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GENERAL CONSIDERATIONS ON THE DISSOLUTION AND LIQUIDATION OF ROMANIAN COMPANIES

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Abstract: *All stakeholders are interested in whether a firm has a good and stable financial situation, even though they all have different stakes in it. However, not all companies can succeed and operate profitably. The purpose of the study is to examine the peculiarities of dissolution and liquidation in Romania and the characteristics of liquidation of companies, according to their legal form. From examining the general causes of dissolution to specifics of different type of companies, all elements have a great importance in understanding how to avoid this procedure.*

Key words: dissolution, liquidation, insolvency law, going concern

JEL classification: G33, K19

INTRODUCTION

The insolvency concept represents a theme continuously studied by lawyers specialized in commercial law or by economists. All their efforts were translated into reforms of the legislation. However, an improvement of insolvency law should also be accompanied by institutional reforms.

A success of the implementation of insolvency procedures means a simple procedure, which involves low costs and not too much time; this kind of procedure should balance the interests of both debtors and creditors.

Currently, the legal framework in Romania on the liquidation of companies is essentially defined by Law no. 85/2006 on insolvency proceedings, which sets rules applicable when a company is unable to pay its liabilities, together with the Companies Law no. 31/1990. The latter covers dissolution of companies in a separate chapter (Title VI, Chapter I "Dissolution of companies", articles 227-237) and liquidation of companies in a separate title (Title VII "Liquidation of companies", articles 252-270). The present insolvency regulation is the one that realizes the process of harmonization with the European legal aspect in this area and the facing of the regulation with the actual economic situation.

Table 1: Evolution of insolvent companies in the European Union countries

| Country | 2010 | 2009 | Evolution 2010/2009 |
|----------------|---------|---------|------------------------|
| Austria | 6.657 | 7.050 | -5,57% |
| Belgium | 9.620 | 9.430 | 2,01% |
| Bulgaria | 462 | 361 | 27,98% |
| Czech Republic | 5.752 | 5.396 | 6,60% |
| Denmark | 6.460 | 5.600 | 15,36% |
| Estonia | 1.047 | 1.112 | -5,85% |
| Finland | 2.870 | 3.310 | -13,29% |
| France | 51.060 | 55.800 | -8,49% |
| Germany | 32.100 | 34.300 | -6,41% |
| Greece | 355 | 360 | -1,39% |
| Hungary | 17.883 | 14.971 | 19,45% |
| Ireland | 1.525 | 1.400 | 8,93% |
| Italy | 10.923 | 9.098 | 20,06% |
| Latvia | 2.705 | 2.219 | 21,90% |
| Lithuania | 1.635 | 1.844 | -11,33% |
| Luxembourg | 918 | 698 | 31,52% |
| Netherlands | 7.340 | 10.500 | -30,10% |
| Poland | 655 | 691 | -5,21% |
| Portugal | 5.144 | 4.450 | 15,60% |
| Romania | 21.262 | 18.421 | 15,42% |
| Slovakia | 808 | 669 | 20,78% |
| Slovenia | 377 | 529 | -28,73% |
| Spain | 4.770 | 4.900 | -2,65% |
| Sweden | 7.510 | 5.215 | 44,01% |
| United Kingdom | 17.690 | 20.300 | -12,86% |
| TOTAL | 217.528 | 218.624 | |

Source: Coface Europe

Only by taking a look at the above table we can understand the importance of the insolvency law. The number of companies that are affected by the legislation on insolvency is high not only in Romania, but also in other countries. So, this legislation has an effect on the whole economic environment, due to the impact that the entering in this procedure by an undertaking has not only on its activity, but also on the activity of their partners.

1. PECULIARITIES OF DISSOLUTION AND LIQUIDATION IN ROMANIA

Unfavorable economic situations are often the main caused of dissolution and liquidation of companies, leading to their disappearance. These two processes can occur in a company at a certain moment and finally lead to the end of the existence of the company. However, these two procedures

significantly differ from one another. The dissolution of a company leads to its removal from the Register of Trade, meaning the legal disappearance of it. Liquidation is, on the other hand, the transformation of companies assets into cash in order to pay its debts and it is done prior to the dissolution of a company.

The reasons that can determine the dissolution of a company are various. A company can get to be in this situation because of:

- Passage of time that was fixed for the duration of the company; the dissolution will begin once the shareholders have decided not to extend its duration;
- Achieving the proposed object of activity established by statute or the inability to achieve it;
- Declaration of invalidity of the company;
- A decision taken by the General Assembly;
- A court decision made on the valid premises, such as the request of one of the shareholders, explained by misunderstandings between partners, which affects the operation of the enterprise;
- Bankruptcy;
- Other causes mentioned in the constitutive act or in the legislation.

The dissolution of a company usually has as an effect on the entry of the firm in a liquidation procedure. However, there are situations in which the dissolution is made without a previous liquidation. Usually, this occurs in a case of merger or full division of a company.

The moment of dissolution of a company is, according to the causes for dissolution, the date of expiry of the time limit for the duration of the company or the date of the decision of the General Assembly or of a court to dissolve the company (Georgescu et al., 2009, p. 115). From this moment on, the people in charge of the company management can no longer perform new operations. Directors or managers will personally and jointly respond for such operations if they are performed.

Legal personality of the company is maintained during the company's liquidation and disappears upon completion of liquidation proceedings.

In the liquidation stage of the company, and possible in the dissolution phase, shareholders will respond according to the responsibility that they have in the firm during its life. In this sense, if one partner has unlimited liability for the obligations of the company during its operation, during the dissolution and liquidation of the company he will also have unlimited liability for its obligations. Instead, if an associate has a limited responsibility to its capital contribution, in case of dissolution or liquidation of the company (in which he is an associate with limited liability), he will

answer for the company's obligations within his the capital contribution. However, if an associate with limited responsibility is using the legal personality of the company and its assets as personal property or he manages to decrease the company's assets for his personal gain or to support a third party, thus affecting the company's ability to meet its obligations to third parties, the associate will answer unlimited to the unpaid obligations of the dissolved firm.

Regarding the conditions under which the two operations take place, dissolution and liquidation of companies can be voluntary or forced. Differences between voluntary and forced liquidation are given by:

Reasons of dissolution and liquidation of the company. Voluntary liquidation is usually caused by motives such as expiration of the duration established for the company, failure to achieve the main activity as mentioned in the statute, decrease of the number of associates or shareholders to one, decrease of the amount of capital below the limit allowed by the company's law or any other cause that determines the General Assembly to decide the dissolution of the undertaking. Forced liquidation has as a main reason the company's inability to pay its liabilities as a result of financial deterioration; this situation is reflected through liquidity and solvency indicators;

Involvement of the court in the procedure of forced liquidation is called judicial liquidation. The decision to liquidate the firm is given in this case by a court of law and it also appoints a liquidator. In case of voluntary liquidation, liquidation decision is taken by the General Assembly, designating a liquidator, who can be either an administrator, an associate or a third party capable of performing this function;

In the case of voluntary liquidation, the old administrators of the company will continue to manage it during the process of liquidation, while in case of judicial liquidation, the company is taken over and administered by a syndic administrator;

When liquidation decision is voluntarily taken, assets will be gradually sold at a liquidation value which are equal to the normal market values; judicial liquidation requires immediate sale of assets at lower values (liquidity values) because the company's debts are immediately due.

Dissolution and liquidation of companies lead to operations that trigger the termination of the company. Regarding the companies' liquidations, the Companies Law no. 31/1990 states in the beginning the need to specify the way of dissolution and liquidation of a company in the constitutive act (articles 7 and 8).

Entering a process of dissolution or liquidation affects the accounting principles used in preparation of accounting documents and annual financial reports of the firm. For elaboration of

financial statements prior to liquidation, it is necessary to take into consideration the accounting principles, the going concern being the one that is the most affected.

Going concern is based on the idea that a company will operate normally in the future, without being unable to continue its activity (meaning the possibility of entering a bankruptcy procedure) or without a significant decrease of it. Otherwise, the company's financial statements will include information about this condition and the causes that made further activity impossible. The means of preparation of financial statements have to be mentioned. The importance of this principle also lies in the fact that it is included in the General Framework for the Preparation and Presentation of Financial Statements as a basic concept for their preparation, together with accrual accounting (Horomnea et al., 2010, p. 60).

2. CHARACTERISTICS OF LIQUIDATION OF COMPANIES, ACCORDING TO THEIR LEGAL FORM

Dissolution of an undertaking varies depending on the nature of the company.

There are different causes for dissolution that appear only in the case of certain types of companies. For example, a stock company or a company limited by shares may be dissolved when it has less than two shareholders for a period exceeding nine months or has net assets of less value than half the share capital. In the first case, any interested person may request the dissolution of the company in court. However, if the company will have the minimum requested number of shareholders before a final court decision of dissolution, the operation will be canceled. The reduction of net assets to less than half of the subscribed paid capital occurs when losses are recorded and are settled by convening an extraordinary meeting of shareholders that could decide the company's dissolution. If, until a stay final judgment of dissolution the value of net assets is increased beyond that limit, the company will not dissolve. The extent to which the net assets can be reduced may be greater than half the share capital if this is established in the constitutive act. Whatever this limit is, the same procedure of convening an extraordinary general meeting is followed. This situation can not produce the dissolution of a limited liability company.

For companies in partnerships, limited partnerships or limited liability companies special cases that can determine the dissolution of such companies may occur. We may mention the case of the decrease in the number of associates in a firm of this type to one as result of bankruptcy, death, exclusion, withdrawal or incapacity of others, when further activity is not stipulated to heirs or a decision to change the legal form to a limited liability company with a unique associate is not taken.

For companies in partnerships, limited partnerships or limited liability companies whose dissolution was determined by the associates, it is not absolutely necessary to fulfill the liquidation procedure as set by the companies law, if the extinction of the liabilities is assured and the associates give their unanimous agreement on the distribution of the remaining assets. If the sharing method of the remaining assets after payment of creditors is not accepted with a unanimous vote, the liquidation procedure will continue as stated in the Companies law.

CONCLUSIONS

Even with new regulations regarding insolvency, in Romania there are still gaps in their implementation. An unconsolidated legal system, commercial legislation often ambiguous, involvement of the state by excluding from the scope of bankruptcy the public sector and increasing state aid favors a difficult bankruptcy procedure.

State aid should be directed to encouraging neglected areas, namely research and development or training. Therefore, as important as defining legislation is, it is more important to find solutions to improve implementation of the actual legal system. New procedures can be implemented in order to facilitate access to advice on difficult situations and how to face them and find the most effective solution. Also, a more transparent report of the financial and accounting situation would better show whether a company has difficulties or not.

It is necessary to prepare judges, by specializing them on bankruptcy laws and procedures, because they must have knowledge not only of legal aspects, but also about economic and financial elements in order to better understand certain operations. Another goal would be preparing insolvency practitioners to always find the most effective option for resolving cases of insolvency.

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INTEGRATION POLICY TOWARDS IMMIGRANTS: CURRENT EXPERIENCE

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Abstract. *In the contemporary world the intensity of the immigration movements is constantly increasing. Countries which experience great immigrant flows are facing numerous problems which should be solved. The article studies the current immigration flows in EU countries, the United States of America and Canada and presents three main models of integration policy towards immigrants – political assimilation, functional integration and multicultural model. Separate models are distinguished for the Muslims' integration. The author examines the peculiarities of every model and examines the conclusions provided by the Migrant Integration Policy Index (MIPEX) concerning the situation of the immigrants' integration in 31 countries in 2011. Among all the policy indicators the first that are defined are as follows: political participation, education, labour market mobility and anti-discrimination. The situation with immigrants' integration in Ukraine is also studied as it is gaining a great attention of the authorities and the public. The measures and practical steps done regarding this situation in Ukraine in recent years are analyzed using the information offered by the State Migration Service of Ukraine.*

Key Words: immigration, immigrants flows, integration policy, aliens, ethnic identity, society, citizenship

JEL Classification: J15, J61, J62, O15, F22

1. THE GENERAL OVERVIEW OF CURRENT IMMIGRATION FLOWS

The immigration phenomenon is becoming a characteristic feature of social and political history and current development of many countries. Geopolitical changes and demographic movements which took place at the end of the XXth century are reflected in the immigration flows. The immigration processes are among the most active debates and sharp discussions in the academic circles, in press, in the current scientific researches etc., taking into account their influence on many spheres of people's life. The intensity of migration flows in the contemporary globalized world of erased borders requires the working out of the balanced and correct immigration policy of the governments in order to coordinate migration movements and level of life of new-coming immigrants in the host societies. The scope and peculiarities of immigration experienced a significant modification and it became an essential part of global processes. Many researchers define immigration as a threat calling it a problem of the new century (Inozemtsev, 2003). Due to the United Nations Organization data, the total quantity of international migrants within developed industrial countries is 91 million individuals (Averin, 2006, p. 3).

Traditionally the United States of America, Canada, Australia and New Zealand are the countries which are considered to be the countries of immigrants. Thus, participating in the process of state and nation formation, immigrants have always been a significant factor in the social and political life of the above mentioned countries. And this fact has always been taken into consideration when developing the immigration policy at the federal and local levels both in the USA and Canada.

The European Union is also experiencing great immigrant flows. Joining EU opens borders and the flow of immigrants is increasing very much. Immigration is one of the challenges facing the EU. And though the immigration policy remains a prerogative of the national governments, EU is making attempts to develop some common approaches and measures for the harmonization of national immigration laws and making real solutions to pressing problems related to the global phenomenon of immigration. Currently in EU there are 32.5 million people which are non-nationals – according to the data published by *Europe Statistic Service (Eurostat)*. 6.5 % of the total EU population are foreigners and 9.4% are born abroad (this and further data is provided by Eurostat reports) (Vasileva, 2011, p. 2).

Upon recent data 75 % of immigrants are concentrated in five of the most inhabited countries of the EU: Germany (7 million immigrants), Spain (5.7 million), Great Britain (4.3 million), France (3.8 million) and Italy (9.2 million).

The biggest number of internal immigrants is from Romania (1.7 million), Italy (1.3 million) and Poland (1.2 million). The biggest number of immigrants non-native to the EU is from Turkey (2.4 million), then Morocco (1.7 million) and Albania (1 million). It is typical that in the new member countries of EU the rate of emigration is higher than the immigration one.

National representation of immigrants in different countries and regions of EU varies. In ten countries the group of immigrants who have the general ethnic identity is more than 30 %. Concerning this indicator the first place goes to Greece (here 64 % of immigrants are Albanians), Slovenia (47 % of immigrants are from Bosnia and Herzegovina), Hungary (37 % – Romanians), Luxemburg (37 % – Portuguese). A particular place goes to Latvia, where 90% of immigrants are treated as non-citizens.

Certainly, immigrants have a great contribution to the development of the country. Here, first of all it is appropriate to refer to experience of the USA and Canada. But also we should remember that the growth of immigration flows also causes the formation of large ethnic groups which may exist as detached societies. This process is followed by the complex of social and political, ethno-cultural problems, ethno-religious fragmentation of the host society, inter-ethnic conflicts, etc.

Sometimes the integration of young immigrants may fail. At the present moment the states are faced with a choice: what methods should be decisive and what principles should be dominant in order to prevent possible threats which immigration may provoke, its influence on identity and originality of a host-society, etc. To some extent both immigration and immigrants' issues have escalated as a result of the establishment and spreading of the multiculturalism concept and due to the most immigrants' increasing awareness of their own impact (Inozemtsev, 2003, p. 33). Among all other methodological principles, it should be mentioned that immigration as a part of the international migration processes has a significant role in the social changes of the modern society, as it also represents a result of the integration processes (Dmitriyev, 2004, p. 5). Great immigration flows in the current world cause a fear in the host society of losing control of the national borders and traditional sovereignty, a possibility that the race which is homogenous in its ethnicity may be diluted by the mixed marriages, a non-acceptance of foreign way of life, religion, culture, customs, etc. New-coming immigrants may also be treated as a threat to social goods, property of the nationals, etc. Not only immigrants are experiencing difficulties in a new country of residence. A host-society may also feel them (e.g. Muslims and their traditions). Numerous problems may arise. If immigrants are provided with the opportunity to keep their self-determination as a whole, it may strengthen an ethnic discord in the society. If efforts are made to integrate them, it may cause great financial expenses and provoke social dissatisfaction of the native population.

Within diversity of ethnic groups it is necessary to find such model of immigrants' integration in society which could provide a positive co-existence between the host society and immigrants, regardless of their ethnic origin. Governments try to find out ways how to incorporate new arrived immigrants to the native society and how and to which extent to suggest to them opportunities in the new country of residence, granting equal rights and responsibilities for all residents.

The attention towards immigrants' integration is increasing. According to the UN (2005), 24 countries among the 28 studied (except Japan, Malta, Iceland, and San-Marino) took integration measures towards immigrants.

2. MODELS OF THE INTEGRATION POLICY

„The better targeted immigration policies are, the more successful integration will be. This in turn will help to reduce the risk of political backlash against immigrants”, – declared OECD Secretary-General Angel Gurría. He also states that a much greater emphasis is needed on helping

recent immigrants to learn the host-countries language and to become familiar with the workplace practices.

According to numerous researches three main *models of the integration policy* can be distinguished: political assimilation, functional integration and multicultural integration:

1) Countries with a model of *political assimilation* provide immigrants with favorable conditions for citizenship in short terms if the identity of new citizens is defined by the national order, not by ethno-cultural or religious bases. Formally, when using the political assimilation model the state does not recognize the need of the ethnic minorities and does not take them into consideration in the practical policy. In the countries with such model of integration ethnic, cultural and religious issues belong to the immigrants private life. Such an approach has been specific to France for a long period turned out to be ineffective when taking into consideration the last events in the French society.

2) A model of *functional integration* or *social citizenship* foresees a full incorporation of immigrants only to the employment sphere and social security. Possibilities for their political participation and awarding citizenship are limited. Such a policy is conducted mostly in the countries where the basis of nation formation is concentrated in the idea of common origin of population (e.g. Germany, Italy, Greece).

3) In countries with a *multicultural model* different ethnic and race groups are recognized, the policy is directed to the ensuring equal rights to all ethnic minorities while the immigrants are keeping and preserving their own native culture and traditions. Relations between different ethnic/race groups should be regulated. The model is based on the antidiscrimination laws and the policy of equal possibilities and is characterized with granting political and civic rights to immigrants in a rather short time.

For the first time a multicultural model was introduced and established in Canada. Sometimes the researchers distinguish the Canadian immigration model among all others as a model that has improved its reliability and high effectiveness, and has also become an important instrument for the social and economic development of the country (Timashova, 2008).

Next, countries which used this model in their immigration policy were Australia and partially the United States of America. Why only partially in the U.S.? The answer can be found in the peculiarities of the US immigration policy and ethnic policy (rather the absence of the official ethnic policy). When it comes to multiculturalism in the U.S.A., its main idea is concentrated in originality (authenticity), that is interpreted as a commitment to the own racial or religious subculture, and its political credo is „multicultural democracy” (Chervonnaya, 1997, p. 13).

Later a model of multiculturalism (also known as the communitarian model) was brought to Europe, in particular to Great Britain, Sweden and Holland. But also it should be mentioned and stressed out that after the tragic events of September 11th, 2001 there are more and more appeals to depart from the principles of this model.

Sooth to say none of these models exists in the modern world. But all three models reflect the dominant attitude of the state governments towards immigrants' integration problems and their solution. That is because, to a great extent, the national specific of the integration policy depends on the attitude to the immigrants and ethnic minorities. Nowadays developed countries, taking into account some failures of the immigration policy in the past, new threats which they faced at the beginning of the XXI century as well as a positive experience, are looking through the models of integration policy towards immigrants. One of the reasons that may be defined is the ambition for consolidation of the host-society. The development of the immigration policy and balanced integration policy towards immigrants are aimed to help immigrants to form their relationships in the host society.

Some researchers distinguish separate models of *Muslims' integration*. They are the following (Zin'ko, 2008):

1) a model of *coming labour forces* that intensified between 1950 – 1960, when economic growth and lack of work force caused a significant demand for foreign immigrants. As immigrants took menial jobs their integration was treated as part-time, not permanent. There was no special programs of social integration of Muslim immigrants which might be intended to improve relations between Muslim immigrants and the host-society (the example of such model is Germany after WWII).

2) a model of *minorities* was based on the idea that immigration would have a permanent character. That is why the policy should be conducted considering religious and ethno-cultural factors. In the countries that uses such a model immigrants become a part of the society; ethnic societies are considered a necessary precondition of integration; the government ensures minorities' rights (e.g. Great Britain and Netherlands). But such social and economic integration turned out to be not very effective and caused ethnic conflicts and even acts of terrorism.

3) an *assimilation* model that examines immigrants as persons which have signed a social treaty with the state. Their stay in the country is acceptable as long as they comply with the laws and regulations of the host society and subject to the dominant culture (this model is implemented in France).

None of these classical models of Muslim immigrants' integration turned out to be effective due to the social and ethnic problems appearing in the countries with Muslim immigrants from time to time. EU countries are working out new instruments with a more effective integration process.

The most complete presentation of integration policies peculiarities is provided by the *Migrant Integration Policy Index (MIPEX)* that reflects approaches to the immigrants' integration process in 31 countries across Europe and North America. MIPEX provides thorough transparent information on immigrants' integration and compares integration policies of the mentioned countries, generally taking into consideration 148 policy indicators. The Migrant Integration Policy Index is intended to help policy-makers in taking decisions on how to integrate legal immigrants into society in the best possible way. The study is conducted by the British Council and the Migration Policy Group with support from around forty national organizations. There are project partners in every studied country.

The first study on integration policies was conducted in 2004 as the European Civic Citizenship and Inclusion Index. It included data of 15 EU states and received a positive evaluation from governments, NGOs, press and European Institutions such as the European Commission and the European Parliament. It was launched in Brussels, Madrid and London. The second edition of the MIPEX was conducted in 2007 and the number of states included in the study was increased to 28.

On the 28th of February, 2011 a new study was published. It covers more states and more policies – 31 states (all 27 European Union member states along with Norway, Switzerland, Canada and the USA). New indicators of the integration policy were added. The MIPEX of 2011 demonstrated great disparities which exist in the countries of Europe and North America concerning their integration policies towards the millions of immigrants who are legally living in the region.

The results of the study proved that, while change is gradually happening, there are still many obstacles to how immigrants integrate into societies. The value of Migrant Integration Policy Index is reflected in its ability to show all the peculiarities of the integration policies of every examined country to the general public, to increase the public awareness of the immigrants' problem and to stimulate the further development and improvement of those provisions which need more attention. The MIPEX promotes equality to all persons notwithstanding their origin and ethnic ground.

The major findings in the new study of 2011 include (Huddleston et al., 2011):

- *Political Participation / Citizenship* (Huddleston et al., 2011, pp. 18-20). – Gaining citizenship is an evidence of the full range of immigrants' integration to the new society. Generally immigrants are still discouraged from becoming politically active or gaining full citizenship. But

while reforming and improving integration policies, countries tend to open voting rights, dual nationality and birthright citizenship (e.g. Portugal, Greece, and Luxembourg; dual citizenship is allowed in Great Britain, Ireland, France, Spain, Canada). In some European countries with a strict immigration order citizenship means the end of the integration process and a kind of award for it. In the countries where immigration law is more liberal, in particular Canada, citizenship is regarded as a middle stage of the integration process, as an encouragement of the integration efforts. Most of all the citizenship is received by the immigrants in the form of *naturalization*. Northern European countries, Finland, Belgium, Luxemburg also gave amendments to the constitutions providing a right to vote for immigrants with a permanent residency. But this right is limited – it is valid only at the regional level. The percentage of immigrant participation in the elections varies, e.g. 12-17 % in Denmark, 25% in Norway, 30-40 % in Sweden.

- *Education* (Huddleston et al., 2011, p. 16-18). – Unfortunately policies generally fail to address to the needs of a new generation of diverse students. However there are several countries which are leading in this area (including the Nordic countries and Canada). Also schools in the United Kingdom are created to be some of the best prepared for immigrant pupils with a strong commitment to intercultural education.

