CENTRE FOR EUROPEAN STUDIES

Alexandru Ioan Cuza University of Iasi

CENTRE FOR EUROPEAN STUDIES

Working Papers Series

Volume II, Issue 2, 2010

CES WP

ISSN 2067 – 7693

CES Working Papers
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EXTERNAL BORROWING – A SOLUTION IN OVERCOMING THE CURRENT ECONOMIC CRISIS?

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Abstract: *The government decisions to call, in recent years, more and more reimbursable financing gave birth to fierce reactions among politicians and economy specialists. The present article aims to analyze how the external borrowing may be a solution to overcome the difficult situation where we are.*

Keywords: government, financing, external borrowing, economic crisis
JEL Classification: F34, G01, O10.

1. ECONOMIC DEPRESSION

Signs of global economic crisis became visible in February 2007 in the U.S. market in real estate. Bad mortgage loans were to lead to bankruptcy of major U.S. banking institutions. On September 15th 2008, Lehman Brothers collapse occurs. Lehman Brothers was one of the largest investment banks worldwide and its bankruptcy was the biggest bankruptcy in U.S. history. It fell as an American icon. Institution debts totalled a record amount of 613 billion dollars.

On October 24th the same year, Iceland asks International Monetary Fund an official aid to 2 billion dollars to deal with the crisis which destroys the banking system. At that time, Ukraine also requested a loan of 16.5 billion dollars.

Meanwhile, the euro reached its lowest level against the dollar in April 2006. IMF, EU and World Bank have granted 20 billion loan to Hungary.

2. CRISIS AT THE GATES OF ROMANIA

In November 2008, Moody's, a ratings, research and risk analysis company announces that Romania could enter into recession in 2009. Also now enters into force central bank decision to reduce minimum obligatory reserve to 18% for RON.

Even though the most opinion leaders in Romania believe that our country will be bypassed by the economic crisis hurricane, in reality crisis not only eluded us but it also hit the most.

In these circumstances, the Romanian Government decided to seek external funding package that includes funds amounting to 12.95 billion EUR from IMF, 5 billion EUR of the EU, one billion Euros from World Bank, as well as one billion Euros from the European Bank for Reconstruction and Development (EBRD), European Investment Bank (EIB) and the International Finance Corporation (IFC).

3. FUNDS ALLOCATION

Agreement with the IMF concluded in May 2009 is of the stand-by type. Romania opened the credit line amounting to 12.95 billion Euros without being obliged to draw the whole amount. Romania has used since 1972 IMF resources in eleven occasions as financial support for the government's economic programs.

About the IMF loan Mugur Isarescu said that "*loan must not be received as a safety belt, but as a complex, a bridge which gives us time to do what we didn't do at the proper time: structural reforms.*"

At the date of contracting financing package the destination of the funds was traced as follows:

- 12.95 billion EUR from IMF to the central bank (NBR) to support the country's foreign reserves;
- 5.00 billion EUR from the European Union to support investment projects;
- 2.00 billion EUR from World Bank and European Bank for Reconstruction and Development to support the banking system.

So far, Romania has drawn funding from this package as follows:

- 9.2 billion Euros from F.M.I.;
- 2.5 billion Euros from U.E.;
- 300 million Euros from the World Bank.

Destination of funds held was as follows: 7.10 billion Euros to strengthen central bank reserves and 4.90 billion Euros to cover the state budget deficit.

4. ROMANIA'S PUBLIC DEBT VALUE

In 1980 due to unpaid outstanding loans, Romania reaches in partial cessation of payments which led to blocking by the creditors of the accounts opened in other countries.

At that time, Romania's foreign debt amounted to 13.9 billion $ level without taking into account the 6 million $ representing the interest payment period. In these circumstances, the only way to follow was the negotiations with International Monetary Fund, World Bank, Paris and London Clubs for external debt rescheduling.

Following negotiations with the London Club, Romania succeeded in signing agreements for the rescheduling of the foreign debt totalling U.S. $ 3.8 billion from Western creditor banks. Also, by Paris Club was able to negotiate on two occasions rescheduling debt worth 536 million dollars (Călin, p.33).

Unfortunately, rescheduling was neither full nor under favourable terms for Romania but quite the contrary. This reality has led the Ceausist regime to start a harsh policy of decreasing indebtedness by foreign debt repayment in advance.

This resulted in (Calin, 2006, p. 33):

- massive reduction of imports in order to eliminate the outwards foreign currency payments.

Following this decision was low tech of the Romanian economy and production of the uncompetitive products for the foreign markets. There were gradually reduced down to total elimination food imports. Foods have been streamlined making a drastic economy on any plan.

- massive increase in exports of agricultural products and other raw materials;
- increase export of military production for Arab countries with which the regime maintained close relations of friendship.

Finally, the communist regime objective of extinguishing debt has been reached. The price paid meant the fall of the communist political system by Revolution in December 1989.

Whether in the early '90s, Romania's public debt was almost nonexistent, at present, according to the information posted on the official website of the Public Finance Ministry, data are: total public debt at 31st December 2009, reached the level of 148,055.1 million lei (30.14% of GDP), up 35% from a year earlier. Of the total public debt, government debt is 92.94% and the remaining 7.06% is the local public debt.

Romania recorded at the end of 2009 a budget deficit of 36,400.60 million, representing 7.20% of GDP. It should be made an indication that of total expenditure in 2009, current expenditure is 89.28% while investments cost only 12.00%.

5. IS IT GOOD OR NOT TO BORROW EXTERNALLY?

Negotiations lead by Romania with international forums for accessing external loan instalments born strong reactions among people from the political environment and among economy specialists.

Rightly the debates have made the ordinary citizens to wonder which is the direction where Romania leads to?

In economic terms the external together with the internal loans contracted by the central government and local authorities forms the Romania public debt.

The measure of the loan must be examined both in terms of responsibility and positive economic effects and in terms of potentially adverse effects.

Also, a decision of such a nature shall be accompanied by a package of actions that are meant to pursue the use of the borrowed money in the productive segments of the economy and not for consumption.

The main argument for the state to use external borrowing is that the interest rates offered by financial institutions like the IMF are about to half comparing to the interests offered for a loan contracted from the domestic market.

However in case of an external borrowing it increases our dependence on external bodies and the internal financial policy needs to meet strict conditions imposed by lenders.

5.1 „Investing" money in salaries and pensions

Money from loans are interest bearing. Their allocation to pay salaries and pensions guarantee a quick consumption of financial resources without the possibility of its regeneration.

This "investment" to satisfy a current and immediate need is catalogued in unison by the experts as an irresponsible allocation.

5.2 Investment in creating new jobs

At a time of financial crisis, the government must continue to support state investments begun in the prior years and to generate new investment projects that will ensure stability and recovery of the economic engine.

5.3 Money use to stabilize the exchange rate

National Bank is now depository of a significant percentage from the borrowed money in 2009. NBR may use amounts of its reserves to positively influence the exchange rate by realising liquidity to the market or not.

A pronounced imbalance of the RON-euro in the RON depreciation purpose would create significant damage to importers but would encourage exporters.

In a weak RON case importers would need more RON to buy in Euros the same amount of products while exporters would earn more RON for the same amount of exported goods.

Banking, for example, could become extremely demanding for customers who have signed a credit agreement in Euros at a lower cost of the euro and now for the same rate they must pay more RON for the Euros conversion.

6. POLITICAL CRISIS SUPERIMPOSED ON THE ECONOMIC CRISIS. IMPACT

An economic crisis obliges the state to take important decisions in a shortest possible time.

In Romania, however, economic crisis overlapped with the political crisis. Political instability affects economic credibility with all the ensuing repercussions. Existing disagreements between local political forces make legislative measures to be characterized by delays.

A major risk of this instability is the delay in achieving the objectives contained in the memorandum with the IMF.

7. CONCLUSIONS

One area of broad interest to countries that maintain a large portfolio of public titles is the public debt.

Although there are recommendations from international institutions to establish guidelines for public debt management, problems with contracting policies and public debt management should remain a matter of domestic policy. Depending on the degree of development and maturity of financial markets, of the interests of time, but especially for those of medium and long term, each country must establish and promote its own policy.

Public debt managers in times of economic policy elaboration should take into account the particular interests of the country, the economic situation on the international market, the world market trends and, not least, do not forget the experience of countries which have experienced multiple problems in contracting and public debt management.

Romanian State has not many options available to cover in a very short time a significant budget deficit which is amplified by the global economic crisis.

If the state decided to cover deficits by printing money without coverage, the result would be rising inflation and decreasing purchasing power of ordinary citizens. In social plan the decline of purchasing power would lead to major social movements.

If they would raise all taxes and other contributions, the state would still not be able to raise a significant amount of money in a short time. In addition, this measure would be likely to encourage the black economy.

I conclude by saying that the external loan is now the cheapest financial resource but we will finance the deficits in vain unless we will not stop immediately the unproductive expenditure.

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***www.bnro.ro;

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FOREIGN DIRECT INVESTMENT AND ECONOMIC GROWTH IN ROMANIA'S DEVELOPMENT REGION NORTH-EAST[1]

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Abstract: *One of integration's advantages it is represented by the increasing grade of economic opening toward the rest of the world, with benefic effects over intercepted foreign direct flows, reciprocal flows of working force and work productivity. Given this context and taking into account analyses presented in our research, I appreciate that North – East Developing Region will further attract larger flows of foreign direct investments, flows that will in turn accelerate, through chain effect, the process of regional development.*

Key-words: foreign direct investments, economic growth, development regions, regional dissimilitude, competitive advantages.

JEL classification: R11, E22

FDI–economic growth relationship: reciprocal relationship between foreign direct investments and economic growth it is due, on one hand, to their impact over de economic environment in every country and, on the other hand, to positive influences which sustained and lasting economic growth have over foreign assets flows receipted. According to experts, for a certain country, intense growth periods are characterized by attracting some important flows of foreign direct investments (Lipsey, 2000). In the same time, investments, indigenous and foreign, represent an essential factor of the economic growth, patterns elaborated in this matter (the most known being that of R.F.Harrod) reflecting the functional and real connection between accumulation rate and the rate of growth of national income, mediated by capital coefficient. The potential positive impact of FDI attracted into a certain country over its economic growth must be also seen through redistribution angle.

