CENTRE FOR EUROPEAN STUDIES

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CENTRE FOR EUROPEAN STUDIES

Working Papers Series

www.cse.uaic.ro/WorkingPapers

Volume IV, Issue 4, 2012

EDITORIAL BOARD

Volume IV, Issue 4, 2012

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COMPARISON OF SCIENTIFIC SOCIO-ECONOMIC RESEARCH PERFORMANCES IN EASTERN EUROPEAN UNIVERSITIES*

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Abstract: *Scientific research performance measurement and its analysis creates the context where universities are forced to develop strategies to increase the values obtained from indicators such as number of scientific articles, the number of citations of these articles, h-index, g-index, etc. The purpose of this article is to analyze the performance differences arising in the socio-economic science between major universities in South-Eastern Europe, many of them EU Members. In addition, to see where they stand compared to Western Europe, will include a brief review of the results of a major university as London School of Economics and Political Science.*

Keywords*:* performance measurement, indicators, Southeastern Europe, database of scientific articles
JEL Classification: I23, L2, L8

INTRODUCTION

The idea behind this paper is not to create a ranking of Eastern Europe socio-economic sciences universities or faculties but „the need for accountability in Higher Education (HE) has led governments, research authorities and University administrators to assess research performance using single indices that allow comparisons and rankings. The concern for the implications of poor performance in such rankings has led Governments to consider taking some action." (Panaretos and Malesios, 2009).

Performance in scientific research depends on internal and external factors. Researchers or research teams from universities are constrained by legislative measures or called by the partners in the economic environment to conduct studies and provide solutions to solve some economic and social problems. Legislative constraints and the desire of those who teach or do research activities to promote, generates a particular need to publish scientific papers in journals and conferences

* ACKNOWLEDGMENT*: This work was supported from the European Social Fund through Sectoral Operational Programme Human Resources Development 2007-2013, project number POSDRU/1.5/S/59184 „Performance and excellence in postdoctoral research in Romanian economics science domain"*

proceedings. The current economic crisis has forced managers of large companies to invest in research at international level: „the ongoing development of the service sector in the Western economies and the increased competition between firms in a globalized world brought about a substantial demand for high quality managerial skills. This transformation helped Business Schools [B-Schools, thereafter] to become important players in the education sector. While in the 1950s their main purpose was to provide basic, professionally oriented education, these days scholarship and research become essential dimensions of their mission such as understood by society and by themselves. (Besancenot, Faria and Vranceanu, 2009). If from the point of view of teachers involved in the research work this presents an advantage in recognition and relevance of research, this approach has generated a problem "business schools have recently been criticized for placing too much emphasis on research relative to teaching, and for producing research that is to narrow, irrelevant and impractical" (AACSB, 2008). Subject to some criticism, socio-economic area is caught in the middle as the inability to transform results into knowledge suitable for technology transfer generates a negative behavior, but conditions in recent years allow us to state that through our research we can bring solutions to increase social performance economic.

In another context, the core business of a university is research and teaching, but research quality is what separates top universities from their competitors. Institutions that produce the best research receive the largest share of public funding and private philanthropy. There is also a significant relationship between the quality of research and the extent of industry funding (Gulbrandsen and Smeby, 2005).

Under these conditions, performance measurement is to promote research collectives and teams who develop scientific papers useful for their funders, both public and especially private. Publishing an article is a complex process because the pressure on relevant international journals is high and scientific works go through an evaluation process by peer-review and then another assessment process of their scientific quality and relevance by the number of citations. Thus bibliometry, the science that measures these performances has become a standard tool of science policy and research management in the last decades. In particular, academic institutions increasingly rely on citation analysis for making hiring, promotion, tenure, and funding decisions (Weingart, 2005).

Bibliometric statistics and indicators are source data for the development of decision-making rules to finance science. The growth of state support for basic science stimulated the international use of scientific productivity (SP) indicators, such as the number of articles published, their citation, and the impact factor of scientific journals, to assess the contribution of national sciences to world science (Markusova, Ivanov and Varshavskii, 2009).

Since the introduction of the h-index (Hirsch, 2005) a number of studies have shown the practical use of this measure to evaluate scientists within specific disciplines. (Boell and Wilson, 2010).

Common evaluation criteria that characterize quality of research at scholar level are productivity and impact. Traditional bibliometric indicators, like number of published papers and number of received citations, aim to separately capture these criteria; recently proposed indexes, e.g. the h index (Hirsch, 2005), try to measure, in a single note, more aspects of quality. The h index of a scholar is the highest number h of papers published by the scholar that have each received at least h citations (Franceschet, 2010).

1. RESEARCH METODOLOGY

International comparison of scientific research performances in Eastern European universities was based on existing data in two databases of scientific articles Web of Science and Scopus. The period of analysis was between the years 2005-2012 and includes in a significant proportion all articles published by the selected universities in the socio-economic sciences area.

The research started with the idea of comparing the results of scientific research of socio-economic sciences universities or faculties in this part of Europe. For this purpose were chosen some representative universities in countries such as Czech Republic, Poland, Hungary, Slovakia, Romania, Bulgaria and Serbia. Educational institutions are representative for each country and are leading providers of social and human sciences research for the communities they belong to. In terms of the faculties / universities type, they can be divided into two groups: faculties of belonging to socio-economic science universities that, in addition, have other areas of education and research, in this category being: Alexandru Ioan Cuza University of Iași, Babes-Bolyai University of Cluj Napoca from Romania, Corvinus University from Hungary that besides social sciences has two Faculties of Horticulture and Belgrade University, one of the most prestigious institutions of higher education in Serbia. University of Warsaw falls into the category of those entities with different specializations but a significant proportion fall within the social and human sciences. Researcher's desire was that the other selected entities to fit into the same category, but a research of universities in the Czech Republic and Slovakia have concluded that beneficial for the comparative analysis is to consider two universities with economic specific: University of Economics in Bratislava and University of Economics Prague.

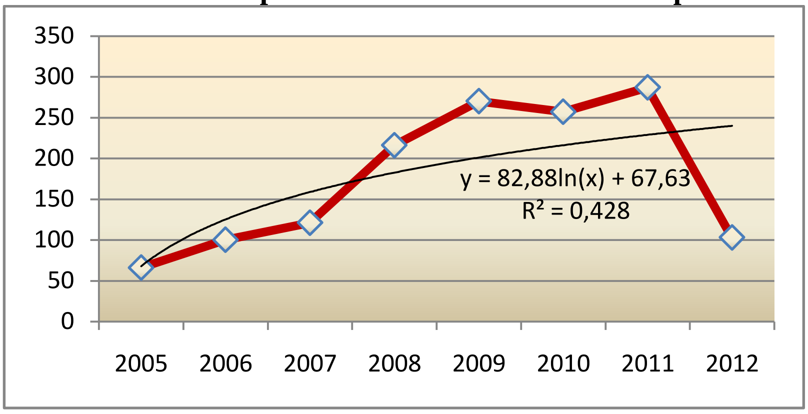
From the foregoing analysis results that the countries of Eastern Europe, forced into a sort of competition within the union and competition with other universities, began with small steps to develop strategies for funding scientific research but also methodologies of evaluation and performance monitoring of their researchers in this field. Of the entire analyzed countries, only one who has not yet achieved the relevant performance measurement strategy is Serbia, but with the adoption of the EU accession criteria, it will be forced to develop and apply a strategy in science.

Research limitations depended on access to information in the analyzed databases as between the two sources is a major difference regarding the encoding mode. In order to search, were used the search systems in Web of Science and Scopus, and the chosen criterion was the name of the concerned faculty and university. There are significant differences in how the universities and faculties names are coded because Web of Science uses some abbreviations while the Scopus makes this easier search using the full name of the institution and its substructures. For this reason in some cases the Web of Science search is more difficult and there is the possibility that the results are different. Another limitation depends on the specific search method of the Web of Science and is because these abbreviations for certain faculties are very difficult to be identified, the researchers preferred to use the scientific research, in our case "economics, social science ". Thus, it is possible that researchers are not only from within that university, they may be from other faculties and departments of the concerned university, the motive is that Web of Science displays the criterion and two other appropriated.

2. THE RESEARCH RESULTS

In the period 2005-2012, according to data gathered from the Web of Science database, the analyzed Faculties of Economics from Eastern Europe have published a total of 1420 articles. From Figure 1 it is noted that in this period was an upward trend and we believe that it would have a positive trend with an R-square greater than 0.5 if the data were analyzed by the end of 2012. As for the last part of this year, was not processed the number of items, the trend function y = 82.88 ln (x) + 67.63 defines the upward curve of the indicator.

Figure 1 – Evolution of the published articles number in the period 2005-2012



Source: Web of Science

Out of the 1420, published in social and economic sciences, Babes Bolyai University of Cluj with 362 articles, have a share of 25.49%, Alexandru Ioan Cuza University of Iași with 296 articles, 20.84%, University of Warsaw with 253 publications, 17.81%, Corvinus University of Budapest with 220, 15.49%, Prague University of Economics, 217, 15.28% and Economic University Bratislava 5.07%.

Table 1 – Descriptive statistics – Number of Web of Science articles

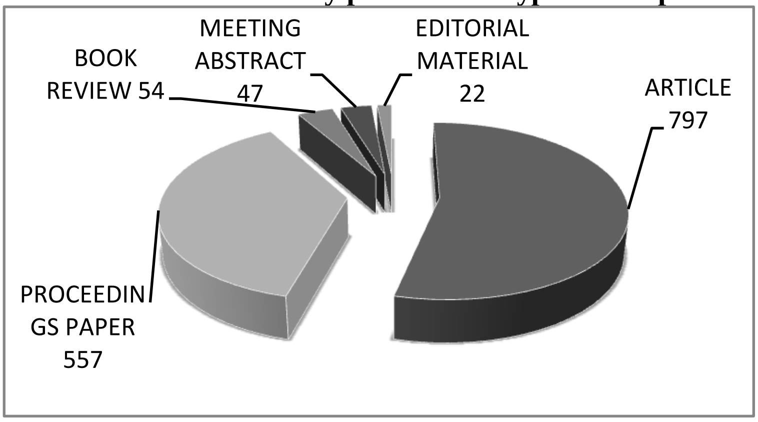
	Total	Cuza University	Babes-Bolyai University	University Economics Baratislava	Corvinus University	University Economics Prague	Warsaw University	University of Belgrad
Article	1420	296	362	72	220	217	253	
Article/all		20,84%	25,49%	5,07%	15,49%	15,28	17,81	
2005	66	6	7	4	5	17	27	
2006	100	23	11	11	17	13	25	
2007	121	15	20	3	23	20	40	
2008	216	27	53	11	36	45	44	
2009	270	58	80	17	40	40	35	
2010	257	59	79	10	37	40	32	
2011	287	92	81	9	46	32	27	
2012	103	16	31	7	16	10	23	
Mean	177,5	37	45,25	9	27,5	27,16	31,62	
SD	89,06	29,59	31,99	4,44	14,29	13,74	7,52	
Max	287	92	81	17	46	45	44	
Min	66	6	7	3	5	10	23	

Source: Web of Science

The descriptive-statistics analysis of the results show that on average universities published 177.5 articles, the maximum value being established in 2011 and minimum in 2005. This upward trend was due to the interest of universities to publish relevant articles in order to create research networks, another cause may be the growing number of magazines such as in Romania and implementing of evaluation and grading programs that forced universities to publish ever more. This is evidenced by the large standard deviation of 31.99, respectively 29.59 of Babes-Bolyai University and Alexandru Ioan Cuza University. Compared, University of Warsaw has a standard deviation of only 7.52 which means that the number of publications in the period was relatively constant, with no significant increases or decreases.

By publication type, universities have published in indexed journals a number of 797 articles but a significant number comes also from articles published in indexed conferences volume (557) the remaining are book reviews, meeting abstract or editorial material

Figure 2 – Distribution of articles by publications types in the period 2005-2012



Source: Web of Science

International recognition of the published articles value is determined by the indicator number of citations and H-index. The articles published by researchers from analyzed universities were cited in the period 2005-2012 by 2193 times. The high number of citations in socio-economic sciences area has Babes-Bolyai University in Cluj Napoca Romania 752 Bolyai percentage 34.29% and University of Warsaw Poland 663 value represents 28.86% of the total. A second two universities were cited articles 316, Alexandru Ioan Cuza University of Iasi, Romania and Hungary Corvinus University of Budapest of 248 times, with values exceeding 10%, University of Economics in Prague with 9.30% of the total.

Table 2 – Descriptive statistics – Number of citations in Web of Science

	Total	Cuza University	Babes-Bolyai University	University Economics Baratislava	Corvinus University	University Economics Prague	Warsaw University	University of Belgrad
Citations	2193	316	752	40	248	204	633	
Citations/all		14,40	34,29	1,82	11,30	9,30	28,86	
2005	52	-	46			1	5	
2006	73	-	49	1	6	3	14	
2007	152	1	76	3	9	21	42	
2008	243	14	99	4	21	28	77	
2009	297	32	92	6	37	39	91	
2010	448	94	125	7	53	46	123	
2011	586	121	164	11	87	34	169	
2012	342	54	101	8	35	32	112	
Mean	274,13	52,6	94	5,72	35,43	25,5	79,16	
SD	184,50	46,84	38,90	3,35	28,18	16,25	56,49	
Max	586	121	164	11	87	46	169	
Min	52	1	46	1	6	1	5	

Source: Web of Science

On average, the articles of the two universities Babes-Bolyai and Warsaw are cited by 94 times, respectively 79 times a year. The maximum number of citations for all higher education institutions analyzed was in 2011, with the minimum in 2005, with a standard deviation of 184.5.

Table 3 shows one of the indicators commonly used in determining the relevance of scientific articles and citation since 2005 h-index. It is noted that for Warsaw University, the twelfth article has 12 citations, Babes-Bolyai University eleventh article has 11 citations, Cuza University has h-index 10 and University of Economics in Bratislava h-index 4.

Table 3 - Number of citations in Web of Science

	Cuza University	Babes-Bolyai University	University Economics Baratislava	Corvinus University	University Economics Prague	Warsaw University	University of Belgrad
Without self-citations	246		40	248	188	546	
Average Citations per Item	1,07	2,07	0,56	1,13	0,94	2,5	

H-index	10	11	4	7	6	12

Source: Web of Science

Analysis of the publishing areas shows that the scientific production is very diverse with each university having areas where is performant. It can be seen in most cases that the first position is held by the economy domain, but besides these this are also health policy services, education research, sociology, social works etc..

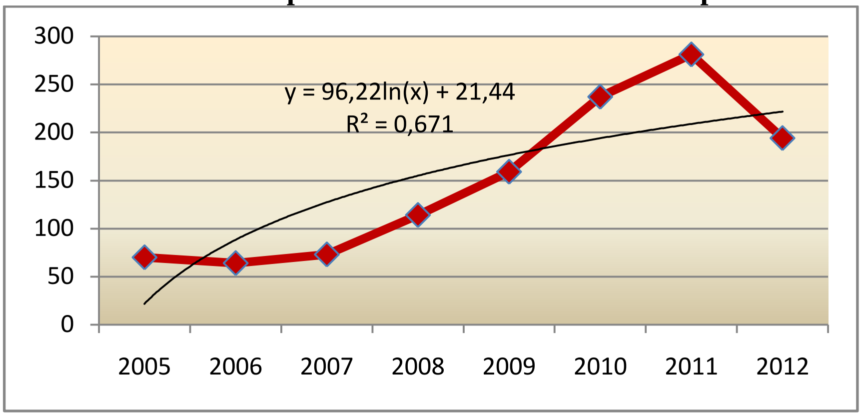
Table 4 – Domain articles distribution

Cuza University	Babes-Bolyai University	University Economics Baratislava	Corvinus University	University Economics Prague	Warsaw University
Economics	Public administration	Economics	Economics	Economics	Statistics probability
Management	Economics	Social sciences mathematical methods	Health policy services	Mathematics applied	Economics
Education educational research	Management	Political science	Health care sciences services	Computer science information systems	Operations research management science
Business	Operations research management science	Environmental studies	Operations research management science	Social sciences mathematical methods	Mathematics applied
Statistics probability	Business	Geography	Management	Management	Computer science interdisciplinary applications
Sociology	Mathematics applied	Mathematics applied	Political science	Political science	Management
Social work	Education educational research	Planning development	Business	Operations research management science	Planning development
Business finance	Business finance	Agricultural economics policy	Public administration	Computer science artificial intelligence	Business
Ethics	Statistics probability	Engineering multidisciplinar y	Mathematics interdisciplina ry applications	Computer science theory methods	Social sciences mathematical methods
Public administration	Social work	Business finance	Planning development	Business	Business finance

Source: Web of Science

According to the data from the Scopus database in the period 2005-2012, the analyzed universities indexed a total of 1153 publications. The evolution of this number can be described by a trend equation of the form y = 92.22ln(x) + 21.44 with R-square value of 67.1% which means that there are chances for future developments of publications volume to be described in the given formula.

Figure 3 – Evolution of the published articles number in the period 2005-2012



Source: Scopus

Table 5 details each entity results; this time, compared with analyzes with information from the Web of Science database appears also the Belgrade University. Thus, regarding the number of articles, is noted that universities have published a relatively close number of articles, the differences are not so significant. Statistically analyzing it can be observed that the maximum value in the analyzed period in six of the seven universities ranges between 41 and 55 and the standard deviation is approximately equal.

Table 5 – Descriptive statistics – Number of Scopus articles

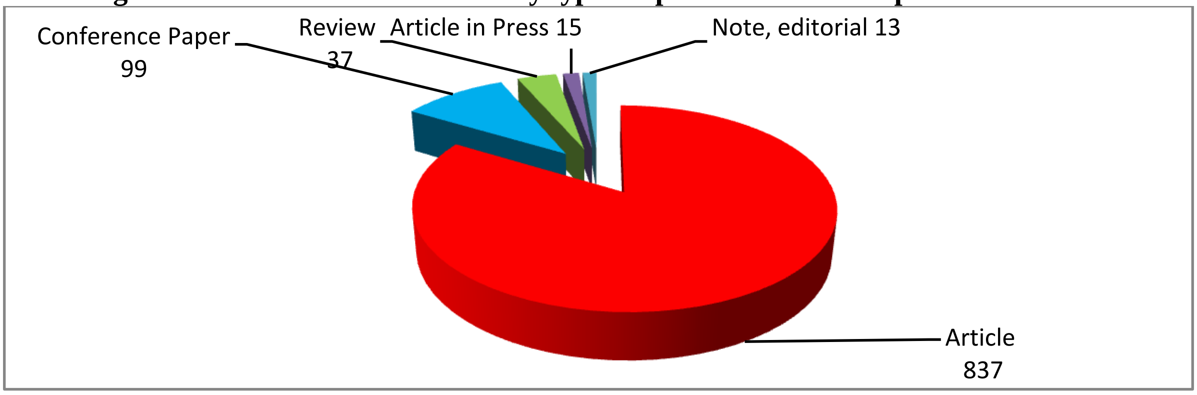
	Total	Cuza University	Babes-Bolyai University	University Economics Baratislava	Corvinus University	University Economics Prague	Warsaw University	University of Belgrad
Article	1153	134	178	110	178	193	188	172
Article/all		11,62	15,43	9,54	15,43	16,73	16,30	14,91
2005	70	1	3	25	4	20	12	5
2006	64	12	3	17	10	11	10	8
2007	73	3	3	8	16	7	20	9
2008	114	16	18	14	15	17	24	18
2009	159	17	29	7	31	25	23	21
2010	237	21	36	19	28	46	42	30
2011	281	41	41	16	48	46	28	55
2012	194	23	45	4	26	21	29	26

Mean	149	16,75	22,25	13,75	22,25	24,125	23,5	21,5
SD	82,60	12,56	17,86	7,00	13,94	14,64	10,14	16,20
Max	281	41	45	25	48	46	42	55
Min	64	1	3	4	4	7	10	5

Source: Scopus

Distribution of items number by type of publication highlights that in the Scopus database an estimated 837 of indexed publications are articles and much less, compared to Web of Science, are conference paper: 99.

Figure 4 – Distribution of articles by types of publications in the period 2005-2012



Source: Scopus

We can see that this database indexes in a significant proportion only articles and also the difference between the total results of the two sources is given precisely by the number of indexed conference proceedings.

Compared to other source, the total number of articles citations is 3434, with approximately 1100 more citations. The distribution of the indicator on universities clearly shows that the University of Warsaw with 1661 citations has about 50% of the total, followed by the University of Belgrade with 600. Other universities have a low number of citations.

Table 6 – Descriptive statistics – Number of citation for Scopus

	Total	Cuza University	Babes-Bolyai University	University Economics Baratislava	Corvinus University	University Economics Prague	Warsaw University	University of Belgrad
Citation	3434	173	294	96	278	332	1661	600
Citation/all		5,03	8,56	2,79	8,09	9,66	48,36	17,47
2005	19	1	9	1		2	5	2
2006	70	5	16	4		11	31	8
2007	132	10	21	6	8	21	55	21

2008	298	8	24	12	14	41	135	72
2009	480	23	32	11	39	42	259	97
2010	724	36	66	23	58	70	366	141
2011	894	47	75	24	93	96	446	160
2012	644	43	51	15	66	49	364	99
Mean	407,62	21,62	36,75	12	46,33	41,5	207,62	75
SD	327,49	18,25	24,36	8,41	32,46	31,05	173,13	60,21
Max	894	47	75	24	93	96	446	160
Min	19	1	9	1	8	2	5	2

Source: Scopus

To highlight and correctly evaluate the performance of universities in Eastern Europe we consider useful for our analysis a comparison with one of the universities recognized at European level in the field: The London School of Economics and Political Science.

Table 7 – Number of publication and citation of London School of Economics and Political Science

	Publication	Citation
2005	517	102
2006	542	371
2007	545	936
2008	392	1923
2009	407	2837
2010	443	3376
2011	492	4319
2012	392	3696
Total	3720	17578

Source: Web of Science

Compared to universities from the East, London School of Economics and Political Science has a number of publications about 262% higher than all the analyzed institutions, the main socio-economic science providers in this part of Europe. Analyzing the number of citations we see that it is 801% higher.

CONCLUSIONS

Comparative analyzed, the performance of socio-economic universities in Eastern Europe is very close and there are no significant differences between the major universities. The only which departs only slightly from the group is the Economic University in Bratislava which will have to adopt a strategy to increase the number of relevant publications.

Compared with the great European universities, the performance of these entities is mediocre, hovering in the national limits within each country. In order to compete with the big universities is recommended that they develop together or in partnership with institutions in Western European several research networks to publish articles in journals with high international quote.

It is required to adopt some legislative measures on performance evaluation which have the effect of performance increase in this activity, as the case of Romania who adopted a law on the ranking of universities and their funding based on the results from this ranking. The result was the adoption by university of strategies regarding the publishing of scientific articles in relevant international journals.

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MANAGERIAL OWNERSHIP, BOARD STRUCTURE AND FIRM'S PERFORMANCE: A REVIEW OF MAIN FINDINGS*

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Abstract: *The objective of this paper is to provide a comprehensive review of the main studies that have investigated the connections between managerial ownership, board characteristics and firm's performance. It discusses the methodological approaches used in researching the ownership's structure – performance relationship, highlighting the main findings and finally proposing directions for further research.*

Keywords: managerial ownership, board structure, firm's performance, endogeneity, corporate governance
JEL Classification: G32, G30, G34

INTRODUCTION

Providing a consistent review of the main contributions of ownership's and board structure related to performance is clearly an objective beyond the scope of this paper. Academics, investors and policymakers from all over the world are paying an increasing attention to the corporate governance, especially to the impact that the ownership's structure as a corporate governance mechanism might have over corporate performance. Much interest has been devoted to corporate governance issues, particularly in the aftermaths of Enron's collapse, with the demand for guidance and certified advice for improving the quality of corporate governance system growing very rapidly.

Following the latest trends of the last decade, some academics have also focused on studying the connections that might be identified between managerial ownership, board structure and performance, using various methodological approaches applied on larges samples, trying to explain as rigorously as possible if and how different corporate governance mechanisms may be interrelated with the firm's performance.

By offering a consistent review of the main findings published within the academic literature related to theownership - performance relationship, this paper intends to provide context for

* ACKNOWLEDGEMENT**:** This paper was supported by the European Social Fund through Sectorial Operational Programme Human Resources Development 2007-2013, research project POSDRU/89/1.5/S/59184 **'Performance and excellence in postdoctoral research within the field of economic sciences in Romania'**, Babeş-Bolyai University, Cluj-Napoca being a partner within the project.

valuables debates over the further research directions that may be adopted when studying the incidence of the governance's mechanisms over the performance.

The remainder of the paper is organized as it follows: Section I briefly reviewed the methods and overall results obtained by academics*;* Section II discusses the problem of endogeneity that might influence the research findings in analyzing the link between the ownership's structure and performance. Finally, Section III concludes proposing some directions for further research.

1. METHODS AND OVERALL RESULTS

Consistent with the purpose of this paper, the studies have been taking into account the influence of ownership and board structure as corporate governance mechanisms on corporate performance. After analyzing the main studies identified on this topic, it can be noticed that a good deal of research has been dedicated to various corporate governance issues, but considering the established objective, only the papers addressing particularly the issues interrelated to ownership and performance have been analyzed. The list of empirical studies reviewed is provided in Table 1, along with details on the used methodology, including sample selection, ownership and board's structure variables, research methods and main findings.

Table 1 - Empirical studies focused on ownership, board structure and performance

Study	Sample used	Ownership and board variables	Performance variables	Methods	Results
Ferris and Jagannathan (2001)	A sample of 6089 firms, with 37 774 different directors who represent 45467 directorships.	- Number of directorships held per director - Board equity ownership	- Market-to-book - Total assets - Board size - Operating return on total assets	- Univariate and multivariate analysis - Regression analysis	- A significant positive correlation between corporate operating performance and the number of directorships per director is found. - An inverse relation was observed between the number of directorships per director and the degree of equity ownership by the board.
Gugler and Weigand (2003)	491 listed United States corporations and 167 listed German firms to test for **endogeneity** of insider and large shareholder ownership	Insider ownership defined as the total number of shares held in aggregate by all officers and directors as a percentage of total shares outstanding (available for US	- Return on total assets - Log Total assets - Change in log turnover (firm growth) - Total assets/ employees (capital intensity) - Debt/total assets (capital structure)	- Regression analysis (OSL regressions) - `Method of instrumental variables (IV)	- It is found that total insider holdings are at least in part endogenously determined for US firms. - Large shareholders affect firm performance separately and exogenously, as is the case in the German system - Also, it is suggested that the influence of large

		firms)			shareholders must not be neglected when analysing the impact of ownership on firm's performance.
Pindado, J. and De La Torre, C. (2004)	135 nonfinancial quoted Spanish firms for the period between 1990 and 1999.	The ownership's structure is captured through the measure of ownership concentration in addition to the insider ownership one (it was considered the square of ownership the square and cube of insider ownership as well as concentration)	- Intangible assets - Market share - Firm's size - Debt ratio	- Panel data regressions	- It is found that firm size can be considered as a source of endogeneity of ownership concentration - Also, their findings suggest that this endogeneity is not caused by unobserved heterogeneity but by its simultaneity with value.
Florackis C. (2005)	962 non-financial UK listed firms	- Percentage of shares held by executive directors; - Percentage of shares held by non-executive directors; - Ratio of the number of non-executive directors to the total number of directors; - Number of directors on the board (in logarithm); - Percentage sum of stakes of all shareholders with equity ownership greater than 3% ratio of total remuneration package that is provided to executive directors to total assets (expressed as a percentage);	- Tobin's Q - Firm size is measured as the logarithm of the market value of equity. - Ratio of total debt to total assets; - Ratio of short term debt to total debt	- Cross-sectional regressions	- It is found a significant impact of managerial ownership, non-executive directors and board size over corporate performance. - The findings also suggest other two potential corporate governance mechanisms (*debt maturity and managerial compensation*) as main predictors of firm's performance.
Ghosh S.(2006)	127 listed manufacturing firms in India for 2003	- Board characteristics variables (size and composition) as is Log (Board) – logarithm of size of board of	- Return on assets (ROA) - Performance (PERF) PERF is also employed, which is the arithmetic average of RoA,	Method of instrumental variables (IV)	- The findings indicate that the size of the management board exerts a negative influence on performance, irrespective of the measure considered is PERF or AdjQ

		directors - Dummy variables are employed to control for firm ownership (public versus private).	- Return on sales (RoS) and return on equity (RoE). - Adjusted Tobin's Q (AdjQ), defined as the ratio of market value of equity to the book value of debt - Log(TA) – logarithm of total assets netted for depreciation - Cash flows (CFA) defined as cash flows (CFA) minus depreciation as a percentage of total asset minus depreciation - Firm's age defined as the logarithm of number of years since its incorporation - Leverage ratio (LEV) defined as total asset minus equity capital as a fraction of total assets - Percentage share - Price change		- Also, it is found a positive association between the number of non-executive directors and firm performance
Manjon M. (2007)	Panel of firms listed in the Spanish Stock Exchanges between 1991 and 1995.	- Degree of control exercised by large shareholders (the use of ultimate-ownership shares and solutions of voting games (i.e. power indices) as alternative proxies for this control	- Difference between Return on Assets and the opportunity costs of debt and equity. The costs of debt are approximated by (Total assets -Equity) - Interest rate - Financial expenditures and the costs of equity by equity - Interest rate.	- Panel data regressions	- Statistically the degree of control exercised by large shareholders does not have a significant impact on firm performance.
Bhat (2008)	102 retail companies operating in United States	- Insider ownership (proportion of shares held by insiders)	- Inputs from employees, total earning assets (that includes property, plant and equipment and current assets), inventory and selling, general and administrative expenses to produce outputs such as sales, income before	- Data Envelopment Analysis (DEA) - Spearman Rank Correlation	- This study finds positive relationship between performance and insider ownership.

			extraordinary items and stock market values.		
Bayer C. and Burhop C. (2009)	24 member banks of the Preußenkonsortium (bank consortium for the emission of Prussian government debt) from 1874 to 1914 (2910 observations (i.e. managers – board – membership/years), 570 of these fall in the period 1874 to 1883 and the other 2340 observation in the later period 1884 to 1913)	- Total number of members on the board for each year for each company - Time spent by each board member up to the date when he left.	- Average growth rate of total assets and the average dividend yield for each board member from the time he joined the company. - The dividend yield itself is calculated as dividend in year t relative to the share price at the end of year t-1.	- Regression models	- Comparing to studies realised within modern corporate governance systems, there were found significant differences referring to performance turnover relationship. - Therefore, it was found before the reform that managerial leave was unrelated to performance, while after the reform; performance significantly impacted the turnover of managers.
Jiraporn P. and Davidson W. (2009)	5250 observations, 349 (6.65%) belong to the financial industry, while 437 (8.32%) are in utility	- Governance Index (GINDEX) available in the Investor Responsibility Research Center (IRRC)	- Sales - Total assets - Profitability [Earnings Before Interest and Taxes (EBIT)/sales], - Debt ratio - Growth opportunities [Capital Expenditure (CAPX)/sales]	- Univariate and regression analysis	- Financial firms place significantly fewer restrictions on shareholder rights while utility firms impose just as many restrictions on shareholder rights as do firms in unregulated industries

Source: author's own processing based on literature review

2. LINK BETWEEN OWNERSHIP'S STRUCTURE AND PERFORMANCE - A PROBLEM OF ENDOGENEITY?

Many of the reviewed studies are single-country studies and various research methods have been employed for testing the correlations between ownership's and board structure and corporate performance including panel regressions, OLS regressions, and the method of instrumental variables and/or a simultaneous equation model. Carrying out a more detailed analysis of the findings of the many reviewed studies, it could be noticed that

the results are not quite uniform, while for some studies the conclusions shows a positive relationship between ownership's structure and firm performance, and for others it is proved statistically that the impact on firm performance is not a significant one.

Diversity of findings in ownership-board structure-performance studies are explained by the endogeneity problem, because as Gugler and Weigand (2003), Pindado and La Torre (2004), Ghosh (2006) have been remarked, the **endogeneity problem** seems to be a typical one when ownership and board's structure is correlated to corporate performance.

Endogeneity can be defined as a consequence of a reverse causality that might exist between the independent variable and the dependent variable, or in other words, when the dependent variable might actually be the cause of the independent variable. As Bhagat and Black (2002) remarked *"Board composition could affect firm performance, but firm performance can also cause the firm to change its board composition*", this reverse causality determining biased OLS regressions findings.

As other researchers from academic literature (Cho, 1998; Himmelberg et al., 1999) stated, the findings suggest the fact that the researchers have been aware of the effects of endogeneity problem. For instance, Gugler and Weigand (2003), who studied the relationship between ownership structure and performance based on two samples (US firms and Germany firms), have obained different results when they applied tests of endogeneity. Trying to answer to a critical question: '**Where does this endogeneity come from?**', Pindado and La Torre (2004) showed that the main source of endogeneity is the simultaneity between ownership and performance, rather than individual heterogenity. From the point of view of Pindado and La Torre (2004) the solution to control the endogeneity problem is using the method of instrumental variables (IV) or specifying a simulatenous equation model. The same opinion is shared by Ghosh (2006).

But as Bozec (2012) has remarked, the major challenge in using the method of instrumental variables for counteracting the effects of endogeneity is to find the good instrumental variables, *'variables that are correlated with the endogeneous regressor but uncorrelated with the error in the structural equation'*, but even so such methods are quite usually difficult to find and to use. The same opinion was also shared by Renders et al. (2010) who consider that the instruments used in prior research studies are often only weakly correlated with corporate governance, determining inefficient instrumental variables estimates, or furthermore the bias in using instrumental variables (IV) may be more significant than the bias in using OLS regressions (ideas also shared by Bound *et* al., 1995; Nelson and Startz, 1990).

Also, the panel regression is one of the most common research methods to control at least one aspect of endogeneity, named spurious correlation, which according to Bozec (2011) happens when an unobserved variable simultaneously influences governance's mechanisms and corporate performance. In this case, a positive relation between ownership and performance will be noticed, whereas the identified coefficients reflect only a spurious correlation and not necessarly a causal relationship.

But the major question related to research methods is: *it is enough to control only one aspect of endogeneity?* One conclusion is clear, the literature related to the relationship between ownership-board structure-performance has not yet reached to consensus about the best econometric methods that should be employed.

Starting from the premise that the diversity of findings in academic literature related to the governance-performance relationship is given by some inadequacies in the research techniques employed when trying to control all forms of endogeneity; Schultz et al. (2010) proposed a comprehensive model of performance and governance including a range of econometric techniques. Using a dynamic generalized methods of moments (GMM) and robust specification to all forms of endogeneity, Schultz et al. (2010) found no causal relationship between governance and firm performance, concluding that previous findings of significant relationships between ownership and performance uncovered by OLS regressions and panel regressions are the result of spurious correlations.

An interesting solution is offered by Renders et al., (2010) who claims that for controlling the negative reverse causality between performance and ownership and board's structure as corporate governance's mechanisms, it is necessary to consider both endogeneity and sample selection bias.

Renders et al. (2010) starts from the idea that the impact of the corporate governance on corporate performance after controlling endogeneity and selection bias is highly significant, both of them exercising an equally large influence over the results. Too few studies have approached the problem of selection bias together with the endogeneity. In this case, Renders et al. (2010) develop a multi-stage model that could be used and implement in future studies, in which it is simultaneously controlled for both sample selection bias and endogeneity .

CONCLUSIONS

The major objective of this paper was to provide an extensive overview of the main findings focused on the main coordinates of the relationship between corporate governance and firm's performance, trying to highlight potential research directions that should be developed when examining the relationship between ownership, board structure and company performance.

Key issues for further researching studies in ownership-board structure-performance will be the finding of the best econometric research methods that will allow to better mitigate the problem of endogeneity.

As Manjon (2007) observed, further research is absolutely needed on this topic, while ignoring the problem of endogeneity may lead to inaccurate findings. Reflections and discussions over the main studies related to the coordinates of governance-performance relationship should provide a relevant answer to the question: *Where have we been, where are we now and where will have to be in the future*?

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THE INFLUENCE OF RURAL DEVELOPMENT POLICIES OF THE EUROPEAN UNION. CASE STUDY BOTOSANI COUNTY

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Abstract: *The European Union created rural development policies in order to reduce disparities between member states. The policies consist in financial instruments that can be accessed for financing rural communities. The diversity of projects that can be funded denotes the complex problems that rural areas are facing on an European scale. The study has as hypothesis the evaluation of rural development in Botosani county because of Romania's accession to the European Union and its influence. Thus we can observe priority areas for accessing european funds. Qualitative and quantitative data on rural development projects are used to identify rural distribution projects and priority areas. The influence of policies and development strategies reduces intra disparities, ensuring authorities competitiveness needed to develop and implement other projects with the same goal.*

Keywords: policies, strategies, rural development, European Union, disparities transport infrastructure
JEL Classification: R12, R38, R58

INTRODUCTION

Rural areas, worldwide**,** are facing great difficulties in terms of economic growth, providing jobs for rural residents and sustainability in the coming years, considering the high rates of rural - urban migration among young people, which increases the aging of the rural population. Based on these considerations, the sustainable rural development has been called into question, a careful analysis of both rural development and agricultural and forestry sectors indicating the need to accelerate restructuring and modernization of the countryside, given the social and economic importance of them to ensure equitable, integrated and sustainable economic development of rural areas.

Nationally, the rural development implementation process involves achieving an efficient management of local natural resources, determining the influence of socio-economic factors on the rural areas, developing and implementing local sustainable development strategies at rural level, connecting with main European Union priorities (Lisbon, Gothenburg) and their translation into rural development policies, ensuring consistency with other policies, especially in the field of sustainable development and the environment.

Regionally, the objectives set out are those that share as a main goal the continuous improvement of life quality in rural areas through: economic growth and job supply, diversification of economic activities in rural areas, sustainable use of local natural resources, increased food chain integration**,** encouraging rural entrepreneurship and supporting them, encouraging successful environmental initiatives, promote regional balance, capacity building of local partnerships, promote the acquisition of skills which can help mobilize local potential, encouraging public-private partnerships in order to achieve innovative initiatives in the rural economy, promoting cooperation and innovation, improve public administration by introducing new technologies, promote bilateral cooperation as a mean of revenue growth in the rural economy, promoting sustainable management of agricultural entrepreneurs, promotion of organic farming as a profitable production method and friendly environmentally farming, diversification of services from rural economy provided to agricultural entrepreneurs, improving basic services (infrastructure, health, education, libraries, cinemas, places of leisure, transport and communication services) valorisation of cultural, architectural and natural heritage to increase attractiveness and quality of life in rural areas.

Rural development is encouraged at a European level by the existence of tools like the finance projects proposed by the communities. The diversity of projects that can be funded denotes the complex problems that rural areas are facing throughout Europe.

Romania's status as a European Union member influenced the creation of national / regional development policies and strategies to reduce intra and inter regional differences**.** Thus, Botoșani County developed policies and development strategies in line with the European Union framework, and a number of projects were implemented in the rural area. Domaines / sectors to which projects have been assigned highlight the precariousness of Botoșani; the most important project was the rehabilitation of the transport infrastructure, followed by the development of urban comfort, by providing sewers, water and gas.

Local authorities have boosted rural development projects because of the opportunities offered by the European Union funding instruments for various areas, especially the rural areas facing socio-economic deficiencies. Botoșani has a negative national image due to the status of its underdeveloped rural territory, the rural areas feeling strongly that status because there is no financial potential for the community to begin efforts to reduce disparities, leading to poor living conditions, technical and urban convenience is limited to the existence of electricity in houses, and only few villages receiving sewerage and drinking water, even more road infrastructure is in the early stages of modernization and rehabilitation, major traffic arteries beeing advantaged in this. Thus, such problems that rural areas are facing can be addressed by implementing rural development policies promoted by the European Union, the society feeling the positive effects of integration into the European Union.

1. RURAL DEVELOPMENT POLICIES IN THE EUROPEAN UNION vs. DEVELOPMENT POLICIES IMPLEMENTED IN BOTOSANI

The studies of rural areas in Europe are complex dealing with geographical or ethnographical problems, and outlining and highlighting various aspects, of economic importance. The rural problems are particularly important for the European Union because they concern 91% of its territory.

Agricultural and rural policy, have an important role in creating cohesion and economic, social and territorial competitiveness in the European Union. The basic principles of rural development policy are: multifunctionality of agriculture, multi sectoriality, flexibility and transparency. The priority axes for rural development programs are: reinforcing agriculture-forestry sector, improving competition of rural areas and preserving the environment and rural heritage.

At the European level, the development measures in the rural sector heads to support investments in agricultural holdings. The aim of the investments should be to modernize the equipment and agricultural systems, to improve the income, by improving living a working conditions and production**.**

The rural development policy at a European level is of great importance for all member states because more than 56% of the population of the EU live in rural areas covering 91% of its territory. What should be noted is that the land use and the management of natural resources in the rural areas in Eastern Europe are frequently made with animal husbandry and forestry, despite the fact that there are countries that use the countryside and by other means. The European rural environment is a great wealth: it provides essential raw materials, is a fighting ground for climate changes, and it provides outstanding recreational landscapes. Agriculture is seen as a factor of stability and attenuation of the financial crisis influence, through increased investment in infrastructure, increased agricultural production (irrigation redesign, rebuild the utilities infrastructure) and also through the technical and technological equipment of the countryside and towns, the development and modernization of farms to produce for the market. Important rural sectors are forestry**,** fishing and non-agricultural, which all assure rural economy competitiveness**.**

European reforms for rural development are set out in Agenda 2000. Thus, the reform committed and announced through Agenda 2000, pursues the developments in recent years: market measures and the requirements of a competitive European agriculture must equally take into account the diverse needs of the rural world, the expectations of today's society and the imperatives environmental protection. The new rural development policy has become "second pillar" of the CAP and answers these concerns. Essential element of European agricultural model**,** it aims to put into practice a coherent and solvent framework to ensure the future of rural areas, favoring the maintanance and creation of jobs.

Policies of rural development are representative in Romania because its rural surface is of 212 700 square kilometers, more than 89% of the country. According to studies conducted by various institutions for developing rural policies, over 70% of Romania's poor people live in rural areas. The risk of poverty faced by the rural population is three times higher than the risk faced by the urban population**.** Romanian agricultural sector is facing a structural weakness which makes it significantly different in relation to other member states. The main vulnerabilities of the rural area are: the extinction of plots, insufficient or outdated technological equipment, lack of skilled labor and performance in agricultural research, etc. Also important problems of the Romanian villages are related to technical infrastructure. Thus, more than a half of the rural population has no access to the public water supply system, sewerage and gas facilities, the only form of comfort beeing electricity.

In 2007-2013 14 billion euros were allocated for agriculture, rural development and fisheries. Romania must fulfill the obligations it has assumed under the Accession Treaty to contribute to the achievement of a uniformly developed Europe. This implies a development of the rural infrastructure**,** a fundamental restructuring of agriculture and a boost to rural development and strengthening of the administrative capacity of the countryside. Romania still has to act for sustainable rural development. This shows that Romania should pay atention at the priorities of rural development.

Following the analysis of rural areas, compared to European rural areas, Romania has shown low quality infrastructure (33% of rural residents have access to mains water system, 10% to the sewerage system and only 10% of the country roads are of adequate quality). Basic social infrastructure (composed of healthcare and education systems, credit and financial network, etc.) is poor compared with both urban and rural areas of Europe. These factors affect the quality of life in rural areas, hindering economic development, increasing migration from rural to urban areas and worsening health and environmental problems. The rural economy is largely dependent on agriculture and forestry; alternative activities are rare making income levels lower than in urban areas.

Rural development strategy in Romania was created and developed according to the existing problems. Based on the rural issues which were identified, the Community Strategic Guidelines (CSG) and the objectives of the Lisbon and Gothenburg were defined following overall objectives:

• Facilitating the transformation and modernization of production and processing sectors of agriculture and forestry, improving competitiveness and environmental sustainability;

• Maintaining and enhancing the rural environment;

• Facilitating the movement of labor from agriculture to other sectors and ensuring adequate economic and social conditions for the rural population.

Basic principles of rural development policies promoted in Europe were established within the European Conference focused on rural development issues in Europe, "Planting seeds for rural futures – building a policy that can deliver our ambitions", Salzburg, 2003. These were:

✓Country life is of particular interest not only for rural areas, but for society as a whole;

✓European rural diversity preservation is necessary in order to preserve cultural and natural heritage;

✓Encourage multifunctional agriculture;

✓Agricultural diversification, innovation and giving new meanings to products, according to consumer demand;

✓Rural development policies will be implemented in all expanded EU countries;

✓Rural areas is a factor of cohesion;

✓Principle of subsidiarity basic element;

✓Exploration and exploitation of new areas is the purpose for each project implemented in rural areas;

✓ Creation of networkis to share and promote positive practices;

✓Simplify rural development policies, as they have to rely on a single program, a single funding source and a single body of control.

2.CONSEQUENCES OF THE RURAL DEVELOPMENT POLICIES IN BOTOSANI COUNTY

With the integration of Romania in the European Union on 1 January 2007, the main sources of funding for sustainable rural development programs, that support the implementation of the local development strategy of a community, have became the European funds. Different institutions of central and local government consider them to be a solution to reduce development disparities between different regions of Romania, and other regions of the European Union. Article 158 of the Treaty establishing the European Community (1957) refers to ‘‘reducing disparities in the level of development of the various regions and the backwardness of the least favored regions or islands, including rural areas”. Article 159 of the same Treaty requires that this action to be supported through Structural Funds, investments of the European Investment Bank's and other financial instruments.

European Union, through the economic and social cohesion policy, promotes a policy of solidarity, its purpose being to promote a high level of competitiveness and employment, offering help to less developed regions, which are facing structural problems.

In the European Union context, accessing grants for agriculture and rural development, to reduce development disparities between different regions of Romania and other European Union countries, is a priority. The LEADER program is designed to facilitate the introduction of rural development policy in the European Union countries, which motivate local authorities to develop policies for rural development.

Botosani benefited from the opportunities offered by SAPARD Programme (2000-2006), before Romania's accession to the European Union, which was focused on the modernization and rehabilitation of rural infrastructure. A number of 7 village and communal roads were improved through projects funded by the European forum for infrastructure**.** They modernized village roads had a length of 64.25 km, and the total cost was of 5,860,295 euros. In 2007 their execution has been completed, this being one of the positive effects of the policies promoted and supported by the European Union in the process of country integration. The rural development project in 20 municipalities of the Botosani County consisted in the paving of 202.419 km of earth roads, at a cost of $ 7,109,240. The infrastructure of utilities benefited from the advantages of European financial tools through three major projects, aimed to assure rural water supply, with a total value of 2,638,326 euros. The precariousness of the countryside in this area was major, this preventing concurrent improvement being done and making rehabilitation almost impossible for the entire rural county Botosani.

The SAPARD program provided an huge opportunity to access grants for the Botosani County. The approved projects were from the following areas: food, farming, and diversification of economic activities. The SAPARD Programme during 2000 - 2006 was a significant opportunity in the studied area**,** European funds in the amount of 48,248,300 Euro beeing absorbed in this period, covering a total of 132 projects.

Figure 1 - Investment in Botosani SAPARD Programme 2000-2006

Investment	Projects	Investment	Projects
Factories for milk processing	9	Goat farm	1
Slaughterhouse cattle, sheep	2	Establishment of fattening pig farm	2
Cooked meat factory	2	Greenhouses (establishment and modernization)	5
Modernization of primary processing of cereals	1	Farmhouses	2
Procurement of agricultural machinery	50	Snail farms	5
Firm foundation cows	45	Fish farms	2
Livestock farm modernization	2	Bee farms	3
Fattening rams	1	Craft workshop equipment	1
Sheep farm	1		

Source: Botosani County Council

Most projects (95) were for purchasing agricultural machinary and foundation of cow farms, demonstrating that, even then the priority was to practice a modern agriculture, specialized according to European standards.

A total of 12 projects were conducted in 2007, of which 11 for the improvment of roads (in Avrameni, Broscauti, Dersca, Draguseni, Gorbanesti, Hanesti, Hudesti, Ibanesti, Stauceni, Suharau and Sulita), with a total value of 8.679.822 euros and one for the water system (in Manoleasa) with a total value of 728.246 euros. The projects aloud the administation to continue the modernization and rehabilitation of the rural areas, process that began with the accession of Romania to the European Union.

The authorities of the Botosani County have given significant attention to achieve rural development policies after Romania's accession to the European Union. The socio-economic development strategy 2008-2013 was created in accordance with EU’s policies and in compliance with their guidelines, regarding the reduction of disparities. The County Council has received funds for 16 projects which were aimed to rural development and to reduce the disparities between local and national rural areas. The projects focused on reducing the gaps in infrastructure, transport and urban comfort.

Figure 2 - Implementation of projects implemented through funding programs Botosani 2007-2013

No.	Financing Program	Number of projects
1	Regional Operational Programme 2007-2013 (Axis 2)	4
2	Regional Operational Programme 2007-2013 (Axis 3)	5
3	Regional Operational Programme 2007-2013 (Axis 5)	1
4	Sectoral Operational Programme Environment (Axis 1)	1
5	Sectoral Operational Programme Environment (Axis 2)	1
6	Operational Programme Romania - Ukraine - Republic of Moldova 2007-2013	1

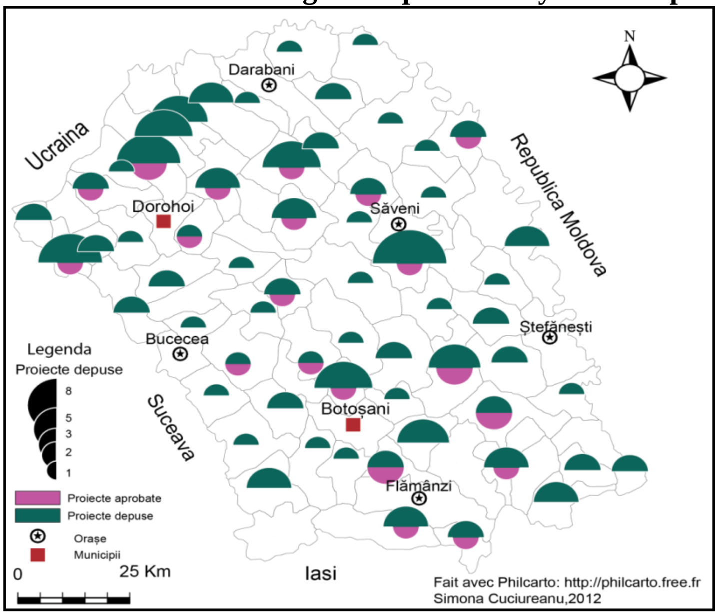
7	State Budget SDN (Sectoral Operational Programme Transport)	1
8	State Budget EON-Gas (DistriGaz)	1
9	Instrument for Structural Policies for Pre-Accession (ISPA)	1

Source: Botosani County Council

Projects that were funded in the County of Botosani highlight that the authorities have the goals to improve the transport infrastructure, through rehabilitation and modernization, to develop and modernize social, technical and urban comfort, and also to protect the environment through the modernization of water and waste management. The implement projects in the studied area support and highlight the importance they have in the rehabilitation and modernization of the European Union peripheral areas, such as the rural areas of the Botosani County.

The Botosani County uses various policies to reduce the gaps between urban and rural areas, and between the different rural areas from Romania. A program which had an important role for rural development was the Farmer Program, launched by the Government, which supported the county population who had no financial resources to develop their projects. Botosani also accessed funds from the PHARE program and from the neighborhood programs with Moldova and Ukraine.

Figure 3 - Projects submitted for accessing funds provided by the European Union Botosani



Source: Soros Foundation

If we analyse the projects financed through European Union funds we observe that the Botosani County focuses on rural development, because the gaps between its rural areas and the rest of Romania and Europe are very high. That is why the upgrades done in the area seem to be insignificant. A close analysis of the projects which were submitted to obtain European Union funds in 2007-2009 by rural authorities shows us that the number of approved projects aimed for rural development decreased.

Thus, the interest of municipalities to submit projects can be labeled as low, compared to the opportunities offered by EU membership both before and after integration. That is despite the fact that the studied rural areas are underdeveloped. From the cartographic analysis we excluded cities like Botosani, Dorohoi, Darabani, Saveni, Stefanesti, Bucecea and Flamanzi - because the analysis is on the administrative units of the rural areas**,** and because most projects were submitted by these cities and could not reflect the curent situation at objective scale. Most projects were submitted by the municipalities from the vicinity of towns, but only a few have been approved; for example, in the eastern part of the county, on the Prut valley, only the village of Mitoc has obtained European Union funds. If we analyze the situation we can identify several factors influencing this issue**,** like the lack of specialized people able to write projects for obtaining European Union funds.

The Botoşani County is facing major challenges in the field of rural development, although the integration in the European Union provides real funding opportunities for the reduction of disparities between Romanian and the European rural areas and for turning them into competitive areas. In the process of accessing European funds and support we needed to create a framework to ensure rural development perspectives to the potential of existing areas. The Funds represent a solution to solve existing problems in these vulnerable areas.

CONCLUSIONS

The rural development policies and tools promoted by the European Union support the member states' policies for development and modernization and have reduced the gaps between the rural areas of the developed countries and those which, at the moment of accession, were peripheral (Portugal in 1990) making them competitive and effective. The 2007 integration in the European Union has enabled Botosani County to access European Union funds for rural development. The rural development policies from Romania are consistent with those of the European Union following the same principles and guidelines aimed to increase competitiveness, territorial cohesion and socio-economic development.

The rural development policies from the Botosani County were conducted according to national or regional policies and priorities based on the vulnerabilities of the rural areas. So they relied on the absorption of funds for the rehabilitation and modernization of the transport infrastructure (with a focuse on the implementation of projects for the improvment of regional and national roads), and the development of the technical infrastructure for the urban comfort. Initially road quality was poor but now the major traffic arteries are fully rehabilitated and modernized, with the exception of the Manoleasa - Radauti-Prut road. County roads were rehabilitated on certain segments, to continue the submision of projects aimed to raise the quality of the axes roads to EU standards and technical quality. At the same time the urban comfort was very low, the only existing utility being the housing electrical equipment, that is why a high number of projects aimed for developing urban comfort the technical comfort with plumbing, sewerage, gas were approved.

The SAPARD program**,** a European Union tool for financing integrating countries, led agricultural development, its transformation into certain common into modern agriculture and farming. Currently in Botosani modern agriculture is practiced only in exceptional cases, but access to funds changed the view and determined a reduction of the share of subsistence agriculture and an increasing interest in the reorganization of agriculture in this area.

The policies of the European Union have had positive effects on the rural development in Botosani County because authorities have developed policies following the guidelines of the European forum. The policies were aimed to reduce the disparities at the local level, especially in rural areas. Rural disparities will become insignificant only if a greater number of European funds projects that aim to reduce rural gaps of European and rural areas Botosani County, will be submited.

The rural development has become a priority, requiring policies to follow logical and integrated rural rehabilitation by exploiting existing resources and accessing funds from the European Union, and becoming, in this way, a competitive space. Projects that have been implemented so far show us that the authorities are guided by European priorities such as the rehabilitation of transport and of the utilities infrastructure, represent an evolution of the countryside, the development being focused on reducing disparities and increasing competitiveness.

