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CENTRE FOR EUROPEAN STUDIES

Working Papers Series

CES WP

www.ceswp.uaic.ro

Volume V, Issue 4, 2013

EDITORIAL BOARD

Volume V, Issue 4, 2013

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THE EUROPEAN UNION`S TRADE RELATIONS WITH AUSTRALIA

Ludmila Borta[*]

Abstract: *The European Union is a major player in the world economy and also the largest trading player on the global scene, accounting for about 20% of world imports and exports. The elimination of trade barriers within the EU confirmed its commitment to global trade liberalisation as it is an important part of multilateral trade negotiations. Apart from WTO trade agreements, the European Union concluded a number of bilateral trade agreements with certain countries and regions in the world. The aim of this paper is to present the EU-Australia trade relationship, Australia being an important trading partner of the EU. The trade flows between them includes both agricultural and non-agricultural products. The database that has been used is represented by the information published by the European Commission and the Australian Government. In conclusion, we found that both EU imports from Australia and EU exports to Australia are dominated by non-agricultural products.*

Keywords: trade relations; EU`s imports; EU`s exports; Australia; trade partnership
JEL Classification: F1; O24; Y10

INTRODUCTION

Considering the total area of a country or a region, Australia is the sixth-largest country in the world, comprising the continent of Australia, a number of smaller islands, and the island of Tasmania. This country is a territory which has six states, namely Victoria, Tasmania, Queensland, South Australia, New South Australia, and Western Australia. Australia is a wealthy country with a market economy and a relatively high GDP per capita. With the European Union, Australia enjoy a constructive and substantial bilateral relationship, having a number of formal bilateral agreements with this region and its institutions.

As an economic and commercial bloc, the European Union constitutes one of the largest trading and investment partners of Australia. With its abundant natural resources, Australia is well placed to be a reliable and an efficient supplier of energy to the European continent for many years to come. Australia and the Union cooperate closely in the Asia-Pacific region, to enhance security, stability and good governance. The Australia-EU Partnership Framework of 2008 is designed to be revised regularly. Key areas of cooperation are: security; development cooperation; climate change, environment and energy;

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science and research; and education and training. As regards to bilateral economic and trade relationship, EU and Australia have a convergence of views on many global economic issues. Europe is now a major market for wine and for medicines from Australia. The European Union services market (particularly in the education and tourism sectors) is a major market for Australian service providers, product niches being found in the food and beverage industries (European Union brief: Australia`s relations with the European Union, 2013).

It is known that trade stimulates global economic growth, for the benefit of all participating countries and regions. Globally, international trade rules are set both on multilateral base and on bilateral/regional base. Thus, the European Union has developed, apart from its participation in WTO rounds, a significant number of bilateral/regional trade agreements with certain countries and regions in the world, including Australia. Trade liberalisation allows the most competitive European companies to compete with those from other countries, in fair competition. As a world`s major trading player, the European Union is considered by Australian authorities an important market which can offer for Australian citizens opportunities to have access on European both agricultural and non-agricultural products. Trade between the EU and Australia includes many groups and sectors of products.

1. THE TRADE PARTNERSHIP BETWEEN THE EUROPEAN UNION AND AUSTRALIA

For the EU, and also for many countries and regions from the whole world, trade has many benefits. In this way, the EU can procure the best products and services for its citizens, increased trade offering a greater variety of goods to consumers, at lower prices. As the world`s largest trading bloc, more trade for the European Union means more economic growth which can help to overcome the economic and financial crisis. Trade also implies more jobs and makes it easier to exchange innovative or high-technology products, and reducing poverty. Competition in the European Union can be boosts as well as competitiveness, trade agreements making it easier to do business.

The EU and Australia enjoy a broad-based trade relationship and on many international trade issues the European Union and Australia are like-minded. Australia is an important trade partner of the European Union. In today`s international trade environment, they share many common concerns (for example, the risks of protectionism and the issue of raw materials). Their economic and trade relations are based on the EU-Australia Partnership Framework of October 2008. At the same time, the European Union and Australia cooperate both multilateral, on the Doha Round of the World Trade Organisation of world trade talks and trade in services and investment issues (the objectives of the European Union for this round are also: to agree a new set of rules to govern the use of trade defence instruments; in market access negotiations for the services trade and for the industrial goods sector; to further improve the WTO rules on subsidies that distort the production of industrial goods etc.), and bilateral to facilitate trade in industrial products between them by reducing technical barriers, including mutual recognition of conformity assessment procedures (Countries and regions: Australia, 2012).

Under the European Union-Australia Partnership Framework these two regions have agreed especially on the following issues:

- to recognise their shared values and close economic, politic, cultural and historical ties;
- to acknowledge the challenges of globalisation;
- to support the multilateral and bilateral cooperation;
- the EU-Australia dialogue in support of foreign policy and global security interests;
- to recognise the need for heightened effective international cooperation in an increasingly interdependent world;
- to recognise the importance of two-way trade between the European Union and Australia;
- to reaffirm their commitment to the development of a healthy world economy in accordance with the principles of the WTO;
- to recognise the value of the multilateral trading system;
- to promote the multilateral rules-based trading system;
- to expand and consolidate the bilateral trade relationship;
- to cooperate on environment, energy security, etc.;
- to enhance bilateral/regional cooperation and coordination in relation to the Asia and Pacific region;
- to strengthen cooperation in innovation, science, research, technology (Australia-European Union Partnership Framework *n.d.*).

In regard to international trade and the positive effects it provides for the world economy and world trading system, Australia and the European Union share the same basic values. Investments and trade are important elements of the relationship between the EU and Australia. As we mentioned earlier, their trade interests are pursued through a rules-based multilateral trading system (the World Trade Organisation), but also the European Union and Australia consider that the system of that organisation can be complemented on a bilateral basis by "WTO plus" Free Trade Agreements.

The collaboration between Australia and the European Union are based on shared interests to deepen their close cooperation on the multilateral system. These two regions are agreed to work towards a comprehensive outcome of the Doha Round (the WTO) as soon as possible through regular dialogues on different trade policy issues of mutual concern that may be treated within a multilateral framework. The EU and Australia exchange information on policy approaches to FTAs (Free Trade Agreements) and on their respective FTA agendas. For these objectives the EU and Australia have agreed to take a number of actions, which desired outcomes have been:

- a broader and stronger trade and investment EU-Australia partnership;
- to cooperate in shaping the international trade policy agenda;
- stronger EU-Australia business-to-business linkages;
- to cooperate on implementation of G20 Leader`s Commitments (G20 members account for 80% of global trade and for 85% of the world economy);
- a mechanism that simplified the resolution of Sanitary and Phytosanitary (SPS) and/or food safety issues between the European Union and Australia;
- to finalise negotiations on a Comprehensive Air Transport Agreement between the EU and Australia. This agreement might provide a practical framework for cooperation on aviation environment issues, enhancing market access and investment opportunities;
- to strengthen aviation relations between them;
- to develop the bilateral trade relationship;
- to increase capacity for dialogue on proposed new regulations on bilateral trade, reducing risk of adverse impact of new regulations;
- stronger EU-Australia government-to-business linkages (Australia-European Union Partnership Framework *n.d.*).

2. THE EU`S TRADE WITH AUSTRALIA

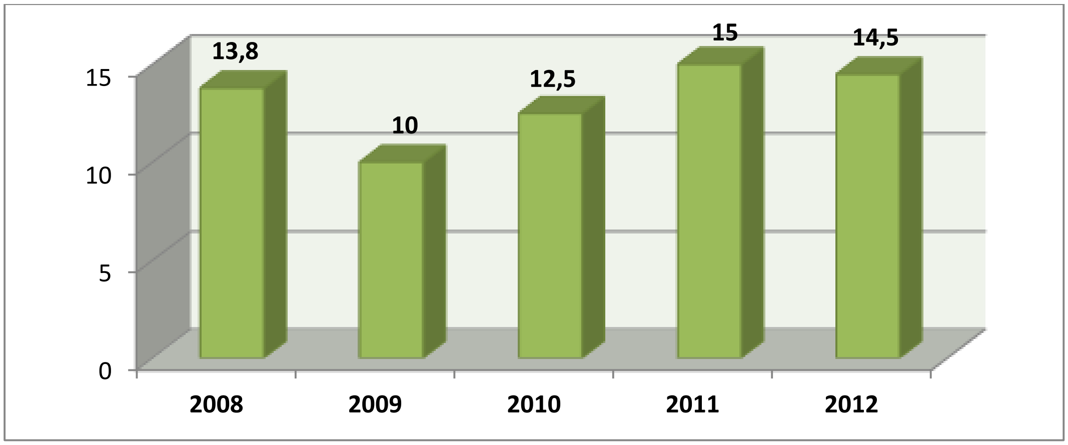
The European Union and Australia work together in the G20 context to promote global economic growth and recovery. They agree to meet the current challenges facing the international economy, the trade being for them an important element. The EU, as a commercial bloc, constitutes for Australia one of the largest trading partners. The EU`s market access is generally open for imports of goods and services from Australia. Both regions are disappointed by the current impasse in Doha Round (WTO) negotiations and share ambition to overcome the current challenges to achieve a successful outcome in the WTO Doha Round of multilateral trade negotiations (European Union brief: Australia`s relations with the European Union, 2013).

Australia is an important trading and economic partner of the European Union. In 2011, it ranked as the 15th largest trading partner after China and Japan. In 2012, total trade in goods amounted to 48.3 billion euro. By Standard International Trade Classification (SITC) section, the EU`s imports from Australia are dominated by commodities and transactions (accounting for 24.7%), mineral fuels, lubricants and related materials (accounting for 22%), and crude materials, inedible and except fuels (accounting for 20%). While EU`s exports to Australia have much more focused on machinery and transport equipment (accounting for 52% of total EU`s exports to Australia) (Countries and regions: Australia, 2012).

2.1. EU`s Imports from Australia

In 2012, the value of total trade in goods and services of Australia increased approximately 1.5%. In volume terms, total trade of this country increased 7%, compared to 2011. The European Union accounted for 13% of Australia`s total trade. The value of total exports of Australia decreased by 4%, but export volumes increased by 7%. Exports of this continent to members of the European Union fell 9%. According to statistical database published by Australian government, in 2012, principal exports of Australia to the European Union were dominated by the following products: gold; coal; oil-seeds and oleaginous fruits, soft; confidential items of trade; lead; medicaments (including veterinary); other ores and concentrates; alcoholic beverages; etc. (Composition of Trade Australia 2012, 2013, p. 101).

Figure 1 - EU`s imports from Australia (billion euro)



Source: Own processing after the European Commission Statistics

In 2012, Australia was for the European Union one of the major import partners (namely, the 26th import partner). The European Union`s imports from Australia accounts for 0.8% (14.5 billion euro) of total EU`s imports. In Figure 1 we present the evolution of the level of values of EU`s imports from Australia for five years, from 2008 to 2012. Thus, it can be seen clearly that the economic and financial crisis of 2007-2008 has a negative impact on trade relations between Australia and the European Union. With the global economic crisis, the European Union entered recession in the second quarter of 2008. The subsequent recession was the longest and deepest in the EU`s history, lasting until the second quarter of 2009 with a total contraction of 5% (measured as a decline in GDP from peak to trough). According to European Commission, the value of EU`s imports from Australia decreased by 28% in 2009 compared to 2008. Thus, in 2009, the level of exports from Australia to the European Union decreased from 13.8 billion euro to 10 billion euro. This trend was a reflection of the value`s level of EU`s imports from World which decreased by 22% in 2009 compared to 2008. But, in 2010 and in 2011 the value of European Union`s imports from Australia was increased approximately 20% for each year compared to the previous year. In 2012, those decreased 3% compared to 2011. The value of imports from Australia represent approximately 1% of total EU imports for each those five years.

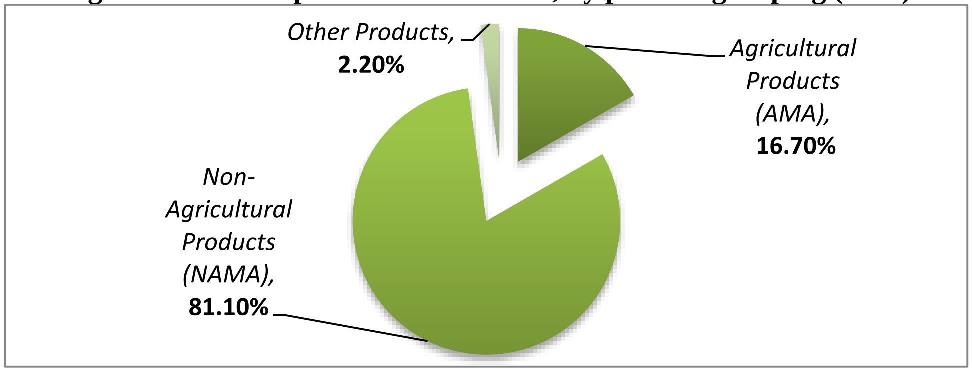
Table 1 - EU`s imports from Australia, by SITC section (2012)

SITC Sections	Value (billion euro)	Share of total (%)	Share of total EU import (%)
Commodities and transactions n.c.e.	3.581	24.7	4.9
Mineral fuels, lubricants and related materials	3.197	22.1	0.6
Crude materials, inedible, except fuels	2.910	20.1	4.1
Manufactured goods classified chiefly by material	1.371	9.5	0.8
Machinery and transport equipment	884	6.1	0.2
Chemicals and related prod, n.e.s.	728	5.0	0.5
Miscellaneous manufactured articles	639	4.4	0.3
Beverages and tobacco	567	3.9	7.5
Food and live animals	496	3.4	0.6
Animal and vegetable oils, fats and waxes	10	0.1	0.1
Total	14.479	100	0.8

Source: Own processing after the European Commission Statistics

For to present a classification of products that represent import goods of the European Union in 2012, we chose the Standard International Trade Classification (SITC). This is a product classification of the United Nations used for external trade statistics, allowing for international comparisons of commodities and manufactured goods. Thus, in 2012, the Australian`s exports of commodities and transactions to the European Union accounted for 24.7%, in the value of 3.581 billion euro. This Standard International Trade Classification was the important section of EU`s imports from Australia, registering the highest value of total EU imports from that country (14.479 billion euro). In Table 1, we can see that the next major sections of Australia`s exports to the European Union was: mineral fuels, lubricants and related materials (22.1%), and crude materials, inedible, except fuels (20.1%). The least important section was animal and vegetable oils, fats and waxes. This accounted for 0.1% of total imports of the European Union from Australia, in the value of only 10 billion euro.

Figure 2 - EU`s imports from Australia, by product grouping (2012)



Source: Own processing after the European Commission Statistics

In Figure 2, we can see that the EU`s imports from Australia was dominated, in 2012, by non-agricultural products, accounting for 81.1% (11.744 billion euro). These include different categories of products, such as: fuels and mining products (17%); chemicals (5%); iron and steels (0.3%); machinery and transport equipment (6%); clothing (0.1%); etc. The agricultural products (food, inclusive fish, and raw materials) accounted for 16.7%, namely 2.415 billion euro, of total EU imports from Australia.

2.2. EU`s Exports to Australia

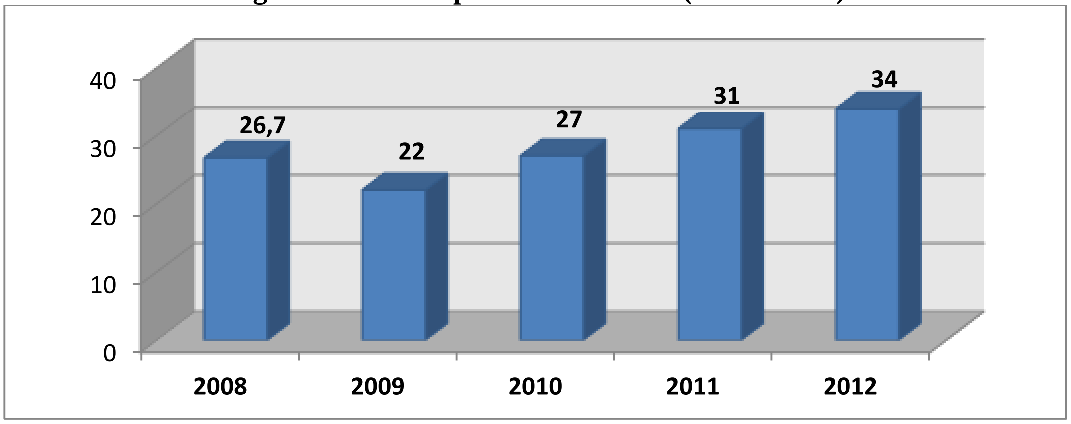
In 2012, Australia was for the European Union one of the major export partners (namely, the 12th export partner). The EU`s exports to Australia accounted for 2% (33.85 billion euro) of total EU exports. In regard of access of the European Union`s exporters to Australian market, the EU`s exporters has faced several trade barriers which have affected them. According to European Commission, these barriers include the following:

- the operation of the Industrial Chemicals Act of 1989 and the National Industrial Chemicals Notification and Assessment Scheme is a cause of concern. The problem surrounds the export of European Union products containing chemical ingredients and their entry for sale in Australia;
- EU producers have faced some difficulties to defend their rights in Australia, especially in the food and spirits sector;
- Australia still applies very strict microbiological criteria for some milk products, which in practice can prevents some of those to be placed on the market of Australia;

- the Australia automotive industry has benefited from a range of programmes over the years aimed at encouraging an export orientated industry. It is to encourage investment and innovation in the Australian automotive industry, and rewards production, investment and Research and Development through the quarterly issue of import duty credit to registered participants;
- Australia levies a 33% sales tax, known as the Luxury Car Tax, on all imported and domestically produced cars valued over a specified threshold. This tax is in addition to the duty of 10% (passenger cars) or 5% (commercial vehicles) and a Good and Service Tax of 10%;
- in Australia, imports of second-hand passenger cars are subject to an ad valorem tariff rate of 5% since 2010;
- authorities of Australia applies unjustified import restrictions on a number of animals and animal products relating to BSE (Bovine Spongiform Encephalopathy);
- Australia does not have legislation to efficiently prevent counterfeit products. The presence of counterfeit products results for leading European brands in lost sales;
- Australia has a strict import regime for pig meat and pig meat products, including specific requirements for heat treatment and de-boning of the meat;
- Australia applies unjustified import restriction on chicken meat relating to Infection Bursal Disease;
- Australia operates a 29% value-based Wine Equalisation Tax on wine consumed in this region, but provides a capped rebate which effectively exempts over 90% of domestic producers from the Wine Equalisation Tax;
- numerous discriminatory policies and other restrictions remain that are discouraging for companies of the European Union wishing to enter Australian market. In particular, EU`s suppliers could be at a disadvantage in relation to procurement at the state level, as there is no obligation on state governments to treat all suppliers in a non-discriminatory manner; etc. (Barrier fiches: Australia, 2013).

In 2012, the value of imports of Australia increased 7%, and import volumes increased also approximately 7%. Australia`s imports from members of the European Union increased 4.5%, compared to 2011. According to statistical database published by Australian government, in 2012, principal imports of Australia from the European Union were dominated by the following products: medicaments (including veterinary); passenger motor vehicles; confidential items of trade; miscellaneous manufactured articles; goods vehicles; vehicle parts and accessories; measuring and analysing instruments; medical instruments (including veterinary); ships and boats; electrical machinery and parts; household-type equipment; industry specific machinery; machinery and transport equipment; manufactures classed by material; food and live animals; alcoholic beverages; chemicals and related products; pharmaceutical products; etc. (Composition of Trade Australia 2012, 2013, p. 101-102).

Figure 3 - EU`s exports to Australia (billion euro)



Source: Own processing after the European Commission Statistics

In Figure 3 we present the evolution of level the values of EU`s exports to Australia for five years, from 2008 to 2012. Thus, it can be seen clearly that the global economic crisis of 2007-2008 has a negative impact on trade relations between Australia and the European Union. According to European Commission, the value of EU`s exports to Australia decreased by 18%, in 2009 compared to 2008. Thus, in 2009, the level of imports to Australia from the European Union decreased from 26.7 billion euro to 22 billion euro. This trend was a reflection of the value`s level of EU`s exports from World which decreased 16.5%, in 2009 compared to 2008. But, in 2010 and in 2011 the value of EU`s exports to Australia was increased approximately 23% and 15.6%, respectively, compared to the previous year. In 2012, the value of those also increased, but only by 8.6% compared to 2011. The values of exports to Australia represent approximately 2% of total EU exports for each those five years.

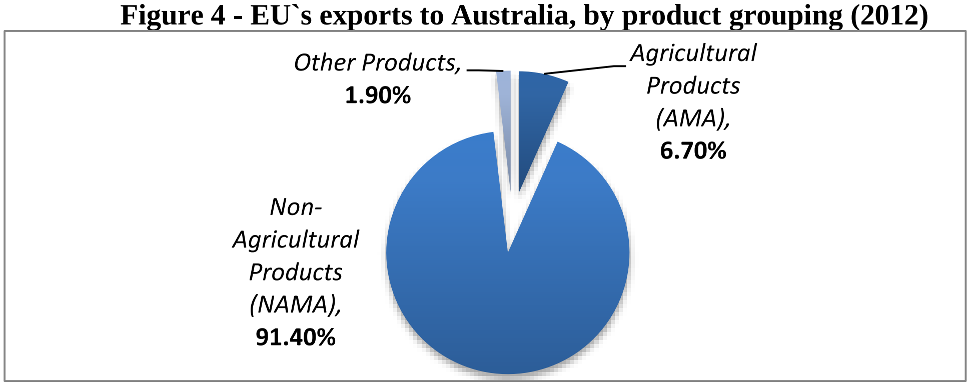
Table 2 - EU`s exports to Australia, by SITC section (2012)

SITC Sections	Value (billion euro)	Share of total (%)	Share of total EU import (%)
Machinery and transport equipment	17.638	52.1	2.5
Chemicals and related prod, n.e.s.	5.980	17.7	2.2
Miscellaneous manufactured articles	3.805	11.2	2.2
Manufactured goods classified chiefly by material	3.163	9.3	1.5
Food and live animals	1.492	4.4	2.1
Beverages and tobacco	625	1.8	2.2
Commodities and transactions n.c.e.	256	0.8	0.5
Crude materials, inedible, except fuels	215	0.6	0.5
Animal and vegetable oils, fats and waxes	105	0.3	2.3
Mineral fuels, lubricants and related materials	101	0.3	0.1
Total	33.845	100	2.0

Source: Own processing after the European Commission Statistics

For to present a classification of products that represent export goods of the European Union in 2012, we chose the Standard International Trade Classification (SITC). This is a product classification of the United Nations used for external trade statistics, allowing for international comparisons of commodities and manufactured goods. Thus, in 2012, the Australian`s imports of machinery and transport equipment from the European Union accounted for 52.1%, in the value of 17.638 billion euro. This SITC was the important section of EU`s exports to Australia, registering the highest value of total EU exports to that country (33.845 billion euro). The next major sections was: chemicals and related products (17.7.1%), and miscellaneous manufactured articles (11.2%). The least important section was mineral fuels, lubricants and related materials. This accounted for 0.3% of total exports of the European Union to Australia, in the value of only 101 billion euro.

Figure 4 - EU`s exports to Australia, by product grouping (2012)



Source: Own processing after the European Commission Statistics

In Figure 4, we can see that the EU`s exports to Australia was dominated, in 2012, by non-agricultural products, accounting for 91.4% (30.936 billion euro). These include different categories of products, such as: fuels and mining products (0.9%); chemicals (17.7%); iron and steels (1.5%); machinery and transport equipment (52.1%); textiles (0.7%); clothing (1.1%); etc. The agricultural products (food, inclusive fish, and raw materials) accounted for 7.1%, namely 2.413 billion euro, of total EU exports to Australia.

CONCLUSIONS

Australia is not a major economy of the world like the USA, the BRICS countries or the European Union, but it is a wealthy country with a market economy. Only relying on a few issues - such as, Australia is one of the largest country in total area; it has abundant natural resources; and its geographic location (between the Indian Ocean and the South Pacific Ocean) - we can say that the European Union can be interested to developed trade relations with this island.

The EU-Australia trade relations have many benefits for each part of its partnership. They enjoy a broad-based trade relationship, Australia being a major trading partner of the European Union. Nowadays, this two regions shares many common concerns in regard to international trade environment. The European Union and Australia have agreed on many aspects, for example: to acknowledge the challenges of globalisation; to cooperate multilaterally and bilaterally; to recognise the value of the multilateral trading system; to cooperate regionally in relation to the Asia and Pacific region; etc. Trade is important element of the relationship between the European Union and Australia.

The EU`s market access is generally open for imports of goods from that country. According to European Commission and Australian Government, in 2012, the value of EU imports from Australia increased compared to 2008, although it decreased compared to 2011. In 2012, Australia was the 26th major import partner of the EU. The economic and financial crisis of 2008-2007 has a negative impact on Australia-EU trade. In 2009, the value of Australia`s exports to the EU decreased approximately 30%, compared to the previous year. In the next two years, the value of those was increased significantly.

In 2012, Australia was the 12th major export partner of the European Union. The value of EU`s exports to Australia increased in that year compared to 2008 when the economic crisis affected the international trade. In 2009, Australia`s imports from the EU decreased approximately 20%, compared to the previous year. In the next three years, the value of those increased. In last few years, EU`s exporters have faced several trade barriers, in regards to Australian market access, which have affected them.

Analysing the EU-Australia trade relations, we founded that, by product grouping, both EU`s imports from Australia and EU`s exports to that country was dominated by non-agricultural products, in 2012. Also, by SITC section (Standard International Trade Classification), the EU`s imports of commodities and transactions, mineral fuels, lubricants and related materials from Australia was the sections in the head of the list of EU imports. The EU`s exports to Australia was dominated by machinery and transport equipment.

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FREE TRADE AND THE ROOTS OF MODERN IMPERIALISM

Madalina Calance*
Paula-Elena Diacon†

Abstract: *In his work, „Nation, State, and Economy" (1919), Ludwig von Mises claims that the idea of liberalism starts with the freedom of the individual and it rejects all rules of some persons over others. This paper aims to illustrate an opposite direction, deprecating the 18th century colonial practices which have gradually tainted the pacifistic principle of liberalism with the oppressive, imperialistic goals, of the most powerful states. We focus on the British East India Company, which dominated the East Indies. We find that, under the cover of free trading, the British Superpower has often used military intrusion to acquire territories, to rule resources and, through this, to exercise power over the native population.*

Keywords: power; imperialism; colonialism; free trade
JEL Classification: B0; B5; F1

INTRODUCTION

Throughout history, the human action is consumed within the space traced by free will- a free will to choose from the fixed available options. The individual choices usually oscillate between aspiration - *what we want*- and what is available- *the resources, the possible*. Possibility, however, is limited by the permission of some authorities, who are ruling by using specific instruments (ideologies, religion, coercion) and claims to legitimize the divine order (king, Church) or the general interest (Central Bank, Government, International Union). In the end, we can see that freedom is dosed by those who own the power of freedom.

In Thomas Hobbes's Leviathan, power (which can be original or instrumental) is conceived as all the means that enable the individual to obtain future goods. For behaviourists, power is an influencing relationship between the behaviours of social actors. The American professor of anthropology, Abner Cohen (1974) argues that economic relations are relations of power, political par excellence (the economical power is integrated by the political power). Ludwig von Mises speaks of might, which is „the power to direct other people's actions. He who is mighty, owes his might to an ideology. Only ideologies

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can convey to a man the power to influence other people's choices and conduct. One can become a leader only if one is supported by an ideology which makes other people tractable and accommodating. Might is thus not a physical and tangible thing, but a moral and spiritual phenomenon. A king's might rests upon the recognition of the monarchical ideology on the part of his subjects."(Mises, [1949]1988, p. 188)

Carroll Quigley (1966) distinguishes three levels of the socio-political planning: (1) the military one, focusing on force organization; (2) the political level, concerned with the organization of power; (3) the economical level, inspired by the organization of wealth. By „the organization of power" in a society, we understand the ways in which obedience and consent are obtained. The author claims that the close relationship between levels can be seen through the fact that there are three essential ways of obtaining obedience: power, conviction and the buying of consent. Today, the organization of power - as a method of obtaining obedience - is an advanced version of old methods.

1. FREE TRADE AND THE ROOTS OF MODERN IMPERIALISM

We believe that the need of power manifested in normal conditions, or pathologically, is genuinely a constant of the human existence. We also can identify different ways of meeting this need, over time and space. History confirms that purchasing power has been usually made in bellicose ways. The best known examples for the *„thirst for power"* are personalities such as Alexander the Great, Genghis Khan or Julius Caesar. Since biblical times, many nations expressed their dominance through invasions or wars, whose consequences were to accumulate wealth and socio-cultural merging with indigenous populations. The subject of power appears to be **domination**, while its object is **the resource** (human or material). Therefore, many times, obtaining resources is conditioned by conquering new territories.

A special circumstance, of conquering new territories, is colonization. Fifteenth century discoveries paved the way to economic colonialism. One at a time, the Americas, Asia, India and Africa were targets of the metropolitan expansionist policies that have anchored their countries growth and development to „foreign shores". The colonisations had a global integration effect, by developing the transfer of goods, labour and capital, between nations.

On the other hand, in a reprehensible register, it should be noted that, free labour and raw materials, freely appropriated by the metropolitans, gained them a distinct advantage over the foreign competitors, and thus provided their economical supremacy. Moreover, at the basis of cleavages between North and

South, stands the exploitation of the colonized: the Native Americans, Africans and people of the Middle East.

The colonial policy of the European powers oppose to all the principles of liberalism. Mises claims that „the basic idea of colonial policy was to take advantage of the military superiority of the white race over the members of other races. The Europeans set out, equipped with all the weapons and contrivances that their civilization placed at their disposal, to subjugate weaker peoples, to rob them of their property, and to enslave them" (Mises, 1927, p. 125). Mises debunked the motive of colonial policy, the one of sharing to the primitive peoples the blessings of European civilization; he argued that the superiority of European civilization stands in the ability to inspire other nations to consciously adopt its patterns. The poignancy of his convictions stands in the interrogation: „Could there be a more doleful proof of the sterility of European civilization than that it can be spread by no other means than fire and sword?" (Mises, [1919] 2002, p. 125)

Internationally, the most popular form of power manifestation, in order to increase the strategic and political skills of a nation, is known as *imperialism*. Imperialism has multiple connotations (liberal, conservative, Marxist, etc.). However, they all appear to converge towards the status of a *ruling nation*. Mises reminds that the term *imperialism* was first employed to characterize the modern policy of territorial expansion, in the case of England. „England's imperialism was primarily directed not so much toward the incorporation of new territories as toward the creation of an area of uniform commercial policy out of the various possessions subject to the King of England. This was the result of the peculiar situation in which England found itself as the mother country of the most extensive colonial settlements in the world. Nevertheless, the end that the English imperialists sought to attain in the creation of a customs union embracing the dominions and the mother country was the same as that which the colonial acquisitions of Germany, Italy, France, Belgium, and other European countries were intended to serve, the creation of protected export markets"(Mises, [1919] 2002, p. 124).

Mises asserted that the colonial expansion was forced upon Great Britain „by other nations' lust of conquest. Every annexation of a piece of land by France, Germany, or Italy curtailed the market for the products of all other nations. The British were committed to the principles of free trade and had no desire to exclude other people. But they had to take over large blocks of territory if only to prevent them from falling into the hands of exclusive rivals. It was not their fault that under the conditions brought about by

French, German, Italian, and Russian colonial methods only political control could adequately safeguard trade" (Mises, [1944], 1969, p. 97).

The idea of individual freedom is the foundation of liberalism, rejecting all rules of some over the others. Before the Enlightenment ideals reached their practical implementation, the Church and the State were biased structures ruling over the people; at the same time, mercantilism was the doctrine for subjugating other nations, through trade. National economists often recommended trade protections and the exploitation of the colonies in the interests of the mother country. Further, classic liberals theorized free trade as an amiable solution in the international affairs, disqualifying imperialism, which was based on government control and unfair monopolies.

A truly eloquent example of economic imperialism lies in the work of the main colonizing associations in Western Europe, from XVIth to XVIIIth century. The first one of such associations, the British East India Trade Company, is the archetype of today's transnational corporation. The Company had introduced the shareholder model of corporate ownership and built the foundations for modern business administration (Robins, 2006, p. x). The charter granted by Queen Elizabeth I to the „Governor and Company of Merchant of London trading into the East Indies", assured the company a monopoly of trade with the East, surpassing the Dutch and Spanish competitors for good.

In the first years of activity, the British Company had been Asia's commercial supplicant, shipping out precious metals in return for spices, textiles and other luxury goods that Europeans were extremely attracted to. Peter Freyer notes that, once arrived in India, foreign merchants found a country whose development reached the most advanced European nations. India was specialized in agriculture and manufacturing; Indians had a thriving textile industry (cotton, silk and wool were sold in Asia and Europe), excellent iron processing skills and their own shipbuilding industry. Their prosperity was altered by the British administration (Freyer, 1993, p. 22).

The British East India was certainly a monopolistic trading body, which established many factories at Surratt, Madras, Bombay and Calcutta. In 1662, Bombay was rented to England for 10 £ a year. In fact, the company came to conquer many Indian territories, initializing trade and then exercising military power - with the support of her own armies. It is true that some of India's major cities flourished because of the Company's trade; still the balance leaned more in favour of the British. The coastal ports of Bombay, Calcutta and Madras, which widened the British land empire, represented the springboard for further domination in South-East Asia, China and Japan; Penang and Singapore were both ports purchased, by the Company, in a time when territories could be bought and sold like commodities (Robins, 2006, p. 6).

The Company easily gets to be unrivalled and to maintain exclusive rights for Asian imports through lobby, bribe, fraud, and force. Contemporary with the facts, Adam Smith was horrified about the oppressive regime of the Company in the East; he saw it as a great enemy of the open market.

The question we rise is such stratagems why should be dialled by a trading society? The answer stands in the political environment of that age, when nations competed in a violent race for power. Inevitably, the mercantile interests in the home country manipulated the power of the state for ruling over the colony. After the Battle of Plassey (1757) the Asian supplier - European supplicant pattern was broken, with the establishment of the Company rule in Bengal, and then in most of India. The subversive move can be detected in the way that the Crown gave her consent - nevermore a liberal state does not support aggressive plans. Before 1757 the commercial purposes prevailed the political interferences, in the activity of the company. The twist on the situation began with the competition of the French. Although holding the political control of India, the company began to lose ground thanks to the spreading of the new doctrine of Adam Smith, which promoted the free competition; thus the company lost a quarter of the market. Without their monopoly, the British had to find new solutions like importing cheap Lancashire cotton (destroying the Indian local economy); exporting opium to China - a country forced into free trade, through „gunboat diplomacy" and two Opium Wars- and buying tea, in return, which they sold in Europe and America. Further, severe protest occurred over the Atlantic, in Britain's American colonies, against British oppression, when the East India Company tea was dumped into Boston Harbor - a symbolic start of the American War of Independence. Gradually, the company experienced the reverse of her takeovers. „Initial stock market euphoria quickly gave way to excess, mismanagement and collapse. As the Company transformed itself from a modest trading venture into a powerful corporate machine, its systems of governance completely failed to cope with the new responsibilities it faced. Oppression of local weavers and peasants became the norm. Military spending spiralled out of control as adventurers took over from traders. Corruption assumed epidemic proportions and speculation overtook its shares, stoked up by Clive and others. Then, in 1769, conflict in south India rattled nervy investors, sending its share price into free fall. Financial crisis stalked Europe and the Company faced bankruptcy. Across the world in Bengal, drought turned to famine as Company executives profiteered from rising grain prices. Plays, pamphlets and poems poured from the presses back in Britain to pillory the Company and its executives" (Robins, 2006, p. 4).

The British interests in India were constantly changing, even contradictory: an inevitable phenomenon, as the countries taking part to the conquest of India (England, Denmark, and France) experienced the greatest transformative period in their history. The sudden access, of a group of merchants to an enormous territorial power and huge profits, awaked suspicions and resentment within the parliamentary circles and the British leaders. Disagreements emerged sometimes between the British Company and its employees concerning the problem of private commerce, along with the increased pressure exercised by the free-trade partisans for breaking the monopoly of trade. In addition to this, the increasing interests of Lancashire industry, successfully fighting for higher import taxes on Indian textiles, brought a great percent of the company's fortune; also unilateral free trade enabled the access to the great market of South Asia, on which domestic textiles were sold. All these British Charters placed the company under a narrowest governmental control (UNESCO, 2008, p.1077).

However, at one point, the force of British East India was officially „tempered" by the British Government: in 1772 the Parliament decided to control the company's Board of Directors and, a couple of years later, it established the secretarial state in India. The private interests were becoming public interests. The private company was turned to a public concern. When, in 1815, the French lost the battle of Waterloo, Britain became the greatest power in the world (a quarter of her budget was consumed by the army). The British East Indian Empire surpassed by far the colonial possessions of all other European nations. In the 1820's it was virtually the only colonial *power* (Mises, [1944], 1969, p. 96).

The First War of Independence in India (1857-1858) signifies the uprising against the British Company rule. Robinson states that, until the conflict, „the Company had lost almost all connection with the band of merchants who set out in four tiny ships to break into the Indonesian pepper market at the beginning of the seventeenth century. It no longer traded, and it administered its conquests in India as a licensed agent on behalf of the British Crown" (Robins, 2006, p.6). The India Act of 1858 formally certifies that the British state takes over the Company's rights and responsibilities, by nationalizing it. Until its nationalization, for British East India Company the state's intervention was a constant reality. The regular renewal of its charter had major state interests: (1) the company collected Indian taxes which financed the government deficits, so the state renounced at his sovereignty in exchange of cheap loans; (2) the company outsourced the pursuit of British domination in Asia.

Later, the Marxist theorists condemned the exploitation of the colonies and associated the liberal ideals to a subversive domination process, of weaker countries by the powerful ones. For liberals such as John Hobson and Norman Angell, the increasing concentration of wealth within imperial states led to under consumption for the mass of people. Overseas expansion was a way to reduce costs of production (and thereby to increase or maintain profit levels) and to secure new markets. On the other extreme, Marxists approve this logic; still, they consider its prescription wrong, since the state represents the interests of capital rather than labour. Lenin (which paradoxically cited Hobson) thought that imperialism is the final stage of capitalism and that the First World War was the culmination of the capitalist competition for new markets and investments (Griffiths, O'Callaghan, Roach, 2002, p. 157).

Therefore, there is a widespread opinion that capitalism leads to war. We assert that war is actually the enemy of trade, by damaging the free markets and free traders' ability to function. You cannot be a capitalist and wish to extend your business through war; since you act under the cost-benefit relationship you will surely know that war is expensive, destructive of property and a serious mistrust creator. The goal of a merchant is not power, but profit. We assume that the great wars during the expansion of markets did not originate only from colonial conflicts, but from nationalist and imperialistic aspirations.

Imperialism is not an inevitable consequence of capitalism; imperialism is corrupting capitalism. Trade, by improving everyone's perception over the gained value, is creating wealthy social conditions for cooperation. Therefore, in the liberal light, free trade is a quest for peace. Nevertheless, while the classical liberals advocated for the moral role of free trade, the structures of power used it, euphemistically, to achieve their less moral goals. Free trade was ideologized and then introduced by force, in the pursuit of national economic power.

In order to illustrate the intended efforts to free trading and the fact that economic theory does not always coincide with the political reality, we identified some instances, regarding the British imperialist expansion: (1) the famous ricardian example of comparative advantage is compromised by the fact that Portugal was dependent on British naval support, and therefore, obliged to accept the conditions of trade which destroyed her production of textiles and inhibited industrial development (Robinson, 1974; Dunkley, 2004); (2) the development of British cotton textile industry, under protection from superior Indian imports- along with the competitiveness of Lancashire, came free trade agreements with India (Nayyar, 2007, p.74); (3) the Opium War, along with the Radical demands of using force to defend the British merchants and to extend their markets (Semmel, 1970, p.206). The slogan of Frederic Bastiat, „if goods don’t cross borders, armies will” express that free trade is the optimal solution to peace and prosperity. But how can we guarantee for its virtue, knowing that the path to free trade was paved by wars and power-directed goals?

Let us not forget the fact that nationalism and imperialism were the forces which drove the European powers of that time in a world domination race. Let us not forget that not only political interfering caused the British Company’s vitiation; the greed and pride of some power-blinded men was also significant. In a retrospective analysis, Mises notes that the Europeans in the colonies „were seldom proof against the specific moral dangers of the exalted positions they occupied among backward populations. Their snobbishness poisoned their personal contact with the natives. The marvellous achievements of the British administration in India were overshadowed by the vain arrogance and stupid race pride of the white man” (Mises, [1944], 1969, p. 97).

CONCLUSIONS

By constantly pursuing the evolution of mankind, the desire for power takes various forms and it vitiates the customs and values peacefully created. We know that trade is older than agriculture or any other sort of regular production; it developed spontaneously, without states, and had a major role in spreading order (Hayek, 1988). Domestically, trade has never been a cause of conflict, while internationally it caused many wars. International trade wars only exist when the government is not performing his stabilizer duties: he may overreact through intervention or can allow immoral acts, by imperialistic policies. Generally, tariffs and other barriers created conflict between nations. Mises (1944) warned that the risk of war is closely linked to the role of government.

We presented an example of a company that served two masters: the market and the imperialistic goals of her mother country. Even nowadays, linking private interests to national aims remains one of the free-market dangers. We brought this example to demonstrate a historical lesson, which contemporary global economy needs to take, once and for all. Free trade is all about the peace and wealth of humankind, but its virtues are constantly attacked by special interests- mostly power interests. We must accept the fact that „directed free trade” can become a weapon in the wrong hands, of those who wish to dominate the markets, not by peaceful, moral acts, but by dangerous, monopolizing demarches. We believe that the race for arms and resources continues, at a quasi-disguised upgraded level, and that the development of a global *free trade* system is still impeded by the biased rules of the states and supranational entities.

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DETERMINANTS OF FOREIGN DIRECT INVESTMENT DEVELOPMENT

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Abstract: *FDI had a strong impact in the last three decades on economic growth, foreign trade and production structures in almost all countries. The purpose of this paper is to analyze the main factors that contribute to attracting foreign direct investment flows and also the competitiveness of the business environment in Romania and its implications on investment decisions and economic growth. Research results show that the presence of FDI goes to those areas that can provide efficiencies investment factors: skilled and qualified labor, educational and research institutions etc..*

Keywords: foreign direct investments; economic growth
JEL Classification: E22; F43; P33

INTRODUCTION

Throughout time, there has been a diverse and continuous evolution of the ways to develop a business beyond the country of origin from the traditional ones, centered on export, to more complex ones, leading to today's concept of foreign direct investment. The development of mankind nowadays known results from an ongoing process of investment in various forms. The different ways to invest, as well as the effectiveness of investments measurement have been the subject of discussion ever since the beginning of economic science, reaching today a great significance because of the development dynamics and economic growth, the major inequities given by the information asymmetry in terms of current states.

Investment is the material support of socio-economic development of the country. They underlie the refill, diversification and qualitative growth of all factors of production. The increase of fixed or working capital, of technical and economic efficiency of machinery, of the labor productivity, of new jobs, the diversification of production cannot be achieved without financial resources consumption, without investment. In this context, investment is the decisive element of economic growth, the promotion of intensive quality and efficiency factors. Foreign investment will complete the necessary internal resources and develop competitive factors of production.

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1. FACTORS DETERMINING THE SIZE OF FOREIGN DIRECT INVESTMENT

In a globalized, open world, investment demand depends only on the existing investment potential, companies looking for opportunities wherever these opportunities may be. What determines the development of this process does not have to do only with the interest or desire of these companies to make themselves known, but the presence of factors of attractiveness in the world. The process is, by nature, a bilateral one. The first component and, in fact, the support of the way of involvement in the economy of the host country of the companies which decide to invest outside the country of origin, that are generally called transnational corporations, is represented by the FDI flows and by the stocks which "accumulate" from them. Therefore, it is important to see what explains the higher or lower measure of stocks as well as the course of FDI flows to certain areas/ countries, namely what has influenced their evolution.

Mobilization of financial resources to cover investment needs is a concern of all countries, developed or developing ones, of strengthened or emerging market economies. The *World Investment Report*, citing the experience of different countries, shows that "only countries that have managed to attract FDI, but also to mobilize their own resources have developed." Investment needs exceed, in almost all cases, the resources available at a given time. Therefore, there is even a competition between countries to attract FDI, as the size of FDI flows and stocks in a particular country or region depends not only on the funds available, otherwise limited, but the attractiveness of the country / region for investors, of what is called, with a generic term, investment climate.

According to the World Investment Report, analyzing the factors that determine a country's competitive position, and the decision of companies - foreign or domestic alike - to invest in an economy, the absorption capacity of that economy, as well as the investment results, depend on a number of factors and conditions, considered a country's competitiveness pillars by the Report on the competitiveness (UNCTAD, 2011).

The question on how to measure a country's attractiveness to investors was made. **Attractiveness factors** are found in a certain amount of competitiveness index, and they are, at the same time, ***factors that influence the decision to invest***. Nevertheless, highlighting the result of the attractiveness involves appealing to a distinct expression, showing the result of this activity in terms of FDI inflows. In this regard, UNCTAD reports on investments turn to the index entry of FDI, which has significance not in the absolute size but in the comparison between regions and countries. According to UNCTAD assessments for the period 2005-2007, the highest performance index FDI inflows, with 8656, is owned by Hong Kong, China, and the lowest negative value is owned by Surinam with -2535. Romania ranks 32 of 141 countries with a score of 2,566.

The Potential Index shows highest score for the U.S. with 0.618, and the lowest for Zimbabwe with 0.032; Romania ranks 69 of 141 countries with 0.194.

Competitiveness and attractiveness factors change over time. Because of technological changes, it diminishes the relative importance of "classic" or traditional factors, such as the access to certain natural resources or the low labor costs, and with trade liberalization and foreign investment regime, the national market size becomes less important, this being placed in an area widely liberalized.

Information technologies have become extremely important, because, by causing the development of new methods of organization and management, they facilitate the localization of production in different parts of the world. Furthermore, for more efficient production of complex goods, the product is decomposed into components and it is located the production of different parts in countries with suitable potential of acquisition of the production line for such components. Thus, components or operations of higher complexity are produced in countries with adequate technological capacity and, especially, with high skilled labor, while more elementary components or operations are transferred to less developed countries.

It can be said that technological progress and the liberalization of trade and investment not only give companies the opportunity to become transnational, but also more options in terms of geographic and investment focus to specific host countries.

In this context, in order to attract FDI, of great importance is the presence of clusters or cluster training conditions including FDI or even be shaped around them. The presence of FDI in different countries are moving to those areas / regions which may provide ***factors to increase the efficiency of investment***: specialized and skilled labor in the interest of investors, suppliers of materials and components they need, educational and research institutions, administrative institutions opened to facilitate the presence of investors in the area and even partnerships with them.

This type of investor that needs a network connection is radically different from the investor in earlier stages of industrial development, which was especially attracted by the presence of natural resources, of primary activities, following processing to be done in origin countries or in a country with potential for processing. Today, most FDI are technologically complex, which means that it can only be directed towards countries and regions able to offer the full range of conditions necessary for such investment absorption, for scattering its positive effects, respectively its efficiency.

Shatz and Venables say that currently, multinational companies, especially those in search of efficiency bound for the combined advantages: low cost, but productivity growth, technological skills, developed infrastructure and a stable political and institutional environment (Shatz , H., Venables, 2000).

2. ROMANIA - ATTRACTIVE PLACE FOR FOREIGN DIRECT INVESTMENT

In the twentieth century the foreign capital came in Romania mainly from the reinvestment of profits generated from the capitalization of Romanian economical resources. It mainly focused on the extraction and processing of oil, metallurgy, textile and wood industry. In 1938, in the oil industry, the main foreign capital was the English, Dutch, French, American and German. The expansion, after 1938, of the German capital in South - Eastern Europe, to the detriment of English and French, was also felt in Romania. On March 23, 1939, under pressure from Germany, it was signed "The economical Romania – German Treaty", whereby Romania was to become Germany's partner in agriculture. Such joint ventures have been set up for logging, bauxite and manganese.

In the interwar period although there were some discrepancies between the levels of development of various economic sectors, the absorption of foreign capital provided some increase in production of goods, which was also reflected in the socio-political environment.

After the Second World War, the former socialist countries were not the objective of FDI, until the end of 1970, but in a very small extent. Since that time, some openings began to appear, especially from Yugoslavia, followed by Romania. However, these foreign investments in the global FDI inflows did not exceed 0.1% until 1991.

In the poor economic conditions of the late 1980s, Romania's transition to a market economy was characterised by a largely unprepared business environment in order to face the challenges generated by the participation in international flows of goods and services.

