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NATIONAL AND REGIONAL COORDINATES OF THE REAL CONVERGENCE PROCESS INTENSITY IN THE ENLARGED EUROPEAN UNION

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Abstract: *Real convergence of EU economies can be approached from the perspective of close relations between the state of homogeneity and the existence of conditions that can facilitate it. In this paper we test the hypothesis of beta convergence at national level for the group formed by all 27 EU member states (EU-27), for one of the old Member States (founding members and countries that joined in the first three waves of EU enlargement) (EU-15) and one of the new Member States (EU-10+2) (countries that joined in the last two waves of EU enlargement) and also at regional level for all 271 NUTS 2 regions. For reasons of comparison we will use the same indicator GDP per capita at purchasing power standards (PPS) for analysis of both levels. Given the availability of statistical information, we quantified applying the regression model, the marginal effect from GDP per capita growth caused by the change of condition expressed by the initial development stage.*

Keywords: EU member states, NUTS 2 regions, beta convergence, GDP per capita growth rate, regression model

JEL Classification: C20, F15, O16

INTRODUCTION

Among the many endeavours for the development of the scientific methodological apparatus concerning the convergence phenomenon, we must distinguish the econometric research on different transverse or chronological static series which assess, by means of regression equations and estimated parameters, the convergence or divergence trends of the economies on world level as well as on the level of the European Union.

Besides the sigma convergence expressed through the coefficient of variation or through the standard deviation, an important role within the economic studies is played by the *beta convergence*. Although contested by certain economists such as Friedman (1992) and Quah (1993), who believe that the regression pattern can generate erroneous estimations concerning its existence and extent (Galton's false result) (Boyle and McCarthy, 1997) generated by the existence of approximately similar conditions in the countries included in the study group, conditions referring to the population growth, the economic rate, the depreciation rate and the technology, and which are likely to lead to the development of a polarization process (Chatterji, 1992), the beta convergence

appeared in the literature as a requisite tool for the econometric calculation and analysis and for the description of the process. Determining the beta convergence index does not exclude or replace the sigma convergence index (Iancu, 2009, p. 23).

The concept of beta convergence, generated by the regression analysis of the level of development of the countries/regions, can have *three basic aspects* (Iancu, 2009, p. 25), according to the depth of the analysis and to the degree in which it renders the economic reality, within the limitations imposed by the convergent neoclassical growth model:

- *The absolute beta convergence*, which takes into consideration only the hypothesis of the higher growth rates of the poor countries compared to the rich countries and sets aside, during the whole period of time subjected to the analysis (T), the differential evolution of the determinant factors of growth (technological, institutional, behavioural, etc.) for the countries included in the group. Consequently, it is required to adopt those solutions which take into consideration these realities, without however crossing the limits of the neoclassical methodology;

- *The group (clubs) beta convergence*, which aims at including into the study those groups of countries/regions which have a certain homogeneity on the technological and the institutional level as well as in the economic policies, and in which there should be no significant initial differences concerning the GDP per capita;

- *The conditional beta convergence*, which takes into consideration the vector of the determinant factors of growth as additional variables that define the differences between the economies, factors which impose (proxy for) the achievement of balance by introducing into the regression equation certain variables which maintain the balance of the economies.

1. THE REGRESSION ANALYSIS AND THE INTENSITY OF THE REAL CONVERGENCE

Considering Solow's neoclassical economic theory concerning the decreasing productivity of the capital, we can formulate the hypothesis of higher growth rhythms registered in the less developed economies compared to the developed economies, which means a gradual decrease in time of the differences in terms of GDP per capita, as well as the existence of an inverse relationship between the rhythm of economic growth of the GDP per capita within a certain timeframe and the initial level of the GDP per capita. The dependence relationship can be noticed on the level of a group of countries/regions, being more or less intense, according to the period of

time subjected to the analysis or to the social and economical situation specific to that particular period of time.

Consequently, the beta convergence can be estimated by means of a regression model, thus quantifying the marginal reaction of the effect (GDP per capita) to the modification of the cause, more exactly the modification of the condition expressed through the relatively low level of development in the initial phase (Pecican, 2009, p. 15):

$$\frac{1}{T} \log \left(\frac{y_{i,T}}{y_{i,0}} \right) = \alpha + \beta \log y_{i,0} + \varepsilon_i$$

Where: T – the number of time units (years);

i – The element (state/region) of the whole group;

y_{i,0} – the level of development (GDP per capita) in the reference year (the base);

y_{i,T} – the level of development (GDP per capita) after T units of time;

α – constant;

β – The regression parameter estimated for the slope of the regression equation;

ε_i – residual value.

This relationship expresses the theoretical hypothesis which is going to be econometrically tested based on the statistic data gathered from the states/regions in question. The regression parameter β (the slope of the regression equation) shows the potential, the speed (rate) at which the countries achieve the convergence and tend towards the state of balance. Such potential, expressed through the level and the sign of the β estimation, works as an average and it can differ from one country/region to another. However, an inclination towards convergence can be emphasized. The estimated result for β is compatible with convergence provided that its sign is minus, and its level is significant (at least for the T-test).

Thus, the tendency of poor economies to make up for the economic gaps compared to the rich economies is reflected through the reduction of the degree of dispersion of GDP per capita (sigma convergence) as well as through the negative beta convergence rate for the GDP per capita registered in the states in question.

2. THE INTENSITY OF THE REAL CONVERGENCE IN THE 27 MEMBER STATES OF THE EUROPEAN UNION

In this unit, we are going to test the hypothesis of beta convergence concerning the 27 member states of the EU (EU-27), as well as the EU-15 (the founding states and the ones that joined the EU during the first three waves of adherence) and EU-10+2 (the states that joined the EU during the last two waves of adherence) groups, using as indicator the GDP per capita expressed based on the purchasing power standard (PPS), thus ensuring the comparability of the data gathered in all the countries.

Considering three different periods of time: 1999-2010, 2004-2010 and 2007-2010, we quantified the marginal reaction of the effect, given by the growth rate of GDP per capita, to the modification of the condition expressed through the level of development in the initial stage, applying the regression model. The data used in the regression analysis concerning the average annual growth rate of the GDP per capita, as well as the level of the indicator during the basic year for each period (data available at Eurostat), we made a logarithm in order to create a data base within the kit of programmes meant for the statistic analysis *SPSS for Windows*.

The results achieved concerning the extent to which the average annual growth rate of GDP per capita (the dependent variable) can be explained through the initial level of the GDP per capita during the basic year, for each separate period of time in the case of the member states included in the groups in question are presented in *Table 1* and the figures below and interpreted from the point of view of the manifestation of the convergence or the divergence based on the parameters of the regression equation.

Table 1 – The results of the regression calculation for EU-27, EU-15 and EU-10+2 groups, during 1999-2010, 2004-2010 and 2007-2010

Parameters	1999-2010			2004-2010			2007-2010		
	EU-27	EU-15	EU-10+2	EU-27	EU-15	EU-10+2	EU-27	EU-15	EU-10+2
MODEL									
R	0.866	0.272	0.939	0.743	0.222	0.769	0.398	0.161	0.299
R ² (R Square)	0.750	0.074	0.882	0.552	0.049	0.592	0.158	0.026	0.089
ANOVA									
F-Test	75.190	1.037	75.016	30.837	0.673	14.499	4.708	0.347	0.982
F-Test Significance (Sig.)	0.000	0.327	0.000	0.000	0.427	0.003	0.040	0.566	0.345
COEFFICIENT									
Beta Coefficient (β)	-0.027	0.007	-0.036	-0.024	0.006	-0.033	-0.014	-0.006	-0.020
Constant (α)	0.130	-0.017	0.164	0.111	-0.022	0.150	0.060	0.025	0.084

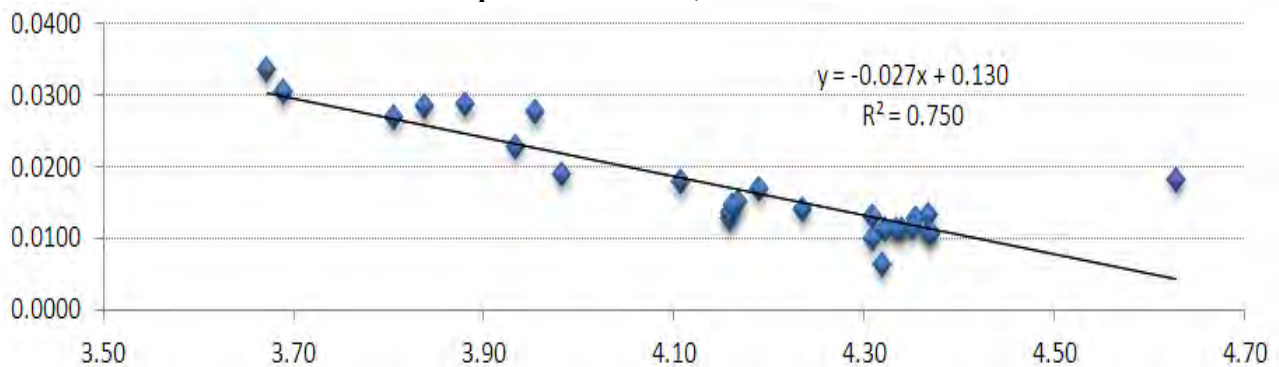
T-Test	-8.671	1.018	-8.661	-5.553	0.821	-3.808	-2.170	-0.589	-0.991
T-Test Significance (Sig.)	0.000	0.327	0.000	0.000	0.427	0.003	0.040	0.566	0.345

Source: Own calculations using Eurostat data

The value of the regression coefficient R shows the existence of a connection between the two variables considered for analysis, the intensity of this connection and its direction. In all the cases, we notice that R is different from 0 and is positive, which means that there is a connection between the variables, and that it is a positive (direct) one. The absolute value allows us to assess the intensity of this connection – it becomes stronger as it gets closer to +1. Consequently, on the whole EU-27 group and on the level of the countries included in the EU-10+2, we identify a quite strong connection during the first two periods of time subjected to the analysis, R being 0.866, and 0.939 respectively between 1999 and 2010, and 0.743 or 0.769 respectively between 2004 and 2010; however, the intensity of this connection decreases from one period of time to another - between 2007 and 2010 R being 0.398 and 0.299 respectively. As to the EU-15 group of states, we estimate a weak connection during the three periods of time subjected to the analysis, R being 0.272, 0.222 and 0.161 respectively.

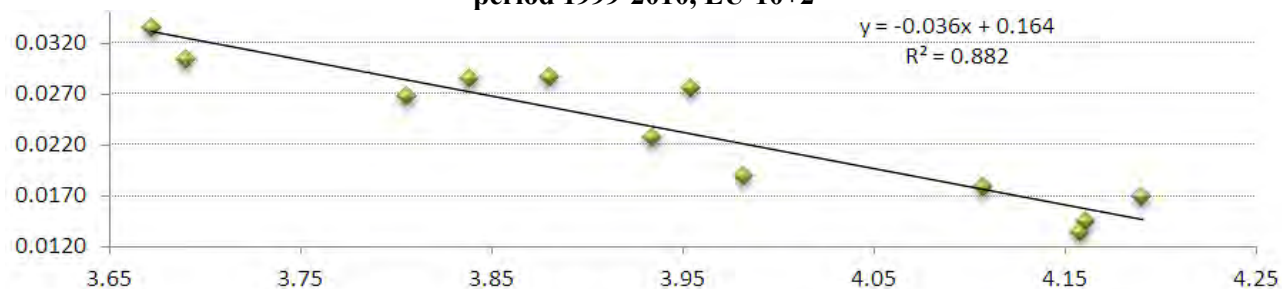
The value of the coefficient of determination R^2 shows us the proportion of the variation in the dependent variable explained by the regression model applied. After the analysis that we carried out here, we got a value of R^2 of 0.750 for the period of time 1999-2010 in the case of EU-27 (Figure 1) and of 0.882 in the case of EU-10+2 (Figure 2), which shows that there is a direct linear.

Figure 1 - The connection between GDP per capita in 1999 and GDP per capita growth rate during the period 1999-2010, EU-27



Source: Own calculations using Eurostat data

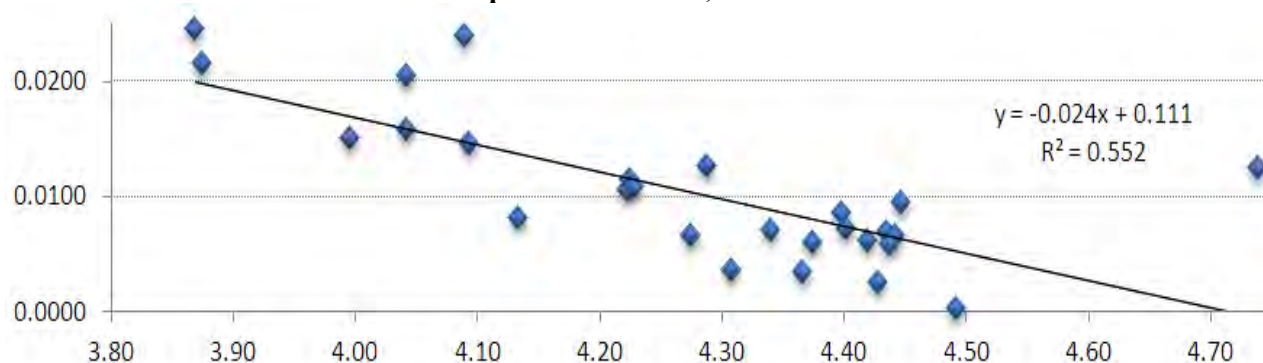
Figure 2 - The connection between GDP per capita in 1999 and GDP per capita growth rate during the period 1999-2010, EU-10+2



Source: Own calculations using Eurostat data

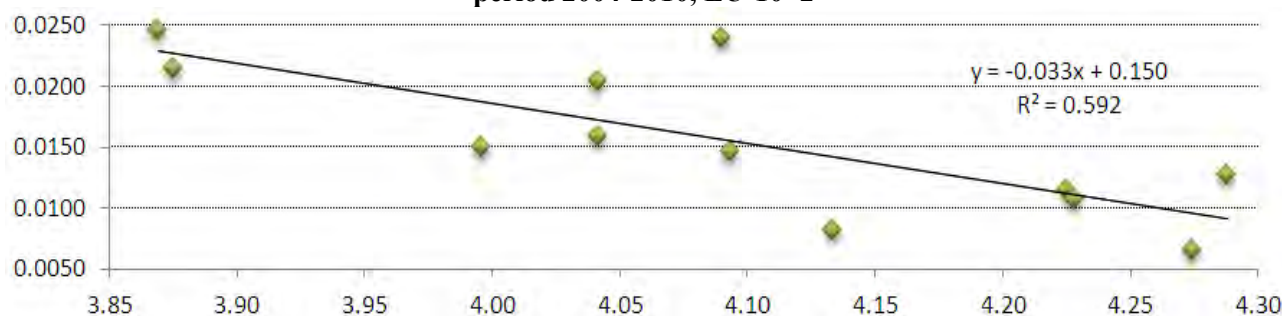
We also obtained a quite strong connection and a reduced degree of determination of the economic growth by the initial starting level, degree showed by the value of 0.552 (*Figure 3*) of the same coefficient in the case of EU-27 and of 0.592 (*Figure 4*) in the case of EU-10+2 in the period of time 2004-2010, fact which also signals the existence of other possible determinants.

Figure 3 - The connection between GDP per capita in 2004 and GDP per capita growth rate during the period 2004-2010, EU-27



Source: Own calculations using Eurostat data

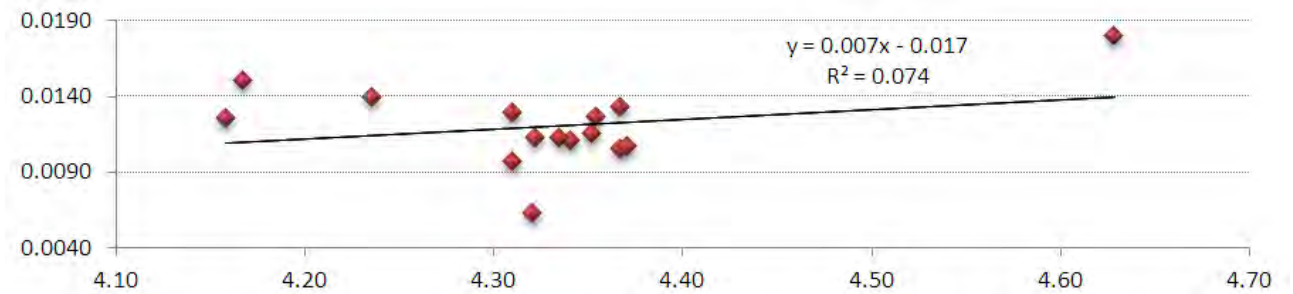
Figure 4 - The connection between GDP per capita in 2004 and GDP per capita growth rate during the period 2004-2010, EU-10+2



Source: Own calculations using Eurostat data

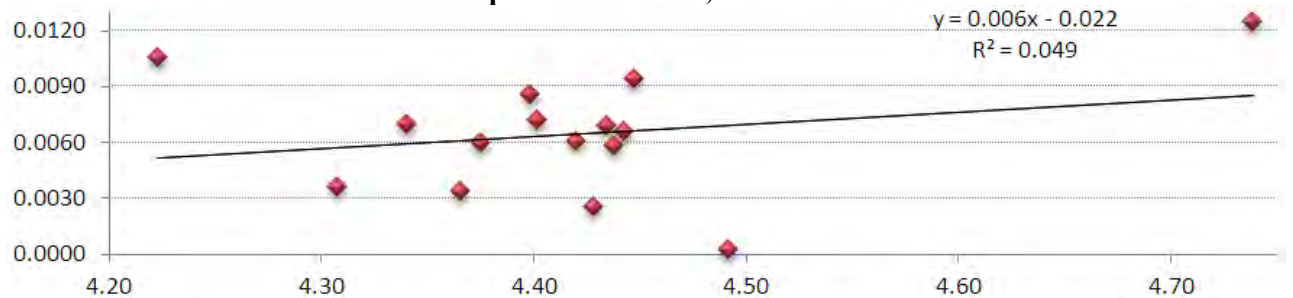
By contrast, the very low value of the coefficient within the EU-15 group, which is 0.074 for the period of time 1999-2010 (Figure 5), 0.049 for the period of time 2004-2010 (Figure 6) and 0.026 for the period of time 2007-2010 (Figure 7), values which do not reflect the connection between the two variables, thus actually rejecting the existence of beta convergence, at least from the point of view of the GDP per capita.

Figure 5 - The connection between GDP per capita in 1999 and GDP per capita growth rate during the period 1999-2010, EU-15



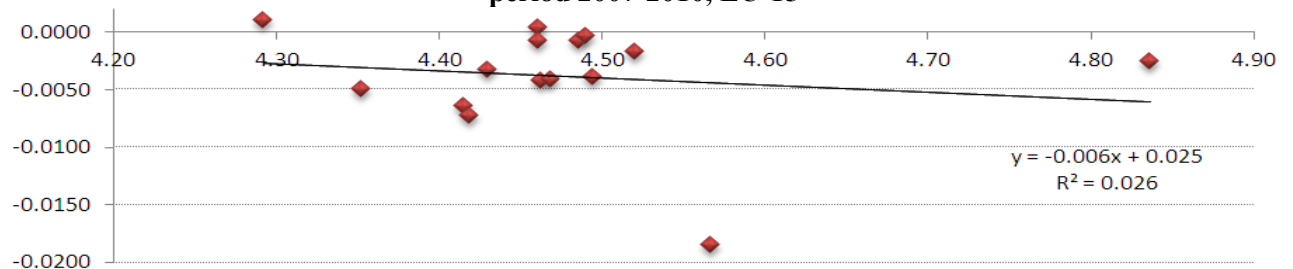
Source: Own calculations using Eurostat data

Figure 6 - The connection between GDP per capita in 2004 and GDP per capita growth rate during the period 2004-2010, EU-15



Source: Own calculations using Eurostat data

Figure 7 - The connection between GDP per capita in 2007 and GDP per capita growth rate during the period 2007-2010, EU-15

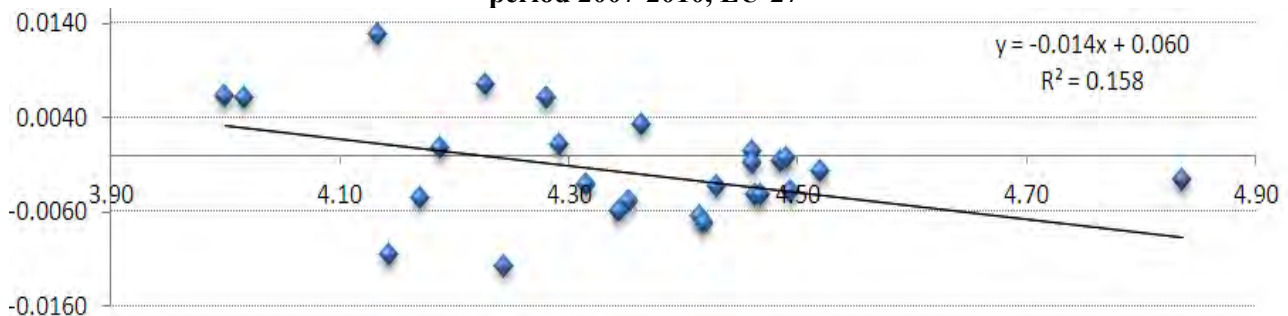


Source: Own calculations using Eurostat data

This situation confirms the results achieved by testing the sigma convergence for the group of 15 states, on the level of which the spreading phenomenon has accentuated gradually during the

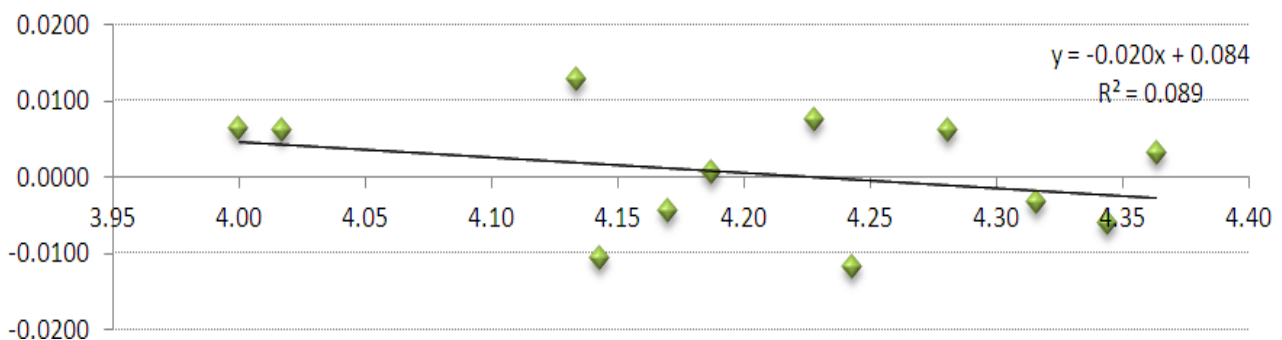
period of time 1999-2010. We notice the same situation for the period of time 2007-2010 in the case of the states included into the last two waves of adherence ($R^2=0.089$) (Figure 8), and thus for the whole EU-27 group ($R^2=0.158$) (Figure 9).

Figure 8 - The connection between GDP per capita in 2007 and GDP per capita growth rate during the period 2007-2010, EU-27



Source: Own calculations using Eurostat data

Figure 9 - The connection between GDP per capita in 2007 and GDP per capita growth rate during the period 2007-2010, EU-10+2



Source: Own calculations using Eurostat data

The results of the variation analysis for the dependent variable under the influence of the regression coefficient and of the residual coefficient, results achieved by means of the *F test* confirm, due to the *Sig. value of F* lower than 0.05 in the case of EU-27 and EU-10+2 in the periods of time 1999-2010 and 2004-2010 and only in the case of EU-27 in the period of time 2007-2010, the fact that the connection between the two variables is significant. The situation is different in the case of the EU-15 group during all the periods of time subjected to the analysis, as well as for the EU-10+2 group in the period of time 2007-2010.

The values of the non-standardized coefficients of the estimated regression model help us write the regression equation for each separate case listed in the graphical representations.

The testing of the parameters of the regression equation confirms, due to the value *Sig. for t* lower than 0.05 in the case of EU-27 and EU-10+2 for the periods of time 1999-2010 and 2004-

2010 and only in the case of EU-27 for the period of time 2007-2010, the existence of a significant connection between the two variables; in other words, the slope of the regression equation β corresponds to a significant connection between the initial level of the GDP per capita and the growth rate of the indicator during a certain period of time. Just as in the case of the F-test, it is not confirmed in the case of the EU-15 group for any of the periods subjected to the analysis, nor for EU-10+2 during the period of time 2007-2010.

The results achieved through the estimation of the unconditional convergence presented here show, due to the negative value of the coefficient β , the manifestation of the real convergence in the case of EU-27 and EU-10+2 during all the periods of time subjected to the analysis, in contrast with the positive value of the same parameter in the case of EU-15, fact which shows a divergent trend for this group. This allows us to assess that the new member states had a higher economic growth compared to the first 15 states which became members of the EU (except for Luxemburg and Ireland). Using the methodology applied by Kaitila (2004), according to which the convergence speed is given by the slope of the regression equation – that is the value of the coefficient β – we can make assessments on the intensity of this process.

Sala-i-Martin identified a rate of convergence for the real income per capita of 2% per year (Sala-i-Martin, 1996, p. 1032), result criticised by Quah, who states that the convergence takes place at a rate more or less uniform than 2% per year, no matter what geographical region is being analyzed (Quah, 1997). Indeed, the research in this field proved that there are many regions in the world, as well as among the countries included in the EU, which have quite different convergence rates (Kaitila, 2004, p. 4).

In our analysis, the convergence speed for the whole European group is decreasing in time, so that between 1999 and 2010 it was of 2.7%, between 2004 and 2010 it was of 2.4%, while during the period of time 2007-2010 it got to only 1.4%. On the other hand, a higher convergence rate for the GDP per capita can be noticed within the EU-10+2, although it also diminishes in time as follows: in the period of time 1999-2010 it was of 3.6%, in the period of time 2004-2010 it was of 3.3% while in the period of time 2007-2010 it was of 2% (this value must be interpreted cautiously due to the Sig. value for the t-test). In contrast, the positive slope of the regression equation registered within the EU-15 group, and even the insignificant value of -0.006 of β during the period of time 2007-2010 (it is very close to 0, and the value Sig. for the t-test is higher than 0.05), show the presence of a divergence process on the level of these states.

3. THE INTENSITY OF THE REAL CONVERGENCE ON THE LEVEL OF THE 271 NUTS 2 REGIONS OF THE EUROPEAN UNION

In this unit we are going to test the hypothesis of the beta convergence in the 271 NUTS 2 development regions of the EU using, for comparison reasons, the same indicator as the one used for the analysis performed on the level of the member states – the GDP per capita expressed by the purchasing power standard (PPS) for all the regions.

Considering the statistic information available, we chose the period of time 2000-2008 to quantify the marginal reaction of the effect, given by the growth rate of the GDP per capita, when changing the condition expressed by the level of development in the initial stage, applying the same regression model. The data used in the regression analysis concerning the average annual growth rates of the GDP per capita, as well as the level of the coefficient in the basic year for each period available at Eurostat, are introduced into logarithms and, based on them, we will create the data base in SPSS.

The results achieved concerning the extent to which the average annual growth rate of the GDP per capita (dependent variable) can be explained by the initial level of the GDP per capita in the basic year 2000, on the level of the NUTS 2 regions, are presented in *Table 2* and in *Figure 10* and are interpreted from the point of view of the manifestations of convergence or divergence based on the parameters of the regression equation.

Table 2 – The results of regression calculation in the NUTS 2 regions, during 2000-2008

PARAMETERS	VALUES
MODEL	
R	0.692
R ² (R Square)	0.478
ANOVA	
F-Test	240.137
F-Test Significance (Sig.)	0.000
COEFFICIENT	
Beta Coefficient (β)	-0.025
Constant (α)	-0.118
T-Test	-15.496
T-Test Significance (Sig.)	0.000

Source: Own calculations using Eurostat data

The value of the regression coefficient R shows the existence of a connection between the two variables considered for analysis, the intensity of the connection and its direction. We notice that R

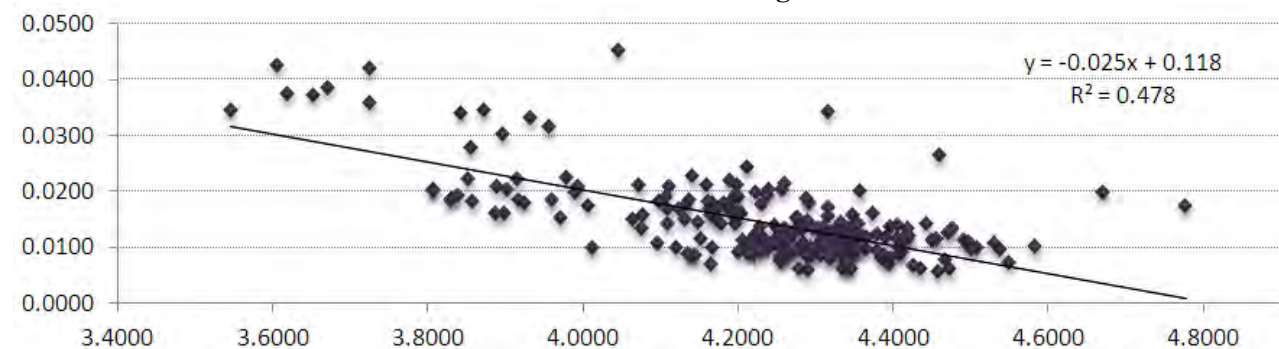
is different from 0 and is positive, which means that there is a connection between the variables, and that it is a positive (direct) one. The absolute value allows us to assess the intensity of this connection – it becomes stronger as it gets closer to +1. Consequently, on regional level we notice quite a strong connection during the period of time subjected to the analysis, R being 0.692.

The value of the coefficient of determination R^2 shows us the proportion of the variation in the dependent variable explained by the regression model applied. After the analysis that we carried out here, we got for R^2 a value of 0.478 in the period of time 2000-2008 for the NUTS 2 regions, which shows that there is a direct linear connection and a reduced degree of determination of the economic growth by the initial starting level, fact which also signals the existence of other possible determinants.

The results of the analysis for the evolution of the dependent variable under the influence of the regression coefficient and of the residual coefficient, results achieved by means of the *F test*, confirm, due to the high value of F which is 240.137 and to the *Sig. value of F* which is 0.000 (lower than 0.05), the fact that the connection between the two variables is significant on regional level.

The values of the non-standardized coefficients of the estimated regression model help us write the regression equation which is also listed in the graphical representation (*Figure 10*).

Figure 10 - The connection between GDP per capita in 2000 and GDP per capita growth rate during 2000-2008 for NUTS 2 regions



Source: Own calculations using Eurostat data

The testing of the parameters of the regression equation confirms, due to the *value Sig. for t* which is 0.000 (lower than 0.05) in the case of the EU regions in the period of time 2000-2008, the existence of a significant connection between the two variables; in other words, the slope of the regression equation β corresponds to a significant connection between the initial level of the GDP per capita and the growth rate of the coefficient during the period of time taken into consideration.

The results achieved through the estimation of the unconditional convergence show, due to the negative value of the coefficient β , the manifestation of the real convergence on the level of the EU regions for the period of time 2000-2008. The intensity of the real convergence process, appreciated by the pace at which the convergence was achieved, given by the slope of the regression equation (the value of the β coefficient) is 2.5%.

CONCLUSIONS

The results of our research prove the fact that the new member states (the EU-10+2 group) enjoyed a higher rate of convergence compared to the old member states (the EU-15 group). This situation actually confirms the neoclassical theory concerning the economic growth which supports the convergence within the countries with similar elements, as well as Heckscher-Ohlin-Samuelson theory of international trade according to which the poorer economies have certain advantages in terms of economic growth compared to the richer countries, advantages which allow them to grow more rapidly and to make up for the existing gaps. According to the neoclassical theory of economic growth, the decreasing efficiencies of the factors of production involve capital flows from the more developed countries towards the less developed ones, where the efficiency rates are higher. These capital flows, which often materialize through foreign direct investments (FDI), are the foundation for the growth of the real production capacity in the destination countries.

The results achieved are also based on the status of the application of the same structural, institutional and political reforms by most of the states included in the last two waves of adherence to the European Union during the period of transition from the centralized economic system to the market economy. Among these states, the ones that applied the reforms after 1990 had a low level of development until the mid _90s, but managed to have high growth rates by the end of the _90s and after 2000.

Another argument supporting the convergence of the states in the EU-10+2 group refers to the extent of the transition crisis and the effect of returning to the previous income level. Thus, the countries which suffered deep recession in the early _90s had to go through much faster growth than the ones that suffered less because of the recession, in order to reach again the level of income they had in 1989.

Last but not least, the differences between the economies require special investment efforts which only a small number of developed countries can support financially so that, in order to achieve real economical convergence through the European cohesion policy, the member states and

the candidates situated on a lower level of development benefited from structural funds, fact which allowed them to have higher growth rates compared to the developed economies. Thus, on the level of the EU-27 group, there was a slight process of levelling the discrepancies pertaining to the economic development.

Moreover, we must consider the fact that the market liberalization increases the mobility of the factors of production and their contribution to the economic growth, especially in the countries with higher economic, scientific and technological potential, generating effects such as: decreasing the costs for the production factors, intensifying the competition on larger markets, increasing productivity and so on.

On regional level, although some of the developed regions are starting to have very low or even negative rates of economic growth, there is a quite slow overall process of real economic convergence.

From a methodological point of view, the unifactorial regression model for estimating the β parameter can be extended by adding other variables, as well as by applying some new suitable convergence models which should record as accurately as possible the influence of all these aspects on achieving the real convergence of the states included in the European Union.

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PRINCIPLES OF THE EUROPEAN ADMINISTRATIVE SPACE AND THEIR IMPACT ON PERFORMANCE IN PUBLIC ORGANIZATIONS*

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Abstract: *The European Union is interested in ensuring that each national administration offers comparable administrative capacity through quality of public services and professionalism from the civil servants. At the same time, the European states are characterised by long and varied institutional histories, with different trajectories in their evolution. That is why, public administration structures and regulations vary among the Member States and a set of common principles can guide them towards administrative convergence and performance.*

This paper aims to analyze the shared principles of a common European Administrative Space and also to address the link between these principles and the performance of public institutions from a managerial point of view. The study is based on review and analysis of academic research, government documents and personal perspectives, extracting and linking key findings from existing research and practice.

The paper argues that managerial theories on performance are compatible with public administration organizations and some of the criteria are common to those promoted by the principles of the European Administrative Space.

Keywords: principles, administration, performance, convergence

JEL Classification: D73, H11

INTRODUCTION

The constitutional treaties of the European Union do not include a common model of public administrative system for the Member States, but there are important administrative principles that have been established by the Treaty of Rome, such as the judicial review of administrative decisions issued by the European institutions (art. 173) or the obligation to justify the EU administrative decisions (art. 190).

In addition, the European Ombudsman issued a “Code of Good Administrative Behavior” for European institutions, which was adopted in 2001 by the European Parliament and that includes rules and principles, mostly administrative, for institutions to respect in their interaction with the reserptisants: legality, proportionality, protection of legitimate rights and interests.

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Moreover, the European administrative convergence of the Member States is a key factor in reaching EU's goals and criteria such as good governance, administrative cooperation, improved administrative capacity, subsidiarity and proportionality principles are promoted through European White Papers on administration and through the decisions of European Court of Justice.

The European Administrative Space (EAS) is, in fact, an innovative concept, because a traditional sovereign domain, the public administration, is now of interest not only for the national states, but for all EU Member States and for the good functioning of EU as a whole. The EAS is a metaphorical illustration of a set of principles and criteria, standards and best practices for citizen-oriented administration.

On another hand, Hofmann (2008) considered that the term –European Administrative Space” has been used to describe an increasing convergence of administrative practices at the EU level and in various member states towards a common European model. It also has been used to describe the phenomenon of the coordinated implementation of EU law and the Europeanization of national law (Kadelbach, 2002).

1. PRINCIPLES OF THE EUROPEAN ADMINISTRATIVE SPACE

The European Administrative Space (EAS) is based on a common set of principles that guide the actions/activity within national public administration. The national horizontal administrative systems of the Member States are expected to meet key requirements that support a high capacity for the entire administration. In practice, there is now a wide consensus on these key principles, which are also considered part of the *acquis communautaire*. They also serve as guiding lines for the reforms initiated by candidate states.

