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TABLE OF CONTENTS

THE PROBLEM OF TAX HAVENS AND THE ROMANIAN TAX AUTHORITIES' REACTION

Mihai-Bogdan **Afrăsinei***

Abstract: *The opportunities to avoid paying taxes provided by tax havens have motivated numerous multinational companies to resort to offshore operations, generating a significant tax loss at a global level. Romania is facing the same problem and the Finance Minister estimates that offshore operations in tax havens are approximately between three and four billion Euros. The refusal to exchange information and the lack of transparency of many tax havens represent a barrier for tax authorities to control these transactions and facilitate the coverage of illegal activities. This has determined certain countries, among which Romania, to impose higher taxes on taxable income of non-residents who are residents in "uncooperative" jurisdictions. In this paper we have emphasized the issue of tax havens and we have presented their classification after the foreign contribution to the capital of Romanian companies. We have also listed the ones with which Romania has signed agreements for information exchange.*

Keywords: tax havens; offshore financial centres; transfer pricing; tax avoidance; tax evasion.
JEL Classification: F23; H21; H25; H26; M4; O16.

INTRODUCTION

Anthony Ginsberg compares financial transactions from tax havens to the water cycle. *Water, as well as money is used and reused, ending its cycle in the great reservoirs of oceans. Money stock, similar to water, circulates from one state to another. A part of it is visible to the authorities and another one, quite substantial, "drains" in the underground to the great reservoirs of tax havens* (Ginsberg, 1997 in Trandafir, 2012, p. 28).

In order to reduce tax liabilities or even to totally avoid them, companies have the opportunity of opening branches in tax havens and directing their income to them (Krautheim and Schmidt-Eisenlohr, 2011). A lot of the companies registered in these jurisdictions are of a "mailbox" type and appear as having the offices in those certain locations only in official documents, but in reality they do not actually carry out any activities and no one can be found there (ActionAid, 2009; Preuss, 2012). These transnational companies are registered only for the possibility of avoiding tax burdens in the countries of origin (Otusanya and Lauwo, 2012). This is the main goal of tax havens, respectively of attracting a significant part of cash flow at a global level (Preuss, 2010) from transactions made by non-residents (Otusanya and Lauwo, 2012).

* Mihai-Bogdan Afrăsinei is a PhD Student in Accounting at the Faculty of Economics and Business Administration within Alexandru Ioan Cuza University of Iași, Romania, e-mail: bogdan.afrasinei@yahoo.com.

1. CHARACTERISTICS OF TAX HAVENS

Tax havens are countries or territories which have conceived a special legislation to attract capital flows from companies within countries with a high tax burden (Otusanya, 2011), offering them the opportunity of tax avoidance on a legal basis (Desai, Foley and Hines Jr., 2006).

The Organisation for Economic Co-operation and Development (1998) presents four main signs through which a jurisdiction can be identified as a tax heaven: (1) no or only nominal taxes; (2) lack of effective exchange of information; (3) lack of transparency and (4) no substantial activities.

Although they are often mistaken, a difference between the notions of offshore financial centre and tax haven must be made. An offshore financial centre is a commercial community established in a tax haven, consisting of accountants, bankers and lawyers who exploit the favourable tax legislation in the benefit of non-residents (Tax Justice Network UK, 2008). In addition, the International Monetary Fund defines an offshore financial centre as *a country or jurisdiction that provides financial services to non-residents on a scale that is incommensurate with the size and the financing of its domestic economy* (Zorome, 2007, p. 7).

An important feature of tax havens is that the population size is very low, the majority being under one million inhabitants (Dharmapala and Hines, 2009). Thus, a study of Slemrod and Wilson (2009) on a sample of 35 countries, named “uncooperative tax havens” by the Organisation for Economic Co-operation and Development in 2000, showed that the average of population of these countries or territories is of 284,000 inhabitants. Furthermore, if Liberia and Panama, which have a population of over one million inhabitants are excluded from the calculation, this average drops to less than a half, respectively 116,000 inhabitants. Donato Masciandaro (2008) developed an empirically tested model on a sample of 222 countries, through which he demonstrated that jurisdictions with a common law system, a stable political system, a low degree of influence in international bodies and which do not have crime or corruption problems have a bigger chance of being offshore financial centres than the others. Also, the quality of governance plays an important role (Dharmapala and Hines, 2009).

The term “offshore” is also used in association with “outsourcing”. Offshore outsourcing has known a significant evolution at the end of the 1980s until the beginning of the 1990s and refers to the transfer of certain enterprise functions to a specialised provider or the establishment of own subsidiaries abroad with the purpose to benefit from a highly degree skilled personnel or with the simple purpose of cutting costs (Aman et al., 2012). Laura D'Andrea Tyson (2004) believes that *offshoring is a process of creative destruction*, because the economy stands to gain from it through growth of the market competitiveness and lower prices, but it strikes a sensitive issue regarding job losses.

2. TAX AVOIDANCE AND TAX EVASION

Generally, big companies are the ones which profit by the advantages offered by tax havens (Krautheim and Schmidt-Eisenlohr, 2011), while smaller companies continue to pay taxes and dues in the country of origin. The International Organisation ActionAid (2011), which militates for Human Rights, has identified the fact that 98 of the biggest 100 company groups listed on London Stock Exchange use tax havens.

Authors Dragoş Pătroi and Florin Cuciureanu (2010) consider that international tax evasion and money laundering operations are possible through the following tools: tax planning transactions, tax avoidance transactions, double trust transactions, holding companies, captive insurance companies, captive banks, trusts, readymade companies and international business companies.

The *tax avoidance* concept refers to business planning so as to ensure reduction of taxes to be paid, through accounting tools applied in the limit laws and is different from tax evasion (Loomer and Maffini, 2009). Thus, transactions may be established at an arbitrary price between affiliated entities through transfer pricing, which leads to distortion of accounting result and to artificial reduction of profits (Brock, 2011). Transfer pricing is the price at which economic transactions regarding buying and selling goods and services between affiliated entities of the same transnational company are concluded (Aid, 2008). According to legal rules, these prices should be established at market price, but multinational companies often resort to their manipulation (Henry, 2012) depending on the situation and on the intended purpose. Thus, for diminishing the taxable base in countries with a high tax, transnational companies over-evaluate acquisitions and under-evaluate sales so that the profit is directed to jurisdictions with a permissive tax (Gravelle, 2010; Henry, 2012). In this way, artificial growth of profit at the level of the entire group of companies is ensured.

Surely the most favourable investment opportunities can be found beyond own borders (Dauphin, 1999), but a significant part of the direct capital to tax havens, after being laundered, returns to the origin country as foreign direct investments. This is encouraged by the fact that certain governments offer numerous facilities to foreign investors, such as grants, low tax or favourable land use rights. In this way, competition is affected and the foreign investors are clearly advantaged, especially fiscally, while local business can be put in difficulty in a certain way (Christensen, 2011).

The South African Finance Minister, Pravin Gordhan, stated that a*ggressive tax avoidance is a serious cancer eating into the fiscal base of many countries* (Houlder, 2009), while the author Lutz Preuss (2012) came to the conclusion that a enterprise which uses tax havens cannot be considered under any circumstances of being socially responsible as long as it takes a deliberate decision of tax debts avoidance.

Over time, a series of national and international organizations were enrolled in the battle for combating tax evasion, money laundering and international movement of illicit funds, among which Organisation for Economic Co-operation and Development, International Monetary Fund, Tax Justice Network, Global Financial Integrity, Financial Integrity and Economic Development, United Nations Conference on Trade and Development, Organized Crime and Corruption Reporting Project and Tax Research LLP.

3. THE INFLUENCE OF TAX HAVENS IN ROMANIA

The Romanian Finance Minister, Daniel Chiţoiu, stated, at a television program, (Realitatea TV, 2013), in April 2013, that Romania is dealing with a major problem of directing income to tax havens and believes that the total level of these operations is about 3-4 billion Euros, which represents 2-3% of GDP.

Authors Johnson and Holub (2004, p. 186) begin their article with a famous quote by Benjamin Franklin who said at the middle of the eighteenth century that *in this world nothing is certain but death and taxes.* However, over time, offshore companies have seriously doubted this theory, having the opportunity of tax avoidance through tax havens. But now, Romanian tax authorities intend to approach Benjamin Franklin's words and the income obtained by non-residents from Romania (such as interest; royalties; commissions; income from sports and entertainment activities; incomes representing remuneration received by non-residents who have an administrator, founder or member of the board of a Romanian legal person; revenue from services rendered; income from independent professions; income from prizes; incomes obtained from gambling or income of non-residents from the liquidation of a Romanian legal entity) are subject of taxation (Fiscal Code of Romania, 2013; Ţinteanu, 2013), as shown in table 1. Also, one of the main objectives of the National Agency for Tax Administration (2012, p. 2) on a medium term (2013-

2016) is *multinational fraud combat, especially the Intra Community one*, and this requires intensifying checking actions of transfer prices.

Table 1 - Non-resident tax rates for income from Romania

Where a double taxation avoidance agreement between Romania and the country of origin is concluded		**Where a double taxation avoidance agreement between Romania and the country of origin is not concluded**
If the taxpayer offers proof of residence (tax residence certificate issued by the competent authority of its state), the most favourable tax shall apply, respectively between 16% and the tax rate in the other country.	If the tax payer doesn't offer proof of residence (tax residence certificate issued by the competent authority of its state), the 16% Romanian tax rate shall apply.	Income is taxed with 50% *if the income is not paid in a state with which Romania does not have a concluded legal instrument under which exchange of information can be made.*

Source: Own processing after Fiscal Code of Romania, Law no. 571/2003, art. 116 and art. 118

In the following part (table 2) we present a list made by Tax Justice Network UK (2008) of tax havens and offshore financial centres from around the world, nominated by the Organisation for Economic Co-operation and Development, International Monetary Fund and Tax Justice Network. From this list we have emphasized the countries and territories with which Romania has concluded a double taxation avoidance agreement in order to observe which of these are targeted by the new regulations in Romania.

Table 2 - The world's tax havens and offshore financial centres

No.	**Jurisdiction**	**OECD**	**FSF-IMF 2000**	**TJN 2005**	**Double taxation avoidance agreement with Romania**
1.	Andorra	■	■	■	✗
2.	Anguilla	■	■	■	✗
3.	Antigua & Barbuda	■	■	■	✗
4.	Aruba	■	■	■	✗
5.	Australia	□			✓
6.	Austria	□			✓
7.	Bahamas	■	■	■	✗
8.	Bahrain	■	■	■	✗
9.	Barbados	■	■	■	✗
10.	Belgium	□		■	✓
11.	Belize	■	■	■	✗
12.	Bermuda	■	■	■	✗
13.	British Virgin Islands	■	■	■	✗
14.	Canada	□			✓
15.	Cayman Islands	■	■	■	✗
16.	Cook Islands	■	■	■	✗
17.	Costa Rica		■	■	✗
18.	Cyprus	■	■	■	✓
19.	Dominica	■	■	■	✗
20.	Dubai			■	✗
21.	Finland (Åland)	□			✓

22.	France	□			✓
23.	Germany (Frankfurt)	□		■	✓
24.	Gibraltar	■	■	■	✗
25.	Greece	□			✓
26.	Grenada	■	■	■	✗
27.	Guernsey, Sark & Alderney	■	■	■	✗
28.	Hong Kong		■	■	✗
29.	Hungary	□		■	✓
30.	Iceland	□		■	✗
31.	Ireland	□	■	■	✓
32.	Isle of Man	■	■	■	✗
33.	Israel (Tel Aviv)			■	✓
34.	Italy (Campione d'Italia & Trieste)	□		■	✓
35.	Jersey	■	■	■	✗
36.	Korea	□			✓
37.	Latvia				✓
38.	Lebanon		■	■	✓
39.	Liberia	■		■	✗
40.	Liechtenstein	■	■	■	✗
41.	Luxembourg	□	■	■	✓
42.	Macao		■	■	✗
43.	Malaysia (Labuan)		■	■	✓
44.	Maldives	■		■	✗
45.	Malta	■	■	■	✓
46.	Marshall Islands	■	■	■	✗
47.	Mauritius	■	■	■	✗
48.	Monaco	■	■	■	✗
49.	Montserrat	■	■	■	✗
50.	Nauru	■	■	■	✗
51.	Netherlands	□		■	✓
52.	Netherlands Antilles	■	■	■	✗
53.	Niue	■	■	■	✗
54.	Northern Mariana Islands				✗
55.	Palau		■		✗
56.	Panama	■	■	■	✗
57.	Portugal (Madeira)	□		■	✓
58.	Russia (Ingushetia)			■	✓
59.	Saint Kitts & Nevis	■	■	■	✗
60.	Saint Lucia	■	■	■	✗
61.	Saint Vincent & the Grenadines	■	■	■	✗
62.	Samoa	■	■	■	✗
63.	San Marino	■			✓
64.	São Tomé e Principe			■	✗
65.	Seychelles	■	■	■	✗
66.	Singapore		■	■	✗
67.	Somalia			■	✗
68.	South Africa			■	✓
69.	Spain (Melilla)	□		■	✓
70.	Sweden	□			✓
71.	Switzerland	□	■	■	✓
72.	Taiwan (Taipei)			■	✗
73.	Tonga	■		■	✗
74.	Turkey (Istanbul)	□			✓
75.	Turkish Rep. of Northern Cyprus			■	✗
76.	Turks & Caicos Islands	■	■	■	✗
77.	United Kingdom (City of London)			■	✓

78.	Uruguay			■	✗
79.	US Virgin Islands	■		■	✗
80.	USA (New York)	□		■	✓
81.	Vanuatu	■	■	■	✗

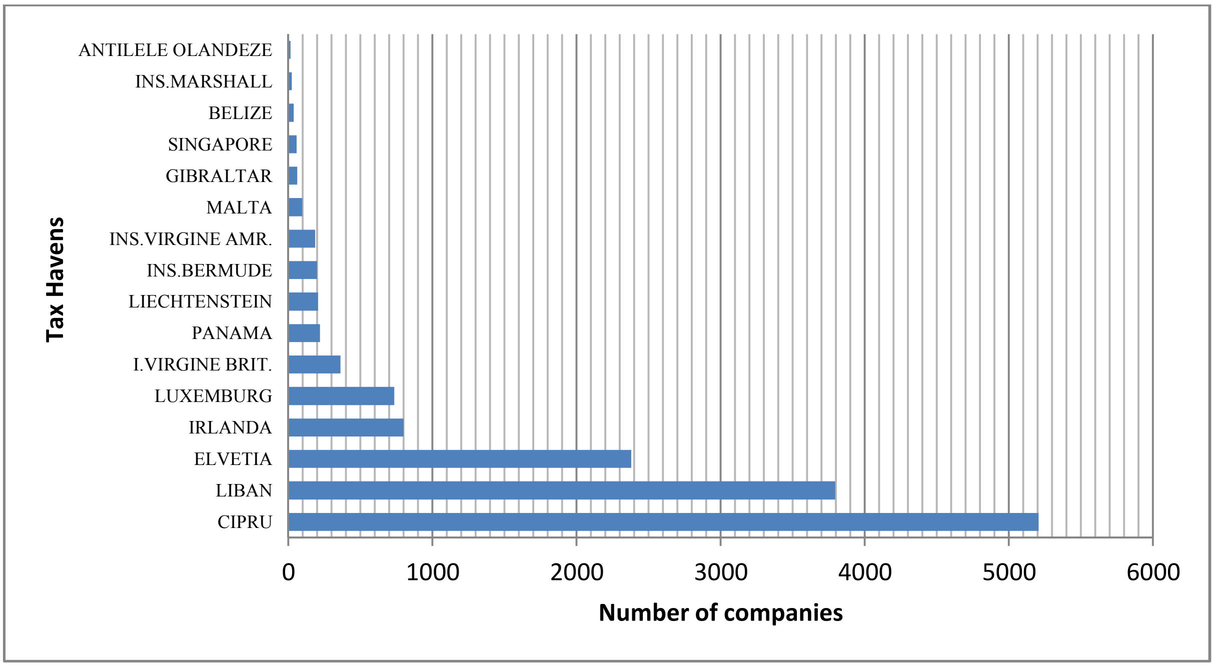
■	Tax Haven OECD, TJN 2007 /Offshore Financial Centre FSF/IMF 2000
□	OECD member country with potentially harmful preferential tax regime as distinguished by OECD 2000
■	No longer regarded a tax haven according to the OECD 2006
✓	There is a double taxation avoidance agreement with Romania
✗	There isn't a double taxation avoidance agreement with Romania

Source: Tax Justice Network (2007), *Identifying Tax Havens and Offshore Finance Centres* with our additions from Agenţia Naţională de Administrare Fiscală, *Lista convenţiilor de evitare a dublei impuneri*

From this list of 81 tax havens and offshore financial centres we can see that currently, Romania has concluded agreements concerning exchange of information and double taxation avoidance with only 30 of them.

According to statistical data summary report from the Central Trade Register, in Romania there are 185,791 companies with foreign participation to the capital. Of these, a significant number of shareholders have residence in tax havens and offshore financial centres. In figure 1 we have presented the classification of tax heaven countries on the number of companies where the majority of foreign shareholders of Romanian companies come from.

Figure 1 - Tax havens top by foreign participation in the share capital of Romanian companies between 1991 and 2012



Source: Own processing based on data from Oficiul Naţional al Registrului Comerţului (2013), http://www.onrc.ro/statistici/is_ianuarie_2013.pdf

From this figure we can see that the majority of countries with foreign participation to the capital of Romanian companies are Cyprus (4362), Lebanon (3795), Switzerland (2380), Ireland (799), Luxembourg (735) and British Virgin Islands (363).

CONCLUSIONS

The problem of tax havens is by far a global priority, as long as *tax havens provide an important channel for tax evasion* (Brock, 2011, p.7).

The elimination of trade barriers created a multitude of benefits, but tax havens can be seen as a dark side of the global economy, as William Brittain-Catlin (2005) entitled a famous book.

As we have shown previously, in Romania tax regulations were introduced designed to stop capital flight to countries with a permissive tax regime with which there are no concluded double taxation avoidance agreement. In this way, taxable income obtained from Romania by non-residents who have residence in countries and territories such as Isle of Man, Singapore, Netherlands Antilles, Jersey, Cayman Islands, British Virgin Islands, Bermuda, Belize or Barbados will be taxed at 50%. In case of income obtained by non-residents from Romania, but who have residence in countries such as Cyprus, Switzerland, Ireland or Luxembourg a tax of 16% shall be paid (if there is no proof of residence), or the most favourable tax rate between the one in Romania and the one in the country of origin. There is no doubt about the fact that these regulations have a precise goal, respectively encouraging exchange of information between states by providing a legal instrument for tax controls.

Enterprises which use tax havens have an advantage over the ones that meet their burdens on a fair and responsible manner in the country of origin. Paying lower taxes or no taxes at all it is much easier to lead a market competitive fight and they will always be one step ahead.

Thus, in conformity with Quintard (2010), we consider the existence of a fiscal coordination and even a harmonization of corporate tax rates in the European Union in order to prevent and combat border tax evasion and to stop harmful tax competition to be absolutely necessary.

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PROBLEMS OF CONSUMER PROTECTION IN TOURISM

Gina Ionela **Butnaru**[*]
Luminita Mihaela **Ion**[†]

Abstract: *The actuality of the topic, its extent and importance, were strong arguments for writing this paper - Problems of consumer protection in tourism. To this, also the convergence of the fields that focus on the description of a image in deep of the topic is added, we are talking about economic, legal social features or features that belong to the specifics of tourism and of products and services consumed within it. The multiple dimensions of the approached topic transform it into an exciting topic which proves its usefulness when it is known since each individual can acquire the quality of a consumer, and his rights as a consumer are nothing else but the human rights of which every individual has to be aware. A process of education and information of the citizens regarding the rights they possess as consumers could reduce a part of the problems appearing in the process of consume of tourism products and services but it would contribute to the optimization of the protection of rights and interests of the consumers. In economic terms, democracy also implies ensuring the rights of the consumers and thus their protection, therefore the concept of protection of rights and interests of consumers exists*.

Key words: consumer; problems; protections in tourism.
JEL Classification: M19.

INTRODUCTION

The present work focuses on presenting key concepts for the importance and treatment of the topic. A theoretical analysis is presented and a special importance is given to the consumer, and this idea is supported by numerous approaches of the topic in the literature. Exactly the diversity of these approaches resulted in that that this concept has no unanimously accepted definition but by combining the various interpretations the consumer can be defined as the person to whom a contract offer is proposed and who accepts it for the delivery of a good or service for non-professional goals. In close relationship to this concept is the notion of consumer behaviour which comprises the totality of decisions of an individual or group of people in direct relationship to obtaining goods and services in order to satisfy his/her/their present and future needs including the decisions preceding or determining these decisions. With this basis and main concern but also with the motivation according to which the awareness of mankind regarding the status of the consumer is a relatively recent phenomenon, the notion of consumer protection becomes also a present topic which appears as an important problem for the entire society. The interest shown to this topic as well as the researches concerning this offer a definition of the concept, and the consumer protection can be

[*] Alexandru I. Cuza University of Iasi, Romania, e-mail: gina.butnaru@uaic.ro.
[†] Alexandru I. Cuza University of Iasi, Romania, e-mail: luminita_ion@yahoo.com.

defined as a form of promotion and protection of the fundamental rights of the consumers, considering a group of public and private provisions with the aim to ensure and improve permanently the observance of the interests of consumers.

1. RESEARCH METHODOLOGY

A major concern we had in writing the paper was the use and exploitation of a diverse and present day literature belonging to specialists in Romania or worldwide, in order to present as many approaches of the topic as possible, which proves their usefulness in giving a wider picture within other different systems for treating the approached issue.

The information acquired through this research generated a series of ideas which can be developed within future investigations, ideas referring to the way to approach the emerging problems, to proposals for the improvement of the system but also to methods of making the citizens responsible and educating them regarding the approached field.

2. ELEMENTS OF THE CONSUMER'S BEHAVIOUR IN THE TOURISM SERVICES AND INFLUENCE FACTORS

The consumer – barycentre, starting point, engine, he is a real object of study for any economic activity or scientific research. Since he is a multidimensional concept, he is approached in different ways, each proposing a specific definition. Thus, any economic subject whose behaviour is directed towards the satisfaction of the individual needs or the needs of the micro group to which he belongs (family, household) can be considered consumer. Similarly, inside the consumer category one can find the institutionalized collective entities (Cătoiu and Teodorescu, 2004). In the economic theory the consumer was perceived often as a *homo oeconomicus* (Kirchgässner, 2008), able to act in a logical and rational manner, in a free and transparent market, the psychological and sociological aspects of consumption and satisfaction disappearing almost completely from this logic. But one cannot ignore that the average human is a preponderantly an emotional being. The notions of consumer and consumption are of economic essence but there is also a legal approach of this term. In this respect, the consumer is the person to whom one proposes and accepts an offer of contract regarding the delivery of a good or of a service with non-professional aims. From a legal point of view, the consumer (Law No. 37/2002 regarding the approval of the Decree of the Government No. 58/2000 for the modification and completion of the Decree of the Government No.

21/1992 regarding consumer protection, Art. 2, 2nd line) is an individual or the group of individuals who are gathered in associations, who buy, obtain, use or consume products or services outside their professional life.

Beside the elements presented above the concept of consumer cannot be fully understood unless analysing him in relationship to the people around him, thus emphasizing its social nature. Most of the times, the buying or consumption processes imply other people than the consumer as well, influencing his behaviour.

The behaviour of the consumer is given an importance bigger than the notion of consumer itself through the multitude of factors and of the variables which it contains. Consequently the diversity, complexity and interdependence of the aspects composing the consumer's behaviour can be seen through a systematic approach. Although this is a concept with which all specialists in the field of market research operate the consumer's behaviour has no unanimously accepted definition. Thus various interpretations appear. *In a restricted sense* (Cătoiu and Teodorescu, 2004), *the consumer's behaviour reflects the conduct of people in case of the buying process or of the consumption of material goods and services*. This approach is specific for classic marketing which concentrates on the market of consumption goods and services. Evolving, appears to be the notion of modern marketing which increases the sphere and applicability of the marketing activities. Thus results a new definition of the consumer's behaviour. *In a broad sense this concept includes the entire conduct of the final user of the material and non-material goods* (Mâlcomete, 1993). Focusing on the tourism sector the behaviour of the consumer of services can be defined through the totality of the acts, attitudes and decisions of the buyer regarding the allocation of some parts of his incomes for buying services. In a broad approach this notions can be defined as the totality of the decision making acts resulted at an individual or a group level in a direct relationship to obtaining goods and services in order to satisfy the current and future needs including the decision making processes which precede or determine these acts (Balaure, 2002).

From the multitude of definitions proposed for this concept a series of factors results, factors which exert an influence on the consumer's behaviour and come together to form a complete definition (Martin, 1967). Among the most important we can mention the following: perceptions, information, attitude, motivation and actual behaviour, consumer's behaviour representing the synergetic effect of this system of influences.

Par excellence, being a multidimensional concept, the consumer's behaviour includes also the notions of buying behaviour and consumption behaviour. The buying act is not a simple reaction between incomes and costs since a series of other dimensions appear, among the most important being: the buying or non-buying reasons, the preferences of the buyers, the buying intentions, buying habits, consumption customs, attitude, and image.

The purchase or non-purchase reasons represent a system of impulses and tension states which justify by their nature purchasing or rejecting a certain product or service. The impulses at the basis of the motivation can be structured in several categories: rational or emotional impulses, primary or inborn impulses and secondary or acquired impulses.

The preferences of the purchasers appear only as a result of a strong motivation and can be explained by the affective compatibility of the purchaser with the product or service. The triggering of the preference can be caused by elements referring to the brand, name, and usage instructions, by the material characteristics of a product or by the status which it offers the consumer.

The buying intentions are seen as probabilistic assessments of the future behaviour. The intention represents a development of the motivation which generates tendencies. Knowledge of these tendencies finds its importance in preparing new products which are to be launched in the market. The intentionality studies together with acceptance or preference ones of products or services are completed in determining the potential market of the same products or services.

The buying habits represent forms of manifestation of the consumer's behaviour for purchasing goods and services which proved profitable as a consequence of former buying experiences. The buying habits have the following structure:

- Temporal habits – refer to the spacing out of the purchases according to seasons, days of the week, and hours of the day;
- Space habits – including types of shops from which the purchasers got used to buy but also the medium distance the purchasers travel in order to buy various goods;
- Moral habits – refer to selling forms preferred by the purchasers, to the association of the products in the moment of their purchase, to the fidelity towards a brand, to the purchased quantities.

The consumption customs refer to constancy in obtaining some goods or services and have a close relationship to the buying habits, the latter having a smaller stability in time than the consumption customs. This shows that influencing the customs needs a more intense promotional and educational effort.

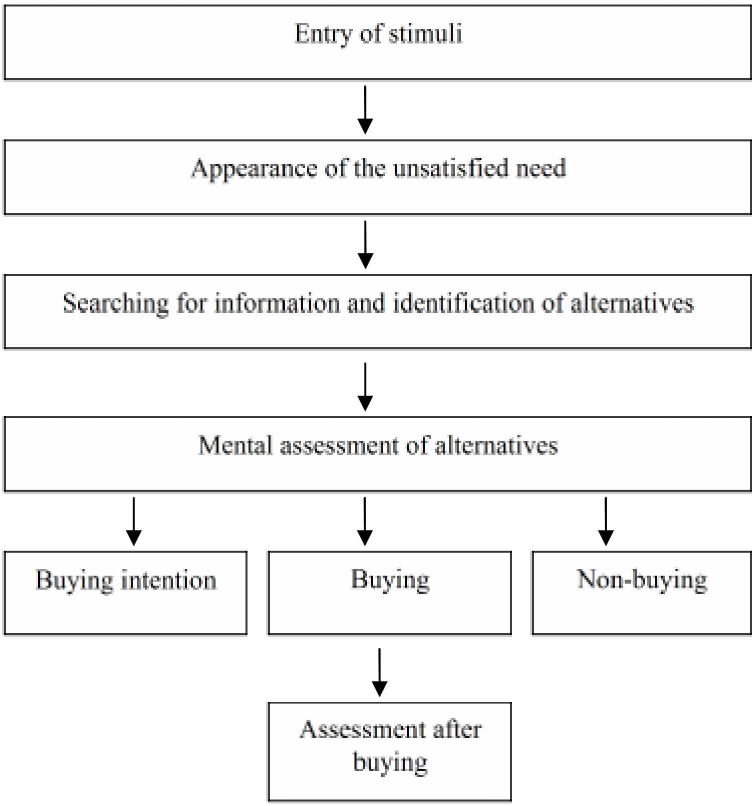
The attitudes represent an accumulation of influences determined by reasons, habits and customs with a more pronounced stability in time. It is defined by some researchers as a latent dimension of the consumer's behaviour or a set of beliefs, feelings and predispositions of the individual targeted towards the products or services on the market (Munteanu, 2006).

The image is the result of the way in which the consumers perceive the goods or services but also the bidders. Therefore this component has the most important place among the other dimensions, element for singularizing the behaviour of the consumer of services.

The consumer's behaviour has certain peculiarities according to the stage of the decision making process which is made up by the totality of the acts which come before and appear after the moment of the purchase of a good or service on the market (Munteanu, 2006). This can be structured in several phases (Cătoiu and Teodorescu, 2004):

- Appearance of an unsatisfied need;
- Searching information and identification of the alternatives;
- Mental assessment of alternatives;
- Result of assessment (buying, non-buying, buying intention);
- Assessment after buying.

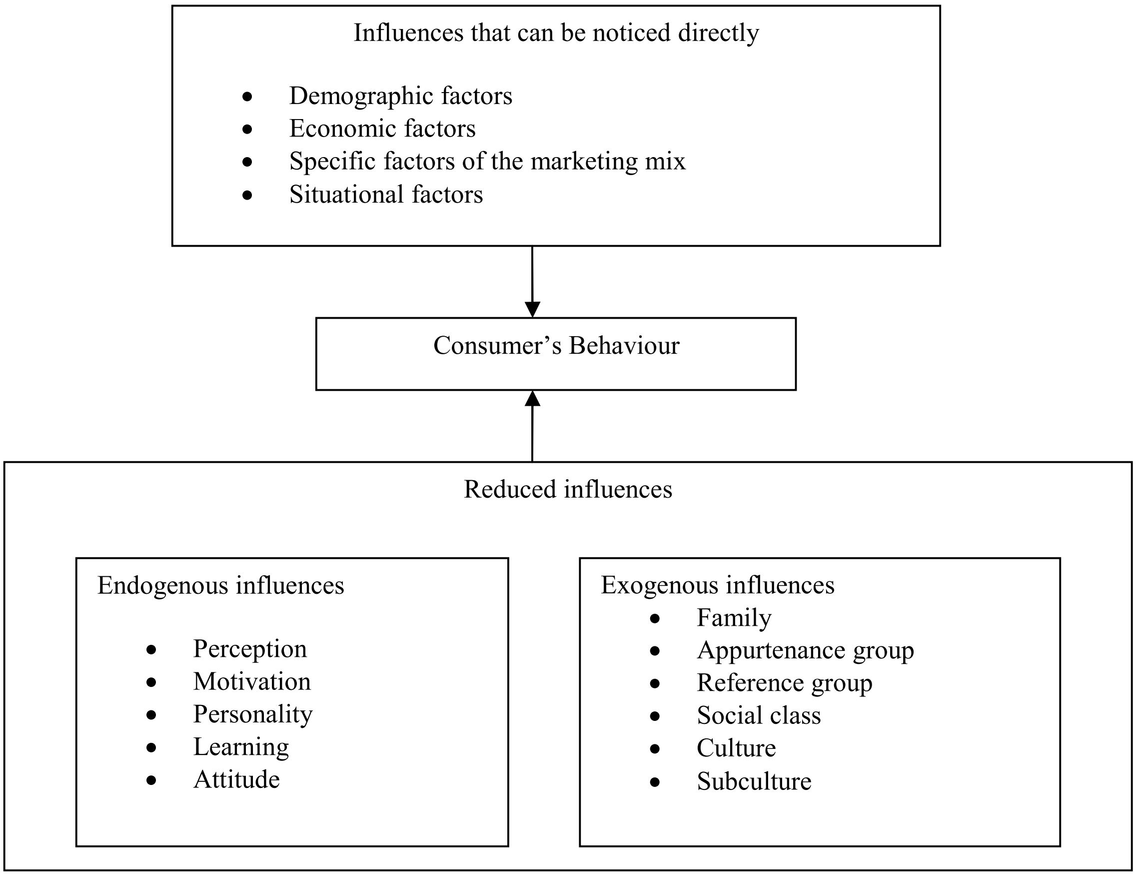
Figure 1 - Stages of the processing making process for buying



The consumer's behaviour has certain peculiarities given also by the targeted field, not only by the stage of the decision making process. Thus, in tourism consumption coincides with the place of the offer, but not with the place where the demand is formed. Production and consumption appear simultaneously in the basin of the offer. The volume is dimensioned according to the prices, tariffs and incomes strongly concentrated in time and space. All specialists admitted that in fact the behaviour of the consumer cannot be explained other than by knowing the system of factors which act in close relationship and mutual inter conditioning. The way they act and especially the place and the role which all these factors have in the system are seen and interpreted differently and therefore different classifications of these factors are found in the literature.

The consumption of tourism products and services is influenced, according to the theory of Cătoiu and Teodorescu (2004), by a series of factors which can be represented as follows:

Figure 2 - Influence factors of the consumer's behaviour



Another interpretation and classification of the factors influencing the consumer's behaviour is found in the book of Dubois and Jolibert (1992), who group them as follows:

- Individual factors where one finds personality, cognitive style, life style and perceived risk;
- Environment factors which refer to: socio-demographic factors (the curve of family life, social classes), reference groups, family, economic environment.

These factors which influence the behaviour of the consumer have the following classification (Kotler and Armstrong, 1991):

▪Cultural factors, culture, subculture and social class specifics;

▪Social factors which include reference groups, family, roles and statuses;

▪Personal factors which refer to the age and stage in the life cycle, occupation, life style, economic circumstances, personality and opinion about himself;

▪Psychological factors designated by motivation, perception, learning, beliefs and attitudes.

Another interesting approach regarding this topic is that of the English authors Hill and Sullivan (1997). They start from the premise that the social environment of the consumer, the individual circumstances and his psychology come together in order to influence the decisions about what he has to buy. These factors are stressed out in the following categories:

• Social environment referring to culture, reference groups and social class;

• Personal characteristics defined through personality, life style, motivations, attitudes and beliefs, perception;

• Individual circumstances, which are designed by sex, age, life cycle of the family, income, education.

Although each author defines his own classification, which is supported by individually determined variables and criteria, essential factors which influence the consumer's behaviour or the buying decision are found in all works and for this reason they are defined and perceived otherwise, so we considered that the concept of consumer behaviour represents the synergetic effect of the influences system.

4. CONSUMER PROTECTION AND THE NECESSITY FOR THIS

Making mankind aware about the quality of the consumer is a phenomenon which developed during the spectacular increase in the offer of goods and services and at the same time with the competition which has reached a very large level. Any individual can obtain the quality of consumer, his rights in the quality of consumer being nothing else but the human rights.

Worldwide the first significant benchmark of this aspect is embodied in the movement for the rights of consumers, which was started in the 1960s, when J.F. Kennedy enacted the Charter of Consumer Rights (15th of March 1962), in which the four fundamental rights of these were included: the right to be protected, to be informed, to choose and to be listened to, and these are to evolve as number and meanings along with the development of the society. The impact of this event was perceived also by the International Organisations of Consumer Unions (I.O.C.U.) which declared the date of 15th of March as the "World Day of the Consumer Rights". By the Resolution 39/248/1985, through which the General Assembly of the United Nations Organisations adopts the *"Guiding Principles for the Consumer Protection"* a framework for the processing and consolidation of the polices and national legislation of every country regarding the consumer protection but also a stimulus for international cooperation in this field is offered transforming the theme in a world major topic (Pamfilie, 1996).

The consumer protection can be defined as a form of promotion and protection of the fundamental rights of the consumers and aims to an assembly of public or private provisions which have as goal permanently ensuring and improving the observance of the interests of the consumers (Dictionnaire commercial de l' Academie des Science Commerciales, 1979). This can be fulfilled by individual self-protection and associated protection but also directly by the state institutions, through regulating, monitoring and control activities as well as through indirect protection referring here to the information, education of the consumers and to the supporting of the consumer associations. Thus a dual relationship between the state and the individual emerges, the state offering the individual the possibility to develop his own self protection capacity, and the latter claims rules, laws, standards which ensure the legal framework for manifesting this capacity. One tries to ensure an equilibrium state based on observing agreed clauses and ensuring the access of all citizens to products without risks with a correct and just promotion of the development of the social economy (Rezoluţia ONU 39/248 privind Protecția consumatorilor, New-York, 1985, p. 2).

Regarding the education of consumers, which is the most efficient method which the state has to protect them, since they exert their protection right in a more difficult manner, especially in what regards the tourism products and services (Niță and Butnaru, 2010), because of their intangibility, of the difficulty in assessing their quality level, of the subjectivism degree in relationship to the personality of the consumer but also due to the fact that many consumers do not pay attention or even ignore the aspect when one comes to signing a contract for the selling of tourism services package with the tourism agencies.

As a consequence of the importance of the theme and of its presence in the life of mankind numerous causes were developed which support the necessity of a protection system for the rights and interests of the consumers, the following aspects being the most important (Dinu, 2010):

- The obvious disproportion of forces between the consumer, and especially in his form as natural person and the economic organizations to which he makes contact; this disproportion can be determined on several levels:

  - *Economic*: we can talk here about the inferior level of resources of the consumer in comparison to the company;
  - *Informational*: with reference to the fact that the information of the company regarding the product or service brought on the market are fewer than those of the consumer, informing him in what concerns the product or service is made difficult also by the nowadays informational boom;
  - *Legal*: here the proportion is made obvious by the consumer who is not informed or aware of the laws which protect his interests whereas the company knows the rules that govern the economic environment in which it acts, possesses the assistance of some legal counsellors who protect its interests;
  - *On the level of representing the interests*: the influence of the producers can be felt in that regulations were adopted to allow obtaining some interests whereas the consumer have a passive attitude regarding this aspect, and the cases in which they boost their interests by means of various actions within some supporting organizations are rare;

- Legally speaking another cause is represented by the fact that the producers are not bound to implement in their organizations a system of quality assurance or to certify the quality of their products, exception being the situations in which these act in a field legally regulated. In this situation products or services can appear whose level of quality justifies exactly the existence of measures of protection of the rights and interests of the consumers;
- The exacerbated level of competition, the abusive practices ever more present in the behaviour of the producers, pressure on the consumer by means of aggressive forms of selling also are causes in the necessity of the consumer protection;
- The phenomenon of globalization has its negative effects on the consumer, many of the commercial barriers are removed and he has a very generous offer of products or services about which he does not always have the necessary information and he chooses not knowing too much about them.