The activity and organization of a system of attracting foreign direct investment in Romania after 1989 began, in fact, with the adoption, in March 1991, of the Foreign Investment Law and with the

Commencement of the Romanian Development Agency. In the six years that followed, foreign direct investment in our country grew slowly until 1998, when they increased almost 8 times.

Since that time, companies with foreign capital have increased the productive and commercial activity in the Romanian economy. After 2003, foreign investment grew at a rapid pace, currently the foreign-capital companies also being the largest in the national economy, although not all are subsidiaries of multinational companies.

Currently, the evolution of the turnover of the largest companies and groups in the Romanian economy suggest the dominant position of companies with foreign majority ownership. In 2010, the top ten biggest companies in the economy is fully occupied by them.

Table 1 - The biggest companies in Romanian economy

Nr. Crt.	*Company /group*	*Turnover in 2010 (mil. Euro)*	*Turnover in 2009 (mil. Euro)*	*Main shareholder*
1.	**OMV PETROM**	3.322	3.057,7	OMV (Australia)
2.	**AUTOMOBILE DACIA**	2.708	2.125	Renault (France)
3.	**ROMPETROLRAFINARIE**	1.690	1.495,5	The Rompetrol Group (Kazahstan)
4.	**ROMPETROL DOWNSTREAM**	1.628	1.400,7	Rompetrol (Kazahstan)
5.	**NOKIA**	1.500	1.027,8	Nokia (Finland)
6.	**PETROTEL - LUKOIL**	1.371	992,5	Lukoil (Russia)
7.	**METRO CASH & CARRY**	1.137	1.356,2	Metro (Germany)
8.	**CARREFOUR**	1.131	1.027,2	Carrefour (France)
9.	**ARCELOMITAL GALATI**	1.125	846,4	Mittal (India)
10.	**LUKOIL**	1.068	783,6	Lukoil (Russia)

Source*:* UNCTAD, *World Investment Report - Division on Investment and Enterprise*, 2010.

Since 2007, Romania has followed European trends of declining FDI inflows, except that the historical maximum was reached by the European Union in 2007, that of 830.8 billion dollars, and in Romania in 2008, 13.9 billion. The decrease by more than 65% for foreign direct investment in 2009, confirmed the existence of the economic gap between developed and transition countries in Europe. In 2010, Romania, as well as the whole Europe, was still under the impact of the economic crisis and the instability of financial markets, FDI flows to Romania reaching the lowest level in seven years, 3.57 billion respectively.

To encourage investment in our country, in 2010 the government granted state aid in amount of 214.5 million euros, which financed 10 investment projects worth 711.7 million euros. The projects addressed various fields, also leading to the creation of new jobs.

To evaluate the performance of countries in attracting FDI, United Nations Conference on Trade and Development (UNCTAD) calculates *a performance indicator (IPIi)* by reporting the percentage of each country's share of FDI from the whole investment in the share of its GDP on holds in global GDP.

The FDI Performance Index attracted by a country is calculated using the following mathematical formula:

$$IPIi_i = \frac{FDIi_i/FDIi_g}{GDP_i/GDP_g},$$

where:

$IPIi_i$ = FDI performance index attracted by the country;

$FDIi_i$ = FDI inflows of the country;

$FDIi_g$ = global FDI flows;

GDP_i = GDP of the country;

GDP_g = overall gross domestic product.

After applying this formula, a value greater than 1 indicates that the country receives more foreign investment than its economic level, a value below 1 means that the country attracts FDI below the level possible to assimilate, and a negative value demonstrates that in the period for which this index was analyzed, foreign investors stopped or reduced their investment. The index reveals the influence on FDI of factors such as economic and political stability, the presence of natural resources, infrastructure, technologies, the opportunity to participate in the privatization etc..

Table 2 - The index performance indicators for calculating FDI, 2008-2010 (millions USD)

Indicator / Period	***2008***	***2009***	***2010***
FDI flows in Romania	13910	4847	3573
GDP Romania	204339	161109	159338
Global FDI flows	1744101	1185030	1243671
Global GDP	61146661	58068608	63160663

Source: *UNCTAD*, 2011, http://unctadstat.unctad.org/TableViewer

Applying the mathematical formula given above for the indicators in table number 2, the following values of Romania attracted FDI performance index result:

Table 3 - Romania FDI Performance Index, 2008-2010

Romania	***2008***	***2009***	***2010***
IPIi	2.424	1.464	1.160

According to this indicator, in 2010, Romania ranks 73 of 141 countries analyzed, on a lower rank compared with 2009 (No. 63) and 2008 (No. 42) (Table 4). From Table 4, we observe that our country ranked a higher position according to this index, in 2005 - the 28th and 24th, in 2006. The score calculated for the period 2008-2010 is declining from 2.42 in 2008, 1.47 in 2009, to 1.16 in 2010 (Table 3), which means that the performance of attracting FDI in our country has increased in 2008, but has decreased since 2009, as the manifestation of the global economic crisis in our country. These values, greater than 1, indicate that Romania receives more FDI than its economic level.

Table 4 - Performance of FDI inflows in Romania, 1990-2010

Country	**1990**	**1995**	**2000**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
Bulgaria	103	92	22	11	7	4	5	27	42
Czech Republic	-	20	17	15	70	53	87	97	50
Estonia	-	21	27	3	19	16	36	14	23
Hungary	33	4	33	25	44	97	60	95	81
Latvia	-	31	41	50	27	36	73	132	100
Lithuania	-	75	64	54	45	64	66	131	90
Poland	94	42	38	65	49	60	90	60	75
Romania	-	73	75	28	24	57	42	63	73
Slovakia	-	2	13	41	26	69	58	138	124
Slovenia	-	88	116	106	116	92	76	141	88

Source: after UNCTAD, *World Investment Report - Division on Investment and Enterprise*, 2010.

Compared to neighboring countries, Romania's performance in attracting FDI is higher than in most countries in the region. Thus, Poland is ranked 75, followed by Hungary (No.81), Slovenia (No.88), Lithuania (No.90), Latvia (No.100) and Slovakia (No.124). Estonia (No. 23), Bulgaria (42) and Czech Republic (No. 50) are however economically more attractive for investors (Table 4).

Another indicator calculated by UNCTAD refers to *potential FDI inflows*. According to it there can be discrepancies between the potential of FDI inflows and their performance itself. The UNCTAD FDI Potential Index ranks countries according to their potential to attract FDI. This index is based on structural factors that tend to change very slowly. As a result, the index value is relatively stable over time. The index of the potential measures the effects which bring about factors able to affect the attractiveness of an economy in terms of foreign investors, being an average (normalized so that the result is between 0, for countries with low scores and one for countries with high scores) of 12 economic and political variables.

Romania's place, during the entire period 1995 - 2009 (Table 5), shows that the potential of FDI inflows in Romania is relatively low, while demonstrating economic and political instability of the Romanian economy. Compared to neighbouring countries, Romania has a low potential for attracting FDI, being on a lower place than the Czech Republic (36), Poland (43), Slovakia (45) and Hungary (46) and Bulgaria, with 62.

Table 5 - Index of the potential FDI inflows

Country	1990	1995	2000	2005	2006	2007	2008	2009	2010
Bulgaria	-	41	64	58	56	55	62	62	-
Czech Republic	-	37	39	37	39	35	36	36	-
Hungary	48	56	41	42	42	42	46	46	-
Poland	55	57	43	44	44	43	43	43	-
Romania	-	89	93	71	69	65	64	64	-
Slovakia	-	39	45	51	51	46	45	45	-

Source: *UNCTAD 2012 World Investment Report*

CONCLUSIONS

Determinants of FDI in an economy are economic, political and social, with a greater or lesser influence on the volume of FDI in the economy.

Such research demonstrates that Romania's economic growth has not automatically attracted foreign direct investment. The main factors of choosing Romania as FDI is relatively low cost of labor, the high level of skills, market size, the legal environment, non-discriminatory and attractive for foreign investment, the low cost of raw materials and utilities and the open attitude of local and central authorities towards the foreign investors.

On the other hand, there is a number of factors that have limited the growth of FDI in Romania. The weaknesses of the Romanian economy, as FDI platform, which have increased with the onset of the global financial crisis, are due to the small number of experts in finances. Moreover, other factors are to be considered: the difficulties encountered by the companies to adapt to market changes, the financial institutions' lack of transparency, slump stocks, but also the little direct investment made abroad, weak earnings from tourism, real GDP growth and the fact that public contracts are not open to all bidders.

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VALUE CREATION THROUGH CORPORATE GOVERNANCE

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Abstract: *Companies spend time and money in order to improve their corporate governance (CG) system and also do not forget to inform third parties about their efforts in this field. CG studies the separation of power at an entity level and the segregation of responsibilities between shareholders, management, and board of directors. As a mechanism CG helps to align management's goals with those of the stakeholders in order to avoid conflict and to sustain and develop a healthy company. The objective of this article is to show how corporate governance is defined, what does it stands for and why it is important or maybe better said why companies give it so much importance.*

Keywords: corporate governance; overall firm performance; financial scandals; codes of conduct
JEL Classification: F23; G30; G34; M48

INTRODUCTION

The literature on CG does not offer unanimous definitions in order to create understanding and to border this concept, below are presented the most pertinent definitions from my point of view.

- CG is a system that helps in managing and controlling a company, following the best practices in the field (Tabara and Briciu, 2012).
- CG is a way in which suppliers of finance to corporations assure themselves of getting a return on their investment (Shleifer and Vishny, 1997).
- A simple definition of corporate governance would be that it represents the amount of systems and processes put in place to direct and control an organization in order to increase performance and achieve sustainable shareholder value (Miu *n.d.*).
- The importance of CG is to reduce conflicts between those who control and those who own the residual claims in a firm (Chaghadari and Chaleshtori, 2011).

In order to summarize CG stands for:

- best practices;
- efficiency and responsibility of all parties involved;
- transparency and credibility of financial data;

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- performance.

1. CORPORATE GOVERNANCE AND THE SCANDALS THAT SHOOK THE CONFIDENCE IN THE FINANCIAL SYSTEM

Corporate governance has reached the center of attention following a chain of events, more specifically, several high profile scandals that brought mistrust and uncertainty in the international capital market. The financial losses following these scandals and the social implications were the impulse for the enacting of the Sarbanes-Oxley Act in 2002, considered to be the most sweeping corporate governance regulations in the past 70 years (Byrnes et al., 2003 in Brown et al., 2004).

In order to grasp the implications of the downfall of several important companies the most representative are presented below.

The **Guinness share-trading fraud** (1986 - UK) involved an attempt to manipulate the stock market on a massive scale to inflate the price of Guinness shares (brewer of black stout beer since 18^{th} century) and thereby assist a £2.7 billion takeover bid for the Scottish drinks company *Distillers*. Four businessmen were convicted of criminal offences for taking part in the manipulation. The European Court of Human Rights in Strasbourg later found that their trial violated the defendants' human rights by making improper use of statements. The scandal was discovered after the testimony as part of a plea bargain by the US stock trader Ivan Boesky. Ernest Saunders, Gerald Ronson, Jack Lyons and Anthony Parnes, the so-called "Guinness four", were charged, paid heavy fines and, with the exception of Lyons, who was suffering from ill-health, served prison sentences later reduced on appeal (Wikipedia, *Guinness share-trading fraud*). In what journalists called at that time “Guinness-gate”, falsifying accounting evidences and breaking Company’s Law led to disgrace among Britain’s business elite.

Polly Peck International (1989 - UK) a global trading conglomerate, developed rapidly in the 1980’ under the management of Asil Nadir. The entity was estimated to be worth $2 billion but surprisingly in the autumn of 1989 the value of the company shares crashed on the London market. After the bankruptcy procedures, evidences showed an internal conspiracy to present an unrealistic financial position and an overvaluation of the company’s wealth. After the discovery of discrepancies in the amount of $400 million, the CEO was accused of falsifying the books and of theft.

The publishing empire **"Maxwell"** (1991 - UK) suffered following the fraud involving the company's founder and CEO, Robert Maxwell. His death triggered the collapse of his publishing empire as banks called in loans. His sons briefly struggled to keep the business together, but failed as the news emerged that Maxwell had stolen hundreds of millions of pounds from his own companies' pension funds to save the companies from bankruptcy. The Maxwell companies applied for bankruptcy protection in 1992 and in a report about the scandal The Department of Commerce and Industry have criticized the external auditors (Coopers and Lybrand), the financial advisors, and also other third parties, as the management of the company had involvement from former politicians and business men.

The Bank of Credit and Commerce International (1991 - UK) in its peak period operated in 78 countries, had over 400 branches, and had assets in excess of $20 billion, making it the 7th largest private bank in the world by assets. The bank declared bankruptcy in 1991 with debts over £31 billion. Investigators in the US and the UK revealed that BCCI had been "set up deliberately to avoid centralized regulatory review, and operated extensively in bank secrecy jurisdictions. Its affairs were extraordinarily complex. Its officers were sophisticated international bankers whose apparent objective was to keep their affairs secret, to commit fraud on a massive scale, and to avoid detection". (Wikipedia, Bank of Credit and Commerce International). Bank of England internal memo in 1982 described BCCI as 'on its way to becoming the financial equivalent of the SS Titanic' (The Guardian, 2012).

Parmalat (2003/2004 - Italy) a global dairy and food giant had in 2002 sales over €7.6 billion and over 36.000 employees. But in 2003 bondholders learned that nearly €4 billion of funds in a Bank of America account are non-existent, the bank officials claiming that the transfer document is a fake. The debt of the company is estimated in 2004 at €14.3 billion, eight times what the firm had admitted. Trials involving management followed till 2011.

The Enron Corporation (2001 - USA), an American energy company based in Houston, Texas, has become in 2001 a bankrupt company that a few days back was worth $60 billion. By the use of accounting loopholes, unethical practices and poor financial reporting the management was able to hide failed deals and projects. Enron's employees had much to lose following the scandal, as they did not lose only their job but also most of their pension, as the company had a program through which pension contributions were equalized in Enron shares. Taking a quick look at how the Enron scandal developed it is easy to notice the political influences. Some experts accuse the federal government for the Enron collapse, as during the period in which the energy industry was taken out from the state control and regulations, politicians received funds during election campaigns.

Worldcom (2002 - USA) developed rapidly, through takeovers, transforming from a local provider in one of the biggest players in the telecommunications industry, under the supervision of its founder Bernard Ebbers. Following a change of management, auditors discovered that the company's expenses were treated like capital investments leading to an overestimation of profits and increase of shares value. Like in the Enron case, the external auditor was one of the "Big Five" audit companies named "Arthur Andersen". Following a precarious management, lack of corporate governance and bad accounting almost 20.000 employees lost their job and the shareholders lost over $180 billion.

These scandals that led to financial losses, bankruptcy, trials and disbelief raised doubts on the possibility of investors to base their decisions on the information provided by corporations and by the market. Also people wondered if these companies were brought to collapse following the actions of several individuals in search for easy money and of doubtful integrity or the systems in place were easy to bend and not prepared to deal with the complexity of current transactions. Changes followed as regulations related to CG were under scrutiny and afterwards tightened and penalties became more severe.

2. CHALLENGES BROUGHT BY THE NEW PACE OF CHANGE

Globally the best solutions for implementing the best practices and principles of CG are the codes of conduct that are seen as guidance instruments. In the European Union 35 codes related to CG have been enacted and almost each country has at least one code (Ghita et al., 2009).

Currently, all entities and most of the countries are interested in having a CG code with strong rules and guidance for different situations that might appear and create suspicion. CG principles are elaborated in such way to determine top managers to fulfil their duties in a qualified and correct manner, so that the interests of the stakeholders are followed and protected.

The history of the CG codes has shown that firms and public authorities were interested in developing its principles and not the least to comply with them.

Adrian Cadbury Code (UK, 1992)

- sets for the first time basic rules related to companies' management;

- mentions the necessity of having audit committees and independent top management;
- received with concern by companies listed on the stock exchange, as the report considered as necessary for these firms to present their degree of compliance, but without any sanctions, excepting the disapproval and perhaps the withdrawal of financiers.

Paul Rutteman Report (UK, 1993)

- recommends that listed companies should issue reports on the financial internal control.

Lord Nolan Public Life Standards (UK, 1994)

- strongly advises on the necessity of developing an ethical environment in the public sector;
- includes 7 solid principles: altruism, integrity, objectivity, responsibility, sincerity, honesty, conduct.

Richard Greenbury Code (UK, 1995)

- issued by the Industry Confederation sustaining to have a committee of non-executive directors to establish the salaries of top management.

Ronnie Hampel Report (UK, 1995)

- The Hampel Committee (London Stock Exchange, The Industry Confederation in UK, Directors' Institute, National Association of Pension Funds, Insurance Companies Association) strived to improve the Cadbury Report;
- recommends that directors should verify the efficiency of the internal control but are not obliged to report it;
- stands for the implementation of internal audit.

Combined Code (UK, 1998)

- a combination of all previous codes;
- recommends the principle "comply or explain";
- the code is not mandatory, but it is used by the majority of the companies due to the financiers pressure on those who don't comply;

Vienot Report (France, 1998)

- comprises a list of recommendations, which will permit a soft adaptation of the boards of directors of French listed companies to the principles of CG.

Nigel Turnbull Report (UK, 1999)

- compliance with the Combined Code;

- directors have the obligation to keep good internal controls and to ensure the quality of financial reporting;
- annual review of the control systems;
- made a connection with the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Sarbanes-Oxley Law (USA, 2002)

- previous mentioned principle "comply or explain" is adopted;
- major elements: Public Company Accounting Oversight Board (PCAOB), Auditor Independence, Corporate Responsibility, Enhanced Financial Disclosures, Analyst Conflicts of Interest, Commission Resources and Authority, Studies and Reports, Corporate and Criminal Fraud Accountability, White Collar Crime Penalty Enhancement, Corporate Tax Returns, Corporate Fraud Accountability;
- mandatory provisions regarding the directors independence, audit committees, CG codes, disclosure controls;
- penalties for non-compliance are severe;

Revised Combined Code (UK, 2003)

- presents harsher principles and clauses regarding CG, that are adopted on a larger scale by public sector entities and not only.

Jaap Winter Report (France, 2002)

- elaborates the final report for "The Companies Law in Europe";
- tackles with issues like: executive and non-executive directors, management's salaries, responsibility for financial statements and audit system.

European Union Commission (2002)

- considers that is not necessary to be issued a CG code for Europe, but an approach based on the SOX Law.

Organization for Economic Co-operation and Development - OECD (2003)

Global principles elaborated by OECD are as follows:

1. Promoting transparent and efficient markets, which are consistent with the rule of law and which clearly articulate the division of responsibilities among supervisory, regulatory and enforcement authorities;

2. Protecting and facilitating the exercise of shareholders' rights;

3. Ensuring the equitable treatment of all shareholders, who should also have the opportunity to obtain effective redress for violation of their rights;

4. Recognizing the rights of stakeholders established by law or through mutual agreements and encouraging active co-operation between corporations and stakeholders in creating wealth, jobs and the sustainability of financially sound enterprises;

5. Ensuring that timely and accurate disclosure is made on all material matters regarding the corporation, including its financial situation, performance, ownership and governance;

6. Ensuring the strategic guidance of the company, the effective monitoring of management by the board and the board's accountability to the company and the shareholders (OECD, 2008).

The above presented codes and reports show the interest in the matter of CG and for sure we have not seen the last code, law, principle related to this issue as heated debates continue and stakeholders ask for their rights to be respected.

What stands out is the difference in the ownership and control of companies across countries. *Outsider systems* (considerably UK and USA) are characterized by wide dispersed ownership, where the basic conflict of interest is between strong managers and widely-dispersed weak shareholders. On the other hand *insider systems* (mainly Germany and Japan) are distinguished by concentrated ownership or control, with basic conflict between controlling shareholders and weak minority shareholders.

3. STAKEHOLDERS INTEREST IN CORPORATE GOVERNANCE

Bankruptcy of companies seen as pillars of the community and most of all considered wealthy had determined the issuing of several codes that would ask from parties involved for transparency, correctness, honesty. Participants in the daily activities of the firms have different or common interests and expect these interests to be fulfilled. The information presented in Table 1 sheds some light on this subject.

Table 1 – The interaction between internal and external company's environment and related interests

No.	Influence factor	Interests
1	*Shareholders*	- control over decisions; - net profits; - dividens; - investment recovery; - notoriety and recognition; - increase of share value etc.
2	*Employees*	- safe jobs; - attractive salaries; - motivation (promotion, bonus); - good work conditions; - health insurance etc.
3	*Creditors*	- loan repayment in time; - interests, commissions; - profitability; - creditworthiness etc.
4	*Customers*	- quality; - small prices; - correct and timely information; - fair and equal treatment etc.
5	*Suplliers*	- orders and contracts; - payment in due time; - trust; - loyal competition etc.
6	*Government*	- investments; - compliance with the law; - environment protection; - tax payment etc.
7	*Community*	- jobs; - local market development; - healthy environment; - sponsorships etc.

Source: Ghita et al., 2009

Many people are interested in finding out which of the developed CG systems works the best. The three systems that stand out are the ones of United States, Germany and Japan, but neither could be considered the best; nonetheless they are the ones that could be analyzed in detail following the amount of writing dedicated to them. *The US model* is based on the domination of independent persons and individual shareholders that are not connected to the company through any business relation and the joint stock is divided to multiple shareholders. *The German model* stands out through a high capital concentration and the majority shareholders have common interests with the firm and take part in the management and control of the company. *The Japanese model* shows an active role of the state and cohesion at entity and business level for industrial groups (holdings). Shleifer and Vishny (1997) state that, despite a great deal of controversy, neither the theory or the evidence tells us which of the three is the best and in this regard, they are not surprised to see political and economic pressure bring the three toward each other.

CONCLUSIONS

The world crisis (financial, economic, social) has determined the shaping of a new vision on how a business should be organized and managed; market instability, fierce competition, lack of liquidities, the uncertainty of tomorrow were few of the reasons that led to a reanalysis and to a new attitude towards risk. Alongside risk, the business reputation remains a key factor, as it can bring up or destroy a firm, and in the internet era, the info, good or bad, travels with the speed of light.

Constant change determines companies to seek new opportunities, and to consider as main objective, in such a tumultuous capital market, their survival, and only afterwards to think at prosperity. The current society is governed by uncertainty and complex transactions so the rhythm of change and the capacity to adjust to it have become the key of performance and of maintaining entities competitiveness. Balance is the most important word in these troubled times.

Corporate Governance is part of the companies struggle with the business and political environment. CG does not border itself to systems and procedure needed to direct and control an organization but sees as final goal maximizing company's value and increase performance. We should not get lost in the ethical view or social responsibility of CG but see the equilibrium between compliance and performance.

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GAPS IN ECONOMIC DEVELOPMENT INTER AND INTRA EUROPEAN UNION STATES

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Abstract: *Economic development is a subject that generates much controversy, mainly because of the widening gaps between poor and rich nations. In the present paper, we intend to identify and explain the differences that exist both between and within the European Union states, from an economic development point of view. In order to reach this objective, we have collected, analysed and interpreted information included in various statistical data bases, reports and year books. The results show that the development differences between EU economies are not so large, compared to the situation of the rest of the world. However, there are significant development gaps inside some EU states, especially from the South-East part of Europe and the Baltic countries.*

Keywords: economic development; Human Development Index; living standard; income distribution
JEL Classification: I31; O15

INTRODUCTION

The economic literature has largely debated the issue of economic growth inside the European Union states, trying to identify the factors, the consequences and also the trend of macroeconomic indicators. However, these indicators, which reflect the quantity of resources available in a society, do not offer any information about the way in which the resources are allocated (if there is an equitable distribution of income among social groups), about the share of funds used to provide free health and education services or about the consequences that production and consumption have on the environment. Therefore, it is explainable why countries with similar average incomes can be very different in terms of people's quality of life (i.e. access to education and health care, employment opportunities, available infrastructure, social cohesion, threat of crime and so on). These differences can be seen not only between nations but also among the regions of the same state, especially in the case of the developing countries.

Compared to the number of studies on the EU economic growth issues, the economic literature reflecting the development aspects of this region is less consistent. Moreover, most of the studies that

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have analysed the economic development in the European Union were more focused on the gaps between states than on the differences that occur inside these countries.

Considering all these aspects, the present study focuses on the differences that exist not only between EU states but also inside them, by analysing the main determinants of these gaps. The article is structured into two main parts. In the first one we summarize the major ideas presented over the past years in the specialized literature regarding the concept of economic development. The second part is divided into two sections, in order to illustrate the development gaps between the EU states and their causes, as well as the differences between regions of the same countries.

1. THEORETICAL BACKGROUND REGARDING ECONOMIC DEVELOPMENT

The study of “economic development” is one of the most challenging branches of the economics’ disciplines. Although there might be voices claiming that Adam Smith was the first “development economist” with his famous book “Wealth of Nations” (1776), the systematic investigation of the problems related to the process of economic development has begun only five to six decades ago. During this time, the “economic development” concept received many interpretations. Some economists used it to describe the process of increase in the income per capita and the fundamental changes in the economic structure (Meier and Rauch, 2005). However, these elements are primarily determinants of growth than of development. Others used simultaneously the terms of “economic development” and “growth”, in order to define a single process, consisting of an increase in the national income, sometimes accompanied by structural changes (Maillet, 1976, p. 18). There are also analysts arguing that economic growth and development reflect an increasing amount of production capacity, production volume or economic potential (Lecaillon, 1972, p. 10).

The modern approach of economic development, which emerged in the 1970’s, made a clear distinction between growth and development, arguing that the latter is defined in terms of economic welfare (Jain and Malhotra, 2009, p. 9).

In our opinion, the two concepts – “economic growth” and “economic development” – are fundamentally different. While the economic growth is a quantitative term, defining a rise in national or per capita income, the economic development is a qualitative concept that can be related, according to Fr. Perroux (1969), to all the changes in the mental structures and social behaviours of a population that enable it to increase its real global product. Considering this definition, we may see that development exceeds by far the economic performance, being a complex accumulation which includes not only the economic growth but also the crisis phases (Ignat, Pohoata, Lutac and Pascariu, 2002).

A report published in 1990 by United Nations emphasize the concept of "human development", measured by life expectancy, adult literacy, access to all three levels of education, as well as people's average income, considered to be a necessary condition of their freedom of choice. It is true that economic growth, by increasing a nation's global wealth, creates the proper context for reducing poverty and solving the social problems, but there are still cases when economic growth was not followed by similar progress in human development. A good example for this situation was brought in 2009 by two countries that had comparable income per capita: Hungary and Equatorial Guinea. Despite this similarity, the two countries were completely different from the point of view of human development: the life expectancy in Equatorial Guinea was 50 years while in Hungary was 74 years and the percentage of primary school enrolment was considerable higher in Hungary (approximately 90%) compared to Equatorial Guinea (50%) (Perkins, Radelet, Lindauer and Block, 2013, p. 14).

Considering these aspects, it is clear why economic growth, in order to be sustainable, must be accompanied by human development, which brings improvements in workers' knowledge and skills together with opportunities for their efficient use. Development is also accompanied by important shifts in the structure of the economy, as more people usually shift away from rural agricultural production to better paid urban jobs. According to Perkins, Radelet, Lindauer and Block (2013), economic growth without structural change is often an indicator of the fact that the income is concentrated in the hands of few people. Moreover, slow human development can reduce economic growth. According to *Human Development Report* (United Nations, 1996), during 1960–1992 no country with slow human development and rapid growth has succeeded in becoming a state where economic development and growth are mutually reinforcing.

In 1990, the United Nations established the Human Development Index (HDI), in order to quantify what was considered to be the essential determinants of human development. This index measures three important aspects of economic development: living a long and healthy life (estimated with the help of life expectancy), acquiring knowledge (measured by adult literacy and enrolment at the primary, secondary and tertiary level) and having access to the resources needed for a decent standard of living (measured by the income in purchasing power parity). As a response to the critics, the structure of HDI has been changed in time, by including different variables. Moreover, in 1995, in the Human Development Report, there were introduced two new measures of human development, in order to underline the status of women. One of them was the Gender-related Development Index (GDI), which reflects achievements in the same basic capabilities as HDI, but also accounts for the differences between women and men. The second one, the Gender Empowerment Measure (GEM), evaluates the evolution of women's standing in political and economic forums. Consequently, according to the United Nations' Report (1995), "while the GDI focuses on expansion of capabilities, the GEM is concerned with the use of those capabilities that allow taking advantages of the life opportunities".

However, these indicators – HDI, GDI and GEM – have their limitations. First of all, they are national indexes that do not take into consideration the disparity that exist within a nation, between ethnic groups or regions, for example. In order to overcome this drawback, an Inequality-adjusted HDI (IHDI) which takes into account the economic inequality from a society was introduced in the Human Development Report from 2010. Secondly, these indicators do not take into account some important aspects of development as, for example, the level of individual freedom. It is known that the economic and social freedom allows individuals to better cooperate and voluntary change goods, in order to increase their life quality. Moreover, as noted by Heyne, Boettke and Prychitko (2013), the economic development mainly depends on three aspects: people, resources and institutions. The first two elements – people and resources – cannot be directly and exclusively controlled by individuals. However, we can control the institutions that rule the way in which we interact with each other and the way we use the resources. That is why the fundamental institutions should be taken into account when analysing economic development.

In the next part of our study we intend to identify the level of economic development in the EU states and to investigate the causes of the differences that exist, from this point of view, both between and within these countries. The analysis is based on the theory of economic development which, according to Acemoglu (2010), examines the causes of poverty around the world and intends to design policies that could help individuals, regions and countries to achieve greater economic prosperity.

2. ECONOMIC DEVELOPMENT GAPS IN THE EU – TRENDS AND CAUSES

2.1. Economic development gaps between EU states

In order to evaluate the economic development of the European Union states and the differences that exist between them, we have firstly analysed the HDI values of these countries. According to the data offered by the Human Development Report for 2011, from a global perspective, there is little variation in HDI in the EU. Almost all EU member states are included in the category of countries with "very high human development", with the exception of Bulgaria and Romania which are in the group of "high human development" (according to the new methodology adopted in the 2010 Human Development Report). Moreover, due to the fact that literacy, school enrolment and life expectancy have high levels in Europe compared to the rest of the world, the HDI is closely correlated with the GDP per capita.

Table 1 shows the position of the 27 EU countries in 2011, according to their HDI values, and also the differences in ranking by Gross National Income (GNI) per capita and by HDI, which is reflected in the last column: GNI per capita rank minus HDI rank. A negative value of this column indicates that the country is better ranked by GNI than by HDI, which is the case of three EU states: Austria, Luxembourg and the United Kingdom. From the point of view of GNI per capita, the lowest level is attained in Romania, while the highest is in Luxembourg. In Romania, the low level of GNI per capita seems to be correlated to the HDI value, which placed this country on the penultimate position in the EU top.

We note that all the EU member countries have a HDI between 0.91 and 0.771, placing them between the 3rd and 55th position worldwide. The HDI average is 0.855, which allows EU to be considered a developed region.

Table 1 - Human Development Index for European Union states, in 2011

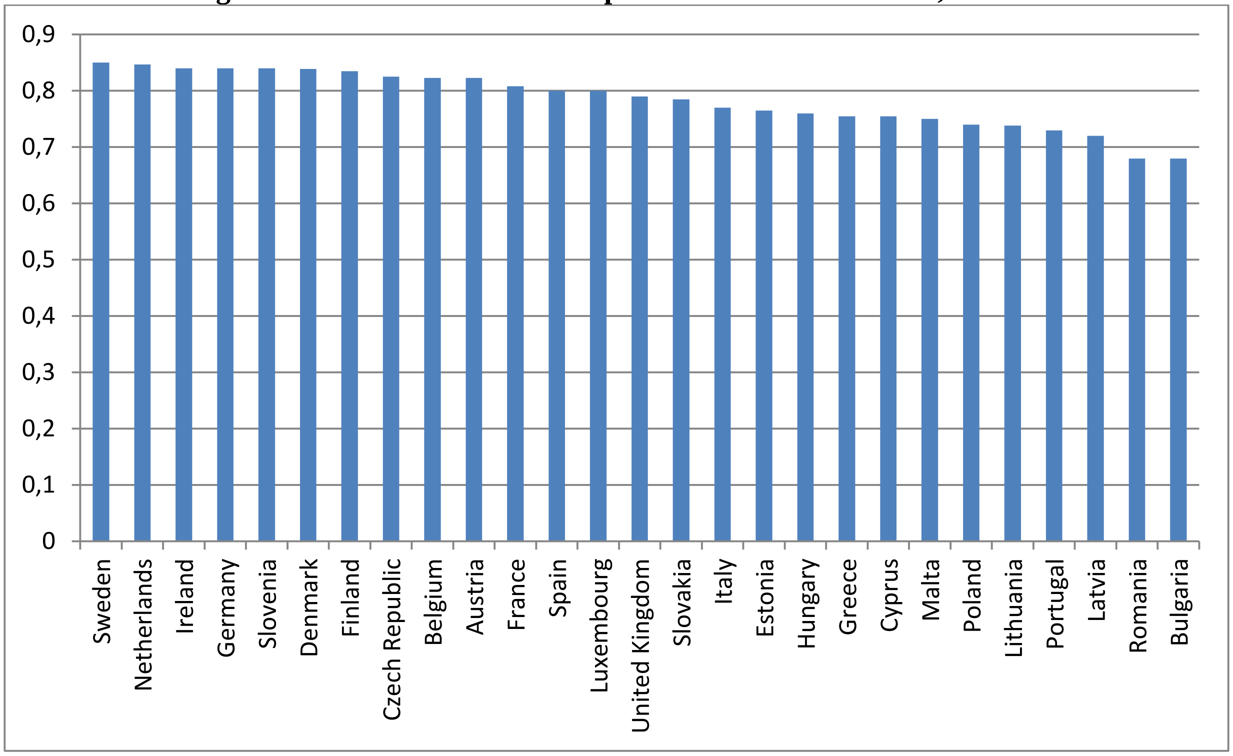
HDI rank	Country	HDI	Life expectancy at birth	Mean years of schooling	Gross National Income (GNI) per capita	GNI per capita rank minus HDI rank
3	Netherlands	0.910	80.7	11.6	36,402	9
7	Ireland	0.908	80.6	11.6	29,322	19
9	Germany	0.905	80.4	12.2	34,854	8
10	Sweden	0.904	81.4	11.7	35,837	4

16	Denmark	0.895	78.8	11.4	34,347	3
18	Belgium	0.886	80.0	10.9	33,357	2
19	Austria	0.885	80.9	10.8	35,719	–4
20	France	0.884	81.5	10.6	30,462	4
21	Slovenia	0.884	79.3	11.6	24,914	11
22	Finland	0.882	80.0	10.3	32,438	0
23	Spain	0.878	81.4	10.4	26,508	6
24	Italy	0.874	81.9	10.1	26,484	6
25	Luxembourg	0.867	80.0	10.1	50,557	–20
27	Czech Republic	0.865	77.7	12.3	21,405	14
28	United Kingdom	0.863	80.2	9.3	33,296	–7
29	Greece	0.861	79.9	10.1	23,747	5
31	Cyprus	0.840	79.6	9.8	24,841	2
34	Estonia	0.835	74.8	12	16,799	13
35	Slovakia	0.834	75.4	11.6	19,998	8
36	Malta	0.832	79.6	9.9	21,46	4
38	Hungary	0.816	74.4	11.1	16,581	11
39	Poland	0.813	76.1	10	17,451	7
40	Lithuania	0.810	72.2	10.9	16,234	10
41	Portugal	0.809	79.5	7.7	20,573	1
43	Latvia	0.805	73.3	11.5	14,293	12
50	Romania	0.781	74.0	10.4	11,046	20
55	Bulgaria	0.771	73.6	10.6	11,474	N/A

Source: Adapted from United Nations, *Human Development Report 2011*, http://hdr.undp.org/en/reports/global/hdr2011/

An analysis of the Gender-related Development Index (GDI) in 2011, shows that there were no remarkable differences between men and women in the 27 EU countries, from a human development point of view (Figure 1). However, we can notice that the highest gaps between men and women are in the two countries with the lowest HDI: Romania and Bulgaria. One possible explanation may be that the economic crisis has augmented these differences, since in 2007 the GDI in Romania and Bulgaria was closer to other EU states (the values being 0.812 and, respectively, 0.823) (United Nations, 2009).

Figure 1 - Gender-related Development Index for EU States, in 2011



Source: Adapted from United Nations, Human Development Report 2011, http://hdr.undp.org/en/reports/global/hdr2011/

By grouping the 27 EU states according to the date of entry into the Union, we can observe a relationship between the entry moment and their level of HDI. Romania and Bulgaria joined the Union in 2007 and they occupy the last positions in the ranking. Moreover, with the exception of Slovenia and the Czech Republic, the HDI for all the states that joined the EU in 2002 is below that of former members (excluding Portugal). The country with the highest HDI – Netherlands – is one of the founding countries of the EU. Starting from this correlation, we may find one possible explanation for the development gaps between the last entrants in EU and the first ones. The two states that joined EU in 2007 and most of the 2004 members remained under economic influence of the communist bloc for a long time. During this period, while the communist bloc was trying to keep countries isolated, the capitalist states were opened to the rest of the world and benefited from their market economies.

Following the collapse of the communist regimes, in many of these countries the catching-up process of Western European economies was very fast (for example in Czech Republic or Slovenia). For others, the geographical proximity to Russia, made it more difficult to completely eliminate the Soviet influence in a short period of time. That is why, in the Eastern societies, the transition process was longer and more difficult than in the other states. These countries are still focused on industry or agriculture, while in the Western societies the tertiary sector occupies a central position.

After the collapse of USSR, the former communist countries had to abandon the “sufficient development standard” that used to be promoted by their governments. As this was a first step towards economic development, these countries were considered to have a development delay.

The fundamental changes in the socio-economic and political environment allowed the former communist countries fulfil the conditions required in order to join the European Union, for some of them sooner than for the others. Therefore, considering that the last entrants have only recently fulfilled the adhesion criteria, it is explainable why they have the lowest HDI of all EU members.

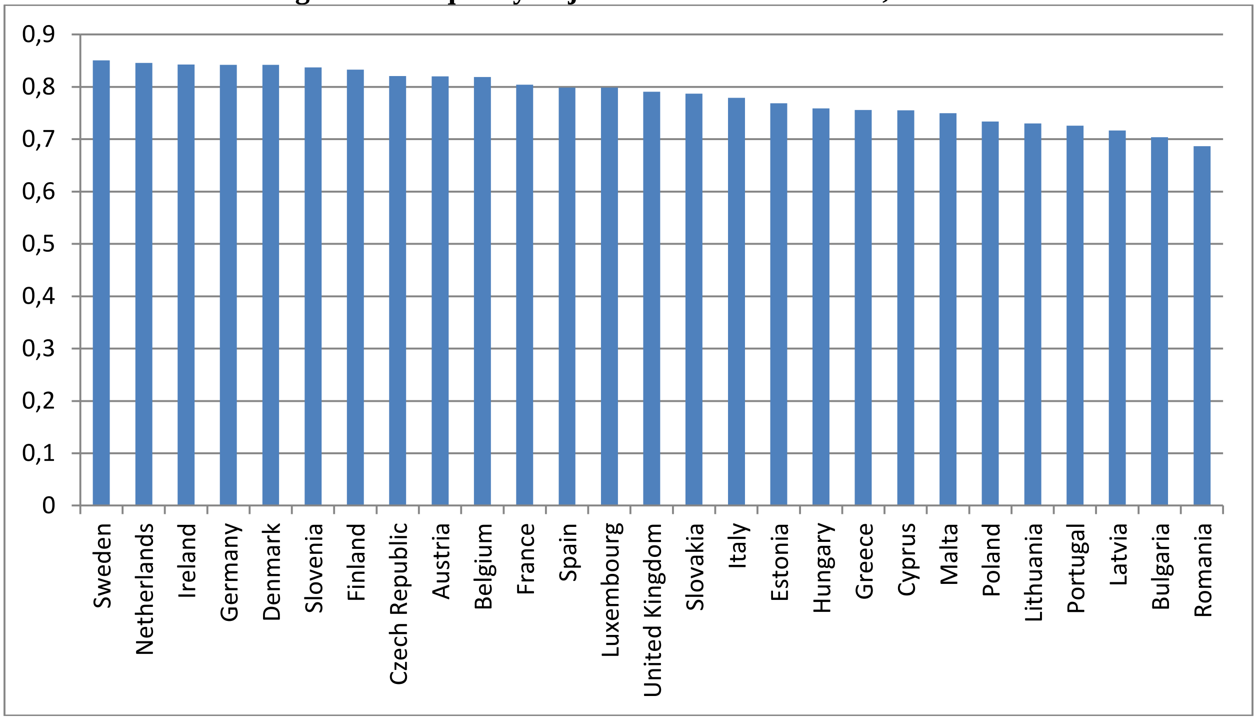
2.2. Economic development gaps inside EU states

Despite the high HDI scores in European Union, there are still significant differences within individual EU countries and regions in terms of human development and poverty. For example, in 2010 low education attainment in European regions ranged from 3.3% to 81.4% (considering the population aged between 25 and 64 years old), while the healthy life expectancy ranged between 52 and 78 years (European Commission, 2010).

In order to analyse the inequalities that exist inside a society from the human development point of view, the 2010 United Nations’ Report introduced the Inequality-adjusted HDI (IHDI). This indicator measures the level of human development of people in a society and takes into account inequalities in terms of distribution of health, education and income. Therefore, while IHDI reflects the actual level of human development, taking into account the inequality, HDI can be regarded as an index of the **potential** human development that can be achieved only *if* there is no inequality inside a society.

According to the data offered by the 2011 Human Development Report, it can be noted that in almost all the 27 EU states there are development inequalities between regions, but the largest ones are, again, in Romania and Bulgaria (see Figure 2).

Figure 2 - Inequality-adjusted HDI for EU States, in 2011



Source: Adapted from United Nations, *Human Development Report 2011*, http://hdr.undp.org/en/reports/global/hdr2011/

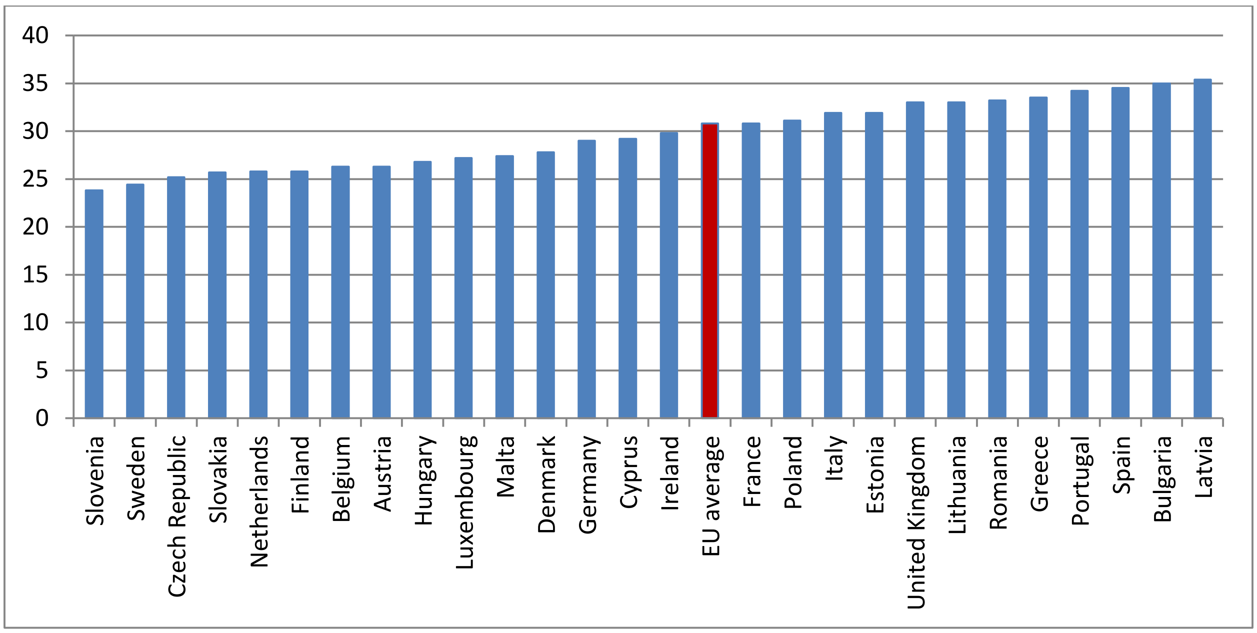
A more detailed map of the economic development gaps inside the EU countries is brought by the European Commission, which analyses the NUTS 2 regions - those national territorial entities with a population between 800,000 and 3 million inhabitants, where the regional development policy is implemented. According to a 2010 Report, the regions with a high HDI are mainly concentrated in the southern parts of England and Germany, in Netherlands, Scotland and in Sweden (European Commission, 2010). The top 10 regions with the highest HDI also include the areas around Paris and Brussels.

With regard to the HDI EU average, almost all French regions, except Picardie and Corse, are above this level. In an opposite situation are Portugal, Greece and Italy, where almost all the regions have an HDI below the EU average, with the exception of Attiki (Greece) and four Italian regions. In Spain, eight regions are below and eight above the EU average, the highest level being in Navarra, Cataluña, Pais Vasco and Madrid area.

All the four countries mentioned above – Portugal, Greece, Italy and Spain – have in common the fact that their northern regions are more developed than their southern ones. The differences between north and south can be seen not only from the HDI values, but also from the point of view of life style and income level.

According to the specialized literature, the HDI should be closely correlated to the level of GDP. However, it was noticed that in European Union, only a few regions register high levels of both GDP per capita and HDI. From the top 10 HDI regions, mentioned above, only three can also be found in the top 10 regions according the GDP per capita. The region of London is situated on the first position in both rankings.

Figure 3 - Values of Gini coefficient for 27 EU states in 2011



Source: Adapted using Eurostat, Gini coefficient of equivalised disposable income, 2013, http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&language=en&pcode=tessi190

In order to illustrate the difference in living standard, from the point of view income distribution, we have used the data offered by Eurostat (2013), regarding the Gini coefficient, for 2011.

Figure 3 shows that, in 2011, there were 12 states with the Gini coefficient above the EU average. From these, Bulgaria and Latvia were the countries with the most unequal income distribution (their value of Gini coefficient was superior to 0.35). Looking at the values of Gini coefficient in the 27 EU states, we can see that the unequal distribution of the revenue is not necessarily correlated to the moment of joining European Union or to the communist influence. For example, two of the EU founders – France and Italy – have the Gini coefficient superior to the EU average and these countries, as well as United Kingdom, Greece, Portugal and Spain, have never been under the USSR dominance.

A possible explanation for the unequal distribution of the revenues in the 12 countries with the Gini coefficient superior to the EU average could be given by the fact that the present economic crisis has significantly eroded the economic and social environment especially in Spain, Greece, Portugal and Italy, some people from these states being more affected than the others. Another explanation, in the case of Romania, Bulgaria and Baltic states, is that the duality between the urban area and rural one is still very present in these countries. The rural regions, which are less developed than the urban centers, still account for a large part of these states.

CONCLUSIONS

By analysing the statistics regarding the Human Development Index, we conclude that there is little variation between European Union states, as almost all of them (excepting Bulgaria and Romania) are included in the category of countries with "very high human development". The HDI values, which fluctuate around the average of 0.855, allow the EU members to be placed between the 3rd and 55th position worldwide.

As in the EU the HDI is closely correlated to GDP per capita, it is not surprising that the lowest level of GDP per capita is attained in Romania, while the highest is in Luxembourg.

Analysing the causes that determine the human development differences between the EU states, one explanation could be found in the correlation between the EU adhesion moment and the level of HDI. Another possible argument is given by the political background of these states. The two states that joined EU in 2007 and most of the 2004 members remained under economic influence of the communist bloc for a long period of time.

If the differences in HDI scores in European Union are not so visible, the gaps inside the EU countries and regions in terms of human development and poverty are very significant. In almost all the 27 EU states there are development inequalities between regions, but the largest ones are, again, in Romania and Bulgaria. The opposite situation was noted in five UK areas and in the regions surrounding the capitals of Sweden, France and Belgium, all these being placed in a top 10 HDI regions. However, only three of them can also be found in the top 10 GDP per capita regions.

From the point of view of Gini coefficient, in 2011, there were 12 states above the EU average, with Bulgaria and Latvia registering the highest levels of unequal income distribution (Gini coefficients superior to 0.35). These differences cannot be explained by the moment of joining the European Union or by the communist influence. The causes are related to the effects of the 2007 economic crisis and to the fact that the duality between the urban area and rural one is still very present in some states.