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GLOBALIZATION VERSUS SEGREGATION - BUSINESS CYCLES SYNCHRONIZATION IN EUROPE

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Abstract: *Globalization and business cycles are equally elusive economic phenomena; hence they represent a continuous research possibility and a source of possible inquiries due to their complex nature. The aim of the paper is to explain the synchronization of business cycles using the relationship between the growth rate of the GDP and FDI, considered as percentage of the GDP. The results show that there is no unique European business cycle, but two cores between which countries migrate and stress out the importance of the FDI channel in business cycle transmission. The future research directions will employ fuzzy cluster techniques, used on a larger sample.*

Keywords: globalization, business cycles synchronization, FDI, panel data analysis, cluster
JEL Classification: E32, E37, F21, F44

INTRODUCTION

The time for globalization has come. Having obscure origins in the American and French international business literature from the 1960', the concept of globalization is a frequently used word in most languages.

The process of increased integration between countries within the context of the globalized economy has incited the interest in understanding the propagation of business cycle fluctuations across national borders. What is more, the recent synchronized global economic downturn, as a result of the 2008-2009 financial crises in the U.S. and the subsequent sovereign debt problems in the Euro-zone have increased the importance of business cycle synchronization research.

The aim of the paper is to explain the synchronization of business cycles based on the relationship between the growth rate of the GDP and inflows and outflows of foreign direct investments (FDI), considered as percentage of the GDP. These types of investments have replaced trade in the contemporary international literature as a vector of globalization and of cross-country business cycle correlation.

The importance of the research is given by the existence of a bilateral relationship between globalization and business cycles synchronization. Furthermore it can explain the integration of national economies in regional economic blocs, i.e. the European Union, and also the amount of time needed by each country to synchronize its national business cycle with core cycle of the region.

The study population is represented by all the European states, out of which we have selected a sample of 24 European Union members, 6 neighboring countries, as well as the aggregates for the E.U. and the world, thus totaling 32 sample objects. The latter 8 entities are taken as control variables. The selected time span for analysis is 1992 to 2011.

As regards to the methodology, the study employs panel data analysis, which holds the advantage that it captures both cross-section (country) and period (year) effects. We propose and test an array of fixed versus random effects models in order to choose the most appropriate and statistically significant one. After the LS estimation of the coefficients, we also test the Granger causality, for the chosen model.

The following step towards explaining business cycles synchronization is represented by the hierarchical cluster analysis, useful in detecting the dynamics of the co-movements between the European countries in the proposed time span.

The article concludes by saying there are strong pieces of evidence regarding the existence of business cycles synchronization in Europe. In addition, the synchronization is dependent on the moment of adherence to the European Union.

The article is structured as follows. Section 1 presents theoretical approaches on globalization, business cycles synchronization and foreign direct investments, as well as previous empirical studies on the synchronization of business cycles in the Europe and the world. Section 2 displays the data and the methodology employed in the study, while Section 3 comprises the results provided by the model and their discussion. The last part of the article offers the authors' conclusions.

1. THEORETICAL APPROACH ON GLOBALIZATION, BUSINESS CYCLES SYNCHRONIZATION AND FOREIGN DIRECT INVESTMENTS

1.1 Globalization

Defining globalization as a process raises numerous problems, mainly because there is no concise and universally accepted definition. Specialists from different fields have defined globalization from the perspective of their own activity. For example, an economist will always associate globalization with the activities performed by multinational companies' outside their native countries, with the purpose of generating profit.

Globalization is a modern term, being used for the first time by Theodore Levitt in 1983, in order to describe the changes which occurred in the contemporary economy, in terms of rapid distribution of production, trade, investments and technology (Levitt, 1983). At first, the concept was used extensively in the economic sense, but in recent years, it has acquired more meanings and dimensions, such as political, social, cultural, military and environmental.

Globalization means different things to different people. What is more, the word globalization is used in two ways, which is a source of some confusion. While sometimes it is used in a positive sense to describe a process of integration into the world economy, other times it is used in a normative sense to prescribe a strategy of development based on rapid integration with the world economy (Nayyar, 2006).

Held and McGrew state that globalization can be perceived as a process or a collection of processes that include the transformation of business transactions and social relations into a spatial organization, expressed by transcontinental or inter-regional flows and networks that incorporate activities, interactions and power (Held, McGrew, Goldblatt, Perraton, 2004).

Reputed author Jagdish Bhagwati defines economic globalization as being the process of integration for the national economies within the international economy through trade, foreign direct investments, short-term capital flows, labor flows and technologic flows (Bhagwati, 2004).

For Robert Gilpin the term "globalization" refers to the increasing linkage of national economies through trade, financial flows and foreign direct investments (FDI) done by multinational firms (Gilpin, 2004).

The International Monetary Fund defines economic globalization as being a historical process, the result of innovations and technological progress. This refers to ongoing growth of the integration of the worlds 'economies, especially thanks to the commercial and financial flows. The term can also refer to work force and know-how migration across the national borders. What is more, there are broader *cultural, political and environmental dimensions* regarding the phenomenon of globalization (IMF Staff, 2000).

An almost identical perspective can be found at sociologists Anthony Giddens and John Tomlinson, who consider globalization as being a multidimensional phenomenon with implications at an economic, political, cultural and technological level, implications that need to be analyzed in terms of simultaneity (Tomlinson, 1999). Giddens goes even further and states that globalization is a reality, not a continuation of older trends and it does not only refer to economic interdependence but to a transformation of the time and space that we live in (Giddens, 2001).

Some authors state that there is a general consensus regarding the historical background of globalization, meaning that there are two main waves of development, stretching over three distinct periods of time. Starting from the definition provided by Bairoch and Kozul-Wright (1996) and Baldwin and Martin (1999), the first wave of globalization is defined as the period before World War I (1870-1914). The bloc economy period (1915-1959) covers the interwar period, which involves the Great Depression, World War II and the subsequent recovery period. The second wave of globalization represents the period after 1960 (as cited in Artis and Okubo, 2009).

1.2 Business cycles synchronization

Jean Charles Léonard de Sismondi (1819) was the first to put into question the problem of economic dynamics, contradicting the description of economic behavior using the concept of static equilibrium.

Further contributions to the theory of economic cycles were done by Juglar (1862) by use of statistical methods. What is more, his works are very important because he made the first classification of economic cycle's phases, namely: prosperity, crisis and liquidity (recovery). Today, the medium economic cycle, spanning 7 to 12 years bears the name Juglar, in his honor.

At the middle of the 20th century Burns and Mitchell offer a definition for business cycles which became known as the classical one. According to them the business cycles represent a type of fluctuation which can be found in the aggregated activity of nations that organize their endeavors in businesses: a cycle consists of a simultaneous expansion of several activity branches, followed by their general recession, which followed by a new expansion phase, corresponding to a new cycle. These fluctuations cover a period of time from 1 to 12 years, without the possibility of division in subunits that have a similar behavior (Burns and Mitchell, 1946).

A classification of the business cycles, based on duration, can be found in Schumpeter's work, *A History of Economic Analysis*. The author, who supports the theory of capital over-accumulation, analyses the economy through the economic cycle perspective and portrays it as Phoenix, destroyed by innovation, that will be reborn to be more efficient, precisely because of innovation (Schumpeter, 1939).

As regards to the modern approach of business cycles, the work *Frontiers of business cycle research* (Cooley, 1995) is noteworthy because it brings together a number of opinions that oppose

Burns and Mitchell's classical perspective centered around the idea of interdependence between the economic growth and economic fluctuations, regarding the business cycle as phenomenon generated by economic shocks, technology etc.

The literature on business cycles acknowledges two types of cycles: the "classical" cycle, as defined by Burns and Mitchell (1946), which involves an absolute decline in economic activity from the peak and an absolute rise in activity from the trough. Clearly such cycles do not exist in growth economies and they are relatively rare for world economies over the last centuries. The other type is based on deviations or growths (occasionally described as growth rates), where the underlying idea is that the business cycle can be identified as a cycle relative to a trend (Artis and Okubo, 2009).

1.3 Foreign direct investments

The foreign direct investments can be defined as a long-term investment relationship between a resident entity (a person or a firm) and a foreign entity. Usually it implies that the investor exerts a significant managerial influence in the firm in which he has invested. Hence the idea that FDI are not the privilege of multinational corporations, because it can be done by a person or a firm that has started the internationalization process.

The FDI flows are composed from the paid up share capital and the reserves of an investor that has at least 10 % of a firm's share capital, the credits between the investor and the company in which he has invested and the reinvested profit (National Bank of Romania, 2011).

Apart from the above mentioned sources, the multinational corporations' foreign subsidiaries can receive financing through sums obtained directly from the domestic capital market of the host country, or by resorting to external financing (loans, bonds etc.), different from the intra-firm source of financing. These sums increase the subsidiary's productive capacity and influence the local market, without being acknowledged as FDI, but as capital expenditures. There may be situations when the sums obtained from other sources can exceed the FDI value (Voinea, 2007).

FDI is also considered to encompass other broader, heterogeneous non-equity forms of co-operation that involve the supply of tangible and intangible assets by a foreign enterprise to a domestic. Those broader collaborative associations include most types of quasi-investment arrangements, such as licensing, leasing, and franchising; start-up and international production sharing arrangements; joint ventures with limited foreign equity participation; and broader co-operation (de Mello, 1999).

Frenke, Funke and Stadtmann (2004) argue that FDI has long been recognized as a major source of technology and know-how for developing countries. Indeed, it is the FDI's ability to transfer not only production know-how but also managerial skills that distinguishes it from all other forms of investment, including portfolio capital and aid. FDI can accelerate growth by generating employment in the host countries, fulfilling saving gaps, large investment demands, sharing knowledge and management skills through backward and forward linkages in the host countries (as cited in Agrawal and Khan, 2011).

Though, FDI is seen as a vital factor in inducing growth rate, however, Bezuidenhout (2009) states that it will only lead to growth if its inflows are properly managed. The degree up to which FDI can be exploited for economic development depends on conduciveness of economic climate. In the absence of such a climate FDI may be counterproductive; it may thwart rather than promote growth (as cited in Agrawal and Khan, 2011).

1.4 How does globalization affect business cycle synchronization?

The researches regarding the two waves of globalization (Bairoch and Kozul-Wright, 1996; Baldwin and Martin, 1999; Williamson, 2002) point out that the openness degree of trade and finance are the main determinants of the two waves. The openness degrees for both trade and finance are perceived as positive indicators of business cycle transmission between economies.

Related to the issue of international business cycle transmission and synchronization, Baldwin and Martin (1999) suggested many different international economic features in capital and trade flows, such as:

a) Capital flows have a substantially different nature with enormous short-term flows in the second globalization wave, driven by the advancement of information technology.

b) Foreign direct investment (FDI) has substantially different features: FDI among developed countries in manufacturing as well as service sectors are outstanding in the second globalization wave.

c) Trade flows have different features: intra-industry trade promoted by scale economies and product differentiation is active in the current globalization.

Can it be said that business cycle synchronization is an effect of globalization and more intense international economic linkages?

Business cycles are seen by Schumpeter (1939) as the effect of innovation and technological improvements. In this regard, globalization can account for business cycle transmission, because multinationals are vectors of technology and know-how transfer, leading to closer economic linkages between the home country and the destination country of the FDI.

A very important aspect is that the economic theory does not provide definitive guidance concerning the impact of increased trade and financial linkages on the degree of business cycle synchronization (Prasad, Wei and Kose, 2003).

A standard method of globalization is that of trade openness, defined as the share of import and export values in GDPs (Dreher, Gaston and Martens, 2008). International trade linkages generate both demand and supply-side spillovers across countries. For example, on the demand side, an investment or consumption boom in one country can generate increased demand for imports, boosting economies abroad. Through these types of spillover effects, stronger international trade linkages can result in more highly correlated business cycles across countries.

Financial linkages could result in a higher degree of business cycle synchronization by generating large demand side effects. For instance, if consumers from different countries have a significant fraction of their investments in a particular stock market, then a decline in that stock market could induce a simultaneous decline in the demand for consumption and investment goods in these countries.

International financial linkages could stimulate specialization of production through the reallocation of capital in a manner consistent with countries' comparative advantage in the production of different goods. Such specialization of production, which could result in more exposure to industry- or country-specific shocks, would typically be expected to be accompanied by the use of international financial markets to diversify consumption risk (Kose, Otrov and Prasad, 2003).

As regards to the business cycle literature, Heathcote and Perri (2002), Kose, Prasad and Terrones (2003), Baxter and Kouparitsas (2004) and Inklaar et al. (2008) have studied how increased trade and/or financial integration has led to international business cycle synchronization in the post-war period. They indicate that globalization promotes international economic linkages and heightened business cycle correlations (as cited in Artis and Okubo, 2009).

1.5 Previous empirical studies

The studies and research papers that have investigated the issue of business cycle synchronization have reached quite different concluding ideas. These differences can be linked to the approaches used, either qualitative or quantitative, the variables employed in the model and the methodology applied to determine business cycles and alternative ways to assess synchronization.

Regarding the data, the two most important variables used are quarterly data on GDP and monthly data on industrial production (IP).

In this regard, the number of studies which focus on the study of GDP, GDP deflator and even GNP is overwhelming. Without being exhaustive, we mention those of Fidrmuc and Korhonen (2010), Krolzig (2010), Darvas and Szapary (2004), Artis (2003), Li and Liu (2004), Otto et al. (2001).

However, the conceptual reasoning behind using IP is less convincing although its motivation dates back to Burns and Mitchell's influential work (1946) and is found in various modern studies such as Camacho and Perez-Quiros (2006).

Apart from the industrial production, other monthly series used in the study of the business cycles synchronization refer to trade (Fidrmuc and Ikeda, 2012), trade openness (Artis and Okubo, 2009; Hsu, Wu and Yau, 2010).

Business cycles synchronization is often analyzed via bilateral influences of the above-mentioned variables. In this scope, both the chosen measure of economic growth and the independent variables are used to compute bilateral influence indexes, subject to further analysis, like in the works of Frankel and Rose (1998), Hsu, Wu and Yau (2010), Otto et al. (2001) and Li and Liu (2004).

Another possible approach for analyzing business cycles synchronization is the panel data analysis, which holds the main advantage that it explores simultaneously the cross-section and period effects of the independent variable on the studied one. For this type of research the studies done by Otto et al. (2001), are noteworthy who emphasize the shock-transmission mechanism between countries. Panel data also facilitates the comparison between countries or groups of countries, like in the studies of Li and Liu (2004), Hsu, Wu and Yau (2010), or the influential work of Frankel and Rose (1998).

Furthermore, in order to obtain a classification of the studied entities, cluster analysis is employed. Artis (2003) makes use of this technique in order to prove there is no European business cycle but a global cycle with a European core, an approach further developed in Artis and Okubo (2009), dealing with globalization and business cycle transmission. Camacho and Quiros-Perez (2006) also promote the idea that there is a link between "old" members of the EU but there is no attractor country.

During the last decades numerous papers focused on the role of foreign direct investment in positively influencing economic growth. De Mello (1997) shows two main channels through which FDI may cause economic growth: the adoption of new technologies in the production process through technological spillovers and the stimulated knowledge transfers, both in terms of labour training and skill acquisition and by introducing alternative management practices and better organizational arrangements. This vision is sustained by a survey done by OECD (2002) that underpins these observations and documents that 11 out of 14 studies have found FDI to contribute positively to income growth and factor productivity. However, the development level of the country tends to influence this relationship as it appears that developing countries have to reach a certain level of development, in education and/or infrastructure, before they are able to capture potential benefits associated with FDI

The pre-requisite conditions for identifying a positive impact of FDI on economic growth are studied by Blomström et al. (1994), who implied that FDI has a positive growth-effect when a country is sufficiently rich in terms of per capita income, Balasubramanyam et al. (1996), who emphasized the role of trade openness and by Borenztein et al. (1998), who concluded that FDI raises growth, but only in countries where the labour force has achieved a certain level of education. However, when Carkovic and Levine (2002) estimate the effects of FDI on growth after controlling for the potential biases induced by endogeneity, country-specific effects, and the omission of initial income as a regressor, they find, using this changed specification that the results of these four papers break down. Carkovic and Levine conclude that FDI has no impact on long run growth.

Another strand of the literature has focused on the causal relationships between FDI and growth using as a main tool the Granger causality test between the two time series by employing different samples and estimation techniques. Zhang (2001) looks at 11 countries and tests for long run causality based on an error correction model, which indicate a strong Granger-causal relationship between FDI and GDP-growth, while De Mello (1999) stressed the causation from FDI to growth in 32 countries of which 17 are non-OECD by providing evidence from panel data estimations. A similar approach can be found in Nair-Reichert and Weinhold (2001) who test causality for cross country panels, using data from 1971 to 1995 for 24 countries; they find that FDI on average has a significant impact on growth, although the relationship is highly heterogeneous across countries.

There is also a sample of studies which state the existence of a bi-directional causality between FDI and growth like those of Choe (2003), Basu et al. (2003) and Mahmoud Al-Iriani and Fatima Al-Shami (2007) (as cited in Moudatsou and Kyrkilis, 2009).

The literature proves the occurrence of a statistically significant relationship between FDI and growth; although this relationship is highly heterogeneous across countries, the studies generally agree that FDI, on average, has an impact on growth in the Granger causal sense.

In this regard, it follows that using FDI as a vector of business cycles' synchronization is not an unnatural approach.

A few sectoral studies like that of Buch and Lipponer (2005) which focuses on Germany, respectively that of Kleinert and Martin (2012) concerning France show that the phenomenon of synchronization starts at a micro-economic level, has its roots in the existence of foreign affiliates of multinational companies, expands to reach a macro-economic level by the occurrence of strong connections between the FDI and economic growth, boosting business cycle co-movement and finally settles as the outcome known as globalization.

2. STATISTICAL APPROACH

2.1 Data and variables

The business cycle is a widely debated economic phenomenon, with an elusive nature. The academic community has yet to come to a unanimously accepted definition, let alone a single way of quantification. In this regard, previous studies have used a range of variables to account for economic activity. Furthermore, the synchronization of the business cycle along regions/continents is a sensitive issue, a relatively new one, which can be treated as a secondary product of globalization.

Thereof the main difficulty in the analysis is that there is no direct method of observation. The business cycles and their presumptuous synchronization can only be quantified indirectly by various growth and development indexes.

On the other hand, due to the dynamic nature of this economic fluctuation, a static approach is almost ineffective, having little relevance and thus, it is advisable to choose a panel data analysis, in order to capture the true nature of this occurrence. Also, this way of study is suitable to measure both the cross-section and period influences, thus having a complete picture of the simultaneous influences.

This study focuses on the synchronization of business cycles through foreign direct investments (FDI). These types of investments are a vector of globalization and of cross-country business cycle correlation as noted by Hsu, Wu and Yau (2011, p. 3).

The most common variables used to measure the economic output as an indicator of the business cycle phase are variations on the aggregate indicator GDP found in numerous studies ((Artis and Okubo, 2009), (Artis, 2003), (Eickmeier, 2007), (Stock and Watson, 2010), (Li and Liu, 2005) and (Hudea and Stancu, 2012)). Other papers ((Camacho, Perez-Quiros and Saiz, 2006), (Hsu, Wu and Yau, 2011)) use industrial production or sectoral data (Burns and Mitchel, 1946), (Buch and Lipponer, 2005) in order to identify the simultaneous economic fluctuations that lead to the business cycle.

In this paper, for the measurement of economic output as a quantification of the business cycle phase, we use an annual growth rate of the GDP for each country/region. The motivation of this approach is twofold.

Firstly, the GDP is an aggregate indicator which encapsulates the activity in every sector, smoothing out specific shocks.

Secondly, using a growth rate is equivalent to a differentiation of the original GDP series, thus increasing the probability of producing a stationary series, a necessary condition in panel data analysis. The growth rate also provides a way to employ a cross-country comparison, which would necessitate deeper statistical analysis if the nominal value of the GDP was used. Nominal value GDP has one more down-side, namely that it is usually non-stationary and needs filtering as Hodrick and Prescott (1997), Canova (1998) and Baxter and King (1999) prove in their papers.

The other variable under study, the foreign direct investments, is chosen because, as previously mentioned by Li and Liu (2005): “FDI is an important facet of globalization”, thus leading to business cycle synchronization. We have chosen to express both the inflows and the outflows of FDI as percentages of GDP, in order to have a comparable measure across countries and also across time.

In brief, the model includes the following variables, as defined by the World Bank methodology:

- $\%GDP_{i,t}$- the annual percentual growth of the GDP in country/region *i* at time *t;*
- $FDI_{i,t}^{in}$ -Foreign direct investment, net inflows (% of GDP);
- $FDI_{i,t}^{out}$ -Foreign direct investment, net outflows (% of GDP);

The panel includes 30 European countries (Annex 1), the European Union aggregate and the World aggregate for comparison. The data was retrieved from the World Bank database.

Some European countries were deliberately excluded from this analysis either on lack of relevant data (Ireland, Macedonia, Montenegro, Serbia, Kosovo, Albania, Bosnia and Herzegovina, and Iceland) or a very different economical situation, leading to outliers (Malta, Luxembourg, Lichtenstein, Vatican).

The time span is from 1992 until 2011, a choice dictated by the availability of data and the fact that, up to 1992, the countries that belonged to the former communist bloc had no or small amounts of foreign direct investments, thus emphasizing the irrelevance of an earlier period of study.

The statistical software used was EViews 7.0, SPSS 17.0 and Microsoft Excel 2007.

2.2 Econometric model and Methodology

In order to assess the influence of FDI on business cycles' synchronization, we will employ a panel data analysis.

After a certain model is validated, we use the corresponding variables to form hierarchical clusters of countries in order to prove the business cycle synchronization by affiliation to the same cluster.

The proposed model is:

$$\%GDP_{i,t} = \alpha_0 + \alpha_1 FDI_{i,t}^{in} + \alpha_2 FDI_{i,t}^{out} + \varepsilon_{t,i}$$

This equation is subject to panel analysis, accounting for no/fixed/random effects concerning cross-section and period, thus leading to five possible models (no effects; fixed/fixed; random/fixed; fixed/random; random/random) from which to choose the most relevant.

The equation is relevant if the estimates for the coefficients α_1, α_2 are significantly different from 0.

The validation of a certain model requires the completion of the following steps:

1. Stationarity check of the time series used in the model (to determine the possibility of co-integration);
2. Panel co-integration tests (if necessary, as stated by step 1);
3. Panel data analysis with fixed/random effects;
4. Granger panel causality.

2.2.1 *Stationarity check (Panel unit root tests)*

The panel co-integration is denoted by the existence of unit roots in the data series. For this study we have chosen the Im, Pesaran and Shin (IPS, hereafter), which is based on the well-known Dickey-Fuller procedure.

The IPS test for the presence of unit roots in panels combines information from the time series dimension with that from the cross section dimension, such that fewer time observations are required for the test to have power. Since the IPS test has been found to have superior test power by researchers in economics to analyze long-run relationships in panel data, we will also employ this procedure in this study.

2.2.2 *Panel co-integration tests*

The next step is to test for the existence of a long-run co-integration among FDI and the independent variables using panel co-integration tests suggested by Pedroni (2004). The procedures proposed by Pedroni make use of estimated residual from the hypothesized long-run regression of the following form:

$$y_{i,t} = \alpha_i + \delta_i t + \beta_{1i} x_{1i,t} + \beta_{2i} x_{2i,t} + \cdots + \beta_{Mi} x_{Mi,t} + e_{i,t}$$

for $t = 1, \ldots, T$; $i = 1, \ldots, N$; $m = 1, \ldots, M$,

where T is the number of observations over time, N number of cross-sectional units in the panel, and M number of regressors. In this set up, α_i is the member specific intercept or fixed effects parameter which varies across individual cross-sectional units. The same is true of the slope coefficients and member specific time effects, $\delta_i t$.

2.2.3 *Panel analysis with fixed/random effects*

The panel data estimation is employed in the study to capture the dynamic behavior of the parameters and to provide more efficient estimation and information of the parameters. The panel data techniques are used because of their superiority over cross-section and time series in using correlations in the information available, which are not detectable in cross-sections or in time series alone (Baltagi and Kao, 2000). As Hsiao (1986) and Baltagi (1995) argued, panel data sets possess several major advantages. Panel data suggest individual heterogeneity to reduce the risk of obtaining biased results and provide a large number of data points (observations) to increase the degrees of freedom and variability and to be able to study the dynamics of adjustment. The Panel data model includes three different methods:

- **Fixed effects method**

The Fixed effects method treats the constant as belonging to a certain group, thus (section)-specific, i.e. it allows for different constants for each group (section). The Fixed effects are also called the Least Squares Dummy Variables (LSDV) estimators. The model for fixed effect method is:

$$y_{i,t} = \alpha + \beta x_{i,t} + \mu_i + v_{i,t}$$

where, μ_i and $v_{i,t}$ are the decomposition of disturbance term. While μ_i represents the individual specific effect, $v_{i,t}$ represents the 'remainder disturbance', that varies over time and entities (capturing everything the random behavior of $y_{i,t}$).

- **Random effects method**

The Random effects method is an alternative method of estimation which handles the constants for each section as random parameters rather than fixed. Under this model, the intercepts for each cross-sectional unit are assumed to arise from a common intercept α (which is the same for all cross-sectional units and over time), plus a random variable ϵ_i that varies cross-sectionally but is constant over time. ϵ_i measures the random deviation of each entity's intercept term from the 'global' intercept term α. We can write the random effects panel model as

$$y_{i,t} = \alpha + \beta x_{i,t} + \omega_{i,t}, \text{where } \omega_{i,t} = \epsilon_i + v_{i,t}.$$

Here $x_{i,t}$ is still a 1×k vector of explanatory variables, but unlike the fixed effects model, there are no dummy variables to capture the heterogeneity (variation) in the cross-sectional dimension. Instead, this occurs via the ϵ_i terms. The parameters (α and the β vector) are estimated consistently, but instead of OLS, Generalized Least Square method (GLS) is used.

- **Hausman Specification Test:**

The test evaluates the significance of an estimator versus an alternative estimator. It helps one evaluate if a statistical model corresponds to the data. This test compares the fixed versus random effects under the null hypothesis that the individual effects are uncorrelated with the other regressors in the model (Hausman, 1978). If correlated (H_0 is rejected), a random effect model produces biased estimators, thus a fixed effect model is preferred.

- **Granger causality**

The approach of Granger (1969) relating to whether x causes y is to see how much of the current y may be explained by the past values of y and subsequently to see whether, by adding lagged values to x, we succeed in improving the explanation of y. We state that x Granger causes y if x helps us in correctly predicting y, respectively if the coefficients of the lagged x are jointly statistically significant.

Granger causality runs, for all possible pairs of (x,y) series in the group, bi-variate regressions of the form:

$$y_t = \alpha_0 + \alpha_1 y_{t-1} + \cdots + \alpha_j y_{t-j} + \beta_1 x_{t-1} + \cdots + \beta_j x_{t-j} + \varepsilon_t$$

$$x_t = \alpha_0 + \alpha_1 x_{t-1} + \cdots + \alpha_j x_{t-j} + \beta_1 y_{t-1} + \cdots + \beta_j y_{t-j} + \nu_t$$

The reported F-statistics are Wald statistics for each equation, for the joint hypothesis:

$$\beta_1 = \beta_2 = \cdots = \beta_j = 0$$

The null hypothesis is, for the first regression, that x does not Granger– cause y and, for the second regression, that y does not Granger–cause x.

- **Hierarchical clusters**

The cluster analysis produces a graphical picture (known as dendrogram) which shows how an entity can be associated with others in respect of some pre-selected characteristic. In this paper this type of “characteristic” is a measure of country *i*’s determinants, namely the GDP growth and total FDI with all other countries (*k*). The clustering algorithm will try to associate other countries, *j*, with country *i* on the basis of minimizing the distance between them in respect of the chosen characteristic. The measure of distance between countries *i* and *j* is the Euclidean, i.e.

$$d_{ij} = \sqrt{\sum_{k=1}^{n}(x_{ki} - x_{kj})^2 + \sum_{k=1}^{n}(y_{ki} - y_{kj})^2 + \sum_{k=1}^{n}(z_{ki} - z_{kj})^2}$$

A clustering algorithm then proceeds in an iterative manner, replacing the first cluster (i and j) found by a replacement value in order to proceed to the next round and so on. The resulting dendrogram (Hierarchical average-linkage cluster tree) gives a basis for determining by eye a number of clusters.

3. DISCUSSION OF RESULTS AND FINDINGS

3.1 Stationarity of the series

A time series is stationary when its statistical properties such as mean, variance, autocorrelation, etc. are all constant over time (Jaba, 2003). As previously stated, a useful test in this regard is the Im, Peseran, Shin (2003) (IPS), based on ADF, but adapted to panel data. The results of the unit root test are presented in Table 1 and show that the hypothesis that the series contain a unit root can be rejected, thus the series are stationary. Because they are stationary in level, there is no need for co-integration.

Table 1 - IPS panel unit root test result

Variable	**IPS panel unit root test result (Level) Null: Unit root (assumes individual unit root process)**
%GDP	-6.88076 $(0.0000)^{***}$
FDI^{in}	-4.75875 $(0.0000)^{***}$
FDI^{out}	-4.08803 $(0.0000)^{***}$
P-values are in parentheses.*** shows significance at 1%.	

Source: own processing in EViews 7.0

This result is not surprising because we have used a growth rate for the GDP, which already contains a differentiation of first order, thus the stationarity of the %GDP series. The FDI inflows and outflows expressed as percentages of GDP also render stationary series. In this regard, even if co-integration among variables is not statistically significant, it makes sense to study the Granger causality of the variables.

3.2 Equations estimation

We further proceed to the estimation of the parameters and their significance for each of the proposed models by resorting to Least Squares (LS). In Table 2, the effects of FDI inflows, FDI outflows and FDI total aggregate on the annual GDP growth rate are depicted.

The estimation with no effects has the model

$$\%GDP_{i,t} = \alpha_0 + \alpha_1 FDI_{i,t}^{in} + \alpha_2 FDI_{i,t}^{out} + \varepsilon_{t,i},$$

while the equation involving fixed effects is

$$\%GDP_{i,t} = \alpha_0 + \alpha_1 FDI_{i,t}^{in} + \alpha_2 FDI_{i,t}^{out} + \mu_i + \nu_{i,t},$$

Furthermore, the equation with random effects is

$$\%GDP_{i,t} = \alpha_0 + \alpha_1 FDI_{i,t}^{in} + \alpha_2 FDI_{i,t}^{out} + \omega_{i,t}, \omega_{i,t} = \epsilon_i + \nu_{i,t}$$

Table 2 - Equation parameters estimations

Variable	No effects	Fixed/Fixed	Fixed(country) Random (year)	Random(country) Fixed (year)	Random/Random
FDI^{in}	0.372495 0.0000	0.241811 0.0000	0.253771 0.0000	0.178229 0.0003	0.187504 0.0001
FDI^{out}	-0.149166 0.0044	-0.246981 0.0000	-0.247023 0.0000	-0.179599 0.0002	-0.179007 0.0002
c		1.877214 0.0000	1.830154 0.0000	1.932314 0.0000	1.894003 0.0012
R^2	0.041344	**0.392341**	0.112508	**0.339167**	0.025061
Idiosyncratic random			0.7342	0.9557	0.7101
Cross-section random			-------------------	0.0443	0.0329
Period random			0.2658	-----------------	0.2570

Source: own processing in EViews 7.0

Although all the p-values are significant for all models, the R^2 of the models point out that only the Fixed/Fixed, respectively the Random (country)/Fixed (year) models are appropriate. A choice between the two is made by using the Hausman test (1978), which compares a more efficient but volatile model against a less efficient but robust one, to certify that the results are consistent.

Table 3 - Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	4.399781	2	0.1108

Source: own processing in EViews 7.0

With a confidence level of 5%, as the p-value indicates, the null hypothesis is accepted, thus we conclude that the Random (country)/Fixed (year) effects model is both consistent and more efficient and it shall be used detrimental to the Fixed/Fixed model.

This model implies that while the economic conditions are generally the same in one year for all European countries, it is the characteristics of a certain country which lead to FDI inflows or outflows, thus influencing the annual growth rate of the GDP, a vision in line with previous literature (Li and Liu (2004), Otto et al. (2001)).

Hence, the chosen equation is

$$\%GDP_{i,t} = \alpha_0 + \alpha_1 FDI_{i,t}^{in} + \alpha_2 FDI_{i,t}^{out} + \omega_{i,t}, \omega_{i,t} = \epsilon_i + \nu_{i,t},$$

which becomes:

$$\%GDP_{i,t} = 1.9323 + 0.17822\, FDI_{i,t}^{in} - 0.17959\, FDI_{i,t}^{out} + \omega_{i,t}$$

where ϵ_i(cross − sectional effect) and $v_{i,t}$,(period effect) are available on demand.

3.3 Granger causality

In order to assess the long-run relationship between FDI and GDP, we have tested the Granger causality among the three variables considered, taking various lag lengths. The lag shows the amount of time that an FDI has a certain influence on GDP growth.

Table 4 - Granger causality

Lag	FDI^{in} $\nrightarrow$ $\%GDP$	$\%GDP$ $\nrightarrow$ FDI^{in}	FDI^{out} $\nrightarrow$ $\%GDP$	$\%GDP$ $\nrightarrow$ FDI^{out}
Lag 1	0.3064	0.0062	**0.0119**	0.0703
Lag 2	**0.0182**	**0.0332**	**0.0020**	0.2575
Lag 3	**0.0252**	0.1413	**0.0017**	0.5296
Lag4	0.0716	0.1860	**0.0047**	0.6767

Source: own processing in EViews 7.0

The Granger causality test offers interesting results which both confirm the previous literature and bring new information about the time span on which the influence of the FDI has an effect on the annual growth of the GDP.

The study clearly shows that the FDI outflows have an immediate effect on the growth rate of the GDP, thus boosting the economy of the home country, yet the FDI inflows' influence on the economic outcome is delayed until at least the second year or even the third.

A notable difference between the two types of FDI flows is that while the outflows have a rapid and continuous influence over time on the growth rate of the GDP, the FDI inflows have a much shorter lived capacity. This is explained by the technological equalization of the receiving country, and the technological spillover as noted by Li and Liu (2004).

An interesting relation is the Granger causality from GDP growth to FDI inflows. Also noticed by Hudea and Stancu (2012), this curious relation is explainable by the fact that, as a country develops it becomes more attractive for new potential investors, confirming the works of Otto et al. (2001) and that of Kleinert and Martin (2012).

3.4 Hierarchical cluster analysis

After performing the hierarchical cluster analysis, the dendrogram suggested that five clusters were enough to explain the groups that form among European countries. However, this number can be further reduced to two. This leads to the idea of using attraction poles, namely the Western core and the Eastern core. There are some countries that, at some moment, have a business cycle which is decoupled from both cores and which we treat as a separate cluster, but, which can, in fact, represent just outliers as opposed to a separate cluster.

We define the Western pole (WP) being composed out of the following countries: Germany, France, The Nederland, Italy, Spain, The United Kingdom, Sweden and Switzerland, while the Eastern pole (EP) includes: Poland, Slovenia, Slovakia, Czech Republic, Hungary, Romania, Republic of Moldova, Bulgaria, Norway, Finland and the Baltic states (Latvia, Lithuania, Estonia), having as an attractor Russia.

We will discuss separately the cases of Belgium, Turkey and Greece since these pose certain questions regarding business cycles synchronization.

The starting point of our analysis, 1992, witnesses the existence of the two cores with the exception of Poland, Czech Republic and Greece, which belonged to the WP and the case of Turkey which due to a tremendous economical growth forms a separate cluster.

Following the enlargement of the EU in 1995 with Austria, Finland and Sweden, the WP tends to be more intra-synchronized, while countries that do not cope on the economic level (Poland, Czech Republic and Slovakia) tend to synchronize with the EP, which is slowly decoupling from Russia.

The monetary unity introduced in 1999 led to the further convergence of the WP and EP and an unusual phenomenon of decoupling from both poles of certain countries, thus forming a new homogenous cluster, consisting of: Portugal, Greece, Czech Republic, Hungary, Finland and Estonia. These countries could not cope with the new euro currency but were independent enough from the EP. Turkey maintains its status as an outsider and also Belgium departs from the WP due to the fact that foreign investment has held a systematic role in Belgium's economy. Belgium has customarily promoted international trade and foreign investment. They offer the same policies/incentives to foreign companies that apply to domestic companies. Belgium practices global equity meaning they welcome foreign investment and do not to discriminate between foreign and domestic firms. In the boom years of 1999 and 2000, foreign direct investment (FDI) inflows into BLEU reached record levels: $133 billion in 1999 and $246 billion in 2000 (Enciclopedia of Nations).

The new further enlargement of the EU in 2004 led to the synchronization of the EP with the previously created new cluster, the inclusion of Turkey within this cluster and a detachment of Russia which only remains synchronized with the Republic of Moldova, together with the return of Portugal to the WP.

The influence of the WP (namely the European Union) becomes more preeminent in 2008 as the Baltic States and Norway join this cluster, followed by Romania and Bulgaria in 2011, as a result of joining the Union in 2007. Belgium maintains its distinctive status among the European countries due to its particular politics.

The conclusion of this analysis is that while we are not able to state the existence of a unique European business cycle, we have empirically proved that there are two attraction poles in Europe and that states tend to migrate among these cores, according to their membership to the European Union or aspiration in this matter.

CONCLUSIONS

The paper set out to cast light on the relationship between business cycle transmission and globalization through the FDI channel.

Both globalization and business cycles are elusive economical phenomena, hence a continuous research puzzle for the academic community and an inexhaustible source of possible inquiries due to their complex nature and deep interconnection.

Until now there has not been rendered a single evaluation for either of them, thus the innovative idea of measuring business cycles synchronization through FDI does not seem far sighted, especially in the context of other studies which prove the superiority of this channel over more traditional ones like trade or similarity.

We have employed a regional study, focusing on 30 European countries and 2 aggregates, over a time span of 20 years, thus assuring that we have encapsulated at least one complete business cycle in the analysis.

Under the assumption that business cycles' synchronization is influenced by both time and space variables, we have employed a panel data analysis in order to capture both cross-sectional and period effects, out of which a mixed model (fixed period/random cross-section) was selected and statistically proven valid.

The Granger causality test has highlighted a unidirectional instant and continuous relation between FDI outflows and annual GDP growth and a bidirectional delayed and limited term (at most two years) between FDI inflows and the macroeconomic outcome of the receiving country, explained by the technology diffusion.

Lastly, in order to assess business cycle synchronization between the European countries, we have resorted to hierarchical cluster analysis which exposed the fact that while there is no unique European business cycle there are two powerful cores: the Western one, i.e. the founding states of the European Union and the Eastern one, previously dominated by Russia. The measure of globalization is given by the observed migration of the countries from the Eastern core towards the Western one, as a result of the integration process.

Further study will include an enlargement of the target population and a new clustering method, based upon fuzzy clusters.

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APPENDIX

Annex 1

Nr. crt	Country	Status
1.	Austria	Member since 1995
2.	Belgium	Founding member
3.	Bulgaria	Member since 2007
4.	Cyprus	Member since 2004
5.	Czech Republic	Member since 2004
6.	Denmark	Member since 1973
7.	Estonia	Member since 2004
8.	Finland	Member since 1995
9.	France	Founding member
10.	Germany	Founding member
11.	Greece	Member since 1981
12.	Hungary	Member since 2004
13.	Italy	Founding member
14.	Latvia	Member since 2004
15.	Lithuania	Member since 2004
16.	Netherlands	Founding member
17.	Norway	Control group
18.	Poland	Member since 2004
19.	Portugal	Member since 1986
20.	Republic of Moldova	Control group
21.	Romania	Member since 2007
22.	Russian Federation	Control group
23.	Slovak Republic	Member since 2004
24.	Slovenia	Member since 2004
25.	Spain	Member since 1986
26.	Sweden	Member since 1995
27.	Switzerland	Control group
28.	Turkey	Control group
29.	Ukraine	Control group
30.	United Kingdom	Member since 1973
31.	European Union	Control group
32.	World	Control group

TRANSATLANTIC COMMERCIAL RELATIONSHIP IN THE CONTEXT OF THE CURRENT FINANCIAL CRISIS

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Abstract: *This paper makes an analysis of the commercial and financial relationship between EU27 and United States of America. Traditionally, USA and EU27 are the most powerful forces in the world. Today, the relationship between these two partners continues to dominate and to influence globally. The transatlantic relation consists, mainly, of the commercial exchanges and the investment flows. The objective of this paper is to highlight the evolution and the changes occurred in the commercial exchanges and the investment flows between this two powers in the context of the economic crisis constraints.*

Keywords: transatlantic commercial exchanges, transatlantic investment flows, the economic-financial crisis, the European Union, the United States of America
JEL Classification: F10, F14, F21

INTRODUCTION

The actual economic international relationships are unfolding within a triangular system, known in the literature as the "Economic Triad", including the US, the European Union and Japan. The US and the EU are also the members of the most important bilateral trading partnership in the world.

Yet, the economic crisis and the development of several countries affect their positions. By analyzing the transatlantic relationships in the beginning of the 21st century, it is possible to notice the followings regarding the definition of their objectives. First of all, one may notice, without a doubt, the development of the US - EU cooperation agenda. Beyond the already known interaction fields (economic and commercial relationships, promoting democratic values, non-proliferation of nuclear weapons, the relations development between transatlantic communities), the Transatlantic Agenda now includes the fight against terrorism, environment protection, African development, the reconstruction of Afghanistan and Iraq, power security, spatial collaboration, etc.). By going through the "New Transatlantic Agenda", it is assumed that the new cooperation process between the US and the EU became so vast that it might overextend. The integration of more common activity fields is a positive phenomenon for the transatlantic partner, but the extension of the Agenda most of the times lead to a decrease in the efficiency of the partnership. Many statements regarding common transatlantic positions and actions remain rhetorical, without being put into action (Tsoukalis, 2009).

Second, the objectives of the transatlantic partnership are the result of a compromise between the American and European interests and priorities. This is the reason why the US – EU collaboration will succeed only if these interests and priorities are harmonized. The negotiation of the Transatlantic Agenda also reflects the status of the two actors on the global stage. Regarding the economic and commercial fields, the US and the EU have relatively equal positions, influencing the negotiation process, a process of mutual dialogue and benefits.

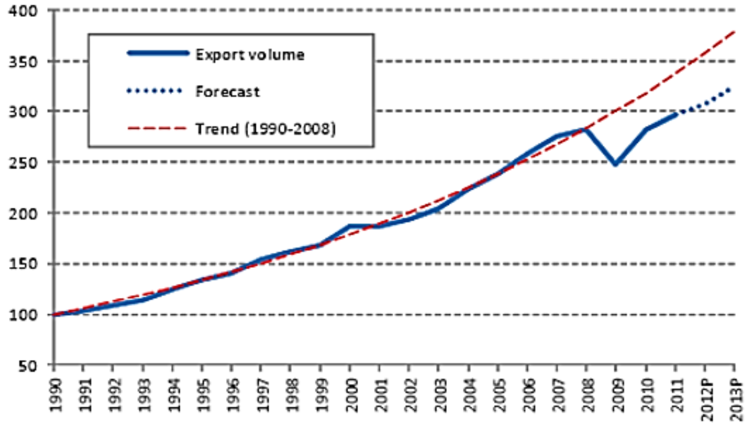
Not the least, the definition of the Transatlantic Agenda also emphasizes the way the US and the EU create their own image of the transatlantic relationship. The US describe themselves as exposing the transatlantic values, that they aim to generalize, while the EU is the initiator of the process of redefining the transatlantic partnership. The reconstruction of the transatlantic relationship is directly related to the mutual perceptions and expectations. The US are looking for a global strategic partner and the EU, for international recognition of its global power status. Both actors aim at the reconstruction of the transatlantic relationship, the main objective of it being the adjustment of the partnership in order to help own interests (Ișan, 2004).

Now, the commercial exchanges between the two partners are being influenced by the economic and financial crisis. Together with the EU, the US also faces a decrease in power and influence within the international system, even though it still maintains several fields of worldwide supremacy. At the same time, it is noticed that both the US and the EU leaders are trying to create strategic partnerships in various regions on the planet, which are to reset their positions on the post-crisis international stage. This is a situation where strong expectations also emerge regarding the transatlantic relation: it might evolve into a new type of strategic partnership that would create not only a power agent, but a model of the international system reorganization.

The "strategic partnership" is a favorite process of the actual powers in order to reach the next stage of the international system, also being an additional reason of understanding the high expectations from a US-EU strategic partnership, which is not only to promote a mutual relation, but also to strengthen the management system of the global problems, based on law compliance, to support the interest of the regional and international security, lead to a sustainable social – economic growth and development (O alta perspectiva a relatiilor UE-SUA, Ziarul Financiar, 2010).

1. INCIDENCES OF THE GLOBAL CRISIS ON THE COMMODITIES TRADE

Figure 1 - Total volume of commodities exports 1990-2013 (indexes, 1990 = 100)



Source: WTO Secretariat

The economic crisis has affected the worldwide commodities exports volume; thus, as one can notice from the figure above, the decrease in the commercial volume has been the notable in the last 40 years. Neither the predictions for 2013 are positive, the international trade not being able to reach the values before the crisis. The difference will increase due to the fact that the growth rate of the international trade will be lower than in the past.

The elimination of this difference might involve future over-averaged growth. This might happen if governments, businesses and household in the developed country would reduce their debts, but this process, as well as tax consolidation might take much time. To wit, the whole world should resign to growth rates lower than the international trade means.

Table 1 - GDP and merchandise trade by region, 2007-10 (Annual percentage change)

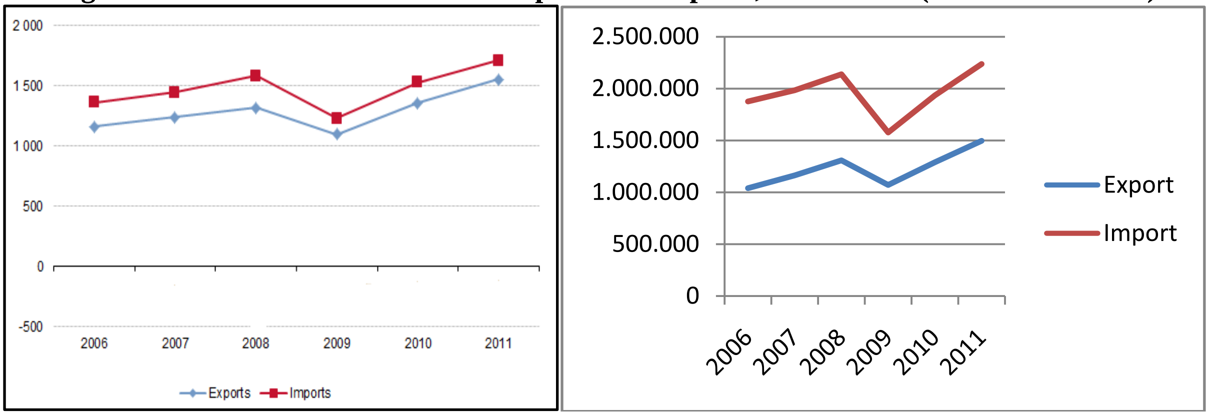
	GDP			Exports			Imports		
	2008	2009	2010	2008	2009	2010	2008	2009	2010
US	0.0	-2.6	3	5.8	-14.0	15.4	-3.7	-16.4	14.8
EU 27	0.5	-4.2	1.8	0.0	-14.5	11.4	-0.9	-14.2	9.2

Source: World Trade Report 2011

From the table above, one can notice that, in 2009, as a crisis effect, the economic growth of the two powers diminished (the GDP in both countries has experienced a negative growth). But, in 2010, the growth rates became positive. The two entities also experienced negative export rates, with negative values in 2009, though being delighted with the recovery in 2010. Same changes have also been registered in the case of imports.

The major crisis effects have been noticed in 2009, when the US GDP decreased by 2.6%, and the EU GDP, by4.2%. The effects were deeper for the export rates, with decreases of 14.5% for the EU and 14% for the US. The decrease in exports reached 14.2% for the EU in 2009, and 16.4% for the US. 2010 represented an improvement in the GDP growth, imports and exports. Thus, the US registered a 3% GDP growth, 15.4% export growth and 14.8% for imports. The EU GDP increased by 1.8%, exports by 11.4% and imports by 9.2%.

Figure 2 – EU and US commodities imports and exports, 2006 - 2011 (1000 million euro)



Source: Eurostat, COMEXT Database

As a result of the crisis, both parts have experienced a diminution of the commodities trade deficit. The most important diminution of this deficit has been registered by the European Union.

Table 2 – Global goods trade in 2011 (Billion USD and percentage)

	Exports					Imports				
	Value	Annual % change				Value	Annual % change			
	2011	2005-11	2009	2010	2011	2011	2005-11	2009	2010	2011
World	17,779	10	-23	22	20	18,000	9	-23	21	19
US	2,283	8	-21	23	16	3,090	5	-25	23	15
EU 27	6,029	7	-22	12	17	6,241	7	-25	13	16

Source: WTO Press Releases 2012

Due to the economic crisis, the world commodities trade has experienced strong decreases in 2009, but starting with 2010, significant improvements have been made both in the world trade and in the EU and US trade sectors, as a result of the economic recovery of several developed states. With the exception of two recovery processes, all the increases exceeded 20%, the only year with 20% increase being 2011.

In account units, overall imports of the European Union experienced an increasing trend from 1999 until 2008, from 743.30 billion Euros to 1425.95 billion Euros. This growth is the special result of the increase in the number of EU member states.

The share of the EU imports from the US did not follow the overall general trend, but a decreasing one. This has diminished from 1.5% in 2000 and 2001 to 0.3% and 0.8% in 2007 and 2008.

As for the overall exports of the European Union, they followed an increasing trend between 1999 and 2008. Thus, the value of 683.2 billion Euros in 1999 grew up to 1306.5 billion USD in 2008.

The share of the European exports to the US in the total volume of exports, between the above mentioned years, has experienced an increase in the beginning, followed by a decrease during the following years. Thereby, in 1999, the export rate increased by 0.6%. Starting with 2000, exports decreased every year from 0.2% in 2001, until 2007, when de decrease percentage reached 2.1% compared to 2006. In 2008, the percent was still significant, but also diminished compared to 2007.

Although the recent increase in the US exports to the EU27 has been slow, the 27 member states of the EU still represented 19% of the export destinations for the US commodities in 2010. The economic recovery has been a slow process, with US exports to the EU27 increasing only by 8.6% between 2009 and 2010, reaching 239.6 billion dollars. As against, commodities exports to the rest of the world has registered a growth rate of 24.3%. Athough the growth rate is relatively low, the export value is quite high – approximately 19 billion dollars between 2009 and 2010.

Within the relationship between the EU and the US, the trade balance is positive, the value of the exports being superior to the value of imports, growing from 21.14 billion dollars in 1999 to 93.77 in 2006. Despite of it, the surplus in 2007 reached 80.34 billion dollars and 63.07 billion dollars in 2008.

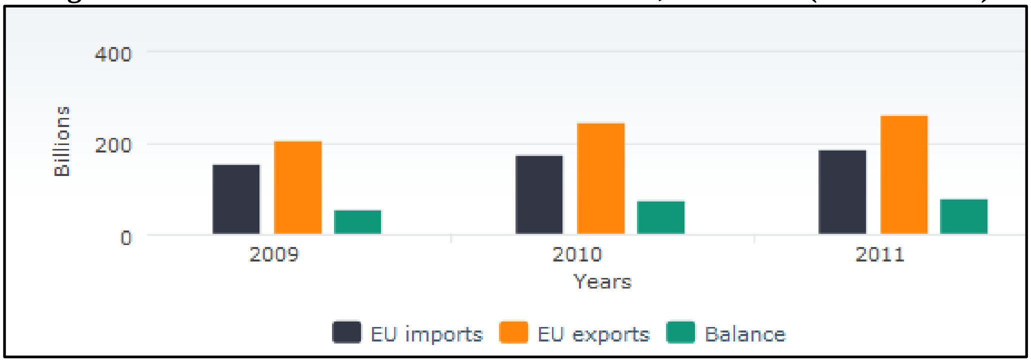
Table 3 – Trade balance of the EU and the US, 1999-2009

Year	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
Billion euros	21,14	31,92	42,3	65,31	69,16	76,13	89,05	91,77	80,34	63,07	22,53

Source: own calculus based on World Trade Report 2007

In 2009, the surplus has diminished to 51.5 billion USD, reaching values of 71.9 and 76.3 billion dollars in 2010 and 2011.

Figure 3 – Evolution of external trade US – EU27, 2009-2011 (million euros)



Source: Eurostatdatabase, 2012

As one can notice from the table below, during the analyzed period, the US have been the main importer. Despite the 18% decrease compared to 2008, the US has remained the main destination of the European commodities in 2009, representing 19% of the external trade of the Union.

Table 4 –EU27 commodities exports, 2001 – 2009 (million euros)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	Average annual increase 2001-2009	% in total extra-EU 27 exports 2009
US	245,594	247,934	227,261	235,499	252,683	269,144	261,477	250,124	204,574	-2.3%	18.7%
China	52,483	55,583	59,861	67,575	72,272	85,353	92,827	99,523	101,283	8.6%	9.2%
EFTA	106,359	103,184	101,460	108,887	120,019	130,415	140,825	145,270	128,530	2.4%	11.7%
Russia	31,602	34,420	37,206	46,030	56,696	72,328	89,137	105,028	65,598	9.6%	6.0%
Japan	45,521	43,456	40,975	43,424	43,749	44,771	43,745	42,267	35,971	-2.9%	3.3%
South Korea	15,840	17,651	16,449	17,931	20,226	22,864	24,784	25,568	21,520	3.9%	2.0%
Canada	22,391	22,906	21,580	22,104	23,898	26,710	25,879	26,092	22,436	0.0%	2.0%
Australia	15,660	16,874	17,526	19,901	20,731	21,283	22,722	25,178	21,796	4.2%	2.0%

Source: Eurostat database, 2010

Until 2005, the US have also been the main exporter to the EU27, but, starting with this year, China took the first place. Thus, in 2009, the US were outclassed by China as the main import sources. The EU27 has imported 19% of the goods from China, and only 13% from the US.

Table 5 – Product imports of the EU27, 2001 – 2009 (million euro)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	Average annual increase 2001-2009	Share in total extra-EU 27 imports 2009
US	203,298	182,521	158,125	159,374	163,511	175,547	181,379	186,772	159,705	-3.0%	13.3%
China	92,663	100,378	116,169	138,678	171,035	207,171	243,645	250,437	224,203	11.7%	18.7%
EFTA	112,714	112,497	112,795	120,079	136,622	153,954	157,359	180,124	145,691	3.3%	12.1%
Russia	65,875	64,493	70,663	83,954	112,591	140,916	144,459	177,761	115,392	7.3%	9.6%
Japan	81,134	73,651	72,391	74,695	74,064	77,510	78,446	75,074	55,849	-4.6%	4.7%
South Korea	23,265	24,563	26,003	30,671	34,451	40,814	41,369	39,564	32,027	4.1%	2.7%
Canada	18,575	16,703	15,960	16,438	17,379	19,742	23,291	23,847	17,772	-0.6%	1.5%
Australia	9,583	9,088	9,026	8,807	9,591	11,236	11,795	11,195	8,079	-2.1%	0.7%

Source: Eurostat database, 2010

The total exports of “Transport machinery and equipment” from the EU27 have decreased by 20% in 2008-2009, but it still undoubtedly remains the main exported product category. Among them, “Manufactured goods”, “Other manufactured articles” and “Chemicals and related products” present high percentages in the external community trade.

In 2009, “Raw materials” and “Fuels” have reached 7% of the EU27 exports.