There are four main categories of EAS principles (Cardona, 2009):

- *Rule of law*, as legal certainty and predictability of administrative actions and decisions, which refers to the principle of legality as opposed to arbitrariness in public decision-making and to the need for respect of legitimate expectations of individuals;
- *Openness and transparency*, aimed at ensuring the sound scrutiny of administrative processes and outcomes and its consistency with pre-established rules;
- *Accountability* of public administration to other administrative, legislative or judicial authorities, aimed at ensuring compliance with the rule of law;
- *Efficiency* in the use of public resources and effectiveness in accomplishing the policy goals establishing in legislation and in enforcing legislation.

The above principles should not remain only theoretical, they represent the foundation for the European Administrative Space and the convergence and coherence of public administration is reflected through the implementation of these standards in legislation and especially in practice. In most Member States, these principles are enforced by the national constitution and included in administrative legislation (civil servants act, local administration act, administrative procedures) and also in financial control systems, internal and external audit, and public procurement.

They are standards useful in evaluating administrative capacity, civil servants professionalism, and rationality of decision-making. There are gradual steps in adopting, implementing and integrating these principles as public values. In consequence, the European Administrative Space is the result of a complex process based on Europeanization, convergence and administrative dynamic.

2. PERFORMANCE IN PUBLIC ADMINISTRATION – OPERATIONALISING PRINCIPLES

Not only in practice, but also in research articles the need for “re-inventing” public administration became a much discussed subject and the solution seemed to be a transition from a bureaucratic system to a coherent and flexible one, able to respond, to react to changes and challenges, to provide services at the lowest cost.

We presented above, for the European Union, the principles that, at a macro-level, should guide the public administration in all Member States, but for each public institution/organization these principles become, at a micro-level, performance standards and so the concept of performance includes all four of them and much more.

In the last 20 years there has been an increase in research papers that place the notion of performance on the main page (Johnson and Kaplan 1987; Carter, Day and Klein 1992; Neely, 1999; Behn, 2003; Hood, 2006). Public performance is not an objective reality, easily available to be measured and evaluated, it is in fact a social construct, distinctly perceived by different stakeholders (Ghobadian, 2009) and it must be defined broadly enough to include all key dimensions as they are perceived by the major stakeholders.

In terms of overall performance in administration, there are specific factors (Ghobadian, 2009) that should be taken into account:

- *Uncertainty* – there are many external circumstances influencing the activity of the organization and the accuracy of performance indicators;

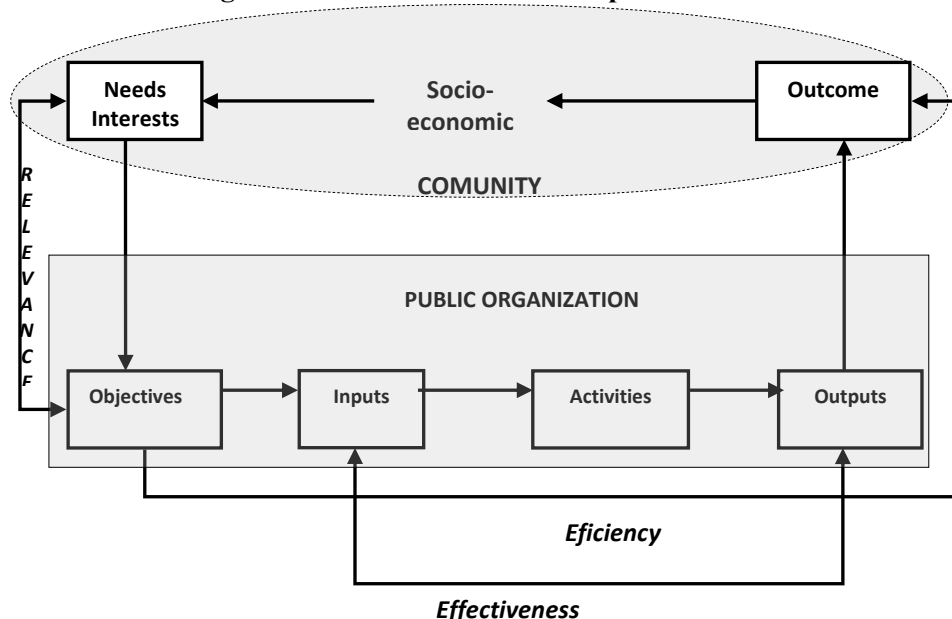
- *Diversity* – a high number of stakeholders with different interests make it difficult to achieve consensus in setting the goal and the objectives of the organization;
- *Interdependence* – between resources, processes and decisions;
- *Instability* – social, economic and technological changes have an important impact on the policies, goals and objectives already established.

The “classical” dimensions of performance have been considered *efficiency, effectiveness and economy*, but recent theories added other E’s to the well-known trio, such as equity, excellence, and ethics. Still, most evaluation frameworks focus on the first three:

- *Efficiency* – the ratio between inputs and outputs;
- *Effectiveness* – the impact achieved (outcome) related to planned objectives;
- *Economy* – minimum resource consumption.

As there are many causal relations between organizational objectives, the needs of the community and the three E’s, the illustration below is useful for understanding the concept of performance.

Figure 1 - Performance – a conceptual model

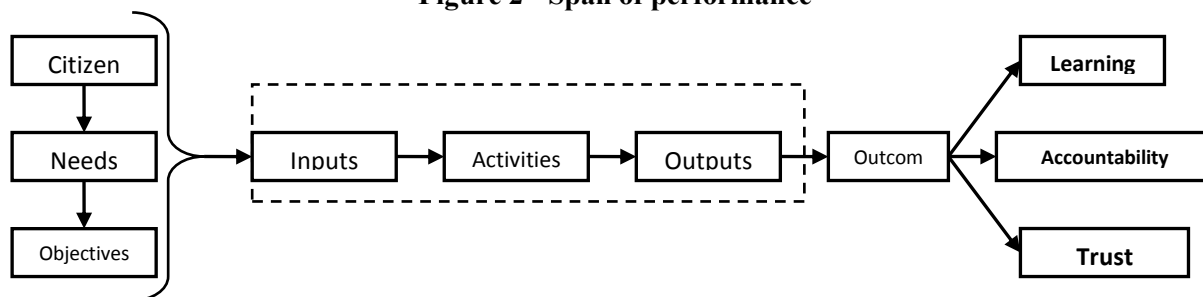


Source: Adapted after Pollit & Bouckaert (2004)

Even in the model suggested by Pollitt & Bouckaert (2004), performance links results to the initial objectives, taking into account *not only what the results are, but also how they are achieved*. Under these considerations, Brumbach (1988) defines the concept of performance as both behaviors and results. The behavior of those involved transforms performance into action (Armstrong, 2006).

In a more recent book, Bouckaert and this time Halligan (2008) add new considerations on the concept of performance. They identify two facets of performance: the *span of performance* and the *depth of performance*. The *span of performance* is actually illustrated in the 2004 model above, as it comprises of relations between input, activity, output and effects/outcome and an additional element – trust. The widest span of performance should emphasize on generating positive feedback form the stakeholders, as synthetically shown below.

Figure 2 - Span of performance



Source: Bouckaert & Halligan, 2008.

On the other side, the *depth of performance* is based on the distinction of three levels of performance:

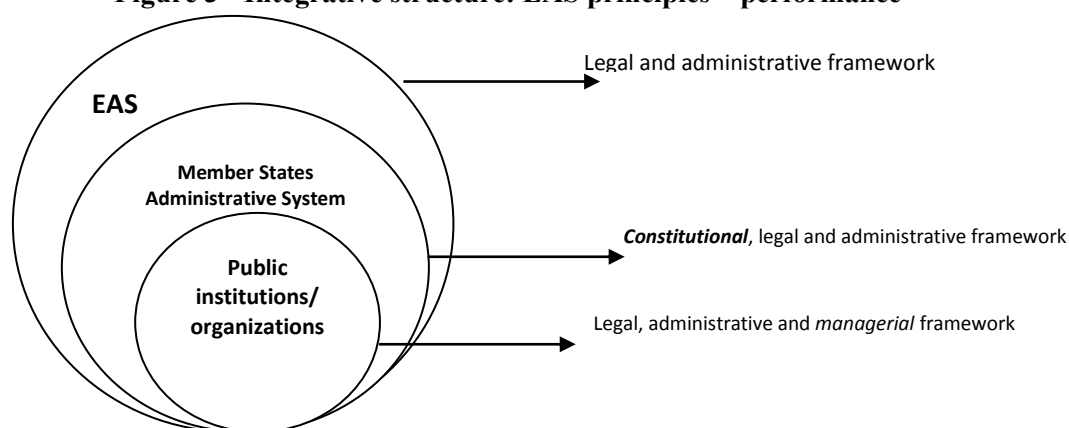
- Micro performance refers to the individual public sector organization;
- Meso performance to a policy;
- Macro performance to the government or governance as a whole (Bouckaert & Halligan, 2008).

Performance has a somewhat elusive conceptual content; it is not easy to find a general accepted definition. From the above model and mentioned authors we can only try to identify its main dimensions. We have already identified the classic 3 E's and the logical chain input-activity-output-outcome.

3. ADMINISTRATIVE CONVERGENCE THROUGH PERFORMANCE

In order to integrate both the principles of the European Administrative Space and the managerial approach based on performance of public organizations, we suggest the following structure.

Figure 3 - Integrative structure: EAS principles – performance



Source: Author's own design

The design above identifies a pattern that explains the causal relations between the three main components: the European Administrative Space, the administrative systems of each Member State (specifically defined by national constitution) and the individual public organizations (including a strong managerial dimension). At micro – level, in public institution, the replication of EAS principles is possible through organizational performance.

Summermatter and Siegel, in 2009, have conducted a very helpful research, based on papers, selected from 14 academic journals and dealing explicitly with theoretical or empirical aspects of performance management or measurement in the public sector. They analyzed the content of the papers and searched for definitions or statements about the concept of performance. They classified the terms and concepts they had found in the categories from the table below:

Table 1 - Terms and concepts of performance dimensions

Dimension	Subsumed terms and concepts
Input	costs, budgets, expenses, revenue, expenditure, economy, resources
Throughput	process, production process, organizational processes, activities, capacities, operations, volume of work, workload, levels of activity or of proficiency, operating characteristics
Output	end results of the production process; quantity and quality of outputs, services
Outcome	effects, results, impacts, benefits, public value, accomplishments, consequences
Efficiency	relation of "efforts to outputs", the "ratio of output to input", technical efficiency, "cost per unit of output", relative efficiency
Effectiveness	"how well services or programs meet their objectives", "a measure of outcome, illustrating the result or impact of a service", "the extent to which customer requirements are met, "cost-outcome measures"
Additional types of ratios	Productivity, "value for money", cost effectiveness, return on investment, "return on taxpayer money", unit or per capita costs
Quality	Quality of staff activity, services or outputs, "extent to which the nature of the output and its delivery meet requirements or are suitable to their purpose", "conformance, reliability, on-time delivery".
Requirements	Targets, goals, objectives, standards, timeliness, pledges, benchmarks
Stakeholder-	"consumer's evaluation of various features or facets of the product or service, based on

related aspects	a re-cent consumption experience”, satisfaction, trust of actors and stakeholders, customer satisfaction
Value and ethical aspects	–equity, transparency, or other democratic values”, equity, –equitable distribution of benefits”, fairness

Source: Summermatter and Siegel, 2009

The dimensions identified by Summermatter and Siegel (2009) prove there is no explicit or implicit consensus about performance of public institutions and the authors also refer to Brewer and Selden (2000) which considered performance as a phenomenon that is subjective, complex and particularly hard to measure in the public sector. But each European Administrative Space principle has one ore more corresponding dimensions of performance at organizational level: *efficiency effectiveness, openness and transparency* as value and ethical aspects, *accountability* as requirements and stakeholder-related aspects.

CONCLUSIONS

The European Administrative Space is a complex, multidimensional concept and it promotes intensive cooperation between administrative actors and activities from each level. The EAS is not a new administrative tier, it is comprised of administrative systems and institutions that cooperate and adhere to the same administrative values.

The four categories of principles define the identity of European Administrative Space, as an informal entity based on a legal and administrative framework.

On the other hand, the EAS principles set the strategic direction for each public organization (at micro level). As any other organization, with formal and clearly defined attributions and activities, public institutions have a clear and necessary approach. The particularity of this approach in public administration is that it integrates the general EAS principles and concentrates them in the concept of performance.

Performance in public administration is in fact European Administrative Space principles put to work.

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THE ECONOMIC TRANSITION OF ROMANIA FROM A BEHAVIOURAL ECONOMICS PERSPECTIVE

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Abstract: *The aim of this article is to briefly analyze the economic transition of Romania from a behavioural economics perspective. Despite the adverse effects experienced in the past regime, the paper finds out that the suitable macroeconomic policies implemented had fundamental effects, generating economic welfare and higher standards of living, life satisfaction, and happiness / subjective well-being.*

Keywords: behavioural economics, economic transition, macroeconomic policies

JEL Classification: D03, O11, P20

INTRODUCTION

The problem of economic behaviour has preoccupied economist since the establishment of economics as a science. Even the first modern economist and philosopher, Adam Smith, wrote extensively on psychological and social dimensions of human action and economic behaviour. The later developments of economics, beginning with neoclassical theory, gave further stimulus to the use of mathematics, mostly in problems regarding the economic optimality. In this direction, William Stanley Jevons, stated: “It is clear that Economics, if it is to be a science at all, must be a mathematical science” (1888, p. 29). Since then, economic analysis tended to neglect the results of other social sciences. However, over time, a number of notable economists, like John Maynard Keynes, Friedrich von Hayek, or Herbert Simon used results from psychology, sociology, biology or philosophy, in their attempt to explain the economic behaviours and phenomena.

In the last decades the world economy and the status of economics as a social science were seriously endeavoured by the negative effects of some realities, such as the financial crisis or the command economic systems. That is why some theorists attempted to overcome the limits of mathematical modelling with the help of instruments from other social sciences, in order to improve the theory, to develop better policies, and to generate more suitable predictions. In these conditions, the new discipline of behavioural economics has drawn the attention by its attempt to “increase the explanatory power of economic theory by providing it with more realistic psychological foundations” (Camerer and Lowenstein, 2004, p. 3).

After the collapse of communism, great attention has been paid to the process of transition from a centrally planned economy to free market. Despite the adverse effects of the past regimes recent experiences have pointed out that the transition of a nation to capitalism and democracy depends, mostly, on its adherence to liberal policies.

This article will provide a briefly analysis of the context in which a nation can successfully shift from one politico-economic system to another. The discussion focuses on clarifying not only the economic, but also the psychological and sociological conditions for a favourable economic transition and the link between them. More specifically, the paper will analyze the case of Romania.

1. THEORETICAL INSIGHTS FROM THE FIELD OF BEHAVIOURAL ECONOMICS

The technological advances of the last decades, mainly in neuroscience, have made possible a better understanding of the human brain and of the foundations on which certain behaviours arise. In addition, the onset of the actual financial crisis called into question the need of economics to return to “origins”, and admit that, beyond any mathematic and abstract model, economics is a social science.

The discipline of behavioural economics, also named “psychology and economics” (Rabin, 1998), provides a significant upgrade to mainstream neoclassical economics. Behavioural economics was variously defined in the literature as “the combination of psychology and economics that investigates what happens in markets in which some of the agents display human limitations and complications” (Mullainathan and Thaler, 2000, p. 2), or as “a field concerned with the empirical validity of neoclassical assumptions about human behavior, and, where these assumptions are found to be invalid, with describing behaviour more adequately” (Calhoun, 2002, p. 38), etc. This new school of economic thought incorporates knowledge and results especially of psychological studies, but also of other social sciences, like sociology, politics, anthropology, philosophy, or neuroscience into economic theory, in order to provide it more realistic structure.

Reviewing the literature we can conclude that some presumptions of behavioural economics correspond with those of traditional economics, but “others do not, or they do not in some contexts” (Schwartz, 2007, p. 4). On the one hand, mainstream economic studies how to allocate resources efficiently to maximize the welfare, on the other hand, behavioural economics attempts to provide an approach for handling with economic behaviour in the real world, for example the situation when

optimization is not suitable or the cost of the theoretically most advantageous solution would be superior to the obtained profits.

Moreover, neoclassical economic analysis assumes that individuals are self-interested, well-informed, and rational, that they are endowed with sufficient reasoning ability to solve simple problems in the best way possible or look for appropriate help in resolving more complex ones (when the benefits for doing so seem to be larger than the costs) (Schwartz, 2007, pp. 1-5). On the opposite side, behavioural economics was developed around the concepts of *irrationality*, in human population in general and in markets in particular (Berg, 2010, p. 869), synonymous with bounded or limited rationality (Simon, 1955) and *procedural rationality* (Kahneman and Tversky, 1979). Nowadays, in the Digital Age, when information, knowledge and situation change very quickly and world's economies are interconnected more than ever before, the emerging field of behavioural economics take into account the fluctuations in human rationality, whether disturbed by emotions, key informational gaps or the inability of people to make economic calculations mentally. Furthermore, behavioural economics focuses on inter-temporal choice that describes what people do when they make choices with future consequences; enrich the model of the utility function by including into analysis the role of fairness, altruism and other non-egoistic behaviours, together with social preferences, justice, and happiness (Schwartz, 2007; Maky, 2001).

According to psychologists, people are different (disproportionately) influenced by the fear of failure and regret and will often give up to certain benefits just to avoid even a little risk to feel that they have failed. Furthermore, people are often influenced by outside suggestions, are guided by stereotypes or mental emotional filters, and make decisions based on approximate rules of thumb and not strict logic (Ariely, 2008). Hence, this new discipline of economics, tries to improve the theory by providing a better understanding of the realities in which economics agents behave, in order to ensure, in the last instance, a high standard of living for all citizens.

Although, most behavioural economics have focused on microeconomic analyses, some deal with macroeconomic analysis (Schwartz, 2007, p. 5), which are relevant to the applied analysis of transition economies, as, for example, the function of consumption or investment can be influenced by the role of motivation and preferences, emotion and beliefs, cognitive anomalies, standards, norms, and time.

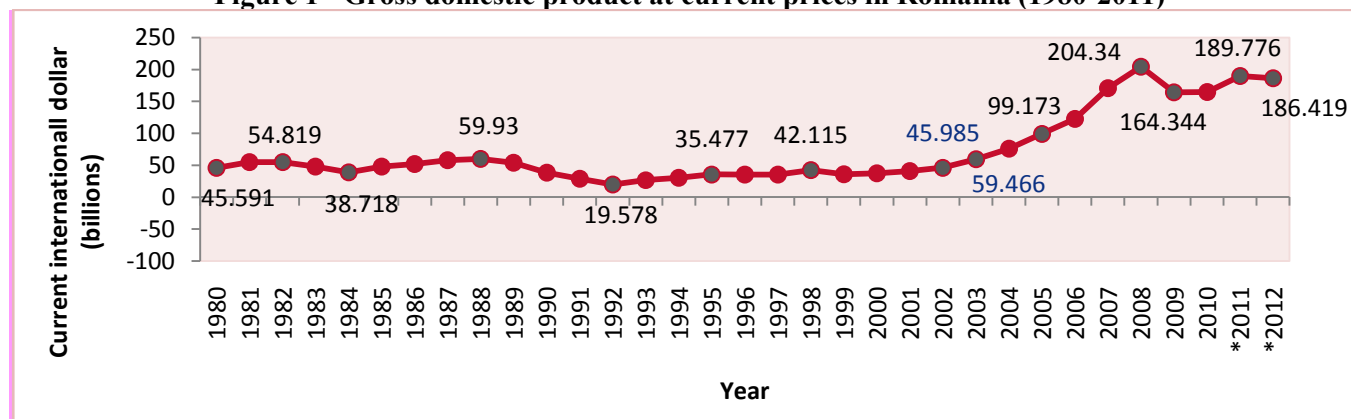
2. EVIDENCES OF THE ECONOMIC TRANSITION IN ROMANIA

In 1989, communism crashed and Romania together with other countries from Central and Eastern Europe started a challenging experience - the transition to a free-market economy.

To determine, even theoretically, the point in time when the economic transition ends, there are some procedures, like the political approach, the economic approach, the management approach, and the econo-statistics approach. According to the economic approach, the transition process gets to its end when the country's yearly **Gross Domestic Product** equals the highest point acquired in the period before transition (Scarlat and Scarlat, 2007, pp. 319-320). The Romanian economy has reached this value, according to the International Monetary Fund statistics, in 2004, at current prices, in USD, as it can be observed in the *figure 1*.

Since 1989, when the transition process started, Romanian economy experienced a decade of economic instability and decline, reflected in low values of GDP from \$ 19.578 billion in 1992 (the minimum level of this period) to \$ 42.115 billion in 1998 (the maximum level of this period). However, from 2000 onwards, the country has experienced macroeconomic stability, and has known until the crisis, a strong growth. Thus, after in 2004 the Romania's GDP at current prices reached the pre-transition maximum level of 59.466 USD billions, it followed an upward trend until 2008, when it was recorded the 204.34 USD billions historical maximum. The global economic crisis has affected Romania's economy since 2009 when the GDP's value at current prices diminished to 164.344 USD billions. Romania's economy returned to the growth in 2011 and, according to the IMF statistics, the latest projections estimate a value of GDP at current prices around 186.419 USD billions in 2012.

Figure 1 - Gross domestic product at current prices in Romania (1980-2011)



Note: * estimates data

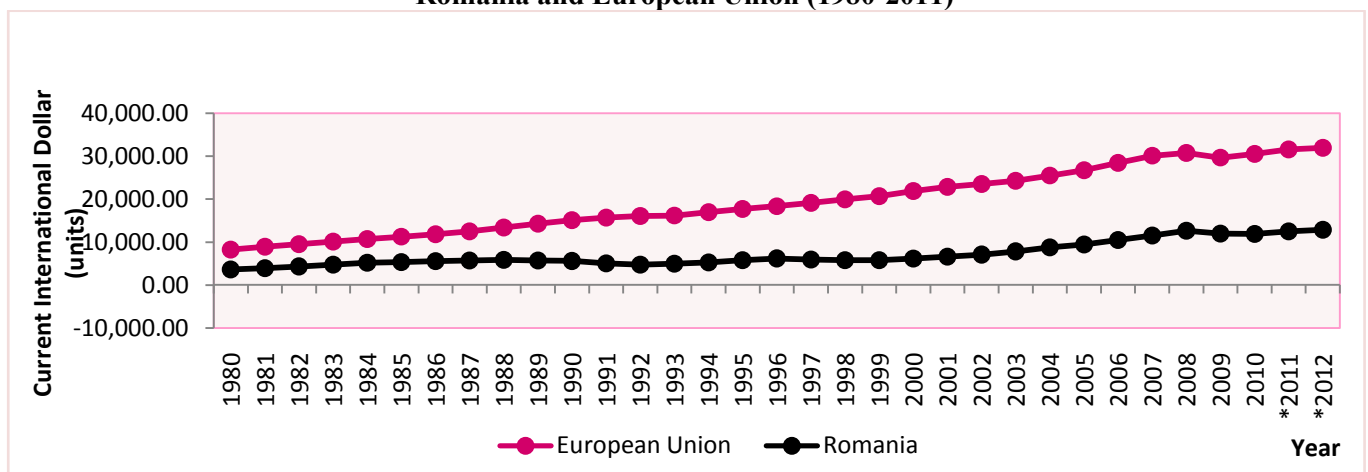
Source: processed by data from International Monetary Fund, *World Economic Outlook Databases April 2012*, <http://www.imf.org/external/pubs/ft/weo/2012/01/weodata/index.aspx>.

Romania's prudent macroeconomic management and the EU ascension from 2007 have enabled it to record a fast and stable growth. Furthermore, the entry in EU and the pre-adherence process helped Romania to change its customs, traditions and even mentalities, not only by providing the physical access to the European free market, but also by providing a conceptual model of high economic and social standards, norms, and behaviour.

A more relevant indicator for a country's economy is **Gross Domestic Product per capita**, which is often considered an indicator of a country's standard of living. As shown in *figure 2*, from an economic point of view, in present, Romania is still in a disadvantageous position if compared with the European countries. For example, compared to the EU 9 average of 1980 (when Romania was a communist country), Romania's GDP per capita calculated by the purchasing power parity (PPP) was 2.25 times lower (\$ 3 633.40 compared to \$ 8 200.14).

In the period of economic transition the gap has widened, Romania's GDP per capita was being 2.69 times lower than the one of EU 12 in 1990 (\$ 5602.94 compared to \$ 15 068.92). However, from 2000 onwards, the country's GDP has experienced significant increases: Romania's GDP per capita was 3.57 times lower than the one of EU 15 in 2000 (\$ 6130.24 compared to \$ 21 903.22); four years later, in 2004, Romania's GDP per capita was 2.9 times lower compared to the one of EU 25 (\$ 8769.015 compared to \$ 25 495.976); and in 2007, Romania's GDP per capita compared to the EU 27 average was 2.62 times lower (\$ 11 494.495 compared to \$ 30 123.605).

Figure 2 - Gross domestic product based on purchasing-power-parity (PPP) per capita in Romania and European Union (1980-2011)



Note: * estimates data

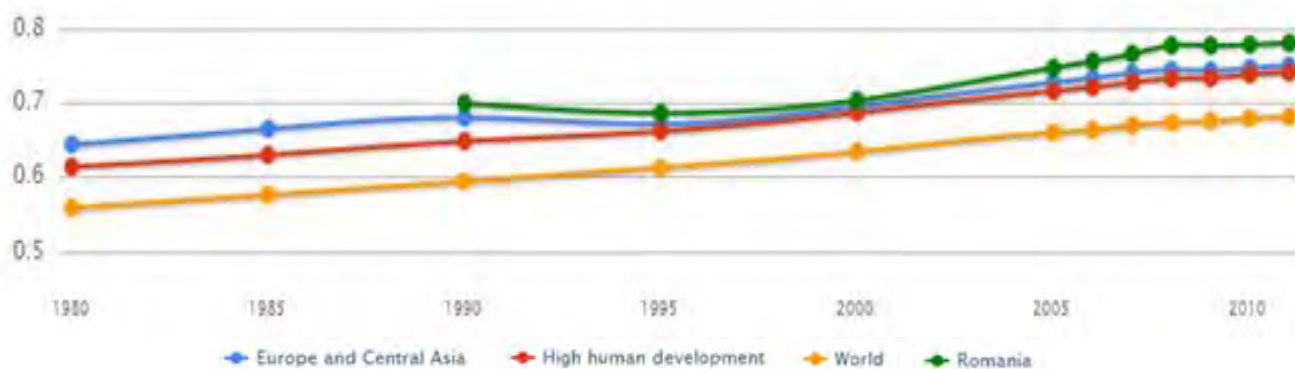
Source: processed by data from International Monetary Fund, *World Economic Outlook Databases April 2012*, <http://www.imf.org/external/pubs/ft/weo/2012/01/weodata/index.aspx>.

The global economic crisis affected both economies. In 2009 Romania's GDP per capita was 2.48 times lower than the one of the EU 27 average (\$ 11 944.967 compared to \$ 29 678.092). In 2011, the difference between living standards of Romania and the one of the EU average have amplified, EU's standard being 2.53 higher than the ones of Romania (\$ 31 607.394 to \$ 12 476.463).

Another appropriate indicator, introduced as a substitute to traditional instruments (such as level of income or economic growth) used to measure the development of a country or territory is **The Human Development Index** (HDI), published in the Human Development Report since 1990. The HDI represents an extension to the ample definition of well-being and furnishes a composite measure of three fundamental dimensions of human development: health, education and income (Human Development Report 2011, p. 13).

In 2011, the HDI value for Romania was 0.781, placing the country on 50 out of 187 countries considered, ahead of countries like Bulgaria (55), Russian Federation (66), or Ukraine (76); the first three positions in this classification were occupied by Norway, Australia and Netherlands, and the last ones by Burundi, Niger and Congo. Although, as shown in *figure 4*, a year ago, in the 2010 Human Development Report Romania was ranked 50 out of 169 countries and the HDI value was 0.779, which means that in 2011 it improved with 0.2 percent.

Figure 3 - National Human Development Index trends from 1990 to present for Romania



Source: International Human Development Indicators, *Romania. Country Profile: Human Development Indicators*, <http://hdrstats.undp.org/en/countries/profiles/ROU.html>.

The HDI trends capture aspects regarding countries development at a national (compared with other countries) and regional level (compared with the regions from Europe and Central Asia) and draw attention to any shortcomings in well-being and life chances (International Human Development Indicators). In this direction, as *figure 4* reveals, Romania's HDI value has changed over time from 0.700 in 1990 (the earliest date available) to 0.781 in 2011 (the latest data available),

an increase of 12.0% or, on the average, an annual increase of about 0.5%. The HDI of Europe and Central Asia, as a region, augmented from 0.644 in 1980 to 0.751 in 2011, placing Romania over the regional average.

Table 1 - The HDI trends of Romania

Year	Life expectancy at birth	Expected years of schooling	Means years of schooling	GNI per capita (2005 PPP\$)	HDI value
1980	69.6	12.3	7.9	-	-
1985	69.6	12.3	8.6	-	-
1990	69.4	12.4	9.0	7,803	0.700
1995	69.4	10.9	9.5	7,150	0.687
2000	70.5	12.0	9.9	6,759	0.704
2005	72.4	13.5	10.0	9,270	0.748
2010	73.8	14.9	10.4	10,863	0.779
2011	74.0	14.9	10.4	11,046	0.781

Source: *Romania: Explanatory note on 2011 HDR composite indices*, United Nations Development Programme (UNDP), p. 2, <http://hdrstats.undp.org/images/explanations/ROU.pdf>.

Furthermore, *table 1* analyzes the progress of Romania in each of the HDI basic components: health, education and income. Between 1980 and 2011, Romania's life expectancy at birth increased with 4.4 years from 69.6 to 74, expected years of schooling increased with 2.6 years, from 12.3 to 14.9, and the average years of schooling increased with 2.5 years, from 7.9 to 10.4. The Gross National Income (GNI) per capita increased from 7.803 to 11.046, by about 42.0 per cent, between 1990 and 2011 (*Romania: Explanatory note on 2011 HDR composite indices*, p. 2).

By recognizing the human aspects of economics and, by that, the role of psychology and other social sciences, the new discipline of behavioural economics indirectly arguments that societies should support the well-being and happiness of their citizens. Regarding to this, in the last decade, two composite indexes were developed in order to measure human well-being: the **Satisfaction with Life Index (SWL)** and the **Happy Planet Index (HPI)**.

In 2006, the SWL value for Romania was 173.33 (the maximum of 273.5 was recorded by Denmark and the minimum of 100 by Burundi), placing the country on 136 out of 178 countries considered (White, 2007). In the same year (2006), the HPI value for Romania was 37.72 (the maximum of 68.21 was recorded by Vanuatu and the minimum of 16.64 by Zimbabwe), which gave the country a rank of 120 out of 178 countries considered (*The (Un)Happy Planet Index 1.0*, p. 20), followed by a decrease in absolute terms in 2009 with a 43.9 HPI value (from a 76.1 maximum recorded by Costa Rica and 16.6 minimum recorded by Zimbabwe), which placed it on rank 70 out

of 143 countries considered (The (Un)Happy Planet Index 2.0, p. 61). The HPI, which measures both the human well-being and environmental impact, had in 2012 a value of 42.2 for Romania (relative to a maximum of 64 recorded by Costa Rica and a minimum of 22.6 by Botswana), which ranked the country 75 of 151 countries considered (The Happy Planet Index: 2012 Report, p. 25). Overall, it can be said that Romania is not a very happy country.

Some of the greatest **weaknesses** of the Romanian economy are the high degree of *bureaucracy*, which reminds of the past centralized economy, and *corruption*. The indicators, which have been dealing with this problem, recorded consistently high scores. For example, **Corruption Perceptions Index** in 1998 ranked Romania on 61 place out of 85 countries with a score of 3; in 2000 it ranked it 68 out of 90 countries with a score of 2.9; in 2005 Romania was on 85 out of 158 countries with a score of 3; in 2010 it ranked 69 out of 178 countries with a score of 3.7; and in 2011 it ranked 75 out of 182 countries with a score of 3.6 (Transparency International). Furthermore, in Romania corruption is seen as a matter of state and it occurs significantly in the public domain, most often in the case of politicians and magistrates (Maha and Popescu, 2005, p. 397).

In line with *behavioural economics*, it can be concluded that despite adverse economic effects of customs and traditions "inherited" from the past command regime, the economic transition of Romania, the economic perceptions, incentives, and behaviour have changed in accordance to the principles of free economy.

CONCLUSIONS

Expressly, in a generally permissible environment, Romania's economic transition was not affected excessively by the customs and traditions of the old regime. On the contrary, in Romania the economic and societal standards, norms, perceptions, incentives and behaviours of the market economy have been accepted pretty quickly. In the first decade after the Revolution, from 1990 to 2000, the transition was slower, after 2000 the process experienced an accelerate increase, noticeable in the economic indicators.

In the medium term the essential challenge for Romania is to ensure a stable economic growth, to improve living standards, and to continue its structural reforms and modernization, in order to offer a better life satisfaction and well being to its citizens, in accordance with the principles of free economy.

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THE BRAND NAME'S ROLE IN THE PURCHASE DECISIONS AT THE BEGINNING OF THE XXIST CENTURY. EMPIRICAL EVIDENCES FROM THE NORTH-EASTERN PART OF ROMANIA *

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Abstract: *Considering the great impact of consumers' behavior on the economic activity, in the present paper we intend to identify and analyze the way in which the purchase decisions of the individuals are influenced or not by the products' brand name, taking the particular case of the Romanian consumers' behavior. The exploratory research was conducted using two methods. An analysis of the secondary data offered by the specialized literature was followed by a primary data collection through a structured survey, conducted on 335 people from the North-Eastern part of Romania. The results indicate that most of the respondents are mainly influenced, in their purchase decisions, by the quality of the products and price-quality ratio, the brand being situated only on the third or fourth place. However, the majority of the consumers are buying durable branded goods and, in the case of the non-durable products, they opt for both types (branded or with private label).*

Keywords: brand name, consumers' loyalty, price, quality

JEL classification: D12

INTRODUCTION

The economic activities and phenomenon are largely stimulated by the consumers' options. Their preferences determine not only the emergence of new products and services, improvements of the existing ones, but also the disappearance of some goods from the market. Considering this aspect, we find important to identify what are the consumers' attitudes towards the branded and private label goods.

In the economic literature, the remarks regarding the relationship between the products' brand name and the consumption decisions can be included into a large and various opinions' framework. While some authors argue that the brand plays a more important role in the consumption decision than the price of a product, the label being strongly correlated to a higher quality, others notice that there is a positive relation between the price, the way in which the quality is perceived and the brand loyalty.

Taking in consideration all these aspects, our study tries to identify and analyze, by making reference to the specialized literature, the importance of the brand name for the consumers' purchase

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decisions. In order to achieve this objective, we have paid a particular attention to the way in which consumers are correlating the brand name with the quality of the products.

The paper is structured in two main parts. In the first one, we have underlined some main aspects, identified in the specialized literature, related to the way in which consumers perceive the brand name of the products and its importance for their purchase decisions. In the second part of the paper we have conducted a structured interview on a sample of 335 people from the North-Eastern urban area of Romania, between February and March 2009, in order to see what influence has the brand name, among other products' characteristics, on the purchasing behavior, what types of goods they usually buy (white labels or strong brand names) and if their decisions are correlated with the socio-demographic variables.

1. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Low and Lamb (2000) consider that, in the case of the branded products, a higher price reflects a superior quality, in this way being justified the fact that some consumers are willing to pay a higher price in order to have these goods. Moreover, it was demonstrated that a superior quality of the branded products will make the clients become loyal on long term, no matter what their price is (Jiang, 2004, pp. 150-174). Ruyter, Wetzels and Bloemer (1998) also argued the existence of a positive correlation between the branded goods and the consumers' wish of buying them again, in the future.

Considering the quality offered by the branded goods, Alvarez and Casielles (2005) have analyzed the way in which the price of these goods is perceived to be fair or unfair. When consumers consider that the purchase of these products represents a loss for them, the satisfaction generated by the brand name will diminish and the probability of buying again these goods will reduce. On contrary, as Snoj, Kord and Mumel (2004) also noticed, when the prices of branded products are perceived as fair, they will have a positive impact on customers' loyalty (Snoj, Kord and Mumel, 2004, pp. 156-167). Therefore, we can say that the perception of the price plays an important role not only in generating satisfaction, after buying the goods, but also in making the clients become loyal, fact that will translate into increased sales and increased profits of those companies. As Aaker (2001) considered, the ability of a company to retain and make loyal the customers is the best way of identifying the value of a brand. The loyal customers are very important for a firm because they allow the reduction of the marketing costs. According to some

studies on this topic, attracting new customers is five times more expensive than keeping the existing ones (Rundle-Thiele and Bennett, 2001, pp. 25-37).

Consumer loyalty to a particular brand can take two forms: an attitudinal loyalty and a behavioral one (Quester and Lim, 2003, pp. 22-38). This last one is linked to the consumption behavior of an individual towards a particular brand, taking the form of an explicit desire of acquiring that good. It is significantly influenced by the attitudinal loyalty, which involves a consumers' favorable position towards a certain brand.