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SOCIAL COSTS OF THE EUROPEAN UNION IN THE CONTEXT OF THE ECONOMIC-FINANCIAL CRISIS

Andreea Gradinaru*

Abstract: *The start of the financial crisis in mid-2007 at a global scale had a major impact on the European Union's economy. All member states have been economically affected, but the social effects were mainly of large amplitude. This paper focuses precisely on analysing the social costs which the economic-financial crisis has generated in the European Union. After finishing the study we have noticed that numerous social consequences of the recession have manifested intensely since the beginning of the crisis and continue to do so even today. These consist in the increase of poverty and social exclusion, rise in unemployment, decrease in birth rate, changes regarding the migration process, reduction in income, excessive indebtedness, the disparities between countries contributing to the augmentation of all these.*

Keywords: unemployment; poverty; crisis; social gaps; migration; birth rate
JEL Classification: G01

INTRODUCTION

The current financial crisis is unprecedented in post-war economic history. Although triggered by events from the US real-estate marked, the economic crisis extended in Europe and, due to globalisation, similar to a domino effect, spread across the whole world.

The economy's decline at the European Union's level dawned in the last trimester of 2008, reflecting the collapse of external demand, as a result of the impact the real-estate market correction had in some states (particularly in the USA), followed by severe financial constraints. The situation evolved from bad to worse, so that in 2009, the EU's economy was in the midst of the deepest and extended recession since World War II (European Economic Forecasts, Spring 2009, Brussels).

The exports and investments of the Union registered a sharp contraction, the public debt rising, the budgetary deficit growing, while private consumption reduced as the situation of the labour market deteriorated. While the economic recession continued, private consumption was affected by the

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adjustments on the labour market (loss of the jobs, increase in unemployment and decrease in income) and by the low trust in the financial sector.

In this context, a fundamental question arises: what were the social costs which the European Community supported during these years of downfall?

The purpose of this study is to offer answers to this question, by conducting a thorough analysis of the social effects caused by the crisis which swept the entire world, exposed the weaknesses within the functioning of the global economy and led to the necessity to reform the international financial architecture. In this respect, a series of statistic indicators have been taken into account, such as unemployment rate, poverty rate, birth rate, migration rate.

What could be noticed was that, even though initially it was thought that the European economy would generally be immune to the financial turbulences, compared to the United States, reality showed otherwise. All the other member states were economically affected, the social costs being mostly of great amplitude. These consist in the increase of poverty and social exclusion, rise in unemployment, decrease in birth rate, changes regarding the migration process, reduction in income, excessive indebtedness, the disparities between countries contributing to the augmentation of all these.

1. POVERTY

Poverty represents the absence or inadequacy of diet, debt, standards, services or activities which are commonplace or ordinary in society (Townsend, 1979).

People live in poverty if their income and resources are so limited that they are excluded from having a living standard considered acceptable by the society in which they dwell. Because of poverty they can face a series of disadvantages such as: unemployment, low income, meagre homes, inadequate medical insurance as well as education, culture, sports and recreation barriers. These persons are often excluded and ostracised from participating in economic, social and cultural activities, and their access to fundamental rights may be limited (European Commission, 2004).

Statistics supplied by the World Bank show that globally, a person out of seven currently lives in poverty. The same source estimates that approximately 1.3 billion people from the entire world live in poverty (with little over one dollar a day), and the most recent data supplied by the Food and Agriculture Organization, part of the United Nations, shows that, out of the entire global population, about 925 million suffer from hunger, the most affected being children. So, poverty has a decisive role in the death of at least 5 million children, every year, in the entire world.

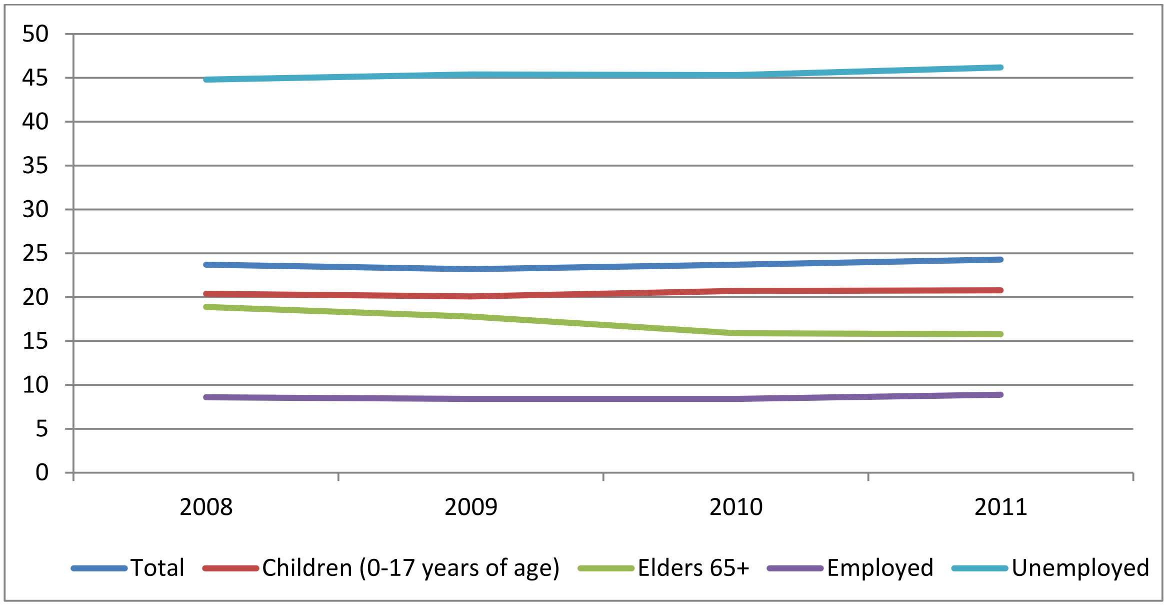
As a consequence of the economic crisis, the situation in the European Union looks pretty bad, because this involved a multitude of social costs, having a negative impact on employment, deteriorating working conditions and raising the number of homeless persons. Those most affected by this situation are the most vulnerable categories of persons: children, young people, women, certain ethnic minorities, persons with a migration context, single parents and handicapped persons. Also, another problem is the difference between women and men which is clearly visible.

Currently, 25 million European children are threatened by the risk of social exclusion. Some drop out of school to work and help their parents, especially in the areas hit hard by the crisis, a fact which will in the future involve a high risk of their transformation into marginalised adults, trapped in a “cycle” which is passed on from generation to generation.

Children face a higher poverty risk on an average of over 20%, as it can be seen in Figure 1. The elderly are themselves exposed to a higher risk of poverty and the scale of the demographic problem which the EU is facing only intensifies the problem, which will cause the poverty risk for the elderly to increase in the long-term.

Amongst the Union’s countries, the northern countries have the lowest percentage regarding infantile poverty (with an average of 16% for Finland, Sweden and Denmark), while the highest percentages can be observed in Bulgaria, Romania, Latvia and Hungary (Between 40 and 50%).

Figure 1 - The rate of poverty risk in the EU-27, total, by age and professional status between the years 2008-2011 (% of the total population)

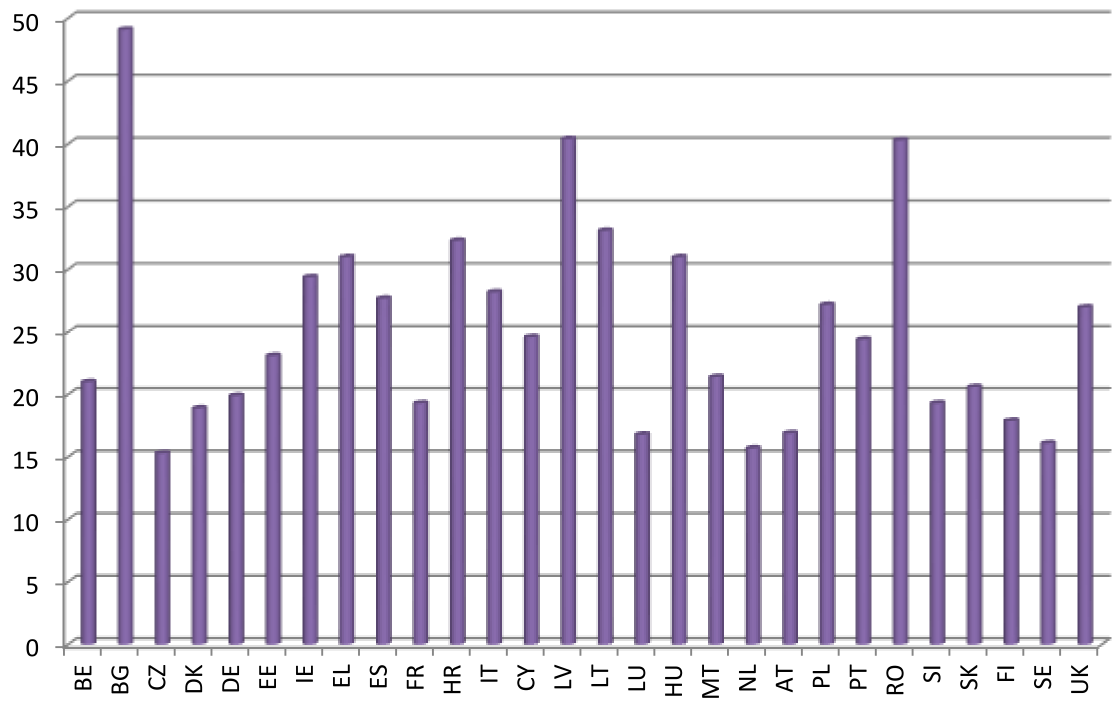


Source: The author's compilation using Eurostat data, 2013

Also, from Figure 1 we can assess that poverty risk for people out of work is approximately five times higher (45% compared to 8%) than it is for those employed, unemployment being the main cause of poverty in the active population. More so, the financial crisis enhanced the exposure to social risk for the migrant population, often being the first one affected in a circumstance of increased unemployment. Hence, in the first trimester of the year 2010, unemployment for foreign citizens exceeded 21%.

According to Eurostat statistics, in 2007, before the current crisis had made an appearance, 85 million European citizens (17% of the population) found themselves below the relative poverty threshold; two years later, in 2009, there were 115 million people subjected to poverty risk and social exclusion (23.1% out of the total community population), and in 2011, the number of people threatened by poverty increased to 119.6 millions, that is 24.2% of the EU-27 population. The countries which are most affected by poverty are: Bulgaria (49.1%), Romania (40.1%), Latvia (40.4%), Lithuania (33.1%) and Hungary (31%). At the opposite end we find the Czech Republic (15.3%), The Netherlands (15.7%), Sweden (16.1%), Luxembourg (16.8%), Austria (16.9%) and Finland (17.9%), as showed in the figure below.

Figure 2 - The rate of poverty risk in the European Union's countries in the year 2011 (% of the total population)



Source*:* The author's compilation using Eurostat data (EU-SILC 2011)

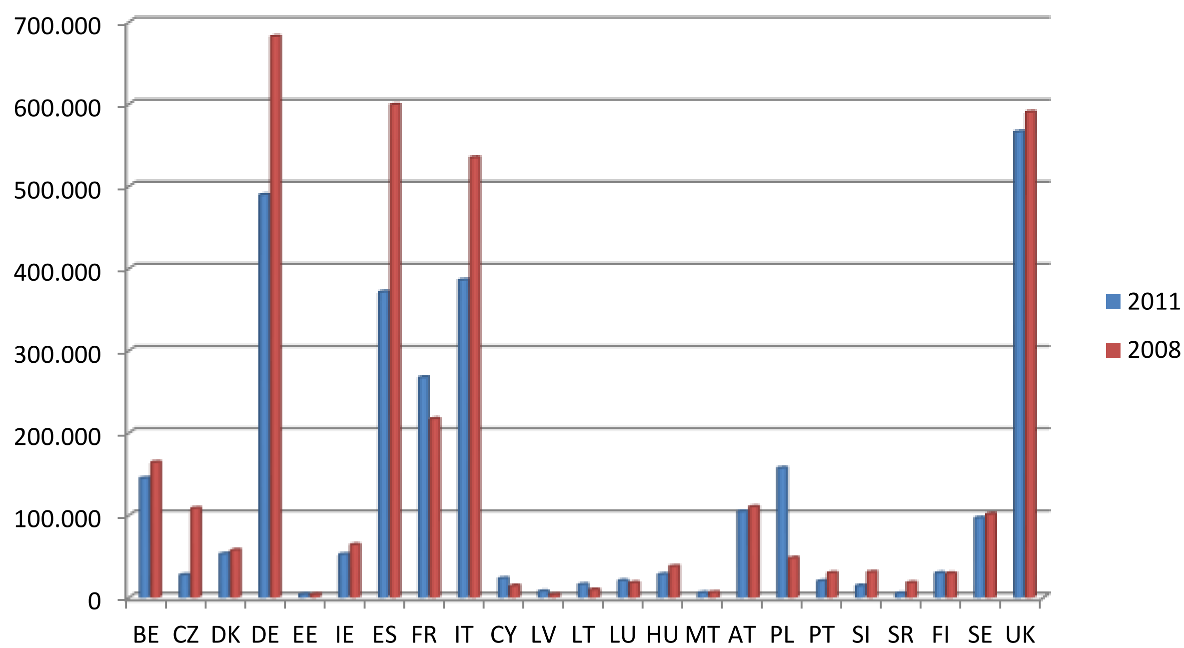
2. MIGRATION

Analysing the manner in which the current crisis affected the labour migration phenomena in the world in general, and in the European Union particularly, we have noticed that the OECD or The International Migration Association's reports pointed out that the previous economic recessions did not stop the increasing tendency of labour migration, people continuing to migrate to find a job beyond the borders of their native countries even in these periods (Koehler, et al., 2010). The same happened in the current situation, starting with the beginning of the crisis in 2007, the net migration flows in the European Union remaining generally positive.

Therefore, during 2008, approximately 3.8 million people emigrated in one of the Union's member states and at least 2.3 million left the EU states for different destinations. According to Eurostat statistics, compared to 2007, before the crisis, immigration in the EU member states dropped by 6%, and emigration increased by 13%.

The country which has reported the highest immigrants, in 2008, was Germany (682.146), followed by Spain (599.075), the United Kingdom (590.242) and Italy (534.712). As shown in the figure below, the situation has changed over time, so, after three years of financial crisis, in 2011, the country with the highest number of immigrants became the United Kingdom (566.044), followed by Germany (498.422) and Italy (385.793).

Figure 3 - The number of immigrants in the EU member states in the year 2008, compared to the year 2011



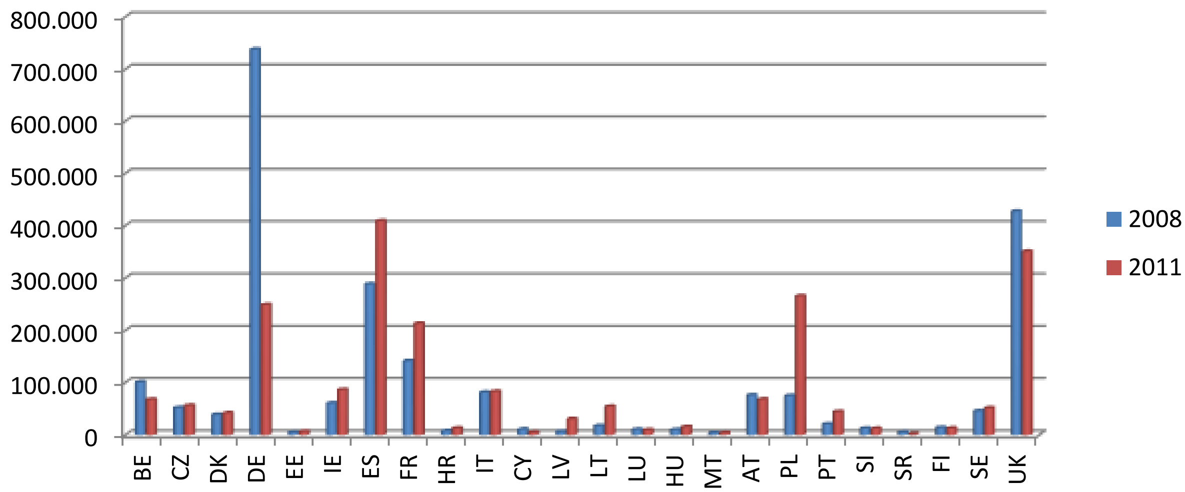
Source*:* The author's compilation using Eurostat data, 2013

*incomplete dates for Bulgaria, Greece, The Netherlands and Romania

Related to the number of the resident population, the country with the highest number of immigrants in 2010 was Luxembourg, with 33 immigrants per 1000 residents, followed by Cyprus with 24 and Malta with 18 immigrants per 1000 residents.

Regarding the emigration process, Germany reported the highest number of emigrants in 2008 (737.839), followed by Great Britain (427.207) and Spain (288.432). The situation changed drastically in 2011 when the leader for the number of emigrants became Spain (409.034) followed by Great Britain (350.703) and Poland (265.798), as shown in Figure 4. The main cause of this phenomenon is the unemployment rate, getting higher and higher in countries like Spain and determining the Spanish migration towards Europe and the USA.

Figure 4 - The number of emigrants in the EU states in the year 2008 compared to the year 2011



Source*:* The author's compilation using Eurostat data, 2013

*incomplete dates for Bulgaria, Greece, The Netherlands and Romania

Also, Luxembourg has the highest emigration rate relative to the resident population in 2010: 18 emigrants per 1000 residents.

3. UNEMPLOYMENT

The economic crisis pointed towards the importance of economic global activity based on responsibility. More so, it once again confirmed the fundamental truth according to which growth and prosperity are interconnected and no region on the globe can be independent in a globalized world economy.

Alongside the negative effects on the global economic growth, on the interest rate, the current account deficits and on the public debt, the economic crisis hit the European global market, resulting into reductions of the employment rates and increase of the unemployment rates in almost every member state of the European Union.

Therefore, in the euro zone as well as in the European Union, the number of unemployed people increased each month, the lowest level (turning point) being recorded in March 2008, according to Eurostat. Since then, the number of people affected by the unemployment in the euro zone increased by 3.7 million, reaching a total of 15.0 million in May 2009. In the same time in the European Union the unemployment increased by 5.4 million people, reaching 21.5 million.

Figure 5 - The increase of the unemployment rate in the EU member states in 2009 compared to 2008

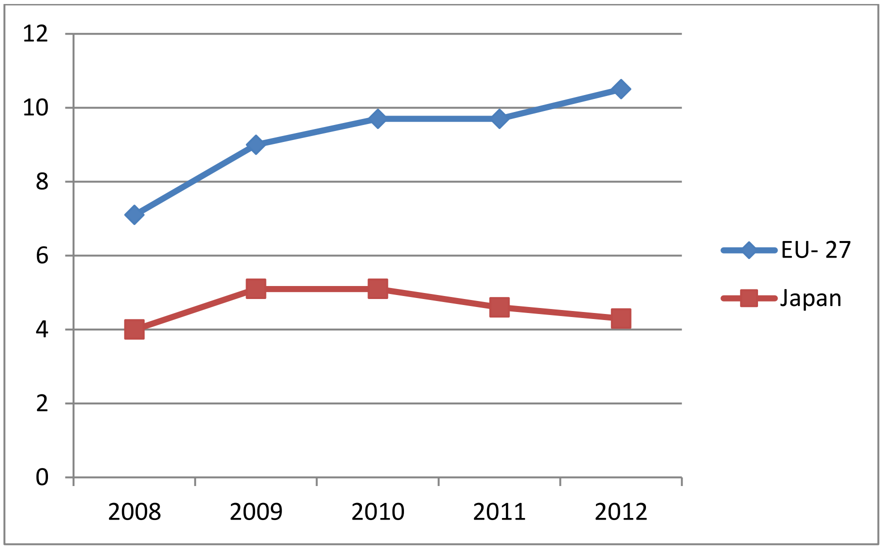
Country	Modification	Country	Modification	Country	Modification
DE	**0.4**	BG	1.4	CZ	2.5
NL	**0.6**	FR	1.7	HU	2.7
IT	**1**	AT	1.7	SK	2.8
BE	**1.2**	CY	2	RO	3.2
MT	**1.2**	Euro Zone	2	IE	5.7
DK	**1.2**	FI	2.1	ES	6.6
EL	**1.3**	UE-27	2.1	EE	8.1
LU	**1.3**	UK	2.2	LT	8.7
PT	**1.3**	SI	2.3	LV	9.4
PL	**1.3**	SE	2.3		

Source*:* The author's compilation from the European Commission data, 2013

As it can be seen, in all the EU-27 member states, the unemployment rate increased in the year 2009 compared to 2008. Romania had one of the biggest increase of the unemployment rate, ranking behind the Baltic countries, Spain and Ireland. Compared to the EU average, our country reported an increase by 1pp. the EU member states that managed this problem best were Germany, The Netherland and Italy.

According to Eurostat data, in the euro zone, the unemployment rate reached 10% in December 2010. In the EU-27, the unemployment rate reached 9.6% in December 2010, maintaining the same level of November 2010, compared to Japan where the unemployment rate during the same period of time was only a 4.9%.

Figure 6 - The unemployment rate in the EU-27 compared to Japan, between 2008 and 2012



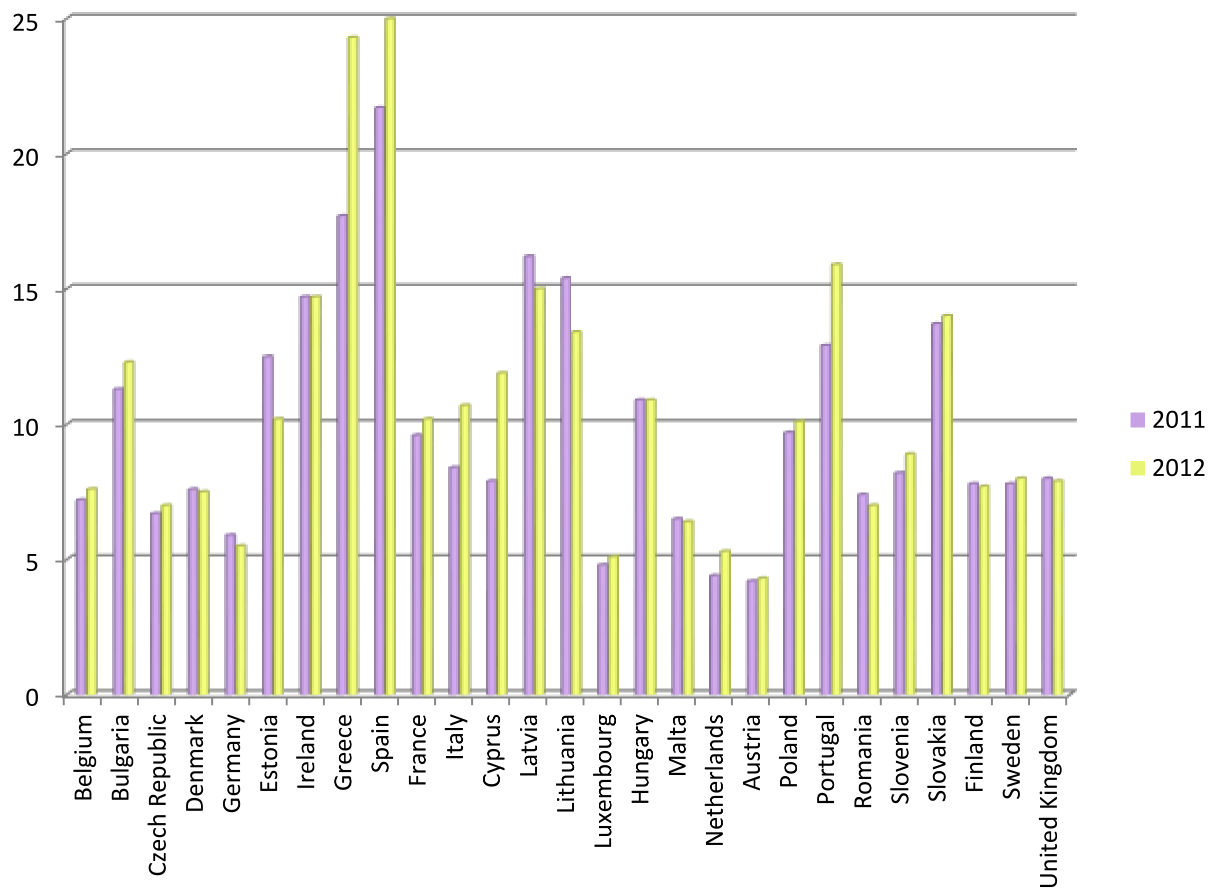
Source: The author's compilation using Eurostat data, 2013

Out of the member states, the ones with the lowest unemployment rates in the year 2010 were The Netherlands (4.3%), Luxembourg (4.9%) and Austria (5%) and the highest rates belonged to Spain (20.2%), Lithuania and Latvia both with 18.3%.

The number of employees started slowly increasing at the end of the year 2010, alongside with the number of worked hours. After stimulation for economic recovery, increased employment generated a considerable comeback of work productivity. Yet, in the euro zone as well as in the EU, between the years 2010-2011, the unemployment rate fluctuated only marginally and stayed at a constant 10% in the euro zone and respectively 9.7% in the EU.

In the second trimester of 2011, eight countries presented unemployment rates over 12% (the three Baltic countries, Spain, Ireland, Portugal and Slovakia) as shown in the figure below. However, the unemployment rate was below 7.2% (lower than the EU average valid before the recession), in 7 countries. Furthermore, the unemployment rate was situated below the pre-recession level in Austria and Germany, Belgium and Poland.

Figure 7 - The unemployment rate in the EU-27 member states between 2011 and 2012



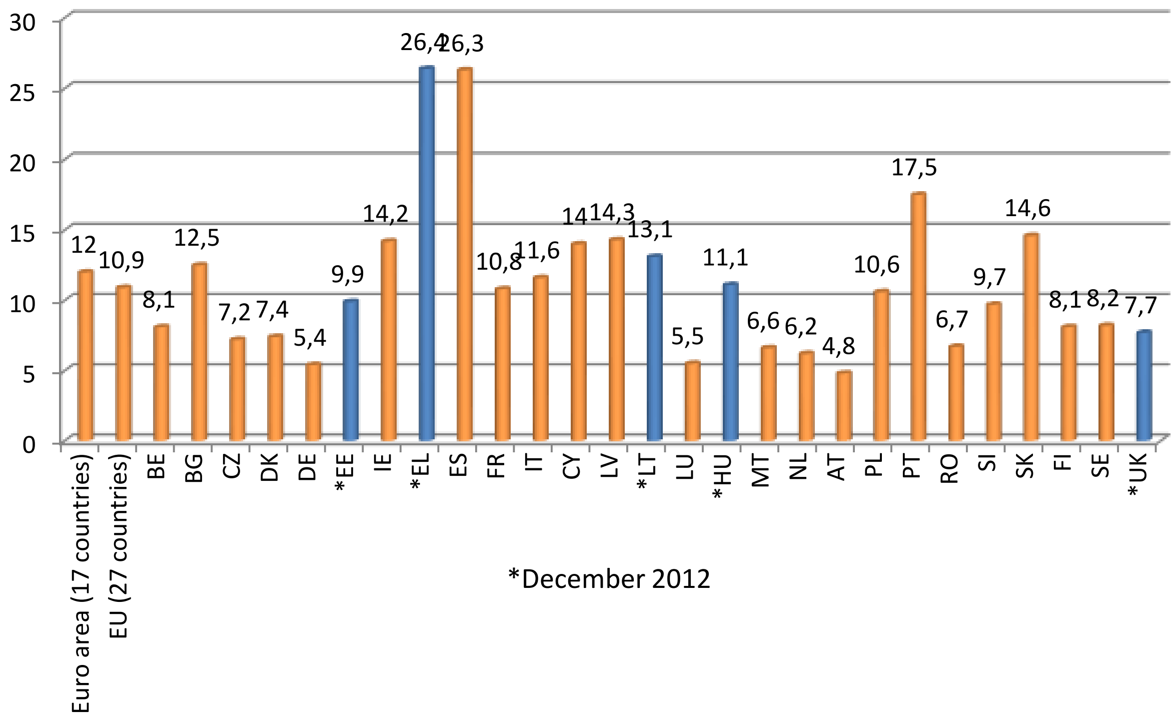
Source*:* The author's compilation using Eurostat data, 2013

As a consequence of these different evolutions, the higher share of the unemployment is presently concentrated in a few countries. Before the recession of 2008-2009, unemployment in Spain was only 10% of the total unemployment in the EU and 20% of the euro zone. With nearly 4.8 million unemployed people in the second trimester of 2011, unemployment in Spain represented almost a fifth of the total unemployment in the EU and a third of the total in the euro zone. A different evolution took place in Germany where the share of the total unemployment in the EU dropped between the second trimester of the year 2007 and the same period from 2011, from 30% to 16%.

Furthermore, the year 2012 brought even higher unemployment rates, in the EU-27 it increased from 9.7% to 10.5, and in countries like Spain and Greece the unemployment rate reached enormous values: 25% and 24.3%, as Figure 7 shows.

The Eurostat statistics indicate the fact that roughly 26 million people are currently unemployed. In February 2013 the unemployment rate in the EU-27 reached the threshold of 10.9%, and in the euro zone it reached 12%. Out of the Union`s states, Austria holds the lowest unemployment rate (4,8%), while at the other end Greece had 26.4% in December 2012, Spain 26.3% and Portugal 17.5%, as shown in the figure below.

Figure 8 - The unemployment rates in February 2013, seasonally adjusted (%)

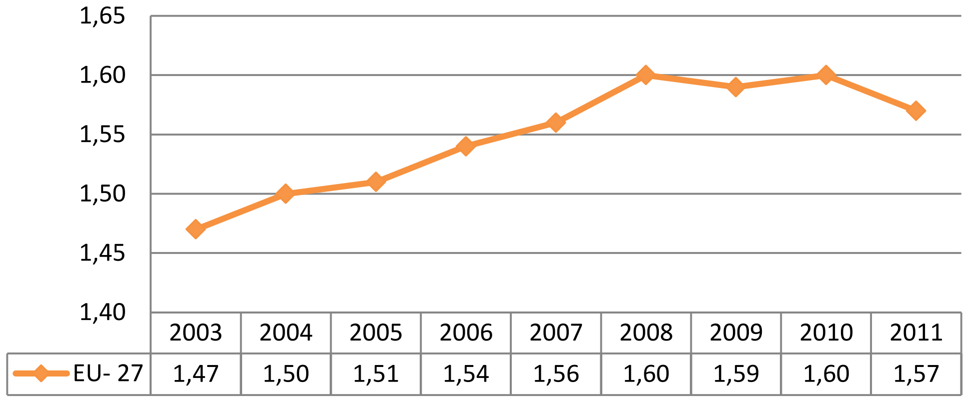


Source*:* The author's compilation using Eurostat data, 2013

4. THE BIRTH RATE

The economic crisis has strongly impacted on the birth rate of the European Union, especially in countries south of the euro zone. Starting with the year 2009, according to Eurostat data, birth rate ceased its growth and stabilized at slightly below 1.6 children per woman, a decreasing trend even in today.

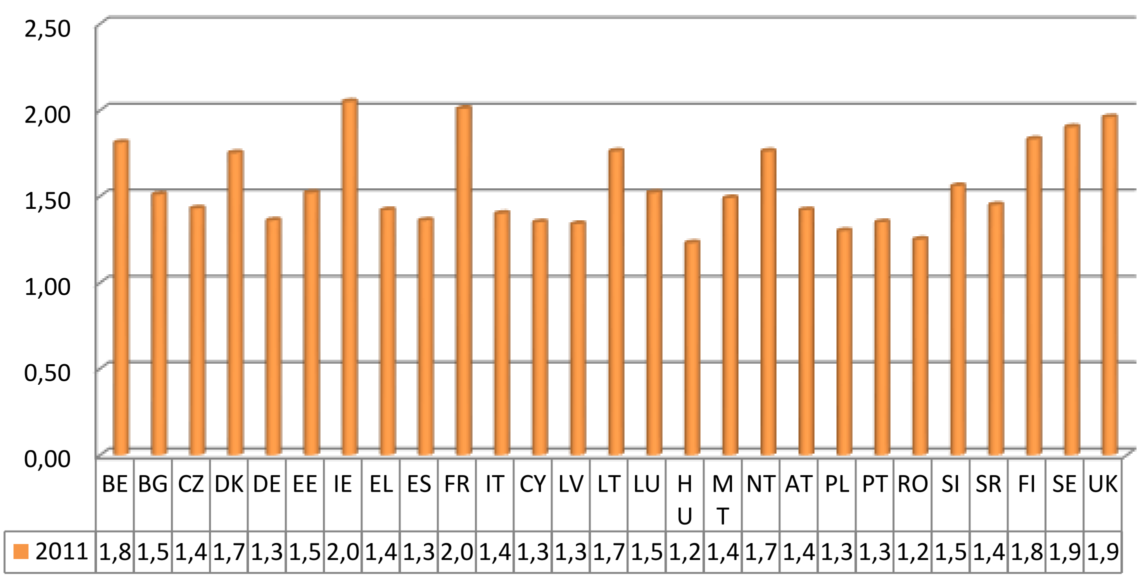
Figure 9 - The birth rate in the EU-27 between 2003 and 2011



Source: The author's compilation using Eurostat data, 2013

According to a study conducted by the Institute for Demographic Research in Germany, the main cause for the decreasing birth rate is unemployment. Therefore, because of the financial crisis, which left many people unemployed, the birth rate coefficient was in significant decline.

Figure 10 - The birth rate in the EU-27 member states in the year 2011



Source: The author's compilation using Eurostat data, 2013

The most affected EU member states were Spain, Hungary, Ireland and Latvia. For example, in Spain, before the crisis, the fertility rate was 1.47 children born per woman, and in 2011 it decreased to 1.36 children. Consequently, in Spain, between 2008 and 2011, the fertility rate dropped by 8%, while unemployment increased from 8.3 to 11.3% according to Eurostat data. Instead, in Germany and Austria, where the unemployment rate did not increase too much, an important influence of the crisis over the birth rate was not observed.

CONCLUSIONS

The main purpose of this paper was to present the impact of the economic-financial crisis on the European Union by analysing the social costs it generated.

As a result of the study we can state that the numerous social consequences of the recession manifested intensely from the beginning of the crisis and are still doing so.

Firstly, the number of unemployed people is currently about 10 million higher compared to the beginning of the crisis, according to Eurostat statistics. The direct impact of the recession continues to stand out concerning the number of people who receive unemployment benefits, from 2008 until today.

Secondly, a considerable number of citizens are increasingly more exposed to poverty and excessive indebtedness. One out of five young people of the EU is exposed to poverty risk. More and more young people cannot manage to find a place in education, professional training or in the higher education, and have limited chances in finding a work place. More so, the fact that 1 out of 10 young people who are working continue to live in poverty, illustrates that the quality of labour market integration for youth people is precarious.

The financial exclusion coming from the lack of basic banking services, as well as the high degree of debt, aggravated by the recent crisis, are obstacles in finding a job and thus can lead to persistent marginalization and poverty. Also, one of the extreme forms of poverty and insecurity that spread in the last years following the crisis, is represented by homelessness and the exclusion of owning a place to live.

Thirdly, the economic crisis emphasized the high exposure of the migrant population to social risks, often the first to be affected in a context of increased unemployment. For these people, the loss of their job often adds up to the lack of access to social security networks.

Last but not least, the new economic and social realities contributed to the decrease and then stagnation of a low level of child birth, in a way that, currently, all civilized countries face an accelerated decrease of child birth and fertility.

Therefore, the crisis brought substantial changes to the social situation in Europe, increasing the social gaps and amplifying the discontent of the European citizens. All these have deepened the discrepancies between the relative stable North, which is drifting more and more away from the rest of the Union, and the South of the EU, which continues to slide in the negative areas, especially when it comes to indicators such as unemployment and poverty.

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THE FDI FLOWS BETWEEN THE TRIAD MEMBERS

Razvan Hagima*

Abstract: *The economic Triad is one of the most important players in the economic world. It is attracting the most of the FDI flows and it is the main investor of the world. The FDI flows between the members of the Triad, USA, Japan and EU, represents more than 400 billion dollars per year.*

Keywords: Triad; FDI flows
JEL Classification: G01; E00

INTRODUCTION

The increasing liberalization of capital movements, the great financial mobility registered in the worlds market represents a fabulous weapon against the old social contract and the principal of national sovereignty (Brailean, 2001). The foreign direct investment provides a major source of capital, which brings along with it the latest technologies. The capital invested by foreign countries would be very difficult to get through domestic savings and the transfer of foreign technologies to indigenous companies with no prior experience of use is very difficult, risky and expensive.

The level and structure of foreign direct investment has change significantly over time and this has implications for how the investments affect the development, largely because many countries that attract FDI obtain the most part of the advantages. In the past decades the level of FDI had increased, especially in the developing countries, although with some differences between them.

The inflows of foreign direct investment rose, between 1990 and 1997, by an average of 13% per year, but the percentage grew radically in period 199-2000, when the indicator reached 50% per year, due to large cross-border merges and acquisitions. In 2000, the level of FDI inflows reached 1,500 billion USD but next year, in 2001, the level dropped suddenly with about 800 billion USD due to a sharp contraction in mergers and acquisitions of companies between industrial countries. The FDI inflows to developing countries increased with about 23% per year in period 1990-2000 but in 2001% they only reached 13% or 215 billion USD (International Monetary Fund, 2003)

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In terms of geographical areas, the most attractive country is China, followed by India and Thailand. At the opposite pole is Africa continent, an area that is outside investor preferences. Out of Africa, Morocco is the country which attracts most of foreign direct investment. Among European Union, United Kingdom attracts most of the investor' funds.

1. EUROPEAN UNION FOREIGN DIRECT INVESTMENT WITH THE TRIAD MEMBERS

The foreign direct investment policy of European Union focuses on providing a stable, legal economic framework to investors, a predictable, fair and equitable environment where investors can operate on accordance with international agreements. The European Union is considered the largest investor in the global economy and has always promoted FDI as a source of growth and development. But the European Union remains also the main recipient of foreign direct investment. Within the European Union, the FDI flows are very important, they act as an essential element in strengthening the internal market while investing in and beyond the EU provides a leading position in the world market and integration into the world technological flows.

The European Union direct most of its investment funds to their own countries. North America represents the top location for the EU foreign direct investment flows, especially the United States, followed by Canada. From Asia, the countries which attract most of the European investing funds are China, India, South Korea and Japan. From the European countries that are not an EU member, Switzerland attracts a big part of the European Union FDI flows, followed by Russia and Turkey (Eurostat Pocketbooks, 2008).

Regarding the Triad members, the evolution of foreign direct investment made from the European Union is represented in the table 1:

Table 1 – The evolution of the European Union outflows to the Triad members

EU	**2007**	**2008**	**2009**	**2010**
USA	178,51	126,43	82,164	25,2
JAPAN	10,2	2,8	1,01	0,2
Total EU FDI	1277	923	512	404

Source: http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tec00048

As can be seen from the table, the European Union invests mostly in the United States. Investments in the United States had a fluctuating trend and in 2010 the indicator reached 25.2 billion USD, with about 75% less than in the previous year. The largest EU investors in the U.S. are the UK, France, Germany, Luxembourg and the Netherlands.

Regarding Japan, the investment flows from the European Union declined over the past years and in 2010 reached a level of 204 million USD. Investment flows to Japan dropped sharply in 2008 compared with 2007 with about 75%.

FDI flows from the EU are directed to members of the union, they attracted more than 50% of total investments. Currently, EU investors are focusing to EU-15, here is concentrating a big part of the investment capital due to easy access, well-educated workforce and developed infrastructure. As for Japan, it is the host country for only 0.2% of the total EU investment. In total, 73.2% of EU foreign direct investment can be found in the member states of the Triad. The United Kingdom is the largest investor of the European Union.

The amount of FDI has declined in recent years due to the economic crisis faced by the global economy, investors have not taken the risk of placing their funds in risky business. In addition, the economic crisis has led to constrains in terms of liquidity for transnational corporations, limited access to credit, the business balance has deteriorated so the ability to invest was weakened.

2. U.S.A. AND THE FOREIGN DIRECT INVESTMENT WITH THE TRIAD MEMBERS

Foreign direct investment in the U.S. declined gradually after 2000 when approximately 3000 billion dollars were placed in U.S and real estate companies. In 2010, according to U.S. trade department, foreigners invested almost 236 billion dollars in in the American business environment, especially in the real estate one. While foreign direct investment in the U.S. economy is encouraged to offset the negative economic effects of the recent economic crisis, some of the foreign investors are concerned to procure major U.S. companies.

On the other hand, the United States is a major investor abroad, the total investment in 2010 was 351 billion dollars, with about 48 billion dollars more than the value recorded in 2009 (UNCTAD, 2012). In 2009, the U.S. companies targeted a smaller percentage of the investment funds in Europe and Asia, but instead they focused on certain sectors in Canada. Also, the developed countries received almost 70% of the investment funds of the U.S. multinational companies while developing countries have attracted only the rest of 30% of these funds.

The foreign direct investment flows from the U.S. to Triad members are analysed in the following table:

Table 2 - Evolution of the U.S. foreign direct investment flows to Triad members (2007-2010) – billion dollars

USA	**2007**	**2008**	**2009**	**2010**
EU	221	146.3	145.2	168
Japan	15.7	1.65	6.56	6.48
Total USA ISD	414	329	303	351

Source: http://stats.oecd.org/Index.aspx?DatasetCode=FDI_FLOW_PARTNER#

It is noted that half of the foreign direct investment made by the U.S. is concentrated towards the European Union. In 2010 the total value of the U.S. investment in Europe was 168 billion dollars, which is 47% of the total investment flows that have left the U.S. The FDI flows targeted especially several countries like the Netherlands, U.K., Luxembourg, Ireland and Germany.

Regarding Japan, it attracted only 2% of the U.S. investment funds, in 2010 the value of the investments reached 6.48 billion dollars. In recent years, the foreign direct investment from the U.S. to Japan were lower than those that came from Japan to U.S.A.

3. JAPAN AND THE FOREIGN DIRECT INVESTMENT WITH THE TRIAD MEMBERS

Japan's foreign direct investment increased significantly in recent years, particularly in financial services and real estate sector. The U.S. is the main destination of Japanese investments. Foreign direct investment flows from Japan to other countries were much higher than the ones entered in the Nippon country. This situation worried the population of the country because the production capacity moved outside the state, affecting domestic economic growth and employment.

Table 3 - Japans foreign direct investment flows to Triad members (2007-2010) – billion dollars

Japan	2007	2008	2009	2010
EU	15,7	43,15	10,6	9,07
USA	20,07	22,6	17,03	8,14
Total Japan ISD	73,5	127,9	74,7	56,2

Source: http://stats.oecd.org/Index.aspx?DatasetCode=FDI_FLOW_PARTNER#

As can be seen from the table above, the main investment flows from Japan targeted the United States and the European Union. In 2010 Japan invested in the European Union almost 9,07 billion dollars while E.U. invested only 200 million dollars in the Nippon country. An interesting fact is that in 2010 approximately 30% of Japanese investments were concentrated in U.S. and European Union.

The Japanese investments to the U.S. are the most intriguing and misunderstood of all FDI made by the Nippon country. The acquisition of companies such as Rockefeller Centre and Columbia Pictures has sparked many tensions between the two countries in the 1980s. Such acquisitions are unusual among the Japanese investors because they targeted, primarily, the construction of new production or distribution centres. Indeed, until recently, Japan did not participate in hostile takeovers of companies like other foreign investors did.

However, it cannot be questioned the fact that the Japanese presence in the U.S. market has increased. While investment flows from the most industrialized countries increased in value, the Japanese rose exponentially (Kenneth A., 1991).

In the European Union the presence of the Japanese companies has a relatively lower influence than the one exercised in the global economy. In the last 50 years Europe has received an average of 20% of the Japanese investment. The main beneficiaries were the United Kingdom and the Netherlands, countries which concentrated about 75% of the Nippon investments in this region. It is expected that in the future the share of Japanese investments in the European Union will increase, the flows will be directed especially in countries like Hungary, Czech Republic or Poland due to the low level of wage.

CONCLUSIONS

In the past decades the economic Triad was the most important player in the foreign direct investment field, even if we refer to the investment made between the three members or the investment made in the whole world. Even so, in the last years China became a very strong opponent, the Asian country is received a very important amount of FDI. But China is not only a perfect location for the foreign direct investment flows, it is an important investor too.

If we would make an analysis of the FDI trend between the members of the Triad and from the Triad to the rest of the world we could see that USA, Japan and UE are the most important players in FDI matter. Even if some of the economists think that this triangle will be caught up by other economic unions or at least the gap between them and the other opponents will shrink, the present economic facts contradict those provisions.

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US-EU SPYING ALLEGATIONS 2013- A CASE FOR CONSTRUCTIVISM

Roxana Hincu*

Abstract: *This article aims to show how the revelations about the United States of America (US) spying on the European Union (2013) represented an occasion for the latter to reiterate its normative power and the particular importance of the transatlantic partnership. Through observation of "acts of social facts essentialization" by the US and EU and by using a constructivist conceptualization of "agent identity" and "international socialization", the article concludes that the constructivist framework of analysis explains the unfolding of the spying issue. This deductive approach uses the method of discourse and official documents analysis.*

Keywords: constructivism; spying revelations; identity; socialization; social facts
JEL Classification: A1; A3

INTRODUCTION

Despite widespread public criticism of US National Security Agency mass surveillance of American, French and German citizens, this paper deals with the interstate and interinstitutional spying. News about US intelligence activities regarding the EU emerged in June 2013. In October 2013 new revelations were made about US spying on the German chancellor and France's president. Although the debate on the German and the French case could be analyzed here as a case of US spying on EU, only reactions and actions directly linked with the European Union are mainly taken into account. The case of US spying on EU is still unfolding but the institutional and leaders' reactions up to the present have revealed a great deal of how US and EU portray themselves and each other in the international arena.

In the first part of the article Wendt's (1999) unique brand of constructivism is particularly discussed as it constitutes the basis for the conceptual framework developed here. According to Pouliot (2004) the essence of constructivism is to be found in the "social facts" within the international arena. Therefore, constructivist researchers should observe how actors in international relations relate to social facts as basis of reality. This "process of essentialization" made by actors is to be evaluated by

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constructivist scholars in international relations. The second main section of the article applies the constructivist framework to the case study of revelations about the United States spying on the European Union (2013).

1. CONSTRUCTIVIST APPROACH IN INTERNATIONAL RELATIONS

1.1. Constructivist Theoretical Method

In the international relations field, constructivism is widely associated with Alexander Wendt's (1999) seminal "Social Theory of International Relations". In his book, Wendt counters the neorealist paradigm- developed by Kenneth Waltz (1979) - arguing that the international system is not a function of anarchy and power but of the culture shared by states through discourses and practices. In addition, ideas instead of exclusively material forces shape states' identities and interests. The constructivist agenda of research challenges the rationalist account of international relations arguing that military power, economic performance, national interests, international anarchy etc. should not be analyzed as objective facts but as social ones, with social meanings.

1.1.1. Social facts

With regard to metatheory, constructivism is based on a subjectivist ontology of international politics. From the methodological point of view, positivism and postpositivism are considered the suitable strategies of research. For Wendt (1999, p. 106) the reality of international politics is defined as the social construction of the international system through social structures in which ideas, social interactions and facts define the way international actors relate to each other.

The new perspective brought by constructivism meant moving away from a materialist and individualist view of international relations. According to constructivism, social facts are the only foundations of reality upon which knowledge on global politics can be built. Social facts are "those facts that are produced by virtue of all the relevant actors agreeing that they exist" (Ruggie 1998, p. 12). Nevertheless, by refraining from an act of essentialization of reality through identity, intersubjectivity or norms- constructivist researchers are able to observe the acts of essentialization that international actors commit (Pouliot, 2004, p. 328). Therefore, since social agents commit acts of essentialization through "speech acts and language games, representational force, constitutive practices, norm compliance, persuasion, rhetorical and communicative action, social learning, cultural change, socialization, internationalization etc., constructivists are meant to research the reality of social facts as acts of essentialization made by actors (Pouliot, 2004, p. 328). Whether actors take into account certain social facts as real is up only to themselves. The role of the researcher is to draw the social and political implications of the act of essentialization committed by actors.

In the process of essentialization, international actors also involve in the process of socialization by interacting and internalizing norms originating in the international system (Wendt 1999, p. 200). Through this framework change in international politics becomes an issue of study as it surpasses the vicious circle of conflict and self-interest.

1.1.2. Agent Identity

In general, identity refers to a group's defining characteristics. A group "body" may comprise individual members, offices, administration etc. (Wendt 1999, p. 225). In the case of states, nation groups have organization principles such as constitutions and the principle of sovereignty.