The consumer protection has become ever more important for the society and one feels very strongly the need for regulations in this field because (Sârbulescu, 2003):

a) They ensure the protection of the rights of consumers directly affecting the quality of their lives;

b) It plays a role of regulator in the economy determining satisfying the real needs of the consumers at ever higher standards;

c) By the control of the economic activities it diminishes the risk of endangering of the human civilization itself by irresponsible usage of damaging technologies, techniques and substances for life, health and safety of the consumers;

d) The legislative and institutional system for the protection of the consumers constitutes a complex mechanism for the promotion and consolidation of the loyal competition on the market;

e) Since it determines precise and transparent play rules for everybody, it is a decisive factor for diminishing the corruption (which promotes faithless competition), with positive effect on the protection of the legitimate rights and interests of the consumers.

Thus motivated the consumer protection must be integrated into the social protection policies which any state should develop as a self-standing component to which own objectives and instruments are assigned. Some of these are to be developed further in the paper.

a. Legislation and organizations regarding the consumer protection

The consumer protection appears as an important problem for the entire society and as a consequence the notion of consumers' rights starts taking shape in the 18th century but only later in the second half of the 19th century social actions and legislative efforts appear in this sense. As I mentioned previously the first significant action for this field was performed by the American president J.F. Kennedy. In what concerns Europe the years 1960-1970 are important for this theme because in countries like Denmark, Great Britain, Germany, Sweden, Belgium, France laws which concerned consumer protection were promulgated. The establishment of the European Union and implicitly the process of European integration determined an obvious need, that of having a common policy of consumer protection. The development of this process took place gradually, among the measures adopted by the European Union were:

- *The preliminary program of EEC for the consumer protection and information policy,* is presented by the European Commission and focused on the 5 basic rights of the consumers;
- *The triennial action programs,* which took place between 1980-1990, which were focused on the presentation and information of the consumers with the help of the Consulting Committee of the Consumers but also on the safety of the products and the evolution of the commercial transactions;

- The applying of the EC marking, certification and guarantee mark;
- *The Unique European Act* of 1987 which allowed the European Commission to propose protection measures for the EU consumers and thus the bases of the legal framework for the consumer protection within the European Community were established;
- *The Amsterdam Treaty,* which came into force at the 1st of May 1999, which increased the role of the European institutions in educating and informing the consumers but also the right to establish organizations.

The current institutional framework of the European Union regarding the consumer protection is enough developed and defined, and its complexity increases each year by the ever bigger number of institutions but also private participants or interest groups which have diverse roles (Table 1).

Table 1 - The institutional framework of the European policy for the consumer protection

With executive role	European Commission - DG XXIV - Committee for consumers
With legislative role	European Parliament - Committee for Environment, Public Health and Food Safety - Committee for Internal Market and Consumer Protection - Council for the European Union
With legal role	European Justice Court European People's Lawyer European Authority for Food Safety
With representation role	European Association for the Coordination of the Representation of the Consumers in Standardizations (ANEC)
With promotion role	European Office of the Union of the Consumers (BEUC) Economic and Social Committee (CES) European Association of the Consumption Cooperatives (EUROCOOP)

Source: Dinu, 2006.

In what concerns Romania, legislative regulations in this field appeared after the year of 1990, through the Decree of Government No. 21/1992, which was adopted subsequently by the Law 11/1994, decree which became the first act which established the rights of the consumers in our country. According to the Decree, the main rights of the consumers in Romania are:

a) To be protected against the risk to purchase or to get a service which could prejudice their life, health or safety or to affect their legitimate rights and interests;

b) To be informed completely, correctly and precisely regarding the essential characteristics of the products and services so that the decision which they take regarding these should satisfy as well as possible their needs as well as to be educated in their quality as consumers;

c) To get access to the markets which ensure a large range of quality products and services; d) to be compensated for the damages generated by the inappropriate quality of products and services, using the means foreseen by the law for this aim.

The year 1992 is also the moment in which the Decree of the Government No. 482/1992 regarding the organization and function of the Office for the Protection of Consumers (O.P.C.) is adopted, where for the first time one discusses about the necessity to support the associations for consumer protection but also to participate in their effort to inform and educate the consumers. Subsequent regulations in the field can be considered the Decree of the Government No. 394/95 (regarding the obligations of the sellers of goods of long usage), completed by H.G. 786/96, H.G. No. 665/95 (which regards replacing, reparation or returning the counter value of the non-food goods with deficiencies) and H.G. No. 785/96 (methodological norms regarding the naming, marking and labelling of the textile products). A new context for the functioning of O.P.C. was determined by the Decree of the Government 2/2001, through which the establishment of the National Authority for the Protection of Consumers (A.N.P.C.) as special organ of the central public administration with legal personality in subordination to the government was regulated. The law which regulates currently the organization and functioning of A.N.P.C. is the Government Decree No. 882/2010, published in the Official Gazette, Part I, No. 621 of 30/08/3010.

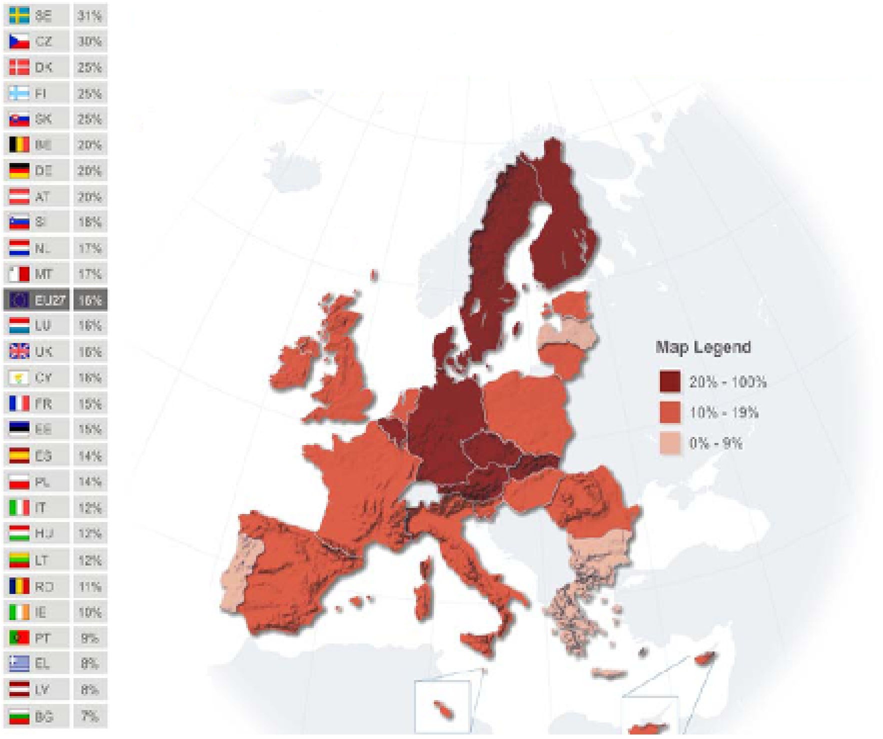
As non-governmental organizations, the associations for the consumer protection began to develop after 1990, with the direct support of A.N.P.C., but also with the help of foreign financing. In the year 2010 there were 127 associations of this type in the entire Romania, which were organized in 16 federations and a confederation. Also in this segment the Centre for Consultancy and Information of the Consumers which performs its activity at the Association for the Protection of Consumers in Bucharest but it has no remarkable results and that because the inconsistency of the financial and logistic support.

b. Complaints in Tourism and their Settlement

The concern for the protection of the rights and interests of the consumers is ever more obvious in the present society and ever more present in the regulations of the European Union being one of the fundamental values of it. Since we are talking about services and the direct contact between the client and the provider which this delivery process imposes the most of the discontents of the consumers are related to the process of performing itself.

There are numerous studies regarding the complaints of the consumers and the ways to settle them. One of these studies was made in 2008 by the European Commission, a poll regarding the consumer protection in the internal market of the European Union. As a consequence of this poll an average percent of 16% of the consumers of EU-27 filed a formal complaint during the former year. More than 20% of the consumers in the countries of North-West Europe (Germany, Holland, Denmark, Finland and Great Britain) filed a complaint in comparison to less than 8% in the Baltic states, Luxembourg, Romania, Portugal or Bulgaria (figure 3).

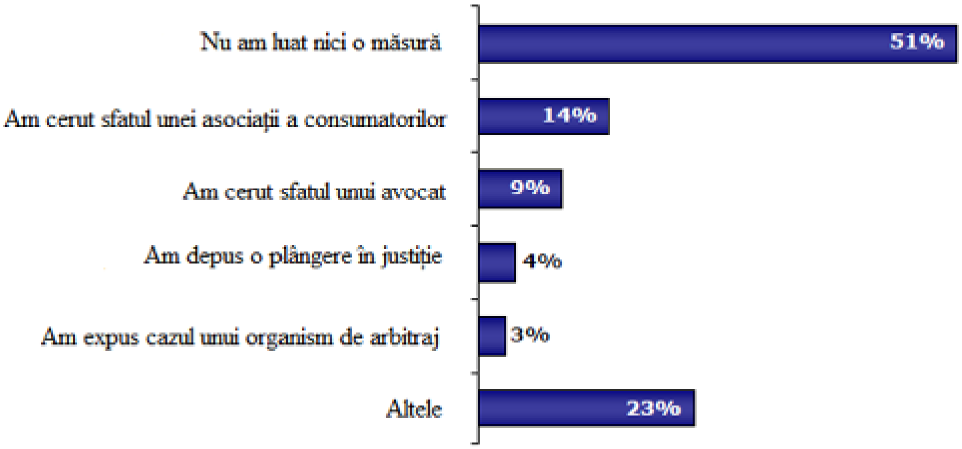
Figure 3 - Complaints regarding products/services with deficiencies (2008)



Source: European Commission, *Consumer Protection in the Internal Market*, 2008, Special Eurobarometer 298.

At the level of the EU-27, 51% of the complainers claimed that the complaint was considered and they acted in various ways, as follows (figure 4):

Figure 4 - Action ways which the complainers adopted (2008)



Source: European Commission, *Consumer Protection in the Internal Market*, 2008, Special Eurobarometer 298.

In Romania a measure taken under this aspect was that of the president of the National Authority for the Consumer Protection, Constantin Cerbulescu, who ordered a nationwide control regarding the selling of the tourism services packages in the period 25th – 28th May 2010. This control meant the check of 326 economic operators, in which they determined deviations from the legal provisions in force with a percent of 69%. As a solution to the determined situation 69 fines with a total value of 256 900 lei and 156 warnings were imposed. In the case of 25 companies the temporary interruption of the services until the deficiencies were removed was ordered.

The main irregularities which the Romanian tourists signalled refer to (www.anpc.gov.ro):

- Changing the hotel in the absence of the tourists agreement;
- Accommodation in another hotel as that mentioned in the contract and lack of group assistant;
- Accommodation outside the working hours although in contract accommodation within the working hours was foreseen;
- The lack of the stamp of the company in the contract closed with the client;
- Lack of the restaurant classification;
- Not returning the counter value of the service package after cancelling it;
- Non-validation of a voucher by the provider of tourism services.
- One notices that generally these problems indicated by the clients have as causes the hotel itself and the range of services offered by this or external causes which cannot be controlled by the hotel. To these factors one adds the discontents which result from the contact with the tourism agency and the relationships which derive from this contact, if this exists. For the emerged problems (Niță and Butnaru, 2010) which produce complaints from the clients one enumerates:
- Not informing the tourists about the policy of the hotel or the environment in which it is situated;

- The specific terminology in the hotel field which produces misunderstandings when it is not used by the clients;
- Full occupation of the hotel and lack of accommodation for the client;
- The hotel staff who has an unprofessional attitude;
- Errors of the hotel, such as the waiting time for a service, doctored invoices, not provided services etc.;
- External errors caused by the transportation company used by the tourist, the social environment etc.
- The frequency of appearance of these discontents but also the situation in which the consumers are in which they do not know how to react lead to recommendations which facilitate for them the protection of their own rights. Some of them have a preventive character, others solve the appeared problems:
- The rigorous and written informing about the desired services package which is required from the company (destination; mean of transportation used and its characteristics – classification; route; type of accommodation facilities and information regarding these; meal services offered; the duration of the program and information regarding the arrival and departure date; general information regarding the conditions of the passports and visas, necessary health insurances; the sum of the advance and the term for paying the rest of the money; the minimum number of people necessary for the fulfilment of the program and the deadline for informing the tourist, in case of cancelling the travel, the possibility of conclusion of some facultative insurances for assistance in case of disease, accidents and others; the duration in which a tourism offer operates);
- Attentive analyse of the contract for the tourism services package before signing;
- If there appear discontents regarding the services which the tourist got, this one, in order to protect his interests, has the obligation to draw up a written complaint about the deficiencies and discontents in relationship to the fulfilment of the service package which will be transmitted to the agency as well as to the provider of tourism services and this will be mentioned in the contract for the tourism services;
- If the complaint filed by the tourist was settled partially or it was not at all settled, the client can file a written complaint at the agency after the journey is over within the term foreseen in the contract, in maximum 30 calendar days, and the agency has the obligation to inform the client by writing about the compensations;
- If the discontents were not solved the tourists can file complaints also to ANPC.

CONCLUSIONS

Consumer protection became an important element in the social protection policies but also in the program of European integration. The ever more intense concern for this subject increases the safety of the consumer as well as his gradual interest for involvement. Education and informing the consumer can lead to the disappearance of some of the problems which have appeared and make him aware of his rights what makes his safety and satisfaction stronger in consuming a tourism product or other products or services. This segment imposes a permanent development, present studies and measures to bring Romania to the level of European standards and offer the consumer a legal framework to protect his rights and stimulate the consumption.

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GLOBALIZATION AND FOREIGN DIRECT INVESTMENTS

Elena **Chirilă - Donciu**[*]

Abstract: *Mobilizing financial resources to cover investment needs is a concern of all countries, developed or developing ones, of consolidated market economies or emerging ones. A distinctive characteristic of Global Economy over the last few decades has been the rising rate and impressive increase in Foreign Direct Investment (FDI). The purpose of this research is to analyse global FDI inflows in Europe and in Romania.*

The results of the research support the idea that the balance of economic power is changing in the world economy and the countries that own a stable and solid industrial base are at an advantage. The new trends determined by the economic crisis in the field of FDI refer to the growing percentage of developing and emerging countries in the global flows of FDI.

Keywords: foreign direct investments; globalization.
JEL Classification: E22; F44; P33.

INTRODUCTION

The evolution of the world from the beginning of the century and millennium highlights the emphasis of the interdependent process between the key dimensions of economic, political and diplomatic relationships, as well as the rapid and deep changes of large-scale geo-economic and strategic areas - resulted in a sustained dynamics of trade, investments, technological and informational flows, particularly through the increasing role of foreign direct investment (FDI) in the modernization and streamlining of national economies (in the context of reform and privatization processes).

Since antiquity the issue of foreign direct investments (FDI) was and still is quite controversial and debated both at a national and international level. Globalization through FDI has become an everyday part of our lives, either by products or services purchased, through the workplace or trough the way of communication or leisure.

Foreign direct investments are considered to be of particular interest during the last decade as they increase and helped to develop economies. Areas such as infrastructure, education, health, agriculture etc., give the country where the investment is made the desired life-style standard and also a strong economic recovery.

[*] Alexandru Ioan Cuza University of Iaşi, Romania, e-mail: ecdonciu@yahoo.com.

The crisis overcome will also bring a change in the world economic order, and this will only have a positive influence on the role of the FDI. The importance and effects of FDI attracted, rightly, the attention of all states and resulted in a close competition to attract mobile capital.

At the global economic level, the FDI is oriented mainly towards developed countries, but developing countries also have an interest in this type of investments due to foreign capital inflows, modern managerial experience, know-how and access to markets.

On the other hand, between globalization and foreign direct investments there is a relationship that is manifested in mutual correspondence, foreign direct investment being as well one of the causes that stimulates the deepening of globalization, but also a manifestation of globalization in economics.

At the same time, foreign direct investments often played a significant role in the transformation of developing countries into developed countries and thereby in shaping a new world economic order.

1. CHARACTERISTICS OF GLOBALIZATION

Globalization is a dynamic phenomenon in full swing, with significant effects on all facets of human activity, which has an economic, political, social, cultural, scientific, technological and environmental dimension.

Research on globalization and its forms of manifestation are vast, and opinions, although not necessarily a convergent phenomenon denies neither the importance nor its consequences - positive or negative, depending on the capacity of economies and firms to adapt to highly competitive conditions of the globalized economy.

Harris broadly considers that globalization in a general meaning refers to the integration of humanity and the compression of temporal and spatial dimensions of human interaction, worldwide. Globalization involves economic integration, transfer policies across borders, the spread of knowledge, cultural stability, international production relations and discourses of power, representing an overall process, a concept, an evolution or an institution of the global market (Nikitin and Elliot, 2000).

The global economy evolves within relatively stable and efficient parameters, yet is threatened on multiple levels. The findings of Robert Gilpin are that „even if the world has become increasingly economically and technologically integrated, it continues to be politically fragmented in independent states following their own interest. The forces of economic globalization - trade, financial flows, and activities of multinational corporations - have made the international economy to become more independent" (Gilpin, 2004).

Definitions of globalization known as the most complete and articulate are offered by international economic organizations and consider the economic dimension of globalization.

The European Commission defines economic globalization as a process by which markets and production in different countries become highly interdependent, due to the dynamics of trade in goods and services, capital flows and technology (Al-Rodhan, 2006).

The International Monetary Fund defines economic globalization as a historical process, the result of human innovation and technological progress. This refers to increasing economic interdependence between countries, as a result of increasing volume and variety of cross-border transactions of goods and services, the growth of international capital flows and the growing diffusion of technologies (International Monetary Fund, 2011).

The Organization for Economic Cooperation and Development (OECD) uses the concept of globalization to describe the growing internationalization of goods and services markets, the financial system, corporations and technology industries and competition. In terms of the same organization, globalization is a dynamic and multidimensional of economic integration where national resources are becoming more internationally mobile while national economies are becoming highly interdependent (OECD, 2010).

Given the prevailing economic side of globalization, George Soros defines globalization as the development of financial, global markets, global growth of transnational corporations and their increasing domination of national economies. In his work, "The Crisis of Global Capitalism", the author points out the deficiencies of the system, looking for the way to a global society. To stabilize and regulate a true global economy, a globalized system of political decision-making framework is required, ie a global society to support a global economy (Soros, 2002).

A common view emerging from these definitions refers to the existence of a set of structures and economic, social, technological, political and cultural processes derived from the changing nature of production, consumption and trade in goods, assets and services globally active, favouring and maintaining the development of globalization.

Against the backdrop of globalization, the investment becomes imperative for any economic system, future results of all entities - micro and macro - depending on the rigor of software analysis and efficiency of investment strategies. Investments represent the material support of socio-economic development of the country. They are the basis refill, diversification and improve quality of all factors of production. Fixed or working capital increase, increase of technical and economic efficiency of machinery, labour productivity, creation of new jobs, diversification of production cannot be provided without a financial resource consumption, without investment. In this context, investments are decisive for the economic growth, the promotion of intensive factors, quality and efficiency. A decisive role in the economic growth and development is held by FDI. It is recognized and treated as beneficial their training and multiplication effect. Foreign investments are completing necessary internal resources and develop competitive factors of production.

2. FOREIGN DIRECT INVESTMENTS (FDI) WORLDWIDE, IN EUROPE AND IN ROMANIA

The dynamics and structure of foreign direct investment (FDI) has contributed, along with other international economic flows, to increased integration of national economies, to stress out the current globalized character of the contemporary economy.

UNCTAD reports concluded that FDI have become an important engine of economic growth because they grew faster than gross domestic product (GDP) and international trade and international corporate sales exceeded by far global exports. Also, FDI flows are higher in comparison to technological flows, expressed through license fees, royalties etc. (UNCTAD, 2006). Foreign direct investments are of interest for all countries, whether developed, developing or in transition. Moreover, there is even some competition between them to attract investment, especially if it happens to be in the same geographical area.

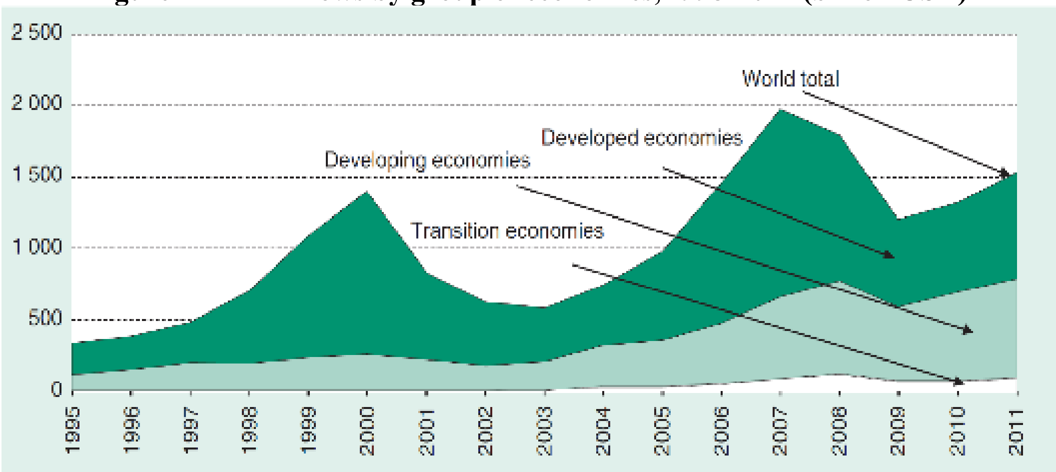
Regarding foreign direct investments in Romania, the flows decreased in 2010, compared to 2009, by 25.6%. According to the information used and presented by the National Bank of Romania (NBR), foreign investments have financed the current account deficit by 50.3%. Their decrease is a gradual one from year to year, according to the central bank. Furthermore, in 2009 they were down by 48.4% in comparison to the previous year (BNR, 2011).

The decline of this situation is stimulated by the economic crisis which, since July 2007, distorted the global economy situation. If in 2007 the crisis began to be noticed on the American continent, in 2008, it has dramatically changed the economic and financial landscape of the European Union. Since then, employment fell and unemployment is at its highest for over a decade. In addition, the decrease of consumption and investment is substantial; economic collapse triggered an acute deterioration in the business climate and consumer confidence.

According to the European Commission Report 2007 - 2010, the total investments decreased by approximately 15% in 2009, compared to the previous year, while consumption fell by about

3%. Exports of goods and services declined dramatically by almost 20% and FDI declined in several countries in central and Eastern Europe.

Figure 1 - FDI inflows by group of economies, 1995-2011 (billion USD)



Source: UNCTAD, 2012

The situation was quite different before the Great Depression, and, even more, the period 2003-2007 is associated with a real boom in terms of FDI. Foreign investments in Romania were one of the main causes of the economic boom during 2000-2008; FDI reached in 2007- 34.5 billion euro, around a third of GDP. The Bucharest - Ilfov area drew in 2007 approximately 64.3% of total foreign investment. On the other hand, manufacturing has attracted most of the money, respectively 34.2% of the total, followed by financial intermediation and insurance, with 22.2%.

The country with the largest stake in the issued capital of companies in Romania was, in 2007, the Netherlands with a total of 3.33 billion Euros, followed by Austria with 2.29 billion Euros and Germany with 1.85 billion euro although, as the number of companies who participate, the Netherlands is only in 16th place, far behind Austria and Germany. Romania was in the middle ranking in the European Union, in terms of FDI attracted in 2007, according to data published by Eurostat, the European Institute of Statistics. Of the 27 EU member states, Romania ranked 15th with a total of 7.3 billion Euros, of which 6.5 billion were from EU countries.

Ranking by countries, the largest investor in Romania was, both in 2007 and in 2006, Switzerland with 400 million euro invested in 2007 and 300 million invested in 2006. As non-EU investors, USA and Canada each have invested 100 million Euros. Countries of Central and Eastern Europe were ranked close to the position of our country. Thus, Poland was ranked 13th in the EU rank, with EUR 12.8 billion, Czech Republic in the 16th place, with 6.7 billion Euros and Bulgaria in 18th place, with 6.1 billion Euros

In Romania, the first effects of the economic crisis were to be felt only in November 2008, through ads of unemployment and layoffs. FDI plunged boldly in 2009, when they amounted to only 4.89 billion Euros, half the value recorded in 2008. According to the Romanian National Bank (NBR), 2010 was the year with the lowest FDI in seven years. Budget deficit, inflation, current account deficit, and public debt, are just a few of the crisis effects and at the same time, the direct causes of economic trends drastically downgraded.

In world rankings computed by the United Nations Conference on Trade and Development (UNCTAD) on performance in attracting FDI in 2010, Romania ranked 73rd, retrograde from 63rd 2009 and 42nd in 2008. According to the report, global FDI flows rose by 5% in 2010, to 1.240 billion dollars, but are 15% below the average before the onset of the economic crisis and 37% lower than in 2007. However, in South - Eastern Europe, FDI flows declined in 2010 for the third consecutive year, the decline was 47%, an effect found in full compliance with the stalled EU Member States. Year 2010 brought a reversal of capital flows situation in the countries of Central and Eastern European region. After a sharp decline in 2009 (-45% per year), FDI started to recover (approximately 9% per year).

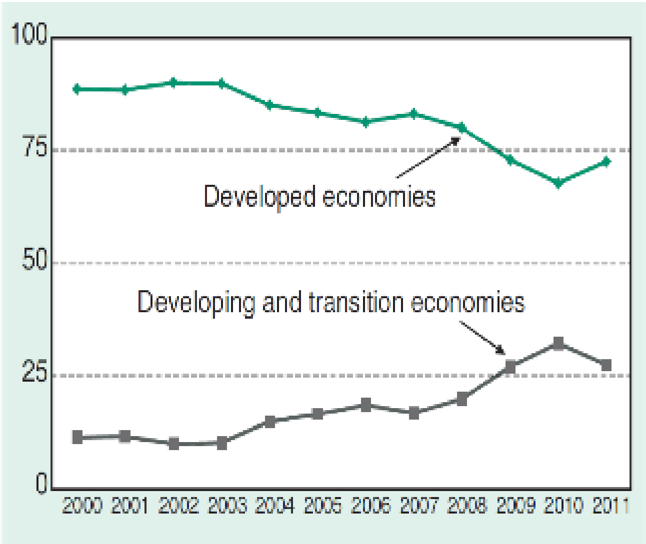
The most encouraging trend is observed in the Czech Republic, where FDI inflows have more than doubled in 2010, reaching the highest level in the region. A similar situation is found in Hungary where, according to EUROSTAT, the negative trend was reversed and FDI accounts for about 2% of GDP in 2010. FDI have recovered in Slovakia, reaching 1% of GDP, in the context of a strong recovery in reinvested earnings and inter-company loans stabilization agreement between parent companies and subsidiaries. The fact that the Hungarian economy reported a current account surplus (2% of GDP) creates a very solid basis for the sustainability of the balance of payments of Hungary. Ukraine FDI remained at a high level (close to 4% of GDP), which actually covers the entire current account deficit, significantly reducing the need for external borrowing.

The World Investment Report, presented in July 2011 at a conference organized by the UN Information Centre for Romania, it is noted that in 2011, FDI have already begun to experience a mild recovery worldwide, being reached a level of approximately 1.400 - 1.600 billion USD. It is worth mentioning that most of the transnational state-owned companies have become major players on the foreign investment market. From a total of 650 transnational state-owned companies worldwide, over 260 are from Europe and generated global FDI outflow of 11%. In 2009, Romania and Poland recorded the largest decrease in the number of investment projects in the region, 48% compared to 2008 in the case of our country, respectively 42% in the case of Poland. On the other hand, in 2010, Poland has managed to rebound, attracting 10 billion euro of foreign investment, nearly four times more than us.

According to NBR, 2011 remained in downturn; in the first five months FDI fell by 23.3% compared to the same period in 2010, to a level of 799 million euro. However, Romania's economic potential should not be overlooked. Erste Group reports estimate that Romania could benefit again from new contributions of FDI in areas such as industrial goods, agriculture and food industry, the IT&C sector and the renewable energy. Moreover, labour productivity in manufacturing increased by over 12% in both 2009 and 2010, Romania remaining a very attractive business destination.

Regarding FDI outflows from developed countries, according to UNCTAD, in 2011 they exceeded 1.200 billion USD. Robust growth (up to 25% of 2010) against the background of increasing FDI outflows from the United States, which reached 397 billion - over the top in 2007, but also of those from Japan, which have doubled the 2010 level.

Figure 2 - The proportion of global FDI outflows, by group of economies, 2000-2011 (billions USD)



Source: UNCTAD, 2012

Europe is a more complicated picture. If FDI outflows from the United Kingdom have almost tripled (the increase was almost 171%) reaching 107 billion USD, flows from Germany (54 billion USD) decreased by half, almost similar to flows in the Netherlands (32 billion USD). Outflows from Denmark and Portugal have reached new records, while Japan became the second largest investor among developed countries after the United States.

Despite the deepening crisis in the euro zone, the total investment flows from and to the most affected countries - Greece, Italy, Portugal and Spain - do not seem to be feeling any effect, although the analysed variables are showing signs of distress, as shown in the UNCTAD report.

Reinvested earnings were lower in all four countries and transnational corporations withdrew their capital from foreign subsidiaries in these countries. Data on FDI outflows suggests that multinational companies based in these countries, either transferred part of their assets to foreign subsidiaries or have left some of their goods there in the form of reinvested earnings.

FDI flows to the transition economies of South-Eastern Europe, the CIS and Georgia recovered the amount lost in 2011 after two years of stagnation of performance. The result was largely due to cross-border mergers and acquisitions, according to the UNCTAD report.

FDI flows aimed at some savings, the main five destinations taking over 87% of FDI flows that entered the region. Russia recorded FDI flows by 22% higher (reaching 53 billion dollars), the third highest level of investments recorded by the country. Foreign investors have been attracted to strong and sustained growth of domestic markets, low costs of labour and productivity, as shown in the report. Foreign investors continued also to be attracted by the high profits generated by the investment projects in energy and natural resources.

CONCLUSIONS

In an open, globalized world, investment demand depends only on the existing investment potential, businesses looking for opportunities wherever they are.

Since the mid-1980s, global economic integration has entered a new period. Since then international economic activities have significantly influenced the economic conditions and national economic policies. Economic distance between countries has decreased remarkably; trade has continued to grow intensively, capital movements exploded, while transfers of capital and knowledge have increased. In other words, countries have become more interdependent and the process of strong economic integration emphasized in the past 20 years.

Globalization, deregulation favoured by the deregulation regarding movement of capital and opening of the countries towards market economy, manifested in particular by diversifying forms of internationalization of production - world trade, FDI and enterprise networks.

Foreign direct investments are one of the key drivers of globalization. Stepping interdependence of the world economy in the last three decades has been driven mainly by developments in foreign direct investment. If until 1970 the international activity resulted in trade of goods and services between countries, international trade being the force that generated global economic development, subsequently, increased the importance of capital movements, an important place being held by transnational corporations who base their work on foreign direct investments.

Over time, international trade grew twice faster than GDP, whereas FDI flows have grown twice as fast as world trade. In the last decade, there were many causes that gave rise to the expansion of FDI. Among them we can mention: the international expansion of production promoted by transnational companies; the level of economic development or implementation stage of the reforms; the growing movement of capital gain generated by a large number of cross-border mergers and acquisitions; the appearance of integration formations; globalization of production and the internationalization of markets; the enhancing of technology international transfer; the differences between the efficiency and structure of markets and not least existing complementary relationship between trade and investment.

In conclusion, foreign direct investments represent „the peak" globalization and hence of the entire world economy.

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INCREASING MARKET TRANSPARENCY: THE ROLE OF THE INTERNET AND E-COMMERCE

Paula-Elena **Diacon**[*]
Gabriel-Andrei **Donici**[†]

Abstract: *"Cyberspace" - a concept until recently considered somewhat obscure and fantasy, has become in the contemporary era common and one of the most exciting trends in business. The emergence and development of electronic commerce represented a huge step towards facilitating economic transactions and to the increase market transparency. The latter is one of the main pillars underlying the theoretical model of perfect competition, and thus of an efficient market. This article aims to investigate how electronic commerce has increased market efficiency by increasing transparency.*

Keywords: electronic commerce; market transparency; Internet.
JEL Classification: L81.

INTRODUCTION

Technological development in recent decades has opened new perspectives in all aspects of life. In the economic field, the emergence and widespread use of Information and Communication Technologies have facilitated the emergence of a new type of commerce, commonly known as e-commerce. It represented the creation of a new market conducting transactions both in terms of physical meaning (the electronic environment) and in terms of supply and demand (putting face to face the consumer desires with the manufacturer's transcend some barriers of space and time). In the last time the share of this trade has grown exponentially, consumers turning more frequently to the virtual environment to trade. Of course, the market can be effective but only in conditions of freedom, and for this to happen; one of the main conditions is a high level of transparency.

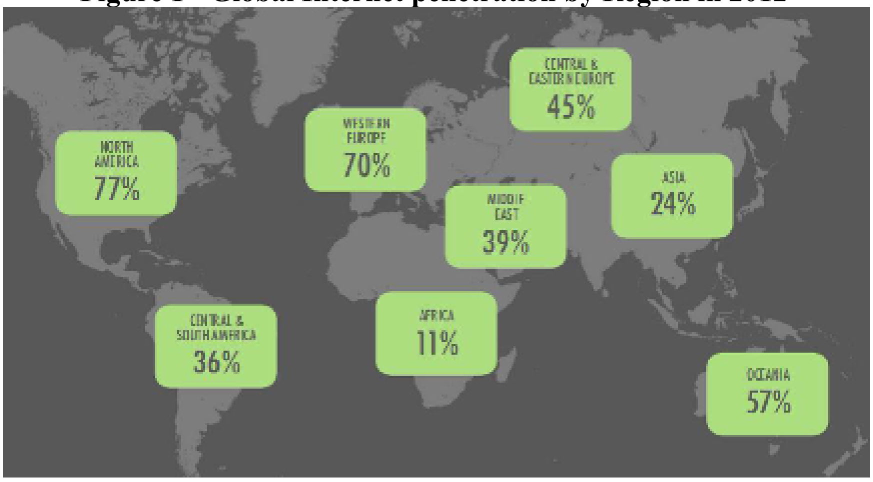
The purpose of this paper is to show how the penetration of technical elements in the economic field and, in particular, the development of the Internet have revolutionized the conduct of commercial transactions and had as an effect the increase of market transparency.

[*] Paula- Elena Diacon is a Ph.D Candidate at the Faculty of Economics and Business Administration within Alexandru Ioan Cuza University of Iași, Romania, e-mail: diaconpaula@gmail.com.
[†] Gabriel-Andrei Donici is a Ph.D in Economics of Alexandru Ioan Cuza University of Iași, Romania, e-mail: gabriel.donici@gmail.com.

1. ELECTRONIC COMMERCE – A GROWING FIELD

The main purpose of any business is to gain profit through satisfying the needs of the market. The market is the mainstay of both types of trade – but the e-Commerce market is a digital one – based on information technology. Thus, in order to take place e-commerce needs its own infrastructure, which is the support on which the new services and products are being built. They enable the creation of new markets beyond national borders, in which individuals and organizations from around the world are interacting. Among the most important elements that underpin e-Commerce are: the technological component, capital, media and public policy. Regarding technological infrastructure, it is represented most strongly of the Internet, along with the computer network through which data and information are transmitted and received.

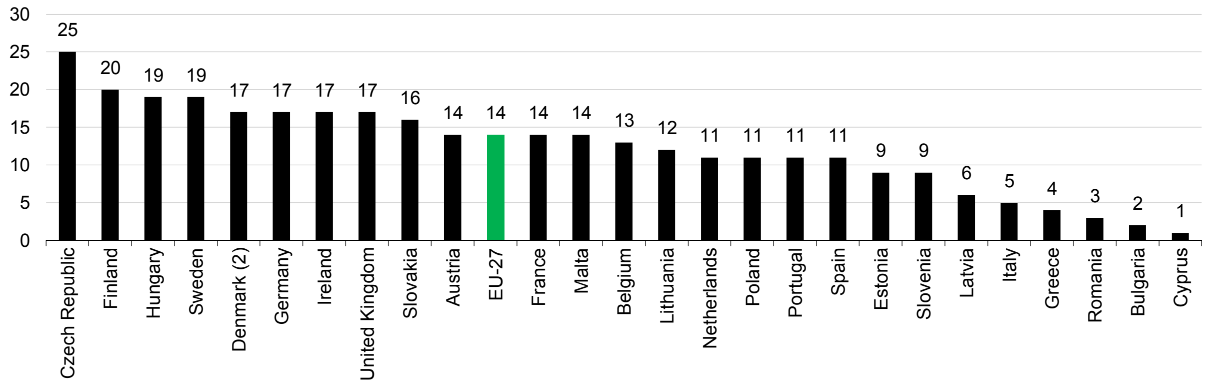
Figure 1 - Global Internet penetration by Region in 2012



Source: We are social (2012), *Social, Digital and Mobile Worldwide. The Key Numbers for Each Region around the Globe*, available at http://www.slideshare.net/wearesocialsg/we-are-socials-guide-to-social-digital-and-mobile-around-the-world-jan-2012.

Currently (2012), about 30% of the global population has access to the Internet, with over 2 billion users worldwide (2,076 users in a population of 6,809) according to the statistics made by We Are Social (2012). Of these, 52% live in urban areas and the rest, 48% are in rural areas. North America, as can be seen in Figure 1, is located at the top in terms of public access to the Internet, with a penetration rate of 77%, followed immediately by Western Europe (70%). The lowest rates are recorded in Africa (11%) and Asia (24%).

