



CENTRE FOR EUROPEAN STUDIES

Alexandru Ioan Cuza University of Iasi

CENTRE FOR EUROPEAN STUDIES

Working Papers Series

W P
CES



Volume VI, Issue 1, 2014

EDITORIAL BOARD

SCIENTIFIC BOARD:

Doina BALAHUR, Professor PhD, Faculty of Philosophy, Alexandru Ioan Cuza University of Iasi, Romania

Tiberiu BRAILEAN, Professor PhD, Faculty of Economics and Business Administration, Alexandru Ioan Cuza University of Iasi, Romania

Daniela Luminita CONSTANTIN, Professor PhD, Bucharest University of Economic Studies, Romania, President of the Romanian Regional Science Association and member of the Council European Regional Science Association

Gabriela DRAGAN, Professor PhD, Bucharest University of Economic Studies, Romania, The General Director of the European Institute in Romania

Gheorghe IACOB, Professor PhD, Faculty of History, Vice-Rector of Alexandru Ioan Cuza University of Iasi, Romania

Corneliu IATU, Professor PhD, Dean of Faculty of Geography and Geology, Alexandru Ioan Cuza University of Iasi, Romania

Ion IGNAT, Professor PhD, Faculty of Economics and Business Administration, Alexandru Ioan Cuza University of Iasi, Romania

Vasile ISAN, Professor PhD, Faculty of Economics and Business Administration, Rector of Alexandru Ioan Cuza University of Iasi, Romania

Gheorghe LUTAC, Professor PhD, Faculty of Economics and Business Administration, Alexandru Ioan Cuza University of Iasi, Romania

Cosmin MARINESCU, Associate Professor PhD, Bucharest University of Economic Studies, Romania

Dumitru MIRON, Professor PhD, Bucharest University of Economic Studies, Romania

Gabriela Carmen PASCARIU, Professor PhD, Director of Centre for European Studies, Alexandru Ioan Cuza University of Iasi, Romania

Carmen PINTILESCU, Professor PhD, Faculty of Economics and Business Administration, Alexandru Ioan Cuza University of Iasi, Romania

Alexandru-Florin PLATON, Professor PhD, Faculty of History, Executive Director of Centre for European Studies, Alexandru Ioan Cuza University of Iasi, Romania

Victor PLOAE, Professor PhD, Vice-Rector of Ovidius University of Constanta, Romania

Ion POHOATA, Professor PhD, Faculty of Economics and Business Administration, Alexandru Ioan Cuza University of Iasi, Romania

Ioan POPA, Professor PhD, Bucharest University of Economic Studies, Romania

Spiridon PRALEA, Professor PhD, Faculty of Economics and Business Administration, Alexandru Ioan Cuza University of Iasi, Romania

Rodica ZAHARIA, Professor PhD, Bucharest University of Economic Studies, Romania

EDITOR IN CHIEF:

Liviu-George MAHA, Associate Professor PhD, Faculty of Economics and Business Administration, Alexandru Ioan Cuza University of Iasi, Romania

EDITORS:

Anamaria BERCU, Lecturer PhD, Faculty of Economics and Business Administration, Alexandru Ioan Cuza University of Iasi, Romania

Sinziana BALTATESCU, Lecturer PhD, Faculty of Economics and Business Administration, Alexandru Ioan Cuza University of Iasi, Romania

Ovidiu BURUIANA, Associate Professor PhD, Faculty of History, Alexandru Ioan Cuza University of Iasi, Romania

Elena CIORTESCU, Assistant PhD, Faculty of Economics and Business Administration, Alexandru Ioan Cuza University of Iasi, Romania

Ramona FRUNZA, Researcher PhD, Alexandru Ioan Cuza University of Iasi, Romania

Ana SANDULOVICIU, Lecturer PhD, Faculty of Economics and Business Administration, Alexandru Ioan Cuza University of Iasi, Romania

EXECUTIVE EDITORS:

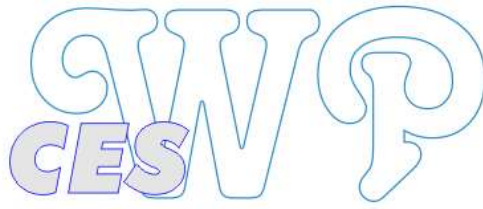
Ciprian ALUPULUI, PhD, Centre for European Studies, Alexandru Ioan Cuza University of Iasi, Romania

Gabriel-Andrei DONICI, PhD, Alexandru Ioan Cuza University of Iasi, Romania

Sebastian ENEA, PhD Candidate, Faculty of Economics and Business Administration, Alexandru Ioan Cuza University of Iasi, Romania

Cristian INCALTARAU, Researcher PhD, Centre for European Studies, Alexandru Ioan Cuza University of Iasi, Romania

Sorin-Stefan MAHA, PhD, Faculty of Economics and Business Administration, Alexandru Ioan Cuza University of Iasi, Romania



Volume VI, Issue 1, 2014

THE RECENT TREND OF ROMANIA'S INTERNATIONAL TRADE IN GOODS – <i>Andrei Cristian Balasan</i>	7
CETA - BILATERAL TRADE AGREEMENT BETWEEN THE EU AND CANADA - <i>Ludmila Borta</i>	17
THE EMPIRICAL ANALYSIS OF THE RELATION BETWEEN FDI, EXPORTS AND ECONOMIC GROWTH FOR ROMANIA - <i>Lenuța Carp (Ceka)</i>	32
BETWEEN FRAILTY AND INSTITUTIONAL REFORM. THE CASE OF ROMANIA - <i>Flavian Clipa, Raluca Irina Clipa</i>	42
CFSP – VACILLATING BETWEEN SUPRANATIONALISM AND INTERGOVERNMENTALISM? - <i>Ligia Corduneanu</i>	55
OPPORTUNITIES AND RISKS OF GLOBALIZATION IN RURAL AREAS. CASE STUDY: BOTOȘANI COUNTY – <i>Maria - Simona Cuciureanu</i>	62
THE RELATIONSHIP BETWEEN BEHAVIOURAL AND NEOCLASSICAL ECONOMICS - <i>Paula-Elena Diacon, Mădălina Calance</i>	71
ANALYSIS OF PETER SENGE'S FIVE COMMANDMENTS LEARNING IN ORGANIZATIONS AND ADHERENCE TOT THE ISLAMIC AZAD UNIVERSITY STAFF OF ITS COMPONENTS - <i>Rasol Fanikhayavi, Nooshin Mardani, Sheida Mardani</i>	77
GLOBALIZATION AND CULTURAL IDENTITY DILEMMAS - <i>Sebastian Andrei Labeș</i>	87
ROMANIA'S FISCAL STRUCTURE IN VIEW OF EURO ADOPTION. A MULTIDIMENSIONAL ANALYSIS - <i>Maria-Isadora Lazăr</i>	97
AN INTRODUCTION TO THE UNDERGROUND ECONOMY OF ROMANIA – <i>Loredana Maftai</i>	110
THE LAW ON LOBBYING IN THE REPUBLIC OF POLAND. THEORY AND PRACTICE (2006 - 2010) - <i>Maciej Olejnik</i>	117

M&A, COMPETITION AND PERFORMANCE IN THE SLOVENIAN BANKING SYSTEM - <i>Andreea Nicoleta Popovici, Dragoş Gabriel Turliuc</i>	137
MEASURING BANKING EFFICIENCY BY USING ROAA AND ROAE: EVIDENCE FROM THE EUROPEAN UNION - <i>Mihăiţă-Cosmin Popovici</i>	146
HOTEL MANAGERS' PERCEPTIONS OF THE IMPACT OF SOME GLOBAL PHENOMENA ON TOURISM. CASE STUDY ROMANIA – ITALY - <i>Mirela Ştefănică, Gina Ionela Butnaru</i>	154
IMPROVING THE LABOUR COSTS EFFICIENCY AT UKRAINIAN ENTERPRISES - <i>Olga Sukach</i>	171
USING INTERNET AND TRAVEL AGENCIES IN PLANNING A TRIP. A QUALITATIVE APPROACH - <i>Oana Țugulea, Claudia Bobâlcă, Andreea Maha, Liviu-George Maha</i>	181
MACROPRUDENTIAL INSTRUMENTS USED BY EASTERN EUROPEAN COUNTRIES - <i>Dragoş Gabriel Turliuc, Andreea Nicoleta Popovici</i>	201