According to Kratochvil and Tulmets (2010, p. 30), "actors' (intersubjectively constructed) identities require compliance with internalized norms, irrespective whether these norms bring these actors additional benefits or not". Wendt (1999, p. 224) argues that an agent's identity refers to a series of essential properties specific to the agent. Also, the identity of an agent is not static but it can be influenced though interaction with other agents in international relations. Therefore, identities change over time and across context. State identity is considered as part of the national culture. Each state has a certain way of self-understanding and portrayal. This fact is translated into foreign discourses, decisions and actions in international relations. The actors in international relations, mainly states and international organizations expect a certain behavior on behalf of each actor. Thus, the identity of an international relations agent renders its actions predictable to a certain extent.

International organizations also have a certain identity each, according to their profile: Greenpeace (protection of the environment), the United Nations (peace promotion), etc. Although the identities of international institutions and organizations are not much developed into the international relations literature, they play the same central role in explaining international relations outcomes.

According to Wendt (1999, p. 318) agent identities are not given but sustained by interaction. Furthermore, identities are “relatively stable and role-specific understandings” (Wendt 1999, p. 22). Identity also generates the basis for agent behavior in international relations. Also, social learning occurs when “ego” and “alter” interact and the possibility for change in international relations is created.

2. US-EU SPYING CASE

The revelations about US spying on EU were made in a series of disclosures by the ex-CIA systems analyst- Edward Snowden. The secret documents of the American National Security Agency (NSA) provided to the media by whistleblower Snowden describe actions taken by the American secret services with regard to the EU diplomatic representations in Washington and New York. According to classified NSA files, bugs were installed in the European Union building in New York where the 28 ambassadors of EU member countries negotiate on a common policy on the United Nations Organization. The NSA also infiltrated the Europeans’ internal computer network between New York and Washington. Therefore, the Americans were able to have access to discussions in EU rooms or through e-mails and to internal documents on computers. US intelligence services also eavesdropped EU representatives in the Justus Lipsius Building in Brussels where the EU Council of Ministers is located.

A series of press interviews, speeches and diplomatic actions of US and EU representatives are discussed in order to show how the actors related to spying revelations and sought to deal with this issue. Although the media does not offer an exhaustive description of the unfolding event, using a wide variety of media contributes to offering a comprehensive account of the events concerned here. Firstly, the European Union kept its image of the normative power in every phase of the spying matter. Secondly, the United States of America defended its position as a legitimate fighter against terrorism. Last but not least, the US-EU partnership has not been damaged but EU had reputation gains.

2.1. EU identity in international relations

The European Union projects itself in the international arena as a "global actor, ready to share responsibility for global security" (European Council 2013, p. 1). Despite of this ambitious objective, the European Union is widely viewed as a soft power. Its character as a normative and civilian power is contested as rendering the EU weak and ineffective, on the one hand, or unique and efficient on the other hand. Therefore, from the military point of view the EU is a reactive actor but in the economic field, global governance and international development policy it is one of the most visible actors in international relations (Özoğuz-Bolgi 2013, p. 8).

The European integration has proceeded in a technocratic top-down manner (Checkel and Katzenstein 2009, p. 2). The unity of Europe is conceived as a unity of diversities and contradictions. Moreover, there are two main conflicting views on the European integration and its influence in the world. The first one is in favor of delegating more power to the European Union in order to become an important power factor in the world. The second one defends the empowerment of the national states. Nevertheless, in the context of rising new powers such as China, Brazil, India and other fast-growing economies demands for a strong European Union advancing Europeans' interests.

From Ancient Rome up to the present moment, intelligence activities played a decisive role in politics. Therefore, the disclosure of files proving that the US spied on EU premises should not constitute a surprise for political representatives or the public opinion. Still, the case of the revelations concerned here sparked global outrage. Although the issue of spying was debated in the context of revelations asymmetry as there is no information on the intelligence activities pursued by the EU towards US, the European Union is the winner in terms of good reputation gains in international arena. Thus, the EU treated the issue with pragmatism, preferring to discuss the matter with the US rather than acting in a radical manner such as to weaken the transatlantic relations.

The reactions of EU representatives varied from speeches condemning the US spying activities to the organization of a committee to investigate the reports on spying. Firstly, the High Representative of the European Union had a phone conversation with US Secretary of State John Kerry about the sensitive issue. Furthermore, the US ambassador to the EU, William Kennard, had discussed the matter with EU's top diplomat- Pierre Vimont. As expected there was no outstanding declaration or action on behalf of Catherine Ashton.

Secondly, the European Parliament adopted on 4th July 2013 the "Resolution on the US National Security Agency surveillance programme, surveillance bodies in various Member States and their impact on EU citizens' privacy" with 483 votes in favor, 98 votes against and 65 abstentions. The resolution "strongly condemns the spying on EU representations as, should the information be available up to now be confirmed, it would imply a serious violation of the Vienna Convention on Diplomatic Relations, in addition to its potential impact on transatlantic relations; calls for immediate clarification from the US authorities on the matter" (European Parliament Resolution, 04 July 2013). Also, in the resolution the Parliament instructs its Committee on Civil Liberties, Justice and Home Affairs to conduct an inquiry into the subject of spying. The report was released in October 2013. It contains fact-finding elements on the US-EU partnership: "At a diplomatic level, the US largely dominates the diplomacy of surveillance, in ways that clearly disrupt the cohesion of the EU in the field (…) We deceive ourselves if we think that the EU member states as a whole and moreover the EU institutions (the Council and the European Commission) can become a strong partner in negotiations with the US in the field of surveillance, despite the efforts of the EU-Counter Terrorism Coordinator" (European Parliament 2013, p. 40-41). Also on 28 October 2013 a delegation of nine members of the European Parliament met senior US government officials in a three-day visit in Washington in order to discuss the issue of spying.

The Vice-president of the European Commission, Viviane Reding, responsible for justice, fundamental rights and citizenship has proposed a European Intelligence Service to be set up by 2020. Also, the European Commission Vice-president Neelie Kroes declared that "spying is not acceptable at all (…) it should never, ever happen again" (Neelie Kroes BBC 2013).

The European Union used the case of spying revelations as an occasion to portrait itself as "a power from Venus", turning away from hard power, "entering a post-historical paradise of peace and relative prosperity, the realization of Immanuel Kant's "perpetual peace" (Kagan 2004, p. 7). The reactions of EU representatives did not contain radical declarations, decisions or actions. Therefore, the event was treated in accordance with the values characteristic to the European Union: democracy, peace, respect for human rights and liberal market economy. Although EU's identity in international relations is mainly normative, debates on its status- organization, agency, institution etc. is rendering the identity issue even more difficult to define and argue. The European Union does not yet work on mechanisms and processes specific to states' foreign policies. Therefore, EU leaders have denounced the alleged US spying on EU.

2.2. US identity in international relations

Although various studies indicate that the contemporary international system tends towards multipolarity and power diffusion, the US is still the most powerful economic and military actor in international relations (European Institute for Security Studies 2010, p. 10). The United States of America appear reluctant to present or to think about itself as an imperial power. Still, it has the means of a superpower and it acts as a global hegemon. Democracy and freedom are the main features of the American identity. The election of Barack Obama as the president of the United States in 2009 was widely expected as a policy shift from his predecessor in the foreign policy field. Still, the ongoing pursuit of military pre-eminence is inconsistent with the rhetoric of promoting international rules and norms that may regulate international relations. Still, US representatives portray the country as seeking for universal values meant to lead towards liberty and prosperity.

In the case study presented here the representatives of the United States of America defended the spying policy. Nevertheless it organized inquires and even is in a process of reviewing its intelligence policy with regard to guarantee the citizens' rights to privacy. The declarations of the US representatives form a discourse in accordance with the US identity as a state seeking to defense itself from terrorism.

James Clapper, the director of the US National Intelligence responded to questions on behalf of the US House of Representatives House Select Intelligence Committee, on the spying allegations on the European Union and its citizens on 29 October 2013. He argued that spying on world leaders is not new or illegal "As long as I have been in the intelligence business, 15 years, leadership intentions is a basic tenet of what we have to collect and analyze"(James Clapper, BBC 2013). Moreover, the director of the National Security Agency, Keith Alexander defended the US spying activities as effective actions in preventing terrorist plots. Thus, by arguing for the efficiency of the US intelligence activities, the US representatives appeared reluctant to changes.

John Kerry, the US Secretary of State stated that spying is not unusual in global politics. In addition, he defended the intelligence activities including spying on EU in the routine practice of American intelligence services. This shows that despite the ally status of the EU, spying on it still has its rationale.

The US president appeared the most willing to review the US intelligence procedures and processes. He appointed a team to review the US spying policies amid Edward Snowden's revelations. The report is due to 15 December 2013 and is meant to contain recommendations on how to balance rights to privacy with the security needs. Overall, the US did not apologize for the intelligence activities on one of its most closed ally. In fact, the US reactions amounted to the defense of intelligence activities. Therefore, its identity of superpower and its legitimate counterterrorism activities were reaffirmed.

2.3. US-EU partnership

The revelations about US spying on Germany and France came amid a European Council Summit 24-25 October 2013. The issue of intelligence gathering was not ignored as among the conclusions of the EU Summit one can find a "Statement of Heads of State or Government". Thus the issue was addressed the statement on it reiterating "the close relationship between Europe and USA and the value of that partnership" (Statement EU Summit Conclusions 24-25 October 2013, p. 19). Also, "the Heads of State or Government took note of the intention of France and Germany to seek bilateral talks with the USA with the aim of finding before the end of the year an understanding on mutual relations in that field. They noted that other EU countries are welcomed to join this initiative" (Statement EU Summit Conclusions 24-25 October 2013, p. 19).

The transatlantic partnership is considered as the most important alliance in international relations. Although the US and the EU do not always agree on every issue in international agenda, they share fundamental values such as democracy, free markets and liberal worldviews and also strategic interests to an extent not matched by any other global partners in the world (European Institute for Security Studies 2010, p. 9).

The President of the European Parliament, Martin Schulz, had one of the strongest reactions against US intelligence practices by calling for an end to the ongoing US-EU trade negotiations. He also stated: "I am deeply shocked about the allegations of US authorities spying on EU offices. If the allegations prove to be true, it would be an extremely serious matter which will have a severe impact on EU-US relations" (Declaration European Parliament 2013). Schultz plainly synthesized the paradox of the US spying: "(Americans) must justify why they treat their nearest allies like enemies" (Interview European Parliament President 2013). The Vice-president of the European Commission, Viviane Reding stated in an interview on a question on the spying allegations: "I have made it clear: Partners do not spy on each other" (Euractiv, 3 July 2013).

The European decision makers did not let the spying revelations affect the EU-US partnership. Actions damaging the partnership did not take place but diplomatic moves were made in order to show support for the EU citizens whose online activities could be followed by US intelligence services.

CONCLUSIONS

This articles meant to argue that though the US-EU spying matter, the EU has enforced its normative image and power in international relations. Although the events are still unfolding, the first months of reactions on behalf of US and EU representatives shaped decisively the image and account of the events. The EU kept its reputation as a normative, soft power by emphasizing the unacceptability of spying between allies. The US defended its actions against terrorism although it involved spying on EU. Still the transatlantic partnership was not affected. Reactions calling for effective actions in reply of the US spying, such as calling an end to EU-US trade talks made the headline news but no action was followed in this sense. Also, declarations regarding the special transatlantic relationship meant to show that mutual trust was essential for the partnership.

Radical changes of US intelligence practice are not envisaged as US representatives made it clear through their declarations. Nevertheless, a review on the spying targets and rights to citizens' privacy is expected. The framework of analysis provided by constructivism showed that the US-EU spying revelations were used to reiterate the actors' identities and relationship in global politics.

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THE BITCOIN PROJECT AND THE FREE MARKET

Mihaela Iavorschi*

Abstract: *The human innovation in the field of monetary freedom takes shape in the virtual communities. Developed and implemented through a decentralized algorithm, the bitcoin project has so far proved itself a success in the field of virtual currency. Beyond the technical part of operation, in this paper we will analyse the theoretical principles underlying the bitcoin. This study shows that the bitcoin largely meets the role of natural money of gold and silver, in compliance to the free market's behaviour. This allows us to observe the fact that people are aware of the negative implications the state's intervention has in the monetary filed, thus deciding to create and use their own currency in online transactions.*

Keywords: bitcoin; crypto-currency; free market.
JEL Classification: F31

INTRODUCTION

Considered to be one of the first deployments of the "crypto-currency" concept, the bitcoin project originates in the studies conducted in 2008 by Satoshi Nakamoto, a group consisting of a Japanese researcher and four PhD students at the Massachusetts Institute of Technology (Satoshi N., 2008).

The technical deployment of the project took place in 2009 and since then it met an upward trend in the virtual communities. The originality of this digital type of money consists in the fact that it was designed and implemented independently from a central institute.

Unlike paper money, the bitcoin is not issued and therefore it has not been regulated until now by government institutions. The bitcoin currency can be generated by any computer and the transactions are made directly between people who are interested, without the bank being the middle-man.

The system behind the currency is decentralized, using a distributed peer-to-peer database and an open source protocol. This generates a transparent system. Using cryptography, the bitcoin system offers a strict control of transactions thus ensuring the bitcoins are spent only once by the owner. The peer to peer operating mode from node to node and the lack of a central administration do not allow any bank to

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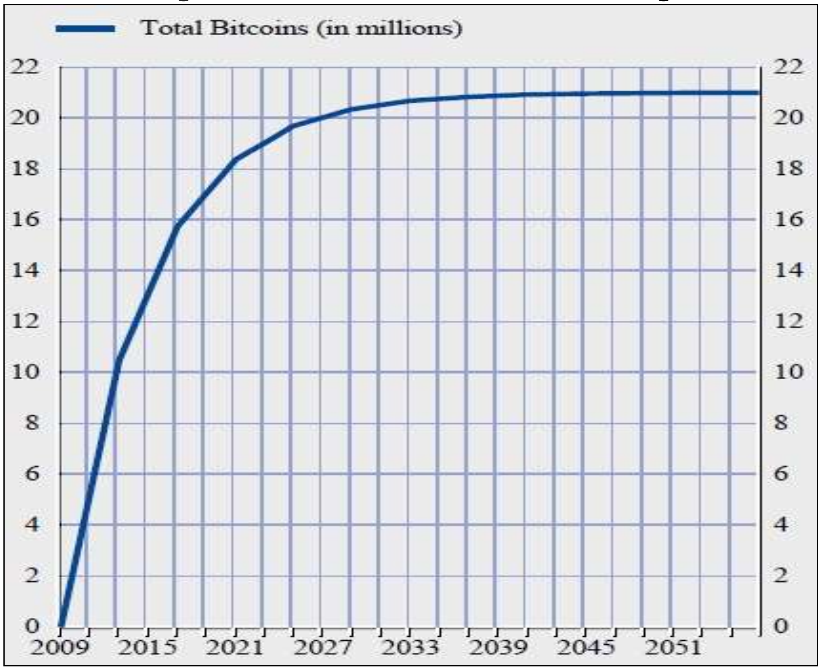
influence the bitcoin value or to induce inflation by issuing uncovered bitcois. These are the main reasons why the bitcoin is considered a decentralized digital currency.

Managing bitcoins is made by saving them in a specific folder called a wallet. Wallets can be stored on web services, personal computers, mobile devices or paper. Bitcoins can be sent using internet to any person owning a bitcoin address. Once validated each transaction is permanently stored in a public registry called a blockchain. Processing the payment is made more than once through a private computer network specially designed for this task. The operators of these computers known as „miners" obtain trading commissions and newly mined bitcoins. The bitcoin can be generated on any computer through a specialized program called Bitcoin Miner.

In order to offer currency stability the bitcoin system uses an algorithm that automatically adjusts the difficulty of generating new currency. In other words, the higher the demand for bitcoins, the harder it is to produce them, requiring high performance computers to reach the desired result. The bitcoin algorithm is programmed to increase the money supply at a predictable rate until it reaches a volume of 21 million bitcoins in the 2040.

Figure 1 - The evolution of bitcoin issuing



Source: Bitcoin

Currently 25 bitcoins are generated each 10 minutes. In the year 2017 only 12.5 bitcoins will be generated each 10 minutes and their number will halve each 4 years until it reaches the limit of 21 million generated bitcoins. The limitations are imposed by the algorithm's difficulties at a certain point and by the technological resources. Bitcoin is divided in 100 million subunits (eight decimals).

Being a tradable currency, bitcoins can be obtained by selling goods and services or by trading the divisional currencies into bitcoins.

THE BITCOIN AND THE FREE MARKET

The most important aspect of the bitcoin project is the decentralized system. In other words bitcoin was created to run on a virtual free market. The market represents a network in which two persons or institutions trade goods (Rothbard, 1994). Through the market the people voluntarily take part in the trade, respecting private property. The intermediary of the trade is money. According to the liberal doctrine, the currency is nothing more than a good, unanimously accepted by the participants on the market process.

The history of humanity proves that money was created for objective reasons. In order to facilitate the exchange and international division of labour, people have used countless products as money: seashells, sugar or coffee. The market, in its natural self-selection process, selected money to be represented by gold and silver in the form of coins or bullions. This is due to the characteristics of the two metals: rarity which offers a relatively stable value, the fact they were easy to transport and easily dividable, they had a high demand, could be easily homogenized and last but not least, they were enduring (Hulsman, 2012).

The state, in the beginning through the kings and princes that ruled the people, later through democratic representatives, has intervened on the market. By means of coercive laws they obtained the currency monopole as a symbol of national sovereignty.

The actions of authority were not limited only to issuing currency. Having obtained control over the currencies, the princes and kings forged their value. Through market intervention they made citizens use devalued currencies in the trade process.[*] The gold and silver thus obtained was used to cover the personal expenses of the rulers.

In the era of the paper money the authorities manipulate the citizen by covering their budgetary deficits through taxes and mostly through inflation. On the free market in order to produce money you have to produce goods beforehand. The goods are sold on the market resulting in incomes. But the government increases its revenue without producing and selling goods, without the least of efforts, just by printing paper money.

The effects of inflation and the banking regulations regarding the issuing of currency based on fractional reserves, are known in terms of the consequences occurring on the market: the cyclical activity of the economic crisis (Huerta de Soto, 2006, Hulsmann, 2003, Hayek, 1976).

The element of innovation of the bitcoin algorithm is the fact that it does not facilitate the authorities an effortless process to create money. Bitcoins are formed on a virtual free market, without any intervention from the central authorities or from the governments. The individuals are producing as many bitcoins as they need inside the limitations of the established offer. Why choose a relatively inelastic supply of bitcoins?

The economic reality, as we well know, is characterized by the inequality: unlimited need and limited resources. It must be pointed out that even though money offer major social benefits by streamlining transactions and it contributes to the progress of civilization, an increase of the money supply does not have the same consequences as an increase in the offer of a different product. The economic theory proves that on a market an increase in the quantity of a product leads to a decrease of its price[†]. This does not apply in the case of money (Rothbard, 1994). Increasing the amount of money cannot solve the inequality limited resources/ unlimited needs. Only an expanding offer of goods and services is the one that contributes to progress and economic development. The question of resource scarcity cannot be solved through an increase of the money supply. The consequences of this growth will reflect in a decreased currency purchasing power reflected in an increase of the prices.

Therefore the algorithm through which the bitcoins offer is limited offers stability to the currency and follows the postulate of the classical school of thought according to which inside an economy the amount of money is not important (Rothbard, 1990).

[*] Note: the value inscribed on the coin did not correspond with the real amount of gold or silver incorporated in the coin.
[†] The law of supply and demand.

The production of bitcoins takes time and energy consumption, in technical terms in order to produce bitcoins you have to mine. The bitcoins manufacturers, the miners, use energy resources to create the currency. Therefore, the bitcoin system does not allow the monopole of the central authorities. Anyone who wishes is invited to the market to produce bitcoins and is subject to the same rules.

Being formed on a virtual market without the authority's intervention, it can be noticed that the bitcoin covers most of the properties of natural money, of gold and silver: the limited offer with a relatively stable value, being easily dividable and, last but not least, the bitcoin has so far a high demand due to the trading on the virtual markets. The inflation is limited and controlled, programmed inside the Bitcoin software, but it is predictable and transparent to all the parties from the beginning. Therefore the inflation cannot be manipulated by a central institution to affect redistribution for ordinary users.

Another important aspect is that the bitcoin wasn't imposed by a central authority. Its use inside online transactions is due to the free choice of the individuals. From the point of view of hoarding, the bitcoin doesn't replace gold or silver. Through its characteristics of standard value and means of exchange this crypto-currency has passed the test of the free market.

CONCLUSIONS

In the current historic and economic context shook by the crisis and the disbelief in the banking system, the individuals are trying to turn towards natural money formed on the free market. Inside virtual communities, without being able to return to the gold and silver currency, people have created the bitcoin. Through the implementation of this project it can be stated that individuals are aware of the negative implications of state intervention in the monetary field and so they decided to create and use their own currency within online transactions.

In today's world, dominated by the mainstream doctrine it is difficult to foresee a certain and glorious future for the bitcoin currency. Nonetheless, the fact that the bitcoin currency operates inside the virtual communities proves that money is the property of the individuals and not of the state or central bank as we would tend to believe. From a theoretical point of view, I find the bitcoin project as a highly rated initiative, an impulse towards monetary freedom and a return to the liberal principles of the classical school of thought.

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INSTABILITY IN THE CEE BANKING SYSTEM. EVIDENCE FROM THE RECENT FINANCIAL CRISIS

Renata Karkowska*

Abstract: *Sparked by the recent great recession and the role of financial markets, considerable interest exists among researchers within both the academic and public community in measuring and modeling systemic risk. This article introduces a new framework for measuring systemic risk by using a risk-adjusted balance sheet approach. In this regard, the analysis of 21 largest commercial banks operating in 7 countries from Central and Eastern Europe, shows potential risk which could threaten all the financial system. The paper concludes new directions for measuring systemic risk by using Merton model. It shows how risk management tools can be applied in new ways to measure and analyze systemic risk in European banking system.*

Keywords: systemic risk; Merton model; financial crisis; banking system
JEL Classification: G1; G11; G10; E44

INTRODUCTION

The banking sector is by far the central part of the financial system in most of the emerging economies and is, therefore, also the main source of risk for financial stability. Traditional banking models do not adequately measure risk position of financial institutions and cannot be used to understand risk within and between balance sheets in the financial sector. A fundamental subject is that accounting balance sheets do not indicate risk exposures, which are forward-looking. Therefore, in the first step of this article author proposes the use of Merton's model, which is mainly used for option pricing as a way to assess the risk of insolvency of the company. The essence of this method is the connection of information coming from the company's balance sheet and market data, containing part of future expectations of market participants. In particular, it seems important to use option pricing methodology, which takes into account the information contained in the market prices about the increasing risks in the financial system. The study is a continuation of previous studies carried CCA method for the Polish banking sector.

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The main hypothesis is: Central and Eastern European banking systems are not devoid of systemic risk. The threat of a systemic crisis is ever-present.

Merton's model has been used to measure banking systemic risk. The approach was applied to the 21 commercial banks covered by Central and Eastern Europe during the period from December 2006 to December 2012. The findings suggest that the systemic risk indicator stood at its peak in March 2009, but in Hungarian banking system is still high.

The paper is structured as follows: Section 1 surveys the relevant literature on systemic risk and its reasons. Section 2 presents the data sample and methodology applied. Section 3 presents the results of the investigation. Section 4 concludes.

1. LITETERATURE REVIEW

The problem of increasing systemic risk in the economy is again widely presented in the literature. Especially a lot on this subject can be read in the IMF reports (IMF, 2008; IMF 2009).

The wide scope of research about systemic risk show that there is not a single and agreed approach to this measurement. It suggests that measurements tools should support the understanding of linkages between financial institutions and the macroeconomy. The problem of systemic risk is complex and requires multiple measurements. In the literature review we have found a few specific approaches for assessing systemic risk along with different kind of data and models.

The survey of Brownlees and Engle (2011), Adrian and Brunnermeier (2008) and Acharya et al. (2010) presented how to use tail-risk measures to estimate solvency of the financial system. It measures interdependence in the tails of equity returns to financial institutions. MES measures the expected loss to each financial institution conditional on the entire set of institution s' poor performance; CoVaR measures the value-at-risk (VaR) of financial institutions.

Estimation of tail dependence is problematic because of limited historical data of a financial crisis. The tail measurement helps to identify large aggregate shocks. This approach is interesting but has some critical questions – how equity returns transmitted disturbance to the macroeconomy? How big crisis could be expected? The tail measures is based on big public financial institutions. What about so-called shadow banking sector that are not publicly traded? The study of systemic risk measures based on analysis of equity returns emphasized also Billio, Getmansky, Lo, and Pelizzon (2010).

The second approach is network models of the financial system. The information about financial firm network is very useful in prediction turbulences, but much more difficult to collect in dynamic financial system. Last time, Cont (2010) and Kim and Giesecke (2010) presented a network-based systemic risk measure.

Smets and Wouters (2007) suggested dynamic and macroeconomic equilibrium models. This econometric estimation measures the transition mechanisms of shocks and its consequences for macroeconomy. The survey remains a question how important is the model? And how to identify consequences of shocks that are very large but infrequent?

The other research apply Gray and Jobst (2011), Gapen (2009) known as contingent claims analysis. It based on the use of option pricing theory for financial institutions where there is an underlying stochastic process for the value of their assets. This approach using investors' market expectations in conjunction with equity-based measures of debt obligations uncertainty. The advantages of model is connection of market risk appetite with balance sheets statements.

The concept of credit risk measurement methods using CCA has a wide range of applications. American studies Gray and Malone (2011) used by central banks to support the analysis and management of financial risk management. The main analytical tool is the risk-adjusted balance sheet, which shows the sensitivity of the company's assets and liabilities to external "shocks" on the national and international level. Traditional approaches may have a problem with the analysis of how risks can accumulate gradually and then suddenly erupt in times of crisis. The CCA model approach is designed to overcome any "non-linearity" in the assets and liabilities, and between institutions. Simulations and stress tests, using risk-adjusted balance sheets are managing systemic risk.

Along Chan-Lau and Gravelle (2005), Lehar (2005) and Avesani, Pascual, and Li (2006) show alternative systemic risk indicators - default probabilities based on the credit default swap (CDS), equity or option market.

Overview of the theoretical and empirical aspects of systemic risk measurement and management has enabled author to determine what was missed in previous studies and is the structural default risk modeling reasonable in CEE financial system? However, the using of multitude of methods caused unequivocal conclusions. There is no doubt, that the cause of it is the randomness of economic phenomena that can't be properly described by statistical model.

According to Schuermann, Pesaran, Treuler and Weiner, (2006) accounting balance sheets do not indicate risk exposures, which are forward-looking and express market risk. He has worked on linking the default risk of corporations with macroeconomic models. He underline that the main risk is we frequently left out of our models default risk in the financial sector. Gray and Jobst, (2009:128-131) pointed out that study of financial volatility has not been well served by economic theory.

To manage and mitigate risk in financial sector there are needed new analytic tools and additional regulatory. Recent work has shown that financial sector risk indicators, such as the systemic expected losses or system default risk from Merton model, have big predictive power for GDP and the output gap Garcia, Gray, Luna and Restrepo, (2010).

Author decided to use CCA method to calculate systemic risk in banking of European emerging markets.

2. DATA AND METHODOLOGY

The survey was based on systemic risk calculation in selected European banking systems, using Contingent Claims Analysis (CCA).

In the first step - CCA method of systemic risk measures has been used to estimate the market value of the assets of European commercial banks listed on stock exchange. In the study it was applied quarterly data from a period of December 2006 - December 2012, because of limited availability of banking variables, which are listed on stock exchange.

It was conducted for the selected 21 largest commercial banks from seven Central and Eastern European countries: Bulgaria, Czech Republic, Hungary, Lithuania, Latvia, Poland, Romania. Data on the size of selected assets and liabilities come from the banks' financial statements, and market data were obtained from Reuters Eikon. Because of the attention to the most accurate results, the variables are related to quarterly periods. General characteristics of the data used to calculate systemic risk are presented in Table 1 (Annex).

2.1. CCA method description

In order to understand the individual institutional exposure to systemic risk in times of crisis, the method of the CCA and its technique of using risk-based balance sheets of financial institutions are worth analyzing. The CCA method assumes that the total market value of bank assets at any time T is equal to the sum of the market value of equity *E* and its "risky" debt *D* at time *T*. The term of "risky debt" is due to the fact that there is always a chance of company insolvency. The regulation of payment of "risky debt" depends on the quality of bank assets, therefore being a claim against the assets of uncertain value. This type of claim is known as a conditional claim. The methodology of the study has been presented previously by Karkowska (2012).

At the time of bankruptcy shareholders receive payment in the amount of A-B, if $A > B$, or do not receive anything if $A < B$, where A is the market value of the assets, B – the liabilities (without equity). Similarly, we can compare the situation of a shareholder to that of a holder of a call option on the assets of the company. Exercise of the option occurs when it is in-the-money, which means $A > B$, while in the opposite situation, when the option is out-of-the-money, the shareholder does not exercise it (the situation of loss of the ability to pay where $A \leq B$).

The CCA method describes the relation between the value of assets and the capital of the analyzed subject, derived from the theory of Black-Scholes option pricing model (Hull, Nelken, White, 2003).

$$E_T = \max[A_T - B, 0] \tag{2.1}$$

where:

E_T - value of equity at the time T.

Assets take a random distribution and may fall below the value of liabilities which is equal to the level of a bank failure B (often referred to as the "default point" or "distress barrier"). Using the Black-Scholes-Merton model, the value of equity can be expressed as an implied call option on the bank assets with an exercise price equal to the level of B, which is expressed by the formula (2.1) (Gray, Malone, 2011).

$$E_T = A_T\, N(d_1) - Be^{-rT}\, N(d_2) \tag{2.2}$$

where:

E_T – option value equal to the value of the bank capital at the time T,

A_T – value of the underlying bank assets at the time T,

B – exercise price equal to the value of liabilities,

r – risk free rate,

T – time to maturity option,

$N(d_i)$ – value of the distribution function for a standardized normal distribution equal to the argument d_i, where i=1, 2

$N(d_2)$ – probability of exercising a call option,

$1\text{-}N(d_2) = N(-d_2)$ – probability of losing the ability to pay,

$$d_1=[\ln(A_T/B) + (r+\sigma_A^2/2)T](\sigma_A\sqrt{T})^{-1}$$

$$d_2=d_1 - \sigma_A\sqrt{T}$$

σ_A – bank assets volatility.

In the model, the variables *E, B, T*, r are directly observable, but the market value of bank assets *(A)* and its volatility *(σA)* are not directly observable. Therefore, in order to estimate the market value of the asset and its variability the relationship (Hull, 2003) was used as well.

$$\sigma_E E = N(d_1)\, \sigma_A A, \tag{2.3}$$

where:

σ_E – volatility of the bank equity.

With equations (2.2) and (2.3) we can calculate the market value of bank assets *(A)* and its volatility *(σA)* by successive iterations by comparing the two equations to zero.

$$A_T\, N(d_1) – Be^{-rT} N(d_2) - E_T = 0 \tag{2.4}$$

$$N(d_1)\, \sigma_A A - \sigma_E E = 0 \tag{2.5}$$

Minimizing the value of the expression (2.6) estimate the value of assets and volatility:

$$[A_T\, N(d_1) – Be^{-rT}\, N(d_2) - E_T\,]^2 + [(N(d_1)\, \sigma_A\, A - \sigma_E\, E]^2 \rightarrow \min \tag{2.6}$$

The estimated value is a market asset value, as assessed by investors. Let us assume that the relevant bank has a simple structure of financing (equity and foreign liabilities with maturity T). The bank's loss of the ability to pay occurs when at the time T the value of the assets is smaller than the liabilities. It follows that the loss of solvency is a function of the capital structure, the volatility rate of return on assets and the current market value of assets. When marking the probability to lose the ability to pay by the bank P_{def} we get:

$$P_{def} = \Pr\, [V \leq V_{def}] = \Pr\, [\ln V \leq V_{def}] \tag{2.7}$$

When estimating the probability of losing the ability to pay in the KMV model defined by (2.7), we assume that the random variable – the return on assets adopts normal distribution, and therefore can be represented as a cumulative normal distribution of P_{def}. Which means that we can find the value of a normally distributed variable Z, that decline in the value of assets below this level will mean the bank loss of the ability to pay:

$$P_{def} = \Pr[\ln A_0 +[(\mu - \frac{\sigma_A^2}{2}t + \sigma_A\sqrt{t}\, Z_t \leq \ln A_{def}] \tag{2.8}$$

After the appropriate transformations we can determine the probability as:

$$P_{def} = \Pr\, [\frac{\ln\left(\frac{V_0}{V_{def}}\right)-\left(\mu-\frac{\sigma_A^2}{2}\right)t}{\sigma_A\sqrt{t}} \geq Z_t] = \Pr[Z_t \leq -\frac{\ln\left(\frac{V_0}{V_{def}}\right)-\left(\mu-\frac{\sigma_A^2}{2}\right)t}{\sigma_A\sqrt{t}}] = N(-d_2) \tag{2.9}$$

where:

P_{def} – probability of the bank failure,

V_0 – market assets value,

V_{def} – limit of the assets value resulting in bankruptcy,

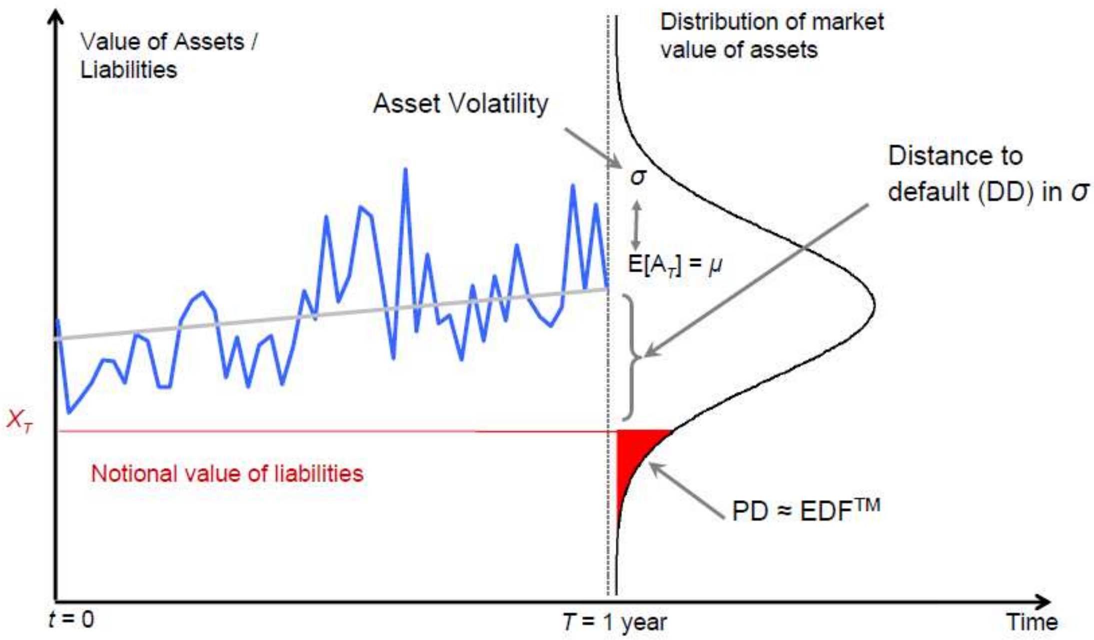
σ_A – asset volatility,

μ_A – the actual expected rate of return on assets,

t – time to option expiration.

The algorithm (2.9) is defined in literature as a DtD - Distance to Default, the number of standard deviations between the expected value of assets and the level of causing the loss of ability to pay. Use the process of estimating the likelihood of using KMV estimator turns out to be a better credit risk than the actual statistics of rating agencies - such conclusions were reached in the studies by (Kealhofer, McQuown and Vasicek, 2007). The distribution of assets at time T of the selected barrier solvency is presented in the Figure 1.

Figure 1 Distribution of assets and the process of finding the probability of default



As the risk-free rate is the central bank's reference rate, while the market value of equity is adopted as the capitalization of individual banks on the stock exchange. The calculation of the assets market value is based on Merton's model and were calculated by means of Microsoft Excel Solver.

3. EMPIRICAL RESULTS

In this paper, we advocate a methodology to measure the systemic risk of banking systems in selected CEE countries. We applied this methodology to the 21 banks covered by largest commercial banks listed on stock exchange. The results are presented in Table 2 (Annex).

The highest values of systemic risks shall cover the period of the financial crisis (September 2008 - June 2009) in the banking system Polish and Hungarian. In the individual analysis most threatened were: BRE Bank, Bank BPH, OTP Bank. The period before the crisis, most of it can be assumed to be safe, with the exception of individual units: ING Bank, Bank BPH and Latvijas Krajbanka. Wonder and anxiety can raise the fact that there is still a danger systemic risk in the CEE countries that are considered safe. The study showed that even in December 2012, the analysis showed worrying developments in Hungary, where the underestimation of OTP Bank's assets fall below EUR 3 000 million. Also questionable situation is in: the Bulgarian, Romanian, Lithuanian and Latvian banking system. Risk map shows that only individual banks, such as the Czech Komercni Banka, Bulgarian Corporate Commercial Bank, the Polish Bank Pekao and PKO BP did not show systemic risk threat throughout the research.

CONCLUSIONS

The aim of our study was to calculate the systemic risk in CEE banking systems and identify its changes. We also try to investigate the determinants of these banking instability using panel regression models. Our results present interesting conclusions. Firstly, we do support to the recent economist survey on the increased systemic risk complexity and heterogeneity. Our results show that banking instability is changing across countries and time. Models provide measurement frameworks and facilitate communication and criticism. Our measures is not perfect, as was mentioned in the introduction has flaws, but it seems to be considered to support policy discussion and analysis. May be as CEE banking early warning indicators, such as in the stress testing exercise. The survey could be the step to expanded new regulation and put pressures on banking supervision to develop useful measurements of systemic risk. Secondly, we create the map of the most and least instable banking systems in Central and Eastern Europe and confirm instability of CEE banking systems still yet. The above-mentioned decomposition could be used to examine to what degree the CEE banking instability can be explained by the risk premium versus default risk component.

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ANNEX

Table 1 - Model CCA data description

Country	Bank	Median of equity value (EUR mln)	Average book value of assets (EUR mln)	Average market capitalisation (EUR mln)	Average systemic risk (EUR mln)
ulgarian banking system	Bulgarian-American Credit Bank	93,27	376,98	99,79	-33,53
	Central Cooperative Bank	117,33	872,21	69,40	-82,38
	Corporate Commercial Bank	143,23	1089,15	230,77	41,36
	First Investment Bank	206,62	2190,15	134,26	-105,65
	Bulgarian summary	*560,45*	*4528,49*	*534,21*	*-180,20*
Romanian banking system	Banca Comerciala Carpatica	49,97	520,04	82,48	-46,26
	Banca Transilvania	320,20	3559,33	456,30	115,51
	Romanian summary	370,16	4079,37	538,78	69,25
Latvian banking system	Latvijas Krajbanka	51,83	731,74	46,68	-36,00
	Latvian summary	51,83	731,74	46,68	-36,00
Lithuanian banking system	Bankas Snoras	159,90	2606,24	127,51	-110,10
	Siauliu Bankas	74,52	601,58	62,26	-17,10
	Ukio Bankas	124,27	1223,89	86,24	-50,66
	Lithuanian Summary	358,69	4431,71	276,01	-177,87
Hungarian banking system	FHB Jelzalogbank	120,37	2105,41	228,42	-20,67
	OTP Bank	2395,89	22151,28	4503,88	447,34
	Hungarian summary	2516,26	24256,68	4732,30	426,68
Czech banking system	Komercni Banka	2123,66	23160,57	4723,75	2609,25
	Czech summary	2123,66	23160,57	4723,75	2609,25
Polish banking system	Bank PEKAO	2997,33	23483,30	9771,56	5066,85
	BRE Bank	897,03	13391,28	2627,41	383,74
	ING Bank	974,02	11841,53	2406,85	313,96
	Millenium	638,87	7772,16	1395,08	71,58
	PKO BP	3615,12	32329,99	11464,97	6025,09
	Bank HANDLOWY	1466,79	9424,69	2613,19	555,73
	BOS Bank	207,08	2479,23	301,27	-74,45
	Bank BPH	1182,94	10609,36	702,41	-1579,67
	Polish summary	11979,18	111331,55	31282,75	2690,71

Source: own calculation

Table 2 - Systemic risk map in CEE banking systems during the period December 2012 - December 2006 (mil. EUR)

Bank	Dec' 12	Jun' 12	Mar' 12	Dec' 11	Sep' 11	Jun' 11	Mar' 11	Dec' 10	Sep' 10	Jun' 10	Mar' 10	Dec' 09	Sep' 09	Jun' 09	Mar' 09	Dec' 08	Sep' 08	Jun' 08	Mar' 08	Dec' 07	Sep' 07	Jun' 07	Mar' 07	Dec' 06
Bulgarian-Amer Credit Bank	-12	-46	-51	-53	-65	-56	-39	-32	-35	-42	-11	2	15	-40	-59	-35	157	305	362	442	462	470	370	
Centr. Cooper. Bank	-98	-145	-137	-129	-112	-94	-76	-105	-92	-88	-77	-78	-73	-86	-111	-107	-8	73	124	302	254	254	205	196
Corp. Comer. Bank	21	18	20	48	45	49	80	29	21	43	38	27	20	34	42	40	134	169	158					
First Invest Bank	-87	-171	-143	-139	-107	-62	-40	-104	-113	-109	-95	-88	-65	-121	-174	-148	32	157	220					
Bulgaria total	**-176**	**-344**	**-311**	**-274**	**-238**	**-162**	**-75**	**-212**	**-219**	**-196**	**-146**	**-138**	**-102**	**-214**	**-303**	**-250**	**315**	**705**	**864**	**744**	**716**	**724**	**575**	**196**
Banca Carpatica	-128	-165	-120	-137	-91	-61	-64	-49	-46	-52	-49	-84	-73	-85	-76	-16	-6	5	7	106	103	118	117	101
Banca Transilvania	-345	-472	-402	-478	-368	-246	-236	-310	-210	-212	-86	-197	-310	-514	-667	221	203	248	442	760	389	402	324	298
Romania total	**-473**	**-638**	**-522**	**-615**	**-459**	**-307**	**-299**	**-359**	**-256**	**-264**	**-135**	**-282**	**-383**	**-599**	**-744**	**205**	**197**	**253**	**449**	**865**	**492**	**521**	**441**	**399**
Latvijas Krajbanka								-49	-65	-74	-82	-125	-94	-134	-146	-232	-115	-86	-41	-31	-12	6	27	-8
Latvia total								**-49**	**-65**	**-74**	**-82**	**-125**	**-94**	**-134**	**-146**	**-232**	**-115**	**-86**	**-41**	**-31**	**-12**	**6**	**27**	**-8**
Bankas Snoras								18	-39	-81	-48	-69	-48	-193	-161	-255	-215	-140	-139					
Siauliu Bankas	-12	-34	-26	-32	-30	-18	-12	-8	-18	-21	-17	-19	-21	-63	-52	-60	-34	2	23	39	62	45	30	26
Ukio Bankas	-5	-79	-74	-88	-92	-53	-40	-24	-57	-75	-47	-56	-68	-136	-114	-170	-122	-52	-4	10	83	72	68	59
Lithuania total	**-17**	**-114**	**-100**	**-120**	**-122**	**-71**	**-52**	**-14**	**-114**	**-177**	**-112**	**-144**	**-137**	**-393**	**-327**	**-485**	**-372**	**-189**	**-120**	**49**	**145**	**117**	**98**	**85**
FHB Jelzalogbank	-287	-260	-232	-256	-246	-144	-123	-149	-51	-80	21	-34	-52	-234	-279	-211	-111	-65	-22	110	180	212	158	132
OTP Bank	-3476	-3363	-3018	-3742	-3346	-585	-834	-1309	-978	-1523	-675	-669	-1112	-3087	-5049	-3630	-383	393	888	3178	4151	5354	3538	3876
Hungary total	**-3763**	**-3623**	**-3250**	**-3998**	**-3592**	**-729**	**-956**	**-1458**	**-1029**	**-1603**	**-696**	**-704**	**-1164**	**-3321**	**-5328**	**-3841**	**-493**	**328**	**867**	**3288**	**4331**	**5566**	**3696**	**4007**
Komercni Banka	1598	1702	2025	1587	1734	3012	3256	3433	2622	2119	2609	2959	2377	1209	227	1429	2596	2451	2650	3670	4013	3453	2824	2105
Czech R. total	**1598**	**1702**	**2025**	**1587**	**1734**	**3012**	**3256**	**3433**	**2622**	**2119**	**2609**	**2959**	**2377**	**1209**	**227**	**1429**	**2596**	**2451**	**2650**	**3670**	**4013**	**3453**	**2824**	**2105**
Bank PEKAO	2584	2942	3107	2437	2210	4243	4707	5434	5118	4292	4919	4815	4407	2191	294	2729	5514	5469	7119	9074	6944	7645	7427	6336
BRE Bank	3109	2922	-184	-445	-398	591	972	633	276	10	87	216	-1176	-1913	-2757	-1128	365	760	958	2159	2304	2634	2308	1384
ING Bank	-924	-847	370	159	106	610	1171	940	761	604	592	801	298	-926	-1367	-747	-1279	-1425	-1189	-190	378	713	145	447
Millenium	-852	-559	-294	-495	-216	89	356	83	158	-58	-23	-95	-820	-1558	-1873	-1200	68	312	664	1423	1518	1814	1524	868
PKO BP	3598	2964	2628	2361	2831	5917	6420	6588	6479	4391	5726	5320	3427	1614	551	3721	5583	6442	6299	8545	9401	9594	8046	7916
Bank HANDLOWY	142	528	-803	-2862	-2228	-1543	-1837	1104	927	557	688	431	99	-333	-719	-418	213	774	942	1354	1824	2310	1344	1122
BOS Bank	-276	-292	-248	-289	-187	-157	-125	-141	-97	-82	-40	-12	-93	-97	-71	-17	-66	-68	-40	-27	4	-9	33	28
Bank BPH	-543	-701	-640	-841	-549	-332	-29	-74	-3582	-4120	-3256	-4300	-2423	-2623	-2941	-6628	-1786	-1667	-1576	-1501	-1133	-953	-1047	-1119
Poland total	**6838**	**6956**	**3937**	**26**	**1568**	**9418**	**11636**	**14567**	**10041**	**5594**	**8694**	**7177**	**3720**	**-3645**	**-8883**	**-3688**	**8611**	**10597**	**13177**	**20837**	**21240**	**23747**	**19780**	**16981**

>0 =[0 - 1000] =[-1001; -2000] < -2000

A BRIEF ANALYSIS OF THE SHADOW ECONOMY IN EUROPE

Loredana Maftei*

Abstract: *Shadow economy affects all country around the world. European countries are affected by undeclared work, under-reporting and tax evasion. This phenomenon increases from West to East, the most affected being the Balkan area. The size of shadow economy is growing due to government actions, such as regulation and tax implementation. From a macroeconomic perspective, the economic cycle sustain the shadow economy levels. To combat this phenomenon it is necessary to adopt electronic payments, to reduce tax implementations and social contributions, to bring encouragement in cash deposits use and broaden credit cards.*

Keywords: shadow economy; tax evasion; regulation; undeclared work; under-reporting
JEL Classification: O17; O5; E26

INTRODUCTION

This new era of globalization redefined in a particular way the world face, increasing the power of institutional systems such as governments, international corporations and so on, emphasizing the need to know, to be competitive, to produce on a large scale, to sell and to be present at the table of opportunities and big decisions. Easily, this new configuration has brought besides the wealth factor also a set of imperfections regarding the legislative system. Practically, the other side of globalization has created a favorable environment for illegal economic activities. According to the economic literature, what can be good for free trade can be also good for criminal networks around the world. In the same way in which business can flourish, the criminal networks can develop profitable activities but which are found and placed at the illicit border.

Entitled as non-observed economy, secondary economy, informal economy, parallel economy and so on, the underground economy covers all the economics activities or income sources which are not registered in the gross domestic product official records and which avoid the taxations and governments regulation.

Clandestine trade with gems, special fabrics, poaching are activities well known to these days; the complementary trade, border trafficking with different kind of goods, common especially within the socialist systems, arms trafficking, human being trafficking, drugs,

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tobacco, alcohol and all the other activities which emerge as an adaptation to everyday realities have been defining the shadow economy (Bari, 2003, p.383).

Along with this description the phenomenon of illicit behavior it is also mentioned, which covers banking fraud, different type of scams, corruption, blackmail, money laundering, unfair competition, disclosure of economic secrecy, false accounting documents etc. developed by some transnational corporation or different economic actors, which usually have an important social and economic position in some institutions or organizations. This kind of behavior is named white collar criminality. Together with the undeclared work and illegal activities associated with criminal organizations, the illicit behavior presents the overall shape of shadow economy.