Table 6 – EU27 commodities exports by product categories, 2009 (million euro)

	USA	China	EFTA	Russia	Japan	South Korea	Canada	Australia	Total extra-EU 27 exports
Food and live animals	3,829	2,035	5,868	5,285	2,173	578	875	929	44,746
Beverages and tobacco	5,397	893	1,688	785	1,354	239	948	352	17,971
Crude materials, inedible, except fuels	1,545	6,722	2,174	807	1,022	588	232	143	25,168
Mineral fuels, lubricants and related mat.	13,259	237	6,614	608	198	250	1,421	27	57,157
Animal and vegetable oils, fats and waxes	534	61	297	308	135	62	76	93	2,585
Chemical and related products, N.E.S.	53,603	12,660	21,559	11,359	9,550	3,885	4,889	4,646	195,613
Manufactured goods classified chiefly by material	17,012	12,485	19,159	7,533	2,853	2,647	2,117	2,201	139,512
Machinery and transport equipment	77,443	54,736	41,671	28,393	10,984	10,530	8,110	10,058	455,799
Miscellaneous manufactured articles	23,060	9,273	21,743	8,815	6,373	2,231	2,198	2,513	119,006
Commodities and transactions N.E.C.	4,888	1,177	5,587	824	508	260	1,061	424	38,143

Source: Eurostat database, 2010

Despite a significant decrease in the European imports between 2008 and 2009, the general structure of the imported commodities types has not changed consistently: "Transport machinery and equipment" prevailed in the imports of the US, with a percentage of 40%.

Table 7 – EU27 commodities imports by product categories, 2009 (million euro)

	US	China	EFTA	Russia	Japan	South Korea	Canada	Australia	Total extra-EU 27 imports
Food and live animals	3,725	3,226	6,592	575	120	104	1,270	475	67,192
Beverages and tobacco	1,051	112	563	73	16	10	33	658	6.430
Crude materials, inedible, except fuels	5,280	1,918	1,978	2,289	408	262	2,602	977	41,859
Mineral fuels, lubricants and related mat.	7,759	282	39,722	85,166	437	1,150	854	2,374	290,335
Animal and vegetable oils, fats and waxes	128	37	118	218	10	1	14	11	5,479
Chemical and related products, N.E.S.	33,895	8,026	29,868	3,321	5,554	1,475	2,406	802	112,448
Manufactured goods classified chiefly by material	9,167	25,933	13,374	7,998	3,966	3,181	2,223	838	115,277
Machinery and transport equipment	62,057	107,087	19,783	1,163	37,961	22,909	4,938	803	342,237
Miscellaneous manufactured articles	21,109	76,335	13,643	313	6,793	2,756	1,001	547	180,185
Commodities and transactions N.E.C.	11,001	1,014	6,417	2,262	491	163	2,293	478	38,232

Source: Eurostat database, 2010

According to table 8, the first place in the ranking of products exported to the US is held by "Medicinal and pharmaceutical products", a category that is more crisis resistant. The last place is held by "Petroleum, petroleum products and relate materials", as a result of the significant variations in the oil price.

As regarding the European import from the US, the first place is held by "Medicinal and pharmaceutical products", the last place being held by "Electrical machinery, apparatus and appliances", a sensitive field.

Table 8 - Top 5 exported and imported products of the EU27, to and from the US, 2009 (million euros)

Rank	EU27 EXPORTS		EU27 IMPORTS	
	Product category	Value	Product category	Value
	United States of America			
1	Medicinal and pharmaceutical products (54)	26,537	Medicinal and pharmaceutical products (54)	13,417
2	Road vehicles (78)	17,262	Power generating machinery and equipment (71)	15,251
3	Organic chemicals (51)	15,415	Other transport equipment (79)	13,996
4	Power generating machinery and equipment (71)	13,735	Professional, scientific and controlling instruments (87)	10,924
5	Petroleum, petroleum products and	13,189	Electrical machinery, apparatus and	8,919

	related mat. (33)		appliances (77)	

Source: Eurostat database, 2010

Comparing to 2005, the EU27 imports and exports have increased, excepting the exports to the US and Japan. This is the consequence of the recent changes. The US continues to represent the main trading partner of the EU. The total exports to the US have decreased by 12% and imports by 5%, summing up 118.9 billion dollars, respectively 126.7 billion dollars.

In 2010, the main trading partners of the US within the EU27 have been the United Kingdom (48.4 billion dollars), Germany (48.2 billion dollars), the Netherlands (34.9 billion dollars), France (27 billiondollars) and Italy (14.2 billion dollars).

In the first months of 2011, the US exports to the EU have increased by 14% comparing to the same period in 2010, summing up 223.8 billion dollars (International Trade Administration, U.S. Export Fact Sheet, 2012).

2. FLUCTUATIONS OF THE TRANSATLANTIC SERVICE FLOW

Services have been regarded for a long time as a low productivity field, more as a break for the economic development. But now, according to most specialists, they are an important part of the economic growth and living standards.

The international service trade is represented by the export/import activities, respectively sales/purchases, which effectively surpass the borders. External services sales and purchases demand the capital shifting, labor and producers shifting.

Reported to the international commodities trade, the service trade consists of: commodities incorporated services (movies, books); commodities trade complementary services (transportation, handling, insurances and reinsurances, banking, advertising); services who serve as a substitute for commodities trade (franchising, leasing, reparation and maintenance); services that are sold apart from commodities (human insurances and other non-product insurances; accountancy, judicial services, medical services, etc.).

As an example regarding the export of transportation services, the first place in the world is held by the European Union, with a 45.7% of the global whole, followed by the US, with 14.19%.

Regarding the imports of such services, the European Union also holds the first place, with a 42.66% percentage, the US percentage reaching only 10.62%.

Table 9 – World service trade in 2011, by regions and economies (billion dollars and %)

	Exports					Imports				
	Value	Annual % change				Value	Annual % change			
	2011	2005-11	2009	2010	2011	2011	2005-11	2009	2010	2011
World	4,150	9	-11	10	11	3,855	9	-11	10	10
US	578	8	-7	9	10	391	6	-7	6	6
EU	1,762	7	-13	4	10	1,480	...	-12	2	...

Source: WTO Press Releases 2010
… indicates unavailable or non-comparable figures

Before the beginning of the crisis, the growth rate of transportation services exports had been rapid, the EU growth rate percentage being 88% in 2008, compared to 2003.

Services trade has decreased in 2009. Services exchanges were carried on especially with the US (compared to 2008, the exports to the US have fallen by 12%, and the imports by 5%). Starting with 2010, the external services trade experiencing an ascending trend.

Between 2007 and 2009, the balance of services between the two partners has passed from a positive one (9.1 billion dollars surplus), to a negative one (7.8 billion dollars deficit). This is the result of changes in the following fields: “Transportation” (exports to the US -21% in 2009), “Tourism” (exports -12% in 2008 and -10% in 2009), “Financial services” (exports -11%, both in 2008 and 2009) and “Other business services” (-12% exports in 2009, +6% imports in 2008 and +1% in 2009)

Tabel 10 - Services trade of the EU, 2009 (million euros)

	US			China			EFTA			Russia		
	Credit	Debit	Net	Credit	Debit	Net	Credit	Debit	Net	Credit	Debit	Net
Services	118,850	126,683	-7,833	25,904	19,711	6,193	86,631	60,670	25,961	18,439	10,961	7,478
Transportation	26,226	17,142	9,085	9,170	8,695	475	16,787	11,530	5,257	3,626	4,507	-881
Travel	14,051	15,510	-1,459	2,504	2,286	218	18,664	10,725	7,909	4,248	1,753	2,496
Other services	78,496	91,410	-12,913	14,191	8,688	5,503	51,162	35,881	15,281	10,552	4,676	5,876
Services not allocated	74	2,621	-2,546	39	42	-3	15	123	-108	12	25	-12

Source: Eurostat database, 2010

By analyzing the table above, it is noticeable that the category “Other services” represents the most important provided services, with percentage varying between 60 and 70% in the US and the EFTA countries. Within this category, the first place is held by “Business, professional and technical services”. “Transportation” accounting between 20 and 30% of the EU provided services.

Of the services provided by the US to the European Union, the first position is occupied by “Other services” (72% of the total volume in 2009). These services include, at large, besides “Taxes for licensing and copyrights” (23%), the “Business, professional and technical services”category.

The European Union remains an important market for the service exports of the US. In 2010, their value summed up 169.1 billion dollars. The main US service importers are the United Kingdom (48.5 billion dollars), Ireland (24.8 billion dollars), Germany (24.1 billion dollars) and France (15.8 billion dollars).

3. THE DISTURBANCE OF THE TRANSATLANTIC INVESTMENT FLOWS

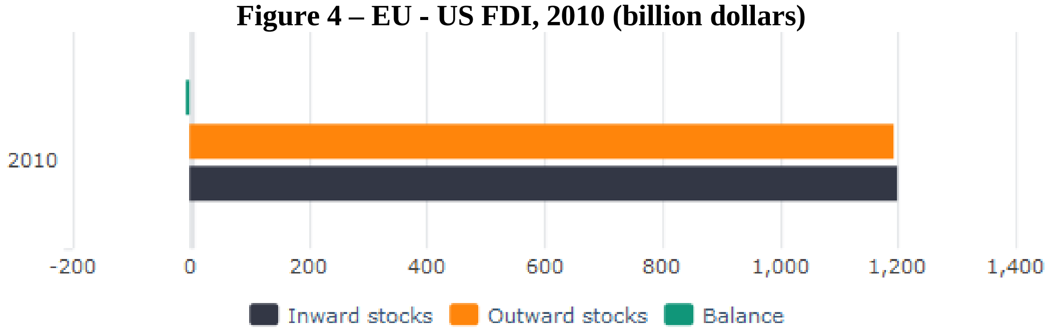
According to the European Commission, the EU and US economies possess almost half of the global GDP and nearly one third of the global commercial flows. The US and the EU have established the closest worldwide economic relationship.

This transatlantic relation also represents the basis of the global economic model. The US or the EU represents the most important trading partner or the most important investor for nearly all the other states. The American and the European investments represent the basis of their relationship, which contribute to growth and job development on the both shores of the Atlantic Ocean. It is estimated that one third of the transatlantic trade consists of intra-company transfers. The level of EU investments in the US is nearly 8 times higher than the EU investments in India and China together. The American level of investment in the EU is three times higher than in all Asian states.

Between 2008 and 2010, the EU FDI flows were significantly affected by the global financial and economic crisis. In 2010, the FDI inflows and outflows were reduced to a half comparing to the former year. As in 2009, the investment decline of the EU resulted from the significant decrease in the transactions with the main partners – the US (75% decrease, up to 20.9 billion euro) and Switzerland (up to 0.9 billion euro).

The same partners have also influenced the EU27 FDI inflows in 2010. The inflows in US and Switzerland have also decreased by 51, respectively 67%.

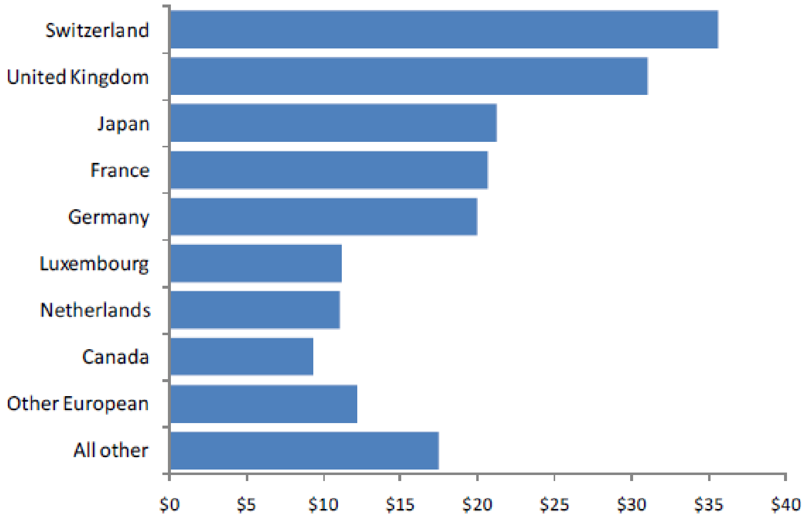
Figure 4 – EU - US FDI, 2010 (billion dollars)



Source: Eurostat database, 2012

According to Eurostat, the US own 28% (1.195 billion EUR) from the whole FDI outflows from the EU27, though they have decreased by 5.7% in 2010. The United Kingdom (18%), France (14%) and Germany (14%) are among the European top investors

Figure 5 - FDI into the US by country, 2010 (billions of dollars)



Source: Payne, D., Yu, F., Foreign Direct Investment in the United States, US Department of Commerce, Economics and Statistics Administration, p. 4.

As for the FDI inflows in the EU, the US owned 41% (1201.4 billion EUR) in 2010. Hence, the US consolidates their main EU investor position, by investing mainly in insurances and production (one third of the production investments come from metal processing and machinery assembly).

Table 11 - Top 10 countries as extra EU-27 partners for FDI positions, 2008-2010 (1000 million euro)

	Outward				Inward			
	2008	2009	2010	Growth rate 2008-10 (%)	2008	2009	2010	Growth rate 2008-10 (%)
Extra EU27	3,321.3	3,662.1	4,152	25	2,496	2,658.1	2,964.1	18.8
US	1,079.2	1,130.9	1,195	10.7	1,005.4	1,060.1	1,201.4	19.5
Switzerland	463.3	513.5	562.8	21.5	303.5	331	365.4	20.4
Canada	141.9	160.4	197.4	39.1	112.7	125.4	143.1	26.9
Brazil	108.5	136.4	187.7	73	52.3	56	67.6	29.1
Singapore	90.7	99.4	122.3	34.8	41.1	50.4	67.3	63.9
Russia	89.1	96.5	120	34.7	30	39	42	40.2
Australia	76.3	78.8	112.9	48	21.7	30	29.6	36.4
Hong Kong	89.9	89	109	21.2	26.1	27.6	42.2	61.9
Japan	79.5	82.7	93.6	17.7	122	123.6	129.1	5.8
South Africa	54.9	77.6	92.2	67.8	7	6.1	7.4	5.5

Source: Eurostat, Foreign direct investment statistics, June 2012

The financial crisis and the economic recession that followed it have shaken the transatlantic market. The encountered challenges are much the same as the ones in 1930. But the "Big Recession" also created opportunities for the European and transatlantic integration, both representing ways of facing the actual problems and insuring a sustainable future economic environment.

CONCLUSIONS

Traditionally, the EU and the US have been the main actors on the international stage, but the development of several states in the 3rd World, the new markets (e.g. China) and the effects of the economic crisis have led to the decrease of their economic weight. Hence, even though the two powers still play a major role in the global economy, their total weight is less significant.

The EU-US relationship regarding trade, investments and other trading activities is the most efficient in the entire world, this partnership being vital for the economic globalization outlining and the association between the US, EU and the last member states dominates the international financial institutions. At the same time, their economic relationship has gone through radical changes, especially regarding the positions of the two superpowers.

Despite of the decrease in their weight, it is noticeable that, as for their values, the relationships between the US and the EU are and will still be the engine of the world economy. The fact that the US and the EU are the greatest actors in the worlds makes the relationships between the two regions be essential for the globalization process.

Even though the dynamics in the transatlantic changes is slower than the trading activities between the EU and the US with other world regions, the two economies will remain strongly interrelated. In economic terms, the relationship between the European Union and the US remains the most important in the world, whilst it is not authenticated through a special judicial instrument which would confer the two parts special advantages on their relations with third parties.

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L'IMPACT DE L'APPLICATION DES REFORMES BALE III SUR L'INDUSTRIE BANCAIRE ROUMAINE

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Abstrait: *Le début du XXIème a connu un essor remarquable des marchés financiers, de l'innovation et des processus de déréglementation. L'inflation faible, la liquidité abondante, la confiance dans les marchés efficaces et autorégulateurs ont conduit à une perception généralisée de risque faible, incitant les acteurs à une prise accrue de risque. Face aux crises qui s'enchaînent depuis maintenant cinq ans, des mesures de ré-réglementation du système ont été proposées, communément appelées Reformes de Bâle.*

L'article analyse l'évolution des recommandations de Bâle en lien avec l'évolution économique et des marchés financiers et évalue l'impact de ces dernières sur le secteur bancaire roumain.

Mots clés: Bâle, crise financière, crise économique, risque systémique, ratio de solvabilité, ratio de liquidité

Classification JEL: G18, G14, G21, G15

INTRODUCTION

Le début du XXI ème a connu un essor remarquable des marchés financiers, de l'innovation et des processus de déréglementation. L'inflation faible, la liquidité abondante ainsi que la confiance dans les marchés efficaces et autorégulateurs ont participé à l'émergence d'une perception généralisée de risque faible, incitant les acteurs à une prise accrue de risque. Début 2007, la crise des subprimes est venue dissiper les bases de la finance moderne et à remettre en cause l'efficacité présumée des marchés financiers. Les différentes crises – crise des subprimes, crise financière, crise économique et enfin crise de la dette souveraine – ont mis en avant l'importance grandissante des connexions inter-acteurs et l'existence des établissements « too big to fail », qui amplifient de façon alarmante le risque systémique (Rajan, 2005).

Devant l'incapacité des marchés de se gérer d'eux-mêmes et du risque systémique qui les entoure, des mesures de ré - réglementation du système ont été proposées, notamment dans le cadre du comité de Bâle.

L'objectif de cet article est d'analyser l'évolution des recommandations de Bâle en lien avec l'évolution économique et celle des marchés financiers, d'expliquer et d'évaluer les principaux éléments novateurs de Bâle III et de mesurer les impacts de leur mise en œuvre sur le secteur bancaire roumain.

Dans la première section nous analysons l'évolution des recommandations du comité de Bâle et les principaux éléments composants. Dans la deuxième section nous étudions les facteurs ayant conduit à l'essor du risque systémique et, par voie de conséquence, à un renforcement et à une révision de la réglementation et des modèles économiques des banques. Dans la troisième section nous passons en revue les mesures adoptées dans le cadre de Bâle III, nous identifions les nouveautés par rapport aux recommandations Bâle précédentes, et nous étudions les impacts possibles pour le secteur bancaire européen ainsi que les mutations probables de celui-ci. La quatrième section se propose d'analyser l'impact de l'implémentation des normes Bale III sur l'industrie bancaire roumaine. A cet effet, nous nous concentrerons dans un premier temps, sur les caractéristiques du marché et des acteurs du secteur pour ensuite analyser les impacts de la mise en œuvre de ces règles. La dernière section résume les chapitres précédents et ouvre une nouvelle voie de réflexion sur les points forts et les limites de Bale III dans la prévention du risque systémique.

1. HISTORIQUE DES RECOMMANDATIONS DU COMITE DE BALE

L'histoire de la réglementation Bâle commence en 1974, avec le dépôt de bilan de la banque allemande Herstatt. Cette faillite a des répercussions sur la scène internationale, et entraîne la paralysie du marché de change américain. Elle prouve la possibilité d'une crise systémique et la nécessité d'une surveillance du monde bancaire au niveau international. Suite à cet événement, un directeur de la Banque d'Angleterre, Peter Cooke, propose l'organisation d'un comité réunissant les banques centrales et des organismes de réglementation et de surveillance bancaire des pays du G10 (France, Belgique, Canada, Italie, Japon, Luxembourg, Allemagne, Pays-Bas, Suisse, Espagne, Suède, Royaume-Uni, Etats-Unis). Sa proposition est adoptée et ce comité se réunit dorénavant à Bâle (Suisse) quatre fois par an, sous l'égide de la Banque des règlements internationaux (BRI).

Il est à noter d'ores et déjà que les travaux de Bâle ne sont que des propositions, ils n'ont aucune valeur contraignante, et c'est à chaque état de décider la mise en place - partielle ou totale – ou la non-application de ces recommandations[*].

Historiquement, les travaux du Comité de Bâle ont abouti à la publication de trois grands accords : Bâle I en 1988, Bâle II en 2004 et Bâle III en 2010.

Bâle I a vu le jour uniquement quatorze ans après la création du comité de Bâle. Au cœur de cette publication se retrouve le « ratio Cooke », élément fondateur de la régulation bancaire : il met

[*] A titre d'exemple, les Etats Unis sont réputés de trainer lorsqu'il s'agit d'implémenter ces mesures et Bâle II, pourtant datant de 2004, n'y a jamais été appliqué.

en évidence le principe selon lequel le financement de chaque risque doit comprendre un certain montant de fonds propres. Cette précaution doit permettre d'assurer la sécurité globale du marché et de minimiser les risques de nature systémique en évitant l'effet "domino".

Ainsi, le ratio des fonds propres réglementaires d'un établissement de crédit par rapport à l'ensemble des engagements de crédit pondérés de cet établissement doit au moins être égal à 8%. Dans l'Union européenne, l'accord a été transposé par la directive 89/647/CEE du 18 décembre 1989 introduisant le ratio de solvabilité européen. Les accords de Bâle I ont également été appliqués aux Etats-Unis, au Canada, en Suisse, au Japon, etc. et sont actuellement appliqués dans plus d'une centaine de pays.

Cependant, Bâle I a rapidement révélé ses limites. Tout d'abord, la pondération des engagements était insuffisamment différenciée pour rendre compte du niveau effectif du risque de crédit. Ensuite, les années 1990 ont vu l'émergence d'un phénomène nouveau, à savoir l'explosion du marché des produits dérivés et donc des risques "hors-bilan". Rapidement, le comité a dû se rendre à l'évidence qu'une refonte de l'accord était nécessaire, et c'est Bâle II qui va partiellement remplir ce besoin.

Bâle II a pour principal objectif de mieux évaluer les risques bancaires – en intégrant notamment, hormis le risque de crédit et le risque de marché, la notion de risque opérationnel – et de mettre en place un dispositif de surveillance prudentielle et de transparence.

Ces nouveaux accords se déclinent en trois volets.

I. Exigence de fonds propres : Bâle II prend en compte les risques opérationnels et les risques de marché, en plus des risques de crédit. Le ratio Cooke laisse la place au ratio Mc Donough, qui prévoit que les fonds propres de la banque soient supérieurs à 8 % des risques de crédits (85 % du ratio) + des risques de marché (5 % du ratio) + des risques opérationnels (10 % du ratio) (Banque de France, 2011).

II. Surveillance de la gestion des fonds propres : les banques peuvent fixer des ratios prudentiels encore plus élevés dans les domaines qui leur semblent importants pour leur stratégie, à charge ensuite pour elles de prouver que leurs fonds propres sont suffisants. Les banques peuvent choisir entre le modèle de risques standards, mis à disposition par le comité de Bâle, ou des modèles de risques développés en interne.

III. Transparence des marchés, visant l'uniformisation et la transparence des règles bancaires menant à une uniformisation de la présentation des portefeuilles de risque, leur permettant d'être lus et compris dans tous les pays où la banque intervient.

Malheureusement, Bâle II n'a pas passé le test de la crise survenue en 2008 avec la chute de Lehman Brothers, ni en Europe, ni aux Etats Unis, où d'ailleurs il n'a jamais été appliqué.

En effet, parmi les limites reprochées aux accords de Bâle II, on retrouve notamment l'effet pro cyclique, la sous-pondération dans le calcul des risques de marchés et des risques des produits complexes tels que la titrisation et la re-titrisation, et l'absence de prise en compte du risque de liquidité, d'ailleurs pas étonnant vu le contexte de liquidité abondante et pas chère.

2. BALE III ET L'EMERGENCE DU RISQUE SYSTEMIQUE

Bâle III arrive dans un contexte de profondes crises économique, financière et bancaire dans la plupart des économies développées. La crise des crédits subprime et la contagion rapide aux marchés européens et asiatiques, ainsi que l'assèchement brutal des liquidités sur les marchés interbancaires ont mis fin à plusieurs idées bien ancrées dans le « mainstream economics » ainsi que dans les convictions des principaux décideurs politiques et banquiers centraux (Mihm, S., Roubini, N. 2010), : i)Les marchés sont par définition efficaces, stables et autorégulatrices ; ii) La titrisation permet de disséminer et, par conséquent, de mieux contrôler les risques ; iii) La supervision micro-prudentielle (des établissements bancaires un par un) permet de gérer et de maîtriser le risque systémique ; iv) Une politique monétaire ayant comme objectif principal une inflation faible et stable est suffisante pour assurer les bonnes conditions de la stabilité financière.

En réalité : i) Les chocs et les crises sur les marchés n'ont pas disparus, ils existent, et ceci depuis toujours, à la différence près que, aujourd'hui, les connexions entre acteurs sont beaucoup plus fines, due à l'innovation financière, aux nouvelles technologies ainsi que la présence mondiale de certains acteurs sur les marchés ; ii) La titrisation a changé fondamentalement le modèle des banques : le principe de « lend to hold » (prêt gardé à l'actif jusqu'à maturité) a été remplacé par le principe « lend and distribute » (prêt titrisé). De ce fait, l'attention portée à la qualité des crédits octroyés a été diminuée (risque de « moral hasard »), l'essentiel étant de vendre ces crédits, obtenir le remboursement anticipé des prêts et transférer le risque, pour obtenir des liquidités et pouvoir consentir à nouveau des prêts et ainsi de suite. La titrisation a permis de sortir du bilan les actifs, contournant de cette manière les contraintes réglementaires en matière de fonds propres de Bâle II ; iii) Dans la vision générale, la supervision au cas par cas des établissements bancaires permettrait de contrôler le risque systémique ; or aujourd'hui, on s'aperçoit que les entités présentant un risque « systémique » doivent être d'autant plus surveillées que leurs actes peuvent générer des externalités négatives sur le reste des acteurs financiers ; iv) Dans les traités de politique monétaire et les publications des banques centrales, des chapitres entiers sont dédiés aux bienfaits d'une inflation faible et stable. Or, le problème avec ce système, lorsqu'il n'est pas accompagné d'une réglementation efficace et d'un système de surveillance approprié, est que, une inflation faible peut nourrir un sentiment exagéré de sécurité et de confiance favorisant l'appétence des acteurs pour le risque et l'endettement excessif et conduisant de facto à l'émergence de l'instabilité financière (Betbèze et al., 2011).

3. PRINCIPAUX ELEMENTS NOVATEURS DE BALE III ET CONSIDERATIONS SUR LES IMPACTS DE SA MISE EN ŒUVRE SUR L'ECONOMIE DE LA ZONE EURO

Bâle III maintient le noyau dur des accords de Bale, à savoir les ratios de fonds propres, tout en relevant le niveau du ratio et en renforçant la qualité des composants des fonds propres. La reforme Bale III rajoute également des éléments tels que le risque de liquidité, l'effet de levier ou la surveillance spécifique des banques à risque systémique (SIFI).

3.1 Pilier solvabilité – renforcement des fonds propres

Les principales modifications du ratio des fonds propres, sont présentées ci-après :

- Relèvement du ratio « Core Tier 1 »[*] à 4,5% et du ratio « Tier 1 » à 6%[†].

- L'introduction de critères d'éligibilité plus stricte pour les composants du « core Tier 1 », en éliminant les éléments considérés comme n'ayant pas une capacité suffisante d'absorption d'éventuelles pertes, l'élargissement des actifs pondérés par les risques, notamment du fait de la prise en compte du risque de contrepartie dur les opérations de dérivés de gré à gré.

- Mise en place d'un capital de conservation (« conservation buffer »): un ratio de 2,5% servant non seulement à renforcer la résilience des banques, mais également à freiner la distribution des bénéfices en cas de dégradation de la situation financière de l'établissement.

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* Où le ratio « noyau dur » est égal au rapport entre les fonds propres disponibles (capital + réserves) et les actifs pondérés par le risque. La nouveauté consiste non seulement dans le relèvement du ratio, mais aussi à une pondération plus importante des risques des marchés et dans une définition plus stricte des fonds propres (d'où la notion de « core tier 1 ». Le ratio « Tier 1 » est un peu plus large et il inclut, au niveau des fonds propres, d'autres éléments, tels que des instruments hybrides, des actions préférentielles etc.

† Note : L'augmentation du ratio Tier 1 peut être réalisée soit via une augmentation des capitaux propres (en touchant donc au numérateur), soit en restructurant les activités afin de se concentrer sur des activités moins risqués, donc moins couteuses en capitaux propres, d'où la tendance de « deleveraging » observée sur le marché européen ces deux derniers années, les banques ayant choisi la deuxième option, à savoir diminuer les actifs pondérés

- Mise en place d'un capital contra-cyclique : la réserve contra cyclique est une extension du capital de conservation, l'introduction de cette réserve et la détermination de son montant (entre 0 et 2,5%) restant à la discrétion du superviseur local. Ce ratio a pour but de minimiser l'effet pro cyclique et de limiter le risque systémique (BRI, 2010c, 2011).

La grande nouveauté des accords de Bâle III réside dans l'adoption des ratios de liquidité, un premier ratio de liquidité court terme (LCR), prévu pour 2015, et un deuxième ratio de liquidité long terme (NSFR), dont l'application est prévue à partir de 2018.

3.2 Le ratio de liquidité court terme (LCR – Liquidity Coverage Ratio)

Schématiquement, le ratio de liquidité court terme stipule que les actifs à moins d'un mois doivent être supérieurs aux passifs à moins d'un mois, sous des hypothèses des conditions de marché et intrinsèque à l'établissement très « stressés ». Autrement dit, il faut que la banque montre sa capacité à payer tous ses passifs à moins d'un mois en liquidant aisément ses actifs à moins d'un mois :

$$\frac{Encours\ d'actifs\ liquides\ de\ haute\ qualité}{Total\ des\ sorties\ nettes\ de\ trésorerie\ sur\ les\ 30\ jours\ calendaires\ suivants} \geq 100\%$$

A ce titre, le régulateur impose aux établissements bancaires de prendre en compte, dans leur gestion quotidienne du risque de liquidité, les hypothèses suivantes:

- Sortie imprévue des fonds (retrait d'une partie des dépôts, tirages non programmés sur les parties non utilisées des engagements confirmés de crédit et de liquidité, etc.)

- Détérioration des conditions de marché

- Risques intrinsèques à l'établissement (Besoin potentiel de rachat de ses titres, de sa dette ou d'honorer des obligations dans le but de maitriser le risque de réputation, baisse de la note attribuée par les agences de notation impactant sur la réputation de l'établissement et la qualité de crédit etc.)*

3.3 Le ratio de liquidité long terme (NSFR- Net Stable Funding Ratio)

Le ratio de liquidité long terme va pour sa part poser quelques difficultés, car il impose aux banques de financer l'actif à long terme avec autant de passif à long terme. L'idée consiste à ne pas financer d'actif à long terme avec du passif à court terme pour éviter les crises de liquidité.

* Le détail des hypothèses retenues par le comité de Bale pour le ratio LCR se retrouvent en annexe 1.

$$\frac{Montant\ de\ financement\ stable\ disponible}{Montant\ de\ financement\ stable\ exigé} \geq 100\%$$

Ce dernier ratio est très problématique du fait de la définition même du métier de la banque, qui réalise un process de transformation d'échéance (« maturity mismatch ») : Schématiquement, les banques prêtent à long terme (par exemple des crédits immobiliers) à partir de ressources à court-terme (les dépôts des particuliers, le financement sur les marchés). C'est leur métier de transformation et d'intermédiation. Obliger les banques à avoir une maturité équivalente entre ce qu'elles prêtent et ce qu'elles empruntent change leur métier et leur business model, et, surtout, leur profitabilité*, ce qui se répercutera sur le cout des crédits octroyés à l'économie.

On note néanmoins la tergiversation dans la mise en place de ce ratio, prévue à aujourd'hui pour 2018, le lobbying bancaire menant des efforts considérables pour repousser la date d'implémentation de ce ratio. A ce jour, les négociations sont toujours en cours entre le régulateur et l'industrie bancaire (Conférence « Les Echos », 24 mai 2012).

En conclusion des éléments présentés antérieurement, le tableau ci-dessous présente les principales évolutions Bâle III.

Tableau 1 – Evolutions Bale III

	2011	2012	2013	2014	2015	2016	2017	2018	1er janvier 2019
Ratio d'endettement	**Surveillance par les autorités de contrôle**		**Période d'évaluation Publication à compter du 1er janvier 2015**					**Intégration au pilier 1**	
Ratio minimal pour la composante actions ordinaires de T1			3,50%	4%	4,50%	4,50%	4,50%	4,50%	4,50%
Volant de conservation de fonds propres						0,63%	1,25%	1,875%	2,50%
Ratio minimal composante actions ordinaires + volant de conservation			3,50%	4,00%	4,50%	5,13%	5,75%	6,38%	7,00%
Déductions sur la composante actions ordinaires de T1 (y compris les montants au delà du seuil fixé pour les impôts différés et participations dans les établissements financiers)				20%	40%	60%	80%	100%	100%
Ratio minimal T1			4,50%	5,50%	6%	6%	6%	6%	6%
Ration minimal Total Fonds propres			8%	8%	8%	8%	8%	8%	8%
Ration minimal Total Fonds propres + Volet de conservation			8,0%	8,0%	8,0%	8,625%	9,25%	9,875%	10,5%
Instruments de fonds propres nd'étant plus éligibles en T1 hors actions ordinaires ou T2									
Ratio de liquidité à court terme	Début période d'obs.				Introduction du ratio				
Ratio de liquidité à long terme	Début période d'obs.							Introduction du ratio	

Sources: Comité de Bale, BRI, Quignon, L. (2011), étude BNP Paribas : « Bâle III n'aura peut-être pas les vertus de la lance d'Achille »

La mise en place des normes Bâle III va conduire à un renchérissement du cout des ressources pour les banques, donc une diminution de la rentabilité sur fonds propres à activité inchangé. Pour atteindre les nouveaux ratios de fonds propres, les banques vont devoir soit se recapitaliser **(**difficile

* L'indicateur suivi pour l'industrie bancaire est la rentabilité sur fonds propres ou « return on equity » (ROE)

dans un contexte de résultats des banques – en moyenne – très décevants à partir de 2007) soit revoir leur portefeuille d'activités, en se concentrant sur les activités les moins consommatrices de fonds propres. Cette révision stratégique du portefeuille d'activités peut à la fois prendre la forme de cession d'actifs (ex. activités de « leasing » ou d'une réduction de l'exposition aux portefeuilles d'actifs considérés comme risqués et une réduction de la taille moyenne de nouveaux engagements. Dans ce contexte, le crédit à la consommation devrait subir des limitations ainsi que l'accès au crédit des PMEs. L'activité pour compte propre (« trading book ») devrait connaitre, elle aussi, une forte diminution.

Les nouvelles normes Bâle III impliquent également des couts importants d'adaptation pour les banques, celles-ci ayant besoin d'uniformiser leur systèmes d'information afin de produire une information homogène, nécessaire à l'alimentation des nouveaux indicateurs de liquidité ainsi qu'aux reportings demandés par le régulateur et les marchés.

Parmi les axes d'adaptation des banques, nous pouvons noter:

- La Maitrise, voir réduction des couts passant par une revue de la rentabilité par produit suivie d'une rationalisation et standardisation de ces derniers, la généralisation du modèle producteur - distributeur, et la mutualisation des back-offices inter métier et inter banques

- La refonte des systèmes d'information pour répondre aux contraintes de reporting réglementaire et améliorer le pilotage des activités bancaire.

- L'optimisation des fonctions support en mutualisant les services par métier, par zone géographique et par type de clientèle.

- Une standardisation et centralisation de l'information financière afin de faciliter l'analyse et le reporting.

4. IMPACT DE L'APPLICATION DE LA REGLEMENTATION BALE SUR LE SECTEUR BANCAIRE ROUMAIN

L'analyse des impacts de Bâle III se limite dans le cadre de cette étude au seul secteur bancaire roumain, même si beaucoup d'économies de l'Europe Centrale et de l'Est, membres de l'Union Européenne, présentent des caractéristiques semblables.

4.1 Caractéristiques du système bancaire roumain

Avant d'analyser l'impact de la mise en place de Bale III, il est important de rappeler le contexte de l'adoption de ces normes par la Commission. Tel que l'observent très pertinemment Lehmann et al. (2011), la crise financière de 2008 – 2009 trouve ses origines dans les marchés financiers des pays développés et le set de mesures Bâle III a été conçu pour répondre aux fragilités spécifiques à ces marchés. De fait, tous les pays membres de l'Union Européenne seront concernés par l'adoption de la CRD IV par la Commission, alors que les systèmes bancaires de l'Europe Centrale et Orientale présentent des caractéristiques fondamentalement différentes des ceux des pays développés (i.e des pays de la Zone Euro). Les seules caractéristiques communes seraient la libéralisation des marchés des capitaux ainsi que le métier de transformation (l'utilisation des ressources court terme pour financer des emplois long-terme). Par conséquent, les ratios Bâle III : i) ne répondent pas forcement aux besoins spécifiques de ces pays ; ii) pourraient avoir des impacts différents, ou, du moins, via des canaux de transmission différents par rapport aux pays de la zone Euro.

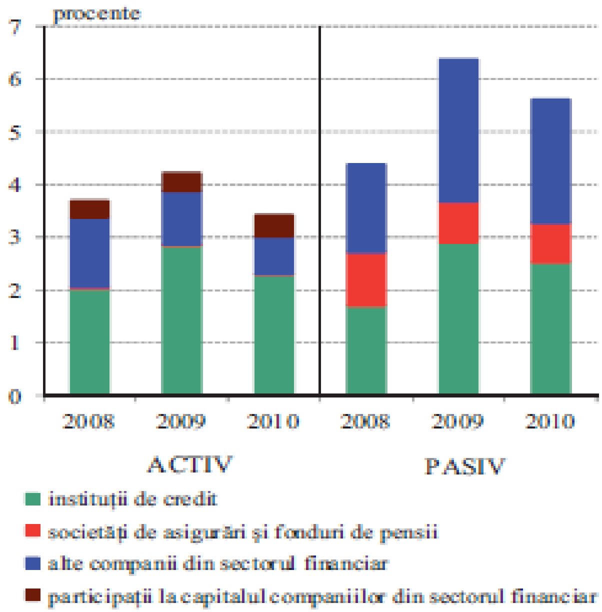
Les caractéristiques du secteur bancaire roumain sont présentées ci-après et proviennent pour al plupart du Rapport sur la Stabilité Financière 2011 réalisé par la BNR (Banque Nationale de la Roumanie). Il est à noter que les caractéristiques identifiées sont compatibles avec l'étude de Lehmann, Levi et Tabak (Leman et al., 2011).

Caractéristiques du système bancaire roumain :

4.1.1 Marché présentant un risque systémique faible

En effet, le risque de contagion du secteur bancaire roumain, mesuré à la fois par l'exposition des institutions de crédit aux autres institutions financières en Roumanie et par le niveau des ressources levé auprès de celles-ci, est très faible

Graphique 1 – Le poids dans le bilan des institutions de crédit des expositions et des ressources attirées auprès des institutions financières internes



Source: BNR, (2011), « Raport asupra stabilitatii financiare », page 22.

Nous constatons que le risque de contagion est faible et, en plus, le poids de l'exposition aux institutions financières roumaines, déjà faible (un peu moins de 7%), diminue d'un point en 2010.

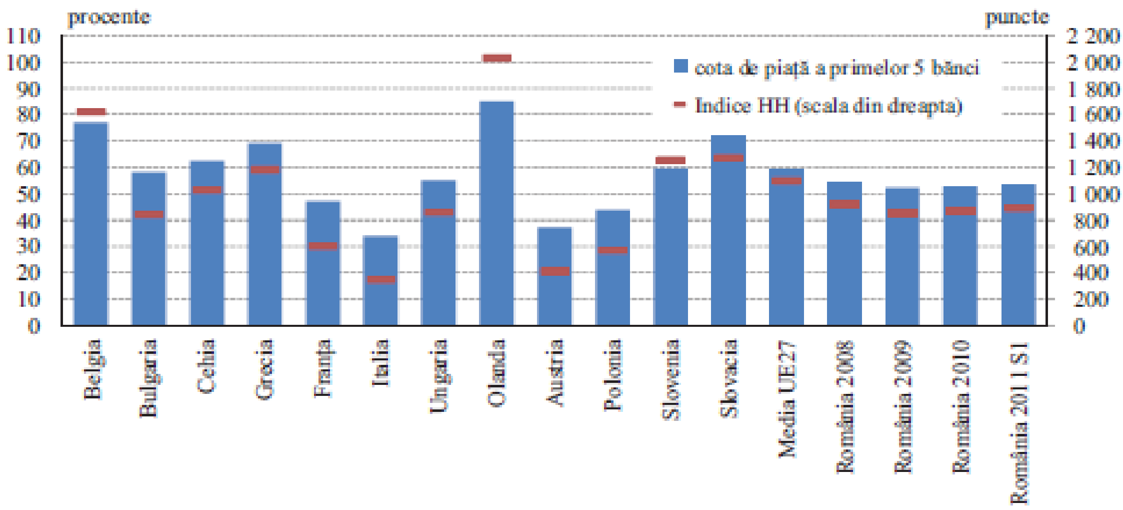
4.1.2 Un degré de concentration modéré, en dessous de la moyenne européenne.

Le degré de concentration est mesure par le poids des dépôts attirés par les 5 premières banques dans la valeur totale des dépôts ainsi que par l'indice Herfindahl - Hirschmann*.

* L'indice Herfindahl-Hirschmann (IHH) est établi en additionnant le carré des parts de marché (généralement multipliées par 100) de toutes les entreprises du secteur considéré. Plus l'IHH d'un secteur est fort, plus la production est concentrée.
L'IHH est utilisé en droit de la concurrence par les autorités de concurrence à deux titres : en valeur absolue et en variation (avant et après l'opération de concentration envisagée). On distingue habituellement trois zones :

1. IHH inférieur à 1000 : secteur peu concentré, présentant peu de risques de problèmes ;
2. IHH compris entre 1000 et 2000: zone intermédiaire, pouvant présenter des risques en présence de certains facteurs ;
3. IHH supérieur à 2000, zone de risques importants.

Graphique 2 – Degré de concentration des actifs (comparaison internationale)



Source: BNR, (2011), « Raport asupra stabilitatii financiare », page 25

Le degré de concentration du système bancaire roumain a connu une trajectoire descendante jusqu'à la fin de l'année 2009. Courant 2010, l'indice a légèrement augmenté, mais se situe toujours en dessous de la moyenne de l'Union Européenne. L'indice Herfindahl-Hirschmann, en baisse depuis 2006, indique un degré modéré de concentration. La valeur de 895 points situe la Roumanie en dessous la moyenne de 1102 points enregistré au niveau de l'Union Européenne (BNR, 2011).

4.1.3 Une quasi-absence de l'activité de « trading » pour compte propre

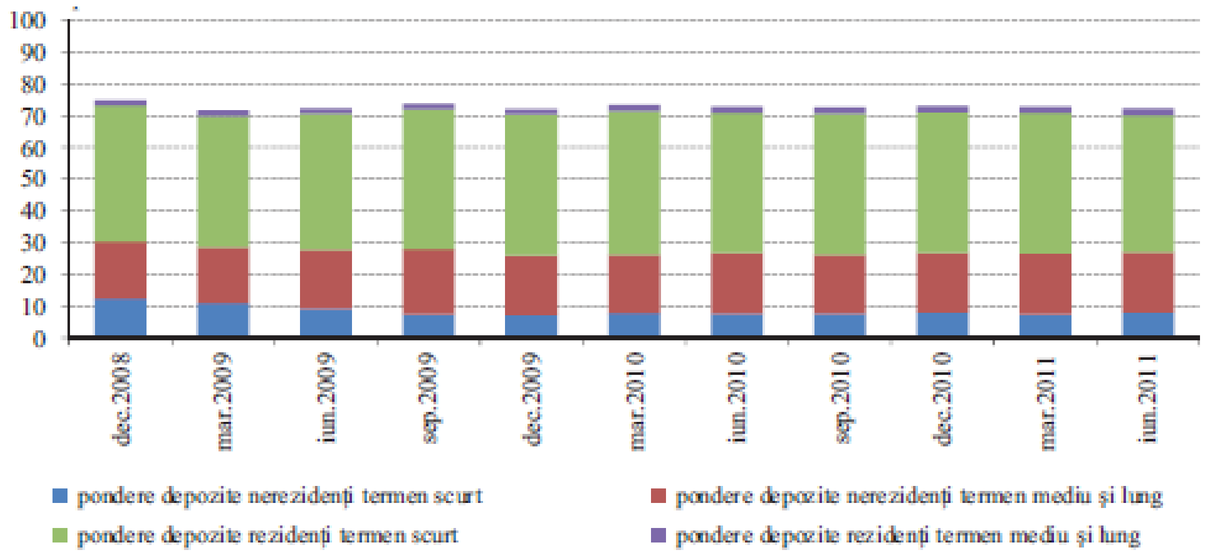
L'activité est concentrée sur la banque de détail et sur les activités « corporate » (assez consommatrices de fonds propres) et le marché boursier reste peu développé.

4.1.4 Des institutions bancaires majoritairement détenues par des grands groupes bancaires européens.

En 2011, sur 42 établissements bancaires, 35 étaient à capital majoritairement étranger et ils représentaient 85% du total des actifs bancaires sur le territoire roumain (BNR, 2011).

4.1.5 Un secteur vulnérabilisé par la prépondérance du financement des actifs long-terme par des ressources court terme, malgré une forte capitalisation des banques

Graphique 4 – Répartition des dépôts attirés des résidents et non-résidents, par échéance



Source: BNR (2011), « Raport asupra stabilitatii financiare », page 29

En ce qui concerne la structure de l'actif bancaire, notons la prépondérance des crédits de long terme: 57 % de la valeur totale des crédits, contre 21% pour les crédits à court terme et, respectivement, à moyen terme.

Concernant le passif, le principal trait de ce dernier est le financement de plus en plus dépendant des marchés externes et des maisons mères. En effet, le niveau des ressources collectées auprès du secteur privé autochtone représente 45% du total des passifs, en baisse ces dernières années. En même temps, les ressources obtenues sur les marchés externes sont significatifs, s'élevant en 2011 à 27,2 %, dont 84,3% proviennent des maisons-mères, avec des échéances majoritairement supérieures à 1 an.

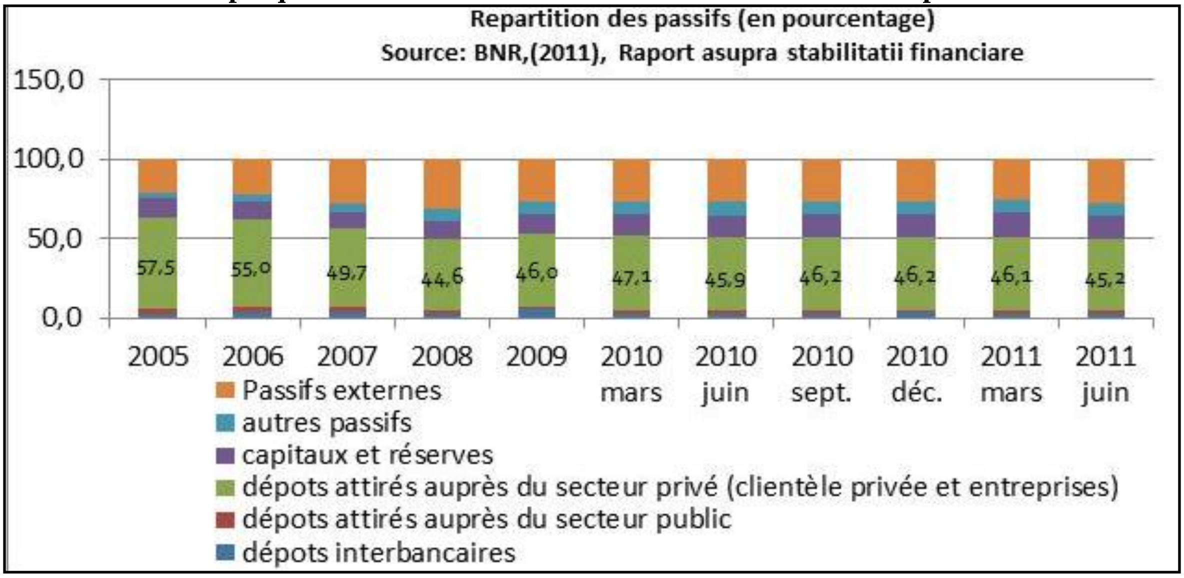
Tableau 2 - Structure des passifs des institutions bancaires opérant en Roumanie

Structure des passifs (en pourcentage %)	2005	2006	2007	2008	2009	2010 mars	2010 juin	2010 sept.	2010 déc.	2011 mars	2011 juin
Passifs internes, dont	**79,1**	**77,5**	**71,7**	**69,3**	**73,7**	**73,5**	**73,0**	**73,6**	**73,1**	**73,2**	**72,8**
dépots interbancaires	2,5	3,6	3,8	2,1	5,4	2,9	2,4	2,5	3,4	2,5	2,6
dépots attirés auprès du secteur public	3,5	3,1	2,9	3,1	2,1	2,1	2,3	2,2	1,7	2,5	1,6
dépots attirés auprès du secteur privé (clientèle privée et entreprises)	57,5	55,0	49,7	44,6	46,0	47,1	45,9	46,2	46,2	46,1	45,2
capitaux et réserves	12,2	11,8	9,9	10,7	12,1	13,3	13,7	14,5	14,3	15,1	15,1
autres passifs	3,4	4,0	5,4	8,8	8,1	8,1	8,7	8,2	7,5	7,8	8,3
Passifs externes	**20,9**	**22,5**	**28,3**	**30,7**	**26,3**	**26,5**	**27,0**	**26,4**	**26,9**	**26,8**	**27,2**

Sources: Rapport BNR, calculs de l'auteur

Cette répartition actif – passif est structurante et elle est déterminante pour le respect du ratio de liquidité long terme.

Graphique 5 – Industrie bancaire roumaine - structure des passifs



Sources : calculs de l'auteur, rapport BNR, (2011), Raport asupra stabilitatii financiare

En effet, le ratio NSFR demande un financement des emplois à long terme par des ressources long terme. La structure actif – passif caractéristique du système bancaire roumain constituera une difficulté majeure pour respecter le nouveau ratio, à partir de 2018.

Notons cependant une bonne capitalisation des banques, survenue notamment après la crise financière, suite aux négociations menées par lala BNR avec les maisons-mères. A ce jour, la capitalisation des banques roumaines est confortable, un atout essentiel pour l'adéquation aux nouvelles normes Bâle III. En 2011, le ratio « core tier 1 » se situait à 13,6%, un niveau bien supérieur au 8 -10 % envisagés par Bâle III.

Tableau 3 – Evolution des fonds propres et du ratio « Core Tier 1 »

Structure des fonds propres et ratios de solvabilité (en %)	sept 2008	déc 2008	déc 2009	mars 2010	juin 2010	sept. 2010	déc. 2010	mars 2011	juin 2011
Total fonds propres	100	100	100	100	100	100	100	100	100
Fonds propres de niveau 1 (tiers 1), dont :	**76,7**	**77,2**	**78,4**	**79,8**	**79,3**	**79,7**	**80,3**	**81**	**80,1**
Capital social	48,7	43,7	46	47,3	49,8	51,3	50,8	51,7	53,1
Primes de capitaux	4,4	3,8	4	6,1	6,1	5,8	5,7	5,8	5,8
Réserves légales	28,2	34,6	33,4	33	32,6	32,4	32,3	30,2	30,2
Résultat	-0,6	-0,7	1,55	-1,2	-3	-2,8	-2,5	-0,5	-2,6
Fonds propres de niveau 2 (tier 2), dont :	**23,3**	**22,8**	**21,6**	**20,2**	**20,7**	**20,3**	**19,7**	**19**	**19,9**
Réserves de réévaluation	9,6	8,1	6,06	5,9	5,6	5,7	5,6	5,7	5,7
Prêts subordonnées (net)	15,2	15,8	17,2	15,7	16,6	16,3	15,7	15	15,2
Prêts subordonnées (brut)	17,5	17,9	20,1	19	20,4	20,7	20,3	20	20,7
Ratio de solvabilité	***11,9***	***13,8***	***14,7***	***15***	***14,3***	***14,6***	***15***	***14,9***	***14,2***
Ration de fonds propres tien 1	***10***	***11,8***	***13,4***	***14,2***	***13,4***	***13,8***	***14,2***	***14,5***	***13,6***

Sources: calculs de l'auteur, BNR, (2011), Raport asupra stabilitatii financiare, page 33

Ayant passé en revue les principales caractéristiques du secteur bancaire roumain, les conclusions qui en découlent sont les suivantes :

-Le renforcement du ratio de fonds propres proposé par Bâle III n'aura pas d'impact significatif sur l'industrie bancaire roumaine, celle-ci étant déjà fortement recapitalisée suite à la crise de 2008.

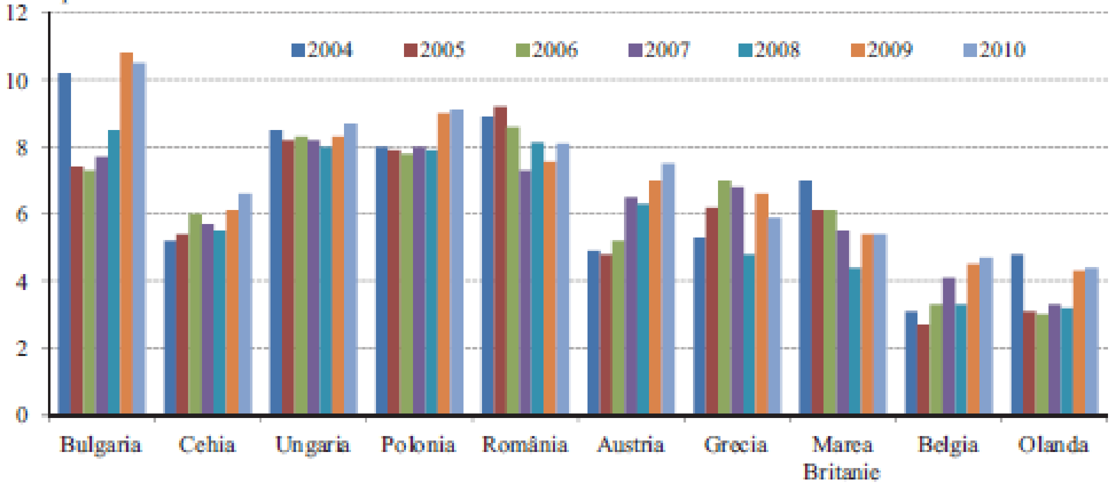
Comme illustré dans le point F., le capital social a connu une forte hausse suite à la crise de 2008 – passant de 43% à 53,1%, malgré des pertes récurrentes subies à partir de 2010. Au total, le ratio de fonds propres de base, à mi 2011, se situait à 13,6%, un niveau tout à fait confortable par rapport aux besoins réglementaires. Par conséquence, le premier volet de la réglementation baloise, l'adéquation des capitaux propres, est d'ores et déjà respecté par l'industrie bancaire roumaine.

-L'introduction d'un effet de levier d'un minimum de 3% n'aura pas d'impact non plus, l'effet de levier de l'industrie bancaire roumaine se situant à un niveau stable de 8%.

Ce niveau est comparable à celui des autres pays de l'Europe Central et Continentale[*], ceci s'expliquant notamment par un business model différent par rapport aux pays de l'Europe de l'Ouest ou d'Amérique du Nord. En effet, comme évoqué dans le point D, l'industrie bancaire roumaine a très peu développé le trading pour compte propre, activité a fort levier et qui tend à diminuer significativement le ratio de l'effet de levier.

[*] Nous constatons aussi que les maisons mères financent très peu leur activité par des fonds propres, leur ratio de levier étant se situant souvent en dessous du minimum requis de 3%.