Foreign direct investment (FDI), its determinants, and its effects have been extensively studied. It has long been recognized that the benefits of FDI for the host country can be significant, including knowledge and technology transfer to domestic firms and the labor force, productivity spillovers, enhanced competition, and improved access for exports abroad, notably in the source

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

country. Moreover, since FDI flows are non-debt-creating, they are a preferred method of financing external current account deficits, especially in developing countries, where these deficits can be large and sustained. At the same time, FDI can be a mixed blessing. In small economies, large foreign companies can—and often do—abuse their dominant market positions and, especially in developing countries, attempt to influence the domestic political process. Large investors are sometimes able to coax concessions from country governments in return for locating investment there, and aggressively use transfer pricing to minimize their tax obligations. FDI can also give rise to potentially volatile balance of payment flows. On balance, however, the consensus view in the literature is that the benefits of FDI tend to significantly outweigh its costs for host countries. Graham (1995), Borensztein, De Gregorio, and Lee (1995), and Lim (2001), provide useful overall surveys of the literature on the impact of FDI on the host country. Holland and Pain (1998) presents the evidence on diffusion of innovation, and Javorcik (2004), Javorcik, Spaggi, and Spartarenu (2004), and Alfaro and others (2003) discuss productivity spillovers. Finally, Lipschitz, Lane, and Mourmouras (2002) present a theoretical overview of the policy implications of large capital flows, including FDI.

Nord-Est Region is the less developed region of Romania (BIP/ inhabitant 70% of national average, 2000). The extended area of poverty comprises the south of Jassy county, south-east of Neamt county, east of Bacau county and counties of Botosani and Vaslui entirely.

The western region, mostly, which in the ’60 – ’70 was the object of forced industrializing (furniture, chemistry, construction materials, machine construction, textiles), entered into a deindustrialization in the last 10 years (manufactures from chemic and petrochemical industry, light industry, machine construction, furniture), which aggravated the economic status; thus, eastern of this region is traditionally under-developed.

Numerous working persons in this region are working nowadays, temporary or permanently, in different domains in Western Europe or Israel. After male youth working force living form Bucovina villages, it is observed an emigration tendency of women also, willing to work abroad; thus, elders and children are the only inhabitants of these villages. The impressing aspect in these villages is the activity of construction. This is the way discrepancies between localities pointed out from the general level of development point of view and, moreover, of infrastructural endowment.

Unemployment rate for every counties exceeds country’s average, being overdone in Neamt county (14.1%) and Vaslui county (13.3%). It indicates a decreased level of economic activity in these counties.

A decreasing of employed population in the region has been noted in the last 3 years. The fact is strengthened in Botosani County, where the most part of population works in agriculture.

If the others counties of the region had noted clues of some economic change, economic situation is still precarious in Botosani, Iasi and Vaslui, even if there are numerous textiles manufactures which activate in Lohn system here; the slightest movements of international requests lead to salary cut-offs, unemployment or even closing the factories.

Roads infrastructure, water and sewerage system network are problematic in Botosani, Iasi and Vaslui counties. Also, these counties face an obvious lagging behind from industrial and agricultural technologies point of view, a reduced level of qualified population, and environment problems, caused by the lack of water resources, old break-ups, serious earth sliding and deep phreatic layer.

Besides development dissimilitude between west – east, dissimilitude between urban and rural are more obvious in North-East Region, from general stage of development, infrastructure, investments involvements point of view. There is also an alarming phenomenon about the decline of small and medium cities, mostly those mono-industrial, tending or even stopping the link to economic grown process, being incapable to fulfill their urban functions.

Starting from the potential effects of FDI towards implanting economies and developing regions according to the penetration rank of foreign investments, I further propose an analysis of North-East Region of Romania; I want to emphasize the developing features, focusing on the role of foreign direct investments in reaching the goals of economic development. For that, I will analyze regional development activities, emphasizing the main features of the region, FDI – economic growth relationship, regional dissimilitude in Europe and Romania.

North-east Region is marked by both its addiction to agriculture and the proximity of Moldavian and Ukrainian borders. This is valid, to some extent, for South-Muntenia Region too, also depending on agriculture, having the Danube as a barrier in across the border commerce. The western and central regions of the country have been advantaged by their closer position toward the western markets and lower addiction to the primary sector. So far, they benefited the most from foreign direct investments.

Despite insufficient studies concerning regional dissimilitude, it is still obvious that alongside reducing the state sector in economy, interregional dissimilitude have deepened and aggravated, tending to dominate the Romanian reality, as it is shown in the table:

Table 1 Evolution of GDP and labor productivity in developing regions over the period 1998-2000

- Euro -

Region / Indicators	Rom	NE	SE	S	SW	S	NW	C	B - I
GDP/per capita									
1998	**1.663**	1.327	1.665	1.426	1.497	1.678	**1.588**	1.760	2.697
2000	**1.795**	1.256	1.596	1.464	1.504	1.842	**1.669**	1.924	3.712

Source: www.adrnordest.ro

On the general, the discrepancies in North-East Region are pointed out as a level, but also as a potential for development between the more developed west of the Region and the less developed east (Botosani, Iasi, Vaslui counties). The chance for the eastern areas, adjacent to the eastern border of the European Union, Ukraine and Moldavia is to develop an area of transit services for goods originated in the countries o former URSS (storing, ennobling and preparing for segmenting and packaging, etc). In that matter it must be done work in infrastructure, for creating some zones with specific facilities, similar to those in Belgian, Dutch and German harbors, specialized in this kind of services.

The mountain and hilly areas in the western region (Suceava, Neamt, Bacau counties) have a precious tourist potential, mostly (except for Bucovina) insufficient developed, but which, with the help of adequate measures, can easily enter the European tourist circuit as “religious tourism” (Putna, Neamt, Sucevita, Moldovita, Voronet), balneo-therapeuthic tourism, agro-tourism, hunting tourism.

Both the rank of endowment of the localities and the originality of Bucowina landschaft and the distinct specific of the villages, with a high rank of civilized population, can play a role in long-term tourism, with sport activities, recreation and improving health (Vatra Dornei, Cacica, Bistrita Valley).

Consequently, to the extent Romania can solve and eliminate the causes which generate ”laggings behind” registered so far, it can also attract large flows of foreign direct investments, capable to generate wanted chain effects produced by FDI in the economies where the critical mass of foreign capital was reached (as for example, Hungary, Czech Republic, Slovakia, etc) , accelerating thus the process of real convergence with the countries of the European Union.

Having this context, the internal economic growth (the private consumption), sustained by productive investments, local and foreign, will further impel the wanted growing in work productivity, mainly, as a result of improving quality of productivity of the existing factors.

Therefore, massive penetration of oriented foreign capital toward the activities incorporating a high level of local resources and, mostly, of technology and knowledge, will favor improvement of existing production factors quality and creation of specialized production factors, similar to the situation recorded in other central and east European countries which adhered the European Union in 2004, with a significant positive impact on social and economic level.

CONCLUSIONS

As bigger and bigger flows of foreign direct investments penetrate the economy, their impact over the economic and social environment will significantly depend on governmental policies applied by the decisional factors. Thus, both the theory and the economic practice , including the other Central and East European states experience, prove both the importance of applying some active measures, of orienting the attracted FDI, and of the host-county actions toward modernizing the infrastructure and rising the qualification level of population.

Having the context, we appreciate that Romania's long-term developing strategy must focus with priority on improving human and technological capabilities, the only viable option for reducing the discrepancies toward the other members of the European Union. Consequently, the mail measures should focus on the following aspects:

- Improving the quality of human resources through rising investments in education, including those centered on continuous forming of working force, because building a society based on knowledge it is possible, only under the circumstances of a hier education.
- Stimulating activities of research-development, including through realizing partnerships between public and private sectors;
- Encouraging local initiatives, through reducing hierocracy and creating an efficient administrative framework;
- Encouraging investing firms to develop activities to generate high added value and to invest those activities which increase comparative advantages of indigenous resources;

- Stimulating forming clusters based on related activities, included through more active involvement of local administration in solving investors' problems and requests.

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INCREASING THR EFFICIENCY OF THE EUROPEAN INSTITUTIONS: A HISTORICAL PERSPECTIVE

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Abstract: *The view that European institutions do not operate with maximum efficiency, that they are not yet able to cope with all major economic and social problems, to fully meet the basic functions, that cannot adapt to rapidly changing world has not emerged in recent years. In this paper we try to clarify the concept of institutional efficiency, and try to follow from a chronological perspective the main events that led to the more or less efficient European institutions.*

Keywords: Institutions, efficiency, European Union
JEL Classification: N24

The problem of assessing „efficiency" in the realm of institutions stirs many controversies (note that the actual "efficiency" criterion is a controversial topic among economists). If efficiency is defined in terms of an objective value indicator, identifiable and measurable , then maximizing this indicator requires the existence of a unique arrangement of market outcomes.

This understanding is the core of the welfare economy built around the Pareto static efficiency criterion. According to Pareto, an arrangement is efficient if there are other arrangements possible that could benefit a person, without disadvantaging another. Paretian criterion for assessing the efficiency is proved, however, unrealistic and impractical in the terms of the dynamic market process, as a constantly changing reality with many changes in the expectations of participants. *In the real world, which is governed by the policies and too often subject to government intervention, it is almost impossible to conceive Pareto-optimal solutions.*

Changing institutions determine, necessarily, a change in the allocation of resources, which is equivalent to saying that individuals behave differently in a different institutional framework. Modifying the constraints and incentives within which human action takes place means changing opportunity costs and relative prices in the entire spectrum of human action.