At the European level it is hard to determine precisely the size of underground economy, but it compresses all this kind of activities. Most societies attempt to control these activities through measures such as punishment and prosecution, or by relying on economic growth or education. Gathering statistics about who is engaged in shadow economy activities and the frequencies with which these activities occur and magnitudes, is important. It is difficult to obtain accurate information because individuals engaged in shadow economy activities do not wish to be identified (Schneider, 2005, pp.598-599).

According to the economic literature and the latest statistics the eastern countries of Europe or the new European Union members (Bulgaria, Cyprus, Latvia, Czech Republic, Lithuania, Poland) show a higher shadow economies than the ,,old" European Union countries (Austria, Belgium, Germany, Italy). Basically, the shadow economy increases from west to est. The economic crisis has created a major concern for European governments due to increase of black market and organized crime that generates billions of dollars annual, fact that can deny member states an important amount in tax revenues, money that they really need to move forward.

Europe continues to deal with competition between private business and counterfeit goods, with undeclared work boosted by the immigration phenomenon, factors that threatens the euro region`s economic recovery, forcing the authorities to adopt new methods to combat the illicit activities.

1. THEORETICAL CONSIDERATIONS

A vast literature makes an attempt to define the concept of shadow economy and to offer theoretical approaches about the causes and the most important determinants. Most authors have encountered difficulty to define shadow economy, especially when they tried to measure it. The main idea of shadow economy is centered on all unregistered economic activities that contribute to the officially calculated Gross National Product. Smith has tried to define shadow economy as market-based production of goods and services, whether legal or illegal, that escapes detection in the official estimates of GDP" (Smith, 1994).

Generally, the core idea of most definitions describe the action of avoiding payments or incomes, value added tax and also other type of taxes like social contributions. Besides these factors are mentioned the avoiding of certain legal labor market standards (minimum wages, maximum working hours, safety standards, security at work etc.) and certain administrative procedures (different type of administrative questionnaires). Table 1 presents a set of possible definitions of the shadow economy.

Table 1 - A taxonomy of types of underground economic activities

Type of activity	Monetary transactions		Non-monetary transactions	
Illegal activities	Trade with stolen goods; drug dealing and manufacturing; prostitution; gambling; smuggling; fraud; etc.		Barter of drugs, stolen goods, smuggling etc. Produce or growing drugs for own use. Theft for own use.	
	Tax evasion	Tax avoidance	Tax evasion	Tax avoidance
Legal activities	Unreported income from self-employment; Wages, salaries and assets from unreported work related to legal services and goods	Employee discounts, fringe benefits	Barter of legal services and goods	All do-it-yourself work and neighbor help

Source**:** Schneider, F., (2005) *Shadow Economies Around the World: What do We Really Know?,* European Journal of Political Economy, Vol.21 (2005) 598-642

Studies point out that the main causes that stand along the shadow economy are usually tax and social security burdens. The existence of this phenomenon is due to the increase of taxes that affect in some way the labor-leisure choices. Practically, new taxes influence and introduce a major concern in the development of underground economy. The increase of government regulation can reduce the freedom of choices for individuals engaged in the official economy and to indirectly determine them to avoid the legal system. This road of regulations politics can lead to reduced state revenues and also to introduce a form of deterioration in the quality of individual life, firms and administration sector, etc.

Countries with better rule of the law, which is financed by tax revenues, also have smaller shadow economies. Transition countries have higher levels of regulation, leading to a significantly higher incidence of bribery, higher effective taxes on official activities, and a large discretionary framework of regulations, and consequently to a higher shadow economy. (Schneider, 2005, p.602).

According to the economic literature the conclusion is that usually the wealthier countries (OECD and some countries from Eastern Europe) are found in the phrase of ,,good equilibrium'' because of corruption control, low taxes, regulatory burden, mobilization, good rule of law and so one. By contrast with this type of countries, there are found a number of countries like those from Latin America or the former Soviet Union, that are dealing with the ,,bad equilibrium'' case, which describes higher taxes applied to firms, the weakness of law rule, the incidence of bribery and corruption, which add a significant share of illicit activities in the informal economy.

2. THE CASE OF EUROPEAN SHADOW ECONOMY

Describing Europe`s shadow economy can be a really difficult task. People usually consider that shadow economy is only reduced to activities linked with organized crime, like Italian Mafia, illegal drugs trafficking, counterfeit products. But it is necessary to point out that OGS`s activities have evolved surprisingly, this illicit groups behaving now like a real business, growing and expanding in many other sectors of economy and technology industry, for example moving into cybercrime area where the money-laundering represents the main objective to raise money. For sure black money come from many directions, only because this underground market has diversified a lot, taking advantage of institutions weaknesses.

Regarding Europe`s shadow economy activities, it can be presented through two categories, that are very common across this region. A very well-known category is definitely the **undeclared work**, which seems to account about two-thirds of Europe shadow economy.

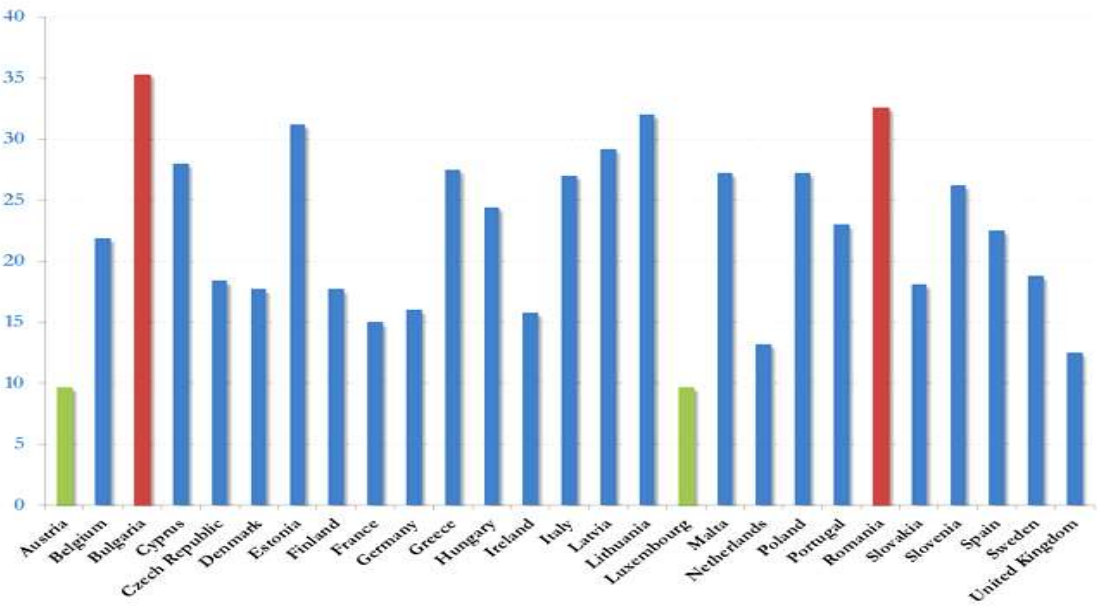
This category is characterized mainly by common workers and different kind of business (construction, agriculture, household services etc.) that avoid the rule of taxation by not declaring the required documents, suggested by the government.

Underreporting is the second category, which describes those kind of businesses, that are dealing primary with cash (small shops, bars, taxi companies etc.) and their behavior is summarize to report only a part of their income to maintain in this way a lower tax burden.

The size of the shadow economy in Europe reached a 10 year low in 2013, and is now estimated at €2.15 trillion (see Figure 1). On average across Europe, the shadow economy is as large as 18.5 percent of economic activity (Schneider, 2013, pp.3-4). According to economic literature and the newest methodology, apparently the shadow economy is concentrated mostly in Europe`s five largest economic powers, Germany, France, Italy, Spain and the United Kingdom (Schneider, 2013). Despite the European economic power, it seems that Eastern European countries are dealing with a much larger shadow economy, regarding the relation maintain with the size of the official economy. For example, in Austria and Switzerland, the shadow economy equals roughly 7 to 8 per cent of the size of those countries official GDP, compared to Poland, which has a shadow economy of €95 billion, compared to an estimated GDP of €400 billion, or 24% (Schneider, 2013, p.4).

In the Balkans, some countries like Bulgaria, Lithuania or Croatia present a shadow economy estimated at 30 per cent from the size of the official economy.

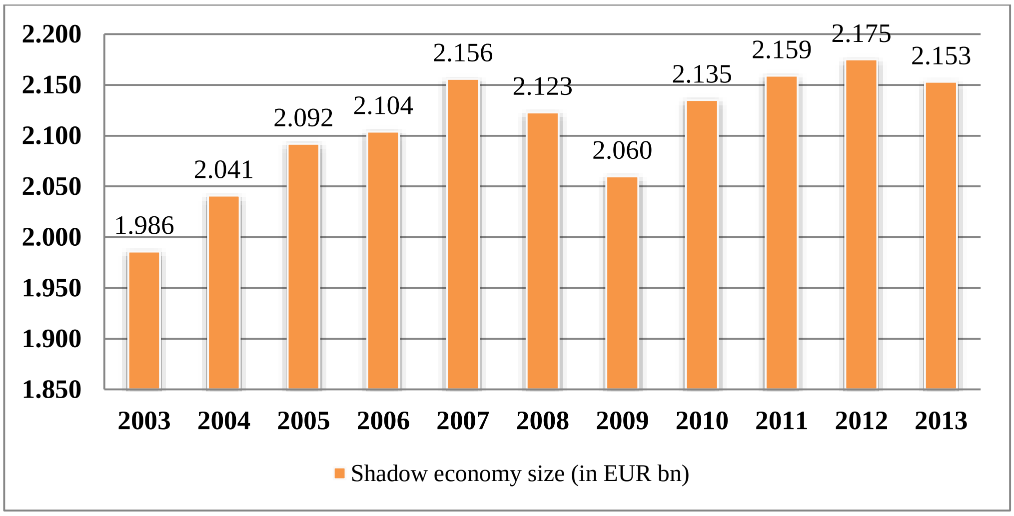
Figure 1 - The Size of Shadow Economy by Country (% Total)



Source: Durden, T., (2013) *Europe`s Shadow Economy: As Big As Germany*, available at http://www.zerohedge.com/news/2013-05-06/europes-shadow-economy-big-germany

A report launched by Tax Research, suggests that Austria and Luxemburg have the smallest shadow economies in the euro area at 9.7% of GDP, while Bulgaria at 35.3% and Romania at 32.6% top the list. Of the major economies, Germany clocks in at 16%, France at 15%, Italy at 27% and Spain 22.5%. (Durden, 2013).

Figure 2 - The development of the shadow economy in Europe 2003-2013



Source: Schneider, F. (2013) *The Shadow Economy in Europe*, 2013, ATKearney analysis, Eurostat, p.5

Figure 2 tries to present a shadow economy trend, starting with 2003, and including also the fact of economic downturns. Previous studies reported that shadow economy increases especially in time of crises, when the unemployment scale rises, when the wages are lower and the saving rates are quite lower. During this periods, individuals trend to ”adopt" those kind of shadow activities (undeclared work, underreporting) in order to improve their personal budgets, fact which affects seriously the governments national budgets. Roughly, it is demonstrated that economic cycle maintains a strong relationship with the shadow economy fluctuations, situation presented in the figure 2.

3. GOVERNMENTAL COMBATING MEASURES

The shadow economy is a tax avoiding phenomenon across Europe, driven by the major factors like undeclared work and under-reporting. Economic crises has been a major cause for European governments to take measures against the underground economy. It was a need for the budget recovery and a necessary change to combat the causes of shadow economy. One of the most important measure was the correlation with the number of electronic payments, which have reduced notable the size of the shadow economy. Easily this system was adopted by every European country. For example in countries where electronic payments are widely used, such as the UK, the size of the shadow economy is significantly smaller than in a country such as Bulgaria where electronic payments are not widely embedded (VISAEUROPE, 2013). Other important measures where focused on the reducing the undeclared work and the under-reporting phenomenon and also in implementing several controls to tackle the tax evasion, Portugal and Turkey are very involved in this effort. To combat the shadow economy, Germany has placed the ,,mini-jobs" reform, only to encourage the lower-wage workers, to join the official economy.

During time many Eastern European countries showed a strong participation to encourage the official economy. Countries like Russia, Hungary introduced flat rates for individuals and corporations, other countries reduced significantly the social security contributions to combat in this way the tax evasion. Other important measures adopted by the European countries were the electronic payments, the use of POS, the encouragement of cash deposits and broaden card acceptance.

CONCLUSIONS

Shadow economy activities are found in every country around the world. Undeclared work, under-reporting, tax evasion have widely implications which affect significantly the macro-economic objectives of countries also the quality of life, the productivity and social cohesion. All this factors bring a negative consequences that from a macroeconomic perspective, tends to affect the fair competition on the market and among firms, affect the social protection and also causes productive inefficiencies. Shadow economies are very complex being present in all type of economies (developed, transition, highly developed). Individuals are engaged this kind of activities due to government taxation and regulation. Taking in considerations all this conclusions, it is obvious that shadow economy poses a serious challenge or all European countries and beyond them. Successful implementation can bring stabilization and reduction of the size of the shadow economy.

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MONETARY POLICY UNDER THE IMPACT OF THE CURRENT GLOBAL CRISIS

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Abstract: *The issue of the financial crisis draws more and more the specialists' attention. The monetary policy has a decisive role in monitoring and reducing the inflationary phenomenon as much as possible, since it can become a real danger for an economy during a period of crisis. Inflation is a negative thing that affects the economy. It discourages the investments and the economic growth. The aim of this paper is to find the Central Bank's economic instruments and levers that can contribute to price stability in the economy. It was found that the elaboration of a measure of monetary policy with a restrictive feature can contribute to price stability on long term, but we should take into account the macroeconomic context in which it is applied.*

Keywords: central bank; inflation targeting; monetary policy; price stability
JEL Classification: E31; E52; E58; G01

INTRODUCTION

Twenty years after the Maastricht Treaty was signed, in which the European Council decided to found the Economic and Monetary Union, the monetary policy of the European Union continues to offer common viable solutions, as well as opposing reactions, since this policy has the biggest effects on economic performance and competitiveness between the member states, and also at the level of the entire European Union. The monetary policy measures have a direct impact on the evolution of national economies and the European economy, and an indirect impact on the institutional architecture.

At present, Europe is dealing with a series of economic and financial problems due to the significant crisis it is crossing, and these problems are reflected in the big macroeconomic unbalance of many countries, as well as through significant differences between the competitiveness levels of the member states. In this context, at the level of the European Union, the common plan offered by the monetary policy is more important than ever, hoping that it will control the downfalls and it will sustain the ensemble of member states in an economic balance.

Thus, the institutional actors and the factors of decision strive to make a constructive connection between the monetary policy achievements so far and the need to strengthen fiscal and budgetary discipline across the Union.

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1. LITERATURE REVIEW

In the context of the current international turbulences, the reaction of the central banks as regards counteracting the effects of the economic-financial crisis has had an essential contribution in diminishing the tensions on the financial markets, in re-establishing the functioning of the monetary transmission mechanism and in resuming the economic growth.

Before the crisis, what dominated was the idea that the financial markets work correctly most of the times and "the monetary policy should respond to the evolution of assets' prices only as much as these affect the trajectories of the integrated request and of the prices." (Yellen, 2009)

In a recent work, Joseph Stiglitz made a remarkable synthesis of the evolution of the financial-banking system in the USA, which provoked the current crisis: "In October 2008, the American economy was in free fall ready to draw with it a big part of the world economy. We have had other stock market crashes, credit contractions, long downfalls on the dwelling markets and stock adjustments. But ever since the Great Depression, all these have never been in one place. And the black clouds over the Pacific and Atlantic Oceans had never gathered so fast… There is a common root: the recklessness of the financial sector when it came to giving loans, thus enhancing the real estate bubble that finally popped… This kind of bubbles and their repercussions are as old as capitalism and the banking activity itself." (Stiglitz, 2010)

In the research study made by Gherman and Adam (2010), the monetary policy focuses both on ensuring a bigger workforce employment and on price stability. This double purpose, known and analyzed in the specialized literature as a "dual mandate" of monetary policy can be seen in contrast with the alleged purpose of many central banks that deal especially, and sometimes exclusively, with price stability.

Both the theory and the empirical part indicate the fact that the monetary policy can influence for a significant period of time not just prices, but also the GDP, the employment and other important aspects of the activity of the nonfinancial economy. (Gherman and Adam, 2010)

Nowadays, few economists and business people, market investors, or even common people interested in the evolution of economy and, implicitly of business, still believe that the actions of the central banks do not have an impact on the evolution of the GDP and on the employment, or, more generally, on the real variables that have been in the public eye over the years. The fact that monetary policy cannot raise the natural rate of employment or cannot reach the GDP that corresponds to full employment cannot represent an excuse for the lack of efforts to bring these real variables as close as possible to the best levels, given the disturbances of business cycles. (Gherman and Adam, 2010)

The literature considers that central banks have a fundamental role in insuring the financial stability, even though there are no rules or patterns that can foresee the way to accomplish this process and, when analyzing it, the economic science must always be accompanied by intuition. (National Bank of Romania, 2012)

Numerous recent articles state that central banks have had an important role in the launch of the global crisis in 2007-2009 and, implicitly, of the real estate crises from numerous countries as a consequence of maintaining very low interests for a long period of time, of settlement and of inadequate supervision. Not the same thing can be said about the National Bank of Romania (NBR), which in January 2003 – September 2008 has maintained a high level of monetary policy interest in order to moderate the inflation pressures generated by the excessive internal consumerism. Thus, when global liquidities crisis began in September 2008, the monetary policy interest of NBR was 10.25% per year. (Dedu and Stoica, 2011)

Although several politicians and analysts alleged that the causes of the crisis were a fundamental defect of capitalism, the crisis was caused by the political people, because the laws they passed led to underperforming loans and by the monetary authorities, who created this abundant liquidity. Therefore, the causes of the crisis can be tied to the people who thought that they could break the basic rules of economy without any consequences. Through a profound crisis, these causes finally led to the sinking of the real economy.

Paun (2012) considers that central banks were not created in order to bring more order in the system by means of the policies they promote. He considers that ever since they were created, central banks have forgotten to think of the "national good." By accepting blindly the ideas promoted by Keynes (who destroyed even the last shred of free market and capitalism that existed in people's minds), the banks moved on to what they know best: printing money, helping the state and helping the "system" get out of the dead end that it is in. (Paun, 2010)

Central banks need to pay special attention to the evolutions of the financial markets, because a stable financial system is an essential precondition to ensure a monetary policy transmission that is efficient and lacking in tensions, contributing eventually to the achievement of the stable prices objective on the long term. Consequently, what is necessary is a systematic monitoring and an evaluation of the conditions of financial stability, with the purpose of identifying the sources of risk and vulnerabilities of the financial systems. But these risks and vulnerabilities are not connected only to the evolutions within the financial sector, but also to the changes registered by the macroeconomic environment. (National Bank of Romania, 2012)

According to John Nugée, CEO of State Street Global Advisors, “the central banks have already lost three characteristics that were some of the most important attributes they had: the clarity of their mission, the independence of action and the policy of neutrality.” “Cleaning up” the consequences of the global financial crisis (mopping up) proves to be more costly than the authorities’ intervention in order to limit or correct the lacks of balance in the beginning of their manifestation. (Stiglitz, 2010)

2. THE CENTRAL BANKS’ REACTION TO THE ECONOMIC – FINANCIAL CRISIS

The crisis of “rotten” real estate assets that started in 2007 in the USA extended to Europe in 2008, strongly affecting the majority of the world economy areas in 2009, and with ample reverberations in 2010. It is not a coincidence that this crisis has been compared frequently with the “Great Depression” of the 1930s. The comparison is valid not only from an economic and financial viewpoint, but also from a social and political one.

The economic-financial crisis has changed and redefined the role of central banks. If price stability, financial stability, the interest rate and the inflation rate used to be the main objectives of the central banks, once the crisis began, their competence was extended and they had the capacity to re-establish economies and to achieve equilibrium through the measures of monetary policy that they adopted. Besides, one can notice a surpassing of the central banks’ competences in connection to the other state institutions that can make decisions in financial, economic and fiscal policies, especially in the countries which are members of the EU.

When searching for the real causes of crises, it can be seen that at the base of the current crisis was the policy of cheap money promoted by the big central banks, having the silent approval of the International Monetary Fund. The central banks are being reproached the fact that they have limited themselves to measures of monetary policy that concern only price stability and have put in the background the objectives of stimulating the economic growth and creating employment for the workforce. Another criticism directed at central banks is that they have not taken enough measures so as not to increase the speculation bubble that caused the financial crisis.

The financial crisis started in 2007 brought to light a series of vulnerabilities in the financial sector and the fact that sovereign debts have high values that got government institutions and political people thinking. Thus, there have been successive changes on the political stage, such as the anticipated elections in Greece, Cyprus, Italy and Ireland. Therefore, the central banks and their governors have become more visible in the eyes of the citizens.

The growth of the banks' importance and visibility is due to the extended role that these have assumed, with or without permission, as main actors not only in establishing the monetary policy, but also in influencing the financial and sometimes even fiscal, policies. In order to extend their activities and competences, central banks will probably pay with the independence they have enjoyed so far, and the power growth, although it is not wanted in unanimity, is already raising some question marks concerning the transparency of banking activities and of the central banks' responsibilities regarding the government and the population.

The differences of monetary policy between the emerging countries and those from the developed countries are generated by the different economic contexts. In the developed economies, the rates of monetary policy interests have been reduced to almost zero ever since the crisis began, to avoid the risk of deflation. In the emerging economies, the offer shocks have hindered a more abrupt reduction of the rate of monetary policy interest.

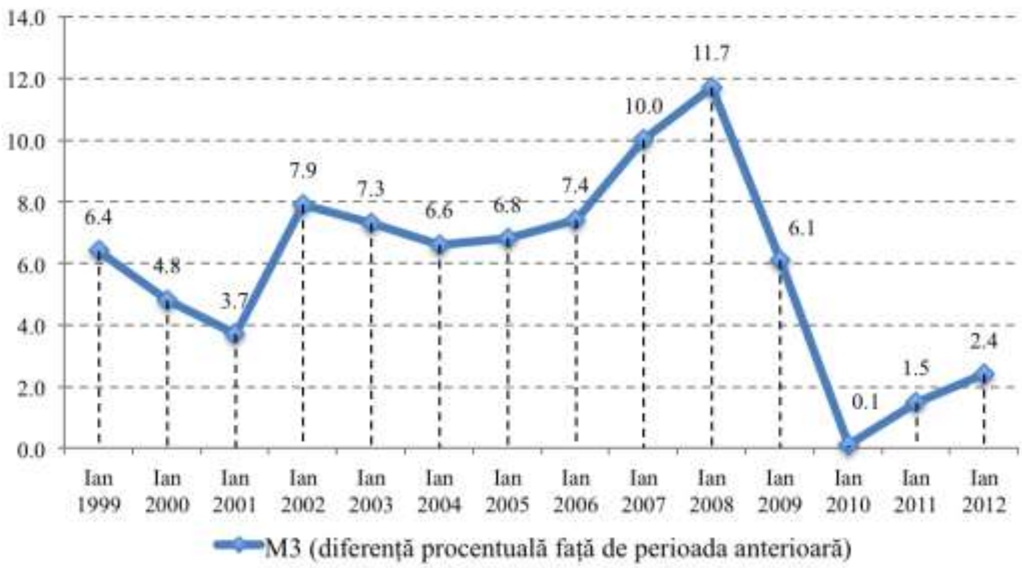
Another important phenomenon that has influenced and will continue to influence the results of monetary policy is the petrol price evolution. The growth of the petrol price affects especially the sectors that consume a lot of energy, for instance the chemical industry. The current world economy has been built based on cheap energetic resources and a rapid growth of the petroleum price has consequences in all the working sectors, thus causing inflation. If these growths are sudden and unanticipated, the effects on economy are ample and immediate, making the European Central Bank's mission a difficult one.

In the EU the evolution of the economy in the member states can be characterized by the liquidity degree of financial assets, reflected by the monetary aggregate M3. It has an important role in achieving the complementary purpose of the monetary policy: the stability of the unique currency. Although it is not an actual instrument for deciders to use in fulfill the ultimate goal, the monetary aggregate is a means of facilitating the ways in which the monetary policy takes shape and, finally, becomes real.

Figure 1 highlights the fact that the evolution of the monetary aggregate M3 does not suggest any risks for price stability on a medium term at the level of the EU, but one can also observe the substantial decrease of the liquidity level of the financial assets starting with 2010

– this tendency can be explained through the impact of the economic crisis at the level of the entire world. The estimations of the Europe Central Bank and Eurostat show a sustainable level of liquidity, based loosely on the incomes of households and financial intermediaries.

Figure 1 – The evolution of M3 aggregate in the countries from the European Union.



Source: Eurostat

3. THE FINANCIAL CRISIS AND THE MONETARY POLICY OF THE NATIONAL BANK OF ROMANIA

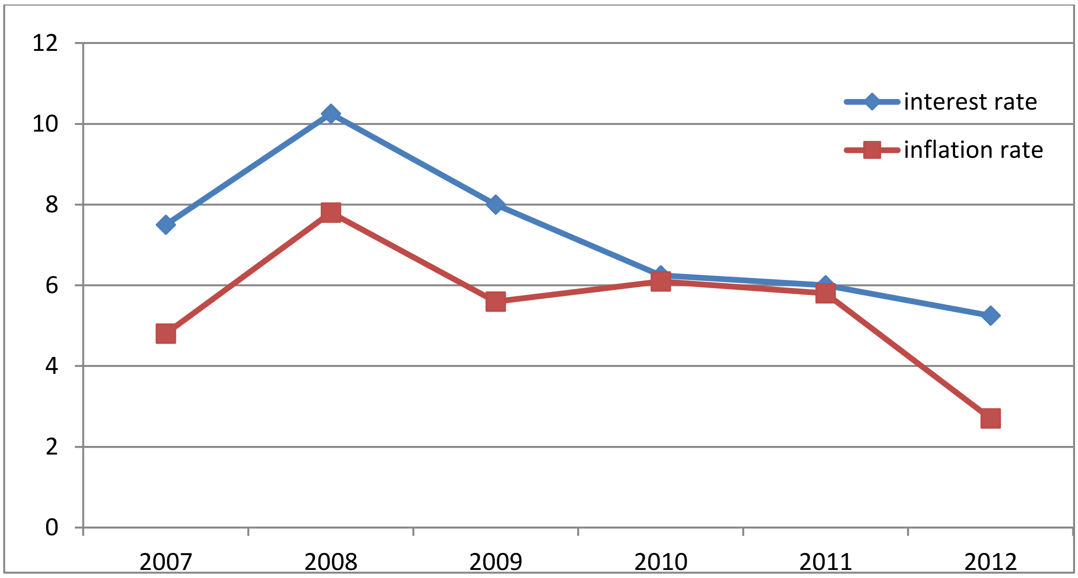
Law no. 312/2004 that refers to the Status of NBR claims that the fundamental objective of the central bank is to ensure and maintain the price stability and its main duty is to elaborate and apply the monetary policy. The essential goal of the monetary policy that central banks practice is to eradicate or, at least, limit the inflationary phenomenon.

In 2007, when Romania joined the European Union, inflation was over 6.5 per cent, because of the unfavorable internal and external shocks. After joining the European Union at the beginning of 2007, the economy of Romania took a dangerous road towards the achievement of real and nominal convergence within the European Union, and this process posed a lot of serious problems for the monetary policy.

When the international financial crisis broke out in July 2007, many analysts and politicians did not believe it could extend to our country too. It altered the order of priorities on the agenda of the economic politics deciders. First of all, one of the main causes of the financial crisis was the abundant liquidity. Second of all, the loans given by the banks to customers whom they knew had a small probability of reimbursing debts, proved to be damaging. Even though the NBR adopted a cautious monetary policy by maintaining a high monetary policy interest, there was a significant raise of crediting in economy due to the competition between banks and the abundance of resources in foreign countries drawn from the international financial markets for low prices. Step by step, without any big restrictions, these loans have been extended to a global level.

Anticipating the effects of the world crisis over economy, before they actually hit our economy, the Romanian authorities have signed agreements with the European Union, the IMF, the World Bank, and other financial institutions. These agreements have limited the impact of the international crisis over Romania. Thus, the fluctuations of the national currency have diminished their amplitude and the inflation has descended. Although it was significantly lessened, the severe recession in 2009 could not be completely avoided.

Figure 2 – Romania: the evolution of the interest rate and the inflation rate during the economic and financial crisis.



Source: own compilation using NBR data

Table 1 - Macroeconomic indicators: the interest rate and the inflation rate

	2007	2008	2009	2010	2011	2012
The monetary policy interest rate (%, end of period)	**7,5**	**10,25**	**8**	**6,25**	**6**	**5,25**
The inflation rate (annual average, % compared to the previous year)	**4,8**	**7,8**	**5,6**	**6,1**	**5,8**	**2,7**

Source: National Romanian Bank

Once the crisis started, the role of the central banks and their governors has known serious changes. The position of the governor has become stronger and more complex. For example, the results of the survey “The public opinion barometer – the truth about Romania,” carried out by INSCOP Research in March 2013, showed that 47.2% of the population trusts the National Romanian Bank, this institution coming second, after the army (61.8%), and Mugur Isarescu, the governor of the NBR, comes third when it comes to the amount of trust that people have in public figures, with a score of 44%.

In this context, regarding the strategy of adopting the euro currency in the near future, the economists of the National Romanian Bank consider that it is not a good idea until the economic problems in the euro area are solved. They believe that once Romania enters the euro area, it must keep up with some competitors that have really high performances, and Romania still has the advantage that it controls its monetary policy. In this period of crisis, the Romanian economy has benefitted from several means to eliminate the shock provoked by the international crisis, by comparison with Greece or Ireland, who had only two such means: the workforce market, which generated a high unemployment rate, and the goods market, which led to a low inflation.

It is known that the monetary policy is strongly connected to the other macroeconomic policies, but especially to the budgetary-fiscal one, which synthesizes the state’s incomes and expenses. When referring to Romania, it is believed that the budgetary-fiscal policy must be maintained within cautious limits, in order to reduce the external deficits and to ensure the necessary macro currency reform. In addition to this, the measures of monetary policy implemented by the National Romanian Bank focus on defending the national currency from downfalls or external undermining.

The NBR had introduced the inflation targeting regime in 2005. This monetary policy strategy brings a series of benefits for a central bank, including a clear focus on inflation. At the same time, the Romanian central bank needed to unburden its monetary policy in order to achieve further disinflation. But, three main contradictory pressures have been likely to arise: first, the requirements imposed by the need to achieve nominal and real convergence with a view of joining the European Union in 2007 and European Monetary Union at a later stage push the central bank toward a policy mix that is able to ensure growth and further disinflation. Second, under inflation targeting the divine coincidence of inflation stabilization and real stabilization objective can be achieved only in specific economic circumstances. Third, the operational requirements of a hard inflation targeting regime have been unlikely to exist under the current monetary transmission conditions.

The consolidation of disinflation by setting the annual inflation targets represented an essential challenge for the monetary policy promoted by National Romanian Bank, given the background of globalization and the present-day international crisis. The main difficulties encountered when implementing the monetary policy were the necessity to adjust the previous macroeconomic unbalances and the maintenance of financial stability.

Monetary policy has an important role within economy on the whole. Through monetary policy one tries to ensure a balanced economic growth, the stability of prices, the full employment of the workforce, ensuring a poised payment balance, as well as connecting the available means of payment with the economic needs through specific monetary instruments.

CONCLUSIONS

All in all, monetary policy has a very important role as an instrument of stability at the macroeconomic level. By implementing the central banks' different procedures, one tries to achieve the fundamental objective – price stability. Also, between monetary policy and other economic policies that have a major impact on the macroeconomic indexes there must be a correlation that should ensure a good economy management based on the financial monetary levers.

We consider that the reactions to global crises must be systematic, comprehensive, firm and coordinated. Many important problems encountered in this crisis required coordination on a global scale: re-funding the banks, isolating the financial engineering, facilitating the re-evaluation of their prices, guaranteeing the credits between banks, and reducing the central banks' reference interests. Only when all the important participants from the USA, Asia and the EU will have a systematic and coordinated reaction, there will be hope that will dissipate the fear of a probable crash of the entire economic-financial sector.

We would also like to point out that in periods marked by radical changes, although the process of making a decision should be guided by theory, an efficient policy means being firmly anchored in the economic reality. Therefore, even if the monetary policy is usually based on rules, it is necessary to maintain a certain degree of flexibility.

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MERGERS, ACQUISITIONS AND BANKING CONSOLIDATION IN CENTRAL AND EASTERN EUROPE

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Abstract: Acquisitions and mergers are the growth and expansion strategies that are commonly used by the companies in all over the world because of several reasons such as increasing the profit, sales and market share, entering into new markets, operating with economics of scale, coping with managerial problems and so on. This article underlines the characteristics of mergers and acquisitions (M&A), the different types of M&A, the challenges and opportunities for the banking system in Central and Eastern Europe and we analyze the implications of the recently observed sharp expansion of foreign banks in the Central and Eastern European Countries.

Keywords: banks; M&A; Central and Eastern Europe; foreign
JEL Classification: G21; G30; G34

INTRODUCTION

Financial sector, like others sectors of the economy, is active in terms of the number of completed mergers and acquisitions, and has the effect of lowering the number of banks in the European Union, the emergence of financial conglomerates and more competitiveness in banks involved on international level.

In today's globalized business world, competition has become an unavoidable concept for all companies. There are many tools that companies can use to cope with this competitive environment, to become successful, and to sustain continuity. One of those alternatives is growth. Companies can grow in two ways which are called internal and external. Internal growth is sustained by the companies' own resources and by the gains from its own operations. External growth is sustained by cooperating with other companies in several forms. One of the ways of external growth is mergers and acquisitions which are being increasingly used as world over strategies due to globalization, technological developments, and competitive business environment. There are many advantages of mergers and acquisitions for companies such as, utilizing economies of scale, maximizing profit, being competitive, sustaining synergy, appealing qualified human resources, developing research and development operations, getting into new markets, increasing asset level, and obtaining tax advantages etc. The main reason of all of those activities is to increase the overall performance of the company. So, the effects of

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mergers and acquisitions on the performance of the acquirer and acquired companies have become an attractive research topic.

The numerous studies were made on target banks in developed countries, therefore this study will analyze the impact of mergers and acquisitions involving target banks from Central and Eastern Europe, where bank consolidation process is underway. Banks in Central and South-Eastern Europe and the former group of Independent States (Belarus, Russia, Ukraine) became favorite targets of the international banking community due to increased volume of foreign investors in these countries.

1. CONCEPTUAL FRAMING OF MERGERS AND ACQUISITIONS

Sherman (2006) highlights the following three ways used by financial institutions to extend their activity and to achieve their goals, by growing their profit:

Organic growth - achieved through expansion into new geographic markets, by increasing the number of employees that are selling products, as well as developing new products or offering auxiliary products ;

Inorganic growth - achieved through merger or acquisition in order to gain access to new product lines or new consumer segments;

External growth - achieved through franchising, joint ventures or strategic alliances.

Of all these methods, bank mergers and acquisitions are the most used techniques in strategic management of the last decade. Worldwide, the number of mergers and acquisitions has increased, because of the effects they have on both the purchasing institution and the country of origin of companies involved in the process.

However, although there are different views regarding mergers and acquisitions relationship with globalization, some experts generally thought that this type of transaction is actually an effect of globalization, while others believe that, on the contrary, this is an important factor that leads to financial globalization.

Scott (2003) defines merger as a fusion of two or more companies in which the assets and liabilities of a company are absorbed by the company that buys. Although the company that buys can be a considerably different organization after the merger, it retains its original identity. The same author defines acquisition as a purchase transaction where a bank buys an asset, a division or an entire company in order to get a bigger company.

Capraru (2011) speaks about these two types of processes and underlines that the acquisition is the process involving a financial institution, usually larger, that buys another financial institution, smaller, finally forming a new entity, while merger is the process that involves two financial institutions, usually of the same size, which form a new one.

2. TYPES OF MERGERS AND ACQUISTIONS

In accordance with regulations, bank mergers and acquisitions may be manifested by:

- merger/acquisition - means actually the internal restructuring, as the manner characteristic of financial institutions to reduce activity by closing unprofitable departments;

- merger/absorption is actually the purchasing process, involving a purchase of a financial institution by another bank. Finally, following the steps needed to achieve an acquisition, the acquiring bank will have all the rights and obligations of the acquired company.

Depending on the structure of establishments, bank mergers and acquisitions can be made vertical, horizontal or conglomerate.

A vertical M&A is a process in which the company expands forward in the direction of the customer and backwards towards the source of raw material. This is achieved by either merging with the buyer or with the supplier, by using its product or intermediary material for the final production. The choice for this form of fusion is to increase production value chain, and the cost of sale or purchase.

The horizontal M&A is obtained when a company wants to expand in the same market or to grow/enter in other markets. Horizontal acquisitions and mergers occur when a bank joins another credit institution, both on the same domain. Therefore, we can talk about horizontal M&A when the process involves two commercial banks or two investment banks. The number of these types of operations has increased in recent years due to global restructuring of the banking sector in response to technological and financial market liberalization

Conglomerate M&A is the deal that involves two companies that are engaged in unrelated industries. The basic purpose of conglomerate mergers remains the utilization of financial resources and enlarged debt capacity.

3. CHALLENGES FOR BANKING IN CENTRAL AND EASTERN EUROPE

Large international cross-border banks operating in CEE are facing several challenges in the micro and macroprudential regulatory sphere. On the microprudential level, international and Western European cross-border banks operating in CEE will have to comply with the Basel III framework sooner or later, while the macroprudential supervision and regulation is increasing in Europe as shown by the foundation of the European Systemic Risk Board (ESRB) at the ECB.

Given all the regulatory changes that have taken place or are likely to, the ESRB's (2011) issuance of a recommendation to secure some consistency in the macroprudential oversight in Europe is a positive step. While calling for a strong role for national central banks in the macroprudential oversight, the recommendation also stresses that the cross-border effects of any national macroprudential regulation must be taken into account. National authorities should inform the ESRB about significant macroprudential actions they are envisaging in order to avoid an excessive and uncoordinated regionalization of macroprudential regulation and oversight.

Given all the regulatory changes taking place, there is also an evident need to secure a level playing field in international and cross-border banking. The "Vienna Initiative 2.0" (2012) has highlighted the merits of better home-host coordination and cooperation. Simply "nationalising" the local banking systems in CEE is not the right strategy to pursue, given the fact that the capital markets in several CEE countries are still comparatively underdeveloped. For this reason, the CEE banking systems require a home-host supervisory coordination that corresponds to the degree of financial integration in the region. Moreover, the goals and strategies of large banking groups in CEE and the regulators in home or host countries do not differ all too much.

4. OPPORTUNITIES FOR BANKING IN CENTRAL AND EASTERN EUROPE

Large international cross-border banks pursuing a universal bank model are likely to have the best growth opportunities in CEE going forward. Because the attractiveness of different business segments varies substantially across the CEE markets and CEE sub-regions, well-diversified international cross-border banks are likely to profit most from the more heterogeneous character of the future banking sector expansion in the region.

The biggest near-term business potential in CEE seems to be in the segment of corporate lending and mortgage lending, while unsecured household lending demand appears to be well-satisfied in most CEE markets, with the possible exception of Russia. In fact, many CEE countries are characterized by very competitive and successful corporate sectors, supported by a very high degree of FDI penetration. Moreover, a lot of CEE countries worked hard to sustain or improve their international competitiveness position in recent years. As a result, these countries have indicators of international competitiveness that are at much more favourable levels than those in many Western European economies.

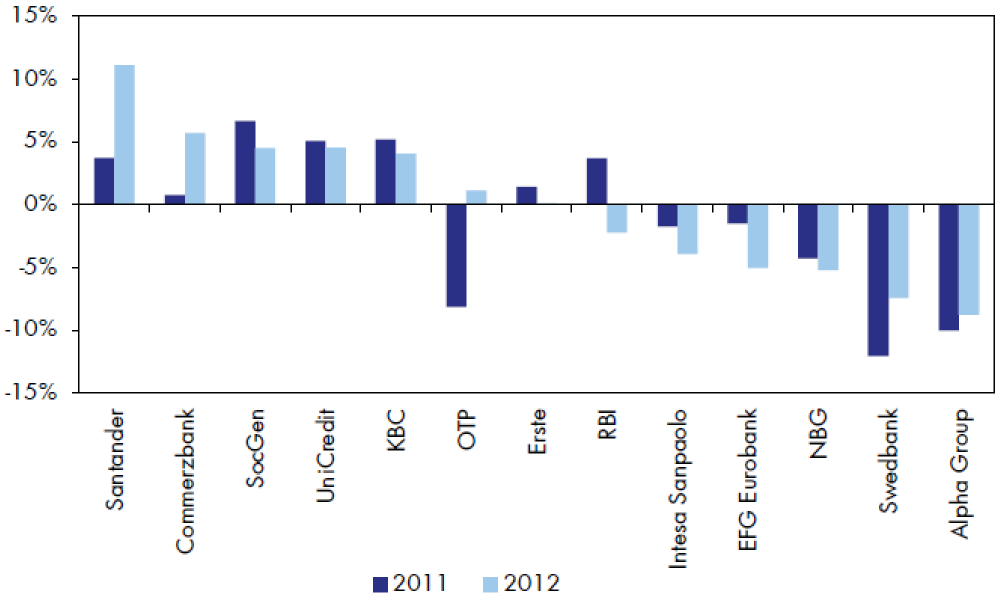
Given the current regulatory pressure on all large (Western) European cross-border banks, the top Western corporate clients in CEE might seek to diversify their bank relationships away from their "house bank" in their home market and may increasingly turn to local banks or international banks with an explicit focus on CEE.

Moreover, the demand for client-driven investment banking business in CEE is likely to increase in the years to come. Before the crisis, the capital markets environment in CEE was much more stable than it currently is. We expect the current more volatile and diverse capital markets environment that currently exists to persist. Furthermore, the relevance of local capital and currency markets in CEE is likely to continue for a much longer period than had been expected before the crisis, when most CEE countries were focused on attaining a swift entry into the Eurozone.

5. MARKET PLAYERS IN CENTRAL AND EASTERN EUROPE

The size ranking of international banks has remained almost unchanged significantly in 2012 compared to the year before. The movements are mainly driven by country specific lending trends, a.m. currency movements and – to a lesser extent – by acquisitions/divestments, which have not dominated the ranking as much as in 2010/11 due to lower M&A transaction volumes. The top five banking Groups are still UniCredit, RBI, Erste, SocGen and KBC, followed by ING, Banca Intesa, OTP. As of now, the potential tie-up between NBG and EFG Eurobank including their SEE units is getting more uncertain after being postponed given the recapitalization need of both banks. Hypothetically, a merger could create a combined unit, which might come closer to the top ten in the region.

Figure 1 - Loan book growth 2012 vs. 2011 in CEE (in EUR)



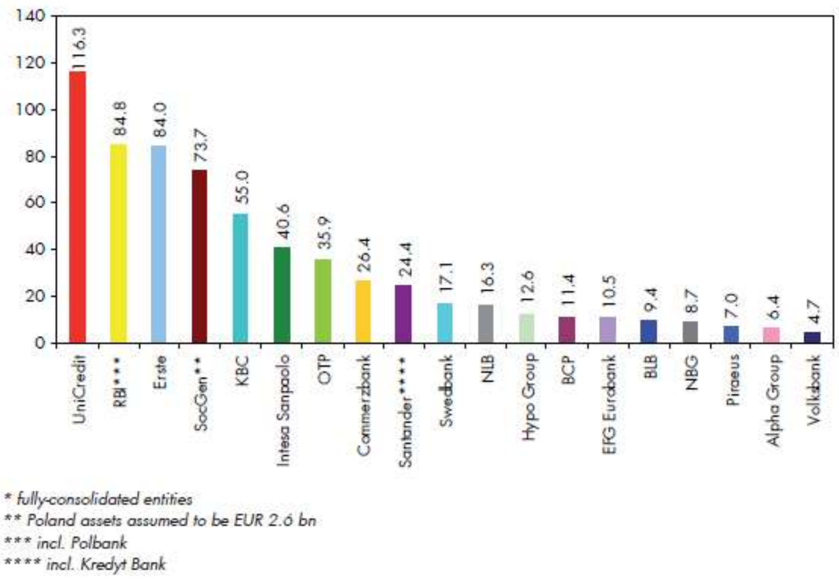
* adjusted for M&A activities

Source: CEE Banking Sector Report, available on http://www.rbinternational.com

6. M&A AND TOTAL CONSOLIDATED ASSETS

Recent M&A activity has in fact only slightly changed the ranking of foreignowned banks in CEE in terms of the total assets they have in the region. Based on 2011 figures, UniCredit still leads the regional banking sector as the biggest EU based player and has quite a significant gap (ca. EUR 30 bn) to other EU-based players. After its acquisition of Polbank, RBI has advanced to become the number two in CEE, its total consolidated assets in the region of EUR 84.8 bn outpacing those of Erste by less than EUR 1 bn. The gap of SocGen to the top three foreignowned players has diminished further, namely from around EUR 16 bn. to EUR 10 bn. KBC is still among the Top-5 foreign banks, despite the fact that its Polish assets have been sold to Santander. In 2011, Hungary's OTP and Italy's Intesa Sanpaolo also managed to defend their positions compared to 2010.

Figure 2 - Total assets of international banks in CEE (consolidated, 2011 EUR bn.)



Source: CEE Banking Sector Report, june 2012

7. OWNERSHIP STRUCTURE AND MARKET CONCENTRATION

One of the major topics in the context of high foreign ownership by Western European banks in CEE has been the commitment of these banks to the region. This commitment has proven solid in recent years. There are no signs of a retreat of dedicated Western banks from CEE markets. The aggregated CEE exposure (consolidated foreign claims) of Western European banks remained more or less flat in recent years. At the same time, Western European banks (including some relevant CEE players) were reducing other international activities substantially.

By year-end 2012, the aggregated CEE exposure of the three most important banking sectors for the region (Austria, Italy and France, representing some 50% of the total regional exposure of European banks or 45% of global crossborder CEE exposure) was more or less at the absolute level reached in 2009.

In contrast, Western European banks in general (i.e. outside of Austria, Italy and France) reduced CEE exposures by 5-6% from 2009 to 2012. These modest cuts for the whole CEE region include substantial cuts in some cases (i.e. by some 10-20%).

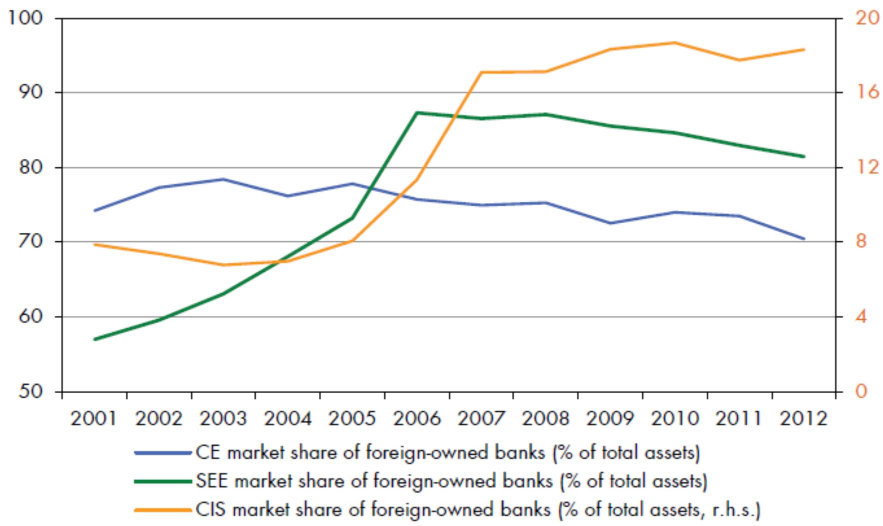
More general restructuring needs of some banks in Germany Belgium or Greece obviously had an impact on CEE. Given stronger cuts in the CEE region by other Western European banks, the relative share of Austrian, Italian and French banks in the total CEE cross-border exposure of Western European banks increased slightly in recent years (from 47.5% in

2009 to 49% in 2012). In contrast, the share of German, Belgian and Greek banks in the total CEE cross-border exposure of Western European banks decreased from 30% to around 25% in recent years. Moreover, the overall modest cuts by European banks in CEE (5-6%) still compare favorable against the massive cuts that were undertaken in the European banking sector and by Western European banks in general.

Western European banks have substantially cut their international cross-border business in Developed Markets and Western European countries in particular in recent years, i.e. by 15-20% on average with cuts of up to 40% in case of Belgian or French banks. In terms of cutting overall international/crossborder business, the banking sectors of systemic relevance for CEE by and large followed global trends (i.e. international banks from Austria, Italy and France have cut other activities outside CEE by around 15-20% from 2009 to 2012).