Rowley and Dawes (1999) argue that, in order to understand the individuals' loyalty to various brands, one should analyze three aspects of the consumption behavior (Rowley and Dawes, 1999, pp. 345-351):

- The *cognitive element*, which is associated to the rational process of decision taking, based on the existent information;
- The *affective aspect*, correlated to the feelings and emotions particular to a certain product or service;
- The *volitional element*, related to a certain mood of an individual to purchase a product or not.

In the case of the branded products, it is considered that the most important component from those mentioned above is the affective one, since ~~all~~ the companies that have a strong brand seek to develop a relationship with consumers that should be so resonant with their identity that they desire or at least agree to be the slaves masters of the brands" (Klein, 2006, pp. 143-144). It was noticed that, for these big companies, the production of goods is just a secondary part of the operations. These firms are mainly concerned with the design of some strong images of their brands (Ono, 1997). Consequently, for the big companies, what it matters is the significance of their products and therefore ~~the~~ most important advantage of the branding shows up when the companies offer customers not only the possibility to shop, but also to live the real significance of their brands" (Klein, 2006, pp. 143-144). Considering these aspects, the brands' inventors are convinced that ~~the~~ products that will prosper in future will not be those presented as goods, but those presented as concepts" since ~~the~~ brand is an experience, a lifestyle" (Schultz, 1997).

Despite all these, nowadays, the branded products face an increased competition, mainly caused by the emergence of the cheaper private label goods, marketed under the name of the seller. Indeed, several analysts show that, in the last decade, the sales have increased and, accordingly, the market share of low-cost companies that provide products with private labels, both in America and in Europe (Wulf, Odekerken-Schroder, Goedertier and Van Osswsel, 2005, pp. 223-232). The trend

can be explained, on the one hand, through the increase in the share of the price-sensitive consumers (Corstjens and Lal, 2000, pp. 281-291) and, on the other hand, through the fact that it was gradually abandoned the view according to which the price is an indicator of the quality (Steiner, 2004, pp. 105-127). This change took place in the context in which the private labels surpassed the state of cheap goods, with a low quality, by gradually improving their quality and yet, having a competitive price. Thus, they aim achieving a favorable image in the consumers' mind (Veloutsou, Gioulistanis and Moutinho, 2004, pp. 228-241).

Being convinced that the big corporations are selling images and not products with particular characteristics, Klein (2006) argues that „the branding idea will end up in a saturation point”, moment when all that „have been „stamped” by brand [...] will become against not only to these logos, but also to the control that the corporatist power, as a whole, has on [...] our choices” (Klein, 2006, pp. 143-144).

Considering all these opinions mentioned above, the hypotheses for our empirical study are:

H1: The brand name is the most important element, together with the quality, in buying durable products; in the case of the non-durable goods, brand may be the third factor that influences the purchases, after quality and price-quality ratio.

H2: Most of the consumers usually buy branded durable goods; in the case of the non-durable goods they might prefer both private label and also branded products.

2. THE IMPORTANCE OF THE BRAND NAME IN THE ROMANIANS' PURCHASE DECISIONS

2.1 Methodology and sample

The *survey* described in the present study is based on a *questionnaire* with opened and closed questions. Before being applied on the respondents, the questionnaire was pre-tested on a sample of 25 persons. The data were analyzed with the help of SPSS program.

The initial *sample* included 350 people but, after tabulating the data, 15 questionnaires were invalid. Therefore, the sample used in the research included 335 people from urban area, living in one of the six counties of North-Eastern region of Romania: Iasi, Vaslui, Botosani, Suceava, Bacau and Neamt. Data were collected between February and March 2009.

In establishing the sample we have considered only the active population, aged between 18 and 65 years old. The percentage of the persons included in each age group respects the percentages

provided by the 2007 Statistical Yearbook for Moldova region: 31% for the age group 18-29 years, 27% for the category 30-39 years, 19% for those aged between 40 and 49 years, 18% for the category 50-59 years and 6% for those between 60 and 65 years (National Statistics Institute, 2007).

2.2 Results and discussions

A first analysis was focused on identifying what influence has, on the respondents, the brand name, among other products' characteristics, when buying durable and non-durable goods. We observed that, no matter what it was the level of the income, the age, the sex or the profession, the great majority of the respondents considered that the *brand* is less important compared to quality and price-quality ratio, when buying the durable goods being ranked on the third place, and in the case of the non-durable products on the fourth place. For both categories of products it was noticed that individuals consider that the quality, followed on the second place by the relationship between price and quality, is the most important factor in their buying choices. Surprisingly, although the prevalent level of the respondents' income is medium to low, the price, among all the elements that influence their purchase decision, is only on the fourth position in the case of the durable goods and on the third for the non-durable ones. For both types of goods, some of the respondents consider that, among the factors that influence their choices, on the last place can be put some elements such as design, color, reliability, packaging, warranty period or country of origin of the product. Considering these results, we can say that the first hypothesis that we have formulated is rejected: *H1. The brand name is the most important element, together with the quality, in buying durable products; in the case of the non-durable goods, brand may be the third factor that influences the purchases, after quality and price-quality ratio.*

Taking in consideration the responses regarding the importance order of the above mentioned features of the products and the fact that almost 62% of the surveyed persons have a monthly income up to 1500 RON, it is surprisingly the fact that most of the respondents (54.63%) buy mainly durable branded products, 39.7% of the individuals purchase both branded and private label goods and only 5.67% are achieving especially private label products. In the case of the non-durable goods, the situation is not very different: the majority (65.37%) usually buy private label and branded products, 19.10% only branded ones and 15.52% only private label goods. These results confirm our second hypothesis, according to which: *H2. Most of the consumers usually buy branded durable goods; in the case of the non-durable goods they might prefer both private label and also branded products.*

We notice that there is no significant correlation between the types of goods (branded or with private label) purchased by the individuals, in the case of both durable and non-durable ones, and their income, the value of the *p* coefficient, after applying the *chi square test*, being $p=0.06$ in the case of durable goods and $p=0.79$ for the non-durable ones (so greater than 0.05). These results suggest that most of the individuals, from each income category, buy durable and non-durable goods either branded or both types (branded or with white label).

We do notice the existence of some significant correlations between the importance given by consumers to the products' characteristics - brand, price, quality, price-quality ratio and other aspects - and the effective purchases of durable and non-durable goods. Most of the people (more than 50%) who consider the brand or the quality very important aspects in the case of the durable goods buy branded products. In the case of non-durable products, when quality is the main reason for choosing a product, consumers usually buy not only branded products but also private label ones; if the brand mainly influences the purchase, than the individuals are more tempted to acquire branded non-durable products. On contrary those for which the price is the most relevant indicator buy mainly private label durable and non-durable goods.

Table 1 – Consumers' options, on age groups, for the durable goods

Durable goods (D.G.) Prevail:		Age					Total
		18-29	30-39	40-49	50-59	60-65	
Branded ones	Count	57	49	37	30	10	183
	% within D.G.Prevails	31,1%	26,8%	20,2%	16,4%	5,5%	100%
	% within Age	54,8%	53,8%	56,1%	53,6%	55,6%	54,6%
	% of Total	17,0%	14,6%	11,0%	9,0%	3,0%	54,6%
Private label ones	Count	4	3	6	4	2	19
	% within D.G.Prevails	21,1%	15,8%	31,6%	21,1%	10,5%	100%
	% within Age	3,8%	3,3%	9,1%	7,1%	11,1%	5,7%
	% of Total	1,2%	,9%	1,8%	1,2%	,6%	5,7%
Both types	Count	43	39	23	22	6	133
	% within D.G.Prevails	32,3%	29,3%	17,3%	16,5%	4,5%	100%
	% within Age	41,3%	42,9%	34,8%	39,3%	33,3%	39,7%
	% of Total	12,8%	11,6%	6,9%	6,6%	1,8%	39,7%
Total	Count	104	91	66	56	18	335
	% within D.G.Prevails	31,0%	27,2%	19,7%	16,7%	5,4%	100%
	% within Age	100%	100%	100%	100%	100%	100%
	% of Total	31,0%	27,2%	19,7%	16,7%	5,4%	100%

Table 2 – Consumers’ options, on age groups, for the non- durable goods

Non-durable goods (N-D.G.) Prevail:		Age					Total
		18-29		18-29		18-29	
Branded ones	Count	20	17	13	12	2	64
	% within N-D.G. Prevails	31,3%	26,6%	20,3%	18,8%	3,1%	100%
	% within Age	19,2%	18,7%	19,7%	21,4%	11,1%	19,1%
	% of Total	6,0%	5,1%	3,9%	3,6%	,6%	19,1%
Private label ones	Count	15	6	16	13	2	52
	% within N-D.G. Prevails	28,8%	11,5%	30,8%	25,0%	3,8%	100%
	% within Age	14,4%	6,6%	24,2%	23,2%	11,1%	15,5%
	% of Total	4,5%	1,8%	4,8%	3,9%	,6%	15,5%
Both types	Count	69	68	37	31	14	219
	% within N-D.G. Prevails	31,5%	31,1%	16,9%	14,2%	6,4%	100%
	% within Age	66,3%	74,7%	56,1%	55,4%	77,8%	65,4%
	% of Total	20,6%	20,3%	11,0%	9,3%	4,2%	65,4%
Total	Count	104	91	66	56	18	335
	% within N-D.G. Prevails	31,0%	27,2%	19,7%	16,7%	5,4%	100%
	% within Age	100%	100%	100%	100%	100%	100%
	% of Total	31,0%	27,2%	19,7%	16,7%	5,4%	100%

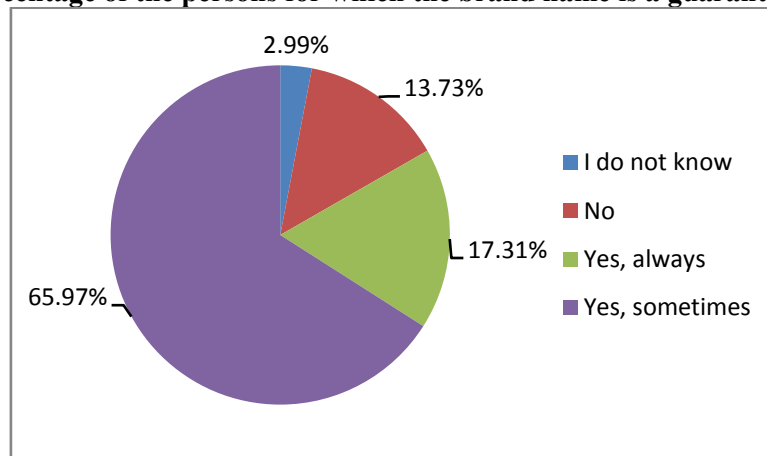
Analyzing the purchases of the durable and non-durable goods, according to the age categories of the respondents, we notice that in the case of the first ones, most of the people (over 50%) prefer, regardless of the age, the branded products (see Table 1). In the case of the non-durable goods, more than half of those included in each age group opted for both branded and white label products (see Table 2).

The analysis of the individuals’ purchase options of durable and non-durable goods, according to the gender of the consumers, shows that both men and women have a similar behavior. If in the case of the durable goods the branded products prevail for both men and women – the percentages being of 54.2% and, respectively, 54.8% -, when buying non-durable goods the consumers opt for both types (branded and white label) – 63.6% of men and 66.2% of women.

Another aspect that we were interested in was to see if the respondents usually correlate the brand name with the quality of the products. The results indicate that a relatively high percentage of the people (17.31%) proved to be confident that the brand is always a guarantee for the quality of a good. However, most of them (65.97%) were reserved, arguing that only in some cases the acquisition of the branded products proved to be a good choice in terms of their quality (see figure 1).

The correlation qui square test shows the fact that the level of the income does not influence the individuals' perception regarding the link between brand name and the quality of the products (the value of the p coefficient is greater than 0.05). An analysis conducted on incomes categories underlines the fact that, no matter what are the financial resources of the respondents, most of them (over 57% of each income category) consider that a branded product has sometimes a superior quality. However, a significant part of the individuals that disagree with this statement (67.4%) have a monthly income level under 1500 RON.

Figure 1 – Percentage of the persons for which the brand name is a guarantee of the quality



A final relevant analysis for our study was focused on determining if there is a correlation between the brand loyalty and the level of the income of the respondents. We found out that almost all the respondents with the income level superior to 2500 RON per month argued that, in the case of the durable goods, they are loyal to some particular brands. Moreover, we have to add that most of these individuals declared that they usually buy only durable branded goods. On contrary, it was found that, in general, those with a monthly income level under 900 RON are not loyal to any particular brand, not even in the case of the durable goods.

CONCLUSIONS

The results obtained in the present study made us reject the first hypothesis we have formulated and accept only the second one. Thus, we may say that most of our respondents consider that brand is not among the first two elements that influence their purchase decisions, neither for durable or non-durable products, the main two characteristics that matters for them being the quality

of the goods and the price-quality ratio. The brand occupies only a third position in the case of the durable products and the fourth one, after price, for the non-durable goods.

However, most of the respondents are more tempted to buy branded durable products. In the case of the non-durable goods, the majority of the individuals usually acquire both branded and private label products. Surprisingly, it proved to be no significant correlation between the level of the monthly salary and the respondents' purchases, most of the people, from each income category, buying both branded and private label products. Yet, there is a correlation between the most important products' characteristics, mentioned by those surveyed, and their purchases: for both durable and non-durable goods, the individuals that consider the brand one of the most important factor that influence their acquisitions buy especially branded products.

The age and the gender of the individuals do not seem to have a very significant influence on their purchase decisions: most of the people from each age category are buying durable branded products and, in the case of the non-durable ones, they opt for both types of goods, branded and with private label.

The fact that most of the respondents said that only sometimes the brand is a guarantee for the quality can explain why only those with an income level superior to 2500 RON per month argued that, in the case of the durable goods, they are loyal to some particular brands.

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A CONCEPTUAL APPROACH TO ECONOMIC AGGLOMERATIONS*

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Abstract: *Technological progress and rapid structural adjustments have characterized a lot of economies in the last century and they still feature pronounced structures. An important observation is that economic activities tend to agglomerate in space as a result of some kind increasing returns, forming eventually economic agglomerations. When various companies gather together, they establish specific forms of interaction. Increasing returns produce when this mutual interplay creates positive externalities for those firms which operate into an agglomeration. In this context, it is crucial to raise a question: what is an economic agglomeration and what do different scientists imply when using the concept? The phenomenon of agglomeration has attracted researchers from various disciplines employing a hybrid set of analytical perspectives. This whole framework is still puzzled with contradictory conceptualizations which are often used in an ambiguous way. Scientists tend to utilize notions such as agglomeration, cluster, territorial network, specialization, concentration somewhat interchangeably and with little concern about how to operationalize them. To shed a light on this issue, the aim of this paper is to provide a comprehensive analyze of different theoretical framework in which economic agglomerations have been debated and researched.*

Keywords: economic agglomeration, cluster, territorial network, specialization, concentration
JEL Classification: R10, R11

INTRODUCTION

Looking at a global map that shows the spatial distribution of economic activities, it becomes quite obvious that there is a strong tendency for industries to agglomerate in certain regions in order to benefit of agglomeration economies. In this way, an increasing number of countries (e.g. USA, UK, and Germany) commenced to promote this idea of supporting the development of economic agglomerations with the purpose of improving the economic performance of those regions where these concentrations are formed. The success of industrial agglomerations depends to a great extent on positive feedbacks, that is, from increasing returns to economic activity agglomeration. These specific forms of increasing returns take place from the fruitful interaction of a large number of economic actors gathered together – firms, input providers, and skilled workers and so on – and also from the complex mechanism of interrelations that results from the mutual causality between diverse variables.

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With this background an eminent question arises: What does an economic agglomeration represent and what do various scholars truly mean when using this term? In order to be absolutely fair, we have to recognize that world-class analysts proved to be unable in coming up with a single definition for this intricate notion, the overall framework remaining somehow diffuse. By reviewing an important number of contributions to the study of agglomeration, a broad description of the concept, including the associated terms, will be provided in order to offer a more profound understanding of the issue. In this sense, we have structured our paper as follows. Section 2 is dedicated to a brief presentation of existing approaches dealing with the grouping of industrial activities in space, focusing on the origin and emergence of agglomerations. Also, we explain the concepts of agglomeration, cluster and territorial network by emphasizing their basic definitions and the differences and common features which characterize them. Section 3 provides a theoretical clarification concerning the distinction among three similar notions: agglomeration, specialization and concentration which are often used in a close direction. Finally Section 4 reports some concluding remarks in relation to all these interrelated notions, highlighting their potential complementarity.

1. SPATIAL PROXIMITY AND COOPERATION: AGGLOMERATION, CLUSTER AND TERRITORIAL NETWORK

Fundamentally, there are three interrelated concepts concerning the process of concentrating economic activities in various areas, namely, *agglomeration*, *cluster* and *territorial network*. Although, formally, the three terms may be in a synonymy relation, in reality, these concepts involve different characteristics.

The original contribution regarding the phenomenon of agglomeration of industrial activities in space was first attributed to Alfred Marshall who explained this mechanism in the late 19th century under the heading of “industrial districts” and with reference to so-called Marshallian externalities (Marshall, 1890). The British author has brought forward his observations of patterns of economic activities in the industrial region of England, identifying several reasons why groups of firms in a market economy, located close to one another, are more productive than if they operated separately. Thus, Marshall describes three essential sources of collective efficiency, starting from the fact that firms can specialize more finely in intermediate stages of production as agglomeration can occur due to an increased demand resulting from local companies. More than that, the existence of numerous similar firms may encourage the concentration of supplies of skilled labour in the same

location. Furthermore, information on modern technologies and methods can be shared in informal meetings among employees of different companies. This entire framework established a strong connection between co-location by firms and economic efficiency as companies would agglomerate in order to benefit from positive externalities associated with their co-activities (Andersson et al, 2004).

Subsequently, the new economic geography concept or agglomeration economies attributed to Paul Krugman (1991), with reference to Marshall externalities (1890), identifies three principal agglomeration economies:

- ❖ Existence of labor pool;
- ❖ Existence of suppliers;
- ❖ Knowledge spillovers.

Agglomeration economies are supposed to appear when these types of linkages either reduce the costs or increase the revenues (or both) of the companies taking part in the local exchange. Presence in an economic agglomeration is, in other words, believed to improve performance by lowering the costs of transactions for both tangibles and intangibles. Companies using the benefits of geographical proximity in such a case also provided a basis for cluster formation at later stages. In this way, clusters are also perceived as a mature type of economic agglomeration whereas the fine link between agglomerations and clusters can be observed in the below table:

Table 1 – Types of economic agglomerations

	Economic activity in general	Related industries
Efficiency and flexibility	Metropolises	Industrial districts
Innovation and upgrading	Creative regions	<u>Clusters</u>

Source: Malmberg, A., Solvell, O., Zander I. (1996) *Spatial Clustering, Local Accumulation of Knowledge and Firm Competitiveness*, Geogr. Ann., Series B, Vol. 78B, No. 2.

Explaining the concept of cluster can therefore be provided through the phenomenon of agglomeration by encasing it in a matrix formed of two quadrants: agglomeration forces acting on a general level or in companies and related industries on the one hand and forces enable improved efficiency and flexibility or improvements and innovations, on the other hand.

Moreover, economists often tend to utilise agglomeration and clustering synonymously, defining agglomerations and clusters in a specific manner: they represent geographical and sectoral concentrations of enterprises and firms. Hence, by this definition a region shows agglomeration when it specialises in a certain industrial sector compared to other regions in the economy. This particular definition has been frequently used in empirical descriptions of regional specialisation

(Huggins, 2000; Begg, 1991) and also by economic theorists explaining agglomeration (Arthur, 1994; Krugman, 1991).

However, there were specialists who have made a clear distinction between the two concepts, focusing their attention in particular to the unique characteristics of clusters: the synergies created by companies that maintain mutual cooperation ties which finally become more innovative clusters (Porter, 1990). Therefore, the literature has focused more on the mechanisms leading to the establishment of interconnections between various actors that belong to a cluster.

Taking into account the issues raised above, it should be noted that the difference between agglomeration and cluster is that the first term refers to the concentration of industries in a particular geographic area, emphasizing the idea of regional distribution industry, describing also the conditions influencing spatial distribution industries in the territory. On the other hand, the notion of cluster emphasizes the importance of geographical concentration of companies and various organizations, but that form and function as a unified organism. In this framework, the *cluster* can be viewed as a specific phenomenon of industrial agglomeration, while *agglomeration* represents the primary base for the development of a cluster.

Furthermore, it should be noted that the term of *cluster* became visible with the appearance of Michael Porter's work, where the author defines clusters as geographic concentrations of interconnected companies, specialized suppliers, service providers, and companies in related industries and associated institutions in certain areas that compete but also cooperate (Porter, 1990). Inside clusters one can find governmental or educational institutions, professional consulting providers, and employers who provide specialized training, research and technical support (Porter, 1999). From these definitions it is clear that the attention must focus primarily on exchange relations that occur within the cluster, which play a critical role in the process of innovation and improve the competitive advantage of companies. Hence, to achieve a multilateral connection between all the members of a cluster it is necessary to create a network mechanism. Thus, the concept of cluster determines a new analysis implying spatially concentrated firms, drawing our attention to a new concept called *territorial network* (Sprenger, 2001).

Networks are defined in many ways, especially at the present moment, when everything is part of a network. However, the concept is vague and needs clarification because similar to agglomeration or cluster notions, also in the case of territorial network everything consists in relationships, contacts, connections, associations or partnerships. As a general definition, the network describes a mechanism where several actors or groups of actors work together for a common goal, on the basis of a shared vision. In the literature, this specific term defines the

collaborative relationships among local firms, banks, institutes of higher education and research, consultancy centers, chambers of commerce, associations of producers, local government and other social groups concerned (Maillat, 1990; Cappellini, 2002; Sprenger, 2001). Relationships within a network develop over time, but once formed tend to be characterized by a high degree of interdependence, communication, reciprocity and trust. Moreover, connections between network actors can result and be constructed on formal agreements, but these ties are especially based on partnership and the belief that everyone involved can have benefits. It is considered that the links between members of a network reflects not only market relations and social and cultural context, but mostly social rules, cultural norms, customs manifests through which connections between organizations may improve the efficiency of spatial interactions (Fisher, 2006).

Considering these, we can observe that the defining concepts of grouping economic activities is shrouded in a veil of confusion, the operationalization of the three concepts of agglomeration, cluster, respectively territorial network, being realized in an ambiguous way by economic scientists. Although, we admit that formally these notions may have a similar meaning, each requires its own logic with distinct characteristics, which is observable in the table below:

Table 2 – Agglomerations vs. Clusters vs. Territorial network

<i>Agglomeration</i>	<i>Clusters</i>	<i>Territorial network</i>
Geographic concentration of firms from similar industries or not	Geographical concentration of firms in related industries or not, government bodies, educational institutions, specialized suppliers, service providers etc.	Geographical concentration of firms, banks, institutes of higher education and research, chambers of commerce, associations of producers, local government etc.
Economies of scale and scope	Positive externalities	Benefits for all the participants
Interrelations among firms from similar industries or not	Development of synergies	Social and reliable relations
Purpose: collective efficiency	Purpose: innovation	Purpose: improve the efficiency of spatial interactions

Source: Compiled by author

2. AGGLOMERATION, SPECIALIZATION AND CONCENTRATION

From another perspective, the term of agglomeration is often used interchangeably with the concept of specialization or concentration. Apparently, specialization and concentration are treated as connected processes and even identical. If at the theoretical level their connection depends on various theories and qualitative arguments which we take into account, at the empirical level the analysis of the diverse economic activities utilise the same data for the specialization and the concentration. Most of the empirical studies treat both processes as parallels, so that the dynamics

of the specialization is always accompanied with the same dynamics of the concentration. Still, it is necessary to make the difference between all these similar notions. There are always ambiguities arising from the fact that the sectorial concentration is almost synonymous with the specialization.

However, certain economists suggest that specialization and agglomeration involve both mobile and immobile factors (Brulhart, 1998). For this reason, major industrial composition refers to a region in which industrial activities are agglomerated compared to other regions (involving a relative rather than absolute measure of agglomeration). On the other hand, pure agglomeration normally refers to the spatial concentration of economic activities in a well defined location, while concentration describes the spatial distribution of specific industries.

For other scholars (Hallet, 2000), the concentration and the agglomeration are very different from the specialization. The specialization compares if the weight of a region in the production of the good is relatively important or not with regard to the weights of the other locations in the same production. For a better understanding we can relate to the case where two regions A and B are not specialized while in another case they are. More, in the second situation the specialization coincides with the concentration because of the equal sizes of both regions. On the other hand, the concentration and the specialization may not coincide.

From this new economic perspective, we can observe that all these three notions are useful, but they must be used properly, especially in empirical analyses.

CONCLUSIONS

In the literature dedicated to the issue of concentrating economic activities in space, there is no single definition for economic agglomerations or related concepts. However, notions such as agglomeration, cluster, territorial network, concentration and specialization are often used to describe the same reality. Although we recognize that, apparently, these notions may have a similar sense, in fact, each of them involves its own structure with different and specific functions. Consequently, it can be concluded that a specific definition of the terms concerning conglomeration of industrial activities is far from being elucidated, the operationalization of these five interrelated concepts being made in a vague manner by economic scientists. As it can be seen from the arguments presented in the previous sections, the concept of agglomeration can be defined in various ways, so it is preferable not to perceive all these interpretations as being totally categorical verdicts, with the essential mention that all these five diverse conceptions complement, rather than exclude each other.

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THE APPROACH OF AN INTELLIGENT SYSTEM FOR STOPPING THE PHENOMENON OF MIGRATION OF YOUNG PEOPLE DURING THE ECONOMIC CRISIS

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Abstract: *This study identifies and proposes the approach of a new intelligent system regarding stopping the phenomenon of migration of young people during the current economic crisis. We investigate the manner in which the labour market and the educational system in Romania can contribute to the option of emigration as the only saving opportunity for more and more young people. The economic crisis influences the social-economic development and has a major impact on the decision of young people to migrate from Romania to those countries that may offer a general framework optimum for their future human and professional development. The objectives refer to the assessment of the tendencies of the migration phenomenon and to the analysis of the impact for the educational system. In the end, possible solutions are searched for the identified problems, with the purpose of drawing attention to the loss of our country, due to the migration of the most important segment of the labour market in Romania: the young people. The inductors of migration among young people are the professional-educational factors motivated by the wish to attend a form of higher education and the aspiration to a profession according to their formation. The impact of this study is produced in practice, through the results and conclusions of the analysis carried out.*

Keywords: migration, brain migration, economic crisis, labour market, unemployment, competences, human development

JEL Classification: F22, I24, J61

INTRODUCTION

The international migration of the human capital increased all over the world. In the member countries of the Organization for Cooperation and Economic Development, the international mobility of the human capital follows the pattern of “brain circulation”, which implies to a great extent immigrants temporarily qualified. In the developing countries, including the ones specific to the area in the South-East of Europe, mobility is, for the most part, in the form of “brain drain”, which is an international transfer of unidirectionally highly educated professionals. This second category of the people educated on a permanent basis is the object of the present study. Starting from the form of migration called brain drain, we gradually reached the form of migration of young men for study, which we generically call “intelligence migration”. The migration of young Romanians is nowadays one of the crisis social solutions for critical life situations with short-term

advantages. The labour market offers ever fewer attractive facilities for the Romanian migrants. Thus, countries such as Italy, Spain, Germany, France, and Greece are facing the phenomenon of both economic and financial crisis. The social-economic effects of migration concern both the environment of departure (the deficit of manpower, the low development degree) and the receiving environment (racial and ethnic conflicts, high unemployment rate, and overpopulation) (Feraru, 2011). The difficulties regarding adaptability of migrants are produced nowadays on the background of the economic crisis, not only “from home”, but especially of the crisis found at the destination. The social establishment is lost, this time. The feeling of return “home” is attenuated by the awareness of the relative economic, financial, social or political crisis from all over the world. The uncertainty given by the loss of the work place from these states, the disappearance of the advantages in the field of free circulation of persons leads to the confusing feeling of postponement of the return “home” of most of the migrants. The offer on the labour market of the countries with a higher development potential is of exploitation of the highly qualified human capital. The young Romanians are an attractive segment for different countries due to the reduced costs of their remuneration as well as to the promises of work places corresponding to their professional training in their origin country. The dramatic side of the phenomenon of migration of young people concerns especially the region from which young men emigrate. For Romania, the losses are materialized through the deficit of young manpower of the key activity fields (healthcare, education, research, services, IT). After 2008, the year of the economic crisis outburst, in Romania the situation of the migration behaviour has been acutely determined in the social system. The reason for the attempt of establishing a pattern of stopping or slowing down the phenomenon of migration of the Romanian young men is that the phenomenon becomes the main cause of the regression and stagnation of Romania. The results of the studies carried out personally or by other researchers in the field, which will be reminded along the study, allow the establishment of a pattern of stopping the phenomenon nationally. The formulas of the pattern have different forms and respond to key questions such as what migration policies can reverse this tendency, what measures can bring back the valuable Romanian young men, how we turn the migration of young Romanian students into an advantage for our country.

1. CONCEPTUAL DELIMITATIONS: BRAIN DRAIN VS. INTELLIGENCE MIGRATION

The terms frequently used, in the international patterns of the global era, are formulas such as “academic mobility”, “skilled migration”, “brain drain” and “brain circulation”. The brain migration has become today a complex problem of significant interest, with an emphasis on the Central and Eastern Europe, while the circumstances of the last decade have propelled a very high number of highly qualified citizens, especially young men from these regions or other remote areas on the labour market/starting from these aspects, from the mutations and implications of the brain drain, the name is justified if we refer to the flow of this category of people from Central and Eastern Europe. The range of perspectives and frameworks in which such phenomena can be contextualized renders analytically the experience of an intellectual game in which each participant is blind-folded and can go down on a different area, nevertheless the precision of the attempt stays relatively in the dark.

The term “brain drain” designates the loss of the manpower, intellectually and technically qualified, through the circulation of manpower to environments geographically, economically or professionally more favourable.

The term “intelligence migration” refers directly to the nature of the study of this research. The subject of the issue is delimited by a general description of the phenomenon in Europe and Romania, by a theoretic and contemporary approach, and by the analysis of a case study achieved in Italy with the young Romanian students studying there*. The study focuses on aspects related to the integration, discrimination, positioning on the labour market of the students studying in Italy after receiving their educational title, and their return to their origin country. We chose highly qualified young men, as they are the sustaining pillars of society. The conclusions of the study show that the massive migration of young men outside the country is influenced both by internal factors and external factors. Internally, most countries in the Central and Eastern Europe are facing the transition processes that affect the governmental form, the organization of the economy and of the society as a whole. Among the emerging markets, the academic environment and the intellectual labour market has become one of the most dynamic ones, offering new stimulants and opportunities

* The study is an integrated part of the case study of the PhD. Thesis *Religion and Migration in Contemporary Romania. Case Study: Romanians Living Italy* achieved between 2010 and 2011 (30 interviews and 60 questionnaires)

for the highly qualified university teaching staff, researchers and professionals to migrate from the sub-financed public universities and research institutes to newly founded private companies.

Another important migration factor of the highly qualified manpower is represented by the individual units of the entrepreneurial spirit, which are drawn by the innovation climate, by the good labour conditions and the high wages paid in the developed countries. Another migration factor of the highly qualified is the situation of the new policies promoted and designed by some of the countries of the Organization for Cooperation and Economic Development in order to draw highly qualified specialists that comply with the requirements from the national market, their needs and the conditions from the labour market in the concerning states. The combined effects of the internal and external factors of the migration of the highly qualified generated a new institutional climate for the brain drain from the countries in the South-Eastern Europe, which have to be taken into account when the impact of this type of migration is assessed.

Nationally and internationally the brain drain led to changes regarding the economic opportunities, the academic and intellectual preoccupations of the corresponding persons, thus increasing the number of the people participating to the real economy in the destination country, with the risk of depriving part of the higher education and research institutions from the origin country of some of the best qualified persons. The tendency of the brain drain is sustained by a series of factors of the poorest countries from the economic point of view, by the economies of these countries in a transition process as well as by the lack of public inventions in sectors such as development, education and research.

a. Characteristics and consequences of the brain drain

In order to assess the consequences of the brain drain, a clear emphasis on two main characteristics remarkable for South-Eastern Europe is necessary. First of all, we must mention that almost all the countries in the South-Eastern Europe suffer from an acute lack of empiric data regarding the phenomenon of brain drain. The emphasis is too much on general and anecdotic information, rather impressing than informative, based on a clear methodology for the collection and processing of data and information that could allow an objective analysis of the degree of migration of the highly qualified. Secondly, brain drain has been seen for a long time as a game in which the winners are the destination countries, rather than the origin countries. We will see how the latter manage to compensate for the losses generated by the brain drain. Despite all this, it has been demonstrated that in this field, the net separation of the origin countries from the destination

countries, namely of the winners from the losers, is not a safe and efficient perspective. An alternative vision is the emphasis on the positive effects of the brain drain in the origin countries. For instance, it has been demonstrated that to a certain extent migration can encourage the formation and increase of human capital in the origin countries. In addition, migration can also affect positively the economic increase in the origin countries, through remittance factors, social remissions and transfer of quality knowledge acquired by the immigrants who return and apply all these after their return to their origin country. In spite of this, the positive effects of the brain drain are not automatic and compulsory, because, for a small country with a deficit of highly qualified manpower the migration of a significant number of highly qualified persons, the effects are negative. This is the main reason for which the countries affected by the brain drain, such as the countries in South-Eastern Europe, should present and apply clear policies efficiently appropriate for the reverse of these migrations.

b. Causes and consequences of the intelligence migration

The causes and characteristics of the migration of young men are conditioned by the issue of the development of the labour market and by poverty. After 20 years from the decline of the communist regime, the gap of welfare between the east and the west of Europe persists, and the countries from these regions lose more inhabitants every year. Romania is the second poorest countries of the European Country. The average monthly wage is 450 euro. Demographically, the population is decreasing by 12% in a decade, according to the last census from the end of the year 2011. Migration came to be the only strategy adopted by the young. The migration phenomenon is treated from the sociologic perspective, though the real scope of the phenomenon is overlooked by most studies. The young are hindered in their professional accomplishment, which is why they choose easily the emigration variant.

The causes (the lack of professional perspectives, poverty, unemployment, corruption etc.) and the consequences of intelligence migration are presented in what follows through data referring to studies achieved in the field between 2005 and 2011.

3. YOUNG PEOPLE, MIGRATION AND SOCIAL CHANGE IN ROMANIA

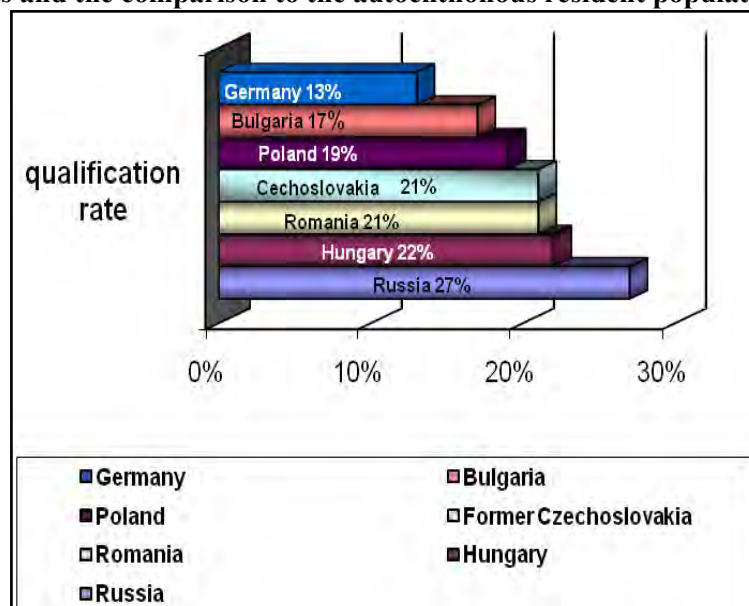
The external migration from Romania is a phenomenon that started after December 1989, and for the past years Romania has become one of the most important origin countries of the East-

European migrants. Most Romanians have already created social networks, which participated in a migratory phenomenon for a short or long period of time. In contemporary Romania, migration is the main process of social change and the Romanian young people take into consideration migration as one of the most important educational, occupational and life strategies. In the countries that received migrants there is an increase in the cultural diversity, challenges in the accommodation, integration and adaptation of migrants in their new host countries. Most Romanians who choose to emigrate are young men with a high degree of education and only a small part come from ethnic minorities. According to the data supplied by Caritas Romania and Caritas Italy, half of the Romanians who emigrate are between 22 and 44 years old, of which three quarters are high school graduates and a quarter are university graduates (Pittau, Ricci and Timșă, 2010, p. 14).