Graphique 6 – Comparaison des effets de levier des secteurs bancaires en Europe



Sources: IMF (2011), Global Financial Stability Report (avril 2011), BNR

- L'introduction des deux ratios de liquidité, notamment le ratio de liquidité long terme (NSFR) pourrait représenter un risque et un défi pour le système bancaire roumain si jamais ce dernier ne bénéficiait plus des ressources externes en provenance des maisons-mères. Ce risque est considéré par la BNR comme très faible, mais il ne faut pas négliger la situation fragile des grandes banques européennes, beaucoup plus touchées par les différents crises : exposition aux crédits subprimes, mais aussi à la dette souveraine européenne. Ce risque pourrait devenir réalité dans deux cas de figure :

  - Si les maisons mères subiraient elles-mêmes des crises de liquidité, donc ne serait plus en mesure d'accorder ces lignes de funding de long terme[*]
  - Si les maisons mères, dans une gestion prudente de la liquidité, demanderait aux filiales de devenir autonomes au niveau du funding (ce qui pourrait bien arriver considérant les difficultés rencontrées par les maisons mères à respecter elles-mêmes les ratios de liquidité)

L'étude de Lehman A., Levi, M., Tabak va dans ce même sens, ils estiment que la dépendance des institutions bancaires de l'Europe Centrale et de l'Est du financement fourni par leurs maisons-mères est un facteur de risque important dans le cadre des nouveaux ratios de liquidité Bâle III. Ils mettent en avant également le fait qu'à aujourd'hui, le comité de Bâle n'a pas rendu publique la composition des actifs considérés comme liquides.

Par conséquent, la prépondérance du financement des actifs long-terme par des ressources court terme risque de poser problème lors de la mise en place du ratio NSFR, prévu en 2018, encore

[*] Il est à noter que les maisons mères ont encore plus de difficultés que leurs filiales à respecter les ratios de liquidité de Bale III. A titre d'exemple, à mi 2012, aucune banque française ne respectait le ratio de liquidité court terme (LCR). Source : AMF (Autorité des Marchés Financiers)

plus vue la part que représentent les crédit à long terme dans le financement de l'économie (57%). Ce ratio risque de baisser dans les années à venir, se traduisant par une transformation du business model des banques opérant sur le territoire roumain vers un raccourcissement progressif de la durée des crédits, si le ratio de liquidité long-terme est maintenu dans la forme actuelle.

CONCLUSIONS

Nous avons analysé dans cet article les évolutions ayant conduit à un besoin accru de réglementation et les différents réformes adoptées par le comité de Bale. Nous avons démontré que ces nouvelles règles auront des impacts significatifs sur l'industrie bancaire européenne, car elles modifieront le business model des banques. En revanche, l'impact sur l'industrie bancaire roumaine apparait comme limité. Effectivement, le secteur bancaire roumain est très bien capitalisé, suite à une recapitalisation effectuée par les maisons-mères à partir de 2008, et respecte déjà les nouveaux ratios de solvabilité Bale III. Nous avons néanmoins identifié des zones de risque au niveau des ratios de liquidité, puisque l'industrie bancaire roumaine est fortement dépendante du financement extérieur fourni par les maisons mères et pratiquent une transformation d'échéance assez poussée. Le risque de liquidité pourrait se matérialiser si jamais les maisons-mères avaient elles-mêmes des problèmes de liquidité et se voyaient dans l'incapacité d'octroyer les lignes de « funding » à leur filiales, ou, dans une stratégie de gestion préventive de la liquidité, elle demanderaient à leurs filiales de devenir de plus en plus autonomes au niveau du funding.

L'impact sur l'économie dans son ensemble devrait être assez limité, du moins c'est ce que laissent penser les principales études provenant des organismes internationaux (BRI, FMI et OCDE). Le Groupe d'analyse Macroéconomique (Macroeconomic Assessment Group – MAG), dans un rapport publié en 2011 (BRI, 2010a), conclut sur un impact relativement modeste des nouvelles règles Bale III sur la croissance : le PIB devrait baisser de 0,22% en dessous de son niveau d'équilibre le 35ème trimestre après le début de la période d'implémentation, suivi d'une période de reprise pendant laquelle l'impact se positif et s'élèvera à 0,03%. Ces résultats sont obtenus en considérant que les banques vont appliquer les ratios minimums demandés par le régulateur. Si les banques choisissaient d'implémenter les règles sur une période plus courte ou de dépasser les ratios minimums – notamment en réponse à la pression exercée par les marchés ou pour suivre les compétiteurs qui s'engageraient sur cette voie – les résultats risquent d'être légèrement plus sévères. Bien évidemment, comme dans tout exercice d'estimation, les résultats dépendent des hypothèses retenues. A titre d'exemple, certains facteurs, comme la capacité des banques à modifier leur « business model » en réponse à la réglementation, le développement des canaux non-bancaires ou la réceptivité et l'intérêt des marchés à acquérir les nouvelles actions émises par les banques – n'ont pas été modélisés dans ces travaux.

Le FMI a également effectué des travaux sur l'impact macro-économique de l'adaptation des banques aux normes réglementaires de Bâle III (Roger et Vitek, 2012). Les résultats sont compatibles avec ceux du MAG.

Reste à savoir si Bâle III répondra à son devoir primordial, à savoir celui de contenir le risque systémique et de renforcer la résilience des banques devant des chocs, tout en limitant la transmission de ces derniers à l'économie réelle. Les recommandations de Bâle III représentent certes une avancée et apportent des éléments novateurs, il faut toutefois admettre certaines failles, notamment le caractère de recommandation, l'absence de régulation du système bancaire parallèle, la non réglementation de la titrisation ainsi que l'hésitation et l'attardement dans la mise en place des règles, permettant aux lobbyings bancaires de réagir et de repousser, voir annuler l'application de certaines réglementations.

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Annexe 1 : Composantes du ratio LCR

Numérateur

Nature des actifs très liquides	Pondération	Limite
Caisse et réserves auprès de Banques centrales	100%	pas de limite
Titres émis et garantis par des Etats ou des entités publiques pondérées à **0%** dans le ratio de solvabilité Bale II (>= AA-)	100%	
Titres émis et garantis par des Etats ou des entités publiques pondérées à **20%** dans le ratio de solvabilité Bale II (>= BBB)	85%	**Max. 40%** du total des actifs très liquides
Corporate et covered bonds notées minimum AA-? Décotées de 20 ou 40% et sous respect de certaines conditions	85%	

Dénominateur

Flux	Nature	Produit	Taux de décôte (hypothèse de perte)
SORTANT	Clientèle de détail	Dépots stables	5%
		dépots moins stables	10%
	Contreparties hors institutions financières	avec une relation opérationnelle	25%
		Autres	75%
	Institutions financières	Activités de conservation, compensation, reglement et gestion de trésorerie	25%
		Autres	100%
	Lignes de crédit (la part non utilisée)	Clientèle de détail	5%
		Autres contreparties	10%
	Facilités de liquidité		100%
	Besoins de liquidité résultant : - d'une dégradation de la notation de la banques -des positions de titrisation - des variation de la valeur de marché des produits dérivés		à définir par les régulateurs nationaux
ENTRANT	Entrées contractuelles relatives à des actifs sains, et pour lesquelle aucun risque de défaut n'a été identifié sur les 30 prochains jours (importance des échéanciers précis des crédits)		

Source: First Finance, BRI (BIS), (2010), « Bale III: dispositif international de mesure, normalisation et surveillance du risque de liquidité », Comité de Bale sur le contrôle bancaire

TOWARD MIGRATION TRANSITION IN ROMANIA*

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Abstract: *Most studies regarding the contribution of migration to development are limited to an isolated analysis of the economic effects of migration. But the migration process is in turn influenced by other processes. So a wider framework including migration and other processes of development would be more appropriate. The experience of South European and East Asian countries have shown us that, during development, countries can change their migration profile from emigration to immigration. The present paper shows the stages of the migration transition experienced by these countries trying to match them with Romania's experience. So, focusing on the case of Romania, this paper examines the evolution of international migration starting with 1990, in the context of the broader transition process, offering prospects regarding a possible migration transition in this case as well.*

Keywords: international migration, development, migration transition, Romania
JEL Classification: F22, O15

INTRODUCTION

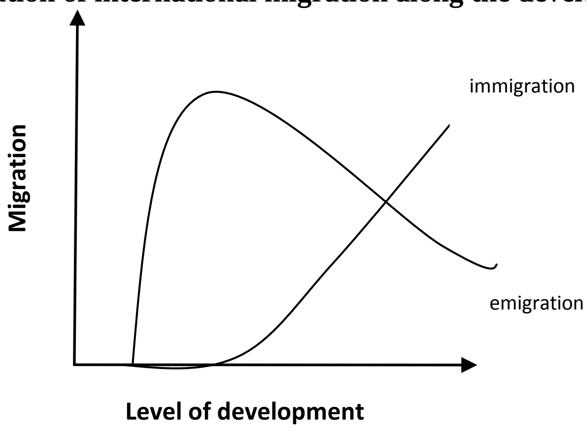
International labour migration has always been and continues to be a controversial process. This is due to the complexity of the migration process, due to the economic effects on both origin and destination countries. Until the '90s the vision upon migration was rather unilateral, either optimistic or pessimistic (see Taylor (1999); de Haas (2007); Castles, (2008); Abreu (2010); de Haas (2012)). Optimistic theories emerged after World War II, considering that migration will cover the lack of existing capital especially through remittances, and that migration will lead to a better allocation of resources, favouring at the same time the convergence of the incomes level until international migration is totally discouraged. The developing countries were expected to follow the same development path like the U.S. and Western Europe, which encountered a transition from emigration to immigration. The migration cycle was appearing to be related to economic development. The transition to immigration was preceded by massive waves of emigrants. The first migration wave emerged during the 19th century, when about 55 million Europeans (between 1820 and 1920) emigrated towards the *New World*- North and South America, Australia and Asia (Hatton and Wiliamson, 1998, p. 4). In the second wave, during the 1950s and 1960s (Salt and Clout, 1976) a massive number of Europeans emigrated from South of Europe (Portugal, Spain, Italy,

*ACKNOWLEDGEMENT**:** This work was supported by the European Social Fund in Romania, under the responsibility of the Managing Authority for the Sectorial Operational Programme for Human Resources Development 2007-2013 [grant POSDRU/88/1.5/S/47646]

Yugoslavia, Greece and Turkey) towards Central and North of Europe (especially France, Switzerland, West Germany and Benelux countries). Starting with the 1970s migration has been regarded with scepticism, considering not only that it had failed to reduce development gaps, but even more, that it had contributed to their enlargement (by both creating a dependency on developed countries and depleting them of the highly skilled and the most dynamic people - *brain drain*). Finally, starting with the 1990s a "pluralist" vision came into being, comprising both positive and negative effects of migration; so, although migration can deprive the country of origin of skilled labour, return migration can regain the lost benefit if emigrants return (*brain gain*), by sharing the experience accumulated abroad and by the economic networks (favouring generation trade flows and foreign investment) created between the destination and the origin country.

Migration complexity and the difficulty of separating it from other social, economic or political processes have led to a global vision that integrates migration between other development processes. In other words, if the population is allowed to be mobile, development will lead itself to migration, first internally and then internationally. It has been shown that during development, emigration is following an upside down "U" shape, being overreached by immigration, while the country changes its migration profile from emigration to immigration (see Zelisnky, 1971 in Gedik, 2005; Martin and Taylor, 1996; Skeldon, 1997; de Haas, 2010).

Figure 1- Evolution of international migration along the development processes



Source: de Haas, 2010.

1. MIGRATION TRANSITION IN SOUTH EUROPE AND EAST ASIA

The case of South European countries (Greece, Italy, Spain and Portugal) represents a recent example of migration transition. For a better understanding of the evolution of the other development processes along with migration, we continue by presenting a systematic analysis of the migration transition process. King, Fielding and Black (1997, pp. 10-13) identified three stages. In the **first stage** (in the 1950s and 1970s) the technologisation of industry was achieved through entering of higher productivity industries from Northern Europe and America, industries that were able to support the export. Population growth and rural-urban migration preserved a high labour supply, keeping wages low and attracting many investments which fostered economic growth. Because the labour was abundant, domestic workers began to look for other opportunities. An important part of the population decided to migrate to Northern Europe, America or Australia. In the **second stage** (the 1970's and early 1980's) wages began to rise (especially in high productivity sectors due to strikes that took place here and due to the fact that entrepreneurs could afford reducing the profit in order to attract labour from other sectors by offering them higher wages), as internal and international migration lead torural depopulation, losing the labour surplus created during the first stage. Moreover, the labour started orientating towards higher productivity sectors, where wages were higher. Along with internal migration, the international migration decreased as well, because of the welfare benefit along with the higher wages. Even more, the unemployed labour had preferred to receive unemployment benefits rather than occupy a low paid job, while the welfare state was beginning to take shape in Southern Europe.

In the last stage - the **third stage** - (late 1980s and 1990s), although the recession had generated more unemployment, the resident unemployed population were preferring, once again, to receive unemployment benefits rather than occupying the lower paid jobs form low productivity industries; these kind of jobs had already been labelled as immigrant jobs (see *labour market dualism theory* developed by Piore, 1979; Massey et al., 1993). Because the domestic population was refusing the low paid jobs, the import of labour force became one of the convenient solutions. So the immigration from the *Third World* has considerably grown, generating the "new immigration" phenomenon and the migration transition in Southern Europe.

A similar evolution occurred in East Asia (Hong Kong, Korea, Singapore and Taiwan) where the economic growth oriented to exports has determined a two distinct stages evolution of labour markets (see Fields, 1994). In the **first stage** (starting after the World War II and until the early to mid 1960's) wages remained stable due to abundant labour supply and increasing employment. In the **second stage**, the labour force stopped being abundant thanks to the international migration and the growing labour demand (along with the continuous economic growth) and the employment reached a high level. The sustained economic growth further increased labour demand particularly in export-oriented sectors. Unlike the Southern Europe where labour markets were segmented, labour markets in East Asia were well integrated and the wage growth in the better paid sectors was easily transmitted to other sectors in order to keep/attract the current/new workforce. While the employment stayed high, wages have continuously increased generating the largest real wage increases in the world (Fields, 1994, p. 12); the real wage annual growth rates were similar with national income growth rates. These large wage increases have led companies to seek other solutions. As long as they could remain competitive through technological changes or importing labour, they stayed in the region. Importing labour, on the one hand, and improving living standards, on the other hand, has caused a migration transition in the region by increasing immigration and reducing emigration aspiration. However, some companies, especially from labour-intensive sectors, decided to relocate their activities in a cheaper labour cost economy. An example is the relocation of companies from the textile industry (Fields, 1994, p. 18). Although initial production centres were located in the northern U.S., they moved to the southern U.S., then to Asia; as wages rose in Japan, this labour intensive industry moved to countries that were at the beginning of the economic boom, like Hong Kong, followed by Korea and Taiwan, then Sri Lanka and the Philippines.

Therefore, the key behind migration transition is the region's population aspirations for better paying jobs, emphasizing the pull factors from the *push-pull model* (see Lee, 1966). In East Asia, well-integrated labour markets have allowed the wage growth generated in some sectors to be easily transmitted to other sectors as well, in order to keep current labour or attract more labour. As a result, working conditions have improved, which discouraged emigration, drawing back the old emigrants and attracting new immigrants. In Southern Europe, labour markets were segmented. Labour market became dual due to native labour aspirations to better paid jobs from capital-intensive sectors and due to abundant immigrant labour from the *Third World* (King and Ribaczuk, 1993, pp. 178-184) that either was working legally (most) or illegally it had received lower wages in labour intensive sectors.

2.PROSPECTS REGARDING A POSSIBLE MIGRATION TRANSITION IN ROMANIA

As we have seen in the cases of South Europe and East Asia, the international migration evolution is closely related to economic development and internal migration (there is a mutual influence). In Romania, after the communist regime had collapsed, we have identified two distinct stages. The **first stage** (1990-2002) started along with the new political regime and it was characterized by high economic volatility, as a result of the implemented reforms (although a trulyeconomic “shock therapy” was implemented later, by the new political coalition governing after the 1996 elections (see Scrieciu and Winker, 2002, p. 8)). The exception was the 1995-1996 period, when the Romanian National Bank managed to ensure financial stability by reducing inflation). The new wave of economic reforms has generated high unemployment once again through the required privatization and reorganisation processes. The private sector could not benefit of a favourable economic environment, so it could not encounter a quick development as to absorb the labour market surplus (Carothers, 1997, p. 4; Neef, 2002, p. 301). Under deteriorating living standards (the high inflation has drastically reduced real incomes), people started to migrate to rural areas where living costs were lower, working in agriculture (after the reinstate of the private property and the lands were given back). Employment in agriculture exceeded employment in industry or commerce. The international migration represented a second choice. After the ethnic international migration in the early '90s, international migration began to grow as migration networks developed.

The **second stage** - early 2000s (after 2002) - is characterized by the success in ensuring a stable economic environment, which has allowed the private sector to attract large foreign and domestic investment flows. After the visas for entering the Schengen Area were not required anymore, the migration substantially increased along with the migration networks development and Italy and Spain became the dominant destinations for Romanian emigrants (Sandu, 2006). The facile access to foreign jobs and the much higher earnings received abroad were attracting more and more Romanian labour, despite the increased labour demand in the Romanian labour market. Therefore, Romanian firms began to face recruitment problems (see Elias, 2007; Cindrea, 2007, GSA, 2008). Romanian labour from the rural areas was rather leaving directly abroad than returning/migrating to the urban areas (Sandu et al., 2004, p. 8). Unemployment has considerably dropped down, and real wages have increased. Labour import solution has become a truly alternative since 2007, when the immigrants were finally allowed gatting paid at the minimum wage level (Business Standard, 2007). The number of immigrants in Romania for temporary or permanent employment sharply increased, from about 3500 people in 2005 to 9000 in 2007 (Oficiul Român pentru Imigrări, in Alexe and Paunescu, 2011, p. 26). The economic crisis from the late 2000 caused the labour deficit to disappear after de labour demand had decreased, and the number of immigrants got to 7000 in 2010.

The annual number of emigrants continued to stay far above the number of immigrants, especially after the visa requirements removal (2002), when it increased from approximately 90,000 persons in 2001 to 140,000 in 2002 and 370,000 in 2006 (estimation by the data provided by Sandu, 2006). The increasing trend is in accordance with the *migration hump theory* (Martin and Taylor, 1996), which argues that when joining a commercial block, even if initially the emigration increases, on the long-run it will fall below the level it would have been reached if the joining had not occurred, as a result of the convergence in the development levels of the two regions. EU accession seems to explain the recent migration in Romania. Therefore, we expect the labour shortage to reappear and wages to keep growing, even with the increasing number of immigrants (and the number of immigrants to overreach the number of emigrants). But this scenario will not roll-on unless Romania continues an alert rhythm of development. Following this development path is neither compulsory nor irreversible and the reversibility of certain processes is possible depending on the relative progress compared with other regions and countries. So, we cannot expect migration to trigger development by itself. De Haas (2012) draws attention to the risk that an optimist vision on migration may distract our attention from the more difficult/important problems, without which Romania cannot succeed in placing itself on the road of development. So, policies addressing migration, like those for attracting more remittances home and to encourage their orientation towards investment will have very limited effect. These kinds of policies cannot be successful without several indispensable conditions for a decent living which, conditions that Romania has yet failed to assure during the transition period after the communist regime had collapsed: a stable economic and political climate to attract investments, an equitable uncorrupted social system and a fair judicial system. These are the most important policy directions in order to embrace development and migration cannot directly do it by itself, so migration does not unavoidably lead to development; it is rather the assignment of national governance. Of course, the relative progress depends on international context as well. For example, in 2011, given the negative economic developments, for the first time in a long while, Spain recorded a negative net migration (Presseurop, 2011). Therefore, migration transition depends on changes in the wider economy and society and internationally and we cannot identify uniform stages of this transition. But it will certainly occur in Romania as well if we will continue to develop faster than other countries. Furthermore, the access of Romanian workers in the labour markets of all EU members will only be fully liberalized by 2014, raising questions about the slowdown in emigration from Romania. The difference of 2.5 million people between the two censuses indicates the magnitude of labour migration from Romania. *Migration hump theory* warns that if migration and trade remain complementary in the long-run, because of a slow development, migration will stay higher than it would have been without trade liberalization, turning into a "migration plateau" (Martin and Taylor, 1996).

CONCLUSIONS

The new theoretical approaches on labour migration are proposing a broader view that places migration within the broader processes of development, considering that development leads by itself to migration and the evolution of migration during development can be transposed to a upside down "U" shape. In the long run, the immigrants outnumber the emigrants and the country of origin becomes a country of destination - migration transition occurs. Following the examples of South and East Asia, we have identified some common elements of migration transition. As urban areas develop more and more export industries, labour demand increases, generating a massive rural exodus. These flows are higher than the job creation, which determine them to leave abroad. As labour supply does not meet the growing demand from urban areas anymore (due to rural depopulation and international migration) wages are starting to rise. With the wage increase, companies have three alternatives: improving technology, importing labour or relocation. Labour import becomes a viable alternative, especially for the low-paid jobs from labour intensive sectors, as the local population becomes increasingly oriented to the higher paying jobs. Rising living standards, as real wages increase, further encourage immigration while the emigration becomes more and more unattractive and the country changes its migration profile.

In Romania, the urbanization process was largely accomplished during the communist regime. Afterwards, during the transition period, the living standards had deteriorated so much that urban population started to return to rural areas. The economic growth after year 2000 increased the labour demand, but it did not manage to bring back labour from rural areas who was already preferring to emigrate abroad, being attracted by the much higher wages. A labour supply deficit was generated, raising wages and attracting more immigrants. The deficit disappeared during the recent economic crisis. Considering the migration transition in South of Europe and East of Asia, we expect the economic recovery after the crisis to further increase salaries, and the phenomenon of immigration to start growing again, transforming Romania into an immigration country on the long run. Therefore, we must focus on creating an attractive business environment and ensuring a high-quality education. Employment opportunities for high-wage jobs will motivate Romanians to extend their study, leaving unskilled jobs for immigrants from poorer countries. But it will happen only if Romania will be able to encounter rapid economic growth as before the crisis. Providing a truly functioning market economy for creating a strong competitive environment should represent the main priority of Romania along with the consolidation of a just judicial system. Migration cannot generate these changes by itself, so it is governance assignment to do so. If living conditions continue its fast improvement emigration will certainly start to decrease, in turn immigration will increase and the migration transition will occur in Romania as well.

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LIMITS AND DIFFICULTIES IN IMPLEMENTING THE STRATEGIC TRADE POLICY

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Abstract: *This paper provides a critical analysis of the strategic trade policy, in terms of limitations and difficulties involved in its implementation. Even there are many arguments used by its supporters for justifying the importance of this type of measures, it is impossible for the state to formulate useful interventionist policies, given the empirical difficulties involved in modeling markets with imperfect competition. Also, any potential gain created by government intervention can dissipate through the entry of new firms, stimulated by the possibility of such profits, while the need of a general equilibrium increases the difficulty of interventionist process. There are also some risks induced by using strategic trade policy, the risk of retaliation and a trade war with the country affected by the measure and the diversion of government intervention by certain interests, transforming it into an inefficient income redistribution national program.*

Keywords: strategic trade policy, free trade, retaliation, trade war, general equilibrium, interest groups
JEL Classification: F12, F13, F42, E61, E20

INTRODUCTION

From classics to the eight – nine decade of the 20th century, the idea that a country gains from international trade, no matter what the conditions are, was one of the truths to which all economic specialists have been reporting (Krugman, 1987, p. 131). The international trade theory relied, almost entirely, on *comparative advantage* – the distinguished feature that advantages countries involved in commercial trade. But the traditional theory of international trade, especially the Ricardian Model, imposed a series of restrictive conditions to the international trade analysis, like the hypothesis of perfect competition and constant yields, the majority of economists considering that they can formulate conclusions regarding the international trade by reporting to perfect competitive environments (Richardson, 1990, p. 108). But in most of the cases the reality contradicts this kind of presumptions. Most of the markets are not in perfect competition, rather in imperfect competition (e.g.: monopolistic competition, oligopoly and monopoly). Under these conditions, firms achieve economies of scale; they register increased yields, increased incomes higher than the growth rate of the production volume (Burnete, 2007, p. 137).

In the last decades, specialists have turned their attention towards the reconfiguration of international trade theory, by taking into consideration the growing yields (respectively, of the economies of scale) and the imperfect competition, the quantitative side being emphasized through the creation and use of operational models. Among them, we can mention: Lancaster (1980), Krugman (1979, 1981), Dixit and Norman (1980), Helpman (1981) and Ethier (1982), the new theory of international trade entering with models that use imperfect competition in order to show that economies of scale can create trade and that they can be the source of some trade winnings, with comparative advantage, a first synthesis of these ideas being made by Helpman and Krugman (1985) (Krugman, 1989, p. 1).

The new trade theory offers some reasons for which the governmental intervention in international trade can be attested as being beneficial (Krugman, 1989, p. 2). The rhetorical question *Has the time of free trade passed?* launched by Krugman (1988) seems to be a challenge addressed to the classical theory, underlying a fundamental change of the vision and arguing, somehow, about the necessity of elaborating a new theory, adapted to the structures and characteristics of the contemporary international trade (Burnete, 2007, p. 136). As long as the imperfect competition and increased yields are becoming indispensable notions in explaining the international trade, “today we live in a world of second grade optimum, in which governmental intervention can, in principle, improve market results” (Krugman, 1987, p. 134).

In essence, according to the new theory of international trade, the optimality of free trade must not be generalized; the benefits level gained from free trade depending on the economical structure, on the existence or non – existence of distortions. If distortions exist, the well – being can be enhanced if governments apply some measures such as custom taxes, contingency, subsidies etc., in order to counter the negative effects of the distortions (Burnete, 2007, p. 136).

1. ARGUMENTS IN IMPLEMENTING THE STRATEGIC TRADE POLICY

Some could be suspicious and consider that it is all about a mercantilist resumption tight to the optimal tariffs, to incipient industries, to the strategic importance of the industry, all decorated under the new shape of the international strategic competitiveness. Indisputable all this old arguments are admitted. But new ones appear, like the strict analyses of threat and commitment power, models more compressive regarding the entry and exist of the firms on the market; the research – development activity, incentives, economic evolutions, etc.; educative generalizations on coalition formation, retaliations, negotiations etc.; the challenging evidence, maybe even convincing, regarding the role of the government in the promotion of what, for example, the gain of the most important national cooperation from Japan and the new industrialized countries mean. (Richardson, 1990, p. 111)

The vision of the new international trade considers that in the explanation of the international trade, a more important role than the comparative advantage is the one of the economies of scale, while the international markets are characterized, mainly, through imperfect competition. This new approach suggests two arguments against free trade, a new one, regarding the *strategic trade policy* (states that the governmental policy can influence the conditions under which the competition on a oligopoly market takes place, determining that a share of foreign companies profits to go towards household companies), and a old one, according to which the state should favor those branches that create *externalities*, especially through knowledge generation, something that firms could not do it in an appropriate way.

The strategic trade policy is defined as being the governmental policy (use of simple subsidies, low interest rate loans, the promise of buying a big share of production, but also the establishment of quality standards that support the autochthonous firms) applied on the international oligopolistic markets, which try to forward high profits towards local markets. Cohen and Zysman (1987) tie the strategic trade policy to industrial policy, including it in the multitude of industrial policy analyzed variants; together with Lipsey and Dobson (1987) and Krugman`s representative papers (e.g. the one from 1986), represent a consistent introduction to the political economy of strategic trade policy and of industrial policy (Richardson, 1990, p.110).

Brander and Spencer, in two of the pioneer papers relevant for the current paper (1983, 1985), proved that state measures, e.g. export subsidies and import restrictions, can in some conditions prevent foreign firms to compete for markets that offer the possibility of some potential profits. In this context, government policy plays the same role as the strategic action of the company plays (investment in additional production capacity, allocation of substantial amounts for research – development, etc.) in the oligopolistic competition models. In Krugman`s vision (1987, p. 135) this is how the strategic attribute can be associated to commercial policy.

The idea that it is desirable to divert from free trade in order to encourage activities that bring additional benefits and that the protectionism can bring in such circumstances benefits is not new to the conventional international trade theory (Corden, 1974). Eventually, it can be appreciated that the new theory offered, at least, the appearance of a greater concreteness of the theoretical approach concerning the government intervention in order to obtain external benefits. The arguments of strategic trade policy are preferred especially to those without economic studies, taking into account that some condemned ideas that are considered wrong by the majority of the international trade theoreticians seem to have sense (Krugman, 1987, p. 136). In defense of free trade, many economists underlined the weakness of the strategic trade as a basis for the government intervention in this field.

The positive approach within the consumer's new theory, according to which a huge part of the international trade presents increased economies of scale and numerous international markets being characterized by imperfect competition forms, has enjoyed a rapid acceptance among economic specialists and theoreticians. In the same time, however, the normative side, a greater degree of government intervention in international trade, has generated opposition and criticism, even from some of the creators of the new international trade theory (Krugman, 1987, pp. 138-139).

2. DIFFICULTIES IN IMPLEMENTING THE STRATEGIC TRADE POLICY

According to Krugman (1987), the critical perspective underlines three main components. The *first* one is connected to the fact that it is impossible for the state to formulate useful interventionist policies, given the empirical difficulties that a market with imperfect competition implies. The *second* set of critics argues that the possible gain obtained due to government interventions will dissipate through the entry of a new firm, attracted by the possibility of such a profit. *Third*, it is argued that those considerations tight with the general equilibrium increase the difficulty of interventionist policies process and make it unlikely for those policies to produce more good than harm.

The reality is that the economists do not have at their disposition safe and trustful models, concerning the behavior of such markets in different situations. For example, the commercial policies effects applied in industries with imperfect competition may depend on the behavior of cooperative or uncooperative companies, as Eaton and Grossman (1986) stated. Moreover, on many oligopolistic markets, firms take decisions in a multi-level game context, whose rules and objectives are complex and hidden even from the decision makers. The lack of this kind of information can make governments to invest in a disastrous and costly grant program, e.g.: as the Airbus A300 grant against Being 767. The European authorities have given to this European company a subsidy in a form of a low interest loan - $ 1.5 billion, but it came as a loss regarding the launch of the A300 (DeeCarlo, 2007, p. 4).

Starting from the premise that the government would be able to overcome the empirical difficulties in formulating a interventionist policy, the taken measures could remain without effect, an increase corresponding the national income will not be reached if these gains will dissipate trough new market entries. In the previous example regarding the commercial strategic policy used to ensure the achievement of increase returns, the market allowed the existence of a single market producer, which made that the reasoning be simpler. Let us assume that the market can support more bidders, four or five, enough so that the constraint would not have any effects, and the free entrance of the market to set aside the potential over profit afferent for a monopoly position. In this situation, as Horstmann and Markused (1986) and Krugman (1987) showed, even if subsidies succeed with discouraging the foreign competition, it will be transmitted to foreign consumers rather that ensuring additional gains to national producers.

One of the contemporary realities, a constant presence of debates caused by the recent economical – financial crisis and by the sovereign debts, is the fact that the national budget is a limited one, the induced constrains putting a mark on the government's ability to apply measures proposed by the new theory of international trade. A country will never be able to protect or subsidize all economic sectors. Any intervention measure in an industry, whether it is related to strategic character motivation or to externalities creation, will use resources that are diverted from other possible uses in other sectors. This makes the state more responsible in formulating only those policies that do more good and harm.

In terms of strategic trade policy, when a particular sector receives a subsidy, companies in this sector have a strategic advantage against foreign competitors. However, the expansion of the favored sector will attract new production factors, increasing the price of utilized resources in other branches, placing the firms that activate inside in a strategic disadvantaged against foreign competitors. The gained increased yields in the favorite sector will be, in a certain way, offset through the decreased efficiency in other industries. If the government chooses wrong the branch that will be favored (the extra gain will not compensate the efficiency from other sectors), everything will lead, actually, to a national income decrease (Krugman, 1987, p. 140).

In essence, we can say, that in order to formulate a successful strategic policy, a government should understand not only the effects of such policy over the concerned industry, something that is difficult anyway. The good understanding off all branches that form that specific national economy it is also necessary so that the fact that a winning advantage in an industry attracts a cost disadvantage in another branch can be understood. Therefore, the difficulty or the informational burden increases even more. Commercial policy measures related to a good affect inevitably other goods (McKay and Milner, 1997, p. 1898).

The governments do not have complete information, but they also do not lack any data. Note that in addition to the lack of information regarding the effects of their own measures, data regarding the possibility of governmental intervention from the competing state are also missing (Brainard and Martimort, 1992, p. 29). But surely, the requirements concerning the general equilibrium must increase the attention and precaution level concerning the formulation of such policies. But to say that is hard to formulate correct interventionist policies is not a sufficient argument in favor of free trade (Krugman, 1987, p. 141), this being only a part of what new interventionism criticism means. But what if we would have enough information, would not then the problem of how governments obtain this information be underlined? It is important to underline the concerning model and mechanism character through which companies give this information to the government (Creane and Miyagiwa, 2008, pp. 230-231).

Krugman (1987, p. 143) considers that the limits presented by the new international trade theory from the benefits point of view, brought by the state intervention, justifies a return to free trade, which would be recommended not because markets work efficiently, but because the policies can be as imperfect as markets. If the profits obtain from government intervention would be high, it would be hard to explain why is not good to put all efforts in obtaining this gains. The limits analyzed above make that this potential gain be limited with the price of a sophisticated interventionism.

3. RISKS INVOLVED IN USING THE STRATEGIC TRADE POLICY

One of the most important concerns of the economists is tight to the reality that when we discuss about policies that affect the income distribution, the decision – making process will be dominated about the distribution aspects and less about efficiency (Krugman, 1987, p. 141).

Krugman (1987, p. 141) states that in case of interventions related to trade, this concern is manifested at two levels. *First*, if the policies are reliable, there is a retaliation risk and a commercial war with the less favored country because of the measure taken. *Second*, internally, the effort of being efficient through governmental intervention can be hijacked by certain interests and transformed in an inefficient redistribution program of national income.

The strategic trade policy aims to ensure increased returns of national firms and to support branches believed to bring important benefits to the national economy. Since all these gains are achieved at the expense of other states companies, there is a risk that the use of this kind of instruments can cause retaliation. In many cases, although not in all the situations, a trade war between two countries taking such measures will bring them both in a much unfavorable situation than in the situation in which none of the countries would get involved.

Krugman (1987, p. 142) suggests as an example the case of European telecommunication equipment industry, one characterized through oligopoly and as a potential source of positive externalities in favor of other branches. It is a sector in which the company's acquisitions owned by the state obviously favor the national products, being able to speak about protectionist measures, which do not violate the international agreements regarding international trade. The result of this kind of measures is, most of the time, unfavorable to all the market actors. In an attempt to cover the domestic production as much as possible from the necessary of equipments, each country prevents therefore specialized companies to register economies of scale, possible if firms could address to the European market as a whole. Therefore, the reports between European countries, from the telecommunication market equipment point of view, as in other similar sectors, is similar to *prisoner`s dilemma*, where each country decides to interfere by favoring the acquisition of goods produced on the domestic market, than to remain the only country that does not interfere, although it is clear that they will win if nobody will interfere.

The solution to avoid this kind of traps, as in prisoner`s dilemma, is to establish rules of the game for policies, in order to maintain the potential unfavorable actions impact at a minim level. To function, these rules have to be simple enough and clearly defined. The free trade is a simple rule, being easy to see it when a country practices custom taxes or imposes trade barriers for the movements of goods. The new international trade theory considers that this is not the best rule to choose. Still, is really hard to elaborate simple rules that offer the best results. Therefore, as long as the gains from applying sophisticated interventionist measures are small - the critic brought to the new protectionism, it is obvious that free trade is more reasonable, hence the risk of a new trade war can be prevented (Riveiro, 2008, p. 1184).

It is well known that public authorities do not serve always the national interests, especially when the economic interventions take place at a microeconomic level, where the influence of pressure groups is much stronger. The intervention types proposed by the new international trade theory that implicitly a strategic trade policy presumes - said to increase national income, are most likely to significantly increase the welfare of small groups, on the expanse of larger and diffuser groups. Therefore, in the case of such interventions, it may happen that an excessive measure or, even a wrong one, to be taken just because potential beneficiaries are more informed and have a bigger influence than those who lose. Krugman (1987, p. 142) brings into attention, e.g., the case of commercial policy applied by USA of sugar and timber, but it is certainly not a singular case.

How can be solved the problem of interest groups and the influence exercised by them in the decision – making process regarding the governmental intervention regarding the strategic trade policy purposes? The answer is simple, as in the cases analyzed in the previous section; the solution is to establish the rules of the game which are not too inefficient and sufficiently simple in order to be applicable. To ask a trade authority or other responsible authority to ignore certain interests with political character when they form commercial policies is unrealistic. The best solution is the establishment of free trade, as a general rule, possible to be violated under extreme pressure conditions, which may not be the optimal from the new international trade theory point of view, but it would be the best solution in the risks mentioned above would be present.

CONCLUSIONS

In the new international trade theory, the role of the state was redefined, most adherents of this view considering that the government should be involved in supporting those industries that create positive externalities, favoring companies that operate in that industry, and in changing the reports between national and foreign companies on the oligopoly markets through strategic trade policy. It is important to underline that the strategic attribute it is not tight to the importance that some certain branch would have in a national economy of a certain state, but to the fact that the state interferes in the competition between companies, the measures taken by the governmental authorities having the same effect as a strategic move that a company makes on the market. It can be noticed that a relationship with strategic character is a prerequisite for the successful implementation of the strategic trade policy, meaning that the company profits are directly affected by the strategic decision on the market.

Using the strategic trade policy is not such a simple approach as it seems the literature and the experience underling the existence of some uncontested limits concerning its implementation. Among them, the most important, are the empirical difficulties regarding the measurement of the impact that this kind of measures would have on a oligopoly market. Hence, it becomes very important the access to the information, but sometimes not even that is enough. On one hand, there is no guarantee that the stimulation of a producer on a market will have the desired effects. Likewise, the company interaction on an oligopoly market is based on game theory, the firms being put in the situation to decide as a response to strategies chosen by competitors and so on. There also exists the possibility that other governments would interfere with stimulation measures of national firm exports, situation that changes the date's problem and cancels the accuracy of any calculation made above.

It is possible that the action of such influences would affect the choosing reasoning of the branch that would be supported so that the resources would not be utilized in an optimum way. The existence of these risks require a careful analysis of whether to use the strategic trade policy opportunity, often free trade and the avoidance of losses from the above mentioned reasons being more efficient.

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GLOBALISATION – ADVANTAGES AND DISADVANTAGES FROM THE PERSPECTIVE OF THE MANUFACTURER*

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Abstract: *Years ago, at the beginning of the nuclear age, Einstein asserted that the atomic bomb would completely change the world. Currently, the same can be said about globalization. Globalization, the phenomenon which especially affects economy and life, is now one of the most debated topics in history: lectures, articles, books. Worldwide specialists in economics, politics, and sociology have analyzed in thousands of pages the phenomenon of globalization, its forms, evolution, impact and trends, but the views are so diverse and contradictory that it still is not reached even a universally accepted definition. Perhaps it is the so controversial topic that makes him so attractive. If some persons believe that the phenomenon of globalization ends before reaching its peak, others consider that the current situation is just the beginning of an era in which there are no boundaries.*

Keywords: advantages of globalization, disadvantages of globalization
JEL Classification: F01, F02

INTRODUCTION

The size of the companies has become a key parameter, especially in the global economy. The size of global companies is closely correlated with the decrease of vulnerabilities, with the high resistance to economic shocks occurred along the time and with their bigger chances of success on certain markets. The companies aim not only to optimize their size but also to strengthen the global production networks, affording them a better competitive position, in a mighty competitive environment and under the pressure of rapid development of the technological environment. The size of a company has become a barrier that stops its entry into the sector, higher than profitability, which explains why some corporations have focused, in recent times, more on strengthening their position abroad, although their economic performance does not justify this endeavour.

The process of economic globalization is both a resultant of the increasing activity of multinational companies and a cause of their increasingly stronger internationally affirmation. Although global companies' activity is much more intense in the developed countries, their impact

* ACKNOWLEDGEMENT: This work was supported from the European Social Fund through Sectoral Operational Programme Human Resources Development 2007-2013, project number POSDRU/1.5/S/59184 „Performance and excellence in postdoctoral research in Romanian economics science domain".

on the developing countries must not be neglected. Amid the diversification and globalization of production, the added value of activities carried out abroad has grown rapidly higher than the domestic market.

In an editorial in the British magazine „The Economist" on January 27th, 2000, it was stated that multinational firms, one of the most representative contemporary factors of economic progress, „spread the wealth, work, advanced technologies and contribute to raising the standard of living and to the improvement of the business environment ...being the most visible side of globalization" (The Economist, 2000).

Although there is still no universally accepted definition for international companies, some are used and accepted globally. Among them, the definition given by C.A. Michalet who considers the multinational corporation as „an enterprise (or group of enterprises) of large size, which has started from a national basis, deploying several subsidiaries in different countries by adopting a global strategy and organization structure" (1985, p. 11).

Regardless of how they are defined, global companies have a few main features that individualize them from all other forms of organisation known so far:

- Global Companies are global economic and financial operators;
- Global Companies operate in a mighty competitive environment;
- The strategies applied by them must be comprehensive and global; the companies must integrate their activity in the multitude of connections between countries, which involves, besides the transfer of assets also the transfer of skills;
- The company should think globally, but act locally;
- Global Companies redistribute worldwide the factors of production; the world's large corporations must obtain advantages in production, marketing and research through the combination of production factors at planetary scale;
- Global companies manifest a strategic interdependence, i.e. multinational firms react at the same time to protect their oligopolistic positions; thus, for the desire to reduce production costs and risks, the large corporations have done international strategic partnerships[*], especially in the field of technology. The first industries affected by this initiative have been the automotive and pharmaceutical industry, followed then by the computers and software, which is why these areas have the most powerful oligopolies. These collaborations are aimed at reducing production costs,

[*] For example, General Motors participates in 105 mixed research companies, Ford in 33, Chrysler in 21, and Ford together with Chrysler are both involved in 19 such companies. IBM is a partner in 69 mixed research companies, DEC in 32, HP in 26.

increasing the flexibility in the assimilation of new generations of products while lowering their life cycle, maintaining their market positions and even using the products brand name to conquer new market segments.

Since 1990, when the index of transnationality started to be used, and up to 1999, it has grown, on average, from 51% to 55%, in particular due to the internationalization of the assets.

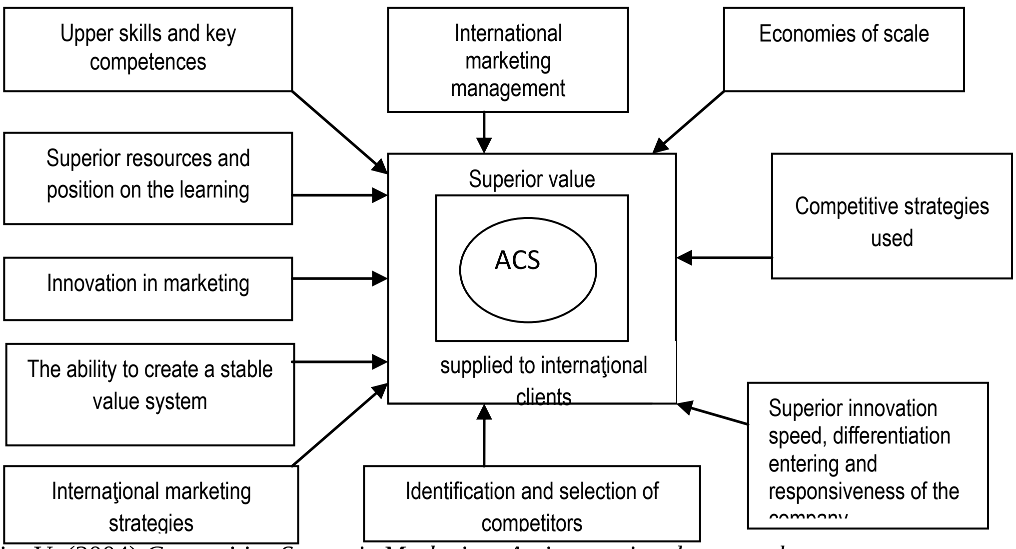
Recent data on the activity of multinational corporations demonstrate the tendency to concentrate the business in the sectors which show the greatest comparative advantages and towards the markets with high potential of demand, boosted by a greater degree of liberalization and openness or those involving a high level of research. The most advantaged are the multinational companies in the field of telecommunications and oil industry.

Strategic competitive advantage (ACS) in international marketing involves the firm to be able to provide to its target market clients long-term value superior to that offered by competitors.

ACS sources are different, according to the concept of multiple specialists. Thus, Bradley (1995, p. 300) includes price, services, speed of delivery, trademarks owned and market responsiveness among ACS sources, Thompson and Strickland (1995, p. 115) consider as ACS sources the following: - the best product, superior service, lower costs, own technology, less time for creating and testing new products, brand and reputation, more value provided to purchasers, and Jobber (1998, p. 501) considers as main ACS sources the superior qualities of employees, firm resources and value chain.

Danciu (2004, p. 33) proposes the ACS GAP, systematized in the following scheme:

Figure 1 - ACS GAP



Source: Danciu, V. (2004) *Competitive Strategic Marketing. An international approach*

Compared to traditional marketing, global marketing involves fulfilment of additional conditions (Danciu, 2005, p. 25):

- International marketing requires professionals with a vision that goes beyond the one developed on the domestic market. We need both a global managerial vision and employees with an attitude favourable to wide actions. Managers and marketing specialists must be innovative, open to new, assimilating new knowledge and inedited solutions and versatile enough to successfully solve problems that occur in macro environment conditions or in a variable and dynamic market;
- Marketers must have the ability to seize the differences and similarities between markets and groups of markets, between segments of customers. The ability to identify markets common elements and differences enables managers and executive staff to be more flexible, to standardize or globalize different components of marketing, when necessary. Both standardization and adjustments must meet the conditions existing on the target markets, starting with the segments of the market, choosing target markets, strategies and forms of entering and positioning on such markets, continuing with the marketing development plans and organizational structures, and ending with operative programs which include marketing mix.
- Developing global marketing processes and programs requires special knowledge and information. It is essential to identify, locate and access international information sources; the rules of international comparability must be learned and it is critical the powerful, careful and competent selection of the information to be used.
- Global Marketing requires obtaining a synergistically effect, through the use of intelligent and coordinated specific factors.
- International business environment includes all the forces and actors, all factors, agents from the country of origin and on the foreign markets, other than marketing, which affects its ability to achieve its objective of international marketing. The international environment has the following features:
  - *Complexity*. The international environment is composed of various forces, actors and agents which manifest in forms and intensities that are fundamentally different. Factors such as cultural, social, economic, political, legal, environmental, technological make their presence felt, whenever a company addresses a new market;
  - *Diversity*. Between the components of the international environment, there are numerous and important differences. Differences in terms of development, number and a real concentration

of population, consumption or religious habits appear at the level of a single country or continent, region;

– *Interdependence.* The independent nature is the result of connections established among various components of environmental structure, mutual influences and conditioning. The economic situation in a developed country influences not only the domestic currency and foreign investment, but also the currencies, foreign trade situation of the countries which it works with;

– *Dynamism.* The international environment is in constant change both as a whole and a ratio between its components.

Another dilemma that global producers have is whether to be a global brand – a single name, symbol and slogan, with joint ventures all over the world – or a name should be adapted and used in various versions in different countries

Leaders in management, such as Theodore Levitt from Harvard and Kenichi Ohmae from McKinsey, Japan have argued in favour of some products and global marketing efforts. They have noted that the tastes and lifestyles are becoming more homogeneous across the world, partly due to television, travel, but also due to the spread of people with money. Accordingly, an efficient and attractive product in an area will be most likely effective in other areas, too. Furthermore, all the areas want and ask for the best quality and most advanced attributes (Aaker, 2005).

An argument in favour of a global product is that you can make savings on a large scale; in the process of production and design, some economies of scale do not depend on the existence of a global brand. However, you can make substantial savings on a large scale in the field of advertising, promotions, packaging and other aspects of the brand which will be affected by a policy of firm in favour of global branding. Brand development costs could be spread over a larger market. Another aspect is that smaller markets will have access to achievements involving larger budgets.

A global brand can benefit hugely from gaining recognition when buyers travel abroad. The presence of advertising and distribution may have an impact on the visitors in that country. Another issue involves the media coverage, which does not take account of borders anymore. In this case, a global brand can buy time for exposure in a more efficient way.

A global brand may have some useful colligations. Just the concept of globalization can provide the ability to generate competitive products along with the quality of remaining strong and stable. Such an image can be particularly important for high-priced industrial products or for durable products, where there is a risk that a product is not reliable or be overtaken technologically by competition.

In the case of a brand which is famous in a country, its global name provides a colligation with that country. Such colligation is part of the essence of the brand; for example, *Levi's* means jeans in USA, *Channel* means French perfume, *Dewar* means Scottish whiskey. In such a context, a global brand will tend to worth the effort*.

Even if the name is not famous on the market, its constraints along with its symbols and colligations are very high in all countries. Most of the names can have negative colligations or may be someone's property in some countries.

A local brand can benefit from some distinct colligations, which can be useful - even essential. Is there any tendency to buy local products? Are there any other favourable feelings towards traditions or the specific of areas that can be integrated in the strategy of positioning the brand? Does the global brand have negative colligations locally due to its undesirable meaning in some countries? A global colligation might not be suitable for certain countries due to the competitiveness.

On the local markets, marketing departments could generate better ideas than global efforts, which are made with large budgets. In addition, ten different ideas from ten countries are more likely to end in something of quality than a single "global" idea, even if the global idea has been created with a big budget and with the best people.

Table 1 – Global Brands versus Local Brands

Global Brands provide:	Local Brands provide:
• Scale savings in advertising development, packing, promotion • Exploiting global presence in media and exposure to buyers who travel • Colligations with a global presence and a mother country	• Names, symbols, and colligations that can be developed locally and tailored for the local market and selected without the constraints of a global brand • Reducing risks through colligations with the feeling „Let`s buy local products"

A common and frequent mistake is to consider globalization as a proposal of the kind: "all or nothing". In fact, globalization may involve some elements of the brand - name, symbol, slogan, perceived quality or colligations, but it is not necessary to involve all.

*Aaker, David – Capital management of a brand. How to value a brand name. Brandbuilders Grup, Bucharest, 2005

1. ADVANTAGES OF GLOBALIZATION FOR THE MANUFACTURER

For the manufacturer, globalization can mean an opportunity to take advantage of scale, to exploit synergistic benefits, to benefit from geographical advantages and from the advantages of own market power.

According to the theory of the scale economy, the average cost per unit decreases as the amount of goods or services provided increases. Expansion abroad and growth of the business are the main strengths to getting benefits of scale, thus achieving significant cost reduction for the unit cost of production, sales system costs (sales, marketing), and supply costs incurred. In this way, there is an intensification of the process of exploiting the results of the research and development activity while innovations are promoted. One can say that new possibilities for reducing prices are available, by means of which the company maintains its competitiveness.

Reduction of the costs can be analyzed using the experience curve. The experience curve reveals decreasing of unit costs along with increasing of output.

The range economy involves reducing the unit cost due to the sale of a wide range of products. The advantages are mainly recorded along the logistic chain. In case of extending the range of products one should avoid the negative phenomenon of lower level of quality. Use of the advantage of range appears especially in the case of new conquered markets or in the case production is diversified, when the global company takes advantage of its experience in other markets or for other products. These synergistic effects may also occur due to the relationships with customers, suppliers or foreign technology partners.

The differences caused by the specifics of each region can be profitably used by employing cheaper or better outside factors of production, through movement of production abroad or through imports, representing a third category of benefits arising from globalization.

The globalization of markets accounts for a strong market positioning. Thus, by means of investment or through strategic alliances undertakings may remove certain current or potential competitors. Large corporations have the opportunity to amend the purchase prices, improve the supply conditions or even to monitor international technologies.

Globalization provides advantages to multinational corporations, which includes in their own network the international system of production. These organizations seek to maximize the opportunities offered by the existence of certain factors of production which can be advantageously exploited in different countries. Due to their potential they have a high degree of flexibility, which allows easy modification or change of strategies. In general, globalization gives transnational corporations the opportunity to focus towards the most profitable activities, with a good development trend in the near future

Based on advantages, the thesis according to which globalisation and competitiveness are complementary is developed (Pricop and Tanţău, 2003, p. 23). This is due to the rapidity with which technological changes occur, given the sharp reduction in product life cycle and new orientations of leader organizations towards research and development, activity whose importance is growing. The new technologies are only the starting point of the innovative process, being rapidly disseminated within the multinational company and hence forth, around the world, contributing to increased economic performance in different countries.

As regards to supply, lower costs are the main tasks. According to several specialists, supplying would be the first link of a profit maker chain.

Competition between organizations has led to the technological revolution. The unprecedented development of technique and technology laid the foundations for a new kind of protection, both competitive and fair, taking into account the protection of the environment, the health and safety of consumers. The large transnational corporations have had to establish global standards for environmental protection in order to avoid certain obstacles imposed by regulatory requirements in some countries. These concerns tend to generalise to the world economy, with beneficial effect in particular on "environmental health", as well as on development in general.

2. DISADVANTAGES/DRAWBACKS FOR THE MANUFACTURER

Before taking a decision to launch the company on foreign market, a number of risks that may occur should be considered.

The lack of customer preferences on a particular market may lead to an uncompetitive and unattractive offer to them. Organizations must decide on the type of country on which to focus their attention, taking into account factors such as political stability, external debt, exchange rate stability, bureaucracy, corruption, customs duties and other tariff and non tariff barriers, copyright compliance and costs of adapting the material resources to the specific products of the market concerned.

Political stability is a prerequisite in promoting any foreign investment. One can still feel the negative effects of overturning of certain regimes which throughout history have led even to nationalization processes, lower possibilities of transferring profits in the country of origin of the multinational corporation.

A high level of external debt may require taking action to amend the process of tax and interest mechanism, with negative influences on flat profits operating in these markets. Fluctuations in currency exchange rates also have limited the commercial activity and corporate investment in foreign currencies.

Bureaucracy can be a barrier to global corporations through regulations with reference to foreign capital investment, namely ownership by a local partner of a firm's share capital participation, an important representation of local managers to its management, the need for a transfer of technology and know-how, imposing a quota of processing components locally to replace their imports.

Corruption is a phenomenon with negative implications on the development of global companies. Often, there are cases in which representatives of State Administration ask for money for certain services.

Removing tariff and non tariff barriers is a priority of European integration process to promote business. Customs duties are still used to protect domestic industry, which represent real barriers to expansion of multinational corporations. In the category of non-tariff barriers one may mention the customs import licenses or certificates that limit or delay the development of business.

The phenomenon of industrial piracy is a mass phenomenon, which is especially detrimental to the companies with expensive research and development activity. Global companies must ensure that their products will not be easily imitated and then promoted by low-cost competitors.

Adjusting its resources to foreign market conditions is another factor that should not be neglected. In certain areas the preferences are different from those encountered in the home country of the multinational corporation, and ignoring them can lead to adverse effects in the financial plan and image issues.

The biggest disadvantages of operating globally are as follows:

- Operating in different markets in terms of consumer behaviour, traditions, their expectations and attitude;
- Operating globally may bring a strong competition; in each market the global companies face both the global competitors (with the same financial strength and size) and the local competitors, enjoying the advantages provided by the legal rules of the country concerned, the loyalty of some nationalists consumers and the deep insight into the local psychology respectively;
- Higher expectations from the public: thus, global corporations need to show an interest in environmental protection, human rights, country regulations, a.s.o. Every mistake turns into a huge

scandal, well publicized, followed by boycotts, events and protest marches against them, which causes damage to corporate image and leads to sales decrease;

- Managing a corporation of millions of dollars and dozens of branches across the globe can be difficult in terms of central management; each error management costing millions of dollars.
- Reduced flexibility compared to smaller firms.

