranteed benefit (a zero pillar) to make sure extensive protection against poverty; sustainable earnings based first pillar, and funded second pillar. These three strategies working together would supply core benefits to the wide population even during the low points of the economic cycle. Key aspects for governments could be: the way of setting the level of the basic pension and its eligibility conditions; and the way of allocating the contribution rate between the first pillar and second pillars.

The management of financial risks should be improved. These could include the beginning of age based/life-cycle portfolios which require low and middle income workers to switch part of their balances to more secure investments as they get closer to retirement. In light of the observed inertia of contributors, an important role has also the default age and earnings related advantage allocations.

Pay-as-you-go systems should be made more sustainable, robust and secure. For the first pillar, countries should consider the implementation of Notional Defined Contribution schemes where benefits are linked to contributions and life-expectancy at retirement. Preferably, these systems would include a reserve fund and an appropriate balancing mechanism to change to demographic and economic developments.

The zero pillar should be introduced or a minimum guaranteed revenue should be given at the retirement age which would attenuate the effects of future volatility for elder and poor population. These systems need to be carefully designed to ensure their affordability and that they do not have negative effects.

Unemployment savings and insurance options should be integrated into an overall social insurance system. Some countries need to take into consideration stronger limitations on disability claims and early retirement, while amplifying the income-protection systems for workers who lose their jobs. Policy options contain mixtures of unemployment insurance and unemployment individual savings accounts that can be accessed during spells of unemployment.

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# EUROPEANIZATION AND THE REFORM IN THE ROMANIAN ELECTRICITY SECTOR

**Constantin Dragoş Vasile**

*The Academy of Economic Studies, Faculty of Commerce Piata Romana, nr. 1-3, sector 1, Bucuresti dragoscv@gmail.com, 0722251367*

*The paper discusses whether the reform of the electricity industry in Romania includes forms of Europeanization. The last is a complex concept with multiple facets. Some definitions describes a two-way process (e.g. Landrech, 1994), although the most authors focus on the changes generated by the European Union on the Member States policies. Concerning the European electricity industry, this is undergoing a substantial restructuring process, especially by the means of directives designed to ensure the liberalization and creation of a European internal market. As a candidate country to accession and then as a Member State, Romania is also in a process of transformation of its electricity industry. Our study put into light reasons why this reform involves a Europeanization process.*

*Keyword: Europeanization, the European Union, electricity industry, liberalization, competition*

*Cod Jel: L4, L5, O1, O2, H7, P1*

The development of the European Union (EU) generates significant change processes at both European and the Member States levels and the term of Europeanization is designed to describe them. However, the concept incorporates various meanings and has different uses. Our interest in this paper is focused on the impact of the European Union on generating policy and institutional change at the Member States level. In other terms, we examine the effect of Europeanization. A pioneering work of Verdier and Breen (2001) has examined these effects on the labor and capital markets. In this paper we examine a particular economic sector in Romania – the electricity industry – and our claim is that the reform in this field is an example of Europeanization process.

## **1. The Europeanization concept**

An early definition of Europeanization has been provided by Landrech (1994) who describes a two-way process. He states that „europeanization is an incremental process reorienting the direction and shape of politics to the degree that EC political and economic dynamics become part of the organizational logic of national politics and policy-making” (p.70). It results that, on one hand, it is the influence exerted by the EU on the Member States through a process of European integration and harmonisation. On the other hand, it is also a change between domestic policies and the EU policy. In other terms, there are both a 'downward causation' from the EU and an 'upward causation' from domestic structures.

However, other definition put a stress on the 'downward perspective'. Cowles, Caporaso, and Risse (2001) consider it as a central concept in the vast project of transformation of Europe and, at operational level, it refers to the emergence and development of distinct structures of governance. Radaelli (2003) refers to processes of construction, diffusion, and institutionalisation of formal and informal rules, procedures, shared beliefs and norms that are defined in EU policies and then incorporated in domestic policies of the Member States. Olsen (2002) suggests five ways of using the Europeanization concept:

- changes in external territorial boundaries;
- the development of institutions of governance at the European level;
- central penetration of national and sub national systems of governance;
- exporting forms of political organization and governance that are typical and distinct for Europe;
- a political project aiming at a unified and politically stronger Europe.

Europeanization is a concept with multiple facets. An important form is represented by the impact of the European integration. The EU produces policy changes in specific policy sectors in the Member States, such as industrial policy, public services, environmental policy, health and safety, competition policy etc. This regulator policy may be interpreted differently at national level. For example, the competition policy is viewed in France as contradictory with the industrial policy, while in the United Kingdom it is thought as a means of preventing state interventionism. It is also possible that the EU policy should conflict with the policy norms in the member States (e.g. emission directive of 2007 faces the opposition of car producers).

Sometimes the impetus of European integration is not the EU regulatory policy. The change is not initiated at the EU level (usually by the Commission) and it results from the influence exerted by strong national models. Best practices and successful models are imported by other Member States; thus, the Bologna process in high education reform has been initiated by Member States. The European integration also includes changes in the cognitive assumptions and policy learning processes in which national elites are engaging.

Other forms of Europeanization are the presence of the EU in different aspects of the policy discussion and action at the national level. The EU can be used as an argument for change (or for resisting change), making easier the task of implementing difficult domestic reforms (e.g. an excellent argument is the necessity of observation of the European `constraints`). For example, conforming to the Maastricht convergence criteria provides an opportunity to cut public expenditures. A significant case is represented by certain national policies that require solutions at the EU level (e.g. agriculture). Boerzel (1999) underlines that Europeanization is a process by which domestic policy areas become increasingly subject to European policy-making.

A difficulty associated with the concept of Europeanization is how it can be separated the impact of European integration from other causes of policy and institutional changes, such as globalization. The last is also a complex concept. Ladi (2006) describes three waves of theories on globalization:

- the first wave of authors (e.g. Ohmae, 1990) describes the weakening of the state;
- the second wave claims that the sovereignty of the state remains the same and the changes are produced by regional integration (e.g. the EU) rather than by globalization;
- the third wave of writers (e.g. Cerny, 1996) take a middle position and argue that the sovereignty of the state is not decreasing but that its functions and structures are changing.

Also, there are different and often contradictory points of view concerning the connection between the phenomena of Europeanization and globalization. Thus, Europeanization is seen as a response to globalization or an independent process; it is an obstacle to further liberalization of the world, or facilitates globalization through the promotion of democracy values (Lodi, 2006). These aspects complicate indeed the analysis that can reveal different results in various area of activity. For example, competition rules included in the Rome Treaty are in line with the earlier anti-trust regulations adopted in the United States and, also, countries from all the continents make attempts in present to harmonize their legislation and to agree common rules in this area. On the other side, the employment policy has specific characteristics.

## **2. The EU policy of liberalization of the electricity sector**

The European electricity sector is undergoing a substantial restructuring process, especially by the means of directives designed to ensure the liberalization and the integration of the national electricity markets. In this respect, the EU regulation and policies include some Directives that have envisaged particular processes such as Council Directive 90/377/EEC concerning a Community procedure to improve the transparency of gas and electricity prices charged to industrial end users, or Council Directive 90/547/EEC on transit of electricity through transmission grids. The last have imposed conditions on the transit of electricity between transmission grids based on the principles of non-discrimination between parties, not including

unfair contract clauses or unjustified restrictions, not jeopardizing security of supply or quality of service, taking full account of the most efficient operation of the systems. But the creation of a European internal electricity market has required a more comprehensive approach. New directives have been issued in 1996 (Council Directive 96/92/EC) and after other 7 years, the Directive 2003/54/EC of the European Parliament and of the Council of 26 June 2003 concerning common rules for the internal market in electricity and repealing Directive 96/92/EC. Also, a more recent document („Green Paper. A European Strategy for Sustainable, Competitive and Secure Energy”, 2006) is partly relevant for the liberalization process.

An essential role in the reform of the European electricity sector was played by the Electricity Directive 96/92/EC, which set up minimum requirements for market liberalisation. It gave Member States choice on the extent of market opening and the arrangements of competitive markets. But, at the same time it provided certain bounding obligations such as:

- *Public service obligation* - Member States may impose public service obligation on electricity undertakings in their market, but the obligations must be clearly defined, transparent, non-discriminatory, verifiable and published.

- *New generation capacity* - Procedures for the construction of new generating capacity that must be conducted in accordance with objective, transparent and non-discriminatory criteria.

- *Transmission and distribution system operator* - A structural requirement by which the Member States shall designate a transmission system operator (TSO) in a given area that shall be independent at least in management terms from other activities not relating to the transmission system.

- *Unbundling* - Another structural measure to be taken by the Member States by which integrated electricity undertakings must, in their internal accounting, keep separate accounts for their generation, transmission, distribution and non-electricity activities.

- *Access to the network* – Procedures chosen by Member States for organizing the access to the transmission and distribution networks, based on objective, transparent and non-discriminatory criteria.

- *Market opening* – The timescale for market opening to competition.

- *Regulation and competition enforcement* - The abuse by electricity incumbent of dominant position can be prevented through sectoral regulation and competition mechanisms, in particular Article 82 of the EC Treaty<sup>316</sup>.

The Directive 54/2003 has enhanced the reform, especially with respect to access regime to transmission and distribution networks, unbundling, market opening to competition, cross border trade.

Concerning the access to the networks the Member States should establish a regulated party access regime to transmission and distribution networks. Some countries had another procedure accepted under the former Electricity Directive. It is the case of Germany that enacted the negotiated third party access (NTPA) instead of installing a regulation authority to establish the access regime. Because the European Commission abolished the option of NTPA, the German government has to replace the current regulatory regime with regulated third party access.

As per the unbundling process, Member States should implement the legal separation of supply from transmission and distribution. This requirement is stronger than in the former directive where vertically integrated incumbents had a minimum obligation of keeping separate accounts for generation, transmission, distribution and non-electricity activities.

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316 Article 82 of the EC Treaty (ex art. 86 of Treaty of Rome) prohibits any abuse by one or more undertakings of a dominant position (e.g. imposing unfair prices or other unfair trading conditions, limiting production, markets or technical development to the prejudice of consumers, discriminating among trading parties). The same provisions are included in Article 6 of the Romanian Competition Law 21/1996.

A significant progress has been obtained in opening market to competition. This process is accomplished through allowing customers (so-called `eligible` customers) to negotiate and conclude contracts directly with energy suppliers. Bilateral negotiated contracts between suppliers and eligible customers have advantages for both parties: eligible customers may benefit from better prices and contractual terms and conditions that are better suited with their specific needs, and generators/suppliers in turn may require for advantageous clause such as pre-payment of electricity. Member States should open the market for all categories of consumers by July 2007.

There are two points to be underlined with reference to the legal framework of the European electricity market reform. The first is the vital role of the Electricity Directives, which reveals a downward approach. The second conclusion is that the more ambitious provisions in the Directive 54/2003 have been made possible by the responses of the Member States in implementing the common rules of the Directive 96/92/EC. The obligation of market opening to competition is a good example, because Member States have gone far beyond the initial timescale. Thus, the Directive 96/92/EC had established a requirement of 35% of national market opened to eligible consumers by February 2003. Instead of that, the European Community average level of declared market opening was 69% in 2001 (Oprescu, Papatucica, Vasile, 2002).

### **3. The reform of the electricity sector in Romania**

In 1996, the year when the first Electricity Directive was adopted, Romania`s electricity market was characterized by the existence of a monopoly integrated energy generation, transmission and supply. Liberalization was necessary as a means of modernization of our economy, in particular electricity industry.

The concept of liberalization may include policy measures such as privatization, deregulation, regulation of competition, regulation for competition, and the establishment of separate and independent regulatory authorities (Levi-Faur, 2004). Most of these measures are associated with the Electricity Directives provisions, such as deregulation through the elimination of economic, political, and social restrictions on the behavior of the actors, with the aim to strengthen market processes and competition by the removal of political constraints; regulatory authorities; promoting competition. Other measures, such as privatization, are not required by the EU Directives. Privatisation by itself is not conducive to competition unless the market is already restructured. However, privatisation has indirect effects on competition because the private companies are profit-oriented, while state owned companies have not these features, unless hard budgetary constraints are imposed on them. Generally, the processes of privatisation and liberalisation through opening the market to competition have to be carried out with equal vigour. The reform of the electricity industry in Romania demonstrates that the liberalization was a process of Europeanization. The main reasons for the claim are: (i) the early transposition of the Electricity Directive in the national legislation; (ii) implementing best practices that go beyond the minimum requirements; (iii) corrections of delays or temptations to take wrong measures.

The first reason is that, starting with 1998, the process of liberalization has started in force in the Romanian energy sector. The impetus was Romania`s acceptance of the EU *acquis* in the field. The legal and regulatory implementation of the *acquis* in Romania`s national law has been achieved during the period 1998-2000, when the provisions of the Directive 96/92/EC were transposed in the Romanian legislation. For example, an *independent authority*, ANRE, was established in 1999, as the regulator of the electricity market. ANRE performs authorisation and control activity in the field of electric energy, issues secondary legislation, regulations and methodologies or approves standard framework contracts. It establishes prices and tariffs for the regulated market and monopoly activities, and it is empowered to settle disputes among the players in the electricity sector. The *public service* is ensured because the licensed energy

providers have the duty to ensure public electricity supply services according to the licensing conditions. *Building new electricity generating capacities* is subject to the authorisation procedure and the functioning of all the operators, including generating capacities is subject to a licensing procedure. The legal framework established *regulated third party access* to networks. Besides these, important *unbundling* measures have been taken with effect on the market structure. The former vertically integrated state-owned monopoly was split up into separate state-owned legal entities: “Termoelectrica” (thermal energy generation), “Hidroelectrica” (hydro generation), “Nuclearelectrica” (nuclear generation), Transelectrica (transmission), and Electrica (distribution).

The second argument in favour of Europeanization is that Romania did not limited national policy to meeting the minimum requirements provided in the Electricity Directive. Best practices and successful models were imported from other Member States. As an example, concerning vertical unbundling, as mentioned earlier, the requirement in the Directive 96/92/EC was management separation of transmission (non-competitive segment) of the potential competitive segments of the market (i.e. generation, supply). Romania adopted legal separation as in other states (e.g. Austria, Denmark, Ireland, Portugal, Belgium, and Netherland). “Transelectrica” is the owner of the Romanian power grid and has the function of Transport Operator for the national system of energy transport and System Operator for the national energy system. According to the licenses, “Transelectrica” does not have the right to trade electricity, the only allowed transactions being the acquisition of electricity in order to cover the losses in the transport network. “Transelectrica” is completely independent from other utilities in the sector, ensuring non-discriminatory functioning of the system. The Commercial Operator of the electricity market is OPCOM, a legal person, subsidiary of Transelectrica SA.

More than that, it was initiated and implemented a process of horizontal unbundling. Thus, “Termoelectrica” has been unbundled and the most important entities are the energy complexes Turceni, Rovinari and Craiova (created in 2004). Also, the distribution company Electrica has been further divided into eight regional companies. Five of them have been privatized to foreign buyers: Electrica Oltenia to CEZ, Electrica Moldova to E.ON, and Electrica Muntenia Sud, Electrica Banat and Electrica Dobrogea to Enel. Finally, wholesales market developed and an important number of suppliers entered the market. As a result, the structure of the electricity market was in 2006 as follows: 61 electricity producers, 104 suppliers, 8 distribution operators, 8 million residential consumers and 600,000 industrial consumers, eligible to choose their suppliers (Diaconu, Oprescu, Pittman, 2008).

Finally, the Romanian reform in the electricity industry is not an easy task for policy-makers. Being a profound change, it has given birth to resistance (e.g. from the part of technical experts). The idea of introducing competition in an industry that has been considered for a long period of time as a strategic area is susceptible of being put into question. That can explained partly the poor progress in introducing competition in the power generation market. A report elaborated in 2002 advocated for a policy of encouragement of new entries in the generation market, as well as of internationalisation of electricity trade (Oprescu, Papatucica, Vasile, 2002). However, in spite of the fact that the structure of the Romanian electricity market is promising, „the effects of competition have been limited, especially in the generating sector” (Diaconu, Oprescu, Pittman, 2008, p.5).

A more serious impediment for the reform is the hesitation of policy makers. For example, in 2007, Romanian authorities announced plans to create a national champion to dominate the regional electricity market. It would bundle most of the power producers and even state-owned distribution companies. Such measures „represent a big step back for the electricity market reform in Romania and a significant departure from the doctrine of competitive electricity markets to which Romania has subscribed so far” (Diaconu, Oprescu, Pittman, 2007, p.61). Indeed, such policy could represent a cancelation of 10 years of efforts made starting from 1998

with the view of reforming the electricity market in Romania. However, such plans are not likely to be put into action because they are contrary to the spirit of a European energy liberalized internal market. Using the EU as an argument for resisting to a negative change is another form of Europeanization.

#### **4. Conclusions**

The reform of the electricity industry in Romania puts into light forms of Europeanization. Firstly, it is the impact of European integration on the domestic policy; presently, there are transposed in the Romanian legislation the provisions of Electricity Directives. Secondly, when the first Electricity Directive (96/92/EC) gave choice the Member States on the methods of implementation, Romania has chosen one of the best solutions existing in the practice of other Member States. This is proved, for example, that Romania opted for legal unbundling the vertically integrated monopoly, or the regulated third party access to networks – as stipulated in the new Electricity Directive of 2003. Finally, it is a change in the cognitive assumptions, in particular the doctrine of competitive electricity market. Even if some bias has appeared momentarily in the authorities' plans, it is noticeable that the scholars' reaction was quite prompt.

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# MEASURING THE SENSITIVITY OF TURKISH AND ROMANIAN STOCK MARKETS TO EUROPEAN STOCK MARKETS: A COMPARATIVE ANALYSIS

**Kaderli Yusuf**

*Adnan Menders University, The Faculty of Economics, 09860 İsabeyli-Nazilli Turkey  
ykaderli@yahoo.com Phone: +902563477011*

**Ateş İsmet**

*Adnan Menders University, The Faculty of Economics, 09860 İsabeyli-Nazilli Turkey  
iates9@gmail.com Phone: +902563477011*

*Since the process of globalization accelerates all over the world, trade and economic relations among countries become very intensive and the stock markets in these countries started to integrate to each other quickly. As a result of this, world wide stock markets become more sensitive to developments in any countries so, the stock markets are affected easily from the other markets' transactions. How are the stock markets in Turkey and Romania, which have close economic relations with European Union, sensitive to European stock markets? The aim of this article is to measure the magnitude and direction of the sensitivities of Turkish and Romanian stock markets to changes in European Union stock markets in last decade. In this study, the results of the analysis have indicated that these two countries are sensitive to European Union Stock Markets and that their sensitivities become more remarkable in the last ten years.*

*Keywords: Beta Coefficient, Istanbul Stock Exchange (ISE,) Bucharest Stock Exchange (BSE), ISE100 Index, BET10 Index, FTS Eurofirst 300 Index*

*JEL Classification Code: F36*

## INTRODUCTION

The impact of the globalization was spread over the countries and their stock markets easily. So the price changes in worldwide stock markets are been affected by each other.

Turkey and Romania developed their economic and commercial relations with each other in last decade by the winds of globalization. They started to become strategic partners. They both have strong economic and commercial relations with EU countries within the framework of European Union. The influence of the political and economic activities between these two countries and other European Countries spread over their stock markets. Accordingly, the stock markets of these two countries should be sensitive to other European Stock markets.

The aim of this article is to measure the magnitude and direction of the sensitivities of Turkish and Romanian stock markets to changes in European stock markets in last decade.

To this end, general information about Turkish and Romanian stock markets will be given first, then the current conditions and change of the sensitivities of this two countries' stock markets to European's will be stated.

## 1. THE DATABASE AND THE METHODOLOGY OF THE STUDY

The stock market in Turkey is called Istanbul Stock Exchange (ISE) and that in Romania is called Bucharest Stock Exchange (BSE). In general, ISE100 Index is indicator of the ISE and BET10 Index is indicator of the BSE. The data of these two countries' main indexes are used in this article.

There are lots of stock markets around Europe. Analyzing the sensitivities of Turkish and Romanian stock markets to each single European country is needed a very large study and, it was impossible to do in the scale of this study. In this study, because of the number of the European countries are not a few, the FTS Eurofirst 300 Index is used to represent all European countries. The data of the study is derivate from related official web sites.

Both the impact of rapid changes in globalization process and since Turkey and Romania continuously developed their economic relations with European countries, it can be expected that their stock markets are sensitive to other European Countries’.

Consequently, the hypothesis that is examined in this article is “Turkish and Romanian stock markets sensitive to European stock markets”. To examine the hypothesis, ISE100 Index (basic indicator of the ISE), BET10 Index (basic indicator of the BSE) and FTS Eurofirst 300 Index are used. The period of the study is 1999-2008 (120 months). Monthly return rates are calculated by using dollar base closing prices. The ten year return rates are divided in to five parts in twos. Beta coefficients are calculated for the sensitivity of the ISE100 Index and BET10 to European stock markets for each part as an indicator of the sensitivity. Then, ten year return rates divided in to two parts in fives and Beta coefficients of the two countries’ stock markets are calculated. When calculating the Beta coefficients, FTS Eurofirst 300 Index (indicator of the European Stock Market) is considered as the market index. In conclusion the hypothesis of the study has been examined with the findings of this study.

## **2. ISTANBUL STOCK EXCHANGE (ISE), BUCHAREST STOCK EXCHANGE (BSE) and FTS EUROFIRST 300 INDEX**

Proceeding principals and laws of ISE put into force in 1984 and 1985. Stocks of ISE was started to be transacted in 1986 first (SPK Temel Bilgiler Kılavuzu, 2006: 8). The number of the company that transacted in ISE was 41 at the beginning and it has increased up to date. Nowadays, over 300 companies are being transacted in ISE (SPK Temel Bilgiler Kılavuzu, 2006: 240; (http1). Market index of the ISE is ISE100 Index. The ISE index contains the stocks of one hundred companies of which the market values and volumes of the transaction are biggest. The index can be considered as the main indicator of the ISE (SPK Temel Bilgiler Kılavuzu, 2006: 350-351).

The BSE established in the process of transition from socialism to free market economy in 1995. The BSE that was a governmental institution at first becomes a joint stock company in 2005 (Çikot, 2008: 10). The number of the company that transact in BSE was 9 in 1995 and it has increased up to date (http2). Market index of the BSE is BET 10 Index. The BET 10 index contains the stocks of ten companies of which volumes of the transaction are biggest. The index can be considered as the main indicator of the BSE (http3).

FTS Eurofirst 300 index contains the stocks of the biggest 300 companies from 16 countries of Europe. The index approximately has a parallel movement with other important European stock markets. That’s why it is considered as an indicator of European stock markets (http4).

## **3. BETA COEFFICIENT as an INDICATOR of the MARKET SENSITIVITY**

Beta coefficient is an important measurement which indicates the relations between the changes in returns of market index and depending changes in stock returns (Demir and Kaderli, 2008: 97; Korkmaz and Ceylan, 2006: 536). In other words, it is a coefficient which measures the sensitivity of any stocks to its changes in market index (Kaderli and Akça, 2009: 64; Bekçioğlu, Öztürk and Kaderli; 2003: 34). As seen, Beta coefficient shows how the systematic risk affect a stock’s return (Ross et al., 2005: 30). Beta coefficient of any financial assets is calculated by dividing covariance of market portfolio of that financial assets with to variance of which market portfolio return. It can be formulated like that (Copeland et al., 2005: 151; Fama and French, 2004: 5):

$$\beta_i = \frac{Cov_{i,p}}{\sigma_p^2}$$



Here,  $\beta_i$  = i Beta coefficient of securities,  $Cov_{i,p}$  = covariance of return rate of the securities with market return rate,  $\sigma_p^2$  = symbolize the variance of the market return rate.

The Capital Assets Pricing Model (CAPM) which developed by Sharpe (1964) is generally depending on one variable. In this model the independent variable is market portfolio and, returns of securities in the market are compared with returns of market index. Beta coefficient can be calculated with the Capital Assets Pricing Model too, because it shows the relations between a securities' return and its market index's return (Demir and Kaderli, 2007: 186-187; Campbell et al., 1997: 182).

$$E(R_i) = R_f + \beta_i(R_m - R_f)$$

Here,  $E(R_i)$  = expected return of the securities,  $R_f$  = risk free interest rate,  $\beta_i$  = i Beta coefficient of the securities,  $R_m$  = symbolizes the expected return of the market index.

In calculation Beta coefficient of securities with formula above, generally past return rates of that securities are used (Foster, 1978: 265).

If the coefficient which calculated with this formula is bigger than 1, it means that 1% change in market index creates bigger than 1% change in returns of the securities. If the coefficient smaller than 1, it means, that 1% change in market index creates smaller than 1% change in returns of the securities. If the coefficient equal 1, it means that the change in market index return and change in returns of the securities are the same. If the Beta coefficient is negative it means that, the relations above occurs visa versa (Hirt and Block, 2006: 170; Levy, 2006: 343; Civelek and Durukan, 1998: 110-111; Tiniç and West, 1979: 174-175). As long as beta coefficients increase, the sensitivity of a securities return to market return increases.

#### **4. MEASURING the SENSITIVITY of TURKISH and ROMANIAN STOCK MARKETS to EUROPEAN STOCK MARKETS**

The ten year monthly (1999-2008) data has provided from ISE100 Index and BET10 Index as sample of ISE, and BSE and return rates are calculated by using ten years monthly closing price. There are many stock markets in Europe. Instead examining every single stock market in Europe, FTS Eurofirst 300 Index is used as sample of European stock market for the same period and, return rates are calculated by using ten years monthly closing price.

Parallel movement of European stock markets with Turkish and Romanian stock markets can be expected because Turkey and Romania have close economic relations with European Union and each other. Accordingly, when it is considered all European stock markets as one market, Turkish and Romanians stock markets can be accepted as parts of this market.

In this study, ten year time period (1999-2008) is divided in to five parts in twos. Correlation matrixes which show the levels of relations among ISE 100 Index, BET 10 Index and FTS Eurofirst 300 Index are set by using 24 month period dollar base returns data which calculated before for each two year period. FTS Eurofirst 300 Index can be considered as market index because it contains the stocks of the important European companies. That is why it is used as market index in this study.

When the table 1 is reviewed, it can be seen that these three indexes in 1999-2004 have relations with each other but the level of the relation is not strong. In addition, Romanian stock market has a weak negative relation with Turkish and European stock markets. But, it can be seen from the same table that the relations among these three Indexes are getting better.

The relations among these Indexes are investigated with correlation matrixes and then Beta coefficients of ISE 100 and BET 10 Indexes are calculated for each two year periods and they are shown in Table 2.

The trends of Beta coefficients of ISE 100 and BET 10 indexes are shown in Figure 1.

When Table 2 and Figure 1 are reviewed together it can be seen that ISE 100 Index is more sensitive to European stock markets than BET 10 index and it has a rapid and offensive response to European stock market. On the other hand, BET 10 Index is negative sensitive to European stock market from 1999 to 2002. In other words, BET 10 Index is defensive to European stock market for this period. Since 2004, ISE 100 and BET 10 indexes are becoming more sensitive to European stock market and each other.

At the next step of this study, the period from 1999-2008 is divided in to two parts of fives to increase the number of observations. Correlation matrixes which show the levels of relations among ISE 100 Index, BET 10 Index and FTS Eurofirst 300 Index are set by using 60 month period dollar base returns data which calculated before for each five year period. They are shown in table 3.

**Table 1:** Correlation Matrix Which Shows the Levels of Relations among ISE 100 Index, BET 10 Index And FTS Eurofirst 300 Index for Each Two Years

Period	Indexes	FTS Eurofirst300	ISE100	BET10
1999-2000	FTS Eurofirst300	1	0,366*	-0,327*
	ISE100	0,366*	1	-0,275
	BET10	-0,327*	-0,275	1
2001-2002	FTS Eurofirst300	1	0,677***	-0,036
	ISE100	0,677***	1	0,051
	BET10	-0,036	0,051	1
2003-2004	FTS Eurofirst300	1	0,452**	0,27
	ISE100	0,452**	1	0,234
	BET10	0,27	0,234	1
2005-2006	FTS Eurofirst300	1	0,496**	0,399**
	ISE100	0,496**	1	0,672***
	BET10	0,399**	0,672***	1
2007-2008	FTS Eurofirst300	1	0,774***	0,759***
	ISE100	0,774***	1	0,67***
	BET10	0,759***	0,67***	1

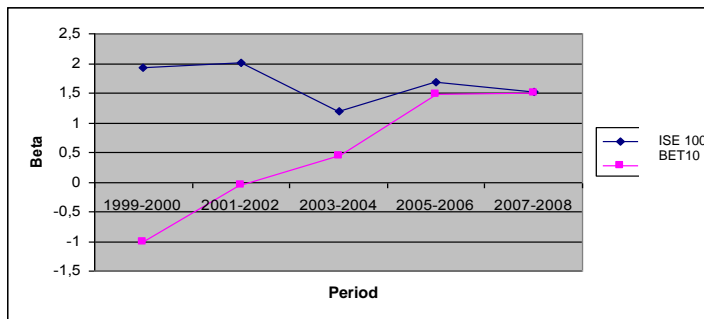
\*1 % level of significance, \*\*5 % level of significance, \*\*\* 1 % level of significance.

**Table 2:** Beta Coefficients of ISE 100 and BET 10 Indexes for Each Two Year Periods

	Period				
Endeksler	1999-2000	2001-2002	2003-2004	2005-2006	2007-2008
ISE100	1,936*	2,003***	1,19**	1,681**	1,517***
BET10	-1,01*	-0,054	0,442	1,473**	1,497***

\* 10 % level of significance \*\* 5 % level of significance. \*\*\* 1 % level of significance.

**Figure 1:** The Trends of Beta coefficients of ISE 100 and BET 10 indexes



**Table 3:** Correlation Matrixes which Show the Levels of Relations among FTS Eurofirst 300, ISE 100 Index and, BET 10 Index for each Five Year Period

Period	Indexes	FTS Eurofirst300	ISE100	BET10
1999-2003	FTS Eurofirst300	1	0,536***	-0,136
	ISE100	0,536***	1	-0,141
	BET10	-0,136	-0,141	1
2004-2008	FTS Eurofirst300	1	0,628***	0,656***
	ISE100	0,628***	1	0,643***
	BET10	0,656***	0,643***	1

\*\*\* 1 % level of significance

As seen on table 3, although the relations among these indexes are considered in wider scale, the results didn't change either. The relations between ISE 100 Index and European stock market in 1999-2003 have parallel direction and they are at the mid level. The relations between BET 10 Index and European stock market for same period have opposite direction and the level is lower. But, it can be seen from the same table that the relations among these three Indexes are getting stronger since 2004. They all have parallel movements.

The relations among these Indexes are investigated with correlation matrixes and then Beta coefficients of ISE 100 and BET 10 indexes are calculated for each five year periods and they are shown in Table 4.

**Table 4:** Beta Coefficients of ISE 100 and BET 10 Indexes for Each Five Year Periods (The sensitivity to FTS Eurofirst Index )

Period	Indexes	Beta Coefficient
1999-2003	ISE100	1,89***
	BET10	-0,259
2004-2008	ISE100	1,382***
	BET10	1,574***

\*\*\* 1 % level of significance

When the table 4 is reviewed, ISE 100 Index is much more sensitive to European stock market than BET 10 Index and it is also offensive. At the same period BET 10 Index has a super defensive response to European stock market. Both BET 10 and ISE 100 Indexes have the same level of sensitivities to European stock market in 2004-2008. Naturally, it is observed that the sensitivity of these two countries to each other increased at the same period.

In conclusions, the results for two year and five year periods are supporting each other. That is to say that Turkish stock market is always sensitive to European stock market for the period of this study. BSE lower and negative sensitive to European stock market at first but, it become very sensitive to European stock market in time. This situation is proofing the hypothesis of the study.

## CONCLUSION

The rapid developments of globalization processes have affected all the countries of the world and removed almost economic and commercial borders. As a result, international capital flows and countries' stock markets are being affected from this process. In other words, countries' stock markets became sensitive to each other.

Turkey and Romania are geographically close countries. They have many common commercial and economic interests. The relations between these two countries are continuously developing up to date. They also developed economic relations with other European countries because Romania is full member of EU and Turkey is a candidate member to EU. Consequently, it can be expected that stock markets of these countries are sensitive to each other and other EU countries. This study aims at investigating whether such integration exists or not.

In this study the hypothesis which argues that these two countries' stock markets are sensitive to European stock market has been examined. As a result of this examination an existence of the

sensitivity has been found. Findings also show that Turkish Stock Market is less sensitive to European and Romanian stock market at the beginning of the period. But level of the sensitivity is increased through this period. Romanian stock market becomes more sensitive to European and ISE especially in last four years. Romanian full membership to the European Union and the increase in its stock market sensitivity happens at the same time. One explanation of rapid increase in sensitivity can be explained by the full membership of Romania to the EU.

In conclusions, both ISE and BSE are highly sensitive to European stock markets. Because of this sensitivity, if investors take in to consideration the changes in European stock markets they can make a proper decision when they decide to invest in these two countries' stock market.

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# **THE IMPACT OF FOREIGN LANGUAGES ON THE BUSINESS ENVIRONMENT**

**Abrudan Cristina**

*Universitatea din Oradea Facultatea de Științe Economice str. Universității nr. 3-5  
cabrudan@uoradea.ro tel. 0259408276*

*The present paper is meant to throw some light upon the way in which language teaching is a continuously improving process, how it was seen years ago, and how is perceived nowadays. Is language teaching an art or a science? This is the key question and this paper tries to answer it.*

*Keywords: language teaching – art or science, methods, techniques and approaches*

*Jel Code: Y8*

In the context of globalization, probably more than ever, the needs for English felt around the world today, and hence the reasons for teaching it, are particularly diverse and pressing. In the U.S.A. it is taught in order to give children mastery sufficient to enable them to obtain a complete education in American schools, to make it possible for adult immigrants to function effectively in a new society, to put foreign students in a position to cope with university lectures and examinations. In Europe, other aims are followed, being equally valid and sometimes being prescribed by law. The clearest conclusion to be drawn is the necessity for variety and flexibility in methods.

Over the years, the field of language teaching has gone through many fluctuations and dramatic shifts. As opposed to physics or chemistry, where progress is more or less steady until a major discovery causes a radical change brought over by a theory revision, language teaching is a field where heroes and fads have come and gone in a manner fairly consistent with the kinds of changes that occur in youth culture. One can notice the fact that very few language teachers have even the vaguest sense of history about their profession and this could be one reason for the frequent changes that have been taking place until recently.

Some years ago, language teaching vacillated between two types of approaches: one type of approach which concentrated upon the language (i.e. speaking it and understanding it) and the other type which focused on analyzing it (i.e. learning the grammatical rules). The periods known in history as Classical Greek and Medieval Latin were characterized by an emphasis on teaching people how to use foreign languages. All over Europe higher education was given first in Greek and after that in Latin. They were also very widely used in philosophy and religion, politics and business. In this manner, the educated elite became fluent speakers, readers, and writers of the appropriate classical language. Later during the Renaissance, the appearance of printing press made possible the study of the grammars of Greek and Latin, thus becoming very popular. In the case of Latin, it was discovered that the grammar of the classical texts was different from the Latin being used as a lingua franca, - the latter being known as Vulgate Latin – i.e. the Latin of the common people. During the 17<sup>th</sup> century, the focus in language study shifted back to utility rather than analysis. Since the European vernaculars had increased in prestige and utility, it is not surprising that people in one region or country began to find it useful and necessary to learn the language of another region or country.

But, in this paper, we will not make a history of teaching foreign languages; it is enough to say that there have been a lot of methods that have been widely used over the years, methods among which we mention just a few of them, such as: reading approach, grammar-translation approach, situational approach, communicative approach, cognitive approach, comprehension-based approach, and so on.

The question is: what is the solution for the ones who teach foreign languages, given the abundance of current and future approaches? In order to make wise decisions, we have to learn

more about the specific methods available. But we also have to keep in mind other four things, in order to make a good choice:

- Assess students' needs: Why should they learn English? What is their purpose?
- Analyze the instructional constraints such as: how many hours a week, class size, materials, and so on.
- Determine which are the needs, the aptitudes and the attitudes of the students towards learning foreign languages.

After doing this, the teacher will be in the position to use proper techniques and approaches. For effective teaching to take place, a good method must be adopted by a teacher. A teacher has many options when choosing a style to teach by. When deciding what teaching method to use, a teacher will need to consider students' background knowledge, environment, and learning goal. Teachers know that students learn in different ways and they have different ways and rhythms in absorbing the information and demonstrating their knowledge. So, the teachers have to adopt the style, the teaching methods, the aims, etc to the needs and possibilities of the students.

The belief that it is necessary to relate language teaching to an established scientific discipline is certainly not new. Studying the history of language teaching, one can come to the conclusion that, up to the present, it has been rather more of an art than a science. To say it in other words, it has been largely intuitive and dependent on the personal skill and convictions of the teacher. One can hardly see in it the characteristics of a systematically arranged body of knowledge developed through the use of generally time-tested and generally accepted methods. The element of human nature and behavior is one element that cannot be treated with scientific rigor. This is why language teaching can probably never be entirely explicable in scientific terms, such as mathematics, physics or chemistry. On one hand, there are some educators who are deeply uncomfortable if they cannot find more demonstrable relationship to established scientific facts. On the other hand, there are some others who consider their profession is purely an art, basically without being able to be analyzed and taught, that is improved only through the exercise of personal gifts of insight and imagination.

Thus, we come to the conclusion that language teaching is both an art and a science. To the extent that it remains an art, it permits the individual teachers to exercise their personal gifts they may be endowed with. To the extent that it can be related to a science or sciences, and thus it becomes an applied science, it can be developed in a coherent way, be given continuity and be taught. The most successful teacher will always be something of an artist, but the art will be enhanced rather than destroyed if it is exercised within a framework of scientifically established guidelines.