This entails, in essence, changing the preferences and the economic and ethical nature of people. Therefore, any allocation of resources that can be classified as "effective" depends, necessarily, on the institutional framework in which decisions on the use of resources are evaluated and adopted.

If efficiency is determined by what results from voluntary agreements, then we will have to accept the non-uniqueness set of rules and institutions that can satisfy the "criterion of efficiency."

In a set of rules and institutions, Buchanan & Tullock (1962, p. 84) states that "what is effective is the result of voluntary agreements and not vice versa." Non-reciprocity clause would mean that not every state of things resulting from voluntary exchange process is effective.

This approach is subject to the general equilibrium vision, the market situation in which, ex post, no person shall obtain suboptimal results in relation to its plans and expectations. However, only ex ante human action is always optimal.

The existence of an entrepreneurial error makes that, ex post, the state of things always be suboptimal to an ex ante economic configuration. Hülsmann (2000) shows, that the development of a realistic analysis on the 'equilibrium' and 'efficiency', starts from the comparison of every choice (action) to its counter factual alternatives (in terms of success and failure).

The problem of institutional change makes it necessary to explain the relationship between survival of certain institutions, institutional arrangements and efficiency. As Douglass North's (1990, p. 25) states, social institutions reduce uncertainty in human interactions, which does not necessarily imply that all these institutions are effective.

In an institutional analysis, efficiency indicates the conditions and framework of constraints and incentives that will produce the highest growth.

Uncertainty reduction does not require the existence of a single institutional structure and the capacity of these institutions in facilitating similar production of material wealth. Thus, the issue of explaining the survival of institutions and institutional arrangements consistent with reduced economic performance.

Olson (1984) uses the concept of "institutional sclerosis" for the emergence and persistence of dysfunctional and ineffective institutions

The history of European integration after the Second World War was marked by phases of dynamic growth, stagnation and reorientation attempts. Successful implementation of the customs union in the period 1957 - 1968 was followed by a phase of disorientation and increased heterogeneity in the 1970s and early 1980s. Similarly, completing the single market from 1985 to 1992 was followed by a period of silence. Efforts to introduce the single currency did not led to a new dynamic of integration.

In the early 1980s, "eurosclerosis" had two different meanings: it described the difficulty of European countries to deal with their internal problems, but also the difficulty of European states to overcome the European integration. Two cases have resulted in overcoming the difficulties of European integration.

In 1974, the European Court of Justice decision on the „Dassonville" case, determined that all regulations acting as non-tariff trade barriers must be removed.

By this decision, the Court allowed the competition between different national rules and pointed out how Member States can overcome future barriers to the flow of production factors by mutual recognition of standards.

The second case to overcome "eurosclerosis" was the program for establishing the Common Market in 1985 in order to overcome the economic and political problems of integration. 279 proposals have been adopted for the abandonment of non-tariff barriers, protection and control of national borders.

Mutual recognition of standards, based on the minimum level of European harmonization, has been characterized as a "new approach" of the EU. Single Market Plan, aimed at reducing at the same time, hundreds of protectionist legislation in all Member States, was a success.

In the years that followed, the EEC had regained optimism and went from "eurosclerosis" to "europhoria", an ebullient optimism regarding the dynamics of integration.

The prolonged recession in the early 1990s in Western Europe and increasing unemployment to record levels, starting from the already high level since 1980, did not helped to promote a positive image of the successes of European integration. So a new discussion about eurosclerosis began.

EU institutions have also suffered from multiple sclerosis: The Commission, headed by Jacques Santer, had to resign following allegations of corruption. Commission led by Romano Prodi failed the institutional reform. Many authors believe that the Commission, as the engine of European integration, has lost its dignity as the two summits in Nice and Stockholm have shown.

Governments have dominated the agenda of these meetings and the role of the Commission to arbitrate the negotiations between the governments in antagonistic positions was played without success. At the same time, governments have done nothing to obstacles encountered in the transition to EMU.

The functioning of European institutions have made numerous faults, that have sent clear signals that mechanisms should be reviewed, made more flexible and equipped with levers that it can overcome conflict situations. Often, the Commission has not made the most appropriate proposals in connection with major decisions on the EU agenda.

The collegial nature of its operation and the autonomous decision of the Commissioners have eroded over time. Decision procedures were unduly prolonged and became cumbersome and inefficient.

Council of Ministers is defined by a sporadic character of its meetings, which have so far only found a place, in the national political agendas that allow consensus. The Parliament was in the paradox situation, of not having the mechanisms of dissolution and calling early elections, which had lessen his functionality.

Moreover, on 16 March 1999, European Commission resigned following the accusations of fraud, mismanagement and nepotism in the publication on March 15 report, by an independent Committee.

This required rapid reform of the Commission, and emphasized the general need for internal reform to make EU institutions more democratic, transparent and respectable. European Parliament and Council have been equally criticized for their lack of openness and democracy. Internal reforms have been proposed just to be able to address these short-circuits in all three institutions.

The new European institutional project (The Constitutional Treaty, Lisbon Treaty) attempted to define political and legal principles in a form "understandable" to everyone, able to guarantee - at the same time - the interests of the Union's key components:

- Members;
- People;
- Regions.

The choice would be the federal, decentralized, based on the double democratic legitimacy:

- the people versus the states and regions;
- the federal versus intergovernmental.

The Council would participate in decision-making on equal terms with the institution representative of the people (EP), the execution of decisions remaining primarily at the state level.

Let's hope that this institutional project will make the EU politically effective, economically efficient and more open with themselves and the world.

While not perfect, the Constitution and Lisbon Treaty are very important steps that increase the institutional efficiency and unlock the main themes of European integration creating also a new political model.

EU is characterized by being a reality and not a static process thus, the treaties and his reform or results should not be considered as definitive.

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INDUSTRIAL POLICY IN THE EUROPEAN UNION

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Abstract: *The differences registered in the early 90s between the economy of the European Union as compared to the economies of the United States and Japan, in regards of growth rates, investment rates, R&D and innovation, international trade, etc., as well as the fast changes of the world economy determined the European Commission to issue the white paper on "Growth, Competitiveness and Employment", underlining the meaning of the European economy's competitiveness in the new conditions, and the legal frame for EU's industrial policy was settled through the Treaty of Maastricht. The document was setting the objectives, priorities and the six basic principles of the European industrial policy, in a unitary concept. In the spring of 2000, the European Council from Lisbon sets the objective of transforming the European Union in the most dynamic and competitive economy of the world, and, therefore, foresees a working agenda with specific actions going until the horizon of 2009. In December 2002, after EUs enlargement, the Commission forwards to the Council the document titled "Industrial Policy in an Enlarged Europe", in which the industrial development at the moment of new member states integration is analyzed, as well as the effects of EU's enlargement over the industry, and it suggests actions for the future development of the sector.*
The industrial policy of the EU must offer solutions for industrial development, by answering the challenges concerning globalization, the technological and organizational changes, the increasing role of innovation and entrepreneurship, and the sustainable development taking into consideration the new social requirements. The development objectives set at European level cannot be reached without a tight interconnection of the industrial policy measures with those of some complementary policies, such as the commercial policy, the single market policy, transport and energy policies, research and development policies, competition policy, regional and macroeconomic policies.

Key words: Industrial Policy, European Union, Competitiveness, Industrial Development, Growth, Innovation.

JEL Classification: E22, F15

The first unitary concept of an industrial policy for the European Union appeared after the European Commission's proposal from 1990's report „Industrial Policy in an Open and Competitive Environment: Guidelines for a Community Approach", as a confirmation on the necessity of adopting industrial policy measures in a free trade economy. In 1993 the Commission published the white paper on "Growth, Competitiveness and Employment", underlining the meaning of the European economy's competitiveness in the new conditions, and the legal frame for EU's industrial policy was settled through the Treaty of Maastricht.

The incentives for an official approach over an industrial policy of the European Union were the differences registered as compared to the economies of the United States and Japan, in regards of growth rates, investment rates, R&D and innovation, international trade, etc., as well as the fast changes of the world economy: the rise of the new competitors from South – East Asia.

Until reaching a unitary concept, the approaches on the European industrial policy passed through several stages. In a first stage, between 1958 and 1975, the national policies prevailed. Between 1975 and 1985 a general tendency favoring the interventionist policies was observed, as response to the unfavorable economic conditions. The Community measures were aiming to encourage the national efforts, and varied from subventions for the steel industry until granting some funds for research and development projects and introducing commercial barriers in the trade with the countries from the rest of the world.

The Single Market can be seen as a new stage in the process of defining a European industrial policy. The access to an enlarged market incented the companies to take benefit from the economies of scale, thus becoming more competitive.

The result of this evolution was the official document regarding the industrial policy of European Union, focusing on the competitive growth of the European industry and establishing the following ***objectives:***

- Accelerating the adaptive process of the industry to the structural changes;
- Developing an environment in the favor of initiative and development of enterprises;
- Encouraging the favorable environment for business cooperation;
- Favoring the industrial potential of the research, technologic development and innovation policies. (Dachin, 2006)

The industrial policy ***priorities***, according to the Commission report from 1994 titled "An Industrial Competitiveness Policy for the European Union", regarded the promotion of intangible investments, by encouraging the competitive advantages related to environment protection, the development of industrial cooperation, insuring loyal competition and modernizing the role of the public authorities by reducing the bureaucracy.

The industrial policy has been defined and it is implemented by respecting six basic ***principles***:

- The principle of subsidiarity – the European industrial policy is defined and implemented in cooperation with the member countries, so that the European Union is only responsible for solving those problems that can be better approached at European level;

- The public – private partnership - the responsibility of promoting the industrial policies should be shared between the public authorities and the private sector;
- Competitiveness, as main goal, by accelerating the structural adjustments, creating an environment favorable for initiative and cooperation and encouraging the R&D and innovation activities;
- Dominance of the horizontal model – the industrial policy should be based on neutral measures and aim for a favorable business environment, with free markets, by avoiding the defensive and protectionist policies;
- Correcting the market failures, by interfering in case of monopoles, public commodities, externalities, common property rights and discrepancies between the public and private sectors in regards to time preference;
- A compromise between efficiency and social cohesion.