Figure 2 - Enterprise turnover from e-commerce in European Union countries in 2010[(1)] as a percent of total turnover



(1) Luxembourg, not available.
(2) 2009.

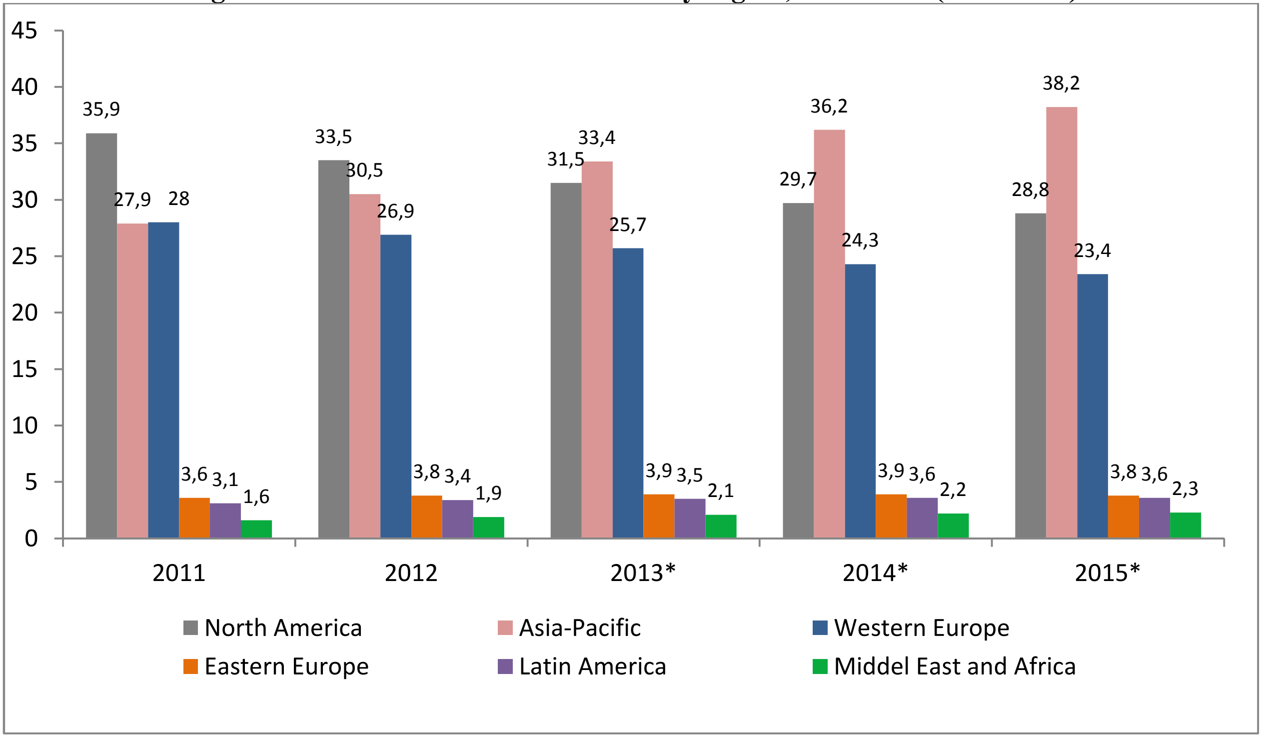
Source: own adaptation from Eurostat (2012), *Information society statistics*, available at http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Information_society_statistics.

Digital commerce is an innovation in the field and at the same time, an extension of the traditional one. Therefore, companies often resort to both versions, their absolute separation being difficult. However, as can be seen in Figure 2, at EU level, the turnover of the undertakings obtained from electronic commerce, in the year 2010 was 14% (Eurostat, 2012). The highest turnover was recorded in the Czech Republic (25%), followed by Finland (20) and Hungary and Sweden (both 19%). In contrast, the lowest recorded turnover of e-commerce companies have been in Cyprus (1%), Bulgaria (2%) and Romania (3%).

The new economy, the digital one, has the following main actors, similar to traditional economy, community producers, traders and consumers, the main distinction being that goods and services are traded electronically, relying mainly on internet.

From its beginnings, which lie in the '1960s - namely in 1968 (Weisman, 2000), when firms used a tool that allowed them to change each standard documents (electronic data interchange EDI - Electronic Data Interchange) - Electronic Commerce has grown exponentially. Thus, in 2011, according to Statistics Brain (2011), global online sales have reached the threshold of 763.2 billion USD, up compared to 2010, when they stood at 680.6 billion USD.

Figure 3- B2C Ecommerce sales share by region, 2011-2015 (% of total)

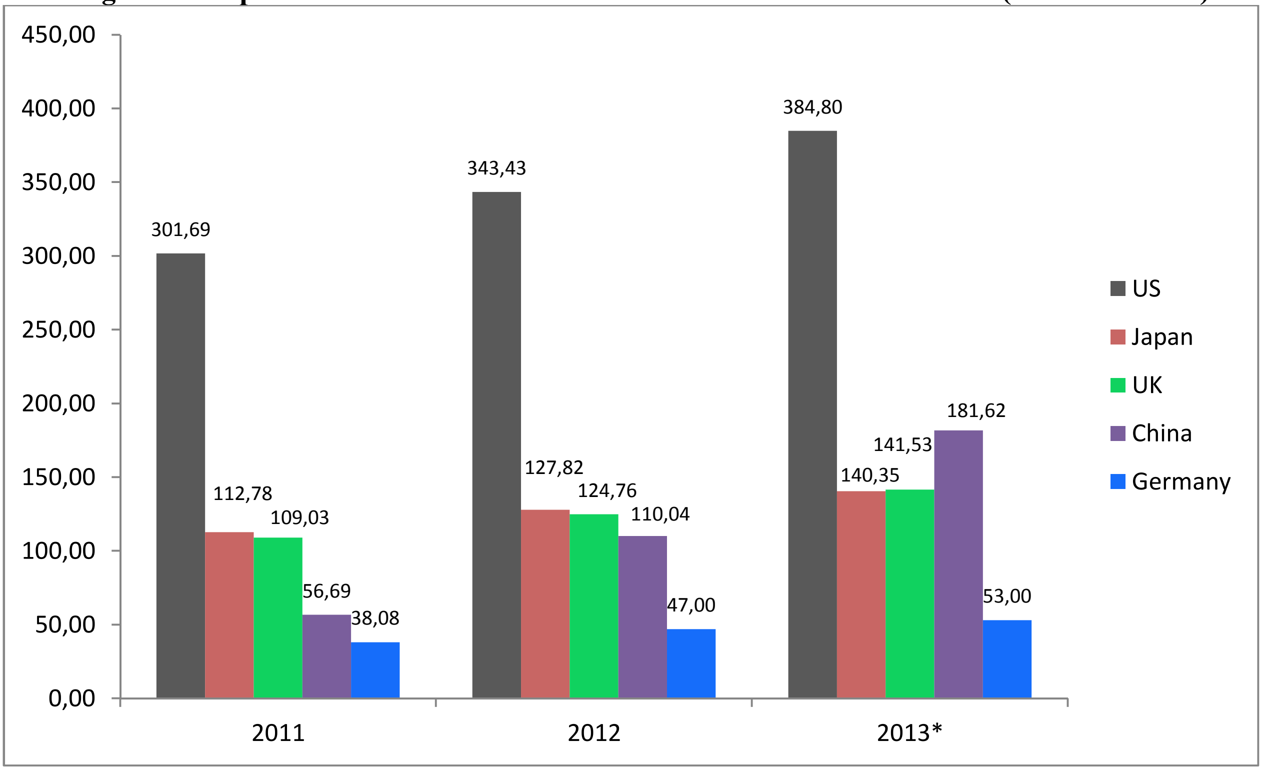


*) provisioned data.

Source: own adaptation from eMarketer (2013), *Ecommerce sales topped $1 trillion for the first time in 2012*, available at http://www.emarketer.com/Article/Ecommerce-Sales-Topped-1-Trillion-First-Time-2012/1009649.

In the division of the region, according to eMarketer (2013), as can be seen from Figure 3, in 2011, North America had the highest share of B2C e-commerce with 35.9%, followed by Western Europe with 28 % and Asia-Pacific with 27.9%. Eastern Europe had a share of 3.6%, and if we take into account the entire European continent, the aggregate value is 31.6%. Currently (2012), we can see that the Asia-Pacific, though it failed to overtake North America has an almost equal percentage of the European continent (30.5% versus 30.7%). At the end of the ranking is the Middle East and Africa with 1.6% (eMarketer, 2013). However, it is expected that over time Asia Pacific will grow exponentially and will exceed North America. For 2015, it is expected, for example, a rate of 38.2% for the Asia-Pacific region, followed by North America with 28.8%, Western Europe 23.4%, and Eastern Europe 3.6% (the European continent would cumulate 27.2%).

Figure 4 - Top 5 countries in terms of B2C Ecommerce sales in 2011-2013 (in billions USD)



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However, e-commerce is an evolving field that continues to grow rapidly, especially in countries in transition. Currently (2012), the global leader in e-commerce market is the United States of America (343.43 USD billions), as can be seen from Figure 4. The country is followed by Japan ($ 127.82 billion), which is almost on par with the UK ($ 124.76 billion), followed at its turn by China and Germany. For 2013 experts say that if on one hand the U.S. will maintain their supremacy, second place will be occupied by China which will overtake thus, Britain and Japan.

With the growth of e-commerce, the ability to differentiate traders that use e-commerce of those using traditional trade decreases as the latter are using more frequently electronic techniques. In most cases e-commerce activities are not identified separately from the traditional ones, in the company accounts.

2. THE ADVANTAGES OF E-COMMERCE IN INCREASING MARKET TRANSPARENCY

Currently, the use of Internet is not new to most people, but, instead, a necessary skill. Importantly, the modern lifestyle of the society is alert, and individuals have less time available to travel to the physical premises of the companies. Accordingly, online transactions are preferred as they provide the possibility to compare prices and choosing the lowest (Diacon and Donici, 2011, p. 391).

Simply put, e-commerce is the fastest trade of all time, running in real time and in the easiest way possible. This market via online services and the Internet, encompasses the entire world, and is accessible anytime and anywhere.

Information and knowledge have become the key factor of production, and the new technologies determine the share of the productivity firm increase (Işan, 2002, p. 18).

In terms of market and economic theory, one of the most important effects of using the Internet is certainly increase in the market transparency, something unimaginable just 20 years ago.

Originally telephony (and in the first instance telegraph) enabled businesses and individual consumers to access in real time important information regarding the evolution of prices in the major markets of the world, facilitating the communication between business partners. However, the Internet was the one who paved the way for one of the highest levels of transparency known to mankind, so far.

Electronic commerce builds practical advantages and traditional trade patterns, plus the flexibility offered by information technology. This was attributed to the welfare growth of the traditional features. Thus, e-commerce is the holder of almost "unlimited" possibilities. For Companies, all kinds of benefits can be achieved thanks to it: cost reduction, higher efficiency, higher profits mainly through innovations in products and global market access, etc. Thus, electronic commerce is one of the areas with great potential for development in this century and this is because of the opportunities and advantages offered by the new form of commerce based on knowledge.

Market transparency is achieved primarily by facilitating cooperation and communication between groups participating in electronic commerce. These groups can be located both within the organization (e.g. departments of companies that communicate with each other and share information to achieve a number of activities or projects) and outside it (groups of firms that cooperate in creating products or services and communicate with clients) (Meşnită, 2002, p. 25).

Electronic commerce offers the possibility of conducting work 7 days a week 24 hours from 24, eliminating otherwise some physical restrictions of communication. Thus, the information is disseminated in a shorter time, both for the consumer and for the company. These are well structured and can be easily accessed. For example, information about customers and target market are managed more effectively through the use of databases.

Consumer standing in front of its personal computer can obtain information about the quality, price and nature of the product they wish to purchase from a larger number of companies that sell it. Pre and post sales services (including health) are improved significantly. Also for business, vendors are easier to found.

Moreover, the Internet allows people to postpone the time of purchase (or to hasten) facilitating in this way **the formation of prices**. For the firm, this translates into the reduction of the cycle of commercial activity (the period between the time of order placement and the time of delivery of the good or service provision). For example, in physical space, the price information varies from manufacturer to manufacturer, as they circulate harder. For a consumer this translates into more complete information on the various price levels for a product on the market, for the same level of quality, he can choose the lowest price. Consumers found it harder to move in physical space in a relatively small time to obtain a wide range in the level of prices for a particular product. Now, this is partly removed, the time spent is considerably less than that which would require displacement in physical space.

The circulation of information is facilitated by e-commerce and courier services. This allows a more rapid adjustment of inventories and, through this, a reduction of inefficiency producers. Thus, e-commerce stocks are reduced without movement being produced only requested products and thereby reducing variable costs. Moreover, they are only one category of costs that can be reduced. When companies turn to the Internet and electronic trade, they can cut a far wider range of costs, from the ones associated to business cycle to the one of staff.

Internet plays a major role in combating market opacity. Therefore a firm, regardless of size, can enter (or exit) with greater ease in any market and even become global by changing its vision and by promoting values such as openness, support new technologies, promote individual effort and creativity. By this monopolistic behaviour is limited and the electronic environment cannot be controlled by only a few companies. Customers, regardless of where they are, can access the company website without the barrier of physical movement. Theoretically a firm, regardless of size, has immediate access to the global market. Firm size decreases in importance in these circumstances. Organizations can no longer identify with physical premises, but with a certain image, promoted by the Web page, which is often "wearing the style and personality of the leader" (Popescul, 2007, p. 58). Physical location in the management of the organization is sometimes reduced to a minimum, which can be managed from anywhere.

In this context, new opportunities and new product sales opportunities for small firms arise. For example, on any electronic marketplace compared with a traditional one, meeting a growing number of carriers in the supply-demand is becoming more likely. Therefore, in addition to increasing the transparency of the market, through e-commerce the atomicity of supply and demand is at the highest level known so far (another condition of the theoretical model of the perfect competition).

Simply put, e-commerce has the effect of increase of market transparency at the macro level and at micro level a higher productivity. Digital solutions that take the place of traditional applications offer many opportunities to businesses and individual consumers. Services are targeted to customers, products are traded faster and the number of errors is reduced. So far, in addition to the terms offered on the stock market, electronic commerce makes the closest market to the model of perfect competition.

However, with all the advantages and innovations in the field of trade, it should be noted that the Internet (default the electronic environment where the transaction takes place) includes a number of barriers and vulnerabilities. This explains why e-commerce is not used to its full potential. These vulnerabilities can be attributed mainly to technical issues, organizational issues, lack of trust (which includes lack of information and security risks) and legal barriers (Schaub, 2004, pp. 14-15). Lately, however, they have seen a decline in the extent to which people are becoming more informed, using with more confidence electronic commerce, and the Internet, the relevant regulations and the safety standards are becoming more efficient.

CONCLUSIONS

This century is one of speed and information of a society that Drucker named "knowledge applied knowledge", a society where the Internet plays a crucial role. Without doubt it is a digital age, of the electronic media applied to all the levels of society, especially in the sphere of trade as the society is one of consumption.

Electronic commerce in bulk cannot be appreciated and understood at its true size and value if it is "broken" of traditional commerce. Many of its forms are in fact extensions of traditional commerce, of the classic methods of business in a new environment - the digital one. The physical environment has been replaced of an electronic one in which access to information can be almost instantly, and the barriers of space and time have been removed.

The new form of commerce has opened possibilities that seemed unimaginable, both in increasing firm profitability and in increasing the market transparency. This is beneficial both for the end consumer and for the market mechanism as a whole.

Although modern form of trade that is not being used to its maximum potential, it provides so far, by increasing its transparency the nearest form to the free and efficient market.

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STATE vs MARKET IN CENTRAL AND EASTERN EUROPE

Sînziana **Bălţătescu***
Liviu-George **Maha**†

Abstract: *Although old, the debate on whether government's intervention in economic activities can stimulate economic growth once again rose within the countries of Central and Eastern Europe. They have passed a harsh transition process, pressed on by the intention to join the EU, which involved accelerating the degree of economic freedom and fostering growth, respectively. Despite meaningful progresses, these countries have still a lot left to do in order to strengthen a solid legal system that is able to guarantee a liberal economic system, protected from political influence.*

Keywords: state; market; economic freedom; Central and Eastern Europe.
JEL Classification: P51, O570.

The way in which the government intervention directly or indirectly influences the economic efficiency or the growth rate of nations has been, over time, the object and the subject of intense disputes between the partisans of economic liberalism, of economic socialism or of the mixed economic models. From the classic liberalists or the Austrian School advocates, to the supporters of the utopian socialism or Marxists and until the advocates of Keynesian interventionism, *state versus market* debate has always been a lively debate. The global economic crisis, occurring in 2007-2008, and the specific context of Central and Eastern Europe countries – that have experienced the centralized economic system for a long time and also a difficult period of transition to a market economy system, after the communist regime had collapsed – have, somehow, radicalized the dispute, at a time when, at least in Europe, economic systems in varying degrees converged to a "welfare state" economy. Thus, we have started to talk again about "too much state" or "too much economic freedom" as causes of the crisis but as solutions for getting over the crisis as well.

Considering the context, an analysis of the correlation between the degree of economic freedom and economic growth in the countries from Central and Eastern Europe, it seems appropriate. When using "economic freedom" we refer to the liberal sense of the concept, so we have subsumed to it more indicators: the freedom of choice, free trade, the freedom to enter that exit the market, economic coordination by market forces / free competition, private ownership of means of production. Considering this sense of the concept, we tried to analyze the degree of economic

* Sinziana Baltatescu is a lecturer at the Department of Economy and International Relations within the Faculty of Economics and Business Administration, Alexandru Ioan Cuza University of Iași, Romania, e-mail: sinziana.baltatescu@yahoo.com.
† Liviu George Maha is an associate professor at the Department of Economy and International Relations within the Faculty of Economics and Business Administration, Alexandru Ioan Cuza University of Iași, Romania, e-mail: mlg@uaic.ro.

freedom of countries in Central and Eastern Europe and the economic consequences of greater or less freedom.

For measuring economic freedom, we have considered an indicator defined by the Fraser Institute*, namely EF2010 (Economic Freedom 2010), which evaluates the economies of various countries according to five major areas, as in the following table:

Table 1 - Major areas, components and sub-components of the EF2010 Index

Size of the Government	Legal System and Property Rights	Sound Money	Freedom to trade Internationally	Regulation
*Government Consumption *Transfers and Subsidies *Government Enterprises and Investment *Top Marginal Tax rate: *Top Marginal income Tax Rate *Top Marginal Income and Payroll Tax Rate	*Judicial Independence *Impartial Courts *Protection of Property Rights *Military Interference in Rule of law and politics *Integrity of the legal system *Legal enforcement of contracts *Regulatory restrictions on the sale of real property *Reliability of police *Business costs of crime	*Money growth *Standard deviation of inflation *Inflation: most recent year *Freedom to own foreign currency bank accounts	*Tariffs: Revenue from trade taxes; Mean tariff rate; Standard deviation of tariffs rates *Regulatory trade barriers: Non-tariff trade barriers, compliance costs of importing and exporting *Black Market exchange rates *Controls of the movement of capital and people: foreign ownership/investment restrictions, capital controls, freedom of foreigners to visit	*Credit market regulations: ownership of banks, private sector credit, interest rate controls/negative interest rates *Labor market regulations: hiring regulations and minimum wage, hiring and firing regulations, centralized collective bargaining, hours regulations, mandated cost of worker dismissal, conscription *Business regulations: administrative requirements, bureaucracy costs, starting a business, extra payments/bribes/favoritism, licensing restrictions, cost of tax compliance

Source: own selection from "Economic Freedom of the World 2012 Annual Report", http://www.freetheworld.com/2012/EFW2012-complete.pdf

Each area covers a specific number of evaluated components and sub-components, so that, totally, the indicator takes into account 42 distinct variables, as shown in Table 1. Each of the variables has a rating scale of 0 to 10. The score of each component is calculated as the average of the scores of its subcomponents, so the score of each area is the average of its components and the overall score is the average of its areas.

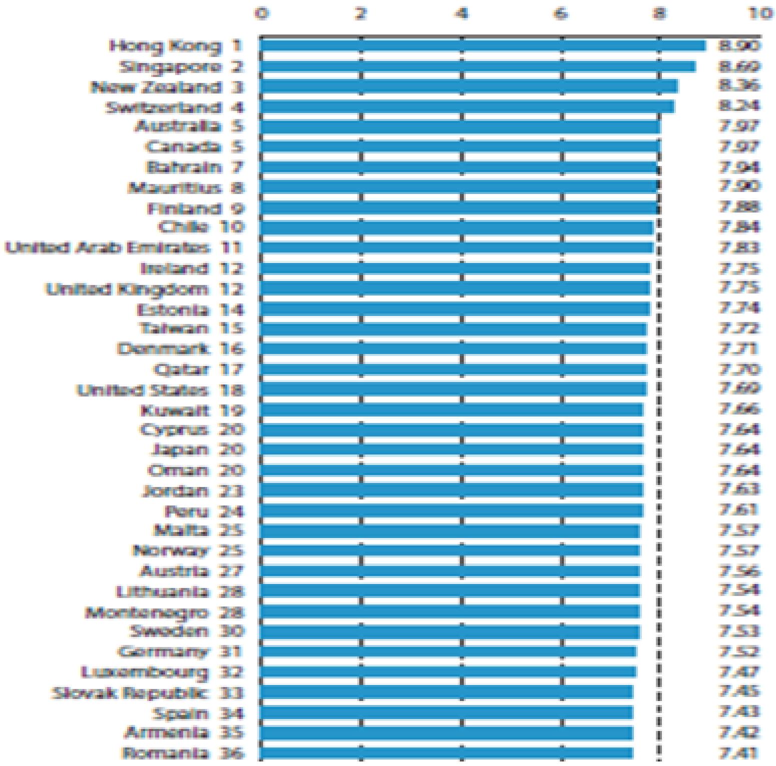
For the year 2010, 144 countries there were considered and evaluated according to the reminded indicator. As shown in Figure 1, the first 36 countries which recorded the highest score of the economic freedom indicator are forming the first quartile. Romania ranks the 36th, the last position in the first quartile, with a higher score than Netherlands (37), Belgium (41), France (47) or

* See www.fraserinstitute.org and www.freetheworld.com.

Hungary (64). If we refer to the broader level of economic development, the correlation between economic freedom and economic development or between the economic freedom and the standard of living does not seem to be strictly positive. However, if we analise the situation from the perspective of the growth rates dynamics for the evaluated period, the positive correlation is restored.

Moreover, according to the report, major positive changes in terms of economic freedom are driven by the former communist countries, such as Poland, Bulgaria, Romania and Albania, while the big "surprise" comes from the U.S., which has recorded a significant decrease in the index of economic freedom during this period. The same dynamic perspective seems to link the decreasing degree of economic freedom to the slowing down in economic growth.

Figure 1 - First quartile of countries ranked by the degree of economic freedom (2010)



Source: "Economic Freedom of the World 2012 Annual Report", http://www.freetheworld.com/2012/EFW2012-complete.pdf, p. 10

Decentralization measures, withdrawal of the state from the economy, restoration of the free market and the transfer of state-owned means of production to the private sector, accomplished during the transition to a market economy in many ex-communist countries, have meant an acceleration of the degree of economic freedom fostering economic growth. Increasing efforts in order to connect to the European Union's economy have considerably speeded up the process. In

Table 2 we have performed a clustering of countries in Central and Eastern Europe considering the score of the economic freedom indicator.

As it can be seen, the countries that joined the European Union are grouped to relatively similar positions in the first and second quartile:

Tabelul 2 - Summary of Economic Freedom Ratings (Central and Eastern Europe)

Quartile	Position	Country	Index rating
1st Quartile	14	**Estonia**	7.74
	28	**Lithuania**	7.54
	28	Montenegro	7.54
	33	**Slovak Republic**	7.45
	35	Armenia	7.42
	36	**Romania**	7.41
2nd Quartile	42	Albania	7.34
	42	Georgia	7.34
	45	**Bulgaria**	7.33
	48	**Poland**	7.31
	58	**Czech Republic**	7.16
	61	**Latvia**	7.12
	64	**Hungary**	7.08
3rd Quartile	73	Macedonia	6.94
	84	Croatia	6.76
	85	Moldova	6.75
	92	**Slovenia**	6.63
	93	Bosnia and Herzegovina	6.61
	95	Russia	6.56
	102	Serbia	6.41
4th Quartile	122	Ukraine	5.94

Source: own selection from "Economic Freedom of the World 2012 Annual Report", http://www.freetheworld.com/2012/EFW2012-complete.pdf

But what does it block the rise of the Central and Eastern European countries to the first quartile with the highest degrees of economic freedom? For these countries the prospect of EU membership formed the centerpiece of democracy promotion, providing powerful incentives that shaped policy preferences, identities, and the agendas of political actors in the region. (Ekiert, 2008) But it seems that it was not enough.

The main challenges that were faced by these countries were: the ability to develop the administrative capacity necessary to implement the acquis; the ability to extend and deepen the reforms that will eventually result in the transformation of their economies into market-oriented systems comparable to and competitive with those in the current EU; the ability to reduce the high levels of unemployment while also addressing the underlying structural imbalances that have given rise to large government, trade, and current account deficits; the ability to finance the transition to membership in the face of the less-than-generous terms offered by the EU; the considerable skepticism about, and even outright opposition to, their accession to the European Union. (Cameron, 2004)

The complexity of the situation of the Central and Eastern European Countries is determined, for example, by the fact that these new member states of the European Union have undergone a triple crisis in the last two decades: first, they had a *transformation crisis* in the early nineties and with the EU entry they fell into the *post-accession crisis*, followed immediately by the *global crisis*. (Ágh, 2012)

Grouping the mentioned countries, taking into account the scores obtained in each area, but in some components and subcomponents of interest as well, reveals a significant picture:

Table 3 - Economic Freedom ratings 2010 (Central and Eastern European Countries)

	Size of Government (1)	**Legal System and Property Rights (2)**	**Sound Money (3)**	**Freedom to Trade Internationally (4)**	**Regulation (5)**	**Credit Market Regulations (5A)**	**Labor Market Regulations (5B)**	**Business Regulations (5C)**
	Rating and Rank	Rating and Rank	Rating and Rank	Rating and Rank	Rating and Rank	Rating and Rank	Rating and Rank	Rating and Rank
Estonia	6.06 (93)	7.29 (25)	9.43 (30)	8.08 (14)	7.84 (26)	9.81 (10)	5.96 (88)	7.74 (21)
Lithuania	6.79 (57)	6.45 (45)	9.37 (34)	7.49 (54)	7.60 (37)	8.70 (64)	7.65 (38)	6.45 (54)
Montenegro	6.00 (94)	6.47 (42)	9.57 (21)	7.77 (35)	7.90 (25)	9.78 (12)	8.01 (20)	5.91 (79)
Slovak Republic	6.29 (80)	5.78 (61)	9.71 (5)	8.04 (17)	7.40 (49)	9.16 (42)	7.33 (50)	5.72 (90)
Armenia	7.64 (29)	5.56 (72)	9.18 (47)	7.59 (48)	7.12 (60)	8.80 (60)	6.61 (68)	5.94 (73)
Romania	7.04 (49)	**5.72 (65)**	9.02 (52)	7.86 (30)	7.39 (50)	9.38 (26)	6.93 (58)	**5.58 (81)**
Albania	8.04 (15)	5.36 (78)	9.73 (4)	7.3 (64)	6.29 (111)	7.04 (117)	5.93 (89)	5.91 (78)
Georgia	6.24 (83)	5.71 (66)	8.8 (62)	8.2 (11)	7.75 (32)	8.18 (85)	7.8 (29)	7.28 (28)
Bulgaria	6.46 (68	4.99 (90)	9.51 (24)	7.9 (25)	7.76 (30)	9.98 (8)	7.74 (30)	5.57 (101)
Poland	6.35 (76)	6.33 (48)	9.39 (31)	7.27 (67)	7.2 (56)	8.24 (83)	7.42 (45)	5.93 (75)
Czech Republic	4.96 (125)	6.16 (52)	9.45 (27)	7.77 (33)	7.47(46)	9.22 (38)	7.67 (36)	5.51 (105)
Latvia	5.22 (115)	6.4 (46)	8.93 (56)	7.9 (26)	7.14 (59)	8.37 (79)	6.82 (62)	6.23 (61)
Hungary	3.94 (139)	6.34 (47)	9.6 (17)	7.92 (24)	7.62 (36)	9.28 (34)	7.32 (51)	6.27 (59)
Macedonia	6.11 (90)	5.23 (84)	7.97 (87)	7.29 (65)	8.11 (16)	9.84 (9)	7.85 (28)	6.65 (48)
Croatia	4.96 (124)	5.76 (63)	8.42 (73)	7.71 (37)	6.95 (70)	9.01 (50)	6.4 (76)	5.45 (106)
Moldova	7.19 (42)	5.48 (75)	7.38 (96)	6.92 (85)	6.77 (84)	9.13 (45)	5.59 (104)	5.6 (99)
Slovenia	4.54 (134)	6.2 (51)	8.3 (75)	7.65 (44)	6.47 (104)	7.5 (108)	5.42 (109)	6.49 (52)
Bosnia and Herzegovina	5.53 (108)	4.57 (98)	8.27 (77)	7.64 (46)	7.02 (66)	9.49 (24)	6.43 (75)	5.13 (114)
Russia	6.75 (59	5.27 (80)	8.47 (70)	6.08 (127)	6.24 (114)	7.77 (103)	6.05 (86)	4.9 (125)
Serbia	5.78 (99)	4.92 (91)	7.94 (90)	7.03(80)	6.38 (109)	8.5 (76)	5.7 (97)	4.95 (122)
Ukraine	6.62 (64)	4.79 (93)	5.6 (138)	6.72 (96)	5.97 (124)	8.14 (89)	6.08(84)	3.69 (141)

Source: Own selection from "Economic Freedom of the World 2012 Annual Report", http://www.freetheworld.com/2012/EFW2012-complete.pdf

As shown in Table 3, the countries from Central and Eastern Europe, already part of the European Union, are placed to similar positions, according to most of the indicators, generally in the second and, sometimes, the third quartile. A closer look to the data provided by the mentioned report brings attention to the fact that the evolution of the scores in areas or components like the size of the public sector or free international trade is similar to that of other developed European countries, which is not surprising considering the efforts of countries in Eastern Europe to align to Western Europe, regarded as political, economic and social landmark. Also, the relatively small scores regarding the size of the public sector are fully justified by the general trend in Europe to converge towards "welfare state" economic systems, characterized by the coexistence of state's paternalistic attitudes in relation to its citizens with free market mechanisms.

The generally high scores in the "Security money" or "credit market regulations" components for all the countries in Central and Eastern Europe reveals their engagement towards ensuring monetary stability in order to develop an efficient economic system.

Significant differences between the countries within European Union and the other are found in "legal system and property rights", "business regulation" and "labor market regulation" components. It is obviously that these already known issues are those that prevent the development of a healthy market economy in non-EU countries from Central and Eastern Europe.

Also, a close and comparative look reveals that although considering the sub-component "Labour market regulation" the countries 'already in the EU are becoming part of the trend of developed countries, in terms of a more generous social system, the scores related to the "legal system and property rights" and "business regulation" being the "problem" scores.

In fact, this is evident from the analysis of Table 4, grouping the countries from Central and Eastern Europe by the highest and the lowest scores considering these specific components or subcomponents.

Table 4 - Highest and Lowest Areas of Economic Freedom Ratings 2010 (Central and Eastern European Countries

	Highest Rating	Lowest Rating	Lowest Subcomponent Rating
Estonia	9.81 (10) 5A	5.96 (88) 5B	Conscription 3
Lithuania	9.37 (34) 3	6.45 2+5C	Bureaucracy Costs 2.94
Montenegro	9.78 (12) 5A	5.91 (79) 5C	Licensing Restrictions 3.9
Slovak Republic	9.71 (5) 3	5.72 (90) 5C	Bureaucracy Costs 2.76
Armenia	9.18 (47) 3	5.56 (72) 2	Judicial Independence 3.01
Romania	9.38 (26) 5A	**5.58 (81) 5C**	Bureaucracy Costs 3.08
Albania	9.73 (4) 3	5.36 (78) 2	Judicial Independence 3.29
Georgia	8.8 (62) 3	5.71 (66) 2	Judicial Independence 3.63
Bulgaria	9.98 (8) 5A	4.99 (90) 2	Impartial Courts 2
Poland	9.39 (31) 3	5.93 (75) 5C	Bureaucracy Costs 2.68
Czech Republic	9.45 (27) 3	4.96 (125) 1	Transfers and Subsidies 2.91
Latvia	8.93 (56) 3	5.22 (115) 1	Top Marginal Income and Payroll Tax rate 3 (47)
Hungary	9.6 (17) 3	3.94 (139) 1	Top Marginal Income and Payroll Tax rate 1 (56)
Macedonia	9.84 (9) 5A	5.23 (84) 2	Judicial Independence 3.15
Croatia	9.01 (50) 5A	4.96 (124) 1	Top Marginal Income and Payroll Tax rate 0 (62.67%)
Moldova	9.13 (45) 5A	5.48 (75) 2	Judicial Independence 1
Slovenia	8.3 (75) 3	4.54 (134) 1	Top Marginal Income and Payroll Tax rate 1 (60%)
Bosnia and Herzegovina	9.49 (24) 5A	4.57 (98) 2	Impartial Courts 3.09
Russia	8.47 (70) 3	4.9 (125) 5C	Bureaucracy Costs 2.36
Serbia	8.5 (76) 5A	4.92 (91) 2	Judicial Independence 2.38
Ukraine	8.14 (89) 5A	3.69 (141) 5C	Licensing Restrictions 2.35

Source: own processing after "Economic Freedom of the World 2012 Annual Report", http://www.freetheworld.com/2012/EFW2012-complete.pdf

Legend:

1.Size of the Government

2.Legal System and property Rights

3.Sound Money

4.Freedom to trade Internationally

5.Regulation

5.A. Credit Market regulation

5.B. Labor Market regulation

5.C. Business regulation.

CONCLUSION

Therefore, although significant progresses regarding the degree of economic freedom have been carried out, virtually all countries from Central and Eastern Europe still have a lot left to do in order to build an economic system that is not politically governed, which to be able to guarantee the legal system and which to allow the private initiative a greater degree of economic action by deregulation, cut in red tape and fiscal easing. Although it is true that a welfare state is supported by an extensive taxation, history has proven on numerous occasions that a welfare state cannot be maintained without a free and dynamic market.

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www.insse.ro

www.eurostat.eu

THE ROLE OF THE PRIVATE SECTOR IN DEVELOPING AND SUPPORTING INTERNATIONAL COMPETITIVENESS

Irina-Elena **Gentimir***

Abstract: *In the actual context of economic globalization, the competitiveness has a crucial importance for all the countries. But due to which factors and to what extent takes place the creation and improvement of it? This paper traces the role of the private sector in creating and sustaining international competitiveness, it summarizes three determinants of international competitiveness (productivity, innovation and clusters) and traces their impact on it. The main argument of this paper is that these three determinants developed at the microeconomic level play an important role for country's competitiveness due to their creation as a result of quality activities which take place in firms. At the same time, they are goals for a firm in its pursue for high profits and efficiency.*

Keywords: international competitiveness; private sector; productivity; innovation; clusters.
JEL Classification: F00; O31.

INTRODUCTION

Globalization and regionalization have a great influence on international markets and competition, as firms' survival in the actual competitive environment supposes conceiving an economic climate that allows added value producing companies to become efficient and be capable to develop in the actual economic circumstances. The national and international context can be considered key factors for the development of competitive and comparative advantages, through the set of economic policies and productivity incentives targeting the climate needed for the microeconomic development in a defective competitive environment.

Within the more and more liberal and globalized economy, company and industry competitiveness supposes innovation and flexibility in order to overrun the challenges of the market circumstances. The continuous improvement of products, processes, technologies and organizations has thus become the leading factor supporting competitiveness in the globalized economy.

In the process of understanding and investigating competitiveness, challenges lie in the identification, measurement and analysis of the attributes of competitiveness. Although international competitiveness has not been clearly defined, its approaches involve the firm's productivity concept. Thus, these can only create and support competitive advantages. For this purpose, companies must admit the key role of innovation – as well as the fact that innovation is the

* Irina Elena Gentimir is a PhD Candidate at Alexandru Ioan Cuza University of Iași, România, e-mail: gentimir.irina_elena@yahoo.com.

result of pressure and challenges. Leadership is also essential for the development of a dynamic and provocative environment, and also for the avoidance of failures. The competitive advantage is the result of the leadership exploiting and enhancing the diamond forces in order to promote innovation and modernization.

Moreover, under conditions of uncertainty and rapid changes in the world economy, an understanding of the environments in order to assess and pursue strategies not only becomes crucial but also a major challenge.

1. THE FIRM'S PRODUCTIVITY - THE MAIN DETERMINANT OF COMPETITIVENESS

Paul Krugman's approach towards international competitiveness is very well known. In an article published in the *Foreign Affairs* (1994), he states that "Concerns regarding competitiveness are, as an empirical approach, nearly always completely groundless…the obsession of competitiveness is not only faulty, but also dangerous…the competitiveness thinking leads to disadvantageous economic policies regarding a set of problems". He considers that the development of the national living standards is basically determined by the productivity growth rate.

Michael Porter (Porter and Ketels, 2003), one of the most influential authors addressing the "competitive advantage" – of the firm, industry, nation, regions and cities – also suggests that the best gauge of competitiveness is productivity: Competitiveness remains an uncertain concept, despite of the widespread acceptance of its importance. In order to understand competitiveness, the departure point must be one nation's prosperity sources. The living standard of one nation is determined by the productivity of its economy, measured through the value of goods and services, produced by using one unit of natural, human and capital resources of the nation. Productivity depends both on the product and services values of one nation, evaluated through the prices that can be asked within open markets, as well as on the efficiency of their production process. Thus, real competitiveness is evaluated through productivity. Productivity allows one nation to offer high wages, a strong currency and capital attractive yields, and such, a high living standard.