The characteristics of the Romanian emigration include the characteristics of the “brain drain”, thus those of a selected emigration, including mainly highly qualified workers rather than less specialized workers. The flow of professionals and highly qualified workers from the past years has become a notable phenomenon. According to the National Institute of Statistics, the percentage of emigrating university graduates increased from 6% in 1990 to 23% in 2002. According to a study of UNESCO Higher Education Statistics, the number of the Romanian young men studying abroad increased by 56% during the last decade, becoming over 22,000 in 2009. Until the beginning of the global economic crisis, their number increased by 52%. According to the representatives of the educational fair Romanian International University Fair (RIUF) and the years 2010 and 2011 follow the same ascending route regarding the young Romanians’ desire of studying abroad (Murgu, 2011).

In an estimation of the qualification rate of the stock of immigrants, or the proportion of qualified migrants from the total number of migrants and the comparison to the autochthonous resident proportion, the result is a surprisingly significant difference between groups in favour of the Eastern countries: in Germany, the qualification rate is 13%, while in the former U.S.S.R. is doubled to 27%, in Hungary it is 22%, in Romania and the former Czechoslovakia 21%, in Poland 19%, in Bulgaria 17%. It is noticeable that this rate is high in Romania (21%) (Figure 1).

Figure 1 – Qualification rate (or the proportion of qualified migrants in the total number of migrants and the comparison to the autochthonous resident population)



Source: According to the data on <http://www.econtext.ro/eveniment--2/social/numarul-tinerilor-romani-plecati-la-studiu-in-strainatate-a-urcat-cu-52-in-ultimii-zece-ani.html>

What is interesting is the quantification of the consequences of the intelligence migrations on the economies of the origin countries especially as in most cases of these migrations people have no choice but to work in fields under their professional formation level. This phenomenon is called “brain waste”.

As we will ascertain from the outcomes of the study achieved in Italy, most (42%) students state that they do not want to return to their origin country, while actually the highly qualified want to remain in their own country in certain life and labour conditions. This happened starting with 2008, along the beginning of the economic crisis, while 23% of the Romanian population was running the risk of poverty, namely having incomes below the threshold of poverty (Eurostat, 2009). According to the representatives of the educational Romanian International University Fair (RIUF), the favourite destination for studies of the Romanian young people remains Italy in the years 2010 and 2011, though in previous years the favourite destinations were France and Germany (Murgu, 2011).

The analysis of the migration phenomenon among Romanian young men, namely among the young men that go to Italy to study started from the interview done in the summer of 2010 in Bologna, Italy, with Ioan Eugen Popițiu, the coordinator of the Italian Branch of the League of Romanian Students Abroad. The purpose of the research was to analyze of the reasons for which this special segment of the Romanian immigration does not want to return to Romania after

finishing their studies, and to ascertain where these young men see themselves geographically and on the labour market after obtaining their degree. The key questions in this research are: Is the phenomenon of “brain waste” really taking place? Do Romanian students in Italy want to return to Romania permanently? Is migration an opportunity for them? Are they “victims” of the sub-employment in Romania and/or in Italy? Are they victims of discrimination in Italy? Do Romanian students in Italy find it hard to integrate in the host country? The question of these specialized young men are “victims” of the scarce employment in Romania and/or Italy refers to the fact that most times immigrant young men – even highly specialized – are employed in poorly qualified activities, such as agriculture, hotel services or assistance in families. Before presenting the outcomes of the study regarding the “intelligence migration” of Romanian young men from Italy, we will discuss a few studies achieved previously on the subject of migration and the decision to migrate of the Romanian young men, in order to see an overall picture of the phenomenon and to observe the evolution of the phenomenon in time. The descriptive character of the overview of some studies in the field illustrates the main national changes regarding the situation of the Romanian young people and the values that dominate this young segment of Romania nowadays. A series of data is presented from studies achieved between 2005 and 2011 in Romania and Italy, for the age category 18 – 35 years.

Romanian young men go abroad to work and study, as in their origin country their true value is not appreciated. The study “Romanians and the Migration of the Manpower to the European Union”^{*}, discussed by Stoian in a national newspaper, shows that the main reason of the Romanians’ departure is the need of esteem (Stoian, 2005). The top of the favourite destinations of the Romanians who emigrate is, according to the quoted source, made of countries such as Italy, Spain or Germany. The young men between 19 and 35 years old and high school graduates have the most acute feeling of lack of value appreciation. Hence, according to the study, 85% of the respondents said that they knew personally someone who worked in a country of the European Union, of whom 29.5% asserted that they knew someone in Italy, 22.4% in Spain, and 13.5% in Germany.

Germany is included in the top of the favourite work destinations, first of all due to the Romanians’ impression regarding Germans as a nation: we know that they are responsible people, who pay correctly; a country where you do not expect any unpleasant surprises (Stoian, 2005). Most

^{*} The study was achieved between September 20th and November 1st 2005, on 884 persons, mostly young men between 19 and 35 years old (49.43%), who responded to questionnaires in the counseling offices for citizens all over the country.

Romanians (75%) want to leave to the countries of the European Union for reasons such as: a higher wage, a better life. Most reasons invoked by most questioned people as regards departing fall into the category “need of esteem”: our people leave abroad to have their value appreciated, to earn the respect they do not get in Romania. The people who felt the need of esteem most frequently as an emigration reason were young people between 19 and 35 years old (77%) and high school graduates (76%). The second place is occupied, quite far from the first place, by the reasons that fall in the category need of safety, indicated by 13% of the respondents. What is interesting is the standard answer falling into this type of need, namely the search for a work place: people leave because they cannot find a job and cannot live decently in Romania. Romanian young men expressed in 2005 certain fears regarding what the integration of Romania in the European Union would bring in 2007. According to the same study previously quoted, of the total number of people that in 2005 expressed indirectly their fears regarding the integration, most are persons highly educated (48.7%) and young men (44.6%). The conclusion of the study is that people who emigrate are not necessarily the poor people from a former communist country, but professionally qualified young people, prepared to receive all the advantages of this opportunity.

The situation from 2008, according to the barometer created by the National Authority for Youth^{*}, is different, meaning that young people do not want to leave the country any more. Therefore, continuing to study in the origin country and finding a well paid job prove to be the main targets of young people between 14 and 35 years old (Bardas, 2010). Only 9% of the Romanian young men want to leave the country, while one year before the percentage was 38%. In exchange, 11% stated that their main purpose was to continue their studies and 50% stated that they wanted to emigrate as tourists, and 29% stated that they wanted to work temporarily in the host country. School is not seen by young men as having a determining role in their formation for life: 55% of the young men between 14 and 35 years old consider that the subjects taught to them in school help them only partly to find a work place. The main values important to the Romanian young men nowadays are family, personal accomplishment and faith in God, though only 1% of them value tolerance and 1% value responsibility.

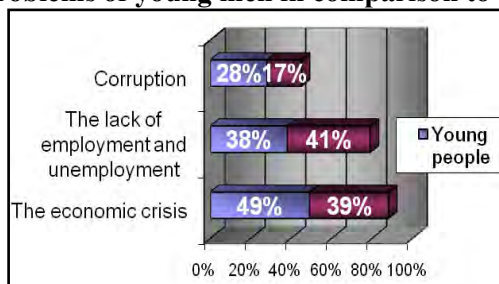
Another interesting study is the national poll “Young people and their Preoccupations”[†] done by the Ministry of Youth and Sports in which the adult population feels to a larger extent than young men – 41% in comparison to 38% - the lack of jobs and unemployment (Hainarosie, 2009) (Figure 2). At the same time, 28% of the young people identified corruption as one of the most

^{*} The research included 1.205 persons between 14 and 35 years old.

[†] The poll was done between May 6th and 10th 2009, on 2,004 persons.

serious problems that Romania is facing, while 17% of the adult population considers corruption a true problem. To young people in Romania the most important issue is professional career, which is put first by 37% of the respondents, while the objective of 1% of them is having a house. In comparison, as regards the purchase of a house, in the above quoted study, this was a dream of 90% of the young men, because of the lack of money.

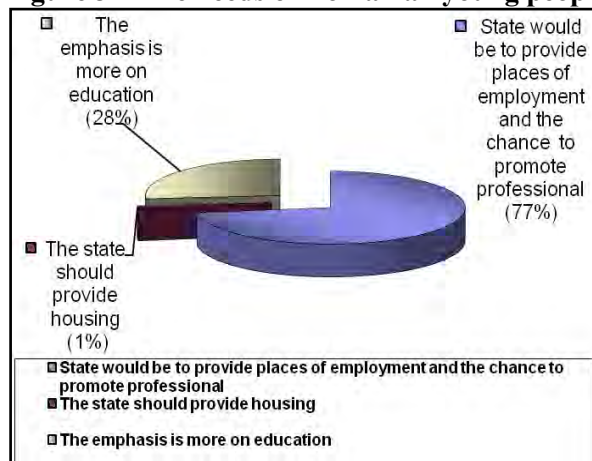
Figure 2 – The problems of young men in comparison to adults in Romania



Source: According to the data on <http://www.ziare.com/economice/tinerii-resimt-criza-economica-mai-degraba-decat-persoanele-adulte-751452>

Asked about their needs, young people mentioned that the state is the one that should offer jobs and the opportunity of professional promotion (77%). A little more than a third considers that the state should offer houses, and 14% stated that education should be more emphasized (Figure 3).

Figure 3 – The needs of Romanian young people



Source: According to the data on <http://www.ziare.com/economice/tinerii-resimt-criza-economica-mai-degraba-decat-persoanele-adulte-751452>

According to the poll done in 2010 by the magazine Reader's Digest, by means of the Institute of Marketing and Polls, 91% of the Romanians with ages between 18 and 27 years consider that for the past five years the economic situation of the country has changed for the worse, almost 70% think that the quality of the educational system and of the medical services has

lowered, and more than half (58%) assert that people are less civilized than five years before (Bardas, 2010). The research revealed the fact that the perception according to which the young people in Romania are confused, have not a well outlined value system and prepare, for the most part, to leave the country, does not correspond to the present Romanian reality. The most important values for the questioned young men are safety (79% of the young people placed it first as importance) and family life (75%). Only 29% of the young men dream about a thrilling life. Young people also appreciate education and skills and self-esteem – these qualities were placed by young people among the first five factors that determine the success in life, along with their influential family and friends, financial situation and good luck. The poll points out a new element related to the wisdom of these young people, which shatters the myth of the gap between generations, as most young men (almost 60%) “agree” or “somewhat agree” to the principles and life style of their parents. As regards the emigration intension, 33% of the young respondents are sure they will not leave Romania, while 17% of them are convinced that they will take this step.

In conclusion, if we look at these more recent results, in comparison to those from 2005, we notice that the young men from 2005 were more optimistic than those from 2010. If in 2005, 62% of the young people asserted that they situation had changed to the better for the previous five years, in 2010 only 23% of the respondents asserted the same thing. This confirms the fears that young men from one of the above mentioned studies had regarding the fact that their problems would be more numerous after the integration of Romania to the European Union. We notice that most of these problems are related for the most part to the distortions from the labour market that emerged after the accession of Romania to the European Union in 2007. As for the hope for the future, the percentage of the people who think that their situation will get better during the following years decreased by 32 percents: 43% in 2010, in comparison to 75% in 2005. This may be explained by the fact that in 2005 there was the effect of the years in which economy had stopped dropping, and Romania had got the acceptance to access the European Union. This is the reason why the general state was positive, thus that period was optimistic. In exchange, in 2010, the negative assessments are the consequence of the entire media speech about crisis, reflecting a pessimistic spirit present at social level. An interesting fact is that economic recession and the increase in the unemployment rate have not scared the young men, though over 90% state that their chances of finding a job are low in comparison to five years before, while the percentage of the people who have job offers and the possibility of choosing what they like is of only 6%, less in this pool than in the one from 2005 (36% in 2005, 41% in 2010). In comparison to the studies presented above, in the study done in 2010 there is an interesting aspect related to the fact that religion seems to be losing ground among

young people. Hence, if five years ago 34% of the young people stated that they were religious and followed church education, in 2010 the percentage of young people who stated the same dropped by 13%. Likewise, the percentage of young people who say that they are not religious persons increased from 5% in 2005 to 10% in 2010.

Another conclusion is that almost all young people from Romania are unsatisfied by what the state offers them currently, both from the economic and the educational points of view. Despite all this, the young people of Romania do not want to leave abroad, to try their luck ~~outside~~, preferring to find their way to success in the country.

4. MIGRATION OF THE YOUNG ROMANIAN STUDENTS TO ITALY

The study of the ~~intelligence~~ migration among young Romanian students from Italy is achieved in collaboration with Ioan Eugen Popițiu, coordinator of the Italian Branch of the League of the Romanian Students Abroad*. ~~We~~ need to be aware that everything depends on us, and the actions we undertake model what we become” (Anghel, 2001).

The study is based on aspects related to the theoretic framework regarding the stages of the migration process (Emigration and Immigration). The general hypothesis of the study is that most young men consider emigration as being the only possible solution for a higher education that may offer them the possibility of a good insertion on the labour market. The work hypotheses are the following: the Romanian students in Italy as an important cultural resource contribute significantly to the integration process; (the discrimination among young Romanian students is ~~natural~~ (ethnic); the young Romanians in Italy see themselves integrated on the labour market and professionally after finishing their studies anywhere except in Romania; the Romanian students in Italy for the most part do not want to return to their origin country.

The statistical data does not reveal a precise figure of the number of Romanian students studying in Italy. The Sample is obviously small and cannot provide results that could be extrapolated to the entire population of Romanian students studying in Italy. In spite of this, it is

* The League of the Romanian Students Abroad of Italy is one of the 21 branches of the League of the Romanian Students Abroad. The main activity developed by this branch is identifying Romanians who study in Italy. The statistics of the Italian state speak about a high number: around 4,000 students of Romanian nationality, of which approximately 300 active members in the League of the Romanian Students Abroad. The League of the Romanian Students Abroad of Italy was launched on January 8th 2009, as the existence of this organization was necessary, taking into account the large number of Romanian studying abroad. The League of the Romanian Students Abroad is supporting the Romanian students, helping them by providing information and representing their interests. The group address of the League of the Romanian Students Abroad is <http://www.facebook.com/home.php#/group.php?gid=71008890244&ref=nf>. For details, go to www.lsr.ro.

worth mentioning that the answers of the online questionnaires and of the interviews of Romanian students in Italy, we obtained a series of answers to numerous questions with low dispersion, much lower than the “sampling errors” would imply. This situation is due to the fact that the distribution of the population from which the sample was extracted is concentrated around its average value and reflects faithfully the general situation. The migration of young men from Romania to Italy could represent a significant source both for the origin country and for the destination country. The study data reveal that the young men do not want to return to Romania any time soon and see themselves integrated on the labour market anywhere, even in Italy, but not in Romania, unfortunately. In addition, these young men wish to remain “outside” their origin country for a long time from now on. To Italy, this “brain gain” is certain; their presence may have an important cultural function, facilitating the integration processes. The young men integrate much easier, which is also confirmed by the data of this research, in which the results show that most of them feel integrated in the host society.

In brief, the conclusions that may be drawn are the following (the total percentage was calculated for the total number of respondents): the Romanian students are victims of discrimination in Italy, and most of these are women; 46.7% of the discriminated students mention their ethnic origin as a reason for this; 70% of the respondents state that they feel integrated in the Italian society; 30 out of 40 female respondents stated that they felt integrated in Italy; 73% of the respondents state that they have not been victims of any offence in Italy. Of the 22% of victims of offences in Italy, 45.5% state that the criminal was an Italian citizen, 36.4% say that the criminal was actually a Romanian citizen and 18.2% say that the criminal belonged to a different ethnic group. 42% do not want to return to the country after finishing their studies in Italy and most of them are women. Most of the young men consider that they will succeed professionally on the labour market anywhere, in any country except Romania, even in Italy. 38.3% of the respondents assert that they have “bad” opinion about and 28.3% are “indifferent” to the higher education system of Italy in comparison to the one in Romania. 51.7% of the respondents answered that there needs to be an organization to support the rights of the young students in Italy. An example today is the League of the Romanian Students Abroad, which represents maybe the most active organization that supports young Romanians studying abroad.

Romanian students in Italy, as an important cultural resource, contribute significantly to the integration process. 70% of the respondents of the study stated that they felt integrated in the host society and most of them belong to the age category 20-25 (57.1%), most of which (71.4%) are women. The statement “Romanian immigrants integrate difficultly in the Italian society” made most

people (50%) state that they did not agree to this statement, while 43.4% agreed. Both the interviews of the Romanian young men in Italy and the analysis of the data of the questionnaires reveal that the young men want and do integrate and adapt easily in the host society, which happens maybe also because young people are more open to the opportunities of the continuously changing societies nowadays.

If the general opinion of the Romanian young men in Italy is that there is discrimination, we cannot generalize this perception to the entire population of Romanian students: “Honestly, there is no discrimination ... I tend to say, not only as a Romanian student, but also as a foreign student, maybe there is little discrimination, as it is natural discrimination, meaning that if you are a foreigner, it is harder for you. It is positive discrimination; it is not a mass phenomenon.” (Ioan Eugen Popițiu, coordinator of the Italian Branch of the League of the Romanian Students Abroad).

According to the data of the study, most Romanian students in Italy do not want to return to their origin country. Among the people who want to return to Romania after obtaining their study degree, 33.33% are women.

In Romania, the decrease of the birthrate and the migration of the young men are two problems extremely important that lead to the change of the ethnic balance of our country. We notice that from their license study period, tens of thousands of young men left Romania for higher university education. Only that nothing has been done to bring them back to the country, as these young men are a major loss for Romania. Emigration is the only solution possible for them. What is more, according to the National Institute of Statistics, in 2003 Romania occupied the 48th place in the top of the scientific production, after countries like Poland, Bulgaria, Trinidad Tobago, Uruguay (Scoruș, 2009). In these circumstances, what reasons would qualified Romanian young men have to remain in a country where they cannot practice their job? Absolutely nothing, promises seem not to suffice, given that there are plenty of offers from the member states of the European Union, capable of attracting and using in their own interest the Romanian intelligence that is more and more unemployed. Migration is to most young men from Romania a natural solution to the lack of opportunities at the level of society.

CONCLUSIONS

According to the sociologic analysis carried out in the researches in the field whose object of study is represented by young Romanian students studying outside the country, labour is not fit as an important path of success in life, in Romania. This lack of confidence in the labour capacity of

ensuring welfare in Romania is the premises of erosion of the motivation to work. The motivations for migration of young men are perspective, related to the need of succeeding professionally and of advancing according to their professional formation. Notions such as meritocracy, promotion, professional recognition, self-esteem etc. are often invoked by young men in order to justify the alternative of migration. The intelligent model proposed for stopping the migration of the young men from Romania should include aspects related to the labour market of our country through: the involvement of the important employers and social partners at national or local level in planning the higher education; a tight and efficient connection between universities and industry/ employers regarding the practice from the professional and technical education; adopting successful European instruments in order to facilitate professional insertion of young graduates from Romania; the gradual removal of the most acute difficulties from the perspective of the relevance of higher education upon the requirements of the labour market. This last measure refers to the difficulties related to the correlation between the requirements on the labour market and the university education of young men. The main measures of an intelligent model must take into account a series of extremely important factors: the Romanian educational system correlated to the needs of a dynamic labour market; the clear equivalency between the university formation and the formal and competence-based criteria on the labour market; carrying out studies and systematic analyses concerning the offers of university formation and the requirements of the labour market, both quantitatively (the schooling number grounded on the evolution of the request on the labour market) and structurally (per fields and qualification levels), using the financial resources appropriately. All these measures applied correctly and on time can lead to obtaining an intelligent model of convincing young students to wish to remain in Romania, in order to practice here their profession according to their university education. It is precisely the lack of a correct model, well and correctly applied with the purpose of stimulating young men to quit the migration solution led today to the aggravation of the appropriate insertion of graduates on the labour market. This triggered numerous dissatisfactions among students, which are related to the didactic norms, the correlation between the university formation and the requirements of the labour market.

The intelligent model of stopping the migration of Romanian young men is based on the consistency in the development of the strategies of consolidation of partnerships with the economic, business and social environment. This model aims at determining employers to quit the legal condition of experience in the field for young men and considering the practice internships attended by students during their education as experience in a field or another. The danger of emigration of young Romanian graduates can be avoided by employers and companies. The intelligent model

proposed by this study takes into account the demographic aspects showing clearly a decline of the young population both numerically and as a proportion of the total population. The demographic tendencies announce even important changes in the society structure.

The measures and solutions of an intelligent model that may prevent young men from leaving Romania must contain key terms such as increase, improvement, inclusion, support and development.

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THE LEARNING ORGANIZATION – AN ANSWER TO THE CHALLENGES OF THE ACTUAL BUSINESS ENVIRONMENT?

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Abstract: *In a knowledge society and a knowledge economy organizations need to have sustainable competitive advantages against their competitors, they need to innovate and to have performance. Organizational learning is a way to achieve these features, because, through organizational learning the intellectual capital of an organization can be developed. The learning organization is an ideal type of organization that learns. After briefly presenting the concepts of “learning organization”, “organizational learning”, “individual learning”, and classifications of types of learning from different perspectives, the article presents managerial adaptations, starting from the actions that an organization has to undertake in order to become a learning organization. Then, it emphasizes the fact that the learning organization is an ideal type of organization, thus managers should first make efforts in the sense of creating conditions that could enable organizational learning and then for turning the organization into a learning organization.*

Keywords: Learning organization, organizational learning, managerial adaptations, learning processes
JEL Classification: D83

INTRODUCTION

The knowledge society and the knowledge economy are two related concepts. Although the roots of these concepts go back to almost a century ago, when the importance of knowledge for economic growth was emphasized (Hayek, 1937 in Välimaa and Hoffman, 2008, p. 269), these two concepts have gained in importance in recent times. The knowledge society and the knowledge economy have a key characteristic – sustainable economic growth. The business environment is a core element of any economy, so we can say that economic growth is directly connected and interdependent with the business environment.

In the actual knowledge society and knowledge economy, the business environment is more unpredictable than ever. The pace of change is alert. For companies to survive and to prosper in this environment, they need to have sustainable competitive advantages against their competitors, they need to constantly innovate and, implicitly, to have performance at organizational level. Some authors claim that “the essence of the management process is constant directing of changes and constant adaptation to changing environmental conditions” (Cymanow, n.d., p. 1).

1. ORGANIZATIONS AND THE KNOWLEDGE SOCIETY AND KNOWLEDGE ECONOMY

1.1 Organizations in a knowledge society and a knowledge economy

In the actual business environment, the competitive advantages that organizations have against their competitors have shorter lifespans than before. This is because the knowledge economy presumes “an accelerated pace of technical and scientific advance, as well as rapid obsolescence” (Powell and Snellman, 2004, p. 199). Thus, the only truly sustainable competitive advantage that organizations have is knowledge. Knowledge is directly linked to the intellectual capital that an organization has, to the competencies that its human resources own. For these competencies to develop, organizations should nurture a learning culture (Murray and Donegan, 2003). We can see that, when linking the concepts of knowledge society, knowledge economy, business environment, knowledge itself and the world of organizations, the common feature is learning.

We will further focus on the concepts of “organizational learning” and especially “the learning organization”, as two core concepts that need to be paid attention in the actual business environment.

1.2 The learning organization and organizational learning

The importance of knowledge and of learning at organizational level can be easily argued if we take into consideration the fact that organizations confront, in a society that is based on knowledge, with three main challenges: intensification of competition, increased power of customer and shortened life cycles of products (Wang and Ahmed, 2003).

In their beginnings, the terms of “organizational learning” and “learning organization” were used interchangeable, but now there are clear distinctions between the two concepts.

Organizational learning was first used as a concept in 1963, by Cyert and March although the interest in this concept dates to more recent times, in the early 1990s (Marshall, Smith and Buxton, 2009). Despite the many definitions that the concept of “organizational learning” had, it is now generally accepted that learning can be defined as a change in beliefs, in cognitions or in the way of acting, of behaving (Earterby-Smith, Crossan and Niccolini, 2000 in Argote, 2011, p. 440).

The learning organization is an organization that has the capacity to excel in collective learning, while organizational learning is a set of learning processes. The literature states that, while organizational learning is an activity that an organization undertakes (Tsang, 1997 in Marshall, Smith and Buxton, 2009), the learning organization is a type of organization (Tsang, 1997 in Marshall, Smith and Buxton, 2009) that has inclinations towards learning at organizational level or excels at it (Marshall, Smith and Buxton, 2009).

1.3 Individual and organizational learning

The link between individual learning and organizational learning is a controversial one and also one of the most debated subjects in the literature regarding organizational learning. Some authors claim that “organizational learning is the product of individuals’ learning” (Argyris and Schön, 1978; Fiol and Lyles, 1985; Senge, 1990 in Antonacopoulou, 2006, p. 456) while other authors appreciate the fact that organizational learning is more than the sum of the members’ individual learning in an organization (Crossan, Lane and White, 1999; March and Olsen, 1976; Simon, 1991 in Casey, 2005, p. 132).

In this paper, we will consider that organizational learning is more than the sum of the members’ individual learning in an organization. We thus agree with the idea that “the whole is more than the sum of the single parties” (Senge, 2006 in Ameli and Kayes, 2011, p. 176).

It is also argued that, although employees may leave an organization at some point, what they have learned at individual or team level does not necessarily leave as they leave the organization. This is because a part of what they have learned may be embedded in systems, routines or strategies in organizations (Chiva, Grandío and Alegre, 2010).

1.4 Classifying organizational learning types

In the literature regarding organizational learning there are several classifications regarding the types of learning at organizational level. Different classifications of learning types have been summarized (Chiva, Grandío and Alegre, 2010): single and double loop learning (Argyris and Schön, 1974 in Chiva, Grandío and Alegre, 2010), adaptive and generative learning (Argyris and Schön, 1974, 1978; Fiol and Lyles, 1985; Senge, 1990; Lant and Mezias, 1992; Virany, Tushman and Romanelli, 1992; Sitkin, 1996 in Chiva, Grandío and Alegre, 2010), lower and higher level learning (Fiol and Lyles, 1985 in Chiva, Grandío and Alegre, 2010).

Single loop learning implies that an organization will seek to achieve its goals by adjusting its behaviors. It also presumes that the organization maintains its policies. Double loop learning implies that an organization modifies its norms or policies (Chiva, Grandío and Alegre, 2010), when necessary. In other words, when something does not go as expected, the organization is not going to try and change the situation just by adapting behaviors within the existing norms or policies, but the organization is going to see if it can achieve its objectives by changing the existing norms or policies. Besides single loop learning and double loop learning, another type of learning can be added – triple loop learning. Triple loop learning has a vague nature. It is claimed that triple loop learning means “an additional level of learning that considers an external partner’s values and strategies” (Ameli and Kayes, 2011, p. 176). The authors also state that the nature of triple loop learning is not precise, according to the literature – “some authors affirm that it is concerned with new structures and strategies for learning”, “while other authors contend that triple-loop learning is a learning process related to ethical behaviors” (Ameli and Kayes, 2011, p. 176).

Adaptive and generative learning are similar to single loop learning and, respectively, to double loop learning. Adaptive learning means that organizations can improve their existing competencies or technologies but without necessarily examining their beliefs. Generative learning implies that organizations are able to see beyond a certain situation and to question the operating norms (Chiva, Grandío and Alegre, 2010). While adaptive learning means to react in an automatic way to stimuli, generative learning implies to learn pro-actively and intentionally and to apply new knowledge or behaviors (Sessa *et al.*, 2011). Another type of learning can be added to this classification – transformative learning. Transformative learning implies “experiencing disorientation and then reorientation for an entirely new direction for growth” (Sessa *et al.*, 2011, p. 149).

The last clasification that we have taken into consideration refers to lower and higher level learning. The first type implies that organizations repeat past behaviors, while higher level learning means that organizations will develop complex rules related to new actions.

2. THE LEARNING ORGANIZATION – WHAT CAN MANAGERS DO TO TRANSFORM AN ORGANIZATION INTO A LEARNING ORGANIZATION

–Learning organizations [are] organizations where people continually expand their capacity to create the results they truly desire, where new and expansive patterns of thinking are nurtured,

where collective aspiration is set free, and where people are continually learning to see the whole together.” (Senge, 1990 in Smith, 2001).

Learning organizations have a series of characteristics: –Provide continuous learning opportunities. Use learning to reach their goals. Link individual performance with organizational performance. Foster inquiry and dialogue, making it safe for people to share openly and take risks. Embrace creative tension as a source of energy and renewal. Are continuously aware of and interact with their environment.” (Kerka, 1995 in Smith, 2001).

From the ideas that have been previously exposed we can consider that a learning organization is more prepared to face the challenges of the knowledge society, the knowledge economy and, implicitly, of the actual business environment.

In order for a traditional organization to turn into a learning organization, a series of actions has to be undertaken. In order for these actions to be undertaken, some managerial adaptations must be made.

A series of levels and competing values in learning organizations have been considered in the literature (Loverde, 2005), from which derives a series of actions that can be undertaken. The author further makes a detailed comparison between the characteristics of a traditional organization and of a learning organization, from which a series of managerial adaptations can be drawn.

We must mention that Loverde refers to these actions from the point of view of learning organizations with different levels of feedback: single – loop feedback, double – loop feedback, triple – loop feedback, quadruple – loop feedback but we will consider that the transformations that we will further present, from the work of Loverde, can also be seen as enablers for turning a traditional organization into a learning organization.

First, a part of the management levels have to be removed and orizontal structures and/ or smaller business units need to be created, business units that need to focus on key competencies. This has to be combined with vertical intelligence, which means that managers need to integrate the principles, values and judgments and to have a deep understanding of the causes and foundations of certain actions. Second, different cultures, races, genders and sexual orientations need to thrive in a company because complex and adaptive systems evolve better when more options are competing in nearly chaotic conditions. Each person must be permitted to speak according to its traditions, goals and needs and in the end the differences need to be reconciled. Being aware of the importance that tacit knowledge has is the third action that needs to be undertaken. The awareness of the importance of tacit knowledge is needed because, if we focus exclusively on explicit knowledge, we marginalize or even exclude anything and anybody that does not fit the current paradigm. Explicit

knowledge is knowledge that can be easily codified or expressed in a formal or a systematic language (Tiwana, 1999 in Brătianu and Orzea, 2008, p. 125). Tacit knowledge is more personal, it is contextual, being embedded in humans' minds (Brătianu and Orzea, 2008) or in the routines of an organization (Howitt, 1996 in Oxley et al., 2008). Tacit knowledge, unlike explicit knowledge, is hard to express, difficult to formalize or to share with other persons (Nonaka and Konno, 1998). The next aspect targets the elimination of benchmarking and the improvement of old methods. The focus must be on finding new methods, which stimulates innovation. Further, the accent should be on emotional skills and not on intellectual skills. Skills in the emotional area are needed in order to manage change. Without such skills, people may become fearful and irritable when dealing with changes. And finally, a transition must be made, from the accumulation and transfer of knowledge to implementing knowledge in an active way, which involves a shift from an explicit "know what" to an implicit "know how" and even to "know why", in order to create new knowledge through discovery and innovation.

In order for these kinds of actions to take place in an organization, managers need to make some adaptations, in order to facilitate the metamorphosis of a traditional organization into a learning organization. Further, we will present a few of all the adaptations that managers could do in order to transform a traditional organization into a learning organization. The work presented by Loverde is more detailed, presenting a comparison between a traditional corporation and a learning one.

First, managers should change the conception according to which learning is individual, procedures are dominant and new staff should have achievements according to the existent standards of performance. This way, the accumulation of knowledge becomes a collaborative process and intelligence is collective. What the organization learns is shared by all its members and the main challenge is that all employees are able to create high performance standards. This can be materialized through team projects and learning implemented at team level. Another important element is that teams should manage themselves, leading to the concepts of "self-managed teams".

Also, managers should make a transition from a passive learning style, when it is considered that the data is complete and we just have to manage it, to an active learning style, when managers realize that the available data is incomplete and it is not going to provide enough information to support performance. Thus, people must learn harder in order to achieve excellence.

One important thing that managers should do in order to transform a traditional organization into a learning one is to find new ways of doing things and not just improve old methods. So,

managers need to make a transition from rigid objectives and procedures that are implemented in order to control, to revise objectives and procedures, in the sense that no one can know for sure which are the best methods to do what needs to be done.

The emphasis should not be on dissemination of information in order for employees to memorize it, but on learning how to learn, taking into consideration the fact that the situations that organizations confront with are increasingly diverse and they must be addressed in an optimal way.

Then, managers should adapt their behavior in order to make a transition from the role of supervisors in terms of authority – when they know what needs to be done and make sure that things are done as they want them to be done, to the role of teachers or guides – each employee explores better and better methods to do things.

Another change that managers must undertake in order to transform a traditional organization into a learning organization is in terms of how knowledge is being measured, regarding the knowledge gained by both managers and employees. The transition should be from measuring knowledge by testing the degree of learning to measuring goal achievements, also taking into consideration the fact that data is fragmentary and in constant change.

Regarding the considered time frame, the change should be from developing short term competencies, which help to achieve simple tasks, to developing long term competencies and the ability to face complexity, to find solutions for certain situations that occur in an organization, in the market and in the socio – economic environment, these being in a constant change.

The last change that we will detail, although not the last one in importance, is changing the conception regarding the cultural context. The emphasis should be not on cultural homogeneity but on cultural diversity, the last one being able to facilitate the process of learning in organizations.

3. IS THE LEARNING ORGANIZATION THE ANSWER? ENABLING ORGANIZATIONAL LEARNING

Taking into consideration the fact that in the knowledge society and knowledge economy, the knowledge that an organization owns is one of its few sustainable competitive advantages, the importance of learning at organizational level is increasing. Apparently, the learning organization is the answer to the actual business environment, which is characterized through constant changes. But we need to take into consideration that the learning organization is an ideal type of organization that learns. In reality, we support the idea that managers should first act in such a way that they enable organizational learning processes.

A series of classifications appears in the literature regarding the sub-processes of organizational learning. Lytras and Pouloudi (2003) have made a synthesis of these sub-processes, although they do not refer to them as organizational learning sub-processes, but as knowledge management life cycles models. Another author classifies these sub-processes in: creation, retention and transfer of knowledge (Argote, 2011).

No matter which of the sub-processes of organizational learning we take into consideration, there is a series of factors that can facilitate or inhibit organizational learning. In order for organizations to develop a process of organizational learning, managers must create conditions; they must enable the occurrence of facilitating factors for organizational learning.

The literature regarding the facilitating and inhibiting factors of organizational learning is extensive. We will further present a series of factors, for a better understanding of the context.

In the case of the knowledge creation sub-process, one of the most well known models in the literature regarding knowledge management is the SECI model (Nonaka, 1994; Nonaka and Takeuchi, 1995; Nonaka and Konno, 1998). The authors propose that new knowledge is being created by continuum conversions between tacit and explicit knowledge, along four steps: socialization – individuals share tacit knowledge, externalization – the sum of the individuals' ideas integrate at the group level and tacit knowledge becomes explicit knowledge, combination – from group level to organizational level; implies ~~the~~ conversion of explicit knowledge into more complex sets of explicit knowledge" (Nonaka and Konno, 1998, p. 44) and internalization – this last step takes place at organizational level and means that explicit knowledge is conversed into tacit knowledge. We have briefly presented the SECI model because it is correlated with the concept of Ba. According to the authors, Ba is a space for the creation of knowledge. Ba can be a physical, mental or virtual space or a combination of these. Each of the four steps of the SECI model has a correspondent Ba: socialization – originating ba, externalization – interacting ba, combination – cyber ba and internalization – exercising ba.

Six organizational factors are discussed (Nonaka and Takeuchi, 1995), factors that can enable the creation of knowledge: organizational intention, redundancy of information, creative chaos, autonomy, requisite variety and middle managers. Bijlsma-Frankema, Rosendaal and Taminiu (2006) describe in short these factors that were proposed by Nonaka and Takeuchi. Organizational intention means that top – management has the task ~~to~~ set challenging goals, to design a vision, indicating what knowledge should be developed and a knowledge strategy indicating how to create new knowledge" (Bijlsma-Frankema, Rosendaal and Taminiu, 2006, pp. 293-294). By redundancy of information we must understand that different communication channels are used for informing

employees. Creative chaos –aims to promote a sense of urgency that heightens attentiveness and a willingness to act upon sub-optimal performance” (Bijlsma-Frankema, Rosendaal and Taminiau, 2006, p. 294). Autonomy implies that employees have space for self-management. Requisite variety –refers to a match between the internal variety of an organization and the complexity of the environment” (Bijlsma-Frankema, Rosendaal and Taminiau, 2006, p. 294). Middle managers have an important role in turning the organizational intention into concrete goals. They also have to design –a conceptual framework that enables employees to make sense of their tacit knowledge and exchange knowledge within the team” (Bijlsma-Frankema, Rosendaal and Taminiau, 2006, p. 294).