But, the most important things concerning teaching foreign languages is represented by the aims of instruction. And this should be the main idea in the mind of any educator, in every part of the world. In any given classroom, the teacher should always have a clear idea of what he or she wants to accomplish and which methods should be used in this respect. For example, a class made up of students who need, above all else, to learn to pronounce English well, so as to become radio announcers. Because of the very definite nature of these students' needs, objectives can be precisely formulated in terms of specific scientific skill. The human element in the language teaching equation is undoubtedly the understanding of it and a stronger emphasis on it.

Nowadays, things have changed a lot and one can say that teaching languages, teaching literature or any kind of science or, even cultures have migrated across geographical and political boundaries since the earliest historical times. But for sure, one thing remains the same: the importance of making classes attractive for the students by a person who is both a teacher and an artist in the same time.



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# EVALUATING AND GRADING THE ABILITY OF FUTURE ECONOMISTS TO WRITE IN A FOREIGN LANGUAGE

**Abrudan Caciora Simona Veronica**

*University of Oradea Faculty of Electric Engineering and Information Technology Universităţii street no.3 E-mail: veronicaabrudan@yahoo.com*

*Communication in the economic field is based, to a large extent, on written documents, the only ones that are considered official in most countries of the world. Since the business market has become global, people activating in the economic field need demonstrate their proficiency in using foreign languages, in both oral and written form. For this reasons, their academic education should focus upon the development of students' abilities to express and reproduce correctly professional forms of discourse. The purpose of this paper is to present different techniques of grading students' pieces of writing, taking into account the types of writing assignments that are generally evaluated and graded in the case of economic sciences students.*

*Key words: analytic scoring, holistic scoring, communication, professional discourse.*

*JEL Code: F00*

## **Introduction**

Communication in the economic field is based, to a large extent, on written documents, the only ones that are considered official in most countries of the world. Among these, one can mention reports, memos, instructions, proposals, internal informative notes, letters, minutes, protocols, etc. The capacity to produce diverse written documents is an important competitive advantage for employees, who often build their careers around materials that demonstrate their capacity to express themselves in writing. The persons occupying important positions within the structure of a company are also required to draft a large variety of official or internal papers.

A second important factor to be taken into consideration nowadays is the fact that the business market has become global and the activity of many companies is carried out in a multinational context. Thus, persons involved in economic activities need demonstrate not only the ability to communicate efficiently using their mother tongue, but also the capacity to express themselves in a foreign language and act according to the standards that characterize the global business culture and the idiosyncratic features of the persons they need to interact with.

Starting from these assumptions, it is important to help economic sciences students: (a) understand the characteristics and the structural patterns of both technical writing and of documents they will probably need to produce and decode in their future activity and (b) gain the abilities that might enable them to express and reproduce correctly the professional discourse, from and into a foreign language.

Besides presenting the economic sciences students with the input they need in order to become efficient in using a foreign language in contexts that are similar to those of their future careers, the activity of foreign language teachers also encompasses the evaluation and the grading of students' activity.

The purpose of this paper is to present different techniques of grading students' pieces of writing, taking into account the types of writing assignments that are generally evaluated and graded in the case of economic science students. The material is structured in three parts. The first section presents characteristics of written documents used by people involved in economic activities. The second part discusses aspects related to testing and grading writing in general. The third section is larger and presents some techniques that can be used in grading student's writing, relating them, as mentioned before, to the context of producing pieces of writing generally associated with activities in the economic domain.

## **1. Elements characterizing written documents used by people activating in the economic field and skills the writers of such documents need**

The technical and the economic writing refer not only to documents produced by experts but also to documents that managers and employees edit in order to communicate inside or outside the organization. The main aims of the technical and the economic documentation are to inform and to convince. Among the elements characterizing it, one can mention:

- specific audience (consumers, employees, manager, etc.);
- simple, objective language, aimed at informing or convincing people;
- strict organization of discourse, so that the written message can be easily read and decoded;
- reference to visual elements (graphs, tables, images, drawings, etc.);
- reliance on definitions, analogies, comparisons or descriptions, in order to make the message clear.

As mentioned in the introductory part of this paper, teaching writing to economic sciences students is generally based on input referring to documents such as: letters, e-mails, faxes, memos, projects, reports, protocols, minutes, etc. When such examples of written materials are presented, reference is made to form, content and useful expressions. The production of such documents is generally based on free writing techniques, and for this reason, when grading and evaluating students' pieces of writing, the technique to be adopted by the teacher should focus on learners' abilities to produce correct and coherent pieces of writing, use an appropriate register and demonstrate the control of other skills, such as spelling, grammar, punctuation, paragraphing, drawing the reader's attention and keeping it alive. The forms of the so-called "objective testing" (multiple-choice items, error-recognition exercises or sentence and paragraph completion) are rarely used in this situation.

In evaluating and grading pieces of writing produced by economic sciences students, evaluators generally consider elements related to form (What type of writing is this intended to be? Does it conform to writing conventions usually expected for this type?); content (Is the writer's purpose clearly stated? Is the writer aware of his/her audience? Does the writer demonstrate a sense of direction in writing? Does the beginning grab the reader's attention, making him/her want to read on?); organization (Is the text organized clearly, in a logical manner? Are paragraphs developing only one idea? Are the linkers properly used? Are the central ideas clearly emphasized and placed at the beginning of the material?); accuracy and layout (Are mechanics and grammatical structures used correctly? Is vocabulary selected from an appropriate register? Is the paper neatly and clearly presented?)<sup>317</sup>.

## **2. Grading. Why and how?**

For many teachers and researchers<sup>318</sup> the problem of grading students' tests is a difficult problem. Especially in the case of free writing and other forms of "subjective" testing, every score may be surrounded by some degree of uncertainty. On the one hand, the reliability of a mark can be questioned if one thinks that some students might not be on their best disposition or health state when taking the writing test. Factors such as time pressure, inappropriate class atmosphere, noise, etc. can also have a negative influence on certain students. On the other hand markers can be considered unreliable if we consider their own inconsistency or their failure to agree with colleagues on the merits of a particular piece of writing. Despite the arguments mentioned above, grades continue to be indicators of students' achievements and capacity to master the functions of language and the construction of discourse and should consequently be present in the process of foreign language learning and teaching.

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317 See Ron White and Valery Arndt, *Process Writing*, 1991, p.121.

318 Harrison:1983; Heaton: 1988, 1990; Huges: 1988; Reid: 1993.

Speaking of the way marks are given, J.B. Heaton put forward the view that markers award their grades on: (1) what the student has actually written; (2) what they believe the student meant by what he/she has written; (3) handwriting and the general appearance of a piece of writing; and (4) previous knowledge of a student<sup>319</sup>. It follows from these statements that an evaluator relies not only on what can be objectively evaluated, but also on subjective elements when grading pieces of writing produced by students in general and economic science students in particular. The idea is that “objective scoring” can be used only in the case of multiple-choice items, fill-in-the-blanks or sentence completion exercises, but these are not considered actual writing, being only preparatory stages in the process of acquiring the real writing skills.

In my view, evaluating and grading written work according to the degree of intelligibility and the demands related to form and content, specific to different forms of professional discourse, is probably the most appropriate approach. Of course, if a paper demonstrates a substantive development of its topic but is replete with problems connected to spelling, grammar or punctuation, it cannot be graded exclusively in terms of its content. However, if errors cause only minor trouble and confusion in a particular clause or sentence, without hindering the reader’s comprehension of the text, they can be given less importance than factors such as development of ideas, paragraph structure and organization, the coherence and the cohesion of the text, the focusing upon the particular audience.

However, it is very important to explain the students, before administering the test, what is going to be evaluated (for instance, if memos, business letters and reports have been presented during the course activities, the evaluation will focus upon the way the requirements related to the structure, organization or content of such pieces of writing have been met, rather than simply concentrate on counting language or grammar errors).

### **3. Types of scoring written assignments**

In general, there are three basic types of grading that can be used when evaluating the written work in general and of economic sciences students in particular: the analytic, the holistic and the mechanical (or error-count method).

As indicated in the previous section, when considering the situation of economic sciences students, the *error-count method* (by which the number of language, grammar or punctuation errors made by a student is counted and then this number, or a certain percentage, is deducted from the possible maximum total) cannot be considered valid, since it ignores the content and the purpose of writing as a communicative process. Besides, it does not take into consideration the fact that some errors are more serious than others.

*Analytic scoring*, as grading method, is very often used in order to mark students pieces of writing. It relies on a marking scheme designed by an examiner or a group of examiners and evaluates separately various components of a piece of writing. When grading writing tests, the teacher is less likely to ignore the different aspects of a written assignment when he or she can visualize the elements to be examined. Moreover, the fact that the scorer gives a separate mark for each aspect of writing, and then make a sum of them, might make the scoring more reliable.

In the book entitled *Teaching ESL Writing*, Joy Reid quotes H. Jacobs (1981) and presents a widely used evaluation and grading scale for EFL/ESL writing<sup>320</sup>, which will be partly reproduced here. Such a scale can be useful to students, as it presents the skills they need to develop and master. A separate mark (or qualification) is given for content, organization of material, vocabulary, language use and mechanics. For instance, in terms of content, a paper that is considered “excellent” or “very good” needs to demonstrate a substantive development of thesis and relevance to the assigned topic. “Good to average” papers demonstrate knowledge of

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319 Heaton, *Writing English Language Tests*, 1988, p.144.

320 Joy M. Reid, *Teaching ESL Writing*, 1993:236-237.

subject, adequate range, limited development of thesis, relevance to the topic but absence of details. “Fair to poor” papers demonstrate limited knowledge of the subject, little substance and inadequate development of the topic. “Very poor” papers show no understanding of the subject and lack of pertinence.

In terms of organization, an “excellent to very good” written work demonstrates fluency, clearly stated ideas, logical sequence of ideas, cohesion. A “good to average” written paper is loosely organized, but the main ideas are clearly stated. “Fair to poor” papers lack fluency, present ideas that are confused or disconnected, lacking logical sequencing and development. “Very poor” papers are difficult to read and evaluate, do not communicate effectively and lack organization.

In terms of vocabulary, “excellent to very good” papers use a sophisticated range of words, in an adequate form, and the register is appropriate. “Good to average” papers use an adequate range of vocabulary, but present occasional errors of word/idiom usage. Nevertheless, the meaning is not obscured. “Fair to poor” papers demonstrate a limited range of vocabulary, present frequent errors of word/idiom form, frequent errors of word/idiom form, choice and usage, which create confusion with regards to meaning. “Very poor” papers demonstrate little knowledge of vocabulary, idioms and word forms.

In terms of language use, “excellent to very good” papers demonstrate effective, complex constructions, few errors of agreement, tense, number, word order, articles, pronouns and prepositions. “Good to average” papers use effective but simple constructions but present several errors of agreement, tense, number, word order, articles, prepositions, though meaning is seldom obscured. “Fair to poor” papers demonstrate major problems in simple or complex constructions and present frequent errors of agreement, tense, number, etc., which obscure meaning. “Very poor” papers demonstrate no mastery of sentence construction rules and do not communicate effectively.

With regards to mechanics, “excellent to very good” papers demonstrate few errors of spelling, punctuation or paragraphing. “Good to average” papers present occasional errors of spelling, punctuation, paragraphing, but the meaning is not obscured. “Fair to poor” papers present frequent errors of spelling, punctuation, paragraphing, poor handwriting, which contribute to the obscurity of meaning. “Very poor” papers are dominated by errors of spelling, punctuation, paragraphing, and the handwriting is illegible.

Another way of scoring a paper analytically is to give a percentage of the overall grade for each component. For instance<sup>321</sup>:

Introduction – 10%

Topic sentence – 20%

Sentence structure – 20%

Use of connectives – 10%

Grammar – 20%

Vocabulary – 10%

Conclusion – 10%

The teacher can also begin with a number of points (10, for example) and subtract points for the deficiencies related to the appropriate use of register, language conventions, accuracy and vocabulary range.

When the analytic method is employed, it is essential to maintain flexibility, and give weighting to the elements that are being evaluated in relation with the students’ level of language proficiency.

Though very often employed by teachers and evaluators, the analytic method presents the disadvantage of taking more time than other methods of grading writing. A second drawback of this method is the fact that it concentrates on different aspects of language use and thus the

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321 Adapted from Joy Reid, *op.cit.*, p.235.

evaluator should never forget that the whole is more than the sum of its parts. For this reason, the so-called “impressionistic”, or “holistic” scoring is employed.

Holistic scoring is associated with the assignment of a single score to a piece of writing, on the basis of the overall impression it creates. Cooper and O’Dell believe that, in the case of holistic scoring, the rater can “(1) match it (*the piece of writing*) with another piece or pieces in a graded series, (2) score for the prominence of certain features important to that kind of writing or, (3) assign it a letter grade or number”<sup>322</sup>. This kind of scoring has the advantage of being very rapid, thus allowing a certain composition to be scored more than once. Though the mark given by one examiner is very subjective, and the rater can also be influenced by factors such as tiredness, carelessness, prejudice, etc., it is believed that a result based on several judgments might be more reliable than one based on single judgment. However, it is very important for this type of scoring to be well conceived and appropriate to both the level of the learners and the purpose of the test.

In order to help the students, the evaluator can give them a “holistic scoring guide”, which offers them a perspective on what is expected from a good piece of writing. The following grading system has been adapted from the Test of Written English Scoring Guide:

10 – The paper is well organized and developed; uses appropriate details in order to demonstrate the thesis; uses the appropriate style and register; demonstrates a sense of audience, purpose and direction in writing; uses correct language, punctuation and grammar.

8-9 – The paper demonstrates competence in writing at both the rhetorical and the semantic level; is generally well organized and developed; uses appropriate details in order to demonstrate the thesis; uses the appropriate style and register; displays facility in the use of language; demonstrates some syntactic variety and range of vocabulary.

7 – Demonstrates minimal competence in writing on both rhetorical and syntactical levels; is adequately organized and developed; does not address all parts of the task, though the topic is adequately addressed; uses some details to support the thesis; may contain vocabulary, grammar or punctuation errors that occasionally obscure meaning.

6 – Demonstrates some competence in writing, but the organization and the development of the thesis are inadequate; details used to support the thesis are insufficient; the choice of vocabulary is inappropriate: there are several errors in terms of sentence structure and usage.

5 – Suggests incompetence in writing; is disorganized and the thesis is not developed; little or no details used to support the thesis; serious problems with focus.

4 – Demonstrates incompetence in writing; the paper may be incoherent, underdeveloped and contains persistent and severe writing errors.

Presenting the students with the “holistic scoring grading guide” can help them understand that the evaluation of their papers is not simply a subjective, personal process, but rather a logically executed measurement, based on well established criteria.

## Conclusions

When learning a foreign language and trying to master the concepts of professional communication, students need feedback on how well they are doing and what needs further improvement. This feedback is often obtained by means of a test and a grade, which are important stages of the learning process.

Although marks sometimes fail to reflect the real abilities of students with regards to writing documents they might be expected to use in their future career as economists, they are usually important indicators of performance. In general, three grading methods can be employed: the analytic, the holistic and the error-count method. This paper has demonstrated that all of them

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322 Coper and O’Dell, 1977, p.3, apud Reid, op.cit., 1993, p.238.

have both advantages and disadvantages, and they should be chosen in relation to the purpose of the writing test.

When evaluating the written assignments of economic sciences students the accent falls on their communicative abilities and capacity to reproduce the forms of documents that are common in real-life situations. Thus, the general quality of the written work prevails over any other factors, such as grammar or mechanics, when assigning a grade. The error-count method is not appropriate for their level of proficiency in a foreign language. Evaluators can choose either the analytic or the holistic method and the choice between these two methods is made in terms of the purpose in testing and the number of evaluators that are available.

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# L'ART DE LA NEGOCIATION: ELEMENT CLEF DES INTERACTIONS PROFESSIONNELLES

**Ciodaru Ina Alexandra**

*Université de Pitești Faculté des Lettres Bd. Republicii, Bl. D 5 A, sc. C, ap. 19, Pitești  
ina\_c\_alexandra@yahoo.fr Tel: 0745068706*

**Aldea Irina Maria**

*Université de Pitești Faculté des Lettres Str. Pătrașcu Vodă, nr. 3, Bl.D1, sc. C, ap. 3, Pitești  
irina\_lsa@yahoo.com Tel: 0745203047*

*This study aims to corroborate the general techniques that define the art of negotiating with certain teaching procedures in order to provide a more complex process of teaching/learning in the specific case of the negotiation. Starting from general principles aimed at the teaching field French for Specific Purposes and which firstly relate to linguistic aspects, we should be interested in some more complex issues that arise when it comes about teaching the French language to a specialized public and especially when referring to the subject of commercial negotiation. Thus, our study also aims at helping students to choose, based on the offered schemes, their own communication channels to get to master all the elements that compete to the achievement of a good negotiation.*

*Mots-clé: négociation, FOS, interaction, argumentation*

*Cod JEL: A12, A20, D83*

## **Considérations générales:**

Ayant comme étymologie le latin *negotiari*, le verbe *négocier* signifie en français:

*Faire du négoce, du commerce*

*Mener une négociation. Régler un conflit par voie de négociation*

*Etablir, régler (un accord) entre deux parties*

*Céder, réaliser (un effet de commerce, une valeur mobilière)* <sup>323</sup>

Si on analyse tous ces sens, on peut très bien voir qu'ils renvoient à un tronc commun: **négocier** implique l'idée de la nécessité de trouver dans les relations interhumaines, quelle que soit leur nature, les bons arguments pour convaincre, pour gérer une situation en s'appuyant surtout sur une bonne connaissance de soi.

En se rapportant aux relations professionnelles, on envisage surtout une approche plus relationnelle qui doit reposer sur la mise en œuvre des techniques qui englobent la connaissance de soi (qu'on a déjà mentionnée) et également la connaissance des autres. Des études dans ces sens peuvent être citées: *Dans les années 80, le chercheur américain Ned Herrmann étudie les découvertes scientifiques des professeurs Roger Sperry (prix Nobel de médecine en 1981) et Paul Mc Lean sur le fonctionnement du cerveau humain. À partir de ces travaux, il met au point une approche d'identification des «préférences cérébrales» des individus: celles-ci permettent de déterminer les modes de pensée qu'un individu a naturellement tendance à privilégier, et d'en déduire des comportements prévisibles (entre autres en négociation). À partir d'un questionnaire en 120 points, l'outil développé par Herrmann trace graphiquement le «profil» d'un individu par rapport à ses préférences cérébrales; une «carte simplifiée» de l'esprit humain qui peut s'appliquer aussi bien à un individu, à un groupe de travail ou à une organisation. Elle permet, entre autres, de constituer des binômes et des équipes de négociateurs «à cerveau total», c'est-à-*

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323 Paul Robert, Le Petit Robert, Dictionnaire alphabétique et analogique de la langue française, Editions Le Robert, Paris, 1989.



*dire capables de se compléter au mieux, notamment lors de négociations complexes menées en équipes*<sup>324</sup>.

### **Démarches entreprises dans le domaine du FOS**

Après cette brève introduction, nous allons orienter notre analyse vers les démarches entreprises dans le champ du FOS, dans le but de la formation de bons négociateurs.

A partir des principes didactiques généraux visant le domaine du FOS et reposant, dans un premier temps, sur les aspects linguistiques, nous devons nous intéresser à des problèmes plus complexes qui apparaissent lorsqu'il s'agit d'enseigner le français à un public spécialisé et surtout lorsque nous nous rapportons au sujet de la négociation commerciale. Les échanges commerciaux entre des spécialistes appartenant à des cultures différentes impliquent non seulement des obstacles communicationnels langagiers, mais aussi culturels, et dans ce sens, ces derniers, représentent un facteur d'autant plus important qu'ils font l'objet d'une négociation.

Ainsi, dans l'enseignement du FOS, la composante culturelle apparaît comme inhérente, car elle doit mettre en évidence les différences comportementales qui constituent des obstacles à la communication.

Les contacts professionnels doivent privilégier, à part la composante langagière, cette composante culturelle, afin de supprimer les divergences qui puissent naître entre les natifs des différentes sociétés. L'intérêt de cette approche est d'autant plus grand qu'elle met l'accent sur les attitudes dans le milieu du travail ou plus exactement sur les manières de comportement spécifiques à une profession ou qui se retrouvent au sein d'une entreprise.

Le monde des affaires favorise de plus en plus le travail en équipe, la communication directe, et pour cette raison, l'important c'est de ne laisser aucun inconvénient, quel qu'il soit, s'interposer entre les individus ou les professionnels qui se trouvent en interaction. Dans le but de bien déceler les caractéristiques des milieux de travail et des mentalités y présentes, les études de la didactique du FOS introduisent la notion de **culture d'entreprise**: *telle qu'elle est aujourd'hui comprise, la culture d'entreprise consiste en principes plus ou moins clairement exprimés en conduite du métier, accomplissement de la vocation, règle de conduite, normes de comportement, attitudes en réponse à des situations données. Elle est faite de valeurs idéologiques, morales et professionnelles, de conceptions de base, croyances fondamentales, plus ou moins bien perçues qui constituent le «subconscient» de la firme.*<sup>325</sup>

### **Eléments d'une bonne négociation**

Dans ce qui suit, nous allons présenter quelques moyens qui peuvent ouvrir la voie pour une bonne négociation. Comme on l'a déjà dit, pour négocier ce qui compte c'est de savoir argumenter. **Pourquoi** et **comment** doivent être les deux questions qui aident un négociateur à changer l'univers de croyances de l'interlocuteur auquel il s'adresse. Il ne doit pas chercher à imposer un point de vue, mais à convaincre. Il faut persuader pour mobiliser et susciter une action. On va montrer dans ce sens, un test qui devrait aider à voir clair dans la démarche qui doit être adoptée.

*Test: quelques points clés pour argumenter*<sup>326</sup>

1. Argumenter, pour vous c'est:

a. convaincre

b. apporter des éléments pour permettre à la discussion d'aboutir

c. se donner des atouts majeurs afin de ne pas se laisser piéger.

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324 <http://www.formation-negociation.com/content/view/37/2/>.

325 Apud Denis Lehmann, Objectifs spécifiques en langue étrangère, Hachette, Paris, 1993, pp.19-20.

326 Test présenté pendant l'atelier intitulé Techniques de simulation: comment élaborer un scénario de négociation par Antoinette Zabardi, dans le cadre du séminaire «Publics spécifiques et objectifs spécialisés», organisé par l'Institut Français de Vienne (22-27 octobre 2007).

2. De quoi dépendent surtout, à votre avis, la portée et l'efficacité d'une argumentation?
  - a. de la solidité du message
  - b. de la façon et du moment de sa mise en place
  - c. de la multiplicité des arguments.
3. Quelle est la base de votre méthode?
  - a. adapter vos interventions en fonctions des réactions de l'interlocuteur
  - b. préparer minutieusement votre dossier à l'avance
  - c. utiliser les arguments de l'adversaire pour tenter de faire pencher la balance de votre côté
4. Au cours de la discussion, comment faites-vous?
  - a. vous apportez rapidement le plus d'arguments possible
  - b. vous répondez aux arguments d'en face
  - c. vous commencez par laisser venir l'interlocuteur en ménageant vos propres arguments.
5. Face à la contradiction, quelle est pour vous, l'attitude la plus efficace?
  - a. ne pas répondre point par point aux arguments qui vous sont opposés
  - b. répondre du tac au tac
  - c. signaler aimablement, mais fermement, que chacun peut avoir une vision différente des problèmes, et poursuivre votre intervention.
6. Que faites-vous quand vous vous sentez en position favorable?
  - a. vous exploitez à fond votre succès pour l'emporter définitivement
  - b. vous vous arrangez pour stopper l'échange afin de conserver cette position favorable
  - c. vous savez que vous avez marqué des points et que l'interlocuteur ne l'oubliera pas; vous décidez de voir venir en le laissant s'exprimer
7. Quelle démarche adoptez-vous en face de plusieurs partenaires?
  - a. vous concentrez vos efforts sur le leader
  - b. vous les concentrez sur ceux qui ne vous paraissent pas très déterminés
  - c. vous les concentrez sur ceux qui vous paraissent les plus favorables pour contourner et isoler le leader
8. Comment réagissez-vous face à un interlocuteur qui, dès le départ, affirme qu'il ne changera pas de position et met au défi de vous laisser vous-mêmes convaincre?
  - a. vous répliquez: «nous verrons bien qui aura raison»
  - b. vous testez l'aptitude de l'interlocuteur à trouver un arrangement sur un point de pure forme
  - c. vous proposez un autre ordre du jour et vous vérifiez qu'il s'y intéresse.
9. Que faites-vous si l'on vous objecte un chiffre ou une affirmation manifestement inexacte?
  - a. vous avez tendance à laisser votre interlocuteur s'engager dans ses affirmations afin de mieux pouvoir le contrer
  - b. vous lui conseillez de bien réfléchir avant d'être aussi catégorique, puis vous poursuivez votre argumentation
  - c. vous intervenez pour rectifier immédiatement et vous tirez partie de votre avantage.
10. Quand la discussion piétine et s'enlise, comment réagissez-vous?
  - a. vous proposez un compromis se soldant par une concession de votre part sur un point secondaire, afin de créer un précédent favorable, mais sans lâcher prise sur l'essentiel
  - b. vous lancez un ultimatum afin de cerner les limites de l'interlocuteur et attendre sa réaction
  - c. vous proposez la tactique du «donnant-donnant»: «Si vous faites un effort sur X (aspect essentiel pour vous), alors je serai disposé à reconsidérer ma position sur Y (aspect essentiel pour lui)».

Cotation des réponses: chaque réponse A, B ou C vous donne 3, 1 ou 0. Calculez votre total en points en fonction de la grille ci-contre:

Réponses aux	A	B	C
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questions			
N° 1	1	3	0
N° 2	3	1	0
N° 3	1	3	0
N° 4	0	1	3
N° 5	3	1	0
N° 6	1	0	3
N° 7	1	0	3
N° 8	0	3	1
N° 9	0	3	1
N° 10	3	1	0
Total			

Le score de 23 à 30 points: vous êtes un négociateur expérimenté et efficace.

De 14 à 22 points: vous êtes un bon négociateur, mais il faut mettre en valeur votre volonté d'aboutir. Cherchez à vous perfectionner dans cet art.

De 6 à 13 points: vous avez de l'autorité mais vous manquez de souplesse et d'objectivité vis-à-vis de vos partenaires. Vous ne négociez pas assez malgré votre aptitude de dialogue.

Moins de 6 points: vous avez le souci de l'efficacité, une autorité ferme, mais vous ne faites pas participer vos interlocuteurs. C'est très risqué aujourd'hui!

### ***Etapas, tâches à accomplir et objectifs communicatifs à suivre lors d'une négociation***

Nous allons également exposer les étapes qui mènent à l'optimisation d'une négociation en décrivant les tâches à accomplir qui correspondent à chaque étape, ainsi que les objectifs communicatifs afférents.

Etapas	Tâches à accomplir	Objectifs communicatifs
1. Introduction	Réaliser les premiers pas de la communication en envisageant la création d'une atmosphère favorable Exposer les principaux aspects qui doivent être mis en discussion Convenir sur la manière d'aborder les problèmes	Se présenter: <i>Je représente la société...</i> <i>Je viens de la part de...</i> <i>En tant que représentant de...</i> Enumérer: <i>Les principaux aspects de cette rencontre visent...</i> <i>Notre sujet porte sur...</i> <i>On va aborder les problèmes suivants</i> <i>On va s'intéresser à...</i>
2. Consultation	Formuler des questions et analyser attentivement la position de l'autre Découvrir le fond réel des problèmes envisagés Détecter dans le discours de l'autre les aspects qui l'intéressent le plus	Présenter ses idées: <i>Dans un premier temps, en ce qui concerne, à propos de, en d'autres termes, autrement dit,</i> Demander des précisions, formuler des questions et des réponses: Questions: <i>Pouvez-vous préciser vos propositions?</i> <i>J'aimerais avoir des précisions</i> <i>Je souhaiterais avoir un complément d'information</i> <i>Qu'est-ce que? Quel est votre avis? Pourquoi?</i> <i>Comment?</i> <i>Pour en revenir à... que pensez-vous de?</i>

		<p><i>Croyez-vous vraiment cela?</i></p> <p>Réponses:</p> <p><i>Vous venez de soulever un point important</i></p> <p><i>C'est une question qui mérite une réponse claire</i></p> <p><i>Il est de toute évidence que...</i></p> <p><i>J'ai également cette question présente à l'esprit</i></p> <p><i>Ceci est une de mes préoccupations</i></p>
3. Confrontation	<p>Exprimer clairement les buts envisagés</p> <p>Chercher à orienter l'autre dans la direction qu'on s'est proposée</p> <p>Faire valoir ses arguments et réfuter ceux de son interlocuteur</p>	<p>Exprimer son désaccord:</p> <p><i>Nous nous opposons à ce que...</i></p> <p><i>Nous sommes formellement opposés à...</i></p> <p><i>Nous désapprouvons totalement le...</i></p> <p><i>Nous ne pouvons en aucun cas consentir à...</i></p> <p>Argumenter:</p> <p><i>Attendu que...</i></p> <p><i>Cela permet de conclure à...</i></p> <p><i>Cela conduit à reconnaître que...</i></p> <p><i>Cela montre que...</i></p> <p>Réfuter:</p> <p><i>Je doute que...</i></p> <p><i>Je crains que...</i></p> <p><i>Oui, mais...</i></p> <p><i>Cela ne prouve pas que...</i></p>
4. Conciliation	<p>Examiner attentivement les points auxquels l'autre serait prêt à renoncer</p> <p>Savoir faire des concessions et changer la manière d'approche pour remettre la discussion dans une bonne direction</p> <p>Proposer des solutions viables qui puissent susciter l'intérêt des deux parties et les analyser pour en choisir la meilleure</p>	<p>Accepter la proposition de l'autre:</p> <p><i>Vous avez parfaitement raison de montrer que...</i></p> <p><i>En dépit du fait que j'approuve les grandes lignes de votre approche, il me semble important de souligner quelques points de divergence</i></p> <p><i>Je comprends tout à fait votre position</i></p> <p>Clarifier la situation:</p> <p><i>En d'autres termes, vous aimeriez que...</i></p> <p><i>Si j'ai bien compris, vous acceptez que...</i></p> <p><i>Il me semble nécessaire d'éclaircir quelques points</i></p> <p><i>C'est un malentendu, mon intention a toujours été de...</i></p> <p>Revenir sur sa position:</p> <p><i>Il ne fait pas de doutes que... mais ...</i></p> <p><i>Nous pouvons finalement parfaitement admettre que...</i></p> <p><i>Compte tenu de la suppression de ces obstacles majeurs...</i></p> <p>Arriver au compromis:</p> <p><i>Puisque vous acceptez de... / si vous acceptez de... / à condition que vous acceptiez de... /</i></p> <p><i>Je souscris à cette proposition constructive</i></p> <p><i>Nous sommes entièrement d'accord</i></p> <p><i>C'est une excellente proposition que nous ne pouvons qu'approuver</i></p>
5. Conclusion	Vérifier la possibilité d'application de la	<p>Reformuler:</p> <p><i>Si je vous ai bien compris, vous voulez dire</i></p>

	solution choisie Rééquilibrer la discussion en cas de désaccord et consolider les liens créés dans le but d'une éventuelle collaboration dans le futur en cas d'accord	<i>que...</i> <i>Le nœud du problème dans tout ce que vous dites</i> <i>c'est peut-être que...</i> <i>Si je comprends bien, la question porte sur...</i> <i>Cela signifie donc que...</i>
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## Conclusion

Par les moyens qu'on a présentés, on a cherché à corroborer les techniques générales qui définissent l'art de négocier avec quelques procédures didactiques, dans le but d'offrir une approche plus complexe du processus d'enseignement/apprentissage, dans le cas spécifique de la négociation.

Notre étude se propose aussi d'aider les apprenants à choisir, à partir des schémas offerts, leur propre combinaison et compensation entre les différents canaux de communication, pour arriver à maîtriser tous les éléments qui font l'objet d'une bonne négociation.

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# LES LANGUES ÉTRANGÈRES COMME FACTEURS D'AVANTAGE CONCURRENTIEL DANS UNE ÉCONOMIE GLOBALISÉE

**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*

*Sur l'un des plus grands marchés uniques mondiaux, celui de l'Union européenne, les entreprises doivent se doter d'instruments capables de leur assurer la survie et la performance. Négligées pendant une longue période dans les milieux économiques, les compétences langagières sont arrivées au premier plan des réflexions des responsables européens et des professionnels de l'économie. La maîtrise d'une, deux ou trois langues étrangères n'est plus un objectif utopique des traités européens, mais un impératif dicté par l'évolution socio-économique et assumé par les acteurs nationaux. Plusieurs solutions sont envisagées afin de favoriser l'apprentissage des langues étrangères spécialisées ou d'intérêt général; les particularités de la communication à des fins économiques ou informatives écartent le modèle du polyglotte et recommandent des stratégies d'enseignement – apprentissage en attirant l'attention sur l'intercompréhension.*

*Mots clés: compétences langagières, compétitivité, intercompréhension*

*Code JEL: Y8*

L'économie globalisée est une source de défis et d'opportunités. Dans un monde où les demandes des consommateurs se multiplient, se diversifient, se renouvellent partiellement ou se transforment radicalement, seuls les acteurs économiques innovants, en éveil et ouverts à la diversité peuvent rester compétitifs. Sur l'un des plus grands marchés uniques mondiaux, les entreprises européennes doivent se doter de tous les instruments à même de leur assurer la survie et la performance. L'un de ces outils, longtemps négligé, est la maîtrise d'une, deux, voire plusieurs langues étrangères. Un survol des documents européens faisant référence aux langues étrangères dans une perspective économique fournit l'image d'un domaine traité avec un certain mépris ou bien avec ignorance, dépourvu d'intérêt par rapport aux thèmes majeurs de l'économie et de la société.

Cette position ingrate attribuée aux composantes langagières est ouvertement reconnue dans les Conclusions sur le multilinguisme formulées en mai 2008 par le Conseil de l'Europe. Suite aux rapports et recommandations successifs des spécialistes on admet que « **les besoins linguistiques sont encore insuffisamment pris en compte dans la société européenne** » tout en reconnaissant que « la vie quotidienne d'un nombre croissant de citoyens européens et d'entreprises est marquée par la diversité linguistique et culturelle » et que « les compétences linguistiques sont des aptitudes utiles dans la vie quotidienne pour tous les citoyens européens, qui leur permettent de profiter des avantages économiques, sociaux et culturels de la libre circulation au sein de l'Union »<sup>327</sup>.

L'émergence des mécanismes régissant l'interaction, la coopération et le transfert s'impose dans une société où « à l'image du mur, il faut substituer celle du contact, à l'image de la ligne instaurant une discontinuité radicale celle de superposition de multiples zones d'ajustements rétablissant une certaine continuité, à l'image des points critiques localisés aux périphéries des territoires celle d'une ouverture totale à l'autre en tous points »<sup>328</sup>. Les langues représentent le

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327 Conclusions du Conseil du 22 mai 2008 sur le multilinguisme (2008/C 140/10), disponible en format électronique sur <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2008:140:0014:0015:FR:PDF>

328 Castagne, Eric & Tyvaert, Jean-Emmanuel - Actes du colloque international organisé le 3 juillet à l'Université de Reims Champagne-Ardenne L'avenir du patrimoine linguistique et culturel de l'Europe, le CIRLEP EA 2071 - CIRLLLEP EA3794 / URCA, 2003-2004, p.59.

véhicule qui permet la circulation libre ou payante d'une information chargée de valences économiques, transformée en « un produit comme un autre, sinon une matière première dont un marché fixerait les cours »<sup>329</sup>. Aussi la diversité linguistique se constitue-t-elle en opportunité et contrainte, difficile à gérer mais indiscutablement source d'un riche potentiel économique et culturel. Cet aspect est d'ailleurs mis en évidence par un groupe d'éminents spécialistes connu sous le nom de Groupe de Haut Niveau pour le Multilinguisme, qui constate dans un Rapport rendu au Commissaire pour le multilinguisme que « la présence d'un nombre croissant de locuteurs d'autres langues dans la société des États membres représente un potentiel économique considérable, qui doit être pleinement exploité et développé ».<sup>330</sup>

Plusieurs décisions, conclusions ou résolutions européennes ont souligné, à commencer surtout avec l'an 2000, le rôle majeur des langues étrangères dans l'éducation, dans le respect de l'interculturalité et de la multiculturalité et dans la compréhension entre les peuples. Peu nombreux ont été en fait, à ce que nous avons constaté, les documents ayant mis l'accent sur **le potentiel économique** des langues étrangères, sur **l'impact** qu'elles peuvent exercer directement ou indirectement sur la dynamique économique. Et cela malgré l'inclusion de la capacité de communiquer dans une langue étrangère parmi les compétences clés dans l'éducation et la formation tout au long de la vie<sup>331</sup> et en dépit de l'indicateur européen de compétences linguistiques qui établit un rapport entre les langues, la mobilité de la main-d'œuvre et la compétitivité économique de l'Union européenne<sup>332</sup>.