But, in the beginning, one has to emphasize the fact that the productivity concept is far from being a simple concept. The standard productivity concept concerns the productive efficiency of a certain labour force that is labour productivity, evaluated in terms of output per work input. This is an aggregated notion and, as shown in figure 5, within national context, labour productivity is the result of a multitude of determinants. Many of these and the national assets also determine the national employment rate. Together, productivity and employment rate are measures of what could be assigned as "competitiveness", and both are central parts of economic performance and of national prosperity (measured by GDP per capita), although there is little known about the basics of national attributes ("competitiveness source") they depend on (Dublin National Competitiveness Council, 2008). It would not be fair to describe a "competitive" country only by its productivity standards, as one country's productivity may significantly grow when firms localized there went through rationalizations and reductions, involving the closing-down of the less efficient factories and the redundancy of the less efficient workers. Such an induced productivity growth cannot be associated to one country's general output growth (or to any improvement of the competitive advantage), but to an unemployment growth, which could finally prove difficult to solve. In such cases, the reduction of the employment rate is a "negative" way of growing national productivity, contrasting the nations with high productivity and employment rate (Gardiner et al., 2004).

The living standard of one nation depends on the firm ability to reach high levels of productivity – and continuously improving them. The sustainable growth of productivity assumes that national economy self improves. Native companies must continuously improve their productivity by developing their products' quality, by adding new features, by improving technology or by higher production efficiency. They must develop the abilities assumed by the growing competition in the sophisticated industrial fields, where productivity is generally high. Finally, they must be able to compete in completely new and sophisticated industries (Aiginger, 2006).

International trade and foreign investments can grow national productivity or can affect it. Positive influence can be noticed as one nation's ability to specialize in those industries or industrial sectors in which native firms are more productive and import where firm's productivity is lower. There are countries where even native firms are uncompetitive despite of their high living standards. One must direct the available resources towards the most productive uses. The negative consequences result from countries taking international productivity tastes (Waheeduzzaman, 2011). One industry will lose if its productivity is not higher compared to the competition, calling thus off the advantages based on the native wages level. If one nation loses its ability to compete in high productivity or wages industries, then the living standard is threatened.

Defining national competitiveness by registering a trade surplus or a trade balance is inappropriate. Export growth as a result of low wages and a weak national currency, next to sophisticated goods import, only lead to the decline of the living standard, although there is a balance or a trading surplus (Onsel el al., 2008). Competitiveness also does not mean only workplaces, but also their type and quality.

What is to be understood is the productivity determinants and the productivity growth rate. Analysis must be undertaken on the industries and industrial sectors. The fight for competitive advantages against foreign competitors in certain industries and sectors, where products and processes are developed and improved, is the one that motivates and underlies the growth of national productivity.

Carefully watched, competitive success emerges as the result of differences among national industries. Advantages focus only on certain industrial sectors. Thereby, analysis must focus on the decisive feature of one nation that allows native firms to create and sustain competitive advantages in certain domains – that is the competitive advantage of nations (Davies and Ellis, 2000). The main target is to determine the factors of international success in the sectors and technological industries and intensive skills industries that support a high growing level of productivity.

2. INNOVATION – THE PILLAR OF COMPETITIVENESS AND COMPETITIVE ADVANTAGE

Globalization has changed the process of research and development. Local knowledge clusters are not threatened merely by multinational companies, but also by small and medium developing enterprises. Global networks accelerate the technological evolution and demand new management concepts. Modern communication technologies create the global community, but clients become harder and harder to please and demand specific products, well localized, well set as a part of their actual activity. Integrated technology is needed in order to cope with these needs. The danger or engineering overload has not ever been as great as these days (Boutellier et al., 2008). The frequently asked question is not whether some new features are technologically feasible, but if the clients are willing to accept and pay for them.

Within the context of fast development and the spread of new knowledge, innovation becomes a more significant criterion for competitiveness. Companies must continuously innovate in order to avoid lagging behind. It does not really mean that they must push the technological barrier forward. Only the most developed companies act such (Nijkamp and Siedshlag, 2011). Though, all companies must be at least fast imitators and adopt, use and improve the new technology in order to keep up.

Globally, successful companies have adopted significantly different strategies. But, though each company develops its own strategy, the basic operating process – the feature and company trajectory - is the same.

Companies gain competitive advantages through innovation. They approach innovation in a widespread manner, which is technologies, and also new processes; they notice new bases of competition or discover innovative ways of competing the old way. Innovation can take shape of a new product design, a new production process, a new marketing approach or a new personnel training method. Most of the innovation processes are mundane and elementary, more dependent on the observation accumulation and progress, and not on a single discovery (Cho and Moon, 2000). Innovation often involves ideas that are not "new" – ideas that exist, but that have not been yet set into practice. Innovation also involves qualification and knowledge investments, but also in physical activities and brand notoriety. Some innovations create competitive advantages by discovering new market opportunities or by addressing a market sector that has been ignored by competitors (Hickman, 1992). When the competitors' reaction is slow, innovation leads to competitive advantages.

On the international markets, innovation that creates competitive advantage anticipates both national and foreign needs. On the other side, innovation that mainly reacts to national demand could delay the international competitive success.

Information plays an important role in the process of innovation and improvement – information that is not available for competitors or the one they are not searching for. Sometimes, information is gained through the simple investment in research & development or from market surveys; most frequently, it comes from significant efforts and from the openness or from looking the right way. Therefore, innovators are external individuals, from other industries or countries. Innovation can start from a new company, whose founder has a non traditional past or has not been appreciated at his old workplace; or he might come from an existing company due to the new arrived top managers, who are able to observe opportunities and try to use them; or it may come from the diversification of one company's activity, by attracting new resources and qualifications; or it may emerge from another country, with another economic situation or competing means (Momaya, 2011).

With few exceptions, innovation is the result of great effort. The company that succeeds in implementing a new or better competing method earnestly follows its interest, without taking critics or impediments into account. In fact, in order to succeed, innovation demands pressure, needs and even adversity; fear of loss is stronger that the hope to win (Boutellier et al., 2008). Since a company has gained a competitive advantage based on innovation, it can keep it only by continuous improvement, as nearly any advantage can be copied. Inevitably, competitors will overtake any company that stops or decelerates the innovation and improvement process. Sometimes, advantages gained during the early stages of one company's activity, as customer relationship, scale economies or providers' loyalty, are sufficient enough for a clogging company to maintain its position for a longer time. But, sooner or later, more dynamic competitors will innovate, developing cheaper or more efficient production processes. Not the least, the only way to maintain a competitive advantage is by improving it – by developing more sophisticated types (Hussain and Ilyas, 2010).

There are two preceding conditions in order to maintain the competitive advantage. First, the company must adopt a global perspective of the strategy. It must sell its products on a global scale, under its own brand, through marketing channels it controls. A real global approach assumes that the company delocalizes its production or the research and development units in order to gain benefits from low wages, to gain or to improve its market access or to adopt foreign technologies. Second, creating more durable competitive advantages supposes giving up the actual competitive advantage, assigning it as old – even though it is still an advantage; if the company would not act such, the competitors will (Asheim and Gertler, 2005).

Implications for companies are represented by the fact that these must make more significant efforts in order to keep up with new technologies and new forms of business organizations, production and distribution networks (Hickman, 1992). This supposes more investment in the technological capacities in order to search, to purchase and adapt technologies to their needs and to manage the production and distribution systems. For companies that are highly technologized, it means that they must considerable effort towards real latter-day innovation in business and technology.

3. CLUSTERS - WAYS OF USING COMPETITIVE ADVANTAGE

The national diamond consists of the production factors, internal demand, related and providing industries and the organizational structure of the company and internal competition. These factors are in each country's possession. But the competitive advantage is based on the relation between and on the way they influence each other, creating specific conditions. These interrelations, as well as a series of external circumstances, determine the evolution of the national system. Amongst the external circumstances, Porter emphasizes the decisive role of the internal competition and the geographical concentration. Additionally, the author highlights and points the role of clusters, consisting of unequal spread industries, but united through various relationships. The cluster concept is derived from the diamond theory and refers to the group of related companies and institutions that are associated in a similar field, geographically focused. If the existence of the four elements of the diamonds is important, it is expected for the clusters to develop, as their represent an efficient production structure where companies can operate (Pralea et al., 2006).

One of the systemic nature effects of Porter's diamond is that nations hold not just a single competitive industry; the diamond rather creates an environment that promotes competitive industry clusters. Competitive industries are not isolated; they are related through vertical bonds (seller-buyer) or horizontal (clients, technologies and common channels). Moreover, they are not dissipated, but geographically oriented. A competitive industry supports the development of another one through a mutual supported process. Once a cluster is created, the industries within support each other. Benefits are transmitted and capitalized at all levels, horizontally and vertically. The strong competition within an industry also influences the others industries in the cluster through products, negotiation power and diversification (Tiemstra, 1994). The entrance of other industries in the cluster hastens modernization by stimulating approach diversity within the process of research and development and by easing the introduction of new strategies and qualifications. Due to suppliers' or clients' behaviour, who have also accounted other competitors, information spreads and information is quickly transmitted. The interrelations within the cluster, mostly unanticipated, lead to noticing new opportunities or new competing methods (Kärkkäinen, 2008). Thus, clusters became a vehicle used to maintain diversity, supporting the overrunning of inflexibility and convenience that might emerge in the competing environment, phenomena that decelerate or stop innovation and competitive modernization.

In other words, clusters support competitiveness based on the multitude of relations created between the consisting factors of the diamonds. The geographical concentration of companies allows the more efficient access to information, to the labour force and to specialized suppliers. The innovation opportunities area easily perceived within the clusters. Clusters also reduce the market entrance barriers, considering that new companies gain access to a stable resource source. A major challenge for each economy is to update its cluster sophistication degree towards advanced superior values activities (Snowdon and Stonehouse, 2006).

The method of cluster analysis can be traced starting form Marshall (1890), who focused on the external economies; the access to mix companies' products represented the basis of his analysis. Technological development can emphasize in this environment by reflecting itself into labor qualification and product innovation through information dissemination and company knowledge (Kuah, 2002).

In Marshall's conception, the motivation for cooperation is certain. Regarding rivalry, only recent studies have concretely approached its influence on cluster development. Rivals intensely compete in order to win and maintain their customers. Without biting competition, the cluster will fail. Yet there is cooperation, mostly vertical, that implies companies in related industries and local institutions. Competition might exist, as it emerges in parallels with the cooperation between different dimensions and players (Pitelis and Teece, 2009).

Both cooperation and rivalry are important to cluster development. If a service or a product is not provided within the cluster, companies can cooperate in order to remove it from the group or to develop it. Rivalry allows clusters to be proactive and prepare for foreign competitors. If a business within the cluster is not sustainable, it is less probable that it will be sustainable in the external environment.

A recent series of articles regarding development economics emphasizes the spatial importance of clusters and inquires about the factors that can explain these spatial models. According to Asheim and Gertler (2005), three main factors are considered to stand at the base of cluster development: the existence of knowledge base (the integrated and located nature of teaching and innovation); public sources of technological opportunities, such as infrastructure availability and public facilities (for example, research and development laboratories, universities, technical schools) and a regional aggregation mechanism (the successful regions are more to attract advanced resources leading to economic and technological continuous and future success.

Orienting himself on the causes of cluster, Marshall has estimated them as accidental. Yet, empirical studies (Nadvi and Barrientos, 2004) assume that cluster development can also be deliberate, leading to the concept of collective efficiency, that is a competitive advantage derived from external economies (accidental/passive ones) and from common actions (deliberate/active ones). The strategies of companies within the cluster will subsequently depend on the focus on each of the strategies: deliberate or accidental ones.

Cluster analysis has evolved at the same time with company development. The cluster is not just about location (proximity) conditions. Elements such as transportation costs, environment variables (climate, geological and topographical) (Madsen et al., 2003), as well as the diversity and the intensity of linkages between companies should be included in the analysis. One must emphasize the fact that the company linkages should not be physical. More and more companies use innovative information technologies in order to overrun physical distance and to coordinate products and services. Clustering is regarded as a significant issue for highly technologized industries, and, it often represents an important engine of growth and a competitive branch of the innovation system.

CONCLUSIONS

One country's wealth is conceived at micro level by companies efficiently operating in various fields. An economy cannot be competitive unless companies operating in that country are competitive, no matter if it is about native companies or subsidiaries of foreign companies. Competitiveness directly depends on the company productivity level, which also influences the national productivity. Approaching competitiveness through the eye of productivity allows the understanding of the fact that global economy is not a zero-sum game, that each nation can improve its performance if they take action towards productivity growth, the challenge of modern times being the speed one conceives the conditions for fast and sustainable productivity growth at global scale (Bîrsan, 2010). In a more and more liberal and globalized economy, company and industry competitiveness involves innovation and flexibility in order to overtake the challenges in the market.

Companies' ability to survive and gain a competitive advantage on the global market depends, inter alia, on the public institutions' efficiency, on the health and education quality, on the telecommunication infrastructure, but also on national political and economic stability (Onsel et al., 2008). The main challenge of each economy is to conceive the conditions that lead to the growth of employees and companies productivity. The private sector itself is not merely a beneficiary, a business environment consumer, but it also has to be, to influence its modelling. Private companies can act towards means of financial support for primary education, research, but also to define new standards/regulations that are not only for their benefit, but also improve the whole competitive environment.

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IMPLICATIONS OF THE ECONOMIC AND FINANCIAL CRISIS IN SOUTH-EAST EUROPE

Andreea **Grădinaru**[*]

Abstract: *Initially triggered in the USA and generated by the chaos in the financial system of the country, the economic crisis has spread in Europe and, thanks to globalization, as a domino effect has spread around the world. Although the first part of 2008 South East Europe has lived with the belief that the countries in this region will be immune to the crisis, since September 2008, the situation has changed notably in these states. The purpose of this study is to describe the issues related to the economic crisis and its impacts on South-Eastern European countries. The first part of the study highlights economic and financial crisis origins, while in the second part the effects of the global crisis are presented and the last part states about implications of the crisis in South-Eastern Europe states.*

Keywords: South Eastern Europe; growth; economic crisis; unemployment rate.
JEL Classification: G01; E24; E31; O11.

INTRODUCTION

This study provides a brief overview of the global financial and economic crisis's impact on South-Eastern Europe countries. To estimate the implications of the recession in the region, it is particularly important to take into account two essential aspects which differentiate South-East Europe from other regions. First, it should be considered that the countries in the area have passed through a process of transition from a planned economy to a market economy. Secondly, the transitional process has involved multiple changes regarding the economic integration of South-East Europe and the near-complete forwarding of international trade flows. Therefore, in the last decade, South-East Europe has experienced a transformation process, unprecedented in the region's history. Democratic reforms, regional cooperation and integration in the economic and financial markets are considerable progress, which were inconceivable 10 years ago.

However, this continuous development was stopped by the financial and economic crisis, a phenomenon initially considered not to be disruptive for South-East Europe. The economic reality proved the opposite and thereby in the fourth quarter of 2008, the region faces severe financial turmoil.

[*]Andreea Grădinaru is a PhD Student in Economics at the Faculty of Economics and Business Administration within Alexandru Ioan Cuza University of Iași, Romania, e-mail gavrilutaandreea@yahoo.com.

This situation is stressed out by the evolution of the main macroeconomic indicators: the GDP, the unemployment rate, the inflation rate and foreign direct investment flows that have undergone substantial changes throughout the region.

What results from the survey is that, even though the countries of South-East Europe region have been affected with a certain delay, the negative effects were more pronounced than in developed economies case.

1. ORIGIN OF THE CRISIS

On a theoretical there is no agreement regarding an economic model which can explain the crisis. There is not just one explanation of the economic crisis causes and consequently the anti-crisis solutions formulated in macroeconomic theory differ substantially from one approach to another.

The main schools of thought which tackled the problem of business cycle and financial and economic crises are Keynesian, Monetarist and the Austrian School of Economics and Law (Evans and Baxendale, 2008).

The first school of thought is represented by John Maynard Keynes and his followers from Cambridge-England (Joan Robinnson) and Cambridge-Massachusetts (Gregory Mankiew and Paul Krugman). The second one is also known as the Chicago school and is represented mainly by Milton Friedman, but also R.J. Lucas. The most important thinkers of the Austrian School of Economics who had important contributions in terms of crisis theory are Ludwig von Mises, Murray N. Rothbard, F.A. von Hayek.

The theories and explanations provided within the first two schools of thought and their versions (neokeynesist, post – keynesist, neoclassical theories), have practically dominated economic thought in 20th century and still dominate it. Keynesism and monetarism followers accept institutional arrangement in the monetary, financial and banking field: fractional reserves, the Central Bank with the role of lender of last resort and paper currency (Huerta de Soto, 2010).

Unlike these, the economists of the Austrian School of Economics have argued in the context of both 1929 and the present crisis, that at the base of crisis and economic cycles sit institutions and institutional arrangements such as fractional reserves and paper currency (fiat money) because they allow the artificial expansion of credit and money supply of the banks, causing serious imbalances in the capital structure and finally leading to severe financial and economic crisis.

From this perspective, the question of financial and economic crisis is much more serious, as the crisis of the last century genealogy and their magnitude occurs, mixed with the entire evolution of the global financial system and especially with its gradual nationalization, financial-banking system is one of the sectors most heavily nationalized and regulated (Rothbard, 2002). In the current crisis case, on the one hand keynesist-type approaches are in difficulty because aggregate demand, including raw materials and inputs (coached by the boom in the real estate sector and vehicles construction) was generally high and it cannot be said that a drop in aggregate demand has triggered the crisis, but rather, this decrease has occurred in the context of the crisis and was installed after triggering it. On the other hand, neither the monetary explanations have not been more successful, because inflation was generally under control.

So economists, investors and consultants, who predicted the current crisis, are part of another economic thinking, which has its roots in Austria of the 19th century, and for this reason is called the Austrian School of Law and Economics. According to Austrian theory, economic imbalances occur in conditions of unanticipated effects by the market actors, credit expansion, which leads to a lack of coordination at inter-temporal level of the production structure. In other words, credit expansion and creation of new trend and new fiduciary tools stimulates and feeds the artificial development of productive capacities of some sectors, either IT sector, real estate or financial securities market.

This explains the current economic crisis facing the global economy, the crisis that has often been defined, not only in the media, or by international organizations such as the International Monetary Fund (Hamilton and Quinlan, 2009) but also by economists such as Alan Greenspan as "crisis of the century”. Its beginnings are somewhere in 2001 when the USA FED interest rate dropped by 1% to revive the USA economy, shaken by the September 11 attacks, but also economic relax after stunning era ".com", namely the development of Internet-related companies in 1995-2001.

The Federal Reserve System decreased the interest rate no less than 27 times between 2001 and 2003, and these low interest rates have facilitated rapid growth of loans.

Easing credit conditions led to a natural reaction of individuals, to access the easy loans hoping that they will have the opportunity to refinance them in more advantageous conditions.

Therefore many Americans abandoned rent in favour of buying their own property, since banking institutions had started to borrow money for purchase of houses, the so-called "subprime loans”, so that, in 2006, the statistic revealed a quick ascent of houses prices, reaching 124% during the last decade (Montuschi, 2009*).* The climax seems to manifest itself only in the moment in which the major financial institutions have shown interest in purchasing public effects, starting from the premise of achieving significant profits, with a low risk, but no one at that time was not aware the danger they were exposed to (Johnson, 2009). Some examples are renowned institutions such as Morgan Stanley, Lehman Brothers, Goldman Sachs, which have been captured in this vicious circle.

Therefore, it all started in the banking system, which is the base of the entire American system, and these turbulences formed the basis of the financial crisis, destabilizing the world's markets.

2.EFFECTS OF THE CURRENT FINANCIAL CRISIS

The financial crisis through which we pass is unprecedented in post-war economic history. Triggered initially in the United States and generated by the chaos of country's financial system, the economic crisis has spread in Europe and, due to globalization, as a domino effect, it has spread throughout the world. Most countries of the world felt it, but mainly developed economies that have experienced a decrease or even stagnation in economic growth rate, and with rare exceptions, mild increases. Less affected states by the crisis are emerging economies, sometimes more loosely integrated into global capital markets, an example in this case being China, which has a capital market less integrated into global markets, without being fully liberalized.

The international financial and economic crisis has induced primarily distrust in financial institutions functionality of contemporary capitalism, had unavoidable adverse effects on global economic growth, interest rates and unemployment, devaluation of the national currency, increased current account deficits and public debt, and last but not least has created political, strategic and social problems.

In late summer of 2007 we talk about the first signs of acute instability among banks. A first consequence of current acute crisis is bankruptcy of banking and credit institutions of the United States and the European Union. It generated the mistrust that led to serious imbalances in the stock market, the value of the shares dropping at times so much, that it was necessary to suspend the stock transactions for a specific period of time.

Contrary to the principles of modern capitalism, most countries have nationalized a significant part of the financial system in a desire to prevent the bankruptcy of banks and other financial institutions. An example of this is the injection of 540 billion dollars by the FED in retirement funds and 700 trillions of dollars to banks and insurance companies threatened with bankruptcy. Likewise, England has granted £ 20 billion on loans made by banks for small and medium enterprises, and Germany 100 billion euros.

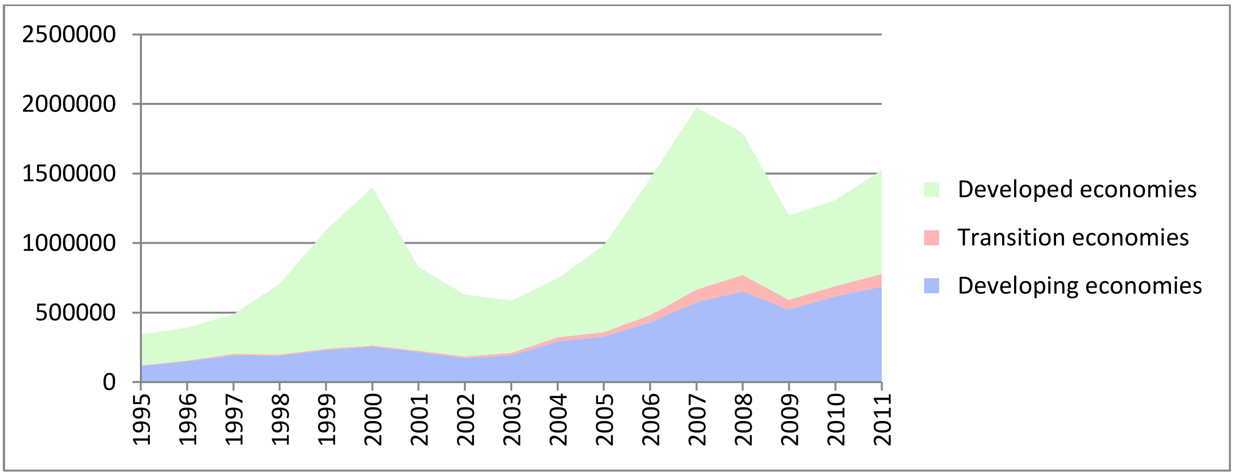
Another effect is the decrease of production in most European States such as Germany, England, France, Spain, and Italy and others. Even more, exports also decreased substantially as the fast pace of trademarks expansion in this decade has been drastically reduced. The global slowdown has reduced demand for consumer goods and industrial products, reducing earnings from exports. For example, in Russia due to decrease in price of crude oil export earnings have dropped substantially. Thus, world trade has experienced significant decreases, trade credit has become increasingly rare and more expensive, while industrial firms were left helpless in the face of declining demand.

By reducing the demand for consumer goods, a number of companies went bankrupt reducing the number of employees and wages.

The crisis has had a major negative effect on investment in emerging markets, portfolio investments dropping drastically. In addition, foreign capital inflows have been strongly affected by the financial crisis, the decline being considerable, especially in 2009.

Unfavourable financial and economic conditions have affected the transnational corporations from all regions of the world, which are constrained to reduce drastically the expenditure for investment, which has led to a strong rebound of FDI flows received or generated globally in 2008-2009.

Figure 1- Trends in FDI flows received globally and on major groups of economies in 1995-2010 -in million dollars-



Source: graph generated by author after UNCTAD database.

The powerful descendant trend of global FDI flows under the impact of the global crisis has put an end to the cycle of four years of uninterrupted growth of these flows, which culminated in 2007 with a historical level of more than 2,000 billion dollars. After a decline of 16% of FDI flows worldwide received in 2008, their volume crashed with a further 37% in 2009, reaching out to overcome value threshold of 1,000 billion dollars, as shown in the previous chart.

The volume of global FDI flows received has increased only marginally in 2010, respectively, with less than 1%, from 1114 billion dollars in 2009 at 1122 billion dollars in 2010.

The last monitoring report on investment activity at a global and regional level, published by UNCTAD, reveals that global FDI reached around $ 1.5 billion in 2011.

Therefore, the stagnation of investment activity at international level is a matter of serious concern, especially due to the fact that public investments and economic incentives packages initiated by the Governments of the world in order to combat the negative impact of the global economic and financial crisis are about to exhaust their effects, and private investments like FDI, representing the decisive prerequisites for economic growth and development have not yet resumed their role as starter of economic growth.

3. ASPECTS OF THE CRISIS IN SOUTH-EAST EUROPE

If on the one hand, by mid-2008, economies like the United States, United Kingdom, France, Germany, and Japan have already been affected by the economic crisis, on the other hand, the countries from South-Eastern Europe continued to grow. In the first eight months of 2008, those states have lived with the confidence that South-Eastern Europe will be immune to the crisis, but as of September 2008, the situation has changed notably for those countries.

The main channels of transmission of the crisis in South-Eastern Europe have been more indirect than direct and have included: international trade, foreign direct investment, monetary policy, and the remittances of migrant workers.

Regarding the effects of the crisis in this area, they were embodied in the decrease of the growth rate of gross domestic product and foreign direct investment flows, increasing inflation and the increase of the unemployment rate.

Thus, as regards to the rate increase of the gross domestic product, which fell significantly across the region, but can be seen from the table below that Romania has experienced since the end of 2008, early 2009, with the outbreak of the crisis in the region, the biggest decrease of 6.6%, closely followed by Croatia with 6%. Over the next three years the crisis shows that in general this indicator began to record a positive trend, with the exception of Greece, the only country in the region with a growth rate of negative GDP in 2012. However, the level of GDP is lower than pre-crisis, moreover is much dependent on international and European evolutions.

Table1- GDP real growth rates (%), 2007 – 2012

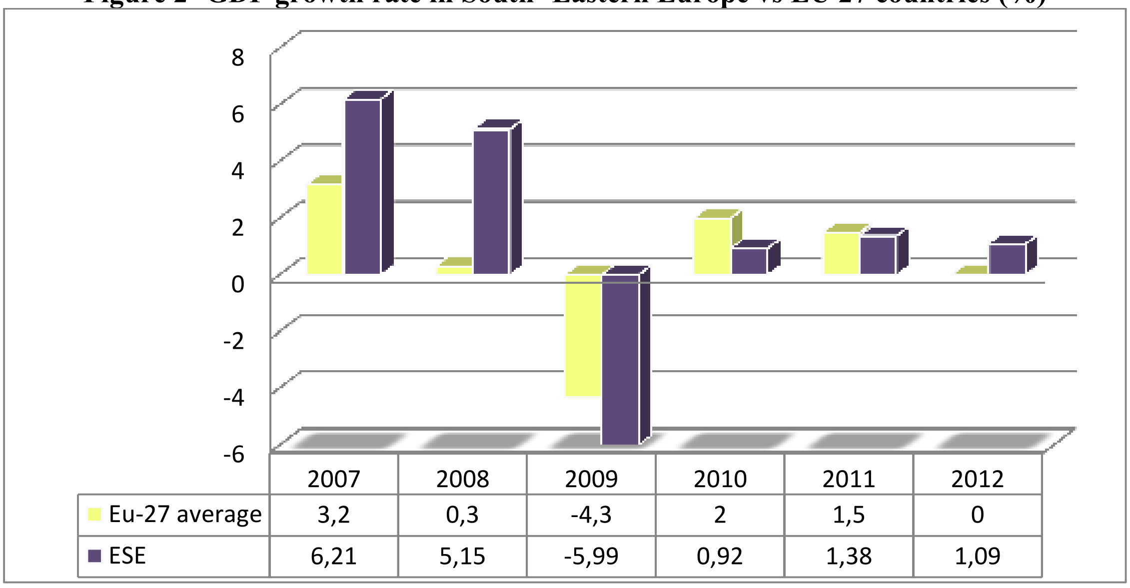
Country	2007	2008	2009	2010	2011	2012
Croatia	5,1	2,2	-6	-1,2	0,6	0,8
Macedonia	6,1	5	-0,9	1,8	3,1	1,8
Albania	6	7,7	3,3	5	1,8	1,2
Bosnia and Herzegovina	6,8	5,7	-3,1	0,8	1,8	0,5
Montenegro	10,7	6,9	-5,7	2,5	2	1,9
Serbia	5,4	3,8	-35	1	1,9	1,1
Romania	**6,3**	**7,3**	**-6,6**	**-1,6**	**2,5**	**1,6**
Bulgaria	6,4	6,2	-5,5	0,4	1,7	1,4
Greece	3	-0,2	-3,3	-3,5	-6,9	-4,4

* Estimations of World Bank

Source: computed by author after World Bank and Eurostat data.

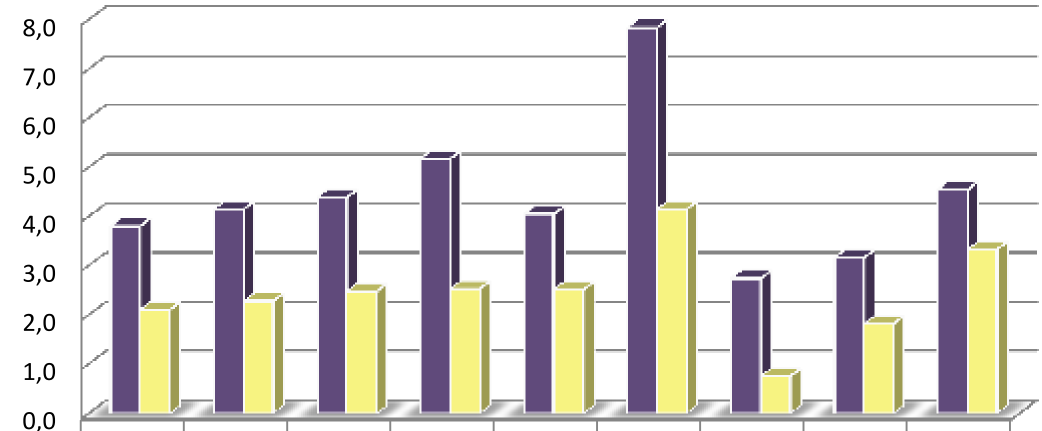
In order to highlight the impact of the crisis on one of the most important macroeconomic indicators we have conducted a comparative analysis of the increase rate in GDP between the average of Southeast Europe countries and the EU-27 average. Here it can be seen that the region of South-Eastern Europe felt the beginning of the crisis most powerful compared to the rest of Europe, a fact evidenced by the GDP growth rate, which has dropped dramatically in 2009 to 5.99%, as can be seen in the chart below.

Figure 2- GDP growth rate in South- Eastern Europe vs EU 27 countries (%)



Source: graph generated by author after World Bank and Eurostat data.

Figure 3- Annual inflation in South- Estern Europe vs EU 27 countries



	2003	2004	2005	2006	2007	2008	2009	2010	2011
ESE	3,8	4,2	4,4	5,2	4,0	7,8	2,7	3,2	4,5
UE 27	2,1	2,3	2,5	2,5	2,5	4,2	0,8	1,8	3,3

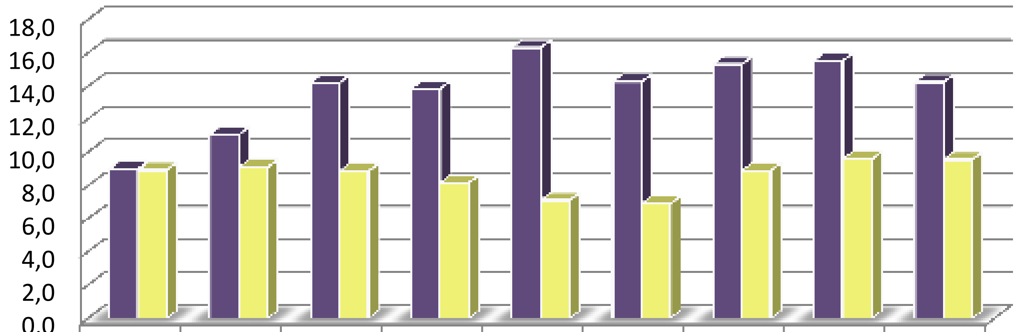
Source: graph generated by author after World Bank and Eurostat data.

In line with the GDP growth rate, annual average inflation is also significant. In the chart below you can see that, between 2003 and 2007, South-Eastern Europe recorded a rate of inflation cantered around 5%, but in 2008, inflation in the region has exploded, increasing by approximately 67% compared with the last year. For 2009, we can notice a noticeable difference between the EU-27 average of only 0.8% and the ESE average of 2.7%, maintaining the upward trend so far.

Another indicator worth considering is the unemployment rate. As was expected, the crisis repercussions on the labour market were felt both in the region and in the EU 27. Thereby we can see that since 2007 the unemployment rate in South-Eastern Europe began to increase significantly (16.3%).

The following years marked by crisis were unfavourable for the labour market, the average of the South East area regarding the unemployment rate was almost double compared to the EU 27 average, actually trained by countries like Greece within the Southeast region which in December 2012, record the highest rate of unemployment (26.4%).

Figure 3 - Unemployment rate in South - Eastern Europe vs EU 27 countries (%)



	2003	2004	2005	2006	2007	2008	2009	2010	2011
ESE	9,0	11,1	14,2	13,9	16,3	14,3	15,3	15,5	14,3
EU 27	8,9	9,1	8,9	8,2	7,1	6,9	8,9	9,6	9,6

Source: graph generated by author after World Bank and Eurostat data.

As regards to foreign direct investment, statistics indicate that in the region they were three times lower in 2011 (8.9 billion Euros) compared with 2008 (27.94 billion Euros) as result of the economic and financial crisis. This phenomenon explains the fact that in the years preceding the crisis, foreign direct investments have been concentrated only in certain sectors that were very vulnerable with the advent of the crisis.

Regarding investors in the South-Eastern Europe area, it should be noted that most of the direct foreign investments made here come from neighbouring European countries. An example in this case is Austria, which has invested in nearly all the countries of the region, with the exception of Macedonia, as regards the banking sector.

Table 2- FDI inflows (billion euro) for 2007-2011

Country	2007	2008	2009	2010	2011
Albania	0,481	0,665	0,696	0,831	0,65
Bosnia and Herzegovina	1,52	0,684	0,18	0,174	0,25
Bulgaria	9,052	6,728	2,437	1,779	1,064
Croatia	3,651	4,219	2,38	0,281	1,2
Macedonia	0,506	0,4	0,145	0,159	0,21
Montenegro	0,683	0,656	1,099	0,574	0,3
Romania	7,25	9,5	3,49	2,22	1,92
Greece	1,54	3,07	1,75	0,281	1,3
Serbia	2,513	2,018	1,41	1,003	2,01
Total	27,2	27,94	13,59	7,3	8,9

Source: WIIW – Vienna Institute for International Economic Studies, National Banks and UNCTAD, March 2012.

CONCLUSIONS

The analysis of the main economic and financial indicators shows that South-Eastern Europe countries have felt with a lag of about one year the joint effects of economic and financial crisis. But even so, the effects were stronger than in developed economies, and recovery from the economic recession was slower.

In the first place, 2009 brought the fall of the gross domestic product, due to the contracting demand in the EU 27 partners and foreign direct investment. The most affected countries were Romania and Croatia that have experienced the largest drop in GDP in 2009, -6.6% respectively -6%.

Secondly, South-East Europe recorded significant differences compared to the EU 27 in terms of inflation; for 2009 it can be seen that the average inflation in the EU 27 was only 0.8%, while the average for the region of South-East Europe was 2.7%.

Third, the crisis has brought with it a major issue in social and economic terms, namely unemployment. It has affected the whole Europe, but most of it was felt in the South-East Europe region, where the average unemployment rate is almost double compared to the EU 27 average.

Therefore, to overcome the effects of the current financial and economic crisis are necessary measures and structural reforms that will boost the competitiveness of the region. To achieve this, the South-East Europe should explore more creative potential at its disposal.

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HOW THE FINANCIAL CRISIS HAS AFFECTED THE ECONOMIC INDICATORS OF THE NETHERLANDS

Răzvan **Hagimă**[*]

Abstract: *Despite of being affected by the economic crisis, the Netherlands managed to minimize its effects. This situation is highlighted in a comparison with Romania and the European Union, between the levels of the most important economic indicators. Moreover, when other countries registered negative trends in their economic growth, the Dutch economy succeeded in this matter.*

Keywords: economic crisis; GDP growth rate; unemployment rate; budget deficit/surplus; inflation rate; FDI; foreign trade.
JEL Classification: G01; E00.