- *Labour Market Mobility* (Huddleston et al., 2011, pp. 12-14). – Most countries guarantee equal and secure rights to work for reunited families and long-term residents. However, they are asked to fulfill more requirements that many nationals could not (income, age limits, tests without support to pass etc.). Nearly all countries guarantee legal immigrants *equal working conditions and access to unions* when they begin to work. But nearly half of them exclude immigrant workers who pay full taxes from parts of the social security system.

- *Anti-discrimination* (Huddleston et al., 2011, pp. 24-26). – A high percentage of EU population considers that discrimination on the ethnic base exists in their country. Many people also believe that even with an equal level of qualification the representatives of ethnic minorities have less opportunity to get a job. Among the European countries the *antidiscrimination law* exists only in Ireland, Netherlands, Sweden, Great Britain and Belgium where it has been accepted until the European directives of 2000 (two antidiscrimination Council Directives were adopted in 2000). A specific example is the program of positive actions that is realized mostly in the USA. It provides benefits to the ethnic and race representatives for employment or entering the universities. Now anti-discrimination laws are being strengthened in many countries. One of the strongest anti-discrimination is in the UK. However, very few countries have strong policies and bodies to promote equality in society.

An important aspect regarding the improvement of immigrants' legal status is *amnesty*. The amnesty is aimed to legalize illegal immigrants which have already partly integrated in the new society. In the USA, France and in the countries of the Southern Europe amnesties were quite regular. At the beginning of the XXIst century amnesties are also conducted in Belgium and even in Switzerland with its traditional strict immigration laws.

3. IMMIGRANTS' INTEGRATION IN UKRAINE

In Ukraine the issue of immigrants' integration is also of great significance. And has started to arise more awareness from the Ukrainian society and more attention from the Ukrainian government. Taking into consideration an increasing number of immigrants and the representation of numerous ethnic minorities in Ukraine, the geographical position of the country and the Ukrainian government's plans to put the Ukrainian law in correspondence with EU standards, it is understandable that the immigrants' integration policy needs proper attention, discussion and conducting some practical steps. This issue is examined both in the political and scientific circles. At the Chernivtsi National University this issue is also widely studied by the academia represented by Yurii Makar, Taras Lupul, Vira Burdiak.

In Ukraine the programs of integration as strategic tasks have been worked out and examined since 2004. Now it is a very good and correct moment to discuss immigrants' integration problems taking into consideration a law/institutional reform in Ukraine. It gives more possibilities to solve existing problems of immigrants' integration.

In Ukraine the immigrants' integration issue is among the topics on the agenda of *the State Migration Service of Ukraine*. It was established and began its work in December 2010. But as Viktor Sheibut, the deputy head of the State Migration Service of Ukraine, stated the problems facing the Service are not new at all. The international society is considered by the Service as a partner and support taking into consideration the European countries' experience in the field (*Round Table. Migrant Integration in Ukraine*, 2011). The Agency of International Labour Organization in Ukraine also deals with the problems of immigrants' integration within some programs.

The most important step in this area was made in June 15, 2011 when „The Plan of Measures Concerning Migrants' Integration into Ukrainian Society of 2011-2015” was enacted (The Plan of Measures Concerning Migrants' Integration into Ukrainian Society of 2011-2015, 2011). This document aimed to work out procedures of adapting immigrants in the Ukrainian society. It states

measures of immigrants' integration into Ukrainian society which have to be taken. Among them we distinguish the following:

- to reconcile foreign diplomas and certificates on education in Ukraine, to work out a mechanism of evaluation of immigrants' professional skills and qualification, refugees in particular (clause 1.1);
- to standardize programs of learning the Ukrainian language, history, culture, state system of Ukraine etc. (clause 2);
- to provide classes for learning of Ukrainian language, history, culture, social security system and health protection for immigrants and additional classes for graduate immigrant children to prepare them for entering institutions of higher education (clause 3);
- to work out educational programs in order to adapt immigrant and refugee children to the educational process (clause 4).

The Office for Democratic Institutions and Human Rights (Organization for Security and Co-operation in Europe) has a concept named „Integration of Migrants in Ukraine”. It is an analytical document that evaluates the assessment and needs of immigrants' integration in Ukraine. Ukraine does not intend to restrict immigration but it is going to manage it in the proper way.

For sure in Ukraine there is a lack of technical support for immigrants' integration programs. But to some extent technical support programs, even with the help of the EU, can not solve a problem until effective mechanism for such programmes implementation is worked out properly by Ukrainian government.

The presidency of Ukraine in the Committee of Ministers at the European Council offers it a unique possibility to develop immigrants' integration process. On June 13th, 2011 a round table was held in Kyiv, Ukraine dedicated to the immigrants' integration in Ukraine. At the opening ceremony of the event the speakers from the Organization for Security and Co-operation in Europe took the floor – Mr. Rene Bebeau, the senior projects officer, OSCE projects coordinator in Ukraine, Ms. Nathalie Tagweker, the deputy head of Democratization Department OSCE/The Office for Democratic Institutions and Human Rights and Mr. Viktor Shebut, the deputy head of the State Migration Service of Ukraine. The participants of the meeting delivered reports concerning the practical steps which had been already taken in Ukraine and suggested a plan for further actions having reached a conclusion that the immigration issue is of a great significance to Ukraine. The round table was organized in two main sessions:

1.1. The document of the Office for Democratic Institutions and Human Rights „Integration of Migrants in Ukraine: the Evaluation of the Situation and Needs”;

1.2. Current challenges to the migrants' integration in Ukraine: overview and necessity of the political intervention;

2. The ways of improvement of the migrants' integration in Ukraine: the role of state institutions, NGOs and international organizations.

The stability of the Ukrainian nation among other factors depends on the possibility to avoid contradictions in national and cultural relations. Taking this into account it's important to consider the necessity of the correct integration policy towards people of other ethnic origins. Ukraine has already made important steps towards enacting wide, thorough and detailed law in the field of immigration. But now it is important not to pause this procedure, but definitely move forward. In order to improve the integration of immigrants in the Ukrainian society and to make a progress concerning this issue it is necessary to fulfill „The Plan of Measures Concerning Migrants' Integration into Ukrainian Society of 2011-2015” as well as corresponding commitments to Organization for Security and Co-operation in Europe. It is also important to strengthen collaboration between organizations involved in the issue of immigrants' integration and to expand this network. The cooperation with the civic society and international organizations is also of a great significance. Immigrants' integration programs should be aimed to the need of different categories of immigrants, first of all to those which may be affected. They should be comprehensive, stable and long-term. A separate attention should be paid to the immigrants' status regulation and to providing immigrants with dwelling, medical protection, educational service, etc. And another issue that can not be overestimated and should be stated and done – not to forget about the necessity of raising awareness and spreading tolerance in Ukrainian society towards new-coming residents. The integration is a dynamic bilateral/two-way process of mutual accommodation.

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THE RESURGENCE OF NATIONALISM IN THE EUROPEAN UNION

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Abstract: *Considering the process of integration and the enlargement of the European Union, the continent's political map changed significantly during the last decades. For most of the European nations, facing the integration is going on the path of the economic and social improvement, which also involves important aspects about the nation-state (national identity, nationalism). This paper will focus on the meanings and the dimensions of contemporary nationalism and will later look at the impact of the nationalist ideas in the EU, in times of recession. The study found out that there are many perspectives of the EU challenging national economies and the state sovereignty but, at the same time, people are aware the imminence of the European identity in their economic and cultural future.*

Keywords: nationalism, national identity, European identity, immigration, populist parties

JEL Classification: F15, F52, F59

INTRODUCTION

In the European history, the idea of nationalism has very deep roots. The nationalist ideology is a chameleon over time, being adapted to the prerogatives of a certain nation, the theoretical interpretations of a historical period or to specific political circumstances. Certainly, nationalism is one of the major phenomena of the last two centuries, whose expression is a reflection of multiplying the nation-states from a dozen (mostly in Europe) to thousands. This increase demonstrates the strength of the principle of self-determination, which proclaims the right of people and nations to establish their own course of political, economic, cultural and social development, without outside interventions.

Under the aegis of globalization, important economic and political changes are occurring throughout the world, due to the activity of multinational or transnational corporations, interstate economic organizations or supranational organizations (such as the European Union), with a major impact on the sovereignty of the national state, considered to be more powerless in solving global problems such as: monetary policy, security, the regulation of commercial activities, etc. The new shape of world politics is emerging the idea of the state losing sovereignty in favour of higher political entities. There are many aspects of the European Union challenging national sovereignty. This fact is feeding the nationalist and populist criticism and is shaping a resistance phenomenon. Therefore, we can notice an antagonistic relationship between *nationalists*, focusing on the set of

interests and aspirations of a nation and *supra nationalism*, which reveals the possibility of higher authorities to manage and enforce rules and judgments directly to the national structures.

On the other hand, by facilitating trade flows, financial and international migration, integration seems to dissipate the political borders of nation-states, not only economical, but socially as well. The national identity is now facing especially the contact with other national cultures. In both, a sociological or psychological perspective, the approach of a unified society is paradoxically emphasizing notions as "difference", "identity" or "independence". Whether individuals are single or organized in communities, they always feel the need for distinction. The European Union understood this imperative, and therefore adopted the motto "Unity in diversity" (lat. *In varietate concordia*), which supports the reinforcement of national identities.

1. THE PAST AND PRESENT OF EUROPEAN NATIONALISM

An Encyclopaedia Britannica* overview submits that nationalism is an ideology based on the premise that the individual's loyalty and devotion to the nation-state surpass other individual or group interests. Otherwise, at a global level, nationalism is a doctrine that differentiates the individuals in their nationality. This view tends to be anachronistic in the context of a galloping XXIst century globalization. Inevitably, the new political system created the dilemma of nation-state. Furthermore, the socio-cultural interconnectivity leads to the emergence of nationalist ideas that are either justified or exaggerated.

Nationalism was the most successful political force of the XIXth century. According to the English economist John A. Hobson (2005) during the nineteenth century "the struggle towards nationalism, or establishment of political union on a basis of nationality, was a dominant factor alike in dynastic movements and as an inner motive in the life of masses of population. That struggle, in external politics, sometimes took a disruptive form [...] or sometimes it was a unifying or a centralising force, enlarging the area of nationality. [...] Sometimes nationality was taken as a basis of federation of States, as in United Germany and in North America. It is true that the forces making for political union sometimes went further, making for federal union of diverse nationalities, as in the cases of Austro-Hungary, Norway and Sweden, and the Swiss Federation.

However, the general tendency was towards welding into large strong national unities the loosely related states and provinces with shifting attachments and alliances that covered large areas." (p.3)

* www.britannica.com

In middle of the XXth century the European nationalism loses its original meaning becoming more aggressive, by promoting chauvinism, racism and xenophobia, especially in countries with dictatorial (fascist) regime. The Second World War ends with the communist regimes takeover, the nationalism being transformed in empathy for the national working class and xenophobia for the capitalist side. At the end of the century, the collapse of communism and the European Union enlargement were succeeded by the removal of anti-democratic aspects.

With the European Union, the national boundaries are redrawn. The supra-national character of the Union requires that all member states should surrender a part of their sovereignty by correlating the legislation and applying the directives of the European institutions. Supranational is normative, so the EU institutions (the European Court of Justice, the European Court of Human Rights or the Commission) impose standards on states. This creates a reaction from the far-right parties, seeking to redefine the principles of states and the national identity against the supranational institutions.

Many voices, from the academic or the political field, are putting into question the power of the nation state, the nationalist ideas and the future of national economies, as well. According to Riva Kastoryano (2010), nationalism is a major challenge for the EU by raising the issue of minorities, identity and diversity and questioning the Union's capacity to lead the states beyond their features. On the other hand, the economic recession proves once again that the emergence of nationalism is a condition.

In times of austerity, the far-right parties are rising in Europe, fed by growing nationalist resentments of citizens or immigrants. These parties have managed to legitimize policies by nationalist and protectionist approach, to please the people of Europe. Cas Mudde (2004 a) studies the issue of populist parties and defines them as „political parties that share an ideology which combine features as: nationalism, xenophobia, authoritarianism, or populism” (p.4). The same author claims that” nationalism entails a political doctrine arguing the convergence of state (the political unit) and nation (the cultural unit); xenophobia refers to the fear of anything alien (including people, ideas, habits); authoritarianism denotes a strict belief in law and order (yet not necessarily an antidemocratic attitude); and populism refers to an ideology that considers society ultimately separated into two homogeneous and antagonistic 'pure people' versus 'the corrupt elite', and which argues that politics should be an expression of the *volonté générale* (general will) of the people” (Mudde 2004 b, p. 543).

2. NATIONAL AND EUROPEAN IDENTITY

The meaning of national identity is based on the concept of nation-state (as its founding principle) that relies on cultural, historical or ethnic references. Therefore, the approaches of national identity are configured on cultural, ethnic or historical backgrounds.

Anthony Smith (1991) sees national identity as the most fundamental and inclusive of all collective identities (class, gender, race, religion, etc.). For Smith, the nation-states and the national identity are fundamental dimensions of the modern world, because of their omnipresence and universality. He claims that "in the cultural sphere, national identity is revealed in a whole range of assumptions and myths, values and memories, as well as in language, law, institutions and ceremonies. Socially, the national bond provides the most inclusive community, the generally accepted boundary within which intercourse normally takes place and the limit for distinguishing the 'outsider'. The nation may also be seen as the basic unit of moral economy, in terms of both territory and of resources and skills" (p. 144).

Smith (1991) speaks about national identity in political terms as determining the composition of the regime's personnel and legitimating the policy goals and administrative practices for every citizen. Also, "the nation and the national identity, by commanding the basic political allegiance of citizens, have become the only recognized source of 'inter-national legitimacy', of the validity of a system of states in each region and continent, and ultimately in the world as a whole." (p. 144).

Regarding the relations between the Union and the Member States, the European Constitutional Treaty brings the obligation to respect the national identities and the fundamental political and constitutional structures of the Member States*. Otherwise, statistics show that the feelings of belonging to EU are tending to be very similar in nature to the way citizens are proud of their nationality.

2.1 Protecting national identity

On a late 90's survey[†] initiated by The European Values Study questioning the opinion on the European Union, many people believed that EU was an organism able to protect national identity.

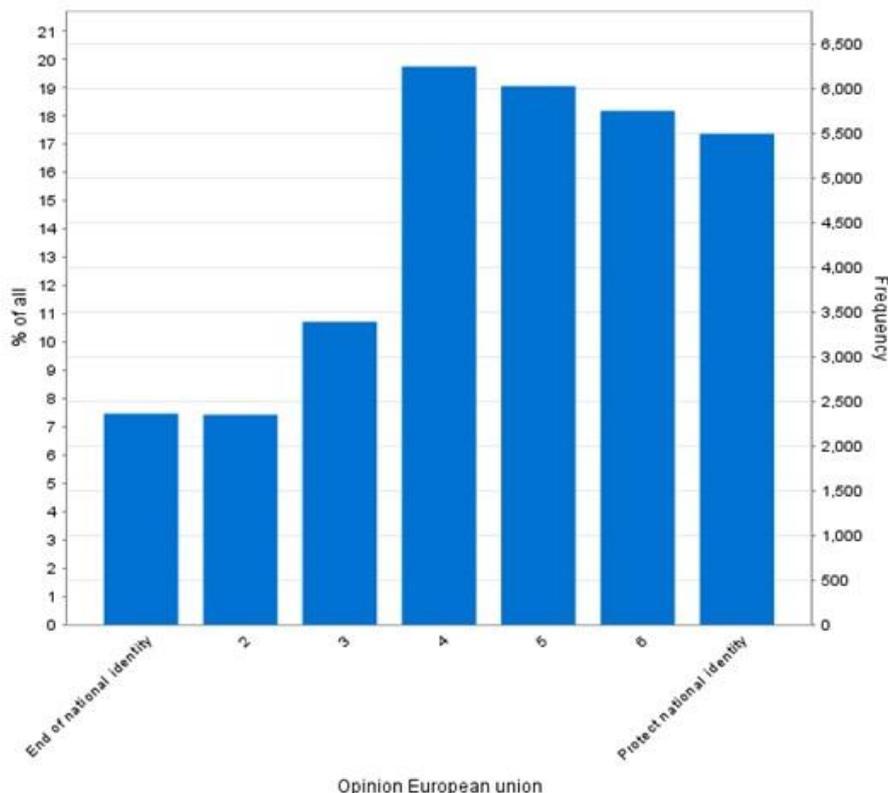
* http://europa.eu/scadplus/constitution/objectives_en.htm

† Research area: Albania, Armenia, Austria, Azerbaijan, Belarus, Belgium, Bosnia-Herzegovina, Bulgaria, Cyprus, Northern Cyprus, Croatia, Czech Republic, Denmark, Estonia, Finland, France, Georgia, Germany (East/West), Great Britain, Greece, Hungary, Iceland, Ireland, Northern Ireland, Italy, Kosovo, Latvia, Lithuania, Luxembourg, Malta, Republic of Macedonia, Republic of Moldova, Republic of Montenegro, The Netherlands, Norway, Poland, Portugal, Romania, Russia, Serbia, Slovak Republic, Slovenia, Spain, Switzerland, Sweden, Turkey, Ukraine.

For them, only a truly united Europe could protect its states national, historical and cultural identities and their national economic interests from the challenges of the superpowers. Few people were thinking that unifying the European states would mean the end of their national, historical and cultural identities. Their national economic interests would also be sacrificed.

As we can see in Figure 1, there is a greater percentage of the answers favouring the idea of European Union as protective for the national identity (about 75 %):

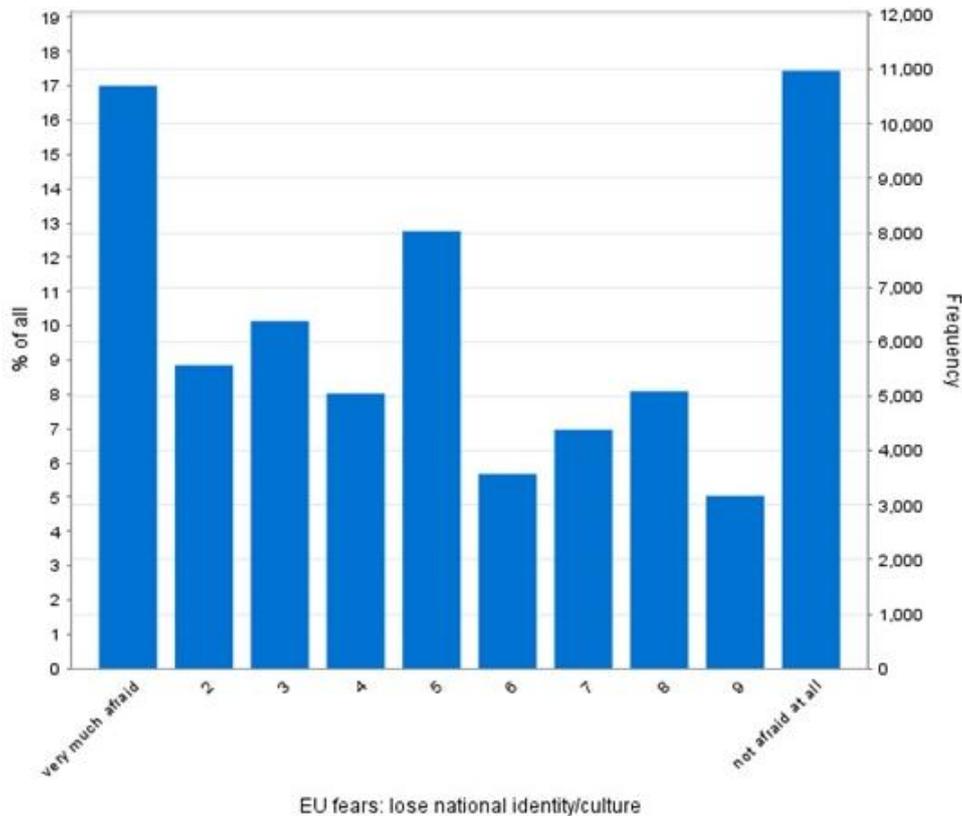
Figure 1 – Opinion on European Union: National Identity (1990-1999)



Source: Leibniz Institute for the Social Sciences (<http://zacat.gesis.org/>)

In 2008, the fear of loosing national identity was more intense, due to important factors such as the global crisis, the unemployment or the immigration. If ten years before some people may have had fears about the consequences of the European Union openness, in times of recession, the frequency of sceptical views has increased considerably. As we can see in Figure 2, the percentage of people who answered they were ” very much afraid” of loosing national culture or identity almost equals the percentage of negative answers, of people saying they are ”not afraid of all” (17%).

Figure 2 – Fear of losing national identity (2008)



Source: Leibniz Institute for the Social Sciences (<http://zacat.gesis.org/>)

2.2 Immigration

Immigration affects the national economic system and always represented an important social problem. The European nationalism of the XIXth century was an unifying force which brought together people of diverse backgrounds at the price of subordinating their ethnic identities to the larger territorial unit dominated by the secular state (Pamir, 2005). Today, with the EU consolidation, the state and the ethnic identities operate and interact in a larger, common space. With the dissipation of borders induced by increased international collaboration and the influx of labor force in the European market, it offers the opportunity for business to expand and for millions of people to have better jobs, higher incomes or just a better lifestyle. At the same time we are facing a negative phenomenon, because the mobility of individuals comes with the external migration phenomenon.

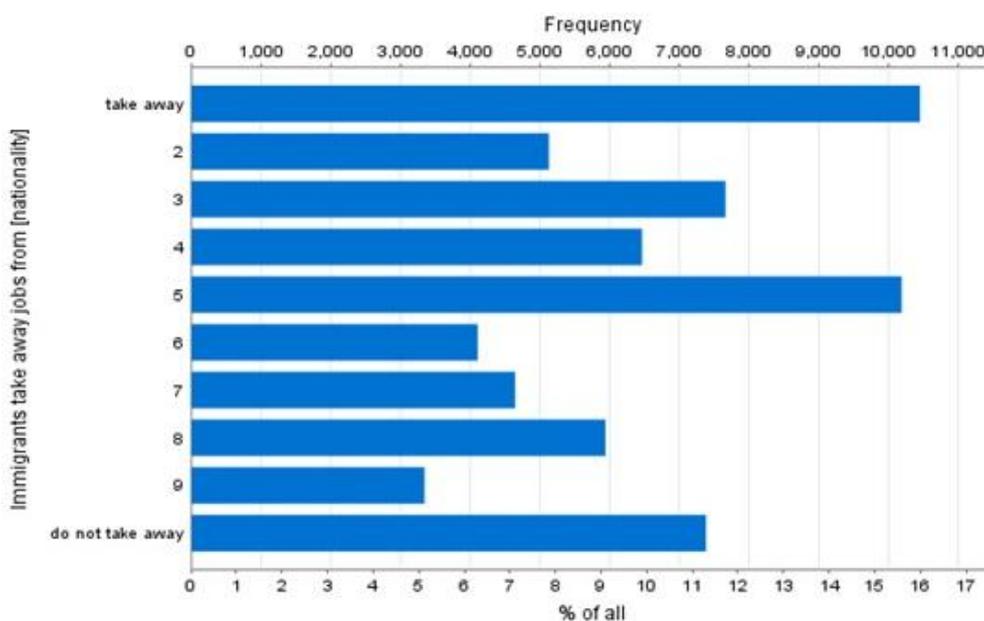
Furthermore, the international migration flows can be considered by the host population as a threat to the national identity and can cause nationalist reactions of rejection. In response to xenophobia of the host population the immigrants could preserve their national identity and

maintain strong links with the original community. Instead of a uniform European society, as a result of integration, we are witnessing an increasing diversity inside the national space.

Thus, penetration and mixture of individuals from different cultural backgrounds other than the reference country are leading to the development of multicultural communities, even within nation-states. In Europe, the evolution of multicultural states is a major threat to nationalist ideology, and migration continues to erode faith in the nation-state, being a challenge for cultural heritage of nations, as well. In fact, there is a rare situation when a state administers a homogeneous community. Therefore, nationalism finds expression inside the communities living within nation-states and aspires to autonomy or their own state constitution (e.g. the Hungarians in Transylvania).

As we can see in the below charts (figures 3 and 4), many people are considering that immigrants take jobs away from natives in a country and will become a threat to society, and only few disagree with this assumptions.