The European industrial policy was thought as a neutral concept. However, while applying some measures at national level, the actions might become selective by aiming some sectors, regions or industrial objectives. Certain industrial sectors are more vulnerable internationally, due either to markets saturation, or to the insufficient development of the European industry compared to the world level. As consequence, sector policies were defined, aiming mainly the steel industry, naval industry, textile and clothing, aeronautic industry, automotive and pharmaceutical industries.

In the spring of 2000, the European Council from Lisbon sets the objective of transforming the European Union in the most dynamic and competitive economy of the world, and, therefore, foresees a working agenda with specific actions going until the horizon of 2009.

EU's enlargement through the integration of the Central and Eastern European states represented a bivalent challenge for the European policy, as the newly integrated states were to align to the industrial level of the European Union while maintaining and increasing the competitiveness of EU at a general level. As consequence, in December 2002 the European Commission forwards to the Council the document titled "Industrial Policy in an Enlarged Europe", in which the industrial development at the moment of new member states integration is analyzed, as well as the effects of EU's enlargement over the industry, and it suggests actions for the future development of the sector. After the first enlargement of the European Union, in 2004, the Commission establishes the main action lines of the industrial policy in the new geopolitical conditions, through the communication titled „Fostering structural change: an industrial policy for an enlarged Europe".

In this document the Commission underlines the important role of the industry in the economic development of the region, even though the industry's share in the European GDP decreased from 30% in 1970 to only 18% in 2001, while the tertiary sector grew from 51% to71% in the same period of time. This trend can be explained by the improvement of labor productivity, on one hand, and by the general improvement of the quality of life, on the other, which led to increasing demand for services. The evolution underlines the interdependent relation between industry and services.

The European industry remains a force in the international trade, even though the European exports have been affected by the rise of the under-development countries from East and South-East Asia. EU's contribution to the world trade dropped from 19.3% in 1991/95 to 18.4% in 2002, while the contribution of the United States and Japan was affected even more dramatically. Even in these conditions, the European companies maintained their position in key sectors such as automobiles, aeronautic industry or telecommunications equipment.

Even if the commercial balance of the European Union has been constantly positive in the last ten years, industrial labor productivity in EU grew in slow paces, as compared to United States, while in other economic sectors the labor productivity growth rate is even lower, thus making the future economic development possibilities uncertain.

In the same time, although the newly integrated states made considerable efforts for restructuring their industrial systems, there are still visible differences between the industrial structure in the old and new members of the EU. Most of the new member states detain industries specialized in low-technologies activities.

The industrial policy of the EU must offer solutions for industrial development, by answering the challenges brought by the changes in the structure of world economy. Such challenges concern globalization, the technological and organizational changes, the increasing role of innovation and entrepreneurship, and the sustainable development taking into consideration the new social requirements.

In this context, the industrial policy is redefined with the purpose of increasing EU's competitiveness. The Commission identified the instruments meant to facilitate the structural change process, and it suggested three types of action:

- „Better lawmaking" – approaching the regulatory process so that the industry takes benefit from an integrated market, without excessive limitations;
- Engaging other European policies for the common purpose of increasing competitiveness, without losing sight of their specific objectives;
- Approaching differently the specific needs of various industrial sectors.

In the same time, the main factors determining economic and competitive growth have been identified: a stable politic and economic environment, transparent legislation, a single market, a high level of social cohesion and qualified and adaptable workforce, a continuous and stable dialogue between the social partners, combining the interests of employers and employees, developed services, of general interest and well developed telecommunications and transport networks, as well as a strong energetic industry.

One of the main concerns of industrial policy regards the encouragement of innovation, knowledge and research (Ciupagea et al., 2008). Within the Council of Barcelona, there was settled the objective of increasing the investments for research and development up to the level of 3% from the European GDP by 2010. For this purpose, a frame must be created, that should encourage private investments in R&D, and that should insure an optimal use of the public resources for industrial research. ERA (European Research Area) initiative was launched in the same time, aiming to avoid excessive fragmentation of the research activities in Europe. Furthermore, encouraging investments in intangible assets and human capital is crucial, in order to maximize the efficiency of the current technology and its effects.

Supporting entrepreneurship and developing the sector of Small and Medium Enterprises is an objective that goes beyond the limits of the industrial policy, by joining actions of the educational policies, internal market, financial services and tax policy.

Sustainable development is a key concept in the new industrial policy of the European Union. The companies can aim for profits and "sustainable value" by using design and innovation for creating products that do not affect the environment. The key elements for the sustainable development policy, in order to reach the commitments assumed during the Johannesburg summit, concern the efficient use of resources, promoting the recycling activities, implementing a life-cycle concept and some environmental standards, encouraging the development and spreading of clean technologies, extending the use of environment management schemes and encouraging the social dialogue.

Since adopting the document concerning the European industrial policy, significant progresses have been made in regards to improving the political-economical frame, the Monetary Union thus being the best evidence. Still, in some fields specific intervention is required, in order to improve the internal market, such as the financial or services markets, where the technical barriers and the legislative differences limit the free trade. In the same time, the regulations concerning intellectual property must be aligned; an unitary tax policy must be adopted as well as a common policy regarding public acquisitions.

The Commission suggests a more systematic approach from the European authorities, in order to improve the economic environment, the key actions concerning the product policy, limiting the essential requirements to the ones regarding the product’s safety, a global approach on the product’s conformity, with increased freedom for the producer, and encouraging the European organizations to continue to implement some European standards, with special meaning in areas in which the fastest technological progress.

The development objectives set at European level cannot be reached without a tight interconnection of the industrial policy measures with those of some complementary policies, such as the commercial policy, the single market policy, transport and energy policies, research and development policies, competition policy, regional and macroeconomic policies.

While in these fields the policies are already coordinated, the sustainable development requirements, with the three development pillars: economic, social and environmental, require supplementary measures for coordinating the industrial policy with the social and consumers protection policies, with the public health policy, the environment protection and increased social corporate responsibilities requirements.The European policy must also address a new field, directly related to competitiveness and entrepreneurship, which concerns justice and internal affairs.

Thus, the European Union must insure the balance between the different policies, and this balance must be followed at national level, within the limits of competency of the different member states.

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IS THE WORLD FLAT?[2]

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Abstract: *Globalization became more and more prominent during the last decades. There is no way to argue that globalization led to more interconnected economies, facilitating the communication and the collaboration around the world. But where is this going? Does globalization mean uniformity or diversity? As the world begins to resemble more, the people are trying to distinguish between them more, which can exacerbate nationalistic feeling.*

Friedman argues that globalization made the world smaller and flatter, allowing all countries to take chance of the available opportunities equally. But is this really true? Although politic and cultural factors can stand in front of a really flat world, what is the key for Chinese and Indian success and which are theirs perspectives?

Keywords: flat world, flattener, globalization, nationalism, China, India, communication, technology, emerging economy, education

JEL Classification: F02, O33, L14, F52

1. INTRODUCTION

Although it might seem that this issue falls strictly within the political area, as a national vs. supranational governance dilemma, like the classics of economic thought, politics and economics are complementary in their aims. To address the phenomenon called "globalization" in all its complexity, the economic dimension should be intertwined with cultural and social aspects of the effects involved. As knowledge became the most important asset of our times, the traditional society became the knowledge society (Andriescu, 2008, p. 20). As Friedman describes in *The World is Flat* there are three eras of globalization and ten flatteners which made the world smaller, making it easier to communicate and share our knowledge.

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

2. ABOUT THOMAS FRIEDMAN'S „FLAT WORLD"

Friedman identifies three eras of globalization. The first era, called *"Globalization 1.0"*, between the years 1492, when Columbus set out to discover a new trade route to the New World, and 1800, made the world fall in size from large to medium. During this period, the strength of a country was based on the number of horsepower or the number of steam engines owned, compared with other countries. The second period - *"Globalization 2.0"*, between the years 1800 and 2000, decreased the size of the world, from medium to low. Multinational companies were the integration force, and the power was given to a company by the level of innovation in the field of machinery and equipment. Last era - *"Globalization 3.0"* - began around the year 2000. If the first two periods led to globalization at the country level and, later, at the company level, this new period favorized reduction to a very small world, flattening the playing field and putting the individual in the centre (Friedman, 2007, pp 25-26).

Globalization has been maintained by the action of some "flattening factors" that favoured the levelling of the World and the emergence of some opportunities that could increase welfare if successfully exploited. The first of these factors is the event from *09.11.1989*, namely Berlin Wall collapse, representing, symbolically, the reunification with the countries across the Iron Curtain. The barriers to information movement were removed. Finally, we could see the world as a unique community and we could think of common standards. Shortly after the collapse of the Berlin Wall another important event was to produce, defining the "flat world platform" - the emergence of a newer Windows version, easier to use, for IBM personal computers, allowing users to become authors of their own electronic content.

Shortly thereafter, on 09/08/1995, the Netscape Company was to give life the Internet by creating the first commercially and well known web browser, facilitating web browsing culture definition to general public. Emergence of standard transmission channels and protocols have made possible to create *the workflow automation software*, which not only allowed people to connect directly, but more, allowed them to work together on digital content for everyone. Thus, if the individual policy restriction collapsed with the fall of the Berlin Wall, the potential restriction of individual practice disappeared with the advent of PCs, Internet and software, which founded what Friedman calls the "flat world platform". Highlighting the potential of individual, his desire to participate and make his presence heard, was possible through *uploading* process. This allows the individual to "come into play", to produce, not only to consume. Uploading can become more important as development of Internet search engine allows you to create your own "supply chain" of information, knowledge and entertainment, without the need for guidance, without going to the library, cinema or consulting other old sources.