THE RECENT TREND OF ROMANIA'S INTERNATIONAL TRADE IN GOODS

Andrei – Cristian Balasan*

Abstract: *The article analyses the recent developments regarding the Romania trade in goods. We highlight how Romania's trade in goods evolved after the EU accession. In this period Romania's exports and imports were influenced by the economic crisis, which had a major impact especially on imports. The paper presents the primary trends that have set the volume, dynamics, structure and performance of trade in Romania in the crisis and post-crisis period. We have noticed what changes took place in the structure of exports and imports of goods and also who were the main external partners of Romania.*

Keywords: foreign trade; export; import; trade balance.

JEL Classification: F1; F15; O24; O52.

INTRODUCTION

At the end of 2004, in October, two months after the Romanian economy had been declared a functional market economy, the country finally completed the negotiations in order to join the European Union. The following step was to implement the *acquis communautaire*.

From a macroeconomic point of view, the economic growth was accelerated by the development of international trade. Export growth has boosted industrial production, ensuring its sales, which also has shown an improvement of economic performance. According to the economic theory, the export expansion generates an improvement of the efficient allocation of productive resources and increased volumes of production by capital accumulation (Romer, 1989; Edwards, 1992). The export growth has increased the openness of the economy, so the Romanian economy faster absorbed the technology of the more advanced countries. Imports ensured the necessary raw materials and energy resources as well as the investment recovery through technology transfer from abroad.

* PhD Candidate, Alexandru Ioan Cuza University of Iasi, Romania; e-mail: balasanandrei@gmail.com.

The Romanian supply ability and the increased economic potential in foreign markets is reflected by the exports evolution. In the countries Romania has concluded free trade agreements with the ease of access to foreign market is better capitalized.

Romania's accession to the European Union has produced major changes in the conduct of intra EU trade of goods. The abolition of customs barriers to trade in the EU allowed the free movement of goods.

The association agreement between Romania and the European Union has stimulated a substantial increase in trade between the European Community and Romania, the future Member State. Overall, the impact of EU enlargement on the older members was insignificant because the Romanian economy represents less than 5% of the EU-25 economy. Although low, the expected impact was positive for the European Union (Aldea, Botez, 2001, p. 99).

1. ROMANIA'S TRADE IN GOODS BETWEEN 2004 AND 2013

Based on the experience of Ireland, Portugal and Spain, the European Commission anticipated an additional growth between 5 and 9% for the new member states within 10 years after accession, while in the old member states the expected economic growth was 1.5%. The level of growth will be influenced by: a more efficient allocation of resources, the expansion of foreign investments as a result of new business opportunities, increased trade and higher productivity determined by the growing competition between Member States.

Adopting the common external tariff of the European Union will lead to a lower tariff protection level on imports into Romania from non-EU countries from 18.6% to 6.3% of all products, of which from 30% to 16.2 % for agricultural products and from 15.4% to 3.6% for industrial products. Budget revenues from customs duties on imports will decrease and result in better access conditions for third country products on the Romanian market. As regards the relation to the third countries, Romania has more to lose than to gain after the adoption of EU trade policy.

In 2004, the world economy registered the fastest growth in recent years, on the background of favorable financing conditions and reviving macroeconomic policies. World trade in goods and services doubled their growth from the previous year, reaching 9 percent - the highest growth rate in five years.