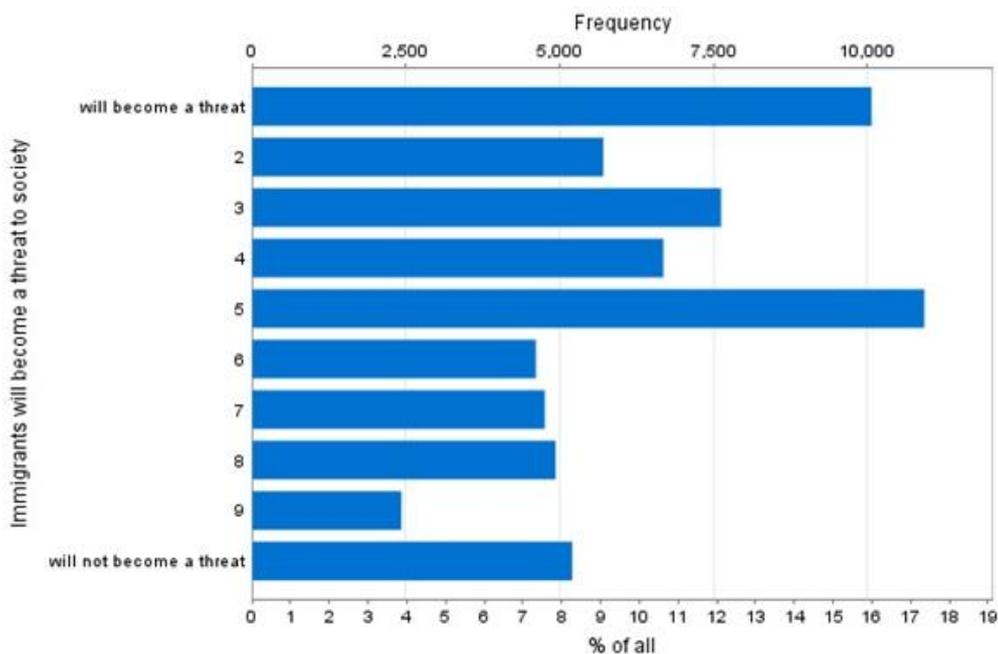
Figure 3 – EU citizens opinion on immigrants taking their jobs



Source: Leibniz Institute for the Social Sciences (<http://zacat.gesis.org/>)

About 40% of respondents asked in the survey believed that immigrants are causing damages on the national labor market. A similar percentage sees the future of society affected by the proportion of immigrants.

Figure 4 – EU citizens opinion on immigrants representing a social threat



Source: Leibniz Institute for the Social Sciences (<http://zacat.gesis.org/>)

2.3 The nationalist parties

The political and economic history of Europe shows us that the economic recession leads to the emergence of nationalism and enhances the credibility of nationalist governments. We have the example of the '29-'33 crisis that paved the way for Hitler or Mussolini's nationalist governments.

The current global recession hit hard the Euro Zone, challenging the economy and the common currency. Moreover, the instability, the negative "domino" effects of globalization, the inequality and poverty in developing countries, the dependence on powerful supranational bodies are often causing discontents and emerging nationalist ideas, that are expressed mostly through the voice of nationalist or populist parties. In Finland, Austria, Sweden, Denmark, Hungary, the Netherlands, Italy, France or Belgium the rise of populist, xenophobic, Europhobic parties are challenging the European democracy. They represent the voice of citizens, which are disrupted by the globalization, the job losses, or immigration.

BBC News Europe also indicates a resurgence of nationalism in Europe by recording the electoral results for some of the most successful nationalist/ anti-immigrant parties in Europe, exceeding 10 % (figure 5). The France National Front (FN), The Dutch Freedom Party and the Danish People's Party, which are anti-Islamist, True Finns party, in Finland, which is eurosceptic

and a strong opponent of the immigration, etc., they all have great political influence by achieving trust and votes from the electorate, in the past 3 years.

Figure 5 – Average votes for nationalist parties in the last 3 general elections



Source: www.stratfor.com

According to a STRATFOR* (2011) study, in the minds of many nationalist parties in Europe, the ongoing economic crisis "has corroborated much of that which they advocate: those immigration policies should be reformed, that the European integration process should be reverted, and that their national identities should be protected."

In central Europe, offensive or defensive nationalism are a source of tension between neighbor states, such as Hungary, which would grant Hungarian citizenship to ethnic Hungarians outside its borders and Romanians, seeking to complete the Romanian territory. Bulgaria is fighting

* The world's leading private intelligence firm (www.starfor.com)

against Muslim Turkish and Roma minorities. Each of these problems finds support in the progressive nationalist speeches of the populist parties. A degeneration of the situation is a major threat for the already fragile European populations, involving their habits and lifestyles.

The fact that EU states shared their sovereignty is a source of ambiguity, paradox and nationalist extremes, as well. Today's nationalism, far from defining the territorial boundaries of states, is expressed by targeting immigration, Islam or multiculturalism for strengthening the borders that define the national identity.

CONCLUSIONS

Nationalism is made in Europe; the historical experience of all European nations tells us that its story will never end. Great social and economic processes like the integration or the globalization can find a serious opponent in extreme nationalism.

Once again, in times of massive immigration and crisis, Europe encountered the resurgence of nationalism. Of course, restoring industrial and trade policies by making them more offensive could abolish criticisms against the economic openness of the EU. In addition, the acceptance of immigration may be assured by a more active integration policy.

Economic and cultural international relations will always be affected by the differences between people, providing tensions, intolerance, and rejection of the other. Not all these nationalist issues will withdraw in the near future. This is why the European democracy is often helpless in front of the simplistic populist thinking. Only by assuming and highly asserting its own values, the European model of society can defend itself and protect the national identity.

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www.starfor.com

THE IMPACT OF THE ECONOMIC CRISIS ON THE DYNAMIC OF INTERNATIONAL FDI

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Abstract: *FDI flows are internationally recognized for the benefits they generate (technological transfer, know – how, industrial reorganization, raising the number of working places). Foreign capitals increased significantly under the impact of globalization and accelerated the interdependencies between economies up to 2007, but, in the current crisis, the dynamic of FDI flows was affected in a negative manner, both in developed economies and in the developing ones. The aim of this paper is to reveal and analyze the evolution of FDI flows in the period 2007 – 2010, emphasizing the strong impact that economic crisis exerts. The results of the analysis presents the descending trend up to 2009, since 2010 being noticed a slight recovery which continued in the first trimester of 2011 and according to the forecasts will continue in the future.*

Keywords: FDI, crisis, economic growth, impact, mergers, acquisitions

JEL Classification: E22, G01, G34

INTRODUCTION

The role foreign direct investment (FDI) play in the economy of the beneficiary country, thanks to the advantages they provide is widely recognized. The globalization and enhancing the interdependence of international markets have simplified the free movement of foreign capital flows, thus exerting a crucial impact on economic development. FDI are considered the main factor in the globalization of the capital, and through it of the entire economy (Joong – Wan, 2003) through the influence that exerts on the modernizing process of the host country economy, these flows being appreciated as “the critical element of the economic growth, the promoter of the intensive, qualitative and efficient factors” (Munteanu and Tudor, 2009).

The evolution of FDI during the economic crisis emphasizes two fundamental aspects: on the one side, the descendant trend foreign capital flows recorded during the recession, but on the other side the unexpected changes considering the destination of these flows, raising the importance of developing and transition countries. The analysis of the international FDI flows reflect the crucial impact that the international economic – financial crisis has on FDI characteristics, on global commercial operations, the influences being different in various countries, from one sector to another, emphasizing the necessity of a sound and stable financial system.

1. FOREIGN DIRECT INVESTMENTS – STIMULATING FACTOR OF ECONOMIC GROWTH

The definitions given to the concept of FDI in the relevant literature reveals especially the capital transfer conducted by the foreign investor to develop economic activities in the beneficiary country through creating and extending the firms. The Balance of Payments Manual of IMF and OECD (1999) Benchmark Definition demonstrate foreign investors gain in a higher level of control, of influence and a raised level of power in the management of the resident company in the economy of another country. IMF (2009) includes in the category of foreign investor the one who has at least 10 % of the social capital of a company, being incorporated or unincorporated in a public or private enterprise or represented by a group of persons related or connected or not to companies which implement their activities in others countries than home.

FDI flows are a special form of foreign inflows, in which category Alfaro (2009) includes only Greenfield investments which permit the development of new production capacities or taking the control over an existing firm. The OLI paradigm Dunning developed presents the advantages foreign investor benefit through the decision of relocating his production in exterior: location, property and externalization. The options of foreign investors are justified first by their wish to reduce costs and to extend their economic activities for serving other markets through easing the access to supply and sales markets for raising their operational efficiency.

Foreign investors are motivated by an ensemble of factors which are in connection with the economic situation of the company, the development potential, the position and the structure of the market, the behavior in the competition, the existing of a certain level of internationalization and the experience gained from foreign contracts (Bojar and Zminda, 2008). The penetration of foreign capitals in the beneficiary country is also encouraged by the politics and tactics applied by responsible agencies for stimulating the access of FDI flows in the national economy. In most of the countries, FDI flows play a fundamental role in ensuring the national welfare through technological transfer, industrial reorganization, but the contribution that domestic investments have on following this objective cannot be neglected.

Foreign capital is an essential element of the privatization process of enterprises from the state sector of the host country, influencing the economy by stimulating development and competitiveness. The favorable economic and financial implications of FDI in former communist countries from Central and Eastern Europe are reflected by a higher rate of economic growth, through creating or extending the production capacities and the appearance of new consumers and

new tax payers. We need to admit that, beside the positive effect FDI generate (the improvement of the living standard of the population, the movements in the structure of occupied population, the favorable impact on the balance of payments by financing the current account deficit), foreign inflows may also have negative consequences at the macroeconomic level, whose appearance is directly dependent on the implementation process of the investment (Ivan and Iacovoiu 2008).

2. THE FDI DYNAMIC IN THE PERIOD 2007 – 2010 DURING THE ACTUAL CRISIS

“The longest, the deepest and the most comprehensive economic recession in EU history” in the approach of the European Commission, the crisis also manifested at the level of commercial and financial relations among countries through the strong decline of trade and investment flows in the EU, between member countries and the non – member ones, but also between the first ones and the global economy.

The global recession has left its mark on the dynamic of foreign inflows and the multinationals activity on international markets which encountered difficulties in obtaining the financial resources for performing the operations or extending them intern or extern. The turbulence on the international financial markets and the limitation of the financing possibilities drove to the appearance of the problems in the balance of the firms which were confronted with the risk of not ending the project. Foreign investors found themselves in the situation of restraining their expansion plans because the previsions for recovery of international activities were pessimistic. The consequences of the crisis on FDI flows are different in various countries, from one sector to another, according to statistics foreign inflows to developed countries are the most affected ones.

After a strong decrease at the beginning of 2000, FDI recorded a continual increase reaching in 2007 the value of 1979 billion dollars. The ascending trend of foreign capitals is confirmed by the values of some indicators used for performance evaluation (the value of Greenfield projects and transnational operations, the number of working places created across border). The increase of FDI volume was sustained by the accelerated development of multinationals, of interrelations between economies that facilitated technological transfers and the liberalization of international exchanges. UNIDO (2009) confirm the strong decrease of foreign investments, both on the inflows and the outflows side with a percentage of 34 %, respectively 52 %.

The domino and the contagious effect of the international financial markets played a fundamental role in the propagation and spreading the consequences of the crisis, influencing the

investments carried out in 2009 on the emerging markets and developing economies presented a 35% decrease, unlike developed economies where the decline was 41%. In 2010, the inflows in the developed economies easy contracted with almost 1% up to the value of 602 billion dollars under the influence of uncertainties considering international debts, but the inflows in less developed countries increased with 12% reaching 574 billion dollars, thanks to encouraging the recovery the economy and stimulating local demand.

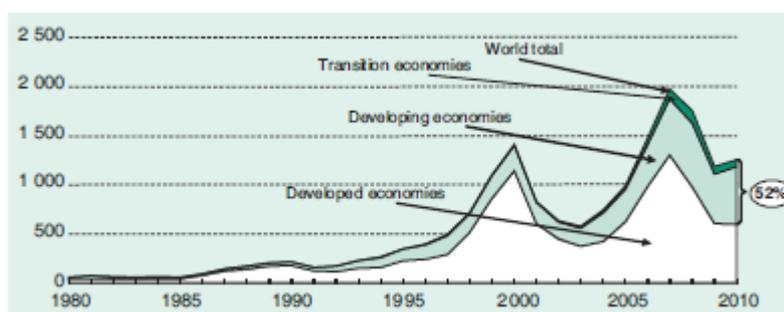
Table 1 – The structure of FDI inflows and outflows by regions and level of development in 2007 – 2010 (billion dollars)

| Region | FDI inflows | | | | FDI outflows | | | |
|-----------------------------------|-------------|------|------|------|--------------|------|------|------|
| | 2007 | 2008 | 2009 | 2010 | 2007 | 2008 | 2009 | 2010 |
| World economy | 1971 | 1744 | 1185 | 1244 | 2175 | 1911 | 1171 | 1323 |
| Developed countries | 1307 | 965 | 603 | 602 | 1829 | 1541 | 851 | 935 |
| Developing countries | 573 | 658 | 511 | 574 | 294 | 309 | 271 | 328 |
| Africa | 63 | 73 | 60 | 55 | 11 | 10 | 6 | 7 |
| Latin America and Caraibe | 169 | 207 | 141 | 159 | 62 | 81 | 46 | 76 |
| West Asia | 78 | 92 | 66 | 58 | 34 | 40 | 26 | 13 |
| South, East and South – East Asia | 261 | 284 | 242 | 300 | 187 | 178 | 193 | 231 |
| South – East Europe and CSI | 91 | 121 | 72 | 68 | 52 | 61 | 49 | 61 |
| Weight in global flows | (%) | | | | | | | |
| Developed countries | 68,8 | 57,5 | 50,8 | 48,4 | 84,8 | 81,5 | 74,5 | 70,7 |
| Developing countries | 26,9 | 35,6 | 42,9 | 46,1 | 12,9 | 15,4 | 20,8 | 24,8 |
| Africa | 3,0 | 4,1 | 5,3 | 4,4 | 0,5 | 0,5 | 0,5 | 0,5 |
| Latin America and Caraibe | 7,8 | 10,3 | 10,5 | 12,7 | 2,5 | 4,3 | 4,3 | 5,7 |
| West Asia | 3,7 | 5,1 | 6,1 | 4,7 | 2,1 | 2,0 | 2,1 | 1 |
| South, East and South – East Asia | 12,3 | 15,9 | 20,9 | 24,2 | 7,0 | 8,6 | 13,9 | 17,5 |
| South – East Europe and CSI | 4,3 | 6,9 | 6,3 | 5,47 | 2,3 | 3,1 | 4,6 | 4,6 |

Source: UNCTAD (2010), UNCTAD (2011), World Investment Report

The evolution of FDI flows in the analyzed period emphasized a significant decrease of global inflows with almost 37% in 2009 reaching the value 1185 billion dollars, while for the outflows the decrease was about 43%, down to 1171 billion dollars. In 2010 we have witnessed a moderate increase of world FDI flows to the value of 1244 billion dollars and even in these conditions the flows are 15% lower than the value before the crisis and 37% under the peak of 2007. The enhanced volume of FDI in emerging markets is justified by the favorable economic performances obtained by these countries.

Figure 1 – FDI inflows, global and by group of economies in 1980 – 2010



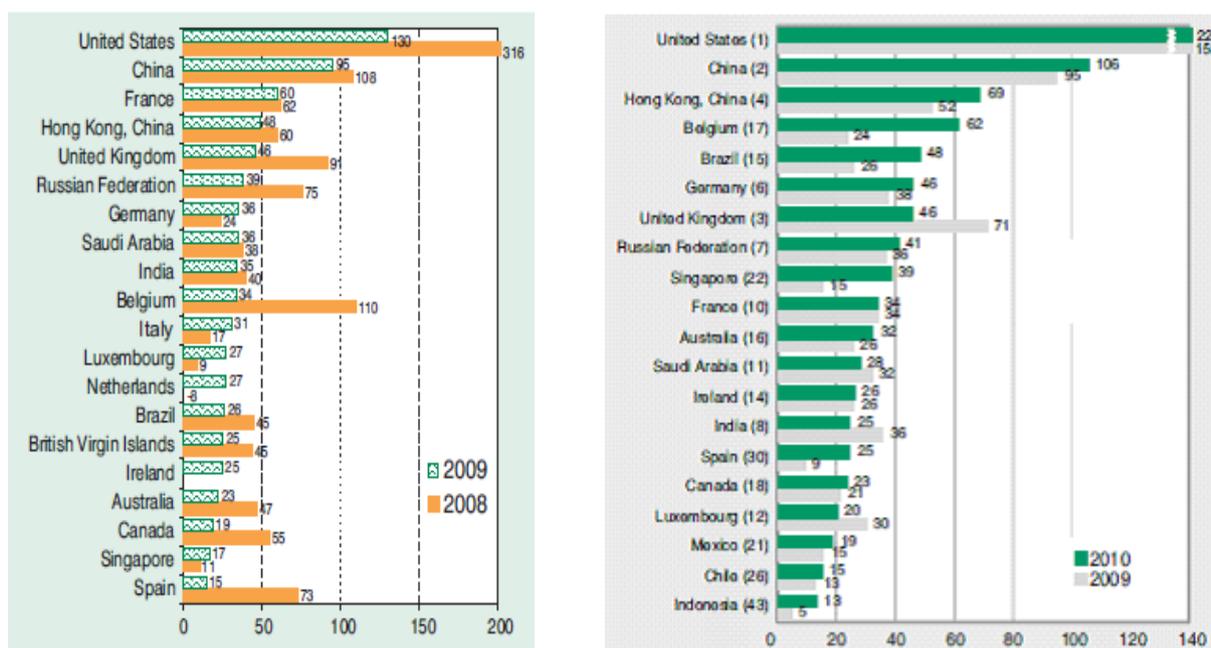
Source: UNCTAD (2011), World Investment Report

The actual economic crisis emphasized the flexibility of developing and transition economies to the current global economic situation, the increased volume of FDI at the beginning of the crisis in 2008 by 16 %, respectively 3 %, but in 2009 the contraction was about 21 %. LinYifu (2008) sees as a fundament for the strong momentum of the demand the FDI expansion considering that these flows have a high contribution to the world economic extend recorded in this decade, being very likely that the prevention of the deflation and economic depression to depend on maintaining a high degree of this increase. The relative decline of foreign capitals in new member states of the EU is strongly correlated to the restructure of productive capacities which determined new investments and rationalizations.

The significant impact on FDI flows is represented on the one hand by the negative dynamic of FDI because of the recession of the interdependency relationship on global financial markets and on the other hand by the increase of uncertainty under which foreign capitals change.

The actual financial crisis has produced changes in the hierarchy of beneficiaries and investors, through raising the relative weight held by developing and transition countries. International statistics proved the EU has a weak position as a fundamental recipient of FDI flows, the beneficiary top being dominated by the presence of developing and transition economies which in 2010 represent half of top 20, comparative to 7 positions in 2009. The United States and China have maintained their position in the chart and Indonesia was included for the first time.

Figure 2 – The main beneficiaries of FDI in the world in 2008 – 2010



Source: UNCTAD (2010), UNCTAD (2011), Word Investment Report

In the analyzed period, 2007 – 2010, we found that transnational operations of mergers and acquisitions have a major share in the FDI structure. In 2009, the value of investment in the primary sector decreased with 47 %, but the one in the agriculture sector also decreased. The most affected sector by the global economic recession is the non-metallic mineral products along with the mineral and metallic product industry. The sharp drop in the value of mergers and acquisitions caused the significant part of FDI decline in 2009. The volume of acquisitions abroad contracted with 35 % (65 % as a value) while the number of Greenfield investments increased with 15 % as the turbulence on the stock market reflects in the prices value of transnational operations.

Table 2 – The structure of FDI by type and host country in period 2007 – 2010

| Host country/ economy | Mergers and acquisitions – net transnational operations | | | | Greenfield investments | | | |
|--------------------------|---|------|------|------|------------------------|------|------|------|
| | 2007 | 2008 | 2009 | 2010 | 2007 | 2008 | 2009 | 2010 |
| World economy | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| Developed economies | 74 | 72 | 69 | 66 | 52 | 46 | 46 | 49 |
| EU | 39 | 38 | 32 | 32 | 39 | 34 | 30 | 31 |
| United States | 18 | 17 | 17 | 16 | 7 | 6 | 9 | 10 |
| Japan | 2 | 2 | 2 | 2 | 1 | 1 | 1 | 1 |
| Developing countries | 22 | 23 | 23 | 25 | 42 | 47 | 48 | 45 |
| Africa | 2 | 2 | 1 | 2 | 3 | 5 | 5 | 5 |
| Latin America and Caribe | 6 | 6 | 5 | 8 | 7 | 7 | 9 | 8 |
| Asia | 14 | 16 | 16 | 16 | 32 | 35 | 34 | 32 |

| | | | | | | | | |
|-----------------------------|------|------|------|------|-------|-------|-------|------|
| South - East Europe and CSI | 4 | 5 | 8 | 9 | 6 | 7 | 6 | 6 |
| Russian Federation | 2 | 3 | 4 | 6 | 3 | 4 | 3 | 3 |
| Total number of cases | 7018 | 6425 | 4239 | 1802 | 12210 | 16147 | 13727 | 4104 |

Source: UNCTAD (2010), World Investment Report

The actual economic crisis contributed to the development of new investment opportunities as a consequence to the decrease of active prices, restructuring some industries and developing new areas of activity.

For the following period, the objective was to encourage the economic growth as an effect of recovery of the economic activity and the volume of transnational operations. In the long term, the aim is to implement an international and efficient system, closely supervised stimulating the increase of FDI volume. According to UNCTAD estimations, FDI flows will continue their ascending evolution to reach 1400 – 1600 billion dollars in 2011, taking into account that the inflows in the first trimester of 2011 increased comparative to the same period of the previous year, following that in 2012 – 2013 the value of the flows to be close to 1700 billion dollars, respectively 1900 billion dollars.

The international economy recovery will occur in the context of conduct and compliance with an expansion plan of activities and transactions (mergers and acquisitions) of multinationals, the impact on increasing the volume of FDI promoting development of cross – border operations.

CONCLUSIONS

After a strong upward trend in FDI by 2007, foreign capital flows were deeply affected by the economic and financial crisis, both on the side of developed economies but also at the level of developing and in transition countries, the impact ranging from countries and on different sectors.

The national and international authorities manifest intensive concerns for the world economy recovery to achieve the aim of boosting economic growth, a process influenced by the stability of financial system and the politics and strategies adopted by the authorities to attracting a growing share of FDI, to combat effects on foreign capital flows, to attract international investment by appropriate policies, to create favorable conditions for attracting new flows of FDI and foreign investors and to restore confidence in international business.

International operations and economic activity recovery is a process that takes place with difficulty, being affected by inherent risks characteristic of the business and investment climate in

the regulations that govern them. Statistics show that FDI flows have a fundamental role in ensuring increased growth rates due to the benefits they generate in the host economy.

Although multinationals have a cautious nature of their activities on international expansion and development of their investment plans, in the global economy was a slight upward trend which, according to forecasts will continue in the future.

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THE ECONOMIC AND POLITIC RELATIONS BETWEEN BULGARIA AND GERMANY. A SHORT HISTORICAL PERSPECTIVE

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Abstract: *Members of the European Union, Germany and Bulgaria are united by the same values and expectations. Both countries aim to closer relations in order to insure economic growth and a high competitiveness level. The objective of this article is to present, from a historical approach, the evolution of the economic and political relations between Bulgaria and Germany. The methodological process adopted in the present analyses is of both qualitative and quantitative nature. The article uses data from theoretical and empirical research on the economic and politic relations between Germany and Bulgaria and presents them from a historical perspective. Even though they were hit by the economic crisis, the two member states of the EU continued to maintain their economic relation on a positive trend. The recovering German economy continues to help Bulgaria, which has a hard time coming out of the crisis. The good economic relationship between the two partners will continue to be successful, the trade and investment flows being expected to double until 2015.*

Keywords: Germany, Bulgaria, economic relations, trade flows, foreign direct investments
JEL Classification: F14, F59

INTRODUCTION

Members of the European Union, Germany and Bulgaria are united by the same values and expectations. Germany, founding member, and Bulgaria, member since 2007, aim to closer relations in order to insure economic growth and a high competitiveness level.