INTRODUCTION

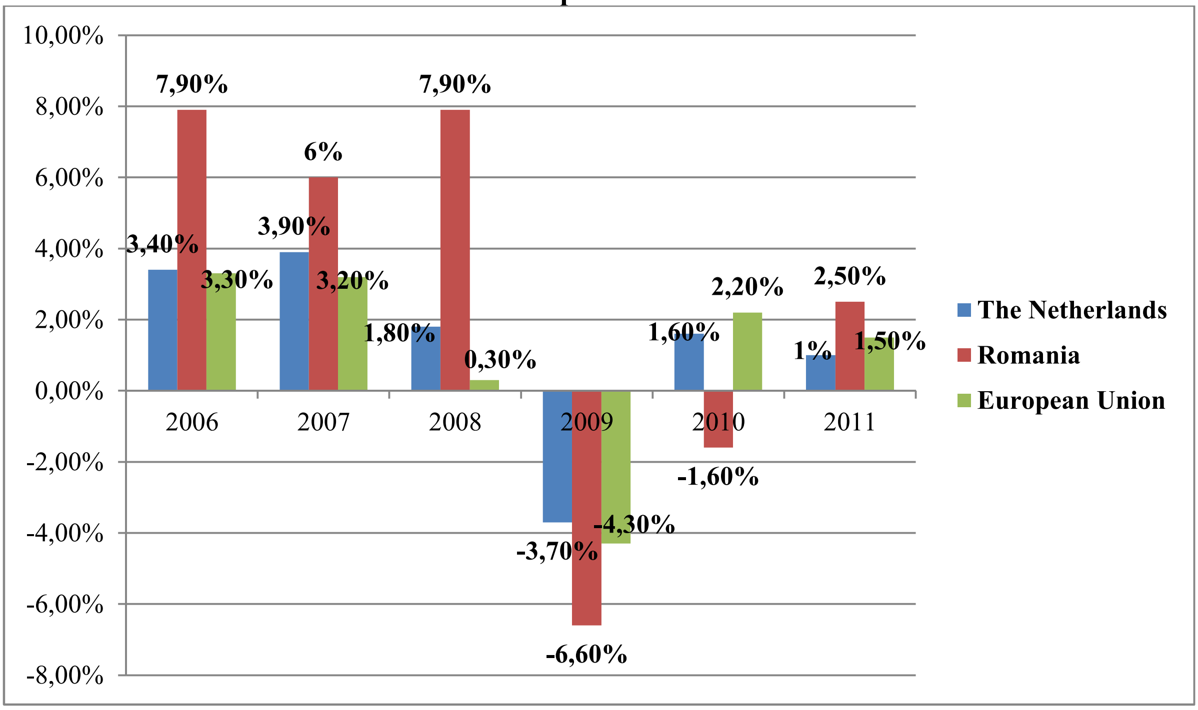
According to some estimates, the Dutch economy could have suffered a decline of about 3.5% in 2009, as forecast by the Bureau of Statistics of Netherlands in February 2008. Furthermore, the prediction for the year 2010 was not optimistic; the general opinion was that the economy will suffer a fall of about 0.25%. The most pessimistic provisions were about the unemployment. It was estimated that this rate would be 5.5% in 2009 and 8.75% in 2010. This forecasts meant that 425.000 people would not have a job in 2009 and in the following year, 2010, the number would reach the level of 675 000.

The situation in question was due to a slowdown in the economic recovery process, the trend growth of the real economy being estimated at about 1,5% per year because of several factors, such as eliminating the effect of the „build-up inventory”, which contributed with about 1% to the economic growth that was registered in 2010.

[*] Răzvan Hagimă is an PhD Student at the Faculty of Economics and Business Administration within Alexandru Ioan Cuza University of Iași, Romania, e-mail: razvan.hagima”gmail.com.

1. THE INFLUENCE OF THE ECONOMIC CRISIS ON THE KEY ECONOMIC INDICATORS OF THE NETHERLANDS

Figure 1 – Comparison between the GDP growth rate from the Netherlands, Romania and the European Union



Source: World Bank statistics database, http://databank.worldbank.org/data/views/reports/tableview.aspx?isshared=true&ispopular=series&pid=1#.

The Netherlands recorded in the last two years a quite significant growth rate of about 1.3% per year. The cause of the economic recovery was the revival of the exports which contributed to approximately 80% of GDP (a more detailed analysis will be performed in figure 6).

Another detail shown in the figure above refers to Romania. Between 2007/2008 and in 2011, it recorded a higher growth rate than in the Netherlands, but also a more significant collapse of this indicator during the analysed period. The situation can be explained by the fact that the economic development of Netherlands is based, mainly, on exports, which were greatly affected by the global economic downturn. When it comes to Romania, the economic development registered in 2011 especially, was the result of the agricultural production because this sector benefited from a favourable weather. Either this kind of progress cannot be sustainable because the reason is a more favourable environment due to weather.

However, the export, which are the engine of the economic development of Netherlands, are responsible for the slow pace of the growth rate compared to the EU, partner countries encountering, in turn, economic issues.

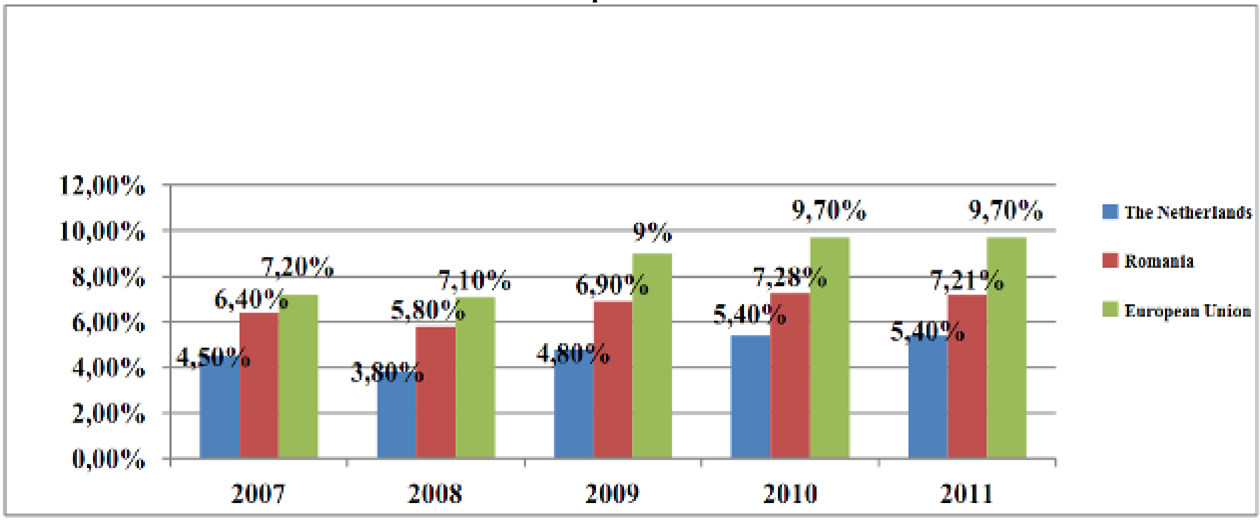
Regarding unemployment, when the financial crisis began, following the bankruptcy of Lehman Brothers, the Dutch labour market was overheated, with certain deficiencies in several sectors of the economy. In a few months the international trade collapsed and the Dutch economy, which was and still is highly dependent on foreign trade, contracted, in 2009, with about 4% of the GDP.

Due to the past experiences accumulated it was though that the unemployment rate, which stood at 3.8% in 2008, could climb up to 7% or 8% thereafter. The Director of the Netherlands Central Planning Bureau (CPB) has compiled a bleak forecast at the beginning of the crisis, suggesting that this rate could reach 10% of the total workforce. In reality, it only reached a value of 5.4% in 2010 and 2011 (Janssen, 2011).

A simple explanation of the low level of unemployment during the recession is the following: the companies' vane not abandoned their own employees. Aware of the shortcomings which existed before, many companies have decided to keep their workers despite of the lower production. Especially people with flexible contracts have retained their jobs. The companies' motivation was the following: the dismissal of the workers and then finding new staff could take a lot of time, effort and money. But in all of this was a negative part: because the companies kept on the payroll more employees than it needed, their productivity began to decline and the same number of workers began to product a smaller quantity of goods.

Another justification is the rapid increase in the number of self-employed workers. They acted as a buffer in the labour market, adapting to a lower demand by accepting lower payments for their work. However, another reason could be that the influx of foreign workers originating from the Eastern Europe fell due to the recession.

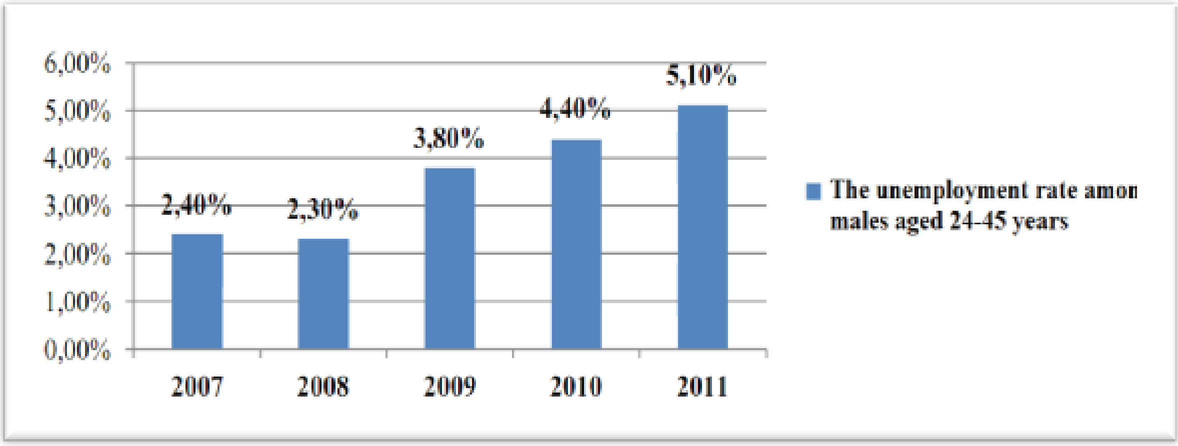
Figure 2 – Comparison between the unemployment rate from the Netherlands, Romania and the European Union



Source: Statistical bureau of the Netherlands, www.cbs.nl; European Union database, http://epp.eurostat.ec.europa.eu; National Institute of Statistics of Romania, http://www.insse.ro/cms/files/Web_IDD_BD_ro/index.htm.

In order to highlight the low unemployment rate in Netherlands it is necessary to compare it with the one existing in Romania and in the European Union. In this respect, it can be seen that, the Dutch economy excels in this matter. The main fault of the high value of unemployment rate in Romania compared to the one which exists in Netherlands lies with the. Moreover, the level of FDI in Romania, in the period 2007-2010, was insignificant. Because of this reason, the country did not benefit by the positive effects that comes along with the foreign investment that could have helped keeping the unemployment rate under control.

Figure 3 – The unemployment rate among males aged 24-45 years in the Netherlands

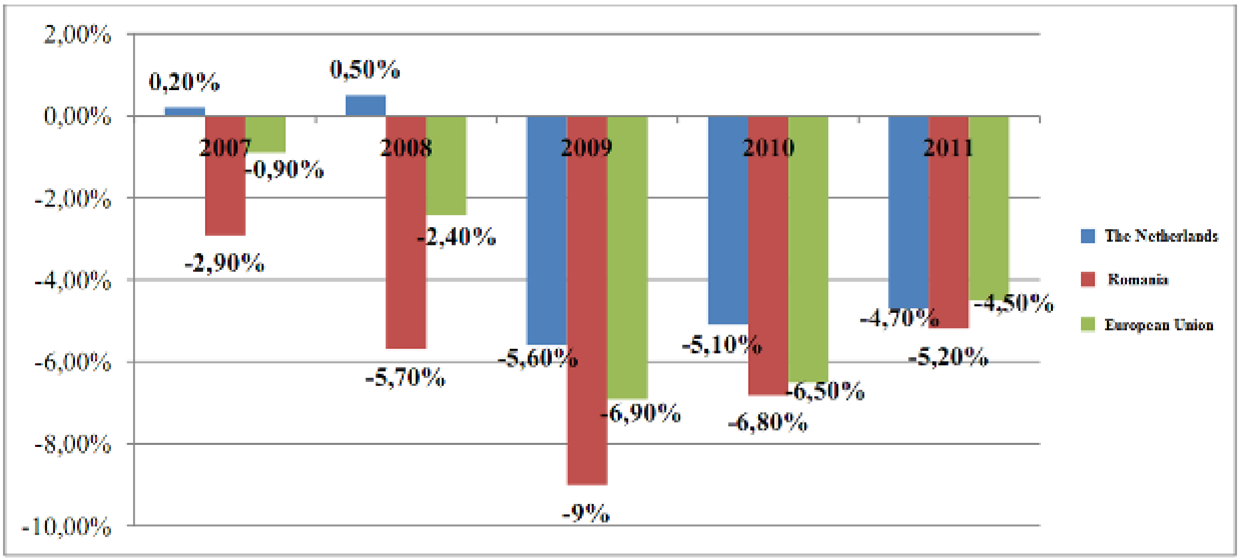


Source: Statistical bureau of the Netherlands, www.cbs.nl.

The unemployment rate among men aged 25-45 years in the Netherlands has doubled in the period 2008-2011. If in 2008 only 2.3% of them were unemployed, in 2011 this indicator has exploded, reaching a level of 5,1%. With the regard of their position in the labour market, these subjects were most affected.

The unemployment rate of this group is determined by the creation of more jobs in the health sector than in manufacturing and construction. It is known that the biggest part of the employees in the health sector is represented by women. Due to this fact, the increasing number of men unemployed is caused by the sectorial issues. Approximately 200.000 people who have worked in manufacturing, constructions, agriculture and commerce lost their jobs since the second quarter of 2008. At the same time, the employment rate in the health sector began to grow rapidly (Statistics Netherlands, 2011).

Figure 4 – The evolution of the budget deficit / surplus of the Netherlands, Romania and the European Union



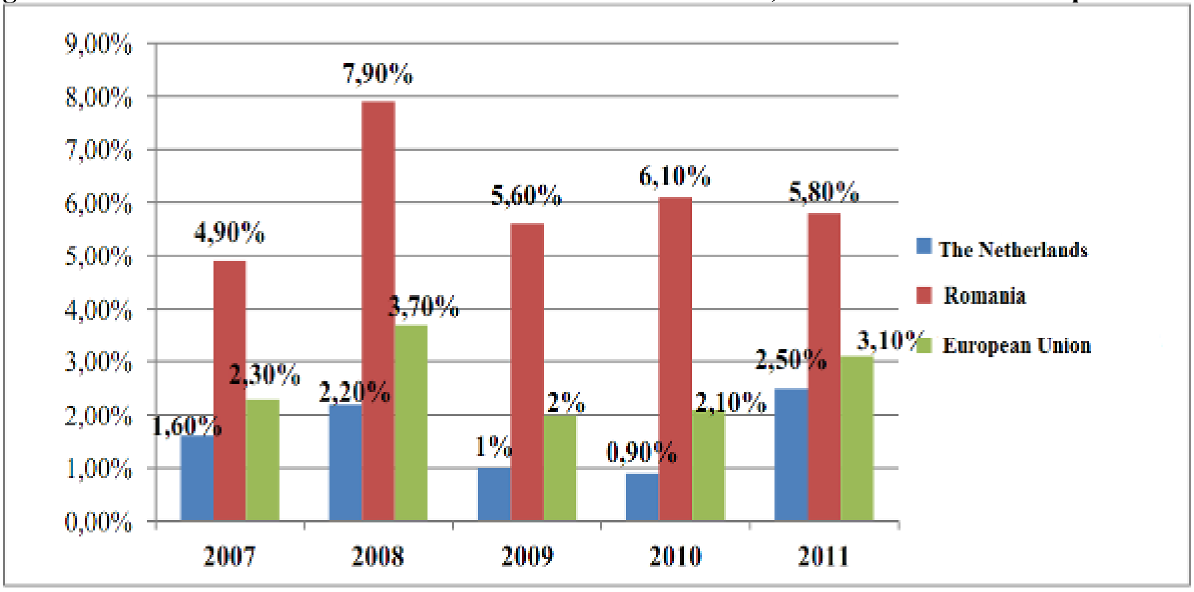
Source: European Union database, http://epp.eurostat.ec.europa.eu.

Before the financial downturn, the Dutch public finances were in good shape. Even before the crisis that affected the Lehman bank it was predicted that there will be a balanced budget for 2009, as it was in 2007 and 2008. However, the economic and the financial events that took place have changed that estimation. The impact on the public finances was dramatic. For example, in 2009 the budget deficit reached 5.6% of GDP. The situation improved somewhat in the subsequent years, reaching a level of about 5.1% in 2010 and 4.7% in 2011.

It is necessarily to consider the ratio between the budget deficit of the Netherlands and the one recorded in the European Union. If EU deficit during 2007-2010 was significantly higher than the one registered in the Netherlands, in 2011 this indicator had a lower value of about 4.7% compared to 4.7% as the one recorded in the analysed country.

The size of the budget deficit of Netherlands in 2011 is important for the European Union because its level, along with the size of the government debt of about 65.2% of GDP, violate the EU requirements regarding the size of the two variables. However, although the Dutch economy felt the negative consequences of the financial crisis, it managed to maintain a stable inflation rate.

Figure 4 – The evolution of the inflation rate of the Netherlands, Romania and the European Union



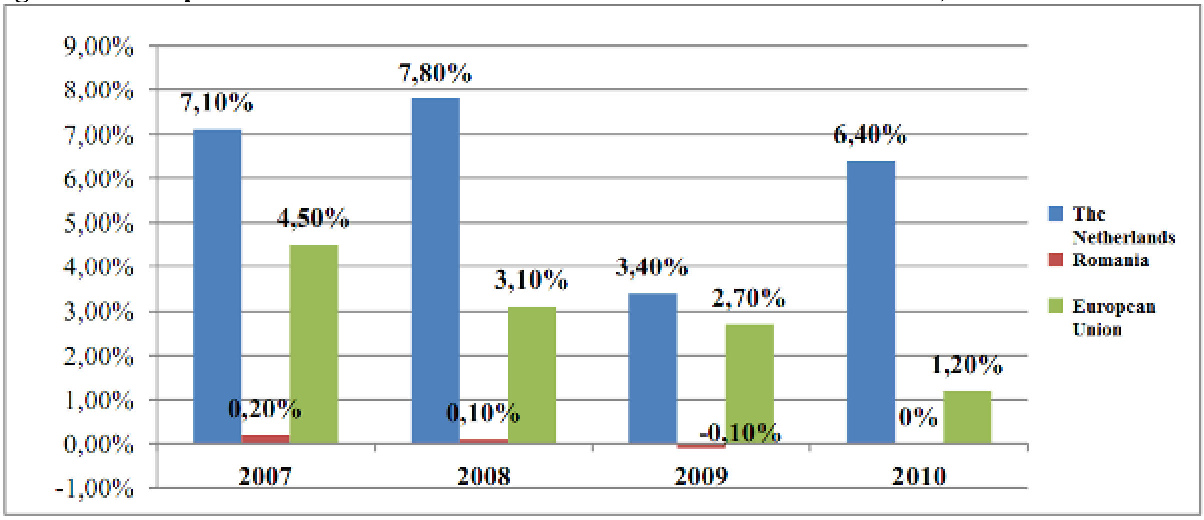
Source: European Union database, http://epp.eurostat.ec.europa.eu.

If during the crisis the fiscal measures in Netherlands had a relatively small effect on the price of the energy, in other areas of the EU, including Romania, they weighed a lot. Excise tax rate changes and different fiscal provisions have increased the prices of those goods by about 0.7 percentage points, while in Romania, for example, they weighed even more, overreaching one percentage point.

Netherlands had one of the lowest inflation rates in Europe even during the crisis. This continues to be a positive fact for those companies who are operating in this area because there is a high degree of certainty that is powered by the stable prices. Moreover, the interest rates are kept low and this fact reduces the cost of capital.

The financial crisis has also affected the foreign direct investment flows as it influenced the value of other economic indicators such as inflation, unemployment and GDP growth.

Figure 5 – Comparison between the share of FDI in GDP in the Netherlands, Romania and the EU



Source: European Union database, http://epp.eurostat.ec.europa.eu.

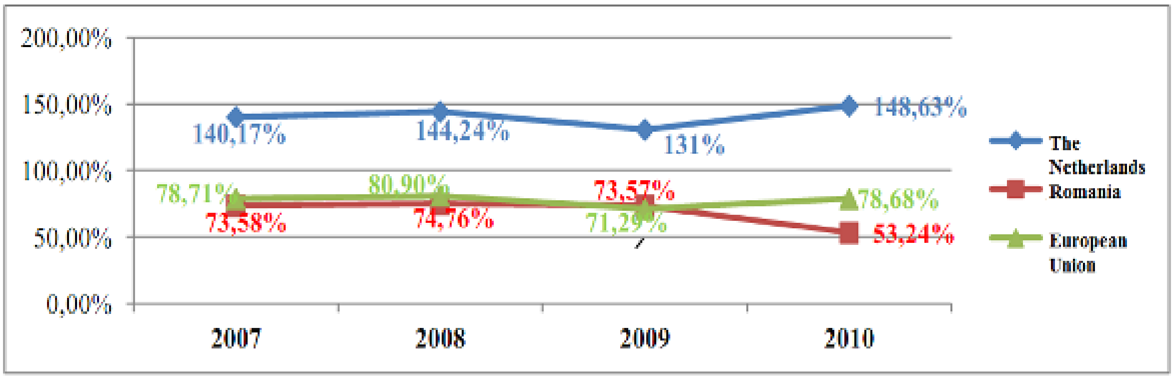
As can be seen in Figure 5, the FDI in the Netherlands began to follow a downward trend between 2008 and 2009. Moreover, in 2009 it reached only a half of the size in the previous period. An important issue that led to the sudden drop was the acquisition by the government of the Dutch company Fortis in October 2008 (Statistics Netherlands, 2010). This action led to a significant decrease of the Belgium investments in this country.

Another cause of the decline of the FDI in the Netherlands is the cost of labour. As previously mentioned, at the beginning of the crisis, the Dutch companies have decided to keep the most of their employees. This situation led to a decrease of the productivity. However, the cost of the labour has not significantly changed being among the highest in Europe. Because of this fact many foreign investors have decided not to carry on their business in this state (Global trade).

As shown in figure 5, in 2010, the FDI flows began to increase considerably. This situation was caused by the government's decision to lower the taxes imposed on companies by about 25.5% which placed the Netherlands far below the EU average in this matter.

To highlight the effects of the economic crisis on FDI it can be analysed the figure above. If in both countries and in the EU the size of the FDO has suffered a sharp decline, in the Netherlands, in 2010, an improvement regarding this aspect can be observed. While in Netherlands, in 2010, the foreign direct investment grew by about 53.12% compared to the previous year, in the EU they felt by about 55.55%, while in Romania they were practically inexistent.

Figure 6 – Comparison between the share of foreign trade in GDP in the Netherlands, Romania and the EU



Source: The database of the World Bank, http://data.worldbank.org/data-catalog.

In figure 6 it can be seen the importance of the foreign trade for the economy of the Netherlands. If in European Union and in Romania the international trade represents just over 70% of GDP, in Netherlands this indicator exceeds the GDP. Moreover, in some cases the foreign trade is bigger than the gross domestic product by almost 50%.

However, as it can be seen, the economic downturn has led to a decrease in value of trade as well. The cause of the decrease is mainly given by the defining feature of the Dutch economy, an open one and highly vulnerable to environmental changes. Moreover, the situation of the economic environment of the partner countries played a big part of this downturn. Among the most important trading partners are the US and the EU, areas that have been affected by the financial crisis too. Maybe, a reason of the decrease of the foreign trade that is not taken into account is the increase of the fuel prices in the EU. Although the Netherlands hasn't significantly increased the energy prices, the exports have been more expensive in 2009 than in the previous year with about 5-7% and the imports, in turn, by 10%.

CONCLUSIONS

The openness of the Dutch economy played, again, an overwhelming role in the propagation of the economic downturn. Its consequences could not be avoided because such a feature can't be changed within a few months, even years. But the country's government adopted several positions that helped to minimize the damage. The recent positive economic trend indicates that Netherlands has rather passed the economic downturn. A decrease of GDP has been encountered only in 2009 (-3,5%). During the following years the growth rates have been positive, 1,7% in 2010 and 1,2% in

2011. Perhaps the most interesting decision was related to the unemployment rate where companies played an important role: they decided to maintain its level by a temporary reduction in labour productivity.

By analysing the most important economic indicators of Netherlands it can be said that the country mentioned is one of the most efficient in Europe. Although the economic crisis has infiltrated in its economy, it managed to reduce the negative effects in different ways like adopting a low fiscally rate and promoting a healthy business environment.

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*** www.cbs.nl.

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MERGER OF TRADING COMPANIES, A CHANCE OF SALVATION DURING THE CRISIS

Anca-Simona **Hromei***

Abstract: *Mergers are transactions often used as growth strategies by companies that are trying to gain a competitive advantage, or in order to fulfil their objectives. In this period, marked by uncertainty and risk, mergers can be an effective way to enhance the competitive power on the market, or a way to save, restore the declining companies.*

Given the emphasis on mergers in recent years, this article tries to offer a theoretical approach on mergers, with a highlight on the conceptual framework and the advantages that can be obtained by mergers. Some advices that any manager should take into consideration before completing the merger and, also, in the afterwards period, in order to ensure the success of this process, are presented.

Keywords: mergers; financial performance; advantages of mergers; success.
JEL Classification: M41; G34.

INTRODUCTION

The economic and financial situation at the European level, characterized by uncertainty and lack of liquidities, determines companies to approach different strategies in order to consolidate their business or to maintain it at a competitive level on the market.

The reorganization operations of trading companies are alternatives that can be taken into consideration when a change in the organizational structure is intended, but also to a productive or staff level. Among these operations it is also included the merger of trading companies, process through which two or more companies decide to associate, continuing their activity by means of a single economic entity.

1. THE CONCEPT OF MERGER BETWEEN TRADING COMPANIES

At the origin of the idea of merger, stands the concept of increasing the value, starting from the premise that “1+1=3”. In other words, it is considered that the plus of value brought by a company resulted after the merger is superior to the sum of individual values offered by each participant companies, if they would not have merged.

*Anca-Simona Hromei is a PhD Student in Accounting at The Faculty of Economics and Business Administration within Alexandru Ioan Cuza University of Iași, Romania, e-mail: anca.hromei@yahoo.com.

According to the Explanatory Dictionary of the Romanian Language, the merger represents the fusion of two or more organizations in a single homogenous unit. In fact, after the merger of two or more companies results a single one, usually stronger, having a higher potential of development and a patrimony which comprises elements of assets and liabilities from the all companies involved in its process of formation.

The Romanian law refers to two types of merger, depending on the way they are done. Therefore, ***merger by absorption*** is presented as the operation through which one or more companies transfer its/their entire patrimony (assets, debts and shareholders' equities) to an absorbing company, in the exchange of distribution to their owners, of some titles within the absorbing company, and sometimes of an amount of money which cannot exceed 10% of the nominal value of those ceded titles. The second alternative is the one of ***merger by reunion***, a procedure after which two or more companies are dissolved without entering in liquidation, transferring all patrimonial elements to a newly-established entity, in exchange of some shares or equity interests of the new company, which will be distributed to the existent shareholders or associates and sometimes of an amount of money paid to them.

From the very beginning, it is important to highlight that this process is not a limitative one in terms of the type or the size of companies which can be involved in merging operations. Any trading company, irrespective of its legal form of organization or size, can initiate a merger project.

The merger must not be confused with the acquisition of all titles of a company. If in the case of acquisition, the company that sells its titles continues its activity, in the case of merger the absorbed company or the merging one, stops existing from a legal point of view after the transaction. For a better understanding of the concept, if we were to relate to interpersonal relations, merger might be associated with marriage, a freely consented union between two parties, in the purpose of establishing a family, obtaining favourable results for both parties, and even for the society, while the acquisition of titles might be associated with a consensus-oriented union, a common living but without forming an integer.

2. EVOLUTION OF MERGERS IN ROMANIA

The idea of mergers initially occurred in the United States of America and then in Great Britain. In time, these operations developed and became more and more popular, showing significant increases in the last decades, both as regards to the number of operations and the transacted values.

But this momentum was slowed down starting with 2008, when the effects of the economic crisis started being felt, and the actors from the financial markets became more reserved, attentively reasoning before coming to a decision.

In our country, merger operations occurred in a later period compared to other states, especially because of the communist regime which allowed the patronage of the economic sector only by the state. The phenomenon of privatization that manifested itself at the beginning of the '90s can be considered the premise of the subsequent development of the merger market. Hardly since the year 2000, had the merger and acquisition market in Romania started developing, taking place a higher number of such transactions.

The stabilization of the Romanian business environment, the adherence to the European Union and the ascending trend where our country was situated before the economic crisis, made Romania an attractive alternative for foreign investors, especially during the period between 2005 and 2007, which can be considered the top period for mergers. The intensification of mergers in our country during the period between 2005 and 2007 was obvious, these operations being considered by investors as useful instruments in achieving different strategic objectives.

But, starting with 2008, when the effects of the economic crisis were felt in Romania as well, a slowing down in the enthusiasm regarding investment and getting involved in merger operations has been noticed.

At the level of 2009, a decrease of the market for mergers is registered, up to the minimum point, due to the fact that companies adopted a cautious attitude, avoiding risk-taking actions.

The period between 2010 and 2011 was characterized by the same descendent trend in terms of number and value of merger transactions achieved at national level. Although towards the end of 2011 and the beginning of 2012, a certain revitalization of the merger market have been noticed, there is much more to go until reaching transaction levels during 2005-2007 period.

Neither the year 2012 represented a significant evolution for the market of fusions at national level. The strong recovery previously forecasted was delayed because of the unstable political climate. The political uncertainty manifested in the period prior to elections, determined investors to manifest a reserved attitude, significant transactions not being realized in terms of mergers. For 2013, the perspective is still an optimistic one, several transactions of this type being predicted at a national level. It is still necessary to recover from the crisis, restore investors' confidence in the Romanian market and the disappearance of risk factors associated with the period of recession.

In terms of national law regarding mergers, the main regulatory documents are: the Trade Code, the Law on Trading Companies no. 31/1990, Order no. 1376/2004 for the approval of methodological regulations concerning the reflection in the accounting of the main operations of merger, division, dissolution and liquidation of trading companies, as well as the retirement or exclusion of some associates within trading companies and their tax treatment, Law no. 571/2003 regarding the Tax Code, Accounting Law no. 82/1991, as well as Law no. 26/1990 regarding the Trade Register.

It is also important to notice the fact that, at a legislative level, significant amendments regarding mergers in 2012 were registered. These amendments, introduced at the beginning of the previous year through the *Emergency Ordinance no. 2* from February 28th 2012[*] target the simplification of mergers, the decrease of costs related to the achievement of this process, as well as the creditors' interests' protection of trading companies involved in such operations. Moreover, in October 2012, an Emergency Ordinance[†] was approved and published, which amends and completes the Tax Code, in which a *new facility* is provided, granted to companies which decide to get involved in merger operations. More precisely, the company which results after the merger has the possibility to *recover the tax loss* transferred from the company/companies which took them over after merger. Therefore, it has the possibility to decrease the tax on income that is to be paid, an important fiscal advantage.

Consequently, the current legal and tax conditions are favourable for the achievement of merger operations, and this alternative should be taken into consideration by managers and shareholders or associates of trading companies who wish and feel the need of a change.

When mergers are preceded by well documented studies and analyses, the procedures are done correctly, quickly and in an advantageous manner for all parties involved, these operations might have as result the refreshing and increasing in the efficiency of enterprises activities, supporting the achievement of objectives of economic development and, indirectly, can contribute even to the recovery of the national economy.

3. ADVANTAGES WHICH CAN BE OBTAINED BY MEANS OF MERGER

The subject of mergers can be of interest both for companies with a good financial situation, which can acquire at very low price a company in difficulty, but also for some companies with

[1]*Emergency Ordinance no. 2 from February 28th 2012*, published in the Romanian Official Journal, Part I no. 143 from March 02nd 2012.
[2]*Government Ordinance no. 15 from August 23rd 2012*for the amendment and completion of the Law no. 571/2003 regarding the Tax Code, published in the Romanian Official Journal 621 from August 29th 2012.

decreased performance, which consider merger in order to access resources, to increase their efficiency, competitive position or to gain from new opportunities.

As merger means the transfer of the entire patrimony of a company to another company, or having in common the assets and liabilities of some companies for establishing a new one, this operation can be mentioned in the category of strategies of growth or development.

Consequently, the companies interested in the *increase of the market share* or in the *diversification of the range of products or services offered* can and should take into consideration the alternative of a merger.

For companies which do not have enough funds to invest in new lines of production, one of the few chances of success is the merger with a company having a better position and useful (technical or human) resources.

Taking over a company with an increased technological level by another company which does not have enough liquidities to invest in technology, presents the advantage that it *does not imply a direct cash payment*, but the transfer of shares of the absorbing or newly created company to the shareholders of the absorbed company or the one involved in merging. Consequently, it is more advantageous to take over a company with an increased technological level, in whose exchange would be granted shares, than a proper acquisition, which would imply substantial cash payments.

If a company will decide the merger with another company having the same activity, or which develops similar products or services, the main advantage will be a *more efficient exploitation of the managerial and technological resources* the company has in that sector. Positive effects will be found in the achievement of *scale economies*, through the decrease of production or personnel costs, as well as those related to the payment for certain goods or services which were previously purchased from the outside.

The economies of scale have as an effect the decrease in the average cost of production when the capacity of production develops. These can be approached under two aspects, namely technical and financial.

From a technical point of view, the economies of scale are achieved when, after the merger, the production volume increases, ensuring *a better specialization of tasks*, as well as the *technological endowment with important and high-performance equipment at* a more reduced cost, whose purchase would not have been justified if the production volume was not increased enough. The *more efficient use of the working time of specialists* is also ensured, as well as the possibility to establish new departments dedicated to the activity of research and development, in order to *ensure the technological progress.*

From a financial point of view, the achievement of economies of scale implies *obtaining some price discounts* from the suppliers in the case of a large volume of orders, offering an extended warranty as the quality of products is concerned, *the creation of some more advantageous conditions of getting a credit,* and *the decrease of costs with marketing per unit of product.*

From the perspective of the decreasing expenses, a very useful alternative to approach is the merger with a client-type company, or a supplier, the so-called *vertical integration*. The part of the profit that would have belonged to suppliers or clients remains in the company, increasing its financial performance. Also, by taking over the activity of a supplier or client, it can be ensured a better quality of raw materials, as well as of the final goods offered to the consumer, at the same time with the decrease of costs.

But if the intended objective is the production diversification, the merger with a company that has a distinct activity can prove efficient for a long term. Despite the additional costs that might have been entailed by the adaptation and information regarding the new field, the *refreshing of the company's image* can directly influence the level of sales and implicitly the obtained results. Another alternative, the one of merging with a company having a different activity, but somehow related, presents the advantage of attracting *some clients from the market of the company which was taken over,* and determining them to purchase the products or services of the other company involved in merger.

Another advantage of a merger transaction is that after the merger, the resulted company will detain in the patrimony a higher number of assets, necessary to develop the activity. The increase of the financial power by merging patrimonies *will facilitate contracting credits* and *will increase the power of negotiation* of the company with the banking institutions, in terms of the possible costs of indebtedness. Furthermore, due to its new dimension, the company has the possibility to participate in some auctions, where previously it had no access.

Consequently, depending on the objectives and results that are intended, there are multiple forms and alternatives to achieve a merger, and the current legal and tax conditions are not doing anything other than encouraging such operations.

4. PIECES OF ADVICE FOR A SUCCESFUL MERGER

When deciding the involvement in a merger, there are certain aspects that must not be disregarded, while achieving the transaction, and also afterwards, so that the operation to be considered a success.

Usually, mergers initiated by large and well-known companies are preceded by a process of "*due diligence*". Through it, is examined the commercial health of the candidate for merger, ensuring that the company is not exposed to unwanted or unforeseen risks. In order to achieve the process of due diligence, chartered accountants must be contracted to revise financial statements, tax experts for controls of tax nature, as well as jurists to check the risks of exposure to certain obligations towards third parties, provided in the previously concluded contracts.

Analysing the opportunity of the merger, *by studies, analyses and forecasts* is perhaps the most important procedure that must be done before starting the operation. Along with economic and financial calculations, there must be analysed the structure of the staff from both companies involved, the level of education and their degree of specialization, but also certain opportunities that might derive from the achievement of this transaction.

Irrespective of the type of merger, it must always be considered the main elements that ensure the success of such an operation, namely: *a previous information*, as detailed as possible, realized by each participant company, in respect of the situation of other companies involved, *establishing some clear objectives* that are to be obtained from the process of merger, *knowing the field of activity of the new company*, achieving some studies and analyses concerning the results that can be obtained after merger, *a very careful planning of all stages* of development of this operation, as well as the *permanent communication* between those involved. The communication with employees is very important, both before and while achieving the process of merger because in its absence a state of fear can be created, the uncertainty of the working place causing mass resignations or a decrease of productivity of employees. It must be considered the fact that employees feel safe when their roles are clearly defined and their rights of decision are clearly delimited.

The period which follows immediately after the merger, when the proper adaptation and integration of all elements made common by the involved companies takes place, is very important. It is recommended to give this stage the same attention and importance as to the period of planning and analysis, prior to merger. In the stage of adaptation and integration, strategies must be revised, business plans must be established, and all components of the organization and business systems must be assessed, optimized and partially reconstructed.

Planning must be started in the period of due diligence, and the implementation immediately after the transaction is completed from a legal point of view. When the merger becomes certain, the attention must be focused towards the post-merger integration. *Involvement and attention* of the managers in this period must be maximized.

It is recommended a quick integration, having at its base the *early identification of synergies*, in order to get the expected results. On the contrary, if the period of instability and confusion which accompanies the news of reorganization is extended, it directly affects the employees. Nevertheless, the duration of achieving the complete adaptation and integration after merger will also depend on the previous relations between companies, as well as on the similarities between them.

The persons in the managing boards of merging companies must be aware of the organizational culture differences between companies, and must avoid the eventual conflicts, by means of frequent communication with all parties involved, starting from employees and up to clients or suppliers. Integration will take place in well-established stages, considering collaboration and communication between different hierarchic levels, as well as checking the results of every intermediary stage of the process.

Models should be found to integrate or make compatible the organizational cultures of the participant companies, starting from their common elements. Moreover, attention must also be given to the problems of emotional, political and rational nature, which might influence the good development of the activity, both in the present and for long term.

Furthermore, it is important to *clearly establish the directions of the new business*, depending on the intended objectives, but also depending on the condition of the economic environment where the company activates. It is necessary to permanently verify whether the activity and results do not deviate from the initially-established plans, as well as the occurrence of certain risk elements which could not have been foreseen prior to merger. When deviations are noticed, immediate measures of redressing must be taken.

Moreover, for the success of a merger, is recommended that everything be approached from *a more flexible manner*, taking into consideration as many options and alternatives as possible, in order to discover the best solution. Managers must be perceptive and open to change and, in a certain measure, even creative, in order to offer the organizational conditions necessary to the most efficient post-merger integration.

During the merger and afterwards, *the attention granted to company's clients must not be decreased*. In a great measure, the performance of the merger and the possibility to successfully continue for a long term, depend on the degree of client satisfaction. Consequently, the new company must find solutions to offer the most attractive products and services at a reasonable cost, in order to gain back the existent clients and to attract new ones.

To synthesize, the essential elements for the success of the company in the post-merger stage are: the style of leadership, a clear vision, the involvement of all staff, the engagement to offer the best value for clients, and especially the open and honest communication with employees.