La création d'un *Cadre stratégique européen pour le multilinguisme* résume en 2005 la problématique d'une société et d'une économie multilingues, partant de la réaffirmation d'un engagement (encouragement de l'apprentissage des langues et la promotion de la diversité linguistique favorisant une économie multilingue performante) vers la constitution de la stratégie de promotion et des actions qui en dérivent. Pour ce qui est de l'économie multilingue, **les bénéficiaires** de la maîtrise linguistique seraient *les entreprises*, surtout « les entreprises moyennes à forte croissance et créatrices d'emploi, qui sont les principaux moteurs de l'innovation, de l'emploi et de l'intégration sociale et locale dans l'Union », *la main-d'œuvre* qui deviendrait plus mobile et se verrait multiplier « les débouchés sur le marché de l'emploi », *les consommateurs* qui « ont accès à un large éventail de produits provenant de tous les États membres ». Les bénéficiaires travaillent dans tous les domaines économiques: vente, logistique, sous-titrage, relations publiques, marketing, communication, cinéma, publicité, journalisme, banque, tourisme, édition, justice, hôpitaux, services de police et d'immigration<sup>333</sup>.

La même idée du **multilinguisme vu comme « thème transversal majeur, qui recouvre les domaines sociaux, culturels, économiques et donc éducatifs »** se retrouve dans la récente Résolution de 2008 par laquelle le Conseil de L'Union Européenne souligne entre autres la nécessité de « mieux valoriser le multilinguisme comme atout pour la compétitivité de l'économie européenne et la mobilité et l'employabilité des personnes »<sup>334</sup>.

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329 Poulet, Bernard - La fin des journaux et l'avenir de l'information, Ed. Gallimard, 2009, p.63.

330 Groupe de haut niveau sur le multilinguisme - Vers une stratégie globale de multilinguisme dans l'Union européenne, Rapport Final, Version abrégée, 2007, p.7 disponible sur [http://ec.europa.eu/education/policies/lang/doc/multishort\\_fr.pdf](http://ec.europa.eu/education/policies/lang/doc/multishort_fr.pdf) consulté le 10 mai 2009.

331 Recommandation du Parlement Européen et du Conseil sur les compétences clés pour l'éducation et la formation tout au long de la vie (2006/962/CE), 2006, p.13, disponible sur <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2006:394:0010:0018:fr:PDF>, consulté le 10 mai 2009.

332 Communication de la Commission au Parlement européen et au Conseil, L'indicateur européen des compétences linguistiques, 2006, p.4, disponible sur <http://register.consilium.europa.eu/pdf/fr/06/st10/st10477.fr06.pdf> consulté le 10 mai 2009.

333 COM (2005) 596 final, pp.10-12.

334 2008/C 320/01, p.2.

La problématique des langues revêt dans ce contexte une double dimension: *horizontale*, puisque la diversité linguistique a le statut de valeur ajoutée dans les relations économiques internationales (entre les États communautaires ou dans la relation de ceux-ci avec le monde) et *verticale*, dans le sens de facteur de compétitivité économique, dans l'ordre d'un inventaire de compétences assurant le succès professionnel d'un acteur économique. La transformation des langues en **facteur de compétitivité**, n'est pas possible en absence d'engagements concrets et détaillés des responsables européens. La place accordée à l'identification de mesures immédiatement applicables témoigne de l'intérêt que les responsables économiques portent actuellement aux compétences langagières:

- « soutenir l'offre et l'apprentissage d'un large éventail de langues pour permettre aux entreprises, en particulier aux petites et moyennes entreprises, d'élargir leur accès à l'ensemble des marchés mondiaux et en particulier aux marchés émergents;
- encourager une plus grande prise en compte des compétences linguistiques dans l'évolution de la carrière des employés, en particulier dans les petites et moyennes entreprises;
- recourir aux Fonds structurels européens, si nécessaire, afin de fournir des cours de langue spécifiques dans le cadre de la formation professionnelle continue et de l'éducation des adultes;
- mettre en valeur et utiliser les compétences linguistiques des citoyens issus de l'immigration comme moyen de renforcer à la fois le dialogue interculturel et la compétitivité économique »<sup>335</sup>

Les langues assurent donc l'accès des entreprises sur les nouveaux marchés et favorisent l'évolution des employés dans la carrière, dans le cadre de l'enseignement obligatoire et de la formation continue. **Une entreprise qui ne relève pas ce défi risque se dévitaliser et s'appauvrir.**

**Vu l'évolution de l'intérêt porté aux langues au niveau communautaire, une question se pose: les professionnels de l'économie son-ils vraiment conscients de l'impact réel et potentiel des langues sur leurs affaires? En ce qui nous concerne, nous estimons que les grandes entreprises qui ont une politique linguistique bien définie connaissent l'avantage représenté par le multilinguisme et le plurilinguisme et elles en profitent largement. Plus nombreux sont cependant ceux qui ignorent cette problématique, faute d'informations. Le défaut majeur réside dans l'absence d'études unitaires, de statistiques régulièrement publiées qui puissent illustrer les variations économiques sous l'effet des langues. Une recommandation dans ce sens est faite au plus haut niveau européen de décision par des professionnels qui soulignent le besoin d' « *enquêtes plus spécifiques aux niveaux national ou régional, visant à recueillir des faits et des données qui influenceront et convaincront les associations d'entreprises et les pouvoirs publics* »<sup>336</sup>.**

**Les langues étrangères pour les affaires ont été tout d'abord le sujet de débats et de réunions, avant d'aboutir à des documents de référence ou à des études exhaustives. L'existence d'une politique linguistique au sein de l'entreprise a constitué le thème de l'une des premières conférences au sujet des langues dans l'économie, « *Les entreprises ont-elles une politique linguistique?* » tenue en 2004 et consacrée au délicat problème de la place du français dans le milieu économique. Elle a été précédée par une enquête détaillée conduite en 2003 sur près de 500 entreprises françaises à vocation internationale. Les chercheurs ont constaté que 94% des entreprises visées considéraient le français comme la langue dominante au niveau de la communication et des échanges internes, mais la faculté de substituer une autre langue (l'anglais en occurrence) au français pour faciliter les affaires**

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335 idem, ibidem.

336 Groupe de haut niveau sur le multilinguisme, Vers une stratégie globale de multilinguisme dans l'Union européenne, Rapport Final en Version abrégée, 2007, p.6.



était signalée par plus de la moitié des entreprises interrogées, dans le contexte où la maîtrise de l'anglais était vue comme « un fort avantage concurrentiel ».<sup>337</sup>

Lors de la même réunion, Isabelle Gratiant a précisé que le recul du français dans les entreprises françaises à vocation internationale apparaissait souvent « dans les entreprises où aucune réflexion n'a été conduite sur les pratiques linguistiques »<sup>338</sup>, ce qui confirme que le choix d'une stratégie linguistique dans une entreprise est en mesure de privilégier certaines langues, d'en laisser au second plan d'autres et de suppléer à l'insécurité linguistique des employés. Une étude de cas portant sur la nature différente des politiques linguistiques développées dans deux entreprises à vocation internationale relève le fait que dans une entreprise de taille réduite l'approche pragmatique propose des formations répondant au cas par cas aux besoins individuels tandis que dans une entreprise plus importante et d'implication globale, on impose des formations langagières selon le niveau hiérarchique. Dans ce dernier cas, les salariés de base considèrent les formations suivies comme insatisfaisantes et inadaptées à leurs besoins individuels, tandis que les cadres supérieurs apprécient les formations comme parfaitement adaptées à leurs besoins<sup>339</sup>.

Force est de constater ici que la formation langagière en entreprises dans l'esprit d'une politique linguistique adaptée dépend des budgets consacrés aux formations linguistiques qui ont été et restent relativement peu élevés.

Trois types d'entreprise suggèrent trois types stratégies centrées sur la langue maternelle / nationale comme avantage concurrentiel: il y a des entreprises qui disposent d'une forte identité nationale (francophone, dans ce cas de figure) et qui en font un atout à l'international; un autre groupe comprend les entreprises qui n'utilisent pas cet atout à l'international et essaient de s'adapter à leurs clients; le dernier groupe réunit des entreprises internationales, pour lesquelles la question de la langue n'a plus d'importance<sup>340</sup>. L'idéal serait d'après nous le modèle d'une entreprise avec une forte identité nationale et langagière mais encourageant la diversité linguistique, capable de transformer à tout moment ce potentiel en atout à l'international.

La seule étude consistante de l'impact des langues sur le milieu économique a été réalisée en 2005 par le Centre national britannique des langues, en collaboration avec une équipe de chercheurs internationaux, sur la demande du commissaire européen pour le multilinguisme. Cette étude connue sous le nom *ELAN: Incidences du manque de compétences linguistiques des entreprises sur l'économie européenne*, constitue la référence pour nombre de réunions et de conclusions officielles: en 2007, le Forum des Entreprises sur le Multilinguisme « *Les langues font nos affaires - Des entreprises plus performantes grâce à une connaissance accrue des langues* » a formulé ses recommandations à partir des données rassemblées par ELAN; le rapport dirigé par le vicomte Davignon en 2008 a pris en compte les mêmes indicateurs. L'une des conclusions les plus frappantes de l'étude est que « les entreprises européennes perdent de nombreux marchés faute de compétences linguistiques. Sur la base de l'échantillon qui a servi à cette étude, on estime que 11 % des petites et moyennes entreprises européennes (945 000 entreprises) du secteur de l'exportation subissent sans doute un manque »<sup>341</sup> avec des pertes de millions d'euros. Le rapport ELAN identifie les solutions les plus fréquentes relatives à la gestion linguistique et à l'adoption d'une stratégie de communication multilingue, déclinée en: adaptation des sites web, formation linguistique du personnel, recrutement de locuteurs natifs, recrutement de

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337 Maratier-Decléty, Guilhène, in *Les entreprises ont-elles une politique linguistique?* Actes du Séminaire du 23 juin 2004, p.16.

338 Gratiant, Isabelle in idem. p.13.

339 Crétien, Hélène in idem, pp.20-23.

340 Guilhène Maratier-Decléty in idem, pp.17-18.

341 [http://ec.europa.eu/education/policies/lang/doc/elan\\_executive\\_summary\\_fr.pdf](http://ec.europa.eu/education/policies/lang/doc/elan_executive_summary_fr.pdf), p.1, consulté le 10 mai 2009.

personnel possédant des compétences linguistiques, recours à des traducteurs et à des interprètes, etc.

Il est intéressant de mentionner ici le résultat d'une dernière évaluation macro-économique des compétences linguistiques des forces de travail parue en fin de 2008 *"Langues étrangères dans l'activité professionnelle"* sous la direction du professeur François Grin; conformément à ces conclusions, 9% du PIB de la Suisse est dû au multilinguisme<sup>342</sup>.

Dans un communiqué de presse, le commissaire chargé du multilinguisme Leonard Orban souligne le potentiel des discussions du Forum des Entreprises qui ont remis les langues au centre de la réflexion d'éminents professionnels en économie. «Ce rapport du Forum des entreprises plaide en faveur du multilinguisme dans les entreprises européennes, montrant comment la diversité linguistique et l'investissement dans les langues et les compétences interculturelles peuvent devenir de réels facteurs de prospérité et une source de profit pour tous». Le commissaire chargé du portefeuille Entreprise et industrie, Günter Verheugen, estimait dans le même contexte que «l'investissement dans les compétences linguistiques et la gestion de la diversité seront des éléments déterminants pour permettre à la société européenne de bénéficier pleinement de la mondialisation. La connaissance de différentes langues favorise la communication, la compréhension et la découverte de nouvelles solutions»<sup>343</sup>. L'impression générale est que les langues commencent peu à peu à révéler leur potentiel communicatif, lucratif et innovant.

Le rapport Davignon voit les enjeux économiques en perspective et tire un signal d'alarme sur le fait que «l'Europe court le risque de perdre la guerre des compétences, alors que les économies émergentes, principalement en Asie et en Amérique latine, acquièrent rapidement les compétences linguistiques et autres nécessaires pour dépasser leurs concurrents sur les marchés de demain»<sup>344</sup>. Le défi à surmonter est dans l'opinion des rapporteurs l'intégration du multilinguisme dans toutes les stratégies de développement du capital humain, **par des décisions telles que révision des politiques de recrutement et des stratégies de développement de l'entreprise, définition des objectifs individuels de compétences linguistiques pour les employés, utilisation d'une large gamme de stratégies de gestion des langues, l'investissement dans la formation linguistique, l'embauche temporaire ou permanente de locuteurs natifs de différentes langues, l'utilisation de technologies linguistiques, de traducteurs-interprètes, de communicateurs et de médiateurs culturels, l'amélioration de la mobilité internationale du personnel**<sup>345</sup>. L'analyse des dernières démarches développées au niveau de l'UE pour promouvoir les langues dans les affaires ont mis en évidence une considérable variation selon le pays, mais ont conclu que «dans l'ensemble, peu d'initiatives politiques mettent l'accent sur la nécessité d'améliorer la situation et le multilinguisme apparaît rarement dans les programmes de développement destinés à acquérir des compétences pour le futur»<sup>346</sup>. La responsabilité est partagée par tous les acteurs: elle appartient aux entreprises, aux gouvernements, aux autorités régionales et locales, aux institutions européennes, et nous l'ajouterions volontiers, aux employés.

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342 <http://www.romandie.com/infos/news2/200811171830030AWPCH.asp> consulté le 10 mai 2009.

343 Communiqué de presse Multilinguisme: les langues au service des entreprises, Bruxelles, le 11 juillet 2008, édité sur le site <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/08/1130&format=HTML&aged=0&language=FR&guiLanguage=fr> consulté le 10 mai 2009.

344 Recommandations du Forum des entreprises sur le multilinguisme, établi par la Commission européenne, "Les langues font nos affaires Des entreprises plus performantes grâce à une connaissance accrue des langues", 2008, p.10, disponible en format électronique sur [http://ec.europa.eu/education/languages/pdf/davignon\\_fr.pdf](http://ec.europa.eu/education/languages/pdf/davignon_fr.pdf) consulté le 10 mai 2009.

345 idem, p. 6

346 idem, p.14

Toutes les solutions envisagées par les analyses des spécialistes ont cependant un obstacle à surmonter: le coût. La plupart des solutions sont assez coûteuses en argent, temps et énergie, pour la firme et pour les employés. Plus encore, la motivation doit rester éveillée tout au long de la formation, qui peut être brève ou longue, plus ou moins intéressante, stimulante ou ennuyeuse. Tout en prenant la motivation comme élément clé de l'apprentissage des langues, le Groupe de haut niveau sur le multilinguisme considère qu'il faut d'une part motiver les personnes à apprendre des langues plutôt qu'une seule langue et d'autre part favoriser le développement de stratégies innovantes<sup>347</sup>.

Cela répond indirectement aux propos du Conseil européen formulés dans la Résolution de 2008 qui invite à « encourager l'apprentissage et la diffusion des langues européennes, par des approches novatrices telles que les technologies numériques de communication et l'enseignement à distance et des approches reposant notamment sur l'intercompréhension entre langues apparentées ». L'intercompréhension apparaît être ce que le Conseil nommerait une méthode nouvelle, révolutionnaire même dans la didactique des langues, propre à permettre un apprentissage - enseignement adapté aux besoins linguistiques, variable en fonction des intérêts, du travail et de l'héritage culturel et que l'on pourrait faire entrer dans la catégorie des « méthodes innovantes » recommandées au niveau européen<sup>348</sup>. Une anecdote racontée par Steve Gentili, Président du *Forum francophone des affaires* pourrait rendre compte de ce que signifie les ressources de l'intercompréhension « *récemment, nous avons réuni les ministres de l'agriculture francophones ; ils étaient accompagnés du ministre roumain de l'agriculture, qui ne parlait pas le français : il souhaitait parler en anglais. Nous avons mené une rude bagarre pour qu'il puisse s'exprimer en roumain, tout en étant accompagné d'un traducteur.* » Pour exprimer de manière condensée la particularité de l'intercompréhension, nous dirions simplement qu'avec un entraînement aux stratégies propres à cette méthode, à raison de 30-40 heures de pratique, le ministre roumain aurait pu comprendre ses correspondants parlant français, tout comme les ministres francophones auraient pu comprendre l'expression en roumain sans difficultés majeures. Le principe est justement de développer les capacités partielles de compréhension orale et/ou écrite en langue étrangère, tout en s'exprimant dans sa langue maternelle. Les particularités de la communication à des fins économiques ou informatives écarte le modèle du polyglotte et recommande des stratégies d'enseignement – apprentissage qui privilégient les compétences langagières partielles. L'intercompréhension serait une formule avantageuse et efficace pour un large éventail d'activités dans l'économie globale. Il nous resterait à faire des études qui mesurent l'efficacité des méthodes fondées sur l'intercompréhension appliquées en milieu économique.

Le sentiment partagé des spécialistes est que « le multilinguisme devient la clé d'une compétence multiculturelle, reconnue, à un échelon élevé dans l'entreprise, comme très professionnelle. A technicité égale, sur la planète, celui qui maîtrisera passivement plusieurs langues se montrera donc ouvert aux autres cultures et l'emportera à l'avenir, sur le marché international du travail. »<sup>349</sup> Nous pourrions conclure en nous appropriant les propos du rapport Davignon et en en faisant l'objectif central de notre activité d'enseignants de langues avec objectifs spécifiques « Nous devons veiller à ce que les langues soient reconnues et utilisées comme des atouts fondamentaux qui favoriseront la réussite des entreprises »<sup>350</sup>.

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347 Groupe de haut niveau sur le multilinguisme, op.cit., p.4

348 2008/C 320/01, p.2

349 Challe, Odile - Enseigner le français de spécialité, Ed. Economica, Paris, 2002, p.135

350 Recommandations du Forum des entreprises sur le multilinguisme établi par la Commission européenne, op.cit., p. 20

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10. CILT The National Centre for Languages (Centre d'expertise linguistique homologué du gouvernement britannique), Incidences du manque de compétences linguistiques des entreprises sur l'économie européenne (ELAN) [http://ec.europa.eu/education/languages/Focus/docs/elan\\_fr.pdf](http://ec.europa.eu/education/languages/Focus/docs/elan_fr.pdf)
11. Ministère de la Culture et de la Communication Délégation générale à la langue française et aux langues de France - « Les entreprises ont-elles une politique linguistique? » Actes du Séminaire du 23 juin 2004, Paris, disponible en format électronique sur <http://51959387.fr.strato-hosting.eu/plurilinguisme/images/Languefrancaise/entreprisespolitiqueling0406.pdf>
12. <http://www.romandie.com/infos/news2/200811171830030AWPCH.asp>

## Hamburg Andrea

Universitatea din Oradea Facultatea de Științe Economice Str. Universității 1, 410087 Oradea  
E-mail: ahamburg@uoradea.ro Tel: 0259/408799

*Following study aims to analyse mass media from a linguistic approach using concepts of mediallynguistics. After a general theoretical introduction it focusses on three products of German written mass media "Focus", "Stern" and "Der Spiegel" underlining the specific stylistic means journalists use to enhance their texts from every day speech and give them personality. It must also be mentioned that their language manipulations may have even negative effects for the reading public– misunderstanding, incomprehension, refusal– and for language as well.*

*Schlüsselwörter: Medienlinguistik, Anpassung an Lesererwartungen, intendierter Rezipient, adäquate Kodierung, stilistische Elemente*

*Cod JEL: Z11, Z19*

Von den vielerlei Ansätzen für die Untersuchung der Massenmedien hat folgende Studie die Absicht, diese Letztere aus Sicht der Linguistik zu betrachten. Sie möchte erläutern, welche sprachliche Mittel Journalisten wählen, um zu informieren und nicht zuletzt zu unterhalten, wie sie die Aufmerksamkeit ihrer Leserschaft aufwecken oder ganz im Gegenteil, im Falle von zu stark und komplex kodierten Texten, wo die gemeinsamen Dekodierungssysteme fehlen, das Lesepublikum abschrecken. Um einen Text zu verstehen und richtig zu verstehen, reicht die Kenntnis der De- und Konnotation der Wörter und Syntagmen nicht aus, kulturelles Hintergrundwissen, allegorisches Verständnis sind ebenso nötig; dabei soll die Existenz eines gemeinsamen Codesystems Leitprinzip sein. Ein Text, in dem zu viele Fremdwörter vorkommen, sei es der modische Trend der Anglizismen oder die Hinwendung zu klassischen Sprachen, riskiert von einem Massenpublikum im neutralen Sinn des Wortes wegen fehlenden Verständnisses verfehlt oder gar nicht rezipiert zu werden.

Trotzdem wird Medienlinguistik (die Untersuchung von Massenmedien aus sprachwissenschaftlicher Sicht) im medienwissenschaftlichen Kontext nicht die ihr zukommende Bedeutung zugeordnet. So fehlt z.B. in der Laswell-Formel– „who says what to whom in which channel with what effect?“– der Hinweis auf die sprachliche Komponente (with which codes?).

Mediensprache ist keinesfalls als ‚Dialekt‘, eine sprachliche Varietät zu verstehen, „sondern als Oberbegriff für ein vielschichtiges kommunikatives Feld mit vielen Binnendifferenzen.“<sup>351</sup>

In der Sicht von Harald Burger: „Die Massenmedien haben keine eigene ‚Sprache‘ (...). Wohl aber haben sie eigene Praktiken des Umgangs mit Sprache– eigene kommunikative Verfahren und in gewissen Rahmen eigene Textsorten– entwickelt, die sie von der übrigen Sprachrealität deutlich abheben.“<sup>352</sup> So resultieren die Besonderheiten des medialen Sprachgebrauchs teilweise aus den Aufgaben der journalistischen Praxis– siehe Gebrauch des Konjunktivs für Distanzierung oder Formulierungen in der Sprache der Moderatoren wie ‚Tschüss und guten Abend‘ im Falle einer heterogenen Adressatengruppe in einer inszenierten Kommunikation.

Wie schon früher angedeutet, muss Sprachgebrauch an die Zielgruppe angepasst werden, so steht im Mittelpunkt medienlinguistischer Untersuchungen die Beziehung zwischen den beiden. Dabei lässt sich folgendes vermerken: die Adressaten sind ja nicht einzeln bekannt und nicht näher

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351 Jannis Androutsopoulos, Medienlinguistik, Beitrag für den Deutschen Fachjournalisten-Verband e.V., Stand: 9.11.2003, <http://www.archetype.de/texte/2004/Medienlinguistik.pdf>, S. 3.

352 Harald Burger, Sprache der Massenmedien, Berlin, New York: de Gruyter, 1990, S. 3., in: Jannis Androutsopoulos.

spezifizierbar. So wendet sich der Journalist nicht an den effektiven Rezipienten, sondern an einen intendierten Empfänger; welchen Profil er für diesen aufstellt, bestimmt des Weiteren auch seinen Sprachgebrauch und die gewählten linguistischen Mittel. Dieser adoptierte Sprachgebrauch markiert auch die Zugehörigkeit des Mediums zu einem bestimmten Marktsegment und trägt zur Entwicklung einer „Medienmarke“ bei: man denke an den „Bild“- oder den „Spiegel“-Stil; dieser Letztere wird im Folgenden sogar unter die Lupe gezogen. „Die sprachliche Mediengestaltung gestaltet sich daher als eine Gradwanderung zwischen Standardisierung– dem Einhalten der sprachlichen Standards des relevanten Marktsegments– und Individualisierung– der Bemühung, ein individuelles „Gesicht“ zu entwickeln.“<sup>353</sup>

Was die Beziehung Mediensprache und Zielgruppe anbelangt, steht fest, dass sich die Kommunikatoren ein Bild über die Textsortenvorstellungen und –erwartungen der Rezipienten machen und demgemäß ihre Texte gestalten. Auf der anderen Seite haben die Rezipienten ihre eigenen Erwartungen und Vorstellungen Texte gegenüber, die mit den Vorstellungen der Kommunikatoren nicht unbedingt übereinstimmen. Die stilistische Varietät dient in der Mediensprache der Differenzierung verschiedener Texte und der Herausformung der Beziehung zu einem bestimmten vorgestellten Publikum. Die stilistischen Unterschiede weisen dem Massenmedienprodukt eine bestimmte Stelle auf dem Markt zu, sagen viel über seine politische Zugehörigkeit, über die Gesellschaftsschicht des Publikums und dessen soziale Bestrebungen aus und verleihen dem betreffenden Produkt Persönlichkeit.

Analysiert man die Textsorten in Massenmedien, stellt man fest, dass diese eine doppel-dimensionale Struktur haben: die „sprachexterne“ Dimension der komplexen kommunikativen Haltung und die „sprachinterne“ Dimension der typischen Sprachmerkmale. Diese finden ihre Konkretisierung im Stilwechsel zwischen Formalität, Informalität, Hoch- und Umgangssprache. Noch mehr, die Stilwahl kann ideologische Konnotaten bergen, die Subjekt der in den '80ern in Großbritannien herausentwickelten *kritischen Diskursanalyse* sind. Aufgabe dieses linguistischen Zweiges ist, durch stilistische Mittel durchgeführte ideologische Prägung und Vorturteilsbildung bei dem Publikum herauszufinden und zu erörtern. „Durch eine Verbindung grammatischer, lexikalischer und ideologischer Analyse will die kritische Linguistik zeigen, welche Details der sprachlichen Formulierung zur Reproduktion sozialer Stereotype bzw. Verschleierung politischer Verantwortung beitragen können.“<sup>354</sup> Dabei werden syntaktische Strukturen (Transitivität: Aktiv-Passiv; Nominalisierung), Wortschatz (soziale Kategorisierung: Terrorist ↔ Guerillakämpfer; verschleiernde Fachbegriffe: ‚Kollateralschaden‘, ‚Eigenbeschuss‘ für die Tötung von Zivilisten oder Soldaten der eigenen Truppe) und Metaphern (subjektive, wertende Standpunkte in der Berichterstattung: z.B. Assoziation der gemeinsamen europäischen Währung mit einem lebendigen Organismus) untersucht.

In der Beziehung Sprachgebrauch und Zielgruppe lassen weitere Eigentümlichkeiten entdecken. Um sich vom konkurrierenden Angebot abzuheben, sehen sich Produzenten von Massenmedien dazu gezwungen, individuelle, originelle Variationen der üblichen Darstellungsformen zu erstellen. So nimmt der Wetterbericht in einem älteres, breiteres Publikum anzielenden Sender künstlichere, standardsprachliche Form auf, während derselbe in einem Sender für jüngeres Publikum viel „natürlicher“ und mehr dialektal geprägt klingt. Noch mehr, sprachliche Variationen können in den Medientexten durch die soziale Differenzierung des Medienangebots induziert werden. Der neuseeländische Journalist und Sprachwissenschaftler Allan Bell ist in seinen Untersuchungen, in die er sechs Radiosender einbezogen hat, auf die Idee gekommen, dass die Häufigkeit informeller Varianten mit dem Status des Senders variiert: „broadcasters modify their language to win their audience's approval“.<sup>355</sup>

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353Jannis Androutsopoulos, ebenda, S. 4.

354Ebenda, S. 7.

355Allan Bell, *The Language of News Media*, Oxford: Blackwell, 1991, in: Jannis Androutsopoulos, S. 10.

Manche Massenmedienvetreter greifen zur sprachlichen Emotionalisierung des Publikums, um ihren Berichten einen persönlichen Ton zu leihen. So arbeiten sie mit einem affektischen Wortschatz (Gefühlsbereich), umgangssprachlichen Formen, dem Superlativ (eigentlichem Superlativ, Gradadverbien, Hyperbeln, verstärkenden Zusammensetzungen: „Bombenstimmung“), Phraseologismen und Metaphern mit affektischer Wirkung.

Im Folgenden werden Artikel, verschiedenen Themenbereichen zugehörig, aus 3 deutschen Periodika: „Focus“, „Stern“ und dem „Spiegel“ ohne komparativistischen Ansatz, hinsichtlich der Eigentümlichkeiten im Sprachgebrauch und in der Stilwahl unter die Lupe gezogen.

Unter den meistbeliebten stilistischen Elementen zählt die metaphorische Sprache, die Allegorik, deren Schattierungen vom Poetischen bis zum Ironischen gelangen können. Es gibt dafür zahlreiche Beispiele, sogar in einem einzigen Artikel. So bietet die Reportage „Surfen zu Sonne, Sand und mehr“<sup>356</sup> eine große Auswahl davon: die fachjargonartige Formulierung „die besten *Urlaubs Klicks*“<sup>357</sup> drückt in einer hochkomprimierten Form die Suche im Internet nach den besten Urlaubsangeboten aus, die später auch „Das Gerangel um *die besten Stücke von diesem Kuchen* (...)“<sup>358</sup> genannt wird. Da Tourismus auch ein Geschäftszweig ist, wollen auch Unternehmungen davon profitieren. In der Formulierung der Reporter, Sebastian Jutzi, Frank Lehmkuhl, Mitarbeiter Matthias Kowalski, klingt das „*Eine schnelle Mark* will anscheinend auch der Marktführer L'tur (...) machen“.<sup>359</sup> Die Kundenorientierung der Anbieter zeigt, dass „*Der Kampf um die Klicks der Feriensurfer*“<sup>360</sup> selten mit „Enttäuschungen bei der *Buchung mit der Maus*“<sup>361</sup> endet. Beim Themenkreis Tourismus bleibend bieten sich weitere Beispiele für allegorische Sprache: „*Geschäft mit dem Fernweh*“<sup>362</sup> oder die beliebte lebender-Organismus-Metaphorik der Journalisten: „*Mit Geburtswehen kämpft* auch das Online Travel Portal (OTP)“<sup>363</sup> und die Fortsetzung dieser Ideenfolge „Nächste Woche soll es in London *das Licht der Reisewelt erblicken* (...)“<sup>364</sup>

Dieser ausdrucksvollen, bildlichen Sprache bedient sich auch Peter Hinze, wenn er über den „Klassiker, die *Nur-Flüge* (...)“<sup>365</sup> spricht und gleich in der Titelwahl, denkt man ans Wortspiel ‚verflogen – Reisen und Flüge‘.

Wie ein wohlbekanntes Sprichwort zum Ausgangspunkt für ein treffendes Wortspiel werden kann, zeigt uns Christine Brinck in einem Interview, wo sie folgende Frage stellt: „(...) *wer BA sagt, muss auch C für College sagen*. Stimmt das?“<sup>366</sup> Warum ein Artikel über Rennfahren und Formel 1 den Titel „Das Baumarkt-Syndrom“ trägt und was hinter dieser Allegorik steht, – „Die 220 BMW-Ingenieure, Techniker und Mechaniker sprechen bereits vom ‚OBI-Syndrom‘, wenn sie mal wieder eine Schlampigkeit ‚aus dem Regal vom Bastlergeschäft‘ entdeckt haben“<sup>367</sup> – erfährt man erst beim Lesen des Artikels; Interesse dafür hat schon die ungewöhnliche Formulierung im Titel sowieso erweckt. Nach einem ziemlich naturalistischen Debüt „Er habe ‚gerochen wie ein Stinktief‘. Zudem sei die Champagnerdusche auf dem Siegerpodest von Montreal ‚klebrig, einfach ekelhaft‘ gewesen, (...)“<sup>368</sup> setzt der Artikel allegorisch fort: „als

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356 Focus, Nr. 25, 18. Juni 2001, S. 158-174.

357 Ebenda, S. 160.

358 Ebenda, S. 161.

359 Ebenda, S. 164.

360 Ebenda, S. 174.

361 Ebenda, S. 172.

362 Ebenda, S. 176.

363 Matthias Kowalski, Große Namen, kleiner Inhalt, in: ebenda, S. 177.

364 Ebenda, S. 177.

365 Peter Hinze, „Die Euphorie ist verflogen“, in: ebenda, S. 178.

366 Christine Brinck, Hanseatische Experimentierfreude, in: ebenda, S. 127.

367 Wolfgang Reuter, Das Baumarkt-Syndrom, in: ebenda, S. 193.

368 Ebenda, S. 192.

Michael (...) *die ersten Weihen des Vollgasgeschäfts* genießen durfte, (...)“<sup>369</sup>. Diese doppelte Allegorik: erstmals „die ersten Weihen“ für Anfang, Debüt, zweitens „Vollgasgeschäft“ statt Rennfahren verleiht dem Text einen poetischen Hauch und Persönlichkeit.

Auch die Reporter vom „Spiegel“ kennen sich in der „Wissenschaft der Titelgebung“ gut aus, nicht selten sind verblüffende, spannungsreiche Titel wie „Außerirdische im Felsendom“<sup>370</sup>. Selbstverständlich geht es im betreffenden Artikel nicht um Marsbewohner und ihren Besuch auf der Erde, sondern um ein Bruderpaar, das sich im Freiklettern auszeichnet. Hinsichtlich ihrer Kühnheit und Akrobatik wirken sie zu einem gewissen Maße tatsächlich „außerirdisch“, als etwas Kurioses. Der Bericht über sie bietet zahlreiche Beispiele für allegorische Sprache.

Das Bruderpaar Huber wird „*das Berchtesgadener Doppel*“<sup>371</sup> genannt und es gehört zu den „(...) Profibergsteigern, die akrobatisches Freiklettern in die *Mammutwände* Asiens gebracht haben“<sup>372</sup>. Und das machen sie nicht „(...) mit einem Heer von *Sherpa-Führern*“<sup>373</sup>. Für ein vollkommenes Verständnis der Textpassage bedarf es hier sogar Hintergrundkenntnis um die Marke für Bergsteigerausstattungen ‚Sherpa‘. Als Gegenpol zum poetischen Ausdruck „*Mammutwände Asiens*“ steht die moderne Formulierung „*Killerwände*“<sup>374</sup> als Beweis für den Überflut von Anglizismen in der deutschen Sprache.

Texte wissenschaftlichen Sujets können ebenfalls einen lockeren, umgangssprachlichen Stil adoptieren, manchenorts sogar poetisch wirken. Dafür finden wir Beispiele im Bericht über einen archäologischen Fund in Nordengland „Lohn des Schweigens“<sup>375</sup> betitelt. Der Autor, Günther Stockinger, bedient sich für die Bezeichnung der Archäologen allegorischer Namen wie „*Spatenkünstler*“<sup>376</sup> oder „*Grabungsgelehrten*“<sup>377</sup>, die Wikinger nennt er manchenorts „*Nordmänner*“<sup>378</sup>. Er erspart sich keine Mühe, um seinen Bericht mit einem Hauch Poetik und erhabener Sprache zu gewürzen: „Die Bewohner (...) waren *zu Stillschweigen vergattert*.“<sup>379</sup>, „Die beiden Wikingerfrauen waren (...) *auf die letzte Reise gegangen*.“<sup>380</sup>, „Die Nordmänner hatten ihre Verstorbenen 30 bis 40 Zentimeter tief *der Erde übergeben*.“<sup>381</sup> oder „(...) buddelte er (...) aus dem *Erdreich*“<sup>382</sup>.

Um die eigene Haltung zum Thema oder Gesagten zu widerspiegeln, verleiht der Verfasser der Allegorik nicht selten einen satirisch-ironischen Überton. So geschieht das im Artikel über Gentechnologie „Satt durch Designer-Pflanzen?“<sup>383</sup> oder in der bissigen Reportage über Telefongewinnspiele, auch „Mitmach-Telefone“ genannt „Anschluss gesucht“<sup>384</sup>: „Nun mag es noch angehen, *sich einmal pro Monat für 49 Cent der basisdemokratischen Illusion hinzugeben, semiprominente ‚Alm‘-Bewohner (ProSieben) oder Dschungel-Heroen (RTL) aus dem Programm kegeln zu können*.“<sup>385</sup> Wenn aber die Mitmach-Lust ein großes Ausmaß nimmt, hat das Folgen: „Bei Verbraucherschützern sammeln sich inzwischen die Telefonrechnungen von besonders

369 Ebenda, S. 192.

370 Der Spiegel, Nr. 38, 13.9.2004, S. 134-136.

371 Jürgen Kremb, Außerirdische im Felsendom, in: ebenda, S. 136.

372 Ebenda, S. 136.

373 Ebenda, S. 136.

374 Ebenda, S. 136.

375 In: ebenda, S. 190.

376 Günther Stockinger, Lohn des Schweigens, in: ebenda, S. 190.

377 Ebenda, S. 190.

378 Ebenda, S. 190.

379 Ebenda, S. 190.

380 Ebenda, S. 190.

381 Ebenda, S. 190.

382 Ebenda, S. 190.

383 Ebenda, S. 180.

384 Ebenda, S. 103.

385 Janko Tietz, TV-Gewinnspiele, Anschluss gesucht, in: Der Spiegel, Nr. 38, S. 103.



wahlwütigen Fernsehzuschauern (...)“<sup>386</sup>. Manchenorts verschiebt sich die Metaphorik vollkommen in Richtung Ironie: „Das sind jene Momente, in denen Moderatoren wie Angermüller auf die Kamera zustürzen und in einer Lautstärke brüllen, *die jeden Wellensittich tot von der Stange fallen lässt*: „Schnell, schnell! Greifen Sie jetzt zum Telefon! (...)“<sup>387</sup>, Polizisten sind „die psychologisch geschulten *Gute-Laune-Hüter*“<sup>388</sup> bei den Olympiaspielen oder nimmt eine morbide Form: „Abgetriebene *Föten als Ersatzteillager*?“<sup>389</sup>

Verfasser können auch eine entschärfte Variante der Ironie wählen und in ihre witzige Formulierungen kernige Personencharakterisierung „Der *Kiesbett-Rumpler Montoya* enttäuscht viele Fans wegen zu häufiger Ausrutscher“<sup>390</sup>, während Jacques Villeneuve als „*der Haudegen*“<sup>391</sup> gilt, Kategoriebezeichnungen „Kluge *Schneewanderer* deponieren Pumps für die Dame und leichte Halbschuhe für den Herrn (...). *Stilköniginnen* nehmen (...) zum Outfit passende Fußbekleidung mit.“<sup>392</sup> oder Schilderung von Sachverhalten packen: „Nichts ist peinlicher als *wenn die Krawatte dem Kunden ganze Kantinendramen enthüllt* ...“<sup>393</sup>

Umgangssprachliche, saloppe, manchenorts vulgäre Ausdrücke, Jargon kommen eher im Unterhaltungssegment, Entertainment genannt,– Beweis für den hohen Anteil an Anglizismen in der deutschen Sprache– vor, sind aber nicht unbedingt diesem vorbehalten. Nicht selten adoptiert man in dieser Sparte einen bissigen Stil und pejorative Ausdrucksweise; so in der Reportage über die Pop-Sängerin Madonna: „(...) keine *Girlye-Brut* auf der Suche nach der Anleitung zum Unangepasstsein, (...)“<sup>394</sup> oder „Die furiosen Gedichte der *Suizid-Poetinnen* Sylvia Plath und Anne Sexton gossen Öl ins Feuer (...)“<sup>395</sup>. Und dann kommt irgendwie als Krönung dieses Schelte-Tons: „(...) sie stürzte sich in alberne Affären mit *Show-Hengsten* wie Dennis Rodman oder Warren Beatty.“<sup>396</sup> Obwohl auf den ersten Blick ganz mild und zustimmend formuliert, sollen folgende Reihen niemanden täuschen, sie verbergen auch eine gewisse Ironie: „Die *Stehauf-Heroine*, die sich an ihrer Firmung den Namen Veronica gab, (...)“<sup>397</sup>, „(...) die *Edelproduzenten der Klang-Avantgarde* ins Studio pfeift, (...)“<sup>398</sup>.