The cooperation between the two nations began during the First World War, when Bulgaria, wanting to control more territories, allied itself with Germany, in hope of receiving military help in Macedonia. Germany's defeat in the war meant the loss of some territories for Bulgaria. Regaining them was the determinate factor for entering the Second World War, again as Germany's ally.

The period between the two World Wars was characterized by intense commercial relations among the two nations. During this period, Bulgaria developed itself, some economic sectors recording growth bigger than the European average.

In 1930, Germany absorbed a very big part of the Bulgarian exports, thus increasing Bulgaria dependence to it. The German economy sold industrial goods in soft currency to Bulgaria, assuring the increase of the Bulgarian life standard. The Bulgarian government also wanted to develop

economic relations with France and the United Kingdom, but their lack of interest determined an increased proximity to Germany.

Due to a couple of very important reasons, namely the good economic relations linking the two nations, Germany's promise to help Bulgaria regain its territories and also the future wedding between Tsar Boris the Third with the daughter of King Victor Emmanuel the Second of Italy, Bulgaria entered the fascist alliance.

During the Second World War, being afraid not to offend Germany, Italy or the USSR, Bulgaria renounced its neutrality by becoming Hitler's ally. As a reward, Germany constrained Romania to give the southern part of Dobrogea to Bulgaria.

Although, initially, the relation between the two nations had a military purpose, the idea of a new Europe, united and transformed, changed their main objectives. The economical aspect is the main reason which explains the dynamic and fruitful cooperation involving Germany and Bulgaria.

The commercial exchanges and investment flows are at a very high level. Adding to this the historical bonds between them, started during the First World War, and Bulgaria's wish to learn from the best developed economy in the European Union, all of these imply very close economic relations. Germany's interest in Bulgaria is maintained by the advantages offered by the Bulgarian national economy and also by the degree of openness from the Bulgarian people for a new era of prosperity and economic growth. Thus, Germany supports Bulgaria in developing its economy and becoming more active on a global scale.

1. HISTORICAL PERSPECTIVE

1.1 Bulgaria

The Balkan Wars, started at the beginning of the 20th Century, meant the fall of the Ottoman Empire. The region gained its independence gradually and was considered to be part of the either one of the newly formed Balkan states. It fought to obtain its independence, while the big European nations (France, Germany, Great Britain, the Austro-Hungarian Empire and the Russian Empire) tried to gain more influence in the South-Eastern part of Europe. When Bulgaria wanted to extend its borders by taking Macedonia, it was met with great resistance from its neighboring countries, Serbia, Romania and Greece.

During the Second World War, Bulgaria allied itself with the Axis when it realized that it could not fight the German Wermacht, which was gathering in Romania, but also it refused to

openly declare war on the USSR. Tsar Boris the Third also refused to surrender the 50.000 Jewish Bulgarians to the German Forces. A national resistance was organized by the communists, which were against the interim fascist regime, which was instated after the death of the Tsar and the exile of the Royal Family.

In 1944, the USSR declared war on Bulgaria and invaded it. In September 1944, the fascist regime was replaced with a new interim government, The Patriotic Front – a coalition of parties, including the communists. At the end of 1945, the Front won the first free elections, but the coalition was usurped by the communists, which won the majority in the National Assembly. In September 1946, a new Constitution, with soviet influence, was enacted. The Royal Family, which returned after the War, was forced back into exile.

1.2 Germany

The modern national German state was composed, for a long period of time, from an association of smaller states. After the French Revolution, the German states fought against the invading armies of Napoleon.

Following the Revolutions of 1848, the first German Parliament was created. After the 1871 victory in the French-Prussian war, the German states united in one single national state, thus beginning a flourishing period of political, economic and military development. During this period, Germany became a world power, alongside Great Britain. In the next two decades, the Bismarck System was enacted, with great influences for the German economy and welfare.

At the end of the First World War, Germany's defeat was followed by the fall of the Hohenzollern Dynasty. The winning nations asked, by means of the Versailles Treaty, the division of Germany in two. After the fall of the Hohenzollerns', the country went through a crisis, the Nazi party coming to office. The Nazi leadership lasted for 12 years, being exerted exclusively by Adolf Hitler.

Although the German military power defeated countries such as France, Denmark, the Netherlands, Belgium or Greece, its attack on the USSR failed.

Even though it suffered a very hard defeat in the Second World War, after 1950 Germany recorded a speedy recovery and became the third economical power in the world. Thus, its role in creating the European Union was very important, being one of the founding members.

2. POLITICAL RELATIONS

At the beginning of the 20th century, in an effort to win Macedonia and other territories, Bulgaria engaged in the two Balkan Wars and aided Germany in the First World War. As a result, it suffered greatly.

The start of the First World War found Germany in need of allies. One of the countries which responded to Germany's call to arms was Bulgaria. German diplomats promised the Bulgarian government vast territories if it will join the Central Powers. Bulgaria took part in attack against Romania, after the latter joined the Allies. Although Romania was defeated, the Bulgarian army had to face the Greek, the Serb and the English, on the Greek front.

The downfall of the Austro-Hungarian Empire and the defeat of the Germans on the western front marked the end of the war. Bulgaria was punished by the Allies and constrained to give South-Western Thrace to Greece, a part of Dobrogea to Romania and a part of Macedonia to Serbia, which became the new national state of Yugoslavia. As a result, Bulgaria lost its access to the Aegean Sea.

In 1941, during the Second World War, Bulgaria became again Germany's ally, but decided to protect the Jewish community, which was around 50.000 people, from the horrors of the Holocaust. Like in 1915, the German representatives took advantage of Bulgaria's lack of allies and also of its historical demands of Macedonia. The good economic and political relations between the two nations in the 1930 had a major influence on Bulgaria's decision.

In 1939, Nazi Germany reached an agreement with the USSR, also known as the Ribbentrop – Molotov Treaty. After the fall of France, Bulgaria abandoned its neutrality, and obtained, in 1940, the south of Dobrogea from Romania, receiving help, of course, from the Germans and the Russians.

The war started out very promising for Bulgaria. In 1941 the Bulgarian government signed the Tripartite Treaty together with Germany and Italy. The German Wehrmacht had already dispatched over half a million soldiers in Bulgaria, for Operation Maritsa. These forces occupied Yugoslavia in April and Greece in May. The Nazis then invited the Bulgarian army to occupy Macedonia and Thrace. And, of course, the Bulgarians did exactly that.

Starting with 1942, the Bulgarian forces began to encounter soviet resistance. The pressure from the public and, also, its resources helped Bulgaria to resist the German demands to attack the USSR. But the Bulgarian government, fearing a negative reaction from the public, did not declare

war on Russia. Under these circumstances, the Russian diplomatic representatives could remain in Sofia.

In august 1943, Tsar Boris died mysteriously, a few weeks after returning from a visit in Germany. The Bulgarian people were left without a leader, in a war which was already lost. In 1941, the new government foolishly declared war on Great Britain and the United States. As a result of this, in 1944 the Soviet army attacked Bulgaria and conquered it in a single day.

The economic policies enacted during the war in Bulgaria were almost all developed by the Filov government, but were implemented without full political authority. The German interference and the political opposition both played an inhibitor role. The efforts of the government to include the industrial and the agricultural sector in the military mobilization resembled central planning. These efforts were foiled by the bilateral relations with the German war economy.

Today, the relations between Germany and Bulgaria seem almost perfect, not only from a diplomatic point of view, but also political, economic and social. The Parliaments in both countries have a keen interest in promoting bilateral relations. The new Bulgarian government looks at Germany as a strategic partner in the European Union. Bulgaria has an embassy in Berlin, a general consulate in München and a diplomatic office in Bonn.

The most recent aspect which highlighted the good relation among the two states was the ceremony held on behalf of Chancellor Angela Merkel, during a diplomatic visit in Bulgaria in October 2010. The aim of the action was to award the Chancellor a number of medals and honorary titles and to show the gratitude of the Bulgarian people for the German governments' contribution in freeing the seven Bulgarian doctors, which had been held captive in Libya. Furthermore, President Georgi Parvanov wanted to thank Germany for supporting Bulgaria to become a member of the European Union. Replying, Angela Merkel said that Bulgaria is on the right path to success and that the German government supports their efforts to join the Schengen Agreement.

3. ECONOMIC RELATIONS

3.1 The German Business Environment

One of the biggest economies in the world offers a very stable political environment, and also liberal policies which come to support the commercial and financial flows. The German economic environment is based on a solid and trustworthy legal framework. Being the largest European

economy, Germany is a key member of a number of European economic, political and defense organizations.

The German economy is mainly focused on export, being the second largest exporting country in the world, after China. The key aspect which can explain the large number of exports, which are estimated at around 1.100 billion dollars, are the German firms, national and multinational, which have a very high capacity of developing and implementing new technologies. The national market benefits from a very high level of competitiveness and a very good legal framework. All of the above mentioned aspects contribute to making the German economy a very good destination for FDIs.

Even though Germany was not immune to the recent economic crisis, it managed to recover a lot faster and more efficient than other developed economies. In the competitiveness top for 2010-2011, Germany went up 2 places, from the seventh to the fifth place, mainly because of its macroeconomic stability. In the competitiveness top for 2011-2012, it went down 2 places, back to the seventh place.

3.2 The Bulgarian Business Environment

Bulgaria is one of the biggest European producers of zinc, copper and lead and also the most important exporter of electricity from the South-East of Europe.

The Bulgarian economy is regarded by both the European Union and the U.S. as a functioning capitalist economy. In the last years, it achieved a very high level of macroeconomic stability, all because of a good mix of policies, which were based on modifying the exchange rate, having a firm fiscal approach and stable salaries. As long as the government maintains its position, economic growth is possible.

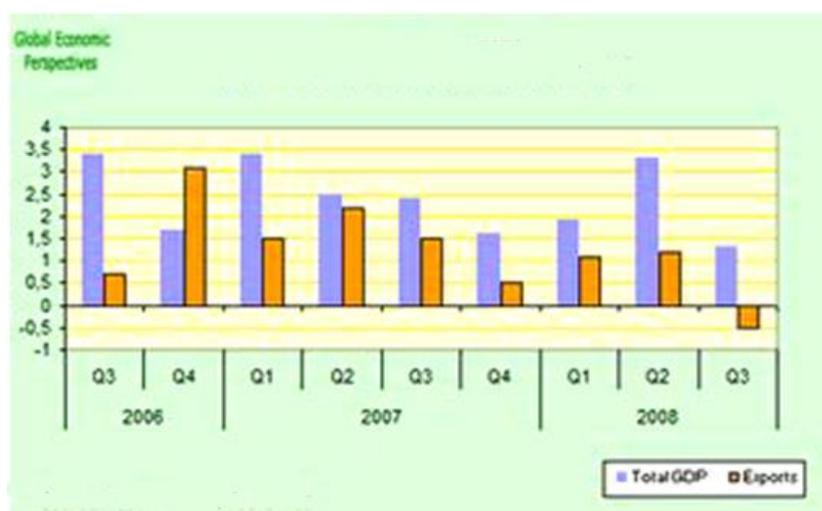
At the same time, Bulgaria's economic growth shows positive trends on areas such as tourism, financial markets and the banking system.

Another advantage Bulgaria has to offer is the qualified work force, competent in using a computer and also quite cheap by comparison to the western European states. The infrastructure has been developed, mostly using financial aid from the EU.

3.3 The economic relations before the crisis

In 2007, when the economic crisis began, the German minister for economy and technology, Michael Glos, announced the triumph of the German economy. Solid public finances, a decrease of the unemployment rate, an income increase for the general population and better opportunities for the national companies helped Germany retain, for one more year, its title as the leading exporter in Europe. Probably this situation explains why 47 % of the German GDP comes from export activities.

Figure 1 - Germany GDP Components (% point contributions to y-o-y GDP Growth)



Source: Federal Statistics Office

At the same time, the German foreign investments continued to grow. Being an opened and emerging economy, Bulgaria could not be overlooked by Germany as commercial and financial partner. What is more, from an economical point of view, Bulgaria has a strategic position in the eastern part of Europe, where Germany has important commercial interests.

In 2007, the Bulgarian exports to Germany were estimated at around 1.39 billion euros, representing an increase of 19.5 % per year. The imports also increased with 19.4 %, adding up to 2.7 billion euro per year. With exports and imports that represent 10.3 % and 19.4 % from the total number, Germany is considered to be the third commercial partner for Bulgaria.

Bulgarian exports consist mainly of clothing items, metal products, chemical and pharmaceutical products. On the other hand, the Bulgarian economy depends on import such as cars, machinery, electric and electronic products etc.

Even though these bilateral relations generate important revenues for both parties, the differences between the import-export activities in the two countries are quite big. For example, the German policy for promoting export was implemented very well, Germany recording a value double to the Bulgarian imports.

The development of the German international commercial activity can be explained by referring to three structures: the German Office for Foreign Trade, the commercial departments within the embassies and the bilateral Chambers of Commerce.

The German ambassador in Bulgaria, Michael Geier, declared that even though there are “big players” on the market, the SMEs are the one which invest the most in Bulgaria. But although they have created jobs in isolated areas of the country, their production is small. That is why Germany is considered to be only the seventh investor in Bulgaria, with around 893 million euro between 1996 and 2007. A closer analysis on this situation shows that investments which are bigger than 100 million euros a year are very scarce. Between 1996 and 2007, only in 2004 and 2006 were there recorded investments bigger than 100 million euro (276 million in 2004 and 110 million in 2006). The yearly average was between 90 and 96 million euro.

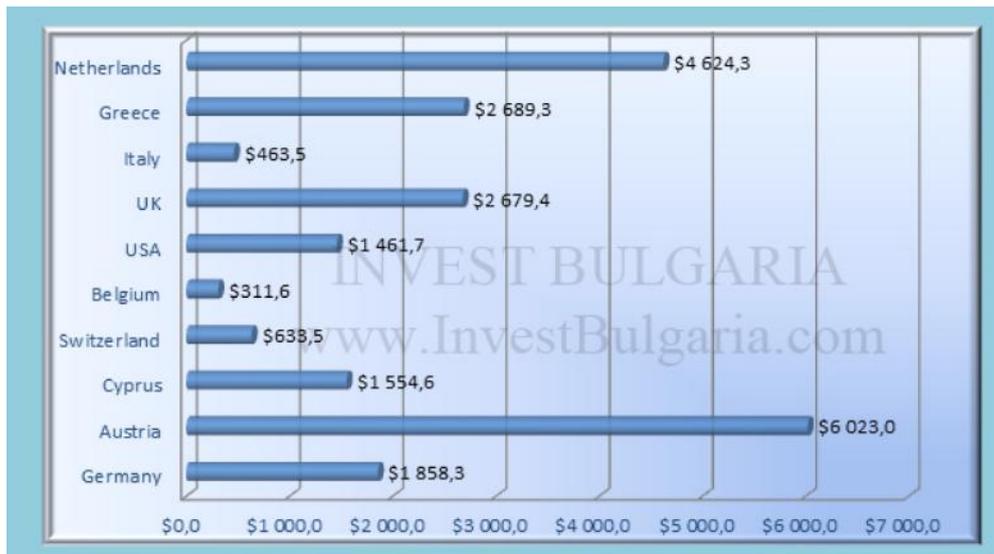
Most of the German investment projects in Bulgaria are considered to be strategic, Greenfield investments being preferred in the majority of cases. Among the biggest investors in Bulgaria one can find the energetic giant E.ON, the media group WAZ, the cement producer Heidelberg Cement, the real estate developers Linder International and ECE Project Management, the retailers Kaufland and Metro and the financial groups Allianz and ProCredit Bank.

Even if the commercial and financial flows are mostly one-way, the interest for doing business is mutual and is maintained through bilateral visits.

3.4 The economic relations after 2008

Due to the evolution of the global economy, in 2009 the trade flows between the two states were estimated at around 3.2 billion Euros, one third less than it was in 2008.

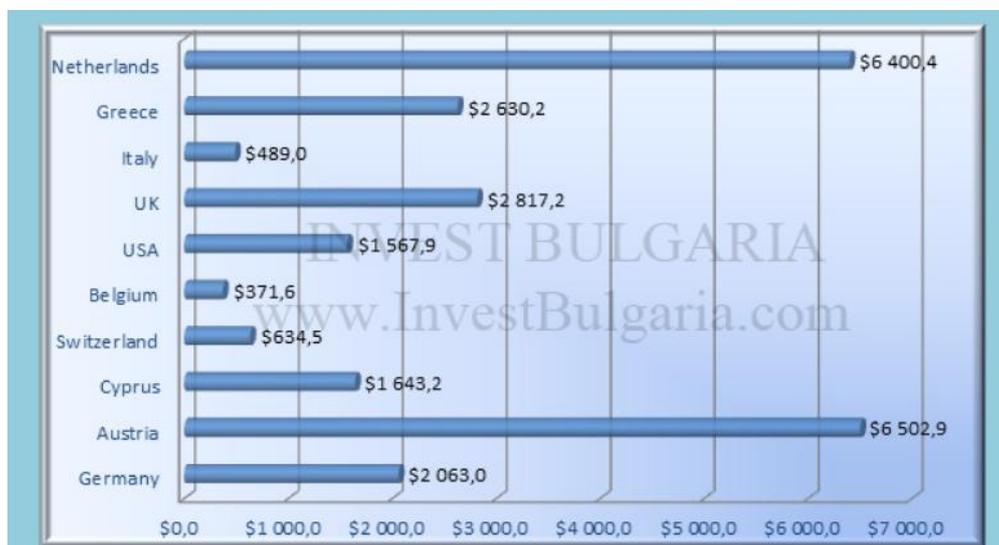
Figure 2 - Foreign Direct Investments in Bulgaria by country of origin in 2008 (millions USD)



Source: www.investbulgaria.com

Germany was the fifth foreign investor in Bulgaria, with 1858,3 million USD, after Austria, The Netherlands, Greece and Cyprus. These investments were made in areas such as trade, transportation, services and the energetic sector.

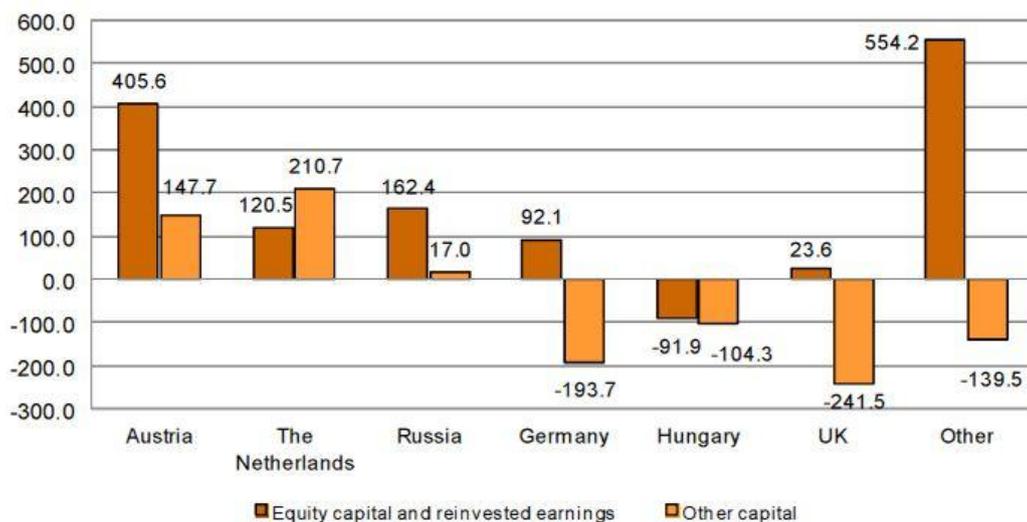
Figure 3 - Foreign Direct Investments in Bulgaria by country of origin in 2009 (millions USD)



Source: www.investbulgaria.com

In 2009, Germany maintained its position as the fifth foreign investor in Bulgaria, with 2063 million USD, again after Austria, The Netherlands and Greece. As it can be seen, the German foreign investments increased by 204.7 million USD, by comparison to the previous year.

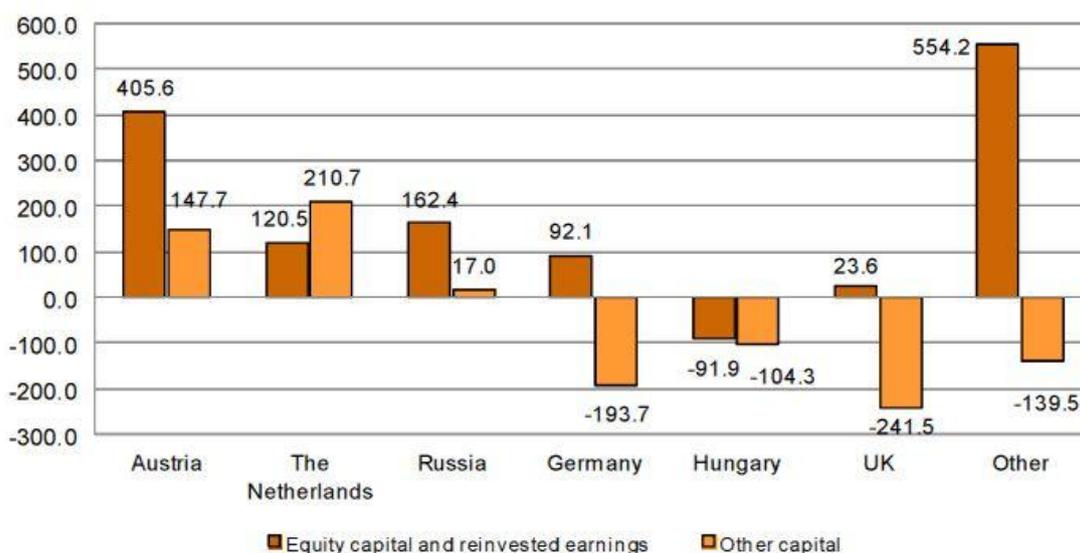
Figure 4 – FDI in Bulgaria by country of origin, 2010 (million EUR)



Source: Bulgarian National Bank Statistics

By country, the largest net direct investments in Bulgaria for the period January – December 2010 were those of the Netherlands (EUR 1,408.5 million), Germany (EUR 159.1 million) and Belgium (EUR 124.2 million). The net payments to Austria, the Netherlands Antilles and the UK amounted to EUR 684 million, EUR 100.4 million and EUR 187.4 million. The higher net receipts from the Netherlands and respectively net payments to Austria were mainly due to transactions associated with revolving intercompany credits.

Figure 5 – FDI in Bulgaria by country of origin, 2011 (million EUR)



Source: Bulgarian National Bank Statistics

By country, the largest direct investments in Bulgaria for the period January – December 2011 were those of the Austria (EUR 553.3 million), the Netherlands (EUR 331.2 million) and Russia (EUR 179.4 million). The largest negative flows for the period were towards Germany (EUR -101.6 million), Hungary (EUR -196.2 million) and United Kingdom (EUR -217.9 million) mainly due to net payments on intercompany credits in accordance with the loan repayment schedules of enterprises.

Table 1 - FDI in Bulgaria from Germany

| Year | Value (millions EUR) |
|-------------|-----------------------------|
| 2008 | 783.3 |
| 2009 | 271.4 |
| 2010 | 185 |
| 2011 | -101.6 |

Source: Bulgarian National Bank Statistics

As it can be seen, starting with 2009, the investment flows from Germany to Bulgaria began to drop.

Table 2 - FDI in Germany from Bulgaria

| Year | Value (millions EUR) |
|-------------|-----------------------------|
| 2008 | -11.4 |
| 2009 | -7.2 |
| 2010 | -3.1 |
| 2011 | -9.1 |

Source: Bulgarian National Bank Statistics

A brief explanation for the negative values recorded for the investment flows from Bulgaria to Germany can be the net payments on intercompany credits in accordance with the loan repayment schedules of enterprises.