Outsourcing and *offshoring* have emerged as solutions for taking advantage of cheaper resources (especially the lower cost of labor) from developing countries and to achieve dominance in these markets, favouring increased interdependence between economies worldwide. If outsourcing and offshoring have led to increasing economic links between countries, developing *supply chains* of companies and *insourcing* led to increased interconnections between companies.

All these "flatteners", as Friedman calls them, are amplified by other new technologies called *"steroids"*, like digital wireless technology or telecommunications, which take no account of distance or time. And as more and more of us learn to work in these new and different ways, the world is slowly becoming flatter.

In a flat world, the importance of comparative advantage disappears. Bhagwati (2010) argued that, although global capital markets led to decreasing interest rate differences between different countries and even multinational companies have facilitated technology transfer between countries, the differences remain due to culture and politics. An example is the political regime from China, which has undermined software development. PC (Communist Party) in China is irreconcilable with the PC (personal computer) of U.S. origin. But unlike China, which occupies a leading position in hardware production, India is better at programming and not at the hardware, thanks to the recently opened Indian autarchic regime following the 1991 reforms (Guha and Ray 2004, pp 301-302). The other obstacle in the flattening process, but an obstacle which can both accelerate or decelerate the global integration, is the national culture. The more resistant to globalization the local culture is, the higher the chances of isolation are and the probability that the community will crush because of the internal conflicts. Régis Debray (in Matthew, 2007) lists two reasons behind the crisis of the world culture: rapid population growth and the local retreat which the technological globalization is fuelling - as the world begins to resemble more, the people are trying to distinguish between them more through local cultures, leading to an increased nationalistic feeling.

The fierce criticism of "the flattening earth theory" is related to increased income disparities, both in developing and developed countries. For example, the poor countries, where the financial markets restrict access to capital for people with low incomes, the investments are extremely low and growth is inhibited. Thus, globalization tends to favour increased income disparities, since the main beneficiaries of globalization are those that have already wealthy capital and higher education or, at the country level, citizens of developed countries, where are healthy and stable institutions. Birdsall (2005, p. 33-36) proposes reforming global institutions like the World Bank or

International Monetary Fund, so they can truly represent the interests of poor countries. They are the ones that have mechanisms to manage the implementation of a social contract model to increase access to educational opportunities for the poor and creating sound and stable institutions in developing countries. For now, the votes are nondemocratically allocated in these institutions. Europeans always choose the IMF president and Americans the WB president. In addition, most of the time, people in their management have no experience in solving the problems they face, since the holding of such functions are not related to previous work experience (Stiglitz, 2006, September 10). The Birdsall's second recommendation proposes the creation of global rules that correct market failures, environmental protection (eg Kyoto Protocol), support markets from poor countries to overcome financial risks (IMF) and deter corruption and other anticompetitive practices.

The same argument - the disparities of income growth - was brought by Stiglitz (2006, September 10) to contradict Friedman's vision. He said that globalization can be felt only in terms of transport and communications costs decrease. Regarding economic development, he gave the example of the Republic of Moldova that although it experiences a transition period from communist regime, its GDP has decreased by 70% in 2005 and has spent about three quarters of GDP for foreign debt.

In *The Lexus and the Olive Tree*, Friedman said that while countries will link national economies and the future of global integration and global trade, their choice will act as an obstacle to war against neighbours. Naming this theory as "the theory of the golden arches of conflict prevention", he considered that holding a McDonald's chain of franchise as an indicator of participation in international trade and a high standard of living, conditions in which conflicts are far too expensive to break. Since the status of McDonald's was not relevant to support the theory (examples are represented by countries like North Korea and Iran) later, in *The World is Flat*, the author called it "the Dell theory of conflict prevention" (Friedman 2007, p. 423). It argues that the emergence and spread of *just in time* global supply chains from the flat world are way stronger brakes for the geopolitical adventurism. Daniel Daianu (2007, p. 14) believes that simply increasing economic interdependence can't give the policy that the world needs to ensure global peace. He recalls the example of another intense wave of globalization from the nineteenth century (Victorian era), which was followed by a spread of protectionism and the two world wars. Therefore, „the world is not and can't become flat - but may be / get better".

3. INSTEAD OF CONCLUSIONS

Friedman's book is written in an attractive language, easy to go through, describing the disturbing global scene, through practical examples for understanding international economic issues. You don't have to be an economist to understand the ideas presented by the author. The main asset of the publication is the language used by Friedman, a language specifically used by journalists. If we take into consideration the content of the book, I believe that the number of pages could have been significantly reduced. Maybe the accessibility of the text wouldn't have been as it is.

The nationalism-supranationalism governance dilemma is more and more troubleling considering the actual financial crisis. The latest example is providing financial assistance for Greece. Despite the fact that most countries from the euro zone agree to help Greece, Germany insisted that the IMF should be the one helping, a clear denial of the solidarity principle behind the Euro Zone. Germany is also responsible for the high interest rate of loans granted by countries from the Euro Zone. This will slow the rejuvenation of Greek economy and will weigh heavily on the fate of the Euro.

The growing importance of economics in international relations was underlined by Silviu Brucan, who stated: "During the Cold War the main conflict was political and military, with ideological roots between East and West. With the collapse of the Soviet Union, political and military confrontation has lost its ideological virulence and, on the international scene, economical and technological competition became the main type of conflict for winning the biggest slice of world market, military rivalry going into the background." (Brucan, 2005, p. 105)

Modern technological revolution, especially the globalization of communications, supersonic transportation and growing independence of industrialization, have determined the appearance of larger unions of states, reflecting different stages of supranational integration. (Brucan, 2005, p.106)

From the Middle Ages to the mid 17-th century the main economic centres were the city-states (Venice, Amsterdam, Anvers). The emergence of sovereign nation-states following the peace of Westphalia in 1648, international relations have been dominated by formally equal sovereign-states (Has, 2009). Nowadays, the main players on the international stage have become the „state continents" (N.A.F.T.A., U.E., A.S.E.A.N., M.E.R.C.O.S.U.R., etc.) (Patapievici, 2008). We can say that globalization fears are justified. But, as the Swedish writer Johan Norberg said (in Revel, 2004): "Many people are scared of *mcdonaldization*, of standardization through which we all wear the same clothes, and we see the same movies. But globalization is not something like that at all.

Whosoever walks in Stockholm today will easily find, besides hamburgers and Coke, as well as kebabs, sushi, Tex-Mex, *canard à la pékinoise*, French cheese and Thai soup". So, globalization doesn't really mean uniformity, on the contrary, it means diversity.

Friedman sees a world where the playing field has flattened a lot and where opportunities exist for everyone; the success depends only on whether they manage to take advantage of them. If this is entirely true, how can the low level of development of some countries like North Korea be explained? Developing countries in South and East Asia have followed the pattern of "flying geese theory" developed by Akamatsu. Initial leader was Japan, followed by the four "tigers" (Korea, Taiwan, Hong Kong and Singapore). The three Cubes (Indonesia, Malaysia and Thailand) were next, and finally, China and Vietnam. Now it's India's turn. But how to explain the fact that North Korea remained the only country in this region not assigned on a slope upward growth rates? So, I think there is no way to argue that the political factor is one of the main obstacles in the flattening process. The cultural factor may be another important issue. If huge immigrant communities could not be assimilated by the host culture (like the Mexican immigrants in the U.S.), how can we expect an entire nation to be assimilated in a global culture?

Greater disparities of income are regarded as one of the main concerns about globalization. The rich are becoming richer and the poor becoming poorer. This holds true only in relative terms. In absolute terms, the revenues for a certain category of people have increased, and with them the standard of living. For example, if, in real terms, a poor person earn 8,000 U.S. dollars per year and a rich person 200,000 dollars and now a poor person earns 13,000 dollars per year, while the rich are earning 260,000 dollars, while the income gap has increased from 102 000 to 147 000 dollars, what it's important ist hat the standard of living of the poor increased. In addition, I do not understand why attention is focused on the disparities of income and not on the income of the poor. If this level ensures decent living conditions, why would the concern about equalizing income would still exist? Is it perfectly right that some people that have assumed certain risks, making some investments, to come in front of the rest of mediocre. But another problem arises - the lack of access to capital for poor people in poor countries. As a solution, emigration occurred. The remittances can ensure a higher income, regardless of source country's economy difficulties. Of course, first, the high and medium income households will afford to emigrate due to the initial risks and costs of the emigration. But, as migration networks develop, risks and costs are reduced, allowing people with increasingly smaller incomes to emigrate.

The flattening of the world appears to be a threatening for the US unilateralism. Emerging economies like India, China or Brazil are playing a more and more important role in international economic relations thanks to international spread of new information and communications technology. Economic statistics indicate an extraordinary boom in India, especially after the 1991 reforms. I don't think this is the main danger threatening the US domination. It is worth mentioning another important aspect, namely that unlike China, which is seen as the main rival, it seems that India is a smarter player. After the reforms and concerns about the education system, apparently India has found a truly way to threaten US domination, and not just economically. The solution is based on using the main resource they own, and what else could it be, if not people? Human capital accumulation is one of the main paths to development and the Indian Ministry of Education is in accordance with this objective, aiming to increase the number of educated people without diminishing the quality of education. So easy to say, so difficult to do. But India is on track, holding a relatively educated labor force, which allowed the development of industries with a high level of technology and ability to provide a wide range of services. I think the future of India's international status will depend on the extent to which they will be able to facilitate human capital accumulation at a high level, by providing a quality education to an increasingly part of the population. The importance of education and research in the development process is not new. But India is one of the developing countries that have managed to put into practice one of the developing channels. In addition, India's economic growth can allow the necessary infrastructure and technology in order to create some large research centres.