CONCLUSIONS

Since future trends can only be estimated, the present shows that we are on track to achieve the so much spoken “Universal Passport”. Conscious or not, to a lesser or greater extent, we are all affected by globalization. Nowadays teenagers are wearing Nike, regardless of their nationality, ladies use Channel, whether or not they are French, the men celebrate major events with Jack Daniel's all around the globe. Barriers raised by nationality, race, culture or religion are overshadowed by new consumer habits, tastes and preferences which are becoming increasingly similar worldwide. And what better proof we need than the fact that the number one symbol in the world is the notorious M from McDonald's, far in front of the Christian Cross?

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AN OUTLINE OF THE EUROPE – SOUTH AFRICA RELATIONS DURING AND POST THE APARTHEID ERA

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Abstract: *South Africa was always a main interest region for European countries. The United Kingdom, the Netherlands, France and many others at lesser extent, tried to establish control over the country due to its special geographical position. On the other hand, since 1948, South Africa had been characterized by a tremendous regime, the so-called apartheid. The idea of this paper is to clarify the position of certain European countries towards South Africa during this severe period for the latest and to outline the major development agreements between the EC/EU and South Africa after the fall of apartheid, since South Africa is an important trade partner for the Union.*

Keywords: Apartheid policy, European Union external relations, development policy, South Africa
JEL Classification: F53, K33, Z18, F54

INTRODUCTION

In a broad sense, European countries have always played a major role in the history of South Africa. From the 15th century, when Portuguese navigators first discovered the coast, European countries interfere more and more in the social, political and economic reality of South Africa. A widespread example of interference which demonstrates the direction of political decisions taken from 17th century and above until nearly nowadays is that of Afrikaners which led to the establishment of the racial discrimination law better known as *apartheid*.

The political position of International Organisations and countries acting individually varies during the apartheid period. Taking into consideration the leading geo-strategic location of South Africa, some of the European countries (basically the United Kingdom) and the United States of America continued to promote their economic interests despite the general animadversion to the racial policies taken in South Africa, an animadversion expressed by the United Nations with many Resolutions.

After the end of the apartheid regime, with the transition to democracy, South Africa's status in the international economic scene rapidly evolved. Being considered as one of the major developing economies, the case of South Africa intrigued the interest of many countries and as a result plenty of agreements with economic nature were signed.

The role of the European Economic Community in the beginning and the European Community/European Union (EC/EU), after the enforcement of the Treaty on European Union (EU), is significant in the apartheid period as well as in the post-apartheid period in South Africa. In the early 1990's the European Union was the major trading partner of South Africa and a strong ally in the development of democracy after the end of the apartheid regime.

This paper will focus on the diplomatic and economic relationship between certain European countries as well as the European Community and South Africa during the apartheid period up to and included the agreements of economic nature that have been signed recently. A brief analysis of the legal basis for the completion of those agreements in the EC/EU Treaties will be provided for the better understanding of the background of decision making process within the European Union.

1. EUROPEAN POLICIES IN SOUTH AFRICA DURING APARTHEID

A brief historical retrospect would be useful for a better understanding of the apartheid regime. Apartheid was a racial based law which was introduced by the National Party after winning the elections of 1948. In short terms, apartheid was based on the idea of superiority of white people over the aborigine black people; a superiority that originated from the time of colonization. The idea of apartheid as a policy firstly appeared in the 1930's and later on was used as a political slogan by the National Party in the 1948 elections. It was systematized under law and started to be implemented within the South African society during the premiership of Daniel Francois Nolan.

Citizens of South Africa were segregated into racial groups (white, black, mixed-color and Asian). For making the implementation of the apartheid regime more effective, the governments of South Africa, especially during the 1950's, inaugurated statutes and acts of law that strengthened the segregation among racial groups. In a more practical approach, the idea of apartheid had developed into a severe reality that nobody could override.

During that period the European countries were struggling with tremendous consequences that were a result of the World War II in both economical and social sphere. Therefore, most of the countries in Europe could not really focus their policy on dealing with problems outside their borders, especially so far away from Europe like South Africa, even though the apartheid matter was put in the United Nations agenda from 1952.

1.1 The decades of 1960 and 1970 - The first steps

South Africa was not a big issue for the new-established European Economic Community (EEC), even though the prosperity development of the European and overseas countries, in accordance with the principles of the Charter of the United Nations, was an objective clearly mentioned in the Treaty of Rome. The position concerning the political process in South Africa was an internal matter of each country in Europe. In the early 1960's the British Prime Minister Harold Mcmillan, during a public speech, criticized the apartheid policy. Despite the harsh criticism that had started to become international, the United Kingdom continued to involve economically in South Africa by applying trade agreements.

The only international organisation that dealt with the apartheid regime in the 1960's was the United Nations, by adopting Resolutions that condemned apartheid (Resolution 1761 in 1962) and led to voluntary arms embargo (Resolution 181 in 1963). While all EEC Member States had implemented Resolution 181, the United Kingdom announced arms embargo in 1964 after the Labour Party came into power.

During the first years of the 1970's there was still not any collective political action on behalf of the EEC. When the United Kingdom entered the EEC in 1973, the Community aligned its position in the case of South Africa as it was generally believed that this matter was more "British" because of the connection of South Africa with the United Kingdom since the colonization period and the membership of the first to the Commonwealth. Meanwhile, the United Nations had moved to the reinforcement of the arms embargo in South Africa by adopting Resolution 232 in 1970, a resolution without any binding effects as the United Kingdom, France and the United States of America did not participate in the procedure. This fact demonstrates the contradictory positions that some of the European countries had adopted.

On the other hand, the pressure on the South African apartheid government was increased on behalf of some countries in Europe. In 1975, Belgium (EEC Member State) stopped providing assistance to its citizens emigrating to South Africa. Furthermore, Spain and Austria ended their visa agreements with South Africa and initiated stricter measures for South African citizens to apply for visa.

During that decade the UN was fighting against the apartheid regime with the adoption of severe measures. The most important were set by Resolution 418 in 1977 which revised Resolution 232 and introduced mandatory arms and oil embargo in South Africa. In the meantime, in 1976, the UN General Assembly had adopted Resolution 3I/6K by which the UN Members were pressed to reduce their investments to South Africa. Another important document was Resolution 33/183 in 1979, which included a proposal for stopping financial loans in the case of South Africa.

The Code of Conduct

The first synchronized attempt on behalf of the EEC came out in 1976 from the President of the Council of Foreign Ministers at that time, the Luxembourgian Prime Minister Gaston Thorn, who explicitly focused on “the condemnation of the policy of apartheid in South Africa”. Therefore, it became quite clear that a common European policy was needed to combat and eliminate the apartheid regime from South Africa; and it had been finally inaugurated. Movements for establishing a new political situation in South Africa were established and coordinated actions were announced in order for the EEC to achieve the target mentioned above. Actions adopted included funding of non-white South African organizations and as a result, facilitating non-white’s people access to education, providing them with medical aid and generally trying to decrease the social inequalities between white and non-white. The position of the United Kingdom in relation with those particular actions was not totally harmonized to this of the other Member States. The UK refused to participate in the funding of the largest non-white South African organization, the African National Congress (ANC) as well as other organizations related to ANC, since the United Kingdom had officially characterised it as a terrorist organization. Once again, the EEC failed to adopt common actions within a specific problem.

It was as late as 1977 when the first and only measure had been employed to achieve the target of removing the apartheid regime in South Africa. Containing a series of guiding principles with regard to the format of enterprise in the apartheid environment, the Code underlined the need of promoting social rights for workers in South Africa, especially fundamental rights like the right to equal pay, the right of non-discrimination in workplace, the right to establish trade unions. As an outcome, the Community firms that wanted to extend their activities in South Africa shall implement those principles.

Although the Code of Conduct enclosed the political will of the EEC to restrict the “doctrine” of apartheid especially in the workplace and to promote the principle of equality and in general, the rule of law in South Africa, much criticism has been flayed concerning the effectiveness of the measure. The major critics were focused on the fact that there was no official EEC institution for observing the compliance of the firms with the Code. As a result, it was part of national competence to monitor the progress of implementation of the Code, something that varied from country to country. From a practical point of view, there were main differences in the way that EEC Member States introduced the Code into their national legislation. Another important weakness of the Code was the lack of sanctions in case of non compliance. That absence gave to the Code a non compulsory character and hence could not deal with the problems in the most efficient way.

To sum up, the Code of Conduct was the first organized attempt on behalf of the EEC to combat the social inequalities in South Africa. In that sense, despite the scarcities that have been mentioned, it demonstrates a political will, which finally transformed into a decision of an international organization of major influence to oppose the apartheid regime.

1.2 The 1980's

During the 1980's the international pressure for the abandonment of the apartheid regime became stronger. Most of the European countries, acting individually, have strengthened their restrictions against the apartheid government. Italy, Denmark, Sweden, France, Portugal, Spain, the Netherlands, Austria, Ireland reinforced their embargo to South Africa in both yhe economic and military field. The declaration of Swedish Prime Minister Olof Palme, who stated that "apartheid cannot be reformed; it has to be eliminated" is evidential of the dominating political opinion in Europe.

Furthermore, the role of the UN became more active during this decade. Restrictions mentioned in Resolution 566 of 1985 became binding to UN Member States "that have not done so" up to that time. Plus, Resolution 569 in 1985 introduced new sanctions against the republic of South Africa.

The European Special Programme

Even though the EEC had already declared its opposition to apartheid, a common political position was difficult to be adopted mainly due to the United Kingdom's main disagreement. In 1985 the Commission proposed measures in both positive and restrictive way. Being pressed by the international environment, the UK finally agreed with the proposal of the Commission which led to the adoption of the European Special Programme (ESP) at the same year. It took the form of a financial aid to people who were suffering because of the apartheid policy and to non violent anti-apartheid organizations. The restrictive way contained a package of restrictions in economic and diplomatic level which will had as an outcome the achievement of Community's ultimate target concerning South Africa: the elimination of apartheid.

A political, commonly accepted, method to deal with this particular issue was difficult to be espoused among the EEC Member States. The United Kingdom insisted on the initial position of "limited economic sanctions", therefore, as it has been argued, the enforcement of the ESP delayed for a few years. Indeed, statistics prove that in 1986 and 1987 the funds disbursed to organizations according to the ESP plan were increased compared to those of 1985. In particular, during 1986 10 million ECU were spent on behalf of the EEC; an amount that was doubled during 1987.

It is a commonplace that further steps were taken against the apartheid rule. EEC Member States agreed in a political framework of actions that must be taken; once again lack of consensus can be observed. This lack of consensus is related to the general political approach that some Member States had adopted with regard to this matter. In order to promote its own economic interests and taking into consideration that South Africa was (and still is) an important investing partner, the United Kingdom had strongly disagreed with the full economic sanction plan and proposed "limited economic sanctions".

On the other hand the Nordic countries and France were strongly in favour of total ban in all ways. Sweden, Denmark and Norway had condemned many times in the past the apartheid system and developed mutual relationships with anti-apartheid organizations like the ANC. As it has been argued by President Mandela "only Norway and Sweden were forthcoming with contributions to the ANC" by providing assistance and scholarships, money for legal defence and humanitarian aid for political prisoners. With the effectiveness of the measures adopted in a Community level being doubted, the EEC did less than it could possibly do.

2. THE TRANSITIONAL PERIOD (1990-1994)

Beyond dispute, international political pressure on the apartheid government contributed the maximum to the downfall of the regime. After 1990, the negotiation procedures started among the leading powers in South Africa (National Party and the African National Congress) for the changes needed for the transition to real democracy. During that period, the apartheid laws were repealed and elections based on the principle "one man-one vote" were proclaimed. As it is mentioned above the EC Member States individually and the European Community (EC) as an organization had put sanctions to South Africa in key areas (diplomacy, military, economy, culture) because of the apartheid. The abolishment of those sanctions was a slow and difficult procedure which started in 1990 after the leader of ANC Nelson Mandela was released from prison.

The first free elections took place in South Africa on 27 April 1994. For the accomplishment of that objective, an assisting mechanism would be needed in order for violent reactions to be avoided and for the credibility of the election process to be guaranteed. The EC supported this emprise by establishing an electoral commission, the EU Electoral Unit, which was constituted by 307 observers including police officers. A very important action on behalf of the Community that demonstrates the political system will try to restore democracy in South Africa.

The outcome of this effort has been characterized as successful. The smooth transition to democracy in South Africa became a top priority for the European Union. Plus, it is of much importance that all Member States agreed to the package of measures that must be adopted for the achievement of that difficult task.

3. PROMOTION OF DEMOCRACY AS AN AIM IN EC/EU: LEGAL BASIS

Giving the definition of what is now described as democracy, the ancient Greek philosopher Aristotle argued that democracy (polity) is “rule of the many for the public weal” in contrast with other types of government in which the power is exercised by one or by the few. The basic element which differentiates democracy as a regime among others is the sense of freedom that citizens enjoy; the principle that everyone has the right to run as a candidate and be elected to a public post or authority. The contribution in a worldwide status of development of this fundamental right, which prescribes the rule of law in liberal societies, could not be out of the negotiation process for the signature of Maastricht Treaty.

The promotion of democracy, human rights and the rule of law is referred to in many articles in EU Treaties as one of the main objective of the EC/EU. With the enactment of the Maastricht Treaty and the establishment of the European Union article 177 (2) TEC (now article 208 TFEU) was formulated for this purpose. Furthermore, the principle of consolidating democracy was introduced into the 2nd pillar (Common Foreign and Security Policy) in article 11 (now article 24) TEU.

Article 177 (2) TEC set an objective by combining the development co-operation process with the development of democracy and the rule of law. In particular, the consolidation of democracy was explicitly characterized as a “general objective” for the purpose of article 177, a fact that demonstrates the significance of the second paragraph within the sphere of development cooperation. In addition, article 11 in the TEU, concerning the newly-established (for the time) Common Foreign and Security Policy (CFSP), included the development and consolidation of democracy and the rule of law and respect for human rights and fundamental freedoms as an aim for EU.

In 1996, the European Court of Justice (ECJ) stated that no Treaty provision conferred on the Community institutions any general power to enact rules on human rights or to conclude international conventions on this field. Another important decision of the ECJ regarding this matter was that of *Portugal vs. Council* case where the Court among others stated that "the question of respect for human rights and democratic principles is not a specific field of cooperation". Those two predications complicated the matter of Community co-operation with other countries when the topic of co-operation was *stricto sensu* human rights.

The EU strengthened its institutional background with adoption of two regulations related to possible human rights projects by the Council: Council Regulation 975/1999 and Council Regulation 976/1999. Article 179 TEC (now article 209 TFEU) was the legal basis as it stated that "the Council shall adopt the measures necessary to further the objectives referred to in article 177". Furthermore, the Treaty of Nice had specifically included article 181a TEC which set up the prerequisites for economic, financial and technical co-operation with third countries. Paragraph 1 indicated that "Community policy in this area shall contribute to the general objective of developing and consolidating democracy and the rule of law and to the objective of respecting human rights and fundamental freedoms". This new provision enabled the Community to broaden its policies within the field of human rights. Taking into consideration the Court's judgments mentioned, the topic of EC/EU competence to conclude international agreements on a basis of human rights was still under discussion.

After the Lisbon amendment in 2009, this topic has been finally solved after years of political and legal argumentation. Now article 47 TEU explicitly state that the EU has legal personality and therefore is competent in completing international agreements.

4. MAJOR EC/EU - SOUTH AFRICA AGREEMENTS AFTER THE APARTHEID

After the election of Nelson Mandela as the President of South Africa, a new era had begun for the country, also regarding its relationship with European Union.

As it is mentioned above, the South Africa issue evolved into a top priority for the EU. The geographical position of the country and the natural richness constituted important reasons for the development of a further investment policy. In 1994 in an EU-South Africa foreign ministers conference the major aspects of the European policy in South Africa were defined. It was agreed that the most important fields of interest that needed to be expanded were political dialogue, private investment, regional integration and trade and development cooperation. As a result an Interim Co-operation Agreement was signed between the EU and South Africa on October 1994. The two partners agreed to promote co-operation especially in the economic field by increasing the investments on behalf of the EU in South Africa and for the EU to assist the development by supporting financially South Africa.

After the conclusion of the Interim Co-operation Agreement, South Africa requested its participation in the Lomé Convention in 1994 alleging economic problems related to the apartheid period. The EU rejected not only this specific request, but also another South African proposal for participation in the provisions of the Convention that are related to trade matters. The reasons for the rejection can be summarized in three arguments. The main argument was that South Africa did not have the status of a developing country at that time according to the World Trade Organisation (WTO) standards. The membership of South Africa in Lomé Convention would have as a result a negative criticism on behalf of the other WTO members.

The second argument was that the participation of South Africa would destabilize the whole Lomé Convention emprise by eroding the priorities that were set up by its other members. The third EU argument was that South Africa could negatively affect key sectors of EU economy (such as agriculture) and economies of other countries that the EU has given priority.

In 1995, the EU started formulating a long-term framework concerning its relationship with South Africa. The EU strategy, with regard to this matter, can be encompassed in two main directions> the conditions under which South Africa would participate in the Lomé Convention and the conclusion of a bilateral trade and co-operation agreement.

4.1 Accession to the Lomé Convention

The EU and South Africa signed the Lomé Protocol by which South Africa got the status of a "qualified member" of the Lomé Convention. All provisions concerning trade issues were left out of the agreement in order to become the subject of a bilateral agreement. The table below schematically explains which articles of the Convention were applicable and which were not.

Table 1 - Main terms of South Africa's accession to the Lomé Convention

Articles applicable to South Africa	Articles not applicable to South Africa
Technical, cultural and social co-operation Regional co-operation Eligibility for tenders for the 8th European Development Fund, but excluding ACP preferential treatment Industrial development Investment promotion and protection Participation in the institutions of the Convention	General trade arrangements STABEX SYSMIN Structural Adjustment Support EDF resources (assistance instead from the EPRD, funded through the Community budget)

The table demonstrates that South Africa participated in major sectors of the Convention, like the industrial development and investment promotion and protection. In addition the membership in the institutions of the Lomé Convention was of great political importance. Taking into consideration that South Africa exerted influence more than any other member of the Convention, the country could participate in any intergovernmental institution of the Convention promoting its position. In the same way, the co-operation with South Africa was enhanced even more in the fields of development, policy and trade under the Cotonou Partnership Agreement which followed the Lomé Convention.

4.2 The Trade, Co-operation and Development Agreement (TCDA)

A bilateral agreement with South Africa in the field of trade and development was an additional pillar of interest for the EU. On the other hand, South Africa was highly interested in reconstructing its economy even more by giving the potential to local uncompetitive industries to develop; a goal that could be better achieved by the EU large investment ability of the country.

In November 1996 the European Commission had published a green paper with regard to the future of the Lomé Convention, which appeared not to fill all the requirements set by the EU for further actions that must be taken in the area. The Commission proposed to divide Lomé Convention into regional bilateral agreements based on the strategy adopted on behalf of the Union within each particular region; specifically the green paper mentioned that: “an agreement with sub-Saharan Africa that embraced South Africa would clearly be very meaningful for Europe”.

During the same month the Council adopted regulation no. 2259/96 concerning development co-operation with South Africa. According to the regulation the EU “shall implement financial and technical cooperation with South Africa to support the policies and reforms carried out by that country's national authorities” in key sectors of economy and social affairs. For this purpose an action programme was organised, the so-called European Programme for Reconstruction and Development in South Africa which, according to article 1, would contribute to the country’s harmonious and sustainable economic and social development and to consolidation of the foundations laid for a democratic society and a State, governed by the rule of law, where human rights and fundamental freedoms are respected. The support of democratization and the protection of human rights were considered to be a major issue for Union’s actions in South Africa once again after the apartheid period. The validity of the regulation was until 1999. Afterwards, the Council adopted regulation no. 1726/2000, based on regulation no. 2259/96, for continuing supporting policies and reforms undertaken by the South African authorities.

In January 1997 South Africa presented its diplomatic position for negotiating a trade and development agreement. After a long negotiation process which ended in March 1999, the Trade, Co-operation and Development Agreement (TCDA) was signed on October 1999 and entered into force on 1 January 2000. The purpose of the agreement was the establishment of a free-trade area, so a better access to the South African market for EU and to the European market for South Africa would be secured. In the field of development co-operation the EU continued providing aid to South Africa though the financing instrument for developing co-operation with starting funds of 980 million Euros for South Africa.

In addition the TCDA also contained provisions that were related to co-operation in human rights issues. Particularly, in the field of social justice, the freedom of association, the sex equality, the rights for workers were guaranteed. Plus, the agreement focused on social matters in a broad sense as the environmental change, the combat against drugs and the co-operation in health issues. To sum up, the TCDA provided co-operation among the parts in a variety of sectors and policies, making South Africa one of the most important trading partners for the Union.

This last position was confirmed in the European Union-South Africa Strategic Partnership and the subsequent Joint Action Plan on May 2007. A main common position was the upgrade of political dialogue among the two parts even in Ministerial level. The programme focused on enhancement of current co-operation in sectors such as development, trade and investment, science and technology. Moreover, more areas of co-operation were put in schedule to be developed. Areas in the sector of social policy (combating crime, education and training, employment and social affairs, sports) as well as pure economic areas (regional development policy, macro-economic factors) were prioritized.

CONCLUSIONS

From the time of the colonization South Africa played a significant role for European countries and as a result the country was characterised as one of the most important trade partners for Europe, especially for the Netherlands, the United Kingdom and France.

After the establishment of the apartheid regime in 1948, the political situation in South Africa had been relinquished, as Europe passed through the post World War II period with the reconstruction of the region to be set up as first and only priority. The UN, as an international organization, adopted several resolutions for fighting apartheid, a policy that was not always acceptable by some of the members. The first attempt on behalf of the EEC to take common measures was in the late 70's with the Code of Conduct, for eliminating the social inequalities in the work place. During the 80's, after negotiations, the ESP was adopted, a boycott programme that put economic sanctions in South African apartheid government and financed anti-apartheid movements. Nevertheless it has been widely argued that the EEC did not take the appropriate measures to fight apartheid.

In the 1990's, after the abolishment of the apartheid regime and the transition to democracy, the EC/EU tried to create strong economic relationship with South Africa. After the rejection of accession in the Lomé Convention, the EU focused on the conclusion of a Free Trade Agreement with South Africa. The co-operation between those two partners was consummated with the conclusion of the TCDA, an agreement that strengthened both EU and South Africa trade access to the market.

The importance of the co-operation with South Africa is apparent and is affirmed from the continuing EU policy towards this country. The European Commission adopted Regulation No. 1726/2000 based on Regulation No. 2259/96 for further co-operation with South Africa. In 2002 the two partners signed the Wine and Spirits Agreement, a minor, but more specialised trade bargain. Finally the EU-South Africa Joint Action Plan in 2007 demonstrated the strong political and economical relationship after the democratisation of the country in 1994 since the EU was and remains the leading partner of South Africa in almost every field of interest.

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CORPORATE SOCIAL RESPONSIBILITY AND SUSTAINABLE DEVELOPMENT OF TOURIST DESTINATIONS - AN ANALYSIS FROM THE PERSPECTIVE OF THE DEVELOPING REGIONS IN THE EUROPEAN CONTEXT

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Abstract: *Tourism is one of the most important industries in the European Union economy, with a great contribution to the general dynamic of the integration process and to the fulfillment of the Union strategic objectives. As a result, the last two decades have increasingly associated more tourism with the European policies, in a doctrinaire context defined by the option for sustainable development which correlates sustainable regions, sustainable tourists and sustainable enterprises in an integrated concept in the field of tourism. This paper deeply analyses the way in which the tourism enterprise can be associated with the sustainable development pattern, by valorizing the corporate social responsibility (CSR) principles. The analysis is qualitative, on the specific of the developing tourist destinations. The work is divided into three parts: explanation of the European context, insisting on the main tourism – regional development correlations, from the point of view of the sustainable development pattern; argumentation of the tourism enterprises necessity to take on economic, social and environment responsible practices in the sustainable development of the tourist destinations; the analysis of the advantages of being placed on the alternative markets from the perspective of ensuring the complementarity of the tourist actors and the receiving areas interests in an integrated system of sustainable and responsible management of the tourist region. The analysis leads to the better understanding of the potential contribution which the sustainable practices from the tourist industry can have to the sustainable growth of the developing regions.*

Keywords: corporate social responsibility, sustainable regional development, European tourism
JEL Classification: M14, R11, L83

INTRODUCTION

At the global level, tourism is one of the most dynamic industry, with a great contribution to the economic growth, employment, international trade, FDI flows. For example, tourism generates, as a tendency, 5% of the world GDP and 6-7% of the working places only from direct activities[†] (as a whole impact, taking into account the indirect and induced effects as well generated by the strong multiplier character of the tourist industry, the GDP contribution is 9%); it means 6% of the world

[*]ACKNOWLEDGEMENT: This work is supported by Sectoral Operational Programme for Human Resources Development, through the project "Developing the innovation capacity and improving the impact of research through post-doctoral programmes" (grant POSDRU/89/1.5/S/49944).
[†] In 2011, based on the global crisis, the direct contribution to GDP was only 3 %.

trade (4th place after fuel, chemical products and cars) and 30% of the export service flows. Within the European Union, tourism contributes around 2,9% to EU GDP, with an indirect and induce contribution to GDP creation of 7,9% of EU GDP and provides about 8,5% of all employment[*]. Tourism is particularly important when it comes to offering job opportunities to young people, who represent twice as much of the labour force than in the rest of the economy, it contributes to the economic development with medium growth rates on the long term, superior to the increase of the global GDP, it has a high regional convergence potential (through the specific opportunities of supporting the endogenous growth in the developing regions), it introduces a stable function in the economic growth being a sector which quickly comes back to the growing tendency under economic crisis periods. Employment and GDP growth in the tourism has been significantly higher than in the rest of the economy in the recent years, making the sector a significant contributor to the Lisbon and EU2020 objectives concerning growth, competitiveness and employment. The importance of tourism in the EU economy is likely to continue to increase with the expected annual growth of tourism demand slightly above 3% in the coming years. According to the World Travel & Tourism Council estimations, the volume of tourism business is likely to double in the next 20-25 years, contributing after that by 8,1% to the community GDP, by 8,5% of total working places and by 4,9% of total national investments for the year 2022.

Moreover, specifically for the European economies, *tourism contributes essentially to the integration process*. The intensity of the mutual tourist flows stimulates mutual knowledge, creates the feeling of belonging to a shared space of values, contributes to the development of the European identity and, by all this, to shaping the European citizenship. By the high level of production internalization it helps intensifying the intra-community exchanges and integrating the European markets. Last but not least, the efforts of tourist promotion of the Union on the external markets support the image of a unity of heritage as key element of the European unity.

The relative position of the Union in the international tourism is decreasing (about 50% in 2011, compared to 64.8% in 1985). The activity is generally based on intra-community flows (about 80%), rather generating transfers of income from one member region to another, with reduced net value for the community area. The annual growth rate is under the world average, the average payment collecting per tourist are smaller than the American or Eastern-Asian ones, and the slow-down of the economic growth will affect the potential contribution of tourism to the development of the European economies.

[*] In 2011, according to World Travel & Tourism Council.

Complementary to the economic deficits, tourism in the European Union is confronted, from the point of view of the strategic objectives of sustainable development, with the difficult harmonization of the its three dimensions (economic, social and environmental), especially in the developing regions. For example, *from the economic point of view*, tourism has an important multiplication effect and supports the economic growth, rather in the developed economies/regions. In the developing destinations, the dependence on the additional imports and on the external tourist flows is high (with risks upon the sustainability). Additionally, the tourism development depends on the external capital (with reduced multiplication effects), and the extremely high tourism development in the rich areas, correlated with a high level of production and trade specialization can lead to serious distortions of the social-economic environment, affecting the perspectives of increase for the developing regions. *From the social-cultural point of view*, tourism can contribute to the increase in the employment level, increase of revenues and improvement of the quality of life, increase of the comfort level, increase of the culture level or, at least, the acquisition of new information and knowledge otherwise unavailable, acceleration of the process of social progress and access to modernity, integration in the global system of values, revitalization of the poor areas. But, in the same time, the revenues in tourism are about 20% smaller than in other sectors of services, with deficits from the point of view of the working place quality (see below) and, from the cultural point of view, it may lead to the spreading in the social body of certain slavishly behaviors, inferiority complexes, servitude, moral and cultural perverting, distortion of the traditional practices, alteration of the traditional social structures and the loss of value of the attractiveness elements on the long term. *From the point of view of the tourism – environment relation, as a rule, conditionings are complementary*. On one hand, an unpolluted environment, with a well-preserved diversity of landscapes, flora and fauna is a good support for tourist development, a key element of attractiveness and generation of comparative advantages, having priority in the criteria of choosing destinations. On the other hand, the tourist activity allows the superior valorization of natural resources, especially through the international flows in this direction and on the segments of alternative tourism and can have an essential role in the awareness of humanity about the environment protection; moreover, by the favorable impact on the prosperity of the local economy (extra revenues, employment), it can support the process of sustainable development. However, *tourism involves and emphasizes a series of conflicts between the environment and the resource exploitation* which oblige to the integration of environment into production and consumption tourist behaviors may affect the sustainable conservation of resources and generate pollution. Where the function of tourist reception is developing rapidly and exceeds a limit – often called "busy limit" –

tourism exerts pressures on the environment, leading to the alteration or even considerable modification of ecosystems (Pascariu, 2006).

As a consequence, in relation to the strategic objectives of the Union, it is essential to ensure the European tourism sustainability, being perceived as an important element of added value not only for the tourist industry, but also for the integration process as a whole. The main challenges are connected, on one hand, to the present consumption patterns (the quantity dominant, the high concentration in time and space) and to the production patterns as well determining mass tourism, aggressive on the receiving economic and social environment. Responsible tourist behavior, social responsibility taken on by the tourist industry and good governance will be the strategic priority axes in ensuring the premises of sustainable development in the European tourism. This study suggests an analysis of these conditionings from the point of view of the contribution which social responsibility taken on by the tourism enterprises can have for supporting the sustainable development of tourist destinations.

1. SOCIAL RESPONSIBILITY DETERMINANTS IN THE TOURIST INDUSTRY. AN ANALYSIS FROM THE PERSPECTIVE OF THE SUSTAINABLE DEVELOPMENT OBJECTIVES OF TOURIST DESTINATIONS

From a concept referring in the ’80s to the necessity of a temporary arbitration between the system of the present needs and the system of needs of the future generations, ”sustainability” has been shaped lately as a new principle applied in the models of economic growth, resulting in the making of strategies and policies that have systematically integrated social and ecological parameters. At international level the outstanding moment was the Johannesburg Conference (2002), sustainable development shaping itself shortly as a new paradigm with impact at the macro-economic level. The essential change consisted in going from the emphasis on the role of regulation by macro policy-making to the priority given to the economic actors and the role of the free market in promoting the new approach, the key concept associated with the action at the microeconomic level being “social responsibility”. Apart from a series of international initiatives, such as the creation of the World Business Council for Sustainable Development (1992), the creation/revision by OCDE of the guidelines on social responsibility of corporations (2000) or the adoption of the Green Paper of the European Commission for the promotion of a European framework of the company social responsibility (2001)[*], the Johannesburg Summit played an important part. The clear message sent to the business environment at that time (especially by the contribution of Business Action for Sustainable Development) was that the social and environment objectives cannot be achieved only through economic policies and regulations which should be understood as instruments of constraint, but by the active and voluntary involvement of enterprises. Moreover, the business environment had a decisive constructive role in sustainable development. The integration of social and environment aspects into the management systems as voluntary assumption of the sustainability principles can support a dynamic balance between the regulation instruments and the market instruments, promoting sustainable consumption and production models and providing more efficient economic solutions than those provided by the macro policies and the legislative systems.

Consequently, as answer to the stronger economic, social and ecological pressures, a number of companies have lately promoted social responsibility strategies as voluntary accountability of values and principles for the support of the sustainable development strategic options. In the first stage, the big enterprises reacted, then the new practices were extended to the level of the small and medium enterprises (Onea and Tătăruşanu, 2012).

Social responsibility is usually defined as the voluntary assumption by enterprises of the social and environment objectives, complementary to the economic objectives, both in relation to the inner environment (shareholders, employers) and with the outer environment (partners, local community). Briefly, it can be defined as "voluntary engagement of enterprises to manage their actions responsibly" (the International Chamber of Commerce). At the European level, the concept also refers to the ethical aspects, observance of the fundamental rights, accountability of the impact of a business upon the society as a whole, as well as an active role in achieving the strategic objectives (of the local community, at regional, national and European level). It is a perspective referring to business practices going beyond meeting the social or environment legislation, in other words they involve actions which exceed the regulatory / legal obligations of companies, by taking on a social function.

The most often, the option for adopting CSR triggers a general process of restructuring the management system of the company, changing the company policies, modifying the portfolio of products, clients or providers, generating possibly high costs by reducing the scale economies and creating high opportunity costs. By promoting a model of the "socially responsible company" it is thus useful to understand what makes the economic actors take such a step, what the managerial

[*] At present we estimate that there are over 150 initiatives at international level which promote and support social accountability by the business environment.

adoption of the sustainability principle means, what objectives the companies can have and what the potential impact of the new approach is.

From this perspective we must mention that the "voluntary" adoption of the corporate social responsibility is in fact the result of some complementarity between the impact of the new paradigm upon development (associated with the pattern of sustainable development) that sent its effects on the public strategies and policies, the market pressures (associating here both the new behaviors and values which define the present consumption attitudes and the competition role) and also the integration of ethical values into behavior patterns of manufacturers.

Correlating the mentioned conditionings in the tourist industry, the taking of the social responsibility by the business environment is the result of the following categories of determinants:

- *Increase in interdependencies between tourism and sustainable development*. Tourism can contribute to the sustainable development of a destination only in a way which associates the concepts of ecological development, ecological responsibility, social responsibility, integrated quality of the tourist product portfolio, competitiveness; a region choosing the development of the tourist function in order to take advantage of the growing potential by multiplication / involvement of the tourist industry specificity in a local economy must integrate in the development model the set of economic, social and environmental conditionings, taking into consideration the risks that the random development of tourism can take, especially in the developing regions. These regions can find in tourism a chance for growth and convergence (the more rapid reduction of development discrepancies), but they also risk to generate a negative relation between the marginal costs and benefits of the strategic orientation towards tourism if no integrated management of the destination is ensured, by taking into account the economic, social and environment risks. Consequently, it is absolutely necessary to have in consideration the development of the tourist destinations, a key role here being played by the tourist industry actors, obviously in correlation with the public actors, tourists and target population.

- *Increase in the tourist consumption role to ensure a high level of individual and social welfare.* Along with the increase in the population average income, tourism is integrated in the structure of the family budgets for larger social-professional categories, becoming a necessary good, with a relatively low elasticity compared to the price; at the same time, public policies consider it to have an important social function of redressing the physical and psychic balance of the modern man, living a real process of social and individual alienation and looking for a new sense which tourism can provide, at least on certain components of alternative tourism (see below); as a consequence, we can expect a significant and constant increase (about 4%) in the tourist consumption at the international level (and European of course) within the next period of time, turning tourism into an opportunity for the strategic orientation towards regional development and for the business environment but, at the same time, generating a stronger impact from the social-cultural and ecological point of view on the receiving areas; the orientation towards a responsibility pattern of companies and sustainability in the development strategies which imposes themselves as a necessity;

- *Structural changes at the level of motivations and needs for tourist consumptions* (the integration of post-materialist components – communication, personal development, social-cultural and ecological values, solidarity etc.); as a rule, the studies and documentary materials about CSR lay special emphasis on the voluntary taking on principle by the business environment of certain social and environmental objectives, starting from new values introduced into the management systems; in reality, at least in the tourist industry, the CSR adoption is mainly conditioned by the new attitudes of tourist consumption that have integrated social-cultural and ecological attitudes, especially on the alternative tourism segments; so, CSR has become rather a brand, aiming at attracting the market, at ensuring constant customers and getting competitive advantages; CSR can thus ensure a reduction of the market risks, the maximization of the relation marginal cost – marginal benefit, the easy access on new markets, stabilization of the business relations, integration into networks, facilitation of the public-private partnership, a more efficient management of human resources;

- *Increased competition on the tourist market, in a general context at international level of loss of competitiveness for the European tourism* (hence, the need for identity, for brand image, for differentiation to find areas and the sustainable position on the market); the new technologies of information and communication, the development and deregulation of the air transport, the development of the new emerging economies, the expansion of the peace, security and safety areas at global level have extremely increased the competition of tourist destinations; in correlation with the new value possibilities in the tourist consumption, a brand image as ”sustainable tourist destination” may generate competitive advantages on the market segments associated with a sustainable tourist behavior, with a high potential of valorizing the opportunities provided by the tourist activities in the context of a diminution of the negative, economic, social and environmental impact risks;

- *Integration of tourism in the priority objectives of the European Union policies and of the member states with sustainable development;* from the strategic point of view, tourism hasn't been a priority in the European policies by the last decade; nowadays it is considered to have a high potential to contribute to the fulfillment of the Union strategic objectives (competitiveness, convergence, employment, promotion of the European identity and citizenship, economic and social sustainability), being integrated in a large series of European policies (cohesion, agricultural, transport, environment etc.) thus acknowledging the high potential of tourism for the Union sustainable development; the potentiating of this contribution is still conditioned by sustainable practices of the tourist industry;

- *Increase of pressures at the level of economic and public opinion policies for a more active involvement of the economic agents in growing the quality of life and compensating for deficits at the local, regional or even international level (*pollution, development discrepancies, social alienation, unemployment, etc); we cannot question the economic function of a company to produce goods and services in order to satisfy the demand nor the role played by profit in determining the use of resources; yet, the business environment is more and more required to change its production and management systems by taking on a responsible behavior about the long term impact of the conducted activities and by a more active involvement in creating some favorable environment for the increase of the quality of life for the employers and citizens as well; at the level of the public policies, the companies are required to contribute to the fulfillment of the strategic growth objectives, especially the one that the tourist industry has a high potential of contribution to the sustainable development and growth of regions, including the less developed ones;

- *Increase the role of the public-private partnership and integration in networks for the strategic development of the tourism enterprises* (the tourist product is the result of the combination between public and private goods; over 95% of the tourism companies are small and medium enterprises having difficulty in maintaining on a market characterized by high competition without generating network effects and without taking on an active role by the public administration in developing and promoting the tourist function of a destination; partnerships and networks can generate added value if they are organized around certain objectives associated with the sustainable tourism pattern).

Consequently, the adoption of a social responsibility model supposes integrating the social and environmental aspects in the enterprise policies, taking into account the interests of all the types of "parties" involved directly and indirectly (customers, shareholders, employers, civil society, population and local environment). The pattern means that, apart from the direct private function of goods and services production (adopted based on the principle of economic efficacy and associated with the objective of profit maximization), the producer is required to fulfill a direct function of producing positive externalities as well (while minimizing the negative externalities), a function associated with the principle of social efficacy (specific for the social market economy and aiming at maximizing social welfare).

Thus, the tourist industry is required to eliminate or compensate for a series of deficits / limits of the impact of tourism in the receiving area from the point of view of the sustainable development principles and objectives, such as:

- *The weak integration of the attractive resource consumption (natural, social-cultural) into the structure of the production cost* (difficulties arise especially from using unquantifiable resources; for example, the attractiveness of landscapes or traditions, considering that excessive valorization triggers a demonetization process); the tourist product is the result of certain external components of the production process strictly speaking, which are not a part of the cost assumed by the tourist service provider; consequently, the tourism enterprise is not only interested in adopting responsible behavior towards the receiving environment for economic reasons (sustainable preservation of the attractive resources on which one builds his/her own business), but it is also compelled, ethically and morally, to transfer a part of the results upon the society; as a consequence, CSR in the tourist industry integrates an objective component, beyond aspects that are related to new values, business ethics, image and identity advantages, others given by what has almost become a brand ("sustainable enterprise" or "responsible enterprise");

- *Tourist occupancy exceeding the capacity of absorption and regeneration of the receiving space in the areas with high tourist intensity*, affecting the social-cultural area, the environment and biodiversity; some destinations can be very attractive, defined by a portfolio of products which suppose a high degree of seasonality, especially during the increasing period of the life cycle (it is the case of many growing destinations, based on culture and nature and which are seeking to valorize the potential of economic dynamics offered by the tourist market; but, without an integrated management of the destination, the tourist consumption can exceed in the season periods the absorption limit, with high risks of degradation of the receiving area; the integration of some behaviors specific for the CSR model in the tourist industry would also mean reporting one's own interests of maximizing profitability to the social-cultural and ecological balance of the destination;

- *The tendency, especially in the growing regions, to adopt architectural styles in the tourist infrastructure* without a connection with the local architecture; the tourism enterprises can contribute to the preservation of authenticity and specificity of the attractive resources of the destination by taking on the responsibility of the new buildings architecture;

- *The social deficits at the level of the labour force used in tourism*; as we have already mentioned, tourism has a high potential of employing the labour force, especially on disadvantaged segments, with relatively small chances of integration on the labour market: young people, women, people with an average / a low level of education and professional training; such a function is very attractive for the growing regions, where there are not too many alternatives of employment; it is in fact one of the reasons why tourism is a strategic sector in the European employment and cohesion policies; but, at the same time, tourism employment is characterized by a series of negative objective aspects related to the specific of the tourist activities: high seasonality (including for some indirect and induced occupations), low level of skill, without allowing longer employment or extended opportunities about the professional career, atypical schedule work (especially in hotels and restaurants), relatively low income, etc; at the same time, the quality of the tourist offer is essentially dependent on the labour factor (availability, quality, motivation) by overlapping consumption and production, a characteristic specific for the service activities; under these circumstances, the tourism enterprise is in a way ”compelled” to take on ”voluntarily” responsibilities about the employees, concerning: the labour conditions, ensuring a balance between the working hours and the private life, equal chances, respect for the fundamental rights and liberties, professional training and career development, association to the decision-making process, thus creating a reliable atmosphere, partnership, complementarity of interests inside the company, necessary for sustainable business, especially on a very dynamic market, characterized by extremely high competition;

- *Inequalities in the access to tourism;* the access to tourism has become an indicator of the life quality; by integrating the social component, the model of the sustainable tourism also means reducing disparities and discrimination in the tourist consumption, by supporting the disadvantaged groups; taking on the CSR by the tourist industry supposes the identification of opportunities to facilitate access to tourism, a situation which can be to the benefit of both of the tourism enterprise (for reducing seasonality, improving the investment profitableness, increasing the degree of valorizing resources, ensuring liquidities in hemi-season periods or extra-season periods) and of the society as a whole (increasing individual and social welfare, intensification of the multiplication effects, increase of the public revenues)*;*

- *Prevalence of certain tourist formulas implying a negative impact upon destinations from the social-cultural and environmental point of view;* although people talk more and more about the new social-cultural wave and about new tourist behaviors oriented towards destination, the main component of the tourist market is made up of the mass tourism formulas; the tourists, although they want to know, to discover, are mainly determined by the joyful entertainment, interact little with the local people and values, show careless attitude if not indifferent towards the impact of their sojourn upon the natural environment and nature, the European model of the ”sustainable tourist” being an idealist concept, without being used in the present practices prevalent on the tourist market; so, only under the circumstance strategically defined by a system of integrated management of the destination and of taking on the responsibility by the tourism enterprises as concerns the social and environmental impact, can the tourist behaviors/activities become a link in the sustainability chain of sustainable development;

- *Foreign capital based development*[*] (especially in the hotel industry), with little involvement and valorization of the local resources and reduced multiplication effects (we can see it especially in the developing countries or in rural areas aiming at developing quickly the tourist function); it is known that the developing regions are rich in resources and labour and lack capital, with a reduced entrepreneurship skill and a limited potential of saving and investing; consequently, the tourist facilities projects depend on the external capital, less attached to the values of the receiving area and generating effects of revenue, expense and reduced employment multiplication; yet, under high competition and promotion of the responsibility principle in the region, the external capital is forced to take on a social model in order to develop and maintain competitive advantages;

- *Degradation of the social-cultural heritage* (the cultural, religious and traditional values enter a system of excessive commercialization risking to lose value and identity); in a process of tourist development the local actors are willing to ”do everything” to attract more important flows of tourists, at least in the first stage of market development; there is thus the tendency to adapt the local attractive resources by an imitation process, with a high risk of losing authenticity and, consequently, of attractiveness, the region losing exactly the elements which provide content for the comparative advantages; in this case too, the actors of the tourist offer can help the valorization of local traditions, craftsmanship, gastronomy, by refusing to commercialize excessively and making a portfolio of products based on authenticity and local specificity.

2. THE COORDINATES OF ADOPTING RESPONSIBLE MANAGEMENT BY THE TOURISM ENTERPRISE

Taking into consideration the above mentioned facts, we can identify the following categories of possibly integrated objects into a management system that is socially responsible in the tourist industry (Médiaterre, 2008):

[*] In regional economy, the foreign capital (external) is understood as the contribution of capital not only from other countries, but also from outside the region.

a) *Sustainability of the management system* (observance of legislation, standards and norms; information and involvement of employees in all the stages of adopting and implementing the system; taking into consideration the interests of all the parties involved; integration of the social and environment parameters in all the decisions);

b) *Maximization of the economic and social advantages for the local community and minimization of the negative impact* (supporting the local initiatives; professional training of employees and valorization of the local working force; valorization of the local resources; adoption and observance of a code of good practices at the local level; fighting against any form of discrimination or exploitation of the working force);

c) *Reduction to minimum of the negative impact on the cultural heritage and maximization of advantages* (observance of visiting rules, efficient valorization of the local resources, promotion of the community interests in relation to its own activity);

d) *Reduction to minimum of the negative impact on the environment and maximization of advantages* (saving resources; reducing pollution; preserving biodiversity and landscapes).

Obviously, the adoption of a management model associated with the concept of social responsibility is not deemed to have all these categories of objectives. It is important for every company, starting from size, resources, potential, perspectives, to define a set of objectives and to control their fulfillment, and to take into consideration when elaborating the implementation program all the internal and external conditionality factors (local or regional strategies; the interest of the business partners; the interest of its own staff; the objectives of the local community, etc.).

Moreover, in order to be acceptable and efficient, the voluntary social accountability must take place based on a *cost – benefit analysis.* The adoption of an integrated responsible management program implies, first of all, *arbitration between the short term objectives and the long term ones*. If, the most often, on short term, the company is forced to reconsider its concepts, objectives, priorities, partners, to "spend" for investments in new protective technologies for the environment, for the implementation of standardized systems (quality, environment, occupational safety) or for the improvement of the working and life conditions of the employees, on long term there can be benefits which place the company on a competitive advantageous position. Temporary arbitration also sends to the search of a new balance between the system of the present needs and that of the future needs, a balance mainly based on protecting and preserving the attractive resources.

Secondly, the adoption of the CSR model implies *new arbitration between the economic efficacy seen as central objective of the company and social efficacy as common objective of all the stakeholders and of the receiving population*. Such arbitration means the reconsideration of the company basic functions, as a result of modifying the company role in society. Apart from the economic function of producing goods and services, the company integrates in itself a social function of producing welfare for the community as a whole. The economic, social and environmental impact on the destination no longer represents an externality for a business, but becomes an integrating part of the managing system, influencing the set of practices of the tourist industry, from creating the product and choosing the partners, to the management of human and environment resources, from the system of cost emphasizing to the marketing and commercialization strategies all along the chain of creating the offer and making the tourist production.

Thirdly, an essential role in this initiative belongs to the *balance between regulation and market instruments, based on increasing the market role, which can be established by the public authority*. Regulation acts is perceived at the enterprise level as a constraint instrument (the European Union has attractiveness problems in terms of tourism capital and not only, because of the perception of the internal market area as extremely regulated and little attractive, despite the significant potential of the tourism development). Hence, the perception of social and environment expenses as an extra cost with negative impact on the company profit and perspectives on the long term. Unlike the regulation instruments, the market instruments ensure through competition the allotment of resources in conformity with the new parameters, to the extent that they are integrated in the system of the choice determining factors (both at the level of the consumption decisions and of the production decisions). The development of the ecologic markets, the market information and transparency, the counseling systems, the agreements negotiated between industry and administration, reduction of the discrepancy between the economic and the social cost (by internalizing the externalities, both positive and negative) can contribute to taking on a responsible management in the tourist industry. The concepts of efficacy and competitiveness play here a key role. The efficient use of resources implies, as we have already mentioned, new balance between the short term perspective and the long term perspective, the cost of using the company resources being the same as the one of the society on the long term by using those resources; for example, if the economic agents do not care about the pollution effects in taking decisions, they will use resources to get goods and services which pollute or affect the human health if there is demand on the market; on the contrary, if the economic agents are not compensated when they act in favour of protecting the environment, their actions will be punctual, accidental or won't be at all. For this reason, the integration of the environment issues in the economic decisions must be correlated not only with the objectives of reducing pollution, but also with the economic objectives. Such an approach can be efficient only if the efficiency and competitiveness of a company are evaluated not only from the point of view of the private costs, but from that of the social costs as well. Yet, in this process, it is essential that the market and not the regulation should establish the efficiency and position on the market of a company. Obviously, in order that the market instruments are efficient in the process of allotting resources, the markets must be competitive, functional, flexible, this being in fact the major challenge of the community policies about the internal market and the association of the tourist industry to the effort of achieving the Europe 2020 objectives. Moreover, for the market to act in conformity with the objectives of the sustainable development, the market price and the relative prices must convey information which should integrate not only the economic parameters but also the social and the environment ones. Such a market pattern can be shaped only by changing the consumption and production attitudes. In other words, the action must aim at the main determinants which are behind the systems of education and professional training. Not surprisingly, one of the action directions at the European level for promoting CSR consists in integrating the patterns of sustainable development and responsible management in the educational curricula at all levels, in addition to the development of research in the field. We can thus acknowledge the importance of changes which must take place in the systems of values, behaviors, attitudes, competences so that the business environment could take on voluntarily a function of social responsibility associated with the strategic objectives of sustainable development of a tourist destination.

Furthermore, increasing the market role in making a responsible manager can find support in the market transparency by sending information about enterprises extendedly, on one hand, concerning the impact of their activities upon the economic, social and natural environment and, on the other hand, concerning the involvement of the enterprise in the social and environment problems of the community. In the European Union some progress has already been made in this respect: including social and environment information in the annual management reports has become compulsory for the European enterprises by Directive 2003/51/CE (less for the SMEs, but with the perspective of a transparency framework being adopted for them by the European Commission), different authentication systems are adopted and implemented (of quality, environment, health, food safety, social responsibility), a number of Codes of Conduct and labels/brands showing adequate production or product for the environment issues have been adopted as well (the names of eco, bio). The European enterprises will be encouraged to introduce into their systems of evaluation the activity social and environment indicators thorough a method based on the life cycle. The new approach about the role of the enterprise on the European market suggests an integrated approach, following the sustainable development pattern which should place the enterprise on the market depending on the economic, social and environmental impact (the "triple bottom line approach"). The challenge for the European enterprises is big by introducing such elements of the competitive advantage, considering that an increasing number of consumers on the market introduce in their criteria of choosing destinations, companies and products elements concerning sustainability, responsibility, social involvement and ethical behavior of the consumer.

Last but not least, a responsible management in the tourism industry supposes *the readjustment of the balance between the ex-post action and the ex-ante action, by increasing the role of the prevention and precaution principles.* The "the polluter pays" principle, widely used in the environment adjusted production ensures the advantage of short-term effects, but does not provide solutions from the long-term perspective; moreover, it leads to an inadequate transfer of cost from the producer to the consumer and society. Pollution has negative effects on health, on the increase in the public expenses, on affecting the quality of life, on reducing the productive potential of the work factor (negative effect on the social welfare); the recovery of the costs generated by the environment taxes and of fines takes place by increasing prices and/or the reduction of factor payment, leading to a diminution in the consumer welfare. Obviously, we can take into consideration the fact that the producer already takes on the "unpleasing" function of using resources, with the corresponding risks and must not be extra penalized (according to the liberal philosophy); in this case, we could accept the negative externalities (economic, social-cultural or environmental) as a rationally undertaken risk, the society being in charge of adopting the necessary measures for maintaining a balance of interests. We could also accept that the market and dynamics of values based on the natural selection will eliminate from the market the actors which do not obey the social or environmental requirements; what can be in this case the period of time in which the selection takes place or how can we establish a system of compensating the negative effects for those affected? Yet, the implementation of ex-ante principles introduces a responsible behavior (economic, financial, social and ecologic) of the tourism enterprise and avoids such disputes.

Consequently, the adoption of a responsible management by the tourist industry is not a simple "reshaping" of the classical business practices, based on production and oriented by the principle of profit maximization, but supposes a new structured and integrated approach, aiming at the whole business chain of values: make the investment, select the resources, choose the partners, the product portfolio, attract the customers, the marketing strategies, the human resource management, assess the impact on society. The starting point should be to work out a system of principles and values based on social responsibility and their integration as conditional parameters in defining objectives, redefining the enterprise policies, strategic planning, in the production, distribution and commercialization processes, etc.

By relating to the current development pattern and to the specificity of the European industry, where the SMEs are prevalent for over 90%, the main role in promoting the social responsibility is played by the public policies (European, national), by creating a favorable environment, of challenge and support of adopting the CSR.

3. THE SUSTAINABLE TOURISM AND CORPORATE SOCIAL RESPONSIBILITY IN THE EUROPEAN CONTEXT

The preoccupations at the level of the European Union concerning the promotion of CSR in the European business environment are quite recent and are associated with the sustainable development objective based on “very competitive market economy” which the member states suggested through the adopted treaties, starting with the Treaty of Maastricht (1992).

The acknowledgement of the impact of the tourist industry on the sustainable development of the European economy has taken place in the early 1990’s as well, through the 5th Environment Action Programme (1993-2000), called “Towards sustainable development”. The 5th Action programme gave priority to the implementation of two major principles: the transition from the ex-post traditional (emphasizing the command and control) to the ex-ante action based on prevention and precaution, by making responsible all the actors whose actions can have an impact upon the environment and integrating the environment policies into the sectorial policies, within a long-term strategic approach, promoting inter-conditionality between the environment protection and the economic and social objectives. In fulfilling these objectives, apart from the horizontal action, five key sectors have been identified for the implementation of the sustainable development principles: industry, energy, tourism, agriculture and transport. Responsible General Directorates had the obligation to take into consideration the environment aspects in all their legislative proposals and to draw up reports about the social and environment dimension of the specific activities every year.

In tourism, the first step was taken through the “Green Paper” of the European Commission of 1995, but the most important moment is, of course, the initiation of the “Tourism and Employment Process” at the European Council of Luxembourg in 1999. The results of debates held at the level of the working groups within the process on the 5th main thematic areas – information, training /employment, quality, new technologies and sustainability were synthesized in the Commission Communication of November 2001 “Working together for the future of European Tourism“

[COM(2001)665 final]. The recommendations of the four groups are, clearly, specific for the working area, but go towards the following key messages concerning the tourism development in the European area: the main role of information, knowledge and dissemination of information; the need for competent and motivated human resources from the perspective of medium and long term; the necessity to integrate the environment aspects and promotion of sustainable tourism; the need for European harmonization of the notion of service quality and tourist infrastructure and for adoption of a management system of the European tourism quality; the necessity to accelerate the integration of new technologies of information and communication in the tourist industry, and especially in the small and medium business; the necessity to develop networks of the tourist actors and of a generalized partnership for the implementation of recommendations (COM(2001)665 final). The recommendations were used to elaborate the strategic framework of developing the European tourism, by defining the priority axes of the Union tourist policies and were afterwards included in the Commission Communication of November 2003 „Basic orientations for the sustainability of European tourism" (COM(2003) 716 final)."