In 2010, the trading activities generated approximately 3.7 million euro. By comparison to the previous year, this represents a growth by 13%. The Bulgarian exports to Germany increased by 25%, and the German export by 7.47%. Until 2015 it is expected that the trade flows between the two countries will reach a value double to the one recorded in 2009. Also, the same is expected for the investment flows.

The Bulgarian - German Chamber of Commerce and Industry ordered a survey regarding the Bulgarian business environment. The answers given showed that the current business environment is satisfactory, but the Bulgarian economy is still not out of the crisis. The general conclusion of the survey was that there is a positive attitude from the public concerning the Bulgarian business environment. The German and Bulgarian companies which took part in the survey expect an increase in the number of jobs, the investment flows and of the turnover.

The survey also asked about link between the Bulgarian business environment and the investments. For the German investors Bulgaria offers many advantages, such as low taxes and qualified and cheap work force, by comparison to other European countries. In addition to this, the most important aspect of the Bulgarian economy is a good anti-corruption policy, alongside a good infrastructure and security.

A very important aspect in the economical relation between Bulgarian and Germany is tourism. It is estimated that around 550.000 German tourists visited Bulgaria in 2009, most of them choosing the Black Sea resorts.

With over 450 members, the Bulgarian-German Chamber of Commerce and Industry is the most important institution which represent the German economic interests in Bulgaria and also the Bulgarian firms which do business in Germany. Also, it is the biggest bilateral Chamber in Bulgaria and it offers different services to companies and firms.

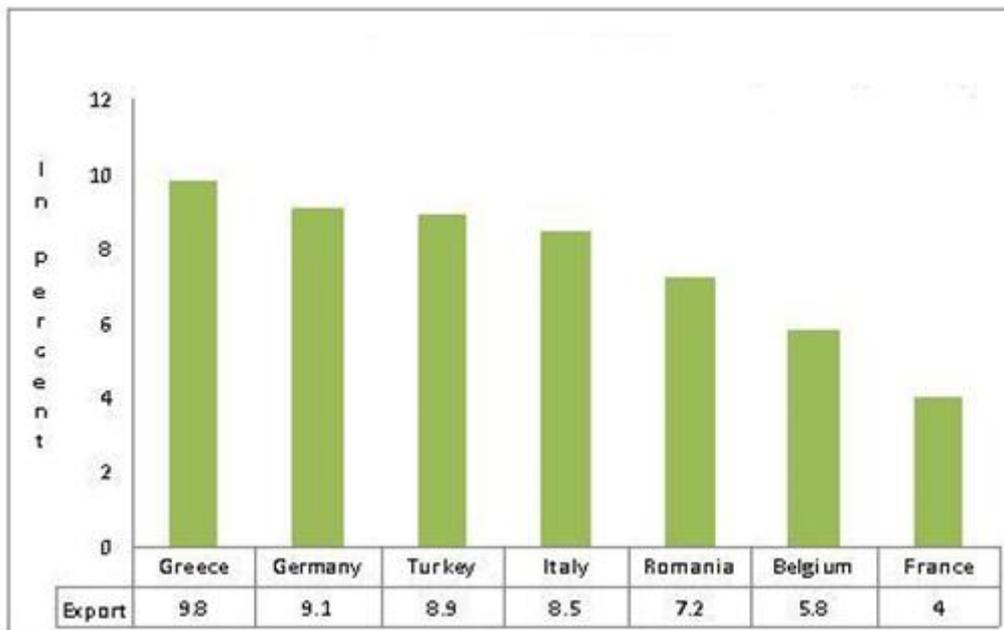
Regarding the Bulgarian EU membership, it is important to point out Germany encouraged the process by supporting the Bulgarian SMEs, the agricultural sector and the public sector. It offered Bulgaria a financial aid of around 200 million euro for the next 15 years.

Germany is a keen advocated for the development of the Bulgarian energetic sector. This sector is regarded as very important by the German investors because of the perspective of efficiency and the renewable resources.

By contrast to the German economy, the Bulgarian economic and industrial sectors seem insignificant. But the proverbial German attention to details, which has put the German economy on the map, can be also found in Bulgaria. It was almost inevitable, taking here into consideration the fact that Germany targeted the central and east European markets before a part of them became members of the European Union in 2004 and 2007. They focused their attention and efforts in this region because of the potential for economic growth, the political and economic stability and the geographical proximity.

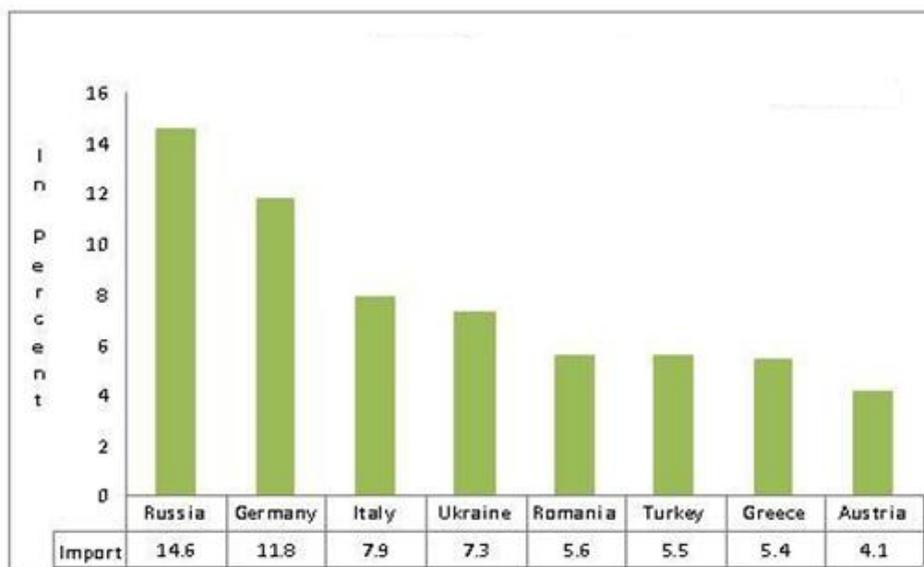
Although the economic crisis slowed down the growth and development in both countries, the commercial relations between them were maintained at a constant level. In 2009, when the two states were in the middle of the crisis, Germany was still Bulgaria's second trade partner.

Figure 6 - Bulgarian exports by country of destination in 2009



Source: Bulgarian Ministry of Economy, Energy and Tourism

Figure 7 - Bulgarian imports by country of origin in 2009



Source: Bulgarian Ministry of Economy, Energy and Tourism

Even though the imports from Germany have decreased with 30.6 % by comparison to 2008, at around 4 million lev, the Bulgarian exports to Germany diminished only with 4.5%, equal to 2.6 million lev. For Germany, Bulgaria was in 2009 the third import source.

Table 3 – Annual value of Bulgarian imports from Germany

| Year | Value (millions EUR) |
|-------------|-----------------------------|
| 2008 | 2753.9 |
| 2009 | 1865.4 |
| 2010 | 2004.9 |

Source: Bulgarian National Bank Statistics

Bulgaria imports from Germany dropped in 2009, from 2753.9 million EUR in 2008, to 1865.4 million EUR, but recovered starting with 2010. Germany is the main Bulgarian import source, with a share of 20,3% of total Bulgarian imports.

Table 4 - Annual value of Bulgarian exports to Germany

| Year | Value (millions EUR) |
|-------------|-----------------------------|
| 2008 | 1383.3 |
| 2009 | 1320.4 |
| 2010 | 1658.7 |

Source: Bulgarian National Bank Statistics

Like the imports, the Bulgarian exports also experienced fluctuation. These dropped in 2009, from 1383.3 million EUR in 2008, to 1320.4 million EUR, but recovered in 2010. Germany is also the main destination of Bulgarian exports, absorbing 17% of total exports.

The signs of recovery from the economic crisis showed by Bulgarian economy starting with the second part of 2010 come to support the good relationship among the two countries.

Bulgaria can improve its business environment by copying a couple of German laws. The Bulgarian-German Chamber of Commerce and Industry suggested 101 amendments to 24 Bulgarian laws, with the purpose of improving the legal framework. The list was presented to Prime Minister Boiko Borisov and his Cabinet, for analyses and further improvement.

A task force composed of members from Chamber of Commerce and representatives of the government analyzed the proposition and presented the Prime Minister the changes which had to be

made within the Bulgarian legal framework. All the changes were made until the Angela Merkel's visit to Sofia in 2010.

Although the proposition targeted areas such taxation, intellectual property laws, banking and vehicle registration, the list also spoke about constitutional amendments for offering better economical assistance to the Bulgarian citizens.

A sector which the BGCCI consider being very important is the energetic one. E.ON is already one the biggest investor, covering the northern and north-eastern part of Bulgaria. RWE was set to begin investing in Bulgaria, with the target to become the second energetic company in Bulgaria, but funding problems prevented this from happening.

Germany plans to relinquish nuclear energy and focus its attention on alternative renewable energy sources. German companies are expected to invest in solar and wind power plants.

CONCLUSIONS

Even though they were hit by the economic crisis, the two member states of the EU continued to maintain their economic relation on a positive trend.

The recovering German economy continues to help Bulgaria, which, alongside Romania, has a hard time coming out of the crisis, this situation being amplified by the sovereign debt crisis in Greece. The good economic relationship between the two partners will continue to successful, the trade and investment flows being expected to double until 2015.

Even if some sectors have recorded decreases in productivity as a result of the crisis, generally speaking the situation is benevolent, the analysts stating that both Germany and Bulgaria are going to continue their good economic exchanges. On the contrary, Germany is investing massively in Bulgaria, although most of the investments are in SMEs. By comparison to the German economy, which is drastic and firm, the Bulgarian legal framework is a somewhat more lenient. If in Germany, to compete on the national market an investor must have good management know-how and durable financial assets, in Bulgaria the business environment is more relaxed. Still the German economy has given, as a model, a number of amendments for Bulgarian legal framework, including the constitution, in order to improve it. It must be said that corruption is one of the biggest problems Bulgaria has to face nowadays, and one step closer to stopping the phenomenon can mean one step closer to political and economic stability.

The good relationship among the two European states can also be viewed in terms of the Bulgarian-German Chamber of Commerce and Industry. Its activity is regarded of being of great

importance and complexity, its members being constantly informed and guided in order to create and implement good and durable businesses, for both parties. The Chamber was opened in 2004, as a result of Germany interest in the Bulgarian business environment.

As a general conclusion it can be stated the Bulgaria's wish to have economic growth, to overcome the crisis, to copy the west-European pattern of economic development and to align itself to the European standards make for a good, durable and constantly developing economic relationship between the two countries.

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THE EMERGENCE OF *LA DECROISSANCE**

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Abstract: *The paper aims to provide an overview of the emergence of degrowth – the notion designates a grass root, political and academic movement which is progressively spreading since the previous decade across Europe as a reaction to the drawbacks associated with the imperatives of economic growth. The intellectual founder of the new paradigm of degrowth is the Romanian born economist – Nicholas Georgescu-Roegen. The translation of his scientific works and the publication in French was to become the first milestone of degrowth discourse France becoming the cradle of the movement. While degrowth encompasses many dimensions such as equity, ecology, democracy or enjoyment of life, the overarching theme of the movement is the escaping of the economy as a central societal value. Degrowth gained an increasing audience in the beginning of the years 2000’, spreading progressively mostly in other Francophone, Francophile or Latin language speaking countries such as Italy and Spain, but in other European nations as well.*

Keywords: degrowth, sustainable development, crisis, paradigmatic change
JEL Classification: B59, Y20

INTRODUCTION

Starting from the beginning of the previous decade, the new notion of *degrowth* - for many years known only by experts in the field - has penetrated the academic, public and political spheres, rapidly gaining notoriety particularly in Europe.

Only recently being used in economic and social debates, the degrowth perspectives are founded as a reaction to the unsustainable trend of the current global development, coming from intellectual sources that cover a relatively old history such as ecology and bioeconomy-and from the critiques of development and globalization from the 60’s.

Degrowth narrative echoes as the new emergent paradigm that holistically approaches the crisis, encapsulating its multidimensional aspects and criticizing the sustainable development-paradigm seen by many reference authors as part of the problem and not the solution. The degrowth narrative deals with crises not tackled by sustainable development such as: the loss of cultural diversity, the crisis of political representation, the crisis of meaning, the multidimensional movement of degrowth being successful in regenerating some debates that were stuck in the previous decades.

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The beginning of its success is due partly to the failures of the twentieth century critiques in addressing the limits to growth. This has become today both a practical necessity and a moral imperative. The degrowth promoters add to this drawback a critique that is central in their discourse: the natural social order. They are denying the contemporary order, insisting on people's liberation from the socio-economic imagery generated by the imperative of growth that reduces people to simple production tools or to consumption units.

Thus degrowth movement implies a synthesis of social objectives (a development that benefits all, that serves people and it is not served by people, qualitative and not quantitative) and of ecological concerns (the sustainability of this development).

The paper's aim is to conceptualize degrowth and to provide an overview of the chronological landmarks that have brought to the fore the watchword of degrowth. The first section provides an interpretation of the definitions of degrowth, drawing its main features. Section two and section three emphasize the development of degrowth movement in France and its increasing audience in several European countries, focusing on the tools and actors that served for its divulgation. The final part provides conclusions summarizing the main points of the paper and suggestions for further research.

1. DEFINING DEGROWTH

Key advocates of degrowth state clearly that degrowth it is not a concept per se but “a political slogan with theoretical implications” (Bayon, Fabrice and Smith, 2011, p. 14; Latouche, 2010a, p. 17, 2010b, p. 519, 2007, p. 20), “a missile word for pulverizing the ideology in which both the right and the left are swimming”(Ariès, 2010, p. 81; 2007, p. 159; 2005, p. 75), a “political weapon to decolonize the collective imaginary and free it from the tyranny of growth” (Latouche, 2005a). Thus degrowth is not presented as a doctrine, a program, an ideology or another economic theory (Martinez Allier et al., 2010, p. 1742; Flipo, 2008, p.26), but as “a symbolic challenge” (Latouche, 2006b) to policies that herald economic growth as an end in itself. Degrowth is not to be turned into a blueprint or an end in itself, but to remain a means for fostering a spirit of critique (Ariès, 2005), for questioning the priority accorded to economic values and principles.

Due to the variety of sources, its complexity and multidimensional forms of expression, it is a challenge to agree on a clear cut definition for degrowth. Another fellow degrowth advocate, aware of the dangers entitled by abstract ideas, Kallis (2010b), stated that degrowth is not meant to be a complete theory or a new type of “religion”. In this sense he uttered that “if one is looking for a

single definition with a measuring unit, we are not giving one, because this is precisely what we are fighting against”. Indeed, the lack of clear delimitation allows new forms of expressions of the degrowth movement to move along the dynamic it entails. But at the same time, while having positive implications by allowing freedom of interpretation, the lack of a common language for foregrounding degrowth has negative outcomes such as the fact that it might create confusion. As we will see below, Kallis (2010, p. 874) gives himself a definition in an attempt of defending degrowth.

There is not a single referential text about sustainable degrowth that has yet found its way to the wider academic and political arena, it was the case of the Brundtland Report or the Rio Declaration for Sustainable Development in 1992 (Martinez Allier et al., 2010, p. 1742). Commonly, degrowth appears as a potential emergent paradigm that can give a substantial contribution in reversing the unsustainable path we are in. If this path is to be followed, its promoters have to be able to describe clearly what degrowth is about.

In the French dictionary *Larousse Illustré* of 2010 degrowth is defined as *policies promoting a slowdown of the growth rate in a sustainable development perspective* (Lavignotte, 2009, p.12). The editors from The Institute of Economic and Social Studies for a Sustainable Degrowth stress that this definition is totally flawed as its advocates (Ariès, 2010, 2008; Latouche, 2011a, 2011b, 2010) make clear that degrowth is not “*negative growth*” – but “an absurd and oxymoronical expression that translates to a large extent the domination of the growth imagery” Latouche (2007, p.21). Moreover the literature on degrowth issues provides an important body of virulent critiques to sustainable development (Latouche, 2011b, 2010a, 2006, p. 30, 2004b, p. 51; Bayon et al., 2010, pp.81-102; Bonaiuti, 2010, p. 2; Ariès, 2010, p. 258, 2009, p. 13; Pallante, 2009, p. 20; Fournier, 2008, p. 539; Wallenborn, 2008, pp. 228-229;)

Thus, according to IESSSD “degrowth reflects policies for promoting degrowth of the rich countries, mostly, and aiming at escaping the economism (invasion of all the human and social dimensions by the economy) (...) Sustainable degrowth is opposing the supporters of sustainable development who believe that economic growth can be conjugated with the environmental protection” (Lavignotte, 2009, p. 12).

One of the first attempts to give a comprehensive definition of **degrowth** comes from the Conference on Economic De-growth for Ecological Sustainability and Social Equity held in Paris (2008). Several academicians that approached the subject provided definitions based on their consideration on degrowth. The table below presents a selection of definitions of degrowth from the

Degrowth Declaration and it is also presenting representative ideas on degrowth narrative expressed by authors from France, Spain and Italy.

Table 1 – Selected Definitions of *Degrowth*

| Definitions of degrowth | Authors and sources |
|---|--|
| “a voluntary transition towards a just, participatory, and ecologically sustainable society. The objectives of degrowth are to meet basic human needs and ensure a high quality of life, while reducing the ecological impact of the global economy to a sustainable level, equitably distributed between nations”. | Research and Degrowth, 2010, p. 524); |
| “(A society of degrowth) should be understood as a society built on quality rather than on quantity, on cooperation rather than on competition [...] humanity liberated from economism for which social justice is the objective”. | Latouche, 2003, p. 18; |
| „Sustainable degrowth is both a banner associated with social and environmental movements and an emergent concept in academic and intellectual circles, they are interdependent and affect each other”. | Martinez Allier et al., 2010, p. 1742; |
| “Sustainable degrowth can be defined from an ecological–economic perspective as a socially sustainable and equitable reduction (and eventually stabilization) of society's throughput”. | Kallis, 2010, p. 874; |
| “Degrowth proposes the promotion of the most ample substitution possible of the goods industrially produced and purchased in the commercial route with the autoproduction of goods. In this choice, that implies a decrease of the GDP, we identify the possibility of an extraordinary improvement of the individual and collective life, of the environmental conditions and of the relations between peoples, states and culture”. | Pallante, 2009, pp. 19-20; |
| “Sustainable degrowth may be defined as an equitable downscaling of production and consumption that increases human wellbeing and enhances ecological conditions at the local and global level, in the short and long term”. | Schneider et al., 2010, p. 512; |

We distinguish from these definitions the key features that describe the notion of degrowth:

First, degrowth appears as *a transition* that requires *a transformation* of the global economic system. As important advocates of degrowth clearly explain (Latouche, 2010, p. 521), the movement does not advocate for degrowth for the sake of degrowth, an approach that would describe the same symmetry of the imperative for chrematistic growth and would be absurd, but degrowth is a process that aims at reversing the unsustainable path of our development. This feature of escaping from the economy is seen by many authors as a critical one. Latouche (2010, p. 519, 2008; 2007, p. 22) states that it would be best to speak about “agrowth” instead of degrowth, as one speaks as atheism: “It actually means quite precisely, the abandonment of a religion: the religion of the economy, growth, progress and development”. In this sense, as Valerie Fournier clearly emphasized as well (2008, p. 528), the degrowth movement’s over-arching theme is escaping from the economy as system of representation. In accordance with a humanist approach - this Cultural Revolution is indispensable in order to achieve a life style change that is not only accepted and unconstrained, but translated into development of the “enjoyment of life” (Lavignotte, 2009, p. 13).

Changing the production and consumption patterns go together and are undoubtedly an important dimension of degrowth. But more than a decrease of consumption and production what is also needed is the decolonization of the so called *economic imagery*. The “logic of economy” requires a new approach, the myth of “limitless growth” needs to be abandoned because after colonizing all territories of material goods and most part of the territories of services, “the commodification has sent its vanguard on the mental territories” (Pallante, 2009, p. 12). Therefore there is a need of an ecology of mind for decolonization of the mental environment.

Second, the obvious objective of degrowth is the *reduction of the ecological impact* through the downscaling of production and consumption. Degrowth goes beyond decoupling material and energy use from growth (dematerialization or green growth), postulating that efficiency improvements alone are not sufficient and might be counterproductive (Schneider, 2010, p. 512) because it would consist in a reduction of environmental impact through more efficient or cleaner technologies, while keeping production and consumption growing, as indicated by the Jevons Paradox (Polimeni et al., 2008; Polimeni & Polimeni, 2006). In this sense, degrowth advocates are very firm concerning the distinction between sustainable development and sustainable degrowth (Ariès, 2010, p. 13; Bonaiuti, 2010; Fournier, 2008, p. 539; Latouche, 2004b, p. 51; Levallois, 2010; Pallante, 2009, p. 20).

A third feature is that this transition is *voluntary* and *participatory*, therefore the process of degrowth is democratic. It is widely accepted within the reference literature, that a definition of degrowth based only on the reduction of metabolism in terms of material and energy flows translates in a limited understanding of degrowth. For the degrowth scholars degrowth appears as the result of a collective choice for a better living, not an imperative imposed by an external authority. Therefore, degrowth is not defended as a necessity but as a choice, one that has to be made democratically and openly (Latouche and Harpages, 2010, p. 38; Fournier, 2008; Flipo, 2008; Schneider, 2010b; Latouche, 2010; Ariès, 2010; Mylondo, 2008, p. 175). Valerie Fournier clearly emphasized this feature in a widely cited article: “Degrowth is offered as a way of avoiding “ecocracy” in the future, a path we could chose today to remain in a position to collectively and democratically shape our future in the face of ecological degradation. The more we wait, the more the shock imposed by the earth natural limits might be brutal and the risk of emerging “ecototalitarian” responses high. But whilst recognizing the threat of environmental degradation, proponents of degrowth are not prepared to sacrifice democracy to some *ecological imperative* any more than to economic or political imperatives” (Fournier, 2008, p. 236). Or as Latouche and Harpages claimed (2010, p. 38), “the suffered degrowth has nothing to do with the chosen

degrowth. The project of a degrowth society is radically different than a negative growth”. Echoing the same message, Ariès (2010) insisted that degrowth is a choice that defenders would make without the oncoming ecological crisis, “simply to be human”.

We find relevant to quote here Daly as well: “A condition of nongrowth can come about in two ways: as a failure of a growth economy, or as the success of a steady-state economy. These two cases are as different as night and day. No one denies that a failure of a growth economy to grow brings unemployment and suffering. It is precisely to avoid the suffering of a failed growth economy (we know growth cannot continue) that we advocate SSE” (1992, p. 126). Daly is the disciple of Georgescu-Roegen and founder of the steady-state economy concept. Most of the degrowth scholars admit that the transition of degrowth will lead to the stabilization of a stationary state economy.

Fourth, the complex phenomenon of degrowth has a strong dimension of equity. Growth is “intrinsically inequitable” (Lavignotte, 2009, p. 71) because it generated in the former four decades an increase in disparities both internationally and intranationally, creating a mechanism that allowed rich people to get richer and poor people to be poorer. Abundant official statistics and papers portray the co evolution of unprecedented growth and unparalleled disparities and this evidence is one of the traditional critiques of growth. All degrowth partisans share the view that the transition entailed by the degrowth process has to allow a redistribution of the global wealth so that a degrowth society will be an equitable one - built on social justice. For Illich - maybe the most important precursor of degrowth - equity is the fundamental value of a convivial society (1973, p. 37). Indeed, degrowth of the poor would be a “countersense” as Pallante (2009, p. 49) stressed. The allowance for Southern countries or societies, where ecological impacts are low relative to their biocapacity, to increase their material consumption and thus their ecological footprint, is an idea explicitly favoured by Georgescu- Roegen as well (1975, p. 378).

A fifth characteristic of the degrowth perspective is the quest for a high quality of life that moves the focus from *more* to *better*, addressing the dichotomy of *having* and *being*, and challenging the significant distinction between the qualitative and the quantitative assets in one’s life. Therefore, degrowth does not equal a contraction but *the enjoyment of life*, a notion commonly attributed to Georgescu-Roegen (1975, p. 18). He describes it as the true product of the economic process. The paradigmatic proposition of degrowth that human progress without economic growth is possible (Schneider et al., 2010, p. 512). Latouche (2010, p. 521) refers to it as a decrease of “well-having” in order to improve “well-being”. The slogan *moins des biens, plus des liens* (less goods, more links) (Ariès, 2010; Latouche and Harpages, 2010; Latouche, 2010 etc.) appears

frequently in the degrowth literature pointing to the life improvement that can be generated by going beyond the humans – things related to the humans – humans relation, in the very same sense Karl Polanyi indicated in *The Great Transformation* (2001).