Pressefreiheit kann manchmal auch „grammatikfrei“ heißen, die saloppen, ungewöhnlichen Formulierungen übertreten hie und da sogar die Schranken der Grammatik: „Der Ältere ist zweifellos der *Ungestümere* des risikofreudigen Duos.“<sup>399</sup> Das ist aber nicht die einzige Sünde der deutschen Sprache gegenüber; die vielen, meistens unnötigen Anglizismen „*Smart-Shopper*“<sup>400</sup>, „*Televotes*“<sup>401</sup>, „*Merchandising*“<sup>402</sup> und Beispiele für Denglisch „*Egotrip/Kletter-*

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386 Ebenda, S. 103.

387 Ebenda, S. 103.

388 Dieter Krause, Regina Weitz, Die Spiele, der Terror und Israels Rache, in: Stern, Nr. 2, 5.1.2006, S. 45.

389 A. Duffy, R. Albers, B. Röper, A. Viciano Gofferje, Die legale Heilung, in: Focus, Nr. 25, 18. Juni 2001,

S. 134.

390 Forsthe Fahrer, aber auch derbe Prügel-Knaben, in: ebenda, S. 194.

391 Ebenda, S. 194.

392 Schaumanns Stil, Warum eingepackt im Büro von Focus-Online-Redakteurin Julia Kleine, 15.02.2008, <http://www.focus.de/karriere/management/business-knigge/schaumann/tid-8477>.

393 Ebenda.

394 Katja Nele Bode, Die Madonna von Michigan, Focus, Nr. 25, S. 202.

395 Ebenda, S. 205.

396 Ebenda, S. 204.

397 Ebenda, S. 206.

398 Ebenda, S. 206.

399 Jürgen Kremb, Außerirdische im Felsendom, in: Der Spiegel, Nr. 38, S. 136.

400 Peter Hinze, „Die Euphorie ist verflogen“, in: Focus, Nr. 25, S. 178.

401 Janko Tietz, TV-Gewinnspiele, Anschluss gesucht, in: Der Spiegel, Nr. 38, 13.9.2004, S. 102.

*Junkie*<sup>403</sup>, die dem Text einen mondänen, modischen Hauch verleihen, haben auch ihren Anteil daran. Andere, eher an klassischen Werten geschulte Journalisten greifen zum Französischen, wenn sie ihre Texte vom „Herkömmlichen“ abheben wollen: „Noch vor eineinhalb Jahren *echauffierte* sich (auf Deutsch: sich erregen) dessen Geschäftsführer Jochen Kröhne, (...)“<sup>404</sup>, „Guillaume de Posch, (...) will den Anteil an den Erlösen (...) *peu à peu* (auf Deutsch: schrittweise) (...) erhöhen.“<sup>405</sup>

Wenn der Gebrauch der Anglizismen eine Anpassung an bestimmte Publikumserwartungen zeigt, – es ist die Rede über jüngere Leser – besteht die Motivation für die Wahl von französischen Wörtern eher in der Bemühung vornehmer und gebildeter zu wirken.

Außerdem begegnet man in diesen Texten auch medienspezifischen Formulierungen, die teilweise auch der Literaturtheorie und -kritik eigen sind: „*publikumswirksame* (...) These“<sup>406</sup>, „*Untergründer*“<sup>407</sup>, ungewöhnlichen, aber ausdrucksvollen Zusammensetzungen: „Tolldreiste Erzählungen eines *Fantasiebegabten*“<sup>408</sup> oder neologistisch geprägten Komposita: „*Gentech-Gewächs*“<sup>409</sup>, „*Genrevolution*“<sup>410</sup>, „*Gentech-Enthusiasten*“<sup>411</sup>, „*Pflanzengenetikerin*“<sup>412</sup>, „*Ökoaktivistin*“<sup>413</sup>, „*Bt-Baumwolle/Bt-Bauern*“<sup>414</sup>, die sogar einer Erklärung bedürfen – es ist die Abkürzung von *Bacillus thuringiensis* und bezeichnet mit dem Gen dieser Bodenbakterien versehenes Saatgut bzw. Bauern, die das verwenden. Diese Neologismen stammen einerseits aus dem jeweiligen Fachjargon des im Medientext behandelten Wissenszweiges, andererseits können sie eigene Formulierungen des Journalisten sein, wie z.B. der in Anlehnung an Öl-Magnat geschaffene, ironisch gemeinte Ausdruck „*Soja-Baron*“<sup>415</sup>.

Die zugehörige Fachterminologie von wissenschaftlichen Texten setzt ggf. nicht nur den Gebrauch von Neologismen, sondern je nach der Branche auch das Auftreten vom klassischen Wortmaterial – griechisch oder lateinisch – voraus: „*totipotent*“<sup>416</sup>, „*pluripotent*“<sup>417</sup>, „*per se*“<sup>418</sup>.

Manche Texte tragen durch interessante Ableitungen „*Internauten*“<sup>419</sup> (in Anlehnung an ‚Kosmonauten‘) und Komposita „*Urlaubshungrige*“<sup>420</sup> oder „*Ferienhungrige*“<sup>421</sup> zur Spracherneuerung bei.

Als Fazit könnte stehen: Medientexte haben unabhängig von ihrer Herkunft nicht nur dank ihres Inhalts, aber auch durch ihre stilistischen Eigentümlichkeiten eine mehrfache Funktion inne.

402 Ebenda, S. 103.

403 Jürgen Kremb, Außerirdische im Felsendom, in: ebenda, S. 135.

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Dieser Stil hebt sie von der Alltagssprache ab, verstärkt Gruppenzugehörigkeit durch Erwartungserfüllung oder ganz im Gegenteil schließt nicht Eingeweihte aus, er unterhält und klärt auf, trägt zur ständigen Umwandlung des lebendigen Organismus Sprache, leider aber nicht immer in positive Richtung, bei.

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# KREATIVITÄTSFÖRDERNDE TECHNIKEN UND IHRE STELLE IM FREMDSPRACHENUNTERRICHT

**Hamburg Andrea**

*Universitatea din Oradea Facultatea de Științe Economice Str. Universității 1, 410087 Oradea E  
mail: ahamburg@uoradea.ro Tel: 0259/408799*

*Following study tries to emphasize the importance of interdisciplinarity giving the example of combining foreign language learning with management studies, mix which can be very useful in the same way for students and teachers of economics and teachers of foreign languages as well. Concretely in the study there are tackled techniques of encreasing creativity such as Brainstorming, Philips 6-6 or Six thinking hats and the possibility of introducing them in an adapted form in teaching and learning foreign languages. Theoretical presentation is so completed with proposals for implementation.*

*Schlüsselwörter: Interdisziplinarität, Kreativitätsförderung, Gruppenarbeit, Zusammenarbeit zwischen fachspezifischem Unterricht und Fremdsprachenunterricht*

*Cod Jel: A2, M1*

Im Zeitalter der Interdisziplinarität soll einen nicht wundern, dass die Didaktik, noch spezifischer der Fremdsprachenunterricht Begriffe und Methoden anderer Wissenszweige entlehnt. Laut Arnold Kaufmann<sup>422</sup> wird die Kreativität des Menschen durch Kommunikation entwickelt.

Da moderner Fremdsprachenunterricht Interaktion und Kommunikation zwischen Lehrer und Lernenden und unter den Lernenden bedeutet, ist er auch im Stande Kreativität zu fördern. Kreativitätsfördernde Techniken fußen auf Gruppenarbeit/-tätigkeit, die auch in der Fremdsprachendidaktik eine große Rolle spielt. In diesem Sinne scheint diese anfangs seltsame Assoziation– kreativitätsfördernde Techniken und Unterricht– nicht mehr so bizarr. Neben Rollenspiel, aktiver Involvierung der Lerner in den Unterrichtsprozess, interessanter Aufgabenstellung, Berufs- und Handlungsorientierung u.a. können sie die Lernermotivation erregen und steigern. Das könnte insbesondere bei Wirtschaftsstudenten der Fall sein.

Die Einführung kreativitätsfördernder Techniken– manche ans Spezifikum und die Bedürfnisse der Didaktik angepasst– in den Fremdsprachenunterricht und deren Bewusstmachung bei den Studenten könnte so ein Doppelgewinn generieren– erstens Interresenerweckung fürs Fach Fremdsprache, zweitens Wiederholung und dabei bessere Festigung des in den Fachstunden Gelernten. Damit könnte sich auch die Position des Fremdsprachenunterrichts und Fremdsprachenlernens an nichtphilologischen Fakultäten stärken. Nach diesen theoretischen Vorbemerkungen sollte man sehen, welche von diesen Methoden, Techniken sich auch für den Fremdsprachenunterricht eignen.

Eine von den vielleicht meist verwendeten Lehrmethoden ist eine adaptierte, vereinfachte Form des **Brainstorming**. Die ursprünglich von Alex Osborne gegründete Technik für Ideengenerierung zwecks Problemlösung wird auch im Fremdsprachenunterricht mit demselben Ziel angewandt und kann als Einführung in irgendwelches Thema oder für die Wortschatzerweiterung– siehe Wortfelder– dienen. Sie wird im deutschen Lehrerjargon Wortigel, seltener Assoziogramm genannt. Das Hauptprinzip des Brainstorming, nämlich keine kritische Beurteilung der Beiträge während der Problemlösungssitzung wird auch in der Didaktik beachtet, Lernende werden keinesfalls von der Meinungsäußerung abgeschreckt, nur dass der Lehrer von der generierten Ideenmenge die für die Lernziele Adäquatesten auswählt und für weitere Bearbeitung notiert.

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422 Arnold Kaufmann, J. Gilaluya, Gil Lafuente, Creativitatea în managementul întreprinderilor, Editura AIT Laboratories, București, 1995.

Neben dieser gängigen Technik finden sich auch andere, wie Philips 6-6 oder „Six thinking hats“ (sechs denkende Hüte), die in einer angepassten Form für den Unterricht tauglich sind.

**Philips 6-6** ist eine Problemlösungstechnik, wobei bis zu 30 Teilnehmer in Gruppen von 6 einbezogen sind. Alle Gruppenmitglieder wirken gegenseitig aufeinander und auf den Gruppenleiter bzw. mittels dieses Letzteren auf den Sitzungsleiter ein. Die Gruppenvertreter stellen dem ganzen Team die Resultate ihrer Auseinandersetzung vor, Gruppenmitglieder haben die Möglichkeit die Stärken der von ihnen gefundenen Lösung hervorzuheben und so für die eigene Variante zu plädieren. Von den dargebotenen Möglichkeiten wählt dann der Sitzungsleiter die aus, die sich am besten durchführen lassen und leitet sie der Chefetage für ausführliche Analyse weiter.

Diese Methode lässt sich sehr gut für den Fremdsprachenunterricht umwandeln, umso mehr dass Gruppenarbeit in mehrgliedrigen Gruppen eine beliebte didaktische Tätigkeit ist. Der Rahmen der kreativitätsfördernden Technik wird beibehalten, also sechsgliedrige Lernergruppen aufgestellt, die sich einen Gruppenvertreter wählen, der mit dem Sitzungsleiter, in diesem Falle, dem Lehrer zwecks zusätzlicher Erklärungen, Hilfesleistung in Verbindung steht. Die Regeln und der Ablauf der Problemlösungssitzung werden natürlich an die didaktischen Bedürfnisse angepasst. Der Gruppenverteter hat zwar die Rolle, am Ende der Arbeitszeit die Resultate ihrer Arbeit, den Standpunkt der Gruppe den anderen Kursteilnehmern vorzustellen, es wird aber auch der Beitrag vonseiten anderer Gruppenmitglieder stark ermutigt. Nachdem alle Gruppen ihre Präsentation gemacht haben, kann ein Gespräch im Plenum über die Ergebnisse folgen und dem Spezifikum/Wesen der Aufgabenstellung gemäß können die besten Varianten ausgewählt werden. Die Bewertung soll aber nicht unbedingt Aufgabe oder Privilegium des Lehrers sein; Studierende können ebenso gut Meinungen über die Arbeit der anderen formulieren und ihre Entscheidungen argumentieren. Das gibt Möglichkeit für weitere Kommunikation, im Fremdsprachenunterricht besonders willkommen.

Und nun einige Vorschläge für Aufgabenstellungen, die sich für eine adaptierte Philips 6-6-Methode eignen. Lernergruppen sollen ein Ende für dieselbe Geschichte finden– von den Varianten kann die Beste oder dem Original am nächsten Stehende ausgewählt werden–, verschiedene Geschichten zusammenfassen und den anderen Gruppen vorstellen oder sogar Lösungsvorschläge für irgendwelches Problem geben; dabei kann wieder die beste Lösung ausgewertet werden. Die Technik lässt sich aber nicht nur für Kommunikationsstunden einsetzen, sondern passt ebenso gut zum Üben verschiedener grammatischen Probleme.

Im Fremdsprachenunterricht kann, besonders im Falle von Sprachkompetenzen Stufe B1 und B2 (Europäischer Referenzrahmen) eine andere Methode, „**Six thinking hats**“ (sechs denkende Hüte) genannt, gute Anwendung finden. Diese Methode stützt auf die Behandlung mehrerer Standpunkte hinsichtlich eines zu lösenden Problems und verhindert die einseitige Entscheidung (nur intuitiv, gefühlsmäßig, negativ oder rationell). Von Eduard de Bono in seinem Buch „Six Thinking Hats“ geschaffen, wird die Methode nach einem englischen Sprichwort „Denk dem Hut auf deinem Kopf gemäß“ benannt.

Die sechs Hüte symbolisieren sechs Denk- und Datenbearbeitungsarten. Indem man sie wechselt, ändert man auch die Vision über ein bestimmtes Problem und freut man sich mehrerer Information diesbezüglich. Die Technik eignet sich für Teamarbeit, Einsatz in Sitzungen, aber auch für persönliche Anwendung und eigene Entschlüsse. Sie wird von Firmen überall in der Welt mit Erfolg verwendet und auch schon von einigen rumänischen Unternehmungen eingeführt. Sie einigt die Vorteile der Rationalität, Skeptik, Intuition, Gefühle, wenn es um Entscheidungen geht. Die Sitzung hat folgenden Ablauf: es werden Hüte verschiedener Farbe genommen,– gleichzeitig tragen alle Teilnehmer einen gleichfarbigen Hut, außer des Blauen– „jeder denkende Hut“ verkörpert einen spezifischen Denkstil.

Der weiße Hut steht für Datensammlung hinsichtlich eines Problems, die bestehende Information wird analysiert, Lücken mit neuen Daten gefüllt. Aufgabe des roten Huts ist intuitive

Problemlösung, seine Arbeitsmittel sind Intuition, Gefühle, Reaktionen. Alle Kehrseiten des Problems werden vom schwarzen Hut entdeckt, der eine lebenswichtige Rolle in jeder Entscheidung spielt. Er zieht nämlich die Aufmerksamkeit auf Schwächen des Lösungsplans und veranlasst so ihre Verbesserung. Ihm zu danken werden Risiken noch vor der endgültigen Lösung verringert.

Der gelbe Hut steht für positives Denken, optimistische Haltung, die die Werte und Stärken des Entschlusses hervorhebt. Da der Mensch daran nicht gewohnt ist, Sachen positiv zu betrachten oder das Positive in negativen Sachverhalten zu entdecken, verlangt das irgendwelche Bemühungen. Kreativität wird vom grünen Hut getragen, der freies Denken ermöglicht und kritische Bemerkungen verdrängt. Dabei werden Fragen gestellt wie „Was kann man zwecks Funktionalität der Lösungen ändern?“, „Wie kann man die im schwarzen Hut identifizierten Schwierigkeiten überwinden?“ Es muss vermerkt werden, dass es keine eingeborene Kreativität gibt, sie wird erlernt und geübt.

Schlussfolgerungen und Kontrolle sind Aufgabe des blauen Huts, der den ganzen Prozess leitet.

Wozu dient diese Methode der Problemlösung im Fremdsprachenunterricht? Studenten können Problemlösungssitzungen simulieren– dabei wird der fachspezifische Unterricht unterstützt– und auch die Fremdsprache üben. Das zu lösende Problem kann z.B. die Teilnahme einer Unternehmung der Möbelindustrie an einer internationalen Messe sein.

Im weißen Hut werden Infos über die Messe, Teilnahmebedingungen, Transport- und Versicherungsmöglichkeiten gesammelt. Der nächste Schritt, der rote Hut, gibt dem Team Gelegenheit, Meinungen und Gefühle hinsichtlich der Teilnahme auf rein emotionaler Ebene zu äußern. Problemanalyse und Entdeckung der eventuellen Schwächen und negativen Aspekte folgen erst im schwarzen Hut. In der nächsten Phase (gelber Hut) wird das überwunden und die mit der Teilnahme verbundenen Gewinne für die betreffende Firma hervorgehoben. Danach werden kreative Lösungen für die identifizierten Schwächen (z.B. zu hohe Transportkosten/Teilnahmegebühr, Verfügbarkeit der Mitarbeiter– andere Termine, usw.) gefunden.

Träger des blauen Huts kann am Ende das ganze Team oder nur ein einziger Student sein, der die Rolle des Firmenleiters auf sich genommen und inzwischen den Ablauf der ganzen Sitzung moderiert hat. So werden Schlussfolgerungen in der Gruppe oder individuell gezogen und die Entscheidung getroffen.

Auf dieser Weise wird eine wirksame Zusammenarbeit des fachspezifischen und fremdsprachlichen Unterrichts gesichert, woraus alle nur zu gewinnen haben, sowohl Lehrer als auch Lernende.

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# PRIMARY LEVEL OF VERBAL INTERCHANGE IN BUSINESS ENVIRONMENTS

**Horea Ioana**

*University of Oradea Faculty of Economics 1 Universităţii Str. - room F209 ihorea@uoradea.ro  
0259408799*

*The basic activities involved in any business, from simply making introductions or phone calls to small talks or presentations, due to the specific business vocabulary, though restricted, add some peculiarities and specificities to the panel of basic elements comprised by the primary level of standard language for ordinary, person-to-person interaction. Thus, even if most frequently quite unproblematic when teaching or learning them, these types of communicational elements are worth assessing and classifying, for best organization of material when approaching the teaching of Business English communication.*

*Keywords: business environment, English language, communication, typical phrases*

*JEL Code: A12, Y90*

## 1. Introduction

From the level of personal needs, of facing the societal evolution and being able to relate and communicate with the other individuals, to the more elevated levels implied in the areas of the various professions, particularly in the economic fields, English is broadly used. Thus, it tends to become a general communicational tool in the modern environment.

Communicational elements of a primary level involvement in business activities can be classified according to the latter. At the same time, they can be further assessed by the degree of proficiency needed to acquire the respective communicational skills<sup>423</sup>. Thus, we may distinguish three large areas of basic activities with their specific language, as listed below in the increasing order of the degrees of difficulty, even though just from elementary to intermediate:

- receiving people, making acquaintance and introducing oneself and others;
- telephoning or receiving calls and taking or giving messages through the phone;
- making presentations, introducing and describing graphs or diagrams and presenting reports.

## 2. Receiving People

Receiving people refers to enumerable situations encountered in the domain of business, when somebody, by the nature of the job (secretary, assistant managers, receptionist, shopkeeper etc.), has to welcome people (partners, new company members, tourists, customers etc.), to assist them, introduce them to other people, have a small talk with them.

Table 1 presents some expressions<sup>424</sup> that can be learned and used in some of the circumstances mentioned, and some assertions possible to come from the person received are also listed:

	person receiving:	person received:	
welcoming	<i>Welcome to ... My name's ...</i>	<i>Hello, I'm ... from... I have an appointment to see ....</i>	arriving
offering assistance	<i>May I help you? Can we do anything for you? Can I get you anything?</i>	<i>Could you get me...? Could you help me ...? Can you recommend... ?</i>	asking for assistance

423 V. Communication Skills, 2nd edition, Careers Skills Library, New York, Ferguson, Facts on File, 2004.

424 Simon Sweeney, English for Business Communication, Student's Book, Cambridge University Press, 2003, p.7.

	<i>Would you like a ....? If you need ... just say. Do you need ...?</i>	<i>I'd like to .... There is one thing...</i>	
introducing	<i>This is... she\he is ... Can I / I'd like to introduce you to ... , our .....</i>	<i>Pleased to meet you. It's a pleasure.</i>	meeting

**Table 1. Receiving and being received**

A short conversation might come as appropriate in certain situations, a sort of a small talk or socializing attempt, involving quite simple lexical elements and structures such as:

- *How was your / Did you have a good trip / flight / journey?*
- *How are things in ...?*
- *How long are you staying? Is this your first visit to ...? I hope you like it.*

### 3. Telephoning

People may, on one hand, be in the situation of having to call a company in order to make certain arrangements or to complain about something and, on the other hand, they may be, by virtue of their jobs, the ones answering the phone, having to take messages, to offer information, to handle problems. The caller and the person answering may use structures<sup>425</sup> such as seen in table 2, for the particular situations illustrated there.

Caller	Answerer
introducing oneself	
<i>Hello, my name is ...calling from...</i>	<i>Good morning / Hello, this is ... from...</i>
stating the reason for calling	(not /) putting through
<i>I'd like to speak to ...please. Could I have the... department, please? Is ... there, please? I'm ringing to ... / about ... I'd like to... I need some information ...</i>	<i>Just a moment/ hold on... I'll put you through (to ...). Sorry, ... is not available / is not in / is in a meeting / is away... Can anyone else / I help you? Would you like to speak to ...? Shall I ask ...to call you back?</i>
leave a message	take a message
<i>Please tell / ask ... to... Could you give ... a message? Can I leave a message?</i>	<i>Would you like to leave a message? Can I take a message? May I ask for a number where ... can call you later?</i>
explaining problem and decision	handling problem
<i>There seems to be .../ We haven't received.../ The ...doesn't work The quality is below standard... The characteristics are not in accordance with our specifications. This is the ... time/ It's not the first time this has happened, you assured us... If it is not resolved...the consequences could be very serious / we'll have to reconsider / renegotiate...</i>	<i>Could / Can you tell me (exactly)...? I'm sorry to hear that / about the problem / mistake... I'm afraid that can't be true / that's not quite right. I think you are mistaken. No, I don't think that can be right.</i>
making arrangements	(not) agreeing, confirming
<i>Could we meet...?</i>	<i>That would be fine</i>

425 Ibidem, p.24,34,42.



<i>When would be a good time ...?  Would ...suit you? / What about ...?  We have an appointment for ...I'm afraid I can't  come ...could we fix an alternative?</i>	<i>Sorry, I can't make it/ am too busy then  So... Can I check that...?You said...  to confirm that...  Can I/ you confirm that by ...?</i>
asking for repetition, acknowledging	
<i>Sorry, I didn't understand /hear/ catch that...  could you repeat?  I understand / see, thank you.</i>	<i>Sorry, can you repeat your name/ company  name/ number? / Could you spell (that),  please?  Ok, I got it.</i>
ending call	
<i>Right, I think that's all. Thanks very much for  your help.  Good bye.</i>	<i>Do call if you need anything else.  We look forward to welcoming / hearing /  seeing /meeting... you.</i>

**Table 2. On the phone**

#### **4. Making Presentations**

Presentations are among the most common activities in business, being a very useful means of dissemination, information, marketing, promotion, advertising, introducing reports, displaying performances a.s.o.<sup>426</sup> Being extensively used, the method has gained importance, and has become a must in the preparation of prospect members of business companies. Apart from the physical preparation, the formal dressing and the extra attention to be paid to the nonverbal messages the body language can transmit, the person that has to make a presentation also needs training in the art of orally exposing things - certain findings, results of research, given facts, promotional material or his own ideas - in a persuasive, tactful and trustful manner, so that the audience would take the steps the presenter intended.

Focusing only on the communicational side of making presentations, we shall look closer into the language specific to the phases of the presentation.<sup>427</sup>

At the beginning, after addressing the audience and greeting (*Good ..., ladies and gentlemen...*), there are some specifications, some mentions that should be made, about the subject of the presentation and the way of organizing it – the structure, the duration, the discussions. The communicational elements met in this part would range from the following:

- *I am going / plan / would like to talk about / to give you an overview of / to say a few words about...*

- *The theme / subject of this presentation / my talk is...*

- *I've divided it in... parts. (In the ) First (part)... . (Then in the) Second (part).... Next... Finally...*

- *My presentation will take about...(there will be a ... break / we'll stop for...)*

- *If you have / there are any questions, feel free to ask / please interrupt / we'll have ... minutes for discussion after my talk / there will be time for them at the end...*

A presentation is now unconceivable without visual support. Most commonly a laptop and a video projector, projecting the presentation slides on a screen, will do. Still, other devices might be used, such as: OHPs (for transparencies), flip chart, whiteboard. The material presented should be schematised as much as possible, especially in business, words are mostly to be said, as explanations of charts, diagrams, pictures, graphs, rather than written and read from the material prepared. Still, the vocabulary that will be used at this point is again important, from introducing the visual to describing the images shown or comparing the data presented:

<sup>426</sup> See Colleen McKenna, *Powerful Communication Skills*, Career Press, 1998, chapter 5.

<sup>427</sup> Simon Sweeney, op.cit., p.50,60-61,71,78-79.

- *Have a / Let's look at this... Here we can see... I'd like to show you... This ... shows / (re)presents...;*
- *increase / climb / rise / go up / improve / get better/ recover ↔ decrease / decline / fall / go down / get worse;*
- *reach a peak / a maximum ↔ hit bottom / reach a low point, stabilise / level out / stay the same ↔ undulate / fluctuate;*
- *Let's compare the... This compares ... with ... here you see a comparison between the trends in ... and ....*

As connectors, moving to following parts in the presentations, we may use:

- *To begin with.... We can see some advantages and disadvantages. As for advantages, one is... another...*
- *Let's move to the... part, which is about.... Now I want to turn to / describe... / we come to.../ the next part.*
- *There are ... things / different stages to consider / steps involved. On one hand, ... on the other hand... First / At the beginning ... Second / Then / Later / Next... Finally / Last (but not least)...*
- *This completes / concludes... This is / That's all (on...) for now.*

Dealing with the questions from the audience will imply the use of structures like:

- *It is not an easy question to answer here briefly, but in my opinion / experience... / it could be/ I would say*
- *I don't think I'm the right person to answer, ... (maybe our PR manager might help here), it is not my field / I do not have much experience in...*
- *I'm afraid that is outside the scope of this presentation / I'll come to that later (in my talk / during the break) / you'll have to discuss that with...*
- *Sorry, I didn't catch / I'm not sure I've understood... Are you asking...?/ Do you mean...? Could you repeat..?*
- *Is that okay now? Does this answer your question?*

For ending the presentation, some closing structures like the following might come handy:

- *I'd like to end / finish by emphasising (... / the main points) / with some observations / recommendations / conclusion / a summary.*
- *There are... conclusions. Right, that ends my talk. Thank you for listening. Now I would like to hear / invite your comments.*

## 5. Conclusions

The widened sphere of human interaction requires, first of all, a single language, as much as possible, so as to ease communication between individuals within the extended community. Modern languages of international circulation come thus into force, from which English appears to be overriding, having gained priority in most domains of activity, in what establishing communication between speakers of different languages is regarded.

An overview on the specificities of the language of the professions that have become the most developed and flourishing in the new environment, but at the same time the most demanding in terms of communication, those in the fields of economy, cannot but prove very useful for and welcomed by the 'newcomers', the 'fresh' inhabitants of the young global or single market environment.

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**Horea Ioana**

*University of Oradea Faculty of Economics 1 Universităţii Str. - room F209 ihorea@uoradea.ro  
0259408799*

*Business English shall at a point imply introduction of more specific material not as much in what the linguistic part is concerned but more precisely in concurring some language structures with the particular activities involved by the sophisticated business interrelations such as negotiations or meeting. Accordingly, the steps, the phases and the respective contributions of participants in the said types of interaction will call forth special approaches in the use of the business vocabulary and a certain communication style. Thus, an overview upon and categorisation of the linguistic material to be taught in the typical circumstances involved in these two complex communicational situations might come at hand for teachers and learners of Business English.*

*Keywords: English language, special vocabulary, negotiations, business meetings.*

*JEL Code: A12, Y90*

## **1. Introduction**

When involved in various business activities communicational skills prove essential.<sup>428</sup> Those activities can be, in what encountering is regarded, telephone conversations or face to face: from regular, problem-solving meetings or brainstorming sessions - that you have to take part in or maybe lead, as a chairperson -, to negotiations or presentations your firm has sent you to hold. Such activities will require certain lexical structures.<sup>429</sup>

From the point of view of your personal degree of participation they may be participative (merely requiring a degree of involvement from your side) or performative (you being the centre of attention, the main performer). Although the degree of activeness may differ from person to person, in business, passiveness is excluded; people involved in this field have to get to 'communicate'.

## **2. The Language of Negotiations**

The phases that together form the process of negotiation require, each, specific vocabulary, distinct structures. For each of the main stages of the negotiation we can identify certain expressions<sup>430</sup> that can be useful in producing our communication.

First, in the stage of relationship building we may make use of structures such as:

- Welcome to...
- Make yourself comfortable / Please, have a seat / ...
- Would you like (a cup of coffee /) ... ?
- I'm convinced / sure we will have a useful / productive meeting.

In the phase of the preparation for the meeting, when we turn to business, the following can be found useful:

- We would like to reach agreement on ...
- We have reached an important stage...
- Previously we have agreed on...
- Today we have to think about...

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428V. John A. Doorbar, Business English, 10 best communication secrets, München, Gesellschaft für Wirtschaftsinformation, 2002, p.23.

429 See Simon Sweeney, English for Business Communication, Student's Book, Cambridge University Press, chapters 2-5.

430 Ibidem, p.110,119,129.

Stating the objectives, preparing for exposing your proposals and bidding, would require linguistic elements such as:

- *I'd like to begin with a few words about ...*
- *We want to / May I clarify / outline our positions / aims / objectives...*
- *There are ... specific areas we would like to discuss.*
- *We have to decide...*
- *It is important for both of us that we agree on...*

Then, when bargaining, in the phase of negotiation proper, there are more structures that can be used:

- *That's not acceptable unless / without...*
- *We can (only) agree to that on condition that / if ....*
- *Would you be interested in... ?*
- *We could offer... provided ...*
- *If you could / on condition that we agree on / so long as .... we could agree / consider / accept / offer ...*

Next, there are the acceptations or the refusals that have to be expressed and dealt with.

The positive answers are really unproblematic: *That's probably all right./ It seems acceptable. We agree;* and the positive approaches are tactful and considerate: *We should focus on the positive aspects / look at the benefits / at the points we agree on... /Could you tell us why you feel like that?/ What do you think is a fair way to resolve that?,* while the negative ones might go from simple rejection: *Unfortunately, I don't think it would be sensible / possible for us to .../ I'm afraid we are unlikely to / can't...* to adjourning or breaking the negotiation: *It's a pity / I'm sorry / I believe / Unluckily... we couldn't / I don't think we are going / we appear unable to... agree/ reach agreement/ settle....*

Finally, when the negotiation is successful, the stage of confirming and summarising the discussions and the resolutions will come concluding the deal. In this phase, negotiators will probably use phrases like:

- *I'd like to / Can we / Let's summarise / go / run through the main / important points / proposals we've talked about / we've agreed / of our offer...*
- *I think this is a good moment / I'd like to check / summarise the progress we've made / the main points / what we've agreed /said...*
- *It's been a very productive / useful meeting, we look forward to a successful partnership.*

### **3. Meetings**

There are two basic major types of meetings that companies hold: problem solving and brainstorming. Leading the former implies establishing clear set, exposing the objectives and sticking to the agenda, following the track and cutting irrelevances, focusing on the problem at hand and finding a solution.

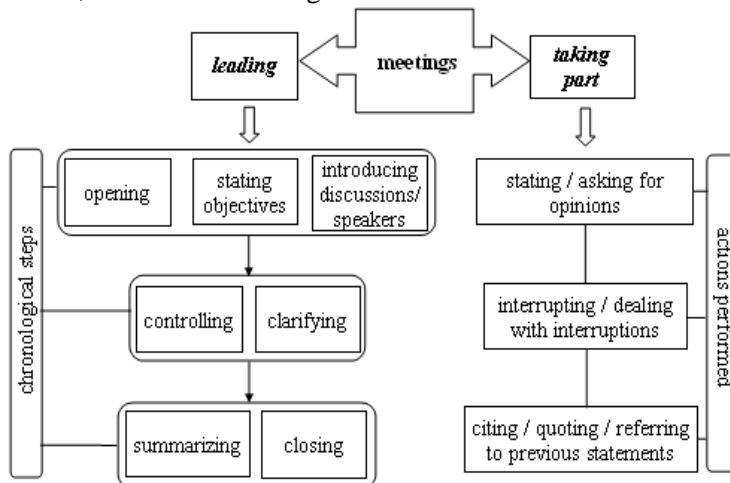
At contrast, for the sessions of brainstorming, even the seemingly irrelevant thoughts should be allowed to surface, not rejected and not judged, active participation of all the people convened should be ensured, eliciting everyone's opinion and idea, encouraging the shy and not allowing the assertive and dominant members to monopolise the floor, as any humble idea could be the seed of the best solution, leading to the most relevant discussion.

For keeping a meeting on track and all participants informed, agendas are essential. They shall list one or more objectives stating the purpose of the meeting. Only the necessary people should be asked to participate to meetings in order to keep the group focused and active.

When leading a meeting, one has to speak with energy, tone variability, and hand gestures. Maintenance of eye contact with the listeners and carefully and completely listening before preparing to disagree with someone prove necessary. At the end of the meeting, the chairperson

shall summarize all the actions or decisions that were made to be sure everyone is in agreement.<sup>431</sup>

The tasks the chairpersons and the other participants in meetings have during it can be classified according to the stages the former has to introduce and conduct and to the actions taken by the latter during the session, as we can see in figure 1.



**Figure 1. Participation in meetings**

The lexical elements<sup>432</sup> used in meetings are specific to these steps and actions and respectively exemplified below.

Opening:

- *Thank you for coming. We've received apologies from... . It's ...o'clock. Let's start.*

Objectives stating:

- *We're here today / Our objective /*

- *What we want to do is / there is/are ... main item to hear / discuss / consider / find a solution....*

Introducing:

- *The issue / (background to the) problem / point is (about)...*

- *Can we hear ...? / I'd like to ask ... to tell us ....*

- *I know ... has prepared to explain ... to us.*

Controlling:

- *Well / Er / Um / Uh / Sorry, ..., we can't talk about that / can we let ... finish?*

- *Can we / Let's move / go on to the next point / think about....*

Clarifying:

- *Could you explain that.../ be more specific?*

- *This means... / To explain this in more details... / I wanted to say ...*

- *Is that clearer / okay now?*

Summarising:

- *So, the main point is... / you mean.../ just to summarise...*

- *I'd like to go over the decisions we've taken.../ to conclude... we've agreed... .*

Closing:

- *We should end here. Can we leave this / postpone the decision until ... ?*

- *We need more time to consider this...*

431Deena R. Levine; Mara B. Adelman, Beyond Language - Intercultural Communication for English as a Second Language, New Jersey, Prentice Hall, 1982, p.124-125.

432 Malcolm Goodale, The Language of Meetings, Thomson Business Press, 1998, p.20-21 and Simon Sweeney, op.cit., p.85,94,103.

- *I think we can close the meeting now / we've convened everything.*
- *That's it, next meeting will be...*

#### Opinions:

- *It seems to me... I would say... I think / believe / feel... .*
- *In my opinion / view... it's clear / obvious ... / there is no alternative / doubt ...*
- *I'd like to hear .../ What is your view / do you think?*
- *Do you have any comments / opinions about / views on...*

#### Interruptions:

- *Sorry to / If I may interrupt / Excuse me, may I ask for clarifications on this / but.../ could you tell...?*
- *Do you think so? /Is that so / possible? My impression is / I would say / think...*
- *Sorry, please let me / If I may finish.*
- *Can I come to this later / we leave that to another discussion? That's not relevant right now.*
- *Yes, go ahead.*

#### Referring to other participants:

- *As ... has already told us / we'll hear later in ... report...*
- *I'm sure ... is aware of / knows about...*

### 4. Conclusions

To successfully participate in and perform activities such as negotiations and meetings, one is compelled to master an adequate vocabulary and make good use of the specific expressions besides possessing a good knowledge of the Standard English in general and complying with the requirements of the etiquette in each procedure involved.