Other authors‘ present factors that enable organizational learning as an overall process: culture, strategy, structure and environment (Fiol and Lyles, 1985 in Bapuji and Crossan, 2004). To these four factors, it is claimed that two other variables appear in the literature: resource position and organizational stage of development (Bapuji and Crossan, 2004). Bapuji and Crossan (2004) centralize some aspects of culture that can be considered facilitators for learning: a participative decision-making culture, learning orientation (Hurley and Hult, 1998 in Bapuji and Crossan, 2004), openness, transformational leadership (Hult *et al.*, 2000 in Bapuji and Crossan, 2004), and positive supervisory behavior, organizational support (Ramus and Steger, 2000 in Bapuji and Crossan, 2004). Among the most important aspects regarding strategy, that can influence organizational learning, is –providing a context for perceiving and interpreting the environment” (Fiol and Lyles, 1985 in Bapuji and Crossan, 2004, p. 406). The structure of an organization can influence organizational learning by the composition and management of groups, by –formal procedures for learning, cross-functional communication and stability of team membership” (Bapuji and Crossan, 2004, p. 407). The environment influences organizational learning because it determines an organization’s access to resources related to knowledge, such as talent or collaboration partners. Organizational stage is another element that influences organizational learning. Some companies, for example bio-technology firms, depend, during their early stage of development, on other firms in order to learn while other companies do not learn in their initial phase – for example joint ventures. Resource position can influence learning at organizational level - research suggests that sometimes resource abundance could facilitate learning in some cases but block it in other cases.

Other factors that are considered to influence organizational learning are –contextual factors such as the organization structure, information, communication and control processes, which impact on the way individuals, learn” (Hedberg, 1981; Pawlowski, 2001; Simon, 1991 in Antonacopoulou, 2006, p. 456).

Giving these examples of factors that can influence organizational learning, managers have to be aware of the facilitating and inhibiting factors and they must undertake actions in order to create conditions for organizational learning processes to take place, to increase the number and, where the case, the intensity of presence for enabling factors and respectively to lower the number and, where the case, the intensity or frequency of presence for inhibiting factors for organizational learning.

For example, managers should create within the organizations that they lead an environment that stimulates creativity, an environment in which employees are encouraged to explore, to ask questions to them, to ask why they have to do certain things. For employees to have an inclination towards learning, managers should encourage them to learn, to collaborate, to share information and knowledge within teams, because organizational learning is a natural stage that follows individual learning and team learning, if the organization creates conditions for enabling learning at organizational level.

Employees are going to explore new solutions; they are going to put to question the operating norms or the values of an organization if they know that certain situations in which they will be implicated are not going to have repercussions towards them. Managers should encourage exploring and learning, with the cost of possible mistakes. The traditional norm is that managers are inclined to apply penalties for those who make mistakes. This creates fear within employees' minds and fear is an inhibitor for learning, for exploring or creating. And, as long as employees do not learn at individual level and at team level, organizational learning is not going to occur.

Employees need to know the reasons for doing what they do. When a person knows the reason beyond a certain task, he or she is more inclined to be consciously and even emotionally involved in working and finishing a certain task. This can also help employees to see beyond a certain situation.

If managers will encourage employees to see beyond certain situations, to put questions to them, to not take for granted the operating norms or values of an organization, they will also help employees to —jump” from knowing-what to knowing-how and even to knowing-why.

These actions that managers can undertake are going to have an impact on individual learning. Then, managers should encourage learning at team level. In order for the learning process to move from the individual level to the team level, managers should induce in their employees' minds that, when working in teams, the final goal is the accomplishment of the task at team level, thus employees should share with their colleagues the knowledge that they have and also to gain new knowledge from their colleagues. At team level, we can consider that it is important for the manager

to also be a leader or to designate, at team level, employees who have leadership skills, who can inspire other people, who can help them have confidence in themselves.

After creating conditions for team learning to take place, managers must take into consideration actions to be undertaken in order to enable organizational learning processes.

All the actions that managers must undertake that were mentioned for turning a traditional organization into a learning organization could also be applied for enabling organizational learning processes. These actions could be done in steps, meaning that first managers would enable organizational learning processes, and, in time, the organization is going to become a learning organization.

Besides these actions, some other things that managers could do in order to facilitate organizational learning are: promote learning at organizational level, by a learning culture – create norms or procedures to enable learning and include, among the organization's values, aspects regarding knowledge and learning; include employees in decisional processes, communicate in an open and effective way, eliminate the potential barriers that could exist between management and employees.

CONCLUSION

Knowledge and learning are two central elements for organizations in the context of the knowledge society, the knowledge economy and the actual business environment. In order to face the constant changes that are specific to an unstable business environment, organizations need to develop learning processes at organizational level or even become learning organizations. For a traditional organization to become a learning organization managers need to undertake some changes, they need to make a series of adaptations.

We argue that, although managers can undertake a series of changes for transforming organizations into learning organizations, they should first create conditions for enabling organizational learning processes, and afterwards lead their organizations into becoming learning organizations, because the learning organization is an ideal type of organization, thus the transformation needs to be made gradually.

The research has also some limitations. Taking into consideration that the approach is a theoretical one, in practice it is also necessary to see what the impact of the managerial adaptations in order to transform an organization into a learning organization, and respectively of the conditions that need to be created for enabling organizational learning, would be. Thus, one way to measure

these could be, for example, to assess the performance, level of innovation and competitive advantages that an organization has before undertaking such actions and at a certain period after certain actions have been undertaken, in order to see if there are differences. This way, managers will know for sure if organizational learning or the learning organizations are answers for being competitive in the actual business environment.

In conclusion, the relationship between the learning organization and the business environment is a mutual one. The need for learning at organizational level is emphasized by the actual business environment. On the other hand, learning at organizational level and even turning traditional organizations into learning organizations can lead to competitiveness at organizational level, regional development and help develop the business environment as a whole.

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THE VALUE OF CONTRACTS FROM A NOTARIAL INSTITUTIONAL PERSPECTIVE

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Abstract *The starting point of the theory of contracts coincides with the Roman era, but the moment related to the strengthening of the contract theory is the "social contract". Another episode relevant to this theory is represented by the trend "institutionalism". The institutional value has repercussions on the value of the concluded contracts, but we notice the link between the notary public institution and the theory of contracts, which is very important. Although the notary public institution is important in a democratic society, the analyses conducted do not indicate any connection between the number of notaries public and economic growth.*

Keywords: contracts, institutionalism, value, notary, economic growth

JEL: A12, K11, K12, K20

INTRODUCTION

Traditionally, one of the most important institutions – the private property – lies at the basis of the contemporary society. But what underpins this important institution? The answer can be summed up in one word: the contract. Whether we refer to a "social contract" or to other type of contract, we find that, in fact, institutions are related to contracts and vice versa.

Chronologically speaking, we believe that the starting point of the theory of contracts coincides with the Roman era, more exactly with the coding of the Roman law, one of its forms being represented by Justinian's "Institutions" completed in 529. Originally composed as a basic handbook, "Institutions" were invested with power of law in relation to the Roman authorities (Jakotă, 1993, p. 378). But before Justinian, in his "Institutions", Gaius also dealt with the money loan contracts, with the deposit contracts, with the pledge contracts, etc. Thus, the initial correspondence between institutions and contracts transpires from the Roman law handbooks, or in other words, the contracts appear as genuine Roman institutions.

The moment related to the strengthening of the contract theory, and also to a paradigm shift is connected to Jean Jacques Rousseau and his "social contract". The theorists of the social contract from the seventeenth and eighteenth centuries began to dissociate the theory of contracts from institutions. In the social contract we can identify the basis of any contract, regardless whether we are talking about a sale purchase agreement, an exchange agreement, or a lease agreement etc. As a form of association that sets to rights a certain protection both for the individual, and for the goods

of each contract party (Rousseau, 2004, p. 9), the social contract is the very essence of any agreement.

Another episode relevant to the theory of contracts is represented by the trend called "institutionalism", defining for the beginning of the twentieth century. Research literature (Hovenkamp, 2011) estimates that along with institutionalism, economics focuses on behavioral economics, on the importance of institutions created by men, on the rules they impose and on their direct effect in the economic field. We believe, therefore, that the most important and also the most sustainable contribution of the institutionalism is the involvement of the legal rules in the economic analyses. From this point on, the contamination of the science of law with economic elements or vice versa, of the economic science with legal elements becomes official. From this perspective, property trading becomes important for economic transactions, basically legitimizing our attempt to highlight the theory and value of contracts from an institutional, notarial perspective.

1. THE CONCEPT OF "TRUST" – A COMMON ELEMENT OF CONTRACTS AND OF INSTITUTIONS

A first common point of contracts and institutionalism is "trust", a custom element that takes the form of trust between the contracting parties, on the one hand and of confidence in state institutions, on the other hand.

Undoubtedly, the central element of the theory of contracts is the contract. From a legal perspective, in summary, the contract is an agreement that the parties invest with power of law so that it devolves upon them a series of rights and obligations which they assume, and voluntarily execute in good faith. These contracts can take the most diverse forms; they can have different provisions in order to match the parties' interests. The initial simplicity of the contracts is replaced today by provisions on the sharing of risks, on the amount of penalties, on the investor's protection or on penal clauses, etc., arising from the specialization of law and from the need to optimize the contracts.

At present, the theory of contracts is complicated due to the dissociation which has been made between the contracts that are executed at once and those which are executed in time; research literature of recent years includes only the latter category of contracts in the theory of contracts (Lyons, 1996). The same theory of contracts emphasizes the impossibility of providing for all possible situations in the drafting of contractual clauses, which means that in reality, all contracts are incomplete (Lyons, 1996, p. 29). The theory of contracts is extremely comprehensive, covering

both the pre-contractual period and the exact time of the achievement of the agreement between the parties, and then the stage of performance of the contractual obligations, and possibly of forced execution.

The link between contracts and institutions assumes the explanation of the term of "institution". Research literature defines the institution as a "complex social form" (Pina-Cabral, 2011, p. 478), a central element of the society, establishing "the rules of the game in the society" (Mantzavinos et al., 2011, p. 7). This important prerogative of the institution generally derives from the perception of the individuals on the institutions which are seen as genuine mental models, which operate according to certain rules and create their own rules. The current use of the term "institution" is rather ambiguous, being likely to create confusion between institution and organization. Thus, some institutions, in turn, create or, where applicable, apply the rules under which contracts representing documents establishing various legal entities are concluded. Economic organizations (companies), political organizations (political parties), educational organizations (universities, schools) are the direct creation of institutions; therefore, we sometimes inappropriately call them institutions. However, the difference between them is essential, being plastically described by the research literature (Mantzavinos et al., 2011): institutions make the rules of the game, but the players are the organizations. To explain this assertion, we have considered the case of the Trade Register Office, namely of the legal persons established by it. In other words, the institution is the Trade Register Office and the legal persons (the companies) established are the organizations created by means of the above-mentioned institution.

On the other hand, in regard to institutions, we believe that the effectiveness of institutions is even greater as the confidence in the respective institution is increased. Basically, institutions appear as an object and at the same time, as a source of confidence. A great number of institutions in connection with the theory of contracts are required by the very existence of the rule of law.

In the theory of contracts, trust between parties is assigned importance by means of the principle of *pacta sunt servanda* specific to civil (national) law and international law. The principle of *pacta sunt servanda* or the binding force of contracts corresponded in the Romanian regulation previous to 2011 to a fairly rigid formulation, which showed that, in fact, agreements concluded under the law could not be (for any reason) changed by courts. Current legislation (namely the new Civil Code) loosens this principle; therefore, if certain conditions provided by law are met, the court may intervene to modify or even terminate the contract in question. From this perspective, we consider that the judicial power, in fact the institution of justice (in the broad sense) leaves its mark on the very existence of a contract.

2. THE INSTITUTIONAL VALUE AND THE VALUING OF CONTRACTS BY MEANS OF THE NOTARY PUBLIC

The institutional value has repercussions on the value of the concluded contracts. From this perspective, there are two possible situations: in the first case, the interference of a certain institution in the conclusion of a contract, although not required by law valorizes the agreement of the parties; and in the second case, the interference of a certain institution is a prerequisite for the valid conclusion of a contract (Brake, 2007, p. 244). It's the classic case of requisite contracts; so, although required as an *ad validitatem* form in cases expressly and exhaustively provided by law, the authenticated form of contracts is preferred by potential contractors, even when the law does not require it. The reason lies in the intention of certain institutions to create certain rights or obligations with direct implications on the contracting parties.

From this perspective the link between the notary public institution and the theory of contracts is very important. In Romania and in other European Union member states, the notary public performs a variety of functions, including: the valid conclusion of certain types of contracts, certification of copies of original documents, and certification of the parties' signatures. From the perspective of the relation between the theory of contracts and the notary public institution, the defining element is the pecuniary, economic case, regardless whether the agreement of the parties validated by the notary falls into the category of legal relations of civil law, commercial law or family law.

Regarding the authentic form that they have to give to certain documents, first of all, the notary public has duties in terms of real estate ownership. The non-observance of the requisite in case of the conclusion of sale purchase contracts covering immovable property can be sanctioned with absolute nullity, the contract agreement of the parties being declared non-valid.

In other Member States of the European Union (Germany), the notary is acknowledged increased responsibilities regarding corporate law, the notary public being the only one who may request the registration of a joint stock company in the national register of a company and the transfer of shares to other shareholders and the change of the registered capital (Wendler et al., 2006, p. 281). The Romanian commercial law is subject to notary public duties in terms of the establishment of a company (where associates' intake consists of a building), where the company agreement must be authentic.

Also, from the perspective of family law, the notary has significant powers as a result of the changes made by the new Civil Code. Thus, marriage agreement takes a solemn form (Article 330

Civil Code), given the formalities involved, and an accessory character in relation to the solemn institution of marriage (Aniței, 2012, p. 25). Also, the divorce can also be solved by the notary public (art. 375 paragraphs 1 and 2 of the Civil Code - when spouses agree to divorce and, cumulatively, have no minor children, or, in case they have minor children, if they agree on all aspects regarding: the name after the divorce, the parental authority which shall be exercised by both parents, the establishment of the minors' home after the divorce, the way in which personal relations between the separate parent and each child should be preserved, and the establishment of parental contribution to the cost of growth, education, teaching and training of children).

The advantages of using the solemn form of contracts, an exclusive prerogative of the notary institution lies in the full probative value of the authentic documents and in the enforceable nature of the contract authenticated.

The authentic document enjoys the presumption of authenticity and validity, its validity being ascertained exclusively by the contestator, as apparent from the provisions of the New Code of Civil Procedure (art. 263-264).

As an act of public authority, the authenticated act which ascertains a clear and liquid debt is enforceable on its due date (art. 4, in conjunction with art. 67 of Law no. 36/1995, of notaries public, republished, with subsequent amendments). This means it can be enforced and that the debtor will be enforced, by means of the bailiff, without the need for court intervention. Although this text of law was challenged in terms of its constitutionality, the Constitutional Court held that this "text of law is not intended to create privileged legal conditions for a class of citizens, but seeks, on the one hand, to quickly settle the disputes with economic character and, on the other hand, to relieve courts from the disputes in which the claims are clear and liquid (Constitutional Court of Romania, 2005)."

So, the notary public institution has to valorize the contract. In other words, mediation of a contract by a notary public converts the value of a contract.

Also, from the perspective of institutionalism and of the value of contracts, we make reference to the **Trade Register Office**. This time, the contracts (the articles of association, the company contracts, and the statutes) recorded by means of the Trade Register Office do not become more "valuable" as the documents signed by the notary public institution; they become known by respecting the form used for enforceability against third parties. As above, again, the judicial institution is interposed between the theory of contracts and institutionalism because, as a public institution, the Trade Register Office is organized by the Ministry of Justice (Art. 2 paragraph 2 of Law no. 26 / 1990 on Commercial Register).

3. THE VALUE OF CONTRACTS AND ECONOMIC GROWTH

Contractual freedom develops democratic institutions and entails growth. However, the notary public is required to develop this freedom of contract and to give it the written form that the parties want, regardless whether we are talking about legal relations in civil law, commercial law, international trade law and private international law.

A link (and the most important one, from our point of view) between contracts and institutions, with reference to both the public notary institution and the Trade Register Office is economic growth. Research literature estimates that institutions of "maximum quality" are the result of economic growth (Arielle and Store, 2011. p. 585), and economic growth is also a result of the implementation of democratic institutions. Basically, in a state-nation where private ownership is guaranteed, nationals of that State are motivated to achieve long-term investment, based on the existence of strong regulations on contracts; consequently, commercial transactions and the economy of the State itself, develop (Boettke and Fink, 2011, p. 500).

The notary public institution is important in a democratic society. But the analyses conducted do not indicate any connection between the number of notaries public and economic growth, although in theory there should be one, as strong states from an economic point of view are characterized by a greater number of economic transactions, and thus develop the need for more notaries than developing states. Considering the number of notaries public and the number of people in two of the strongest European economies (France and Germany) and two of the weakest European economies (Romania and Bulgaria), we have found the following:

Table 1 - The link between population size and the number of notaries public

EU Member State	The number of notaries public in 2011	Density of notaries public compared to the number of people
France	8500	1/7698 people
Germany	7722	1/10583 people
Bulgaria	530	1/14105 people
Romania	2411	1/8871 people

Source: remarks after the Council of the Notariats of the European Union and the World Bank

Thus, we have found a greater number of notaries in France; Romania is rapidly approaching the number of notaries in France. In the midst of economic crisis (2009-2012) we have found, both in France, and in Romania, a steady increase in the number of public notaries, and a decrease of about 10% of the number of notaries public in Germany, and a constant number of notaries in Bulgaria.

CONCLUSIONS

For a higher valuation of contracts in terms of the notary institution in Romania, we plead for an institutional legislative relief, as in other European countries (such as Germany or Sweden), where the notary institution comes to identify with the lawyer. Thus, in Sweden for example, there is no specific association of notaries; the notaries are members of the Bar. Had such an idea been applied into practice in Romania, we believe that the effect that the number of economic transactions would increase. Currently, in Romania the notarial activity implies rates which cannot be in any case lower than the minimum rates (as set out in Order no. 46/2011 for approval of Norms regarding the tariff of fees for services provided by notaries public) established by law. Relaxation of law and recognition of similar responsibilities in case of lawyers, which are also specialists in law, would result in the increase of onerous transactions in Romania.

The so-called quantitative limits regarding the access to the profession of notary public were related to geographic and demographic criteria, starting from the idea that the notarial activity is a public service. As regards the qualitative limits, their maintenance is natural, given the need to preserve a certain quality, obligatory in providing such services. The differences between the various EU Member States should be harmonized in terms of mutual recognition of diplomas, but also in terms of free movement of services.

Notary market deregulation in terms of tariffs charged for notary services, and of the number of positions for notaries public, is a solution for the development of competitiveness in this market.

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INTELLECTUAL PROPERTY WITHIN THE EMERGING RENEWABLE ENERGY MARKET: A CASE STUDY OF THE EU*

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Abstract: *Energy produced from renewable sources and its capacity to reduce GHG emissions and to enhance energy security is one of today's most debated issues. The renewable energy sources form a small but fast growing part of the global energy portfolio. A crucial condition for green energy to win an important share of the energy sector is lowering the production cost of the equipments. In the long run this can be achieved by supporting and protecting innovation in this field.*

This paper deals with the debated issue of intellectual property in the field of renewable energy in the European Union. We start with a study of the legislative framework of both intellectual property and renewable energy. Using statistical data and illustrative case studies the paper aims to determine the characteristics and importance of intellectual property in the field of renewable energy. We look at the EU as a regional player and analyse the influence of intellectual property both internally – by presenting the different discourses of developed and developing EU countries - and externally – on global level.

Keywords: renewable energy, intellectual property, European policies

JEL Classification: O33, O34, O38, Q28, Q42

INTRODUCTION

Energy technologies have a key role to play in providing energy that is at once competitive and sustainable. Technology can bring substantial advances for energy efficiency, the use of renewable energy sources, the reduced use of fossil fuels, the gradual de-carbonization of transport and power stations, and the use of nuclear power. Energy technologies not only play a part in ensuring secure, sustainable supplies at reasonable prices, but also contribute to growth and jobs in Europe (EU Commission 2006). A crucial condition for green energy to win an important share of the energy sector is lowering the production cost of the equipments. In the long run this can be achieved by supporting and protecting innovation in this field.

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1. RENEWABLE ENERGY AND THE EU RENEWABLE ENERGY POLICY

Renewable or alternative energy is any energy resource which comes from natural resources and is naturally replenished over a short time scale. Renewable energy either derives directly from solar energy (solar thermal, photochemical, and photoelectric), indirectly from the sun (wind, hydropower, and photosynthetic energy stored in biomass), or from other natural energy flows (geothermal, tidal, wave, and current energy). It is contrasted with nonrenewable energy forms such as oil, coal, and uranium (Cleveland and Morris, 2009). About 16% of global final energy consumption comes from renewables, with 10% coming from traditional biomass, which is mainly used for heating, and 3.4% from hydroelectricity. New renewables (small hydro, modern biomass, wind, solar, geothermal, and biofuels) accounted for another 3% and are growing very rapidly. The share of renewables in electricity generation is around 19%, with 16% of global electricity coming from hydroelectricity and 3% from new renewables.

1.1 Photovoltaic

Nearly all energy forms on Earth come from the Sun, either directly or indirectly. The amount of solar energy the Earth receives every minute is greater than the amount of energy from fossil fuels the world uses in a year. Attempts to harvest the sun's energy directly date back to the 1870s when using lenses or mirrors a concentrating solar power system was designed to drive water pumping steam engines. The first solar motor company was founded in 1900. Probably the most familiar kind of solar equipment to most people today are solar hot water systems, which provide domestic hot water, pool heating, and space heating. Another common application of solar energy is photovoltaics, in which using a semiconductor, photons of light are converted into electricity.

The first photovoltaic chip was created in 1883, using a semiconductor made of selenium and gold. In 1954 engineers at Bell Labs discovered the sensitiveness to light of silicon doped with certain impurities. Since then, the technology has steadily improved. Silicon cells today have efficiencies as high as 24 percent, and researchers aim for higher efficiency, lower cost, and greater durability. Traditional solar modules are made with photovoltaic cells made from silicon. The thin-film PV devices are usually based on mixtures of elements other than silicon — most notably copper indium gallium selenite (CIGS) — applied in a thin layer to plastic, even organic, components. The ultimate goal of this PV, however, is what is known as building integrated

photovoltaics (BIPV), which incorporates PV directly into roofing and other materials, eliminating solar panels entirely and also function as a roofing membrane. Beyond standard BIPV, a new generation of solar called hybrid photovoltaic/thermal (PV/T or PVT) is emerging, which uses a layer of PV material over a thermal collector to heat air or hot water. This captures more solar energy overall, and it increases the efficiency of the PV layer by keeping it cool. Research into PVT is intensive in the last several years and manufacturers are starting to bring to the market BIPV equipment that can be enclosed in a house design from the beginning (Siegel et al., 2008).

1.2 Wind energy

Wind energy is the energy contained in the movement of air masses; in human energy use traditionally captured by means of the sails of a ship or the vanes of a windmill, and currently by mechanical blades similar to airplane propellers (Cleveland and Morris, 2009). It is the world's fastest growing energy source. The power of wind is a clean and renewable source of energy that has been used for centuries in Europe and more recently in the United States and other nations. Wind turbines, both large and small, produce electricity for utilities and homeowners and remote villages. Wind power dates back to at least 5000 B.C.E., when it was used to propel boats along the Nile River. By 200 B.C.E., simple windmills were pumping water in China and grinding grain in the Middle East.

Windmills designed to generate electricity – turbines - first appeared in Denmark around 1890. Two or three propellers are attached to a rotor, which is connected to an electrical generator, the propeller turns the rotor, spinning the generator and creating electrical current. Utility - sized wind turbines are familiar horizontal - axis units, typically mounted on a tower 75 feet or more off the ground, to take advantage of faster, less turbulent winds. Smaller vertical axis turbines without towers are also used, particularly for low - speed winds (Siegel et al., 2008).

Among the advantages of wind energy we can mention: Wind is a vast, free, and inexhaustible resource. It helps reduce the use of the primary fuels for grid power. Most of the costs are up front to build a wind system, the maintenance and operation costs are minimal and predictable. Financing wind power projects can be low – risk. Deploying more wind reduces climate change. Once in place, a wind farm creates no greenhouse gas emissions and needs no water. Wind power can be a large part of a diversified energy mix. The wind industry is a major economic boost and a source of new jobs.

1.3 Hydro-power and tidal energy

Energy in water can be harnessed and used. There are many forms of hydro energy: hydroelectric energy is a term usually reserved for large-scale hydroelectric dams. Micro hydro systems are hydroelectric power installations that typically produce up to 100 kW of power. They are often used in water rich areas as a remote-area power supply (RAPS). Run-of-the-river hydroelectricity systems derive kinetic energy from rivers and oceans without using a dam.

Tidal power is a form of hydropower that converts the energy of tides into useful forms of power - mainly electricity. Although not yet widely used, tidal power has potential for future electricity generation because tides are more predictable than wind energy and solar power. Tidal power can be classified into three generating methods: tidal stream generator - makes use of the kinetic energy of moving water to power turbines, in a similar way to wind turbines, tidal barrage - makes use of the potential energy in the difference in height (or head) between high and low tides, dynamic tidal power - a theoretical generation technology that would exploit an interaction between potential and kinetic energies in tidal flows.

1.4 Geothermal energy

Geothermal energy is energy in the form of natural heat flowing outward from within the earth and contained in rocks, water, brines, or steam. This heat is produced mainly by the decay of naturally occurring radioactive isotopes of thorium, potassium, and uranium in the earth's core (Cleveland and Morris, 2009). Geothermal energy is used to produce electricity or to generate heat. The geothermal plants use steam or superheated water from deep inside the Earth to drive turbines that generate electricity. There are two types of plants: steam plants – which use steam (hotter than 150°C) to turn the turbines that drive the electricity generators and binary plants – which use two fluids to generate steam and are used for lower temperature resources (40 – 150°C).

Geothermal power is one of the cheapest forms of energy, and the cheapest of all forms of renewable energy. It produces nearly 50 times less carbon dioxide, nitric oxide, and sulphur emissions than traditional fossil - fuel power plants. Modern binary cycle geothermal generators have no emissions, not even steam (Siegel et al., 2008).

1.5 Biomass

Biomass is a collective term for all organic substances of non-geological origin that can be used for energy production, including industrial, commercial, and agricultural wood and plant residues; municipal organic waste; animal manure; and crops directly produced for energy purposes. Biomass can be solid (e.g. wood, straw), liquid (biofuels), or gaseous (biogases).

Biomass energy was utilized in 1860 to meet over 70% of the world's total energy needs, mainly via the conventional combustion of wood fuel for heating and cooking. In 2000, the percentage contribution of biomass energy to the world's energy demand had decreased to about 10% of the total. In terms of millions of barrels of oil equivalent consumption per day, biomass energy usage had increased from about 5 out of a total consumption of 7 in 1860, to about 20 out of a total consumption of 200 in 2000.

The purpose of biomass energy applications also increased many-fold during this period and included a wide variety of fuels, organic chemicals, and products. Various projections of the practical global energy potential of biomass energy using advanced combustion, gasification, and liquefaction processes for integrated biomass production bio refinery systems that supply heat, steam, electricity, fuels, chemicals, and bio products on a sustainable basis range up to 100 million toe/day. Commercial systems of this type will be essential in the 21st century if the global community decides that carbon-based fuels and commodity organic chemicals, as well as many specialty chemicals, must be manufactured from renewable biomass resources to maintain the living standards of a modern energy economy, improve environmental quality, and counteract the inevitable shortages and supply disruptions of natural gas and petroleum crude oils expected to start in the first and second quarters of this century. Without large-scale waste and virgin biomass conversion to multiple products in biorefineries, biomass energy utilization will be limited to niche markets, and coal will be the primary source of carbon-based energy, fuels, and commodity chemicals (Cleveland and Morris, 2009).

1.6 EU policy on renewable energies

In order to continue the development and deployment of renewable energy, the EU adopted the 2009 renewable Energy Directive, which included a 20% renewable energy target by 2020 for the EU. The directive provides each Member State with a differentiated legally binding national target to reach the overall 20%, together with a requirement to put in place national policies in

order to achieve that national target. Regarding the post-2020 period the agreed framework consists of two elements: the Heads of States' commitment to reduce greenhouse gas emissions by 80-95% by 2050, and the directive on the EU Emissions Trading System, which will continue to reduce the emissions cap for the ETS sectors by 1.74% each year beyond 2020. Given the difficulty of reducing emissions to zero in transport or agriculture sectors, achieving the Heads of States' commitment is only certain if the power sector emits zero carbon well before 2050 (EWEA, 2011).

Table 1 - Share of renewable energy in gross final energy consumption (%)

geo\time	2006	2007	2008	2009	TARGET
EU-27	9	9.9	10.5	11.7	20
Norway	60.4	60.3	61.9	64.9	-
Sweden	42.4	43.9	44.9	47.3	49
Latvia	31.1	29.6	29.8	34.3	40
Finland	29.2	28.9	30.6	30.3	38
Romania	17.2	18.4	20.5	22.4	24

Source: Eurostat

Table 2 - Share of renewable energy in fuel consumption of transport

geo\time	2006	2007	2008	2009
EU-27	2.1	2.8	3.6	4.2
Slovakia	2.7	4.6	6	8.6
Sweden	4.9	5.9	6.6	7.3
Austria	4.3	5.3	6.1	6.5
Romania	0.8	1.7	1.7	1.6

Source: Eurostat

Steps have been made (Table 1 and 2) but there is a long way to go to meet the 2050 targets.

Energy technology is vital if Europe's objectives for 2020 and 2050 as regards the fight against climate change, security of energy supply and competitiveness of European companies are to be fulfilled. Faced with competition from certain industrialised countries and emergent economies, the European Union (EU) Member States must adopt an effective joint approach on the subject of energy technologies. The strategic energy technology plan (SET plan) presented by the Commission aims to help achieve European objectives and face up to the challenges of this sector:

- In the short term by increasing research to reduce costs and improve performance of existing technologies, and by encouraging the commercial implementation of these technologies;

- In the longer term by supporting development of a new generation of low carbon technologies. An increase in resources, both financial and human, is another major element of the

SET plan. Investment in research and innovation must increase at Community level, through the research framework program (Strategic Energy Technology Plan (SET Plan)).

2. THE EUROPEAN UNION PATENT ENVIRONMENT

One of the central public policy pillars on which the knowledge-based industries and global markets of the 21st Century rest is considered to be intellectual property protection. What's more, rapid changes in key technological, policy and social drivers all underscore their growing importance. Furthermore, intellectual property rights (IPRs) spur innovation, stimulate investments needed to develop and market new innovations and diffuse technology and other knowledge in socially beneficial ways (BIAC, 2003). Basically, ~~the~~ main goal of an intellectual property system should be to create economic incentives that maximize the discounted present value of the difference between the social benefits and social costs of information creation, including the costs of administering the system" (Maskus, 2000).

Intellectual property is the intangible but legally recognized right to property in the products of one's intellect. The three traditionally recognized forms of intellectual property are copyright, trademark, and patent. Copyright protects expressive works— movies, music, plays, books, and the like. Trademark protects marks that are placed on goods to distinguish them from other goods, generally by identifying the maker or distributor. Patent protects inventions. International law also protects less well-known forms of intellectual property, such as trade secrets, know-how, and certain industrial designs (Schwabach, 2007).

Together with the development of new technologies, the ways in which firms protect their innovations and, consequently, the profitability of them have gone through changes. To prevent imitation, firms need to build protective fences around their inventions. These ways of protection can vary from company to company. Some of them can defend their innovations using a patent or some of them can protect their new products using the ~~know-how~~" way. Furthermore, the exclusivity can be also achieved by utilising different mechanisms including institutional protection measures such as copyrights, trademarks, trade secrets and contracts – in other words, the formal means that society provides for innovators to safeguard their creations – as well as the tacit nature of knowledge, human resource management, lead time, and practical and technical means of concealment (Hurmelinna-Laukkanen and Soininen, 2011).

Without doubt, we can affirm that patents play an increasingly important role in innovation and economic performance (OECD, 2004). Moreover, ~~patents~~ are a driving force for promoting

innovation, growth and competitiveness” (Seville, 2009). Additionally, patents “generate monopoly positions that reduce current consumer welfare in return for providing adequate payoffs to innovation, which then raises future consumer welfare” (Maskus, 2000).

A patent is an exclusive right to exploit (make, use, sell, or import) an invention over a limited period of time (usually 20 years from filing) within the country where the application is made. Patents are granted for inventions which are novel, inventive (non-obvious) and have an industrial application (useful) (OECD, 2004). A patent does more than protect against copying. It prevents even independent devisers of the same idea from using that idea. To balance the strength of this right, a patentee is required to disclose the invention in the patent specification, which is available to the public. In modern systems, patents are intended to encourage innovation, and to promote developments which build on that inventiveness. The aim is that the grant of a patent will act as an incentive to inventors, who will consider the rewards sufficient to make it worthwhile disclosing their invention. Information about the latest technical advances thus becomes available for public consultation, thereby increasing efficiency, and in turn prompting further inventions (Seville, 2009). This presentation of what patent represents is very simple, a summary explanation of a much more complex system.

The patent policy can be used in a various number of ways. On the one hand, patent policy may be used positively, like offering incentives to invent (Seville, 2009). The same idea is also supported by Organisation for Economic Co-operation and Development (OECD), which claims that “viewed from the angle of innovation policy, patents aim to foster innovation in the private sector by allowing inventors to profit from their inventions” (OECD, 2004). On the other hand, “the positive effect of patents on innovation as incentive mechanisms has been traditionally contrasted with their negative effect on competition and technology diffusion. Patents have long been considered to represent a trade-off between incentives to innovate on one hand, and competition in the market and diffusion of technology on the other” (OECD, 2004). Seville (2009) mentions that patent policy “may also be used negatively, for instance to exclude certain inventions from patent protection”. Furthermore, “information exchange is not always positively viewed, and firms may prefer to limit the diffusion of their technology for competitive reasons” (Atallah, 2004).

International and European patent laws

Patents for inventions have their origins in Renaissance Italy, when The Republic of Venice passed a patent law in 1474, whose underlying purpose was to attract men with the incentive of a

ten-year monopoly right to their works and devices. Another significant legislative development in patent law came in 1624, when English Statute of Monopolies was adopted (Dutfield and Suthersanen, 2008).

In 1883 the first international convention, the Paris Convention for the Protection of Industrial Property was signed. It is well known that the Paris Convention provides a framework for a number of international patent agreements, including the Patent Cooperation Treaty and the European Patent Convention (Seville, 2009).

In 1970 the Patent Cooperation Treaty (PCT) was signed. It came into force in 1978. Nowadays, it has 144 members, which include ~~all~~ the important industrial countries, although somewhat less than the Paris Convention” (Seville, 2009). The Patent Cooperation Treaty makes it possible to seek patent protection for an invention simultaneously in each of a large number of countries by filing an international patent application. Such an application may be filed by anyone who is a national or resident of a PCT contracting State. It may generally be filed with the national patent office of the contracting State of which the applicant is a national or resident or, at the applicant’s option, with the International Bureau of WIPO in Geneva (WIPO-PCT, 2012). Filing an application under the PCT is a method of protecting patents in several countries (EU Commission SEC 2011/482).

Obviously, there are more events regarding the development of patents, but the aim of this paper is to highlight the connection between intellectual property and the development of new technologies, in particular renewable energy technologies.

On the basis of a single patent application processed in one of the three official languages of the EPO (English, French or German), inventors and businesses can obtain a European patent for one or more Contracting States to the EPC (EU Commission SEC 2011/482). European patents are granted only to inventions which are new, involve an inventive step, and are susceptible of industrial application. A European patent provides protection for 20 years from the date of filing the application.

According with European Patent Organization’s (EPO) official website (EPO-EPC, 2012), 2011 was a record year at the EPO. EPO has received almost 250 000 patent filings, the highest number ever in EPO 34-year history, showing that ~~European~~ patents are in high demand across the globe, and that Europe remains attractive for innovative industries”.

WIPO has recently drafted a Substantive Patent Law Treaty (WIPO-PCT, 2012). Dutfield and Suthersanen (2008) stated that ~~the~~ organisation’s Standing Committee on the Law of Patents is currently debating. Such a Treaty would intensify substantive patent law harmonisation in the

interests of helping well-resourced companies to acquire geographically more extensive and secure protection of their inventions at minimised cost". As well, ~~the~~ Patent Law Treaty (PLT) aims to harmonise and streamline formal procedures in respect of national and regional patent applications and patents, and thus to make such procedures more user-friendly (and cheaper). It was signed in 2000, came into force in April 2005 and is administered by WIPO" (Seville, 2009).