2. CHRONOLOGICAL LANDMARKS OF THE EMERGENCE OF *LA DECROISSANCE* IN FRANCE

France is deemed on many grounds to be the cradle of the degrowth movement: first, in this country several milestones took place in the previous decade setting the stage for what promises to become a new paradigm; second, while the degrowth narrative is increasingly percolating new territories, the main degrowth ambassadors are mostly French scholars and activists; third, even though degrowth comes from multiple sources, important precursors of this emergent paradigm are either French, coming from French speaking countries, or/and writing and publishing in French.

The notion of *decroissance* does not appear as such in any French dictionary of social sciences before 2006 (Latouche, 2010a, p. 519, 2010b, p. 14). This indicates that in France as well the use of the term in the field of economics is of very recent date.

While Lavignotte (2009, p. 11) stated that André Gorz was the first to use the term *decroissance* in 1977, The Institute for Social and Economic Studies for Sustainable Degrowth – hereafter ISESSD*, shows that the French philosopher André Amar used the term already in 1976 in the magazine *Les cahiers de la Nef*. The following year (after the presence of Nicholas Georgescu-Roegen in France) André Gorz advocated already for degrowth in *Ecology and Liberty* (1977).

Several reference authors that analyzed the subject of degrowth stated that the term originates from the French word “*decroissance*; the same term was used for the translation of a collection of essays written by the Romanian born economist – Nicholas Georgescu-Roegen (Latouche and Harpages, 2010, p. 20, Martinez-Alier et al., 2010, p. 1741; Flipo, 2008; Schneider, 2010) – the intellectual founder of degrowth. The translation of these scientific works by Jacques Grinevald and Ivo Rens in 1979 into: *Demain la Decroissance: Entropie, Ecologie, Economie* was to become a milestone in the degrowth movement.

In 1993, the French ecological magazine *Silence*, with the headquarters in Lyon, dedicated a special issue to degrowth and to Nicholas Georgescu-Roegen, edited by Jacques Grinevald. But during the two decades from 1979 to 1999, the word did not raise but very little attention.

* <http://www.decroissance.org/index.php?chemin=textes/historique>

Only in the years 2000 the audience on the concept has increased considerably when, in the same French city, in 2001, Bruno Clémentin and Vincent Cheynet, founded the magazine *Casseurs de pub*, driving inspiration probably from the Canadian periodical *Adbusters – the Journal of the Mental Environment*. They imagined the concept of *sustainable degrowth* (Lavingotte, 2009) and opposed this concept to *sustainable development*. As mentioned on the webpage of ISESSD, they were inspired by the works of Georgescu-Roegen. In 2002, Vincent Cheynet realized a dossier on degrowth for the magazine *Silence*. Published initially in 5000 copies, the dossier had two additionally prints. Next year, together with his colleagues Bruno Clémentin from *Casseurs de pub* and Michel Bernard from *Silence* published the book *Objectif décroissance* sold in 8000 copies and republished 3 times.

In 2002 ISESSD was founded and in September 2003 the institute organized the international colloquium on *Sustainable Degrowth* in the city hall of Lyon with the participation of about 600 persons. In 2005, following the suggestion of Serge Latouche and the Economic Commission of Greens a new colloquium on degrowth was organized.

In 2004 degrowth entered the public debate with the first issue of the periodical “*La Décroissance: Le Journal de la Joie de Vivre*”. Initially published on a trimestrial basis, it is now printed monthly in 45 000 to 60 000 copies. The journal is distributed in France, Switzerland, Luxembourg, Belgium and Canada.

Many other French publications had popularized the years ‘2000, including large circulation media. For instance, since 2006 *Le Monde* has published many articles on *degrowth* and contributed to a large extent to the promotion of the movement. As well, several web pages are devoted to degrowth in France: www.decroissance.net - the online version of the journal *La décroissance*, www.decroissance.info – an independent website managed by local groups, www.decroissance.org – the webpage of ISESSD.

The scientific journal *Entropia* was launched in 2006 at the French National Assembly by a group of French academicians, including Serge Latouche, with the aim of giving theoretical substance to the idea of degrowth.

Several so called “marches for degrowth” took place in various places in France in the recent years and Degrowth even has its own party in France: the Party for Degrowth (le Parti pour la Décroissance - PPLD), founded on April 8, 2006 in Dijon. As stated on the webpage^{*}, it calls for a “degrowth based on equity, sustainability and values that are humanist, democratic, republican, non-violent, defending human rights and fighting all forms of discrimination and totalitarianism”.

^{*} www.partipourladecroissance.net

The activity of the party and its success remained marginal, but in 2007 degrowth entered French political debates during the presidential election campaigns, when all the candidates were interpellated on this subject (Latouche, 2007).

In 2008, *The First International Conference on Economic Degrowth for Ecological Sustainability and Social Equity* took place in Paris and witnessed the gathering of 140 multidisciplinary scientists. The event was successful: “for the first time, scientists got together in an interdisciplinary and international academic setting with representatives of the civil society on the topic of economic degrowth as a possible path for more ecology, more equality and more wellbeing” (Schneider et al., 2010). The conference proved to be a milestone that developed academic credibility of the subject of degrowth, idea mainly supported before by civil society coalitions. Today the fertile ideas behind degrowth are progressively forming an established field of research.

3. AN INCREASING AUDIENCE

Nowadays, the degrowth movement is “a rather loose and open network including a variety of forums for circulating, sharing and debating ideas and experiences” (Fournier, 2008, p. 532). While originating in France, the movement is increasingly gaining international audience and scope. First in other Latin countries such as Italy and Spain and in francophone regions (such as the ones in Belgium, Switzerland and Canada), degrowth is spreading to several other countries in Europe and across the ocean in both its theoretical and practical dimensions.

Italy appears to be the second cradle of the movement in Europe, where both initiatives for theorization and divulgation of degrowth took place almost in parallel with the ones in France, starting in 2004. *La Rete per la decrescita** (Network for Degrowth) was founded by a group of activists and intellectuals coming from experiences of solidarity economy, criticism to development, anti-utilitarianism and bioeconomics. Today, the *Association for Degrowth* has permanent courses on degrowth issues. In September 2011 they organized as well a summer school on the subject of degrowth. Moreover, together with the City Hall of Venice, Udine University, IUAV University, Research and Degrowth Network and other promoters, the association is responsible for organizing in September 2012 *The Third International Conference on Economic Degrowth for Ecological Sustainability and Social Equity* in Venice. One of the central figures on the degrowth movement in Italy is Maurizio Pallante, who published since 2005 many books on

* www.decescita.it

degrowth and initiated in January 2007 the Movement for Happy Degrowth* with the aim of networking the experiences of individuals, associations and committees of people in order to work together for putting in practice the principles of degrowth.

A Party for Degrowth is active in Italy since July 2007, but degrowth entered the political debate a year earlier, during the national presidential campaign. Pallante became councilor of the new Green Minister of the Environment and Paolo Cacciari was elected deputy of Venice after advocating for degrowth in “Thinking degrowth. Sustainability and Equity”, published in 2006 (Latouche, 2007, p. 18).

In Spain, the Catalan Network for Degrowth, that today gathers over 1500 members, has its origins back in 2006. Since that year they organised marches for degrowth, several discussion sessions, workshops, presentations and other public events for promoting the idea. They even developed a radio station on degrowth and initiated several projects in various fields such as permaculture, cooperatives of autoproduction, cohousing. Other eight networks were created in other regions of Spain. Between March 26th and 29th 2010 the Second International Conference on Economic Degrowth for Ecological Sustainability and Social Equity was organized. More than 500 scientists, civil society members and practitioners from more than 40 countries joined the event hosted at the historic building of Universidad de Barcelona.

In Belgium, The Political Movement of Growth Objectors - *Le Mouvement politique des objecteurs de croissance*[†] was founded in 2009 on the 18th October at Brussels. In April 2009, at the European Parliament building in Brussels, the Club of Rome together with other partners organized the Workshop on Socially Sustainable Economic Degrowth[‡].

In Switzerland in November 2008 the first group for promoting degrowth was founded – The Swiss Network for Growth Objection (Reseau Objection de Croissance Suisse) that developed first on the canton of Genève and later on in Vaud and Neuchâtel. New groups were recently created in Basel[§] and in Bern^{**}. The platform www.decroissance.ch is an independent initiative promoting all the activities directly or indirectly linked with degrowth in Switzerland.

In United Kingdom, The New Economic Foundation - NEF organized on January 12th 2010 the conference *Rethinking economic growth, Towards an international degrowth network*. The term *degrowth* became accepted as the English translation for *decroissance* in 2008, at the international conference on degrowth from Paris, so only very recently compared with the other countries listed

* <http://decrescitafelice.it>

† <http://www.objecteursdecroissance.be>

‡ http://www.clubofrome.at/archive/degrowth_brussels.html

§ <http://decroissance-basel.org>

** www.decroissance-bern.ch

before. But while the term *degrowth* in Anglo-Saxon speaking countries is not as popular as *decroissance* in French, numerous initiatives take place already in UK for promoting a transition towards a future not based on economic growth. The pioneering work of NEF in advancing a new economy for people and planet and not for profit is representative. NEF published several books and articles directly linked with the economic degrowth (2010; 2009; 2006). Tim Jackson's book, *Prosperity without growth* (2009) has gained a considerable attention in the degrowth debate for its relevance for the transition towards a socio-economic system beyond growth. Transition Towns Network* in United Kingdom and Ireland that has gradually developed since 2005, is by far one of the most significant examples of how degrowth can lead to socially and economically sustainable communities.

Amongst the Scandinavian countries, Finland appears as the initiator of the degrowth debate. The website www.degrowth.fi represents the online interface of a project that studies degrowth and takes it into practice in the Finnish context. According to the editors of the webpage, the project, run by a couple of researchers that are affiliated with the Aalto University School of Economics in Helsinki, focuses on the cultural dimensions of degrowth and particularly on the contemporary practices of citizens, firms, and other organizations that may either encourage or resist the spirit of growth. In September 24th 2010 the *Growth in Transition* Conference was organized by The Finnish Association for Nature Conservation in co-operation with Aalto University School of Economics, Corporate Environmental and Social Responsibility Research Group and other partners. The conference brought together over 550 participants including academics, politicians, NGOs, businesses, the media, and the general public to explore limits to growth as well as possibilities for ecologically and socially responsible economic models. In addition, more than 400 people watched the conference on-line on the conference webpage[†].

In Eastern Europe, in Hungary, in March 2011 the word *degrowth* made its way into the public and academic debates as *nemnövekedés*, when the degrowth ambassador, Serge Latouche launched the translation of his book *Treaty for Degrowth*, in Hungarian (Liegey, 2011).

In Romania, in 2010 the author of this article has contributed together with the French Cultural Centre of Iasi and the Faculty of Economy and Business Administration from the "Alexandru Ioan Cuza" University of Iași, to the organization of a scientific colloquium on the aftermaths of the Copenhagen Summit of 2009 that gathered speakers from 7 countries. Following the suggestion of the author, a session of this colloquium was devoted to degrowth. The session on

* <http://www.transitionnetwork.org>

† www.degrowthfinland.fi

degrowth received the highest audience within the colloquium and represented a significant step in the advancement of the growth critiques and the degrowth alternatives locally.

From Europe, across the Atlantic, degrowth movement made its way in 2010 in Canada when in April 2010 a first conference on Degrowth was organized in Vancouver and following its grand success, a second one took place in the same city in June 2011^{*}. Out of a co-operative effort of four Montreal Universities, a new international conference is scheduled between 14th and 20th of May 2012 in Montreal[†], focusing on the particular situations and dynamics of the Americas related to degrowth.

CONCLUSIONS

The Romanian economist Nicholas Georgescu-Roegen, considered the intellectual founder of degrowth, predicted that bioeconomy will be the language that will be spoken by all in the third millennium. His prophecy seems to become true. Degrowth, on which the economist has insisted as the only option for a sustainable socio-economic development, has an increasing resonance starting with the years 2000.

The word *decroissance*, used for the first time in the '70 in some French publications for designating an alternative to the unsustainability of the economic growth, became an activist slogan in the former decade – in France in 2001, in Italy in 2004 and in Catalunya in 2006, spreading afterwards in other francophone and Latin regions and countries, including outside Europe. The English *degrowth* was accepted at the first international conference on degrowth from 2008;- that marks as well the extension of the movement in the academic sphere and in the international debates of civil society.

The contemporary multidimensional crisis (undoubtedly more pronounced on its socio-human dimension than on the financial and economic ones) offers an opportunity for the advancement of degrowth: shows the limits of economics, allows the exposure of the growth fetishism as root of the crisis and generates alternative discourses.

Economic degrowth does not appear as a new doctrine, a programme, an ideology or yet as another economic theory. Because of the dynamic and complexity of its forms of expression a comprehensive definition of degrowth is considered to be a difficult task. Nonetheless, from the reference literature we distinguish some major features of degrowth: it appears as a transition that

^{*} www.de-growth.com

[†] <http://montreal.degrowth.org>

entails the transformation of the global economic system with the obvious objective of reducing the ecological impact through reduction of production and consumption. This transition that goes far beyond decoupling is voluntary and participatory, the degrowth process being a democratic one. As well degrowth implies equity. Central in the movement is the quest for a high life standard where the dichotomy quality and quantity is being stressed. Escaping of the economy and the decolonization of the economic imagery represents the overarching theme of the movement.

The degrowth discourse has echo. As a discourse dominated by the quest for better world alternatives, it is often interpreted as a new utopia. But it is natural to prefer the utopian discourse in the place of the dystopian one. Because if we were to refer to the future world where *business as usual* types of activities engendered by the imperative of growth will lead finally to a crisis that will make degrowth inescapable, the scenery will be one of fear and authority and not one in which the *enjoyment of life* prevails.

Degrowth is part of a social movement developed on the basis that the economy can degrow in a democratic and equitable manner. Besides the academic, intellectual and political dimension of the movement, the civil and the grass roots type of actions form the substantive weight of the movement. (The various innovative experiences that bring degrowth in practice is the subject of a subsequent paper with the doctoral research project.)

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ENHANCING REGIONAL INTEGRATION THROUGH COMMERCIAL TIES IN THE EASTERN NEIGHBOURHOOD OF THE EU

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Abstract: *Economic unification across Europe has been the main impetus for the European integration process and this rationale stood also behind the European Union (EU) approach towards its neighbourhood. Since the launch of the European Neighbourhood Policy (2004), the economic incentives have been the most effective instruments for generating structural change in the neighbourhood, taking into account the fact that EU membership has not been yet considered. Our research will aim at investigating the potential of the European Union to promote economic cooperation in its Eastern vicinity by seeking to include the Eastern Partnership states into a network that shares the same economic principles and values. Among these values, we argue that deep economic engagement through bilateral and multilateral frameworks of trade relations has played a major in enhancing the economic development of the six-Post Soviet states: Ukraine, Moldova, Belarus, Azerbaijan, Georgia and Armenia.*

Keywords: European Neighbourhood Policy, Eastern Partnership, Eastern Europe, trade relations

JEL Classification: F15

INTRODUCTION

Since the inception of the European Community, the economic unification has represented one of the main goals of the European integration process. Constituent treaties of the European Union (EU) listed the following core objectives of this type of economic unification: the harmonious development of the economic life, stable and balanced economic growth, raised standards of living and unemployment reduction. All these economic principles have stood behind both the conceptualisation of the European Neighbourhood Policy (ENP) and the EU approach to its immediate neighbourhood.

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The ENP was launched in 2004 and it was designed to foster political dialogue, strengthen economic prosperity, stability and regional cooperation at the southern and eastern borders of the EU.

From an economic perspective, the ENP is a complex project, giving particular attention to the implications of the economic integration initiatives – i.e. economic and social development of its neighbours, the possibility of obtaining access to the EU internal market, trade liberalisation in line with the EU and WTO rules, participation in various EU programmes (transport, energy etc.).

The economic incentives are the most effective instruments for generating structural change in the neighbourhood, since the EU membership has not been yet considered; for the time being the declared objective of the ENP is to offer partner states the perspective to integrate into the EU internal market - “a stake in the EU market” (Ferrero-Waldner, 2006). These economic incentives could deter the creation of divisive gaps in living standards among the neighbouring nations. The prospect of having access to the EU internal market is a major aspect of ENP. Although it is a progressive and long-term goal, this part (“stake”) in the domestic market has not been clearly defined in the EU official documents, but it is understandable it refers to a substantial reduction of tariff and non tariff barriers in many aspects of the internal market, the opportunity to participate in the future in an area of free movement of goods, services and factors of production. This would require the gradual convergence with the EU internal market rules, enhanced regional cooperation and integration and adjustment to the European standards and institutional practices, similar to a certain extent to those existing in the European Economic Area.

We have chosen to analyse the countries from the Eastern vicinity of the EU, because in comparison to the other neighbouring countries from the Mediterranean Basin, Moldova, Ukraine, Belarus, Georgia, Armenia and Azerbaijan (the Eastern Partnership (EaP) states) display a *European sense of belonging*, due to their inclusion into the conventional geographic boundaries of the European continent.

Despite having a weaker impact on the neighbouring states, due to the lack of EU membership promise, the EU conditionality could still have a considerable influence on the EaP states from an economic perspective; through the ENP strategy the EU is offering the Eastern countries at the time being the possibility to participate in the EU internal market, provided that they implement the necessary reforms. Thus, further integration with the EU countries can positively influence the economies of the EaP countries in several ways: through trade, foreign direct investment (FDI), financial flows etc.

This paper aims to examine, in particular, the impact of trade relations with the EU on the above-mentioned six countries. As such, the main questions this study seeks to answer are the following:

- 1) Does the EU have the economic potential to consolidate the ENP?
- 2) To what extent is trade one of the main ways of deepening economic integration with countries located in the eastern proximity of the EU?

1. THE ECONOMIC PLATFORM OF THE EUROPEAN NEIGHBOURHOOD POLICY

The ENP economic agenda was adjusted through a series of consultations with the partner states; thus, the action plans and the priorities for reform fall into three major thematic areas:

- Structural reforms;
- Macroeconomic policies;
- Elimination of trade barriers and facilitation / increase of trade.

There is a broad consensus in the economic literature that structural reforms, sound macroeconomic policies and trade liberalisation are beneficial for economic growth.

In addition to stimulating structural reforms, the ENP contributes to the improvement of the macroeconomic system, especially given the negative experience during the global economic downturn. Action plans bring about the adoption of fiscal and monetary policies, as these commitments are vital for having a sustainable growth.

In addition to the favourable impact of growth, macro stability may also increase the positive effects of the economic liberalisation in the neighbouring states, while levelling out the economic gaps. Indeed, it is often argued that economic liberalisation cannot be achieved in the absence of macroeconomic stabilisation. (Nsouli, Rached and Funke, 2002) Despite an ambitious process of constant liberalisation and macroeconomic stabilisation in recent years, the EaP states still need to increase the pace of reforms. As such, the EU has recently launched a new project for the upcoming years – “A new and ambitious European Neighbourhood Policy”^{*} which will hopefully bring an enhanced involvement of the EU in the region.

The benefits of trade liberalisation are well known and will be detailed below. Commercial ties are currently the most important in the context of the relationship between the EU and ENP partner states from Eastern Europe. Trade liberalisation will depend on the degree to which the ENP

^{*} This document was launched on the 25th of May, 2011, in Brussels.

can effectively reduce tariff and non-tariff barriers and contribute to concluding free trade agreements. In particular, the effects of trade liberalisation will be stronger if liberalisation also includes agricultural products and services.

Susanne Micher and Ben Slay have investigated the potential economic impact of the ENP both on the EU and on its neighbours. (Milcher and Slay, 2005) In particular, the two researchers have sought to develop an answer to the question whether ENP is sufficiently attractive to influence the governments of the neighbouring countries to adopt or to step up the implementation of the economic and political reforms.

The two scientists have found that the ENP has a significant impact, but it risks losing its intensity, if it does not provide the states from Eastern Europe with a clearer motivation: such as the prospect of becoming in the near future EU members. From an economic perspective, the ENP aims to simplify trade restrictions by including the EaP states in a framework of legislative harmonization and convergence with the European standards. Granting access to the European common market could improve significantly under the umbrella of the ENP. Having the experience of the Central and Eastern European states as a template, FDI and commerce are very effective tools in transforming the EaP economies. The ENP could also represent an umbrella under which investor's confidence is reinforced. The new European Neighbourhood and Partnership Instrument (ENPI) can add much more coherence in the field of technical assistance and can provide enhanced financial support for capacity building for trade and infrastructure both for the development of the private and public sector (Milcher and Slay, 2005).

From an economic point of view, the ENP is many times perceived as a significant extension of the EU neo-functionalist model which has stood behind the European project since its commencement as a source of opportunities for integration with the EU market in order to achieve the four fundamental freedoms of movement (people, goods, services and capital).

From a technical and institutional standpoint, the EU has economic potential to support Eastern European neighbours, but these states should be given perhaps a status similar to the non-EU members from the European Economic Area.

2. COMMERCIAL TIES – THE MAIN INSTRUMENT FOR STRENGTHENING THE ECONOMIC RELATIONS BETWEEN THE EU AND ITS EASTERN NEIGHBOURS

The ENP has positively influenced the relations between the EU and its neighbours. Since its launch in 2004, political contacts have increased in intensity and profile. Commercial ties, in

particular, have improved considerably due to an ongoing process of liberalisation and convergence laws. The EU trade with the ENP region (both Eastern and Mediterranean partners) grew during 2004-08 by 63% (exports) and by 91% (imports). Moreover, EU trade with its Eastern partners has had a highly dynamic evolution, although it had a low starting point: the share of EU exports to the EaP region has almost doubled from 1.26% to 2.1% and the level of imports increased from 0.8% to 1.4%. The economic recession has also hit hard the partner countries from Eastern Europe, strongly interconnected with the European economy, which led to a contraction of trade in 2009. (European Commission, 2010) As illustrated in the tables below, trade policies are the most important test in determining the ability to create solid long-term cooperation and regional integration between EU and Eastern Europe.

Opening up markets has brought advantages for both the EU and the EaP members, because liberalising sectors where economic partners have a competitive advantage is essential for boosting growth. Therefore, the establishment of a new generation of trade agreements – the so-called *Deep and Comprehensive Free Trade Agreements* (DCFTA) will be the next step in the integration of the EaP states into the European market. The EU is currently seeking to deepen its commercial links with the countries from its Eastern vicinity; negotiations with Ukraine and Moldova to complete a DCFTA are about to be completed, while negotiations with South Caucasus states were launched in 2010. Belarus is the only country which has not yet expressed its interest in creating a free trade agreement with the EU, the regime in Minsk opting for strengthening its bilateral relations with Russia.

Unlike a conventional free trade agreement, which would eliminate solely tariff and non-tariff barriers, a DCFTA will also include the liberalisation of services and expand to the neighbouring countries a considerable degree of institutional harmonization based on the EU internal market *acquis*. As soon as the agreements with Ukraine and Moldova will enter into force, the Commission plans to use this experience as a blueprint to include the other four eastern European states in a network of cooperation and regional economic integration which could follow the example of the European Economic Area established between the European Free Trade Agreement and the EU member states in the 1990s.

2.1 The structure of commerce in the ENP states from Eastern Europe

Owing to the contribution of ENP and thanks to a propitious economic environment until 2008/2009, trade with neighbouring countries from Eastern Europe has significantly increased.

Subsequently, the EU imports are currently twice as much as the ones coming from the neighbouring states. The magnitude of imports from the EU countries indicates in the region the EU is the most important trading actor. Currently the EaP economies depend hugely on the trade with Europe, the EU being the main commercial partner of the EaP countries (with the exception of Belarus). Below recent data concerning the trade balance of the six countries representing Eastern dimension of the ENP are included, which indicates that, at least from an economic perspective, the EU is an influential player in this region. This gives Brussels enough regional leverage; the EU, through its commercial power, seeks also to promote and export its normative system abroad.