Given the sketched trends, the commitment of dedicated major Western European banks with a long-standing presence in CEE – despite a challenging regulatory and operating environment for Western European banks – is well reflected in international banking statistics. Moreover, these statistics also show that players with a small CEE presence (e.g. US, UK or Japanese banks that were a bit underrepresented in CEE compared to their other international activities) are seizing "niche player" business potentials in an opportunistic way. The share of the CEE exposure in total international activities of US, UK and Japanese banks increased from 7% in 2008 to around 14% in 2012, which translated into an exposure increase by some USD 50-80 bn.

Figure 3 - Presence of foreign-owned banks in the sub-regions of CEE



Source: CEE Banking Sector Report, 2013

CONCLUSIONS

Banking are now looking for new opportunities in foreign markets to replace or supplement decreased growth opportunities. Removing regulatory barriers in the European Union financial services industry will give further impetus to the strengthening cross- border activity.

The result of these operations is the emergence of larger financial companies that offer a wider range of services and operating in multiple markets simultaneously. Acquisitions and mergers in the banking sector have the capacity to ensure efficiency, profitability and synergy, also contributing to increased shareholder value. In some cases, banks with financial problems are the subject of acquisitions or mergers in the banking sector and this type of transaction may result in monopoly or downsizing. Companies all over the world use mergers and acquisitions for growth purposes in recent years.

Currently, the banking system in Central and Eastern Europe is dominated by a large number of banks that self internationally and have penetrated these markets through the acquisition of local banks.

It is therefore important to specify the preference of investors in the financial markets of Central and Eastern Europe, where there is a large number of bank branches coming from the rest of Europe, because these countries are attractive from the point of view of potential customers.

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ROMANIAN ENERGY MARKET EVOLUTION: TOWARDS A COMMON EUROPEAN MARKET

Delia Vasilica Rotaru*

Abstract: *This paper is offering a presentation of the energy market in Romania by analyzing its characteristics before and after the fall of communism. Becoming a member of the European Union brought many challenges for our country on different levels, the restructuring of the energy market being one of them. The final aim of the European Union is to create a common European energy market based on sustainable development where the consumers would benefit from quality services and lower prices. An insight on how the market is currently functioning in Romania is provided together with a presentation of the new challenges we have to face in reaching a fully liberalized energy market.*

Keywords: liberalization; energy market; European policy; regulation, challenge
JEL Classification: D47; L11; O25

INTRODUCTION

Many of the European Union members have put in practice the liberalization process of the energy market as a consequence of the Energy Strategy adopted by the Union. Though Romania has a free market since July 2007, it is considered that our country is still far behind other members due to the fact that the prices are still under the state's control and though the customers have the option to choose their suppliers this process is not an easy one. The liberalization of the energy market is desired because it is considered that this will bring many advantages for the consumers: setting the prices through the usual confrontation between supply and demand would translate into these being competitive and lower, more suppliers on the market would bring quality services and a raise of the investments on this market.

The energy market liberalization in Romania means, in the definition of the European Union, the relaxation of the legislation in the area, in order to permit the easy entrance of new suppliers and the separation of the generation, transport and supply activities. This separation has already been put in place. The consumer is entitled to choose freely his supplier. The main objective now is to liberalize the prices which are at the moment regulated by the government. The process of price liberalization has begun as well, a calendar for the liberalization being adopted by the government. All prices should be fully liberalized by the end of 2018. However,

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at the moment, this translates into higher invoices for householders each January, July and October. In these conditions it is pretty clear that the consumers have their reasons doubt the benefits of this process. Nevertheless, the new laws adopted in the energy market area seem to be the next logical step forward that we committed to take when we signed the moment we decided to be part of this big European family. Although the government has postponed the price liberalization moment as long as it could, it seems that, at the moment, both the European Commission and the International Monetary Fund are putting pressure on our country so that we respect our commitment and ensure a competitive energy market. Though this is the way a market should normally function, where the actors are able to make decisions based on the available supply and demand, our rather low standard of living will be our biggest enemy and the initial price growth will affect us more or less. This will be the initial impact, the price increase will result in an effort for consumers to pay their bills or to decrease their consumption of electricity and gas. It takes time for the market to normalize and to bring competitive prices and quality services. However, the liberalization could bring investments in the generation plants, transportation and distribution which are now old and outdated and generate high operating costs. The investments could lead to lower production costs and this could translate into lower prices for the consumers.

1. ROMANIAN ENERGY MARKET BEFORE 2007

In order to understand the changes our energy industry needs to undertake, it is necessary a short analysis of the market history and evolution. In 1990, immediately after the fall of communism, the energy industry was under the state's monopoly exclusively. RENEL Company took over the Department of Electrical and Thermal Energy which was in place during communism. RENEL was controlling all sectors of the electricity industry – generation, transmission and distribution with the prices being dictated by the government.

A first step towards liberalization was made in 1998 when the dissolution of RENEL took place, the company being reorganized into The National Company of Electric Energy (known as CONEL). CONEL had three subsidiaries: Termoelectrica – producing thermal and electric energy, Hidroelectrica – for hydropower and Electrica – responsible for the distribution and supply of energy. Besides these, there are two more institutions that we need to mention: Nuclearelectrica – providing electricity produced in nuclear stations and Transelectrica which was responsible with the transport of electricity in Romania. With the preparation to join the

European Union, Romania took further action in privatizing the state owned companies as this was a mandatory step. Electrica was divided into another eight regional companies responsible with the distribution of electricity. Five of these companies were sold to private buyers such as EON, Enel and CEZ (Diaconu, Oprescu and Pitmann, 2007).

Further important steps for the liberalization process of the energy market in Romania worth mentioning are: the market opening to 10%, the establishment of OPCOM responsible with the administration of the energy market, the creation of a spot market (2000), the reorganization of Termoelectrica into separate legal entities for electricity generation (2002), market opening to 83.5%, introduction of green certificates and introduction of the centralized market for bilateral contracts (2005) (ANRE Report, 2013).

In figures, by the end of 2007, the energy market in Romania was represented by:

- 63 producers of energy, part of them regulated;
- 1 company responsible with the transmission, Transelectrica, state owned and regulated;
- 8 distribution network operators with only three of them state being owned;
- 104 commodity suppliers;
- 8.6 million consumers (Diaconu, Oprescu and Pitmann, 2007).

Regarding the gas market, at the beginning this was regulated by the government through the Romgaz company, which was reorganized in 2000 and split into Exprogaz responsible for gas exploitation, Depogaz responsible with storage, Transgaz responsible for transport and Distrigaz Nord together with Distrigaz Sud which were responsible for the distribution of natural gas to final consumers. In 2005 these two distribution companies were privatized and today there are 37 suppliers present on the Romanian market, most important being EON and GDF Suez.

As it results from the presentation above, Romania took action in liberalizing the energy market and meeting the conditions set by the European Union. However, the market is far from being fully free as there is still a regulated segment where the prices and tariffs are set by ANRE (National Authority for Energy Regulation).

2. ROMANIAN ENERGY MARKET AFTER 2007

Starting from the 1st of January 2007, Romania is part of the European Union. This has brought many challenges to our country as we needed to make lots of changes in order to address all the requirements of this institution. Among others, we had to manage to organize a competitive energy market and to ensure the energy security politics, given the climate change we are currently facing, the continuous raise of the energy demand and the insecure future access to energy resources. Once we became an EU member we had to adopt the energy policy put in place by the European Union which supports the concept of sustainable development and the one of a common energy market for all the members.

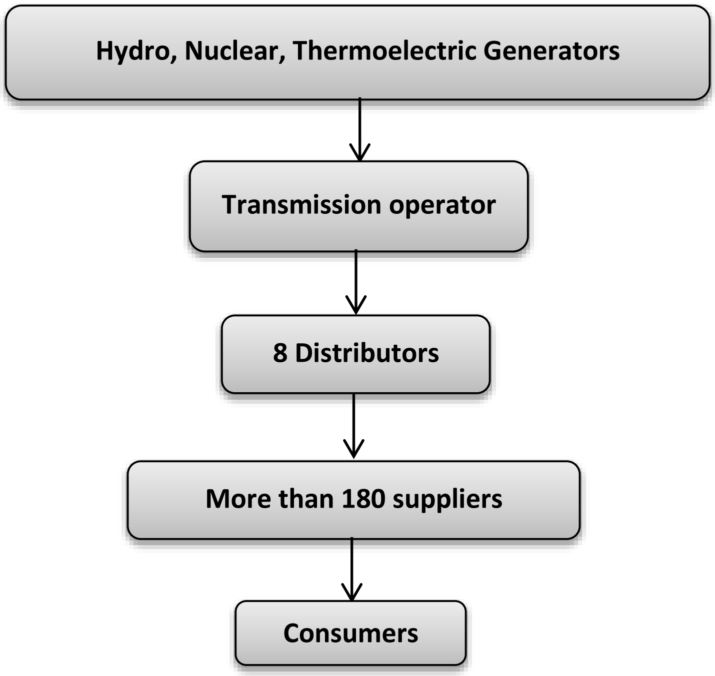
In general, the EU energy policy aims to ensure the functioning of energy markets under competitive circumstances, ensuring security of energy supply, promote energy efficiency and energy saving, support the development of renewable energy resources, reduce the greenhouse emissions and promote the interconnection of energy networks. The implementation of these measures will have a high impact on our country as there are necessary a wide range of changes in order to manage the restructuring and privatization of some companies, a introduction of new regulations and a review of the legislation in the area.

2.1. Current structure of the energy sector

Starting with 2007, the Romanian energy market is considered to be a deregulated one, where suppliers can freely join the market as long as they register with the National Authority for Energy Regulation (ANRE). Consumers are also able to choose between suppliers. However, there are still many restrictions in place that will be discused furter.

For a better understanding of the changes we need to implement on our energy market it is important to understand how the market is currently running. This is highlighted in the figure below:

Figure 1 - Chain of electricity delivery in Romania

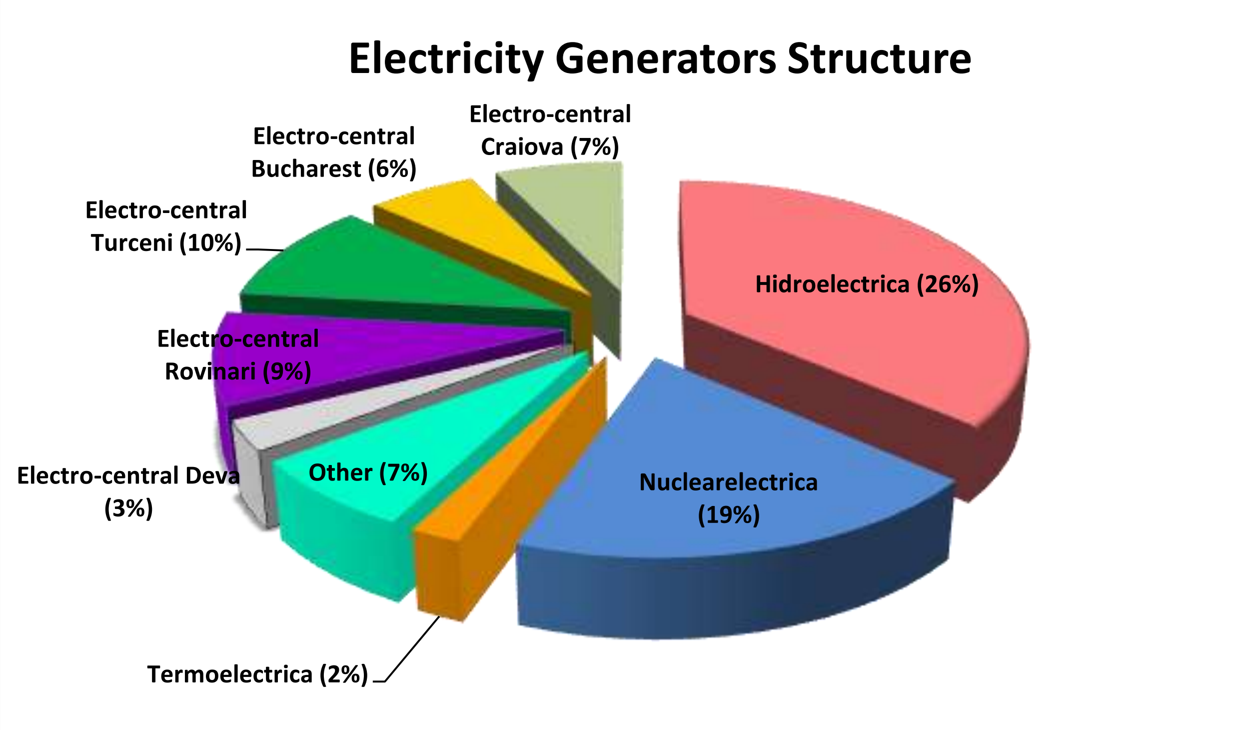


Source: KPMG Report & ANRE

As presented in the figure above the chain of delivery for the energy market starts with the generators. There are lots of generators registered at the moment with ANRE, but most of them are small scale generators, some of the using renewable resources. The most important generators on the energy market in Romania are Hidroelectrica, Nuclearelectrica, Energetic Complex Turceni, Energetic Complex Rovinari, Energetic Complex Craiova, Energetic, Electro centrals Bucharest, Electro centrals Deva, Electro centrals Galati and Termoelectrica (KPMG Report, 2012). These generators account for more than 89% of the energy necessary in Romania. The most important generator in Romania is Hidroelectrica. The company generates electricity using water resources and produces an annual estimated of 11.8 TWh. As they declare on their website, the company was included in the top of the most valuable 100 companies in Romania, occupying the 7th position.

The figure below presents the percentage of electricity generated by all of these generators in Romania.

Figure 2 - Electricity Generators Structure



Source: *ANRE*

The transmission operator in Romania is Transelectrica, created in 2000 and owned by the government. The International Monetary Fund is currently insisting in privatizing this company, among others, so Romania listed in 2012 15% of the shares on the market.

Regarding the distributors on the Romanian energy market, there are a number of 8 main operators that divided the market geographically: CEZ, Electrica Distribution Muntenia North, Enel Muntenia, Electrica Distribution Transylvania South, Electrica Distribution Transylvania North, EON Moldova Distribution, Enel Distribution Banat and Enel Distribution Dobrogea.

Between the most important suppliers operating on the energy market in Romania we mention: EON, CEZ, Enel, Electrica, Alpiq, GDF Suez, Biol, etc.

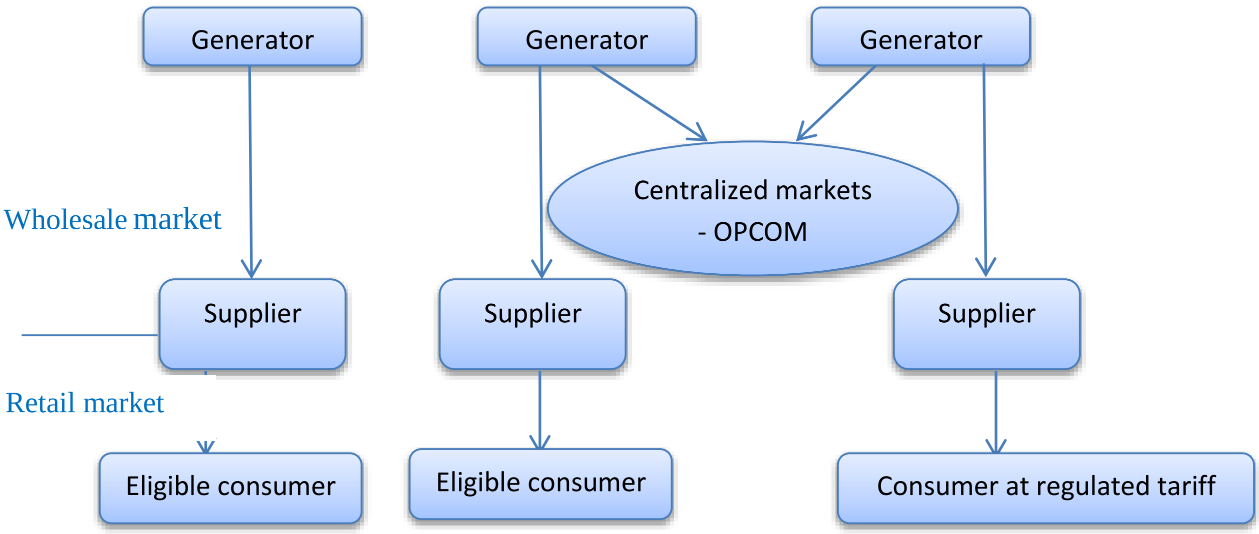
2.2. Energy market organization

Nowadays, the energy market in Romania is divided into the wholesale and the retail market. On the **wholesale market** there are negotiated and closed bilateral contracts between generators and suppliers. Once the new law on electricity and natural gas from 2012 was put in place, the wholesale market structure has been modified by introducing the obligation to organize all the transactions on the energy market transparently, publicly and nondiscriminatory. In these conditions, all the transactions between producers and suppliers must be closed on one of the centralized markets organized by the market operator – OPCOM. The company is responsible with the organization and administration of the centralized energy markets, organization and administration of the green certificates market, overview and supervision of the market.

As described by ANRE, the **retail market** is divided into a regulated market where utilities are supplied to consumers at a fixed tariff established by ANRE, for the consumers that did not exercised their right to choose their supplier and a competitive market where eligible consumers have negotiated their contracts.

The wholesale and retail markets are better represented by the following figure:

Figure 3 - Wholesale and retail energy markets



Source: http://www.energyarea.ro/romania_electricity_market.html

The government enacted a plan in 2012 to slowly liberalize the remained regulated market as well. This is happening because the fixed prices set by the government are most often not covering the production costs, bringing additional debts. Also, although the consumer is faced with the opportunity to choose their supplier, this is unlikely to occur because no other supplier can provide a lower price than the regulated one.

According to the liberalizing calendar published by ANRE, the electricity prices for industrial consumers are going to be deregulated by 1st of January 2014 and by 1st of January 2018 for households; the regulated gas prices are going to be eliminated as well by 1st of October 2014 for industrial consumers and by 1st of October 2018 for domestic consumers (ANRE, 2012). This will most likely translate into higher prices paid by the consumers.

3. FUTURE CHALLENGES

In order to meet the EU's requirements and to become part of the integrated energy market, Romania has to make changes in the energy policy as this has to be correlated with the ones across Europe. One of the major challenges for the European Union and its members refers to the way countries can provide competitive and clean energy given the climate change conditions and the continuous demand growth. The future vision of the European Union regarding the energy policy takes into consideration the access of consumers to energy resources at stable and affordable prices, sustainable development of production, transport and energy consumption, the safety of energy supply and the reduction of greenhouse emissions. EU has put in place an ambitious energy policy taking into consideration all energy sources from fossil fuels to nuclear and renewable resources in an attempt to trigger a new industrial revolution that will lead to an economy with low energy consumption and a limitation of the climate change (Energy 2020, 2011).

Under these conditions, besides the full market liberalization that still needs several adjustments in order to function properly, Romania has to address other issues as well, as detailed below:

a) Increase of energy demand – as this is a worldwide reflected problem, Romania is confronting it as well. There is an estimated increase in demand of 2-3% per year as mentioned in the KPMG Report. In order to ensure the security of supply, Romania has to invest in renewable resources as it has a great potential in this area, on solar, wind, wave, and geothermal energy. It is also recommended the continuous improvement of the collaboration with other countries in this matter.
b) Reducing greenhouse emissions – this issue needs to be addressed mainly by investing in low carbon technologies and by promoting the use of renewable energy resources.

c) Promoting renewable resources – Romania already has in place a green certificate market offering documents which certify that an amount of 1MWh of electric energy is produced from renewable resources and suppliers are required to provide a specific quantity of electricity from renewable resources by buying these certificates. This needs to be further developed by encouraging small consumers to invest in renewable resources as well and to raise awareness on the importance of energy saving.
d) Addressing the problem of outdated infrastructure that is generating high operating costs mostly by encouraging the investments in new infrastructure and technology.
e) Improvement of market competitiveness by allowing permanently the access of participants without discrimination and by privatizing all the companies that are currently under the government's ownership.

As presented above, there are still lots of problems our country needs to address in order to meet the Energy 2020 project implemented by the European Union. These changes need time and high investments and cannot take place over night, but it is very important to follow our own strategy regarding the energy market policies.

CONCLUSIONS

The Romanian energy market is far from being fully liberalized. There are still lots of issues we need to address and processes we need to put in place for the market to function properly. We still have to privatize several companies that have an important role on the market, to invest in the modernization of the infrastructure in order to decrease the high transportation and distribution costs we are currently paying, to encourage the consumers to exercise their right to switch between suppliers so they can obtain a more advantageous offer and to avoid suppliers monopoly of the market.

One important step in the continuous development of the market is represented by the diversification of our energy sources. At the moment, the hydro resources are extremely important for our country as they account for most of the electricity produced in Romania and represent the cheapest electricity source. For this reason, the electricity coming from the hydro resources are mostly used to keep the regulated prices low and the company is often running on loss. It is important to introduce competition into the generation area as well so that consumers will benefit from competitive prices after the price liberalization that is currently taking place.

The biggest problem regarding the price liberalization the government is going to face is represented by the domestic consumers, which are vulnerable and are not going to be able to pay their utility invoices without the support of grants provided by the state. In this category fall almost 1.4 million consumers that have an income smaller than the minimum wage. At the moment, the state is subsidizing from 5% up to 95% of the value of their invoices. In the future, the government has assumed the responsibility to still protect those with disabilities, serious illnesses and elderly over 65 who live alone. The calendar of price liberalization was adopted in order to make the future increase of electricity and gas prices a little bit more bearable for domestic consumers.

Promoting the renewable resources is another challenge Romania has to face as part of the Europe 2020 project that refers to the way competitive, clean and secure energy can be provided. The clean environment that the European Union is currently promoting will translate into different taxes in order to support the development of this area. This will affect the consumers as well, as in the end they will be paying for these new technologies.

The energy market in Romania has a few advantages that we could exploit further, including the long tradition in the energy industry and the experience in electric and thermal electricity generation as well as in gas and oil exploitation. The national resources of primary energy, particularly coal, the reserves of oil and natural gas, the hydropower potential are allowing us to have a smaller dependency of energy imports than the European average. It is important to take advantage of these opportunities as the liberalization process is taking place.

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*** http://www.electrica.ro/

*** www.hidroelectrica.ro

*** www.opcom.ro

IMPLICATIONS OF ECOLOGICAL FOOTPRINT VALUES FOR SELECTED EU MEMBERS

Mircea Saveanu*

Abstract: *We analyse the state of the environment for 24 EU member states, using the concept of ecological footprint. Findings suggest that 20 of the 24 analysed states are pushing their environment past its yearly regenerative limits. Of these, 10 have surpassed this value by at least two-fold. A few outliers have gone well beyond even this mark. Four member states have yet to reach the regenerative limit of their lands, and could thusly be viewed as faring better, in terms of the health of their environment. The mechanism that allows overtly ecologicaly unsustainable countries to thrive is discussed.*

Keyword: ecological footprint; sustainability; biocapacity; carrying capacity; international trade
JEL Classification: Q01; Q56; Q57

INTRODUCTION

Assessing the state of an economy is a huge undertaking, and the complexity it entails is on the scale of the nations measured. Problems can arise from the onset, as the method used for analysing an economy can lead to very different results. One can analyse an economy with regards to its output (GDP), which is the most popular method used today. Other methods include checking for the inequalities in an economy, and then the Gini index would be used. A more holistic approach, although far from perfect, would be to analyse the Human Development Index for a given country, which takes into account the education, income and health of the citizens. These could all be broadly described as economic indexes.

The world in which we live is far more complex though, and a simple analysis of the output of an economy or the spending patterns of its citizens simply will not do justice. Given the fact that one of the key problems humankind is facing at this moment is related to the environment, concerns have been voiced with regard to the inability of many of aforementioned indexes to accurately account for the loss in biodiversity, the negative effects of human-induced global warming and pollutants, the changes in the natural hydrological cycle, etc. (e.g. Daly, 1992, 2005).

Following years of research, we now have some measures of these effects and, accordingly, some aggregate indexes for the state of the environment in a given economy. These

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include: the Index of Sustainable Economic Welfare (Daily & Cobb, 1989; Cobb *et al*., 1995) and the Genuine Progress Indicator (UNDP, 1996). These are holistic indexes, on par with the HDI, and are regarded as the next generation measurement tools for an economy, because they reveal much more than the economic output of a country.

With regards to the environment, Rees and Wackernagel (1994) developed a measurement for the environmental state of an economy called the environmental footprint[*]. The strength of this index lies in the fact that it focuses on a single aspect, the environment, eliminating the haphazard job of aggregating qualitatively different entities, while the results it returns are meaningful and can be correlated with the information given by economical indexes, say GDP.

1. METHODOLOGY & PRELIMINARY DATA

The ecological footprint index consists of two parts: the effective ecological footprint of a community on the land it occupies, and the biocapacity of the land. The effective ecological footprint of a community is the mark left on the land by the inhabitants (both sink and source side[†]), as measured in global hectares[‡]. The biocapacity is the annual capacity of the land to regenerate (both sink and source side), as measured also in global hectares. Therefore, if one substracts the effective ecological footprint from the biocapacity, one can get a crude measurement of the strain on the environment put by the inhabitants. There is room for improvement (for example, the ecological footprint methodology does not account for the life-support and human health and welfare functions of the environment – see Ekins, 2003), but the method has already been implemented by some Governments, in order to assess their impact on the environment. For the EU, the following data could be accessed:

Table 1 – Ecological footprint data for 24 EU member states

Country*	Ecological footprint of consumption	Biocapacity	Gross ecological footprint
Austria	4.89	2.99	-1.9
Belgium	5.7	1.09	-4.61
Bulgaria	3.25	2.66	-0.59

[*]Ecological Economics released a special issue concerning commentaries on the concept of ecological economics (vol. 32, issue 3, March 2000); interesting discutions in Ayres (2000), Costanza (2000a) and Rees (2000).
[†]Source side = the ecosystem functions which provide humans with natural resources; sink side = the ecosystem functions which absorb the human wastes and serve to reintegrate the resulting chemicals in the natural bio-chemical cycles. See Armsworth *et al*. (2004).
[‡]Equals a hectare of average productivity.

Croatia	3.34	1.8	-1.54
Czech Rep.	5.32	2.64	-2.68
Denmark	7.19	5.19	-2
Estonia	6.42	8.99	2.57
Finland	5.51	12.99	7.48
France	4.6	2.83	-1.77
Germany	4.03	1.86	-2.17
Greece	5.76	1.36	-4.4
Hungary	3.23	2.58	-0.65
Ireland	8.19	4.26	-3.93
Italy	4.94	1.03	-3.91
Latvia	4.6	7.24	2.64
Lithuania	3.32	3.66	0.34
Netherlands	4.6	1.05	-3.55
Poland	3.89	1.84	-2.05
Portugal	4.37	1.18	-3.19
Romania	2.67	2.27	-0.4
Slovakia	4.94	2.68	-2.26
Slovenia	3.89	2.36	-1.53
Spain	5.63	1.32	-4.31
United Kingdom	6.12	1.58	-4.54
* Data unavailable for Cyprus, Luxembourg, Malta and Sweden			

Source: GFN 2010 (data for 2007)

However, we can, from the given data, deduce more than that. If we define δ as:

$$\delta = \frac{ecological\ \ footprint\ \ of\ \ consumption}{biocapacity} \cdot 100,$$

then we can get a sense of the intensity of the process taking place. Computing for the data in the previous table, we arrive at the following results:

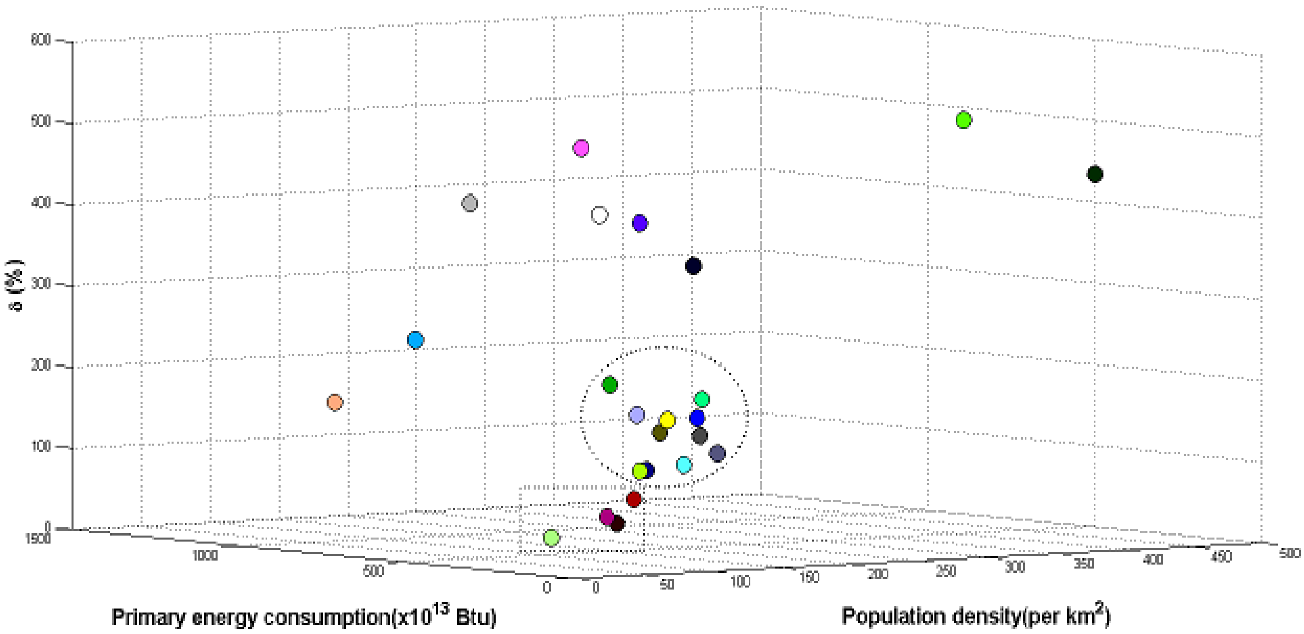
Table 2 – δ figures, based on the data from previous table

Countries with a positive gross ecological footprint 16.66%		Countries with a negative gross ecological footprint 83.33%	
Of which: Estonia Finland Latvia Lithuania	δ= 71.41% 42.41% 63.53% 90.71%	Of which: Austria Belgium Bulgaria Croatia Czech Rep. Denmark	δ= 163.5% 522.9% 122.1% 185.5% 201.5% 138.5%

		France	162.5%
		Germany	216.6%
		Greece	423.5%
		Hungary	125.1%
		Ireland	192.2%
		Italy	479.6%
		Netherlands	438.0%
		Poland	211.4%
		Portugal	370.3%
		Romania	117.6%
		Slovakia	184.3%
		Slovenia	164.8%
		Spain	426.5%
		United Kingdom	387.3%

Source: own calculations, based on the previous table

Figure 1 – 3D scatter plot of the selected EU countries. The top performing EU member states, GDP wise, are also characterised by a high δ value



For data sources, see Table 3

Table 3 – Detailed data for the scatter plot (format: country code* (x; y; z values respectively))

FI (17.4; 135.1; 42.4)	HU (108.1; 112.4; 125.1)	IE (63.7; 70.3; 192.2)	EL (85.6; 150.9; 423.5)
LV (36.5; 17.3; 63.5)	DK (126.7; 88.5; 138.5)	CZ (133.8; 164.6; 201.5)	UK (250.8; 956.1; 387.3)
EE (30.9; 23.1; 71.4)	SI (100.2; 31.9; 164.8)	PL (121.9; 391.8; 211.4)	SP (89.4; 676.1; 426.5)
LT (53.9; 38.6; 90.7)	AT (100.7; 154.4; 163.5)	FR (100.9; 1129.5; 162.5)	IT (201.2; 803.9; 479.6)
BG (69; 84.1; 122.1)	HR (78.4; 39.5; 185.5)	DE (230.4; 1422.6; 216.6)	NL (485.3; 435.5; 438)
RO (93.7; 166.2; 117.6)	SK (110.1; 79.2; 184.3)	PT (115.2; 112.8; 370.3)	BE (350.4; 273.6; 522.9)
The order of the countries is given by their marker position in the scatter plot, from bottom to top of the graph * For a list of country codes and their corresponding country, see Table 4, at the end of the document			

Source: for population densities (x values), Eurostat (2013); for primary energy consumption (y values), EIA (2013); δ values (z values), based on own calculations. All values are computed using data for 2007

2. RESULTS AND DISCUSSION

At a first glance, the results are somewhat grim: only 4 out of the 24 EU members for which we could obtain data have a positive gross ecological footprint. We interpret this as meaning that 4 countries out of the 24 studied states place a strain on their environment (source and sink side wise) less than the regenerative capacities of the land occupied. Conversely, 20 countries were, for the year 2007, overshooting the pressure on their environment, by taking in more resources than the land can regenerate, dumping more wastes than it can assimilate, or both.

The ecological footprint concept depends on two components: the effective ecological footprint of the given community and the biocapacity of the land to regenerate. Both of these quantities, as measured in global hectares, can fluctuate yearly, which means that the figures in the previous tables can vary from year to year. Given this fact, we can exclude one country that is near unity (δ=1), because Lithuania, which scored a δ of 90.71% for 2007, can go above 100% the next year, due to either a drop in biocapacity (from natural or artificial causes), an increase in the effective ecological footprint (due to increased human activity, for example), or a concurrence of both these effects. By eliminating Lithuania, as an inconclusive case, we are left with 23 countries.

Although we have only eliminated one country, the strongest message is conveyed by the countries with δ values situated furthest from 1. These outliers tell us the most about the impact of the economic growth on the environment. Before going into an analysis of those countries, we should first clarify what δ=1 means. There is a growing body of literature (although not from mainstream economics, and much of it coming from other fields, such as biology), which suggests that ecosystems provide valuable (although weakly quantifiable) assets for humankind (inter alia, Costanza & Daly, 1992; Vitousek, 1994; Chapin III *et al*., 1997; Costanza *et al*., 1997; Myers, 1997; Daily *et al*., 2000; Balnavera *et al*., 2001; Heal, 2004;). These include such functions as: complex and diverse genetic repository (through biodiversity), maintenance of the hydrological cycle, maintenance of the carbon cycle, maintenance of the nitrogen cycle, control over the climate, etc.

Focusing on just the biodiversity aspect, which has provided incommensurable assets in the past, and will undoubtedly provide more in the future, it is clear that any patch of land that has a δ value of 1 leaves little room for biodiversity to flourish. Much revenue is earned via tourism, due to biodiversity; many pharmaceuticals are derived from compounds found in wild flora or fauna. There is also a generally accepted theory in biology, which suggests that ecosystem resilience is highly dependent on the diversity of its flora and fauna (Tilman & Downing, 1994; Tilman *et al*., 1996; Tilman *et al*., 1997; Tilman *et al*., 2006). This places even more value on biodiversity, due to the strengthening role it plays in the environment[*].

These are all legitimate reasons not to discard the natural environment as a whole, when assessing the health of an economy. The implications of our reasoning are that a δ value equal to 1, while feasible strictly from the perspective of the human community, exhausts the source functions, the sink functions, or both, of the given environment, therefore leaving little for the local flora or fauna to thrive on. The inherent losses in biodiversity in such cases lead to a lowered resilience for the ecosystem, which in turn boomerangs back to more losses in biodiversity. Finally, due to the fact that biodiversity is tied in complex ways to the ecosystem, this leads to a drop in the biocapacity of the land, therefore reducing the sink functions, the source functions, or both (this effect can readily be seen in the impoverishment of the lands, due to the modern usage of large scale monocultures).

The previous paragraphs add weight to an already alarming situation. Going back to the analysis, we conclude that 10 of the 24 countries for which data was available, have overshot the regenerative capacities of their appropriated land by a factor of at least 2; 7 of these

[*]Determining, however, even a *grosso modo* value for the benefits accrued from ecosystems is a very difficult undertaking (*e.g*. Costanza & Folke, 1997; Costanza 2000b; Heal 2000). For an attempt at measuring these benefits see Costanza *et al*. (1997). For the uncertainty regarding such evaluations, see Arrow & Fisher (1974).

countries have surpassed the regenerative limit by a factor of 3; Spain, Greece, Italy, Netherlands and Belgium have exceeded this limit by more than 4 times. In simple terms, in order for these last 5 countries to be ecologically sustainable, at least with regards to the human appropriation of the sink and source functions of the ecosystem, the lands they possess would have to be 4 times larger in surface size[*]. Of the 3 remaining countries (those with a positive ecological footprint - Lithuania was excluded from the analysis), only Finland is using less than half the regenerative capacity of the land it possesses.

One might ask then, if so many countries are actually exceeding the carrying capacity of the land they appropriate, how can their communities still thrive? Many of the countries with a negative ecological footprint consist of highly developed economies, and would otherwise be seen as models for societal and economic development. How can some of these countries fail so hard at being ecologically friendly? The answer to this question is unclear, and the question in itself could be the subject of an entire thesis. It is beyond the scope of this article to come up with arguments supporting one side or the other. It is highly probable that the ecological footprint correlates positively with the energy consumption in a economy (although one might be right in pointing out that the energy intensity of a country is just as much a telling index as the primary energy consumption, since it reveals much about the efficiency in using the said energy), and also with the population density of that country[†].

Clearly, there are other factors at work here, besides the ones mentioned, and some of them might not even be of a physical and quantifiable nature. Psychological factors[‡], culturally induced behaviors, the impact of religion, traditions, etc., all might have a role in explaining the ecological footprint of a given country, and many of these factors could be unique to the given country, which would imply that making generalizations on the subject is a hazardous enterprise. But if determining the causes clearly requires more research, in many fields of the human knowledge, not just economics, the mechanism that sustains this process is clear: many countries can afford to go beyond the regenerative limits of the lands they own, simply because they are *importing* biocapacity. Many developed countries can afford to undergo long periods characterised by a negative ecological footprint, because there are other countries which are in

[*] As usual, the same assumption of an average productivity hectare is assumed.
[†] Notice that in Figure 1, all the countries with either high population density or high energy consumption have similarly high δ values. In the same figure, the dotted rectangle denotes the four countries with a positive gross ecological footprint value, while the dotted elipse encompases countries with similar x/y/z values. The remaining outliers are countries with a high δ value (>200).
[‡] For some interesting research in the field of environmental psychology, see *inter alia*, Proshansky *et al*. (1983); Hidalgo & Hernandez (2001); Schultz (2002); Giuliani (2003); Mayer and Frantz (2004); Schultz *et al*. (2004).

effect creating carrying capacity and, at a global level, this helps lessen the environmental impact. These countries rarely accrue benefits for this, although there are mechanisms which, in time, will probably alleviate the problem (one such mechanism might be the Clean Development Mechanism; for some promising results in this respect, see Castro *et al*., 2000).

Some examples include: developed countries that have destroyed much of their natural biodiversity can still benefit from the genetic richness of flora and fauna found in less developed countries, and in fact this is happening all the time, as researchers (generally located in the highly developed countries) travel to less developed countries and, after years of research, return with their fruits of labor and introduce pharmaceuticals and other products in the global market. This would not be possible if less developed countries would have appropriated much of the ecosystem functions, but nor would it be possible if the research teams from the highly developed countries would be inexistent. Another example involves the carbon cycle. Forests play a crucial role in this cycle, because, through photosynthesis, carbon is fixated, and, in the process, oxygen is released (which is vital for humankind). The fact that some countries have a negative ecological footprint could be indicative of a deficiency in the carbon cycle (caused by deforestation). The carbon cycle is not however a local phenomenon, which means that developed countries can afford this loss, as long as other countries, knowingly or not, keep their forests pristine. This reasoning can be applied to most of the contributions that an ecosystem has to human society. In a sense, the developed countries that show a negative ecological footprint are owing their existence to borrowed carrying capacity, *imported* from the less developed countries, and most of the time the latter receive only moderate compensation for their services.

CONCLUSIONS

This article focused on the ecological problems that some EU members have, and the indicator used was their ecological footprint. We analysed 24 of the 28 members, because information on Cyprus, Malta, Luxembourg and Sweden could not be obtained. Given the particular geography and population density of Cyprus, we could hypothesise a negative ecological footprint, while Sweden would most likely have a positive ecological footprint, since it is one of the least populated countries in the world, and has sprawling forests. Malta most likely is on par with Cyprus, while for Luxembourg, we can only guess that it might follow the trend set by the majority of EU members. This are all speculations, though. For the countries we have had data, the following conclusions can be emphasised:

- 20 of the 24 analysed countries have overshot the regenerative capacities of their land, for the year 2007. This means that, for that year, either the source functions of the ecosystem have been surpassed, the sink functions have been exceeded, or both;
- 4 countries (Estonia, Finland, Latvia and Lithuania) returned a positive ecological footprint, although one (Lithuania) remains inconclusive, due to the contiguity of the values of ecological footprint of consumption (3.32) and biocapacity (3.66);
- of the countries with a negative ecological footprint, 10 of the 24 have overshot the regenerative capacities of the appropriated land by a factor of at least 2; 7 of these countries have surpassed the regenerative limit by a factor of 3; Spain, Greece, Italy, Netherlands and Belgium have exceeded this limit by more than 4 times;
- Finland is the country with the lowest gross ecological footprint value, since, for 2007, it had used the source and sink functions of the ecosystem up to less than a half of its regenerative capacity;
- all the countries with a negative gross ecological footprint value are ecologically unsustainable, and their continued existence is due to the preservation of ecosystems in mostly lesser developed countries. This situation is poorly addressed by the global market, as some ecosystem functions (like the role in the global hydrological/nitrogen/carbon cycle) have yet to bring about consistent financial benefits for these countries.

ANNEX

Table 4 – Country codes used and their corresponding country

Austria	AT	Estonia	EE	Ireland	IE	Portugal	PT
Belgium	BE	Finland	FI	Italy	IT	Romania	RO
Bulgaria	BG	France	FR	Latvia	LV	Slovakia	SK
Croatia	HR	Germany	DE	Lithuania	LT	Slovenia	SI
Czech Rep.	CZ	Greece	EL	Netherlands	NL	Spain	SP
Denmark	DK	Hungary	HU	Poland	PL	United Kingdom	UK

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BETWEEN NATIONALISM AND THE FLAT WORLD OF THOMAS FRIEDMAN

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Abstract: *The present paper aims to disseminate the impact of globalization on the nation-state throughout the history. The research objective consists in the reviewing of the assertion of the globalization phenomenon and the conflicts it stirred at the national level by reasons related to cultural, economic, social or political issues. The analysis will be conducted by two antagonistic positions: an optimistic view according to which globalization has a positive effect overall and a pessimistic one under which globalization causes the decline of the nation-state. The main findings will show that nationalism is not doomed to disappear, but instead it will adapt over time and will steal from the benefits globalization brings everything that culturally, politically, socially, or economically suits to a certain nation.*

Keywords: globalization; nationalism; nation-state; liberal democracy; Western World
JEL Classification: A1; B11; B20; F10; F60

INTRODUCTION

The debate of the essay is generally taken from two antagonistic positions: an optimistic position that considers the effects of globalization on economic, social, moral and cultural aspects of society today have been predominantly positive. On the other side lies ones who see and foresee the decline of the nation-state as caused by globalization which brings with it conflicts rather than the prosperity largely conjured up.

Visions of a future that is not focused anymore on state as a central element of ensuring the welfare and social peace have features ranging from the utopian to a threatening character. One of the first "optimists" has been Francis Fukuyama who has imagined the end of history together with the global triumph of liberal democracy (Fukuyama, 1992). Peter Drucker wrote then about a "post-capitalist society" in which the nation-state dominance of the past 400 years has been challenged at every level, from the transnational to the tribal level. Moreover, banker Walter Wriston, appreciating the transition from a "material economy" to an "informational" one, concluded that the ability to instantly transfer huge amounts of capital undermines national borders and sovereignty (Wriston, 1992). Another author with a positive outlook on the effects of globalization is Rosecrance, professor of political sciences at the University of California in Los Angeles. Using methods of quantitative analysis, he sustains his plea which states that,

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nowadays, money and power are not derived from a fixed asset (land) but from capital, labor and information (assets which are movable) (Rosecrance, 1999). Given that the key factors of production are movable, the importance of borders has diminished considerably. The theory Rosecrance's book brings into focus is fundamentally optimistic. It outlines a future with an area of international peace ever higher. The fourth part of his book draws most attention through the accent it puts on the new international system from a political and economic combined perspective. The conclusions reached stress that international economies are no longer captive of the nation-states parochial governance.

Opponents to these optimistic theorists of the positive effects of globalization are those who predict the decline of the nation-state and the conflicts that may erupt as a consequence of this fact. Samuel Huntington provides a much darker forecast than that visioned by Francis Fukuyama. The first approached of the subject has been conducted within an article entitled "The Clash of Civilizations?" written in the summer of 1993 in the Foreign Affairs editorial. In agreement with what the title suggests, the article argued that the lines separating civilizations today will be the battle lines of the future. Detached from the traditional paradigm, Huntington said that is more relevant for states to be grouped in terms of culture and civilization than by reasons regarding economic and political systems or level of development (Huntington, 1993). The author expects that the central axis of the world politics in the future will be one of conflict between the West and the Rest, the latter category consisting in a concurrence between Islamism and Confucianism in order to challenge the values, interests, and Western power. A different portrait, but just as disturbing as that of Huntington, has been sketched by Robert Kaplan in "*The ends of the Earth: A Journey to the Frontiers of Anarchy*" (Kaplan, 1996) published in 1996. The timeliness of Kaplan's writing may be questionable due to his neo-Malthusian pessimism shared by Thomas Fraser Home-Dixon, who predicted the spread of diseases, malnutrition and increased competition for resources in the third millennium.

At the time the foreign correspondent of the New York Times published "The Lexus and the Olive Tree: Understanding Globalization" he benefited from previous writings on the decline of the nation-state equally from those who saw with pessimism this instance and those who considered it to be a new beneficial era to the mankind. Thomas Friedman approach has consisted in the synthesis of the contrasting views and the balancing of the positive and negative things that global flattening can induce (Friedman, 1999). Thus, the word "Lexus" in the title symbolizes the revolutionary changes that globalization brings in national security, politics, culture, finance, technology and environment while "Olives" denote the resistance of traditionalists to these changes who are struggling to preserve cultural roots, often suffering from the effects of the displacement of globalization without enjoying its benefits. In the introduction to his book, Thomas Friedman makes a comparison between his feelings of globalization and the ones which spring in the dawn of each day, saying that they do more good than harm and that both phenomena are inevitable. However, in the book written at the end of the last millennium the author asserts that globalization will not end geopolitics. The only question we still have to answer to states if the flat world visioned by Thomas Friedman really mind the policy of each region and the locally specific social phenomena. Micklethwait and Wooldridge's (Micklethwait and Wooldridge, 2000) argued that globalization has helped to awaken nationalist or fundamentalist impulses instead of bringing nations closer. Peter Drucker completed saying that each time in the last 200 years when political passions and nation-state politics have been hit by economic rationality, political passions and nation-state have won (Drucker, 1993)

Substantial criticism regarding the benefits of globalization are made by researchers and prominent persons specialized in economy and international politics from outside the Western world. Sanjib Baruah, professor of political studies at Bard College, author of the article "India Against Itself: Assam and the Politics of Nationality" (Baruah, 2000) notes that most contemporary commentaries on globalization are not anchored in history, as capitalism has may never ran free across well established cultural and political boundaries by now. Quoting Karl Marx, Baruah points out the historic character of globalization describing three waves of migration and its impact on nations (Baruah, 2000). Robertson (Robertson, 2004) undertakes a trip back in time in an article entitled "The Historical Background and Significance of Globalization" trying to fit into a historical context the development of globalization in its different forms. On the other hand, Roshwald (Roshwald, 2011) in a search of the golden age of the nation-state notes that despite the dangers and abuses that history associates with the existence of the nation-state, alternative communities with no political borders entail more important potential risks. Segesvary (Segesvary, 2001) completes the list of those who have carried out an analysis of the globalization phenomenon in a historical context and concludes with the idea that today's flat world is characterized by universality in exchange to the past manifestation when clothes of globalization were more locally specific.