The harmonisation of the national laws remains a real problem for IPR. Even the EPC harmonises the national laws of member states significantly, there are two matters which caused particular concern. According to Seville (2009), those two main problems concern ~~the~~ high cost of translating the full patent specification into the national languages of the states where it will take effect" and ~~the~~ absence of a common European litigation scheme to deal with infringement and validity of European patents". Consequently, two Intergovernmental Conferences (Paris 1999 and London 2000) sought to address these difficulties, resulting in the London Agreement, and the draft European Patent Litigation Agreement (EPLA).

Community initiatives in the field of patent law

The Commission regards patents as a driving force for promoting innovation, growth and competitiveness within the Community. In spite of this, a little evidence of progress was made in creating a system for a Community patent. In the European Union, patent protection currently can be obtained either through the national patent offices of the Member States, which grant national patents, or through the European Patent Office (EPO) in the framework of the European Patent Convention (EPC). Nevertheless, once a European patent is granted by the EPO, it must be validated in each Member State where protection is sought. For a European patent to be validated in a territory of a Member State, national law may inter alia require that the patent proprietor files a translation of the European patent into the official language of that Member State. Therefore, the current patent system in the EU, in particular in terms of translation requirements, involves very high costs and complexity (EU Commission COM 2011/215, EU Commission COM 2011/216).

EC proposed a new ~~Regulation of the European Parliament and of the Council implementing enhanced cooperation in the area of the creation of unitary patent protection"~~ in 2011. The new proposal is accompanied by an impact assessment which identifies the main problems in the current European patent system. First problem which is mentioned is that of high costs related to translation and publication of European patents. Secondly, there are differences in the maintenance of patents in the Member States (annual renewal fees have to be paid each year in each country where the

patent is validated). Finally, there is an administrative complexity of registering transfers, licences and other rights related to patents. As a consequence, access to comprehensive patent protection in Europe is so costly and complex that it is inaccessible to many inventors and companies. In particular, small and medium enterprises (SMEs) often prefer an informal protection of their innovations (e.g., secrecy). The situation described has major undesirable effects on the functioning of the internal market. In addition to maintaining the fragmentation of the market, it also has a negative impact on innovation, growth and the competitiveness of European business (EU Commission SEC 2011/482 and 483).

3. THE IMPORTANCE OF IP IN THE RENEWABLE ENERGY SECTOR

The worldwide challenge of climate change mitigation has led to an increased interest in the mechanisms that encourage the development and adoption of new technologies. Because of the recent rapid economic growth, the policy attention has focused on the role of technology transfer and technology development in countries that are not generally on the technology frontier in facilitating the use of clean technologies. Obviously, raising the standard of living in such countries to levels enjoyable without a great deal of energy and environment-related innovation would have detrimental consequences for global warming. Furthermore, it is also true that rapid growth means a great deal of new investment, and new investment is an opportunity for substantial upgrading of technologies (Hall and Helmers, 2010), ICC BASCAP (2011).

In the information age, few people would deny the significance of creativity, inventions and innovation to economic growth and technological development. Over the past two centuries or so, the acceleration of technological advancement has radically changed the life of mankind and demonstrated values of innovation in creating our everyday reality (Wei, 2008).

Without innovation, it will be very difficult and very costly to achieve the transformation to a greener economy. There is vast amount of scientific and empirical evidence that suggests that reducing global greenhouse gases (GHG) emissions will require innovation and large-scale adoption of green technologies throughout the global energy system. How to foster green technologies and innovation is perhaps the most crucial challenge for a green economy. Recent efforts show that OECD governments as well as emerging economies are giving priority to R&D activities and incentives for specific technologies such as renewal energies and environmental technologies (OECD, 2010).

In the context of development, Dutz and Sharma, (2012) define innovation largely as “the commercialization of new ways to solve problems through improvements in technology, with a wide interpretation of technology as encompassing product, process, organizational, and marketing improvements”. Obviously, this definition includes “catch-up innovations, namely the diffusion (both across and within countries) and the adaptation to local context of existing green products, processes, organizational and marketing technologies”. As well, green technologies include a vast range of fundamentally different technologies that support wealth creation and achieve more resource-efficient, clean and resilient growth (Dutz and Sharma, 2012).

Furthermore, Dutz and Sharma, (2012) point that green technologies can be divided in four main groups:

- The first group, regarding pollution reduction and greater resource efficiency, encloses technologies such improved recycling and energy efficiency in buildings (thermal insulation and new materials, heating, energy-efficient lighting), production processes, agriculture, transport infrastructure, and urban design (including land use);

- The second group, regarding climate change mitigation, contains technologies that include cleaner energy supply (wind, solar, geothermal, marine energy, biomass, hydropower, waste-to-energy, and hydrogen fuels), end-use (electric and hybrid vehicles, climate-friendly cement), and carbon capture and storage;

- The third group, regarding adaptation, contains technologies which include more climate-resistant products and processes appropriate for changing environments and tools to understand and insure against climate risks with improved early-warning system processes (sea-walls, drainage capacity, reductions in environmental burden of disease, and water, forest and biodiversity management);

- The last group contains technologies which directly support wealth creation through more sustainable production of plants and livestock, more productive use of biodiversity (natural cosmetics, pharmaceutical products, eco-tourism), and ecosystem protection (Dutz and Sharma, 2012).

A list of environmental patent applications was generated through a new search algorithm developed by the OECD and the European Patent Office (EPO). Fields covered include: renewable energy; fuel cells and energy storage; alternative-fuelled vehicles; energy efficiency in the electricity, manufacturing and building sectors; and “clean” coal (including carbon capture and storage) (OECD, 2010).

In this circumstance, patents play a central role among the different instruments available for protecting innovation (EU Commission, 1997). The current interest in green technology will lead to an increasing invention activity in this area, and, thus, increasing patent interest in this area. Moreover, green technology is being perceived as: usable for marketing, justification for public grants and as necessary and desirable for long-term health, safety and environmental concerns (Hillson and Daulton, 2009). However, more rapid green growth is inconceivable without innovation (Dutz and Sharma, 2012). Furthermore, private research and development (R&D) investment is encouraged through a widely available policy which is intellectual property system (Hall and Helmers, 2011).

The patent is generally viewed as an important instrument for the global economy and is essential when protecting high-tech investments. The patent system extends globally to nearly all countries in the world. More than 170 countries are members of the Paris Convention, and among these countries more than 140 have ratified the Patent Cooperation Treaty (Nielsen et al., 2010).

When it comes to the green patent system, there will be also downsides. The term “green” can relate to: greenhouse gas emissions issues; energy generation, energy efficiency, alternative energy sources, alternative energy uses, environmentally friendly manufacture, environmentally friendly waste disposal, recycling, use of recyclable materials, use of recycled materials, use of materials from renewable resources, repurposing existing materials and equipment, merely using previously wasted energy output from a process for some purpose, waste remediation etc. In this context, anti-patent activists already see patent system as inhibiting implementation of technology, rather than fostering its development. Their position will be that green technology should be available for all to use. Examples of the manifestation of this concern are the global movement for compulsory licensing in third world countries, with respect to green technology; and, in general, an anti-patent movement (Hillson and Daulton, 2009). Furthermore, Hašič et al. (2010) state that environmental policy flexibility is significant in generating innovations. It is argued that “countries with more flexible environmental policies are more likely to generate innovations which are diffused widely and are more likely to benefit from innovations generated elsewhere” (Hašič et al., 2010). This concludes that the role of innovation is important in developing green technologies, but it is strongly influenced by the local environmental policy.

It is well known that not all inventions are patented. An inventor has two options: to bring in front of the public his inventions (requesting a patent for his invention) or to keep it secret (e.g., using industrial secrecy method). Of course, the differences between these two methods of protecting intellectual work are significant. As we have already mentioned, using the method of

patent, the inventor can receive incentives from those who are using his invention and can have a strong monopoly over it. Furthermore, patenting their inventions, inventors make their new technologies open to everyone. Using the other option (i.e. industrial secrecy) the new technology is no longer opened to the public. In the green technology field, this detail has many consequences. The human kind is interested in reducing greenhouse gas (GHG) emissions and in mitigating climate change; this reality is confirmed by the numerous conventions signed, like United Nations Framework Convention on Climate Change or the Kyoto Protocol. The same interest is shown by Maskus (2010), who claims that “all countries have an interest in mitigating climate change and seeing global GHGs emission reduced”. Therefore, it is important that the development in the green technology domain must be made public.

3.1 Technologies and specific problems

Photovoltaic technology is a novel technology compared to others like wind-turbines and bio-fuel producing installations. Although costs are declining currently the PV technology is more expensive than traditional means of producing electricity and it requires large-scale precision manufacturing capability. Barton (2007) considers that the industry is moderately centralized. The four leading firms that are producing about 45 percent of the market are based in Europe and Japan (developed countries). In China, the industry has long been encouraged by the government, through support for research into all forms of PV cells and through encouragement of the import or design of PV production equipment. India’s leading firm is a joint venture between BP Solar (51 percent) and Tata (49 percent). The structure of this industry is clearly an oligopolistic one. It is not clear whether the various patents involved have been taken out in developing nations as well as in developed nations. It is possible that developing-nation firms could copy the technologies for local application or obtain licenses on reasonable terms because of the large number of firms in the industry.

Regarding the Biomass for biofuels, patent issues are likely to arise primarily with the newer technologies, because the older ones are long off-patent, and there is enormous patenting activity in the new areas. Newest technologies in the biomass sector regard creation of new enzymes and organisms that are able to break down cellulose. The economics of bringing the biomass to the production plant favours decentralized conversion. Significant concentration can be observed at the ownership level. In the United States Archer Daniels Midland (ADM), holds 17 percent of the US ethanol capacity and the top five firms hold 37 percent (Barton, 2007).

The basic technology of wind turbines is not new. There are although many recent improvements in the technology like: much lighter and more efficient blades, design of systems (for some styles of mill) to orient the windmill to changing wind directions, mechanisms to protect the system during high winds, and engineering choices needed to decrease long-term maintenance costs. Technology has also been evolving in the design of appropriate systems to enable connection to the electricity grid (Barton, 2007). There are intermediate firms that specialize in building large-scale wind-energy parks, assembling the real estate, the capital and equipment, and making all the necessary arrangements with the electrical grid. The global market for wind turbines however is an oligopolistic market with high entrance barriers – high costs. The leaders in this market are strong and hesitant to share their leading technology out of fear of creating new competitors (Barton, 2007). Because of the high costs involved, newcomers may experience difficulty in obtaining/creating most advanced technologies.

3.2 Different country approaches

According with Dutz and Sharma, (2012), there has been a significant worldwide increase in frontier green innovation since the end of the 1990s, but most of this is taking place in the high-income countries. Japan, Germany and the USA account for 60 percent of total green innovations worldwide between 2000 and 2005, based on key greenhouse gas (GHG)-mitigation technologies. Furthermore, these three countries plus France and the UK are the top five ‘high-quality’ inventor countries, accounting for 64 percent of the world’s total high-quality green inventions. China, in tenth place, is the only emerging economy represented among the top ten high-quality innovating countries. In addition, Dutz and Sharma, (2012) point that there are few frontiers green inventions in the developing world, other than in China. During the five year period spanning 2006-2010, countries in the LAC (Latin America and Caribbean), SSA (Sub-Saharan Africa) and MENA (Middle East and North Africa) regions were granted a total of 8, 6 and 3 green US patents, respectively. The EAP (East Asia and Pacific) region, and to a lesser extent S Asia (South Asia) and ECA (Europe and Central Asia) regions have a more sizable output, with 49, 17 and 13 green patents granted. In comparison, high-income countries were granted nearly 1,500 green patents in 2010 alone (Dutz and Sharma, 2012).

According to Haščič et al. (2010) the international diffusion of mitigation technologies and knowledge is a major problem for all countries. It is stated that –all countries benefit from increased greenhouse gas mitigation arising out of the wide international diffusion of climate change

mitigation technologies and knowledge” (Haščič et al., 2010). Moreover, it is claimed that patent data can be potentially used as the base from which to develop a proxy measure of technology transfer. This arises from the fact that protection for the invention may be sought in a number of countries, though patenting is costly.

Developing country governments understand that increased access to technology is one of the pre-requisites of industrialization, self-reliant development, and poverty alleviation. The negotiating positions of developing countries (represented by G77/China) on technology transfer focus on policy mechanisms that prioritise access to advanced technologies. Recent proposals have included funds for technology acquisition, obligatory licensing and funds for buying up IPRs relating to cutting-edge technologies and making them publicly available (Ockwell et al., 2010a).

Developed nations motivation for involvement in the UNFCCC is the mitigation of greenhouse gas emissions. The primary objective of transferring low carbon technologies to developing countries is to achieve rapid and widespread diffusion of these technologies so as to reduce the emissions associated with future economic development in these countries. Developed countries’ negotiating positions generally focus on policy mechanisms to diffuse low carbon technologies via, for example, establishing markets for these technologies, or providing market incentives to overcome higher costs (Ockwell et al., 2010a).

Nevertheless, the problem is still controversial. Maskus (2010) observed that there are debates over the scope and limitations of patents. Developed countries view the global IPRs system as “an inducement to the development of environmentally sound technologies (ESTs) and their effective diffusion and transfer to developing countries” (Maskus, 2010). Furthermore, he argues that many developing nations, including China and India, see patents as significant barrier to international technology transfer (ITT). This debate raises some questions regarding the consequence of the patents in green technology transfer process. Certainly, the problem is very complex, the economical component being essential.

Another important aspect to be discussed is that of places where green innovations are developed and where are these utilized.

The success of economic growth in the developing countries comes altogether with more pollution. Therefore, technological innovation is important in ameliorating these environmental impacts. The main problem that emerges is that of diffusion of clean technologies within the developing countries. Because of the increasing quantity of emissions from developing countries, developing policy that encourages the transfer of clean technologies to developing countries has been major discussion point in climate negotiations (Popp, 2009). Haščič et al., (2012) conclude in

their study that developing countries such India and China have started to play increasingly important roles in implementing agreements with important implications for the development of climate mitigation technologies. It is pointed out that the objective of these so called ‘implementing agreements’ is to ‘share knowledge about climate mitigation technologies across borders and creating research collaboration synergies’.

Ockwell et al. (2010b) claims that developed countries are interested in encouraging the uptake of green innovations in developing countries due to their public good nature and related potential to reduce and adapt to the impacts of global environmental problems. Moreover, it is recognized that developing countries can take advantage of green technologies developed in high income countries, but both environmental and trade policies will affect the pace and quality of international technology diffusion (Newell, 2009).

CONCLUSIONS

The renewable energy sources form a small but fast growing part of the global energy portfolio. The worldwide challenge of climate change mitigation has led to an increased interest in the mechanisms that encourage the development and adoption of new technologies, also named ‘green technologies’ or ‘renewable energy technologies’. Those technologies that support wealth creation and achieve more resource-efficient, clean and resilient growth include: photovoltaic technology, technology for biomass energy, technology of wind turbines, technology for hydro-power and tidal energy, technology for geothermal energy. A crucial condition for green energy to win an important share of the energy sector is lowering the production cost of the equipments. In the long run this can be achieved by supporting and protecting innovation in this field.

The main conclusions we can draw regarding emerging renewable energy market and IPRs are:

1. Green technologies or renewable energy technologies are vital for humankind and play an important role inside the EU, ensuring secure and sustainable supplies at reasonable prices and contributing to growth and jobs in Europe. Consequently, the EU adopted some directives in renewable energy field. On the one hand, the European objectives targets the reducing of costs and improving performance of existing green technologies; on the other hand, the European objectives targets the development of a new generation of low carbon technologies;

2. The role of IPRs in fostering green technology innovation becomes very important. The preoccupation for IPRs is ancient and lasts until now. IPRs spur innovation, stimulate investments

needed to develop and market new innovations and diffuse technology and other knowledge in socially beneficial ways. In this context, the EU regards patents as a driving force for promoting innovation, growth and competitiveness within the member states;

3. There are also different views regarding the scope and limitations of patents. Some analysts claim that many developing nations see patents as significant barriers to international technology transfer, including green patents. In the same manner, anti-patent activists see patent system as inhibiting implementation of technology, rather than fostering its development and aim that green technologies should be available for all to use because reducing pollution is a global objective. Undoubtedly, the concern is complex, the economical component being essential;

4. There has been a significant worldwide increase in frontier green innovation since the end of the 1990s, but most of this is taking place in developed countries. International diffusion of mitigation technologies and knowledge is a major problem for all countries. Developing country governments understand that increased access to technology is one of the pre-requisites of industrialization, self-reliant development, and poverty alleviation. Besides, developing countries have started to play increasingly important roles in implementing agreements with important implications for the development of climate mitigation technologies;

5. Globalization plays a significant role in transferring green technologies to developing countries. Green technologies are first developed in the world's leading economies and the access to these technologies is provided by international trade and foreign investments. There are evidences that environmental regulations are adopted more rapidly by developing countries. Additionally, developed countries are interested in encouraging the uptake of green innovations in developing countries, which can take advantage of these green technologies, but both environmental and trade policies will affect the international diffusion of renewable energy technologies.

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THE EASTERN NEIGHBOURHOOD OF THE EU *GRAND* *CHESSBOARD**

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Abstract: *The European Union (EU) approach towards its eastern neighbourhood is a complex one as it puts emphasis on several key aspects: geopolitical, geoeconomic, security, given the problems that the European Neighbourhood Policy (ENP) is faced with and also the competition between the two important regional actors – the EU and Russia – that many times takes the form of a rivalry between spheres of influence. Firstly, this paper dwells on a brief study of the ENP eastern dimension, whereas, secondly, it focuses upon the competitive geostrategic configuration between the EU and Russia, in terms of the political and economic future of Eastern Partnership (EaP) states: Armenia, Azerbaijan, Georgia, Moldova, Ukraine and Belarus.*

Keywords: European Neighbourhood Policy, Eastern Partnership, Eastern Europe, geopolitics, EU-Russia relationship

JEL Classification: F15

1. INTRODUCTION

The European Union (EU) has approached the challenges generated by the near abroad from a regional integration-security perspective. Its means were at that time mostly economic, but the objective was political: to pacify Europe. As integration advanced and the potential for conflicts in Western Europe faded, the EU concern with conflicts has become increasingly *outward looking*. The strengthening of solidarity between the European states after the Second World War through trade, financial exchange, the integration of national economies, political negotiations under common institutions and through a constant diffusion of *European ideas* fostered confidence, provided predictability and created strong links between countries. These efforts have been developed alongside the EU's enlargement process, thus generating an unprecedented integration project of *Kantian* inspiration, which the Union is now also applying to its neighbourhood (Kelley, 2006).

The political-economic interstate interaction represents the *driving force* that supports the regional cooperation and integration envisaged by the European Neighbourhood Policy (ENP). The ENP constitutes a frame for consolidating relations with EU neighbours and aims both at creating

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an area of prosperity, stability and security and at sharing common values (democracy and human rights, rule of law, good governance, market economy principles and sustainable development). (ENP, 2012) As such, this paper argues that these political and economic leverages used by the EU in relation to its neighbourhood can also represent a tool of regional influence or a *subtle geopolitical strategy*.

In order to delineate the research field, it is important to mention the fact that the ENP, as it is defined, comprises the Southern neighbourhood of the EU (the Mediterranean countries) and the Eastern one (included in the Eastern Partnership: Moldova, Ukraine, Belarus, Georgia, Armenia and Azerbaijan). This paper focuses upon the eastern dimension of the ENP because, in comparison to the other neighbouring countries from the Mediterranean Basin, the Eastern Partnership (EaP) states display a *European sense of belonging*, due to their inclusion into the conventional geographic boundaries of the European continent.

2. THE EUROPEAN NEIGHBOURHOOD POLICY AND ITS EASTERN DIMENSION

The origins of the European Neighbourhood Policy (ENP) date back to the beginning of 2002 when Great Britain insisted upon creating an *Wider Europe* initiative meant for countries such as Belarus, the Republic of Moldova, Russia and Ukraine, but not for the countries in the Western Balkans (already involved in the process of stabilization and association) or for those from the Southern Caucasus (Armenia, Azerbaijan and Georgia).

The year 2004 brought two notable events on the EU agenda. The first was the EU's transition from 15 to 25 member states after the enlargement towards Central and Eastern Europe, followed in 2007 by Romania and Bulgaria. The second event marked the launch of the ENP in 2004 and might be regarded as a consequence of the first, being the result of the EU's concern about avoiding the emergence of new dividing lines between the enlarged EU and its neighbours. Compared to the initial proposal, also in 2004, after a strong lobby made by the republics from South Caucasus and after Georgia's peaceful *Rose Revolution*, the Council of the EU accepted the participation of Armenia, Azerbaijan, Georgia, as well as of several Mediterranean states. Russia refused to participate, preferring to cooperate with the EU on *equal footing*, developing four *common spaces*: (1) economic; (2) freedom, security and justice; (3) external security; (4) research and education, within a specific agreement of cooperation (Smith, 2005, p. 759).

The ENP system represents a new approach to the relationship between the EU and third countries, an approach that outperforms the traditional one based on cooperation. It aims now at creating a stable, secure area, *a ring of friends* at the EU's borders, as Romano Prodi (president of the European Commission, 1999-2004) has coined it. Good governance, market economy and democratisation, prerequisites for stability, are at the forefront of this policy initiative. These objectives are paramount for Brussels, because at the European level –admission to the common market demonstrates commitment to stable democratic rule. In the other direction, democratic states presumably feel their security less threatened by other democratic states, and hence can enter into relationships of economic interdependence for absolute gain without worrying as much about the relative gains that so centrally impact the realist model of relationships.” (Russett, 1998, p. 375)

It should be noted that, from the very beginning, the ENP was adjacent to, but distinct from the EU's enlargement policy; also, this policy cannot be regarded as *a pre-accession exercise* as the states concerned have not been targeted as potential EU candidates. *Belonging to Europe* and *being associated with Europe* are two distinct phrases which draw a blurred line between the EU states and their neighbours. However, the official formula initially used for the ENP by Romano Prodi has a milder, albeit vague, meaning, namely that this policy should offer its neighbours “more than partnership and less than membership” (Prodi, 2002). This indicates the purpose of reaching a level of integration similar to, but not mistaken for, accession to the EU.

Thus, the European Union hopes that the neighbouring countries will adopt its policy and will gradually comply with its norms, such as the case of Central Eastern European Countries, even in the absence of a membership perspective. Since the political perspective - the EU membership - has not been yet considered, for the time being the declared objective of the ENP is to offer in the near future partner states the possibility of participating in the EU internal market*. Accordingly, the perspective of participating in the EU's internal market is, for the neighbouring countries, the most significant aspect of the ENP. Although it is a progressive and long-term objective, this *part* (–stake”) from the internal market has not been accurately defined in the EU's official documents, yet it seems to refer to a substantial reduction of tariff and non-tariff barriers in numerous aspects of the internal market and also to a future possibility of being included into a free trade area of goods, services and factors of production. This renders a gradual convergence with the rules of the European internal market, a regional consolidated cooperation and a stronger adjustment to the institutional practices and standards of the EU.

* –Stake in the EU internal market” – as stated in the official documents of the European Commission.

The eastern dimension of the ENP refers to the Eastern proximity of the EU and includes the European countries: Ukraine, Moldova, Belarus, Armenia, Azerbaijan and Georgia, whereas in the south, the ENP brings together the countries surrounding the Mediterranean Basin (Algeria, Egypt, Israel, Jordan, Lebanon, Libya, Morocco, the Palestinian Authority, Syria and Tunisia). Whereas the ENP countries from the South (*Maghreb* and *Mashreq*) seem to enjoy the model proposed through the ENP*, the Eastern Europe countries do not regard the ENP as an alternative to the membership perspective but, as a *palliative* that could gradually be followed by more consistent integration policies.

The ENP, and most recently the EaP that reunites these states located in EU's eastern proximity, remains one of the main priorities of the Union's external policy by economically and politically pushing the states involved a step closer to the EU. Through the EaP, a multilateral cooperation initiative which enriches the ENP, the EU reiterates its interest in this region by providing the premises for creating an area of free trade, stability and security.

These six states were part of the former Communist bloc and share a similar economic and political domestic environment: they are former communist regimes, transition economies which have been gradually seeking to transform themselves from centrally planned economies to free markets. They have been isolated for a very long time from the international principles that regulate the capitalist economies, as a result of trade restrictions within the Communist bloc. Integrating them into the international economic system is a major challenge both for the economic agents as well as for the national authorities.

The countries that we are referring to - Ukraine, Moldova, Belarus, Georgia, Armenia and Azerbaijan[†] – have a very short history of independence and consolidation of the liberal democratic state, and their institutional apparatuses are still unable to manage the absorption of normative frameworks demanded by a modern economy. The EU's economic governance which has been successful in providing prosperity for its member states has a certain degree of attraction and legitimacy in the eyes of the post-Soviet elites and the societies they represent. However, there is a wide discrepancy between the realities from these countries and their capacity to comply with European economic and political norms. The six states have a core group (Ukraine, Moldova and Georgia) which display a strong desire to become EU members; concurrently, they are willing to work according to the convergence paradigm concerning the EU norms and standards, as well as according to procedures that are similar to the accession process. For the second group made up of

* They do not even satisfy the geographic requirement to join the European Union.

[†] Henceforth, the neighbourhood terminology will strictly refer to the EaP states.

Belarus, Azerbaijan and Armenia, the membership option is not clear but, nevertheless, embracing the EU values and norms represent an assumed goal (probably with the exception of Belarus). The launching of negotiations for establishing association agreements with Armenia, Azerbaijan and Georgia in July 2010 (i.e. 3 years after similar agreements have initiated with Ukraine and 1 year after Moldova) is the most important step to harmonise EU relations with eastern neighbours.

In spite of the official discourse according to which the objectives of the ENP and EaP are political association, the creation of a free trade area and economic integration with the EU, these are merely instruments for the achievement of the fundamental goal of security. The timing of the policies, among other things, shows that they were designed in response to security challenges: the ENP emerged in the aftermath of the big 2004 enlargement and shortly before Romania and Bulgaria became members, which would bring the troubled region closer to EU borders, whereas the EaP came about as a result of the 2008 war in Georgia.

3. THE EASTERN VICINITY OF THE EU – A *BONE OF CONTENTION* BETWEEN THE TWO REGIONAL PLAYERS, THE EU AND RUSSIA?

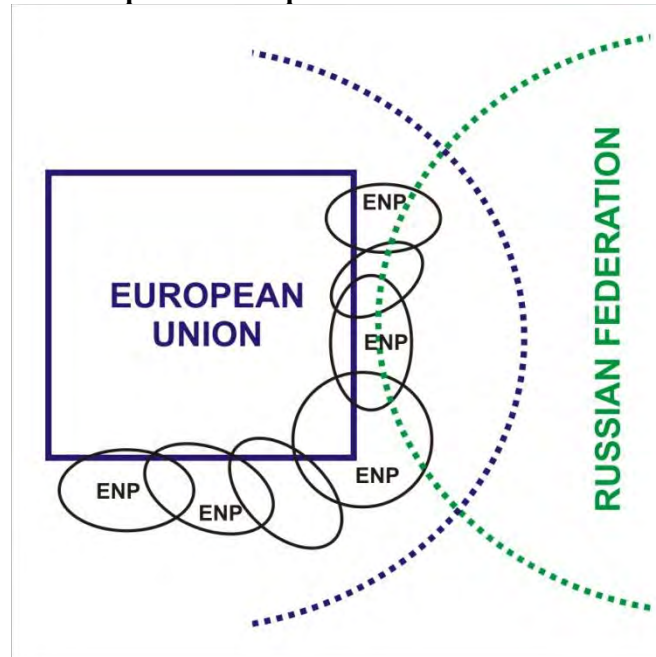
A brief analysis of the eastern neighbourhood of the EU cannot rebuff the geopolitical factors. *Geopolitics* is a theory that puts emphasis on the essential connection between the geographical position of a state and its politics, a fact which highlights the central importance of the territory in the countries' behaviour. The international milieu is mainly split in states and blocks of states that are structured on three different levels, ranging from the *global*, to the *regional* and the *local* (national) one. Whereas on the global level there are important players who seek to assert their influence (e.g. the USA, Russia, the EU, China, etc.), on the regional level it becomes clear how these powers translate their interests in the form of *spheres of influence*. These spheres often collide leading to consequences at the local / national level. Moreover, national actors may have a certain significant impact upon the geopolitical configurations when making their external political decisions.

Regarding the eastern dimension of the ENP, the EU and Russia are the actors exercising influence on all these three levels (global, regional and national). They are not just global powers, but they also play a determining role on a regional level in the eastern proximity of the EU, an area often regarded as a *grey area* between the two great international actors. Or, as Wesley Scott argued, the EU has attempted to create through the ENP a *buffer-zone* (similar to Immanuel Wallerstein's concept of *semi-periphery*), meant to protect the European nucleus (the member states

of the EU) from the potential political and economic unrest coming from outside its borders (Scott, 2005, p. 434).

Therefore, the geostrategic relation EU-Russia also deserves increased attention in order to understand the sensitive context the six states involved – Belarus, Ukraine, Moldova, Georgia, Armenia and Azerbaijan – are faced with in terms of external policy choices, as they sometimes represent a *bone of contention* in the often tense relationship between the EU and Russia (Figure 1).

Figure 1 - Geopolitical competition between the EU and Russia



Source: Table adapted according to Fabrizio Tassinari. (2006) „Variable Geometries: Mapping Ideas, Institutions and Power in the Wider Europe”, *CEPS Working Document*, No. 254, p. 12.

From Brussels' standpoint, the eastern states do not only have a key geopolitical position, but they also represent an important asset in terms of international economic competition with other centres of international power. The former Communist states represent a wide market that cannot be ignored by any expanding power. Furthermore, these countries are either endowed with rich natural resources (Azerbaijan) or represent vital energy transit routes (Georgia, Ukraine, Belarus). And these geopolitical advantages are difficult to ignore. The eastern dimension of the ENP is influenced by a very heterogeneous group of factors and lies at the centre of some strategic games and rivalries based on the problem of energy. In this space, the EU is attempting to build a new system of pipes for oil and natural gases corridors from the Caspian Sea and Central Asia, bypassing Russia. The actions of the EU are creating obvious regional frictions. For example, the 2008 conflict between Russia and Georgia was also generated – albeit officially rejected – by the geopolitics of the energy

routes in the region. Therefore, it can be said that the region is marked by instability and severe security problems that may significantly inhibit the development and even the success of the processes of cooperation and regional integration with the European Union.

The common space between the EU and Russia has frequently been an economically and diplomatically disputed space. The ENP has been regarded as an essential step in establishing strong relationship between the EU and its new neighbours. Russia’s self-exclusion from the ENP has resulted in a competitive agenda between the two geopolitical players. Moscow perceived the ENP and the very concept of *shared neighbourhood* as posing a threat to what Russia regarded to be its traditional sphere of influence (Gower and Timmins, 2009, p. 1685).

These tensions are generated, on the one hand, by the attraction of a pro-Occidental agenda that promises financial support, technical assistance and a potential economic integration into the European market, which would mean positive benefits for trade and investments. On the other hand, cooperation with Moscow is still a salient issue given the dependence on Russia’s energy resources and also the cultural and historical affinities.

The efficiency of EU’s external governance cannot be discussed without examining the wider geopolitical milieu where the Union’s actions occur. The interdependencies from the triangle formed by the EU, the EaP states and Russia shape the context within which the EU and Russia compete to export their legislative, structural, institutional, geopolitical and economic policies (Table 1).

Table 1 - Interdependencies within the EU-Russia shared neighbourhood

INTERDEPENDENCIES	EaP states - EU	EaP states - Russia
Trade	High ← →	Low
Foreign Affairs	Medium ← →	Medium
Energy	Low ← →	High

Source: Table adapted according to Dimitrova, Antoaneta, Dragneva, Rilka. (2009) –“Constraining external governance: interdependence with Russia and the CIS as limits to the EU’s rule transfer in the Ukraine”, *Journal of European Public Policy*, Vol. 16, No. 6, p. 853.

These interdependencies are still deeply marked by energy issues – apart from Azerbaijan and Georgia (which is mainly supplied by Azerbaijan), the other four states (Moldova, Ukraine, Belarus, Armenia) depend to an overwhelming extent upon Russia in terms of energy. This dependency also affects their foreign political decisions.

In the commercial field, the EU’s influence is higher than the one exercised by Russia through the Commonwealth of Independent States (CIS). The EU is the main trade partner for all the five

countries, an exception being Belarus where Russia maintains an upper hand. (European Commission, 2011a) In the near future, Brussels envisages the creation of an economic area similar to the European Economic Space with its eastern neighbours within which it will have stronger leverages.*

Nevertheless, Russia has often attempted to undermine the economic objectives of the ENP. The *Russo-centric* approach focuses upon a different kind of economic integration, which means taking control over the key economic, energy and infrastructure assets. The EU's inclusion of the Republic of Moldova and of Ukraine in the European Energy Community, which implies a full adoption of the energy acquis by the two countries, stricter competition rules, a certain degree of separation from the energy companies and more transparent regulations is at odds with the monopolist domination of Gazprom over the energy market in Moldova (through MoldovaGaz), energy infrastructure in Ukraine (through RosUkrEnergo) or Belarus (Russia covers all of Belarus's gas needs and 90% of its oil consumption) (Wilson and Popescu, 2009, p. 32). In addition to that, Vladimir Putin's new integration project which envisages the creation of a Eurasian Union by 2015 is meant to counter any regional initiative forged by the EU. In spite of the official rhetoric according to which the aim of this union is economic, the ultimate objective is, however, geopolitical. It seeks to offset the Deep and Comprehensive Free Trade Agreements (DCFTAs) already underway, launched by the EU in association with almost all the EaP members (again with the exception of Belarus). Apart from an improved economic agenda, these DCFTAs include non-technical norms (values), including principles of institutional harmonization, good governance, human rights and democracy (Moga, 2012, p. 80).

Regarding their foreign policy actions, the six states are trapped to a certain extent in a regional geopolitical bloc (the CIS) created by Russia as a tool used to handle interdependencies after the breakdown of the Soviet Union. Russia's involvement in the CIS region has the potential to interfere with the EU's external governance and to influence the transfer of policies in several ways: first of all, by using existing institutional arrangements within the CIS (bilateral agreements or other official coordination mechanisms) and, secondly, by exerting a policy based on power in the areas in which (energy) interdependence is high (Emerson, 2004, p. 27).

* This statement has been concluded from Romano Prodi's declaration, who suggested that "it is worth seeing what we could learn from the way the European Economic Area was set up and then using this experience as a model for integrated relations with our neighbours." - Prodi, R., "A Wider Europe – A Proximity Policy as the Key to Stability", Speech/02/619, *Sixth ECSA-World Conference*, Brussels, 5-6 December 2002, p. 7. apud Sieglinde Gstöhl. (2008) "A Neighbourhood Economic Community - finalité économique for the ENP?", *EU Diplomacy Papers*, No. 3, p. 4.

Moreover, Russia could still hinder EU peace efforts to thaw the *frozen conflicts* in the region. Transnistria, South Ossetia and Abkhazia are still among the toughest challenges for the Euro-Atlantic security community.

The above-mentioned facts denote that Russia seems to be unwilling to accept a strong involvement of EU through the ENP in the common neighbourhood. Accordingly, Russia still prefers various games of geopolitical competition, making use of its trump cards (energy levers, military power etc.). In May 2009, when during the Prague Summit the EU launched the EaP, Russia did not hesitate to express its reluctance, accusing the EU of trying to expand its sphere of influence in the region.

Thus, it becomes obvious that creating an integrative frame for regional cooperation depends, to the largest extent, upon the success of the external governance that the EU wishes to transfer to its vicinity.

4. CONCLUSION

The EU and Russia are the most important actors in the shared neighbourhood, both exercising structural and normative power to shape their neighbouring environment and both trying to coordinate the external challenges emanating from the region. On the one hand, having the EU as a neighbour is an advantage: the EU is currently the only international actor with a comprehensive strategy for its immediate neighbours, despite the difficulties in bringing together the interests and priorities of its 27 member states. On the other hand, Russia is often perceived as seeking to maintain or recreate a traditional, Realist *sphere of influence* by manipulating a range of hard and soft instruments to exploit its predominant structural power in the post-Soviet space. Despite the fact that the EU and Russia have a common interest in ensuring regional stability, in the last years between these two international actors a *zero-sum game calculus* occurred in terms of geopolitics and competition. Moscow is generally considered as a normative and political rival to Brussels and consequently as the main stumbling block to any EU–Russia cooperation in the common neighbourhood. This is not surprising taking into account that both the EU and Russia have often expressed their interest in the shared neighbourhood (the main Russian energy routes are transiting this area, as it is the case of the future EU Nabucco project).