CONCLUSIONS

To conclude, one can state the fact that mergers, irrespective of the reasons underlying their achievement, are strategies more and more often implemented by the companies in the entire world. Due to these operations, companies can achieve objectives of external growth, with the condition to know precisely the legal, financial, accounting and tax aspects that characterizes them, which make the difference between a successful transaction and an unsuccessful one.

In the current economic and legal conditions, Romanian companies should also analyze the alternative of merger, both for the purpose of consolidating the power on the market, but especially for the diversification of activities or for getting a higher chance to continue the activity on a long term.

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THE EMERGENCE OF THE EUROPEAN COUNTERFEIT MARKETS

Loredana **Maftei***

Abstract: *The European market of counterfeit goods has become a subject of increasing concern for businesses, private firms and policymakers. With a growing demand in consumption for this kind of goods, each sector is damaged from the toy industries to the pharmaceuticals industry. This article is aimed to expose the dynamic of the European counterfeiting markets, to highlight the main factors of production, the main providers, the smuggling routes, the overall profit, the main counterfeit products and also to offer a general perspective on the affected European markets.*

Keywords: illegal markets; counterfeiting; piracy; criminal networks; intellectual property.
JEL Classification: K42; K14; H26; F60.

INTRODUCTION

Today counterfeiting has become a real business with major implications all around the world affecting several industries, national economies but also known as a huge grey industry that practically helps financing criminal organizations channels. As a result of this globalized world, it is designed as an extent of the underground market along with a serious growing demand of cheap goods. Step by step the consumption values were distorted and people`s attitudes towards spending money and investing changed. While one of the few sides of consumption is characterized by a significant share of manufactured goods placed and produced through decentralized sectors, the consumers tend to balance between consumption of cheaper products and quality and expensive products, products that suggest also a growing demand on the luxury market.

The days when the trade secrets were closely guarded are gone, now those who hold intellectual property rights are very often threatened by those looking for quick profit with cheaper materials but with a strong "borrowed" business idea, aiming to seduce the lower end of the market. Generally when unauthorized copies appear on the market, it is very unclear where or who to blame or even how to take measures to combat this kind of illegal practice. Although the interesting part of counterfeit markets is the simple fact that in most parts of the world a few can tell a copy from an original, so these unauthorized goods can support also higher prices.

*Loredana Maftei is a PhD Candidate at the Faculty of Economics and Business Administration within Alexandru Ioan Cuza University of Iasi, Romania, e-mail: maftei_loredana@yahoo.com.

Counterfeiting is defined as an illegal form of reproduction or imitation of products, often of inferior quality, sold without the brand owner`s authorization. It is known as an illegal practice when an Intellectual Property Right (IPR) is infringed. Basically the process of counterfeiting does not take into account the value and the right of the registered trademark, designation of a product, a patent or a copyright agreement.

Despite international action and agreements, the counterfeit market is still growing and it is no longer just a matter of copying the common luxury fashion goods, the market itself suffered several transformation covering a wide range of products, from simple goods like toys, electronic equipment and materials, to pharmaceutical and medications items, that can poses serious health and safety consequences.

Counterfeiting represents about 5-8% of world trade and is nowadays less risky and more profitable than drug trafficking (Penz, Schlegemilch and Stottinger, 2009, p. 67). It is estimated that the total annual value is over £ 250 billion, and the counterfeiting is a crime that has grown alongside globalization as the proliferation of technology and more porous borders (Treadwell, 2011, p. 177). Thus the global market faces new trends, the European market seems to be directly affected by this. However, the European market it is not seen as a whole is very divided in buying fake goods, it is very different if we consider the extreme points, the Western and Eastern parts of Europe, both with a different history, culture, social values and education towards consumption.

Within Europe the consumption of counterfeit products brings important implication on the economy, such as corruption, the rise of the black market and tax avoidance, but also gives a lower rate to the society's morality.

This article will examine the European consumption of counterfeit products, the consumer behaviour and also the main providers of such goods.

1. THE COUNTERFEITING PHENOMENON IN EUROPE

With the recent economic situation, counterfeiting in Europe is considered to be on the rise. Usually known as a place where counterfeiting luxury goods dominated the main markets, Europe seems to be a simply market where the producers are now more concentrated on counterfeiting more ordinary items characterized generally by cheap ways of production.

According to the Report on the EU customs enforcement of intellectual property rights (IPR, 2012), China continued to be a significant provider of goods suspected of infringing which entered the EU (73% of the total amount of articles), followed by Turkey, a main source for foodstuffs, Panama for alcoholic beverages, Thailand for non-alcoholic beverages, Hong Kong for mobile phones, computer equipment and Syria for recorded CD/DVD (IPR, 2012, p. 3).

Most of the cases of counterfeit are often thought of as luxury watches or designer handbags or even clothes, thus a significant number of reports demonstrated that counterfeits can exist in nearly all product categories.

Before analysing the data on counterfeits per product category it is important to headline that the market for counterfeit goods is very difficult to quantify. However the most accurate image of the market size is provided by the European Commission – Taxation and Customs Union. Regarding the main type of detained products can be figured medicines items which accounted for 24% of the overall amount, followed by packaging materials (21%), cigarettes (18%), clothing (4%), accessories for mobile phones (3%) and labels, tags and stickers (2%) (IPR, 2012, p. 3). A counterfeit does not mean only a part of the shadow economy and tax avoidance, the counterfeits products can also be potentially dangerous to the health and safety of consumers (suspected items concerning food and beverages, body care articles, medicines, toys and so on).

Table 1 offers an overview of the top categories of detained articles such as medicines, packaging materials, cigarettes, clothing, mobile phone accessories, or labels, tags, stickers and so on.

Table 1 - Top categories by articles in Europe, 2011

Counterfeit commodities	Number of incidents
Medicines	23,93%
Packaging materials	21,21%
Cigarettes	17,63%
Clothing	3,52%
Mobile phone accessories	2,73%
Labels, tags, stickers	2,19%
All others categories	28,79%

Source: Report on EU customs enforcement of intellectual property rights 2012, p.13, available athttp://ec.europa.eu/taxation_customs/customs/customs_controls/counterfeit_piracy/index_en.htm

According to the European Commission, in terms of cases, the top 3 categories are especially shoes, clothing and bags, wallets and purses. These kinds of products are very often shipped via post and courier after an order via internet (see Table no.2).

Table 2 - Top categories by cases in Europe, 2011

Commodities	Number of incidents
Non-sport shoes	27,94%
Clothing	19,68%
Bags, wallets, purses	7,53%
Electrical household goods	6,37%
Watches	5,03%
Sport shoes	5, 80%
All other categories	32,58%

Source: Report on EU customs enforcement of intellectual property rights 2012, p.13, available at http://ec.europa.eu/taxation_customs/customs/customs_controls/counterfeit_piracy/index_en.htm

The data in Table 2 illustrates an increasing constant regarding traditional counterfeit commodity such as clothing, watches followed closely by electronic equipment's such as CD/DVD.

The general trend is given by the consumers demand for luxury goods. For example some researchers suggest that thanks to the proliferation of digital communications it was possible and easier the copyrighted work of luxury brands which today seems to continue to experience strong growth, especially in emerging markets such as India and China and from there, worldwide (Chadha and Husband, 2006).

Counterfeiters do not concern themselves with product development costs, guarantees or advertising. The profit is maximized by the theft and copying of an original idea, often with cheaper materials. Nevertheless, IPR infringing goods are increasingly sold at a price similar to that of the original goods and effectively substitute them on the market (IPR, 2012, pp. 13-14).

Among the European states in 2011, Bulgaria seems to be first country regarding the number of intercepted articles followed by Italy (see Table 3).

Table 3 - Overview of cases and articles per Member State

The evolution of the number of intercepted articles in Member States- period 2010/2011			
Member State	Number of intercepted articles		
	2010	2011	%
Austria	292.606	97.957	-67%
Belgium	1.776.855	4.297.806	142%
Bulgaria	4.444.533	32.593.339	633%
Cyprus	88.985	170.914	92%
Czech Republic	1.451.993	1.861.910	28%
Germany	2.378.815	2.277.714	-4%
Greece	12.391.430	5.490.037	-57%
Spain	12.391.430	5.490.037	-56%
Italy	15.900.422	29.908.415	88%
Netherlands	9.625.526	5.086.932	-47%
Malta	2.650.692	4.568.054	72%
Romania	3.303.353	1.339.058	-59%
United Kingdom	5.940.183	4.653.454	-22%
Total	**103.306.928**	**114.772.812**	**11%**

Source: Report on EU customs enforcement of intellectual property rights 2012, p.21, available at http://ec.europa.eu/taxation_customs/customs/customs_controls/counterfeit_piracy/index_en.htm

The power of the Internet enabled the counterfeit merchandisers to reach consumers in all parts of the world. With the entrance of the Internet as a new market actor, the merchandisers of such goods are posing a real threat to the luxury houses, generally because of the phenomenon extent, professional websites, low prices, and faster delivery times and so on. The luxury brands are losing enormous amounts of money and are for example, responding stating that buying counterfeit products help support for instance terrorism and other not only illegal activities but also morally apprehensive. One dramatic example of counterfeiting leading to losses for brands is that of Louis Vuitton, in the Italian market, that, in the late 1970s, withdrew completely from the market when they found themselves unable to compete with the counterfeiters of their products. (Radon, 2012, p. 74)

Besides luxury goods another issue is given by the software piracy. A study conducted by BSA Global Software demonstrated that over the half of the world`s personal computer users, 57% admit to pirating software. Thirty one percent say they do it "all of the time", "most of the time" or "occasionally", and another 26% admit to having stolen software, but only "rarely" (BSA, 2011, p.1). The commercial value of this shadow market of pirated software climbed from $ 58.8 billion in 20120 to $63.4 billion in 2011, a new record, propelled by PC shipments to emerging economies where piracy rates are highest (BSA, 2011, p.1).

Table 4 - Software Piracy in Europe 2008-2011

EU countries	Piracy Rates				Commercial Value of Unlicensed SOFTWARE ($)			
	2011	2010	2009	2008	2011	2010	2009	2008
Austria	23%	24%	25%	24%	$226	$209	$212	$184
Belgium	24%	25%	25%	25%	$252	$233	$239	$269
France	37%	39%	40%	41%	$2.754	$2.579	$2.544	$2.760
Germany	26%	27%	28%	27%	$2.265	$2.096	$2.023	$2.152
Italy	48%	49%	49%	48%	$1.945	$1.879	$1.733	$1.895
United Kingdom	26%	33%	34%	33%	$13.749	$12.771	$11.750	$13.0223
Total	**32%**	**33%**	**34%**	**33%**	**$13.749**	**$12.771**	**$11.750**	**$13.023**

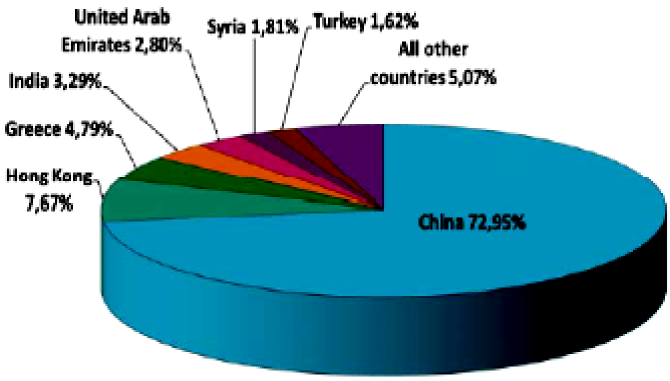
Source: BSA 2011, p. 9, available at http://globalstudy.bsa.org/2011/

Among European countries, it can be concluded that in the 2008-2011 period, the countries in Central and Eastern Europe were most affected by this phenomenon (Bulgaria, Greece, Romania, Poland, etc.) followed by the countries from the Western and Central Europe such as France, Germany or Italy (see Table 4).

2. DISTRIBUTION OF COUNTERFEIT COMMODITIES

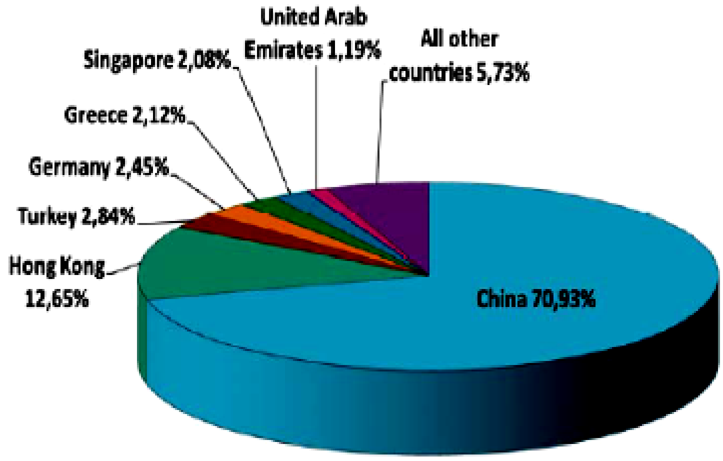
According to IPR statistics 2012, China remains the primary country where the suspected IPR infringing goods were coming from at the moment of the detention. In the last few years, in the top 10 were figuring China, Hong-Kong, India Turkey and the United Arab Emirates. Among these countries Syria appears to be the first time situated in this classification due to detentions of recorded CD/DVDs. Most of the counterfeit commodities reach Europe markets by sea, air, express and postal transport.

Figure 1 - Countries by provenance by articles



Source: Report on EU customs enforcement of intellectual property rights 2012, p.15, available at http://ec.europa.eu/taxation_customs/customs/customs_controls/counterfeit_piracy/index_en.htm

Figure 2 - Countries of provenance by value



Source: Report on EU customs enforcement of intellectual property rights 2012, p.15, available at http://ec.europa.eu/taxation_customs/customs/customs_controls/counterfeit_piracy/index_en.htm

CONCLUSIONS

According with the data provided by BSA studies and European Commission, counterfeiting is extent phenomenon that emerged in the last few years in European countries. Helped by the influence of China, Turkey and India counterfeiting markets, Europe is drowned as a beginning market dominated by counterfeiters, which have decreased in some manners the morality of the society. Although the big luxury houses are threatened by the expansion of counterfeiters and fake goods the real threat is given by the underground channel that helps financing terrorism activities.

Currently is very hard to compare a high quality product with a fake one, because generally the counterfeiters are really professional when it comes to sell their products. In Europe the extent of counterfeiting has also a socio-economic impact, considering the big numbers of job losses, sale opportunities, tax revenues and so. The governments are very implicates taking measures to combat this real issue, through police investigation and operations at a large scale.

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THE ISSUE OF ASYMMETRIC INFORMATION UPON THE CAPITAL MARKET

Olga **Pleşco**[*]
Ludmila **Sobol**[†]

Abstract: *The capital market has an important role at the micro and macro economical level, having the capacity to mobilize resources and to place them in a productive manner. The relation between accounting and capital market started to be analyzed from the middle of XXth century, when the investors started to ask more details about the companies' activity and not just general accounting values. The certainty is nowadays a part of the cost of information which is consciously assumed by the users differently in pre-crisis and crisis time. Informational asymmetry plays a double role through the participants on the capital market: positive one for those who use the lack of information of others with economic responsibility and negative when information holders use them to affect the other participants or users. This paper seeks to examine the impact of financial information on the level of the capital value of the companies in order to evaluate the influence and to establish the measures that must be applied to reduce the asymmetries between different users of that information.*

Keywords: financial information; cost of capital; information asymmetry; performance; disclosure.
JEL Classification: E22; M49.

INTRODUCTION

The consequences of information asymmetry on capital market are highly debated, being partially the issue worthy of the Nobel Prize in 2001 (Joseph Stiglitz, George Akerlof and Michael Spence) and our paper examines this problem. The informational asymmetry theory has originally been a concern for the researches in the buyer behavior field (Spence, 1977, Leland, 1979, Heinkel, 1981, Allen, 1984), but the high level of implications extended it to the financial theory as well.

One of the objectives of this research is represented by the relationship between accounting and capital market, a highly discussed topic from the middle of the XX century, when investors express their need for relevant information about the economical activity of the companies and not just raw accounting data. In accounting, we can express asymmetry of information in relationship between managers and shareholders, lenders and shareholders, lenders and managers, but also between managers and public government and employees.

The market is the "place" where billions of individuals act like independent decision-makers. Lambert et al. (2011) shows that it is important to distinguish between information asymmetry and

[*] Olga Pleşco is a PhD Candidate at the Faculty of Economics and Business Administration within Alexandru Ioan Cuza University of Iaşi, Romania, e-mail: aelolya@yahoo.com.
[†] Ludmila Sobol is affiliated to the Alexandru Ioan Cuza University of Iaşi, Romania, e-mail: sobol_ludmila@yahoo.com.

information precision as well as to recognize that the effect of information asymmetry on the cost of capital depends on the nature of capital market competition.

On the capital market a large amount of stocks are traded, the activities of issuers of securities are influenced by many factors, and some of them are random like social, political events. In this case they use incomplete information which sometimes becomes irrelevant. Uncertainties in this field have a cognitive origin. Working with probabilities on the capital market don't equals to quality decisions decay. No matter how much information could be got on issuers and on market as to justify recasting original decision to make it better, but we could have just the probability that it would be better.

Accounting, audit and corporate governance must provide relevant and reliable information, and in time to maintain the efficiency of the capital market. The last researches in the field observed that the information systems for financial data should be improved.

The impact of accounting information on the capital market could be observed analyzing the volume of transactions in the period when financial statements are published in the same way. We can observe abnormalities due to the different level of financial information held by the actors on the market. If the revealed information would be perfect, any detail should immediately have consequences on securities transactions.

The approach starts with an analysis of the researches made in the field, but begins to take a valuable shape using real examples about models of analysis of informational asymmetry and how is influenced the cost of capital and volume of securities transactions of Romanian companies. To benchmarking the companies, we used the scientific observation, giving to the paper both qualitative and quantitative approach. We segmented the analyzed companies by their size, so that our research could be relevant on the specific level. Stock market indicator were collected from official website of Bucharest Stock Exchange and statistically processed to obtain results for our applied research, using correlation coefficient.

1. ECONOMICAL CONTEXT FOR INFORMATION ASYMMETRY UPON THE CAPITAL MARKET

Palepu and Healy (2007) consider that a critical challenge for any economy is the allocation of savings to investment opportunities. Economies that do this well can exploit new business ideas to spur innovation and create jobs and wealth at a rapid pace. In contrast, economies that manage this process poorly tend to dissipate their wealth and fail to support business opportunities. The authors also say that savings in any economy are widely distributed among households. There are usually many new entrepreneurs and existing companies that would like to attract these savings to found their business ideas. While both savers and entrepreneurs would like to do business with each other, matching savings to business investments opportunities is complicated for at least three reasons. First, entrepreneurs typically have better information than savers on the value of business investment opportunities. Second, communication from entrepreneurs to investors is not completely credible because investors know entrepreneurs have an inventive to inflate the value of their ideas. Third, savers generally lack the financial sophistications needed to analyze and differentiate between the various business opportunities.

In this context, we introduce the notion of the ensemble of the information and procedures for collecting and recovering the information from the perimeter of the economic activity, named the economic informational system. In this system, accounting information is recognized by the theorists as a fundamental part of the control system of the company and the financial-accounting information is a basis for the decisional process, in the help of economical activity. Those two branches of accounting, financial and managerial systems, generate useful information for internal and external users.

The users of financial-accounting information are different and have different objectives, this being the reason why accounting must ensure relevance, faithful representation, comparability and verifiability. In the framework of IASB we can find that financial information is useful when it is relevant and represents faithfully what it aims to represent. The usefulness of financial information is enhanced if it is comparable, verifiable, timely and understandable (Standards, 2013).

The employers and their representative groups search for the stability and the profitability of the economical activity to determine the companies' capacity to pay salaries, premiums and to identify professional opportunities. The investors, the bidders of the capital, are preoccupied by the securities' value the return of their investments. Taking in account the nature of the loan, the creditors are interested in the continuity of the economic activity, in the interest payment and in the rates payment at maturity. The suppliers and the clients are, in general, preoccupied in the continuity of the activity for future collaboration, also in the solvability of their partner. The government request, through his institutions, financial-accounting information which must help to determine the fiscal policy of the country or the region, to calculate statistical indicators and to evaluate and organize national accounting. Baek et al. (2008) reveal that managers consider that they provide full information that is required, but most analysts and investors claim that they should make more effort to do so.

In the financial literature, the term of *capital cost* refers to the cost which companies must pay to obtain funds (such as debt or equity) (Souissi and Khlif, 2012). From the perspective of an investor, the cost of capital is the income that he expects by holding a stock portfolio. This indicators is not directly observable and there is not a generally valid determination model, it's undeniable the importance of the subject in the financial environment. Whether it's about a financing decision for a new project, whether it is about corporate-level strategic decisions that are reflected in and out, this indicator is almost always present in financial equations (Cormier et al, 2010).

The capital cost variations have generally been interpreted by an inverse relationship, decisions aimed to improve the company's image abroad and better information investors, lead to a beneficial effect in reducing the cost of capital (Christopher et al, 2011). However, this mechanism may be seized by various factors that reduce the expected yield or can just cancel it. Therefore, the analysis should always be made with caution, taking into account the individual, local or national context of the economy.

Another study made by Christensen et al. (2010), shows that the most recent researches paid attention to the relationship between financial disclosure and the cost of capital like a result of the financial communication, naming it suggestively: ex post cost of capital. The study shows that reducing ex post cost of capital is covered by an equal increase registered by the capital cost in the run of communication of information. The discrepancy of the information held by the participants in the capital market is a big problem that implies a huge risk of the signed transactions. The relevant information is hidden, transforming the target of a perfect market into impossible to realize.

In 2001, the Nobel Prize was given to George Akerlof, Michael Spence and Joseph E. Stiglitz. Akerlof said that "lemons" deal with a problem as old as market themselves. It concerns how horse traders respond to the natural question: *if he wants to sell that horse, do I really want to buy it?* Extending the field of the problem, if for a product the consumers can not know enough information about the quality, they will pay a medium price for it and this situation will advantage bad product and will disadvantage good products, bad products being lemons in this context.

It will be a difficult task for managers to achieve all the important information about the company which equity they will buy. They will meet the lemon problem of the capital markets, dealing in this case with the risk to do inappropriate investment.

The elements which differentiate the companies with performance management and poor management (Stancu and Stancu) are the sustainable rise of the enterprise evaluated through reinvestment of profits and priority participation of managers in financing of efficient investments, the operating leverage highlighted in renewal of technology and management, and financial leverage, by providing a high leverage ratio for financing investment projects.

2. FACTORS AND CONDITIONS MAINTAINING THE LEVEL OF INFORMATION ASYMMETRY

Using information power on the capital market can be strongly punished, but there are a lot of factors which increase information asymmetry or other just maintain the same level, affecting the level of development of the market.

For example, Martha Stewart, CEO of Martha Stewart Living Omnimedia Co., has been charged with obstructing an investigation into insider trading. She has not been charged with illegal insider trading, but she did sell 3.928 shares of stock in the biopharmaceutical company InClone Systems, earning 228.000 dollars, the day before the FDA (Regulation Fair Disclosure) rejected approval of its anti-cancer drug Exbitux and its stock fell.

The issue of whether and how information differences across investors affects prices and the cost of capital cannot be addressed in conventional models of asset pricing, such as the Capital Asset Pricing Model, because these models generally assume investors have homogeneous beliefs. Hidden management practices increase informational asymmetry. Alchian and Demsetz (1972), Williamson (1985) searched for solution for vertical integration and different strategies not just for financial field, but also for other areas which can affect public health.

There a lot of companies which do not use their websites to communicate relevant information to the external users of financial information. A recent study that has a sample with 30 traded companies revealed that a lot of companies use their website in inappropriate way, especially to communicate information considering corporate governance (Yabing et al., 2010).

3. MODELS OF INFORMATION ASYMMETRY EXTENDED TO THE CAPITAL MARKET AND CASE STUDY

Akerlof said that perfect competition is only one model among many, although itself an interesting special case. To help the development of the supreme objective of any market, he presented the theory about the lemon problem. The main idea of Akerlof's theory, extended to the capital market, is that if investors cannot tell the true value of the company, they will pay only an average price for it and will attract more companies that are less valuable (i.e., lemons). If it is not, this model can lead to a breakdown of the capital market. The outside investors should pay attention on the effect to the question why the entrepreneurs want to sell equity? Some authors think that an investor should not buy equity from a company which offers him to buy its equity.

The managers benefit by means of the asymmetry of information in relation with the other categories of users, but even so, they pay a huge attention to the way the other perceive the published information (Mihalciuc, 2008). Usually, investors don't know the intrinsic value of the firm, but in different moment this fact can affect or not the result of transactions. For example, in Myers and Majluf model, where X is the intrinsic value of the company, R is the value of investment and I the amount of money received by the company to do the investment, are two situations:

1. Full information benchmark: The wealth of the firm in the final moment is equal to X + R – I, and since R > I, if the entrepreneur does not issue equity, his wealth will be equal to X, but if he will issue equity, the cash flow of the company will be in excess and will go to him, because outsiders will receive the money they paid for the investment;

2. Outside investors do not know the true intrinsic value of the company: If the firm has a low intrinsic value, the wealth of the company is larger than R-I because the cost of investment is smaller giving away less equity to investors which think that this equity worth more than it actually does and this is the situation where the investment decisions of the company is not affected by the presence of asymmetric information. If the company has a high intrinsic value and outsiders will believe that it has a low intrinsic value so that they will require a larger equity participation to be safe. In this case the cost of investment is bigger than the full information. The main idea is that the equity of companies with low intrinsic value is overprices while the equity of companies with high intrinsic value is underpriced. So, if outsiders will think that the company has a high intrinsic value, the under pricing will not be acute, but if they will think that the company has a low intrinsic value and the probability tends to 1, is better for the entrepreneur to not invest.

Spence's (1973) model is classic and describe how asymmetry problem between uninformed buyers and informed suppliers can be resolved. His model shows how employers want to hire productive employees having access just to their job application where is detailed their educational route. In this case, most credible element for the future employees is the cost of their education. This is why ISO adoption can provide a credible signal to the market. Indeed, empirical evidence suggests that environmental management system adoption costs are lower among organizations with more management system experience and higher in companies with poor environmental performance.

Merton (1987) present a model with a part of investors well informed and with others less informed, where the second type of investors are not aware of the existence of some firms. The author argues that information that increases uninformed investors' awareness can lower the cost of capital of these firms.

O'Hara (2003) and Easly and O'Hara (2004) developed asset pricing models, showing that because of information asymmetries, some traders will choose to hold their securities. For example, the less informed ones will hold their assets where their disadvantage is less, conducting to the rise of the cost of capital for companies with high level of asymmetry.

A study (Munteanu, Ionaşcu, & Ionaşcu, 2011) based on a sample of 33 traded companies at the Bucharest Stock Exchange revealed that in Romania does not exist a relationship between the cost of capital and the quality of financial reporting. Romanian companies which provided more information on their websites did not benefit from a reduction in the cost of the capital. In the same sense, we selected Romanian companies from hotels and restaurants field traded on Bucharest Stock Exchange in the section BVB and through our research we analyze their cost of capital in the last 180 days (19.08.2012-15.02.2013 period). We took into account the medium price of the stock, the number of transactions, the value of transactions and the volume of transactions. To determine if between this indicators exist or not a relationship, we used correlation coefficient because it is relevant in this case having data for more than 100 days, it can be used regardless of the units and it's easy to interpret.

The results of research revealed that between the medium value of stock and number of transaction, between the medium value of stock and the volume of transactions and between the medium value of stock and the value of transaction don't exist a relationship. The correlation coefficient varied between 0.13 and -0.14 values, mining that there are other factors that influence the movement of stock transactions, not financial disclosures because in selected period were made a lot of publications about financial situation of the companies, including estimate data for the 2013.

For some companies, the biggest medium prices were registered in August - September 2012, and for the other in January 2013 and this fact means once again that the cost of the securities is not dependent on the publication of financial information.

Hence, for Romanian companies which activate in hotels and restaurants field traded at the Bucharest Stock Exchange on the main section the communication of financial data do not influence the transaction on the capital market. Investors are not determined by financial disclosures to make securities deals with these firms. In comparison, the investment situation of foreign companies which were analyzed in time is influenced by the financial publications during the year, outsiders using all the useful information in their advantage to make good and valuable decisions.

4.WAYS TO REDUCE THE INFORMATIONAL ASYMMETRY

More researchers, like Francis et al. (2005), Leuz and Verrecchia (2000), revealed that disclosure quality lowers information asymmetry, share price volatility or stock liquidity. Lang and Lundholm (1993) document a positive relationship between the need for financing and voluntary disclosure. Diamond and Verrecchia say that voluntary disclosure by a firm reduces information asymmetry and lowers its cost of capital, because greater transparency enhances stock market liquidity and reduces transactions costs for a firm's stock. Voluntary disclosure may complement a firm's governance attributes in reducing stock market asymmetry. Implying a complex informational-decisional system, corporate governance can distribute information on internal and external level, contributing to the reduction of informational asymmetry.

In the case that information asymmetry exists, it's imposed a control system, which implied agency costs (Boisselier, 1999) like monitoring and stimulation, ordering costs and residual costs. Independent auditor must verify if management implemented procedural requirements. The companies can also use individual attributes for monitoring the informational asymmetry in order to reduce capital market asymmetry. Instruments offered in principal-agent theory are considered proper to reduce informational asymmetry between them (Wiedenhofer and Krahnke, 2007).

For the lemon problems, Akerlof pointed out that many free-market institutions can be seen as ways of solving or reducing lemon problems. One solution Akerlof noted is warranties, because these give the buyer assurance that the car (i.e.) is not a lemon, and the buyer is therefore willing to pay more for the car with a warranty. Also, the sellers who are willing to offer the warranty are those who are confident that they are not selling a lemon. Akerlof went beyond cars and showed that the same kind of issue arise in credit markets and health insurance markets, and also capital market.

In banking, authorizing banking institutions reduce information asymmetry that exists between shareholders and managers of funded bank, on the one hand, and potential depositors and investors on the other hand, which cannot distinguish in the start between a potentially viable entity and one doomed to failure (Moinescu, 2013).

The cost of capital can be influenced by the quality of the accounting standards, the efficiency of the capital market, the importance and relevance of the capital market in companies' financing and corporate governance. There is a relationship between accounting information and effective administration, and this relationship can be positive and negative. Positive when managers don't have nothing to hide, and negative when they search to hide a lot of data, in this way increasing the level of asymmetry and hiding the true value of the company in the eyes of outside investors. By adopting IFRS, an improvent of the quality of financial reporting of companies was espected, that have the effect of reducing information asymmetry and risk and, therefore, a decrease in the cost of capital (Munteanu et al., 2011).

Financial disclosure obligations imposed by IFRS in order to improve the quality of financial statements presented by companies located where local standards are low disclosure requirements, and this can be translated by reducing information asymmetry, allowing investors to better monitor their investment performance (Munteanu et al., 2011), in addition to increasing the transparency of financial information. SEC Chairman Arthur Levitt said that it is known that high quality accounting standards reduce the cost of capital. IASB Chairman Sir David Tweedie said that IFRS will reduce the capital cost and will open new opportunities for diversification and improved investment results.

In Great Britain, Latridis (2010) examined the problem studied by Barth et al. (2008), the effect of IFRS adoption upon the quality of financial information. He concluded that the Standards strengthened the quality of data through decrease of revenues practices of management and improving the relevance of financial information in investment decisions.

For Beaver (1981), Healy and Palepu (2001) and Scott (2009) in ordet to encourage the participation on the capital market, the use of IFRS can be a convenient choice, especially for emerging countries where capital markets do not function on a proper level. For these systems to fulfill their positive role in evaluation and financing, traded companies must communicate sufficient information necessary for decisional process of users.

To verify and control managers, shareholders use financial control which has the mission to verify and express the opinion about the true and fair value of the company, about the financial position and performance, showing the real intrinsic value of the firm. Financial audit can verify the managerial performance of entrepreneurs, observing the way their actions contributed to the company's benefits or losses. This way of control can sometimes make managers reveal more relevant information, useful for investors, reducing information asymmetry. In the last 20 years a lot of financial and audit scandals, meant to present the companies in a good light when they was just a *lemon*, discussed the ethical issues in relation to the functioning of the capitalist economy. The response if the audit is a good method to reduce informational asymmetry depends on the professional ethic engaged in financial control.

Recent researches revealed that the transparency of financial statements significantly influence investors decisions (Hodge et al., 2004; Bushman et al., 2004). Using the eXtensible Business Reporting Language to communicate financial information through electronic ways may contribute to assure transparency and to reduce informational asymmetry. Financial statements available on the internet raise the efficiency of corporate governance through transparency and dissemination, facilitating the communication between managers and investors.

CONCLUSIONS

One of the most important question for this research is: Is financial information useful in investment process and the cost of capital?

The capital market is influenced by a large number of factors quantifiable and non-quantifiable, probabilistic type of thinking being required to obtain reasonable performances. Elements that quantify the market operators, uncertainty, risk, indeterminacy should be considered a permanent basis, in fact unattainable outside capacity to operate in conditions of uncertainty. This competitive and complex market is unpredictable, like we could give example: Romanian traded companies are not influenced by the financial disclosure like the foreign ones are. It can be because outsiders do not receive information in time, so they could use it for their decisions. Maybe they not always find relevant information in financial disclosures and ca not differentiate which ones are more pertinent for their needs in given conditions. This is why, investors sometimes apply action characterized by extra cognitive origin.

Accounting-financial information is produced by corporative accounting and complex systems for financial reporting. Data are audited to confirm companies' position and performance. Maintaining performance level of financial disclosure costs and this costs are big, but sustainable and justified to get and kip a good position on capital market.

Information asymmetry generated by the financial statements, also called opacity of financial statements, transform the securities market in a very sensitive game where outside investors must guess the intrinsic value of the companies, affecting the future cash flows of the companies in which ones they invest in a good or bad sense. Economical models created during the time sustain the main idea of this research, economical studies confirming the importance of the theme.

The independent certification can reduce informational asymmetry and improve management practices. Good companies can demonstrate the value of their companies to the capital market by keeping a large traction of equity in their property. In this case, willing to retain equity, they will show that the returns are high enough to compensate the risk they exposed themselves. The literature provides sufficient arguments to encourage a wider disclosure of information necessary for decisions.

Informational asymmetry has as a consequence the fact that better informed partners can take advantages by the lake of information of the others. In the future, we will extend our approach to a more detailed level to support present research and to contribute to the development of applied scientific literature.

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THE UK ELECTRICITY MARKET EVOLUTION DURING THE LIBERALIZATION PROCESS

Delia Vasilica **Rotaru***

Abstract: *This paper offers an insight on the liberalization process that took place in the United Kingdom starting with 1990 until now. The electricity market in the United Kingdom made incredible progress in the road to reaching a full level of liberalization where customers are free to choose between suppliers and services. An analysis of the most important indicators for the electricity market evolution such as electricity price, the market share of the largest generator, the energy efficiency indicator shows that the liberalization process brought many advantages starting with 2001. Also, UK has to face new challenges in order to keep the development of the industry on the right path, challenges that are presented in the final part of the paper.*

Keywords: UK electricity market; liberalization; energy efficiency; deregulation; market structure.
JEL Classification: L16; L94; Q43.

INTRODUCTION

The United Kingdom is one of the countries often given as a successful example for the other ones aiming to liberalize their energy markets. Being among the first countries that acted in this matter, United Kingdom managed to reach a full level of liberalization of their energy market. Every consumer is now able to freely choose their supplier and to enjoy the benefits brought by this aspect such as lower prices, freedom to choose from a variety of products, non-discriminatory rules, efficiency, consumers rights protection, budget certainty etc. There are numerous benefits that the liberalization brought including investments in the market infrastructure which represents a very important aspect for the economic development of a country. However, we can say that the large consumers have increased advantages as they can negotiate directly with the suppliers and obtain lower prices than the domestic consumers.

The liberalization experience in UK started with the adoption of *The Electricity Act* in 1989. Prior to this the generation and transmission in England was under the state's monopoly, namely the Central Electricity Generation Board as a controlling structure. Like most of the countries, UK's government held the price regulation in order to avoid the abuse of market dominant position. Acting towards liberalization came as a necessity due to the ageing power plants and the need for replacement which required huge investments. The promotion of the energy efficiency and research

*Delia Vasilica Rotaru is a PhD Student in Economics at the Faculty of Economics and Business Administration within Alexandru Ioan Cuza University of Iasi, Romania, e-mail:rotaru.delia@yahoo.com.

and development for penetration for renewable energy and low-carbon technology were seen as a necessity. The transition period was not an easy one; the liberalization came with its advantages and disadvantages and was hardly criticized by some other countries which have seen this as a daring experiment. However, this experiment led to a fully functional liberalized market.

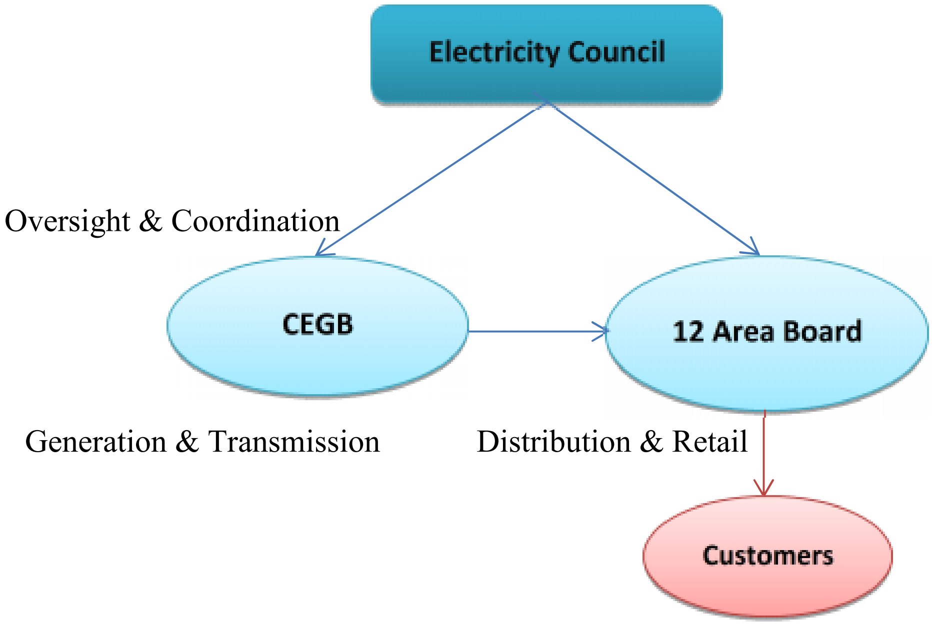
Nowadays, United Kingdom, along with all the other countries are facing new challenges as the global energy consumption tends to increase and this threatens the security of supply as the prices tend to rise as well. UK has adopted an Electricity Market Reform aiming to reduce the carbon emissions, to sustain the use of renewable resources for electricity generation and to keep the prices at an affordable level.