I definitely cannot finish without sharing some of my opinions about the perspectives of another emerging economy - China. Here, unlike India, economic reforms were adopted, as I said earlier, in 1978. This may be one of the reasons why economic growth rates of China's economy are higher by those of India, until the period after 2000. Unlike India, which has developed in areas with a higher degree of technology and programming, IT, biotechnology and remote telecommunications services, China has specialized in traditional and labor intensive goods export. This is the first reason why I am a lot are more confident in the potential of India comparing to China. Second, providing new knowledge is how education contributes to economic growth. But while the political regime continues to practice censorship, preventing the flow of information, China may not get very far. Considering the high speed of information transmission and the extremely large population (over 1.5 billion people), the freedom of information and its availability for everyone is vital. Third, the Beijing regime has no international credibility. China is still regarded with reluctance by developed countries. Some of these reasons are: the charge of keeping its currency at a higher rate in order to facilitate exports, the charge of falsifying the statistical data (especially economic statistics), the sovereignty claim over Taiwan or the Beijing regime claims to choose the Dalai Lama. Another reason why China is still viewed with distrust is exactly the political-economic model proposed by it, which could be taken as an international model by developing countries. I recently heard, in a televised program, a Romanian citizen from Shanghai saying that such communist regime, like the one from China, is something that all Romanians would have wanted. So, how can a regime that it is not open to its own population, can be a reliable international partner?

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PUBLIC GOODS AND THE PROBLEM OF ECONOMIC CALCULUS[3]

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Abstract: *Most papers regarding public goods have a certain predisposition to "classic aspects" like their characteristics of non-rivalry and non-excludability. In this paper we try to emphasize that in the area of public goods one of the major problems is, in fact, the one of economic calculus. The reality is that public finances exist in a limited quantity so the public authority is forced to choose between ways to spend them. According to the definition of public goods the expenditures should be for the production of essential assets that are neglected by private investors. The problem is how to choose between public possibilities of spending the money after the application of the first criteria.*

Key words: *public goods, E.U., economic calculus, public spending, public distribution*
JEL classification: D73, H40, H41

1. PRELIMINARY IDEAS

Generally, specialists consider that public goods are strictly necessary and that the state is their best provider (and often the only one assuming the production), because their production is not rentable for the private investors.

Starting from this, if we take into account the fact that founds for public spending are limited, some questions arise: In what extent can be achieved an efficient distribution of public money? How can money be directed to pressing needs? In what extent money spent for development are used more efficiently in the public sector than in the private sector?

Or, in other words: what provides the highest utility? Is the utility provided by public goods higher than the one of a smaller level of taxation[4]?

[3] This work was supported by the the European Social Fund in Romania, under the responsibility of the Managing Authority for the Sectoral Operational Programme for Human Resources Development 2007-2013 [grant POSDRU/88/1.5/S/47646]
[4] A smaller level of taxation encourages the development of the private sector

Leading the discussion on, we could sift to another aspect: the problem of intermediate public goods. If the result of public investment consists of intermediate goods should they be available, for free, to manufacturers?

2. SOME CHARACTERISTICS OF PUBLIC GOODS

According to Ferroni (2002) three interrelated characteristics of public goods emerge:

- they generate a lot of externalities;
- they are to a considerable degree "non-rivalrous" and "non-excludable";
- they create opportunities for the enhancement of welfare through collective action.

The major defining characteristic of a public good (Brownstein, 1980) is that the consumption of the good by one person does not reduce the amount available to any other person. The second major defining characteristic of a public good is that the costs of exclusion are high, so as to render pricing difficult. But he also states that there are no goods which are not non-rival in consumption.

And according to Holocombe (1997) a public good is:

- a good that can be consumed by an additional consumer at no additional cost, and
- consumers cannot be excluded from consuming it.

Holocombe (1997) also underlined that goods with these characteristics will be under produced in the private sector, or may not be produced at all, following the conventional wisdom, so economic efficiency requires that the government forces people to contribute to the production of public goods[5], and then allow all citizens to consume them.

As a whole the category of public goods is comprehensive; it includes from "classic goods" like roads or railways to goods of which we are not usually aware of being public like governance.

Anyhow the classical theory of public goods has certain problems. Holocombe (1997) underlines two problems regarding the traditional theory of public goods:

- many public goods are successfully produced in the private sector, so government is not really necessary;
- many of the goods government actually does produce do not correspond to the economist's definition of public goods, so the theory does not explaining the government's actual role in the economy.

3. THE PROBLEM OF ECONOMIC CALCULUS

[5] Higher level of taxation

The problem of economic calculus (in socialist countries) was first underlined by Mises (2006) who clearly emphasized the fact that the prices can be formed only on the free market and that no central organism has a better alternative to establish them. Because the value of a good is relative and it is given by the quantity available for supply and by the demanded quantity. And if a public institution decides how to use a certain quantity of scarce resources it interferes with price formation and production on the free (real) market.

In a world of imperfect information, a central organism cannot possibly know the best alternative for using the scarce resources.

If we would let the private entrepreneurs to freely use the scarce resources the decision of allocating the resources will be one of the market.

Although the Austrian economists generally considered it[6] a problem of the socialist societies, we believe that it could be assigned to democratic societies. Even if we could say that in democratic societies the prices are formed on the free market, we encounter the problem of preference in the distribution of scarce resources (in the public sector).

In the process regarding the production of a public good / service, the decision of allocating resources is taken in a "rude" way, by people, in key position, which "unfortunately" don't have the ability to know everything about the market and it's evolution on the long term.

Are the reasons behind providing public goods enough to decide the use of scarce resources?

Ideally, prices form on the free market. In the public goods case, although we don't have a similar situation to one from a socialist system, there is a problem regarding the fact that decisions are "unilateral" and prices do not form naturally. The result is the following one: with no real prices[7] we cannot choose properly and we cannot estimate the real costs (just in some measure through comparison with free market prices). So because the economic calculus is not really possible in the public goods sector it's fairly improbable, for a public decider, to make the best election.

[6] The problem of economic calculus

[7] Prices are the expression of the calculus result

4. THE PROVISION OF PUBLIC GOODS IN EU

In EU we don't have only goods provided by member states to their citizens; we also have goods provided at a regional level by different states. Therefore we can speak about public goods at an international or regional level.

They differ of national assets because in this case we speak about citizens from more than one state, we speak of international finances and of a distribution realized at a higher scale.

According to Ferroni (2002) international public goods, and RPGs, include the knowledge, the regimes, and the standards and rules that are required to address cross-border problems or to engender desirable cross-border externalities; the institutions that monitor and enforce the rules and regimes; and the benefits that arise and are shared indiscriminately among countries.

This definition implies that international and regional public goods come into two forms: intermediate and final. Final goods are broad outcomes or manifestations of well-being such as peace, the absence of extreme poverty, a well-managed physical environment, and convergent international economic conditions capable of "lifting all boats".

Ferroni (2002) also states that regional goods arise when individual countries induce beneficial cross-border spillover. Regional "bads" arise in the case of undesirable spillovers.

Starting from the problem of public distribution an issue that concerns us is: how efficient are the criteria for distributing resources (for public goods) in the European Union? How appropriate is the convergence criteria? What is the basis for it? Can we really consider it a solution to reduce the discrepancies between the different regions of EU?

For the case of EU public goods become regional and the redistribution of money (for their production) is made in larger areas. That is way the probability that the tax payers enjoy the benefices of their contribution is smaller.

The situation is quite different because in a country tax payers have a larger chance to benefit of the roads, railways, schools built with their money. We could even say that the investments made in the public goods sector from a country contributes to the development of the private sector (e.g. infrastructure).

Instead through massive redistribution, in the European Union, large amounts of money are directed to poor areas. And although this flow has not a decisive impact on competitiveness within the Union, the competitiveness poles are affected at an international scale and thus EU's ability to compete with its tradition rivals China, Japan and US.

5. CONCLUSIONS

Public finances exist in a limited quantity so that public authority is forced to choose between ways to spend them. The impossibility to make economic calculus stops it to choose the best option.

Hoppe (1989) stated that all the questions regarding public goods must be answered somehow because as long as there is scarcity and we do not live in the Garden of Eden, the time and money spent on one thing cannot be spent on another. The state has to answer these questions, too, although it does it without being subject to the profit-and-loss criterion.

Clearly no public authority can take good decisions. Probably the best solution is the one provided by the liberal schools of economic thought, otherwise said, the provision of public goods should be made through private investments.

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THE EU AND THE CURIOUS CASE OF THE COPENHAGEN ACCORD

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Abstract: *The goal of the 2009 UN Climate Change Conference, commonly known as the Copenhagen Summit, has been to reach a legally binding agreement between participant states. As a successor to the Kyoto Protocol, this sort of agreement would have engaged signatory parties with reducing their greenhouse gas emissions in order to prevent the rise with 2 degrees Celsius in global temperature. This paper is an analysis of the above-mentioned event, which focuses on its main result, namely the Copenhagen Accord. It also presents the role of the European Union at the Copenhagen Summit and in promoting sustainable development globally.*

Keywords: sustainable development, climate change, green economy, European Union, Copenhagen Accord

JEL Classification: F53, Q01, Q54

1. THE EUROPEAN UNION (EU)[8]: A GLOBAL PLAYER IN PROMOTING SUSTAINABLE DEVELOPMENT[9]

"While it faces considerable problems in making an effective response to its own environmental deterioration, the EU has nevertheless developed an important leadership role in global environmental politics and is an active participant in numerous international environmental regulatory regimes" (Baker, 2000, p. 304). This is partly due to the fact that the EU environmental policy has gained treaty recognition in 1986 with the adaptation of Single European Act (SEA). Also, the capacity of EU to act internationally in global environmental politics is given by the

[8] European Community (EC) is the legally correct term in reference to the EU's participation in international environmental treaties. We prefer to use the term European Union (EU) throughout this article.