Some samples of useful standard phrases for typical situations such as the ones aforementioned, shall prove useful both for users or learners and teachers of Business English communication, helping the former in organising their self-instruction and the latter in assessing the material to be taught to students of various levels of proficiency and in deciding what methods and activities would be best for each.

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## THE WORLD OF BUSINESS: A BILINGUAL APPROACH

**Lăzărescu Adriana**

221, Imparatul Traian, M50/2/4, Craiova, Dolj, Romania University of Craiova Faculty of Letters, Department of Applied Foreign Languages 13, A.I. Cuza, Craiova, Dolj, Romania  
adriana\_3003@yahoo.com, 0722750713

*This paper focuses on a presentation of two business languages, English and Spanish, with the purpose of rendering similarities and differences between them, as perceived by Romanian students. Various principles have been analysed in order to emphasize the special attributes of each business vocabulary unit, such as: the independence of Business Spanish learning research, characteristics of the Business English-Spanish course, focusing on similar English and Spanish business terms, and differences of meaning regarding the specific business realities of the two cultures.*

*Keywords: Business English, filter language, Business Spanish, cross cultural communication, three-dimensional linguistic perspective.*

*JEL code: Y90*

### **Introduction**

The problem of an association between Business English and Spanish by Romanian students has appeared thanks to the Master's Programme, "International Business Administration", now offered at the University of Craiova, The Faculty of Economics and Business Administration. All the courses which make the syllabus of the programme are taught in English, and, consequently, Business Spanish was another subject to be structured for delivery using English as the language of instruction.

The students who attend this course have already completed a Business English course and wish to learn Business Spanish for particular reasons connected with their studies or jobs. The teacher of such a group is thus faced with learners, often adults, who, now, are well aware of their purpose in learning the language as they are business people who need to be able to handle deals and negotiations in English and Spanish. Such a language educator has to develop programmes, classes, and teaching methods to address these students' needs, which are different from those of native-English-speaking students studying Spanish as a foreign language. Most of the materials and courses available for teaching Spanish to Romanian students are not appropriate for teaching Business Spanish at a Master's programme where the language of instruction is English and the mother tongue is Romanian. As a result, a gap in materials had to be filled for these specific-purpose learners, taking into consideration learners' needs as central to the problem of deciding course content.

Teaching a Business Spanish course using Business English as a filter language has always been both challenging and motivating. It has been challenging because it represented a new approach of business language which had to be seen through a three-dimensional linguistic perspective: English, Spanish and Romanian. Motivation came from the idea that, starting from the Romanian linguistic background on business knowledge, both teacher and students had to focus on a Romance language, Spanish, and a Germanic language, English, almost at the same time during classes.

### **The Independence of Business Spanish Learning Research**

High educated people of the world have fostered prestigious languages. Hundreds of years ago, Romans welcomed the study of Greek until Latin was widely considered "the sole safeguard of man's store of culture, science and faith" (Lewis 1997:27). European high culture was dominated by French and most authors and poets used French as their preferred language. During the 19<sup>th</sup>



and early 20<sup>th</sup> centuries, German dominated the world of science in Europe and North America. (Lewis 1997). English is the “international language” of the moment and a key in global communication in many fields of activity. There are countries where bilingual education programmes that include the national language and a language of prestige are very common. This trend towards globalization opens the perspective for the acquisition of bilingual abilities.

In order for a bilingual programme to be successful, it must develop both languages and use them alternatively to promote academic achievement. If the language used denotes consistency and cross-grade articulation, it is of great help for students’ development (Christian, Montone, Lindholm, and Carranza 1997). Students’ progress is constantly monitored in both languages. For bilingual courses, assessment needs to include language and content. Evaluation of language proficiency and content knowledge need to be separated when carried out in the second language so that students might acknowledge their ability to use grammar patterns correctly when they actively participate in a Business English and Spanish environment.

Vivian Cook (1994: 2) gives three examples of the contribution that second language learning has on language teaching: “understanding the students’ contribution to learning, understanding how teaching techniques and methods work, and understanding the overall goals of language teaching”. In the case of the Business Spanish course, Spanish is not the second language for Romanian students, but actually the second foreign language they study, after English. Given a learner or a group of learners with a specific purpose in learning Business Spanish, it seemed logical in a learner-centred approach to base a course on that purpose and on the learners’ needs in this situation. Once a learner’s needs have been defined, in terms of why he wished to learn Spanish through English, and the kind of English and Spanish he will have to use, this information can be used as guideline for the content of the course suited to his particular interests and needs.

### **Characteristics of the Business English-Spanish Course**

Cultural aspects are very often present in business people’s lives and, quite frequently, they find it difficult to cope with all the requirements of such a problem. Students need to be aware of all the implications of the concept of “crossing borders”. They also need to know how to do their jobs by using as an advantage the partner’s culture so that they should have a profitable deal. This course **has been designed to help students maximise their potential on the global stage through mind-opening cross cultural communication courses and it offers** a range of flexible, scrupulously researched and vibrant cross cultural communication workshops. Implications of English and Spanish upon the Romanian business life have been taken into consideration when establishing the linguistic and informational corpus of the course.

As adaptation to students’ needs, the Business Spanish course looks at the following main areas: cross cultural communication; the impact of cultural values on norms and practices; investigating the way in which cultural aspects impact companies, personnel and team building; discussing ways in which differences can be solved, and establishing strategies for dealing with future issues. Whereas business courses present the specific reality of economics in terms of theory and practice, business language courses attempt to adapt students’ business knowledge to either English or Spanish discourse. The course has the following learning objectives: to introduce students to the theoretical and practical grammatical structures, to practice through exercises in order to identify when culture impacts business, to develop students’ ability to recognize and handle cross cultural issues at the workplace, to make students understand business texts, economics materials, to make them communicate in Spanish and English and the most important of all, to make them be able to do their job both in English and in Spanish.

International English has long been acknowledged as the main means of communication in the world of business. It has also been a source of inspiration for other languages especially in the field of business. Thus, the teaching method used in the first courses of Spanish was not that of

introducing new vocabulary, but rather focus on those English words which could easily find their translation into Spanish by means of association. Thanks to the activity of brainstorming in English, Romanian students of Spanish came up with their own list of “new words”. Here is the list of similar terms, which was conceived by Romanian students during their very first Business Spanish course taught through English:

<i>English</i>	<i>Spanish</i>
<b>bank</b>	<b>banco</b>
<b>debate</b>	<b>debate</b>
<b>group</b>	<b>grupo</b>
<b>idea</b>	<b>idea</b>
<b>hotel</b>	<b>hotel</b>
<b>list</b>	<b>lista</b>
<b>telephone</b>	<b>teléfono</b>
<b>cheque</b>	<b>cheque</b>
<b>secretary</b>	<b>secretario</b>
<b>costs</b>	<b>costes</b>
<b>economy</b>	<b>economía</b>
<b>product</b>	<b>producto</b>
<b>funds</b>	<b>fondos</b>

Such similarities of the two languages, associated mentally with their translation into Romanian, which is again almost the same, encouraged further research into the language and made students realise that finding similarities between the learned Spanish terms and the already known English words is a very effective way of expanding knowledge upon the new language.

The Business Spanish course mainly concentrates upon real life situations exposed either in texts or dialogues. It is a genuine vocabulary builder that presents both formal and informal Business Spanish in context. Here is an example of a dialogue used in class and the translation into English provided by Romanian students. The equivalence in translation has been guided so that it might render the same informal style. It is focused on business language connected with work:

<i>Spanish</i>	<i>English</i>
Gloria: <b>No puedo más</b> , Sofía. Necesito unas vacaciones.	Gloria: <b>I've had it</b> , Sofía. I need a holiday..
Sofía: Y yo... Esto de <b>currar</b> tanto no es sano.	Sofía: <b>Working this hard</b> isn't good for your health.
Gloria: ¡Ni que lo digas! Llevo <b>una racha</b> que <b>no paro</b> . Hoy he pasado toda la mañana <b>pegada al ordenador</b> sin descansar.	Gloria: You said it! <b>I haven't let up for a while now</b> . And today I've spent the whole morning <b>glued to my computer</b> without taking a break.
Sofía: ¿Y tus <b>compañeros de trabajo</b> ? ¿También están <b>agobiados</b> ?	Sofía: What about your <b>colleagues</b> ? Are they <b>swamped</b> too?
Gloria: ¡ <b>Qué va!</b> Yo <b>estoy a tope</b> y ellos están allí charlando. No <b>dan ni golpe</b> . En fin. <b>Estoy hasta el gorro del trabajo</b> . Y no aguanto más a mi <b>jefe</b> .	Gloria: <b>Are you kidding?</b> <b>I'm up to my ears</b> and they are chatting away. <b>They don't lift a finger</b> . Anyway, <b>I've had it with my job</b> . And I can't take my <b>boss</b> anymore.
Sofía: ¿Qué dices? Siempre te has llevado bien con Arturo...	Sofía: What are you saying? You've always got along well with Arturo...
Gloria: Sí, pero desde que le han <b>ascendido</b> y es <b>un pez gordo en la empresa</b> , se ha puesto insoportable.	Gloria: Yeah, but ever since he got <b>promoted</b> and became <b>a head honcho</b> in the <b>company</b> ,

<p>Sofia: Vaya..</p> <p>Gloria: <b>Total</b>, chica, estoy super <b>quemada</b>. A ver si consigo que me <b>despidan</b>.</p> <p>Sofía: Y si te <b>echan</b>, ¿que harías? ¿Vivirías del <b>paro</b>?</p> <p>Gloria: Pues claro, mientras que me <b>organizo</b>. Y luego a lo mejor me <b>monto un negocio</b>. Algo <b>rentable</b>, claro.</p> <p>Sofía: ¡Estás loca! ¿Y como lo harías? No tienes <b>capital</b>...</p> <p>Gloria: Eso es <b>lo de menos</b> ... Ya verás, Sofía, ¡Voy a <b>triunfar</b>!</p> <p>(adapted from <i>Spanish among Amigos. Conversational Spanish Beyond the Classroom</i>, pp. 61)</p>	<p>he's been unbearable.</p> <p>Sofia: Oh dear..</p> <p>Gloria: <b>Anyway</b>, I'm really <b>burned out</b>. With a little luck I'll get myself <b>fired</b>.</p> <p>Sofía: And what would you do if they <b>laid you off</b>? <b>Live off unemployment benefits</b>?</p> <p>Gloria: Yeah, while <b>I get myself together</b>. And then I'd probably <b>start up my own business</b>. Something <b>profitable</b>, of course.</p> <p>Sofia: You're nuts. How would you do it? You don't have any <b>capital</b>...</p> <p>Gloria: Listen, that's <b>the least of it</b> ... You just wait, Sofia, I'm going to <b>make it</b>!</p>
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As it can be seen, the Spanish-English equivalence has been done taking into consideration the business reality of working in an office both in the Spanish culture and in the English one. For such expressions as “estar hasta el gorro” or “montar un negocio” have been found English equivalents which are also quite similar to the Romanian ones. “Estar hasta el gorro” is “to have had it” or “to be fed up”, but literally it means “to be up to one’s cap”, which is “a fi sătul până peste cap” in Romanian. “Montar un negocio” is “to set up a business” in English and “a începe o nouă afacere” in Romanian.

The Romanian students’ translation has been done directly from English into Spanish, without using any English-Romanian or Romanian-Spanish dictionaries. Nevertheless, an English-Spanish/ Spanish-English dictionary has been used for a better accuracy of the text. Before the translation, students were asked to consider business terms such as: *ascender*, *despedir*, *echar*, *organizar*, *rentable*, *capital*, and expressions such as: *estar a tope*, *estar agobiado/a*, *no dar ni golpe*, *montar un negocio*. The explanations for them have been provided both in Spanish and in English with the purpose of expanding knowledge in the two languages. Thanks to such translations, students have been exposed to real life business situations in doors and out doors and they have learnt that Business Spanish and Business English have the same patterns in terms of terminology.

If students consider language as a set of symbols for their thoughts and opinions connected to the business world, they might realize that as they converse normally, translation is constantly a flow of words. Their specific opinions are translated into symbols which are reprocessed into thought-images again. When Romanian students begin to deal with Business Spanish and English, the confusion may be doubled. However, the advantage that translation from one language into another has over the translation of thoughts to symbols is that when they deal with the two languages, they actually deal with a more or less objective group of symbols. Consequently, in order for Romanian students to be able to translate correctly both concerning terminology and meaning, they must think and feel both languages, while always being cognizant of the differences and similarities inherent in both languages.

## Conclusions

Association of words, expressions and their meaning in the two languages has helped students abandon the sweet temptation to use Romanian and has given them an impetus to greater trust in speaking Spanish alongside with English at work. The results of a Business Spanish Course using English as a filter language have been impressive for the business environment in Craiova. After

having graduated from the Master's Programme, "International Business Administration", students were able to better communicate in the two languages, improving considerably the business relationships between the companies they represented and the Spanish ones. In this case, International English has given space to Business Spanish and, students' ability to speak both Business English and Business Spanish has contributed to the development of regional trade.

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## THE USE OF ACRONYMS AND INITIALISMS IN BUSINESS ENGLISH

**Pop Anamaria Mirabela**

*University of Oradea Faculty of Economics Universitatii 1-2, Oradea mipop@uoradea.ro +40-259-408799*

**Sim Monica Ariana**

*University of Oradea Faculty of Economics Universitatii 1-2, Oradea msim@uoradea.ro +40-259-408799*

*Acronyms are abbreviations made up of the first letters of several words. They replace longer terms with simpler ones. In the English language, the widespread use of acronyms and initialisms is a relatively new linguistic phenomenon. As literacy rose, and as advances in science and technology brought with them more complicated terms and concepts, the practice of abbreviating terms became increasingly convenient. In business, industry, education, and government, acronyms and initialisms are often used by people working within the same fields. However, such abbreviations may not be comprehensible to those outside the field. Certain abbreviations can mean different things to different people. The paper is also trying to provide an insightful analysis of some of the acronyms and initialism used in business English.*

*Keywords: acronyms, initialisms, business, English, communication*

*JEL code:Y90*

**Abbreviation** is a popular way of forming words. Abbreviations are similar in nature to blends, because both blends and abbreviations are amalgamations of different parts of words. Like truncation and blending, abbreviation involves loss of material, but it differs, however, from truncation and blending in that prosodic categories do not play a prominent role. It is considered that orthography plays a central importance.<sup>433</sup>

Abbreviations are used for a variety of reasons: to avoid repetition, save space, or conform to conventional usage. Leading authorities cannot agree on the capitalization or punctuation for many abbreviations. Therefore, there are no set rules. In general, it is wise not to abbreviate unless there is a good reason to do so and the writer knows that the reader will understand.

Abbreviations are most commonly formed by taking initial letters of multi-word sequences to make up a new word: EC (*European Community*), FAQ (*frequently asked question*). Apart from words composed of initial letters, there are also abbreviations that incorporate non-initial letters: Inc. (*Incorporated*). The spelling and pronunciation of abbreviations offer interesting perspectives on the formal properties of these words: CARE (*Cooperative for Assistance and Relief Everywhere*), VAT/vat (*value added tax*). Abbreviations can be spelled with either capital or lowers-case letters, and they can be pronounced either by naming each individual letter (so-called **initialisms**, as in *CEO* [si:i:'əʊ]) or by applying regular reading rules (*OPEC* [oupek]). In the latter case the abbreviation is called an **acronym**. In the English language, the widespread use of acronyms and initialisms is a relatively new linguistic phenomenon. As literacy rose, and as advances in science and technology brought with them more complicated terms and concepts, the practice of abbreviating terms became increasingly convenient. In business, industry, education, and government, acronyms and initialisms are often used by people working within the same fields.

The *Oxford English Dictionary* (OED) records the first printed use of the word initialism as occurring in 1899. This word first came into general use after 1965, well after the word acronym had become common.<sup>434</sup>

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433 Cf. Ingo Plag, *Word-formation in English*, Cambridge University Press, 2003, p.126.

434 Cf. [http://en.wikipedia.org/wiki/Acronym\\_and\\_initialism](http://en.wikipedia.org/wiki/Acronym_and_initialism), Last visited: April 14, 2009.

According to Fischer, the term was first used in the Bell laboratories in 1943.<sup>435</sup> An **acronym** is formed by combining the first letters or several words and pronouncing the result as a word. An **initialism** is also formed by combining the first letters of several words, but it is pronounced as separate letters. Most dictionaries define acronym to mean “a word” in its original sense<sup>436</sup> while some include a secondary indication of usage, attributing to acronym the same meaning as that of initialism.<sup>437</sup>

**Formation of acronyms.** During the World War I and increasingly during the World War II, formations were coined to denote terms and concepts as clearly as possible. This practice might also have been popularized by the fact that the enemy would not recognize the meaning of the shortenings. Later, the use of acronyms expanded to the technical, scientific and medical fields. Acronyms are heavily used today in computer science.<sup>438</sup> The formation of an acronym has both advantages like avoiding repetition, saving space and disadvantages also. The main problem with acronyms is that they are highly polysemous, meaning that one acronym can have meaning expansions. In many cases the meaning of an acronym cannot be deduced from its base form but has to be learned instead. For example, to an attorney, ABA is the *American Bar Association*, to a banker, it is the *American Banking Association*, and to a bowler it is the *American Bowling Association*. Moreover, acronyms are often homonyms which can only be decoded within the context. Yet, all these problems are compensated for by new tendencies in the formation of acronyms. Some acronyms are coined on the basis of an already existing word and associations between the two items are welcome. The formatives of the acronyms may carry semantic information. The acronym has a meaning of its own, apart from the meaning of the individual words of the base form. The base form of acronyms can be made of:

- **noun phrase:** noun + adjective (CFO – *Chief Financial Officer*); nouns (PINC – *Property income certificate*); nouns + participle (VAT – *value added tax*); nouns + prepositional phrases with nouns (YTD – *year-to-date*);
- **clause:** reduced clause/sentence (JIT – *just in time*); complete sentence (TINA – *there is no alternative*).

While typically abbreviations exclude the initials of short function words (such as *and*, *or*, *of*, or *to*), they are sometimes included in acronyms to make them pronounceable.

The first edition of *Acronyms, Initialisms and Abbreviations Dictionary (AIAD)* provides examples when language use often becomes more creative and reinterpretations are possible: e.g. Ford as *Fix or Repair Daily*.<sup>439</sup> Also, there are companies not wishing to acronymize or alphabetize their names and they use instead full forms, in order to avoid obscurity: e.g. *Unicar*

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435 Cf. Roswitha Fischer, *Lexical change in present-day English: A corpus-based study of the motivation, institutionalization, and productivity of creative neologisms*, G. Narr Verlag, Tübingen, 1998, p.26.

436 see The American Heritage Dictionary of the English Language, Fourth Edition, Houghton Mifflin Company, 2000: acronym: “A word formed from the initial letters of a name, such as WAC for Women’s Army Corps, or by combining initial letters or parts of a series of words, such as radar for radio detecting and ranging.” The Concise Oxford Dictionary of Current English, Oxford University Press, 1991, p. 12, acronym: “a word, usu[ally] pronounced as such, formed from the initial letters of other words (e.g. Ernie, laser, Nato)”.

437 see David Crystal, *The Cambridge Encyclopedia of the English Language*, Cambridge University Press, 1995, p. 120: “Initialisms which are pronounced as single words” but then he adds “However, some linguists do not recognize a sharp distinction between acronyms and initialisms, but use the former term for both.” Webster’s New Universal Unabridged Dictionary, Barnes & Noble, 2003 “1. a word created from the first letter or letters of each word in a series of words or a phrase. 2. a set of initials representing a name, organization, or the like, with each letter pronounced separately, as FBI for Federal Bureau of Investigation.

438 Apud. Roswitha Fischer, op.cit., p.27.

439 AIAD, 1992, p.xii.

*Corporation* instead of *VWR United Corporation*.<sup>440</sup> The increasing number of acronyms is an indication of the fact that the acronym has become a new word-formation pattern.

In some cases, an acronym or initialism has been redefined as a **nonacronymous** name, creating a **pseudo-acronym**. For example, the letters making up the name of the SAT (*Scholastic Assessment Test*) - pronounced as letters- no longer officially stand for anything. This trend has been common with many companies hoping to retain their brand recognition while simultaneously moving away from what they saw as an outdated AT&T (its parent/child, SBC, followed suit prior to its acquisition of AT&T and after its acquisition of a number of the other Baby Bells, changing from *Southwestern Bell Corporation*), *Kentucky Fried Chicken* became KFC, *British Petroleum* became BP to emphasize that it was no longer only an oil company (captured by its motto “beyond petroleum”), *Silicon Graphics, Incorporated* became SGI to emphasize that it was no longer only a computer graphics company. DVD now has no official meaning: its advocates could not agree on whether the initials stood for *Digital Video Disc* or *Digital Versatile Disc*, and now both terms are used.

Pseudo-acronyms may have advantages in international markets: for example, some national affiliates of *International Business Machines* are legally incorporated as IBM (or, for example, IBM Canada) to avoid translating the full name into local languages. Similarly, UBS is the name of the merged *Union Bank of Switzerland and Swiss Bank Corporation*.

**Pronunciation.** In present day English acronyms are defined as only orthoepically pronounced words and the alphabetically pronounced examples are excluded.<sup>441</sup> The longer the word is, the more likely it will be pronounced orthoepically and the shorter the word, the more likely its letters will be recited. Two-letter words are usually spelled out. Three-letter words may be pronounced either alphabetically or orthoepically: e.g. PEP [pep], [ˈpiːˈiːˈpiː], *personal equity plan*. Other instances regarding the pronunciation of acronyms are the following:

- **pronounced as a word**, containing only initial letters: OPEC (*Organization of Petroleum Exporting Countries*), CAPEX (*Capital Expenditure*), RONA (*Return on net assets*), SOHO (*Small Office/Home Office*), FIFO (*First In, First Out*);

- **pronounced as a word or names of letters, depending on the speaker or context**: IRS (pronounced as letters when used for *Irish Republican Army* and, when used for *Individual Retirement Account*, can be pronounced as letters or as a word);

- **pronounced only as the names of letters**: CEO (*Chief Executive Officer*), CPA (*Certified Public Accountant*);

- **shortcut incorporated into name**: B2B (*Business to Business*), B2C (*Business to Consumer*).

Numbers (both cardinal and ordinal) in names are often represented by digits rather than initial letters: as in or G77 (*Group of 77*). Large numbers may use metric prefixes, as with Y2K for *Year 2000*. Abbreviations using numbers for other purposes include repetitions, such as W3C (*World Wide Web Consortium*) and numeronyms, such as i18n (*internationalization*; 18 represents the 18 letters between the initial *i* and the final *n*).<sup>442</sup>

**Punctuation.** Traditionally, in English, abbreviations have been written with a full stop/period in place of the deleted part to show the ellipsis of letters, although the colon and apostrophe have also had this role. In the case of most acronyms and initialisms, each letter is an abbreviation of a separate word and, in theory, should get its own termination mark. Such punctuation is diminishing with the belief that the presence of all-capital letters is sufficient to indicate that the word is an abbreviation.

**Spelling.** The spelling of acronyms may differ with regard to the use of capital letters. Usually capital letters are used, which can be interpreted as a formal device that links the acronym to its

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440 AIAD, 1983, p.9.

441 Cf. Quirk et. al., *A Comprehensive Grammar of the English Language*, Longman, 1985, p.1581.

442 Cf. <http://initialism.askdefine.com/>, Last visited: April 24, 2009.

base word. Some words that historically originated as acronyms are nowadays no longer spelled with capital letters, and for the majority of the speakers these forms are no longer related to the words they originally abbreviated. For instance, the term RADAR was coined in 1941 as an acronym for *radio detection and ranging*. The term has since lost the capitalization, entering the English language as a standard word, *radar*. Radar was originally called RDF (*Radio Direction Finder*, now used for a totally different device) in the United Kingdom.<sup>443</sup> Sometimes, the initials continue to stand for an expanded meaning, but the original meaning is simply replaced. For example, GAO changed the full form of its name from *General Accounting Office* to *Government Accountability Office*.<sup>444</sup>

**Usage.** Acronyms and initialisms often occur in jargon. An initialism may have different meanings in different areas of industry, writing, and scholarship. This has led some to obfuscate the meaning either intentionally, to deter those without such domain-specific knowledge, or unintentionally, by creating an initialism that already existed.

Acronyms and initialisms are used most often to abbreviate names of organizations and long or frequently referenced terms. The armed forces and government agencies frequently employ initialisms (and occasionally, acronyms). Business and industry also are prolific coiners of acronyms and initialisms. A few examples are provided below:

“Representatives of **OPEC** (*Organization of Petroleum Exporting Countries A.N.*) meet on Sunday March 15th to discuss further cuts to output quotas.”<sup>445</sup>

“**Amex**’s (*American Stock Exchange A.N.*) problems stem in part from a familiar source: an aggressive move out of its traditional business of charge cards, which must be paid off each month, into riskier credit cards that allow customers to carry a balance.”<sup>446</sup>

“The seizure of Fannie Mae and Freddie Mac is a big moment for the housing market. But it will also be a test for the dauntingly large market for credit-default swaps (**CDSs**).”<sup>447</sup>

“Confidence among chief executives dropped to a record low in the first quarter of this year, a survey by the Business Roundtable revealed on Tuesday, as **CEOs** (*Chief Executive Officers A.N.*) expect sales, spending and employment to decline further in the months ahead.”<sup>448</sup>

“The **ISO** (*International Organization for Standardization A.N.*) said India’s stocks would reach ‘critically low’ levels by October and it would remain a large-scale importer in 2009/10 as the anticipated recovery in production next year might still fall short of consumption.”<sup>449</sup>

“That is probably Sheila Bair, chairman of the Federal Deposit Insurance Corp. But the **FDIC** (*Federal Deposit Insurance Corporation A.N.*) needs serious reinforcement of its talent, and a different capital structure, for this to work.”<sup>450</sup>

“And now companies like Kinzel’s publicly traded Cedar Fair LP are rediscovering the value of **ROI** (*return on investment A.N.*) in everything from new rides to data-center software.”<sup>451</sup>

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443 <http://en.wikipedia.org/wiki/Radar>, Last visited: April 15, 2009.

444 [http://en.wikipedia.org/wiki/Government\\_Accountability\\_Office](http://en.wikipedia.org/wiki/Government_Accountability_Office), Last visited: April 15, 2009.

445 The Economist, December 4, 2008, “Plumbing the Depths”, [http://www.economist.com/daily/news/displaystory.cfm?story\\_id=12725914](http://www.economist.com/daily/news/displaystory.cfm?story_id=12725914).

446 The Economist, July 24, 2008, “Superprime Slime”, [http://www.economist.com/finance/displaystory.cfm?story\\_id=11793164](http://www.economist.com/finance/displaystory.cfm?story_id=11793164).

447 The Economist, March 12, 2009, “Quite and Event”, [http://www.economist.com/finance/displaystory.cfm?story\\_id=12209615](http://www.economist.com/finance/displaystory.cfm?story_id=12209615).

448 Financial Times, April 7, 2009, “CEO confidence sinks to record low” by Alan Rappeport, <http://www.ft.com/cms/s/0/2da9753e-2386-11de-996a-00144feabdc0.html>.

449 Financial Times, April 8, 2009, “Oil sinks ahead of US inventories data” by Chris Flood, <http://www.ft.com/cms/s/0/52e21f34-2423-11de-9a01-00144feabdc0.html>.

450 Financial Times, April 12, 2009, “Who can afford the next recovery plan?” by John Dizzard, [http://www.ft.com/cms/s/0/f715e3b0-25ef-11de-be57-00144feabdc0.html?nclink\\_check=1](http://www.ft.com/cms/s/0/f715e3b0-25ef-11de-be57-00144feabdc0.html?nclink_check=1).

451 Newsweek, June 10, 2002, “How do you spell value?”, <http://www.newsweek.com/id/64767>.



“In August 2006 the **NYSE** (*New York Stock Exchange A.N.*) dropped its rule that companies must send hard-copy annual reports to shareholders (though they must still provide a copy of audited financial statements on request).”<sup>452</sup>

In **business letters** only the acronyms that are standard in that particular business or industry should be used. Two commonly used acronyms are FYI (*For Your Information*) and ASAP (*As Soon As Possible*). The first time an acronym or initialism appears in written text, the complete term is written followed by the abbreviation in parentheses. Thereafter, the acronym or initialism is used alone.

- at first mention: the American Stock Exchange (AMEX) will be written out;

- thereafter: the four letters AMEX will suffice.

The names of agencies and associations are abbreviated only after they have been spelled out the first time they appear – unless the writer is absolutely sure the reader will understand the reference. Compare the following: *The former **CEO** was sentenced to 16 years in prison for a financial cover-up that brought down one of the world’s largest commodities brokerages with European Foundation for Quality Management (**EFQM**) is a globally-recognized brand.*

**Conclusions.** The rapid advance of science and technology in recent centuries seems to be an underlying force driving the usage, as new inventions and concepts with multiword names create a demand for shorter, more manageable names. The lack of predictability in acronyms comes from at least two sources. First, the phrase from which the acronym is taken is treated with a certain amount of freedom to permit the acronym to arise. It seems that the interests of the acronym are the deciding factor in what the initial letters of the phrase will be taken to include. The second reason for the lack of predictability in acronyms is that not every abbreviation which could be an acronym is treated as one, and there seems to be no particular reason why some abbreviations should be ignored. Also, it must be stressed that acronyming is to a great extent orthographically-based, and as such differs considerably from most other word-formation processes. In spite of all these shortcomings, acronyms are a significant and the most dynamic area of the lexicon of many languages.

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**Sim Monica Ariana**

*University of Oradea Faculty of Economics Universitatii 1-2, Oradea msim@uoradea.ro +40-259-408799*

**Pop Anamaria Mirabela**

*University of Oradea Faculty of Economics Universitatii 1-2, Oradea mipop@uoradea.ro +40-259-408799*

*General language features of the written press. The study emphasizes the main features of the language used in the contemporary written press, regarding also the evolution of the journalistic language. The study case is based on the way that the language used in some newspapers/magazines has some concrete tendencies, such as: the use of many English words, the use of some incorrect words, the use of a specific language (viewed as a fashion of words). These are the features of the language used by common people, but also by the written press.*

*Key words/concepts: media, English words, linguistic fashion*

*Cod JEL lucrare: F29, Y8*

**General background.** It is well-known that the process of loaning from a foreign language is more or less characteristic of any period in the history of a language. In the same line, the vocabulary, as the sum of the words belonging to a language, mirrors the reality, being a good indicator of any social, political or cultural changes of its users. Thus, the lexical luggage is constantly expanding, acquiring new words which refer to new objects, phenomena, processes and concepts. The last decades of the 20th century witnessed the influence of English on Romanian as being proportionally higher than the influence of other languages. Consequently, the English loanwords have become an outstanding characteristic of contemporary Romanian language. The present paper intends to present the impact of this process of loaning English words upon written media, especially upon magazines for women.

The Romanian glossy magazine market is expanding, in terms of both reading rate and revenues from advertising. In 2008, Romanian press groups launched in this niche more glossy titles on the market: Marie Claire, InStyle, GQ, Esquire, Harper's Bazaar etc. that were added to the already existing women glossies: Bolero, Cosmopolitan, Glamour, Joy, Unica, Avantaje, Look!, Elle, Tabu, The One, Tango, Ce se întâmplă doctore? The press trusts in Romania estimate that women's magazines dominate the Romanian glossy magazine market. Some 310,000 copies of glossy magazines for women are sold each month, yielding some €5 million in revenues from advertising in the first quarter of 2007, according to the Deputy General Manager of Ringier Romania. Managers of glossy magazines indicate that the increase in the women's magazine segment is due to changing consumer and lifestyle habits, and an increase in personal expenses.

In terms of economic figures this means progress. But, let us have a look at the cultural, linguistic gain of this headway. Most of the features of the magazine and newspaper style are determined by the fundamental need of publishers to come up with new elements, to be sensational, to offer surprises so as to arise the audience's interest and to continue to communicate pieces of information always threatened by rush, boredom. As the novelty does not always rely on ideas or information, it is the language that bears the innovation. The journalistic passion for the shocking, sick neologism is already well-known, and it has easily been noticeable in the Romanian press after 1989. A steady source for the linguistic picturesque seems to be the countryside, familiar, argotic and, of course, the borrowed items, all of them trying to refresh and permanently innovate the routine daily language. Anyway, the fashion of journalistic creativity

has gone. The most striking phenomenon is the influence of English. As Rodica Zafiu<sup>453</sup> rightly points out, it is a complex phenomenon as it implies a prestige factor: because English is an international language, and knowing it appears as compulsory, there is a snobbish side of the story; in fact as the linguist appreciates, necessity and snobbery are linked to one another. The great number of English borrowed words in the written media suggests the openly expressed wish of the journalist to be perceived as an accessible, entertaining, up-to-date writer but, sometimes the result turns to be the opposite and the public discourse easily slips towards a familiarity that crosses the animated, vivid language, becoming impolite and invective as Rodica Zafiu rightly mentions.

Beside the natural need to use some terms coming from English (the influence of English being an international phenomenon. due to the progress of some domains) the invasion of English-borrowed words there becomes a sort of trend among some social categories that frequently and deliberately employ English words, even if Romanian language has words to denote this fact, that is they have Romanian equivalents: *job, party, look, hair-stylist, popcorn, hit, fast-food, voucher* announcing a sort of linguistic “fashion” in the nowadays written media.

This trend of using, sometimes useless and abusively, English words could be explained up to a point as we actually live in a world of “fakes”. Almost everything is being forged and copied: paintings, clothes, bags, music, sites, books, images, characters, even words and expressions. There are originals and copies as well. We have whiskers not lashes, false nails, reshaped bodies. But it is even easier to fake and copy options, expectations, words, behaviour, to let yourself taken away by imitation, fake and not knowledge. It is handy, easy and trendy.

Regardless the aim, be it necessity or trend, these borrowings show the way our vocabulary changes, as media represents the most eloquent and true reality.

Mihaela Muresan<sup>454</sup> offers a classification of English borrowed words or *anglicisms*<sup>455</sup> according to some criteria:

- **aim or necessity:** *denotative or necessary* (they do not have a Romanian equivalent): *tenis, nailon, sendvici* and *conotative or luxury* (words that have Romanian equivalents, their use is not necessary unless for stylistic reasons: *living-room (cameră de zi), talk-show (masă rotundă), week-end (sfârșit de săptămână)*);

- **informational quantity** it brings, meaning that the English words add one or several supplementary meanings to the existent Romanian words: *audiență* (<engl. *audience*) bears the meaning of a meeting granted to a certain applicant, (DEX, 2<sup>nd</sup> edition, Editura Univers Enciclopedic, București, 1998), and is at present enriched with the English meaning of *public*; *locație*(<engl. *location*), originally meaning *renting*, at present is used to denote any *placement, settlement, even place, spot, site*; *a aplica* (< engl. *to apply*) means to put into practice, but is nowadays frequently used instead of *to make a request, to candidate*;

- **form:** *raw, unchanged:* *sexy, cool, trendy, bye-bye, beep, fifty-fifty* and *adapted words:* *tenis, servici, nailon*; *simple:* *marketing, business, impact, bancnotă, leasing* etc and *compound:* or *phrases/expressions:* *all right, the show must go on, ok, best seller, glamour girl* etc.);

- **structure:** *composed* according to the English word order: *CV, Napoca Hotel, Diesel Club* and *derivatives* (suffixes/prefixes): *superstar, megastar, FNI-gate*).

The high frequency of the English borrowed words in today written media gives a special characteristic to the newspaper language. Thus, this language is impregnated with a great number of English words, correctly or incorrectly used.

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453 Rodica Zafiu, Jurnalul national, 4 aprilie 2006, [www.jurnalulnational.ro](http://www.jurnalulnational.ro).

454 Mihaela Muresan, Tendințe lingvistice în presa scrisă contemporană, în Jurnalism și comunicare, Anul III, nr. 4, 2008, p. 24.

455 words or expressions borrowed from English language, without being necessary, sometimes not being integrated in the language – according to “Dicționarul explicativ al limbii române”.

Further on, we shall analyze the above mentioned linguistic tendencies in the light of this important yet, controversial player of our nowadays society: mass-media. The first fact that is worth mentioning is that we deal with an international tendency “the massive borrowing of Anglo-American terms manifested after the Second World War in most European languages and not only, a phenomenon explicable especially through the progress of some technical domains” (Rus Maria Laura apud Mureșan Mihaela).

In the written media, anglicisms are very often used, especially in magazines dedicated to the feminine audience. There are extremely numerous examples of the use of English borrowings in different areas and we shall present some of them found in glossy magazines and analyse their unnecessary or luxury usage mainly in women magazines (it is obvious that the target audience and the topic approached greatly influence the number and quality of anglicisms); their employment is motivated by the tendency of certain social categories to be different, unique, special at least in point of language. In order to exemplify all these we analysed articles from *Tango* and *Cosmopolitan*, issues published over the last year. The two are monthly magazines with a circulation of 25000 issues the former and 45000 issues the latter, having as target women over 18 years old.

**Magazine study** The presentation underlines the preference to use anglicisms to the detriment of their Romanian equivalents, phenomenon analysed in this study in the two publications pointed previously. From the researched material we gathered that most of the terms are not assimilated either phonetically or morphologically by the structure of Romanian language; there are terms that are not even registered in the Romanian specialized works: *cover*, *fresh*, *modeling*, *outfit*, *target*, *look*, *nickname*, *target*, *up-grade*.

The domains where anglicisms are more present are: the musical domain, the everyday life, fashion, sports, economy. and here are some colourful examples to sustain our statements.