The result of these preoccupations was materialized in the end in the elaboration of a European tourist policy in 2006 and adoption, after a long period of discussions, of Agenda 21 for tourism in 2007. The purpose of the Commission is the support and promotion of "improving the competitiveness of the European tourism industry and creating more and better jobs through the sustainable growth of tourism in Europe and globally" (COM(2007) 621 final).

Along with the development in shaping a strategy of sustainable development integrated in all the sectors of the European economy and an integrated enterprise policy, The European Commission has promoted a wide context of institutional and social partnership and dialogue for growth, competitiveness, employment and sustainability in the European area, associating enterprises as key factors, by taking on social responsibility. In the Communication of 2006 on promoting Europe as excellence pole as concerns social responsibility, the Commission specifies that: "Europe needs business to do what it does best: to provide products and services that add value for society and to deploy entrepreneurial spirit and creativity towards value and employment creation. However Europe does not need just business but socially responsible business that takes its share of responsibility for the state of European affairs" (COM(2006) 136 final). Important progress in the field of CSR was made from the first years of the last decade, in the context of adopting the Lisbon Strategy, through the Commission Communications of 2001 (COM(2001) 366 final)[*] and 2002 (COM(2002) 347 final)[†] and creating the "CSR Forum". The European Parliament joined these initiatives through its resolutions of 2002 (P5_TA(2002)0278) and 2003 (P5_TA(2003)0200). Moreover, in its guidelines about growth and employment of 2005-2008, the Council advises the member states to take on an active role in promoting CSR, while the European Commission Communication COM(2006) 136 final suggested measures for the Union to become a pole of excellence in the field of Social Corporate Responsibility. In 2006 the European Alliance for Corporate Social Responsibility was launched as open partnership for enterprises to promote and encourage CSR and more recently, in 2011, the Commission adopted the Communication "A renewed EU strategy 2011-14 for Corporate Social Responsibility" (COM(2011) 681 final).

An important contribution in supporting the enterprises wishing to adopt a pattern of the Corporate Social Responsibility is made by ISO 26000 Standard "Guidance on social responsibility" (2010) adopted by the International Organization for Standardization[‡]. Without being a classical certification system, the standard becomes a guide for adopting a system of social responsibility by companies (including for the SMEs), which associate the social governance system, human rights, labour practices, environment, fair operating practices, consumer issues, community involvement and development. Thus, the standard helps to support the European business environment, by answering the main CSR dimensions in the European Commission opinion: human rights, labour and employment practices (the role taken on in the professional training of employees, equal chances, other), environment responsibility (contribution to resource preservation, biodiversity promotion, analysis of the life cycle, pollution prevention, other), good governance in the fiscal field, fight against fraud and corruption, participation in the local development, integration of the consumer interests (COM(2011) 681 final). In the end, we could say that at the European level the aim is to create a favorable framework for the adoption of social responsibility by the European enterprises, as key factor in fulfilling the objectives of growth, competitiveness, employment and sustainability in the European economy, as European strategic objectives and in improving the performances of the European business environment.

Apart from the general advantages (comfort and safety generated by the favourable situation from the legislative and legal point of view; increase of profitability as a consequence of reducing costs, of using the new technologies or of adopting new efficient management systems;

[*] The Green Paper for the promotion of the Corporate Social Responsability.
[†] Communication concerning the contribution of enterprises to the sustainable development.
[‡] Other very visible initiatives at international level for the support of the business environment to take on the social responsibility are: "Business Social Compliance Initiative", a network created in 2003 at the Foreign Trade Association and "Global Reporting Initiative".

improvement of the public image), some responsible behavior at the level of the tourist service providers is able to ensure in the tourist industry:

- *The shaping of a brand and product image which can be placed on the alternative tourism markets* (dynamic markets, with increased added value and cashing per days/sojourn over the average – see below) ;

- *The possibility of competitive placing on the international markets* (on the maturity tourism markets, the efficient communication of observing the sustainable practices by the company, in correlation with a good quality/price relation, may offer competitive advantages even in a strong competitive environment);

- *Client loyalty* (it is well known that on the tourist market it is the most efficient means of promotion and market stabilization);

- *Better capacity to ensure an integrated management of the tourist product quality* (the strategic perspectives of a tourism enterprise essentially depend on ensuring the quality of all components of the tourist "chain"; any break in the chain, whether the attractive resources or the functional ones, may compromise the products and market image of the company and region);

- *Increase contribution to the efficient valorization of the social-cultural and ecologic resources of the receiving area, as well as to the preservation of its attractive potential* (key element of the competitive advantage and irreplaceable production factor);

- *High potential of integration into networks and public-private partnerships organized around concepts associated with the sustainability strategic objectives in tourism* (with favorable effects on the region tourist attractiveness, on the business profitability, on the multiplication processes).

Apart from a favorable European context which promotes extremely dynamically the pattern of sustainable development and responsible association of enterprises to the fulfillment of the economic, social and environment strategic objectives of the European Union, there is still the key issue of the real perspectives of integration into the business environment of a new approach changing essentially the enterprise functions. In tourism, beyond the controversies and uncertainties related to the cost – benefit relation in taking on social responsibility, the market provides the possibility of efficient integration of the social and environment aspects in the enterprise policies by placing itself on the alternative markets, which, by their specificity, ensure a high level of compatibility between the tourist industry interests and the receiving destinations interests, from the perspective of sustainable development.

4. ALTERNATIVE TOURIST MARKETS AS OPPORTUNITY FROM THE PERSPECTIVE OF SUSTAINABLE DEVELOPMENT AND PROMOTION OF SOCIAL RESPONSIBILITY OF ENTERPRISES

In essence, the alternative tourism includes those segments which, through market practices, attitudes and behavior are opposite to mass tourism. It is estimated that currently 20% of the market is made up of tourists that can be classified in the alternative tourism.

Tourists are more concerned by the receiving area, lay more emphasis on culture and nature, are more interested in communication; the dominant motivation is development, knowledge, communication.

The main market segments affected by new socio-cultural behavior which give content of the alternative markets are: cultural tourism, nature-based tourism (eco-tourism), sports tourism, rural tourism, preventive health tourism under the formula “a full physical and psychological form”. The positioning on the alternative tourism markets, as an option for developing a portfolio of products associated with a model of socially responsible management, is based on general characteristics of alternative markets, which can be structured, compared with mass tourism, as follows:

Table 1 - The alternative tourism versus mass tourism

The mass tourism	The alternative tourism
Generalist markets, extremely diverse, with medium income and medium level of education	Specialized markets, with high level of education, training and high-income
Daily expenditures relatively low	Daily expenditures above average
Poor reporting to the receiving environment	High level of reporting to the receiving environment (high dissemination of local factors)
Low added-value	High added-value
Competition through price	Competition through quality / differentiation
High elasticity in function of income and price	Low elasticity in function of price and income
Passive attitude, dominated by the four "S"[*] with standard holidays	Active attitude, dominated by the four "E"[†], with personalized vacations, differentiated
The dominance of the quantitative component, materialistic in determining consumption	Importance of high post-materialistic values
Emphasis on the needs of evasion and diversification (simple products)	Needs of differentiation, communication/development (complex products)
Rushed tourist, regardless, itself oriented	Responsible tourism, oriented on the others
Aggression against the environment	Protective attitude towards the environment

Source: after Pascariu, G.C., 2006

[*] „sand”, „sea”, „sun”, „sex”
[†] „environment and clean nature”, „entertainment and fun”, „education, culture and history”, „event and mega event”

The comparative analysis proposed by the joined table shows that alternative markets provide a correlation between the economic, social and environmental, presenting important opportunities, both at the level of private business and at the receiving communities, and also the specific forms of manifestation have good potential to support new trends in European sustainable tourism policies. The option to alternative markets does not have only opportunities but also risks, obliging to a strategic approach, based on strategies of tourist development, applied within public-private partnerships (table 2).

Table 2 - Tourism markets among alternative opportunities and constraints

Opportunities	
At firm level	**At destination level**
High profit merges	A good cost / benefit relation
Select clients	High level of training of the local / regional economy
Opportunities by loyalty of clients	The reducing of touristic negative externalities
Relatively low rivalry	The improving of the contribution of tourism to social progress, environmental protection
Faster recovery of investment	The transforming of the resort into a pole of training of development and competitiveness of the region
The possibility of obtaining a brand image	The possibility of obtaining a brand image
Constraints / specific exigencies	
At firm level	**At destination level**
The standardization of services	Public-private partnership
The integration of social and ecological considerations	Integrated Quality Management
Differentiated marketing strategies	System management / marketing of the destination
Flexible portfolio of products, possibly individualized, difficult management of the production, high marketing expenses	The need of sketching a tourism identity and a brand image

Analyzing the table 2, we see that the alternative tourism markets have on one hand certain opportunities and on the other hand constraints, both at company and at destination level. As we observe, the opportunities existing in alternative tourism markets are quite significant, bringing a net added-value in the company and destination. It also creates constraints rather some specific exigencies that must be properly correlated with various factors (we have here in attention the business environment, the type of the region in which tourism is, management system applied within the profile companies, financial aspects, etc.).

CONCLUSIONS

In the European Union, the CSR concept is associated with the strategic option for sustainable development. By its specific activities, the tourism has significant impact on destinations, both economically, socially and environmentally. For this reason, in orienting towards a pattern of sustainable development, the tourist destinations are conditioned by the adoption of an integrated strategy of developing and promoting those tourist practices (at the level of industry and tourists) which ensure optimum management of the marginal cost – marginal benefit relation, in developing the tourist function of a region. This aspect is much more important if the region is less developed, characterized by structural weaknesses (reduced diversity of production and trade, specialization in industries based on natural resources and labor), dependency on the external demand, on the external capital, it has low entrepreneurship quality, a relatively low level of education and professional training, is situated at great distances from the main centers and does not have a developed infrastructure.

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THEORETICAL CONSIDERATIONS ON THE INFLUENCE OF ETHICAL PRINCIPLES ON AUDIT QUALITY, BETWEEN OBJECTIVITY AND RESPONSIBILITY OF THE ACCOUNTING PROFESSION*

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Abstract: *Although no method yet has been found to guarantee the optimum quality level for the financial information users, and implicitly the quality of accounting and audit services, the efforts concerning these aspects have lately intensified, and a multitude of elements that influence quality in audit and the accounting profession are analyzed and interpreted by many authors. In our research, we aim to analyze the manner in which ethical and moral principles, corroborated with responsibility, may influence the quality of audit. The purpose of this paper is to stress out the connection between ethical principles, responsibility, and quality in accounting.*

Keywords: ethical principles, the auditor's independence, audit quality, professional responsibility.
JEL Code: D63, M41, M42

INTRODUCTION

Without being too exhaustive in our approach, we can state that this feature of financial-accounting information, *quality*, dominates the world of accounting and audit services, and it is at the same time controversial as well delicate and necessary. Moreover, we consider the quality of the accounting/audit profession to be one of the essential conditions that lie at the basis of quality financial reporting and implicitly of a favorable approach from an economical perspective.

The need and importance of ethical and professional and personal behavior norms come both from the important role played by freelance accountants towards the state and society, and from the essential requirement of service quality, based on science, competence, and conscience, independence in spirit and lack of material interest, morality, probity, dignity, and professional behavior.

The inexistence of ethical and moral principles in accounting and audit would create the premises for "*legal fraud"*, which are not necessarily dependent on creativity, but rather on the weakness of an accounting system lacking ethical norms and principles, in short, lacking quality.

* ACKNOWLEDGEMENT**:** This work was partially supported by the European Social Fund in Romania, under the responsibility of the Managing Authority for the Sectorial Operational Programme for Human Resources Development 2007-2013 (grant POSDRU/CPP 107/DMI 1.5/S/78342/2010).

Under these circumstances, if we refer to the importance of ethics in accounting, without becoming overly exhaustive in our approach, we could state that the purpose of their occurrence was to guide economic life. As a result, the Machiavellian slogan "*the end justifies the means*" is out of place in the world of transactions, in amoral economic competition. We subscribe to the opinion that the truth that accounting attempts to build as a true and fair view is one of the virtues that ethics, morality, and religion cultivate as a priority (Horomnea, 2012). Specifically, accounting observes, records, quantifies, processes, and communicates specialized information to a well determined market: internal and external users.

Without the compliance with moral principles and norms, the contemporary world is subject to chaos. Therefore, in the current economic context, *the mission of the accounting professional has crossed the borders of a simple job* and has come to mean *the guarantee of the correctness of the public information* provided by economic entities.

1.RESEARCH METHODOLOGY

In our approach, the dominant research stream is the *positivistic* one, aiming to explain, through a detailed and advanced research, the various sides of the effects of ethical principles on quality in audit and the accounting profession, in the conditions of performing a responsible and quality audit activity.

This paper comprises elements of the *interpretative and critical streams*, as various norms, regulations, and practices in the field will be discussed in an interpretative manner (a neutral point of view is adopted) as well as critical one (involvement in a particular point of view). The research will be fundamental, and its purpose will be a theoretical generalization after noticing the insufficiency of knowledge in respect to the *importance and need to apply ethical principles, quality and responsibility in audit and accounting,* as well as identifying certain facts, for which the orization was not suggested.

Future research directions should focus on *applicative research*, which will be concerned with building both a theoretical and a practical explanation for the need to implement quality services in audit and accounting, starting from the phenomena noticed within the economic entities, determining the necessity for quality information that would reflect thefair view in accounting.

This topic was approached through a constructivist research, starting from the evolution of professional deontology codes and up to the importance of the fundamental ethical principles, between obligation and responsibility in accounting, analyzing first and foremost the impact of the auditor’s independence on the quality of the financial-accounting information published, as well as *responsibility and quality in accounting.* In the end, we formulated opinions and conclusionsin an approach ranging from ethics and morality to quality in audit.

2. PROFESSIONAL DEONTOLOGY CODES

Accounting and the accounting professional resort to virtues such as: justice, prudence, probity, and dignity, and the professional deontology of the accounting expert is concentrated in the slogan “*Science, Independence, Morality*”.

There are several methods through which the accounting profession and society as a whole encourage auditors and accounting professionals to behave appropriately and provide high quality financial-accounting and audit activities, of which we mention: *quality control, continuous training demands, legal liability, peer evaluation, the professional behavior code, exams for accessing the profession* (Arens and Loebecke, 2004, p. 95).

Accounting deontology (Horomnea and Tabără, 2008, p. 199) expresses the set of rules and usages that regulates the relation between the accounting professional as producer of the accounting information, and the *stakeholders*. In a democratic society, a distinctive feature of accounting is establishing and acquiring a *professional deontology code*, which stipulates the exact level of behavior that an accounting professional must adopt since joining this profession. For this reason, each accounting expert / auditor in Romania is *responsible* to comply with the *national ethical code of the profession*. This aspect is, of course, harmonized with the AICPA behavior code *(American Institute of Certified Public Accountants)*, which implicitly applies to auditors, fiscal consultants, and to other similar specialists.

Ethics can be defined as a set of principles that give value to morality. Ethical behavior is necessary for a society to work in an orderly manner. Moreover, the need for ethics is important enough for various moral values to be included in laws. The AICPA professional behavior code provides both general norms for an ideal behavior and specific behavioral norms, with concrete application.

At an international level, IFAC *(the International Federation of Accountants)* adopted *the international ethical code of accounting professionals*. The need for the Ethical Code comes from: insuring optimal quality; preserving public trust in this profession; attracting and preserving the customers of audit services; validating the work performed by accounting professionals; insuring protection for the financial auditor and for the users of audit services; defending the honor and independence of the accounting professionals and of the body they are part of (Horomnea, 2011, p. 93).

The main representative of the free accounting profession in *Romania* is *The Body of Accounting Experts and Certified Accountants of Romania*. With over 90 years of activity, it was involved not only in the practical regulation of the financial-accounting activity, but *has also constantly promoted the ethical side of the accounting profession*. Also, as a member of the International Federation of Accountants (IFAC), it permanently contributes to meeting the objectives of developing and promoting the accounting profession, coordinated at the world level with harmonized standards. A necessity of the past as well as of the present, created with the purpose of improving the uniformity level of professional ethics and to establish behavioral norms for all the accounting experts in Romania, *The national ethics code of the accounting professionals*, compulsory since January 01, 2007, formulates the fundamental principles that must be applied and complied with by all professionals, and especially by all members of the Body, in order to achieve the common objectives, according to the *International Ethics Code* issued by the world accounting body, IFAC. Moreover, *the new National Ethics Code of the Accounting Professionals*, approved by the *Decision of the High Council of the Body of Accounting Experts and Certified Accountants in Romania, no. 11/216 of March 31, 2011*, based on the Decision of the National Conference of the accounting experts and certified accountants no. 10/65 of September 2, 2010, is compulsory for all CECCAR members in accomplishing the professional services in Romania, starting with January 01, 2011.

Also, *the Chamber of Financial Auditors in Romania* adopts in its entirety *the Ethical Code of Accounting Experts, issued by the International Federation of Accountants (IFAC)*, version July 2009.

3. FUNDAMENTAL ETHICAL PRINCIPLES, BETWEEN OBJECTIVITY AND RESPONSABILITY OF THE ACCOUNTING PROFESSION

All professions, irrespective of the field they belong to, are governed by rules, standards, and principles that must be complied with for performing, in good conditions, the corresponding activity. Because of the peculiar and confidential nature of many services, as well as of the need of the beneficiaries to be able to trust them, professionals are subject to strict technical, ethical, and moral rules (Popa et al., 2012, p. 34).

As we mentioned in the previous section, in a modern society, a distinctive feature of the accounting profession consists in establishing and acquiring a *professional deontology code*, which stipulates the exact optimum level of behavior necessary for each accounting professional, since he joins the profession. For this reason, each accounting expert / auditor in Romania is *responsible* to comply with the *national ethical code of the profession*. An accounting professional must analyze any threat to the ethical principles of the profession, or simply to guess the circumstances and relationsthat may endanger his principles, especially his independence (Spalding and Alfonso, 2011, pp. 49-59).

The objectives of accounting, established in the Ethical Code of Accounting Professionals, follow the highest professional and performance standards, and comply with the requirements of the public interest. In order to meet these objectives, accounting professionals must obey the *fundamental principles* based on*: independence, integrity, objectivity, professional competence and goodwill, confidentiality, professional behavior, compliance with technical and professional norms* (The National Ethics Code of Accounting Professionals, 2011).

Independence is a fundamental principle that applies to all the accounting professionals. Respecting independence eliminates the relations that may affect an auditor's objectivity. This principle insures the fulfillment of the audit mandate in conditions of *integrity and objectivity*.

Integrity is the essential criterion that any professional must meet, the supreme quality they can acquire during their evolution. From this quality derives public trust, since integrity is a sum of the profession for all those who wish to ascend the value scale. Professionals must be direct, honest, and incorruptible in performing their activity. At the same time, integrity is the support of trust and credibility in the professional reasoning of the accounting professional and of the auditor.

Objectivity implies impartiality and correctness in drawing reports, which must be precise and objective. The practitioner must follow professional reasoning, without being influenced by conflicts of interests, subjectivism, or by the unwanted actions of other people. The conflict of interest may occur if the accounting professional is involved in direct business with a client or participation in a competitor of the client, as well as in case he provides services for clients whose interests are in contradiction. If such a situation is noticed, the accounting professional has to inform both the client and all the involved parties. He will take action only in case his objectivity is not compromised.

*Professional competence and due attention.*The auditor must accept audit missions as long as he meets professional competence. Consciousness includes, according to the standards in the field, the responsibility to act according to the requirements of a mission, meticulously and opportunely.

Confidentiality. By applying this principle, the auditor respects the confidentiality of the information acquired during the audit mission. Moreover, the confidential information obtained in professional relations must not be used to the personal advantage of the accounting professional, or of a third party.

Professional behavior. The auditor must comply with the laws and regulations, avoiding any action that discredits the profession.

The professional bodies in various countries (including the Chamber of Financial Auditors in Romania) impose their members to take part in professional deontology courses. Apparently, this proliferation of compulsory courses in this field implies a lack of deontology from accounting professionals. If such courses were not necessary, they would not be required. On the other hand, of all the other professions, it seems that accounting is almost the only one that requires its members to attend ethical and professional deontology courses (Cheffers and Pakaluk, 2007). Accounting is, by far, the most regulated profession in the world.

More recently, CECCAR accounting professionals transmit their opinions to other representatives, such as those working in company management, through the audit report and the explanatory note on the administrators' management report and on the efficiency of internal control. In these circumstances, the following question arises: *who is responsible for implementing the ethical and moral principles in exerting any activity in the name of the company?* The answer to it is as obvious as it is controversial. From our point of view, the entire collectivity of the company must be responsible for the proper application of ethical norms, by every individual and by all. The three Rs, so largely discussed in many specialty works, *respect*, *responsibility*, and *result*, are remarkable in what concerns the businessmen's support indefining the ethical direction to take. The first R in business ethics, *respect*, must be an attitude applied to people, organizational resources, and to the environment. Respect includes behaviors such as: treating all the clients and employees with dignity and politely. *Responsibility* implies showing this attitude to clients, colleagues, the company, as well as personal and social responsibility. The third R – *result*– concerns the understanding of the way in which results are obtained, taking into account the fact that they are just as important, if not even more, than result itself.

4. RESPONSIBILITY AND QUALITY IN THE ACCOUNTING PROFESSION

Starting from the idea formulated by George Bernard Shaw, that *"Liberty means responsibility. That is why most men dread it*", we are trying to analyze the importance of the accounting experts taking responsibility in order to perform their activity in conditions of quality.

According to the Explanatory Dictionary of the Romanian Language, *responsibility* means: "*the obligation to perform a thing, to answer for something, to accept and bear the consequences, liability, consciousness, responsible attitude to one's own obligations*".

The auditor, according to SAS 1, has the *responsibility to plan and perform audit so as to obtain a reasonable assurance concerning the presence or absence of significant erroneous presentations in the financial statements*, irrespective of whether these presentations are caused by mistakes or fraud. However, the auditor is not responsible for planning and performing audit so as to obtain reasonable insurance in what concerns the detection of erroneous presentations that are insignificant in relation to the set of financial statements.

It is important for the auditor to know very well the entity's objectives and strategies, because they generate business risks that may engender significant distortions of the financial statements. Nevertheless, the auditor is not responsible for identifying or evaluating all the business risks, because not all these risks engender significant distortions of the financial statements.

In what concerns *the responsibility to prevent and detect fraud*, according to ISA 240, "*The auditor's responsibility concerning fraud in an audit of financial statement*", it comes both to the persons in charge with the company's governance and to management. In its turn, management, under the supervision of the persons in charge with governance, should focus both on preventing fraud, which may determine a decrease in the opportunities for fraud to occur, and on fighting it, which may convince individuals not to commit fraud, because of the probability to be discovered and punished. However, this implies a commitment for the creation of a culture characterized by honesty and ethical behavior.

Moreover, *the auditor is responsible to preserve a professionally skeptical attitude* all along the audit. Professional skepticism includes reserved thinking, attention to the circumstances that may indicate a possible distortion caused by fraud or error, and a critical evaluation of audit evidence (Ghid privind auditul calităţii, 2010, p. 124).

Obtaining substance changes in financial-economic life implies responsible commitment in making major decisions. Efficient leadership, as well as effective management of the period of crisis, implies basing decisions ona system of real, pertinent, relevant, and present information. We believe that in such a conjuncture, the mission of the accounting professionals becomes essential.

Economic problems constantly determine the most important aspirations of the individual's society. With sufficient arguments and without exaggerating, we believe that the "*science of accounts*" is really the center of the economic universe. This is obvious in Alvin Toffler's idea, stating that "*without accounting, the world would be much poorer. First of all, materially, and by extension, even spiritually!*" (Horomnea, 2012)

The responsibility for adopting appropriate accounting policies, of preserving the right internal control, and of making correct presentations in the financial statements comes to management, not to the auditor. Both the auditor and the beneficiaries of the examined information must remember that the responsibility for preventing and detecting fraud and errors comes to the management, by continuously implementing and using appropriate internal control systems. These systems reduce, but do not eliminate the possibility for fraud to occur. The auditor is not and cannot be held responsible for preventing fraud and errors, but through the activity they perform, it is possible to detect, prevent, and discourage them.

From Arthur Andersen's point of view, a constant supporter of high quality standards in the accounting profession, *the responsible of bookkeeping comes to investors*, as they should be directly interested in this aspect. We believe his opinion is well founded, since he struggled to improve himself and succeed professionally. Moreover, he acquired a series of principles that he strictly complied with in leading his company, *constantly supporting high quality standards in the accounting profession*. Ever since his first years of activity, he created a flawless reputation. Andersen did not hesitate to refuse a company executive officer who requested him to certify financial statements that contained errors, providing an ironical answer: "*The entire city of Chicago does not have enough money to convince me to accept this*" (Horomnea, 2011, p. 291).

In addition, Deloitte and Touche issued a guide publication titled "Under Control", which shows the importance of the clear designation of responsibilities and task separation, besides provisions concerning the need to implement more rigorous control system in companies. Therefore, we can notice frequent preoccupations of big audit companies in involving responsibility, as an essential element, in the good performance of their economic activity. Accepting liability towards the public is a characteristic of the financial auditor'sjob. Moreover, the compliance with the highest professionalism standards and meeting the requirements of public interest are the fundamental objectives of the accounting professional, including the financial auditor.

5. FROM ETHICS AND MORALITY TO AUDIT QUALITY

Through its nature, accounting is tightly connected to ethics, morality, and religion (Horomnea, 2001, p. 76). At the same time, the concepts of morality and ethics are quite close, connected, complementary, and indispensable to contemporary world, considering the interdependencies between the markets, the huge quantity of accounting information that can be found on these markets, as well as the fraudulent manipulations to which financial-accounting information is sometimes subject.

In the last years, a special interest has been placed on high quality practices in the accounting profession worldwide. Moreover, there are numerous studies concerning *ethics*, confidentiality, and professional behavior. In a specialty study, Morariu (Morariu, 2007, pp. 19-22) deals with aspects related to competence, confidentiality, and professional behavior in the context of the Ethical code for accounting professionals, and Mihăilescu (Mihăilescu, 2007, pp. 7-14) presents the ethical rigors and principles of auditors in audit mission. The relation between professionalism and ethics in accounting and audit is debated by Lazăr (Lazăr, 2008, pp. 13-22), while ethical dilemmas are presented in a structured approach by Badea (Badea, 2008, pp. 25-30). Also, Rusovici and Rusu (Rusovici and Rusu, 2008, pp. 19-25) discuss a topic related to ethics and the professionalism of the financial auditor, professional reputation, considered to be a valuable asset. A supporter of ethics in accounting, Popescu (Popescu et al., 2009, pp. 9-19) makes a study concerning the ethics of the accounting professional in the conditions of the global financial crisis. In this context, he identifies the deficiencies of business ethics and the specific pressures that exist in conditions of crisis, promotes the idea of a “responsible person for ethics and conformity” in companies, defining a unitary system for monitoring quality and ethics in audit offices. Last but not least, one of the relevant studies in this context is that of Morariu (Morariu et al., 2009, pp. 31-39), who approaches the provisions of ethical standards and professional behavior at a global level. Significant concerns and papers written in business ethics can also be found in the Iaşi school of thought, in the paper “*Dimensiuni ştiinţifice, sociale şi spirituale în contabilitate*” (*Scientific, social, and spiritual dimensions in accounting*), essential elements related to “*Professional deontology and morality in accounting and business*”.

Surpassing the wish of any individual to be professionally noticed, the accountant must meet the demands for information of the accounting market, harmonized and oriented towards the stakeholders. In other words, human nature periodically displays the irrational behavior determined by the desire to be professionally successful, to become rich fast (or that “*irrational exuberance*”, as

Alan Greenspan called it). Such a circumstance leads to the creation of a "*speculative bubble*", whether we speak of fraudulent maneuvers that made the big audit actors in the world, named for start the *Big Eight*, to then become the *Big Six* and finally the *Big Four*, or if we simply refer to the *non-compliance with ethical and moral principles* in performing the accounting professional's or auditor's performing their attributions. At the same time, the auditor, seen as a main actor on financial markets, can make investors trust him, through *professionalism, objectivity, responsibility, and independence.*

Audit must meet all the challenges of globalization, frauds and financial crises, by *assimilating techniques and designing quality control methods and mechanisms.* This way, the auditor can responsibly perform the duty he accepted and issue a reasonable opinionon the most significant aspects. Moreover, he must successfully combine the notions in the field of audit (auditing techniques and procedures, principles, standards, work methodology) with the new information technologies (programs and integrated systems dedicated to auditing, databases), as well as research methods and instruments specific to other sciences. In this context, audit can no longer work in isolation, but correlated with new innovation techniques from other related fields.

General and specialized culture, achieved in a continuous process of learning and applying knowledge into practice, essentially modify the status of the accounting profession. Performance in the financial-accounting profession is a necessary and indispensable condition in *complying with the moral and ethical principles*. The accounting profession is concerned with designing ethical and professional behavior standards. Accounting determines and legitimates the efficiency of any company. We tend to forget that *responsibility and accounting rules* lie at the basis of the crystallization of the values which support society from an economical perspective.

The Anglo-Saxon world tried to issue, through accounting normalization institutions, such professional ethics rules. The standards include the following characteristics: competence, confidentiality, integrity, and objectivity. However, as Jean Cohen-Scali said, there is "*an ontological responsibility to be objective*". Accounting is a formalized language, a means of communication, having the role to model events, in order to give them a correct meaning, and to communicate this meaning. The excessive rigor that many want to give to the process of normalization will lead to distancing from the objective of the fair view. Therefore, *ethics becomes the only true factor of the quality of financial information. Is that so?!*

In *the United States of America*, there are many bodies that regulate ethical principles in accounting, of which we mention: the Institute of Internal Auditors, the National Association of Accountants, and the Institute of Certified Public Accountants. In 1887, *The Association of Public*

Accountants (AAPA) was born in America, the first step towards the development of ethical and moral principles in the accounting industry of the United States (Casler, 1964, p. 5). The international norms that regulate the audit profession are of American origin, because the USA is one of the countries with the oldest experience in financial audit.

In an article published in 2007, in the *Managerial Auditing Journal*, a top nine *factors that contributed to the ethical failures of accountants* has been drawn, based on a survey of 66 members of the International Federation of Accountants.

Some of these factors are: failure caused by the impossibility to preserve independence and objectivity; inappropriate professional judgment; not applying ethical principles; inability to resist threats; personal interest; lack of competence; lack of organizational support; lack of support from the professional body.

The main factor is *personal interest*, relevant when the accountant acts to his best interest, which implicitly determines the occurrence and development of the conflict of interests. For example, if while performing his audit mission, an auditor notices an error concerning an account, he can act disregarding the ethical and moral principles, in the conditions in which he receives material stimuli (Beverley et al., 2011, pp. 928- 944). This is just an example of what it means to disregard the ethical and moral principles in the accounting profession, which, unfortunately, is not the last, but maybe the least.

The degree of compliance with accounting laws is different from one country to another. In Germany, accounting legislation is regulated by the "tax law", while in Sweden, there is an "accounting law", and in Great Britain, a "company law". Therefore, countries have their own bodies that regulate their laws (Gowthorpe, Blake, 1998, p. 7).

Analyzing the accounting profession from the point of view of the *ethics and responsibility* it has towards *quality in audit*, becomes particularly important for both the accounting professional and the auditor to accept the fact that they have a social responsibility towards the users of the results of their work. At the same time, they perform their work in the interest of the users who, in their turn, must be convinced that the auditors act competently, with professional integrity, fulfilling all the criteria that guarantee quality.

CONCLUSIONS

The accounting profession, like other professions, faces new challenges because of the continuous legislative changes, of the occurrence of new types of accounting/audit and insurance services, of the impact of the new information and communication technologies, of the increase in the number and quality of professional standards, of the appearance of new software products, of new reporting methods, etc. Moreover, the accounting profession must take responsibility for the public interest in providing high quality services, while complying with professional standards.

In recent years, special accent has been placed on high quality practices in the accounting profession worldwide. Besides, there are numerous studies concerning *ethics*, confidentiality, and professional behavior. It has been practically proven that, in the context of the evolution of the economic situation at the world level, as well as in our country, the financial auditor is the professional who can contribute, to a significant extent, to healing the economic climate and reestablishing confidence in business. *Through professionalism, independent attitude and transparence in performing audit mission, through drawing quality reports, in conformity with international standards and with the ethical code of the profession, the auditor meets the public interest shown in regards to the correctness of the business subject to his evaluation, fulfilling at the same time an important social role.* Moreover, after verifying and certifying the information provided to the users by an ethical, competent, and independent auditor, favorable conditions are created for (re)establishing the confidence between the producers and the users of the accounting information.

We conclude by stating that accounting professionals are actors on a market where the demand and offer of accounting information are confronted. They must be aware of the important role they have on this market, provide a fair view of the financial position and of the performance of the company, analyzed in the conditions of complying with the *ethics code* in completing the accounting act and taking responsibility in the performed activity. A good professional nowadays knows what the Romanian accounting reform means, learns to understandand apply the International Standards of Financial Reporting, as well as the International Audit Standards, is aware of the importance and scope of the application of professional reasoning, councils the company management in supporting accounting policies, is subject to the *Professional ethics code*, being aware of the limitations of his judgments. He must acquire knowledge and use professional reasoning correctly. Finally, competence comes first, together with *responsibility*. Considering these aspects, there is an obvious connection between: the evolution of professional deontology codes, the importance of fundamental ethical principles, the impact of the auditor's independence on the quality of financial-accounting information published, *responsibility and quality in the accounting profession.*

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PRICE-LEVEL TARGETING – A VIABLE ALTERNATIVE TO INFLATION TARGETING?

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Abstract: *The recent financial crisis that has led some central banks reaching the zero lower bound of their interest rate to use unconventional monetary policy instruments, has brought to the forefront the academic discussions on the shift from inflation targeting (IT) to price level targeting. This paper provides a comparative analysis on IT strategy and targeting the price level, assesses the implications and highlights the challenges of an eventual transition to a new monetary policy strategy. Balancing the advantages (mainly better anchored inflation expectations) and disadvantages (communication difficulties) generated by following a potential price-level targeting strategy and the necessary prerequisites for its functionality (predictive agents, fully familiar with the implications of such a strategy and with complete confidence in the monetary authority) has led us to the conclusion that there is no common acceptance that price level targeting strategy might replace the present IT framework.*

Keywords: price-level targeting, inflation targeting, inflation expectations, deflation, zero-lower-bound

JEL Classification: E31, E52

INTRODUCTION

The outbreak of the financial turmoil in 2007, the subsequent financial crisis and the collapse of economic activity led to the need of rethinking the monetary policy framework. This approach underlines a series of monetary policy principles unchanged under the international financial tensions, but also a number of elements to be reconfigured. Custom academic discussions on the global turmoil in terms of monetary policy strategies center on three potential modifications: setting a higher inflation target, monetary broadening and the shift from IT to price level targeting.

The present paper focuses on the third aspect mentioned, in order to identify the opportunity and feasibility of adopting a new monetary policy strategy, namely the price-level targeting, in the context of at least the temporarily abandonment of inflation targeting. Under an IT regime, after a shock hits the economy, the central bank (CB) acts to bring inflation back to the target level, regardless of the permanent effects of that shock on the price level. In contrast, a price level targeting strategy implies that the central bank would act to restore the price level to its initial value. This difference, although it might be considered minor, has complex implications to the formation of price expectations, and the leadership, credibility and communication of monetary policy.

Our paper, which aims to identify and analyze the potential impact of price-level targeting, is structured as follows. The first part illustrates the main ideas in the literature, the second part offers a comparative approach of the two monetary policy strategies, the third explains the consequences in terms of the new strategy benefits; the fourth part is presents the associated challenges and the fifth highlights the conclusions and future directions of analysis.

1. RELATED LITERATURE

The fact that currently no central bank applies price-level targeting points out the need to address its characteristics and implications based solely on theoretical analysis and especially on the models used by various researchers and scholars. The academic literature focused on the subject of price level targeting is broad enough, sharply in contrast to the lack of practical experience in the field.

A good criterion for analyses systematization is breaking them down into four horizons: 1) the period that includes the traditional argument, 2) the seminal work of Svensson (1999), 3) the research conducted in the context of reaching the zero lower bound of short-term nominal interest rates by Japan since the late 1990s; 4) the current academic discussions generated by the problematic dealing of various central banks with the zero-lower-bound as a consequence of the global crisis unfolding. For the present paper, mainly oriented on emphasizing the strengths and drawbacks of the potential application of price-level targeting it is extremely important to balance the theoretical and empirical approaches in terms of implications arising from the use of such a monetary policy strategy.

Thus, the first advantage of price targeting compared to the IT is the uncertainty limitation on the future long-term price level (Lebow, 1992; Fillion and Tetlow, 1994), which leads to a whole plethora of positive effects. Konieczny (1994) showed that a better predictability of price levels reduces future consumer costs, improving the role of prices in resource allocation, and thus lowers the risk of errors that could shape the consumption structure below the optimal. Ragan (1994) argued that enhanced price level estimation decreases the probability of default, thereby cutting down the costs of financial intermediation.

Meh et al. (2010) found that unlike in an IT strategy framework, inflation-induced arbitrary redistribution of wealth could be moderated by a third under a price level targeting regime. In addition, greater price certainty would lead to lower risk premium on long-term bonds and such a reduction in the cost of capital stimulates investments and a higher level of economic activity. Meh et al. (2009) suggested that targeting the price level could favor a substantial growth in capital investment.

Besides the obvious positive effects of accentuated price stability, reduced uncertainty generates strong anchored price expectations; thus, the price level targeting strategy manifests as a true automatic stabilizer (Haldane and Salmon, 1995; Fisher, 1994; Mishkin, 2011). The stabilization of inflation expectations increases the short-term macroeconomic stability (Svensson, 1999; Berentsen and Waller, 2009; For Resende et al., 2010). Enhanced compromise between output and inflation volatility result of price-level targeting is also emphasized by Clarida et al. (1999).

Another positive effect associated to price level targeting feature of automatic stabilizer, of great interest in the present context, is the limitation of cases frequency related to zero-lower-bound issues, i.e. an easier exit from the liquidity trap (Berg and Jonung, 1999; Svensson, 2001, 2010; Eggertson and Woodford, 2003; Mishkin, 2006, 2011; Coibion et al., 2010). Moreover, a better anchoring of inflation expectations due to the new monetary policy strategy implies a greater flexibility in addressing financial stability (Carney, 2009).

However, the potential benefits of targeting the price level are conditioned to a number of mandatory prerequisites. The emergence of these advantages depends on the anticipatory nature of agents' decisions (forward-looking) (Steinsson, 2003; Ball et al., 2005; Vestini, 2006; Amano et al., 2011). If the economy includes both types of agents, forward-looking and backward-looking, the highest social welfare can be achieved under certain conditions, by combining price-level targeting with inflation targeting into the so-called *hybrid targeting* that involves the central bank's loss function to be defined in terms of both inflation and price level volatility (Batini and Yates, 2003; Cecchetti and Kim, 2005).

At the same time, the implied benefits of price-level targeting require a full agents' understanding of its functioning (Bank of Canada, 2011). Therefore, the process of learning plays a key role (Gaspar et al., 2007). The full credibility of the central bank's commitment ends the series of preconditions necessary to achieve the benefits of a potential use of price level targeting. Only a credible CB will be able to firmly anchor inflation expectations to provide the outcomes of price-level targeting as automatic stabilization mechanism (Cate et al., 2009, Masson and Shukayev, 2011; Kryvstov et al., 2008).

The major weakness of the new strategy compared to inflation targeting is the complicated communication of monetary policy, both of the target itself and the current decision-making process (Kahn, 2009; Ambler, 2009; Mishkin, 2011). Another impediment in the implementation of price-level targeting is considered to be the strong exposure to time inconsistency problem (Jeanne and Svensson, 2007; Evans, 2010; Masson and Shukayev, 2011). In addition, another challenge to a potential new strategy would be determined by the increased volatility of relative price shocks, respectively higher output volatility (Fillion and Tetlow, 1994; Black et al., 1997; Svensson, 1999 s) and/or a growth in inflation volatility (Haldane and Salmon, 1995; Coletti et al., 2008; Murchison, 2010).

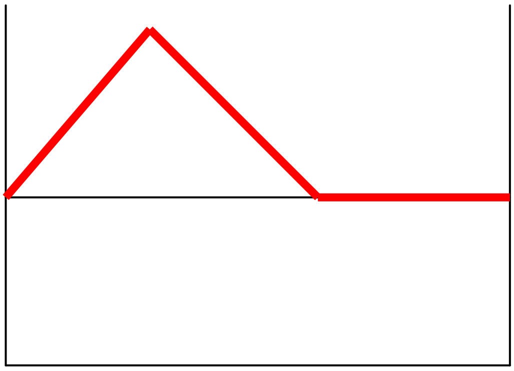
Also, another obvious disadvantage of a possible shift from inflation targeting to price level targeting concerns the lack of practical experience in the use of such a monetary policy strategy (Bohm et al., 2011).

2. COMPARATIVE ANALYSIS OF THE TWO MONETARY STRATEGIES FUNCTIONING

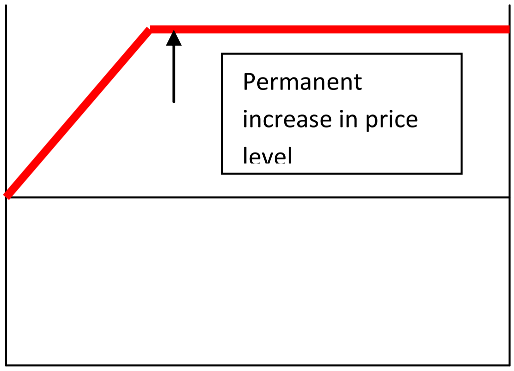
The contrast between the IT and price level targeting occurs due to the different impact of their application on inflation and price level.

Figure 1 - Time evolution of inflation and price levels under an inflation targeting regime

a) inflation



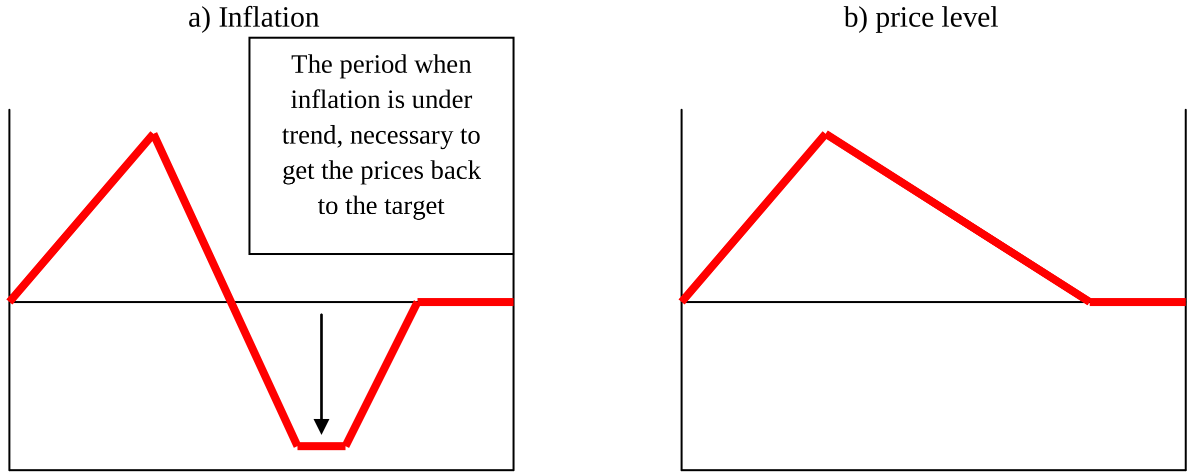
b) price level



Source: Bank of Canada, „Renewal of the Inflation-Control Target", p.15, http://www.bankofcanada.ca/wp-content/uploads/2011/11/background_nov11.pdf

Under an IT framework, the emergence of a temporary shock which leads to an inflation rise would make the central bank to pursue a restrictive monetary policy, of increasing the nominal short-term interest rates to bring inflation down to the target. In this case, in the absence of other additional shocks, inflation growth will be only temporary; the indicator would return and remain at its initial value. But while inflation is only temporary, the corresponding increase in price level would be permanent, displaying a *base drift*, as shown in Figure 1.

Figure 2 - Time evolution of inflation and price level under a price-level targeting strategy



Source: Bank of Canada, „Renewal of the Inflation-Control Target", p.15, http://www.bankofcanada.ca/wp-content/uploads/2011/11/background_nov11.pdf

Instead, under a price-level targeting regime, the manifestation of a temporary shock that increases inflation, thus implying a price growth, the central bank would seek to promote a restrictive monetary policy, but with a more pronounced degree of tightness to get inflation below the trend, bringing the price level back to the determined value. In this way the base drift is removed, as demonstrated by Figure 2. The CB does not aim to correct inflation to follow the trend, but to make the price level go back to the target.

The existence of a base drift under an inflation targeting strategy creates uncertainty about the future price level, (the central bank does not consider a reversal in the evolution of prices). In other words, under an IT framework, inflation deviations generate permanent effects on the price level and the successive accumulation of such violations would lead to price levels far from the expected path. Conversely, in the case of a price level targeting strategy, the central bank would consider neutralizing the shocks effects on the price levels, thus limiting uncertainty at all horizons.

3. THE EVALUATION OF POSITIVE IMPLICATIONS OF PRICE-LEVEL TARGETING

Research conducted on various models show that the major advantage of the transition from IT to price level targeting is the increase of economic welfare. The new strategy would enhance this trend based on its ability to provide greater certainty about the long-term price level and on its features of truly automatic stabilizer. The latter leads to other two positive effects, namely the increase of short-term macroeconomic stability and the avoidance/limitation of zero lower bound of nominal short-term interest rate problems and as such, to the economy removal from the deflation trap.

At the first level, the reduced uncertainty about future price levels contributes to achieving higher growth rates due to superior results in terms of relative prices improved transparency, less arbitrary redistribution of income and wealth, diminished risk premia with a positive impact on the capital cost, avoiding the defalcation of resources from production to cover unnecessary operations against rising prices.

Of course, the IT strategy has led to price stability, as the experience of adopting states clearly demonstrates it; however, it is estimated that the use of price level targeting would enable a further strong reduction of long-term prices uncertainty.

Moreover, the capacity of price level targeting strategy to provide greater certainty would lead to a better anchoring of inflation expectations, particularly important when flexibility is needed to address the financial stability. Well anchored expectations would allow an increase of short-term nominal interest rate in order to prevent the formation of asset prices bubbles, without compromising the fundamental central bank's objective of ensuring and maintaining the price stability.

In fact, inflation expectations have a vital role, enhancing the nature of the new framework as automatic stabilizer, the second tier that supports the benefits of such a monetary policy strategy. And this is because the implementation of price level targeting requires the CB to ensure that periods with above trend inflation are followed by periods when inflation is below trend (and vice versa). The anticipation of this inflation dynamic may lead firms to behave in a stabilizing manner under a price level targeting strategy. For example, if at a certain moment, the price level is above the target, firms and households will expect a future level of inflation below the trend.

These anticipations will operate through two channels. The first one is represented by the way firms pricing discourage them to raise prices in response to the initial shock, as expectations of future lower inflation would attenuate the impulse of increasing the current raise. The second channel is the real interest rate changes. Expectations of lower inflation in the future will raise the real interest rate which will affect consumption decisions, household and businesses savings and investments. Both channels will require, to lower inflation, small adjustments of output values.

Thus, the identified stabilizing, auto-correction character of price level targeting determines a level of employment, output, interest rates and inflation less volatile compared to the figures under an IT regime. The explanation is that in an IT framework the estimations do not play a vital role as agents have no reason to expect that periods of over trend inflation will be followed by under target inflation.

At the same time, the stabilizing nature of price level targeting strategy could lead to a decrease in the frequency of possible confrontation with situations of zero lower bound than under an IT regime, and the automated evolution of expectations specific to price-level targeting should result in a smooth exit from a deflationary situation, something of great interest today, when many CB of developed countries are faced with the zero-lower-bound issues.

Thus, the more prices fall below target, the more central banks will have to stimulate the economy to offset the price level decrease under the target. In this case, one would image inflation expectations to rise and real interest rates to fall, thereby facilitating the exit from the liquidity trap.

4. CHALLENGES FOR THE MONETARY POLICY IN THE CONTEXT OF PRICE-LEVEL TARGETING

The positive implications resulting from the potential application of a strategy targeting the price level are, however, strongly counterbalanced by a number of obvious difficulties associated with its implementation. We underline the communication difficulties, much stronger than in the case of an IT regime, a possible exacerbation of monetary policy time inconsistency problem, external shocks of relative prices, and the lack of practical experience in the effective adoption of the new framework.

On the other hand, the successful application of price level targeting, as demonstrated by various econometric models is based on a number of preconditions: it requires that agents pro-actively form their expectations (forward-looking), they are fully familiar with the strategy implications and also have a high degree of confidence in the monetary authority. If these conditions are not met in full (in fact a very likely situation in the real world), the net benefits of price level targeting mentioned in the previous section will be smaller or even completely canceled.

Price level targeting communication implies a significant communication challenge. Unlike the IT regime, where communication is direct and focused on the inflation target, price level targeting communication is more difficult. In the first place, the difficulty arises when the central bank targets un upward trajectory of the price level, which translates into the impossibility to present a single number; the target would be in constant motion and thus more difficult to explain to the audience than an inflation target maintained at a constant level. This communication drawback could be diminished if the target price would not incorporate the trend (for instance, an inflation target of 0% which would compensate previous deviations), whereas CB could engage in meeting a comprehensible objective, to maintain prices constant over time. Secondly, for some economic agents and their decision-making process, the inflation rate may be more important than prices, especially if they have a long experience under an IT regime.

The solution to this problem is that the new strategy to maintain communication on inflation and the inflation target (preferably an average inflation target for a longer period of time with a monetary policy geared to target the average inflation). This option would require a change in communication (for example, the Reserve Bank of Australia uses as target the average inflation over the business cycle, while the Reserve Bank of New Zealand targets the medium-term average inflation), but even in this case communication would be much more difficult than in an IT framework. It is the situation of projections description (the central bank's reaction function should be defined in terms of inflation target or in terms of price level target?) or when assessing the target performance (which deviation is more relevant-price-level fluctuation from target or inflation variation from target?).

Thirdly, another communication problem arises from the fact that price level targeting might make the public believe that the central bank puts too much emphasis on past economic developments and too little emphasis on forecasting future developments. The backward-looking feature of price level targeting *versus* inflation targeting might raise issues related to agents' formation of inflation expectations. These are just three major communication drawbacks for the potential application of price level targeting, but considering its associated benefits, central banks should investigate, even if only theoretically, how to efficiently communicate the target to the public.

A second challenge to price level targeting is time-inconsistency problem, a basic theoretical aspect, in the forefront of the new monetary policy paradigm in the late '70s which led to the crystallization of the IT framework. Conducted in a flexible way, the IT strategy does not face this weakness. The same is not true for price level targeting, which may face this problem as follows. Considering the example of a price level targeting strategy at a given time, following a shock, the price level is above the target, which requires the central bank to commit to a future inflation below the long term average. This has a positive effect on inflation expectations and lowers the costs to absorb the shock.

However, once the shock disappears and inflation (not prices level) reappears at its optimal long-term level for the CB, and the whole economy is tempted not to comply with CB announced policies (of not compensating the positive shocks prices by pushing inflation below its long-term average, since this would harm domestic product), prices will not return to the established path. In other words, in real life it may happen that both the public and professionals to consider short-term gains more attractive. In this context, the central bank would be under strong pressure to violate the principle of time consistency. Finally, the CB would not resist public pressure and give up its efforts to restore the price level target. One possible way to avoid the time inconsistency problem is to use price level targeting only in certain situations, for example, in the case of a liquidity trap accompanied by a double-digit unemployment.

A third problem of the potential implementation of price-level occurs in the event of external shocks in relative prices, very common especially to small open economies. To offset the shocks, the new strategy should produce relative changes of other prices to counter the negative impact. For example, a significant increase in oil prices would make necessary a relative drop of other components in the considered index price to restore the desired trend. To the extent that these other prices prove to be rigid, the adjustment could lead to a higher volatility of output, inflation and interest rates than under an IT regime.

The solution would come again from the expectations stabilizing feature, as the increased volatility of relative price shocks can be fully offset by the movement of stabilizing expectations, specific to price level targeting.

A fourth disadvantage of a possible shift from IT to price level targeting is the lack of practical experience in the use of such a monetary policy strategy. The experience of Sweden, with its monetary policy from the 1930s, often labeled as the only case of price level targeting, does not help a lot because of its short duration and vague implementation elements. All positive and negative implications of price level targeting drawn from the application of different econometric models are based on questionable assumptions and, therefore, remain far too simple to represent a real economy. Therefore, the results returned imply a high uncertainty degree.

Fifth, the success of such a strategy critically relies on a set of assumptions: forward-looking agents' decisions, a strong understanding of its functioning and full confidence in the monetary commitment of the monetary authority. Thus, if in the models identified in the literature, the assumption that agents make decisions in a proactive manner is relaxed, eliminating the stabilizing effect of expectations that prices will systematically return to the target, the advantages of this potential new strategy against an IT regime rapidly diminish.

However, for the price level targeting to produce the expected beneficial effects it is highly necessary that agents completely understanding its mechanism.

Households and firms should see that medium-term inflation expectations increase (decrease) when current inflation decreases (increases) in order to generate the specific advantages of price level targeting strategy automatic stabilization. If their expectations do not follow this path, the price level targeting could prove to be destabilizing compared to the IT regime. Closely related to the need for a full agents' familiarization with the new strategy implications, as a essential precondition for the success of price level targeting, one of the challenges is determined by the length of time during the agents learn about its functioning mechanism, given that the benefits would be drastically reduced if the learning process is too slow.

Obtaining the comparative advantages also involves the credibility of the central bank's commitment to fully compensate for past deviations from the price targeted trajectory. If agents doubt the willingness of the CB to limit the output by tightening monetary policy in order to reverse the trend of rising prices, expectations will not move enough to provide the automatic stabilization feature benefits of price level targeting strategy. In this context, the IT framework could prove more appropriate than the new strategy.

CONCLUSIONS

The fact that the recent financial crisis has highlighted the idea that the problem of zero lower bound monetary policy interest rate may be more serious than previously thought, has brought to the forefront of discussion the potential shift from IT to price level targeting, at least temporarily, until the disappearance of deflation threat.

While applying an IT strategy has reduced uncertainty and costs associated to high and volatile inflation, the adoption of a price level targeting regime would make the long-term price uncertainty reduction even stronger. Under the current IT framework, the monetary policy focuses on achieving the inflation target on an anticipatory basis, ignoring previous deviations between actual and targeted inflation, and to the extent that these variations accumulate, the expected price level becomes more uncertain.

Price level targeting, as an alternative strategy, could limit this uncertainty because the monetary policy would try to compensate for past violations in order to restore the price level to its predetermined trajectory. Thus, while the IT approach is *bygones is bygones*, the price level targeting approach is "dependent on the past" (history dependent). This difference, although it may be considered minor, has complex implications for the leadership, credibility and communication of monetary policy and price expectations formation, a better expectations anchoring on their future level, as the core of the price level targeting strategy.

The theoretical and empirical analysis has led to the identification of its benefits against the IT regime, and to the uncertainty reduction on long-term price level leading to better anchored inflation expectations. Expectations firmly anchored enable the automatic stabilizer manifestation of price level targeting, with two favorable results: greater short-term macroeconomic stability and therefore improved trade-off between inflation and domestic product and limited likelihood of zero lower bound of short-term nominal interest rate occurrence and respectively, the smooth exit out of this situation.