Paul Krugman, the Nobel laureate for economics in 2008, in an introduction to the revised edition of "The General Theory of Employment, Interest and Money" by John Maynard Keynes (Keynes, 2009), reported that in the summer of 2005 a group of conservative scholars and political leaders was asked to identify the most dangerous books of the nineteenth and twentieth century. There was little surprise when the Charles Darwin or Betty Friedan books were top ranked. But the economist's John Maynard Keynes famous work was not lower, surpassing even the works of Frantz Fanon or Lenin. Thus, given the impact that "The General Theory of Employment, Interest and Money" has had on the contemporary political economy we considered quite relevant the presentation of Lenin's ideas with regard to the globalization phenomenon. Cited by McVeigh (McVeigh, 2005), Lenin issued certain prophecies about the future of capitalism which has been viewed appearing on the horizon of globalization (in the context of a parasitic capitalism). Similar to Marx's vision, Lenin considered that the economic base determines the political superstructure, that economics determines politics and culture. Thus, we can extract the core of the Leninist prophecy: the economic globalization perceived as an American product could flatten the world, universalizing policy, culture, values and beliefs. On the line of faith, King (King, 2002) finds globalization as the most profound religious movement of our time. The researcher argues about the entering into a phase of evolution in which humans will gather to form a comprehensive body of human types. In a somewhat similar trend, Dorrien (Dorrien, 2011) observed the predator spirit of capitalism and evoked the need for its transformation and its replacement by a cooperative ethos of economic democracy. Capitalism has overdeveloped selfish instincts of devotion and left the ability of the individual dry and atrophied. The social plague cannot be treated with more globalization while the elements with which the phenomenon operates are harmful to the communities.

Of particular importance has been the consultation of the paper of Emile Boutrox "The Contingency of the Laws of Nature" (Boutroux, 1920) and "La Pensee et les Nouvelles anti-intellectualistes Ecoles" by Alfred Fouille (Fouille, 1911) in which the authors have carried out a classification of the nationalist phenomenon in a historical context and have captured a series of features and manifestations of nationalism over time.

BETWEEN NATIONALISM AND THE FLAT WORLD OF THOMAS FRIEDMAN

Ernest Renan (1823-1892), a french philosopher, theorist and author of the essay "What is a nation" approaches the definition from a spiritualist point of view and sees the nation as a spiritual principle, the product of the complications of the human history, representing a spiritual family, not a particular group determined by a geographical configuration. Thus, the spiritual principle represents the soul of the nation. Spiritual definitions have been enunciated by Jules Michelet - the unity of spirit constitutes the nation, Emile Boutroux (Boutroux, 1920) and Alfred Fouille (Fouille, 1911) – who see the nature as a feature of union between the past and the present of a spiritual community. Rabindranath Tagore granted a materialistic representation of the nation, as a political and economic union of a people as an organized force. Nation is based on the geographical area and on the physical environment, territory and borders, on conditions and economic factors. Mussolini launched the idea of a voluntary nationalism as a combination of Renan spiritualism and voluntarism. He has focused on the assertion of the national power.

Isolated reactions associated with what can be described as nationalism have occurred since the time of Pericles when Athens was a dynamic commercial center in the heart of the Eastern Mediterranean. Even if the demographic composition of the city-state had suffered from massive changes due to the influx of traders, craftsmen and slaves from within and from outside the Hellenic world, the *polis* tightened the laws regarding the citizenship and the political membership of men descended from city native parents (Roshwald, 2011). Centuries later, elements of nationalism had been reflected in Nicefor Phokas speeches, ruler of Lombardy, or Jacob Szadek, Polish scientist, who formulated pioneering elements of the nationalist doctrine on July 3th, 1464, in the presence of the Pope at the peace conference held in Thorn. Also, Niccolo Machiavelli, the precursor of the idea of unity in Italy argues about the citizens of a homeland that he should join in. During the sixteenth century attention had been captured by the disintegration of the Western European Church produced by the Protestant Reformation which divided the Christian community in several battlefields. The religious conflicts triggered were masking the secular political conflicts. Until the early 1700s the competitive spirit determinant of the conflicts between nations in all spheres of individual endeavors had managed to erode the religious conscience of Catholic origin which have promoted the universality and the idea of community and that have maintained united the Western Christianity for significant periods of time (Greenfeld, 2011). The context thus created was conducive for the assertion of the nationalist doctrine and ideology in the nineteenth and twentieth centuries when it had gained force and collective expression. Liberal and national ideas issued by the French Revolution that spread across Europe and resulted into an intensification of the struggle against foreign domination of the oppressed nations are considered a basis for the propulsion of nationalism to public attention, but the events that shaped nationalism and gave it power had consisted in the unification of Italy and Germany that started in the second half of the nineteenth-century and spread to some extent until the late twentieth century. Between 1917 and 1923, the Romanov, Habsburg and Ottoman multinational empires have collapsed and the doctrine of national self-determination has taken the forefront as a legitimate basis and a tool for propaganda for the two ideologies competing for global rescue (Leninism and Wilsonism). This period can be considered a boundary point for the imposition of nationalism as a social, political, cultural or religious phenomenon (Manela, 2007). From an economic perspective, the principle of nationality was revealed through protectionist tariffs on imports from abroad, which had a counterproductive character very often.

The peak of the nationalist phenomenon has been reached nor in the interwar period or the period that followed the Second World War (1945-1989). Small nation-states who managed to escape from the tutelage of great empires, although only a relative amount of them had gained political independence, were still informally subordinated to the political power of the epicenters of the former military and diplomatic world. Moreover, the false independence of these countries (countries of the Central and Eastern Europe area) had been accompanied by internal problems of identity: each of these alleged nation-states was characterized by ethnic minorities whose official policy positions could be described as dissident. The intense efforts that had been made in order to strengthen the national identity among the countries of Central and Eastern Europe between 1920 and 1930 had been directly proportional to the ethno-cultural heterogeneity and the degree of insecurity of their borders (Pani, 2007). The situation had not been positive or color shaded in East Asia also, where the Japanese propaganda with regard to the establishment of a political system which could cultivate a special form of civic nationalism in Manchuria clearly masked imperialist claims.

Nationalism has got its highest freedom of expression after 1989. The experience has served to highlight the political fragility of the nation, which at least within the reconfigured Europe is now safer, more stable, and more durable than ever. This is possible chiefly due to the power and effectiveness of the international organizations that contributed to mitigate threats to national independence. But nationalism today is not similar the one from a century or two ago. It is legitimated out of history, morality and universal values such as freedom or equality (Ben-Israel, 2011). Nationalism is no longer considered to be an ideology in the pure sense of the word, but merely a principle of political organization that promotes the congruence of the political unity with a cultural group because such a combination is effective from a practical point of view and fits the modern world based on collective cultures (Graham, 2008).

Even if the nationalism of the nineteenth century seemed to be one of the many ideologies that tried to impose at that time like socialism, communism, liberalism or conservatism, it now appears in a different, flexible, changeable manner, establishing "alliances" with other ideologies such as racism, imperialism and anti-imperialism to ensure its own survival (Munck, 2006).

In the XXIst century a new phenomenon threatens to shake the many pillars that nationalism is based on in different parts of the world. Considered by some an autonomous force and by many others a product developed on the American soil, globalization has come to flatten the world of the 3rd millennium. As an autonomous force, globalization is a powerful process of global integration in terms of politics, economics, communications and culture able to undermine the traditional state sovereignty (Tyoyila, 2007). As a product localized geographically, globalization describes a flattening process “sold” by the United States to the rest of the world that has Mickey Mouse ears, eats Big Mac, drinks Coca-Cola or Pepsi and does its calculations on an IBM personal computer or Apple laptop, using Windows 98, with an Intel Pentium II chip and a network connection from Cisco Systems (Friedman, 1999).

According to the first view, the phenomenon may be attributed to a richer history. Although not as they currently exist, globalization developed its forces in the eighteenth century, when the Peace of Westphalia ended the Thirty Years War in the bosom of the Holy Roman Empire and the Eighty Years War (1568-1648) between Spain and the Dutch Republic. During this period, the European states have legitimated their boundaries and the Westphalia norms were not regulating the colonial conquests by the power states of the old continent. European states could easily attach territories outside the continent as long as each strong nation from the first category respected the sovereignty of the others. In this early stage of globalization, the territorial boundaries of the non-Western political systems were not considered unbreakable. From this point of view this period of expansion of the Western Europe is likely to be considered the starting point in the building of the foundation of the global political economy as it is perceived today. Only at the end of the century efforts have glimpsed the universalization of a system that until then applied just to Europe, and the Westphalia principles of sovereignty and inviolability of national borders were expanding outside the non-Western world. It is no wonder that now when states are required to give up some sovereignty on behalf of the free market and human rights they show a high reluctance which stems from the fear of a likely return to an era of selective sovereignty.

By the sixteenth and seventeenth centuries trade has highlighted a democratic imperative and has reduced the viability of the old forms of exclusion in some communities (a reason which later formed the view that capitalism is the engine for change). For the first time some groups of countries were operating globally. Initially they have transformed, at a relatively small scale, the crossroad of the regional markets into global networks and have accelerated the global distribution of plants and animals, sustaining the growth of population and the environmental change. French Revolution of 1789 showed the dramatic social and political consequences of globalization as manifested at that time. The rapid entry into the war and the assertion of France imperialist claims made possible a sudden reform of the political, economic and social dynamics. This transformation had been accompanied by another consequence of the democratic imperative of globalization - the technological revolution that has defined, as a central element, what can be considered the second wave of globalization (XIXth century). Industrialization is further illustrated as an example of British or European exceptionality, a product of the Enlightenment, rather than as an achievement of the global production and trade with cotton or a result of democracy, democracy which in turn seems to be a consequence of the expansion of consumer markets (Robertson, 2004). But we cannot overlook the impact of industrialization over the entire globe. Industrialization has allowed nature and environment to support a more large population which led to new social and political dynamics. More than ever, technology had the ability to generate huge profits. Also it increased interconnectivity between different countries and between individuals of the same nation, allowing a more rapid diffusion of the technical capital. Industrialization brought with it a series of disadvantages as well. Companies that have benefited from the technological revolution first were those whose elites were transformed and charged with political and economic power during the first wave of globalization. The Industrial Revolution seemed to be a reward for these elites and it materialized through the creation and integration of various profitable economic activities. Large groups of people from other social groups were able to benefit from this event as well, event that have induced a process of democratization over the course of the nineteenth century and have marked a new era of the masses (Mann, 1997).

Thus, the third wave of globalization (the current one) should be placed in a historical and political context. We should not minimize the profound transformation that has brought with it. The information revolution as a central element of the nowadays globalization can be considered as the third industrial revolution: the first gave us the railroads, the second reached its peak by putting on the plane and car and the current revolution built the "electronic highway" which allows the achievement of virtual travels at an unprecedented speed and relatively low costs. As an autonomous force, today's globalization takes the form of a flattening world economy. The liberalization of trade and financial flows as well as the support of the world's most powerful states to reduce tariffs and nontariff barriers at an international level led to the creation of close links within the group of world developed countries but also between developed and developing areas. The contribution to growth in both categories of nation-states through increased specialization and the assertion of the comparative advantage principle is unchallengeable. However, although globalization has resulted in an economic growth among developing countries it has also induced a wide heterogeneity at the industrial and regional levels. While the newly industrialized Asian states have prospered, the performance of African countries has been very low. At the same time, the globalization increased the labor movement across national borders and has created instability within the labor markets of the host countries. This instability entailed the liberal-democratic capitalism promoted by the United States to face resistance even from some developed countries. The United States position with regard to labor is into a fundamental contrast with the historical experience of other countries. Therefore, France, Germany and other European countries have resisted the exhortations to cut social granted benefits and reduce the labor force because they have feared of the instability that can be set up at home (Temin, 1999). The governments of these nations have considered that a lower standard of life accompanied by tariff barriers are preferred to a domestic instability that the implications of globalization could feed. Something similar occurred in Asia. The alleged inability of Malaysia to face international economic invoked by Thomas Friedman had been in fact a national strategy of the government to impose capital controls in order to stop the movement of active flows that threatened to leave the country. This measure had the effect of avoiding catastrophic financial losses. Then we can argue about Japan which resisted to a total transformation towards a free market economy in order to protect the population from unemployment. Although the country suffered economically and it has taken a while to recover from the recession that it had entered at the end of the nineteenth century, Japan has achieved very good results in terms of keeping the welfare of the population. One can see that Japan has made calculations and concluded that it is more profitable to give up benefits that globalization can bring at the economic level instead of bearing the social tensions that would occur in case of a wider openness of the economy to the global market.

The basic problem of the third wave of globalization consists apparently in its American specificity. Nowadays globalization becomes rather a process of universalization instead of taking the specific and beneficial form for each region. Nation-state is not dead, though it put on new modern clothes. Contrary to Francis Fukuyama's prophecy that made him famous in his essay written in 1989 according to which the end of history had come accompanied by the global triumph of liberal democracy and no further development is necessary or desirable in the development of human relations, the end of history has not come or has not brought the proclaimed victory of the democratic capitalism. “Olives” can grow and want to grow in a world where "66 human beings and 310 robots make 300 Lexus sedans per day" (King, 2002). It is a wrong belief to consider that the “Lexus” has overwhelmed the olive tree. Specifically, it is wrong and premature to form the idea that globalization has uprooted traditional cultures. The tensions and clashes occurred between the new global culture and the traditional ones from all around the world have come to validate this claim (William, 2007). In the "Golden Arches Theory of Conflict Prevention" paper of Thomas Friedman the author claims that two countries that had on their territory a McDonald's fast food have never lead a war against each other from the moment when in both countries have been settled at least one subsidiary of the famous fast food chain. The war that took place in Serbia and which coincided with the year when the above mentioned book was published invalidated instantly the famous journalist theory. The culture flattening and the peace that the presence of a symbol of globalism is supposed to be bringing with are devoid of gaps or are missing completely in some parts of the world. This finding is reinforced by the rhetorical question that raises more often in the minds of the inhabitants of the regions outside the Western world: why should McDonald's in India or Thailand be seen as a sign of globalization and not as an ethno-specific food, as Indian and Thai are seen in the United States?

Therefore, attempts which aim implanting Western democracy where Western democracy does not fit are likely to cause potentially disruptive effects comparable to those that Christianity had in the Roman Empire of the fourth century. Democracy does not always make societies more civil (Navarro, 2004). Claims that globalization emerges from below the heart and deepest aspirations of the people are somewhat overstated. The predator spirit of capitalism should be transformed or replaced by a cooperative ethos of economic democracy. Economic democracy without political democracy is an empty promise, like a pot roast or a form without substance. The political democracy can be gained and sustained on the long-term only if it has the consensus of the subordinated community. Globalization in the sense of a planetary flattening ignores tradition, and values rooted in the cultural specificity of a nation but forces any country that wants an economic growth to wear the clothes it promotes universally through aggressive marketing (Kleinkneicht, 1998). Once the universal clothes are put on, the private sector unleashes, inflation is maintained low, governments are minimized, tariffs are eliminated, the budget is balanced, the capital market is deregulated and foreign ownership and foreign direct investment are allowed (Dorrien, 2011). When these events are an usually fact, the policy choices of a nation is reduced to "Pepsi or Coke", to confused nuances of taste or policy measures, small changes that take into account local traditions, a little relaxation here or there but never a real deviation from the basic golden rules. During these moments nationalism occurs, moments when globalization takes the guise of a flattening process or universalization. The nationalism arises when globalization becomes an American specific clothes, and not because this is a trendy clothes, one qualitative and one that can keep you warm in some seasons, but because it does not fit all countries.

The continuous focus in recent decades on the economic factor has stuck globalization with a very serious condition: the global financial and economic crisis that burst out in the late 2007. The neoliberal meds promoters of globalization have been very credulous on the last twenty years to consider that the market is able to correct itself and has no need to regulate the banking system and the investment firms. Above all, they mistakenly assumed that the ever-expanding gap between productivity and wages in the United States could be offset by building a bridge made up of more and more loans. Contrary to the neoliberal extoller faith, the United States have not provided universal prosperity by putting on the universal clothes and abandoning the manufacturing production. From the late 1940s to 1975 the productivity and wages have increased simultaneously creating a society based on a strong middle class. Meanwhile no banking crisis had occurred because the New Deal had kept commercial banking activities separate from the investment banking institutions. But wages have flattened in the mid-1970s and have remained still until now while productivity continued to rise and banks have penetrated deep into the investment sector. The rich got richer in the 1980-2000 period and the rest stayed behind calling in loans to avoid collapse. At the time almost all countries with their economy based on the manufacturing sector performed better than the United States in terms of revenue growth and had realized a fairer distribution of them. As a result, the global integration of two different growth patterns – economies based on debt financed consumption and economies based on production and exports with a high propensity to savings - has created a very unstable world economy characterized by speculative bubbles and huge trade imbalances. The United States debt credit cards induced a seven times increase in sales between

1975 and 2008 and an explosion of domestic loans from a rate of 47% of GDP in 1975 to about 100% in 2005.

Manufacture is a material thing rooted in the community, while non-manufacturing activities of the new economy depends on special skills, limit the power of trade unions and is vulnerable to outsourcing, fact that exacerbates inequality. A significant part of the world trade is still represented by tangible assets, especially manufactured goods. Bush administration policy fueled deficits by promoting financial and real estate industries at the expense of neglecting the manufacturing sector. The need to finance the United States deficits created dependence on China loans. The nations that have created the deficits came with sovereign funds to buy American companies and factories. Subsequently, a crater has been created in the economy after the outbreak of the credit crunch in the housing market, the mortgage bubble burst out and the global credit markets have frozen.

All these events were impossible to predict or imagine by Thomas Friedman's vision of an electronic herd of global investors that could transfer the capital from a corner to another of the world not caring about the government or nation, not taking into account the economic order, and guided only by economic attractions likened to the laws of nature.

The financial crisis will cause countries of the world to react and rethink their economic policies in order to avoid new catastrophes. The United States itself began to take precautions to protect the national economy. In September 2010 the United States House of Representatives authorized the imposition of protective tariffs for almost all Chinese imports given that Beijing decided not to abandon the exchange rate game play. The government also proposed some laws to be enforced in order to limit the freedom of action of the American multinationals so that they carry out a high volume of activity on national territory. After three decades of steady progress in the liberalization of trade and financial flows, during which governments of the world's most powerful states have supported non-tariff barriers, protectionism is suddenly on the political agenda with the global economic crisis (Bussiere *et.* al, 2011). The foregone that can be create through the implementation of these measures will cause a loss of confidence in the power of liberal democracy and capitalism to stand as political and economic systems globally.

CONCLUSIONS

As a conclusion, although the information is transmitted quickly from one corner of the planet to the other, goods circulate freely through the channels of the world trade and passenger transport is carried out with ease from one continent to another, rapid communication and dissemination of information does not alter the economic and technical operations because their essence is strictly intrinsic to each activity. A money transfer remains a money transfer no matter that it is done in two seconds or two days. The definitions of the activities of import / export or type of goods sold remain the same even if it takes two months to transport a quantity of goods on the ocean or just 24 hours. The essential connotation of globalization nowadays is that of an interpenetration between the universalization of the individual and the customization of the universal. Thus, the globalization process incorporates universal trends (such as the global spread of the Western consumerism) but also private affirmation and ways of life (the revival and the enhancement of the overall national consciousness or the spread of other collective identities). In contrast to globalization, the universalism gathers the world together as a whole by asserting alleged beliefs, values and social practices and some institutional structures supposed to have an universal applicability. In contrast to universalism, globalization recognizes the importance of context and embraces the opposite: the localism. Localism, under the intrinsic logic prioritizes customization as much as the context. Context, as an aspect of globality, eliminates abstract approaches, formal and preconceived principles for the sake of the contingency and particularity of things and events. Global trends absorb certain aspects of localism and frequently reflect contextual realities, while specific situations incorporate global features or at least investigate such traits for its own. Fundamental visions of the world such as the Islamic or the American Evangelical imagine globalization to be present in the "science" of speeches and in the use of private arguments and technology.

It is possible then to say that in modern times two movements simultaneously coexist, each with its own dialectic: on the one hand, the growing trend of globalization characterized by the space and time distancing and on the other hand the growing importance of location and the focus on local configuration, from an economical, political, social, or cultural point of view. Nationalism will not disappear, it will adapt over time and will steal from the benefits of globalization everything that fits.

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ECOLOGICAL CERTIFICATION AND LABELLING OF TOURIST SERVICES

Mirela Stefanica*

Abstract: *This work presents an analysis of ecological certification and labelling in the field of tourism.*

In a tourist company, the certification schemes evaluate the general approach of environmental problems, and impose to the tourist services the observance of pre-established principles and guiding lines concerning the environment. They become for the tourist companies a behavioural standard in the development of their activity. The requirements within such schemes are often flexible and open to interpretation, and generally less controversial than the eco-labelling schemes.

As compared to the certification schemes, the eco-labels attributed to the tourist services emphasise the impact over the environment of the services of tourist companies, on the basis of certain European criteria. These criteria refer to the whole life cycle of these tourist services.

Keywords: certification; eco-labelling; tourist services
JEL Classification: L83; Q57; Q58

INTRODUCTION

Ecological certification and labelling are two instruments of application of the environmental policy in tourism industry.

Certification of tourist services is a volunteer procedure evaluating, monitoring, and delivering the written assurance that they are in compliance with specific requirements. By certification, a commercial mark or seal is given to the tourist services accomplishing or going beyond these basic standards.

Ecological labelling or eco-labelling in tourism describes a scheme by which an eco-label may be given to a tourist service on the basis of its acceptable level of impact over the environment. This acceptable level of impact over the environment could be determined by considering a single criterion referring to the environment or after the realisation of an evaluation of its total impact.

The European eco-label is given to the tourist services that are in compliance with certain ecological criteria established in Europe. These criteria have been identified according to complete scientific studies on aspects related to the whole life cycle of tourist services, and they are valid for 3-5 years, being revised regularly in order to take into account the technical progress.

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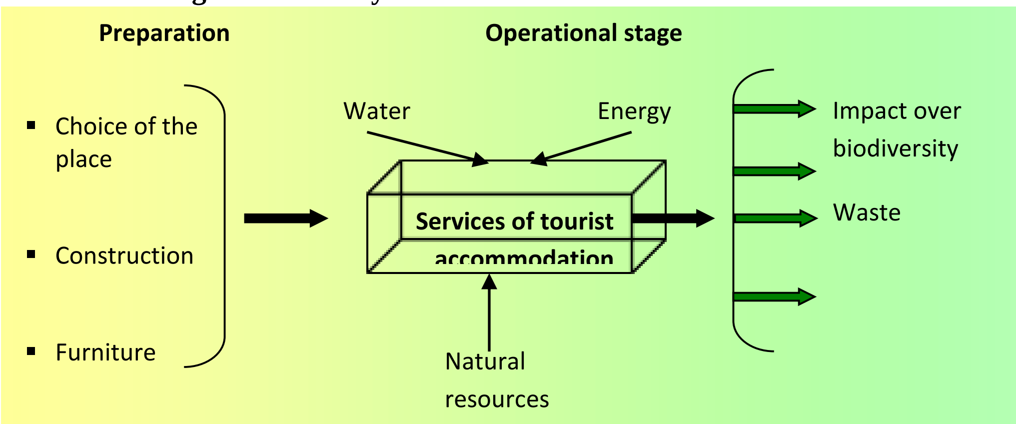
Figure 1 presents the life cycle of tourist accommodation services, on the basis of which the criteria for eco-labelling are established.

Figure 1 – Life cycle of tourist accommodation services



Source: National Research-Development Institute for Environmental Protection (www.incdpm.ro/ro/)

The analysis of the entire life cycle is a method to quantify the impact of a tourist service over the environment, from the conception/preparation stage (including the resources used) to its elimination, destruction or recycling after use. This instrument helps identify and quantify the material and energetic resources consumed, and the emissions and waste generated. It also helps evaluate their potential impact over the environment, and identify the options to reduce this impact. (Banacu, 2004)

The analysis of the life cycle of tourist services means to account for the flows, and it can be applied both to services and to the strategic evaluation of the plans and programs (Macoveanu, 2008).

1. THE MAIN ECOLOGICAL CERTIFICATION AND LABELLING PROGRAMS IN TOURISM

There are several certification and eco-labelling programs known world-wide, offering labels or distinctions conceived in order to show that the environmental, socio-cultural and economic practices from the tourist areas meet higher criteria. The most common are presented in **table 1** in Annex section**.**

All the certification programs of tourist services have six mutual components, as follows:

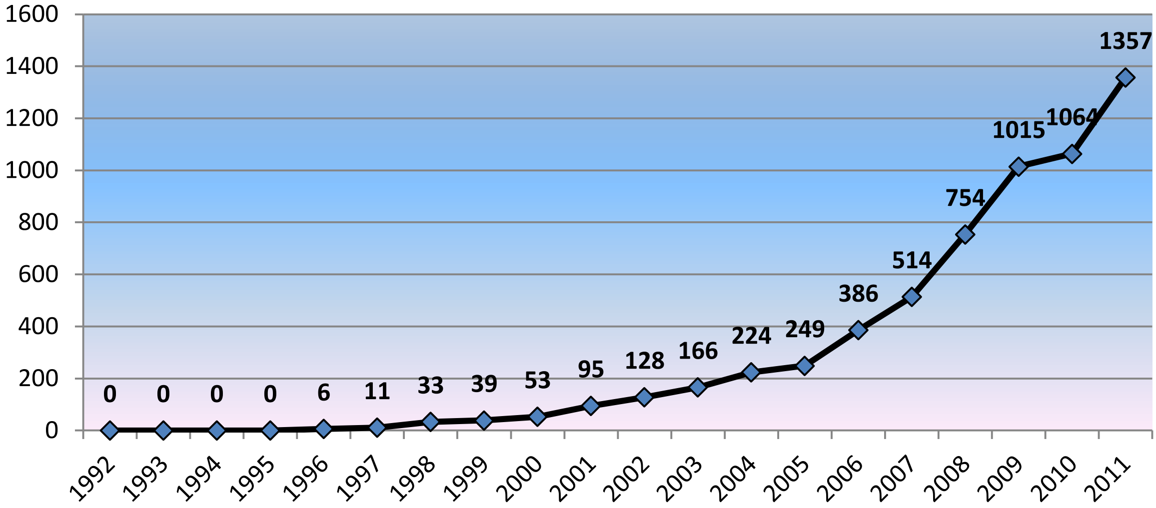
1. *Volunteer participation* - certification programs in tourism industry are strictly volunteer ones.

2. *Logo's* – the programs use specific logo's, seals or marks with the purpose to differentiate tourist services on the sale markets, and to be easier recognised by consumers.
3. *Criteria in compliance with the in force or higher regulations* – the certification programs ask the members to comply at minimum level with the local, national, regional, and international regulations.
4. *Publication of the commitment on sustainable development* – the tourist companies that start the activities necessary for certification sign a comprehensive declaration concerning their commitment on sustainable development, emphasising the issues referring to the air quality, use of waste and of energy, their impact over the conservation of natural resources and over the hosting community.
5. *Evaluation and auditing* – the certification programs offer badges on the basis of evaluations realised by the company itself, by a professional association in the field, or by an independent company as an NGO, or even by the government.
6. *Member quality and fees* – many certification programs register the participants among the members, and require a fee from all the companies that apply for certification. The money is used for the development of the program and to support the activities of advertisement and promotion of the logo and of the certified companies. (Honey, 2002)

2. EUROPEAN ECO-LABEL IN NUMBERS AND DATA

The European eco-label was initiated in 1992. Ever since, the number of products and services which received an eco-label has risen every year. Until the end of 2011, more than 1,300 certifications were given, as we can also see in **figure 2**.

Figure 2 - Evolution in time of the number of groups of eco-labelled products and services

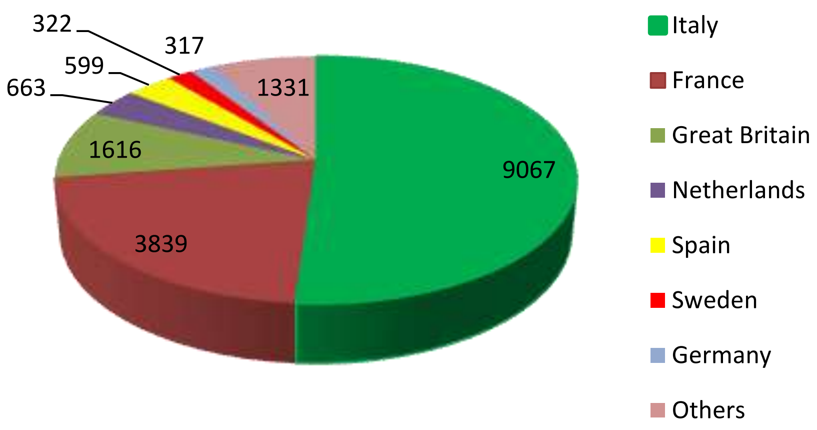


Source: http://ec.europa.eu/environment/ecolabel/facts-and-figures.html

Consequently, for 10 years, the eco-labelled products and services have registered a rather shy rising trend. It was after 2006 that significant development took place, reaching at the beginning of 2012 the number of 1357 categories of eco-labelled products and services.

At present, the logo of the European eco-label can be found on over 17,000 products and services.

Figure 3 – Situation of eco-labels received by country



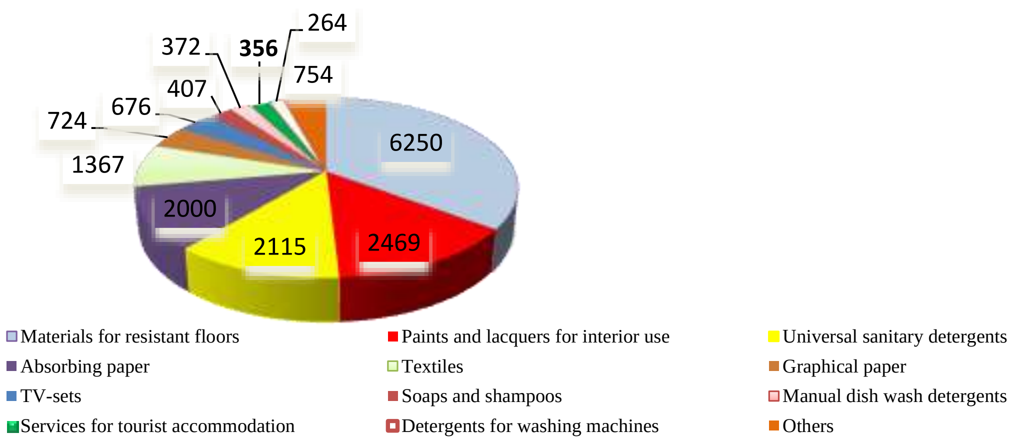
Source: http://ec.europa.eu/environment/ecolabel/facts-and-figures.html

We can see that Italy has a significantly greater number of eco-labels received as compared to the other countries, with 9067 eco-labelled products and services. An important number of eco-labelled products and services are also found in France (3839) and in Great

Britain (1616). In the top of the countries with a great number of eco-labelled products and services are also Netherlands, Spain, Sweden and Germany. Romania has twelve eco-labels, attributed to certain products and services (personal computers and laptops, interior paints and tourist accommodation services).

The European eco-label is attributed at present to an extensive range of products and services, all non-food and non-medical, presented in **figure 4**.

Figure 4 – The main groups of eco-labelled products and services



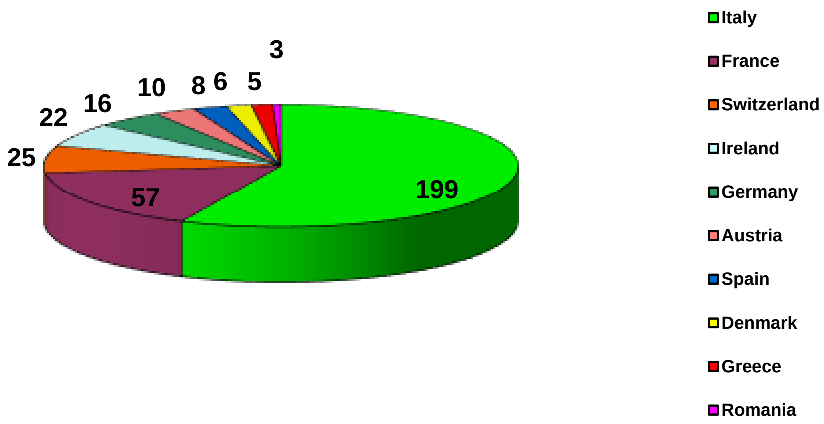
Source: http://ec.europa.eu/environment/ecolabel/facts-and-figures.html

We can see that the biggest group of products with a European eco-label is represented by the materials for resistant floors, with a total of 35% of the eco-labelled products. Also, from the number of eco-labelled products, absorbing paper and universal sanitary detergents are over 10% each, while the paints and lacquers for interior use represent almost 14%. At the same time, there are hundreds of products like TV-sets, soaps, shampoos, or detergents that have been eco-labelled.

As we can see in **figure 4**, the services for tourist accommodation were registering at the beginning of 2012 only 2%, which means that 356 tourist services were eco-labelled. At present, this number is much bigger; only in Italy at the end of 2012 there were 199 tourist accommodation structures with eco-labels.

In **figures 5 and 6** we present the situation of eco-labelled tourist accommodation and camping services in Europe, at the end of 2012.

Figure 5 – Situation of eco-labelled tourist accommodation services in Europe (2012)



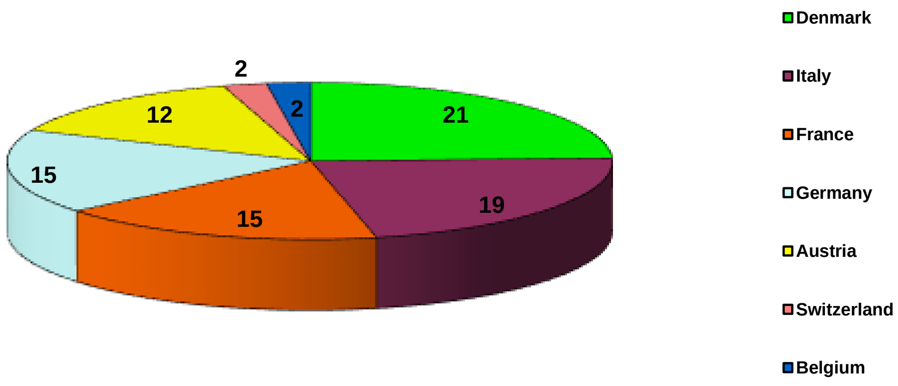
Source: http://ec.europa.eu/ecat/ - processed data

As we can see in **figure 5**, Italy is the country with the most eco-labelled tourist accommodation services (199), followed by France (57), Switzerland (25), and Ireland (22).

In Romania, from the twelve eco-labels obtained, three were attributed to tourist accommodation services. Consequently, at the end of 2012, there were two hotels with eco-labels: Saturn Hotel, from Saturn resort, which obtained an eco-label in the summer of 2008, Crown Plaza Hotel in Bucharest, eco-labelled at the end of October 2009, and Piatra Soimului Villa in Sinaia resort, which received a European eco-label in 2011.

In what concerns the number of eco-labels offered for camping services, the situation is presented in **figure 6.**

Figure 6 - Situation of eco-labelled camping services (2012)



Source: http://ec.europa.eu/ecat/ - processed data

We can see that the number of eco-labelled camping services is rather low, most of the services being in Denmark and Italy. In Romania there is no eco-labelled camping service at the moment.

CONCLUSIONS

Lately, there is a growing number of persons interested in environmental protection and in the sustainable management of resources. Therefore, the ecological practices became common for many operators in the field of tourism.

The desire itself to obtain the ecological certification or the eco-labelling of the tourist services offered proves that the tourism operators are aware that the profitable operation of tourist structures can only be realised in accordance with the minimal requirements of environmental protection.

As we already noticed, the ecological certification and eco-labelling of tourist services guarantee the fact that they meet extremely high standards from the point of view of life cycle, impact, quality and environmental performance.

A tourist unit offering such services proves to the tourists its preoccupation and effort concerning the environmental measures, and also its interest in increasing quality, because tourists would certainly see the environmental performance as «higher quality».

At the same time, obtaining the ecological certification or eco-labelling of tourist services can be an important element in relation with the competition, contributing to the increase of the prestige of the tourist unit.

In conclusion, we must highlight that each tourist unit should realise its role in environmental protection, should take the responsibility and also encourage tourists to do the same.

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******* www.laclefverte.org

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***www.milieubarometer.com

*******www.panparks.org

***www.svanen.nu

*******www.yourvisit.info

ANNEX

Table 1 - Certification and eco-labelling programs in tourism

Name	Explanation
ECOTEL ***International***	Since 1994, ECOTEL has defined the concept of ecological responsibility in tourism industry. This certification helps establishing a reference indicator concerning environmental performance, and also a modality for independently checking the hotels with environmental problems. **Source:** www.ecotels.com – accessed on September 25th, 2013
Green Globe 21 ***International***	It is a reference indicator and a global certification program facilitating travels and sustainable tourism for consumers, companies and communities. It is elaborated on the basis of Agenda 21and the Principles concerning Sustainable Development. **Source:** www.greenglobe21.com – accessed on September 25th, 2013
Blue Flag Campaign ***International***	Since 1987, Blue Flag has symbolised high environmental standards concerning the quality of bathing water, beach cleanliness, and waste storage, offering the tourists up-to-date information, environmental education and commitment in what concerns the preservation of coast ecosystems. **Source:** www.blueflag.org – accessed on September 25th, 2013
VISIT ***Europa***	It is a European initiative concerning the promotion of eco-labelling and of the development of sustainable tourism. It has a double meaning: invitation addressed to the consumers, and also to the service providers in tourism. **Source:** www.yourvisit.info – accessed on September 25th, 2013
PAN Parks ***Europa***	It guarantees the protection of the natural European capital, certifying the parks by the independent experts in compliance with the basic principles (social, cultural, economic and environmental), criteria and PAN Park indicators. **Source:** www.panparks.org – accessed on September 25th, 2013
The Swan ***Danemarca, Islanda, Finlanda, Norvegia and Suedia***	Since 1999, this label has guaranteed that the products and services wearing this label meet extremely high standards from the point of view of the life cycle, impact, quality and environmental performance. **Source:** www.svanen.nu – accessed on September 25th, 2013
The Green Key ***Danemarca, Estonia, Groenlanda and Suedia***	Since 1994, Green Key has conferred a diploma to the responsible providers of tourist services who meet a broad list of criteria referring to the environment, including those related to the environmental policies of the company, or of the action plans in this field. Since 2001, the first Green Key diplomas have been granted to the establishments in Estonia, Greenland and Sweden. **Source:** www.green-key.org - accessed on September 26th, 2013
La Clef Verte ***Franta***	Since 1999, La Clef Verte has granted its label to the camping places that adopt practices concerning responsible management, maintain biodiversity, and preserve the resources, guaranteeing that they observe the environment. **Source:** www.laclefverte.org - accessed on September 26th, 2013
Legambiente Tourismo ***Italia***	This certification system, "Ecological places recommended for visiting", was initiated in 1997 in Riccione resort. The granting criteria include the quality of regional cuisine from the point of view of natural ingredients used, or modalities by which tourists are helped to get accustomed to the specific of local culture and natural environment in the area. **Source:** www.legambientetourismo.it - accessed on September 26th, 2013

Milieubarometer ***Olanda***	Since 1998, three different categories of eco-labels have been granted to those who develop activities in the field of tourism, concerning environmental quality. **Source:** www.milieubarometer.com – accessed on September 26th, 2013
Hiiumaa Green Label ***Estonia***	It characterises an accommodation facility or unit providing food services, managed in a sustainable manner, and it requires the guests to act accordingly. **Source:** www.bka.hiiuloodus.ee/roh mark/greenlab.html – accessed on September 26th, 2013
The Green Certificate ***Letonia***	It represents an eco-label characterising from the point of view of environmental quality the tourist establishments protecting nature, natural environment, rational use of water and energy resources, ecological practices and waste collection management. **Source:** www.eco.celotajs.lv – accessed on September 26th, 2013

CITY BRAND PERSONALITY – AN INTERNATIONAL CONCEPT WITH REGIONAL APPLIANCE IN THE TOURISM DEVELOPMENT STRATEGY

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Abstract: *The personality of a city is an important concept to be created and evaluated by local administrators as this should be part of the touristic strategic approach.*

The aim of this paper is to create a research instrument that allows researchers to define the brand personality of a Romanian city. In order to use one instrument in a specific geographical area, the instrument has to be created using a qualitative research.

Three focus groups were conducted in order to identify items to create the research instrument which is presented at the end of the paper. This research is a preliminary step for a future quantitative research that is intended to measure the city brand personality of the city of Iasi. The created instrument can be applied to any Romanian city.

Keywords: Brand personality; City Brand personality; focus group; personality traits; research instrument

JEL classification: M39

1. INTRODUCTION

In the marketing literature, brand personality is defined as “the set of human characteristics associated with a brand” (Aaker, J. L., 1997, p. 347). One important aspect to consider when dealing with branding is that brands have human personality features to help them differentiate from other brands; these features are important to consumers (Goldsmith, Ronald E. and Goldsmith, Elizabeth B., 2012).

Aaker, J. L. (1997) first developed a framework and scale of brand personality dimensions that can be generalised on various product categories. According to Aaker, J. L. (1997), consumers perceive brand through five personality dimensions: Sincerity, Excitement, Competence, Sophistication and Ruggedness.

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Figure 1 - Aaker's Brand Personality Dimensions andTraits

Sincerity	Excitement	Competence	Sophistication	Ruggedness
Down-to-earth	Daring	Reliable	Upper-class	Outdoorsy
Family-oriented	Trendy	Hardworking	Glamorous	Masculine
Small-town	Exciting	Secure	Charming	Western
Honest	Spirited	Intelligent	Feminine	Tough
Sincere	Cool	Technical	Smooth	Rugged
Real	Young	Corporate		
Wholesome	Imaginative	Successful		
Original	Unique	Leader		
Cheerful	Up-to-date	Confident		
Sentimental	Independent			
Friendly	Contemporary			

Source: Ahmad, Muhamad Fazil, Abdullah, Zulhamri Bin, Tamam, Ezhar Bin, Bolong, Jusang Bin (2013)

The role of brand personality is important for customer retention and company's performance (Farhat, Reshma and Khan, Bilal Mustafa, 2011).

There are two possibilities to associate personality traits to a brand. Personality traits are defined by people that are associated with the brand in a direct manner, such as the company's CEO, the employees or the endorsers (Aaker, J. L., 1997, McCracken, 1989). The indirect manner of associating personality traits is using certain products features, a certain logo, an advertising style, the brand name itself etc. (Aaker, J. L., 1997, Batra, Lehmann, Singh, 1993).

According to Lee Eun-Jung (2009), the concepts required for the new brand personality studies are: (1) *context oriented* – consumers establish the meaning of brand as their lives are projected, which is contextual; (2) *consumer-oriented* – the meaning of the product have to be understood from the consumers' perspectives.

Avis (2012) revises the factor based models mostly used in the brand literature. In his critical review, he identifies three key problems: (1) the problem concerning the category confusion, (2) the problem concerning the domain adjustment and (3) the problem concerning the descriptor selection.

Naresh, Sheena , G. (2012) study in the FMCG industry underlines the fact that Aaker J. L. (1997) brand personality's traits influence the brands in a strong manner, helping to build brand success. Her research concludes by directing marketers to focus on their brands' significant personality traits into products strategies of positioning and communication.

Avis, Mark (2012) identifies problems of the brand personality models presented in the literature connected to perceive ness of brands as humanlike, questioning the validity of this theory.

2. BRAND PERSONALITY CONCEPT APPLIED IN VARIOUS AREAS OF RESEARCH

Brand personality concept has large implications in other area of research as well. For example, Goldsmith, Ronald E. and Goldsmith, Elizabeth B. (2012) concluded that brand's personality has an important part in generating consumer engagement with the brand. They conducted a survey on 132 college students that supports this statement on the case of North Face brand of clothing. As a conclusion, this study explains how consumers can become attached to a specific brand (Goldsmith, Ronald E. and Goldsmith, Elizabeth B., 2012).

The influence of brand personality on advertising response in the fashion industry was examined by Azevedo, Antonio and Farhangmehr, Minoo (2005).

Farhat, Reshma and Khan, Bilal Mustafa (2011) propose a model that presents the concept of brand loyalty through the concept of brand personality. The model uses brand personality in order to explain the process of customer loyalty.

Perepelkin, Jason and Zhang, David Di (2011) study investigates if consumers identify different brand personalities associated to different types of pharmacies and the possible effect that brand personality types on consumer trust. Dividing pharmacy types into independent and corporate chains, consumers trust slightly more the independent ones as these are perceived to have a sincere and competent brand personality. Sincerity and competence positively and significantly contribute to customers' trust.

Lee, Hee-Jung, Suh, Yong-Gu (2011), conducted a research that provides a city personality scale applicable to the Korean tourism market. This study considered previous studies applied in different cultural contexts, considering Aaker's Brand Personality Scale. The City Personality Scale applied in Korea has five dimensions with fifteen items; "sincerity", "excitement", "high-class", "technology", and "femininity". The first two dimensions are similar to Aaker, J. L. (1997) model of brand personality. Competence corresponds to "technology" and "high-class". Ruggedness and Sophistication are very sensitive to the cultural context.

Ahmad, Muhamad Fazil, Abdullah, Zulhamri Bin, Tamam, Ezhar Bin, Bolong, Jusang Bin (2013) conducted a study in order to define a city brand personality scale applicable to the Malaysian context, based on Aaker, J. L. (1997) Brand Personality Scale. The research investigates the causal relationship between determinants of dimensions of city brand and the city brand. Structural equation modelling was used in order to investigate the causal relationship. Ahmad, Muhamad Fazil, Abdullah, Zulhamri Bin, Tamam, Ezhar Bin, Bolong, Jusang Bin (2013) found four dimensions and seventeen items of the city brand personality: “Peacefulness”, “Malignancy”, “Sophistication” and “Uniqueness”.

According to Ahmad, Muhamad Fazil, Abdullah, Zulhamri Bin, Tamam, Ezhar Bin, Bolong, Jusang Bin (2013), the Malaysian context presents a slightly different scale for city brand personality comparing to Aaker, J. L. (1997) Brand Personality Scale. In Ahmad, Muhamad Fazil, Abdullah, Zulhamri Bin, Tamam, Ezhar Bin, Bolong, Jusang Bin (2013) study, the city brand personality in the Malaysian context has 5 factors: “Peacefulness”, “Malignancy”, “Sophistication”, “Uniqueness” and “Conservatism”. As in Lee, Hee-Jung, Suh, Yong-Gu (2011) study, the dimension of ruggedness was not reliable. The dimension of Sincerity corresponds to “Peacefulness”. The dimension of Competence corresponds to “Malignancy”. The dimension of Excitement corresponds to “Uniqueness”.

3. RESEARCH METHODOLOGY

This research was conducted with the purposes to create a questionnaire for a further quantitative research. The purpose of the entire research (qualitative and quantitative) is to create an instrument to assess the City Brand Personality applicable for any Romanian city. As the literature review revealed, the general Brand Personality scale and the City Brand Personality scale are both sensitive to the cultural context. This leads to the necessity of creating the measurement instrument starting with the qualitative research.

This article presents the qualitative research step and the instrument – the City Brand Personality scale resulting from this exploratory and instrumental research.

3.1. Research Method

We conducted three focus groups in order to identify items to create the research instrument. This method was appropriate given the nature of the sample (students at the Al. I. Cuza University of Iasi – Romania).

3.2. Sampling

The investigated population consists of young Romanian educated tourists that visited at least one Romanian city in the past year. Given the nature of the sample and the convenience, we considered students to represent the population. In order to have a representative sample, we selected three groups of 10-12 students of different years of study (bachelors 'degree - second and third year of study and masters' degree first year of study) from different specializations in the Faculty of Economics and Business Administration (Public Administration, Management and Finance). The focus groups were conducted in seminar rooms of the Faculty of Economics and Business Administration.

3.3. The research instrument

The focus group guide was tested on one group of 12 Bachelors' degree, third year of study students at the Business Administration specialization. The focus group instrument was edited according to the suggested rules in the literature.

The first two sections of the focus group guide were dedicated to open up participants to conversation (hobbies, travelling, visiting cities). These sections were not recorded from the results point of view. This part of the guide was very useful in creating the conversational environment.

The third section was composed of questions that asked participants to select one city in Romania they visited in the past year and speak about it from various points of view, as if that city was a person.

The fourth section applied to the same city participants have chosen. Participant were asked to say whether the city they selected is sincere, exciting, competent, sophisticated and rugged and to explain each answer ("*Why do you say that?*", *"What makes you believe that?"* etc.). We followed the general Brand Personality scale in order to find eventual new personality traits that could correspond to various cities.

The questions in the third and fourth section are presented with the results.

3.4. Research results

We present below the focus group discussion results. The first column represents the question in the focus group guide. In the second column we integrated the most representative answers. The third column is composed of raw items to be gathered and analyzed, processes or modified for the quantitative stage questionnaire.