Belarus

Although trade relations between the EU and Belarus increased in the last couple of years, the EU has temporarily suspended closer economic partnership until the government of Minsk is able to demonstrate a greater commitment to promote democracy, civil and political rights. In response to internal political deterioration in Belarus, the EU has not ratified the bilateral Partnership and Cooperation Agreement, signed with Belarus in 1995. Therefore, bilateral trade and economic relations remain governed by the Trade and Cooperation Agreement, concluded by the European Community with the Soviet Union in 1989 and subsequently approved by the government of Minsk. Belarus applied for WTO membership in 1993, but the process is far from being complete.

However, bilateral trade increased steadily in the last five years, and the EU is now the second trade partner of Belarus as shown in Table 1. As regards exports to Belarus, the EU ranks first, but it is surpassed by higher imports from Russia. (Belarus - European Commission, 2011)

Table 1 - Belarus' trade balance

| Exports | 2010 | Imports | 2010 |
|----------------|-------------|----------------|-------------|
| EU | 43.6 | Russia | 58.5 |
| Russia | 31.5 | EU | 22.9 |
| Ukraine | 8.0 | Ukraine | 4.5 |
| India | 2.3 | China | 3.8 |
| Brazil | 2.1 | USA | 1.5 |

Source: World Trade Organisation (2010). *Statistics Database*, <http://stat.wto.org/CountryProfile/WSDBCountryPFView.aspx?Language=E&Country=AM,AZ,BY,GE,MD,UA>.

The evolution of commercial ties between the EU and Belarus has been positive, especially after the launch the ENP in 2004, despite the sinuous political dialogue under the Lukashenko leadership.

However, on January 1, 2010, the customs union between Belarus, Russia and Kazakhstan came into force, which means that, at least under Lukashenko, the economic integration with the EU is seen as second alternative.

Moldova

Bilateral trade between the EU and Moldova have shown an upward trend over the past five years, the most highly dependent country on trade with the EU from the group of six. The EU is Chisinau's most important commercial partner, as shown in Table 2, with a share of about 50% of its foreign trade. The EU is followed by Russia with a 16.6% share of its foreign trade (2009). (Moldova - European Commission, 2011)

Table 2 - Moldova's trade balance

| Exports | 2010 | Imports | 2010 |
|---------|------|---------|------|
| EU | 51.9 | EU | 43.4 |
| Russia | 22.3 | Ukraine | 14.0 |
| Ukraine | 6.3 | Russia | 11.4 |
| Belarus | 6.3 | China | 7.5 |
| Turkey | 2.6 | Turkey | 5.3 |

Source: World Trade Organisation (2010). *Statistics Database*, <http://stat.wto.org/CountryProfile/WSDBCountryPFView.aspx?Language=E&Country=AM,AZ,BY,GE,MD,UA>.

Commercial ties have experienced a growing trend since the launched of the ENP, the EU offering Moldova a wide range of facilities and commercial preferences.

Ukraine

The EU is Ukraine's main trading partner representing about one third of its foreign trade, as it results from the latest statistical data presented in Table 3. The EU was a staunch supporter of Ukraine's accession to WTO, which came into force on 16 May 2008. As a result, the EU and Ukraine launched negotiations for a DCFTA, negotiations which are still ongoing and expected to be concluded in 2012. The EU is followed by Russia with 24.4% share of Ukraine's foreign trade.

Until the commencement of the economic crisis, FDI flows to Ukraine have rapidly increased: from 2007 to 2008, FDI in Ukraine grew by 75%, while the period 2004-2005 saw a spectacular jump of nearly 400% (Ukraine - European Commission, 2011).

Table 3 - Ukraine's trade balance

| Exports | 2010 | Imports | 2010 |
|----------------|-------------|----------------|-------------|
| EU | 27.2 | Russia | 35.4 |
| Russia | 24.4 | EU | 31.8 |
| Turkey | 5.9 | China | 8.6 |
| Belarus | 3.5 | Belarus | 4.7 |
| Kazakhstan | 2.6 | USA | 2.6 |

Source: World Trade Organisation (2010). *Statistics Database*, <http://stat.wto.org/CountryProfile/WSDBCountryPFView.aspx?Language=E&Country=AM,AZ,BY,GE,MD,UA>.

Ukraine is the second country after Moldova, whose economy hugely depends on its commercial ties with the EU. Trade volume has increased massively after the launch of the ENP, primarily due to the ambitious reform process started under the orange movement led by the former president Victor Yushchenko. Because of its close economic relation with the EU, Ukraine has been among the countries which experienced most severely the economic crisis shock, which has naturally brought about also a decrease in trade since 2008.

South Caucasus

Since 2004, the EU has become the main trading partner of each of the three South Caucasus countries (in 2009 the EU accounted for 30.4% of global trade of Armenia, Azerbaijan and 42.8% to 29.4% for Georgia).

Moreover, the first round of negotiations on the possibility of deepening the free trade agreement with Georgia, Azerbaijan and Armenia has already taken place. These agreements are based on a set of shared values and cover a wide range of areas including political dialogue, justice, freedom and security and cooperation in trade and sectoral policies.

Georgia

As reflected in Table 4, the EU has become the main trade partner of Georgia. Despite the fact that, for Brussels, Georgia is a marginal trading partner, the EU has strengthened its commercial links with the government of Tbilisi; the EU exports mainly machinery and transport equipment,

whereas the most important Georgian exports are mineral fuels, which represent approximately 60% of its exports to the EU, and agricultural products, which stand for approximately 17%. (European Commission - South Caucasus, 2011).

Table 4 - Georgia's trade balance

| Exports | 2010 | Imports | 2010 |
|----------------|-------------|----------------|-------------|
| EU | 22.3 | EU | 27.4 |
| Turkey | 17.6 | Turkey | 15.1 |
| Azerbaijan | 13.7 | Ukraine | 10.8 |
| Ukraine | 9.0 | Azerbaijan | 10.0 |
| Canada | 8.8 | Russia | 7.0 |

Source: World Trade Organisation (2010). *Statistics Database*, <http://stat.wto.org/CountryProfile/WSDBCountryPFView.aspx?Language=E&Country=AM,AZ,BY,GE,MD,UA>.

Trade between EU and Georgia has seen a significant increase from 2003-2004 and this was due to the constant pro-market policies and to a growing trend of liberalisation initiated by the president's Miheil Saakashvili political movement and also owing to a favourable economic context which flourished under the umbrella of the ENP.

Armenia

After the collapse of Soviet Union, the EU has become the main trade partner for Armenia, as shown in Table 5. On the one hand, the EU exports mainly machinery and transport equipment to Armenia. On the other hand, Armenia exports mainly base metals and products made of them, which represent more than 60% of the total exports to the EU; diamonds and precious stones account for about 25% of total exports. The bilateral trade relations between Armenia and the EU are regulated under the Trade and Cooperation Agreement (TCA), which entered into force in 1999. The TCA provides a framework of progressive approximation of legislation with regards to the most important commercial areas: industry standards, sanitary and phytosanitary measures, intellectual property rights, customs procedures, procurement etc. In addition, Armenia is a beneficiary of the EU Generalised System of Preferences (European Commission – South Caucasus, 2011).

Table 5 - Armenia's trade balance

| Exports | 2010 | Imports | 2010 |
|----------------|-------------|----------------|-------------|
| EU | 45.2 | EU | 26.4 |
| Russia | 15.6 | Russia | 24.8 |
| USA | 9.7 | China | 9.0 |
| Georgia | 7.1 | Ukraine | 6.4 |
| Canada | 5.0 | Turkey | 5.6 |

Source: World Trade Organisation (2010). *Statistics Database*, <http://stat.wto.org/CountryProfile/WSDBCountryPFView.aspx?Language=E&Country=AM,AZ,BY,GE,MD,UA>.

The evolution of trade between Armenia and the EU grew spectacularly in the past; however, since 2008 commercial links have been severely affected by the adverse consequences of the global economic crisis.

Azerbaijan

After the disintegration of the Soviet Union, the EU has become the main trading partner of the Republic of Azerbaijan (Table 6). Although Azerbaijan is a marginal trading partner for the EU, their commercial ties experienced a spectacular development in the last couple of years. The EU exports mainly machinery and transport equipment to Azerbaijan, whereas for the Caucasian state particularly fuel accounts for much of its total exports to the EU. (European Commission – South Caucasus, 2011)

Table 6: Azerbaijan's trade balance

| Exports | 2010 | Imports | 2010 |
|----------------|-------------|----------------|-------------|
| EU | 43.7 | EU | 26.7 |
| USA | 11.9 | Russia | 17.5 |
| Israel | 8.4 | Turkey | 14.8 |
| Russia | 5.1 | Ukraine | 8.4 |
| China | 4.6 | China | 7.9 |

Source: World Trade Organisation. (2010). *Statistics Database*, <http://stat.wto.org/CountryProfile/WSDBCountryPFView.aspx?Language=E&Country=AM,AZ,BY,GE,MD,UA>.

As shown in the above tables, the EU's economic presence through trade in the eastern neighbourhood has increased in recent years, especially since the launch of the ENP in 2004, which strengthened the role of EU in the region. Moreover, during the economic boom years experienced between the 2005 and 2007, European companies - UniCredit, BNP Paribas, BP, France Telecom, Mittal and Heineken - made substantial profits in the region.

CONCLUSIONS

Further integration of the EaP economies into the European market could generate the following three effects: the first one will contribute to the elimination of administrative barriers (such as the costs related to border crossing), the second would lead to the reduction of risks and uncertainties existing in the domestic business environment, and the third one would lessen the technical barriers (tariffs) to trade.

The emphasis on promoting economic relations, especially through commerce, reflects an increased interdependence between the EU and the countries situated in its eastern vicinity, especially because trade represents a very important contributor to economic growth. As such, on the one hand, enhancing trade relations is a top priority for any of the six EaP given the current economic circumstances. On the other hand, the EU should increase the financial stabilization efforts and investment support for its neighbours in order to overcome the current economic recession. Despite the fact both the EU and Russia compete in the shared neighbourhood, the EU is currently the only international actor with a comprehensive strategy for its immediate proximity.

The pace of progress depends on the benefits offered to the EaP partner states in a reasonable time (such as the confirmation of participating in the near future in the EU internal market). However, EU's reluctance to meet the aspirations of some of the countries constituting the Eastern dimension of the ENP will continue to hinder the development of further relations. And this is relevant to how the EU political and economic mechanisms are developed and to how the future free trade agreements will be structured.

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THE IMPERATIVES OF QUALITY SERVICES IN CONDITION OF EUROPEAN INTEGRATION

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Abstract: *Quality includes the technical side or strictly linked to intrinsic characteristics and properties of the product or service and it can be defined as a set of properties and characteristics of a product or service, which gives it its ability to meet the needs expressed or implied. The liberalization of international trade by value, internationalization and globalization and the development spheres of service, the bar in quality always rises and quality is a key factor in customers decision to choose a particular company or another.*

Keywords: JEL: Quality, dimensions of service quality, service quality, European quality policy, imperatives of the service quality

JEL Classification: M31, M38

The meaning of the term quality should be best. It includes the technical side or strictly linked to intrinsic characteristics and properties of the product or service. From this point of view goods or services can have a quality level higher than another. Quality is the main characteristic of goods and services that makes them sell. Factors that determine success are many and varied. They include market conditions, the nature of the product/services, the image created by advertising, socio-cultural characteristics of customers, etc. A major factor that ensures marketability of a product and service is, however, its quality, as was proven by customers.

Quality can be defined as a set of properties and characteristics of a product or service, which gives it its ability to meet the needs expressed or implied. Standard quality is defined in different ways by various researchers, as follows:

J.M. Juran called quality "fitness or appropriate to use." And, P. Crosby said "a quality product that is suitable for their needs." These definitions show the customer, that good quality is suitable and appropriate for use that is established according to the needs of the client.

G. Taguchi gave another definition: "Quality is the minimum cost of a product that society requires." This definition is based on the supposition that is cheaper to prevent rather than to produce an excellent product from the beginning. A great field researcher Peter Drucker, noted that quality is "what the customer is willing to pay according to what he obtains."

Philip Kotler, the father of Marketing said, regarding quality, that it can be viewed under two aspects: the level and consistency. "The quality of a product is the ability to carry out its functions. This concept includes durability, reliability, accuracy, ease of operation and repair, along with other

attributes."

Quality is a key factor in customers' decision to choose a particular company or another. The liberalization of international trade by value, internationalization and globalization and development of the service area, the bar in quality always rises.

Now is the time for quality to be a key for all companies and direction for understanding and promoting quality goods and services. Unlike material products, quality service can be appreciated only after having a taste of it. This assessment is not always clear enough, being more subjective and difficult to quantify in relation to quality of goods. Lack of correlation between quality and quality that is expected by customers creates immediate dissatisfaction.

There is a tendency of increasing importance in service quality. The trend is characteristic for the whole European area, supported by EU bodies because of the obvious advantages that these surveys are presented: shortening dispute resolution, lower cost solution, identification and quality assurance services.

Starting from the European Commission's objective quality, which is to use management of quality and ensure quality, so that Europe may become the most competitive dynamic economy, one based on knowledge of the world, the mention that Europe will be a viable and growth economy, which will ensure a greater number of jobs, better paid and an increased social cohesion.

Local companies are operating in a national framework harmonized with European standards. In the EU there is a vast campaign to form **a culture of quality**, imposing on the Member States and the ones in the process of accession to cultivate the same standards. The vastness of this campaign is manifested by:

1. Achieving a common infrastructure quality;
2. Dissemination of large volumes of information on quality in order to strengthen the single European market;
3. Europeanized enterprises by promoting a European quality.

The European strategy is a policy of transcendent quality that determines national policies affecting them. This requires the development of EU documents such as:

- "European quality promotion";
- "The path to an excellent Europe";
- "European Program for promotion of quality" etc.

They provide measures to achieve a strategic vision of quality in all Member States and to identify key points of this approach.

The European Quality Award, awarded annually since 1991, called "The European Model of

Excellence”, is managed by the European Foundation for Quality Management (EFQM) and is a system of criteria relating to both determinants (as received) and the results (which was obtained), while analyzing the performance to customers, staff and society. Free movement is based on mandatory certification for all that may harm the security of people, animals and the environment and voluntary for all other products.

The European Quality Charter was signed at the end of the European Convention. It states that quality is quality and competitiveness of European companies and key signatories required states to work towards a common goal, namely to promote quality in all EU countries.

The main provisions extracted from the European Quality Charter, appreciate them as follows:

- Competition in the global economy is everywhere.
- To win, European products and services should be the best if our continent is to have a chance on the international market;
- Quality has become the key to competitiveness;
- Quality is an objective and a methodology that promotes participation.

For **the optical service firms**, the above definitions require rehabilitation to specific strategic objectives pursued by them. The **quality** of the service level of perfection expressed (level of excellence) that a company aims to achieve and maintain customer preferences to meet the target. In this way, quality is the extent to which firms fail to comply with this strategic objective of prime importance.

Thus, the basic issues that differentiate the service quality are the characteristics of the service quality that the consumer evaluates and are somewhat different from those of goods: experience, knowledge, competence, security, confidence, courtesy, credibility etc.

Also, the services and features appear more difficult to define - understanding and affection, love of the job. Quality of service is identified by some authors as characteristic of the tangible part, namely reliability, courtesy, safety, empathy.

For this purpose, the service can be achieved if firms and management understand, implement and take into account the idea that the consumer is the only reason the quality, service quality is imperative. Therefore one can identify two critical points:

1. The consumer is one reason for the quality of service; they assess service by comparing the received desired level.
2. The company will achieve a strong reputation only when it consistently meets consumer expectations;

When a customer has assessed the quality of a received service, he did not separate its various components. The overall impression is what mattered.

Unfortunately the client tends to stop at the detail of the worst quality and not the benefits. Hence the tendency is to generalize a minor deficiency of the entire set of services that benefit the customer.

So as a policy on services, it is essential to ensure the greatest possible uniformity between the diverse components of the benefits. Supply, whether it refers to a simple benefit, whether the benefit is associated with the consumption of goods, should be considered in the world market.

It follows that, in services, the quality is total or not at all. Studies on service quality and customer satisfaction knowledge often lead to confusing results, because some customers do not open and manifest dissatisfaction in services. The reason is simple and resorts to the intervention of a person who performs the requested service.

In the eyes of the client, expressing dissatisfaction of that person is tantamount to criminalization, putting him or her in difficulty and, therefore, in many cases, clients prefer to remain silent, but not to overlook the deficiencies found. This silence is even more serious for providing the unit with dissatisfied customers will increase as necessary to take into account that a dissatisfied customer, the first experience in use of services is almost always lost to the company.

So it's essential that managers of service satisfaction have a good association with their customers, knowing that the consumer will depend on positive feedback reputation and thus providing the company brand image.

Addressing these issues provides future quality, which is influenced by global market changes:

- Customers are the main criteria for buying quality (ranked 4-5) 10 years ago of 10 possible positions;
- Customers perceive quality and features not only by functions but also by its integration with the total amount, that is the existence of prompt delivery and service networks;
- The buying selling process works on the principle of value.

Quality involves motivation and responsibility of staff or quality that determines success in business, they are reasons of professional excellence is a way of promoting active participation of people as a priority, is a measure of efficiency.

Economic competition requires organizations to always be better. Quality should be a priority for each and every time.

Quality takes into account all functions and every individual in the organization; it concerns all sectors regardless of their size.

Quality can not exist without a quality environment; quality chain unites and binds all economic and social actors. This concerns each and asks everyone to be involved. In competitive market conditions, such as the EU, the question is not to sell what is produced, but to sell what customer satisfaction and harmless.

The eight dimensions of quality identified by G. Garvin, are not directly applicable to services. A study by Berry, A. Zeithaml and A. Parasuraman (1990) identified five main dimensions of service quality, namely:

- * Reliability;
- * Sensitivity;
- * Ensuring;
- * Empathy;
- * Tangibleness.

Reliability of service is the ability to make it safe.

Sensitivity refers to always being ready to help the customers and provide prompt service at all times.

Ensuring the client is the ability to communicate the level of competence and to provide service with the required courtesy.

Empathy is the ability to access and communicate with customers in order to provide them individualized attention and understand their needs.

Tangibleness relates to physical facilities, equipment, personnel and communication materials.

Performances on these dimensions of quality are measured, usually based on the customer opinions.

The European market plan cultivates quality based on the European policy concept of "**Made in Europe**", which will become the modern emblem of European products and services in all areas of international trade, a philosophy of quality and respect for the consumer and the consumer front and the service offered. All these issues require companies which are competitive in the European Economic Area and also worldwide.

In this context, the approach to service quality should be in a much larger form, from the environment in which they are made, respective management systems covering quality and safety in use and consumption.

The future quality of the single market can be prefigured in the form of six dimensions, namely:

1. Achieving high customer value, associated with quality, reflected in the products / services;
2. Successful use of high technology and required shorter cycle tht involves launching of new products, quality output for the customer;
3. The relationship quality-effectiveness of human resources involves the application of methods and tools to help every employee to think, decide individually and in groups, act, learn to achieve quality;
4. The ability to build new partnerships, new strategies with suppliers, new forms of cooperation, reduce delivery time;
5. Integration with other economic aspects of quality indicators of the company. So far it has created an accurate indicator that expresses the cost of delivering complete customer satisfaction;
6. Synthesis of five previous dimensions, namely the shift from focusing on quantity management to focus on quality management.

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THE CREATION OF THE FREE EXCHANGE ZONE– A STEP TOWARDS INTEGRATION OF THE REPUBLIC OF MOLDOVA TO THE EUROPEAN UNION

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Abstract: *The trade of the Republic of Moldova in a large extent depends on the exports and imports to/from the European Union. The EU enlargement phenomenon is placing the Republic of Moldova on a favorable position, if speaking about the negotiation of the terms and conditions for goods and services export and import. The Free Trade Area between the Republic of Moldova and the EU will constitute an important step towards the integration of the Republic of Moldova into the European economic space and the economic development of the country as well.*

Keywords: *Exchange zone, integration, Generalized System of Preferences, trade diversion.*

JEL Classification: F15, F19, F59.

1. GENERAL ASPECTS OF THE OF TRADE RELATIONS EVOLUTION BEETWEN THE REPUBLIC OF MOLDOVA AND THE EU

The Republic of Moldova has a liberal trade regime. The trade policies promoted by the Republic of Moldova, are oriented towards investment attraction in areas of the national economy that will further provide innovations, know-how exchange and competitive products, both on the internal and external markets, creation of efficient technical and economic infrastructure for the capitalization of the existing economic potential.

The legal framework that regulates the exports of the Republic of Moldova is a wide and well developed one. The Republic of Moldova adherence to the World Trade Organization (WTO) allowed an increase of the trade opportunities i.e. the consolidation of a stable and reliable trade environment that provides more stability for the commercial relations.

Another aspect of a major importance for the Republic of Moldova trade is the Generalized System of Preferences (GSP +) that was enacted beginning with January 1 2006. The Republic of Moldova and Georgia are the only countries of the CIS which are beneficiaries of such commercial preferences. The EU adopted the GSP+ for 15 states. The GSP+ offers free access to the EU market for all the products listed in the directive (about 7200 group of products out of 11000).

The Republic of Moldova gained a more free access on the EU market as a result of signing the Autonomous Trade Preference (ATP) agreement, in accordance with the EC regulation N. 55

from 21st of January 2008, amendments to the EC regulation N. 980/2005 and decision N. 2005/924 of the European Commission. The given agreement represents an advantage of which the Republic of Moldova benefits on the GSP+ base with the broadening of the free exchange facilities of some key products for the Republic of Moldova economy, such as spirits, sugar, wheat, barley, corn, and a series of animal products.

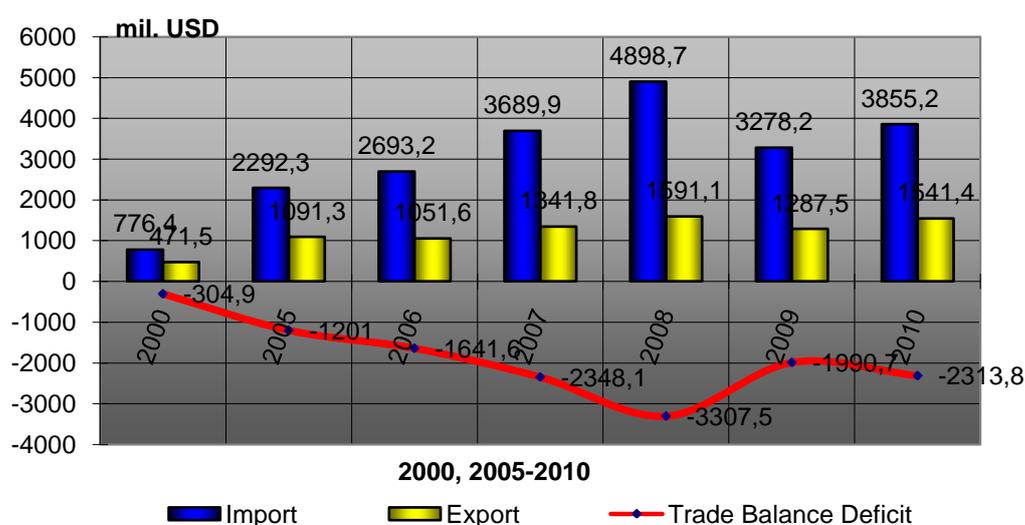
According to the ATP scheme, the EU repeals the trade taxes for all the products from the Republic of Moldova, except those listed in the ATP regulation, for which the tax is repealed to a certain rate. At the same time, The Republic of Moldova was discarded from the list of states that are beneficiaries of the GSP. The ATP scheme runs out in 2012. Within the GSP+ framework, the products spectrum that was exempted of taxes was wide, but it did not include the products of strategic importance as wines or fresh fruits and vegetables. The ATP scheme thus solved the given issue and facilitated the export of the given products to the EU market. Even though certain restrictions were not discarded, for example in 2008 the quota of the tax for free exported wines was of 60000 hectoliters, about 10 million bottles. The wine exporters exploited the biggest part of the given quota within eight months. The EU established in the same way the tax free quotas for the exported sugar from the Republic of Moldova to the EU. In 2008 the level of the given quota for sugar mounted 15000 tones, the main part of the sugar was exported to Romania. Before the Romania adherence to the EU on January 1 2007, the Republic of Moldova had a free exchange regime with Romania. The Romania adherence to the EU had a negative impact on the export of strategic products from the Republic of Moldova.