However, all these potential benefits are sensitive to assumptions, emerging only if a set of hypotheses are fully respected: predictive agents, familiar with the strategy' implications and confidence in the willingness and ability of the monetary authority to meet its commitments. If any of these assumptions are changed, the advantages of price level targeting versus those of IT become less clear.

Apart from the mandatory prerequisites to be met for the potential application of price level targeting strategy to generate the expected benefits, it also faces a number of challenges related to the increased difficulty of public communication, high exposure to the problem of time inconsistency, and volatility due to relative prices shocks. In addition, there is the lack of practical experience in the use of such a monetary policy strategy, which is not currently used by any central bank, so that conclusions about its potential implications were drawn based on various simulation models using questionable assumptions, and therefore too simple to represent a real economy.

Bridging together the associated benefits and challenges leads to the idea that, in the real world, under normal circumstances, we could make a fully covered statement on the price level targeting strategy superiority over the IT regime. If the economy felt into the liquidity trap, potential benefits may predominate and therefore we propose as future research direction, the analysis of price level targeting strategy behavior in the context of deflation risk zero lower bound of short-term nominal interest rate.

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REFERENCES OF THE NEW THEORY OF TRADE AND ECONOMIC GROWTH

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Abstract: *This paper shows that the dynamization of the traditional theory of international trade through the study of growth effects on the foreign trade in the framework of neoclassical analysis, alongside the approach with the Keynesian toolkit of the role of foreign trade as a factor of growth, have constituted the main aspects of the new theory of trade and economic growth. The "new theory" basically represents a set of theories and models of the type "growth-led export" or "export-led growth", which explain the complex role of foreign trade in the dynamic of development, the new segments of international trade, and also provides base for trade strategies for development. Their typology includes: "import-substitution strategy", "export-promotion strategy", and more recently "outward oriented strategy". In the context of regionalization and globalization of competition the author believes most appropriate the states' option for a "outward - oriented competitive development strategy".*

Keywords: foreign trade, economic growth, trade strategies for development
JEL Classification: F1, O11, O4

It is widely recognized that throughout economic evolution existed close and complex interrelationship between foreign trade and economic development. They are evident both in export and in imports. Exports allow realizing economies of scale by increasing production and the use and value of production factors, permitted by the access to foreign markets. Moreover, they procure the means of payment in foreign currency in order to purchase imported goods. In turn, imports, depending on their scope, exercise positive effects of different intensity on the process of development. The so-called "necessary imports" covering products for which there are no inputs in the local economy covers important segments of consumer demand and production, which would remain unsatisfied by the domestic products; then the "alternative imports", covering goods that could be assimilated in their own production but in low efficacy conditions, allow the distribution of internal production factors to more profitable activities. They also support the development process when they are composed of consumption goods which ensure a high standard of living, and especially when their object are production goods and advanced technical means that enable the development and the modernization of the local production branches.

In other words, overall, beyond the necessary imports – which are directly related with the development process, foreign trade appears as an instrument of international specialization: it allows the allocation of internal production factors to activities that are characterized by high productivity and profitability, providers of goods to meet the domestic demand and for exports, thereby increasing the national output.

In turn, economic development is reflected directly on exports. In varying degrees, the increase of the national output can generate an additional export offer and a supplementary import demand.

Therefore the relation foreign trade-economic development can be characterized as a two-way one and the economic theory has the task to study the both sides of the correlation: on one hand the import of growth process and economic development and, on the other hand, the influence of foreign trade on economic growth and development.

Although the interconnections between trade and development are evident, in macroeconomics the two terms of the binomial have been studied mostly separately. Thus there emerged two distinct sequences of macroeconomics: international trade theory and economic development theory.

The first theory assumed as a subject of study the defining of the international specialization criteria, evaluating the benefits of the foreign trade, explaining the distribution of benefits between the exchange partners and the trade policy substantiation which ensure their maximisation. The second theory studies the determinants of the economic growth and development, materialized mainly in: equipment with outputs, physical capital and infrastructure investment, technological progress, education and training introduced in economic analysis by the generic term of human capital, etc.

Interference between these two sequences was recorded from the moment of their crystallization and they generated in time in what we now call “the new foreign trade and economic growth theories”.

The correlation between foreign trade-economic development, although in an incomplete form, appears quite explicitly in the work of mercantilist predecessors, for which economic development meant increasing wealth, more accurate increasing the stock of precious metals that a country had. According to this understanding, they think that outside the extraction, foreign trade is the only way to increase wealth, to the extent that exports are in surplus against imports.

Going beyond the narrow mercantilist concept about wealth and expanding the analysis in the production domain, founders of the classical theory retains the idea of the binomial foreign trade-economic development relation. In this aspect, Adam Smith offers a wide pleading about the contribution of international division of labour based on absolute cost differences in increasing the “wealth of nations”. In his turn, David Ricardo deepens the analysis. He sees the limited character of the resources and he generalizes the specialization criteria in his own version of "comparative costs". International specialization based on comparative costs condition the participation in foreign trade to broaden the limits of economic growth of a country. "In a system with a perfect freedom of trade", said Ricardo two centuries ago, the allocation of production factors after the principle of comparative advantage is able "to increase the overall weight of the products, to spread the general benefit and to bound through a common fabric of interests and relations the universal society of nations from one end to the other one of the civilized world" (Ricardo, 1959, p. 126).

Neoclassical theorists preserve and deepen on the Ricardian analysis without though manifesting different concerns on the investigation line between trade and development. In the version of opportune costs proposed by Alfred Marshall and Gottfried von Haberler, we could say that although the algebraic and geometric neoclassical tool allows to analyse these links, investigations in these direction are dimmed as far as the advantages generated by the priming of the foreign trade are explained by the shifting of the consumption indifference curves, while the possibilities curves stay invariable having a passive role (Heller, 1972, pp. 29-50).

The second neoclassical option proposed by the Swedish school, Heckscher and Ohlin, opens new perspectives for addressing the theoretical binomial foreign trade-development. First of all these happens because the Swedish authors explicitly aim "to demonstrate that the international division of labour is explained by the inputs endowment of each country" (Ohlin, 1967, p. IX). Thereby, the comparative advantages sources are identified with the endowment of inputs that constitutes the fundamental factor of development. Then the neoclassical analyse of the trade-development interrelation, although it remains static, is more extended than the Ricardian perspective with the new issue of foreign trade contribution to the equalization of the development conditions by equalizing input prices. Considered as a trend in the H-O model, mathematically-algebraic and geometric demonstrated in restrictive conditions by Samuelson, as an absolute equalization, this thesis has caused widespread and prolonged controversy, focusing the research on the trade and development relation and becoming a reference point for post-war theorists of the international economics relations.

The new theory of foreign trade and economic growth crystallized and drew the attention in the late 70's. It is not a unitary body theory, but rather a series of theories and models that have risen from the post-war disproof for the traditional classical and neoclassical theory, mentioning that the most of the critics were for the assumptions and the conclusions of the H-O-S model and less for the Ricardo theory.

The deficiencies and challenges of the traditional theories assumption as well as the new elements as a response to the causal relations between foreign trade and economic growth were drawn from two perspectives: some of them from the offer perspective which aimed with predilection the impact of economic growth on the foreign trade, and other of them from the demand perspective which mainly helped to elucidate the role of trade as a factor of economic growth.

On the offer side, many contemporary theorists, such as H. Johnson, Tadeusz Rybczynski, Jagdish Bhagwati, Gerald Meir, dispute the static characteristic of the traditional theory based on the restrictive condition of the invariability supply factors. This prevents analyzing the long-term evolution of the international division of labour during economic growth and development. The dynamic approach resulted, mainly, in the study of comparative advantages variation generated by changes in size, structure and quality of the endowment of factors, including: capital accumulation, population growth, increasing productivity and improving technology. But all of these represent sources of economic growth. Therefore, the “dynamic” theory of international trade has allowed the study of economic growth effects on trade.

Initially, this study was undertaken in the neoclassical frame of analyze, considered to be “extremely flexible and applicable to a very broad range of issues” (15, *L`Avenir des …*, 1971, p. 81).

In this context, economic growth is defined as an increase of the output as a result of population growth, capital accumulation and technical progress (Johnson) or as an increase of the productivity level (Meir). Geometrical, the economic growth process can be represented as a production possibilities curve shift toward to the right and up (Johnson, 1958; Meir, 1963).

The purpose of this approach was to determine whether the growth process increases the export offer or reducess the demand for imports, more or in the same proportion; in other words, whether it attenuates or accentuates the dependence on the exterior. For this we will consider that exports (E) represent the difference between production (P) and consumption (C), so E=P-C. In turn, imports (I) appear as the difference between consumption and production, I= C-P.

In these conditions, the effect of economic growth on foreign trade is a result of the combining “effects of production” with the “consumption effects”. Both categories of effects are defined in terms of “elasticity-product” (“output-elasticity”) of production, respectively consumption. Production elasticity is calculated as the ratio between the production growth rate of the good which will be exported ($\Delta Pe/Pe$) or imported ($\Delta Pi/Pi$) and GDP growth rate ($\Delta P/P$). Similarly, it can be determined the elasticity-product of the domestic consumption.

Based on these concepts and values, first Hicks, and then Johnson and Meir, in different terminology, define the same five types of growth.

In Johnson's terminology (Johnson, 1958, pp. 76-77), in terms of production these types are:

–**Neutral economic growth**, when the offer of exportable and importable goods is increasing in the same proportion;

–**Unfavourable economic growth** for the foreign trade, when the offer of importable goods increases in a greater extent than the offer of exportable goods;

–**Favourable economic growth** for the foreign trade, when the offer of importable goods increases in a lesser extent than the offer of exportable goods;

–**"Ultra-favourable" economic growth** for the foreign trade, when the final result is a reduction of the importable goods supply;

–"**Ultra-unfavourable" economic** growth for the foreign trade, when the results are a reduction of the exportable goods offer.

In mathematical terms, says Johnson, "the economic growth will be favourable, neutral or unfavourable for the foreign trade as the product-elasticity of the importable goods offer is lesser, equal or greater than 1" (Johnson, 1958, p. 77); and referring to the last two types, "an ultra-favourable economic growth means a negative product-elasticity of the importable goods offer and the ultra-unfavourable economic growth means a negative product-elasticity of the exportable goods offer" (Johnson, 1958, p. 77).

Similarly are defined five types of economic growth in terms of "consumption effects". By combining the above types, it can be revealed the overall effect of the economic growth on the foreign trade.

Although abstract, the typology presented may lead, in theory, to the identification of different types of openness to the exterior and the intensity dependence of an economy to international market.

In this regard, the attention of theorists has been detained by the "appauvrissante" economic growth ("la croissance appauvrissante") (Kindleberger, 1981, pp. 82-84). This term was defined by Jagdish Bhagwati by analysing the growth effects of offer factors and technological progress not only on the volume and composition of the exports and imports but on the exchange ratio instead. The "appauvrissante" growth consists of an increase of the offer factors or productivity which, paradoxically, results in a negative effect for the country. Such a process may take place when the economic growth stimulates the production of exportable goods, increasing the external dependence in terms of sales and if the increasing export offer helps or takes place in a period of declining international prices for such kind of goods.

As outlined above, the dynamic version of the neoclassical theory was formed in the basic model analysis of first side of the correlation foreign trade-economic growth, respectively the growth effects on foreign trade.

The contemporary protagonists of the new trade and economic growth theory have expended and deepened the analysis within very interesting and complex models, classified as “growth-led export”. In this direction, Bo Södersten and Geofrey Reed for example, detailed the analysis of the economic growth types depending on the differential growth factors stock and on the nature of the technological progress (Södersten and Reed, 1994, pp. 117-145). Their point of departure is represented by the Rybczynski Theorema according to which if the endowment with one production factors increases and the stock from the other one remains invariable, then the production of the good which is composed intensively in the accumulated factor will increase while the quantity of the good which is composed intensively in the invariable factor will decrease in absolute amount but only if the goods and factors prices will remain constant. Taking into consideration the foreign trade, the above mentioned authors concluded that “if a country is relatively rich in labour and exports a good that incorporates intensively that factor then the increase of the labour endowment will generate an increase of the production that will be ultra-favourable for the foreign trade. If, on the other hand, the abundant factor is the capital, the increase of the labour factor endowment will generate an increase which will be ultra-unfavourable to trade” (Södersten and Reed, 1994, p. 126). In their model, the study is completed with the consequences of different types of growth on the variation of factors prices, respectively on the distribution of income. If, for example, “the country is rich in capital and an ultra-unfavourable growth for trade occurs, then the price level for the exported good will relatively increase. The relative and absolute wage level will increase and the relative and absolute level of profit for the afferent capital will decrease (Södersten and Reed, 1994, p. 127).

Another major part of the model deals with the analysis of the technological progress effects on the foreign trade. The study is detailed on the small and large country case and on the three types of technological progress, which are defined in terms of the effects that the production factors have on the marginal productivity. This refers to: the neutral technological progress which raises the marginal productivity of the production factors equally; technological progress which is labour-saving by raising the marginal productivity level of capital in a higher proportion than it does for labour; and technological progress which is capital-saving by raising the marginal productivity level of labour in a higher proportion than it does for capital. Differentiated on production categories: capital-intensive or labour-intensive, the various types of technical progression have a direct impact on exports and imports and on the income distribution, defining various options of economic growth related to trade, that are important to characterize the diversity of specific situations in different countries and group of countries.

Two other proeminent contemporary theorists of international trade - namely Paul Krugman and Maurice Obstfeld address in the same framework the effects of economic growth over an open economy (Krugman and Obstfeld, 1992, pp. 117-123). In other words they study how and to what extent growth in one country affects the world economy and conversely or the patterns of growth among trading partners reflect on the domestic economy through foreign trade channels.

The encounter of various patterns of growth within the open world economy and their analysis in terms of variations of the endowments stock, factor intensity of exported and imported commodities and price dynamics, allow for a theoretical separation of several cases more or less empirically tested. The model proposed by the authors mentioned above reveals that overall, economic growth in partner countries benefits the national economy, because it offers new export opportunities. Simultaneously however, it can also mean facing more competition on the new export markets with negative constraint outcomes, but also benefic effects which stimulate adjustment and modernization. Similarly, growth in the national economy may exert beneficial effects by enhancing export and import capacity.

Assessment of such cases is more nuanced if we radiograph them in terms of trade and income transfers fluctuations between engaged trading partners. Thus, Krugman and Obstfeld demonstrates what conditions can occur and the extraordinary situations in which (Krugman and Obstfeld, 1992, p. 119):

- A favorable export growth tends to damage the increasing terms of trade of the country in the rest of the world's benefit; or

- A favorable import growth tends to improve the country's terms of trade.

Regarding the effects of these growth patterns in partner countries over our terms of trade, the authors conclude that it is likely that a favorable export growth outside national boundaries to be a good deal for us in order to improve the terms of trade, while increased favorable foreign imports would damage our terms of trade (Krugman and Obstfeld, 1992, p. 120). They do however note that such situations may occur only if national or foreign countries increased exports alter so much the demand in international markets that leads to lower prices, which does not happen very often.

For the study of the other side of the trade-development binomial, the neoclassical framework proved to be insufficient. More suited to explaining trade as a factor of economic growth have proven to be the approach based on demand and the conceptual framework and tools of Keynes. From the range of concepts and tools developed by Keynes, the most useful to international macroeconomics is the multiplier mechanism.

Acknowledging this, many theorists, including Fritz Machlup, Ray Robinson, Roy Harrod, Ragnar Nurkse, F.D. Holzman, Lloyd A. Metzler and others have extended the multiplier theory to the conditions of an open economy, developing the so-called ‘foreign trade multiplier’ (Bye, 1971, pp. 193-207; Marcy, 1976, pp. 391-456). On this new line, the multiplier serves as a tool to analyze the incidence of export fluctuations on economic growth as well as the rampancy of fluctuations in the world economy.

Compared to the classical and neoclassical theories, Keynesian foreign trade multiplier brings in many respects viewpoint changes. Briefly these changes relate to the following issues:

- The importance and role of exports in the economy are assesed in terms of training effects and not the value and utility of imports purchased as a trade-off;

- While classical and neoclassical theories state for the ‘world optimum’ utopian goal whereby derives the ‘universal advantage’ and ‘equalizing development conditions’ illusions, from the Keynesian prospect benefits arising from foreign trade ‘are declared national benefits, being unlikely that the whole world can benefit from them (Keynes, 1970, p. 339);

- Optimization is designed for classical and neoclassical assumptions of full capacity utilization, while the Keynesian multiplier descriebes national income growth by attracting no inputs from other industries, thus, not by structural adjustment, but by mobilizing the idle capacity;

- Foreign trade multiplier do not serve classical and neoclassical analysis tools but the one provided by Keynes.

Spreading the usage of the multiplier factor to the study of international relations is fully justified, since among the main sources of national income variations there are increases or reductions of exports, imports, and terms of trade.

The Keynesian view states the fact that exports have on national income an incidence similar to that of investment (I). Export earnings increase the amount of national income in monetary expression, but not in real terms over the same period. It means that the volume of goods and services does not increase along with the value of exports collection. The gains arising from the appreciaton of the terms of trade,which is subtotaled to export revenues, could be considered in a similar manner.

In turn, imports, as well as losses through deterioration of terms-of-trade, reflect upon national income in a manner similar to savings (S). They levy a portion of what could be directed for investment or consumption of domestic goods and does not contribute to the creation of additional revenues.

By the logic of the previous statements, the equation of equilibrium in Keynes's model, $S = I$, have to be completed by the influence of exports (X) and imports (M). Consequently, the equilibrium relationship for an open economy becomes $S + M = I + X$.

Foreign trade multiplier expresses that national income fluctuations are more than proportional to changes in exports and imports they have caused. For example, a demand for additional goods by country B from country A may cause an increase in exports ΔX. Additional revenues obtained will be added in the first stage to national income, which will record an increase equal to ΔY.

Partly, the growth of national income would be allocated to the purchase of domestic goods. The allocated stake would trigger an income multiplier chain-kind reaction, identical to that described by the investment multiplier. The amount of national income allocated to the purchase of domestic goods is higher, the final gain obtained at the end of the national income multiplier cycle is more important. If another part of the income surplus emanated from exports would be allocated to savings, it will be temporarily diverted from growth rampancy reaction.

Regarding the international trade issue, there should be taken into account other diverting factors as well. The first is represented by the additional national income allocated immediately to imports (ΔM). Its dimension depends on the so-called 'marginal propensity to import' (m), expressed by the ratio $m = \Delta M / \Delta Y$. The second element of diversion is the so called 'choc en retour' (external repercussion) that designates income reduction in country B as a result of imports increasing from country A, materialized in time in a reduction in imports of country A and respectively, in a decrease of exports to country B, by a certain dimension ΔR (Marcy, 1976, p. 402). The foreign repercussion coefficient (r) takes the form of the ratio $r = \Delta R / \Delta Y$.

Considering the above statements, the foreign trade multiplier (c) is expressed by the formula: $c = 1 / (m + s + r)$, while the cumulative excess of income generated by the initial exports surplus is $\Sigma \Delta Y = \Delta x * 1 / (m + s + r)$.

As such, we deal with the so-called 'horizontal foreign trade multiplier'. In order to express the final revenue increase when at the beginning of each mutiplication stage there are exports overspills (annual) there has been imagined a more complex version of the 'vertical multiplier' (Marcy, 1976, p. 395-398).

If trade deficits are recorded due to reduced foreign demand for a country's exports, the multiplier described above acquires the meaning of a 'descaler'.

As previously discussed, the keynesian foreign trade multiplier describes and allows the assessment of the contribution of foreign trade to support domestic economic growth.

Criticized for many shortcomings arising from judging the management solely in monetary terms, the theory of foreign trade multiplier has been complemented and enhanced later by analyzing in real terms the driving effect of exports and imports (Currie, 1983, pp. 42-48).

The above mentioned addenda transformed the theory of the foreign trade multiplier in the main helicon of the intensively promoted 'export-led growth' models in contemporary literature. Thus, appreciating the shortcomings of the analysis held exclusively in monetary terms, Francois Perroux develops in addition the so-called 'multiplier of the dominant sector', which entails the development of the related downstream and upstream industries. Hence, the exports driving effect intensity depends on the nature of the products: it is higher for 'driving exports' and lower for 'driven exports'. Other types of multiplier with connotations of international macroeconomics are as such: Young's multiplier that describes the support for the growing process by introducing new technologies and the input-output multiplier that captures industries interdependences.

The driving effect theory underlies many current models of economic growth based on exports called 'export-led growth' developed by authors such as: Backerman, Lamfalussy, Balassa and many others.

It is worth mentioning that although the Keynesian multiplier has been developed from the demand viewpoint, the new ' export-led growth' models does not exclude but complement neoclassical-inspired models of 'growth-led export'. Authors explicitly combine the supply and demand analysis to explain the role of trade in the dynamics of development processes.

Similar to neoclassical models, post-keynesian models abandon the identity of production functions hypothesis underlining the homogeneity of the production factors and technology identity, and focus on more realistic assumption of technological pluralism that characterizes the same output in different countries. Export supply incidences over demand are considered and are suggestively expressed by the 'demonstration effect' resulted in consumer tastes and preferences changes that come into contact with a new greater qualitative offer, which is reflected directly on the size and structure of domestic demand.

Demand role in stimulating the export supply is more qualified by empirical assessment of the 'representative national demand' thesis (Staffan Burenstam Linder) and the 'cyclical product lifetime' created by a patent effort to meet market demand (Raymond Vernon).

Besides these differences there must be considered the size differences which generate economies of scale along with the distorting effects of competition through government policies or unintentionally by social and cultural differences which invalidate the assumption of perfect competition.

Distancing from the rigid assumptions of classical and neoclassical traditional theories, and developing the reasoning based on more realistic assumptions related to monopolistic competition, to changing consumer tastes and preferences, to differentiate products and economies of scale, new theories and models of trade and economic growth provide explanations of important segments of international trade that are no longer generated only by cost advantage differences or differences of factors endowment (as it was defined in the HO model). Examples of explanations are as such: intra-industry and inter-industry trade between countries with parallel economic structures, two-way trade flows in goods characterized by the same factor intensity, and intra-firm trade carried on the global markets of multinational companies, all with an overwhelming weight in nowadays international trade.

Beyond the explanations given to these segments of international trade, new theories and models of trade and growth provide foundation to strategic trade policies and trade development strategies.

Regarding trade development strategies, their typology comprises mainly two basic types: industrial development strategies based on stimulating production of import competing goods, namely ‘import substitution’, hence the name ‘import-substitution strategy’ and development strategies based on export promotion strategy called ‘export-promotion’ (Sodersten and Reed, 1994, pp. 404-437; Winters, 1994, pp. 211-215). The former have a higher affinity for ‘export-led growth’ theories and models based on the assumption that faster national economic growth will increase the export supply and have been popular until the '70s. The second type of ‘export-led growth’ models updates the "mercantilist mindset" of the primacy of export and received great attention in the '80s and '90s.

In their empirical setting both have proven virtues and limitations. Deficiencies evidenced by their alternative application after the ‘90s led to a synthesis called ‘outward oriented strategy’. It gives relevance both to exports and imports as variables interrelated to economic development.

We state that the outward opening is just a condition of development. Effective positioning within labor and international trade networks as well as the structures and stances of development are currently subject to competition. Current scholar disputes on issues such as ‘export promotion versus import substitutions’ or ‘growth led export’ against ‘export led growth’ materialize not only in terms of economies of scale, factor endowment aggregation, capital utilization capacity / FDI, knowledge and technologies, but yield and tend to integrate analysis of competitiveness.

Competitiveness is a microeconomic concept but gain macroeconomic connotations throughout conceptualization like the one made by Michael Porter to 'national competitive advantage' (Porter, 1994). On this track we understand national competitiveness as a result of the competitiveness of its national business sectors, i.e. the business sector capacity to deliver withstanding products on international markets and of a favorable gained position within the regional and global competitive environment. Thus, the national competitiveness appears as a result of firms and governments strategic choices. Regarding national governments, based on the above considerations, to designate the strategic option in order to guide their intervention in the free game of the market and trade, appears to us that 'outward competitive strategy development' is the most adequate name. Supporting national competitiveness of governments they can mitigate the regionalization and globalization constraint effects on local business.

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UNIVERSITY – INDUSTRY COOPERATION IN CENTRAL AND EASTERN EUROPE: A COMMON PAST, A DIFFERENT FUTURE?*

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Abstract: *The aim of this paper is to map the position of the Central and Eastern Europe (CEE) region for university – industry cooperation in research and development. (R&D) To meet this goal, we use the Global Competitiveness Index 2011 database and consider those indicators describing the knowledge production and the knowledge absorption potential of 142 participating countries. Based on a discriminant analysis, we classify the countries and synthesize their performances for the selected indicators. The results confirm our hypothesis regarding the heterogeneity of the CEE countries' performances for university – industry cooperation and identifies the factors that explain the variations.*

Keywords: university – industry cooperation, CEE region, Global Competitiveness Index 2011, discriminant analysis
JEL Classification: O3

INTRODUCTION - CEE COUNTRIES' R&D PROFILES

Despite the fact that 'the transition is over' for Central and Eastern European (CEE) countries that joined the EU in 2004 and 2007 (Alam et al., 2008), a significant number of constraints to innovation and development trajectories still remain. According to Koschatzky (2002), during the socialist period, these countries were characterized by a linear innovation model according to the soviet-type science push mode. This tradition survived the collapse of communism too and policy actions during the 1990s are good examples of the linear innovation model, where the underlying idea is that policy should focus on commercializing the results of the R&D system. As a result, the CEE countries have failed to capitalize on their science – base, despite potential large assets in terms of the R&D labour force and policy initiatives aimed at enhancement of science – industry linkages (Radosevic, 2011).

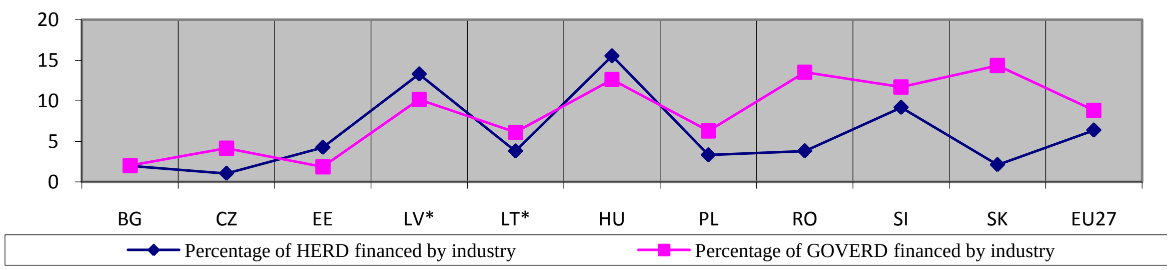
* ACKNOWLEDGEMENT: This work was cofinanced through the European Social Fund through The Sectoral Operational Programme Human Resources Development 2007-2013, project number POSDRU/1.5/S/59184 „Performance and excellence in postdoctoral research in Romanian economic science domain".

Despite their common past, CEE countries have nowadays a very heterogeneous profile for university – industry cooperation agreed indicators: funding flows (industry funding in Higher Education R&D Expenditure - HERD - and Government R&D Expenditure - GOVERD), CIS data and bibliometric analyses.

In what concerns the *funding flows*, in Hungary firms fund research activities both at universities and public research organizations to a notably extent: in 2009, 15,52% of higher education expenditures on R&D (HERD) had been financed by firms, more than double of the EU27 average (6,38%) and 10 times higher than in the Czech Republic (1,05%). As regards to the % of GOVERD financed by industry, Slovakia (14,35%) and Romania (13,52%) are the performers, with percentages significantly higher than the EU 27 avg. (8,81%), indicating thus a concentration of R&D in public research organizations (PROs) (OECD, 2011; EC, 2011) (Figure 1).

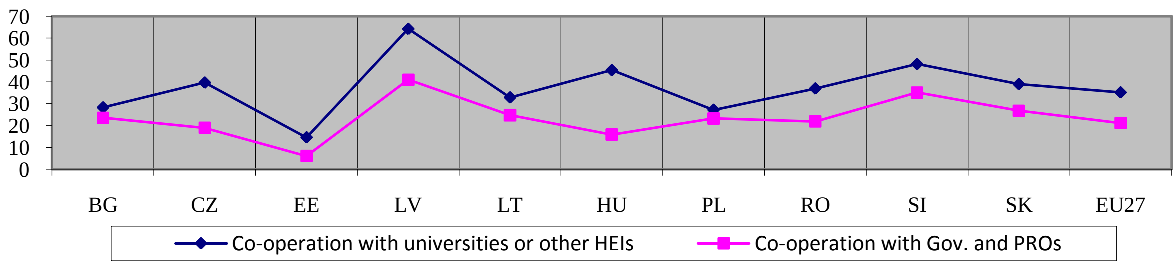
The frequency of *innovative firms cooperating with universities* is the highest in Latvia, where 64,2% of enterprises with technological innovations collaborate with HEIs; in contrast, only 14,5% of Estonian firms have such collaborative engagements. As regarding the % of *innovative firms cooperating with PROs*, we can observe it is much lower than the % of innovative firms cooperating with universities for all the CEE countries, so that we can suppose a predominance of non – R&D collaborative engagements (CIS, 2008) (Figure 2).

Figure 1 - Knowledge circulation by funding flows in CEE countries, 2009



Source: *OECD Science, Technology and Industry Scoreboard 2011; Innovation Union Competitiveness Report 2011.*
*Latvia (LV), Lithuania (LT) – 2006

Figure 2 - % of enterprises with technological innovations cooperating with HEIs and PROs, 2006 - 2008



Source: *Community Innovation Survey 2008*

Finally, the bibliometric analyses also suggest a high heterogeneity in the CEE group: while Slovenia has reported 51 public – private co-publications per million persons, Bulgaria, Latvia, Lithuania and Poland have each reported less than five similar co-publications (EC, 2011).

According to Formica, Mets and Varblane (2008), the lack of knowledge flows between universities and enterprises in CEE countries has at least two explanations: on the one hand, there is a low innovation literacy of business, which cannot formulate its own ideas or find sophisticated partners and is not open to cooperation; on the other hand, one has to recognize the unsatisfactory business literacy level of academic society, with its accompanying inability and unwillingness to offer cooperation.

As regarding the *supply-side constraints*, generally speaking, the role of universities in CEE post-communist countries is weaker than in more developed countries of the EU. According to Gál and Ptaček (2011) before 1989, universities were focused on teaching, while both basic and applied research was mostly concentrated in academies of sciences or in applied research institutes in industry. After 1990s, the situation did not change so much and universities were mostly facing the pressure of the state to increase their educational role. Nowadays, according to Erawatch country reports (2011), the main challenges in the knowledge production function are related to **institutional policies** (*high degree of institutional fragmentation* – Bulgaria, *moderate attention for economic impact and exploitability of knowledge in research quality assessment* - Estonia, Hungary, *fragmented support for RTDI, without understanding of demand for knowledge* – Hungary, *lack of competitive culture in science and research* - Poland), **human resources** (the *"brain-drain" phenomenon* - Bulgaria, Romania, *the low number of researchers* or *HRST* - the Czech Republic, Hungary, *shortage of high quality, industry – relevant skills* - Lithuania), **research infrastructures** (*underdeveloped research and innovation infrastructures* - Bulgaria, *lack of funding for the modernisation of the research infrastructure* - Hungary, *poor perspective of significant improvement of research infrastructures to attract young researchers* – Romania and **R&D funding** (*inefficient distribution of funds* - Bulgaria, *continuing generic support to all R&D disciplines disregarding excellent disciplines, institutes, teams and national thematic R&D priorities* - The Czech Republic, Slovakia, *inefficient incentives leading to a further national tailing off in terms of research and innovation output quality and quantity* – Latvia). To these one can add the risks of abandoning or delaying the reforms due to political instability (Hungary, Poland), the insufficient policy coordination (Slovenia) or the lack of mechanisms based on stakeholder involvement to identify drivers for knowledge demand (Lithuania).

As regards to the *demand-side constraints*, the capacity to generate demand for innovation is the weakest aspect of the national innovation capacity of the CEE countries in the EU. For example, in the Czech Republic, innovation activities are restricted to a few larger enterprises or to micro- or small newly established firms, while local universities remain indeed an important source of qualified labour, yet not of exploitable research results (Žižalová, 2010). In Hungary, undergoing transformation and the process of privatization did not make companies hungry for innovation; as a result, a very limited number of companies regard universities as crucial partners in innovation (Inzelt, 2004). In Romania, as confirmed by the analyses that backed the Regional Innovation Strategies (RIS), universities and industry experience significant gaps in their cooperation that are mainly sourced by the lack of resources for R&D, an unclear or inappropriate offer of R&D providers, poor managerial skills of researchers, a lack of awareness regarding the benefits of research and innovation and, more important, the lack of an innovation culture among SMSs (Serbanica, 2011). Regarding Slovenia, while there is intense co-operation between Slovenian research institutes and companies, the level of co-operation between university institutes and industrial firms remains below the average and the innovation system is still fragmented (Koschatzky, 2002). In this respect, it should be noted that most of CEE countries still have *a low technology profile* (Bulgaria, Romania), *a low proportion of research in high technology intensive sectors* (the Czech Republic, Estonia), *weakly developed sector of industrial production* (Latvia), *no clearly focused entrepreneurship policies* (Estonia), *belated recognition of potential for service innovation* (Lithuania) and *lack of an innovation culture in the economy*, especially at the SMEs level. None the less, the macroeconomic pressures exacerbated by the global economic crisis in 2008, together with the cut of government expenditures in view of the budget deficit have brought additional risks and threats to CEE countries' RDI profiles (Erawatch country reports, 2011). The survey that backed the *Global Competitiveness Report 2011-2012* (Schwab, 2011) provides information on the potential for the research base to co-operate with industry. As shown in *Annex no. 1*, there are significant disparities between CEE countries in respect to *university – industry collaboration in R&D,* with the Czech Republic and Lithuania on the top of the list and Romania and Bulgaria at the end on the ranking.

The main argument of this paper is that CEE countries should not be approached as a homogenous group in policy-making, despite some significant similarities in their common communist past. Consequently, our research goal is to classify CEE countries into homogenous groups, while evidencing the factors that contribute significantly to fostering university – industry cooperation. To this end, we have used the data that backed the Global Competitiveness Report

2011 and conducted a discriminant analysis, due to its advantages in both synthesizing a set of variables and expressing the relationships between them.

RESEARCH FRAMEWORK

The data for computation of the Global Competitiveness Index (GCI) was drawn from two sources: international organizations and national sources and the Executive Opinion Survey, with a total of 13,395 respondents from 142 countries in 2011. The GCI includes a weighted average of many different components that were grouped into 12 pillars of competitiveness: institutions, infrastructure, macroeconomic environment, health and primary education, higher education and training, goods market efficiency, labour market efficency, technological readiness, financial market development, market size, business sophistication and innovation. Whitin each pillar, performaces of the 142 participating countries are ranked separately for each component.

The dependent variable in our analysis - "**University – industry collaboration for R&D**" - was included in the *Innovation* pillar, together with other determinants such as the capacity for innovation, quality of scientific research institutions, company spending on R&D, government procurement of advanced technologies, availability of scientists and engineers and utility patents granted per million population. In line with the literature that investigates the determinants of university – industry collaboration (Polt et al., 2001; Holi, Wickramasinghe and van Leeuwen, 2008; Mathieu, 2011) and considering the fact that *a strong innovation capacity would be very difficult to achieve without a healthy, well-educated and trained workforce that is adept at absorbing new technologies and without sufficient financing for R&D or an efficient goods market that makes it possible to take new innovations to market* (Schwab, 2011, p. 8), we decided on a set of **independent variables** describing the knowledge production and knowledge absorption capacities, but also the presence of an enabling environment (*Table 1*). Within each category, we have looked for above 0.80 correlations and deleted two variables that were initially selected, namely *business sophistication* and *capacity for innovation* (that were highly correlated with *company spending on R&D*). The remaining variables are presented below.

Table 1 – Study variables

Category	Name	ABBREV.	GCI description
DEPENDENT VARIABLE			
University-industry collaboration in R&D		UI_links	To what extent do business and universities collaborate on research and development (R&D) in your country? [1 = do not collaborate at all; 7 = collaborate extensively]
INDEPENDENT VARIABLES			
KNOWLEDGE PRODUCTION CAPACITY	**Higher education and training**	HE	Quantity of education + Quality of education + On-the-job training
	Quality of scientific research institutions	Science_qual	How would you assess the quality of scientific research institutions in your country? [1 = very poor; 7 = the best in their field internationally]
KNOWLEDGE ABSORPTION CAPACITY	**Availability of scientists and engineers**	Scientists	To what extent are scientists and engineers available in your country? [1 = not at all; 7 = widely available]
	Company spending on R&D	R&D_spending	To what extent do companies in your country spend on R&D? [1 = do not spend on R&D; 7 = spend heavily on R&D]
ENABLING ENVIRONMENT	**Government procure-ment of advanced technology products**	Gov_procure-ment	Do government procurement decisions foster technological innovation in your country? [1 = no, not at all; 7 = yes, extremely effectively]
	Intellectual property protection	IP_protection	How would you rate intellectual property protection, including anti-counterfeiting measures, in your country? [1 = very weak; 7 = very strong]
	Venture capital availability	Vent_capital	In your country, how easy is it for entrepreneurs with innovative but risky projects to find venture capital? [1 = very difficult; 7 = very easy]

A discriminant analysis was further carried out to classify the performances of world's 142 countries for university – industry collaboration in R&D and to identify those variables contributing most to groups' separation. Given our research purpose, only CEE countries' performances were then subjected to in-depth analysis.

According to Burns and Burns (2008), the discriminant analysis involves the determination of a linear equation like regression that will predict which group the case belongs to. The use of the discriminant analysis implies checking up hypotheses regarding the normality of multivariate distributions in the predictor variables, the absence of multi-collinearity and the homogeneity of variances within each group. At the same time, group sizes of the dependent variable should not be grossly different. Consequently, as collinearity and homogeneity diagnostics are automatically computed in the SPSS discriminant analysis output, we only assessed the normality of the individual metric variables and eliminated one multivariate outlier case (Mozambique).

Simultaneously, we have plotted each independent variable against all other independent variables in a scatterplot matrix and observed multiple linear relationships between the variables.

The discriminant variable (G3) by which we divided the countries in three equal groups was *university – industry collaboration in R&D.* To meet the main precondition in discriminant analysis - the presence of a non-metric dependent variable -, we treated the discriminant variable G3 as categorical and named the three groups according to their performances: *leaders (Group 1), followers (Group 2) and non-performers (Group 3)* in university – industry collaboration.

Since the purpose of this analysis is to identify the variables that significantly differentiate between the three groups, the stepwise method based on Mahalanobis distance (D^2) method was appropriate. The F test for Wilks's Lambda was significant for all independent variables (sig. smaller than 0.05), with *quality of scientific institutions* and *R&D spending* producing very high values of F's (*Table 2*). These ANOVA results indicate significant group differences on each of the independent variables and justify further analysis.

Table 2 - Tests of Equality of Group Means

	Wilks' Lambda	F	df1	df2	Sig.
HE	,412	98,305	2	138	,000
Science_qual	,224	238,927	2	138	,000
Scientists	,590	47,966	2	138	,000
RD_spending	,351	127,407	2	138	,000
Gov_procurement	,583	49,317	2	138	,000
IP_protection	,476	75,873	2	138	,000
Vent_capital	,682	32,234	2	138	,000

As resulted from our SPSS 17 computation, the highest eigenvalue corresponds to the first discriminant function (3,888) that accounts in a ratio of 97,3% for the dispersion of the group means, as compared to the second function that accounts for only 2,7% of dispersion. At the same time, since the probabilities of the chi-square statistic for Wilks' lambda tests are significant (,000 and ,003), we can conclude that there is at least one discriminant function to separate the groups of the dependent variable (*Table 3).*

Table 3 – Eigenvalues and Wilks' Lambda

Func-tion	Eigenvalue	% of Variance	Cumulative %	Canonical Correlation
1	3,888[a]	97,3	97,3	,892
2	,107[a]	2,7	100,0	,311

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1	3,888[a]	97,3	97,3	,892
2	,107[a]	2,7	100,0	,311

a. First 2 canonical discriminant functions were used in the analysis.

Test of Function(s)	Wilks' Lambda	Chi-square	Df	Sig.
1 through 2	,185	230,519	8	,000
2	,903	13,915	3	,003

The appropriateness of using the covariance matrix in computing classifications is evaluated by the Box's M statistic. Since Box's M significance is above the alpha level, we can conclude that the analysis meets the assumption of homogenity of variances (*Table 4*).

Table 4 - Test Results

Box's M	15,218
Approx.	2,483
df1	6
df2	474635,077
Sig.	,021

Tests null hypothesis of equal population covariance matrices of canonical discriminant functions.

The Pearson coefficients (determinant loadings) are presented in the Structure matrix in *Table no 5* and they should be interpreted like factor loadings in factor analysis. By identifying the largest loadings for each discriminate function the researcher gains insight into how to name each function (Burns and Burns, 2008). The *quality of scientific institutions* has the highest discriminaning loading in the first discriminant function, while *higher education and training* and the *availability of scientists and engineers* are correlated with the second one.

Table 5 - Structure Matrix

	Function	
	1	2
Science_qual	,944*	-,097
RD_spending	,689*	-,092
IP_protection[a]	,543*	,083
Gov_procurement[a]	,349*	-,033

Vent_capital[a]	,346*	,172
HE	,593	,740*
Scientists	,413	,549*

*. Largest absolute correlation between each variable and any discriminant function
a. This variable not used in the analysis.

The summary table of variables entering and leaving the discriminant functions is shown in *Table 6*. Four out of our seven predictor variables, namely *quality of scientific institutions* (science_qual), *availability of scientists and engineers* (scientistis), *company spending on R&D* (RD_spending) and *higher education and training* (HE) – are useful in differentiating between performances in university – industry collaboration in R&D.

Table 6 - Variables Entered/Removed[a,b,c,d]

		Min. D Squared					
				Exact F			
Step	Entered	Statistic	Between Groups	Statistic	df1	df2	Sig.
	Science_qual	4,190	2 and 3	98,459	1	138,000	7,582E-18
	Scientists	4,524	2 and 3	52,766	2	137,000	1,020E-17
	RD_spending	4,902	2 and 3	37,845	3	136,000	7,576E-18
	HE	4,903	2 and 3	28,177	4	135,000	5,105E-17

At each step, the variable that maximizes the Mahalanobis distance between the two closest groups is entered.

a. Maximum number of steps is 14.

b. Maximum significance of F to enter is .05.

c. Minimum significance of F to remove is .10.

d. F level, tolerance, or VIN insufficient for further computation.

The classification output indicates that 81,6% of the original grouped cases were correctly classified (*Table 7*) that means they were included in the group to which they actually belongs. Consequently, the model can be generalized.

Table 7 - Classification Results[a]

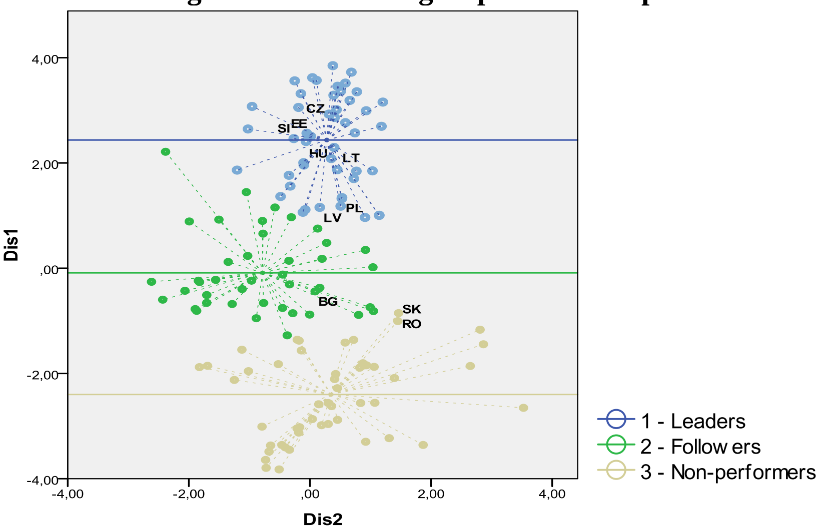
			Predicted Group Membership			
		Groups	1	2	3	Total
Original	Count	1	43	4	0	47
		2	7	32	8	47
		3	0	7	40	47
		Ungrouped cases	0	0	1	1
		‘1	91.5	8.5	.0	100.0

	2	14.9	68.1	17.0	100.0
	3	.0	14.9	85.1	100.0
	Ungrouped cases	.0	.0	100.0	100.0

a. 81.6% of original grouped cases correctly classified.

Figure 3 synthesizes the countries' positions in relation to the two discriminant functions, while introducing the predicted group membership for the CEE countries. As separate group covariances were used in the discriminant analysis, countries' results should be interpreted in relation to their group's centroid. Given their position above the mean in the Leaders' group, the Czech Republic, Estonia and Slovenia were classified as *Top leaders*, while Hungary and Lithuania have kept their *Leaders'* status. Poland and Lithuania are very close to each other in the space between the centroids of the first and the second group so that both of them can be classified as *Top followers.* Finally, even if Bulgaria distances itself from Romania and Slovakia due to a better position for the quality of scientific institutions, its overall performance justifies its inclusion in the *Non-performant followers'* group (together with Romania and Slovakia). *Annex no. 1* can help to interpret the final results: as compared to the initial classification, Slovenia has reinforced its position within the Leaders' group and joined the *Top leaders'* category for its high performances in the quality of scientific institutions, company spending for R&D and higher education and training. At the same time, despite a modest score for university – industry cooperation for R&D, Poland has been classified as a *Top follower* due to its relatively high performances in the quality of higher education and scientific research. Not at least, it should be noted that Slovakia and Romania are quite far (up) from the third group centroid so they can also be included in the *Followers'* group.

Figure 3 - Predicted group membership



SI, EE, CZ – *Top leaders*, HU, LT – *Leaders*, PL, LV – *Top followers*, BG, RO, SK – *Non-performant followers*

CONCLUSIONS AND DISCUSSIONS

This study was aimed at classifying world's countries for their performance in university – industry cooperation in R&D and at mapping the position of the CEE region in this respect. The results have confirmed our hypothesis regarding the heterogeneity of the CEE countries' performances and have identified the factors that explain the variations, namely *the quality of scientific institutions*, *company spending on R&D*, *the quality of higher education and training* and *the availability of scientists and engineers*. Consequently, policies that address knowledge transfer issues are expected to be more efficient if they consider the characteristics of predicted groups for the above-mentioned variables.

CEE's *top leaders* - the Czech Republic, Estonia and Slovenia - have high scores for both the quality of scientific institutions and company spending on R&D. In this respect, their relatively high R&D intensity support performances in knowledge transfer: Slovenia leads the CEE group for the total gross expenditures for R&D (GERD) as % of GDP (2,11 in 2010) and makes important steps towards the EU 3% target, while Estonia (1,62 % of GDP) and the Czech Republic (1,56 % GDP) get closer to the EU27 average of 2% of GDP (Eurostat 2012). According to Erawatch report (Bučar, 2011), over the years, Slovenia has built relatively extensive R&D, innovation and entrepreneurship support network and has introduced a new system of financing public research, requiring the public research organizations to increase the share of business funding. The measure which proved to be very effective in stimulating cooperation between the public R&D and the business sector was the financing of young researchers, as they proved to be a communication link that often resulted in more intensive cooperation. In its turn, the Czech Republic have utilised the structural funds for building innovation infrastructure and environment stimulating knowledge circulation and have created a simple methodology for the knowledge and technology transfer offices, with a special emphasis to patent and license application, IP, spin offs, etc. (Hebakova and Valenta, 2011). As regards to Estonia, since early 2000, there are a considerable number of policy measures aimed at increasing extramural R&D and support the commercialization of research by higher education institution; of these, the Competence Centres programme proved to be the most efficient, as the centres have tackled efficiently intra-university barriers to industry cooperation and have improved technology absorption on the industrial side (Rannala and Männik, 2011).

Despite their clear progress in knowledge transfer, all the three countries in the *Top leaders'* group still face a number of constraints: if for Slovenia the main challenges are related to monitoring closely the human resources in science and technology (HRST) stocks and finding the best coordination matrix for its extensive support network, the Czech Republic and Estonia should still consider the insufficient supply of mediation services to innovative companies and the sustainability of the new R&D infrastructure, given their dependence of public and structural funds.

Hungary and Lithuania enter the *Leaders'* category, but they stay below the group's centroid. Despite its 20th position in the GCI for the quality of scientific institutions, Hungary has one of the worst scores in the CEE group for company spending on R&D (81st) (*Annex 1*). Even though, firms fund research activities both at universities and PROs to a noteworthy extent: 15,7% of Higher Education R&D (HERD) comes from business funding, more than double of the EU27 average of 6,8% in 2008. Among the extensive science and technology policy measures aimed at fostering academia – industry cooperation, the most important development has been the financing of 38 joint research centers, each located at a university (Havas, 2011). Regarding Lithuania, it should be noted that it is among the EU27 leaders in producing tertiary education graduates, with the 26th position in the GCI for Higher education and training (*Annex 1*). Nevertheless, the country lags substantially with regard to the capacity to produce and commercialize knowledge, but there in a very strong commitment to fostering R&D collaboration and knowledge transfer in the Lithuanian Innovation Strategy for 2010-2020 (Paliokaitė, 2011). For the future, both Hungary and Lithuania should address the fragmented technology transfer offices' system and the creation of a critical mass of competence in university knowledge transfer.

Poland and Latvia were included in the *Top followers'* category as they have a relatively high score for the quality of scientific institutions. For both countries, on a national policy level, there has been a significant push for knowledge circulation and a considerable contribution from the EU structural funds. Through the opportunities created by "Building upon knowledge" and "Partnerships for knowledge" programs, Poland is expected to stimulate private R&D (Jerzyniak, 2011), as is currently stays on the 80th position in the GCI (*Annex 1*). In its turn, Latvia has efficiently implemented policy measures aimed at knowledge transfer via competence centers and clusters (Kristapsons, Adamsone-Fiskovica and Draveniece, 2011), but there are still numerous problems to be solved, especially in terms of developing technological capabilities in industry and ensuring the optimal stocks of scientists and engineers, as the country currently stays on the 96th position at the global level (*Annex 1*).

Finally, Bulgaria, Romania and Slovakia were included in the *Non-performant followers'* category, with Bulgaria staying slightly higher due to its better position for the quality of scientific institutions (78th for Bulgaria, as compared to 91st for Romania and 97th for Slovakia). The countries have very low business expenditure R&D (BERD) intensities, ranging from 0,18% of GDP in 2010 for Romania (eight times lower than the EU27 average of 1,23% GDP) to 0,27 for Slovakia and 0,3 for Bulgaria. Regarding Bulgaria, the most compelling factors behind the limited flow of knowledge between businesses, universities and public research institutions are the outdated legal and institutional frameworks related to innovation and research and the predominance of state sector in R&D financing and performance (Damianova et al., 2011). Similarly, the most important trend in the Slovak research system is the decrease in industry and applied research and the increased concentration of GERD in public research institutions (Baláž, 2011). Finally, in Romania, there are many gaps in the public – private cooperation legislation and universities' third mission is in its very incipient stage, with only few universities consolidating their technology transfer and commercial infrastructure and personnel (Ranga, 2011).

According to Radosevic (2011), the main problem is that current policies for science-industry linkages in CEE countries are still based on the logic of linear innovation model, while the reality of these countries is based on the logic of interactive innovation model. Despite its peculiarities, science – push models can be acceptable, to a certain respect, to those countries with a high quality of scientific institutions and technological capabilities. On the contrary, in countries such as Bulgaria, Romania or Slovakia, where the knowledge production sector is ineffective and businesses do not fully understand the utility of R&D, creating an environment that is conductive to innovation for both universities and industry is the imperative precondition of knowledge transfer.

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Annex no. 1 Discriminats of university – industry collaboration in R&D in CEE countries

CEE Countries (EU27)	**Quality of scientific research institutions**	**Company R&D spending**	**Higher education and training**	**Availability of scientists and engineers**	**University-industry collaboration in R&D**
	Rank/ 142				
Bulgaria	78	98	70	92	116
Czech Republic	26	28	30	42	30
Estonia	27	40	23	62	34
Hungary	20	81	45	38	33
Latvia	56	67	34	96	57
Lithuania	37	57	26	57	31
Poland	44	80	31	67	65
Romania	91	87	55	59	115
Slovakia	97	89	53	74	104
Slovenia	33	39	21	89	46

Source: *Schwab K. (2011), World Economic Forum: Global Competitiveness Report 2011-2012, Geneva, Switzerland.*

POLITICAL BUSINESS CYCLE AND ECONOMIC INSTABILITY - LITERATURE REVIEW

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Abstract: *This paper analyzes the fundamental concepts that compose the phenomenon of political business cycle and the models that have been created to support this theoretical background. A first theory on this concept is considered to be the classic perspective, which has been developed by William Nordhaus in 1975. As a result of his work, other research started to appear with multiple theories and visions upon this phenomenon. Through this paper we have tried to highlight the most important of these theories. For each major theory, conclusions are presented. In the end, an attempt is made to find reasoned conclusions concerning the validity of these theories to the economic environment.*

Keywords: developing countries, political business cycle, economic cycle, unemployment, inflation
JEL Classification: E32

INTRODUCTION

In modern democracies, elections are national events that bring political scene in the spotlight. The voting process and the active participation of the electorate can play a major role in the political development of a nation. Therefore it is no wonder that these symbiotic organisms made up of the election, political class and economy, looked at macroeconomic scale, become a very attractive area for research.

The political business cycle can be seen as a result of a traditional economic cycle by :

a) handling the macroeconomic policy (fiscal policy, monetary policy) by incumbents in order to stimulate the economy on the eve of the election aiming to be re-elected, either as individuals or as a separate party, or

b) represents the competition between parties of a State to apply political ideology which they are affiliated.

The political Business Cycle concept (PBC) was introduced for the first time in the economic theory by the Polish economist Michał Kalecki (1943) in 1943, in his paper "Political Aspects of Full Employment", which appeared in the Political Quarterly. His results are based on the assumption that individual economic interest (principle of individualism) speaks both in the sphere of political behavior and the dynamics of the global economy. According to the author, the mechanism that underlies the conflict between political behavior and economic growth is the conflict of interests between individuals.

A first theoretical achievement was made by the American economist Anthony Downs (1957) in 1957, in his ”Year Economic Theory of Democracy”. The American economist has proposed a model based on economic analysis of political behavior, through the representation of political factors in accordance with assumptions of the standard behavior of firms in micro economy theory, the consequence being that there are actions of politicians who are generated more by their desire to maximize the number of votes than altruistic reasons or ideological visions. In a political context, the condition of equilibrium assumes that incumbents continue to spend until marginal profit from attracted votes is equal with the marginal loss financing to attract those votes.

The first model that has a complete theory analysis on the political business cycles and is developed and tested through a empirical methodology is Nordhaus's model (1975) in his paper "The political business cycle".

The model examines the mechanisms of public elections, where decisions need to be subjected to political constraints. More specifically, Nordhaus studied macroeconomic policies adopted in a democratic system aimed at the problem of employment and unemployment. These phenomena are correlated with the voting behavior (desire of politicians who rule to maximize chances of being re-elected). This model can be applied and extended with other macroeconomic variables such as: State budget, economic growth, public investment, policy on balance of payments, etc.