Apart from the geopolitical competition which has laid it bare that the EU is not “the only game in town”, the present economic debacle represents an acute threat to the EU’s power of attraction and credibility in the neighbourhood. For enhancing regional stability and security, the

EU should also play a much more important part in promoting prosperity and reduce economic disparities. It also needs to take further steps internally for a much more coherent, consolidated neighbourhood policy in order to present a stronger, unified policy externally.

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RESEARCH ON THE APPRAISAL OF INTANGIBLE ASSETS IN ROMANIAN COMPANIES*

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Abstract: *Irrespective of the cultural environment in which companies operate (Europe, Asia, America or any other geographical area), intangible assets have a significant role in the development of a business since they contain knowledge that can be the engine of the respective business and they can offer competitive advantage. The current article is a study of companies listed on BVB under category I. We have considered the percentage of intangible assets that the latter companies have and that are present in financial statements, and their value under the circumstances in which the market value is higher than net assets.*

Keywords: *intangible assets, valuation, net assets*

JEL Classification: M40, M49

INTRODUCTION

Two significant factors have led to major changes over the last decades: globalisation and technological changes (Maha, Donici and Maha, 2010). In this environment, intangible assets have a significant importance since they provide companies with significant competitive advantages. Nakamura (2001) approximated investment in intangible assets at \$ 1,000 billion per year, while Corrado, Hulten and Sichel (2006) estimated it at \$ 1,200 billion per year. Given the specificity of these assets, it is necessary to determine their value.

In order to establish the value of these assets according to IVS, the notion of market value is used. *Market value is the estimated sum for which ownership could be changed, on the date of the appraisal, between a buyer who is determined to buy and a seller who is determined to sell, in a transaction at an objectively determined price, after an appropriate marketing activity in which both parties acted in full awareness and without constraint* (IVS, 2011). This is the most frequent type of value that is resorted to in the process of evaluation.

Apart from the definition in IVS, other national or regional bodies have defined market value as well. Thus, the American Society of Appraisers (ASA) defines market value as the *amount at which ownership would change between a determined buyer and a determined seller, when neither*

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acts under constraint and they both reasonably know relevant facts, while the Appraisers' Foundation in the USA (a technical organisation of USA appraisers) defines market value as *the most likely price at which a property is brought in an open competition on the market, under all necessary conditions for a fair transaction, the seller and the buyer acting cautiously and in full awareness, supposing that the price is not affected by abnormal stimuli* (Stan, Anghel *et al.* 2009). European experts also consider market value, which is defined by TEGoVA in 2003 in the EVS 4 Standard, as *price at which land and buildings could be sold via private contract between a determined seller and a determined buyer, in a balanced transaction, at the date of the evaluation, supposing that the property is publicly displayed on the market, that the market allows a normal sale and that, depending on the nature of the property, it is available for a normal period for the negotiation of the sale.*

Financial reports use the notion of fair value. *Fair value* represents the *amount at which an asset can be traded or a liability can be cashed in, willingly, among parties who are familiar with it and within the framework of a transaction in which price is determined objectively* (IAS 38.7).

The appraisal of intangible assets supposes to approach some particular appraisal aspects, which have been determined mainly by the particular characteristic features of these assets.

1. THE APPRAISAL OF INTANGIBLE ASSETS

In what follows we shall consider specific aspects concerning evaluation both at theoretical and applied level.

Intangible assets that have been *purchased separately* are evaluated at the *acquisition cost*, which includes the purchasing price to which direct expenses that can be attributed to the respective asset are added: expenses for the registration of the assets (patents, brands etc.), testing expenses, non-refundable fees etc.

Intangible assets *internally generated* are evaluated at *production cost*, which includes expenses for used materials and services, salaries and other staff expenses, directly attributable expenses (fees, patent and license amortisation) and the share of indirect expenses.

Intangible assets *purchased in exchange of other assets and those purchased as part of enterprise combinations* are evaluated at their *fair value* on the purchase date. The initial setting of an intangible element against current expenses prevents the latter from being recognised subsequently as part of the cost of an intangible asset. In fact, subsequent expenses will increase the

value of an intangible asset only if they are going to generate future benefits that go beyond the initial performance level and which can be evaluated in a credible way.

Among intangible assets, one can identify three basic groups (Stan and Anghel, 1998), namely:

Non-identifiable intangible assets which belong to the entity that comprise, in general, intangible assets of an indeterminate life (i.e. they cannot be amortised), and which are evaluated, in general, as a whole. This does not mean that the non-identifiable assets of the business do not depend on the entity's effort, but that there is no way to determine the reduction of value (one of the requirements to establish the amortisation plan).

The main assets in this group are (Işfănescu et al., 2003):

- Availability of qualified staff;
- Systems, methods, control ways which have been developed as part of an operation;
- Existing customers;
- Covering initial loss (in general, this refers to normal expenses made up to the moment when profit was made);
- Promotion, advertising expenses;
- The advantage of location, which is reflected in the market value of real estate;
- Local, national, international reputation which can be analysed on the basis of (re)cognition by the public or customers, their dependence on entity (the quality of services and products), the price of services and products, the credit situation (banks, financial institutions etc.).

A person's non-identifiable intangible assets which include unique elements in association with persons in the business. In most cases they are considered to have a non-determinable life. Most important assets in this group are:

- Employees' or business owners' personal reputation for the general public, clients, employees, other owners or crediting institutions;
- Employee's skills and specific abilities, including technical knowledge, financial ability;
- Employees', managers' and share-holders' general ability to deal with customers, managerial spirit, abilities for administrative work.

Identifiable intangible assets which belong to the entity and which comprise intangible assets which can be evaluated individually and which, regularly, have an indeterminate life. To this group belong: the brand; the product's name; secret methods and processes; copyright; contracts

(with employees, purchase, sale, financing, advertising contracts, etc.); information, lists of suppliers, clients etc.; secret formulas; licences; patents; franchise; rights over oil fields, fishing areas etc.

Assets in the three groups can be present in a business, but this does not mean that in any situation they determine a non-material value of the business.

Always, the choice of method for a certain case, in a specific situation, depends on circumstances. In most cases it is necessary to use several methods of appraisal due to the need to self-check results. Also, we should not exclude the possibility that evaluators could develop their own techniques and methods, specific for a certain case, by using elements from several methods (Pierre and Besançon, 2004).

In evaluating intangible assets, methods from all 3 groups of approaches to appraisal are used, as follows:

1.1. Appraisal methods based on comparing markets

The approach by comparing sales consists in determining the market value of intangible assets by referring to their transaction prices on *an active market* (an active market, according to IAS 38.14, exists when the traded elements are homogeneous; on active markets there are buyers and sellers at any moment and prices are accessible to the public) or via “*multiples of evaluation*” (determined by setting the intangible asset’s transaction price against a financial indicator (the turnout generated by the intangible asset, the profit generated by the respective asset after deducing certain expenses connected to its use, the current gross profit or the gross operational profit before deducing amortisation)). The chosen financial indicators can refer to the current year, to the previous or to the next year, in case the market is not active. The most frequently used are the method of the purchase cost and the method of assimilation.

The method of the purchase cost. Occasionally, an intangible asset can be purchased on the market at a price considered the equivalent of its value. Thus, it is recommended to use testing methods, such as: cost economy, creation cost, profit advantage. In its turn, the purchase cost can be useful as a test for the value of licences and franchises. A series of intangible assets are sold and purchased on the market, but the information obtained on this market must consider every type of intangible asset. Thus, this method is applied only when there is an active market for that intangible asset.

The method of assimilation according to which evaluators, starting from precise and certain information, take into account transactions closed under circumstances that are appropriate to the specific case that they analyse, and consider corrections (which can be positive or negative, based on their experience) depending on the circumstances in which the transactions taken as a standard for comparison were closed.

1.2. Revenue-based appraisal methods

The approach via revenue supposes the evaluation of an intangible asset by converting into value a form of revenue allocated only to this asset. The estimation of the income flow can be derived from several sources (Stan, 2008):

- The increase in the volume of sales and collateral effects (decreasing fixed expenses per unit as a result of the increase in the volume of production, obtaining a sale price that is better than the competitors', acquiring the position of a leader or even a position of monopoly on a product's market, introducing new products on the market, entering new markets, making customers faithful);
- The direct reduction of variable expenses per unit (for raw materials, manufacturing costs, recruiting and training personnel, publicity and advertising, stocking, elimination or reduction of rejected products and waste, design, data processing etc.)

The common methods used in the approach based on revenue are based either on the technique of actualisation or on that of capitalisation:

The method of royalty economy (the effect of cost reduction) is not applicable, first of all, for the evaluation of patents or brands and it starts from the hypothesis that, in the absence of ownership on an intangible asset, the latter should be purchased through a licence of franchise contract for which royalty will have to be paid. In most cases, it is a percentage applied to the volume of sales generated by the use of intellectual property. Usually, royalty economy is determined after deducing tax on this economy. The royalty rate is selected depending on the rates used in previous contracts whose object was the asset under evaluation or the ones used on the market for an identical or similar asset.

The method of actualising / capitalising the economic profit generated by a non-tangible asset (the effect of direct cash-in which corresponds to the respective asset). This method to evaluate identifiable intangible assets can be applied in case it is possible to estimate, at a reasonable accuracy level, the advantage of owning and using intangible assets. Such an advantage is expressed

synthetically via profit or additional cash flow (an excess of sale price or the reduction of some expenses).

The method of actualising the cash flow allotted to the intangible asset (the effect of income revenue). The previous method is based on profits that have been generated directly by intangible assets. Yet, there are situations when the advantage of the unit price cannot be determined because there is no available information and estimations of this advantage, at a reasonable precision level cannot be done. In practice, there are cases in which intangible assets determine profit at the level of the entity which owns it (they cannot be directly attached to an intangible asset as in the previous case). The method supposes the estimation of the net profit / net cash flow by deducing from the total net profit of the one corresponding to the other assets. The method is applied for the evaluation of non-finalized research and development projects, brands, advantageous contracts and licences.

In such a situation, the essential problem is the starting point in the development of the evaluation technique. On the basis of a study, the evaluator can have certain information available: for instance, the information that a product under the brand name "Y" has a high sales volume in comparison with products under brands "X" and "Z" on the same market. In this case we start from the profit contribution resulting from extra sales. In this case value is obtained by capitalising a series of constant benefits.

The methods outlined above often generate problems for the appraiser in supporting the values obtained because subjective presumptions are quite frequent and hard to support. The result must always be realistic, credible and able to be supported.

1.3. Cost-based evaluation models

The cost of intangible assets considers the price that an investor will pay for such an asset when buying a new one. It will be established by taking into account:

- The replacement cost, respectively, the cost of achieving an identical or similar asset;
- The balance of the intangible asset's life: up to the end of the development stage; regulated by certain stipulations; written down in contracts; technical.

In practice, there can emerge situations when intangible assets must be evaluated, which have not yet been developed and recognised by the market, for which there is not sufficient information that could allow the estimation, at a reasonable probability rate, of the flows that their ownership would generate. Under this category we can include: a new invention, a research-development project, an entity's practices and procedures, trained workforce, the distribution network etc. In

general, in such cases, the assessor resorts to methods from the group of methods based on costs because they have the highest relevance and credibility in particular cases.

Given the specificity of these assets and the limited number of transactions of such assets, their adjustment is difficult to justify. This is why, IAS 38 stipulates that re-evaluation of intangible assets is allowed only if there is an active market.

The presented methods (Stan, 2008) are a few standard techniques for the evaluation of intangible assets, but we should specify that, in order to evaluate such an asset, several methods can be used, and the appraiser correlates the results derived from the use of two or several methods in order to check the ensuing result.

2. COMPANIES LISTED ON BVB – CASE STUDY

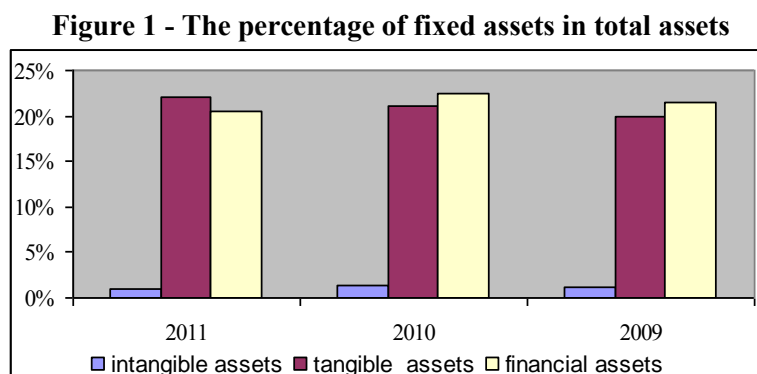
In what follows we shall analyse the situation of intangible assets in companies listed on the Bucharest Value Stock-exchange under category I (26 companies). The lines of business of the companies which enter this category are presented in Table no. 1. In the analysis that we have carried out we considered financial information for 2009-2011. We focused on whether the value of intangible assets presented in financial statements has a significant percentage in the owned assets and if the value of these fixed assets is important in case the market value is higher than net assets (Anghel, 2008).

Table 1 - Structure of activities of the companies listed under category I on BVB

Line of business	No. companies
Retail trade of pharmaceutical products, in specialised shops	1
Constructions	1
Real estate development (promotion)	1
Carbohydrate extraction	1
Manufacturing aeroplanes and space ships	1
Manufacturing instruments and devices to measure, check, control, navigate	1
Manufacturing concrete products for constructions	1
Manufacturing chemical substances and products	4
Mutual funds and other similar financial entities	1
Metallurgical industry	1
Financial intermediations	9
Manipulations	2
Electricity production and manufacturing	1
Pipe transportation	1
Total	26

Sursa: BVB, <http://www.bvb.ro/>

Following the analysis carried out, we noticed that the market in Romania does not observe the tendency registered by large companies, where the weight of intangible assets is significant (Mc`Donalds 71%, Coca Cola 51% - Austin, 2007). As can be seen in the graph presented in Figure no. 1, for the analysed period, the value of these assets is insignificant (maximum 1,28 % in 2010, 1,26 % in 2009), with a decreasing tendency of 0,88% in 2011.



Sursa: BVB, <http://www.bvb.ro/>

At individual level, the highest value was registered by Transelectrica in 2009 (14,45%), but the drop was very abrupt in 2011, namely 0,28 %. The rather low percentage of intangible assets for the analysed firms is also influenced by the fact that the Property Fund and SIFs do not have intangible assets. Since they are financial intermediary units, the highest percentage belongs to financial assets.

By analysing the information presented in Table no. 2, we can notice that the indicators have registered an increasing tendency except for stock exchange capitalisation, which plummeted in 2011.

Table 2 - Financial information on the 26 companies under category I among firms listed on BVB

Indicator	2011	2010	2009	%2011	%2010
Total assets	156.244.951.406	146.839.062.086	134.205.115.855	6,41%	9,41%
Total equity	61.869.066.190	36.406.818.137	33.063.307.040	69,94%	10,11%
Operating revenue	59.442.398.596	50.680.932.579	44.791.658.996	17,29%	13,15%
Profit before tax	8.013.567.687	4.051.036.216	3.907.066.223	97,82%	3,68%
Capitalisation	70.782.200.350,27	102.442.620.945,15	80.074.496.089,64	-30,91%	27,93%

Sursa: BVB, <http://www.bvb.ro/>

Variations from one period to another are quite high, mainly for the profit before tax and for capitalisation. At the level of the analysed companies, the situation is quite different. Thus, Cocefa

has the highest value of variations for capitalisation in 2011 (1167,39%), while Turbomecanica has the lowest (-51,72%). For profit before tax Impact developer & Contractor has the lowest value (-3625,66%) in 2010, while Azomureş has the highest (1742,63%) in 2010.

Table no. 3 features the results of the carried out analysis regarding the percentage of intangible assets in the total assets.

Table 3 - The percentage of intangible assets for the 26 companies under category I among firms listed on BVB

Indicator	2011	2010	2009	%2011	%2010
Intangible assets	1.379.554.874	1.886.631.290	1.692.051.954	-26,88%	11,50%
Intangible assets/Total assets value	2,03%	2,86%	2,96%	-28,99%	-3,22%
Capitalisation	70.782.200.350	102.442.620.945	80.074.496.089	-30,91%	27,93%
Net asset	86.241.801.017	63.031.266.036	56.689.727.845	36,82%	11,19%
Indicated intangible value (not recorded in balance sheet)	-15.459.600.667	39.411.354.909	23.384.768.244	-139,23%	68,53%
Indicated intangible value /Capitalisation	-21,84%	38,47%	29,20%	-156,77%	31,74%
Market Value /Asset Value	0,82	1,63	1,41	-49,50%	15,06%

Sursa: BVB, <http://www.bvb.ro/>

Given the sample that we have analysed we can mention that the value of intangible assets has oscillated: there was an increase in 2010, but in 2011 there was a significant reduction of 26,88 %. Stock exchange capitalisation registered a similar evolution. In what concerns the weight of intangible assets in the total amount of fixed assets, we can notice that it is low, at about 2-3% in comparison with tendencies from large companies and that it has registered a decrease of 29 % in 2011. It is only net assets that registered an increasing trend, of 36,82 % in 2011. At the level of the analysed companies, the situation is quite different. The highest percentage of intangible assets was registered by Transelectrica in 2009, while SIFs and Proprietatea Fund do not hold intangible assets.

The data in Table 3 show the gap between the market value of the analysed companies' own capital and their net assets. The small value of intangible assets presented in financial statements could be due to a financial market which has not reached maturity yet, to the effects of the financial crisis which, in Romania, were felt later and, to a certain extent, to the stipulations in IAS 38, according to which intangible assets generated domestically are not recognised. Since a market of fusions and business acquisitions does not exist, when the IFRS 3 stipulations are applied, intangible assets cannot be recognised.

CONCLUSION

In the context of globalisation and increasingly stronger competition, intangible assets could offer a competitive advantage. Also, information connected to these assets is important in the decision-making process concerning the allocation of investment and for investors in decisions concerning value versus price.

In the study that we have carried out we have considered twenty six companies quoted on BVB under category I. In order to establish the importance of intangible assets we determined the percentage of intangible assets in the total assets and we noticed that from an accounting point of view, it is very little (0,28 % in 2011). By analysing the market value we noticed that their percentage is much higher (38,47 % in 2010). In 2011, due to the decrease in stock exchange capitalisation, their value is much lower. The tendency at global level is to increase the percentage of non-tangible assets, a tendency which, unfortunately, we could not identify among the companies that we have analysed.

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TRADE LIBERALISATION IN EUROPE AND THE REST OF THE WORLD

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Abstract: *The present paper aims to disseminate how liberalisation processes were conducted around the globe and especially in Europe since the XIXth century up to date. The research objective is to review the liberalisation of trade dynamics and create an image of the architecture of the most important trading blocs. Analysis will be conducted considering the three major regional blocs: Europe, North America and East Asia. The main findings will show that, despite the few mutations that occurred in international trade as a result of the emergence of developing nations as major trade partners, the European Union and the United States remain the economic and trade hegemons.*

Key words: European Union, trade blocs, protectionism, regionalism, trade agreements, multilateral negotiations, financial crisis

JEL classification: F10, F13, F14, F15, F36

INTRODUCTION

Since the intensification of the financial crisis in September 2008, the issue of protectionism has received considerable attention among the general public. These pressures of escalating protectionism threatened and still threaten to intensify such a practice in response to the downturn of the world economy. Early signs quickly became apparent to the world economies. Immediately after the commitment of the Group of Twenty most developed countries in the world (G20) to refrain from raising new barriers to investments or trade in goods and services, imposing new export restrictions or implementing disjointed measures to stimulate exports recommended by the World Trade Organization, 17 out of 20 states have announced protectionist measures (Newfarmer and Gamberoni, 2009). According to the World Trade Organization, 13 of the 20 G20 countries have implemented the announced measures, and issues such as "buy / invest / lend or hire locally" has taken the forefront of the political flavor urgings.

Protectionism explosion that took place after markets collapsed in 1929 contributed to the spread of a worsening economic depression. Between 1929 and 1933 world trade trend had turned into a complete downward spiral contraction of 66 percent (Grossman and Meissner, 2010). Protectionist policies implemented during the time of the Great Depression had taken a variety of forms. To illustrate, we can mention the surge in import tariffs on the ground of the U.S. Smoot-Hawley Act introduced in the 17th of June 1930, but many other non-tariff measures have

been introduced in that period including: import quotas, competitive exchange rate devaluations, export subsidies and other indirect actions (Eichengreen and Irwin, 2009).

The probability that a similar event would materialize as a response to the current crisis is not negligible. Nowadays, similar to the period of the Great Depression, one could take into consideration promoting protectionism as a tool of macroeconomic policy management in times of severe fiscal and monetary restraints (Almunia et al., 2010). The purpose of this paper is thus to capture the context of the escalating protectionism that can occur in response to the financial crisis burst in the late 2007. There would be observed the movements of the "commercial tectonic plates" over the last two centuries which caused either the decay of the trade puzzle or conversely have brought the solution to the puzzle.

1. HISTORY OF TRADE FROM THE XIXth CENTURY UP TO DATE

Trade liberalization has acquired a pronounced character in the early nineteenth century, when the forefront of the global economy was the United Kingdom. Its economic domination could not have been translated in a sort of interstate ordered relations and in the construction of an open international economic environment. Thus, throughout the world, there were periods of global trade openness (1846-1879, 1945-1970) continued by periods in which protectionism had made its presence felt (1879-1914). Periods of economic openness during the nineteenth century and the twentieth century were overlapped by the succession of global hegemonic position of Britain and the United States. The repeal of the Corn Law by the United Kingdom (1846) and the Navigation Act signed in 1849 are seen as steps towards building a European free trade area (Ruffin and Dogan, 2012). The steps that followed were mostly shy, at least until the end of World War II. Britain's inability to turn, after 1815, its industrial and financial predominance in military domination of Europe did not allow the government of this country to securitize interests by force or threat of force. Military expenditures as a ratio of national income were the lowest compared with those of the Great Powers during 1820-1913. Thus, countries like Russia and France were considered the most powerful states with a real capacity to interfere in the social and political affairs of the continent (Lacher and Germann, 2012).

The step taken by Britain unilaterally towards free trade was not followed by other European countries. The lack of bargaining power or persuasion with regard to mutual tariff reduction and the integration of its trade partners in an institutionalized system of free trade caused the island state to abandon trade agreements based on the principle of tariff autonomy and to refrain from exercising

military force on open markets in the continental Europe, to undertake a non-interventionist policy, and to give up its attempts of peacefully persuasion by using the hegemonic leadership related tools. The critical result of the British government insistence on a unilateral focus on promoting free trade and tariff autonomy was the absence of an engine strong enough to put in motion a mechanism of institutionalization under British leadership. No attempt to punish or prevent commercial libertinism and the return to the protectionist policies of its commercial partners has been undertaken by the island state. Therefore, the first European network of trade agreements that sprang from Anglo-French Treaty signed in 1860 had France as an architect and not the United Kingdom. This endeavour being taken, the Most Favoured Nation principle was institutionalized, which was subsequently borrowed by the United States and promoted as a mechanism of reciprocity.

The isolation of Great Britain has manifested most in the monetary and financial sectors. Even after the gold standard monetary system replaced the system based on bimetallism - promoted by France (1880) - Great Britain assumed no responsibility for creating or maintaining a stable international monetary system. The slow and diffuse spread of the system based on gold standard among other nations by the mid-1870s underlines the supremacy of the local political considerations over liberal internationalist motivations and the dynamics of geopolitical competition to the detriment of hegemonic stability.

The monetary system based on gold fell in 1914. European countries had adopted this system as an effort to establish a unified currency, to improve control over the banking sector and to create stable conditions for foreign investments. Giving up the gold standard indicated a divergence of economic policies on the continent and beyond. World War I was the key event that anticipated the split of the world into military and economic blocs. The Smoot-Hawley Act (1930) triggered trade wars raged between the United States and Germany, Italy, Japan and the Soviet Union. Behind these conflicts there were hidden autarchic and militaristic motivations. Small countries in Europe have formed the Group of Oslo (1930), while France and Britain have supported their colonial empires applying preferential trade tariffs within.

The early 1950s brought with them the establishment of the General Agreement on Tariffs and Trade (GATT). The conflict between Britain, which insisted on the reduction of trade tariffs on British goods, and the United States - that was calling for the abolition of the British system of imperial preferences - threatened to strangle the agreement in the bud. At that time Great Britain (and the colonies) was still the most important actor on the stage of global trade. By 1963, the European Economic Community (EEC) appeared on the firmament. Great Britain formed the European Free Trade Association (EFTA) with Northern Ireland, Denmark, Norway, Sweden,

Austria, Switzerland and Portugal, and applied to join the EEC. Many colonies were represented by independent states that imposed tariffs on manufactured goods of British origin. Rich countries have become richer while the poor led a race track at a distance. In particular, Europe has experienced extraordinary GDP (gross domestic product) growth rates and North America keep up with the old continent. In the 1960s there were already outlined two major trade centers: Western Europe and North America. A large fraction of global trade has been carried out within or between these two hubs. Trade flows between these two centers and various "spokes" - Latin America, Africa, The Middle East, Asia and Japan - were very small (insignificant was also the trade between spokes).

This model of bipolar commercial development has continued to evolve during the second half of the nineteenth century, with one major exception: the emergence of Asia. Japan trade grew by about 5% in the total volume of global trade and was followed by China's assertion and the increasing of intra-Asian relations. Currently, Asia accounts for about 25% of the world trade. Trade between and within Western Europe and North America represent about two-fifths out of the total (O'Driscoll and Cooper, 2008).

With regard to tariffs, in the 1950s the average tariffs exceeded 15% both in Europe and North America. However, the main obstacle to trade was represented by quantitative restrictions (imposed in most cases on behalf of the balance of payments interest). In other parts of the world prices were also higher in the early 1960s, but with the Kennedy Round they went on a downward trend. To give the appropriate extent to the impact of the negotiation rounds in the General Agreement on Tariffs and Trade on the Asian trade, the situation can be exemplified by Japan, a country where rates fell from 18% in 1960 to about 3% in the close 2000. In the same period, the average applied tariff to imports of manufactured goods and services in the U.S. and Europe was 4%.

Post-war liberalization was the main focus in the industrial sector, in which bidirectional trade flows (imports of parts and components - exports of finished products with high added value) prevailed. Rich countries have liberalized more than poor nations did within the General Agreement on Tariffs and Trade and the various regional trade agreements (RTAs). Regional tariff reductions were accompanied by multilateral liberalization. Unilateral liberalization has gained importance in developing countries since the mid 1980s. Tariff reductions under the GATT began to be applied when the worldwide ceilings were very high and the process took at least 40 years till the initial targets to be achieved (Baldwin, 2006).

The motor of trade liberalization in the post-war were the United States. Lessons on the dangers of isolationism were well assimilated by the American politicians appointed to lead the

destiny of this country in the second half of the twentieth century. United States assumed the lead quickly and consistently acted to create an open international trading system (GATT) and a stable monetary system (contributing decisively to the establishment of the International Monetary Fund). However, the establishment of the World Bank and the launch of the Marshall Plan symbolized the significant contribution and responsibility of the U.S. for peace and prosperity creation beyond its borders. U.S. hegemony has helped building the foundations for a sustainable economic growth of the countries in Western Europe until the early 1970s, and the rapid development of the Asian countries such as Japan or South Korea. The rapid ascension of the American continent has created concerns in other parts of the world, so that, stimulated by this example, many developed countries have followed a process of economic catching-up (in some cases countries have resorted on protectionist practices to ensure success). In this context, protectionist sentiment has begun to win preponderance mainly leading to a series of challenges to the traditional policy based on free trade. The financing of the war in Vietnam and the launching of social programs had fueled inflation, a phenomenon that has been exported abroad automatically given the role of the U.S. dollar as an international reserve currency.

In 1971 the United States abandoned the fixed exchange rate system established by the Treaty agreed at Bretton Woods, announcing a period of international exchange currency. The Oil crisis, followed by the world debt crisis, combined with the maintaining of a series of barriers in the way of international trade, have questioned the ability of american hegemony to ensure future stability and global interstate order.

In summary, the 1970s witnessed the assertion of largely protectionist sentiments in the United States of America, motivated by the suffering domestic industries engaged in international competition, sufferings caused by state interventionism practiced by the participants in the cross-border trade. However, the project of trade liberalization, which was launched in 1934 and revived after World War II, survived the wave of hostility (Chorev, 2005). This was accomplished by replacing existing institutions governing international trade at that time. In 1974 a new institutional agreement was signed - The Trade Act - which had raised more solid obstacles in the way of protectionist outburst. The United States of America have followed the path of free trade and, amid an extraordinary industrial development, have emerged as an economic and military hegemon in the second half of the twentieth century. Unlike the United Kingdom in the nineteenth century, the United States played a more active line of trade liberalization, both through multilateral negotiations and regional agreements (Baldwin, 2006).

The shaping of the U.S. hegemonic status after 1950 led to reactions across the Atlantic. After several failed attempts in the direction of economic integration, the six major European countries except Great Britain (Germany, France, Italy, Belgium, the Netherlands and Luxembourg) signed the 1957 Treaty of Rome that gave birth to the European Economic Community (EEC). The domino effect was reflected on Britain that, along with Norway and Switzerland founded the European Free Trade Association (EFTA). However, the success of the European Economic Community led Britain to join the EEC in 1961 and countries like Ireland, Norway and Denmark to apply for membership in the community. Trade liberalization within these regions has led the United States of America to find a way to rectify the situation. Thus, in 1961, President Kennedy began negotiations on establishing a common external tariff in relation to the EEC under the umbrella of GATT. Consequently, in 1962 the Trade Expansion Act was signed that triggered a fundamental change in how multilateral negotiations are held. Since the Kennedy Round, reducing trade tariffs occurred in a much smaller pace. The event kicked off a period of 30 years of increased trade liberalization. Kennedy, Tokyo and Uruguay Rounds have each reduced industrial tariffs by about one third. But more important is that each cutting limit imposed to trade brought a repositioning of pro-liberalization economic policies in relation to anti-liberalization forces in most countries that participated in the various trade agreements on a reciprocal basis. One of the most important sectors that made exception was agriculture. EEC's Common Agricultural Policy introduced in 1962 and the EFTA have not included in the agenda the agricultural liberalization issue.

By 1973 Western Europe had already established a virtual free trade area if we take into consideration the concatenation that was produced between the EEC, EFTA and the series of Free Trade Agreements (FTAs) between members of these interstatal organizations. This deepening and widening of the free trade area in Western Europe was perceived as a threat to the other major players in the international trade - the United States, Japan and Canada (trade diversion effect).

Tokyo Round negotiations (1973-1979) had made official the asymmetric treatment of the developing countries. Similar to the past periods, regionalization, unilateral liberalization and multilateral trade were complementary in a multicoloured landscape. The focal point of the Tokyo Round of negotiations was to cut off non-tariff barriers. The two oil crises (1973 and 1979) taken together with the failure of the monetary policies accros the globe have established stagflation in the major nations involved in the international trade. The economic climate characterized by a high unemployment rate and a rampant inflation has dissipated the excitement posed on unilateral, regional or multilateral liberalization. Europe sank into pessimism and the United States turned to an aggressive unilateralism after giving up the fixed exchange rate system based on dollar.

In 1986, after the stagflation phenomenon had been defeated and economic growth had been recovered in the main countries involved in the international trade, a new session of negotiations was launched in Uruguay. Prices set by the United States and Europe in the Most Favoured Nation Clause fell by 2% to the level that is present today. Similar to the developments recorded in the 1960-1980 period, regional trade liberalization occurred in parallel on both sides of the Atlantic, on one hand as a result of the domino effect and on the other hand due to the realignment of the economic policy forces in the nations participating in the global trade - in this way making any liberalization politically optimal. European Economic Community has grown visible, signing and ratifying the Single European Act (1986) that has been translated into a consistent set of directives regarding liberalization and deeper economic integration. EFTA sought an agreement with the EEC, negotiations being finalized only in 1993. In the North America area, Canada proposed to the U.S. to sign a free trade agreement (CUSFTA – Canada and United States Free Trade Agreement) which came into force in 1989. Australia and New Zealand also took the path of regional integration in 1983 ratifying the close economic relations (ANZCER – Australia New Zealand Closer Economic Relations).

The liberalization pattern was maintained throughout the 1980s. Unilateral or multilateral negotiations have taken the place of regional integration, so that regionalism has been especially intensified not enlarged. Contrary to the expectations, the free trade agreement signed between the U.S. and Canada had not created a domino effect because of the expected resistance of Mexico to open out its trade in general and its trade with the United States in particular. Faced with a series of debt crises and severe recessions in the 1980s, Mexico began to liberalize trade unilaterally, then became a signatory to the GATT, and later joined Canada and the United States in the North American Free Trade Agreement (NAFTA) in 1994. This event led countries such as Chile, Brazil, Argentina, Paraguay and Uruguay to seek agreements with the U.S. on the establishment of Free Trade Zone. As the U.S. Congress rejected many of these requests, Latin American countries had reacted the same way that Britain did in 1960 - formed blocs along with the excluded states. The most important of these was by far the MERCOSUR (Mercado Comun del Sur – Common Market of the South, March, 1991). The idea started from a bilateral agreement between Brazil and Argentina, and the domino effect drew Paraguay, Uruguay, Chile, Bolivia, Colombia, Ecuador, Peru and Venezuela as associate members.

2. THE FALL OF THE USSR

In the late 1980s the failures of the Soviet Union on the economic ground had imposed application of pro-market reforms (perestroika) and greater openness to foreign trade (glasnost). By 1991, the East European bloc disappeared and the USSR split into several independent republics. The European Union seized the opportunity and signed a series of bilateral trade agreements with 12 countries from Central and Eastern Europe (CEECs countries). To avoid trade discrimination, the EFTA countries have signed bilateral agreements with all 12 countries in CEECs. This created a "hub and spokes" situation type around the European Union (Baldwin, 1995 in Baldwin, 2006). The domino effect manifested in this case, the Mediterranean countries seeking to conclude free trade agreements with the EU (Turkey, Tunisia, Israel, Morocco, Jordan, Palestine Liberation Organization, Egypt, Algeria, Lebanon, and Syria).

By 1997, the European Union (EU 15) established the Pan-European Cumulation System (PANEURO) with EFTA states and 10 countries from Central and Eastern Europe. In 1999 the PECS included Turkey.

Across the Atlantic, Mexico took advantage of the bilateral agreements with the United States and Canada and signed other agreements with the European Union and Japan, as well as with 40 other nations. Chile along with the EFTA states took the example of their neighbour, the United States. The effect of this multiplicity of bilateral agreements – a situation when small states seek free trade agreements worldwide - was the transformation of the three classic trade blocs (Europe, North America, East Asia) in regions with unclear borders and multiple links (Chortareas and Pelagidis, 2004).

3. TARIFF REDUCTIONS IN THE UNITED STATES OF AMERICA

Subsequent to the creation of NAFTA and the Uruguay Round, the United States returned to the liberalization model based on three levels (unilateralism, bilateralism and multilateralism) used since the 1960s. Regarding unilateral liberalization, a noticeable innovation was the African Opportunity and Growth Act 2000. On the front of multilateralism, the United States were completely involved in taking the Doha commitment for further tariff reduction, especially in the agricultural and services sectors (Bussiere et al., 2011). At the bilateral level, the policy was taken to increase the number of such agreements (agreements were concluded with Singapore, Jordan,

Chile, Australia, Morocco, El Salvador, Nicaragua, Costa Rica, Honduras, Bahrain, Guatemala, Korea and many other countries in the East Asia).

Signing many trade agreements conducted only to an increase of the complexity of the global landscape.

4. TRADE LIBERALIZATION IN ASIA

By the early 1980s, the reduction of trade tariffs in Asia was limited to the liberalization undertaken by Japan in the Most Favoured Nation Clause (GATT) and the unilateral extension of preferences to other nations. Since 2006 one can see the emergence of an economic integration process outside regional free trade arrangements. The only major trade agreements - the free trade agreement between ASEAN (the Association of Southeast Asian Nations) and China, the Free Trade Agreement between ASEAN and Korea have not generated the expected results because they were not completed, and the only Asian arrangement officially implemented - AFTA - was characterized by very low usage rates.

The liberalization process has received a big boost when China decided to open global economy. This has accelerated the erosion of the industrial comparative advantage held by East Asian nations with higher incomes and increased the attractiveness of offshoring. Race to attract FDI pushed China and ASEAN countries to reduce tariffs unilaterally (Kuchiki, 2003 in Baldwin, 2006). As the complexity of the Asian Factory increased and the speed of the production process had become a key competitive factor, the time spent and the costs of tariff negotiations and agreements for certain products or companies could have emerged in the failure of the business relations within the continent. Therefore, Asian countries have considered appropriate to shift their attention from special agreements to tariff reductions without discrimination under the Most Favoured Nation Clause (Wei, 2011). The results were really impressive. Most developing countries in East Asia have reduced tariffs unilaterally in the past 20 years, especially in the 1990s.