[9] *Sustainable development* is a pattern of resource use that aims to meet human needs while preserving the environment so that these needs can be met not only in the present, but also for future generations. The term was used by the Brundtland Commission which coined what has become the most often-quoted definition of sustainable development as development that "meets the needs of the present without compromising the ability of future generations to meet their own needs." Retrieved Monday, May 3rd 2010 from: http://en.wikipedia.org/wiki/Sustainable_development . See also: http://www.un-documents.net/ocf-02.htm

Maastricht Treaty[10]. Article 130r has been amended to include "promoting measures at international level to deal with regional or world-wide environmental problems"(art. 130r (1) TEU). David Pearce[11] states that "this extension of the sphere of influence reflected growing evidence that some environmental problems could be tackled only at global level" (Pearce, 2001, p. 216).

With regard to sustainable development, it has long been one of the overarching objectives of EU policy. Without defining the term, the Amsterdam Treaty of 1997 introduced the notion of the achievement of sustainable development as one of tasks of the EU set out in Article 2. This meant that the EU engaged itself with the idea of sustainable development. Furthermore, EU leaders launched the first EU sustainable development strategy (EU SDS) in 2001 and updated it in 2006 to tackle shortcomings and take account of new challenges. A set of sustainable development indicators (SDIs) have been developed in order to establish whether the EU efficiently addresses these challenges or not. The list of SDIs is available on the official page of Eurostat, which is also responsible with publishing a progress report on the EU SDS every two years. The World Summit on Sustainable Development in Johannesburg in 2002 marked "another milestone in the development of the EU role within the environmental sphere" (Lightfoot and Burchell, 2004, p. 337). The Review of the EU Sustainable Development Strategy (in 2009) underlines that in recent years the EU has mainstreamed sustainable development into a broad range of its policies (European Commission, 2009). It also stresses that one of the key challenges for sustainable development, defined as "economic and social development that is sustained through time" (Pearce, 2001, p. 231), in the EU is climate change.

As far as climate change is concerned, the 1992 Rio de Janeiro Earth Summit[12] resulted in two major international environmental agreements[13] to which the EU is signatory. One of them was the United Nations Framework Convention[14] on Climate Change (UN FCCC) which addressed solving the issue of increased Earth surface temperature due to emission of greenhouse gases. This document has been a controversial one, especially in the EU and the United States (US). "The source of controversy has not been science but the implications for environmental policy: it is difficult to see how greenhouse gas emission reduction can be secured without raising the price of energy significantly" (Pearce, 2001, p. 231). However, the EU, with a special status at UNCED, is party to the UN FCCC. Also, the EU is an active participant in the Kyoto Protocol on Climate

[10] Formally known as Treaty on the European Union (TEU)

[11] Professor David W. Pearce OBE was an Emeritus Professor at the Department of Economics in the University College London (UCL). He specialised in, and was a pioneer of, Environmental Economics, having published over fifty books and over 300 academic articles on the subject including his *'Blueprint for a Green Economy'* series. Retrieved Monday, May 3rd 2010 from: http://en.wikipedia.org/wiki/David_Pearce_%28economist%29

[12] The United Nations Conference on Environment and Development (UNCED)

[13] The United Nations Framework Convention on Climate Change (UN FCCC) and the United Nations Convention on Biological Diversity

[14] A convention is a *multilateral* treaty which is passed by the General Assembly, the legislature of the United Nations

Change, which was the document that followed the UN FCCC. In the context of the Kyoto Protocol, the EU has committed itself to jointly reducing its greenhouse gas emissions by 8% (the largest cut, greater than the 7% national reduction target of the US, which did not ratify the Protocol) from 1990 levels by 2008-2012. That was possible because the EU had worked out a common negotiation position with its Member States. Moreover, the EU is signatory to the UN Montreal Protocol on Ozone Depletion.

All the above-mentioned documents are international multilateral agreements between sovereign states. The EU is not a state. Nevertheless, being signatory to such agreements proves that the EU "has stepped up efforts to gain formal recognition as an international actor in environmental policy" (Lenschow, 2005, p. 323) and that it has taken the lead in the fight against climate change and the promotion of a low-carbon economy. Given this, the EU should be considered a global player in promoting sustainable development.

This might explain why, behaving like a "leading protagonist for a stringent international regime, frequently holding out in negotiations against the US for higher targets for emission cuts" (Baker, 2000, p. 328), the EU is currently working for a global agreement. Such a global agreement would help reduce global emissions of greenhouse gas beyond 2012, which is when the first commitment period of the Kyoto Protocol ends. Moreover, this sort of agreement will facilitate the introduction of a new financial architecture. For that matter, it should be legally binding.

2. THE 2009 UN CLIMATE CHANGE CONFERENCE AND THE COPENHAGEN ACCORD

According to the Bali Road Map, a framework for climate change mitigation beyond 2012 was to be agreed at the 2009 UN Climate Change Conference in Copenhagen. The conference included the 15th Conference of the Parties (COP 15) to the UN FCCC and the 5th Meeting of the Parties (COP/MOP 5) to the Kyoto Protocol. It was described on the official website of the UN FCCC as "an exceptional event that attracted unprecedented participation and resulted in attendance by 120 Heads of State and Government and raising climate discussions to a new level"[15].

It is important to notice that these Heads of State and Government (of developing and developed countries) came with different expectations at the Copenhagen Summit. "For the EU the Copenhagen Summit was originally about the final sharing-out of the remaining carbon budget of cumulative greenhouse gas (GHG) emissions of around 1,550 billion tonnes of CO2eq that are left until 2050. For many other countries, including industrialized ones, the Copenhagen Summit has

[15] See: http://unfccc.int/meetings/cop_15/items/5257.php

been more about architecture than about cuts in carbon emissions as such"(Egenhofer and Georgiev, 2009).

When it comes to perspectives, those of developing countries differ from those of developed countries. "Developed countries are more concerned about global problems such as climate change, while developing countries attach greater priority to rural issues such as desertification and soil erosion and urban environmental issues such as water pollution and air quality in cities"(Newell, 2005, pp. 222-223). Also, "many developing countries have been critical of the way in which certain issues (debt, terms of trade, regulation of multinational companies) have been actively kept off the agenda of summits" (Newell, 2005, pp. 224-225). For the developing countries climate change mitigation is "a short-term 'constraint on economic growth', mainly but not only because it puts a constraint on the use of coal" (Egenhofer and Georgiev, 2009). For the industrialized countries (including the EU) "climate change mitigation is framed in the context of green growth and jobs and future competitiveness" (Egenhofer and Georgiev, 2009). Moreover, developing countries view developed countries as main, sometimes sole, producers of greenhouse gas and expect the latter to make cuts in GHG emissions first. In the context of adaptation to climate change, "developing countries, especially least-developed countries, are more vulnerable as their adaptive capacity tends to be lower than that of richer countries" (Egenhofer and Georgiev, 2009). Apart from technologies for adaptation to climate change, "for developing countries, one of the key concerns has been the growth in environmental standards that many fear will be used as barriers to trade and discussed forms of protectionism to protect Northern producers from competitive exports from the South" (Newell, 2005, p.225). These expectations and perspectives might help explain what happened at the Copenhagen Summit.

Shortly after the summit began, a draft document, the so-called "Danish text", leaked. According to John Vidal, in the Guardian, this draft agreement would have forced developing countries to agree to specific emission cuts and measures that were not part of the original UN agreement, further divide the category of developing countries by introducing the category of so-called "most vulnerable" countries, weaken the UN role in handling climate finance by handing effective control of climate change finance to the World Bank and not allow poor countries to emit more than 1.44 tonnes of carbon per person by 2050, while allowing rich countries to emit 2.67 tonnes (Vidal, 2009). The "Danish text" caused developing countries to react furiously. Their protests lead to prolonged negotiations.

Ten days later, on December 18th an agreement was "reached" between the United States and the BASIC countries: China (as the world's biggest producer of carbon dioxide, the chief greenhouse gas), India, South Africa and Brazil. This was done without democratically involving other important parties to the UN FCCC (the EU) in the drafting process and in the final round of negotiations. The result was a legally non-binding document, namely the Copenhagen Accord.

This document meant that developed countries, including the US, recognized the scientific case for keeping the rise in global temperature to 2°C. Also, developed countries committed to jointly mobilizing $100 billion annually by 2020 from both public and private sources and to providing financial resources that would help developing countries (especially the least-developed ones) to mitigate and adapt their technology to climate change. Moreover, the importance of carbon markets, which are important for the EU environmental policy, has also been recognized.

Reactions to this document were diverse. "Judging from the high rhetoric heard before the Copenhagen meeting, urging parties to complete negotiations on a new international agreement on climate change to follow the Kyoto Protocol, the results (the Copenhagen Accord) must be seen as a failure"(Egenhofer and Georgiev, 2009, p.3) or a "disaster", according to the EU Swedish Environment Minister Andreas Carlgren. Moderates described the outcome as "neither earth-shattering nor a failure" (Levi and Rubenstein, 2009) or as a foundation for global action, although "there is much further to go" (US President-elect Barack Obama).

For us, the Copenhagen Accord is a curious case and proof that the EU is no longer the leader of the fight against climate change. The EU has played a marginal role at the Copenhagen Summit and so did the US. The Copenhagen Accord, which is yet to be adopted by UN FCCC parties, is also a perfect example of a deadlock. China (a developing country) refused to agree with the US nonnegotiable proviso: "all other major nations would first be required to commit their emissions reduction to a binding agreement and submit these reductions to 'transparent verification' in greenhouse gas emissions data (Lee, 2009). The Chinese officials argued that such a degree of transparency would be a violation of Chinese sovereignty and national interests, when in fact "Wen (Jiabao) would not want foreign experts reporting to political masters in America and Europe that Beijing's capacity to compel local officials and locally managed, state-controlled enterprises-some 120,000 companies and countless other subsidiaries - to implement climate-change initiatives is extremely poor" (Lee, 2009). Therefore, negotiations at the Copenhagen Summit focused on the US and China trying to reach a legally binding agreement for fighting climate change. In order to seal a deal that would have also helped passing new climate change legislation in the US, Barack Obama accepted China's conditions. That may be why the Copenhagen Accord has also been described as "probably the weakest compromise in the world" (Deutsche Bank, 2009).