1. THE MAIN TYPES OF APPROACH TO POLITICAL CYCLE OF BUSINESS

There are two large broad guidelines of the political business cycle theory: cycles generated by the government economic intervention in hope to be re-elected (opportunistic models) and the *partisan view* where the economic problems and policies are adopted in a different way, depending on the ideological orientation of incumbents’ party. Also, we find in the PBC literature, models based on the synthesis of opportunistic and partisan model (Frey and Schneider, 1978). In terms of the opportunistic ideology that politicians have, political cycles models can be classified only after taking into account that individuals have a set of expectations already formed.

1.1 Classical theory – Traditional opportunistic political business cycles

Anthony Downs, in his work from 1957, told that political parties "make laws to win elections, not win elections to make laws ". Inspired by Niccolo Machiavelli (1469 -1527) and Anthony Downs (1957), pure opportunistic political business cycle (traditional) is associated with work of Nordhaus (1975). The term "pure" is used accordingly with the presumption that parties are much more concerned to win elections by handling economy than to meet ideological objectives. Economy is described with the help of Philips curve, as a relationship between inflation and unemployment.

Until William Nordhaus revolutionary work, research carried out was brief, almost non-existent. The idea that political intervention may cause a business cycle was never brought in discussion. Nordhaus's model is developed around the relationship between unemployment and inflation.

In economy is generally accepted that relationship of these two variables are under the sign of compromise. Even if voters prefer a optimal rate of unemployment and inflation, it was noted that when they suffers changes from certain measures, the effects are rapidly felt by the population, which in the end translate in a adulterated voting behavior.

In this respect, Nordhaus argues: "Voters cannot conceive a simple economic average of the socio economic variables in the last election period, perhaps of a decaying memory. Yet, on elections day, recent history events are probably much more powerful rooted in their memory than an old suffering " (Nordhaus, 1975).

From the research undertaken by Nordhaus, it could be said that political business cycles are an active component of society and it is important to be taken into account in order to understand the mechanism of political system and economic progress.

1.2 Rational opportunistic political business cycles

Rational opportunistic political business cycles (Cukierman and Meltzer, 1986, Rogoff and Sibert, 1988, Rogoff, 1990, Persson and Tabellini, 1990) combines classical hypothesis of politicians having an opportunistic behavior with the ideas of competence and asymmetric information.

Under the impact of certain assumptions about rational behavior, these models involve cycles of economic growth and multiannual unemployment, but these cycles don't comply with idea of regularly.

Inflation tends to rise before an election and remains high for several quarters, having a decrease after that (in the same way as Nordhaus model), but cycle effects are lower in intensity and time. Percentage of incumbents votes increase during growth periods and decrease in periods with unemployment. This trend follows a pattern which is related and conditioned by voters information.

1.3 Traditional partisan political business cycles

Traditional opportunistic cycle theory omitted the ideological dimension from the incumbents utility function. For this reason, partisan cycle models are based on the correlation between ideological views and economic policies. The decision making process is influenced by ideology, resulting in a different approach to macroeconomic issues and the way objectives are achieved. The partisan theory has divided the political spectrum in two guidelines: left and right (Hibbs,1977).

In order to protect workers interest, the *left* political parties of will speed up the unemployment phenomenon in detriment of inflation by adopting fiscal and monetary policy that will encourage growth and welfare. On the other hand, defending contractors interest, the right parties will descend inflation process against unemployment.

1.4 Rational partisan political business cycles

Rational partisan theory is associated with the work of Italian economist Alberto Alesina. In this theory voters have different voting options and opinions in connection with inflation and unemployment as well as in traditional partisan theory, but unlike that, they chose the party who brings the best results.

Empirical implications of this model are: short term effects: unemployment has a lower rate for a period of time and the growth rate is higher than normal for the first two years in case of victory of a left-wing party. The result is opposite in case of victory of right-wing party. The unemployment rate and economic growth return to natural values in second part of governance.

This model is based on politicians' desire to address the "middle voters" (median voter). It is similar with traditional partisan theory because each party has its own original ideology.

The difference comes from parties who deviate from their own ideologies in exchange of votes. The logic behind this behavior is explained by Alberto Alesina and Nouriel Roubini, Gerald Cohen in the book “Political Cycles and Macroeconomics”: “More specifically, Governments of left (Liberal) follow expansionist monetary policy which starts to decrease the unemployment rate (rate of increase), and towards the end of tenure tend to reduce inflation caused by their policies. Opportunistic left-governments will want to strengthen anti-inflationary policies as a mean to gain sympathy of voters during election years. In contrast, right-wing governments which adopted contradictory policy of decreasing inflation will be more willing to increase the monetary expansion at the end of the mandate, in order to meet elections in a period of economic growth” (Alesina, Roubini and Gohen, 1997).

1.5 Evidence of Rational Partisan model

In his work from 2005, American economist George Krause tested the validity of this model. In his study he analyzed the theoretical hypothesis using quarterly dynamic real personal income from 1948 - 2004. Krause used dependent variables, including the party whose member was the president. Results of linear regression showed that before election the real personal incomes have increased significantly under Republican leadership compared with Democrats. After he had made a series of tests, Krause concluded: "results of simulations have indicated an increase to a maximum of the real income per person in United States under a republican president in compare with a Democrat president" (Krause, 2005). These patterns which are found in real income per capita are similar to those in partisan-rational theory. These results support the clear existence of political business cycle in United States after the Second World War.

1.6 Extension of the Partisan model

In 2003 in Blomberg`s and Hess`s work extended the pattern of business partisan cycle including as a variable, the competences of the political party. The pattern had four essential characteristics:

- The Democrats wanted to raise the share of governmental services and the Republicans wanted to minimize their number to reduce the taxes;
- It was a lag effect until the policies made their presence felt;
- Not all the leaders belonging to the same party are the same. The competent Democrats can

deliver more governmental services at the same price due to a raised productivity. In the same time the Republicans can offer less governmental services by reducing the taxes or the incompetent Republicans offering less services but keeping the same taxing level;

•This competence idea must be included in the pattern.

The result of their pattern suggested that the factor that separated the competent leaders from the incompetent ones was the economy growth in the election period. The next aspect discovered by the two writers was that the leaders who managed to grow the economy during the elections kept their jobs for the next mandate. Finally, Bloomberg and Hess concluded that it was better to be an elected a competent leader than an incompetent one.

Bloomberg and Hess considered the idea that each politician has his own ideology, unique to the party they belong. Their contribution in domain was realized by including the idea that some politicians couldn`t manage their political fight by maintaining the party`s ideological promises. Even if they can`t keep their promises it is better to choose a competent leader (whose results are predictable) than an incompetent leader whose results are unknown (Bloomberg and Hess, 2003).

1.7 Context-dependent models

Another issue discussed in the literature is related to the possibility that opportunistic and partisan models can be combined. The two models that resulted are called *context dependent models*. In those, the results of elections and macroeconomic policies may differ according to circumstances at that time. In their model, Frey and Schneider (Frey and Schneider, 1978) are trying to highlight the existence of a popularity function and one of adopted policies. The function of popularity is expressed as an unemployment, inflation and economic growth function and adopted policy function derives from ideological preferences of the government in feature.

They suggest that partisan incumbents, if they are relatively unpopular, become opportunistic before elections. If popularity of a government is recording an excess, then they have a surplus of popularity. If the popularity index has a sudden drop, then they have a shortage of popularity.

An excess of popularity makes governmental activity ideological, instead, a shortage will make them act more opportunistically. More precisely, if popularity is low, then an intervention upon macroeconomic variables will increase chances of re-election. Governments with supporters and a high popularity will follow their own ideologies as long it will be possible. From that point of view popularity is searched to fulfil the ideological program.

With a similar approach, Schultz (Schultz, 2003) notes that political manipulation of macroeconomic aggregates can be very expensive, since incentives used by parties in power may vary from one period to another. Going on the same idea, Schultz argues that political parties who rule will not feel the need to manipulate economy if the probabilities of winning next elections are great.

1.8 Rejections of business cycle theory- “rational” voters

The most important criticism of political business cycle theory comes from the assumption that voters may be "too rational" (Nordhaus, 1989). If voters are truly rational, politicians would not be able to have an opportunistic behavior. As William Nordhaus says: "If, for example, Governments would stimulate economy before elections hoping that present pleasures will be higher than the future problems, then rational voters could see these political manipulations”.

As long as voters can have all information and can see everything it is done, for politicians would be impossible to use opportunistic behavior to win votes. This behavior would push politicians to remain to their party's ideology. In this case the only model that is correct would be the *traditional* one, explained above. If voters can be rational then all models of political business cycle would be invalid.

In his work in 1989, Nordhaus has tested the concept of "rational voter" and has found this theory doesn’t have a strong basis. He has been able to conclude in his own study, as well as other’s studies, that the existence of alleged rationality in the voting process may not be supported by real evidence. One of the tests conducted by Nordhaus has been called the "honeymoon effect". This refers to a phenomenon of increased popularity recorded at newly elected candidates due to voters’ beliefs in unfounded and unrealistic expectations before election. If indeed voters would have been rational, it have meant after a few elections periods, in which they were disappointed, they would have had to adjust their voting behavior. As a result the "honeymoon effect" ought to disappear. Nordhaus's test shows that each president enjoyed such an effect. This would mean a blaming of rationality, because involves certain voting patterns can be predicted.

In both studies, as well as other economists, Norhaus concluded that rationality in voting is not a real threat to political business cycle theory.

2. EFFECTS OF POLITICAL BUSINESS CYCLE IN DEVELOPING COUNTRIES

Most of political business cycles have been focused on developed countries and less on developing countries. In essence, this phenomenon can occur in the same way in countries with different economic situations. From this point it has to be initiated a research efforts to look for those essential differences that customizes the phenomenon. So currently there are a number of authors who have analyzed in more depth this feature of political business cycle, among we can mention Block, Magloire, Khemani, Kraemer, or Schuknecht.

Bates studied public investment cycles in Zambia in the 1960s and Krueger and Turan analyzed PBC phenomenon in Turkey, between the 1950s and 1980s. Schuknecht discovered a group of 35 developing countries with Nordhaus type of fiscal policy cycles in which governments try to implement expansionary fiscal policies before elections and fiscal austerity afterwards. There is also research on economic policy of developing countries, where is discussed the importance of policies that incumbents adopt (Krueger), micro and macroeconomic policy failures (Krueger), internal institutional factors, (Börner, Brunetti and Weder) or international influences (Frey and Eichenberger).

Gonzalez (Gonzalez, 2000) has classified some of the developing countries, particularly in Latin America, as imperfect democracies. From the author's point of view (Gonzalez, 2000), while many developed democratic countries have enjoyed a stable politic environment in the past 60 years, imperfect democracies's group have experienced a number of changes and shocks which made some countries to embrace a more advanced form of democracy and others contributed to the establishment of a system that reduced the civil and political rights of citizens. In other words, the level democracy in these countries has contributed decisively to development of important changes to social and economic indicators over time.

As part of an electoral process held in a normal way, these countries have been studied because of the relatively easy access to the necessary data used in econometric studies. For example, Magaloni (Magaloni, 2000) demonstrated the existence of an opportunistic behavior in Mexico between 1965 and 1985. Kraemer (Kraemer, 1997) investigated the impact of fiscal policy and business cycles in 21 countries of Latin America and the Caribbean, revealing the fact that the budget deficit is higher and unpredictable in the election years than in other periods.

Schuknecht studied (Schuknecht, 1998) the impact of electoral cycles on the exchange rate in 25 developing countries. He found strong evidence for the existence of fiscal policies in countries that had a fixed exchange rate and foreign exchange reserves are sufficient. The author argued that the flexibility of exchange rate before elections reduces desires of Governments to engage in expansionary fiscal policies. Such measures would produce inflation and will affect the image of the Government. In countries with a fixed exchange rate, Governments have an interest to adopt a opportunistic fiscal behavior before the election to ensure a new mandate.

The difference between developed countries and developing countries has been subjected to analysis by economists Svensson and Shi (Shi and Svensson, 2006). They used a large panel data, covering 123 countries over a period of 21 years to analyze the relationship between electoral cycles and politics. Among the countries included in the model is Romania. The authors used the following arguments: before elections, regardless of whether revenues decrease, the government increase their spending in order to increase the chance of being re elected, which triggers an increase of the budget deficit in the election years. They also highlighted some important differences between the developed countries and those developing, regarding the composition and size of the political business cycle. The elections induced in the developing countries a budget deficit as a percentage of GDP almost double compare to the developed countries: on the eve of the election, the developed countries have recorded an increase in the average budget deficit by roughly 0.6 percent on average, where in developing countries the average percentage was around 1.3%.

The paper (Treisman and Gimpelson, 2001) of economists Treisman (US) and Gimpelson (Russia) focused on the election in Russia and examined how the political cycle is affected by rational motivations of politicians in power and economic policies geared to a retrospective voting electorate. They found that some tools and means of economic influence are only used in certain electoral period and not in others. From this idea, the authors have analyzed the possibility that rational politicians use different ways to intervene in the economy, depending on the election. In their view, the incumbents have the ability to choose several ways to affect the economic situation of the voters: the law on the minimum wage or pension benefits, monetary policy, public spending or tax cuts.

3. EFFECTS OF POLITICAL BUSINESS CYCLE IN EASTERN EUROPE (FORMER SOVIET BLOCK)

The German economist Hayo (Hayo, 2000) revealed that the support for the creation of a market economy depends on personal circumstances (age, sex, education, income level, relatively) and the success of the Government to keep the rate of inflation to a level as low as possible . Deficits can also help to strengthen their support. The differences in employment, GDP per capita, the opening of the business environment, the share of the private sector and microeconomic transition progress shows no strong effect on people's attitudes towards the creation of a market economy. Hallenberg and Souza (Hallenberg and Souza, 2000) have tested the possibility of political business cycles between the years 1990 and 1999 for 10 countries of Eastern Europe (Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia). For this purpose, the authors examined the role of exchange rates, capital mobility and independence of central banks as supporting or opposing the development of the political cycle. According to the Mundell-Fleming model under the condition of the capital mobility, it is shown that the exchange rate and the degree of independence of the Central Bank affects the use of intervention upon macroeconomic variables before the election.

Countries that have a Central Bank "dependent" and flexible exchange rates tend to weaken the monetary policies in the election to the rest of the time. In contrast, in countries with a "independent" Central Bank, record monetary contraction in election years. If a country has a fixed exchange rate, the Government manipulates the economy during the electoral period by increasing budgets at the expense of weakening monetary policy.

In authors's opinion, the results found for the 10 countries in Eastern Europe, former candidate to the European Union, are remarkable similar to those found by Clark and Hallerberg for OECD countries. Monetary cycles exist only when the exchange rate is flexible and the Central Bank is dependent on the Government. When the Central Bank is dependent on the Government is an increase in money supply in the pre-election period . The opposite effect is manifested in the existence of an independent Central Bank in relation with the Government.

CONCLUSIONS

In his paper from 1989, William Nordhaus, tried to review some of the approaches that have been made about the existence of the political business cycle. His conclusions were concentrated in the form of a set of five questions, which are proven to be essential for PBC models. These five questions created by Nordhaus are very important because they are a foundation for those trying to study this area of research. These questions are:

1.Voters are rational voters or emotional? What influence their behavior?

2.Political parties: Leaders of a party implements certain economic policies because they are "obsessed for votes" (opportunistic) or they follow a certain ideology?

3. Economic Structure: politicians can influence economic cycle?

4. Shocks: Are shocks internal or external?

5. Powers: The parties shall follow their objectives being competent or prefer to adopt an unprofessional attitude?

The answers to these questions confirm or deny the validity of a model. Even if all the theories are supported by some arguments, from a historically point of view the more present and correct theory is the partisan theory. This theory argues that politicians and their political ideology manifest in the first period of the mandate, then, after that, they adopt a more moderate policy to gain supporters to its side. Unfortunately, currently we don't have models that can predict correctly movements of the cycle, but the first steps have been made, and now we can enjoy a solid literature in the field. Through continuous research and development we can get to design models that can accurately explain the political effects on the economic environment. We could fall in the misleading classification of Governments as opportunistic or ideological. But often, after the phrase " truth lies in the middle", incorporating the two behaviors in modeling polical business cycles seems to be the most viable option.

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CHALLENGES OF THE ECONOMIC AND MONETARY UNION IN THE CONTEXT OF THE ECONOMIC CRISIS

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Abstract: *The economic and financial crisis which has affected the world economy since 2008 raised a question mark regarding the viability of the Economic and Monetary Union and the future of the euro. The main objective of this paper is to identify the amplitude of the effects of the economic crisis on the functioning and stability of EMU. Following the main objective, the study is meant to analyze the theoretic fundamentals which were at the basis of the creation of EMU and an analysis of the financial policies and instruments meant to render stability and sustainable economic growth in the countries of the Eurozone.*

Keywords: Economic and Monetary Union, Optimum Currency Areas, euro zone, economic crisis, stabilization policies
JEL Classification: E62, H63, G01

INTRODUCTION

The global financial crisis which started in September 2008 and was followed by the most serious economic recession of the last decades has determined the design and implementation, at the level of governments, of vast ranges of emergency measures for the stabilization of the financial sector and for the amortization of the negative effects on the national economies. The effects of global economic crisis as perceived also in the European economies seem to have an important impact on the functioning of the Eurozone. This new financial and economic context determined the debate and reinterpretation of problems and questions, which refer to the functioning norms of the Eurozone, the efficiency of a monetary union which contains countries with different development levels and in the absence of a fiscal cohesion, the opportunity of a new extension of the Eurozone or even the future of EMU.

But the economic crisis is not the only one to blame for the current situation of the Eurozone, as causes can be found also in the asymmetrical nature of the monetary union. Criteria of OCA have not been fully fulfilled by the Member States of EMU neither when the monetary union was created nor now.

At present the fundamental problems faced by the countries of the Eurozone are the high unemployment levels, internal commercial disequilibria, lack of economic growth, alarming quotas of the budgetary deficit and of the public debt.

1. FUNDAMENTALS OF THE MONETARY UNION THEORY

The problem of the economic integration and of the effects of the liberalization of the commerce has been the debate topic of economists ever since Adam Smith's. The economic integration materialized through a Monetary Union, with the unique currency and monetary policy was initially perceived as a source of benefits for the economies of the member States. In short, the economic integration represents a way of progress through the elimination of barriers in commerce (trade integration), the free circulation of production factors (factor integration), the harmonization of national economic policies (policy integration) and the unification of these policies (Balassa, 1961). Among the most important benefits of the creation of a monetary union a mention should be made of the elimination of the exchange rate costs, the stability of prices and of the employment level, the increase of the real GDP, the diminution of risks in the economic relations between the Member States. Still, a monetary union also involves that the Member States give up their own monetary policies, most frequently used as a stabilization instrument of an economy. Thus, in the case of economic shocks, the equilibrium can be reestablished by adjusting the market mechanisms and by using fiscal policies. The economic integration should promote the convergence between the participating countries, so that the mechanisms of economic adjusting should be efficient and produce uniform effects. In this situation it is absolutely necessary that the Member States of a monetary union should fulfill a series of conditions, such as: the high degree of mobility of manpower and of capital, the diversified production, the opening of economies and the mobility of prices, salaries and the market (Mundell, 1961). In addition, for the elimination of the possible weak points of a monetary union it is necessary that the countries forming this union should have a similar economic development, comparable values of macroeconomic variables such as the GDP per capita, the budgetary deficit, the public debt in relation to GDP, the interest rate. Authors such as Obstfeld (1998) or Frankel and Rose (1997) grant a special importance to the degree of synchronization of the economic cycles and of economic shocks in the economies of the Member States. The problem of the synchronization of the economic cycle is extremely important within an economic and monetary union, as it is on this that depends, to a great extent, the success of an economic policy of adjusting the economies of the Member States. In the case of economies with a low synchronization level of the economic cycle and affected by asymmetric economic shocks any monetary policy stipulated by the supra-national bank for the stabilization of the economic situation shall produce unequal effects or even contrary ones. Therefore, the fulfillment of the above criteria by the countries forming a joint monetary zone represents an essential condition for the efficient functioning of stabilizing economic mechanisms meant to absorb economic shocks.

Based on the OCA theory, one can conclude that countries considerably different, both regarding their development level and the economic mechanisms, should be subjected to a real convergence process before forming a monetary union. This real convergence process involves radical institutional and structural changes.

Benefits which the countries of the monetary union can obtain, both in the short and in the long run, are considerable. But these benefits can also be accompanied by costs materialized in the loss of economy stabilization instruments. Both advantages and costs depend on a series of factors (Bukowski, 2011):

1) *The economy opening degree*: the more open an economy is the higher the advantages from the adhesion to a monetary union;

2) *The international mobility of production factors:* the high manpower mobility facilitates the adaptation to the negative effects of the asymmetric economic shocks and reduces the pressure on the exchange rate adjustment;

3) *The symmetry of economic shocks and the economic cycle synchronization:* asymmetric shocks and the economic cycle un-synchronization require economic adjustment policies specific to each country, fact which is though impossible within a monetary union;

4) *The diversified production:* a country which exports a very diversified series of products shall be less vulnerable to production sector specific shocks;

5) *Fiscal transfers:* neutralizes the effects of asymmetric shocks in a monetary zone.

6) *The fiscal policy integration degree and the similitudes of inflation rates:* the differences between the inflation rates lead to a loss of the competitiveness for the countries with high inflation rates.

Debates regarding the effects caused by the adoption of the unique euro currency brought in discussion the theory of endogenous effects of monetary integration. Authors such as Frankel & Rose (1997) or de Grauwe (2006) identify four zones in which endogenous effects for the new Member States can take place:

a) Commercial integration;

b) Shock symmetry;

c) Manpower and production flexibility;

d) Financial integration or integration of the insurance systems quoted by the capital markets.

By the endogeneity of the OCA criteria, Frankel & Rose (1997) claim that although when the monetary union was created the participating economies do not fulfill the conditions imposed by OCA, it is precisely the creation of such a union that shall create the favorable economic context for the later fulfillment of such conditions. De Grauwe (2006) identifies three mechanisms through which the OCA criteria explain endogeneity. First of all, the monetary union can influence the commercial flows and sustain commercial integration, thus increasing the benefits of monetary union. Monetary integration can also lead to an intensive financial integration, facilitating the occurrence of insurance mechanisms. Third, a monetary union lead to the increase of manpower flexibility, thus reducing adaptation costs to the asymmetric shocks within the monetary union.

In spite of the arguments given by the hypothesis of endogeneity of the OCA criteria, deep structural and institutional changes seem absolutely necessary when the economies of the countries composing the monetary union are characterized by the inflexible markets, high inflation rates and high quotas of the budgetary deficits and of public debt. And in the case of countries with different economic development levels a real convergence process becomes necessary in order to assure the stability of a monetary union.

Another important problem which the creation and optimal functioning of a monetary union raises is the one of fiscal federalism. In this regard, one should ask whether a monetary union would not operate better through the transfer of fiscal policy competences from the national level to the supranational one. Certain authors sustain the idea of fiscal federalism, considering it a source of stability for a monetary union (McKinnon, 2002).

2. FINANCIAL CRISIS AND THE CURRENT IMBALANCES IN THE EURO AREA

The global financial and economic crisis has revealed deficiencies and structural problems of certain countries of the Economic and Monetary Union (EMU). Economic and financial turbulences of the last years have cast a new light on the amplitude and less wanted effects of the world economy interdependences. This new economic and financial context seems to point out certain economic and structural deficiencies of the very Economic and Monetary Union.

Due to a prolonged integration process, the EMU countries have developed substantial institutional and systemic similitudes. The EMU countries have only preserved the control over fiscal policies, which were anyway restricted by SGP and other EU specific fiscal norms. Lacking instruments of monetary policy and the limitations imposed on national fiscal policies also diminish considerably the impact which an EMU Member State may have on the course of the own economy.

In 2007, before the global economic crisis started, EU and the Eurozone reached the maximal level of the last decades, this due to the general favorable economic conditions. The global financial crisis influenced the economic activity of the EU countries through the transmission channels such as the connectivity of the financial system and the interconnections within the international commerce. With more than 4% decrease of the real GDP in 2009 both in UE and in the Eurozone, recession has proved to be the highest after World War II. Except Germany, economic comeback in the Eurozone has remained slow. Although in the first quarter of 2010 moderate economic increases have been registered, the current numbers show that the Eurozone and the EU are still far from the economic performances before the crisis.

Although the Eurozone economies are still different in terms of human capital, the social capital and the production capital, natural resources and solutions adopted at the institutional level. To these differences we should add the variations pertaining to traditions, experiences, corporatist culture, and the law compliance degree, through which the EMU countries create varied business environments or different innovation absorption capacities (Kowalski, 2012). All these differences are reflected in the level of competitiveness of each country and influence the way each of these countries has reacted to economic and financial disturbances initiated by the global economic crisis.

The debt crisis in the PIIGS countries (Portugal, Irland, Italy, Greece and Spain) seems to be not only a debt crisis, but rather a competitiveness and growth crisis, that created structural imbalances in the Eurozone. The lack of growth in the euro area periphery over the past years has been due to an erosion of competitiveness (Volz, 2012). In the peripheral countries the economic growth was a result of capital inflows and low real interest rates. This situation led to large wage increases in excess of labor productivity growth, higher price inflation and higher unit labor costs than in other core countries of the euro area (for example Germany, which used the waged constraints and the structural reforms to improve the price competitiveness). Concluding, there are large competitiveness differences between *core* and *peripheral* Eurozone countries and these differences amplify the imbalances in the EMU.

Nowadays more of the problems the Eurozone is faced with are due to the high level of public debt and the governmental deficits of certain EMU countries. From this point of view the worst situation is found in Greece, Ireland and Portugal, countries which were forced to borrow money from other governments of the Eurozone or from FMI in order to avoid the payment incapacity of the debts. Still, even with such financial assistance, Greece had to restructure its debts, fact which led to substantial losses for private creditors.

The situation is not better in Italy and Spain either, whose public debt has reached alarming levels (the debt of Italy is higher than the cumulated debts of Greece, Ireland, Portugal and Spain). The economic and financial context of Italy and Spain has determined investors to request higher interest rates for purchasing and holding obligations in these countries.

In 2007 the criteria of the deficit of public financial sector was fulfilled by 10 of the 12 EMU countries, 6 out of 10 registering a budgetary surplus (the greatest percentage being the one of Finland and Luxemburg, with 5.2% and 3.7% respectively). The financial and economic crisis of 2008-2009 affected differently the general government financial balances (GGFB) of the EMU countries. During the 2009-2010 period when recession reached its peek, most of the EMU countries have registered deficits, only Finland and Luxemburg exceeding the level of 3%. The most serious fall of GGFB took place in Ireland (32.4%), Greece (15.6%), Spain (11.1), Portugal (10.9%) and France (7.5%).

Often, the main culprit for European debt crisis was found in the large government spending with social security systems. But, the Nordic countries Finland, Norway, Denmark and Sweden demonstrate the opposite. Although these countries have the most generous social security systems in Europe, they have relatively low debt-to-GDP ratios and are not affected by the crisis. The European debt crisis is due to the response of the euro area governments with counter-cyclical fiscal policies to the falls in output that increased the fiscal deficits. Also, the causes of the European debt crises consist in the rising unemployment and in the government bailouts of banking systems.

Table 1 – Government budget balance and debt ratios in the euro area

	Budget balance					Debt				
	2007	2008	2009	2010	2011	2007	2008	2009	2010	2011
Belgium	-0.2	-1.2	-5.9	-5.8	-5.8	84.2	89.8	97.2	101.2	104.0
Germany	0.2	0.0	-3.4	-5.0	-4.6	65.0	65.9	73.1	76.7	79.7
Ireland	0.3	-7.2	-12.5	-14.7	-14.7	25.1	44.1	65.8	82.9	96.2
Greece	-3.7	-7.7	-12.7	-12.2	-12.8	95.6	99.2	112.6	124.9	135.4
Spain	1.9	-4.1	-11.2	-10.1	-9.3	36.1	39.7	54.3	66.3	74.0
France	-2.7	-3.4	-8.3	-8.2	-7.7	63.8	67.4	76.1	82.5	87.6
Italy	-1.5	-2.7	-5.3	-5.3	-5.1	103.5	105.8	114.6	116.7	117.8
Cyprus	3.4	0.9	-3.5	-5.7	-5.9	58.3	48.4	53.2	58.6	63.4
Luxembourg	3.7	2.5	-2.2	-4.2	-4.2	6.6	13.5	15.0	16.4	17.7
Malta	-2.2	-4.7	-4.5	-4.4	-4.3	62.0	63.8	68.5	70.9	72.5
Netherlands	0.2	0.7	-4.7	-6.1	-5.6	45.5	58.2	59.8	65.6	69.7
Austria	-0.6	-0.4	-4.3	-5.5	-5.3	59.5	62.6	69.1	73.9	77.0
Portugal	-2.6	-2.7	-8.0	-8.0	-8.7	63.6	66.3	77.4	84.6	91.1
Slovenia	0.0	-1.8	-6.3	-7.0	-6.9	23.3	22.5	35.1	42.8	48.2
Slovakia	-1.9	-2.3	-6.3	-6.0	-5.5	29.3	27.7	34.6	39.2	42.7
Finland	5.2	4.5	-2.8	-4.5	-4.3	35.2	34.1	41.3	47.4	52.7
Euro area	-0.6	-2.0	-6.4	-6.9	-6.5	66.0	69.3	78.2	84.0	88.2

Source: European Comission

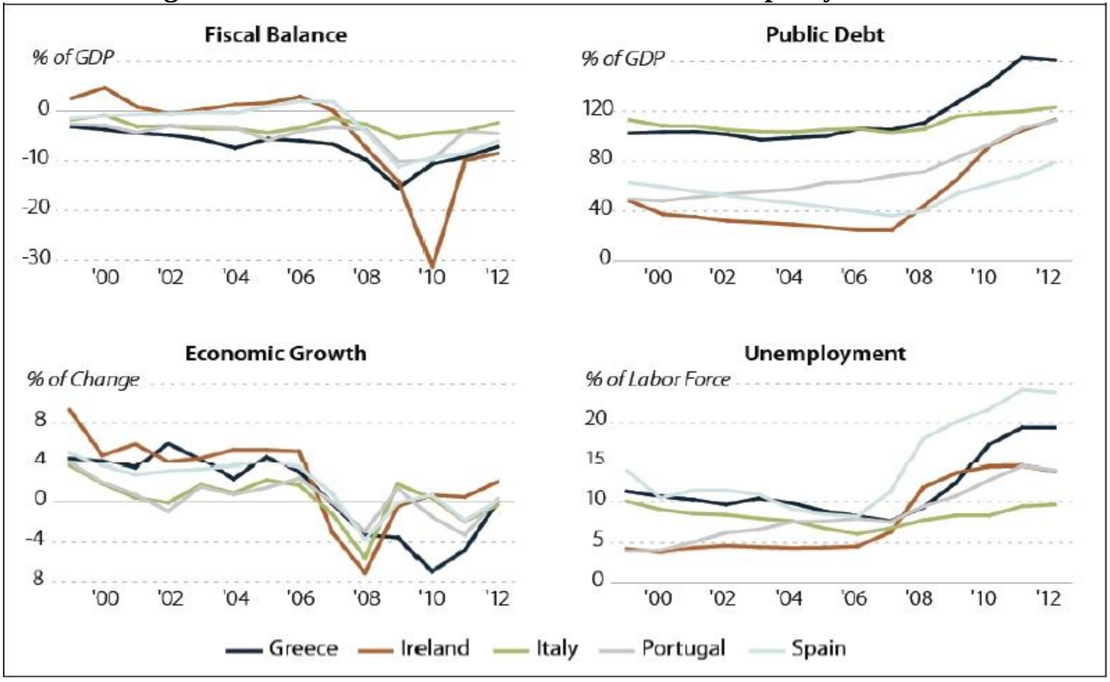
The complete or quasi absence of an economic increase in the Eurozone countries makes impossible the reduction of their public debt. IMF estimated that the Eurozone economy shall contract with 0.3%, while in 2013 a modest economic growth shall take place. For certain Eurozone countries, respectively Greece and Spain, this prognosis seems to be an optimistic one, while their economic situation is much more serious. For Greece, it has been estimated that the economy contraction during 2007 – 2012 would be of almost 20%. For Ireland prognoses estimate a fragile economic increase of only 0.5% until the end of year 2012.

Another problem EMU is facing is represented by the banking system of this area. Many banks of the Eurozone hold periphery bonds and many analysts consider these do not have enough capital to absorb losses from holding sovereign bonds, reason why many governments in the Eurozone should restructure their public debts. Certain banks of the Eurozone report difficulties in borrowing from private capital markets, determining investors to fear a banking crisis in Europe, with worldwide repercussions.

Persistent commercial deficits sometimes turn the situation of EMU countries much more difficult, becoming impossible to neutralize the economic recession effects through an export-based increase. Although certain countries have adopted measures aiming at the liberalization of the rigid manpower market to create a plus of competitiveness for their economies and for sustaining exports, it seems that their effects shall be effective in the long-run.

In most of the Eurozone countries the unemployment rate increased, but in the Eurozone periphery (PIIGS countries) it has reached alarming levels. The highest values of unemployment are found in Spain and Greece (24.2% Spain, 19.3% Greece).

Figure 1 – Economic Indicators for Eurozone Periphery Countries



Source: International Monetary Fund, *World Economic Outlook*, 2012

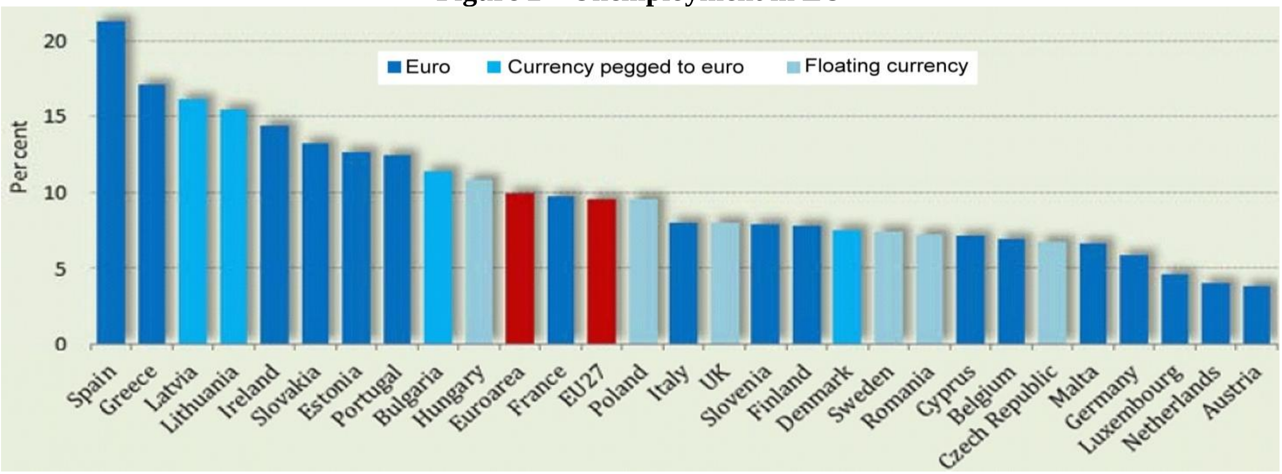
The global economic and financial crisis also led to debates regarding the structural problems EMU is facing. Certain economists consider a weak point of EMU, which can affect its economic stability, the lack of a fiscal union which would foresee a centralized budget and a fiscal transfer system between the Member States. The possible advantages of a fiscal union would consist in the possibility of a central fiscal authority to control expenses in the EMU Member States and use fiscal transfers for the absorption of asymmetric economic shocks which would affect the Eurozone.

The trade volume in the Eurozone decreased dramatically in the last quarter of 2009, as a result of the decrease of the demand for long-term goods and of the enterprise investments. Commerce has been affected by the demand shocks at the level of the capital and of the sustainable items. Governments acted so to support the aggregate request and the financial sector. But effects have not been the expected ones because the fiscal situation in the Eurozone has acknowledged a continuous deterioration reflected in the public finances and the budgetary deficits, which increased from only 0.7% of GDP at the end of 2007 to 6.2% of GDP at the end of 2010. In the first half of

2011 the Eurozone deficit acknowledged a poor amelioration and decreased in the 2 quarter to 5.5%.

While the crisis of sovereign debts continued to affect the real economy, many European countries would face very high unemployment levels, fact due to a certain extent to the imposed financial austerity and the reduction of governmental expenses. Spain is still fighting for exceeding its dependence on the construction sector which assured its years of economic growth and helped it keep an acceptable budgetary deficit until the financial crisis started. On the basis of statistic data one can notice that EU Member States with the highest unemployment rates are those in the Eurozone and those with euro-referred currencies in comparison to the countries having floating national currencies.

Figure 2 – Unemployment in EU



Source: Eurostat

3. EUROZONE STABILIZATION POLICIES

For solving the problem of the sovereign debt two types of measures have been implemented: austerity measures and salvage plans. Austerity applies nationwide through the reduction of governmental expenses to limit the current and future budgetary deficit to increase the confidence in markets and to maintain interest rates at a low level. Still, in several countries' case, austerity has not proved to be the best solution. Although Greece has reduced its budgetary deficit with more than 5% of GDP, during the period 2010-2011, its economy contracted with 10%. The austerity measure raises efficiency problems and through the fact that it may lead to a stabilization through recession and imposes huge costs for the population. Financial austerity provides few perspectives of sustained growth in the future, proving to be a measure with rather short term effects.

Regarding the salvage plans, following the intensification of the financial crisis at the beginning of year 2010, the EU became aware of the necessity of a consensus regarding the solving of the problem of public debts in the Eurozone and the possibility that this problem would extend also to other EU member states. In May 2010, finance ministers in the EU agreed to adopt a 110 billion euros budget for saving Greece from economic collapse and for stopping the dissemination of the crisis to other peripheral economies. This salvage package also imposed a series of measures of austerity which received violent criticism.

The adoption of the European Financial Stability Facility (EFSF), in June 2010 received a positive feedback on the financial markets, but it had a limited impact on the real economic indicators. The EFSF was initially created for selling bonds and using the funds for providing loans of up to 440 billion euros to the Eurozone countries facing difficulties (through the European Financial Stabilization Mechanism – EFSM). For the year 2013 it is foreseen that EFSF and EFSM shall merge in a single permanent rescue funding programme. The European Financial Stabilization Mechanism (EFSM) shows that the answer to the Eurozone crisis is represented by the reaching of the long-term stability purpose. EFSM shall stipulate tougher penalties and shall be used for fighting financial contagion between EU countries in case one of the countries would be in the payment incapacity.

From the monetary point of view, the Central European Bank (CEB) took a series of measures meant to reduce of the volatility on the financial markets and for the assurance of the liquidities for funds allocations for the Long Term Refinancing Operations (LTROs).

Analyzing certain aspects of financial crisis in the Eurozone could be due to a certain extent to the violation of certain clauses of the EU treaties such as the no bail-out clause, the violation of the convergence criteria, the insufficient protection of the tax payer, the exceeding of the budgetary deficit, which normally should not go beyond 3% of the GDP, and the raw public debt beyond 60% of the GDP. For Eurozone members there is the Stability and Growth Pact (SGP) which also refers to the limitation of the budgetary deficit and of the public debt but also involves a much stricter financial regime.

Beyond the measures taken at the structural level for fighting the effects of the economic crisis in the Eurozone, certain economists also claim the necessity of institutional changes, which would consist in the completion of the monetary union by a fiscal and financial union (Shambaugh, 2012). Still, an impediment in the creation of a fiscal union may be the fact that EMU Member States do not have the same development level, situation which would rather require the creation of an institutional framework that shall allow a multi speed Europe, than the total convergence target.

An extreme measure for providing a solution to the Eurozone crisis would be the exiting of this union of the peripheral economies. This is though rather improbable given the huge costs it involves. Such a situation would turn many countries in the Eurozone insolvable. Taking into account the debt of such countries is found in the balances of banks and insurance companies throughout the world, the financial instability effects could be disseminated through the financial system.

CONCLUSIONS

The European crisis has revealed potential vulnerabilities of regional financial and monetary integration. One of the major causes of the current economic situation in the euro area was that monetary unification was not accompanied by an adequate level of financial and macroeconomic convergence among euro area countries. Nonetheless, it would be a mistake to minimize the positive effects of the European Monetary Unification. The Euro area countries most affected by the economic crisis have been PIIGS or Eurozone periphery countries (Portugal, Ireland, Italy, Greece, and Spain). Perhaps if these countries carried out structural reforms and adjusted internally in time, they would not face the current problems. The debt crisis in the PIIGS countries (Portugal, Irland, Italy, Greece and Spain) seems to be not only a debt crisis, but rather a competitiveness and growth crisis, that created structural imbalances in the Eurozone.

The vulnerabilities of the euro area and its member countries have become obvious now and they should be addressed. Despite all critics, European policymakers have responded to the crisis with extensive reforms of the euro area's institutional framework as well as specific structural reforms for member countries.

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***IMF, *World Economic Outlook, April 2012,* available at http://www.imf.org/external/pubs/ft/weo/2012/01/pdf/text.pdf.

EUROREGIONS IN UKRAINE – ROMANIA - REPUBLIC OF MOLDOVA AREA: EXPECTATIONS, EXPERIENCE AND PROSPECTS

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Abstract: *The article analyses the phenomenon of Euroregions and cross-border co-operation in Ukraine, Republic of Moldova and Romania area in a comparative perspective with the Western European practice. It outlines the expected mission of the "Lower Danube" and "Upper Prut" Euroregions, their general features and particularities, achievements and shortcoming, experience and prospects. The study shows that although the "Lower Danube" and "Upper Prut" Euroregions did not prove to become self-sustainable structures and after 15 years of their existence reduced their activity, they should be given credit for the positive role in the revitalization of cross-border co-operation between the three neighboring states on the EU Eastern frontier.*

Keywords: Euroregions, cross-border co-operation, European integration
JEL Classification: F5

INTRODUCTION

Historically Europe is marked by numerous borders between nation states, many of them being formed as a result of wars and tensions. With the amplification of integration processes, resulting in the European Single Market and European Union, the necessity to diminish negative effects of national borders, as well as regional economic inequalities, promoting cross-border co-operation became more and more evident. The present paper focuses on cross-border cooperation on the Eastern EU frontier, more specifically the Euroregions involving Romania, Ukraine, and Republic of Moldova, in the context of European integration processes.

This phenomenon, as well as trans-frontier cooperation as such, is relatively new in the area, having appeared only in the late 1990s, while in Western Europe the first Euroregions began to be created in Western Europe already in the late 1950's. As in Eastern Europe the integration processes did not appear before the last decade of 20th century, and the Euroregions here came as a new tool of good-neighbourhood relations which just started to shape in the changed geopolitical context. Before analyzing these structures in detail we will discuss the origins and mission of cross-border co-operation in general and the idea of Euroregions in particular.

1. RATIONALE FOR CROSS-BORDER COOPERATION

According to the „European Outline Convention on Transfrontier Co-operation between Territorial Communities or Authorities" (Madrid, May 21, 1980), transfrontier (cross-border) cooperation is defined as "any common actions oriented on strengthening and development of good neighboring relations between territory societies or power bodies, which are under authority of two or several Agreement sides and signing necessary agreements or deals for this purpose" (European Outline Convention..., 1980).

Cross-border regions are characterized by a wide range of economic barriers and imbalances on the internal and external frontiers of the EU. Economic centers in border areas are often cut off from part of their natural hinterland across the border, which effectively distorts the possible structure of trade and services, as Mr. Oriano Otacon, the Head of the Department of International Cooperation and EU Integration (Region of Istria, Croatia), points out in his report for the Venice commission (Otoacen, 2010). Border and cross-border regions thus play a bridge function and deepen European integration at large within the EU, and promote a viable neighbourhood on its external borders. Further integration revealed the need for more convergence and cohesion within the EU through promotion of cross-border (trans-border) cooperation.

Partnerships of this kind are necessary for cross-border regions, with all the often very different social partners on either side of each border, and externally, with national government. (The European Charter on Border and Cross-Border Regions, AEBR, November 20, 1981, amended on 1 December 1995, amended on 7 October 2004).

To sum up, the main motives for cross-border cooperation are the transformation of the border from a separating line of into a meeting space, a place for intensive communication between neighbouring states and citizens; the overcoming of prejudices between peoples from border regions; the strengthening of democracy and the development of operational regional/local administrative bodies; the overcoming of the handicaps of peripherality and isolation; the promotion of economic growth and development and the improvement of the standards of living; the making of compatible spaces inside the EU and on its external borders. In this respect, an important part was assigned to Euroregions, associations of cross-border cooperation, promoting social integration and community-building.

2. EUROREGIONS: WESTERN EUROPEAN EXPERIENCE

Euroregion is a type of transnational co-operation in the form of a specific cross-border region, formed by two or more contiguous territories located in different European countries (Otocan, 2010). According to the Council of Europe, Euroregions and other forms of transfrontier co-operation structures do not create a new type of government at transfrontier level. The term Regio comes from the Latin "regere", meaning to draw a line or border. In ancient Rome the “Regio” was used for demarcating an area rather than governing it. (What is Euroregion?, n.d.). In European politics, the term Euroregion usually refers to a transnational co-operation structure between two (or more) contiguous territories located in different European counties. They are established to promote common interests across the border and cooperate for the common good of the border populations.

In 1958, the term Euregio was applied for the first time. Then, in the 1960’s, many problems pertaining to regional development, education including language one, commuting matters, transport and technical infrastructures or the environment started to be solved in a cross-border way. The first Euroregion - Reggio Basiliensis, now renamed TriRhena - occurred at the border between Switzerland, Germany and France in 1963, followed by others in the border area between Benelux, Germany and France, after which it expanded at a fast pace, so currently, there are more than one hundred such structures.

According to the Association of European Border Regions (2001), the Council of Europe sets *the following criteria* for the identification of Euroregions:

- An association of local and regional authorities on either side of the national border, sometimes with a parliamentary assembly;
- A transfrontier association with a permanent secretariat and a technical and administrative team with own resources;
- Of private law nature, based on non-profit-making associations or foundations on either side of the border in accordance with the respective national law in force;
- Of public law nature, based on inter-state agreements, dealing among other things, with the participation of territorial authorities.

Euroregions have following characteristics: *geographical* - Euroregion is the territory which has particular geographical position; *political* – a part of this territory is under legislative authority of sovereign states which have common border; *administrative* – bordering regions of states which have common border create Euroregion; *functional* – Euroregion is a form of trans-border cooperation.

If we consider the legislative aspect of Euroregions, they do not lead to appearing of the new administrative formation with a judicial status. Euroregions usually do not correspond to any legislative or governmental institution, nor do they have direct political power. Their work is limited to the competencies of the local and regional authorities which constitute them. Legislative regulation on the territory of each Euroregion's member is held according to the actual state legislation, where it belongs. The governing Euroregion's bodies perform coordinative functions and do not have power authorities, and also cannot replace power bodies, which work on the each member's territory. Regarding political aspects euroregion do not act against state national interests; euroregions are not overstate formations; in their activity euroregions do not replace external political functions of the states, which administrative-territory units are their members.

Regarding the operational aspect, since August 1, 2007 the new legal instrument for a "European Grouping of Territorial Co-operation" (EGTC) has entered into force (Regulation (EC) No 1082/2006, 2006). It intends to facilitate the implementation of co-operation programmes by allowing for Member States, regional authorities, local authorities and/or bodies governed by public law from at least two Member States to associate under a joint convention. Unlike the structures which governed this kind of cooperation before, the EGTC is a legal entity and as such, enables regional and local authorities and other public bodies from different member states, to set up cooperation groupings with a legal personality. The EGTC is unique in the sense that it enables public authorities of various Member States to team up and deliver joint services, without requiring a prior international agreement to be signed and ratified by national parliaments.

Among the advantages of Euroregions we can list the following: a political advantage, strengthening the lobbying power of regional presidents/governors; a managerial advantage, enabling the coordination of common projects; a developmental advantage, by promoting a common vision for the whole Euroregion.

There are also numerous added values that arise as results of euro-regional cooperation. European added value comes from the fact that people who are living together in neighboring border regions want to cooperate and thereby make a valuable contribution to the promotion of peace, freedom, security and the observance of human rights.

Political added value means making contribution towards: the development of Europe and European integration, the implementation of subsidiarity and partnership; increased economic and social cohesion and cooperation; preparing for the accession of new members; using EU funding to secure cross-border cooperation via multiannual programmes. Institutional added value could be: active involvement by the citizens, authorities, political and social groups on both sides of the border; secure knowledge about one's neighbor (regional authorities, social partners, etc.); long-term cross-border coopermation in structures that are capable of working efficiently.

Socio-economic added value are the participation of actors from the economic and social sectors; additional development, e.g. in the fields of infrastructure, transport, tourism, the environment, education, research and cooperation between small and medium-sized enterprises, and also the creation of more jobs in these areas. Socio-cultural added value are: the improvement of cross-border transport infrastructure; lasting, repeated dissemination of knowledge about the geographical, structural, economic, socio-cultural and historical situation of a cross-border region; the development of a circle of committed experts, such as churches, schools, educational establishments, libraries, museums, and so forth.

3. EUROREGIONS ON THE EASTERN EU BORDER: THE CASE OF UPPER PRUT AND LOWER DANUBE

Euroregions have contributed for economic development and cooperation in Western Europe. This experience is translated as a background with high speed towards Central and Eastern Europe. In the regional triangle of Romania – Ukraine - Republic of Moldova borderlands, Euroregions came as a consequence of relaxation and pragmatization in their post-communist relations. Starting from late 1990s the idea of Euroregions comprising administrative units from each of these three countries began to take shape. The beginning was laid by the Protocol on trilateral cooperation between the governments of Ukraine, Moldova and Romania signed on July 3-4, 1997 in Izmail, which contained specific provisions on creating Lower Danube and Upper Prut Euroregions. The expectations from the two Euroregions were high, considering the urgent need to 're-load' the agenda of regional and bilateral relations between the states, which after 1991 had struggled to overcome the historical legacies and disputes. Euroregions were regarded as a promising framework for solving practical problems of regional cooperation between neighboring regions.

The Lower Danube Euroregion was established on August 14, 1998 in Galati (Romania), with the participation of administrative units of the three neighboring states: Odessa region (Ukraine), Galati, Tulcea and Braila counties (Romania), Cantemir and Cahul counties (Republic of Moldova).

The main spheres of the Euroregion's activities were identified as follows: economic cooperation, transport, communications and infrastructure, environmental activities and humanitarian spheres (education, healthcare, etc.). Among the specific projects that have been implemented by the Euroregion are: the construction of two ferries across the Danube, the reconstruction of access roads and border entry points, upgrading transshipment bases for processing export-import and transit cargoes (Acord cu privire la constituirea euroregiunii «Dunarea de Jos», 2000).

"Upper Prut", the other Euroregion in the area, was established on September 22, 2000 in Botosani (Romania). It included Chernivtsi region (Ukraine), Botosani and Suceava counties (Romania), Balti and Yedinets counties (Republic of Moldova). Since October 15, 2003 the Euroregion was joined also by Ivano-Frankivsk region of Ukraine and Faleshti, Glodeni, Ocnitsa, Ryshkani and Bricheni counties of Republic of Moldova. The federal land of Carinthia (Austria) became a European Associate Partner of the Upper Prut Euroregion. According to the constituent documents, Upper Prut's activities were envisaged in a wide range of areas, which can be grouped into the following major groups: economic projects (trade liberalization, functioning of chambers of commerce, tourism development and implementation of advanced technologies), infrastructure (energy integration systems, transport and communication networks), environmental projects (prevention of trans-border water pollution, effects of industrial accidents and natural disasters, the development of cleaner production), cultural and humanitarian activities (science, education, culture, sports and youth, public health, to ensure full and effective equality of persons belonging to national minorities).

Some peculiarities of the Upper Prut and Lower Danube Euroregions can be outlined, compared with the Western European experience of Euroregional co-operation. Unlike the Western European regions, which are primarily designed to promote economic development of peripheral regions, the Ukrainian-Moldovan-Romanian cross-border regions are more focused on education, scientific and cultural dimensions of cooperation. They also have a special emphasis on protection of respective national minorities across borders, striving for the creation of new opportunities for solving ethnic problems in the region. In addition, the specificity of these Euroregions lies in the fact that they are based on administrative territorial units which is not a general rule in European practice.

With all the positive effects that Euroregions had in this cross-border region, such as people-to-people exchange and general improvement of the climate of the good neighborhood relations, at the same time, Euroregions on the EU Eastern border encountered a number of difficulties.

First, the vague wording in the agreement of 1997 largely complicated the development of the Euroregion projects. As a consequence, internal organizational difficulties impeded the effectiveness of the Euroregions in the area, especially in the initial phase of implementation. For instance, at the early stage the Ukrainian party suggested to create an ecologically-oriented Euroregion - “The Carpathians-Danube”, while their Romanian counterparts opted for the political and administrative component of the prospective Euroregion (Broyde, 1999).

Second, the economic situation in the participating countries significantly limited the possibilities of reciprocal economic projects. This caused that on the large scale Ukraine, Republic of Moldova and Romania did not represent mutually attractive countries for each other in terms of economy. Joint projects in the Upper Prut and Lower Danube Euroregions are largely dependent on donor countries and organizations, first of all European funds, which significantly limited the possibilities of cross-border projects.

Third, certain problems are also related to the imperfections and discrepancies in national legislations of the three states, lack of clear concepts and strategies for reform and the of economic development, high customs duties, high prices for transportation, inadequate tax regulations, the lack of real market competition, bureaucracy, corruption and so on. Complicated relations between central and regional authorities (center versus periphery), peculiar for post-communist states, appear as additional problems for cross-border co-operation in the initial stage of their existence.

Nevertheless, the vast majority of experts and stakeholders give a positive assessment of the Euroregion phenomenon in the area of Ukraine, Romania and Republic of Moldova. Euroregions contributed to the intensification of cross-border economic, communication and environmental links, improvement of regional infrastructure. In particular, a successful project initiated “bottom-up” on constructing a bridge between Romanian town of Sighet and Ukrainian Solotvyno, for the first time since its destruction during World War II, was a symbolic demonstration of the cross-border co-operation potential and mission.

CONCLUSIONS

As the European practice demonstrates, bilateral or trilateral (multilateral) cross-border cooperation at regional/local level are a necessity over the long term, not just in order to prevent cross-border conflicts and overcome economic and mental barriers, but in order to facilitate partnerships that will balance these differences, through Euroregions and similar structures.

On the Eastern EU border, in Ukraine-Romania-Republic of Moldova area, the “Lower Danube” and “Upper Prut” Euroregions were launched as a new form of multilateral co-operation in late 1990s. They institutionalized the cross-border relations between the neighboring states and provided a legal framework for more intensive co-operation across borders. These efforts resulted in certain revival of people-to-people contacts and a number of practical projects, particularly in the sphere of infrastructure, communications, and environment.

At the same time, Euroregions in the area faced a lot of challenges and had some specific shortcomings, such as unclear legal definitions, internal organizational difficulties, dependence on external funds, centralized administration etc. All these impeded development of projects and prevented them from becoming self-sustainable structures of transfrontier relations. Unfortunately, the “Lower Danube” and “Upper Prut” Euroregions did not prove to become a viable independent partnership instrument and did not make the expected long-term impact on creating a common cross-border space with integrated infrastructure and respective mental perception. Nevertheless, they played a positive role in the general revitalization and diversification of bilateral and trilateral relations on their early stage of development. If necessary lessons from the previous experience are made and the steps are taken to overcome the shortcomings of the Euroregions of this area, they still have the potential contribute to the cross-border co-operation on the EU Eastern border.

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