China's accession to the World Trade Organization has represented a key event that may indicate the start of a regional or multilateral liberalization process (Lee, 2011). The agreement signed by China with ASEAN induced a domino effect on Japan and Korea, which, following the example of Great Britain in 1960, began a series of bilateral agreements concluded within the continent. In the last few years trading powers were included from outside East Asia, like Australia, New Zealand, India and the U.S. But the nature of bilateral trade agreements within Asia creates a web of trade flows charged differently from one arrangement to another.

CONCLUSIONS

The shaping of the regional trading blocs in the world along with the implementation of an array of bilateral agreements between different countries provides a hub of global connections and spokes. Economic and financial crisis have shaken the foundation of these tectonic trade plates and challenged the uncertainty of the hegemonic position of the United States and the European Union. The economic downturn has raised the possibility that protectionist measures would test the vulnerability of the nations affected by the crisis phenomenon. Such a scenario is likely to stop the progress made towards trade liberalization in several areas of the globe. The economic growth associated with a growing degree of openness to trade in goods and services will slow as the „spokes” connections to the „hubs” will break. The domino effect will produce reversed results accordingly to the ones liberalization induced.

The main result of this study was the capture of the development of international trade through interstate connections. Unilateral liberalization, regionalization or multilateralization of trade relations occurred in complementary relationships over the past two centuries. Since the ratification of the General Agreement on Tariffs and Trade and the foundation of the World Trade Organization (WTO) one tried to implement multilateral liberalization solutions, covering a broad range of countries within an area characterized by relationships based on reciprocity.

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INTERNAL AUDIT AS AN ATTRIBUTE OF MANAGEMENT DURING THE ECONOMIC CRISIS

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Abstract: *Internal audit provides through its tasks reasonable assurance that decisions implemented and on-going objectives are under control. Internal audit has passed from a simple check to a role in assisting management in order to have better control over operations, thus the internal audit function overcomes its primordial role to provide simple stage directions functional, following his path to becoming a useful leverage to optimize the company. Any company, irrespective of its business and operating environment, faces a number of risks, frauds. The most effective tools in preventing fraud are management control and internal audit, the latter being of prime importance in the field of corporate governance. The present paper follows to highlight the place and role that internal audit has in the economic entities which it is labeled as an attribute of management. A negative element identified at the level of the affected companies is the failure to identify risk management, due to increasing complexity of services and risky nature of the business. Although internal audit is not responsible for implementation of actions as a response to risks, it is responsible for providing reports to the management of significant information showing key risk assessment and so helps the management to become more efficient.*

Keywords: internal audit, management, internal control, risk management, economic crisis

JEL Classification: M10, M14, M42

INTRODUCTION IN MANAGEMENT

The field of management evolved along with the human society, characterized by the need of humans to organize their time and activities. Perhaps the Sumerians, the Egyptians or Alexander the Great did not know words as performance, efficiency, profitability, but they surely understood the need for organizing and coordinating of activities, even if we refer to building pyramids or military campaigns.

Over time, the concept of management has evolved and continues to evolve (as far as the human society exists), as a result of developing of world states and as an effect of the dynamism and the complexity of business environment. Therefore, management has known various interpretations, from definitions consisting in a few words, like *achieving objectives through others* (Makenzie, 1959) to thick definitions.

The management activity can be considered the most important activity in an economic entity. Why is that? Because at this level decisions are made, plans and forecasts are undertaken, objectives and priorities are established. But the management itself is not the only activity carried out in an economic entity; actually it cannot exist alone. For a management to work there should be

performers, people that effectively implement decisions taken at higher level. Therefore, we say that management is the activity that takes place with and through people. Experience has shown that to be effective a company cannot rely only on clever ideas and on some people who occupy key positions in the company, but should pay extra attention to continuous improvement and training of all workers.

The existence of a company depends on the existence of several departments, each department having its own objectives (which are in connection and contribute to the main objectives of the company). The management as a professional activity involves collaboration of several groups of people, thus meaning that the management process is mediated by the existence of a group of people who have a common objective and the existence of a leader, that being the manager. In the vision of Peter Drucker the management activity is equivalent to those governing. According to Massie management is *the art of a leader to accomplish objectives using other people's efforts*.

Management is the most important factor to streamline the economy and companies. The performance of an economic entity, on commercial, economical, technological plan, depends in a significant way on the managerial performance (performance of the management). In today's economic market conditions due to globalization, due to harmonization or at least the attempt to harmonize in various fields (accounting, tax, legal) an economic entity needs strategies, plans on which to take their decisions and conducts its business. It is not enough to carry out each activity; the company must conduct operations with minimum of cost but maximum of efficiency.

1. INTERNAL AUDIT AND ITS CONNECTION WITH THE MANAGEMENT

A modern management of economic entities cannot be made without a rigorous, but flexible control. The management of an entity requires continuous and systematic monitoring of the activities. Internal audit, in its form of superior control, consists in numerous elements, among them:

- Appraising the reliability and integrity of financial and operating information by evaluating the means developed by management to identify, classify, measure, and report such information;
- Appraising the systems management has established to ensure compliance with policies, plans, procedures, laws and regulations that could have a significant impact on operations and reports, and determining whether the organization is in compliance;

- Appraising the means management has established to safeguard assets, and, as appropriate, verifying the existence of such assets;

- Appraising the systems management has established to ensure economical and efficient use of resources;

- Appraising the systems management has established to ensure results are consistent with established objectives/goals and operations or programs are carried out as planned.

Internal audit is a discipline with managerial orientations that has evolved rapidly after World War II. Having been used in the beginning only in the financial and accounting activities, internal audit is used today in a large range of operational activities and also offers a wide choice of assurance and consulting services.

We said that a pregnant characteristic of the management refers to the decision making process. The internal audit must guarantee the reasonable safety that the operations performed, the decisions made are under control and that in this way it contributes to the improvement of management decisions regarding the achievement of tasks set by companies (Terci, 2009).

The development of internal audit is due to the increase and extent of the deregulation, the complexity and technological development in the operating cycle, but also due to the necessity of independent ways and evaluation aims and improving risk management, leadership and control (Ivanescu and Ivanescu, 2010).

Internal audit represents everything that a manager should do in order to assure that he has a good control over situations, if he had time and would know how to proceed (Renard, 2002).

Internal audit is a profession that does not improvise and as such, must be made by specialists. Internal audit is a privilege / of employees' organization working for the benefit of its managers, highlighting the level of mastery over activities, if it finds dysfunction, they can make recommendations for improvement.

The internal auditor is a consultant with autonomy to formulate recommendations, and not a controller, this autonomy is provided by reference standards, methods and tools, auditor's work must be conduct within the established rules of internal audit (Stoian and Muntean, 2004).

The basic framework for the professional practice of internal auditing is composed of:

- The Statement of Responsibilities of Internal Auditing;
- The Code of Ethics;
- The Standards for the Professional Practice of Internal Auditing;
- The Statements on Internal Auditing Standards;

- Professional practice releases.

A long term and systematic internal auditing of management will certainly determine an increase in sustained performance management. Through management as an auditable domain we understand an aggregate consisting on all activities / processes / subsystems that compile a management system (Zecheru and Nastase, 2005).

1.1 Internal audit facing internal control

In practice management face a number of risks, categorized by various criteria. In order to deal with these risks, the management develops an internal control system that consists of all control activities implemented in the company. When one or more of the risks identified (or not) produce effects, suggests that control activity was overwhelmed or did not work. Therefore, control or inspection will be triggered having as purpose the instrumentation of irregularities/malfunctions. Subsequent the department of internal audit will analyze the risks and control activities that were implemented with the scope of avoiding repetition of such situations in future (Ghita, 2009).

Internal audit has an important role in assisting the reorganization of the internal control system and in advising general management.

The primary objective of internal controls is to give managers reasonable assurance that:

- Financial and operating information is accurate and reliable;
- Policies, procedures, plans, laws and regulations are complied with;
- Assets are safeguarded against loss and theft;
- Resources are used economically and efficiently;
- Established program/operating goals and objectives will be met.

When we combine the definition of internal control with the scope of internal auditing, five possible audit objectives emerge regarding how managers plan, organize and direct activities. Internal auditors seek to answer one or more of the following questions (Simmons, n.d.):

➤ Do controls on financial and operating data provide managers with reasonable assurance that the financial and operating data is accurate and reliable;

➤ Do controls on compliance with policies, procedures, plans, laws and regulations provide managers with reasonable assurance that proper compliance actually occurs;

➤ Do controls on assets provide managers with reasonable assurance that assets exist and are protected against loss that could result from theft, fire, improper or illegal activities, or exposure to the elements;

➤ Do controls on operations provide managers with reasonable assurance that resources are used efficiently and economically;

➤ Do controls on operations and programs provide managers with reasonable assurance that the operations and programs are being carried out as planned, and that the results of operations are consistent with established goals and objectives.

In the next few rows, we present a short parallel between internal audit and internal control.

Table 1- Parallel between internal control and internal audit

No.	Reference	Internal control	Internal audit
1	Status/position	established within the organization as a system of management and internal control (management control system)	Part of the management control system, but refers to the evaluation of the system
2	Beneficiary	Employees, the general management	The general management
3	Objectives	Established by the annual control plan	Established by the auditors team and supervised by the head of the auditing department
4	Applicability	According to the approved control plan	All areas of the entity are considered to be auditable domains
5	Periodicity	Periodic activity, influenced by the evolution of risks	A permanent and planned activity
6	Purpose	investigating an irregularity, misconduct, irregularity by checking the compliance with the legal and procedural framework	A reasonable assurance of compliance activities and the effectiveness of those activities
7	Organization	control activities dissipates on the flow processes	is organized as an internal audit department consisting of 2-3 people in order to be functional
8	Finalization	The controller sets the size of the irregularities and violations found and those responsible and finalize the mission with a minute of the control	findings and recommendations are materializing in an internal audit report
9	Findings, recommendations, conclusions	The control findings and conclusions must be accepted. If not contestate remain final	recommendations of internal audit are optional for management, but good practice requires an explanation for their failure to implement
10	Results	sets size of the irregularities and responsibilities regarding procedural and legal framework	provide reasonable assurance of management control systems

Source: Ghita, 2009, p. 60

Internal control is not organized as a separate department in the entity; it is found in the structure and functions of management, of each activity and is the responsibility of every employee. Internal control system includes more controls, namely: self-control, mutual control, hierarchical

control, control of partnership, quality control, preventive financial control, inventories, accounting control, financial control, inspections. These controls can be grouped as follows:

- Ex-ante controls: self-control, mutual control, hierarchical control and preventive financial control;

- Ex-post controls: self-control, mutual control, hierarchical control, inventories, cashier control, accounting control, financial control, quality control, inspection.

All these controls are not organized as *stand-alone sections*, but are found in the flow of operations between the stages of procedures, performed by each job, at every level of responsibility or by delegation of authority, attached to current activities.

1.2 Internal auditor's status within a company

It is said that an internal auditor has a thousand eyes, but no heart. This remark comes from the fact that the internal auditor has access to all economic entity, considering all departments, all activities undertaken within the company and has an objective in finding irregularities, malfunctions, which will be reported to the management and upon the auditor will issue recommendations. The internal auditor has a special status within the company. It must have a clear position, detached. As mentioned, the internal auditors evaluate any department, function or activity of the economic entity for reporting to general management. From this perspective, the relationship between internal auditors and the audited person must be a professional one. The auditor will be focused on screening systems and identifying any problems. Internal auditor is responsible for assisting in identifying solutions, together with those audited in order to eliminate malfunctions/irregularities. However, internal auditors should not be isolated so that they can be able to perform their work in an effective manner. Internal auditors should be an important part of the collective. Internal auditors should take part as observers in the activities undertaken in the entity so that they can rely on thorough knowledge regarding the activities audited.

The management and the employees should not look at the internal auditors as if he is a police-officer, ready to apply sanctions. All the participants at the activities developed in the form should understand that the internal auditor is there to observe, have notes, identify risks and give recommendations. For that internal auditor must find the ideal way to communicate with all departments of the economic entity, in order to understand processes that occur in the firm?

The auditor has to take in consideration that all employees make efforts (large or small) to integrate the new process and the purpose of an audit is to find solutions, not to find guilt/someone

to blame for the non-conformities . In that aspect, the auditor would talk to as many people about how they see the process, what benefits they believe are, if they see improvement process, how they feel with the new duties, if they feel any difference than it was before (in cases of changes of processes).

1.3. Internal audit and risk management

In today knowledge-based society it can be identified a number of five tendencies, as: globalization, changes in risk management, technological progress, organizational talent and capacities, changes regarding internal audit role. All of these are expected to have an important impact over internal audit during the following years. That's way it is essential the proper understanding of these tendencies, and also of their implications, in such way so that internal audit could supply the help needed in identifying and managing risks; so in the end internal audit has an effective contribution in adding plus value to economic entities (Pop and Bota-Avram, 2009).

We must emphasize that the internal auditor is responsible only with providing recommendations. The responsibility for implementing the recommendations remains in charge of the management, who can take into account or not these recommendations, but they know that when they disregard them they will assume certain risks. In this regard, the relation between management and internal auditors should be characterized by partnership, having the same goals, objectives, among them numbering an efficient management and achieving (proposed/estimated) targets. Managers should be capable to understand what internal auditors want to express, should clearly understand the recommendations and as a follow up the manager will understand why is suitable to apply those recommendations.

Internal audit and risk management have the same goal: the control of risk. There are various roles for the internal audit in respect of risk management. The main limitations of internal audit in respect of risk management regards assuming risk management tasks.

The objectives of internal audit functions differ between organizations, but the main objective should be to assess and improve the efficiency and effectiveness of the management to maintain and improve the internal control system.

Within the organization the board, the executive management, the risk committee, the experts and the employees are responsible for the risk management. Nevertheless risk is considered to be the responsibility of operational management.

Important benefits of risk management are:

- Increased likelihood of achieving corporate objectives;
- Reduced cost of risk;
- Calculated risk taking.

There are many roles that internal audit can fulfil in respect of the risk management process implemented within the organization.

Internal audit assumes at least two important roles in respect of the risk management.

First, internal audit can act as an advisor helping the organization in respect of risk awareness. This can be done by improving the management understanding of the major risks facing the organization. It should be mentioned that the risk management process can be used by internal auditors in identifying areas for review. In these ways the internal auditors can focus their activity on the key systems and controls within the organization.

Second, internal auditors can act as trainers in risk management workshops. In this way internal auditors aid line managers understand better organizational risks and controls. This is how internal audit can help the managers to identify various risks.

Analysing the potential causes of economic crisis from internal audit perspective, specialists consider that certain situations could be the basis for generating these negative phenomena.

➤ The internal audit department was not interested in compliance and ensure compliance with internal audit standards, this disinterest being transmitted to the management, who considered this a *leaflet* (something insignificant);

➤ The internal audit department carried out its assessment regarding risk management and sent reports to executives on risks likely to threaten the normal development of business, but was not capable enough to identify and report them in time;

➤ The internal audit department carried out its assessment regarding risk management, but its procedures did not mention the necessity of reporting results to the management;

➤ The internal audit department has complied fully with internal audit standards, doing assessment, monitoring and reporting to management the results on risk management, but the management and the audit committee totally ignored these reports, not granting them due importance.

CONCLUSIONS

Internal audit, as an assurance service, represents more than a legal requirement. Timely detection of irregularities is important for all economic and financial market players, for all users of financial information.

A well-implemented internal audit structure and internal audit activities conducted carefully and conscientiously could signal potential dangerous situations due to poor management of assets (this should include all categories of resources, including human resources) with negative, if not so disastrous consequences for the company's own business and also with implications over the economic environment.

Development, implementation and continuous monitoring of internal controls system and procedures are the responsibility of the management and not the auditor. The auditor evaluates only at certain times the system of internal controls when an audit is planned.

An internal auditor can only provide advice in the development / implementation procedures otherwise it would be a conflict of interests between the writer of a procedure and the person who checks it.

For a maximum of effectiveness of Internal Audit there should be a good communication between auditors and management, so that the management would be open to the proposed recommendations. It is very important for the auditor to properly diagnose a situation (it is ideal as the auditor has knowledge and receive complex explanations necessary to understand the work properly).

Internal audit function should be strengthened more in order to provide reasonable assurance for all audited domains/activities, which will add value to the company.

It's more than obvious that this economic crisis, characterized by some specialists without precedent, will have a significant impact on the development of several areas, one being the internal audit.

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BUSINESS CYCLE SYNCHRONIZATION IN THE EURO AREA

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Abstract: *Business cycle synchronization represents a condition for the successful implementation of the common monetary policy within the Economic and Monetary Union. There is a tight relation between business cycle synchronization and the economic convergence of the Member States of the Monetary Union. Investigating the specialized literature, this study analyses below the factors which influence the synchronization of the economic fluctuations of the economies in the Euro area. A second objective of this study is represented by the pointing out of the evolution of the synchronization process of the business cycle after the adoption of the euro, in the euro area countries by reference to the empiric evidence. The hypothesis of the study states that the introduction of the unique currency in 1999 resulted into the increase of the synchronization degree of the business cycle.*

Keywords: business cycle, synchronization, economic convergence, Monetary Union, euro area
JEL Classification: E32, F36, F44

INTRODUCTION

The hypothesis that the business cycle of the national economies tend to become more and more synchronized, under the conditions of a continuous increase of the economic integration at the worldwide level (process known under the name of globalization) received considerable attention in the specialized literature. At the regional level, such a synchronization represented a key factor for the successful implementation of a common monetary policy, following the creation of the European Monetary Union. The creators of the European Monetary Union (EMU) saw in the introduction of a unique European currency a potential determining factor of the convergence of the EU economies. According to the Treaty of Maastricht, the objective of the Monetary Union was "to promote throughout the Community a harmonious and balanced development of economic activities (...) a high degree of convergence of economic performance, (...) and economic and social cohesion and solidarity among Member States." Under these conditions, convergence proves to be both a condition and a consequence of the monetary integration.

A starting point in the analysis of business cycle synchronization in the euro area is represented by the theory of the optimum currency area (OCA), which claims that a high synchronization degree between the business cycle of the Member States of the monetary union is a necessary condition for the good functioning thereof.

The conditions for the ascension of a EU Member State to the euro area are both the fulfillment of nominal convergence criteria and the real convergence (structural reform of the economy and economic growth). The fulfillment of the two conditions by the economy of a country assure it the competitiveness and the capacity of eliminating chocks affecting it. Also, the fulfillment of the convergence criteria assure the conditions for the synchronization with the business cycle of the euro area and shall induce a symmetric impact of the common monetary policy. If business cycle of countries participating in a monetary union are not synchronized, a common monetary policy cannot stabilize all economies simultaneously.

Under the conditions of a centralized monetary policy, a state which is in a phase of the business cycle comparatively distinct from those of the other countries of the union, may face expansionist policies materialized by decreasing interest rates or injections of liquidities during boom periods, respectively restrictive policies when in recession. Thus, for assuring the macroeconomic equilibrium, it is preferable that a country whose cycle is not synchronized to the one of the other countries in the union keeps the independence of its monetary policy, having the capacity of modifying the monetary indicators in a manner adequate to the internal economic requirements.

Some studies state that the euro area is an heterogeneous entity and that it is not characterized by a unitary business cycle (Artis, 2003).

The topic of synchronization was often analyzed in terms of causes determining the business cycle of the countries in the euro area to become more and more similar and of factors that determine the similar evolution of the production.

The convergence degree of the business cycle in a monetary union is the result of the influences applied by a series of factors. The specialized literature analyzes the determining factors of business cycle synchronization in Europe: the creation of the European Monetary System, in 1979 (Artis and Zhang, 1997), the development of the international trade (Frankel and Rose, 1998), similarities of sectorial structures of economies (Imbs, 2004) or the existence of common frontiers (Clark and van Wincoop, 2001).

1. DETERMINING FACTORS OF BUSINESS CYCLE SYNCHRONIZATION

1.1 Commercial Integration

Commerce is considered the factor with the largest capacity of influence on business cycle synchronization (Böwer and Guillemineau, 2006). In spite of these, in theory, it is not clearly delimited whether the intensification of bilateral commerce results into a higher or lower degree of synchronization of the business cycle. On one hand, some empiric studies have demonstrated the causal link between the intensity of commercial exchanges between countries and the correlations of the business cycle.

On the other hand, another approach of the relation commerce – synchronization of the business cycle states that a great opening of commerce stimulates the specialization, due to competitive advantages and economies of scale. Thus, this process seems to lead to a poorer synchronization of the business cycle, because if an idiosyncratic shock affects a certain economic sector of a country it is rather unlikely that it shall affect also the economy of another country for which the respective economic sector has a low importance.

An important role in the determination of the causal relation between the bilateral commerce and the correlations of the business cycle is occupied by the identification of the nature of the commercial flows: intra-industry commerce vs. inter-industry commerce. Thus, in case the intra-industry commerce is prevalent, situation specific to the developed countries, one can notice the growing tendency of business cycle synchronization.

According to Frankel and Rose (1998), the percentage of the intra-industry commerce increased within the bilateral commerce. They provide empiric proofs of the fact that the inter-industry commerce, compared to the intra-industry one, does not play an important role in business cycle synchronization. These authors also sustain the idea that the intensity of commercial exchanges has a positive effect on business cycle synchronization. Akin (2007) shows that the percentage of the intra-industry commerce increased considerably starting with 1970, especially in the developed countries.

On the contrary, in case the inter-industry commerce is prevalent, one can notice a much poorer degree of synchronization of the business cycle. But if the commerce between certain countries is of the intra-industry type, then the removal of the commercial barriers leads to a diffusion of the request shocks.

1.2 Monetary Integration

The role of the monetary integration into the determination of the business cycle synchronization is not clearly delimited. Within a monetary union, a monetary policy can lead to a better coordination of the reactions to common shocks, but it can be less efficient in case the countries are affected by idiosyncratic shocks. The reduction of the business cycle synchronization of Member States may be a consequence of giving up controlling the exchange rate.

Artis and Zhang (1999) demonstrated that the ascension to ERM lead to a modification of the similarity of the business cycle. Frankel and Rose (2002) consider that the monetary integration has a considerable effect on the increase of the bilateral commerce between the Member States. Still, other studies reach different conclusions. For instance, de Haan, Inklaar and Sleijpen (2002) analyzed the correlations between the USA economy and the economies of other 18 OECD States but could not provide considerable evidence of the increase of homogeneity of the business cycle throughout time. While the commercial exchanges seem to have a positive effect on economic convergence, stable exchange rates have a negative effect on this process.

Clark and van Wincoop (2001) pointed out that similar monetary policies do not constitute an important determining factor of business cycle synchronization. Analyzing the economies of a sample of OECD countries, during the period 1960-2001, Otto, Voss and Willard (2001) consider the similarities of the economic and institutional structure as determinant factors of the correlations of the economic growth at international level, while the monetary policies have no contribution within these correlations.

1.3 Fiscal Policy

Fiscal constraints imposed by the Stability and Growth Pact (SGP) can reduce the risk of asymmetric shocks, but the compliance with the SGP criteria reduces the capacity of answering country-specific shocks by an expansionist fiscal policy. These implications of SGP have different effects on business cycle synchronization. Darvas, Rose and Szapary (2005) demonstrate a positive impact of fiscal policies on the synchronization of the cycle in a group of OECD countries and point out the fact that during the periods with small budgetary deficits the correlations of production are larger. Thus, a better coordination of fiscal policies and a limitation of the budgetary deficits can sustain a stronger synchronization of the business cycle. A study elaborated by Fatas and Mihov (2003) demonstrates that the intensive usage of discretionary fiscal policies leads to the increase of

the volatility of production. In general, the recent literature suggests that the similitudes in the fiscal policies (regarding public expenses and budgetary deficits) have a positive effect on business cycle synchronization. It is still impossible to state clearly whether the application of the Treaty of Maastricht and of SGP had a considerable impact on the correlations of the cyclic fluctuations between countries. According to Böwer and Guillemineau (2006), the importance of fiscal policies for business cycle synchronization decreased after the introduction of SGP.

1.4 Economic Specialization

The convergence of the business cycle is easier to achieve between countries with similar sectoral structures. If two economies have similar production structures, one should expect that they answer similarly to common shocks. Large differences in sectoral specialization of certain countries negatively influence business cycle synchronization. That is, the more different two economies are, the less correlated their economic fluctuations.

Otto, Voss and Willard (2001) notice that the similar sectoral structures are positively correlated with the fluctuations of production, but in spite of these statistic results show that the sectoral structure does not represent a determining factor with a major importance in business cycle synchronization.

1.5 Integration of Financial Markets

Financial markets played an important role in the process of globalization of the last decades, and they also represent a factor of major importance in determining the degree of synchronization of the business cycle. The specialized literature is still rather ambiguous regarding the effect of financial integration on business cycle synchronization.

Kalemli-Ozcan, Sørensen and Yosha (2004) provide empiric proofs regarding the statement that countries with a high degree of financial integration tend to have a very high degree of industrial specialization and less synchronized business cycle.

The specialized literature analyzing the financial crises and the diffusion pattern of the shock in the financial markets indicate a positive effect of the flows of capital on business cycle synchronization.

In their turn Kose, Otrok and Whiteman, (2005) also sustain that financial integration increases international externalities of the macroeconomic fluctuations, leading to more synchronized business cycle.

Baele et al. (2004) identify two measuring types of the degree of financial integration: price-based measures and quantity-based measures.

1.6 Structural Indicators

Empiric studies analyzing the determining factors of the correlations of the business cycle include a set of *gravity variables*, used a control variables influencing synchronization. These variables aim at the *natural* similitudes between countries and can consist in: geographic distance, language, frontiers, a country's size in terms of population and economic indicators. Otto, Voss and Willard (2001) use a wider set of *gravity variables* which take into consideration aspects pertaining to the legal system, the quality measuring standards, the degree of openness towards technological innovation. Results of empiric studies showed that a high level of quality standards, a fast technological innovation adaptation rhythm and a common language are important in establishing bilateral correlations.

A study elaborated by Böwer and Guillemineau (2006) verified the robustness of a wide range of explanatory variables for the correlation of the business cycle in different countries of the euro area. Results pointed out a negative relation between the differences in terms of competitiveness between countries and business cycle synchronization. A negative relation is also established between the flexibility of the labor market and the synchronization of economic fluctuations, but these do not have a considerable importance in determining the degree of synchronization of the business cycle. The variable *distance* proves to have a special importance and a positive effect on synchronization.

Table 1 - Determinants of business cycle synchronization

Variable	1980-2004	1980-1996	1997-2004
<i>M-variables: traditional determinants of business cycle synchronization</i>			
Ratio of bilateral trade to total trade (BTT)	Robust	Robust	Fragile
Ratio of bilateral trade to GDP (BTY)	Robust	Robust	Fragile
Trade specialisation (TRADEPAT)	Fragile	Fragile	Robust
<i>Fuels</i>	(significant) Fragile	Fragile	Fragile
<i>Machinery and transport equipment</i>	(significant) Fragile	Fragile	Robust
<i>Other manufacturing</i>	Fragile	Fragile	Fragile
<i>Chemicals</i>	Fragile	Fragile	Fragile

Economic specialisation (ECOPAT)	<i>Industry</i>	Fragile Robust	Fragile Quasi-robust (significant)	Fragile Fragile
	<i>Constructions</i>	Fragile	Robust	Fragile
	<i>Wholesale and retail trade</i>	Fragile	Fragile	Fragile
	<i>Financial intermediation</i>	Fragile	Quasi-robust (significant)	Fragile
Bilateral flows og bank assets (LBFA)		Fragile	Fragile	Fragile
<i>Z-variables: policy and structural indicators</i>				
Real short-term interest rate differential (IRSCDIFF)		Fragile	Fragile	Robust
Nominal exchange rate volatility (SD_NERE)		Fragile	Fragile	--
Fiscal deficit differential (DEFDIFF)		Robust	Robust	Fragile (significant)
Price competitiveness differential (NCIDIFF)		Robust	Fragile	Fragile
Stock market differential, cyclical services (CYSERDIFF)		Robust	Fragile	Robust
Trade union membership differential (TUDDIFF)		Fragile	Fragile	Fragile
Geographical distance (GEODIST)		Fragile	Fragile	Robust

Source: *Determinants of business cycle synchronisation across euro area countries*, Uwe Böwer, Catherine Guillemineau, European Central Bank Working Papers, No.587, 2006, p.34.

2. EMPIRICAL EVIDENCE OF BUSINESS CYCLE SYNCHRONIZATION IN THE EURO AREA

The optimal implementation of a common economic policy cannot be achieved in the absence of a sufficient synchronization of the economies of Member States. Under these conditions, the considerable interest the topic of the introduction of the unique currency and of the euro effects on the structures of economies and on performance received in the specialized literature of the last decade becomes explicable. Most studies refer to the manner the introduction of the unique currency (positively or negatively) influenced the economic convergence and the synchronization of the economic fluctuations of national economies.

Regarding the behavior and the evolution of the synchronization process of the business cycle within a monetary union, opinions vary, sometimes even contradict each other.

Authors Frankel and Rose (1998), of the study *The Endogeneity of the Optimum Currency Area Criteria*, analyze the effects of the increase of commercial integration, from the moment of the creation of the monetary union, pointing out the fact that the intensification of the bilateral commercial relations lead to a much tighter correlation of the business cycle. Other authors (Corsetti, 2008) sustain that the reduction of the costs of the introduction of the unique currency is achieved by the convergence of the structure of consumption and of expenses.

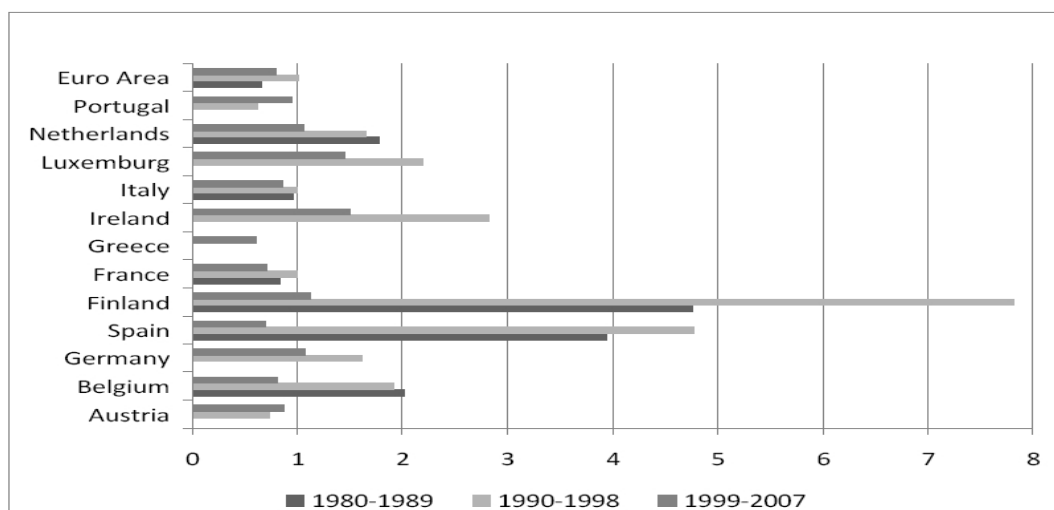
On the contrary, other opinions Kalemli-Ozcan, Sørensen and Yosha (2004) sustain that the commercial integration leads to the specialization of inter-industry commerce and consequently to the increase of the risk that national economies become affected of specific sectoral shocks.

Darvas, Rose and Szapary (2005) concluded that countries with similar budgetary positions have business cycle with a higher degree of correlation. The study *Successes and challenges after 10 years of Economic and Monetary Union*, elaborated by the European Commission concluded that a convergence of the macroeconomic policies imposed by the criteria of the Treaty of Maastricht and by the Stability and Growth Pact led to the reduction of asymmetric economic shocks and an increase of business cycle synchronization of the Member States.

Most frequently used statistic methods for pointing out the facts that influenced the convergence of the business cycle in the euro area are the dispersion of the output gap and the correlation of cyclic fluctuations.

The dispersion of the production differences represent an important instrument of analysis from the perspective of the promoted macroeconomic policies. If all Member States of the euro area are in a similar cyclic position, the standard deviation tends to zero. Under these conditions the common monetary policy produces similar effects on each country. In a study achieved by the European Commission, the results of the measurement of the output gap for the countries in the euro area, during the period 1980-2007, show that the volatility of the production is much more decreased during the period 1999-2007 (period of the euro area), compared to the periods 1980-1989 and 1990-1998. This fact can be noticed both at the general level, and for each country. But this decreasing tendency of the volatility of economic fluctuations cannot be fully and automatically assigned to the introduction of the unique currency. The problem is much more complex under the conditions in which such tendency is part of a worldwide trend. Many authors noticed that the volatility of the business cycle, starting with mid-1990s, acknowledged a decreasing tendency, at the worldwide level. Therefore, many explanations were provided for this phenomenon: the high level of commercial and financial integration, the decrease of the volatility of consumption, the optimization of financial and fiscal management, the good-luck factor materialized in a lower frequency of macroeconomic shocks, the increase of the percentage of services in the structure of national economies etc. It is though difficult to establish the degree of impact on volatility for each of these factors.

For the euro area the effect of the introduction of the unique currency on the evolution of the volatility of the business cycle was also considered. The specialized literature analyzes both positive effects (regarding the management of macroeconomic policies) and negative effects (a poorer coordination of national monetary and fiscal policy, increase of the specialization degree) of the introduction of the unique currency.

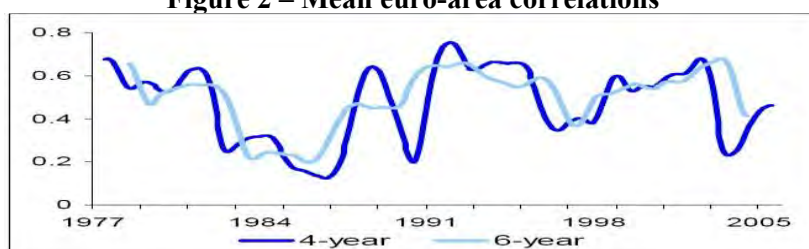


Source: European Commission, Final Report *Study on economic integration and business cycle synchronization*.

Empiric studies show that starting with 1980 and until 1986, correlations of the business cycle in the euro area are very weak. This level of the correlations can be understood by referring to the specificity of the macroeconomic policies and to the different economic or other type of events which influenced national economies. Causes of the low degree of correlation of the business cycle during the period 1980-1986 can be found in the EMS instability, materialized by a high number of adjustments of the exchange rate, in the asymmetric effects of the shocks of the oil price.

Starting with 1988 one can notice a continuous increasing tendency of the correlation of the business cycle. This tendency coincides with a period of stability and credibility of EMS. But the unsynchronization of the business cycle noticed during the period 1990-1993 can be assigned to the reunification of Germany and to the ERM Crisis. Before the disturbances on the exchange market of 1992-1993, the Exchange Rate Mechanism of the European Monetary System seemed to be a success of the intra-European monetary arrangements, capable of assuring an operational framework that would lead to a complete monetary union of the Community members. But at the end of 1992 major disturbances of the system occurred, and EMS had to face the most severe crisis in its history.

Figure 2 – Mean euro-area correlations



Source: European Commission, Final Report *Successes and challenges after 10 years of Economic and Monetary Union*, 2008.

Another considerable decrease of the correlation of the business cycle in the euro area is identified in 1997 and it coincides to the crisis of the Asian markets. It seems that this crisis asymmetrically affected the economies of the countries in the euro area.

During the period that followed, one can notice an increase of the degree of synchronization of the business cycle, until 2003, when a sudden fall of the correlations occurs. The increase of the correlations starting with the end of 1990s could be determined by the financial and commercial integration consequent to the Internal Market Programme or by the optimization of the coordination of macroeconomic policies in the euro area.

CONCLUSIONS

Commerce is considered one of the most important factors determining business cycle synchronization, but it may have both positive and negative effects: the intra-industry commerce leads to business cycle synchronization while the inter-industry commerce, by the effect of specialization, encourages economic asymmetries between countries.

Business cycle synchronization of the euro area countries is a primordial condition in the successful implementation of the common monetary policies. In the absence of synchronization, a common monetary policy would produce differentiated effects on national economies and would increase the economic differences between the Member States of the Union.

According to empirical data, business cycle synchronization in the euro area countries seems to have considerably increased during the period 1986-1995, as an effect of the implementation of the Internal Market Programme and of the financial and commercial integration. Together with the start of the third period of EMU in 1999, business cycle synchronization continued to acknowledge a positive evolution, but in a slower pace. It generally proves to be difficult or even impossible to clearly delimit the effects of the introduction of the unique currency on business cycle synchronization, but most of the empirical studies provide evidence denying the hypothesis that the unique currency would determine economic asymmetries between countries, by the effect of the commercial specialization.

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