Also, the Copenhagen Accord marked a shift in global order. As stated before, the EU and the US played marginal roles during the Copenhagen Summit. This time developing countries

(Non-Annex I Parties[16]) were the ones to make their voices heard in UN climate change negotiations. The only problem was that they did not speak with one voice: while the G4 group of developing countries sided with the US in drafting the Copenhagen Accord, the G77 group of least-developed countries protested vehemently against the former. As a result, on the 19th of December, COP only "took note" of the Copenhagen Accord.

3. THE US RESPONSE TO CLIMATE CHANGE

In order to better understand why a legally binding agreement was not reached in Copenhagen, we also need to explain the way in which sustainable development is perceived and how the climate change issue is dealt with within the US.

With regard to sustainable development, "like any other policy commitment, it ultimately requires the support of (the US) Congress and strong, effective legislation. However, for the Republican leaders in Congress, sustainable development is simply a problem for other countries to worry about, particularly developing countries" (Bryner, 2000, p. 277).

As far as climate change is concerned, "the US Congress joined the debate in July 1997 when the Senate unanimously passed a resolution (Senate Resolution 98[17]) aimed at ensuring that the US and other developed countries would not sign a climate change agreement that did not impose on developing countries at least some (if not similar) commitments to reduce greenhouse gas emissions" (Bryner, 2000, pp.291-292). This "reply" to the Berlin Mandate[18] specified that any climate change treaty should include commitments for greenhouse gas reduction for developing countries and should not result in serious harm to the US economy. "Without binding commitments from the developing countries industry representatives (in the US) charge that this will unfairly advantage developing countries industries in global markets" (Bryner, 2000, p. 293). Also, during the 90s, environmental "agreements have either advantaged or imposed fewer burdens on European producers compared to their American competitors. Hence the US has generally opposed these agreements, while EU has supported them" (Vogel and Kelemen, 2007). That may also explain why the EU, not the US, became a leader of the fight against climate change during the 90s.

[16] See: http://unfccc.int/parties_and_observers/items/2704.php
[17] Available on-line at: http://thomas.loc.gov/cgi-bin/bdquery/z?d105:SE00098:
[18] The Berlin Mandate exempted non-Annex I countries (developing countries) from additional binding obligations, in keeping with the principle of "common but differentiated responsibilities" established in the UNFCCC even though, collectively, the larger, newly industrializing countries were expected to be the world's largest emitters of greenhouse gas emissions 15 years hence. Retrieved Wednesday, May 5th 2010 from: http://en.wikipedia.org/wiki/United_Nations_Framework_Convention_on_Climate_Change#1995_-_COP_1.2C_The_Berlin_Mandate

At present, passing new climate change legislation[19] that would show commitment of the US to the idea of fighting climate change is a difficult process, given the lack of involvement from the US Congress. Although the House of Representatives passed the climate change bill, climate change legislation must also get through the Senate (Reuters, 2009). Otherwise, the result might very well be another deadlock at the COP 16/COP 6 Conference in Mexico later this year.

4. THE COPENHAGEN ACCORD, A GLOBAL GREEN ECONOMY AND GLOBAL GOVERNANCE

The Copenhagen Summit may have also been a first attempt to introduce a new economic model, a global green economy[20]. As proof, in February 2010 Fox News revealed to the public a leaked UNEP[21] discussion paper[22] on the green economy which states that "shifting towards a green economy will also help to address challenges posed by climate change"[23]. On the UNEP official website of GEI[24] we find that: "UNEP has also been working with a large number of UN agencies and other intergovernmental partners to harmonise green economy policy messages. For example, in June 2009, UNEP, together with more than 20 UN agencies, the IMF[25] and the World Bank, issued a joint statement[26], which noted that the current financial and economic crisis requires a collective response from the global community that lays a solid foundation for shared growth and sustainable development"[27]. This statement concluded: "The solidarity of the international community is being tested. The most representative test case is when governments meet to seal the deal on climate change in Copenhagen in December 2009. Let Copenhagen be the turning point for ushering in a global green economy"[28]. Could the possibility of UNEP introducing a new economic model based on limited natural resource use explain why the Copenhagen Summit resulted only in "taking note" of a politically binding agreement?

[19] The Obama-Biden comprehensive New Energy for America plan
[20] See: http://en.wikipedia.org/wiki/Green_economy
[21] United Nations Environmental Programme
[22] Available on-line at: http://www.foxnews.com/projects/pdf/022510_greeneconomy.pdf
[23] See: http://www.foxnews.com/projects/pdf/022510_greeneconomy.pdf
[24] Green Economy Initiative
[25] International Monetary Fund
[26] Available on-line at: http://www.unep.ch/etb/pdf/2009%20statement%20deliver%20as%20one/Interagency%20Joint%20Statement.%20E%20rev1.pdf
[27] See: http://www.unep.org/greeneconomy/Partnerships/tabid/1380/language/en-US/Default.aspx
[28] Retrieved Wednesday, May 5th 2010 from: http://www.unep.ch/etb/pdf/2009%20statement%20deliver%20as%20one/Interagency%20Joint%20Statement.%20E%20rev1.pdf

What is even more curious is that a UN FCCC negotiating text[29], a document which was published before the Copenhagen Summit, stated that: "The scheme for the new institutional arrangement under the Convention will be based on three basic pillars: government; facilitative mechanism; and financial mechanism, and the basic organization of which will include the following: (a) The government will be ruled by the COP with the support of a new subsidiary body on adaptation, and of an Executive Board responsible for the management of the new funds and the related facilitative processes and bodies. The current Convention secretariat will operate as such, as appropriate"[30]. Was it the fear of countries signatories to the UN FCCC for losing their sovereignty to an international COP-led government that prevented "sealing of the deal"?

There is also another explanation. Although developed countries have committed themselves to providing financial resources to developing countries by means of a Copenhagen Green Climate Fund, where such funding will come from is not specified in the Copenhagen Accord. The draft text only mentions that "this funding will come from a wide variety of sources, public and private, bilateral and multilateral, including alternative sources of finance"[31]. This vague statement might give the opportunity to international financial institutions to undermine the UN FCCC. Both the IMF and the World Bank have outlined and implemented climate change financing ideas. The IMF proposed a "Green Fund"[32], while the World Bank portfolio of climate investment funds consists of the CTF[33] and the SCF[34]. For the World Bank, financing will take the form of credit enhancement and risk management tools, such as loans, grants, equity stakes, guarantees and other support mobilised through donor contributions to the respective trust funds and implemented in collaboration with the regional development banks (Tan, 2008).

At this point, we ask ourselves: "what would happen if developing countries do not return the loans awarded by the World Bank?" The term neocolonialism[35] comes to mind. "Africa today pays more money every year in debt service payments to the IMF and World Bank than it receives in loans from them, thereby often depriving the inhabitants of those countries from actual necessities. This dependency allows the IMF and World Bank to impose Structural Adjustment Plans upon these nations. Adjustments that largely consist of privatization programs which result in

[29] Available on-line at: http://unfccc.int/resource/docs/2009/awglca7/eng/inf02a02.pdf
[30] Retrieved Wednesday, May 5th 2010 from: http://unfccc.int/resource/docs/2009/awglca7/eng/inf02.pdf
[31] See: http://unfccc.int/resource/docs/2009/cop15/eng/l07.pdf
[32] See: http://www.imf.org/external/pubs/ft/survey/so/2010/POL032510A.htm
[33] Clean Technology Fund
[34] Strategic Climate Fund
[35] *Neocolonialism* is a term used by post-colonial critics of developed countries' involvement in the developing world. Writings within the theoretical framework of neocolonialism argue that existing or past international economic arrangements created by former colonial powers were or are used to maintain control of their former colonies and dependencies after the colonial independence movements of the post-World War II period. Retrieved Wednesday, May 5th 2010 from: http://en.wikipedia.org/wiki/Neocolonialism

deteriorating health, education, an inability to develop infrastructure, and in general, lower living standards”[36]. That may offer an explanation for the G77's protests.

Let us not forget about the “curse” of the developing countries: natural resources, which are described as “gifts of nature” on the official page of the World Bank Group. It is important to notice that international financial institutions may adopt “a competing perspective that has long been present in the study and practice of world politics which views natural resources as an instrument of control and leverage over other states” (Hastedt and Knickrehm, 2003, p. 284). By “natural resources” we mean oil (the most important natural resource of the 70s, 80s and 90s), natural gas and fresh water (the most important natural resources in the last decade), even forests and clean air (probably the most important natural resources in decades to come). Bearing this in mind, the reaction of the G77 group was justified.

Last, but not least, “international financial institutions have directly promoted and financed fossil fuel-intensive projects throughout the developing world; the immediate beneficiaries of the World Bank's projects are G7-based corporations”(Sobhani and Retallack, 2001, p.224). Also, “by building fossil fuel-based infrastructures so mindlessly throughout the world to meet the ever growing energy-intensive needs of economic globalization and the development model it promotes, the World Bank and the other multilateral development agencies are playing a leading role in fuelling climate change” (Sobhani and Retallack, 2001, p.224).

All the above explanations may shed some light on the curious case of the Copenhagen Accord.

6. CONCLUSIONS

The expectations for the 2009 UN FCCC Conference were not reached. The Copenhagen Summit has been an attempt of introducing a legal framework for a new economic model, the green economy, and a new institutional arrangement. Negotiations for a legally binding agreement for climate change mitigation have been deadlocked. Not being involved in the drafting process of the Copenhagen Accord and thus not being able make its voice heard, the EU has currently lost its leader status in the fight against climate change. The result of the Copenhagen Summit, the Copenhagen Accord, remains a curious case because there seems to be more than one explanation for the fact that a legally binding agreement was not reached in Copenhagen.

[36] See: http://en.wikipedia.org/wiki/Neocolonialism#Neocolonialism_allegations_against_the_IMF

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