**-The musical domain:** 65% of the selected terms are not included in the recently published lexicographic works:

**beat:** “noul single cu beat de house cucerește...”<sup>456</sup>

**live:** “albumul a fost înregistrat live.”<sup>457</sup>

**cover:** „Artistul a lansat deja într-o nouă versiune *cover-ul* celor de la Soft Cell.”<sup>458</sup>

**view:** “...a înregistrat câteva mii de view-uri.”<sup>459</sup>

**upgrade:** “...de ce nu am vrea să facem un “upgrade” al relației amoroase.”<sup>460</sup>

**-The everyday life** registers new items not attested in DCR<sup>461</sup>: *cool*, *fresh*, *hair-styling*, *outfit*, *t-shirt*, besides the inveterate *cover-girl*, *casting*, *make-up*, *look*, *trendy*. Most of them are “luxury anglicisms”, as there are Romanian equivalents for them.

**cool** “... cele mai *cool* trend-uri în hair-styling.”<sup>462</sup> It appears in combination with other words, or, sometimes just alone like an interjection. It is a word with a high frequency in the analyzed articles, being in close competition with *look* - term registered in DCR<sub>2</sub>:

**look:** “*look* similar accesibil.”<sup>463</sup>

**outfit:** “*outfit-ul* de club era horror, ce să mai!”<sup>464</sup>; “outfit” proves to be a useless, luxury anglicism that could easily be replaced with its Romanian equivalent; still, it is a rather used word in the articles on fashion.

456 *Cosmopolitan*, aprilie, 2009, p.32.

457 Idem, p.30.

458 Idem, noiembrie, 2008, p. 2.

459 Idem, aprilie, 2009, p. 32.

460 Idem, p. 21.

461 DCR- Dictionar de cuvinte recente.

462 *Cosmopolitan*, martie, 2008, p. 39.

463 Idem, aprilie, 2009, p.34.

464 *Cosmopolitan*, aprilie, 2009, p. 64.

**casting** : "...când m-am dus la *casting* în Paris, nici nu au vrut să audă..."<sup>465</sup>

**nickname**: "doar aici îndrăznește să-și deschidă inima, sub un *nickname* cu conotații dureroase..."<sup>466</sup>

**trendy**: "...elementele unui interior, să-i spunem, *trendy*..."<sup>467</sup>

**sexy** is probably one of the best known adjectives of English origin in Romanian language; it is a "raw" adjective used not only in the written media, but also in the everyday speech, on television etc.; it appears spelt either like in English or like a Romanian word: "sexi: "trup sexy".<sup>468</sup>

**trend**: "...și nu doar pentru că ăsta e "*trendul*", explică ei..."<sup>469</sup>

**OK**: "arată-i că nu este *OK* ceea ce face..."<sup>470</sup>

**full**: "...nu te fac să te simți "*full*" și nici nu-ți deschid apetitul..."<sup>471</sup>

**fresh** : "Un parfum fresh, de primăvară..."<sup>472</sup>

**weekend**: "nici nu mai știu unde să ies și eu în *weekend*..."<sup>473</sup>

**background**: "...născut în cu totul alte condiții, cu totul alt *background*, cu totul altă evoluție decât a mea..."<sup>474</sup>

**brunch**: "*Brunch* de Paste pe boulevard... irezistibil..."<sup>475</sup>

**junk**: "dacă nu mănânci *junk*, evident..."<sup>476</sup>

**topping**: "Ca desert, topesc ciocolata drept *topping* peste banană..."<sup>477</sup>

**buzz**: "...deplasează-te atunci când ai ceva de spus în loc să dai "*buzz*" pe Mess..."<sup>478</sup>

- **Beauty&fashion** is another area where there are plenty of luxury English borrowed words, actually, reading articles on these topics is like reading in a totally unknown language, a combination of Romenglish.

**make-over**: "e un *make-over* rapid și eficient, ticluit de specialiști cu fler salutar..."<sup>479</sup>

**make-up artist**: "odata, un *make-up artist* m-a altoit cu o nuanță deschisă de ruj..."<sup>480</sup>

**anti-age**: "...folosește crema *anti-age* cu unt de Shea și vitamine..."<sup>481</sup>

**gloss**: "strălucirea *glossului* acționează ca o lupă..."<sup>482</sup>

**shooting**: "Anul trecut am avut *shooting* în Turks..."<sup>483</sup>

**show**: "implicarea în cele mai spectaculoase *show-uri* de beauty&fashion..."<sup>484</sup>

**showbiz**: "Este printre puținii romantici rebeli din acest *showbiz* plin de scilipici..."<sup>485</sup>

**lifting**: "*liftingul* facial efectuat cu bisturiul..."<sup>486</sup>

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465 Idem, martie, 2009, p. 125.

466 Tango, 43/2009, p. 114.

467 Cosmopolitan, aprilie, 2009, p.147.

468 Idem, martie, p.1.

469 Cosmopolitan, aprilie, 2009, p.18.

470 Idem, p. 71.

471 Idem, p. 123.

472 Idem, martie, 2009, p. 94.

473 Idem, p.82.

474Tango, nr. 45, 2009, p. 68.

475Idem, p. 68.

476Cosmopolitan, aprilie, 2009, p.89.

477 Idem, p. 126.

478 Idem, p. 131.

479 Tango nr. 43, 2009, p. 118.

480 Cosmopolitan, februarie, 2009, p 129.

481 Idem, aprilie, 2009, p. 138.

482 Idem, p. 85.

483 Idem, februarie, 2009, p.125.

484 Cosmopolitan, ianuarie, 2009, p. 151.

485 Tango, 43/2009, p. 158.

486 Idem, ibidem.

**hair-style:** “toată echipa de *hair-style* și-a etalat cele mai spectaculoase și splendide creații.”<sup>487</sup>  
- *Bussines-man, dealer, job, marketing, shopping*, are the most used anglicisms met in the “**economic**” articles in the glossy magazines. They are already included in DCR and DN<sup>488</sup>:  
**job:** “...să renunțe la un *job* care nu-l satisface.”<sup>489</sup>, “...fiecare vietate pe care *jobul* o ține departe de reședința personală...”<sup>490</sup>  
**shopping** : “mergi la *shopping* virtual pe [www.cosmopolitan.ro](http://www.cosmopolitan.ro).”<sup>491</sup> It is an item that has a Romanian equivalent, still, it is extremely frequently used, bearing a stylistic, connotative role; it also belongs to the category of phrasal anglicisms, being made up by adding the suffix “ing.”  
**brand:** “Faimosul *brand* orologer elvețian”<sup>492</sup>  
**PR:** “...se face *PR* și *anti- PR*, se scrie o adevărată condică de reclamații...”<sup>493</sup>  
-**The technical domain** gains new lexical meanings:  
**webcam:** “deschid calculatorul, dau drumul la *webcam* și vorbesc cu oameni...”<sup>494</sup>,  
**scana** “*am scanat-o* din priviri, *am zâmbit*...”<sup>495</sup>  
**scroll:** “...un mouse wireless cu *scroll* în opt direcții...”<sup>496</sup>  
**stick:** “Ia-ți un *stick* de la Kingston...”<sup>497</sup>  
**blackberry:** “...înfoliată în sârme, căști, *blackberries* și tastaturi...”<sup>498</sup>  
**display:** “...noutățile pe *display-ul* telefonului, downloadate direct în măruntaiele celularului.”<sup>499</sup>  
**pacemaker:** “El să aibă *pacemaker* și să moară cât mai repede.”<sup>500</sup>  
**gadget:** “...ne plac *gadgeturile* care sunt mici...”<sup>501</sup>

## Conclusions

1. We can notice that the use of anglicisms varies a lot according to circumstances. Some terms are employed to ease the communication as there are words with no Romanian equivalents and they should have been rendered through a whole long phrase (*single* „disc ce conține câte o singură piesă pe fiecare față”). Other times they are used just to change the “old” language and to keep pace with the international trends.
2. Most borrowed items are nouns denoting abstract notions and invariable adjectives: “sexy/sexi”, “live”. Nouns got the Romanian plural ending: *hobby-uri, party-uri, trend-uri*.
3. As far as grammar is concerned, the grammatical structure is the most stable, thus the novelties penetrate the vocabulary, the fixed expressions meant to signal, to build up the contact especially among young people. From a morphological point of view we have to admit that anglicisms rapidly adapt themselves to the Romanian morphology; in order to be able to communicate people have to model them: to form plural, to articulate the nouns, to use verbs conjugated according to number and person, for example, “bodyguarzi” and “a downloada” (at present “downloadez”).

487 Cosmopolitan, martie, 2009, p132.

488 DN- Dicționar de neologisme.

489 Cosmopolitan, aprilie, 2009, p. 68.

490 Tango, nr. 45, 2009, p. 390.

491 Cosmopolitan, aprilie, 2009, p. 380

492 Idem, februarie, 2009, p.8.

493 Tango, nr. 43, 2009, p. 152.

494 Cosmopolitan, aprilie, 2009, p.115.

495 Idem, p.136.

496 Idem, p.141.

497 Idem, p. 137.

498 Tango, nr. 43, 2009, p. 39.

499 Idem, ibidem.

500 Idem, p. 158.

501 Cosmopolitan, aprilie, 2009, p. 136.

4. On the other hand, the orthographic and phonetic adaptation is rather slow; a possible explanation could be that a lot of people know and learn English and consequently it is a matter of social prestige to use the words sounding and behaving very close to the original. .
5. The studied magazines abound in titles in English or a combination of English and Romanian: *Cosmo book club*, *Cosmo informer*, *Cosmo style insider*, *Metale in trend*, *Cosmon 'n Vogue*, *Beauty stil de vedeta*, *Masti home-made*, *Job & bani*, *Quiz culinar*, *Real life* etc.<sup>502</sup>; most of these are already phrases often used in everyday speech, still they are luxury borrowings as we could easily find Romanian equivalents.
6. Even if they are rather peculiar as compared with Romanian words, English borrowed items tend to "behave" like "one of them" and thus speakers employ them pretty often. Moreover, the media fully makes use of them, regardless the domain. Some anglicisms do not change when "entering" Romanian language, they only add a dash: *dressing-ul*, *shopping-ul*, *outfit-ul* etc.
7. We consider that any reader of a fashion, sport or IT article will get the essential, even if s/he does not speak the language. There are terms that cannot be actually translated into Romanian with one word only; we need an explanation which is time, space and energy-consuming: *marketing*, *training*, *leadership*, *trust*, *broker*, *rating*, *management* etc. but this is not always the case of the glossy magazines; here the writers use borrowed terms so as to spice their communication.
8. Compared with other glossy magazines where there is an excessive use of anglicisms, *Cosmopolitan* and *Tango* magazines use anglicisms less frequently. A comparison between the two of them places *Cosmopolitan* in the first position with more English borrowings than *Tango*; consequently, it is obvious that the audience influences a lot the quality of the transmitted message, not many anglicisms could be found in *Tango* which proved more creativity and spontaneity.

To end up, the essence of a language is to get richer every day. Borrowings from other languages correctly used are all that matters. Media is the one that promotes language at most as it knows its tendencies best influencing both the language and its speakers. Anglicisms stand for a living proof that the language evolves. Yet, we mention that we considered only those terms very frequently used in women glossy magazines.

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502 *Cosmopolitan*, aprilie, 2009, p. 9-10.



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## APPROACH TO TEACHING AND DEVELOPING VOCABULARY

**Sturza Amalia**

*University of Oradea Faculty of Architecture and Constructions 4, B. St. Delavrancea street, 410085, Oradea asturza@uoradea.ro 0259-408447*

*Vocabulary was an area which was arguably neglected in foreign language teaching for a number of years, but it now seems very much back on the agenda. Vocabulary knowledge is not something that can ever be fully mastered; it is something that expands and deepens over the course of a lifetime. Instruction in vocabulary involves far more than looking up words in a dictionary and using the words in a sentence. Vocabulary is acquired incidentally through indirect exposure to words and intentionally through explicit instruction in specific words and word-learning strategies.*

*Key words: vocabulary development, strategy, teaching, word meaning, word formation*

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### Introduction

Vocabulary Teaching is clearly more than presenting new words. Of course, this may have its place but there are other issues, too. For example, students see a lot of words in the course of a week, some of them are used often, others are not. Should we teach some words and not teach other? Is there any way in which we can encourage students successful to really learn a word? Why are some students successful at vocabulary learning but others are not? If we know the answer to the question, the work of teaching and learning a word would be easy.

Vocabulary is the knowledge of words and word meanings. As Steven Stahl puts it, 'Vocabulary knowledge is knowledge; the knowledge of a word not only implies a definition, but also implies how that word fits into the world'<sup>503</sup>. According to Michael Graves, there are four components of an effective vocabulary program:

- wide or extensive independent reading to expand word knowledge
- instruction in specific words to enhance comprehension of texts containing those words
- instruction in independent word-learning strategies, and
- word consciousness and word-play activities to motivate and enhance learning<sup>504</sup>.

### Intentional vocabulary teaching

According to the National Reading Panel, explicit instruction of vocabulary is highly effective<sup>505</sup>. To develop vocabulary intentionally, students should be explicitly taught both specific words and word-learning strategies. To deepen students' knowledge of word meanings, specific word instruction should be robust<sup>506</sup>. Seeing vocabulary in rich contexts provided by authentic texts, rather than in isolated vocabulary drills, produces robust vocabulary learning (National Reading Panel, 2000). Such instruction often does not begin with a definition, for the ability to give a

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503 Stahl, S.A. 2005. Four problems with teaching word meanings (and what to do to make vocabulary an integral part of instruction). In E.H. Hiebert and M.L. Kamil (eds.), Teaching and learning vocabulary: Bringing research to practice. Mahwah, NJ: Erlbaum.

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505 National Reading Panel. 2000. Teaching children to read: An evidence-based assessment of the scientific research literature on reading and its implications for reading instruction. Washington, DC: National Institute of Child Health and Human Development.

506 Beck, I.L., M.G. McKeown, and L. Kucan. 2002. Bringing words to life: Robust vocabulary instruction. New York: Guilford.

definition is often the result of knowing what the word means. Rich and robust vocabulary instruction goes beyond definitional knowledge; it gets students actively engaged in using and thinking about word meanings and in creating relationships among words.

Research shows that there are more words to be learned than can be directly taught in even the most ambitious program of vocabulary instruction. Explicit instruction in word-learning strategies gives students tools for independently determining the meanings of unfamiliar words that have not been explicitly introduced in class. Since students encounter so many unfamiliar words in their reading, any help provided by such strategies can be useful.

Word-learning strategies include dictionary use, morphemic analysis, and contextual analysis. For ELLs whose language shares cognates with English, cognate awareness is also an important strategy. Dictionary use teaches students about multiple word meanings, as well as the importance of choosing the appropriate definition to fit the particular context. Morphemic analysis is the process of deriving a word's meaning by analyzing its meaningful parts, or morphemes. Such word parts include root words, prefixes, and suffixes. Contextual analysis involves inferring the meaning of an unfamiliar word by scrutinizing the text surrounding it. Instruction in contextual analysis generally involves teaching students to employ both generic and specific types of context clues.

### **Approach to Teaching and Developing Vocabulary**

The amount of vocabulary that children need to acquire each year is staggering in scope, estimated to be about 3,000 words a year. Therefore, a comprehensive approach consisting of the following components needs to be in place.

- Use “instructional” read-aloud events.
- Provide direct instruction in the meanings of clusters of words and individual words.
- Systematically teach students the meaning of prefixes, suffixes, and root words.
- Link spelling instruction to reading and vocabulary instruction.
- Teach the effective, efficient, realistic use of dictionaries, thesauruses, and other reference works.
- Teach, model, and encourage the application of a word-learning strategy.
- Encourage wide reading.
- Create a keen awareness of and a deep interest in language and words.

### ***Provide Direct Instruction in the Meanings of Words***

Which words should be taught? In deciding which words to teach we have found it helpful to think about ‘levels’ of vocabulary.

#### **Level I Words**

These are words that are used over and over in everyday speech. Since they are so frequently used in a variety of contexts, virtually all children learn them. Some examples of these words would be *house, girl, cat, up, umbrella*, etc. Level I words are sometimes referred to as ‘conversational speech’. Students who are learning English as a second language will sometimes make progress with this level of vocabulary but have difficulty making progress with words at levels beyond this one.

#### **Level II Words**

These are words that are likely to be learned only through reading or through instruction. They have been referred to as the vocabulary of educated persons, as ‘academic vocabulary,’ and as ‘instructional vocabulary.’ They are words that are necessary for general success in school. Words such as *perspective, generate, initiate, intermediate, calculation*, etc. are possible examples.

#### **Level III Words**

These are words associated with a particular field of study or profession. These words make up the technical vocabulary or jargon of a field. Examples of Level III words from the field of

reading instruction include the terms *digraph*, *diphthong*, *schwa*, *metacomprehension*, etc. As one might expect, some words such as *calculation* might be classified as either a Level II or Level III word or both.

### Level IV Words

These are words that are interesting but so rare and esoteric that they are probably not useful even in most educational environments, and they are not associated with a field of study or profession. Examples are words that were but no longer are used: *majuscule* (a capital letter), *xanthodont* (one who has yellow teeth like a rodent), *noctuary* (an account of what happens in a night). Notice, however, that some Level IV words are useful for teaching morphological clues such as *noct* meaning ‘night’ and *dont* or *dent* referring to teeth. Level IV words are also helpful for creating an interest in words and language. Just by their definitions, it should be apparent that a major responsibility of teachers is to expand the Level II and Level III words of their students. Teachers of content areas have a special responsibility for teaching Level III words.

### Teaching of Word Meaning

Words are labels for concepts and teaching word meaning is essentially teaching concepts for given words. There are several suggestions for teaching concepts in Nation<sup>507</sup>. One of these concerns the presentation of *multiple positive examples* of the concept. Positive examples are instances to which a given word truly applies. Among the positive examples of *vehicle*, for example, are cars, trucks, vans, buses, trains, etc. Giving multiple positive examples is necessary because concept learning requires the abstraction of the important features of the concept and ignoring the unimportant ones, and to do this the learner has to see several examples and needs to identify what is common to them all and what is different. The important (i.e. criterial) features of being a *person*, for example, is to be a human being and usually to be an adult. On the other hand, ‘color of skin, color of hair, and age are not criterial features of *person*’<sup>508</sup>. If multiple examples of person (e.g. pictures of individual persons with different skin and hair colour and from different age groups) are provided, learners will be able to work out the criterial features and learn to ignore the noncriterial ones in the concept of *person* they formed<sup>509</sup>.

Some concepts have constant reference (i.e. refer to a single entity) like earth, sun, etc. while others do not show much variance among their referents (e.g. water, orange, snow, etc.). All the examples that would be given for these concepts will be inevitably very similar to one another. It should be tested, therefore, if multiple examples are still better than one example for these words simply because they increase the exposure time. It should be useful, though, to give multiple examples in the case of words with abstract or general meanings (e.g. person, adult, vehicle, furniture, building, etc.). Nation’s (1990) another recommendation is to use *negative examples* of a concept in addition to the positive examples. Negative examples are instances to which the word does not apply. The negative examples of *person*, for example, will include “things that are not persons”<sup>510</sup>. However, for the negative examples to be meaningful, they need to be sufficiently similar to the positive examples. Negative examples will be useful in showing the boundaries of a concept and thus, helping learners to distinguish the word from other similar concepts. For example, the word *desk* and *table* are semantically related in English. Both concepts involve a flat surface resting horizontally on vertical (usually four) axes. The two words are distinguished in English with respect to the use to which they are put. A table is used for eating from and a desk is used for study. Thus, an office desk or a home desk might be used as negative examples for the word table to help learners limit the meaning of table and to prevent

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507 Nation.I.S.P (1990). Teaching and learning vocabulary, New York Newbury House. Chapter 4.

508 Idem p.53

509 Ibid. p.53-54

510 Ibid. p.54

overgeneralisation to desks (e.g. referring to a home desk as a table). However, some caution is necessary in claiming that negative examples are good since negative examples might be confusing when the learner is still wrestling with basic understanding of the core concept and has yet a shaky understanding of it. Thus, negative examples are yet to be shown to be effective.

### Teach the Meaning of Prefixes, Suffixes, and Root Words

The majority of English words have been created through the combination of morphemic elements, that is, prefixes and suffixes with base words and word roots. If learners understand how this combinatorial process works, they possess one of the most powerful understandings necessary for vocabulary growth. In recent years research has suggested some promising guidelines for teaching the meanings of prefixes, suffixes, and word roots as well as for the ways in which knowledge of these meaningful word parts may be applied. Word roots such as *dict*, *spect*, and *struct* are meaningful parts of words that remain after all prefixes and suffixes have been removed but that usually do not stand by themselves as words: *prediction*, *inspection*, *contract*. In the primary grades students begin to explore the effects of prefixes such as *un-*, *re-*, and *dis-* on base words. In the intermediate grades students continue to explore prefixes and an increasing number of suffixes and their effects on base words: *govern* (verb) + *-ment* = *government* (noun). Common Greek and Latin roots begin to be explored, along with the effects of prefixes and suffixes that attach to them<sup>511</sup>. These include, for example, *chron* ('time,' as in *chronology*), *tele* ('distant, far' as in *television*), and *fract* ('break,' as in *fracture*). A large proportion of the vocabulary of specific content areas is built on Greek and Latin elements. As this morphological knowledge develops, teachers can model how it may be applied to determining the meanings of unfamiliar words encountered in print.

### Teach the Application of a Word Learning Strategy

As noted earlier, written texts contain richer vocabulary and, therefore, more opportunities for expansion of vocabulary through reading as compared to the word challenge in oral language. There is research that shows that students can be taught strategic behaviors to improve their ability to learn the meaning of words<sup>512</sup>. While skills such as application of morphological clues, reference works, and spelling clues to word meanings are all useful, they become more powerful and functional when combined with the use of context clues in a deliberate strategy. These could be the steps:

*Step 1: Carefully look at the word; decide how to pronounce it.*

Carefully processing the letters or chunks of letters of a word and thinking about the sounds for them will leave a memory trace for the word even if it is not a word that the reader knows. At very least, it is likely that if the reader encounters the word again in future readings, there will be at least a modicum of familiarity with it.

*Step 2a: Look around the word for context clues, including:*

- *Look within the sentence.*
- *Reread previous sentences.*
- *Read ahead for more context clues.*

*Step 2b: Look in the word for prefixes and suffixes, base words, and root words that might offer clues.*

For a word with a common prefix such as *un-*, morphological clues would likely be used before the use of context clues. The hallmark of a strategic reader is the flexible application of strategies.

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511 Templeton, S. (1989). Tacit and explicit knowledge of derivational morphology: Foundations for a unified approach to spelling and vocabulary development in the intermediate grades and beyond. *Reading Psychology*, 10, 233–253.

512 Kuhn, M.R., and Stahl, S.A. (1998). Teaching children to learn word meanings from context: A synthesis and some questions. *Journal of Literacy Research*, 30, 119–138.

*Step 3: Make your best guess at the word's meaning.*

It is important to stress with students that natural context most often will not lead to a clear understanding of a word's meaning and that some words will not contain recognizable morphological clues. Nevertheless, it seems useful to take the step of making a best guess at the word's meaning since this further mental activity is likely to make the word more familiar the next time it is encountered—even if the student's understanding of the word has to be revised.

*Step 4a: If you don't have a good idea as to the word's meaning and if the word seems important, use a dictionary or glossary.*

Two touchstones for determining whether or not a word is important could be used. First, if the reader is beginning to have difficulty understanding what he or she is reading, the meaning of the word may contribute to a better understanding of what is being read. It is, therefore, important. Second, if it is a word that the reader has encountered before and still has no good idea as to its meaning, it is probably an important word since it is likely to be encountered again in the future.

*Step 4b: If you think you have figured out the meaning of the word or if the word doesn't seem important, keep reading.*

Telling a reader to look up every unknown word in a dictionary it's unrealistic; mature readers don't. Therefore, it is legitimate to move on and keep reading if context and morphological clues have been somewhat helpful or if the word doesn't seem to be important for comprehension of what is being read or for adding to one's functional vocabulary. Teachers need to strategically and flexibly model and teach each of the above steps. Eventually, as students mature in their reading skills, they can and will internalize the steps in this strategy. Application of these steps then becomes much smoother and more automatic, requiring less attention. In fact, good readers usually "blend" these steps.

## **Conclusions**

1. Vocabulary should be taught both directly and indirectly.
2. Encountering vocabulary words often and in various ways can have a significant effect on vocabulary learning.
3. Vocabulary words that students will find useful in many contexts should be selected.
4. Restructuring tasks to be certain students fully understand the task and the components of vocabulary learning can lead to increased vocabulary learning, particularly for low-achieving and at-risk students.
5. Actively engaging students' results in larger vocabulary gains.
6. Emerging support for the use of computer technology to increase vocabulary.
7. Vocabulary words can be learned through incidental and indirect ways. Repetition, richness of context, and student motivation may add to the efficacy of incidental learning.

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# ENGLISH - LINGUA FRANCA FOR INTERNATIONAL BUSINESS COMMUNICATION

**Vîlceanu Alina**

*Universitatea "Constantin Brâncuși" din Târgu-Jiu Facultatea de Litere și Științe Sociale Strada Panduri, Nr. 100, Târgu-Jiu, cod: 210178, jud. Gorj alina\_valceanu@yahoo.com 0742330955*

*The aim of this paper is to analyse the fast-growing importance of the English language in the International Business world. While professions may vary, the need to be proficient in English is a basic skill for any global worker. A deficiency in this area may result in barriers for the employees' professional and personal development. The paper also presents the misunderstandings that are easily caused by the lack of rhetorical skills and which may result in uncertainty and communication problems.*

*Keywords: language, communication, linguistic barriers, globalization.*

*Cod JEL: F23*

A language is a systematic means of communication by the use of sounds or conventional symbols. It is the code we all use to express ourselves and communicate to others. It is a communication by word of mouth, a system for communicating ideas and feelings using sounds, gestures, signs or marks. Any means of communicating ideas, specifically, human speech, the expression of ideas by the voice and sounds articulated by the organs of the throat and mouth is a language. This is a system for communication.

Communication has enabled mankind to progress and become advanced societies. Highly specialized skills, advances in technology, amazing inventions, spectacular breakthroughs in arts and sciences have limited value unless it is communicated effectively to its intended audience and communicated precisely for specific purposes. Communication is very important not only for smooth running of a business enterprise but it is also equally, if not more, important for the success and growth of individual executives and professionals. In the age of globalization, communication is of paramount importance. The lack of proper communication skills creates barriers and distortion leading to miscommunication and breakdown in meaning which can have some very negative repercussions for any company or business set-up.

While English is not the most widely spoken language in the world when you look at it in terms of the number of native speakers, it is the world's most prominent language.

It has been estimated that out of the roughly 6 billion people that are alive today about 350 million speak English. When analysing the importance of English for International Business, we should consider more than just the number of people who speak it, but also at what the language is used for.

Around the world, there is an estimated 1 Billion people learning English. Many factors point to the reason why learning English has seen exponential growth in recent years, but it all boils down to the English language being the "global language" of business, politics, international relations, culture, and entertainment for so many countries worldwide. And that is just an understatement as in fact, while English is not an official language in many countries worldwide, it is the language most often taught as a foreign or second language.

English is the ideal language for many governments around the world, and it is also prominent in business, education, world news, and communication. In addition to this, Western pop culture is also carried to foreign countries in the form of music or movies. There are a number of powerful tools that have allowed more people to learn English than ever before. One of these tools is the Internet. English as a universal language has become the key tool of globalization. The importance of English for International Business, depends on the number of people who speak it



and for what purpose the language is spoken. But what matters most, is to understand how to use English language rather than just knowing it.

As the globalization is a reality, the walls between nations are being torn down, and the whole world has become an arena of competition. Globalization is unfolding in a two-stage manner. In the first stage, global media and businesses extend their reach into new domains throughout the world. In a second stage, these same businesses and media are re-localized in order to best meet the economic and social imperatives of functioning in different regions of the world.

Globalization has already had an important impact on the field of TESOL. One of its consequences is the dominance of the communicative approach within the field of English language teaching. The increased global contact brought about in the new network society through international tourism, business, scientific exchange, and media places a premium on the ability for communication in a lingua franca. With these fast changes brought about by globalization and technological development, TESOL professionals need to understand current socio-economic factors and their influence on English language teaching. The industrial societies of the past are giving way to a new post-industrial economic order based on globalized manufacturing and distribution; flexible, customized production; the application of science, technology, and information management as the key elements of productivity and economy growth.

Thus, English has become a major international language for worldwide communication. Proficiency in English is a mandatory requirement for any professional working in a global business environment. Many companies have discovered early in the 21st century that they can cut their costs of production by sending their jobs overseas. The proper term for this is outsourcing, or off shoring. Some companies have also found that they can cut costs by bringing immigrants into the country on work visas. The employees will work for the company for a given period of time, and once their visa has expired, they can return home.

While many people in English speaking countries complain about the impact of outsourcing, it presents lucrative opportunities for people living in foreign countries. Learning how to speak English can allow you to travel to a Western country, work there for a few months, make more money than you would make at home, and then bring the money back home to your family. This is a practice that many people use, and it is factors such as outsourcing which have allowed them to do it. As you can see, learning how to speak English opened up a large number of doors, doors that would normally be closed.

Although there is a rapid growth in technology for global communications, many companies and individual professionals still fail in their quest for business or professional success. While professions may vary, the need to be proficient in English is a basic skill for any global worker. For example, the professional jargon used by a Computer programmer differs greatly from that of a physician but both professionals need to have a good command of the English language in their own fields. A deficiency in this area may result in barrier for the employee's professional and personal development. Employers expect the workforce to possess excellent communication skills apart from knowledge and expertise in their respective technical field. In the present day workplace, individuals require a range of occupationally specific knowledge and skills, personal attributes and attitudes, the ability to transfer knowledge and skills to different situations, etc. Most industry is quite concerned about the noticeable gap in *spoken* and *written* English.

Undoubtedly, the English language is the global language for business and having a good command of English will definitely give one who is eyeing globally competitive business or career a clear edge. Today we are living in a "Global Village". As the Internet explosively grows, more people are becoming aware of this "Global Village" on a personal level. People correspond with others from around the globe on a regular basis, products are bought and sold with increasing ease from all over the world and "real time" coverage of major news events is taken for

granted. English plays a central role in this "globalization" and it has become the *de facto* language of choice for communication between the various peoples of the Earth.

*Informationalism* has given rise to economic, social, and cultural dynamics which are very different than those of the industrial area and which are shaped by a real contradiction between the power of global networks and the struggle for local aspects. People's lives are increasingly affected by international networks operating via financial markets, multinational corporations, and the Internet which influences traditional seats of authority and meaning, such as family, patriarchy, and nation. In response to the increased power of global networks, people -as individuals and in collectivity- struggle to assert control over their identity and defend what they see as essential of their own self.

The importance of the Internet grows rapidly in all fields of human life, including not only research and education but also marketing and trade as well as entertainment and hobbies. This implies that it becomes more and more important to know how to use Internet services and, as a part of this, to read and write English.

Before the Internet, it was hard to learn English if not attending a college or university. These were the only institutions where the language was widely spoken. Because Internet usage has expanded throughout the world, more people are being exposed to English. The advent of online universities has now made it possible for more people to study English, people who may live in countries where access to standard education facilities is limited. While it may have been impossible for these people to learn English in the past, the Internet has opened up new career opportunities. These people are now able to learn English, and they can use their English skills to get better paying jobs at home, or they can use them to find jobs overseas. In any case, the Internet has played a powerful role in allowing English to spread across the world, and the number of people learning it is likely to increase in the future.

With this increasingly borderless world and the subsequent expansion of inter-cultural contacts, the importance of creating institutions to protect cultural and intellectual heritages is becoming a pressing issue. Yet, at the same time, many nations are also seeking ways to develop effective means of conveying their own culture and customs to others. In both instances, language plays a key role, although with the emergence of English as the dominant and global language, the question of how those in the non-English speaking world will protect and project their own cultures, intellectual traditions and languages, is an open issue.

Multinational companies and their subsidiaries are an increasingly important part of the global business landscape. First, we should take into account that the majority of multinational parent companies are not located in English-speaking countries. Second, the geographic (and implicitly the linguistic) spread of their networks is widening as the larger multinationals are now present in so many countries. Finally, the host countries being considered for future investments exist in developing areas of the world, characterized by a shortage of parent company language skills.

We cannot escape the conclusion that in some way these problems of increasing communication intensity, increasing linguistic diversity, and increasing scale of operations could aggravate the problems presented by the language barrier. These problems should be manifested in distinguishable patterns in the way multinational companies adjust strategy, structure, and systems in order to cope. The notion that cultural differences can be a significant barrier to doing business is now commonly accepted. Language barriers are therefore likely to play a key role in any multilingual group relationship.

However, perhaps the most pronounced manifestation of the language barrier at work can be found in the relationship between a multinational parent company and its network of international subsidiaries. Generally, the communications are not interpersonal in nature, but more typically are encounters between language groups: a parent company management team and the corresponding management team of the subsidiary. Even if the managers are relatively competent in the language of the other party rhetorical skills are not always present, referring here to the use

of humor, symbolism, sensitivity, negotiation, persuasion and motivation, which requires a very high level of fluency. Misunderstandings are therefore easily caused, resulting in uncertainty and communication problems. Where the parent company managers are working without the ability to communicate fluently, they will be seen as lacking charisma, confidence and leadership skills and the subsidiary management may then choose to ignore their direction. This could determine frequent disagreements between the workforce and the management, which of course would lead to a decrease in production.

In conclusion, it is commonly accepted that communication, and language implicitly, is a key factor not only for concluding good contracts and developing profitable business, but also for integrating and adapting to various social contexts. English, as the new „lingua franca” has managed to get people closer and to allow the interpersonal communication. However, we should be aware of the fact that the cultural barriers cannot be completely overcome by the possession of good linguistic abilities. They just open doors for a better knowledge.

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**Vîlceanu Alina**

*Universitatea "Constantin Brâncuși" din Târgu-Jiu Facultatea de Litere și Științe Sociale Strada Panduri, Nr. 100, Târgu-Jiu, cod: 210178, jud. Gorj alina\_valceanu@yahoo.com 0742330955*

*The aim of this paper is to analyze how different concepts of translation are adapting to the actual context, and how the function and role of the translator has affected the International Business framework. The explanation of such shifts is the political, social but especially the cultural context that suffered many change, which eventually determined the emergence of new conceptions, mentalities, opinions. It also offers an analysis of the translation profession from the point of view of intercultural communication as the translator is a "message conveyor", a bridge between peoples, cultures and mentalities.*

*Keywords: translation, message conveyor, communicator, intercultural.*

*Cod JEL: F29*

Going back to the history of this profession, we could say that people opinion about what the translation was, changed several times. For example during Renaissance, translation was by no means a secondary activity, but a primary one, exerting a shaping force on the intellectual life of the age, and the figure of the translator appeared almost as a revolutionary activist rather than the servant of an original author or text.

Later during the seventeen-century sees translator and original writer as equals, but operating in clearly differentiated social and temporal contexts. Translator's duty is to extract what he perceives as the essential core of the work and to reproduce or recreate the work in the target language.

The eighteenth-century finds the translator as painter or imitator with a moral duty both to his original subject and to his receiver. According to the nineteenth-century conception, the translator must focus on the Source Language text and must serve it with complete commitment. The Target Language reader must be brought to the Source Language text through the means of the translation. During the next century there are taken into consideration other aspects, such as the practical problems of translating and the whole question of the status of the translated text.

Experience, good translating skills, competitive fees are simply no longer enough to meet the many requirements translators are now faced with and to ensure a sufficient material to work on for a long period of time. In fact, the rules of the game have changed, and a good command of bluffing techniques is not enough.

A couple of decades ago, translators were usually highly regarded by clients or at least recognized for what they truly were, that means high-level linguists with a satisfactory level of experience in one or several fields of specialization and a decent knowledge of the industrial world. And this was because they provided a service that was considered useful in spite of the cost it entailed.

Unfortunately, nowadays, mainly because of the widespread feeling of distrust in the working world, most translators, or at least those with under 10 years' experience, are looked upon as opportunistic service providers with few or no skills that professional translators master. Clients often consider them as "artificial" specialists, with no real expert knowledge, and self-proclaimed language experts. They also think that translators are people of whom they can dispense with, since most people now perfectly understand English anyway.

People tend to wonder what exactly the translators do if everyone has a minimum English knowledge. Although the people working in his specific field are obviously expected to have at least a basic understanding of English, languages and more specifically, the transmission of shades of meaning from one language into another, hardly come within their knowledge. But, as

long as the client does not realise where the translator's skills as a linguist can benefit his business, there are many chances that he will always consider the translator as a person who only tries to take advantage of the lack of professionalism of certain individuals in his field.

The widespread feeling that most people are now fluent in English is of course a major disadvantage for translators. We have all heard stories, regardless of the language combination, of how a large number of companies now satisfy their translation needs by using a so-called "multipurpose" employee of whom they believe is best qualified to do the job (usually, the "employee" in question often turns out to be an assistant manager or someone from the communication department with no proper translation background).

The question in fact is the following: when a translator is faced with a client with few or no language skills, how can he prove his competence as a linguist? How can the translator show his client the difference between "being fluent for business purposes" and being able to master every subtlety of language? Nevertheless, this is the main problem to discuss: the idea is not so much about providing proof of the translator's own competence, but trying to make the client aware of the gap that exists between his own skills and those of the translator.

The client's perception of translation profession is one of the many misunderstandings that the modern translators have to deal with nowadays. In addition to their sometimes difficult relationship with clients, translators are usually faced with a multitude of challenges which can appear even if a long period of time has passed since they have their translation work done.