1. UK ENERGY MARKET PRE-DEREGULATION

The electricity market in United Kingdom prior to the deregulation was characterized by the existence of the Electricity Council, the Central Electricity Generation Board and the 12 Area Boards that controlled the distribution across the country. The price controls where set by OFGEM (Office of Gas and Electricity Markets) and the market was fully regulated with no separation of supply, generation, distribution or transmission. As expected, the electricity market structure was a vertical integrated one, the prices and services that would be in favour of the consumer being decided by the OFGEM.

The Central Electricity Generation Board took birth in 1957 and was responsible with the electricity generation in England and Wales that was sold to the existing area boards responsible for distribution and supply. The Electricity Council was formed of three permanent members, the representatives of the CEGB and the chairs of the 12 area boards and had as main objective to promote and assist the maintenance and development of the industry and to provide advice to the government regarding the industry evolution (Simmonds, 2002). The figure below provides an image on the structure of the electricity market before the liberalization process:

Figure 1 – UK's electricity market structure prior deregulation



Source: Horrocks, Lean (2011)

The Central Electricity Generation Board supplied electricity to the 12 Area Board at a bulk price which was different than the prices paid by the consumers as these were set up using the long run marginal cost basis which permitted their slight augmentation.

Between 1948 and 1970 several investments in the electricity infrastructure were made for building larger generation power plants in order to support the rising demand. The needed utility was obtained mostly from coal in detriment of oil, which led to shortage of coal predictions. To avoid this situation, two nuclear power stations were established in 1962 and another eleven stations in 1972. The transmission system was a very efficient one, the National Grid, which became operable in 1930, being upgraded to Super Grid by 1960s, able to run greater levels of power. In the 1970s the government had to deal with a crisis in the electricity industry brought by the competition from cheap gas that reduced the demand for electricity and the strike of the miners. The crisis revealed a lot of problems in the electricity market which lead finally to the decision that the liberalization of the market would be preferable (Horrocks and Lean, 2011).

The gas market prior deregulation was functioning mostly by the same principles as the electricity market. The market was vertically integrated, transportation and supply being operated by British Gas which was privatized in 1986 (Juris, 1998).

2. UK ENERGY MARKET AFTER DEREGULATION

The electricity act adopted in 1989 aimed to privatize the electricity market, to restructure the market by creating separate supply, generation, distribution and transmission entities and to remove the old Central Electricity Generation Board. The liberalization was set to be completed in three stages: in 1990 for the large companies with a demand of over 1MW, in 1994 for companies with a demand of over 100kW and in 1998-1999 for all companies and domestic consumers. The main reason for the liberalization was the change in the market and the crisis experienced, but many other benefits were expected by taking this step. The government was convinced private companies will be able to do a better job in the industry, the prices were expected to fall under the competition, a better care for the customers' needs was to be provided by the private companies and innovation was expected as well.

1.1. Electricity market structure after deregulation

The deregulation process in the United Kingdom transformed the vertically integrated market through the separation of generation, distribution, transmission and supply in order to provide access to competitors to these segments. First of all, the separation of generation and transmission was a necessity. A new legal framework was introduced in the transmission area to offer access to third parties and to avoid the monopoly and overcharging tariffs. The transmission and distribution had to face competition by operating in an open delivery service. Bidding in the spot markets introduced competition in generation as well. The final objective was to offer numerous choices for customers when picking up their supplier of electricity (Abhyankar and Khaparde, 2009)

In order to make the liberalization process possible, United Kingdom took action in every segment of the market as following:

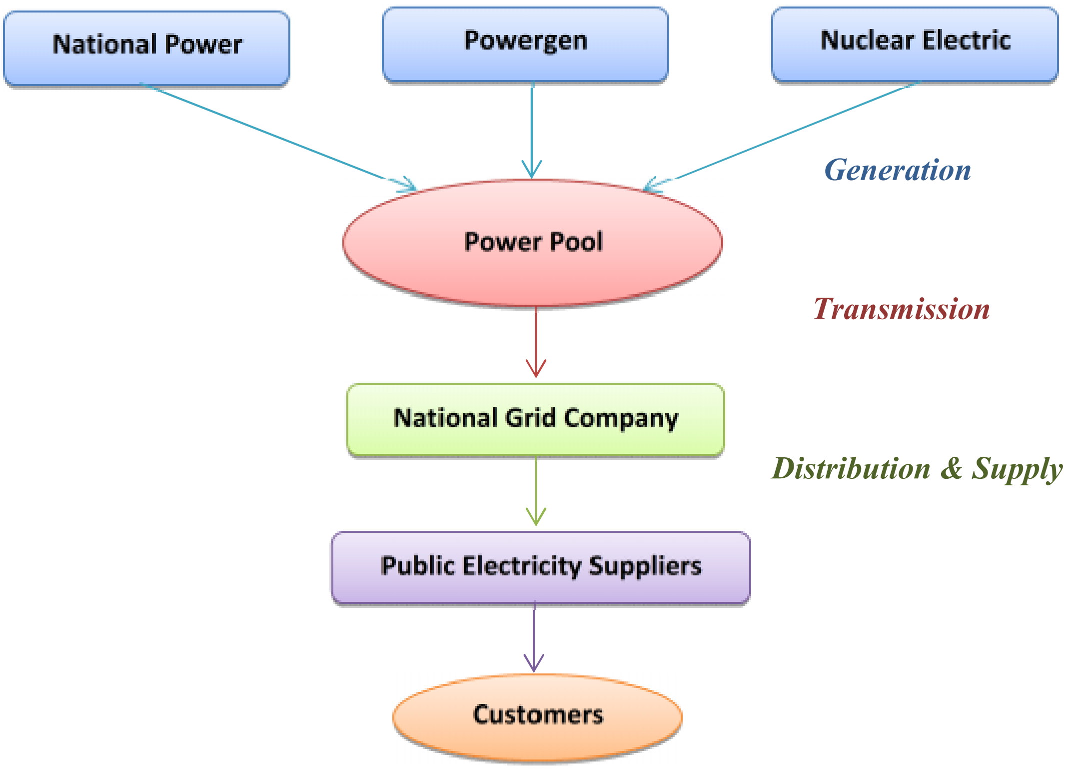
a) **Distribution** - 12 regional areas were created to manage each regional zone. These were sold to private investors in December 1990.

b) **Supply** – 12 regional areas created to provide supplier services to UK customers. The customers began to be allowed to change suppliers and the market was gradually opened;

c) **Generation** – three separate companies responsible with electricity generation were created: Powergen, National Power and Nuclear Electric. Nuclear Electric remained under the State's control, whilst National Power and Powergen were privatized by 1995.

d) **Transmission** – National Grid Company was created to provide management of transportation in the UK which was privatized as well.

Figure 2 – UK's electricity market structure after deregulation



Source: Simmonds, 2002

The power pool is a mechanism that allows the existence of the competition between generators and the calculation of the price paid by consumers. The generators sold electricity to suppliers or other buyers at a wholesale price declared at the beginning of each day. However, this mechanism was not considered a successful one given the fact that the demand was not involved in the price setting process and the wholesale price of electricity was determined by the two major generators. In 2001 a new model was introduced, the one of bilateral contracts which allowed generators and buyers to trade directly (Onaiwu, 2010).

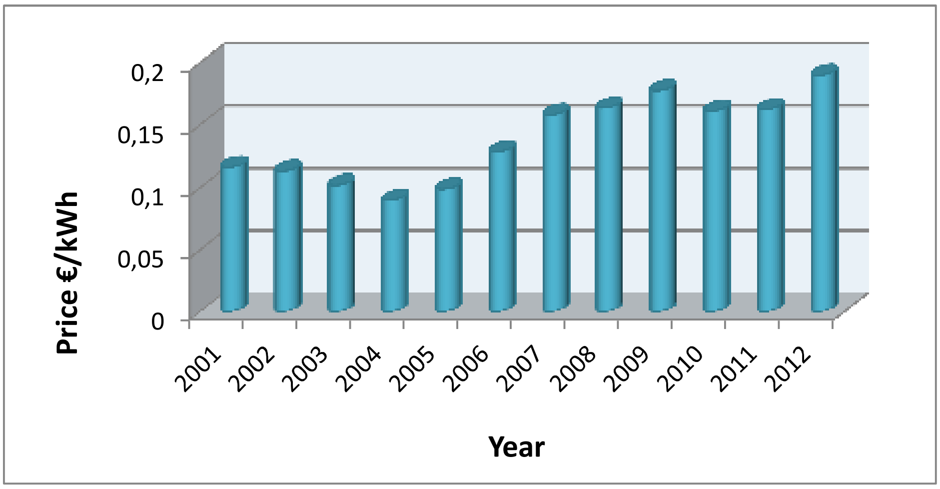
Between 1991, when the liberalization process started, and 2001 several changes on the market were seen such as supplier market evolution through consolidation and new entrants, the ownership of the regional areas now called Distribution Network Operator (DNO) and the generation market evolution through consolidation. In 2001 the first wholesale trading market for electricity went live.

1.2.The electricity market evolution after the deregulation process

The performance of the energy industry after liberalization was debated in many papers along the way. Newbery and Pollitt (1997) identified that in the first five years after deregulation the costs decreased by 6%, labour productivity doubled, the costs of the fuel fell and a high rate of investments occurred on the market. Another opinion on the deregulation process in UK was that the country performed admirably in the efforts to separate the regulatory process from the political process and in the promotion of competition (Berg and Blake, 1998). On the other hand, it is argued that the deregulation had brought a decrease of the private research and development expenditures and an increase of the public ones (Jamasb, Nuttal and Pollitt, 2006). Another opinion is that the liberalization process did bring cost savings but these were given mostly by the job losses both in the electricity and coal industry. The cost savings did not translate in benefits for the customers but for the shareholders who have increased their dividends in order to reduce the prices (Hall, 1999). The opinions on the UK electricity market deregulation are quite contrary but overall it is recognized that this is a needed change for the development of a country as it delivers long term economic benefits. The process is however, a long one and it requires the government commitment to resolve challenges when vested interests and cross-subsidies are involved.

In order to better understand the impact of the liberalization process on the electricity market an analysis of some important indicators like electricity price, market share of the largest generator in the electricity market, the overall energy efficiency gains needs to be done.

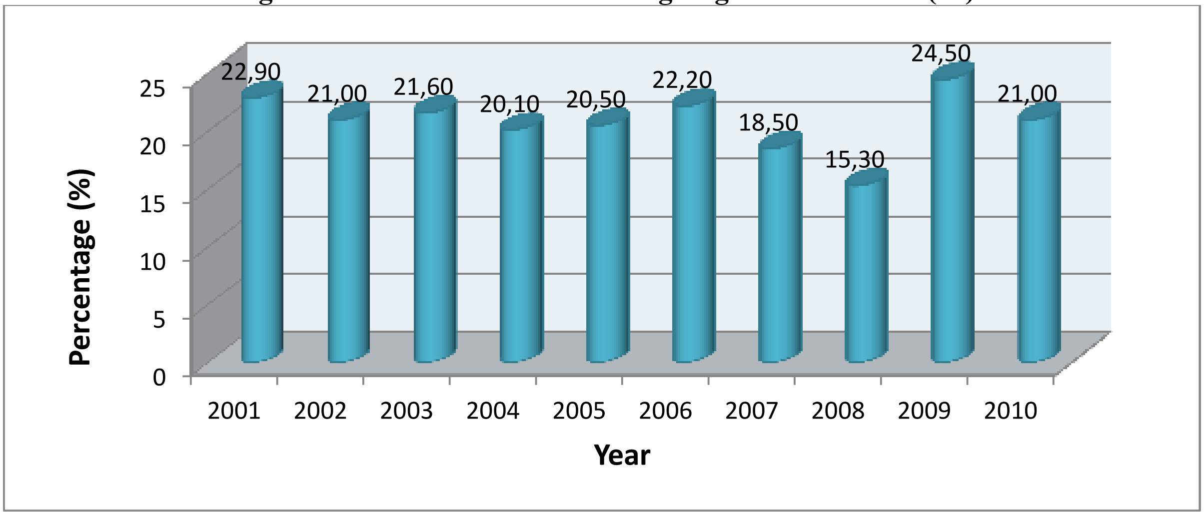
Figure 3 – Electricity price evolution in UK (group) (€ 2005)



Source: Eurostat

As seen in the figure presented above, the electricity prices in United Kingdom fell once the new electricity trading arrangements were adopted in 2001 and then rose from 2004 until 2009. The prices are calculated as the average between the prices paid by industrial consumers and domestic consumer and as the average national price in Euro per kWh. The indicator presents electricity prices charged to final customer. The figure shows that the liberalization of the energy market brought lower prices for the consumers from a 2.6% drop in 2002 to a 13.6% drop in 2004. From 2005 onwards the prices started to rise because of the climate change, the growth of the consumers around the world and the resources diminishment.

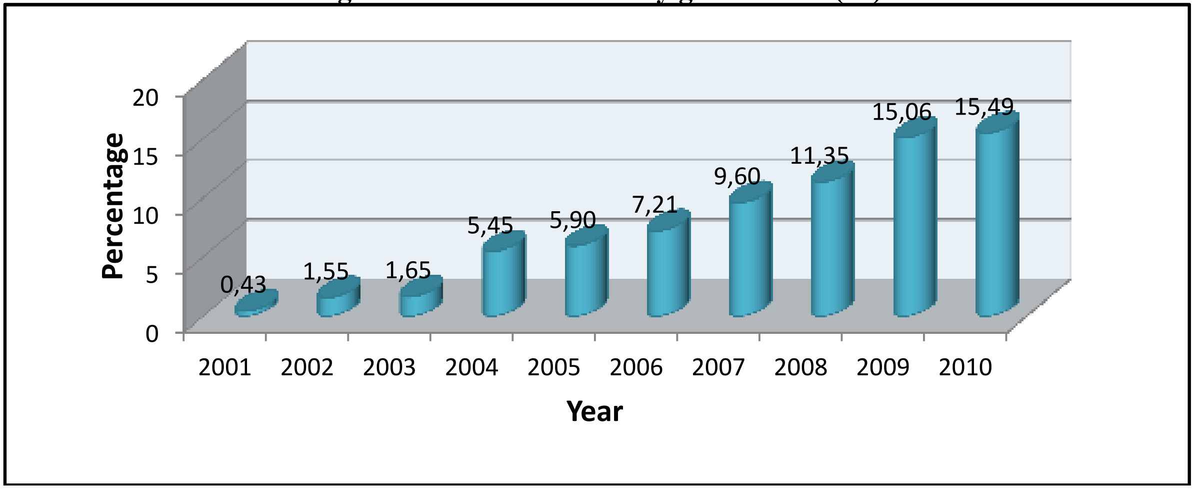
Figure 4 – Market share of the largest generator in UK (%)



Source: Eurostat

Figure 4 shows the evolution of the market share of the largest generator in the electricity market as a percentage of the total generation. As we can see, the percentage is low, oscillating around 20% which shows that the liberalization was a success. The largest generator is National Power, known nowadays as Npower. The supplier and generator of electricity had a market share of 46% in 1990 (Wolack and Patrick, 1997) which has dropped to 21% in 2010.

Figure 5 – Overall electricity gains in UK (%)



Source: Odyssee Indicators

The indicator reflects the efficiency gains since 2001 and it is calculated from the ODEX indicator. The ODEX indicator is calculated as a weighted average of sub-sectorial indices of energy efficiency. The weighted average is the share of each sub-sector in the total energy consumption of the sub-sectors considered in the calculation (Definition of energy efficiency indicators, 2010, p. 4).

As seen in the figure above, the energy efficiency gains had risen each year from 2001 until 2010 when it reached a level of 15.49%. The energy efficiency generally improves with the economic growth as the technologies keep developing.

All the analysed indicators show that the liberalization process had a good impact on the electricity market, probably a better one than the vertically integrated market would have had.

3. NEW CHALLENGES FOR THE UK'S ENERGY MARKET

The new challenge for the electricity market in United Kingdom is to ensure clean, secure and affordable electricity supplies on the long term. Facing the climate change represents the new step UK has to take in order to further develop their market. In fact, a new policy in the energy area was adopted by the European Union, the *Energy 2020 strategy,* which has as main objective the promotion of the efficient use of energy which translates into 20% savings achieved by 2020. As the energy consumption keeps growing, so are the greenhouse gas emissions and the pollution. The strategy proposed by the European Union involves higher investments in the energy industry in order to diversify the existing resources, to promote the use of renewable resources and to invest in technology. These actions have as final objectives: the reduction of the greenhouse gas emissions by 20%, the increase of the share of renewable to 20% and an energy efficiency improvement of 20% by 2020.

The new energy strategy promoted by the European Union focuses on five different priorities:

- To achieve an energy-efficient Europe;
- To build a truly pan-European integrated energy market;
- To empower the customers and achieve the highest level of safety and security;
- To extend the Europe's leadership in energy technology and innovation;
- To strengthen the external dimension of the EU energy market (Energy 2020, 2011, p. 7).

UK is trying to address all of these priorities by promoting an energy efficient policy in order to achieve the goals mentioned above by 2020 if not earlier. In this matter, UK is trying to reduce the overall energy consumption, to make a technological shift, to work upon the integrated energy market, and to make infrastructure investments on the market. In the technological era we are living, the energy consumption is constantly rising. This is projected to grow with more than 30% until 2035 so an efficient energy use plan is needed. Another objective set up by UK is to reduce their global emissions by 80%. This is a very high standard to be achieved and it needs serious investments in research & development for low-carbon technologies (Oettinger, 2011).

UK has adopted her own Energy Market Reform having as objectives to insure a secure electricity supply, to ensure sufficient investment in sustainable low-carbon and to maximize benefits and minimize costs by 2020. In the future, the electricity prices are expected to grow due to the rising of fossil fuel prices. If the alternative resources are used, the electricity bills are expected to fall on average by 4% over the next two decades (Electricity Market Reform, 2012).

CONCLUSIONS

The UK electricity market liberalization was a success and though some were sceptic about its necessity and effects, the process had a good impact on the economic development of the country bringing benefits to consumers and consolidating the country's economy. The creation of the first wholesale trading market for electricity brought lower prices by opening the competition and making possible the direct confrontation of offer and demand. Also, several investments in the infrastructure were made bringing energy efficiency gains.

The electricity market in UK is much more developed than in the countries that tried to keep the sector under the state's management. It is easy to have access to different services, to analyse your options, to choose or switch between suppliers. Also, the bureaucracy level is lower than in other countries. There are energy consultants who are able to sign high value gas or electricity contracts in name of their clients having just an electronic letter of authority paper. Often, big companies choose such a consultant to take care of their electricity and gas contracts, offering advice on energy efficiency or checking the correctness of their invoices. This led to the market development and the creation of new jobs. There are also several Internet websites available where consumers, based on their postcode and the value of their last invoice, can see which supplier provides them the best deal in terms of price and service. Such an environment attracts foreign investors as it is easier to enter a developed market that has invested in infrastructure.

The liberalization process encouraged speeding up the business processes and the removal of inefficient procedures which wouldn't have been achieved under a regulated market. The practice of price regulation is not a fair one as it is a counterproductive one in the proper allocation of real market resources leading to administratively set prices that do not reflect reality. The prices set up in this manner are either in favour of the consumer or in favour of the operators.

At this moment there is a local authority, called the Office of Gas and Electricity Markets (OFGEM), established in 2000, having as main objective the supervision of the market and making sure there is no abusive behaviour coming from larger generators or suppliers. OFGEM also protects the consumers' interest and promotes the competition in the electricity and gas markets. It is important to have such an authority to supervise the market and to set the future objectives for the market continuous development.

United Kingdom has to face new challenges as the climate is changing and the consumption of electricity and gas is rising. By 2020 the green gas emissions must decrease, the use of renewable energy must increase and the energy efficiency must be improved. The country is heading in the right direction with the electricity market reform adopted as this addresses all the issues mentioned. Moreover, UK is already sustaining the use of renewable energy through different instruments like the climate change charge, the feed in tariffs charges and the renewable obligation charges. The climate change charge represents a tax paid by industrial consumers that use fuels for lighting, heating and electricity. This charge is only applied to business consumers and not to domestic users, charities or non-business consumers. The charge is applied to encourage the reduction in gas emissions and for increasing the energy efficiency use. The feed in tariff charges is applied since 2010 in order to sustain the use of renewable energy. If consumers generate their own energy from renewable resources and register at OFGEM, they get paid for every kilowatt produced. This led to the significant increase of use of renewable energy in UK rising from 6% in 2009 to 11% in 2012. The renewable obligation forces the suppliers to provide a part of the electricity to the clients from renewable resources. All these taxes will help with the market to develop further and to address the problem we are facing at this moment, the climate change and the security of energy supply.

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"INTERNATIONAL TRADE – ENVIRONMENT" RELATIONSHIP IN THE CONTEXT OF SUSTAINABLE DEVELOPMENT

Margareta **Timbur**[*]
Spiridon **Pralea**[†]

Abstract: *The overall aim of this paper lies on presenting a short pragmatic image of the main aspects concerning the impact of international trade on the environment, on the one hand, and the impact of environmental policies and regulations on the international trade, on the other hand. Also, this article examines the multilateral environmental agreements (MEAs) focused on the use of environmental trade measures. In the same context, we discuss about the most important international institution with the regulatory powers in international trade – environment relationship which is considered to be GATT/WTO. Although, the international trade-environment relationship is a very debated internationally, in Romania it is not sufficiently addressed either theoretical or practical. Taking into account the transition period and the consequences of the global economic crisis which still will affect Romania a period of time; our country promotes simultaneous strengthening and optimizing of trade and environmental policies in sustainable development framework.*

Keywords: eco-friendly goods; eco-label; environment; environmental standards; GATT/WTO; international trade; multilateral environmental agreements; trade liberalization.
JEL Classification: F18; Q34; Q56; Q57.

INTRODUCTION

Complex relationships between international trade and the environment is one of the most significant moments of the economic development – environment correlation. The importance of this sequence has grew in the recent decades due to increasing pressures of the economic development on the environment and the maximizing role of international trade as an engine of economic growth. In this context, sustainable development is the most appropriate way to integrate economic progress in the environment, and this implies the compatibility of international trade with the environment and the conservation of natural resources.

1."INTERNATIONAL TRADE –ENVIRONMENT" INTERRELATION

The links between international trade and environment have an intricate character, materialized in numerous and diverse conditions and influences. We actually talk about the correlation between two terms. The two sides what need to be studied concern in the one hand the

[*] Margareta Timbur is a PhD in Economics and International Affairs, Alexandru Ioan Cuza University of Iaşi, Romania, e-mail: timmar12@yahoo.om.
[†]Spiridon Pralea, Professor of International Trade at the Alexandru Ioan Cuza University of Iaşi, Romania, e-mail: pralea@uaic.ro.

impact of international trade on the environment and in the other hand the effects of environment and environmental policies on the trade between countries.

With reference to the first side of correlation, it specifies that international trade is not a direct source of environmental degradation or improvement. The potential positive or negative impact is indirect, mediated by its effects on production and consumption. Consumption and production as main components of economic activity, alongside with rigor and suitability of environmental policy, are part of the fundamental determinants which influence the environmental improvement or degradation.

From the international trade perspective, the dimension of environmental impact depends of the amount and frequency of transactions significant conditioned by the degree of trade liberalization. Consequently, the theoretical analysis was focused on the impact of international trade liberalization on the environment. Outstanding contributions to this subject have been made by a number of neoclassical theorists and the so-called “ecological economists”(like Costanza, Daly, Hall, Jansson, Hannon, Odum, Pimentl, and Martinez-Alie) and the promoters of sustainable development (“environmental economists”, like Hanley, Shogren, White, Wallace, Oates, and Stavins).

The negative environmental impact of liberalization is conveyed in literature especially by the environmentalists. They believe that at least on the short term, trade liberalization could trigger a vicious circle of effects which involve environmental degradation. Initiation and propagation of these effects are motivated by different situations, such as: amplification of international specialization in intensive polluting products which are using exhaustible natural resources (mining, forestry, fisheries, etc.); facilitation of trade with hazardous substances and waste; extension of transport distances with carbon growth effects; stimulation for firms relocation in countries with permissive environmental standards; deepening the nationally and internationally income gaps; the orientation of “disadvantaged” towards consumption of natural resources whose amplification adversely affects the environment etc.

Such negative effects are mediated by the economic growth processes and favoured by the underestimation of natural resources and generally lack of adequate environmental policies capable to ensuring the internalization of environmental costs.

But most of these debates participants contest the environmentalists’ points of view, describing the environmental impact of international trade as positive. Especially, the liberalization adepts (Beckerman, 1992; Barbier, 1994; Markandaya, 1988; Copeland and Talyor, 1994) believe that trade and investment barriers reduction generates wealth, including the movement of environmental technologies, management techniques and information between countries. In turn, the welfare is likely to increase living standards, the demand for a cleaner environment and finally the environmental protection. In general, the positive environmental impact of international trade liberalization is supported by numerous arguments relating to such issues:

- Efficient allocation of the environmental resources that determines the improve of production structure for goods less intensive in natural resources, based on lower energy consumption and lower degree of pollution;

- Facilitation of international transfer of environmental and less polluting technologies. Trade openness facilitates such the abandonment of old, inefficient and polluting (the former communist countries) power plants in favour of the modern one with combined cycle which encourages the use of alternative sources: wind, solar and tidal. Including the multinational companies, often considered criminals in terms of exploitation of developing countries resources, are interested and can afford new, efficient and less polluting technologies. As a result there is an intensive modernization and revitalization of polluting sectors previously protected;

-Convergence of environmental standards of products and processes to the highest levels in the world. Thus, more stringent environmental policies from developed countries may be imported into countries with lax standards voluntarily in the context of enhancing mutual relations or involuntarily by treating with trade sanctions, or following the adoption of new regulations aimed for harmonizing the environmental standards;

- Encouraging the development of organic products markets;

- Elimination of subsidies and distorted prices in closed economies including the alignment of world prices;

- Encouragement of international cooperation regarding the environmental protection, etc.

As a synthesis of the arguments presented above, in the literature was detailed a broad typology of environmental effects of trade liberalization. The most representative is the approach proposed by the OECD (OECD, 2000 and Sprenger, 1997*,* p. 29). According to this, reported to international trade in goods, by the nature and scope of their manifestation can be distinguished two main classes of effects: those that define the economic impact and those that target the impact of trade liberalization in the legal framework.

In the first class are framed: the scale effect, the structural effect, the effect of product and technological effect.

The scale effect as a propagation mechanism takes place at the macro-economic level: trade liberalization generates an enhanced role of trade that involves increased economic activity, and this, in turn, means increased production and consumption and ultimately determines the abundant use of environmental resources, possibly even an environmental degradation. The scale effect is positive if the growth process creates an increasing demand for environmental improvement and the financial gains are allocated for this purpose. Conversely, scale effects are negative in the absence of a proper environmental management and conditions an excessive use of natural resources, increasing pollution and failure of the environmental costs internalization.

Structural effect refers to the consequences of trade liberalization on the resource use, production processes and economic activity in general. To the extent that liberalization leads to a better allocation of resources and efficient production and consumption, the structural effect is positive. The persistence of inadequate mechanisms of environmental costs internalization generates negative structural effects by perpetuating the inefficient resources allocations in favour of the intensive natural resource and high polluting activities.

The product effect captures the beneficial or harmful nature of the product whose international movement is encouraged by liberalization. Thus, it will be registered positive product effects in case of enhancing trade with ecological goods, technologies and energy efficiently machines. Negative effects appear when there is facilitated the trade with environmentally harmful substances like: toxic wastes, hazardous chemicals, endangered species, etc.

The technological effect captures the changes of the production technologies. Negative technological effects may occur if the polluting industries are relocated in “pollution havens” or there are promoted for export the outdated cheap technologies which are not meeting the environmental standards. By contrast, technological effects are considered positive if the liberalization encourages trade in goods, services and technologies, more “friendly” to the environment (less resources consumption, less emissions, reduced pollution per unit of product). The positive effects will be amplified in the context of trade agreements that encourage ISO - considered the main vehicle of advanced technologies and in the presence of the positive scale effects manifested by the increased revenue and national wealth and hence the augmented demand for “clean” technologies and stricter and more rigorous pollution standards and environmental legislation.

The second class defined by OECD takes into account the regulatory effects and it concerns to the consequences of trade reforms and agreements on the national measures, standards, policies and environmental regulations. These effects can be negative when the harmonization of national regulations with the trade agreements neutralizes the ability of governments to adopt appropriate environmental standards and policies in relation to their levels of environmental risks and their competitiveness requirements. Conversely, the positive regulatory effects of liberalization occur when the trade agreements create a favourable framework for cooperation concerning the necessary institutional reforms for increasing the environmental standards.

In conclusion it can be said that, by itself, trade liberalization cannot be considered good or bad for the environment. The generalization in positive or negative terms can lead to erroneous conclusions. For example, in terms of negative effects could be argued the false idea that autarkic countries would have the cleanest environments. In fact, the nature of the net effect of trade liberalization on the environment depends of the compatibility between the openness of trade policies with environmental policies, in sense of making their goals compatible, even complementary and mutually supportive.

Trade and environment has emerged as a distinct subject in the economic analysis, especially with the second sense of the correlation. It aims not the direct environmental impact on international trade, but especially the effects of environmental regulations and policies on the trade between countries.

Undoubtedly, as any economic activity the international trade is conditioned by the environment in multiple aspects: the "endowment with factors" specific to each country based on the geographical position; climate changes generating calamities (floods, landslides, etc.) or global warming which may change the structure of comparative advantages in trade with bio-food etc.; might be changed even the supply chains, transportation, distribution in international trade with certain products or, during the extreme events (such as hurricanes), temporarily stop the ports and routes activities or can cause infrastructural damages, all reflected in cost increases.

If the overall impact of the environment on trade is easier to elucidate theoretically, the environmental regulations and policies effects on the trade, are more controversial, they are approached from the perspective of a wide range of interest groups. Even when standards and regulations are honestly motivated by the pollution control requirements and the environmental protection, the companies' compliance costs become higher, so they might register relative disadvantages compared to competitors. The disputes are fuelled by the suspicion that the promoters of environmental regulations and standards actually use them as disguised barriers to imports. In this sense, developed countries are accused of promoting "green protectionism" established by strict environmental rules and standards what especially less developed countries do not qualify for. In turn, developing economies are suspected of a so-called "eco-dumping" resulted from their engagement in a real race for lax environmental regulations, able to attract foreign investors to boost their production and exports (Siebert, 1996, p. 188).

Other aspects of environmental impact on trade cover issues such as: impact of environmental policies on the product life cycle when targeting certain characteristics of the goods or manufacturing technology, the effects of ISO 14000 registration enforcement and compliance on the small and medium size companies which the cost increases can be so high as to no longer afford the output on external markets.

As a result we mention that the international trade and environment is a two-ways, multi-dimensional and often conflicting relation. Approached from the perspective of different ideologies and especially from the standpoint of a wide range of conflicting interests, international trade – environment correlation resulted rather in a set of multiple dilemmas than a single problem solved by an economic general model.

2. RECONCILIATION BETWEEN INTERNATIONAL TRADE AND ENVIRONMENT - CONCERN OF GATT / WTO

The GATT / WTO system was created to provide to its members appropriate multilateral framework for all aspects of trade negotiations concerning the regulation, promotion, development and liberalization of international trade. In this regard, the aspects often included on the negotiation agenda are those relating to avoid or eliminate conflicting relationship between trade and environment.

The conflicts arise when manufacturing processes, regulations concerning the consumption of certain natural resources, trade in products or waste are generating negative environmental externalities for other states, which can cause loss of wealth. To the extent that these losses are not reflected in the cost of transactions, establishment of restrictive trade measures such as: environmental taxes, quotas, prohibitions or other regulations are perfectly justified in case of environmental protection and human welfare. The problem is that the distinction between trade measures aimed for real environmental objectives and the unjustified and discriminatory measures applied for obstructing imports is quite difficult. This is, precisely, the main focus of the GATT / WTO system concerning trade and environment.

Following the evolution of environmental concerns into the multilateral trading system, we observe that the early GATT has not been given attention to this issue. Even the notion of "environment" was not expressly mentioned in the legal text of GATT. Environmental concerns arise regarding the exceptions to the fundamental principles of "most favoured nation" clause and "national treatment" clause applied to "like products". Given that, there are situations when the products may be similar in the aspects of characteristics and purposes, but not in those of the production methods and techniques, art. XX GATT allows member countries to determine their own level of environmental protection within its borders through the appropriate trade measures and in justified cases may deviate from fundamental principles of GATT. Exceptions provided in art. XX of GATT which such measures may be instituted refers to the protection of life or health of humans, animals or plants and the conservation of exhaustible natural resources. (Stein, 2009, p. 287) Naturally, acceptance of such measures occurs "such measures are not applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination between countries where the same conditions prevail, or a disguised restriction on international trade" (Eckersley, 2004, p. 28).

More generally, we can say that, in fact, all GATT / WTO rules, regulations and principles are related to environmental protection, because provide the preparation, negotiation and implementation of trade measures for environmental purpose and in the same time aim to ensure and achieve a balance between the member rights to adopt own trade measures for environmental protection.

This last point is very visible in the contents of specific agreements convened during the Tokyo Round. It is the Agreement on Technical Barriers to Trade and the Agreement on Sanitary and Phytosanitary Measures.

The first agreement assumes that the need of technical regulations and standards is universal accepted. The "technical regulations" are understood as mandatory requirements for products, related processes and production methods, and the "standards" as voluntary requirements. The agreement recognizes and guarantees the right of each State to choose their desired level of protection, avoiding the situations when the violation of technical regulations or adoption of national more stringent standards would create disguised barriers to imports. Therefore the agreement encourages the adoption and practice of international standards and harmonization of conformity assessment procedures. To manage the achievements of this Agreement objectives, there were established the Committee on Technical Barriers to Trade and the Dispute Settlement Body on technical regulations and standards.

The SPM Agreement aims to respect the sovereign right of member countries to ensure the appropriate level of health protection, but guaranteeing that this right is not arbitrarily used for protectionist purposes. This agreement is based on principles of necessity and scientific justification, exclusion of arbitrary discrimination, harmonization, equivalence and adequate level of protection, proportionality and transparency, risk assessment and cooperation (Mahe, 1997, p. 489).

More prominent appear the concerns regarding the trade and environment relations in the WTO frame. From the content of the Agreement Preamble establishing the WTO, sustainable development, environmental protection and conservation are integrated into the multilateral trading system and have been adopted as fundamental objectives of the new organization which has substituted the GATT secretariat.

Subsequently, through the Development Agenda, in the new round of negotiations, was requested to be addressed and evaluated the relationship between the GATT / WTO norms which were already established and the specific trade obligations set out in the multilateral environmental agreements (MEAs).

Currently, the trade and environment issues are handled by the WTO Committee on Trade and Environment. The roles and issues on the agenda of this committee give us a fairly and complete picture of the broad spectrum of environmental concerns in the GATT/WTO system.

According to the decision establishing the Committee on Trade and Environment, it has two main missions:

-To identify, define and evaluate the relationship between trade and environmental measures for supporting sustainable development; and

-To do recommendations for improving the provisions of the multilateral trading system concerning: strengthening the positive interaction between trade and environmental measures, with special attention to the needs of developing countries, particularly the least developed countries; avoiding the protectionism and compliance with multilateral discipline, so as to ensure responsiveness of the multilateral system to environmental objectives and supervision of trade measures used for environmental purposes.

These tasks are detailed in the ten articles of the Committee Agenda reflecting the priority of environmental objectives and the focus on the relationship between trade rules on the one hand and on the other hand: general environmental policies with trade effects, trade measures used for environmental purposes such as environmental taxes, environmental requirements for products, including packaging, labelling, standards and regulations for recycling. Other problems included on Committee Agenda refer to the transparency of trade measures for environmental and environmental policies, the environmental measures potential to function as barriers for developing country exports; the issues concerning the exports of prohibited goods on the internal markets; the specific environmental requirements of trade in services and transactions covered by the TRIPS

Agreement; the relationship between WTO and Multilateral Environmental Agreements regarding the regulation of disputes etc..

Given the complex issues covered and the divergence of interests between the member countries, although the environmental concerns in the multilateral trading system have intensified, progresses towards reconciliation between trade and the environment are still slow. But GATT / WTO system remains the mainstay and also the most appropriate framework for the design, negotiation, adopting and monitoring the commercial and environmental disciplines for promotion of sustainable development.

3. COMMERCIAL ASPECTS OF MULTILATERAL ENVIRONMENTAL AGREEMENTS (MEAS)

In the new context of globalization increased international trade occurs concomitantly with increased threats from global warming, ozone depletion, persistent organic substances pollution amplification and biodiversity degradation. In this context, and given cross-border trade flows and environmental issues, international cooperation, reflected in the absence of a World Environment Organization, mainly in Multilateral Environmental Agreements (MEAs) appears as the best recommended way to avoid collisions between international trade and environment.

MEAs are agreements between States which establish principles, rights and obligations undertaking by parties to respect the environmental purposes. Currently are operating over 300 MEAs, whose content aims to regulate and prevent the environmental challenges through a variety of specific tools (legal, economic, technical, and commercial, etc.).About 30 of these are focused on the use of environmental trade measures. The most representative are presented briefly below:

-*Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES)*signed in 1973, Romania joined in 1993, provides the framework for conservation of species traded on the international market, but outside of commercial regulations could become endangered. According to this convention, trade management of such species is based on biological information and monitoring how the various types of trade regulations can affect these species. Thus, transactions with covered species must be authorized by limited license granted allowances which determine the maximum number of patterns that can be traded.