2. TRENDS IN THE REPUBLIC OF MOLDOVA TRADE

According the data from the Ministry of Economy and Reforms, namely the Department of Statistic and Sociologic Analysis of the Republic of Moldova, the exports and imports value and the trade balance in the 2006-2010 period stated the following changes: in the 2006-2010 time frame the total value of the external trade of the Republic of Moldova increased by 1.44 percent, or by 1624.9 millionn USD (see Figure 1 and Table 1).

Beginning with 2006 the EU market has the priority when speaking of exports and imports, the EU rate mounts 51.12 % of the total exports and 45.24% of the total imports. In 2010 there is state a decrease of the given values: 47.28% of the exports and 44.2% of the total imports.

Figure 1 Tendencies of the external trade of the Republic of Moldova



Source: own processing, based on the data from the National Statistics Bureau of the Republic of Moldova data www.bns.md

Table 1 The External Trade of the Republic of Moldova (thousand USD)

| Year | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|
| Total Export | 1051621.1 | 1341735.1 | 1591184.7 | 1287536.3 | 1541486.6 |
| Out of which | | | | | |
| <i>CIS Countries</i> | 424142.6 | 550244.5 | 623047.0 | 490454.1 | 624003.2 |
| <i>EU Countries</i> | 537666.6 | 679256.4 | 820090.4 | 668441.0 | 728938.9 |
| <i>Other countries</i> | 89811.9 | 112234.2 | 148047.3 | 128641.2 | 188544,5 |
| Total Import | 2693183.7 | 3689524.4 | 4898762.0 | 3278269.8 | 3855288.6 |
| Out of which | | | | | |
| <i>CIS Countries</i> | 1020780.7 | 1333698.1 | 1737261.3 | 1140434.7 | 1256851.6 |
| <i>EU Countries</i> | 1218506.8 | 1680982.6 | 2105264.0 | 1422533.8 | 1704239.6 |
| <i>Other Countries</i> | 453896.2 | 674843.7 | 1056236.7 | 715301.3 | 894197.4 |
| Total Trade Balance | -1641562.6 | -2347789.3 | -3307577.3 | -1990733.5 | -2313802.0 |
| Out of which | | | | | |
| <i>CIS Countries</i> | -596638.1 | -783453.6 | -1114214.3 | -649980.6 | -632848.4 |
| <i>EU Countries</i> | -680840.2 | -1001726.2 | -1285173.6 | -754092.8 | -975300.7 |
| <i>Other Countries</i> | -364084.3 | -562609.5 | -908189.4 | -586660.1 | -705625.9 |
| The coverage level of the imports with exports – total % | 39.0 | 36.4 | 32.5 | 39.3 | 39.9 |
| Out of which | | | | | |
| <i>CIS Countries</i> | 41.6 | 41.3 | 35.9 | 43.0 | 49.64 |
| <i>EU Countries</i> | 44.1 | 40.4 | 39.0 | 47.0 | 42.7 |
| <i>Other Countries</i> | 19.8 | 16.6 | 14.0 | 18.0 | 21.0 |

Source: own processing, based on the data from the National Statistics Bureau of the Republic of Moldova data www.bns.md

Since the Republic of Moldova quota of the external trade of the EU amounts 0.1%, the trade relations with the Republic of Moldova were not attractive for the EU during the past decade. As a

result of an increase of the trade rates, the EU pays more attention to the given aspect and encourages the strengthening of the economic and trade relations with the Republic of Moldova. Because of the fact that the impact of a liberal trade regime with Moldova on the EU market is insignificant, this may serve as an argument and a negotiation tool with the EU. It is obvious that for the Republic of Moldova the trade with the EU has a major importance, for a half of the exports and imports represent the share of the EU. For the Republic of Moldova are especially important both the goods trade and the services trade as well.

3. THE IMPACT OF A FREE TRADE AGREEMENT ESTABLISHMENT

The Free Exchange Agreement between the Republic of Moldova and the EU would influence the economy in two ways. First of all, the EU would discard the import taxes from Moldova, thus increasing the exports competitiveness from the Republic of Moldova to the EU. In practice, the given fact would have small immediate effects, because of the fact that the import taxes from the Republic of Moldova were already suspended within the current regime of the ATP of the EU for the imports from the Republic of Moldova. The benefits would be concentrated in sectors where the exports to the EU are limited by the export quota. Secondly, the Republic of Moldova would discard its' own taxes to the imports from the EU. Even though it would place the imports from the EU on the same level with the imports from the CIS countries, it would diminish the incomes from the customs taxes, unless there would be adopted compensating regulations.

In order to appreciate the impact of the Free Exchange Agreement between the EU and the Republic of Moldova three simulations were elaborated:

(i) the increase of the FOB taxes for the exports to the EU by 5% in order to simulate the discard of the imports from the Republic of Moldova taxation. The given simulation showed an increase of the total exports value by 3 % and an increase of the imports value by 2%, it also resulted into a real appreciation of the Moldovan currency.

(ii) the discard of all the import taxes from the EU - the imports will increase insignificantly, that will result into a replacement of the imports from EU non member states with imports from the EU member states (effect called trade diversion)

(iii) the combination of the both scenarios – usually equal to the sum of the effects of the (i) and (ii) scenarios.

The (i) variant reflects the current situation of the EU ATP system, that discards the taxes for the majority of products imported from the Republic of Moldova, keeping just a few taxes for the

agricultural products, that are considered to be susceptible by the EU. The (ii) scenario reflects the main step that the Republic of Moldova will have to undertake in order to implement the FEZ agreement with the EU.

The economic simulations show that the majority of the structural and trade reforms that would represent an FEZ between the EU and the Republic of Moldova were already enacted by the ATP offered by the EU to Moldova in march 2008. That means that the most significant effect of the FEZ between the EU and the Republic of Moldova would touch upon the political area rather than the economic one – it will place the EU on the same level with the CIS states when speaking of external trade of the Republic of Moldova. By signing an FEZ agreement with Moldova, the EU will not be able to ignore the given commitments. The Government of the Republic of Moldova shall aspire to a more profound economic integration with the EU, that would overcome the trade area. In that regard the FEZ agreement is the first necessary step that shall be undertaken.

On the 2nd of December 2010, the Ministry of Economy of the Republic of Moldova elaborated and approved a plan regarding the creation of the Free Exchange Zone between the EU and the Republic of Moldova, on the European Commission recommendations.

The Free Trade Agreement RM-UE includes the gradual goods and services trade liberalization (up to 10 years from the date it was signed), the free circulation of the labour force, abatement of the customs taxes, technical and non-taxes barriers, the quantitative restriction abolishment and the Republic of Moldova legislation harmonization to the EU Acquis. Thus the (DCFTA *Deep and Comprehensive Free Trade Area* between *Moldova* and *EU*) is part of the European Union Association Agreement that will result into additional benefits for the Republic of Moldova. Unlike the current EU-RM trade regime (ATP) that is a single sided regime accorded by the EU for a limited timeframe – the DCFTA will be a multilateral agreement that will be valid for an unlimited period of time. The given agreement will bring more benefices for the exports of the country than ATP, it will also provide a long term predictability for the business area and investments.

The objectives of the DCFTA are: longstanding non inflationist economic growth, increase of the goods quality and their competitiveness, both sides trade stimulation, offering preferential access to the EU market, creation of a joint market, insurance of a loyal competition on the internal market.

The advantages that can be gained as a result of the DCFTA creation may be: a) unlimited access with no tax restrictions to the imports of the agricultural and industrial goods to the EU market, b) customs taxes discard, clear perspectives for business stimulation and development,

c) taking over the European standards and afferent norms to the quality infrastructure, d) the development of the national legal framework in the competition area, e) the possibility to benefit of technical and financial assistance from the EU, f) access to distribution and business launching international networks, g) the increase of the direct foreign investments, h) access to a wider range of products, i) as a result of the competition increase – lower prices.

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INTEGRATION OF GREEN ACCOUNTING INTO ROMANIAN ACCOUNTING SYSTEM*

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Abstract: *The aim of this paper is to present the concept of green accounting, its emergence at an international level, its entry in the Romanian economic environment and, especially, the way it is understood and applied in Romania. It seeks the awareness of managers and accounting professionals on this issue, especially in the context of growing pressure for environmental protection, from the general public, media and investors. An essential role is held by the accounting profession and its relevant legislation, through the elaboration of standards and guidelines in order to support the efforts of changing the mentality of business environment. The companies are also concerned for the future and not only for the present and they understand that environmental investments are not unnecessary expenses that burden the activities, but long-term profits prerequisites.*

Understanding the concept is difficult without an agreement on its definition. Specialized literature presents different definitions, each author with his own interpretation and vision. This is why professional accountants' reluctance to adopt new ideas and practices of green accounting, this being an unknown territory to them and difficult to entered.

Keywords: green accounting, environmental costs, indicators, benefits, performance
JEL Classification: M41, Q51, Q56

INTRODUCTION

If for the material resources the suppliers are responsible for ensuring them in the production process, for the natural resources the responsibility of their existence lies in all of us, through immaterial factors related to a responsible spirit, mentality and the awareness of future effects. It is looking for an answer about the need of green accounting at the micro and macroeconomic level. So, it is necessary to present the natural assets and liabilities, but also the delimitation between environmental investments and costs. To understand the economic benefits that can be obtained from environmental policies, the effects of green accounting and of an environmental management system implemented in an enterprise must be presented. Green accounting can also fulfill the deficiencies of traditional accounting and to integrate environmental issues in performance reporting.

Green accounting or environmental accounting has emerged as a necessity in the global problem of using natural resources in a sustainable manner. The answer is represented by the

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management of resources in a way that allows their use in the present work, but also their future existence. Those who consume the natural resources should be aware of the importance of ecosystem in the planet's life, these resources being life itself. Should be disposed of selfishness that governs the activities of various industry players, who are only concerned with current operating, immediate benefits, without taking into account the needs of future generations. There are many who do not understand that they are not due to natural existing infrastructure.

Any modern organization must investigate, know and exploit the conditions found in the environment, trying to integrate it as effectively. If on the internal environment the organization can exert an influence almost complete in the sense of building a sustainable competitive advantage based on related resources, the external environmental factors can be also influenced to some extent, but anyway, they should be taken into account by managers to establish the strategy of organizations they lead. On the other hand, any organization must be aware that, in fact, the external environment is part of its existence, as a provider of inputs entering the system as well as were the outputs of its work are launched. Therefore, the absence of permanent reports on environmental conditions, both internal and external, can be fatal to any organization, regardless of size, industry, power or success.

1. EMERGENCE AND EVOLUTION OF THE CONCEPT

The Summit of Rio (3rd to 14th June 1992) had as result the emergence of Agenda 21 which brought to the attention of all new concepts and methods in a new field of applied statistics and specific environmental statistics. Thus, the need and importance of environment in economic decisions was recognized, several approaches of the relationship between natural environment and economy to be taken into account. On the one hand, a statistical description of the impact of economic activity on the natural environment was discussed, and on the other hand, a statistical framework focused on the economy, concerned about the interaction between economy and environment, only to the extent that environmental issues are reflected in economic transactions. Another important effect of the Rio Summit was the separation of monetary assessments of natural environment of the “green” national accounting of the non-monetary or physical ones.

The business world has appropriated as a primary purpose of obtaining short-term financial benefits, despite the sustainable benefits designed to maintain economic balance by even the ecological balance. The situation was also reflected in the Romanian society in an even more harmful manner, since in most other countries manufacturers have realized the danger of excessive

consumption of the natural resources without regenerating them. Resource sustainability ensures business continuity, so by default obtaining a continuous profit, but most important, the continuity of life itself. Even if the financial benefits are lower, is more important to obtain their future safety.

Environmental protection has emerged as a concern in Romania since the late nineteenth century, when questions have arisen about a strategy for nature protection and prevent abusive exploitation. The first environmental protection law – Law of Natural Monuments Protection – was enacted in 1930 and a year later the Natural Heritage Preservation Commission was founded, that works today under the patronage of the Romanian Academy. There have been followed by other regulations, but an environmental law has been applied only since 1973.

The 90s were a period of convalescence in Romania, after an excessive industrialization that had a negative impact on the environment and quality of life.

Green accounting has been a subject of dispute in the last two decades, although the methods developed and applied for European Union and the United Nations were approved to a certain point, but organizations have not agreed in many respects. Latest report on our country's preparedness for EU accession (September 26th, 2006) showed some progress in the administrative capacity of environmental protection and related professional organization. The report also emphasized the need to strengthen the role of the Ministry and National Environment Agency to local and regional agencies.

Romania's EU accession on the 1st of January 2007 had a profound impact on environmental policy and its instruments. Thus, the availability of statistical data based on the *acquis communautaire*, qualitative and comparable, has become a priority. The requirements imposed to Romania for the negotiation of accession were included in the *acquis communautaire* in Chapter 22 "Environmental Protection". This area enjoys in the European Union of a special attention various strategies and policies to provide tools to achieve objectives being implemented.

In this context, on the 12th of December 2008, the international colloquium titled Globalisation of concepts in environmental law took place in Paris, having studied the report of a research project of the University of Paris I developed by a French team in collaboration with other eight countries. Findings showed an alarming situation in the Central-European countries, especially in Romania, where the environmental aspect is almost ignored. There are no related strategies and the authorities focus on the problem, only after natural disasters. So the environment is blamed, many consider the nature the main culprit for the flooding, landslides, when people are losing their farms for agricultural losses, etc., without requiring them to know or realize that the main fault lies with the wrong intervention on the natural course of human nature. Understanding

these risks would be accessible to all, especially those in the economic field, the development of two branches: law and environment accounting.

Using environmental accounting in large companies of the world emerged as a necessity of preserving the natural environment, from the use of its resources in economic activities. The complexity of environmental problems shows the difficulties that enterprises face when deciding to implement and develop a system of environmental management and an environmental accounting. Currently, worldwide the ecosystem conservation problem is treated more seriously and more severe penalties are provided for those who disregard the efforts made in this regard. Among the most important environmental protection measures one can remember: application of the “polluter pays” principle, raising public awareness and encouraging non-governmental organizations in this field.

The present situation of the natural environment has been complicated by the current economic crisis, all the attention being focused mainly on economics, thus neglecting the environmental policies.

2. INTEGRATING ENVIRONMENTAL PERFORMANCE INTO ENTERPRISE ACCOUNTING SYSTEM

In an enterprise, environmental accounting represents the intersection of environmental information system and accounting information, participating in the evaluation of flows taking place between the entity and the environment, but also in managing and presenting the results in financial but also the environment terms. Environmental informations are to be found as:

- capitalized costs, for the restoration of the affected area from an ecological point of view;
- current expenditures, those related to the environment material, collection and waste treatment, monitoring and control of pollution, without amounts covered by fines;
- environmental liabilities that reflect the provisions for restoration and ecological reconstruction of the area, for waste management, environmental certificates, etc.

The environmental management system focuses on issues related to the environment involved in the entity activities and identifies resources and the results thereof. If the activities and resources used can be measured by charges, the costs and benefits of environmental problems managing are more easily perceived by managers.

Implemented into the system of an entity, green accounting is acting on the its activities in several directions, the main purpose being the reduction of environmental harm.

In order to emphasize its role the effects of the implementation should be presented, namely:

- staff awareness and sensitization on the environment given that the accounting information system, ignores more or less the environmental information relevant, such performance being rarely shown;
- it often represents how an environmental information system is developed, as is at its intersection with the accounting information;
- helps assess the flows taking place between the company and the environment, the management and presentation of results on the environment and the financial plan.

Practical experience has shown that the implementation of a green accounting has immediate effects on the employee perception on the environment and the efficiency of managing non-renewable resources.

Developing an environmental accounting system is made, first, by connecting environmental management to financial accounting, conditioned by the determination of environmental elements, of the entity, selecting those considered significant and about which the management would like information. These are items of *environmental cost*.

Environmental cost represents an economic category universally accepted and that part of resources used that offsets the labor and raw material consumption for obtaining a environmental service. The cost expresses in value terms a whole of factors consumed in production of environmental services and consists of the expenses incurred by the manufacturer. Identification and recognition of environmental costs are significant in making good management decisions.

There are also cases when it is difficult to separate environmental costs by those with health and safety or risk management. Here it can be considered the cost of "clean" technologies, of monitoring the categories of raw materials and suppliers, etc.

Conventional costs are those implied by the consumption of raw materials, utilities, capital goods, that are reflected in cost accounting and investment budget, although there are not usually recognized as environmental costs. From the ecologically point of view, their reduction is preferred both in terms of environmental degradation and reducing the consumption of non-renewable resources.

Potential hidden costs are mainly the projected costs incurred in advance of the production process. These costs may be related to location, design of processes and products environmentally oriented, selection of suppliers, evaluation of various pollution control equipment. Secondly this category may also include the set and voluntarily supported in exploitation activity treated as indirect costs.

Unexpected costs (contingent) may or may not be required by future work, aiming to remedy or compensate an accident – pollution factor, fines and future penalties etc.

Costs with image/relations are considered as less tangible or intangible aim to improve the perception of management, customers, employees, community and other partners. They can be called “image charges”. Here the costs with annual environmental reports and activities of maintenance of relationships with the community may be included, those costs voluntary assumed for environmental activities (tree planting, pollution prevention programs).

Conventional costs include most types of costs: of capital, labor and materials. Many of these can be allocated directly to products and processes or may be included in financial evaluation of capital investment. Conventional and potential costs are private costs required by the entity, directly affecting its financial results.

Social costs are associated with the impact of economic activity on the environment and are often called “external costs”. Social costs include environmental degradation for which the company is not legally responsible and the negative impacts on the existence of individuals, their properties and their illness, which can not be compensated through the legal system.

Effective environmental costs and the imputed ones can be classified into the following categories:

- a) *costs of exhaustion*, which refers to the quantitative exhaustion of natural resources;
- b) costs of degradation, deteriorating quality of environment concerns. This can include damage to ecosystems, economic activities or discharges consequence residue in nature. Thus, the actual cost of restoration can contribute to reducing costs of degradation prior or current.

The objective of the environmental accounting system is to monitor the changes in the environment in connection with the economic activity, and its aim is to be a basis for integrated environmental and economic policies.

Reporting environmental assets, according to standards, should be made in the category of tangible (installations, anti-pollution filters, treatment plants) or intangible (environmental permits and certificates, development costs). IASB recommends presentation in the notes to the financial statements of information on environmental assets such as:

- the measurement bases in determining the value accounting;
- gross carrying amount and accumulated depreciation;
- the nature and the effect of change in an accounting estimate of the costs of dismantling and rebuilding the site, useful lives, depreciation methods.

Environmental liabilities are those obligations involving future payments due to past events or compensation to a third party harmed by environmental damage done by entity. These liabilities may be committed in the financial statements, from legal obligations (rehabilitation of land) or contractual arrangements (security environment). Accounting treatment is the same as for other liabilities of the company. Environmental liabilities can be even potential, which differ by the uncertainty of future payments and may be called probable when there is a legal entity or when management wants to prevent, reduce or repair environmental impact.

The financial statements shall be accounted for any environmental objectives resulting in operations involving other parties or train current and future financial obligations, known and estimable. Environmental assets and liabilities are usually integrated into accounting posts, legal rules do not require separate presentation, except for those items to be reflected separately in the notes.

Fines expenses are excluded from environmental costs because, even if they are related to impact of the environment, do not prevent, do not reduce, and do not remedy the damage caused.

Registration in accounting of environmental costs is done in association with other patrimonial elements, depending on how these costs appear or are allocated.

3. ROMANIAN ACCOUNTING PROFESSIONALS TO THE NEW CHALLENGE

Previously, the costs associated with environmental performance were relatively low. Nowadays, environmental costs are introduced in many countries in response to increasing pressures on the environment.

Valorisations of natural capital in national accounting is a known disagreement, due to economic and environmental approaches, that consider the following:

- national accounting shows market transactions, the natural environment being a phenomenon of non-market;
- national accounting concerns only cash flows and natural environment the physical ones;
- national accounting is concerned on the current events and natural environment analyzes the long-term effects.

Green indicators are also regarded with doubts, especially green GDP, this being a primary factor in classical accounting. Arguments against a green GDP:

- its modification according to the pollution and natural degradation can affect the coherent usefulness of SNA in analyzing monetary economy, without the certainty of relevant results;

- a monetary valorisation of a natural damage is difficult;
- amended GDP that aims to reflect the environmental factors, would not be representative in all aspects of economic development.

In recent years, Romania has expressed an interest in the environmental performance of organizations, especially private sector companies. This interest is both for the internal, as well as for external users, such as environmental organizations, government, local communities, shareholders, investors, customers, suppliers.

These pressures implemented within the company policies can take various forms, such as:

- large companies request their suppliers compliance with EMS standards (Environmental Management System), issued by ISO (International Standardization Organization);
- recording the environmental performance of entities in the financial statements or voluntary reporting;
- increasing the social responsibility in investment;
- State control (regulations on using hazardous substances in electrical and electronic equipment sold in European countries);
- applying environmental charges.

Rules governing these issues favor an internationalization of additional variable environmental costs. Costs must be known by companies so that they meet the environmental rules, to comply with the cost of reducing pollution and control equipment, emission fees and necessary documents and reports. Entities need to understand the potential monetary rewards gained by implementing environmental performance, the professional accountants having an important role in this activity. They can influence management decisions, may propose the implementation of economic policies that take into account the environmental protection from the use or damage of natural resources. The target of economic activities should aim to reduce costs and waste, both natural and monetary resources.

Implementation of environmental performance in large companies has led to the identification of products and services necessary for the entry of *green business*, the possibility of adapting to environmental rules changes and keeping good relations with donors, local communities etc.

The organization that effectively monitors environmental pressures, being concerned with associated costs and benefits, requires different types of expertise: technical, environmental, financial-accounting, marketing, management. Professional accountants have again a special contribution, because they have access to internal information, can check the quality level and can use them for investment decisions.

In Romania, there are plenty of companies, firms, reluctant to face this new field, on which they still have limited information. Many accountants feel overwhelmed by this and are not able to act in pursuance of environmental policies. Green accounting disturbs traditional accounting information system that can not handle environmental information, so that financial criteria will be filled with various quantitative indicators – financial and physical – and qualitative ones directly involved in enterprise activity.

CONCLUSIONS

In conclusion, green accounting represents that method which measures an organization's performance in economic terms regarding the environment as a tool for identification and costing of projects and activities that support biodiversity and human health. This information corroborates the management decisions not to harm the environment, such as the implementation of sustainable practices to conserve natural resources for future generations.

Green accounting is addressed to the shortcomings of traditional national accounting, because traditional national accounts system ignore the value of natural resources (soil and subsoil) and environmental degradation. In Romania this concept is relatively new and the interaction between economic and natural environment is still not considered a serious problem. However, some progress has been made, primarily at the legislative level, by the obligation to align with EU law.

Wishing to avoid further degradation in the natural environment there is a need for economic activities aimed at environmental protection, mainly with a prevention role. Such a role should be more effective and also reduce costs, both private and social. The legislation sets out clear obligations on the environmental impact of economic agents.

Depending on data requirements two variants for the necessary system implementation may be considered. The company can integrate management accounting in the existing accounting system, or to redesign it. Both systems require identification of environmental costs and relevant information about them.

Environmental management accounting comprises the identification, collection, calculation, analysis, internal reporting and use of information and materials related to energy, environmental costs, for adopting convenient decisions both economic and environmental protection point of view. The information provided may be used in most activities of management and internal decision-making, but particularly in the environmental protection.

An environmental accounting may reflect more accurately the impact of human activities on nature and the natural environment has value only to the extent that people appreciate the results of exploitation of its resources.

Thus, present serious problems such as exhaustion of deposits of oil or disappearance of forest areas could be even partially solved through a more effective use of these resources by national accounting. An evaluation of resources future efficiency can solve current environmental problems.

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