Theme	**Respondents' answers**	**Key words - possible items**
If the city you selected was a person, how old would that person be?	30 years – ideal age 50 years – old 50 years – the person is wise, smart, not old, calm 20 years – youth 20 years – no worries 20 years – no money 20 years – fun 20 years – holiday 30 years - in 70 years old outfit 35 – 40 years – mature 35 – 40 years – classical and spiritual doctor 35 – 40 years – calculated person 27 – 30 years – ascending person 27 -30 years – mature 27 – 30 years – conservator 27 – 30 years – professional 27 – 30 years – young 27 – 30 years – with clear future vision 27 – 30 years – is not making things by happen 35 years – this person seems stable, calming, familiar 18 years – jovial, seducing 25 years – charming person 25 years – ingenious, innocent person 55 years – her children help her to combine culture and innovation 20 years – dreaming person 67 years – boring person 80 years – monotonous person 100 years	Item – age of the city: b) < 20 years c) 20 - 25 years d) 26 – 30 years e) 31 – 35 years f) 36 – 40 years g) 41 – 45 years h) 46 – 50 years i) 51 – 60 years 60 years Item city portrait: ideal age old smart young relaxed/ no worries poor/ no money for fun for holiday for young people doctor priest ascending Item city personality: wise calm mature bohemian (no money) calculated conservator professional visionary (with clear future vision)

		organised/structured/ is not making things by happen stable calming familiar jovial seducing charming ingenious innocent inventive dreaming boring monotonous
If the city you selected was a person, would that person be a woman or a man?	Man – young man with a long coat on, with a top hat Beautiful woman, fulfilled, coquettish, charming, mysterious, adventurous Sober man, elegant, knight, rational, professional, human, hospitable Calculated woman, worriless, tall, blonde, with vaporous dresses on, with many friends Woman – meticulous, conservative, bacchanal Beautiful woman, confident, simple, hospitable, svelte Man, doctor that leads our thoughts to certainty, thoughtfulness, protection, mature, calculated She is a changeable nature, extravagant This person is a polyvalent man, with a big turn for culture Melancholy woman, full of passion for beauty She is out of ordinary	Item sex of the city: woman man Item city portrait: handsome/beautiful coquette elegant knight tall blond svelte Item city personality: fulfilled charming mysterious adventurer sober rational human hospitable calculated sociable meticulous bacchanal conservator confident simple protector changeable extravagant polyvalent melancholic

		passionate ordinary
If the city you selected was a person, what job would that person have?	Actress – easily changeable Antiquarian Teacher – teaches you to have fun and to relax Museum, theatre director Receptionist – she is friendly, hospitable, beautiful Pianist Singer Cafe patron Doctor Spiritual doctor Visual doctor – shows easy paths to targtes Practical Event's organiser University professor – she is attracted to academics and getting to perfection House wife – she takes care of her children Retired – enjoys his work's results along the years Mountain saver – his is worried about people getting lost in the mountains Touristic guide Housekeeper – cleaning is her obsession Writer – she is a sensitive person Sky instructor for children Director of a high school Student, alpinist Entrepreneur D.J. Fashion creator Painter He works in sales Waitress Cooker Publicity agent Important person in government	Item city's job: actor antiquarian professor director receptionist pianist singer cafe patron specialist doctor spiritual doctor events 'organiser house wife retired mountain saver touristic guide housekeeper writer sports instructor director student alpinist entrepreneur D.J. fashion creator painter sales agent waiter cooker publicity agent important person in government Item city personality: changeable pedagogical friendly practical perfectionist caring
If the city you selected was a person, what personality traits would define that person?	Literate, educated Calm, anxiety Enigmatic, sincere, mysterious Positive, gay Opened, talkative, very flexible, with lots of friends (sociable)	Item city portrait: literate tidy Item city personality: educated enigmatic

	Warm, wise, easy accessible, mysterious, romantic, conservative, non-conformist, sociable, perceptive Tidy, orderly, wise, refined, educated, altruist, friendly Ambitious, confident, educated, sociable Pragmatic, professional, passionate, attached by people, seeking for fulfilment, cultured, educated She is a communicative, loving, funny and attractive person She has plenty of initiative She is a sensitive kind of person She is an eccentric person She is an agitated person This woman is a caring person Life challenges made him become a better person He is superficial he is smart, sociable, charismatic and mysterious She is an active, solidary person, has plenty of initiative She is a little impulsive He is a good speaker He is a creative person She is decided, courageous, sociable The fact that he spends a lot of time outside makes him feel free	sincere positive gay opened talkative flexible warm accessible romantic non-conformist perspicacious refined altruist ambitious confident pragmatic passionate sociable/attached to people seeking for fulfilment cultured communicative loving person dynamic funny attractive has plenty of initiative sensitive eccentric agitated caring good person superficial/profound charismatic solidary entrepreneur impulsive orator gracious creative decided independent
If the city you selected was a person, what human qualities would define that person?	Educated, hospitable Passionate, encouraging, like a parent Sincere, offers what she has to offer with a lot of joy, altruist Understanding, courageous Altruist, responsible, emphatic, with a lot of common sense, to be trusted	Item city personality: hospitable encouraging like a parent altruist understanding courageous

	sociable, responsible Generous, good-natured Persevering, respectful, educated, sincere She is an active person She is modest He is always informed, convincing She is punctual, tolerant She is pleasant She involves in different activities He is alert, great heartedness He is faithful and forgiving He is patriot	altruist responsible with common sense to be trusted generous good-natured persevering respectful active modest informed convincing punctual tolerant pleasant involved alert great heartedness faithful forgiving patriot
If the city you selected was a person, what weaknesses would define that person?	Backbiter, over confident Proud Vulnerable, vulgar, lying, with moods, is not opened to newness, too conservative He is not easily taking risks, is not opened to newness, is individualist, imposes his own opinion, vain Naive, inpatient, inscrutable, Spender She is a quitter She wants to solve things very fast (doesn't have patience) She is jealous sometimes He is not confident She is emotional She is shy She can be easily influenced She is a quarrelsome, noisy person He is whimsical She is selfish, lazy He is envious and would like to have it all He is flattering He is ironical	Item city personality: backbiter confident vain/proud vulnerable vulgar conservator liar moody individualist convincing naive patient unpredictable spender quitter jealous emotional shy influenced quarrelsome whimsical lazy envious flattering ironic
If the city you selected was a	Yes, because the person is provocative Yes, because she is charming and backbiter	Item city portrait: realized

person, would you like to be his/her friend?	Yes, because she is confident, charming No, we are different characters Yes, I could learn a lot from her (she is a realized person for her age) Yes, but only for a superficial relationship because he is unpredictable Yes, she is a person to be trusted, mature Yes, she is special, unique, provocative Yes, warm and pleasant character Yes, I could learn many things from her because she has a life experience Yes, she could be a good tutor for me No, because of her high age, but she is a loyal person	Item city personality: charming confident to be trusted special provocative gentle experienced tutor loyal
If you had to describe that person using only one word, what word would that be?	Mysterious Charming Magical Quality person Nostalgic Resistant Gay Warm summer rain Helpful – helps and involves in saving people Regenerating – like a pencil (always offers a new beginning to people around) Sportive – keeps you in shape in winter and summer time Wise	Item city personality: magical resistant quality person nostalgic gay helpful charming regenerating sportive wise
How does the door in front of you looks like, if it had the name of the selected city written on it?	Modern (thermo pan), with classical models, oak tree imitation, with artistic patterns Natural varnished wood with vertical ditches (straight paths) White, metallic, flowers patterns (purity) Double door (opening in two directions, like in a palace) Polished door (elegance) Very colourful It opens with no key Quality material Made out of transparent glass It opens difficultly, you have to push it High door, old, well kept, double, old architecture, dark brown, renovated Powerful door Grandiose door Simple, fragile, opened door	Item city portrait: modern classical artistic tall tidy Item city personality: pure simple correct powerful grandiose fragile

Is the person sincere? (Dimensions of Brand personality – sincerity)	Sincere and not sincere (evasive) – you have to investigate otherwise he hides things from you Infantile sincerity with mystery and charm Sincere (elegance, simplicity, charm, magic) Sincere – she is the same across the year Sincere with close persons, she is to be trusted Sincerity is gained in time, through respect She addresses with sincerity, she has nothing to hide, she acts naturally	Item city personality: sincere evasive charming constant to be trusted natural
Is the person exciting? (Dimensions of Brand personality – excitement)	He is not exciting, he is calm and serene She is exciting, is joker, jolly, offers pleasant surprises He is exciting, offers a relaxing and funny mood He is exciting but not with everyone, he is intellectual He is exciting for people that love to explore new places She is exciting, she involves you in her activity She is partially exciting, at the beginning, followed by relaxation She is exciting just at events, she opens up in front of everyone	Item city personality: serene funny jolly surprising relaxing joker
Is the person competent? (Dimensions of Brand personality – competence)	He is competent, you always learn something, he is positive He is competent, ambitious and to be trusted She is competent, skilled, plays her role very well She is competent, she has solid knowledge, she has experience, she is professional, she reaches thru her own powers, she finishes what she starts He is a tacit competent, he is in top She is competent because she is calculated, responsible She is competent because she wants everybody to be content	Item city personality: positive ambitious confident skilled experienced
Is the person sophisticated? (Dimensions of Brand personality – sophistication)	He is sophisticated, it's all new on old He is not sophisticated, he is simple, elegant He is not sophisticated, he is educated, mature, elegant He is sophisticated, handsome, a quality person, visual artistic harmony She is sophisticated, she has style, addresses a certain segment (selective),	Item city personality: stylish selective refined accessible

	She is not sophisticated, she is simple, opened, accessible	
Is the person rugged? (Dimensions of Brand personality – ruggedness)	She is not rugged, she is sociable, friendly She is rugged, she is warm only at events time, she is not accessible, not sociable He is not rugged, he is diplomat, with common sense, educated She is not rugged, she is educated and amiable He is not rugged, he is elevate, modern, organised, calculated, hospitable, with good taste, refined, with quality	Item city personality: friendly warm accessible diplomat with common sense amiable elevate modern with good taste refined

The questionnaire was edited combining the items presented in column three and eliminating the words and expressions that have similar meanings. The questionnaire will be applied for the particular case on the city of Iasi, although it can be applied for any city in Romania. The instrument is presented below.

If Iasi was a person, this person had the age corresponding the interval:

- < 20 years
- 20 – 25 years
- 26 – 30 years
- 31 – 35 years
- 36 – 40 years
- 41 – 45 years
- 46 – 50 years
- 51 – 60 years
- > 60 years

If Iasi was a person, this person would be:

- woman
- man

If Iasi was a person, this person's job would be:

- actor
- antiquarian
- professor
- receptionist
- pianist
- singer
- cafe patron
- specialist doctor
- spiritual doctor
- events' organiser
- housewife
- retired
- mountain saver
- touristic guide
- housekeeper
- writer
- sports instructor
- director
- student
- alpinist
- entrepreneur
- D.J.
- fashion creator
- painter

- sales agent
- waiter
- cooker
- publicity agent
- important person in government
- other job .... (mention which)

If I had to create a portrait for the city of Iasi seen as a person, I would say this person is:

1 – the characteristic is not matching at all 7 – the characteristic is a very good match

Trait	**1**	**2**	**3**	**4**	**5**	**6**	**7**
artistic							
modern							
elegant							
tidy							
handsome/beautiful							
involved							
smart							
wise							
ascending							
tall							
literate							
realised							
relaxed (no worries)							
poor (no money)							
young							
svelte							

If the city of Iasi would be a person, this person could be characterised as:

1 – the characteristic is not matching at all 7 – the characteristic is a very good match

Trait	**1**	**2**	**3**	**4**	**5**	**6**	**7**
great heartedness							
agitated							
accessible							
altruist							
amiable							
ambitious							
attractive							
backbit							
generous							
jealous							
calm							
charismatic							
conservator							
honest (correct)							
changeable							

communicative							
curious							
creative							
balanced							
discreet							
educated							
emotional							
courageous							
opened							
diplomat							
dynamic							
enigmatic							
enthusiastic							
evasive							
experimented							
familiar							
charming							
faithful							
flexible							
funny							
caring							
gracious							
determined							
hardworking							
forgiving							
independent							
envious							
informed							
ironic							
understanding							
confident							
encouraging							
peaceful							
shy							
entrepreneur							
jovial							
relaxing							
fighter							
proud							
flattering							
meticulous							
monotonous							
modest							
patriot							
perfectionist							
innocent							
nostalgic							

hospitable							
passionate							
perceptive							
profound							
punctual							
optimist							
pragmatic							
regenerative							
helpful							
sensitive							
sociable							
solidary							
powerful							
protector							
polyvalent							
provocative							
patient							
stylish							
responsible							
resistant							
romantic							
seducing							
sincere							
tolerant							

Identification data:

I am a:

1. Bachelors' degree student
2. Masters' degree student
3. PhD student

Year of study:

- First year of study
- Second year of study
- Third year of study

Specialisation (Bachelor's degree students):

- Marketing
- Management
- Economic computer sciences
- Accounting
- Finance
- Economics and international business
- Business administration
- Public administration

Specialisation (Masters' degree or PhD students) ....

Monthly income:

1. < 850 Ron
2. 851 – 1500 Ron
3. 1501 – 2000 Ron
4. 2001 – 2500 Ron
5. 2501 – 3000 Ron
6. 3001 – 4000 Ron
7. > 4000 Ron

CONCLUSIONS

This research is a preliminary step for a future quantitative research that is intended to measure the city brand personality of the city of Iasi.

The general concept of Brand personality depends on the cultural context. In order to apply this scale for a Romanian city, a new qualitative research was needed. As the qualitative research didn't refer to a specific city in Romania, the created instrument can be applied to any Romanian city, on condition that the investigated population consists of educated young Romanian tourists. For another type of target, a new preliminary qualitative study is necessary.

This instrument is not the final questionnaire for the quantitative step. The instrument will be tested on 20-30 respondents in order to filter the personality characteristics and eliminate those features referring to the same characteristic. Also, the quantitative analysis will continue to filter these characteristics during the factor analysis procedure.

The research limits refer especially to the sample restriction (educated Romanian young tourists). This instrument has the advantage to be applicable to any Romanian city but the research can be conducted only for a certain type of population.

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THE EVOLUTION OF ECONOMIC GLOBALIZATION DURING THE CURRENT GLOBAL CRISIS

Sabina Tuca*

Abstract: *The current economic crisis constitutes a serious test for the process of globalization. The purpose of this study is to analyze the influence of the current global crisis on economic globalization. To assess the impact of the current crisis on economic globalization, this paper examines the KOF Index of Globalization, before and during the crisis. The findings generally support the idea that economic globalization has been, in fact, weakened, after the onset of the current crisis. However, there is evidence that suggest that economic globalization has resumed the upward trend that characterized it before the crisis. Despite the fact the global crisis has shaken the process of globalization, we cannot talk of an end of globalization, as some predictions have indicated.*

Keywords: current global crisis; economic globalization; deglobalization
JEL Classification: F60; F69; O57

INTRODUCTION

Globalization is a reality of the contemporary world. Globalization has different consequences on businesses worldwide. Although states around the world have tried to remain as independent as possible, without a doubt there is no aspect of human life not affected by globalization. Therefore, globalization manifests in the political, cultural, scientific, technological and environmental field, but ultimately and most importantly, in the economic field.

According to the International Monetary Fund (2013) economic globalization is a historical process, the result of human innovation and technological progress. It refers to the increasing integration of economies around the world, particularly through the movement of goods, services, and capital across borders.

With the onset of the current global crisis, globalization has been brought to discussion regarding the impact of the crisis on globalization. The current global crisis began with a financial crisis that originated in the United States. Depending on the nature and strength of the U.S. economic ties with other countries, the crisis has spread faster or later at a global level. As a result, most countries faced economic downturns.

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Globalization has experienced a huge increase over time. However, the economic crisis that began in the summer of 2007 in the USA has shaken the trust in globalization worldwide. Even though Hirst and Thompson (2002) agreed that the world was close to the limits of feasible globalization since 2002, real threats to globalization started to appear with the current crisis.

Both the globalization and the global crisis are topics of great interest and actuality. The economic literature abounds in publications on these two subjects. This paper aims to emphasize the evolution of globalization and especially economic globalization, during the current global crisis. Consequently, the study tries to answer the following question: Has the current global crisis slowed down the process of economic globalization?

1.THE IMPACT OF THE GLOBAL CRISIS ON GLOBALIZATION – A LITERATURE REVIEW

The global financial and economic crisis has had a devastating impact on the world economy and also on globalization. With regard to the influence of the current global crisis on the process of globalization, there are many points of view, in the economic literature. Also, it has been discussed in what way globalization has been affected and why.

According to Wade (2009), the globalization consensus has been, indeed, weakened, due to the lack of certainty that followed the crisis. The fact that in the early years of the crisis, governments' priority was related to their national interests at the expense of international interests, proves that the economic crisis has led to a tide of globalization.

However, although, after the onset of the economic crisis, states have been making a comeback in finance and even in some of the productive sectors, Wade (2009) argues that this comeback was limited because firstly neoliberal norms and institutions have been hardwired into economies around the world in the past several decades, and secondly an alternative set of principles has not emerged as the core of a new consensus, leaving free market principles and international economic integration as the default position.

A direct consequence of the economic crisis was the declining of the trade and FDIs worldwide. In this context, some studies used the term deglobalization defined as the reversal of globalization. Nevertheless, Wynne and Kersting (2009) point out that concerns about deglobalization are in many ways overblown, taking into consideration that as long as trade growth is a necessary but not sufficient condition for globalization, declining trade is likewise a necessary but not sufficient condition for deglobalization.

At the same time, Karunaratne (2011) highlights that the dynamic process of economic globalization and deglobalization has been occurring in “waves” over the past 250 years. Therefore the recent global crisis spread rapidly across the globe, turned a global economy that was booming and promoting policies of globalization into a slump where deglobalization policies surfaces to the policy centre stage. Moreover, this paradoxical shift from promoting globalization to policies that promote deglobalization as the global economy plunges from booms to slumps is manifest in the conventional macroeconomic models that explain trade, cross-border capital flows, technology transfer and labour flows.

On the other hand, the fact that economic globalization has weakened with the crisis, doesn`t imply that the world is witnessing an end to globalization. It is obvious that as long as countries are uneven in their endowment of various types of resources and technologies, they are different in their abilities and potentials to produce different types of goods and resources, and as long as demands for certain goods in individual countries exceed their ability to produce those goods, at least at reasonable prices, economic dependence among nations will remain, thus, globalization will persist (Hosseini, 2011, p. 74). Of course, as domestic economies have seen ups and downs and fluctuating cycles, there should be expected ups and downs and cyclical fluctuations in the degree of globalization and interdependence and integration among different economies.

As a matter of a fact, Moshirian (2011) believes that the current economic crisis has meant an increase in international integration at a global level. According to him, the crisis gave a boost to the globalization process, calling into question the concepts of global ownership, global leadership, global institutions, globally integrated financial system and global financial framework. Also, he argues that the process of globalization continues, taking forms and characteristics induced by global phenomena today.

2. THE EVOLUTION OF THE INDEX OF GLOBALIZATION BEFORE AND DURING THE CURRENT GLOBAL CRISIS

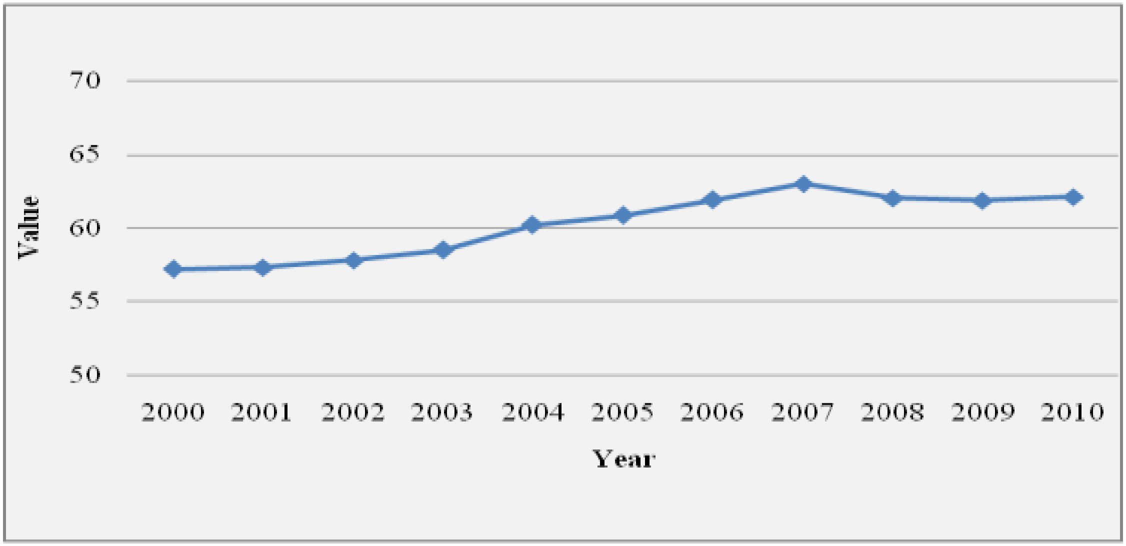
In order to see whether economic globalization has been weakened by the current global crisis, in this study we will analyze the KOF Index of Globalization, focusing on the Economic Index of

Globalization. The KOF Index of Globalization measures the economic, social and political dimensions of globalization. With regard to the economic globalization, this is measured by the actual flows of trade, foreign direct investment and portfolio investment, as well as the restrictions applying to these flows.

2.1. The evolution of economic globalization worldwide

To determine the consequences of the financial and economic crisis on globalization, the analysis will be based on the most recent raw data, available until 2010.

Figure 1 - KOF Index of Economic Globalization worldwide, 2000- 2010



Source: KOF database

As we can see from figure 1, the crisis is clearly visible in the results of the current KOF Index of Economic Globalization. The figure reveals that globalization followed an upward trend since the year 2000 and prior this year. Taking into consideration that the global economic crisis started in mid of 2007, figure 1 shows a fall in the degree of economic globalization worldwide, starting with this year. The globalization index continued to decrease until 2009. Nevertheless, it is obvious that economic globalization didn`t experience a large decrease after the onset of the crisis. In fact, the Index of Economic Globalization has dropped with only 1.5% in 2008, compared to 2007.

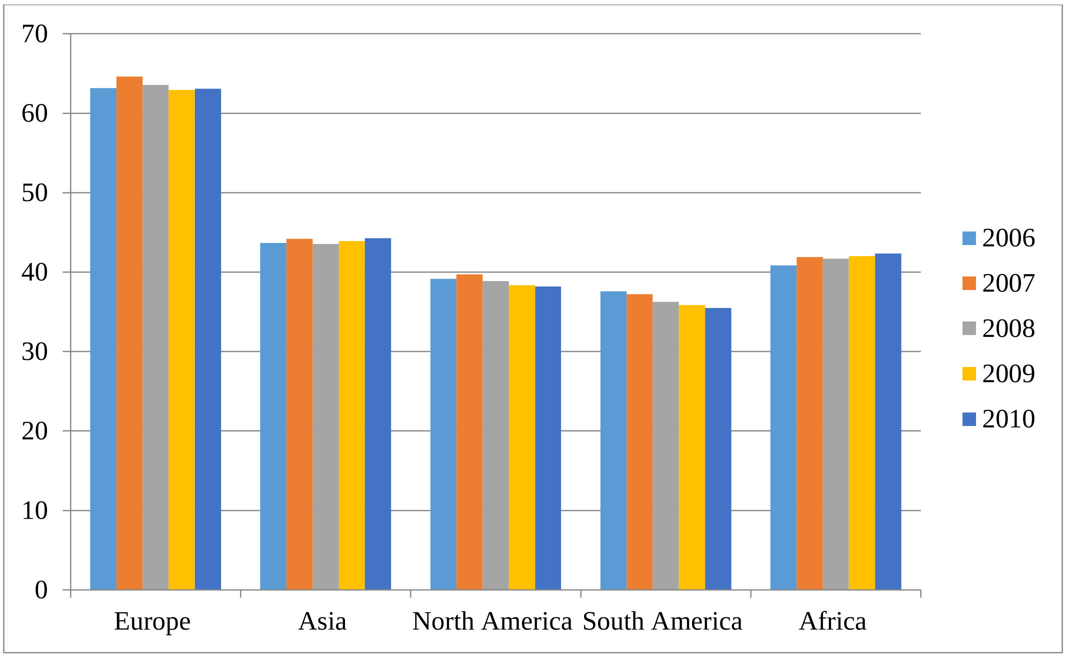
Surprisingly, in 2010, economic globalization started to increase again, with 0.37% from the previous year. This means that economic globalization is showing signs of recovery.

2.2.The index of economic globalization on world regions

To see if the economic crisis affected economic globalization worldwide, we will study the KOF Index of Economic Globalization in all regions: Europe, Asia, North America, South America and Africa.

Europe, the most globalized region in the world, had a decrease of the index of economic globalization, in 2008 (the year that the economic crisis started to have its impacts) compared to 2007, decrease that continued also in 2009. However, in 2010 the index of globalization started to increase. In Asia the economic globalization had a similar evolution as in Europe. Not all regions followed this trend. In fact, for Africa the Index of Economic Globalization had an upward trend between 2006 and 2010, suggesting that in Africa, at least in economic terms, globalization hasn`t been influenced by the economic crisis. In contrast, North America and South America have faced a downward trend in the 2007-2010 period (figure 2).

Figure 2 - KOF Index of Economic Globalization for all regions, 2006-2010



Source: KOF database.

2.3. The evolution of economic globalization on specific countries

To determine whether one country is more vulnerable to the economic crisis than another requires a comparison between the situation before and during or after the crisis. Consequently, we have taken several countries and we have analyzed the KOF Index of Economic Globalization for each of these countries, between 2000 and 2010. That means that we have analyzed their situation before and during the economic crisis. The countries included in this study are the top 10 largest economies in the world, in 2013, according to the International Monetary Fund: USA, China, Japan, Germany, France, Brazil, United Kingdom, Russia, Italy and India.

Table 1 - KOF Index of Economic Globalization on specific countries, 2000- 2010

Country / Year	USA	China	Japan	Germany	France	Brazil	United Kingdom	Russia	Italy	India
2000	66,01	41,20	44,51	77,48	73,79	49,03	81,26	48,74	79,72	30,42
2001	63,68	47,02	42,71	75,67	70,4	56,19	79,66	50,55	77,54	32,23
2002	60,82	49,64	41,33	76,39	71,29	58,12	79,17	52,61	76,41	33,62
2003	61,85	49,66	45,55	76,64	72,04	55,46	79,81	54,11	75,13	35,46
2004	63,69	53,35	46,56	75,78	74,69	55,95	77,65	53,08	77,37	36,32
2005	63,49	57,59	47,98	75,57	72,91	56,53	78,5	53,92	76,76	40,87
2006	65,47	52,91	45,52	75,65	73,95	56,17	78,21	53,85	76,19	40,84
2007	66,62	54,46	46,16	75,86	74,85	56,54	77,82	55,4	77,13	43,26
2008	63,48	50,94	44,86	73,59	72,64	51,84	76,83	49,25	75,75	43,73
2009	60,34	50,51	45,25	72,01	71,9	52,86	77,34	54,01	74,64	42,98
2010	60,33	51,12	44,01	71,55	71,72	52,37	78,01	55,55	74,75	42,71

Source: KOF database

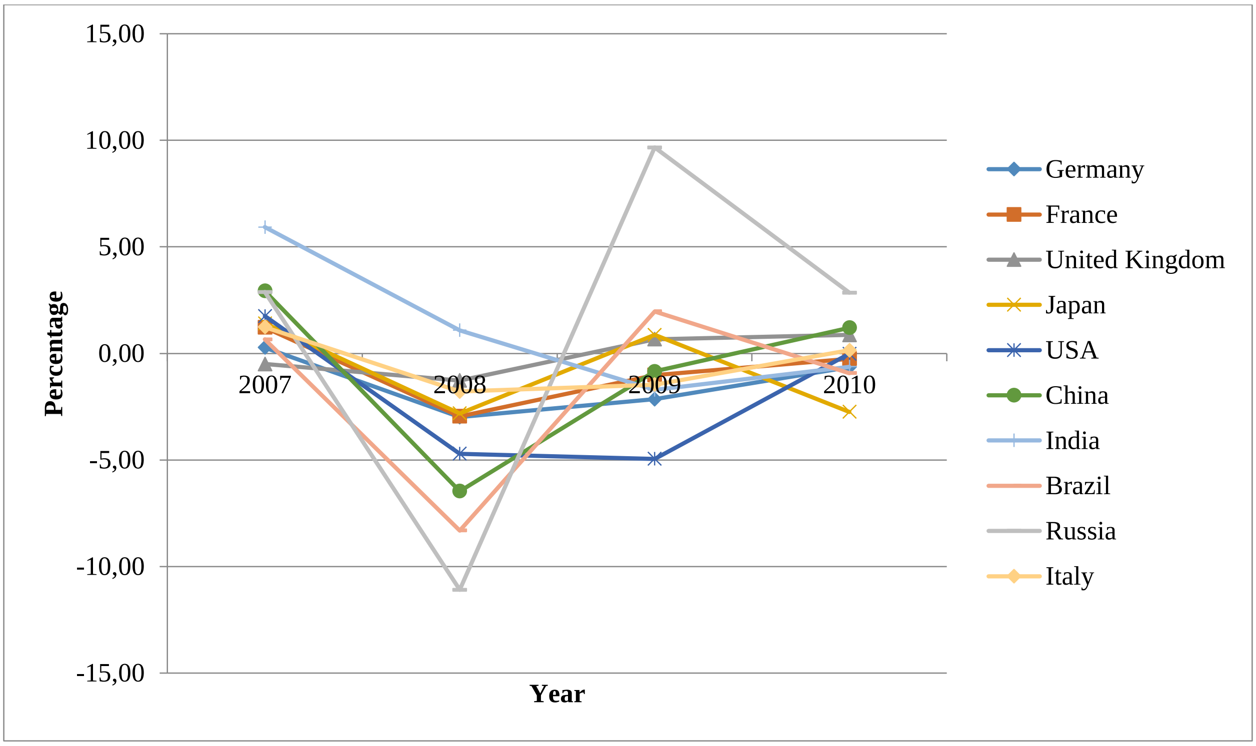
From the table above (table 1.) we can point out the following:

First, it is obvious that almost all the countries mentioned above, have been characterized by an upward trend of the level of economic globalization. However, United Kingdom is the exception, having the highest value of economic globalization in 2000 (81,26). Surprisingly, after this year the United Kingdom had values of the index of economic globalization between 76,83 and 79,66. What is more, in this period, some countries had a remarkably increase in the level of economic globalization. These countries are India, China, Russia and Brazil, meaning the BRIC countries.

Second, it is clear that 2007, the year prior the economic crisis (even the economic crisis started at mid of 2007, its effects began to appear starting with 2008), is the year with the highest degree of the index of economic globalization, for most of the countries presented in table 1, except for Germany, Brazil, United Kingdom and Italy. In spite of this, for these countries, the level of 2007 is one of the highest from the period 2000-2010;

Third, we can notice that starting with the year 2008 for all the countries characterized in table 1. there was a drop in the level of economic globalization. For some of these countries the decrease was very high. For example, for Russia the decrease was 11 % in 2008 compared to 2007. Also, China`s Index of economic globalization had a decrease with 8% in 2008 (figure 3.). What`s more, the USA has lost ground in terms of economic globalization in 2008, compared to the previous year (as a large economy a high proportion of its trade is internal, which means that the USA doesn`t need to be as globalized as small countries);

Figure 3 - KOF Index of Economic Globalization (percentage change from previous period)



Source: Own calculations, based on KOF database

Next, the economic crisis, has affected more and less globalized countries about equally. For instance, Germany, that is one of the most globalized countries, has experienced a decrease in the level on economic globalization very similar to same decrease experienced by Japan, a country less globalized (figure 3.);

Last but not least, it seems that in 2010 the KOF Index of Economic Globalization began to grow, exceeding the value from 2008, in countries like China, Brazil, Russia and United Kingdom. In fact, in 2010, for Russia and United Kingdom the Index of Economic Globalization reached the value from 2007.

CONCLUSIONS

The current global crisis has raised questions about the extent to which economic globalization has been affected by it. There is a clearly identified connection between the crisis and the fall in the level of economic globalization worldwide. Although in some countries or regions economic globalization hasn`t had a decrease after the onset of the current crisis, at a global level economic globalization has been, indeed, weakened.

However, there are two encouraging facts for the process of globalization. On one hand, economic globalization has not decreased with a high percentage. On the other hand, starting with 2010, the index of economic globalization has begun to increase worldwide, meaning that the world is facing a slight recovery of economic globalization.

Even though the process of economic globalization has slowed down, it is certain that we cannot talk of an end of globalization, as some predictions have indicated.

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TRUST, CORRUPTION, BRIBES AND ECONOMIC DEVELOPMENT IN CENTRAL AND EASTERN EUROPEAN COUNTRIES

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Abstract: *The evolution of the Western world has drawn on theoretical structures of classical and neoclassical liberalism for its explanatory support and sources of inspiration for centuries. Against this ideological background, institutionalists aim at showing that growth is a process of transformation, a double change: an economic and an institutional one. In this analysis, our purpose is to highlight the importance of informal institutional arrangements and their quality in explaining the disparities of revenues and developments between countries. In our approach, we will consider several indicators meant to highlight various aspects of research. The approach proposed is a transversal-comparative one and static methods pertain to uni- and multivariate analysis. The results obtained suggest the existence of major differences within the Central and East European area as far as informal institutions are concerned; moreover, the analysis conducted confirms the existence of a significant relation between the level of development and the structure of informal arrangements such as: trust level, bribe culture and corruption control.*

Keywords: institutions; trust, corruption; bribes, development
JEL Classification: K420; O170

INTRODUCTION

Reform programmes in Central and Eastern Europe were mainly based on recommendations provided by international bodies consisting of: the adherence to monetary policies meant to reduce existing disequilibria, price liberalisation, economic openness to overseas, stimulation of private companies, set up and privatisation of state companies, the elimination of state control, reformation of the legislative system, rule of law, etc. All these transformations, adaptations and changes of the system deeply affected ideologies, values, human relationships, etc. Every country has created a certain institutional structure according to shared values, beliefs and ideologies at a given time.

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However, as some countries efficiently adjusted to new changes, others “statically *enclosed* themselves within the initial project or were politically imposed a dysfunctional and disarticulated system which did not fit their beliefs of development”. (Pohoata, 2009, p. 293) Consequently, post-communist changes affect more than the social organisation, ideologies, inter-human relations, values and ways of doing things in depth. Changes were inherent as a part of natural evolution even though they were not always a sign of social progress. “The path followed by post-communist societies is meant to redefine modernity locally, to complete the process of modernisation and relative globalisation by adopting tendencies from the Western world (either by imitation, contagion or planned changes). Transition is the stage of major changes, having a new societal order as macro social product”. (Voicu, 2005, p.23) Of all Central and Eastern European countries studied, Hungary and Poland experienced partial economic reforms during 1968-1989 in the sense of decentralisation of their economies (increase of enterprise autonomy, partial price liberalisation, etc.) (Ciobotaru, 2009, p.11) All these short-term measures did not improve considerably the performances of the two countries, shaped mentalities and economic behaviours of population, preparing them for a competitive economy. As a result, the process of transformation, creation and adaptation occurred in countries such as the Czech Republic, Hungary and Poland and it was a successful one based on healthy institutional arrangements. To Romania, the change of political regime, i.e. of the communist institutions of that time to democracy and freedom did not suffice. The lack of efficient institutions, a high level of corruption, low self-esteem are only a few of the specific traits of this country. Time is needed for these individual values to find their pace. In the period following the transition from an ordered economy to a market one, Romania went through a decade of instability and economic decline. Against the *legislative background*, transition was characterised by various tensions: on the one hand, owing to the need for existence of a powerful state, capable of dealing with new challenges and, on the other hand, the need to limit its power. The velocity in applying new regulations created an appropriate context for a less transparent affirmation of *interest groups.* The absence of institutions or their weak representation led to opportunist and corrupt behaviours. The business environment thus became one in which the alliance between the state as bureaucratic body and an exclusive category of *elites* governed.

It is widely acknowledged that formal institutions alone cannot influence human behaviour, yet its largest part can be explained by means of informal institutions rooted in the culture of a society and drawing on it. However, this aspect has been neglected so far. This is because informal institutions cannot be identified, measured or quantified easily. Unofficial constraints have a much more complex character as they "necessarily contain features that render the exchange viable by reducing the costs incurred by measurement and constraint". (North, 1990, p. 42) Consequently, formal institutions are the source for cutting costs; in other words, institutions not only influence the big picture, but also how it is divided into various groups and people in society which should base their relations on trust. Ergo, we strongly claim that the macroeconomic environment of a state is stimulated by the *degree of trust* between individuals and institutions. In this respect, Zak and Knack highlight the fact that trust in a country depends on five primary factors: per capita income, income distribution, government efficiency, social cohesion and education. In their model, trust is associated with aggregated time which agents did not spend to check others' actions. Trust is a product of both formal institutions and social homogeneity along with informal sanctions on cheaters. Their analysis proves that trust and social and institutional factors affecting it have an influence on growth rates.

2. DATA AND METHODOLOGY

For this approach, we aimed at taking into account various indicators meant to emphasise various aspects of research. Our approach is a transversal-comparative one and static methods are specific to the uni- and multivariate analysis. *The geographical area of interest* involves all member states of *Central and Eastern Europe*. Economic evolution in the region was unequal, some countries being more successful than others. Thus, Romania, Bulgaria, Latvia, and Lithuania recorded a significant decline during the first years of transition. For the other states, recovery was much quicker. In order to explain the situation of Central and East European countries, we aim at confirming or infirming the following hypotheses:

H_0: *Hypothesis 1. Trust, corruption control and bribe culture do not influence a country's level of development;*

H_1: *Hypothesis 2. Trust, corruption control and bribe culture influence a country's level of development.*

These hypotheses will be tested by means of a multiple regression model, namely:Y= α+ $\beta_1 X_1$ +….+$\beta_i X_i$ +…..+ $\beta_n X_n$ + ξ,where Y is the dependent or explanatory variable, the level of per capita income in PPS; X_i are independent variables, where i = 1, n; X_1 - trust level; X_2 - corruption control; X_3 - bribe culture; ξ is a residual variable; α, β_i are regression coefficients.

3. RESULTS

Table 1.1 shows the values of the correlation report (R) and determination report. As can be seen, the 0.829 value for R and 0.795 for $\boldsymbol{R^2}$ show us that there is a linear, direct relation between the dependant variable and the independent ones.

Table 1.1 - Assessed values of the correlation report and determination report

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.892[a]	.795	.693	6.83274

a. Predictors: (Constant), *Trust*, *corruputioncontrol* and *bribe*

b. Dependent Variable: GDP per capita in PPS

Tabelul 1.2 - ANOVA

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1088.782	3	362.927	7.774	.017[a]
	Residual	280.118	6	46.686		
	Total	1368.900	9			

a. Predictors: (Constant), *Trust*, *corruption control* and *bribe*

b. Dependent Variable: GDP per capita in PPS

To test the significance of the correlation report, we used two hypotheses: $\mathbf{H_0}$: ŋ = 0 – the value of the correlation report is null and $\mathbf{H_1}$: ŋ ≠ 0 – the value of the correlation report is significantly different from zero, which shows that there is a statistical relation between variables. For the model above, the calculated value of the statistical test F is:

$$\mathbf{F_{calc}} = \frac{S_E^2}{S_R^2} = \frac{362.927}{46.686} = 7.774$$

The calculated value of statistical F is higher than the theoretical value which proves that hypothesis $\mathbf{H_0}$ is rejected and $\mathbf{H_1}$ is accepted. We may guarantee that the value of the correlation report is significantly different from zero to an extent of 95% probability. Moreover, this also holds true for the probability value associated with test statistic when compared to the level of the significance threshold chosen (α = 0.05). Further to the mentions above, we can see that there is a strong statistical relation between the level of development measured by per capita income in PPS, trust level, corruption control and bribe culture.

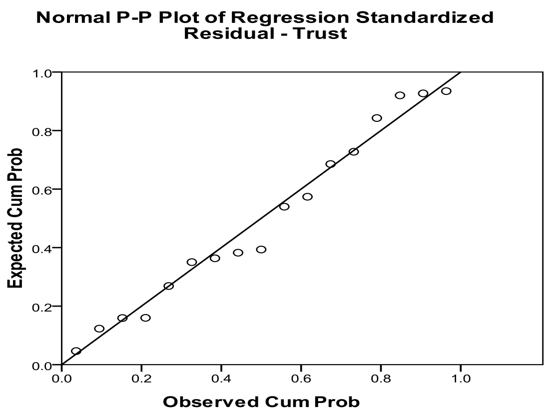
Table 1.3 - Assessments of parameters in the multiple regression model

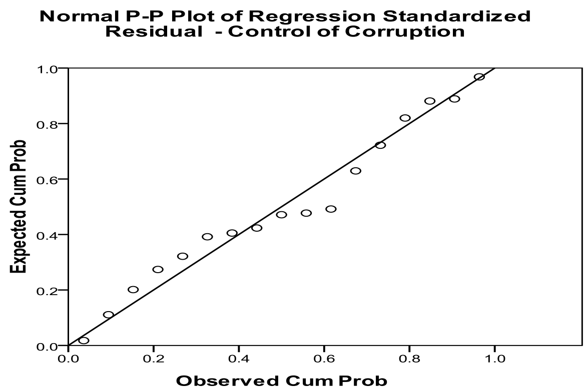
Model –Informal institutions/Level of development	
Dependent Variable	GDP per capita in PPS
Method	OLS Regression
Trust	1.345
Control of corruption	0.252
Bribe	-0.617

In the model above, all assessed values of the R correlation report are 0.892 and R square 0.795 for the determination report, respectively. This points out that simultaneous variation of independent variables explains the variation of dependent variable to an extent of 79.5%. From the conducted analysis, we may notice that positive values of regression coefficients point out the positive influence of *trust level* and *corruption control* variables on the level of development.

To check the work hypothesis, we can use the graph achieved by means of regression residuals diagram. (see Figure 1.1)

Figure 1.1 - Regression residuals diagrams: trust level and corruption control





The diagrams above highlight the fact that error distribution abides by a normal law as the points represented by the values of errors are located near the straight line in the square line.

Figure 1.2 - Trust level/ development level measured by GDP in PPS

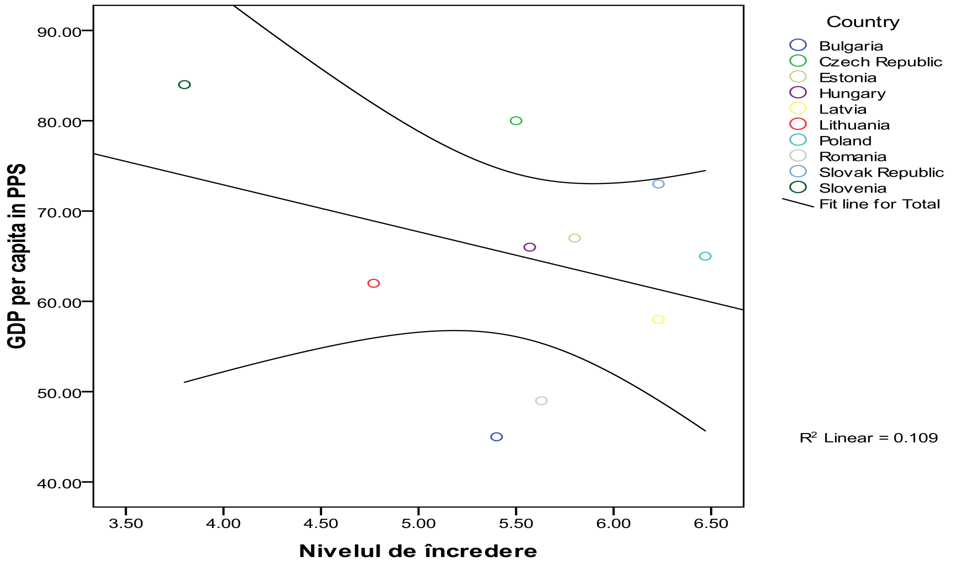
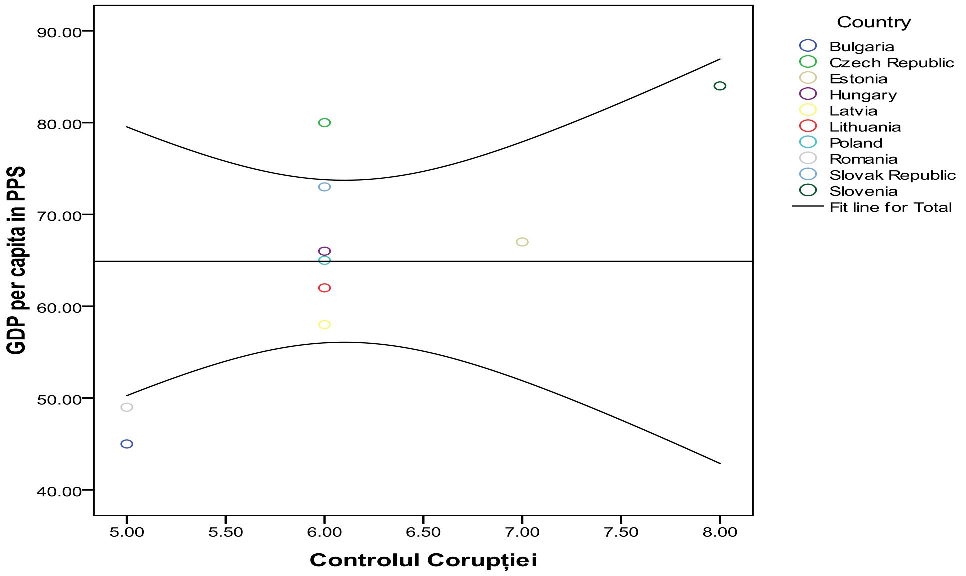


Figure 1.3 - Corruption control/ development level measured by GDP in PPS



Studies in the literature of the field prove us that formations built in the context of a high level of mutual trust reached higher levels of performance than conflictual societies. Robert Putnam (1993), in his *Making Democracy Work*, underlines the fact that economic performance is predicted by the degree of spontaneous association between individuals. “Trust implies the existence of mutual relations of acceptance between individuals and institutions so as to prevent or solve conflicts and contribute to an easier interaction. In the absence of trust, contracts are harder to enforce, caution is required, as well as longer negotiation periods and serious causes for conflicts, not to mention that the risk factor often raises contract price over usual production costs.” (Popescu, Pohoata, 2007, p.201) Fukuyama (1995) seizes the importance of property rights, law and contract as fundamentals in the efficient operation of institutions, yet all these need to be accompanied by trust, mutual help and moral obligations. As the author underlines, “all procedures that substitute trust lead to higher transaction costs. Put differently, the fact that trust prevails in society means that an additional tax should be introduced for all types of economic activity, a tax which is absent in societies with a higher trust level”. (Fukuyama, 1995, p.148) Therefore, minimum impediments in exchange are an institutional feature that stimulates economic growth and development. Such an institutional arrangement allows us to follow a durable path that leads to economic performance.

4. DISCUSSIONS AND CONCLUSIONS

The analysis conducted (see Figure I.2 and Figure I.3) shows that countries such as the Czech Republic, Estonia and Poland recorded the highest trust levels and corruption control. The trust of economic agents in informal institutions, legislative discipline, transparency of the decisional process are only some of the feature of the aforementioned countries. Romania still bears the marks of the past. The communist regime created structural stimulants to engage in large scale corrupt behaviours, deeply rooted in the culture of our country to this day. The great problem of our country pertains to the existence of a system that lacks transparency in decision making and in efficient instruments for monitoring, evaluating and controlling activities. As a result, countries with weak institutions are incapable to sanction spoiling behaviour accordingly and cannot prevent power abuses, bribery and costs incurred by actions with a higher corruption level.

The minus regression coefficient is *bribe culture* which points to us the negative relation between this indicator and the level of development. Industrial regulations, tax laws, supply problems, the introduction of new technologies or, in other words, the amount of opportunistic behaviour are determined by the nature of formal and informal institutions and how they are correlated. For instance, in countries with an unstable legislative system and where opportunistic behaviour is not sanctioned accordingly, the institutional environment is dominated by bribery and corruption. Offering expensive gifts to Chinese officials during transactions is a rule hard to *digest* in most Western or developed countries where free competition requires an impartial behaviour from the part of officials. Employment practices within public organisations are another instance of the sort. Here, unwritten employment laws for personnel based on kinship and not professional proficiency is another way of *circumventing* formal rules created to ensure a competitive labour market in the public sector.

Considering the fact that Sig. value < 0.05 for all the three variables analysed, we can conclude that, up to a probability of 95%, the level of development depends on informal institutions operating in a society.

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