The first challenge the translator has to take into consideration is directly related to his profession and is something that translators often do not treat as seriously as they should. And this aspect refers to maintaining one's language skills. Many translators feel that just spending time translating is enough to ensure that their skills are maintained at an appropriate level of quality. And this is obviously wrong: translators, regardless of their personal level of competence, should usually spend a certain amount of time, before and after translating, researching information, speaking or otherwise practicing their languages, following training courses in their fields of expertise and other more. This is probably the first step towards improving a translator's work. A translator who does not even bother to read the papers (in both his source and target languages), travel abroad or listen to foreign news on the TV or radio is definitely not a good translator, because he lacks the one quality that all translators should exhibit in the first place: curiosity.

In addition to updating his linguistic skills on a continuous basis, the translator needs to have a minimum of computer literacy, according to the standards set by his clients. Updating the information technology skills is probably more of a challenge than "simply" maintaining the linguistic competence. Indeed, while there are many ways for a translator to maintain or improve his knowledge of languages by himself, having a certain IT competence proves to be a much harder task. It is true that the fast-changing world of computers represents a major challenge not only for translators, but for all people, and although senior translators sometimes manage to retain their previous clients despite their obvious reluctance to use modern means of communication, their "new-entry" colleagues will often find that a strong IT background usually is an essential condition for a career as a freelancer.

The best solution would probably be having the necessary ability to anticipate what will become tomorrow's standard requirements. More and more freelancers are now trying to sell their skills via the Internet, which is a proof of the increasing awareness of the potential of this medium.

However, even complying with all these requirements, it is not enough to ensure a steady workload over a long period of time. Nowadays, clients' top requirements are now increasing for shorter deadlines to the obvious detriment of quality. This trend has been noticeable for some time now and it certainly does not look like things are going to improve in the near future. Unfortunately, clients do not take too much into consideration the effects that may appear eventually. Anyway, they should be "educated" in order to understand that a translation cannot be done as clapping hands. So, translators have an obligation to their profession to make clients

aware that translating is a very demanding occupation and that quality takes time and does cost money. And here comes the idea of respect towards this profession. Anyway, this is very hard to achieve, as every clients wants the translation to be done “yesterday”, if possible.

Translators believe in the necessity of giving translation the importance it deserves, rather than considering it a mechanical process that can be carried out with the help of a dictionary alone. It is a much more complex and interesting activity, which involves going beyond simply linking a series of words to produce a translation that is correctly understood by the target audience unfamiliar with the source language. The skills and experience for translation include the ability to write and read very well in the language the translator is working into. Even complying with these essential requirements does not mean that one can be a good translator

The translator, before being a “writer”, is primarily a “message conveyor.” In most cases, translation is to be understood as the process where a message expressed in a specific source language is linguistically transformed in order to be understood by readers of the target language. In the translation process, there is fulfilled a fundamental role by breaking down language barriers in a world that is increasingly interlinked, at a time when “globalised” communication is fundamental for both international business and social relations. In this line of work, translators have the opportunity to open doors, bringing people, cultures and countries together.

In conclusion, translation transport ideas and events through time and space in order to make something understood, to accomplish, to prove. In fact, people translate to communicate, transform, and revert. Even with all the apparent cultural impediments, a translator can create equivalence by the logical use of resources. Translation is an intellectual activity that will continue to thrive, deriving inspiration from fiction in the source language and passing on this inspiration, or at least its appreciation, to target-language readers.

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# ANALYSIS OF SMALL AND MEDIUM-SIZED ENTERPRISES (SMES) LOCATED IN TIMIS COUNTY

**Laura Brancu**<sup>513</sup>

**Mariana Prediscan**<sup>514</sup>

**Nicolae Bibu**<sup>515</sup>

*West University of Timisoara, Faculty of Economics and Business Administration*

*Abstract. This article is aimed to present and analyse the small and medium-sized enterprises (SMEs) located in Timis County. Timis County has a number of advantages related to its geographical position, its industrial tradition and especially its economic and social potential. These advantages allow a pronounced development of entrepreneurial phenomenon. For these reasons, we focused our attention on the analysis of SMEs. The analysis observes both the evolution of the number of SMEs, their distribution on branches, and their entrepreneurial dynamics, by performing a comparison between Timis County and Romania. The article ends with some information on business and services infrastructure provided to county's SMEs and on support at county level.*

## **1. Timis County. Overview**

Timiș County, part of Romania's territory, is located in the West of the country and borders to the West with Serbia and Montenegro and Hungary, to the East with Hunedoara County, to the South-East with Caraș-Severin County, and to the North with Arad County. The capital town, Timișoara, is located at an average distance of approximately 550 km from Romania's capital – Bucharest, and approximately 170 km and 300 km from Belgrade and Budapest, the capitals of the two neighbouring countries, Serbia and Montenegro and Hungary respectively.

The county's geographical location is beneficial for the development of commercial relationships with Western Europe. In order to allow maximum exploitation of the geographical position from an economic point of view, it is necessary to have and maintain a high level dense and modern communication network.

## **2. Situation of SMEs – demography of SMEs in Timis County**

### **2.1. Number of SMEs - absolute, relative, comparative and evolutionary**

In terms of demographics, as at 31 December 2007, the number of SMEs in Romania has continued to increase, in both number of active SMEs, and structure on categories of size, economic sectors and in almost all sub-sectors of manufacturing industry. This evolution demonstrates the ability to face competition on an enlarged domestic market, as well as sustainable development of private sector emerging in Romania.

With this feature, the evolution of SMEs in Romania is part of the trends in the European Union. The role of SMEs continues to be a development feature in EU Member States, both among old members and in the new Member States, related to the support of entrepreneurial spirit and development of emerging private sector.

Table 3 presents the number of active SMEs in Romania and Timiș County during 2000-2007, on categories of size.

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<sup>513</sup> Contact person, Laura Brancu, Assistant professor, PhD., West University of Timisoara, Faculty of Economics and Business Administration, email : laura.brancu@feaa.uvt.ro

<sup>514</sup> Professor, PhD., West University of Timisoara, Faculty of Economics and Business Administration.

<sup>515</sup> Professor, PhD., West University of Timisoara, Faculty of Economics and Business Administration.

**Table 3. Number of active SMEs in Romania and Timiș County during 2000-2007.**

	2000	2001	2002	2003	2004	2005	2006	2007
<b>Romania</b>	412429	412332	415491	459369	404300	434847	463504	487628
<b>Timiș</b>	11044	11668	12318	14291	16525	18576	20380	22394
<b>Weight Timiș</b>	2,68	2,83	2,96	3,11	4,09	4,27	4,40	4,59

Source: Ministry for Small and Medium-Sized Enterprises, Commerce, Tourism and Liberal Professions, *Annual Report SME 2008*, Regional Statistics Authority Timiș and authors' calculations.

Since 1990, small and medium-sized enterprises in Timiș County have experienced an important development in the county's economy, currently representing approximately 95% of all companies registered with the Trade Register, including authorised individuals or family associations. The analysis of SMEs' structure shows that most of the labour force in this field is engaged in services, trade and import – export operations. The growing trend of the sector of small and medium-sized enterprises represents an important potential for Timiș County, its dynamics being reflected by increased contribution of small and medium-sized enterprises to GDP (over 40%). The particular conditions of Timiș County, its entrepreneurial traditions, the western mentality of its inhabitants and initiative spirit unaltered in the communist period, its geographical position, living standards of the population, which in the western part is higher in comparison to the rest of the country, as well as the relatively high capitalization capacities, are in favour of continuous development of small and medium-sized enterprises.

In terms of the number of SMEs, both in the Western Region and in Timiș County, in 2007, there has been recorded the highest number of active SMEs, after a period of increasing demographic evolution. This increase is shown in table 1, which indicates the **weight of Timiș County SMEs in the total number of SMEs in România**, throughout the reviewed period. Thus, we observe an important increase of the weight of Timiș County, from 2.68% to 4.59%.

According to Regional Statistics Authority Timiș, as at 31 December 2007, there were 52,003 SMEs in the Western Region, which means an increase of 63.3% in comparison to 2000. At the end of 2007, in Timiș County there were 22,394 active enterprises, and the growth percentage during the reviewed period is much higher, of 102.7%, demonstrating once again the dynamism of Timiș County.

In terms of aggregate dynamics, synthetic data in table 1 show a constant increasing evolution, at the end of 2007 reaching the highest number recorded since 2000. This constant increasing dynamics recorded in the Western Region and Timiș County differs from the oscillating dynamics of the number of SMEs during 2000-2007 in Romania, marked by increases in 2002 and especially in 2003, followed by a quite important decline in 2004, when it has been reported a loss of approximately 55,000 active companies. We also observe that Timiș County has more than 40% of all SMEs in the Western Region.

## **2.2. Structure of SMEs by size categories**

After the Revolution of 1989, there were important mutations in Timiș County economy, by means of set-up of a large number of private companies and reorganization of enterprises into state-owned trade companies. At the end of 2007, in Timiș County there were 22,394 active enterprises, out of which: 19,845 micro-companies (0-9 employees), 1,993 small enterprises (10-49 employees), 474 medium-size enterprises (50-249 employees), and 82 large companies (over 250 employees). The number of active enterprises in Timiș County has increased progressively, particularly the number of micro-companies, a sign of a dynamic business environment, marked by strong competition, especially at the level of small entrepreneurs.



In terms of size categories, the Western Region and Timiș County do not register significant deviations from the country's average. As per table 2, we observe that in the structure by size categories, micro-companies continued to hold the highest weight in SMEs' sector. According to table 5, in 2007, micro-companies represented 88.3% of total SMEs in the Western Region and 88.6% of total SMEs in Timiș County.

**Table 4. Number of active SMEs in Romania and in Timiș County during 2000-2007, by size categories.**

	2000	2001	2002	2003	2004	2005	2006	2007
<b>Romania</b>								
<b>Micro</b>	375.804	374.255	377.499	417.366	358.787	386.561	410.763	431.029
<b>Small</b>	29.121	30.340	30.231	33.856	36.392	39.128	43.419	47.022
<b>Medium</b>	7.504	7.737	7.761	8.147	9.121	9.158	9.322	9.577
<b>Total</b>	412.429	412.332	415.491	459.369	404.300	434.847	463.504	487.628
<b>Timiș</b>								
<b>Micro</b>	9400	9910	10536	12368	14476	16328	17999	19845
<b>Small</b>	1245	1336	1338	1448	1556	1737	1845	1993
<b>Medium</b>	322	343	370	395	409	430	461	474
<b>Total</b>	11044	11668	12318	14291	16525	18576	20380	22394

Source: Ministry for Small and Medium-Sized Enterprises, Commerce, Tourism and Liberal Professions, *Annual Report SME 2008*, and data provided by Regional Statistics Authority Timiș

**Table 5. Structure of SMEs by size categories in 2007 (percentage)**

	Romania	Western Region	Timiș County
<b>Micro</b>	88	88,3	88,6
<b>Small</b>	10	9,7	9,4
<b>Medium</b>	2	2	2

Source: data provided by INSSE Timiș and Ministry for Small and Medium-Sized Enterprises, Commerce, Tourism and Liberal Professions, *Annual Report SME 2008*.

The large number of micro-companies is due on one hand to the fact that this is the first step in business for most entrepreneurs, and on the other hand it is the result of important institutional, legislative factors, and, last but not least, of tax policies. In 2007, micro-companies have benefited of a number of facilities in respect to taxation (1.5-2% of turnover, in comparison with the single rate of 16% for the other size categories). Encouraging outsourcing of services, together with the introduction of the New Labour Code in March 2003, with subsequent amendments, has led to a great extent to the increase of their number.

### 2.3. SMEs by sectors

During the analysed period, the number of active SMEs in Romania and in Timiș County continued to grow in all economic sectors. In the first year of Romania's EU accession, the number of active SMEs increased in all activity fields, compared to 2006, pre-accession. Various activity fields increased very different. Thus, a special dynamics has been observed in constructions, where growth was more pronounced, while for the other sectors the increase was lower.

**Table 6. Number of private active SMEs by activity sectors in Romania and Timiș County**

	2000	2001	2002	2003	2004	2005	2006	2007
<i>Romania</i>								
<b>Agriculture, forestry</b>	9925	10720	10523	13704	11746	11958	12859	14036
<b>Industry, energy</b>	45719	47693	52923	59555	54993	55718	56873	59492
<b>Constructions</b>	11808	13402	18842	24542	25197	29265	34757	45896
<b>Services</b>	344977	340517	333203	361568	312364	337906	359015	368204
<i>Timiș</i>								
<b>Agriculture, forestry</b>	320	317	404	503	595	605	668	718
<b>Industry, energy</b>	1560	1698	1829	2035	2171	2320	2391	2443
<b>Constructions</b>	473	619	731	973	1190	1440	1748	2236
<b>Services</b>	8580	8922	9244	10672	12459	14101	15458	16883

Source: Ministry for Small and Medium-Sized Enterprises, Commerce, Tourism and Liberal Professions, *Annual Report SME 2008*, and Regional Statistics Authority Timiș

The explanation for the pronounced increase in services and constructions is simple and directly related to county's overall economic growth and to the development of real estate sector, but also to the tradition of Timiș County. This increase is related to the overall development of the country and business in this sector. Development of construction companies is related to the expansion of urban infrastructure for local and national roads, sewerage and water supply. To a significant weight, increase in the number of construction SMEs should be associated also with the multiplication of opportunities for industrial works, as well as rehabilitation of transportation infrastructure, with works in the energy sector, including alternative energies, in the commercial sector (large commercial and recreation centres, malls) and in the socio-cultural and educational sectors (rehabilitation of schools), etc. In Timiș County, agriculture also experienced a significant increase in number of SMEs. One can only say that industry has recorded a slower place of growth during the period under review.

As regards the **weight of various sectors in total SMEs**, Timiș County keeps the features recorded at country level: the highest weight is recorded in the services sector.

**Table 7. Weight of various sectors in total SME, in Romania and in Timiș County (percentage, 2000-2007)**

Sector	2000	2001	2002	2003	2004	2005	2006	2007
<i>Romania</i>								
<b>Agriculture, forestry</b>	2,41	2,60	2,53	2,98	2,91	2,75	2,77	2,88
<b>Industry, energy</b>	11,09	11,57	12,74	12,96	13,60	12,81	12,27	12,20
<b>Constructions</b>	2,86	3,25	4,53	5,34	6,23	6,73	7,50	9,41
<b>Services</b>	83,65	82,58	80,19	78,71	77,26	77,71	77,46	75,51
<i>Timiș</i>								
<b>Agriculture, forestry</b>	2,90	2,72	3,28	3,52	3,60	3,26	3,28	3,21
<b>Industry, energy</b>	14,13	14,55	14,85	14,24	13,14	12,49	11,73	10,91

<b>Constructions</b>	4,28	5,31	5,93	6,81	7,20	7,75	8,58	9,98
<b>Services</b>	77,69	76,47	75,04	74,68	75,39	75,91	75,85	75,39

Source: calculations made by authors based on statistical data

By analysing the **weight of Timiș County in total SMEs in Romania**, by activity sectors, we observe an increasing evolution of the weight of Timiș County. We also observe that the highest growth was recorded in the services sector.

**Table 8. Evolution of the weight of Timiș County in total SMEs in Romania (by activity sectors)**

<b>Sector</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
<b>Agriculture, forestry</b>	3,22	2,96	3,84	3,67	5,07	5,06	5,19	5,12
<b>Industry, energy</b>	3,41	3,56	3,46	3,42	3,95	4,16	4,20	4,11
<b>Constructions</b>	4,01	4,62	3,88	3,96	4,72	4,92	5,03	4,87
<b>Services</b>	2,49	2,62	2,77	2,95	3,99	4,17	4,31	4,59

Source: calculations made by authors based on statistical data

The evolution of weight by sectors is quite sinuously, but also the growth trend recorded by all activity sectors. We also observe the “services” curve, which recorded the biggest increases. Therefore, in terms of demography, SMEs in Timiș County have the features of a type of service-based economy. Thus, evolution of SME in the county does not diverge from the evolution recorded by Romania in the period 2000-2007.

#### **2.4. Elements of SMEs demographics: density, dynamics of set-up and cancellation**

Due to their nature and scale at which they develop activities, SMEs are very connected to the local market, as most of them appear at local level and act locally or regionally. Thus, the number of SMEs per 1,000 inhabitants, an indicator showing density of SMEs, is highly relevant to characterise both the size of regional markets, and the in-depth development of SMEs sector in Romania. Average density for 2007 in Romania amounted to 23 SMEs per 1,000 inhabitants. We observe that both the Western Region and Timiș County have recorded values over the national average.

**Table 9. Density of SMEs (2007)**

<b>County</b>	<b>No. of companies /1,000 inhabitants</b>
Timiș	32,5
Western Region	24,3

Source: *White Paper of SME - 2007*, CNIPMMR, 2007.

This shows that the overall economic environment at county level is translated through a high quality business infrastructure, skilled labour force, higher regional purchasing power, larger markets and greater opportunities – factors that also sustain development of SMEs sector, at least in numerical terms.

As regards territorial dynamics of SMEs in Timiș County, there is an increasing evolution in the number of registrations and a low weight of cancellations, representing 4.60% of the number of registrations for 2007.

## ***2.5. Complementary aspects: business and services infrastructure provided to SMEs in Timis County, competitiveness and innovation (TIC), support initiatives and actions at county level***

In Timiș County, the sector of public and private services has experienced a positive qualitative development. Public institutions and private companies active in this field are standing out through an increasingly high degree professionalism and efficiency. Investors are supported in initiating, consolidating and developing their business through professional services provided by prestigious local domestic and international consulting companies, such as PricewaterhouseCoopers, KPMG and others. In addition to the specialised offer of private companies, local and county public administration authorities undertake the role of main agent for local economic and social development. In this respect, in 1995, the Timis County Council has set-up the Agency for Economic and Social Development Timis – ADETIM. As specialised public institution, ADETIM's role is to support and stimulate the county's economic development, through specific methods. Furthermore, in 64 localities there were created positions of local economic promoters. Their role, similar to the Agency, consists also in providing a professional and efficient interface between the private sector and local administration. "One-stop-shop" professional consulting services for foreign and domestic investors are provided permanently and free of charge at the headquarters of local administrations, in relation to local business and investment opportunities. The Timisoara Chamber of Commerce, Industry and Agriculture (CCAIAT) is representing the interests of member companies and is offering specific professional services. The Confederation of Private Entrepreneurs of Timis County (CIPT) represents the interests of the SME sector and provides specialised consulting services in areas of interests.

In accordance with strategic priorities of Romanian Government for supporting SMEs' development, the Development Strategy of the Western Region provides a series of measures to support and develop SMEs in the region and to ensure a proper business infrastructure for this development, of which we mention:

### **- Development of business infrastructure:**

- ✓ Improvement of regulatory environment and removal of administrative-bureaucratic barrier,
- ✓ Creation of industrial parks, scientific and technological parks,
- ✓ Creation and specialization of regional business centres,
- ✓ Development and specialisation of business structures in the Western Region in terms of potential.

### **- Development of services for the entrepreneurial environment:**

- ✓ Expanding the range of consultancy services,
  - ✓ Development and implementation of a co-financing system from banks for projects financed out of EU funds,
  - ✓ Training and development of management skills for SMEs,
  - ✓ Support for innovation and access of SMEs to new technologies,
  - ✓ Supporting SMEs for introducing quality standards and quality management systems;
  - ✓ E-business promotion,
  - ✓ Facilitate access to available assets of state-owned companies and to public acquisitions,
  - ✓ Improving SMEs access to quality consulting services and information,
  - ✓ Support business incubators in production and services with high added value.
- Development of production activities, by providing support for the acquisition of equipment, tools, IT systems, modern technologies;

- Creation and development of innovation infrastructure, by developing poles of excellence to facilitate permanent and lasting relationships between universities, research and development institutes and high-tech SMEs.

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## LABOUR FORCE AND LABOUR MARKET IN TIMIȘ COUNTY

**Silvia Vlad**

**E-mail:** [silvia.vlad@feaa.uvt.ro](mailto:silvia.vlad@feaa.uvt.ro)

**Address:** Str. Pestalozzi, no. 16A, Timisoara, M 13

**Elena Cizmaș**

**E-mail:** [elena.saratean@feaa.uvt.ro](mailto:elena.saratean@feaa.uvt.ro)

**Mariana Predișcan**

**E-mail:** [mariana.prediscan@feaa.uvt.ro](mailto:mariana.prediscan@feaa.uvt.ro)

**West University of Timișoara**

**Faculty of Economics and Business Administration**

**Address:** Str. Pestalozzi, no. 16A, Timisoara, M 14

*This article presents the demographic evolution of Timis County population, the structural analysis of employed labour force, the evolution and peculiarities of unemployment, and the impact of economic crisis on the Timis County labour market.*

*Keywords:* labour market, employed civil population, unemployment

*Code JEL:* R11

### **1. Demographic developments in Timis County**

Among Romania's counties, Timiș County ranks 1<sup>st</sup> as covered area – 8,696.7 sqm – and 8<sup>th</sup> as number of inhabitants. As at 1 July 2007, Timis County had a population of 666,866.

The County's population increased until 1990. Then, the population decreased, as shown in Table 1. Thus, from 1990 until 2007 Timisoara's population decreased by 58,722 inhabitants, although in July 2007 there was a slight increase in comparison to 2006 (table 1). The decrease in inhabitants is also reflected in the population's density, expressed in inhabitants / sqm. The density of Timis County population decreased from 83.4 inhabitants / sqm in 1990 to 76.2 inhabitants / sqm in 2002, and to 76.0 inhabitants / sqm in 2006, increasing to 76.7 inhabitants / sqm in 2007.

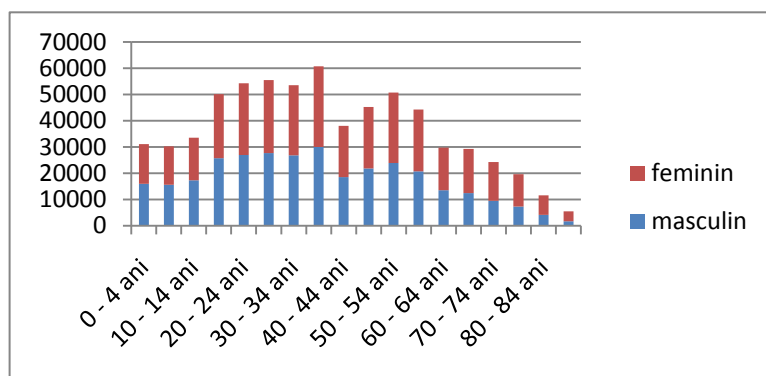
Table 1. Timis County population and its density in the period 1990 – 2007

Years	Number of inhabitants	Male	Female	Density (inhabitants/ sqm)
1990	725,588	352,901	372,687	83.4
1995	722,426	334,599	358,907	79.7
2000	688,575	330,262	358,313	79.2
2005	658,837	315,272	343,565	75.8
2006	660,966	316,413	344,553	76.0
2007	666,866	319,587	347,279	76.7

It is worth to highlight that, whereas the population of Timisoara has decreased, the population of small towns in Timis County has increased. However, Timișoara remains a strong polarizing centre. Thus, while its area represents 1.4% of the county's total area, the city concentrates 46.3% of the county's total population.

It is also worth to point out that urban population represents 62.8% of the total population recorded in July 2007 (Source: Statistical Compendium of Timiș County). The structure of the population by categories of age and gender is shown in Figure 1.

Figure 1. Stable population by age and gender for 2007



**In terms of age** there is a process of demographic ageing, due primarily to the decrease of birth rate, which resulted in reducing the weight of young population (0-14 years) and increasing the weight of elderly population (60 years and over). Furthermore, unfortunately, couples decide to have children at a later stage, which follows the trend of developed countries, and on long-term deteriorates the population's structure by age.

The demographic ageing process will entail changes at the levels of school population, childbearing population and working population. Analysing the ageing process by means of demographic vitality index, one can observe that this process manifests especially in rural areas and it is generated by migration of youth to urban areas, thus producing a decrease in the demographic potential at rural level. Analysing the structure of Timișoara population by age, one can observe that age group between 20 and 60 years holds 64.5% in 2006, increasing in comparison to 2000, when it held 58%. Average age stands at 38 years, both in Timișoara and in Timiș County. Average age for Timișoara stands at 37 years for male population and at 39 years for female population.

**In terms of gender, Timiș County population** shows a slight decrease in the weight of male population compared to female population, from 48.4% in 1992, to 48% in 2002, and to 47.9% as at 1 July 2007. We would like to highlight that the weight of male population is slightly higher in rural areas than in urban areas.

**Ethnic diversity** is one of the county's main features. Many ethnic groups live here together: Romanians – 83.4%, Hungarians – 7.5%, Gipsies – 2.4%, Germans – 2.1%, Serbians – 2.0%, Ukrainians – 1.1%, Bulgarians - 0.8%, other nationalities – 0.7%. In the last 10 years we observed an increase in the percentage of Romanian nationals, due also to the fact that German and Hungarian communities reduced their numbers further to definitive departures from Romania of citizens belonging to these minorities.

According to data from the 2002 census, the county's population **in terms of religion** is as following: 78.9% Orthodox; 10.6% Roman-Catholic; 4.2% Pentecostal; 1.9% reformed; 1.5% Baptist; 1.3% Greek-Catholic; 0.3% Adventist; 1.3% other religions and atheists.

**The structure by education level** reflects the existence of a well-trained human potential. Illiteracy is extremely low in Timișoara (1.5% of total population). Thus, the weight of population with elementary education (primary school) stands at 28.4% in Timișoara, with secondary education (high-school) at 33.7% in Timișoara, and with higher education at 14.5% in Timișoara. In Timișoara coexist peacefully citizens grouped into 17 ethnic groups and 16

religions. These latter two aspects reflect two major features of the population in the area, namely **multiculturalism** and **high level of tolerance**.

Analysing the **natural movement of population**, presented in table no. 3, one can observe the following: there is a high rate of deaths and natural growth is negative. In Timișoara there is a fertility rate of 27.6 live births per 1,000 women aged 15-49 years. The natural growth is negative due to low birth rate in comparison to mortality rate.

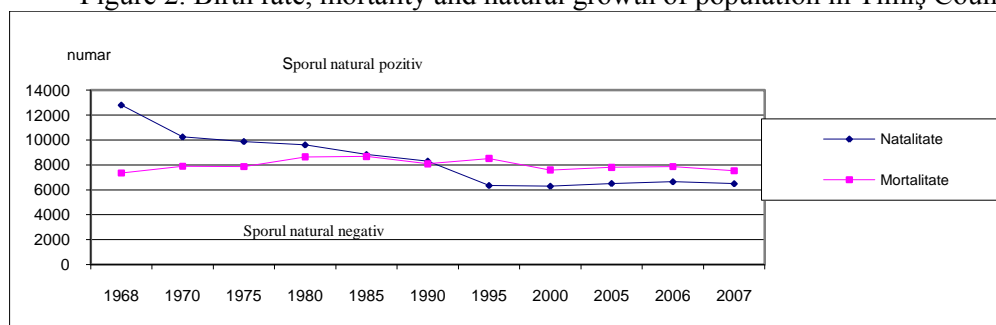
**The population's vitality**, calculated as a ratio between the number of live births and the number of deaths, has values below one, at national level standing at 93.2% in 2007 in comparison to the county rate of 78.6%. These values below one raise many questions, representing a risk for the development of the country, county and Timișoara.

Table 2. Natural movement of population

Year 2007	Rates (per 1,000 inhabitants)					Dead births per 1,000 births (live+ dead)	Deaths under 1 year per 1,000 live births
Region /County	Live births	Deaths	Natural growth	Marriages	Divorces		
West	9.4	16.2	-6.8	5.5	1.06	9.0	14.7
Timiș	10.6	13.9	-3.3	6.1	0.89	8.5	15.1

Timiș County has the lowest deaths rate among the region's counties, and natural growth, although negative, is the lowest per 1,000 inhabitants among the Western Region's counties. Moreover, natural growth is negative in the whole country (average rate per 1,000 inhabitants is -4.3).

Figure 2. Birth rate, mortality and natural growth of population in Timiș County



The main factors which led to decrease of birth rates are of economic and social nature. First, we speak about a significant transformation of the population's occupational structure, which imposed to the youth a special territorial and professional mobility, while extending the training period. Many couples have problems in ensuring adequate income. Labour market and housing problems can be serious obstacles in establishing a family. Some families have children, but most young couples do not have children or they delay having children. This decision is determined both culturally, psychologically, but also by the family's economic or social situation. A numerous family is not appropriate to the requests on the labour market. Furthermore, an increasing number of women work outside their families. This participation is much more pronounced in urban areas. Lower fertility of urban population strongly influences general fertility level.

**The population's migratory movements** have a positive development, under the impact of county's economic and social development and attractiveness of jobs. However, **migration**



**balance** was negative in recent years. These negative values are due especially to cross-border migration of domestic population. Migration of skilled labour force to other countries becomes a more acute problem. Currently, there is no data on labour force migration from the country's counties. Based on data provided by the Ministry of Labour, Family and Equal Opportunities, in 2006, the Office for Labour Force Migration has mediated contracts for a total number of 6,958 workers from the Western Region, mostly for Germany. However, the number of work visas issued in 2006 by various embassies for Romanian citizens amounts to 89,663.

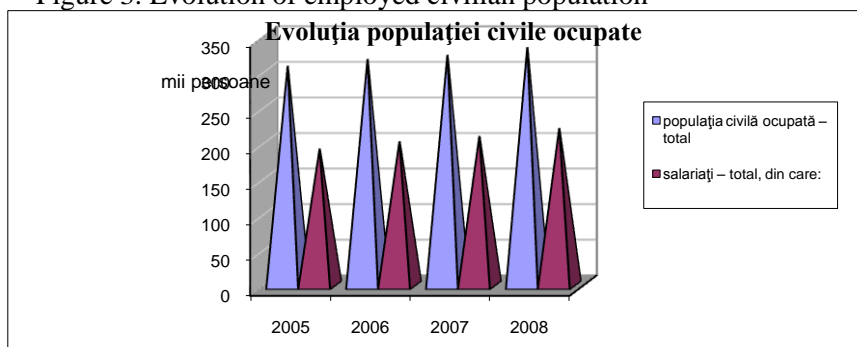
## 2. Structural analysis of employed labour force in Timiș County

In terms of structural analysis of employed labour force in Timiș County, in this section we will discuss the following indicators: available work resources, active civilian population, employed civilian population, total occupancy rate and per industries.

Active civilian population = employed civilian population + unemployed population

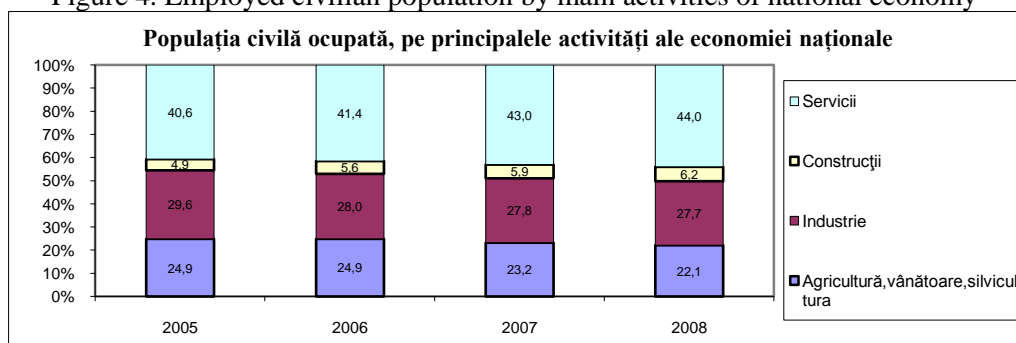
As disclosed, during 2001-2008, the active civilian population and the employed population have increased. The employed population increased in this period by 40,900 persons, the highest increases being noticed in the period 2005-2008. In the period under review, we can observe that employment rate increased from 68.3% in 2002 to 74.7% in 2008, and unemployment rate decreased significantly from 8% in 2001 to 1.6% in 2008.

Figure 3. Evolution of employed civilian population



**In terms of employees per activity fields**, the sectors with the highest number of employees in 2008 are industry, agriculture, trade, constructions and real estate transactions, and the sectors with the lowest number of employees are financial-banking, public administration and hotels.

Figure 4. Employed civilian population by main activities of national economy



**In terms of the weight of employees by activity fields in total employed civilian population**, we observe several trends:

- in 2008, employees in **industrial sector** hold the largest weight in total employed population (27.7%), although compared to 2001 it is not a spectacular evolution (26.5% in 2001). In 2006,

industry recorded the highest decrease in employment rate in all sectors of national economy. While the average net salary in this sector increased, it failed to produce a significant increase in the number of persons willing to work in this field;

- **in agriculture** there is a high number of employed persons, which remained high in 2008 too, although it decreased continuously since 2001. Thus, in 2001, employees in agriculture held 35% in total employed population and decreased to 22% in 2008. A significant decrease in the number of persons employed in agriculture has been registered in 2003, being offset by an increasing number of persons employed in industry and services. Main motivation is probably the increase of average salary (net per month) in industry and services, which was much higher than in agriculture;

- **in constructions**, the weight of employees in employed civilian population increased from 4% in 2002 to 6.2% in 2008, with the highest increases during 2005-2008. Construction is a field where employment rate has increased continuously since 2004, in a fairly rapid and constant pace (around 0.5%). A similar evolution has the **real estate sector**, which recorded an increase of employee from 3.5 % in 2002 to 6.2% in 2008.

- **services** also have an upward trend: in **trade**, the weight of employees increased from 10% in 2003 to 13.8% in 2007 and 14,2% in 2008; **transports** also recorded similar figures, increasing from 3.5% in 2002 to 4.5% in 2005 and to 5.3% in 2008; in **hotels**, the trend increased from 0.8% in 2002 to 1.9% in 2008.

- **public administration and defence** have also increased in terms of number of employed persons in the period 2004-2005, followed by a sharp decrease in employment rate in the first 6 months of 2006, and then a slight comeback in the last two years. The increase in the number of employees can be attributed to salary growth in this area, so that average salaries in this field are the highest.

- a slight increase in the number of employed persons has been recorded in **health and social security sectors** in the last two years, although 2006 has led to the most abrupt “fall” in the dynamics of employment rate in this sector, the highest decrease in all unproductive sectors of economy. Low salaries in this field do not represent an interesting motivation for attracting staff in the field.

- there is a decrease both in absolute numbers and employees in the **education sector**, from 6.1% in 2001 to 4.9% in 2008. Education is a sector where employment rate has declined continuously, even if in a slow pace.

**The situation of employed women by activity fields** shows that the women are the majority of employees in budgetary sectors (education, health and social assistance), trade, hotels and restaurants, light industry. In general, employment earnings from these activities are with a third below the average wage in economy, in comparison to top industries in terms of wage increases, such as: mining and energy, metallurgy, chemistry, transports and telecommunications, where male employees prevail. Exceptions are financial institutions, banks and insurance companies, which have the highest salaries level and where women are the majority.

As one can observe, the demand for labour force has increased constantly, particularly in manufacturing industry, constructions and services. In the period under review, labour force “migrated” from agriculture to industry and services. The biggest problems seem to occur in industry, where wage growth is no longer sufficient motivation to attract new employees; also, in this sector wage growth is subject to labour productivity and requirements of the free market, thus limited.

### 3. Structural developments and features of unemployment in Timiș County

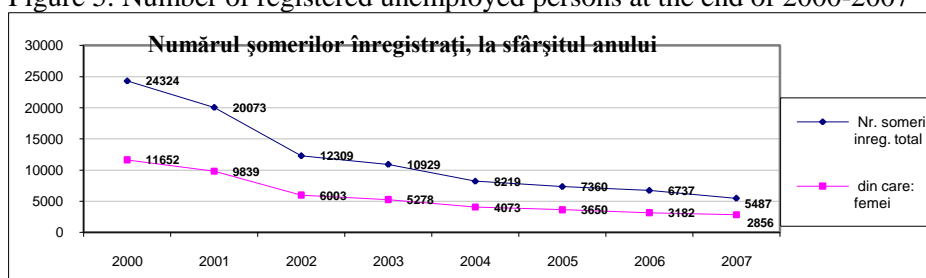
According to the data provided by the Timiș County Agency for Employment and Professional Training (AJOFM), the number of unemployed persons for the period 2001-2008 is shown in table 3.

Specification	2001	2002	2003	2004	2005	2006	2007	2008
Unemployed persons	24,3	20,1	12,3	10,9	8,2	7,4	6,7	5,5
Unemployment rate	8,0	6,3	3,9	3,5	2,6	2,3	2,0	1,68

In 2006, unemployment rate *at county level* was 2.3%, while the one for December 2008 was of only 1.68%. This decrease in unemployment rate is the result of the consistent policy of the local administration for attracting private investors.

**In terms of gender**, the situation of unemployed persons shows that the number of unemployed women was slightly below 50% in total during 2000-2006, and increased to 52% at the end of 2007.

Figure 5. Number of registered unemployed persons at the end of 2000-2007



Source: Regional Statistics Authority Timiș

Table 4 shows the situation of unemployed persons **in terms of education**, at the end of 2007. There are 1,413 persons with secondary/high-school education (981 with elementary school, gymnasium and vocational schools, and 432 with high-school and post-high-school) and 382 with advanced studies / higher education. In total unemployed persons, the largest share is represented by women with elementary and gymnasium education, while the smallest is represented by those with university education. However, it is worth to mention that unemployed women with higher education are more numerous than men (62.1% in 2006 and 64% in 2007), while in the number of unemployed persons with elementary education men are prevailing (56.1% in 2006 and 52.2% in 2007).