-*Vienna Convention for the Protection of the Ozone Layer* (1985) and *Montreal Protocol* (1987), which Romania joined in 1993 to. Convention is a framework document which doesn't intend to control the ozone depletion, but rather to establish the procedure rules for future protocols.

(OECD, 1999, p.63) The first in this regard was the Montreal Protocol on Substances that Deplete the Ozone Layer. Protocol prohibits the trade with products and substances that deplete the ozone layer, whose applications are managed through a licensing system. Protocol insists more on the obtained results and as tools recommends combining trade measures with instruments which control domestic production and consumption, leaving to the states free choice of measures such as: taxes on substances that deplete the ozone, incentives taxes to substitute these substances, production quotas, quotas or import/export bans, technical product standards, labelling rules, etc. The Montreal Protocol is considered by the OECD as the first agreement using trade measures as part of an integrated package of world politics, aimed addressing a truly global problem (OECD, 1999, p.63).

- *Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal* adopted in 1989(Romania joined in 1991) is the only international institution dealing with this distinct class of products, which is not covered by the WTO documents (Brack and Gray, 2003, p.21.). Convention aims to protect the people and the environment against adverse effects of production, distribution and transportation of hazardous waste. Trade measures proposed for controlling trade in hazardous waste is based on information and prior consent. This means that a signatory country has the right to ban the entry or disposal of hazardous waste on its territory. But if it expresses written consent for importing or receiving such wastes and the agreement is signed by the transit countries, such delivery between the two signatory countries can take place. Concerning the non-signatory countries, trade with such products is prohibited in the absence of separate agreements with them. Experts consider that Convention has legitimized and encouraged international trade and less contributed to combat and reduce the wastes.

-*Convention on Biological Diversity (CBD)* (1992) (Romania joined in 1994) aims to record the ecological diversity. It also authorizes special trade measures in this regard, but seeks to regulate the issues with large commercial impact such as: resource access regime, the prevention of bio-piracy and the division of profits, agricultural biodiversity, exotic species regulations, transfer of knowledge, innovations and practices of indigenous communities on local species, etc. Of great importance is the *Cartagena Protocol* (2000, Romania 2003) on Biosafety, signed under this Convention auspices. The Protocol is the first international treaty that aims to regulate transboundary movements of genetically modified organisms. Mainly, it aims to ensure the possibility of importers to assess the environmental risks of genetically modified organisms before performing the operation and insists that Biosafety regulations should be applied in conformity with WTO rules so as not turning into trade barriers to imports.

-*United Nations Framework Convention on Climate Change (UNFCCC)*(1992) aims to stabilize the greenhouse gases concentrations in atmosphere at a level that would prevent harmful anthropogenic interferences in the climate system. Under the auspices of this Convention was drafted in 1997 and scheduled to take effect in 2005 *Kyoto Protocol* aimed to reduce greenhouse gas emissions and especially carbon dioxide emissions reduction. Proposed measures for combating climate changes are not purely commercial, but have large trade implications. The most frequently recommended for achieving the Kyoto Protocol goals are the carbon taxes, plus internal policies tools as subsidies for modernization of industrial reactors for the production of renewable energy through more efficient and cleaner technologies. But beyond climate change mitigation measures such taxation and subsidization have uneven repercussions on the international competitiveness. Hence, the major tensions and conflicts may arise between the WTO norms and the Protocol targets. This protocol has significant implications for the international trade with energy-intensive facilities and equipment, fossil fuels and energy efficiently services.

-*Rotterdam Convention on the Prior Informed Consent Procedure for Certain Hazardous Chemicals and Pesticides* (1998) (Romania joined in 2003) aims to regulate the international movement of these products. Exports and imports of chemicals and pesticides are not prohibited, but require the establishment and enforcement of some procedures preliminary agreed by the importing country. Under this procedure mainly exporters are required to provide, including labelling requirements, all information about the risks for the human health and the environment and the compliance with the relevant international standards. When partner decides to establish restrictions or prohibitions on imports, under this Convention, these should be applied to all external suppliers of any third country and domestic producers.

-*Stockholm Convention on Persistent Organic Pollutants* (2004) aims to regulate the international movement of certain hazardous substances to hormonal functions of human and animal health. Given the high rate of bio-accumulation, the length of persistence in time and their great mobility and harmless, the Convention recommends to restrict and even eliminate the possible use of such toxic substances even in small doses.

Beyond that each agreement is focused on specific areas and issues, MEAs have some common characteristics. Thus, in general MEAs are widely agreed and supported by the international community because: they are the results of transparent and wide - broad negotiations, are substantiated by large-scale scientific research and recognize the special position of developing countries, which may have limited capacity to participate in solving environmental problems. To the extent that expressly provide environmental trade measures their purpose is: to provide adequate means for monitoring and controlling the trade with environmentally harmful goods; to discourage international trade and unsustainable exploitation of natural resources; to discourage harmful methods and processes of goods production and services traded on international markets; to prevent or limit the entry of harmful substances in countries and create market opportunities and incentives for clean use of goods.

Environmental trade measures are the only tools provided by MEA. They may be accompanied or replaced by numerous other instruments, measures and policies that may have impact on international trade. In this regard might be mentioned: financial assistance for industries, including the purchase of environmental technologies; reporting obligation to monitor trade flows; labelling rules; providing information including the relationship with the environment; rules for notification; consent and movement-based permits; licenses; bilateral or general export or import prohibitions etc.

The most important is whatever their nature, all the measures provided by MEAs that impact the trade should be actually set to achieve environmental benefits and promote not disguised protectionism.

4. LIBERALIZATION OF INTERNATIONAL TRADE WITH ORGANIC PRODUCTS

Among the new issues included on WTO negotiations agenda is liberalization of international trade with organic products. Reiterating the commitment of Member States for sustainable development, the Doha Declaration (2001) expressly requests to reduce or eliminate tariffs and non-tariff impediments to trade with organic products.

In WTO negotiations frame the environmental goods considered are divided into two classes: A and B.

A class of "green traditional products" includes industrial goods used to provide environmental services which address pollution and waste affecting water, soil and air (examples: filters, pumps, reservoirs and containers, soft water purification chemicals, equipment sorting, recycling, metering and environmental monitoring, etc.).

Class B "preferred organic products" includes industrial and consumer goods in their features environmentally friendly (examples: organic products, biodegradable fibres, natural dyes, organic soaps without phosphates, renewable energy equipment, etc.) and are "preferable" to replace goods with similar uses, but harmful to the environment at the time of production, use and final disposal.

These classes of goods are the result of so-called “environmental industry” which includes activities producing goods that can measure, prevent, limit, reduce or correct environmental damage affecting water, air and soil or problems related to waste, noise and eco-systems. Identified as an emerging sector, the eco-industry is rising, becoming increasingly complex and includes within its production technologies, equipment and environmental services: wastewater treatment, waste management and recycling; air pollution control; noise reduction; monitoring instruments for natural resource conservation, etc..

Despite the rise of trade with environmental goods production is hampered by numerous tariff and non-tariff barriers. Such barriers prevent the entrance on developed country markets of goods from developing countries for which the exports of organic products is of great interest, and also the OECD supplies of equipment and technologies for low-income countries.

In terms of tariff barriers, it is considered that the rates for imports of environmental products is 0-3% for OECD countries, while for many low-income countries are about 8-9% and higher to about 20% for some emerging economies (Argentina, Brazil, Chile, India, Indonesia, Malaysia and Thailand). The big difference between the average and maximum tariff agreed at the WTO negotiations and the ease with which countries can drag to the maximum, give rise to uncertainty for exporters.

To this are added the various non-tariff instruments affecting imports of environmental products among the most frequently used ones are: standards, certifications and environmental subsidies, quotas and other quantitative restrictions, marketing practice, distribution, logistics and other various regulations. The specialists emphasize the technical standards and certification procedures are the most discriminating tools against the entrance of environmental products on developed country markets from developing countries (Khatun, 2004, p. 13). Under these conditions the liberalization of environmental goods trade presents great interest and has wide support, being motivated both commercially and environmentally.

In terms of trade liberalization means: new opportunities for export of environmental products from developing countries to developed ones; opening of developing country markets for the know-how, equipment and technologies supplied by OECD countries; competitiveness increase, the prices diminution, supply augmentation and growth of quality of environmental products, etc.

Under this aspect, eco liberalization allows better access to green technologies, increase of international environmental standards, pollution prevention and control according to national and international regulations and compliance with sustainable development objectives.

It is noted that the size of the potential gains from liberalizing trade with environmental products depends of internal reforms and the degree of compatibility between open markets and national development objectives.

5. INTERNATIONAL TRADE – ENVIRONMENT RELATION IN THE CONTEXT OF SUSTAINABLE DEVELOPMENT IN ROMANIA

In Romania, a proper environmental policy (defined as "an integrated system of environmental priorities and objectives, methods and tools directed to ensure the sustainable use of natural resources and prevent degradation of environment"(European Communities, 2009, p.12) or "a set of coherent measures and means seeking to preserve the support capacity of natural systems"(Negrei, 1999, p. 14) can be considered since 1990s in the context of the adoption of sustainable development as a priority when "environmental policy has become an overall policy, recognizing its importance for the harmonious development of society." (Rojanschi et al., 2003, p. 47) Naturally, sustainable development involves linking the international trade as one of the main pillars of economic growth with environmental protection.

The awareness of international trade and environment relationship and the awareness of policies complementarities concerning these two areas appear from the international position taken by Romania, also in numerous trade policy measures implemented over the years that actually are environmentally friendly. Romania's international position is reflected by the participation at conventions, agreements and organizations responsible for the regulations and the control of international trade and environmental issues.

Thus, Romania signed over 250 bilateral and multilateral environmental agreements and conventions concerning the air quality, nature protection, water quality, waste management, chemicals and reduction of the nuclear accidents effects which are implemented through national legislation always completed and updated.

Among these, particularly important are the Basel Convention and the Kyoto Protocol. In 1991 Romania signed the Basel Convention, pledging not to export or import pollutants waste that could harm the environment. In 2001, Romania has developed the National Waste Management Strategy aimed to implement an integrated management system waste, economically efficient and environmentally friendly.

After joining the EU from July 15, 2007, Romanian practice adopted the European Regulation No 1013/2006 concerning the waste shipments. According to Government Decision (GD)

788/2007, the National Environmental Protection Agency is responsible for the supervision and control of import, export and transit of hazardous and non-hazardous wastes.

Romania, also, signed the Kyoto Protocol (1997) on combating global warming, the 8% reduction in greenhouse gas emissions between 2008-2012 requirements were more than satisfied, the Romanian industrial production decrease allowed a reduction of 46%. Unfortunately, the opportunity of green certificates trading abroad was not sufficiently well managed and harnessed, loosing substantial revenues needed to complete the environmental protection funds. Romania's concerns about the harmonization of relations between trade and the environment are the most eloquent reflected from the position adopted by the GATT / WTO. Within this multilateral institutional system, Romania has steadily pronounced even before 1995 for trade liberalization and simultaneous for addressing the environmental global problems through the multilateral environmental agreements path that should function in character and complementary to the multilateral trading system rules.

According to this position, after WTO creation, Romania argued that the trade and environment agenda negotiations should include the following objectives: clarification in a multilateral framework of the relationship between MEAs and WTO rules, members' rights to invoke the precautionary principle within the environmental issues, avoiding the use of discriminatory practices and develop new multilateral disciplines regarding the eco-labelling. To achieve these goals, along with signing the Final Act at Marrakesh on 15 April 1994, Romania agreed, also, the formation of the WTO Committee on trade and environment.

The multitude of trade policy measures interfering with environmental policy aim issues such as:

- Protection of animal health, prevention of disease transmissions from animals to humans, food safety;

- Compliance with the quarantine rules and phytosanitary certificates required for import and export of the plants and vegetable products;

- Monitoring the compliance with environmental protection measures involving the submission to customs authority along with the customs import or export declarations, the environmental permits issued by the competent environmental protection authorities;

- Use restriction or ban of hazardous chemicals in accordance with international conventions to which Romania is a member party;

- Quality control of medicines and medical devices, import/export of which is performed only by special permits issued by the health authorities;

- Marketing of second-hand garments and textiles accompanied by proof that they have undergone the cleansing and disinfection.

After accession, Romania took over the EU's common policies, including trade and environmental policy. According to these, the current objectives of Romania in the field of environment are: protection and improvement of the environment, protection of public health, rational and prudent use of natural resources and promoting measures at international level to tackle and solve the regional and global environmental problems. As instruments, most commonly used are: legislation, particularly environmental quality directives (pollution levels, etc.), products norms (concentration limits, emission, etc.) environmental programs and financial aid programs.

Note that all of these tools may be trade barriers to market access, most frequently identified are: environmental standards and regulations, labelling and eco-labelling and a number of economic instruments.

In terms of standardization, Romania has a relatively long experience, started since joining in 1928 as a member of the International Electrotechnical Commission. Since 1998, Romania is represented in international standardization process by the Romania Standards Association. This is a private association of public interest whose duties are to coordinate the national standardization activities and exchange information with exterior in this area.

By their nature there are two types of standards: product standards, which refer to the characteristics of goods (performance requirements, minimum nutrient content, maximum toxicity of exhaust emissions, etc.) and process standards concerning the conditions of manufacture.

In Romanian practice can be found following national standards: Romanian original standards with SR or STAT indication; Romanian standards that have adopted a European standard: SR EN or SR EN ISO; Romanian standards that have adopted an international standard: SR ISO; Romanian standards that have adopted an amendment and Romanian standards that have adopted an errata.

According to standardization methodology, original Romanian standards and those which have adopted an international standard should be examined every 5 years after publication, reviewing, modification or reconfirmation and original national standards what become in conflict with the adopted European standards should be cancelled.

Note that the updating and alignment of Romanian legislation and standards to those European and international is a condition of export promotion. In this respect, low no. 608/2001 on the conformity assessment of products expressly provides in Article 7 that “technical regulations shall refer to harmonized European standards adopted nationally conferring presumption of conformity with the essential requirements.” As well are the laws no. 312/2003, 348/2003, and

469/2003 which require the fresh products for human consumption should be mandatory subject to quality standards.

Concerning labelling, this can be mandatory or voluntary and it provides information to users or consumers about the positive impact (biodegradability, etc.) or negative (toxicity, flammability, etc.) of the product or manufacturing process on the environment and health. In some cases it can provide information about the geographic indicators or country of origin. The content of the messages transmitted by the labels can have an important impact on the dynamics of trading flows. As awareness of environmental deterioration, a growing share on international market tends to have the environmentally friendly products. They are identified by the beneficiary through the eco-label. Eco-label is a voluntary label for products with minimal impact on human health and environment. The EU Eco-label - “European Flower” was introduced in 1992 by the European Commission. Currently, the award procedure is governed by the Regulation no. 1980/2000 of the European Parliament and Council. European Eco-label is meant to establish a unique certification scheme at the Community level for green and environmentally friendly products.

Romanian legislation transposed the provisions of European Regulation No. 1980/2000 through the GD. 189/2002, repealed by GD. 236/2007 on a revised system for granting the Community eco-label. In compliance with European and international legislation for implementation of Community Eco-label scheme, in Romania was created the National Commission for eco-label. It functions as an advisory body with an active decisional role regarding the eco-labels.

The main categories of products concerned to be labelled are: household appliances (refrigerators, wash machine, vacuums, TVs, etc.), laptops, detergents, soil improvers, paints and varnishes for interior, heat pumps, accommodations for tourists, camping services etc.

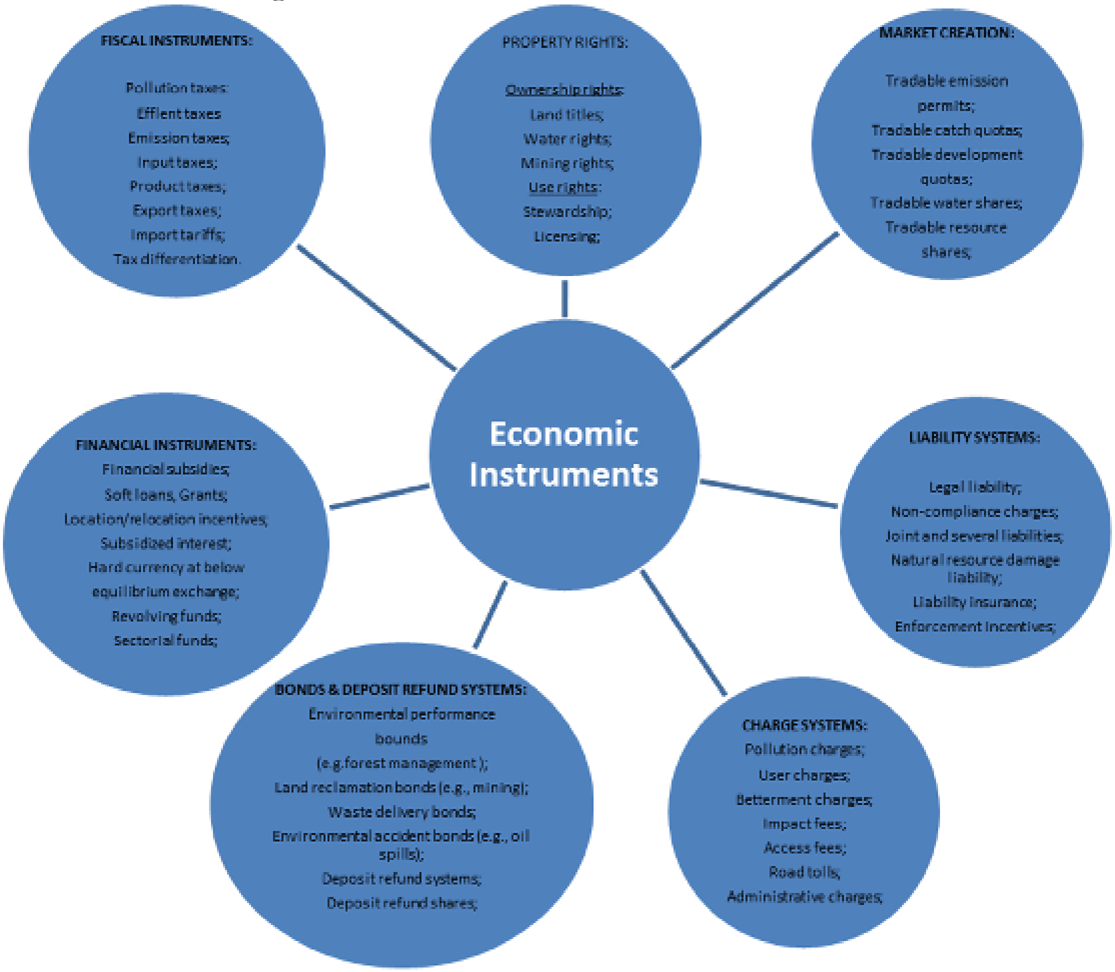
Although, in principle the Eco-label scheme is open to all products and services, some categories are expressly excluded. These are: toxic substances obtained through harmful means for humans or the environment, food, beverages, pharmaceutical and medical devices. The range of economic instruments which seek to influence the behaviour of economic agents by internalizing the environmental costs is varied (see Figure 1). In Romania the highest use have the fiscal tools, such as environmental taxes. In terms of resource allocation, the financial taxes benefits as described by specialists (Vuţă, 2004, p. 67) are twofold: concerning the economic optimum, the financial charge makes that for every public rendered service to match a price; from environmental point of view, the tax exerts an incentive effect which diminish the volume of emissions and waste.

Although theoretically, foundation of environmental taxes is based on environmental considerations, the real motive is more likely financial-budgetary. Paradoxically, among the 15 taxes on activities with potential impact on the environment, only (first registration tax, tax for pollutants emissions into the atmosphere, packaging tax and the tax for tires) brought significant revenue to the Environmental Fund.

The modest contributions for supplying this fund are not related to the lack of potential of charged fields, but especially to the methodological difficulties of tax implementation and income collection.

So far, the most important contribution to the Environmental Fund revenues was carried by the first registration tax, recently became "environmental stamp". The obtained Fund administration incomes may be used only to finance the Program for stimulating the national car park renewal and the projects regarding the environmental protection.

Figure 1 - Classification of Economic Instruments



Source: Panayotou, Th., (1994) *Economic instruments for environmental management and sustainable development*, Environmental Economics Series Paper No. 16, UNEP, p. 9.

Along with beneficial effects, this first registration tax affects the free trade creating significant effects of discrimination between producers and consumers of gasoline and diesel cars and electric cars or hybrids, among buyers who purchase new cars and old cars, also by the assessment methodology is infringed the “polluter pays” principle, the fiscal burden being borne by the final consumers, regardless of the car usability.

Other fiscal instruments with significant commercial and ecological effects are the tax: on packaging, on the hazardous substances, on tires and on the oils wastes introduced by the low no. 167/2010.

CONCLUSIONS

From the above it follows that in the context of efforts to promote sustainable development, it was registered a significant progress towards harmonization of international trade relations and the environment. However there are still some inconsistencies and legal and institutional failures related largely to the prevalence of the importance of objectives: the economic growth or the environmental protection, specifically to developing countries; and more recently related to the phenomena of economic and financial crises. It is expected that Romania will promote the strengthening and simultaneous optimization of trade and environmental policies for the future sustainable development.

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INFORMATION SECURITY AS PART OF THE OVERALL CORPORATE GOVERNANCE – IT GOVERNANCE*

Mihaela **Ungureanu***

Abstract: *A corporate governance system is not based solely on enforcement actions and incentives in order to obtain performance. In the context of a modern business environment, it must initiate and support research and development, contribute to social stability by harnessing human and cultural capital. Corporate governance plays a key role in improving the efficiency of the capital market through its impact on their operations and financial reporting integrity.*

IT governance has become a necessity due to the increased dependence, which is sometimes critical, against the company's IT resources and due to the IT risks growth and diversification that management must settle, now operating in a heavily computerized environment.

The changes in the informational environment and the expansion of new information technologies in organizations determine more complex and heterogeneous IT infrastructures. An essential issue is represented by the quality and performance of the existing system within an organization.

Keywords: information security; corporate governance; IT governance.
JEL Classification: D82; G34; L86.

INTRODUCTION

The end of the last century was a decisive moment in the evolution and modernization of the corporate governance concept, as a part of scientific management. Several studies have highlighted the importance of such a system that works well grounded in optimal conditions, according to some set parameters, aiming to minimize conflicts, increasing efficiency, and encouraging teamwork. Quality and operational efficiency of the model significantly influences the economic and financial results of enterprises (Ginglinger, Megginson and Waxin, 2011). Ownership has quickly become an international one, electronic commerce and electronic business are already in the daily activities of a company, the new relationships with suppliers and customers have led to changes in management content and forms. One of the important challenges that must cope with the corporate governance is also optimizing IT resources such as: information, IT&C infrastructure, IT processes and associated human resources.

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* Mihaela Ungureanu is a PhD Candidate at Alexandru Ioan Cuza University of Iasi, Romania, Faculty of Economics and Business Administration, e-mail: myhaella5@gmail.com.

In the present context influenced by globalization, internationalization and increasingly fast growing technological development, when all goes at a speed greater than ever and the access to information must be made in real time, an organization that does not meet the current requirements of modernization has no chance to remain competitive or gain performance in a changing business environment. Information can be valuable if it help to anticipate events, to confirm or correct expectations. Access is mainly done through accounting, so that the answer to the demands of the new economic environment is the integrated accounting. Implementation of new information and communication technologies represents the condition of an efficient management system, the manager having available, any time, the necessary information for a better decision making on economic, social and environmental activity of the organization he leads (Seal, 2006).

Under current conditions, it is more and more necessary to give information security as a discipline to ensure confidentiality, integrity and availability of the electronic assets. Today, progress is conditioned by a corporate strategy including security policy and risk management, implemented in the companies concerned about promoting responsible behaviour. It is also known that important strategic role of information security can be really inserted in an entity, only if top management provides its full support and commitment.

1. THE ROLE OF INFORMATION IN THE CORPORATE GOVERNANCE SYSTEM

A strong and effective corporate governance is conditioned by a well-founded information system, which operates in the most optimal conditions. Accurate and timely information define the reliability of the capital market. The fundamental concept in this respect is that of transparency, since investments are preceded by the requirement to provide a fair image of the company, so that investors be able to take knowingly decisions. Lack of trust forms a barrier to investment, leading to a high cost of capital and reducing the efficiency of resource allocation. Information and transparency provides to all stakeholders the best economic and also managerial performance assessment, the analysis results decisively influencing the future behaviour. An efficient informational system support those interested to know and analyse the performance of a sector, through the activities and results at entity level. The new economy exploits more and more the best practices on ethical standards governing the relationships between various business partners (Armstrong, Guay and Weber, 2010).

New technologies, through the modern communication possibilities that they provide, ensure effective information, fair and transparent. Because this is managers' responsibility, corporate governance is developing like a solution to their delimitation of the company owners, as the interests of both sides are often different. Shareholders search for high profits and dividends, a rigorous control over the decisions of managers, while the latest ones want a higher decision and negotiation power, remuneration and other financial benefits, for example, participations in firm's capital.

Accounting pursues many objectives that can be achieved in various ways, but the basic one is to provide complete and accurate information to all interested parties, where financial reporting has an essential role, so that one can speak, again, about the importance of transparency. Over time the awareness about the role of accounting for the present and future of an enterprise and business environment as a whole has increased. Regulatory authorities in the field claim that a high quality of information, especially financial ones, allows stakeholders to make better investment decisions and informed choices (Auger and Lander, 2008).

From the perspective of investors, the need for accurate information takes into account elements such as accuracy, consistency, adequacy, completeness, clarity, convenience and timeliness. The relatively low level of attention that many entities attach to explain the accounting policies of restatement of incorrect information is worth noting. There are situations where the market may request details of the involved accounting issues, to prove if and to what extent the government has intervened in handling information.

Regulations on financial reporting were decisively influenced by the processes of globalization and internationalization. IASB standards directly affects the reports from the end of year, but indirectly occur during the period (eg., contracts are developed in the spirit of compliance with accounting requirements, especially regarding risk transfer) (Chaney, Faccio and Parsley, 2011).

Accounting depends on the flow of information used by each entity in part in preparing its annual accounts and a critical evaluation of the accounting policies requires a transfer of information between organizations. Voluntary information is reliable if efficiency goals such as improving the liquidity of capital markets firms, reducing its costs and if they can be used by financial analysts. Managers develop an opportunistic behaviour when there is no control on company's information disclosure.

Accounting responsibility enhances the governance system, not only by streamlining the market functions, but also by reducing monitoring costs. When the executive respects the principles of a proper, responsible and transparent accounting, are offered premises for introducing and applying the best strategic decisions for the interests of the parties involved in. Into a developed company, accounting responsibility, and also global governance are dispersed at subunits. The entity, as a whole, cannot be responsible if its subunits are not. So, improving overall responsibility requires that in each subunit exists transparent decision making and financial reporting processes, independent audit and internal control. Also, responsible accounting promotes the exchange of information and communication throughout the company. One cannot speak about good corporate governance in the absence of effective information and communication systems. Information is the key in making profit forecasts, designed to meet market expectations regarding the company performance. If the corporate governance systems provide valuable and relevant information that analysts can include in their predictions, then it will be seen as an improvement in forecast quality and reduce dispersion (Armstrong, Guay and Weber, 2010).

If a company has effective mechanisms of governance, it must identify a problem before the proper occurrence, which involves the ability to collect, process and evaluate information. Therefore, institutional investors should seek the creation of control systems for all companies held in the portfolio, in order to facilitate the initiation of changes necessary to correct potential deviations found in strategic actions. In this sense, systems for processing information are necessary which should be evaluate existing strategy and set the desired long-term actions. If the current strategy deviates from what is desired in fact, changes could be initiated by interventions and pressures on managers.

2. INFORMATION SECURITY – PREMISE AND CONSEQUENCE OF ITS PROGRESS

It can be said that information on business has, especially in the current context, an important role in most companies and therefore, the efforts to protect it should have an important match. So, the risks that affect the information in terms of IT infrastructure are carefully discussed. This is because information technology (IT) has evolved a lot in a short time, having already an integrated part of the storage, processing and transmission of data on the organization's valuable assets. However, data security is no longer considered just a technical problem but also a concern for top management, the board and even the legal environment.

The rapid development of the Internet has led the world to the new economy. Moreover, together with the information technology revolution, the importance of knowledge as assets of the enterprise it has increased. It creates value for a business due mainly to intangible assets such as knowledge. Most studies show that they can be classified as tacit or explicit. The tacit ones are individual experiences, known only by the person concerned, and those explicit are officially articulated and documented. In organizations, knowledge is included in archives, documents, business processes, practices and rules. It is generally accepted that they result from the accumulation of information through experience, communication or inference. In addition, such activities are dynamic, subjective, created by social interactions dependent of people, community and organization.

Economic entities are put in the situation to share held information sources in a much more open way with those interested. So, information has become exposed to three fundamental elements including: firstly, the technology used in processes of storage, processing and transmission; secondly, the stakeholders accessing information through various private networks and Internet; in the third place, the techniques for handling data as part of an organizational operation or service. Information has an important role in supporting the operations of economic entities. Each of the elements mentioned has the potential of a very real risk on the assets. So, that information to provide further support in business activities, several key features should be complied, including: *confidentiality, integrity and availability* (Chaney, Faccio and Parsley, 2011).

Confidentiality involves protecting sensitive information from unauthorized disclosure or interception. In other words, they should not be allowed to anyone who would like to access them. Only those who receive specific authorization may obtain the information. To ensure confidentiality must be clearly established that information which must be protected by a classification in public, secret and top secret information, and also setting who has access to them and to what extent. This involves the protection mechanisms for the existing information in computers and networks.

Integrity requires maintaining the accuracy and the complexity of information, given its essential role in decision making. If it is not accurate or complete, it could lead to wrong decisions of the executive, but also undesirable situation within the organization which otherwise could have been prevented. Thus, integrity aims to ensure that stored data cannot be altered or updated only by authorized persons. Control access rights must be doubled to control change, to avoid malicious intentions of those authorized to use that data.

Availability is conditioned by the guarantee that information resources are available for use at the right time. Ensuring the availability is particularly important because, without timely information, an organization would be unable to continue normal activity. In other words, availability means that data stored in computers can be accessed anytime, from anywhere, by authorized persons.

Information security constitutes a guarantee of confidentiality, integrity and availability of electronic assets. So, it is understood that internal controls are based on information security as an integral part of corporate governance, even indirectly. However, in many companies, top management does not assume any commitment and responsibility for information security, making very difficult to support it wide to the entire economic entity. Usually management sees this problem of concern to the technical department, so it denies responsibility.

Security management of informatic systems is an important part of integrated management, which aims to create tools for risk analysis and implementing solutions to mitigate their effects in the system. The importance of the organizational components arises from the increasingly numerous and varied causes generating security problems, and also from the growing dependence of organizations to their own informatics systems. Inadequacy or lack of security measures and incomplete documentation contribute to the occurrence of security risks that may be of a human or technological. Between the major threats one can speak of fraud, theft, through which confidential data is taken from inside the company against costly advantages, poor security breaches, and failure to workstations or unauthorized use that can lead to alteration or destruction of information. Security controls are included in the general controls aimed at verifying user access to the system through their identification, authentication and authorization.

3. IT GOVERNANCE

A corporate culture based on ethics and efficiency, encourages integrity and openness, striking a balance between those elements with reasonable levels of risk. A sustained governance of information technologies helps organizations to ensure continuity and, above all, promotes strategic management of IT to gain competitive advantages. For this purpose, companies will have to improve communication between IT department and internal and external auditors.

Corporate Governance Task Force (2004) states that "the road to information security goes through corporate governance". This means that organizations establish their own safety direction by implementing the information security policy as part of an internal controls set and guiding principles that include the general framework of corporate governance system.

By providing an optimal level of security, the company imposes a responsible behaviour in terms of risk management, reporting and accounting quality, based on decisions taken by the Board and CEO. As noted above, the term used to describe how such concerns are integrated into all policies of liability of the company, is the *information security governance*.

Information security governance characterizes a broader management strategy of the entity commencing from the Board, noting that senior management support is crucial to the success of efforts. Development of some private networks and wide use of Internet companies have facilitated trade operations with suppliers, customers, creditors and other stakeholders. With development of information and communication technologies, organizations can expand their business and markets. Moreover, even members of staff have real time access to information and applications they need for daily professional activities. Therefore, the use of new technologies has helped to respond to stakeholders constantly demands for a far better access to services and information organization (Ginglinger, Megginson and Waxin, 2011).

IT governance is part of the general system of corporate governance. The organization must know, understand the IT system architecture, the portfolio of applications and computing resources, and the role of managers in decisions regarding the organization's IT sector. IT governance must be broadly accepted as the work of management and coordination of informatics activities in an organization. It primarily concerns linking strategy and IT objectives with the strategy and economic objectives of an enterprise, then organizing informatics processes in a generally accepted model and integrated to the entity. From this perspective, IT governance obliges management to be involved in strategic decisions of this sector, particularly through investments. It also provides participation in strategic decisions of shareholders, business partners, suppliers or customers and functional departments within the company. In this way, the situation in which the solely responsible for the inadequate decisions to be only the people from informatics department is prevented.

Computing environments in countries with extensive experience in the field have developed and introduced a series of international standards including the methodologies, guidelines and procedures for certification of quality systems of the organizations whose function is related to IT&C. The most known organism is ISACA (Information Systems Audit and Control Association), which proposed the SISAS standard (Statement of Information Systems Auditing Standards*)*. IT Governance Institute has published a series of standards on the definition and implementation of controls in the systems, consolidated in a guide, *Guidelines and Procedures for Audit and Control Professionals* which has become the CobiT standard (Control Objectives for Information and related Technology). Another important organism, IFAC (International Federation of Accountants), has proposed the ISA standard (International Standards on Auditing) and IAPS standard

(International Auditing Practice Statements). The literature also presents other standards, such as SAC (System Audatibility and Control) published by the Institute of Internal Auditors Research Foundation or the standard Internal Control-Integrated Framework (Dong, 2012).

The King Report provides clarification on the need to integrate information into the security governance policies. First, an important point of view is that the Council has responsibility to shareholders; therefore, it must ensure that the organization produces value and provides an adequate return on each investment individually. In this regard, the executive management and board should develop a security policy to demonstrate their commitment to these issues and support the company's mission, objectives and strategy for information security. This approach will introduce the idea of responsibility in the three central aspects of corporate governance, namely: *people, processes and technologies*.

The specialized literature notes as main objective of IT governance, the following aspects:

- Aligning IT activities with the requirements of organizational processes;
- Supporting maximize the benefits;
- Using informatics resources responsibly, respecting the principles of efficiency and effectiveness;
- Appropriate and proper administration of informatics risks;
- Evaluating performance and increasing the added value.

Planning the information system must be understood just as production planning, in that it must set future goals, resources and expected benefits. It also be found if there is a strategic and operational plan of the enterprise information system. The strategic plan should include directions for developing the system in the long term, while the operational plan has a horizon of activity up to three years. In these plans the IT objectives correlation with economic objectives of firm is found, such as linking investments in information technology with the development of a company's electronic business.

The information system organization should consider establishing duties and responsibilities as organizational chart, posts and relationship of subordination, coordination and collaboration, and clarification of budget issues, expenses, efficiency indicators. Managerial duties related to information security can be structured on top management and executive management. Persons who are included in the first category have as main tasks (Armstrong, Guay and Weber, 2010):

– Establishing the strategy and safety policy and define a profile of risk assumed;

– Establishing responsibilities among employees involved;

– Defining values related to risk awareness;

– Managing investments and reporting security implementation schedule efficiency.

Executive management has as obligations:

– Design and implementation of safety policy;

– Identify threats, vulnerabilities and applicable practices;

– Identify available resources, priorities and measures that organization can afford;

– Conduct periodic revaluations and tests;

– Shall ensure that security is an integral part of organization life cycle processes and details each phase separately.

Information technology can play a crucial role in monitoring the effectiveness of internal controls over financial accounting system to achieve a healthy internal control environment. Integration of information security in corporate governance helps to consider such a policy as one of the fundamental operations of an organization and imposes responsibility, in terms of risk management, reporting and executive responsibility within that entity. The term used to describe how information security is seen as part of a responsible governance system of an enterprise is the information security governance (ISG). Implementing an ISG framework has several advantages for the organization, most notably the strengthening of a responsible behaviour. Among these benefits the internal security and control practices, promoting self-government and involving local authorities for law enforcement are also found.

Some theoreticians and practitioners of business environment stated that the informational resources are the "lifeblood" of an organization. A range of safety controls can be defined as an appropriate combination of physical, technical and operational forms, which provides reliable information exchange. Proving this helps a company to build trust with its partners, which in the long term, will be reflected in increased cash flow and profitability. In conclusion, there is a clear need to emphasize the importance of information security and its integration into a general program of governance. Applying a framework of responsibility and information security can generate several benefits, such as internal security practices and controls and the promoting a self-governance system.

CONCLUSIONS

The implementation and use of information systems in an organization current activity highlights, along with controls system implemented, the issue of risks which faces the informatics system and their impact on the whole entity. IT function may be essential in an entity, by providing support for achieving strategic objectives. In this respect, it will seek to increase the automation of all activities in order to achieve expected efficiency, reduce technology costs, minimize IT risks, and ensure security and reliability of the information system. Technology was long considered only a factor to assist an organization strategy, but under the conditions of current business environment, it becomes an integral part of this strategy.

IT governance integrates and institutionalizes the best practices that support involving information system into achievement of the enterprise's objectives. In this way, by exploiting efficient and operative the information provided by system, the company maximizes its benefits, capitalizes the business opportunities and achieves competitive advantages. To obtain effective and efficient governance is necessary to implement a control framework of activities/processes as required IT standards. Since there is no theoretical guidance for setting overall IT vulnerabilities and threats, because no methodology cannot make full use of a inventory resulting from best practice experience. Application of some controls ensures consistency of IT processes, prevention and elimination of disruptions caused by erratic changes with consequences on information system reliability. Credibility can be placed into uncertainty and sabotage by malicious products, revenge or to unfair competition.

So, in order to meet requirements of the business environment in which an enterprise activates its management must understand the need and importance of information security as part of leading. Protecting information and their communication should be the responsibility of everyone involved in organizational processes, mainly managers, not only the IT department employees. This involves in fact integrating information security into the overall corporate governance of an enterprise – implementing the concept of IT governance.

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