**Table 4. Number of registered unemployed persons at the end of 2000- 2007**

	2004	2005	2006	2007
TOTAL UNEMPLOYED PERSONS,	8219	7360	6737	5487
OUT OF WHICH:				
• elementary school, gymnasium and vocational school	5899	5631	5286	4069
Out of which: women	2588	2571	2323	1946
• high-school and post-high-school	1679	1207	928	870
Out of which: women	1074	741	534	560
• higher education	641	522	523	540
Out of which: women	411	338	325	350
UNEMPLOYMENT RATE - %	2,6	2,3	2,1	1,6

Source: Timis County Agency for Employment and Professional Training

**Unemployment among young graduates** is an important social problem, because they must first accumulate work experience. It is possible for young people to remain unemployed on long-term and to be in danger of not being ever able to find a regular job on the labour market, because they lose confidence in their own forces and they could end up in problematic circumstances.

*In Timișoara* data show the following:

- as at 31/12/2007 there were 1,795 unemployed persons (of which 1,101 women): 689 unemployed persons receiving unemployment allowance and 1,106 without unemployment allowance. Of the unemployed persons receiving allowance 475 are women, and of the unemployed persons without allowance 626 are women. Most of the unemployed persons come from lower educational levels. One can observe also that most of the unemployed persons are not receiving unemployment allowance. The evolution of unemployed persons in the first quarter of 2007 confirms the decrease of their number, especially of those receiving the allowance.

- the official unemployment rate shows oscillations from one year to another, with a general decrease trend, standing at approx. 7.9% at the end of 2000 versus 3.9% in 2002. In 2004 and 2005 unemployment rate was estimated just below 3%, and for 2007 is stands at 1.6%, one of the lowest levels in Romania. For 2006 and 2007, the weight of unemployed persons in the stable population between 18-62 years was around 1%, well below unemployment rate at county level, which is still decreasing (2.3%) or versus the national rate (6.3%).

In recent years, job offers have been in continuous growth: 15,743 vacant jobs for 2000; 17,923 vacant jobs for 2002; 17,292 vacant jobs for 2004; 17,321 vacant jobs for 2005; 24,624 vacant jobs for 2006 and 29,374 vacant jobs for 2007. Of this offer, for 2006, the highest percentage of jobs was recorded in industry (51.7%), followed by constructions (11.6%), trade (9.7%), health (4.4%) and 22.6% for other branches and services.

One can observe that during 2000-2007 the number of stable inhabitants has decreased, job offers have increased, the natural consequence being that unemployment rate dropped as well. However, activity rate has also decreased, probably due to the high number of persons retired before the deadline or persons involved in non-productive activities (education, grants, working abroad, etc.).

**Unemployment under the impact of economic crisis.** The latest information on unemployment provided by the Timis County Agency for Employment and Professional Training show that in December 2008 approximately 5,600 persons, i.e. 1.68% of Timis inhabitants, did not have a job and that most unemployed persons, over 1,400, were from Timișoara. More than 50% of them do not receive unemployment allowance and are women.

Due to low demand in the market, many companies have reviewed their activity. Thus, in the first three months of the year there will be layoffs, and over 2,000 people will lose their jobs, most of the unemployed persons coming from **automotive, steel industry and electronics**. Among the firms making layoffs we mention: Eybl Automotive Romania, Flextronics Romania, Zoppas Industries Romania, Lisa Draxlmaier, Kromberg & Schubert Romania. Other fields that will be affected by unemployment as an effect of the economic crisis are clothing, trade and real estate.

#### **4. Conclusions**

Demographic developments in Timiș County show the following:

- a downward trend in the number of inhabitants in the period 1990-2006, with a slight improvement in 2007. Whereas the population of Timisoara has decreased, the population of small towns in Timis County has increased; death rate is high and natural growth is negative; It is estimated that during 2002-2025, population in the Western Region will decrease with over 200,000 persons. The decrease will be moderate until 2010 and accentuated towards the end of the estimated period. This decrease is due to the deficit of births versus deaths (negative natural growth), together with the negative cumulated balance of internal and external migration. In 2025, the population of Timiș County will reach 631,800 persons (according to the Development estimated by INS, Population forecast on counties, region and country).
- in terms of age, there is a process of demographic ageing, due primarily to decrease in birth rate, which is more accentuated in rural areas;
- a slight decrease of male population versus female population; female population of the county is more numerous than male population by 3%;
- ethnic diversity of population will be maintained, but with an increase of Romanian nationals versus the other nationalities;
- migratory movements have a positive development, more pronounced in the last two years. Migration of skilled labour force to other countries will probably decrease in the future, as a result of the effects of global economic crisis, which will increase unemployment rate;
- activity fields with the highest number of employees in 2008 industry, agriculture, trade, constructions and real estate transactions, and activity fields with the lowest number of employees are financial-banking, public administration and hotels. The education sector will decrease both in absolute and relative figures. Employment rate will decrease continuously, even if in a slow pace;
- unemployment rate decreases significantly until the end of 2008, with an upward trend since the beginning of 2009, especially in automotive, steel industry and electronics;
- women are the majority of employees in budgetary sectors (education, health and social assistance), trade, hotels and restaurants, light industry. Employment earnings from these activities are with a third below the average wage in economy. However, women are the majority of employees in financial institutions, banks and insurance companies, which have high salary levels.
- the situation of unemployed persons shows that at the end of 2007 unemployed women represent 52% of total unemployed persons. In total unemployed persons, the largest share is represented by women with elementary and gymnasium education, while the smallest is represent by those with higher education. However, unemployed women with higher education are more numerous than men.

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## FEATURES OF THE ENTREPRENEURSHIP PHENOMENON IN TIMIȘ COUNTY

**Silvia Vlad**

*E-mail:* [silvia.vlad@feaa.uvt.ro](mailto:silvia.vlad@feaa.uvt.ro)

**Diana Gligor**

*E-mail:* [diana.gligor@feaa.uvt.ro](mailto:diana.gligor@feaa.uvt.ro)

**Diana Sala**

*E-mail:* [diana.sala@feaa.uvt.ro](mailto:diana.sala@feaa.uvt.ro)

**Violeta Sacui**

*E-mail:* [violeta.sacui@feaa.uvt.ro](mailto:violeta.sacui@feaa.uvt.ro)

*West University of Timisoara*

*Faculty of Economics and Business Administration*

*Address: Str. Pestalozzi, no. 16A, Timisoara, M13*

*In this paper we have presented the evolution and the dimension of the entrepreneurship phenomenon in Timiș County along with few difficulties that small enterprises generally face, but also the advantages that they offer, the factors that determine and stimulate the entrepreneurship phenomenon underlining some of the mistakes that the entrepreneurs should avoid when starting and managing a small business, the gender gaps in entrepreneurship encountered in Timiș County, and in the final parts of the paper the characteristics of female entrepreneurship as well as cases of successful women in Timiș County.*

*Keywords: entrepreneur, innovative spirit, gender gap, business incubator*

*Code JEL: R11*

### **1. Development and size of the entrepreneurial phenomenon in Timiș County**

Being entrepreneurial is not just about how to build and then lead a company or a small business. This is a state of the entrepreneur, most likely encountered. In many countries, entrepreneurs deal with *the creation of business ideas, identification of opportunities to implement the ideas* (to attract funds, or simply sell the idea) *and developing the idea*, who in the meantime became a business, depending on market dynamics and meeting the new needs of customers.

Being the 4th largest Romanian city, is the main economic and cultural center in Banat, in the west of the country, Timișoara has a long tradition concerning the appearance and the development of entrepreneurship. Timișoara, also called "Little Vienna" because it belonged for a very long time to the Habsburg Empire, it is a multicultural city with influential minorities, primarily Hungarians, Germans, Serbs, as well as Italians, Arabs, Indians, Bulgarians, Roma people, Jews and Greeks, all these cultural influences having also a great economic impact on the appearance and the development of business in the city and in the west region. An industrial city with extensive services, it was the first mainland European city to be lit by electric street lamps in 1884.

Timișoara is an important university center with the emphasis on subjects like medicine, mechanics and electro-technology, which leads to professionals were well prepared, ready to work in one of the enterprises established by entrepreneurs, or even ready to start their own business.

After the revolution from the year 1989, Timișoara has enjoyed a significant economic boom, as the number of foreign investments, especially in high-tech sectors, has risen constantly. It is frequently considered the second most prosperous city in Romania (following Bucharest) and there have been frequent debates on whether the so-called "Timișoara Model" could be applied to other cities. In an article in late 2005, French magazine *L'Expansion* called Timișoara "Romania's economic showcase", and referred to the increased number of foreign investments as a "second revolution". In Timiș County, in the period between December 1990 – December 2008,

65517 new firms were registered and 18103 were erased from the national evidences. In general, about a small enterprise you can say that it is viable only if it has managed to survive the first 5 years of establishment. Although the nature of issues of vital importance may vary, both official statistics and studies undertaken in organizations in Timișoara give us a pretty clear picture of the types of issues that small businesses face. Major difficulties arise from the following causes:

- Problems of formation (the first one-two years of activity: finding customers, product development etc.).
- Problems of consolidation (in the next two-three years: finding staff, delegating authority, the control of the enterprise);
- Problems of expansion (in the next phase: finding funding, competition on the market with much bigger companies).

From the small size of these companies derive more "Minuses":

- Small number of employees;
- Limited financial resources;
- A collective leadership limited, consisted mostly from the business funders; in many cases, they learn "on the go" what are the main issues involved in the economic activity;
- A sector of activity rather restricted geographically and economically;
- Areas of activity that are not fully appropriate the type of operations undertaken.

All these factors - and the list remains open – put an accent on the fragility of small businesses. Given all these elements, the most serious issues facing a small business can be summarized in the list below:

-Team management - often formed only just from the developer - does not have the skills required in a number of key areas. The most encountered case, perhaps, is the one of the engineer who begins to confront with the problems of financing, promotion, sale.

-The entrepreneur has no time to carry out the many complex tasks required by the development of the enterprise and, due to the limited financial resources, the entrepreneur can not recruit qualified personnel to solve those problems. It is a common experience to many companies that the managerial team to take their time to "put down the fire" and not give sufficient attention to issues related to development.

-The entrepreneur reacts to problems when they arise rather than trying to plan and provide prophylactic measures.

-As a rule, small businesses do not have the necessary experience to develop beyond the sector of activity. It is estimated that the exports in the turnover of small businesses is usually small.

-The deep involvement of the developer makes that the objective thinking to be often difficult. The barrier most often encountered in managing a business is time management. One of the successful women says is difficult, but not impossible, to be a successful woman both in business and in personal life. Another successful woman believes that most often the way of entrepreneurship is not easy, but it gives you the results that you can enjoy.

But small enterprises have also a lot of strengths. These strengths exploited effectively, can remove many of the inconveniences due to the limited resources of these companies:

- The decisions can be taken quickly because the structures are simpler and the enterprise can change the direction of acting quickly to capitalize the environmental opportunities;
- A decision once taken, it can be quickly implemented and results can be visible quickly compared to a greater company;
- The relations between the developer-manager and employees have chances to be more equitable and the communication can be quite direct; professional relations tend to be more flexible, which could have a beneficial effect on the morale of employees (the professional environment can be more relaxed);

- The working environment is likely to be better, employees managing to see quickly and clearly the results of their work; this aspect could turn into an extremely powerful motivator, especially to encourage employees to come up with ideas;
- The entrepreneur - manager is close to customers and markets in general, this allowing a faster reaction to changes.

It is apparently surprising the view that there are no ingredients - recipe for success, secrets for a business, all being reduced to the passion and pride of work well done, believing in what you can do and sometimes a little luck. Although these tips can be considered truisms (simple truths who became banal because of their frequent use), the most difficult is to have the persistence and the ambition to always apply them.

## **2. Factors that determine and stimulate entrepreneurship encountered in Timiș County**

Peter F. Drucker - a renowned expert in business - said that "*small business is the main catalyst of growth*". These small businesses contribute to the good achievement of the objectives of any national economy. The entrepreneur is defined by Peter F. Drucker as *the one who creates something new, something different, the one who changes or transforms values*. Although no one can say that there is a standard profile of a successful entrepreneur, some studies have concluded that there are some traits common among entrepreneurs who have achieved success in their business, namely:

- **Willingness to assume risk.** Entrepreneurs do not seek the risk, they rather take it. They're trying to reduce risk through a better control of the business. By a careful choice of the product and the market, creative financing, training a competitive team and through planning, initiating a business risk can be quite small.

- **Control of their own destiny.** Some authors have tried to demonstrate that the key factor in deciding to go into business is the desire to control their own destiny. According to the theory of control of their own destiny, any result is seen in terms of ability to control it.

- **Innovative spirit.** Creativity is an important feature of successful entrepreneurs. Schumpeter said that the developer, "personal cause" of the economic development, is an innovator, who always makes new combinations in production. Indeed, is the innovative ideas represents the element that distinguishes an entrepreneur from others. A new way of approaching the product quality or service, the use of new distribution methods and new concepts of packaging, for example, are distinctive elements of an innovative entrepreneur.

- **Need of fulfillment.** Almost without exception, the entrepreneurs are persons strongly motivated by the need for fulfillment. David McClelland suggested that the need for fulfillment is the first factor that a person takes in consideration, when willing to become an entrepreneur. In addition, the need for fulfillment is considered an important dimension of the personality of the entrepreneur. The entrepreneur is targeting to achieve a specific goal and is motivated by the chance to achieve it.

- **Accepting uncertainty.** Initiating a business, through its specificity, is a dynamic, uncertain, complex and unsecured process. Entrepreneurs, however, accept unsafe situations and make decisions under uncertainty. Not only that they are not affected by uncertainty, but are able to exploit and get benefits from it.

- **Confidence in itself.** Successful entrepreneurs have a strong confidence in their forces. They are confident in their ability to achieve their objectives. Research shows that entrepreneurs have a high degree of confidence in their own persons. In addition, financial institutions and investors place their money in those businesses in which entrepreneurs have a high degree of confidence in their self.

- **Persistence.** Entrepreneurs are persistent. They are not intimidated by the obstacles which appear in their path. Given the intense desire to overcome difficulties arising, they are continuing their efforts to solve the problem. Although they are extremely persistent when a situation



impossible to achieve arises, they quit. Being realistic, they recognize what can be done and what must be renounced.

- **Spirit of initiative.** Many researchers and practitioners agree that the spirit of initiative is a feature of successful entrepreneurs. They always seek situations where they are personally responsible for the success or failure of the business. Entrepreneurs are, par excellence, people of action. If they do not have the initiative, then they will more unlikely have employees with a spirit of initiative. Many entrepreneurs say that their success is based simply on the fact that they have acted, they were involved in the business and they have not worried to much.

- **Noticing the opportunities.** Successful entrepreneurs seem to have the ability to anticipate trends and to recognize the opportunities that arise.

- **High energetic potential.** Entrepreneurs are recognized as having a high energetic potential. They have the ability to work long time without feeling the need to rest.

- **Ability to form teams and to work in teams.** Partnership is an essential dimension of business in an economy characterized by globalization and interdependence. Not least, the entrepreneur must be or become rapidly *an expert in its field of activity and to show fairness, both in business relationships and in the relationships with the employees.*

Whatever being the theoretical perspective that they approach, the various "schools" studying the phenomenon of entrepreneurship seem to agree that the decision to establish a firm and start a business is primarily influenced by several factors such as:

- **Individual characteristics:** age, level of education, level of knowledge of management, work experience, reasons for individuals to engage in entrepreneurial activities.

- **Socio-cultural factors:** the existence of entrepreneurial models in the social circle of the individual, the feeling of fear from failure in business, the feeling of confidence in their own abilities as entrepreneur.

- **Characteristics of the business:** ownership type (individual or in association), funding sources, trends in business, the level of involvement in international activities, application of new technologies in business.

As an entrepreneur - manager, the individual must stay as far away as possible from interpretations of his behavior. What he considers to be flexibility, for example, others may interpret as softness. Further we offer a list of possible misunderstandings, in which one behave well intended becomes subject to interpretations less friendly.

Nobody should be the slave of other people's perception of himself, but is important to understand and to appreciate it. Anyone can encourage feedback by inviting others to informal comment or asking the colleagues to take part in a simple exercise. They may be asked (anonymously) which they believe that are the strengths and weaknesses of the individual examined related to his personal style and the way he interact with others. They may also be asked about how they think that the situation can be improved. At the same time, being as honest as possible, each individual can run the same process: writing strengths and weaknesses and what can he change immediately and on the long term.

**Table 1. Possible misunderstanding of human behavior**

<b>Self perception</b>	<b>Perception of others</b>
Self-confident	Arrogant
Entrepreneur	Exploiter
Funny	Frivol
Ambitious	Cruel
Helpful	Which wants to have the control
Persuasive	Rudd
Competitive	Combative
Open to change	Hesitating
Deep	Obsessive
Tolerant	Indifferent
Concentrated	With a narrow view
Which encourages	Which interferes
Generous	Irresponsible

All entrepreneurs have a market, a product, an idea, sometimes nearly identical. Why some succeed and others do not? A response may be the following one: "what makes the difference is the behavior!" Without this knowledge of themselves, entrepreneurs may make more psychological mistakes that can destroy their business.

- *To create a business to get rid of unemployment.* They say that starting a business out of despair has never succeeded. Creating a business must always be accompanied by the intrinsic desire to become your own boss and the desire to earn money.

- *The developer can not recognize his insufficiencies.* The lack of modesty is a risk that can push the entrepreneur into euphoria that you will make him lose the sense of reality.

- *The developer has an over developed taste for secrets.* The secret which certain entrepreneurs like to have often hides a banal idea. Bright ideas "are floating in the air" for a long time and many individuals might have them at the same time.

- *The developer is very anxious.* He should take enough time for reflection before action to avoid the errors.

- *To underestimate the soundness of the couple (if any).* When the life partner does not provide unconditional support, if he does not accept the stress, the lack of rest and holidays, then the developer should not take the risk.

- *To confuse the business with a club of friends.* If the entrepreneur thinks that everything will go well if he is surrounded by friends as business partners, then it is likely to lose both the enterprise and the friends. The developer should rather be associated with complementary persons.

- *The developer is afraid to delegate.* If he will do everything on himself, he will lose time and therefore money. He needs to engage the adequate collaborators.

- *To underestimate the importance of communication.* It is more useful to convince the members, employees, suppliers, and the bank, than to contradict them. An honest talk is a virtue to be cultivated.

### **3. Gender gaps in the entrepreneurial field encountered in Timiș County**

If traditionally, men were those at the head of a company and were occupied exclusively by their professional career, ignoring the responsibilities toward family, today the situation has changed. If in the second half of the nineteenth century women have gained the freedom to know and to raise the social scale, in the present context chances for women to develop a successful career have increased considerably.

In Timiș County, both male and female style of leadership can be equally effective. Women began to occupy positions of leadership and to establish their own business and, moreover, are able to give due weight to both career and family. Nature has endowed each person with different capacities, making clear distinction between men and women who are manifesting even on their managerial abilities.

In studies conducted along the time the focus was put more on the socializing component in explaining the differences and less on the biological features. Researchers have discovered some physiological variations in the brain, between a man and a woman.

To natural differences between men and women are added, clearly, the social rules and the cultural stereotypes that produce different expectations for girls and boys when they are growing, and on occupational choices. Gender discrimination in business still exists at the level of modern societies; to promote, as a woman, in a position of leadership must prove that you are better than a man found in a similar function.

When comparisons are made between the managers, too little time the focus is made on the elements of a positive discrimination. While men tend to command and control, women's tendency is to build a team and reach a settlement. The manager women have a more careful and prudent analysis about the risks in business.

Difficulties faced by business women are those generated by the economic environment, more or less functional: excessive bureaucracy, the phenomena of the labor market, unfair competition, etc. Passion and optimism are, however, two ingredients with which no obstacle is exceeding.

Of a vital importance for a successful business is the confidence in their own forces, a careful planning and realistic goals. The recommendation would be that any entrepreneur woman at the beginning of her road to believe in what she does and to work with enthusiasm, not to leave when defeated or when she does not obtain the success from the first trial. Also it can be offered a series of recommendations for women who want to open your own business, and in particular referring to qualities such as dedication, devotion, self-knowledge. It is necessary for an entrepreneur woman to have the courage to forge ahead, to be devoid of prejudices, to be confident in her own forces, to trust her competence but also the one of her people, to be committed and consistent and an aspect not to be neglected for success, she needs the support of her family.

Currently, there are only small differences between man and woman entrepreneur, these differences being more emphasized in the past. However, the mentality, the main obstacle to a woman in business, produces dissension due to which sometimes a woman who must make a greater effort to achieve the same results.

Women entrepreneurs in Timiș County are focused on motivation from the perspective of flair, ability, ability to take risks, willingness to initiate their own business, thus highlighting the role of the individual's innate qualities. The most important reasons, considered potential stimulant for women entrepreneurs are: the achievement of higher gains, the desire to gain a better social position, the need for independence, the desire to lead others, dissatisfaction, insecurity former employment, unemployment.

Most women entrepreneurs ranked first the desire of gain. To be noted, however, that there is a growing trend that the "star" motivation of expecting to achieve higher earnings to become second to the one of a higher satisfaction in work.

Also, the majority of those who located on the first place of the hierarchy of motivator factors the need for independence are those with the higher education, the two motivations being highly correlated. Working conditions, uncertainty at the old job, tense relations mostly disaffected women who consider this as a primary reason. On the background of structural transformations in the economy and respective the perspective of disposal in the county, however, the status of unemployment as the main impetus for starting a business raised.

Thus, it has proven to be dominant the category of entrepreneurs relatively young, aged between 31 and 40 years, characterized by high capacity to take risk, enthusiasm, creativity, dynamism and capacity to adapt quickly to changes in environment.

The low share of women who have demonstrated entrepreneurial spirit finds its explanation in the physical and mental demands imposed by starting and organizing a business, coupled with the burden of household responsibilities still very high. The overwhelming dominance of micro enterprises and also the modest resources available to them cause entrepreneurs to involve family members in business.

In terms of experience in the SME sector, most entrepreneurs have an experience of over 10 years, reflecting a relatively high longevity, possible in a permissive environment, although unstable. Despite the trend of decline it is maintained even in the present the orientation of entrepreneurs to trade sphere. The poverty of resources, the low start-up capital, the great speed to generate profits explain this polarization. The evolution of the number and structure of business is implicitly a reflection of the entrepreneurial spirit of Timiș County.

Women who have managed to make a successful career in various fields, regardless of country, county, from which they originate, are hit by the same weights. For the most part, we discuss about five of their major concerns: authenticity, relationships, influence, flexibility and self motivation.

Authenticity - the desire to have a clear line drawn between the interests of professional and personal.

Relations - a fundamental need for each of us to come into contact with people around them, it has been demonstrated that women are much better than men in terms of communication and relationships between people.

Influence - the desire to help and to control one's destiny. The need to be influential is the factor that motivates us to take initiatives, to achieve the goal we have established for our self and to have confidence in our forces.

Flexibility - the ability to easily adapt to changes that occur in the business environment. Self motivation – motivation, in terms of management, is related to the nature of human relations, a complex phenomenon that means that people who are happy are at the same time productive. In the theories of the organizational behavior, motivation appears as a force that gives energy, guides and supports human behavior. Knowing your own motivation is equivalent to finding the answer to the question “why” should take an activity.

#### ***4. Particularities of female entrepreneurship in the Timiș County***

The National Agency for Equal Opportunities between Women and Men (ANES) has carried out an analysis at national level during January-February 2008 regarding the situation of women in rural areas. ANES territorial compartments led 1046 interviews focused on the professional status, the participation in decision, the required information, as well as the ways for obtaining information preferred by women in rural areas. A questionnaire was drawn up by the experts from ANES and applied by representatives of the territorial compartments. Representative for the West region were the counties Timiș, Caraș Severin and Arad. In each county were surveyed 30 women with ages between 18 - 55 years. In total, this analysis is based on 150 women surveyed. The purpose of the questionnaire was to ascertain the situation of rural women, their needs, their concerns, their skills, their familial and professional situation and their fields of interest. In each county were selected 3 commons or villages.

In Timiș county were selected: Periam town (4500 inhabitants of whom 1944 are women, the percentage of unemployed women is 3% and 2.2% of men); Margina village (population of 2364 inhabitants of whom 679 are women, the percentage of unemployed women is 2.5% and men 4.6%) and the common Măguri (where the total population is 550 people of whom 250 are women, and the population is mainly ethnic Roma).

Of all the collected information the most relevant are those relating to: the professional status and income, the distribution of household tasks and the taking of decisions concerning family expenses, participation in community decision, participation in voting, information, fields in which these women want to learn more information and the ways to obtain such information. In Timiș county they are employed 54% of the women and 43% are housewives.

Areas where women from the West region work are mostly traditionally feminine, such as: public administration, commerce, education, housekeeping, social assistance and trade. However, their interests for improvement are focused on exact sciences and areas such as finance, management, environmental protection, tourism, and human resources or methodic. Average monthly income of women from the West is between 500 - 1000 RON, excepting Timiș county where the average is between 0-500 RON.

The distribution of household tasks is uniform in all counties of the West. Things in the household (like washing, cleaning, cooking) and the care responsibilities (for children and elderly) are solely under the care of women and the work of the land, animal care and home repairs are the exclusive responsibilities of men.

Regarding the decision concerning the distribution of family expenditure, women in Timiș states that they largely determine where those costs are allocated: in a proportion of 62%.

In the community, women from the West region of the country are not at all active. In all 3 counties in this area the percentage of non-involvement in community's decisions is 100%. Not only that they did not participate in decisions concerning the fate of the community, but they are not members in any association, committee or political party. However women from the western region of the country participate in large numbers to vote. In each county the women said that they participate in the vote in a percentage of 100%.

In Timiș County, 40% of women declare that they are informed by the media and 54% declare that they do not inform at all.

The manner in which women want to know the information refer to information materials: 26.6%; seminars: 30%; information points within local authorities: 36.6% and 26% in classes.

The most important personality traits and skills that woman needs in order to launch in a business and to be successful are:

- Energy meaning the power to start a business, to establish a firm and to manage it; it involves force, spirit of initiative, ambition to succeed, a sense of responsibility, tenacity;
- Mental abilities materialized in intelligence, capacity for analysis and synthesis, creative thinking;
- Specialized knowledge - technical knowledge in the chosen field of business, marketing knowledge and management knowledge;
- Communication skills – the ability to communicate effectively in business is an essential element for managing a successful business. The managerial communication is a management function which makes known the result of managerial decisions and establishes a climate of understanding between those who transmit the information and those who receive them;
- Decision-making capacity - the ability to solve the disruptions, the responsibility to allocate resources and the capacity to negotiate which is achieved through the initiation of activities, strategies and tactics that lead to change.

The world of business is closed, but not impossible, and before all, the feature which a woman must have to succeed is the pure desire to succeed in a professional plan. Of course, it is joined by perseverance, concern to be aware of the news in the fields of activity, creativity and ambition. On the other hand, the essential component of a successful business is the professionalism, since customers always appreciate a supplier well-informed, courteous, flexible and willing to find solution for their requirement. While success requires a major investment of time, it is good to take a break from time to time to disconnect and take care of yourself so that when you should restart your work you can give a maximum result.

### **5. Cases of successful entrepreneur woman in Timiș County**

Reprehensive for the entrepreneurial phenomenon in Timiș County is The Association of Entrepreneur Woman. After 5 years of experience in organizing the charity event (Balul Speranței), The Association of Manager Women from Timișoara has captured the attention and won public recognition. The association has a new name in line with the international practice of this profile of associations: The Association of Entrepreneur Women. Entrepreneur women manage their own business, a business in which they have invested their own money and took the afferent risks. Such cases may be referred to as Maria Grapini, Rodica Vlad, Corina Dragomirescu, Mioara Simcelescu and Laila Onu.

In Timiș County there is also a long tradition in the provision of software and IT solutions, being given the long tradition of specific higher education. A solution designed to support those who want to start a business in the field of developing and supplying software is the so-called **"Software Business Incubator of Timișoara"**. Software Business Incubator of Timișoara aims to support companies specializing in software development services, in Timiș County, providing the conditions for space activities, access to communications networks, secretarial services. Software Business Incubator of Timișoara was created to support an implementation of viable and innovative business ideas. This is achieved by ensuring an optimal location, well positioned, the development of service packages that meet the specific needs of businesses, the assistance of a dedicated staff that works to increase the entrepreneurial skills of young business people, allowing them to avoid a hand of administrative tasks, facilitating the implementation of business plans, seeking the proper positioning of the firms in the industrial branch and in relation to actors from the local community, regional, but also at international level and, last but not least, encouraging the collaboration and the development of synergies with other companies incubated.

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# LE DISCOURS AUTOBIOGRAPHIQUE ET LA PUBLICITÉ

**Bogdan Rodica**

*Universitatea din Oradea, Facultatea de Științe Economice, Str. Armatei Române nr. 5, rbogdan@uoradea.ro, Tel. 0259.408 799*

*If, in the past, personal diaries were safely kept inside drawers, today they are exposed before everyone's eyes on the internet. Even since 1967, Guy Debord believed that the society we live in is a show society. Personal blogs become a form of presenting a show. The dynamics of the blogging phenomenon is impressive. The autobiographical discourse mingles with publicity language. The blog owners get financial profits out of placing various advertisements on their personal sites.*

*blog, autobiographie, publicité*

## **Le discours autobiographique comme spectacle**

L'essai de Guy Debord parle déjà en 1967 de *la société du spectacle*, dans laquelle a) la négation de la vie est devenue visible, b) la perte de la qualité est liée à la forme-marchandise et la prolétarianisation du monde se produit. « La racine du spectacle est dans le terrain de l'économie abondante, et c'est de là que viennent les fruits qui tendent finalement à dominer le marché spectaculaire. »<sup>1</sup>

Aujourd'hui, un autre enjeu spectaculaire relevant de cette « sortie sur la scène » de presque tout individu – sous la forme des blogs personnels – nous fait penser (et peser) ce phénomène d'ouverture comme modalité d'uniformisation où l'on reconnaît aisément la perte de qualité (au moins du côté du discours autobiographique qui ne s'élabore plus, restant en état d'improvisation) dont Guy Debord parlait.

En contrepois, le fait d'exposer la vie privée peut être mesuré en argent. Même si au début les blogueurs refusaient cette insertion de l'économie sur leurs pages personnels, ils ont fini par accepter à en tirer profit. La présence de la publicité sur les journaux intimes électroniques met en lumière la *monétisation des blogs*.

L'habitude du *journal intime* a changé à la fois de forme et de contenu. On écrit pour les autres, on permet à ceux dont les intérêts économiques sont bien définis de tirer profit de cet espace personnel, le blog, par l'insertion des logos et des spots publicitaires.

Le discours autobiographique n'est plus destiné à soi-même, le journal n'est plus écrit sur du papier, caché dans un tiroir dont l'auteur garde précieusement la clé. Il sort sur la « scène », il devient « spectacle ». Son auditoire ne se trouve plus réuni dans une salle, ni même sur un stade, mais se multiplie d'une manière indéterminée.

Le journal intime s'écrit au fur et à mesure que le vécu devient expérience. Cette expérience est mise à la portée de tous, sous la forme d'un discours personnel et personnalisé lancé sur les orbites des internautes. Quelque chose de l'ingénuité initiale de ce type de discours se perd inéluctablement. Celui qui crée le discours n'est plus « libre ». Dans le droit romain, l'ingénuité était propre aux personnes de condition libre par naissance. En écrivant « sous les yeux » des lecteurs inconnus, celui qui émet le discours autobiographique pratique une sorte

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<sup>1</sup> Debord, Guy, *La société du spectacle*, Editions Gallimard, 1992, Paris, p. XI.

d'autocensure dont il peut ne pas être conscient. Mais il ne dispose plus de la liberté des auteurs du XIX<sup>ème</sup> siècle par exemple, qui ne savaient pas que leurs journaux seraient publiés un beau jour.

Celui qui tient un blog personnel, qui écrit tous les jours ce qui se passe dans sa vie privée ou bien autour de lui, dans la société où il vit, met à la disposition de n'importe qui – à condition que la langue soit connue par ses lecteurs – un univers entier de connaissances, expériences, sentiments divers. Il fait de son discours autobiographique un spectacle. Il n'écrit plus pour soi-même, il tient compte aussi de ses lecteurs. Quelqu'un qui tient un journal pour le faire publier un jour fait attention à sa façon de s'exprimer et trie les événements à son gré.

Et, parce que les blogs sont suivis : la fréquence des articles parus, les flux d'accès, les citations effectuées par les blogueurs extérieurs, les commentaires, le nombre d'abonnés etc., l'intérêt des compagnies pour faire connaître leurs produits, leur marque dans cet espace inexploré ou se trouvant encore au début de son exploration s'accroît d'un jour à l'autre.

On constate alors aisément un mélange entre deux types de discours qui étaient complètement séparés avant : le *discours autobiographique* – le journal, les mémoires et le *langage publicitaire*.

## Dynamisme de la blogosphère

Pour nous faire en quelque sorte idée de l'étendue et de la dynamique de ce phénomène nouveau qui est le *blogging*, nous avons pris l'exemple de deux plates-formes : *wordpress* et *skyblog* qui offrent à quiconque un espace gratuit pour le blog personnel. Cet espace permet le chargement et téléchargement des documents écrits ou audio-visuels et son extension peut être augmentée contre une somme à la portée de chacun.

Sur WORDPRESS :

- Image prise à 15 h 00



**3,016,921 BLOGS WITH 105,608 NEW POSTS TODAY.**

- Image prise à 15 h 10





**3,016,921 BLOGS WITH 106,356 NEW POSTS TODAY.**

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Sur SKYBLOG :

- Image prise à 14 h 44 :



- Image prise à 2 h 49 :



Ce qu'on peut observer sur ces images c'est la dynamique extraordinaire de ce phénomène considéré comme un « cinquième pouvoir »<sup>2</sup>. Dans dix minutes, les chiffres changent d'une manière impressionnante.

Les deux premiers exemples nous montrent qu'en 10 minutes, 748 nouveaux articles ont été publiés sur *wordpress*.

Dans les deux dernières images, on peut voir que le nombre des blogs a augmenté de 72 113 à 72 428, dans un intervalle de 5 minutes, c'est-à-dire que, sur *skyblog*, 315 nouveaux blogs ont été créés en 5 minutes, et 7849 nouveaux articles ont été publiés.

Nous avons pris seulement deux exemples, mais il existe des centaines de plates-formes pour les blogs. Si on multiplie ces chiffres, les résultats seront accablants. Des millions de blogs et, par conséquent, des milliers de lecteurs en même temps. Les blogs des stars, des hommes politiques, des écrivains s'entremêlent sur ce marché, qui est la blogosphère, à des blogs appartenant à la fois aux gens simples et aux professionnels.

*Devenus de véritables carrefours d'audience, les blogs les plus influents se convertissent au business.*

*Les liens avec les marques se renforcent et commencent à se monétiser. Avec une fourchette estimée entre 15 et 20 millions de blogs créés, dont près de la moitié par des 13-24 ans sur Skyblog, la France fait figure de pionnière. Elle se placerait déjà au quatrième rang mondial avec 1 à 2 millions de blogs actifs mis à jour très régulièrement, qui introduisent de plus en plus de contenus vidéo. Une nouvelle sphère d'influence que les marques et les groupes de médias ou de communication cherchent désormais clairement à intégrer dans leur modèle.<sup>3</sup>*

Étant donnée la popularité du blog, les compagnies ont vite manifesté un grand intérêt pour les possibilités de présenter, de faire connaître, de lancer leurs produits ou services à ce public nombreux et qui ne cesse de s'accroître. Les blogs professionnels présentent les produits qu'ils utilisent, ainsi que d'autres articles liés à leur profession. Les blogs des stars présentent des produits de beauté, des livres et DVD avec leur vie ou leur activité professionnelle, les prix remportés, etc.

Mais, en ce qui concerne les blogs personnels, ceux des journaux intimes électroniques, comment devons-nous comprendre le mélange du discours autobiographique et de la publicité ?

### ***Formes de publicité sur le blog***

La publicité nous fait voir le monde en tant que consommateurs et nous incite à consommer toujours plus.

On a vu que le blog personnel est devenu aujourd'hui un spectacle à la portée de tous. On a aussi constaté que le dynamisme de ce phénomène est impressionnant. En ce qui concerne la publicité sur les blogs, il faut tenir compte de quatre indicateurs :

- a) L'annonceur (visibilité)
- b) La régie (profit)

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<sup>2</sup> Debouté, Alexandre, *Peut-on vivre de son blog ?*,  
[http://www.strategies.fr/magazine/article.php?cle\\_page=43433](http://www.strategies.fr/magazine/article.php?cle_page=43433)

<sup>3</sup> idem

- c) L'éditeur (revenus)
- d) Le lecteur (intérêt informatif)

Voyons maintenant quelques formes de publicité sur le blog :

1. Encart publicitaire classique – placé sur la sidebar
2. Présentation des logos
3. Affichage de bannières publicitaires
4. Images des produits ou des compagnies encapsulées directement dans les articles
5. Le publi-rédactionnel : un article (avec ou sans illustration) rédigé par une agence de publicité ou un annonceur, et publié tel quel sur le support ou le média diffuseur. Dans le cas d'un publi-rédactionnel, le texte et sa mise en forme sont livrés par l'agence de publicité au blogueur, qui n'a plus qu'à le copier-coller à l'emplacement défini dans le contrat (en général dans le flux des billets).
6. Le billet sponsorisé est un article rédigé par le blogueur lui-même, à partir d'un produit (ou service). Le billet sponsorisé rémunère non seulement un espace publicitaire mais le travail du blogueur.
7. L'article sponsorisé
8. La vidéo de présentation

## Conclusions

Vivant dans une société du spectacle, nous voyons que les formes de ce spectacle se multiplient d'un jour à l'autre. Le vécu personnel est monétisé, les pensées et les sentiments les plus intimes deviennent marchandise.

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