Table 1 - The evolution of Romania's trade in goods between 2004 and 2013 (millions of Euro)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Export	18935	22255	25850	29549	33725	29084	37368	45274	45043	49563
Import	24258	30061	37609	47371	52834	35955	44968	52683	52356	52986
Sold	-5323	-7806	-11759	-17822	-19109	-6871	-7600	-7409	-7313	-3423

Source: Own processing after the Romanian Statistical Yearbook 2005-2013, Publishing National Institute of Statistics, Bucharest

In 2004, the Romania's balance of payments reflected a deterioration in the current account balance, due to the widening trade deficit, as a result of the doubling of annual growth of imports and their acceleration in relation to exports. In comparison with the previous year, in 2004, the trade deficit was 5323 million, registering an increase in both absolute terms and as a share of GDP (1 368 million euros, or 1.2 percentage points) due to the rapid growth of imports - mainly stimulated by economic growth (table 1). Also, we note that between 2004 and 2008 the trade deficit had gradually increased, enhanced by a slower increase in exports of goods and an accelerated growth of imports. Since year 2010, after a year of decline under the impact of the global economic and financial crisis, trade in goods in Romania has resumed growth and managed to recover losses. Instead, although imports have also resumed growth, the level it registered a year before the economic crisis was reached only after five years, in 2013.

The worldwide economic crisis effects started to appear in the last quarter of 2008; in 2009 business activities were significantly scaled down with a direct impingement on the commercial relations of Romania (table 1). The negative balance of trade was 6.871 billion euros, down by 64% from the previous year, due to a stronger decline in imports compared to exports.

Table 2 - The dynamics of Romania's international trade in goods between 2005 and 2013 (%)

	Annual Changes (%)								
	2005	2006	2007	2008	2009	2010	2011	2012	2013
Export	17,5	16,2	14,3	14,1	-13,8	28,5	21,2	-0,5	10%
Import	23,9	25,1	26,0	11,5	-31,9	25,1	17,2	-0,6	1%

Source: Own processing after the Romanian Statistical Yearbook 2006-2013, Publishing National Institute of Statistics, Bucharest

Unlike 2008, in 2009 exports and imports contracted by -13.8%, respectively -31.9%, and the share of trade deficit in GDP narrowed by 7.8 percentage points to 5.9% (table 2). The effects of the complex process of integration became noticeable especially during critical periods when the shocks appeared in the economy needed to be overcome. A part of the pressure generated by these disturbances was removed by international exchanges of goods and services that interconnect various national components in a

single system. The first signs of an “exit” from the economic crisis were given by the values recorded in the international trade.

Our calculations outline that between 2005 and 2008 exports of goods increased at an average annual rate of 15%, the increase in imports of goods being 21%. As we stated before, the economic crisis led to a sharp drop of exports in 2009 (-13.8%), and a drastic downfall of imports (-31.9%). Since 2010 Romania have recorded a faster growth of exports compared to imports. In comparison with 2009 the exports and imports increased by 28.5% and 20.4%, and the trade deficit in GDP narrowed by 0.9 percentage points to 4.9%.

In 2012, the negative balance of trade was 7379 million, down by 0.2% compared to 2011, imports being reduced more than exports. The decrease in exports was adversely affected by lower demand from the Euro Zone, which attracts more than half of Romania's exports. Also, in 2012, the degree of participation of all trade goods from our country - the share of goods in total exports of goods and services - reached 85.7% which was the highest level since Romania have joined the EU.

In 2013 exports registered an increase by 10% compared to the previous year, while imports grew by merely 1% relative to 2012, however it surpassed the value recorded in 2011. The 10% export growth in 2013 led to the lowest trade deficit in the last nine years, only 3423 million.

Table 3 - World exports volume of goods between 2005 and 2012 (in million dollars and %)

	Trade value (million USD)	Annual changes (in %)				
	2012	2005-2012	2009	2010	2011	2012
World	17850	8	-22	22	20	0
USA	1547	7	-18	21	16	5
EU 27	5792	5	-22	12	17	-5
China	2049	15	-16	31	20	8
ASEAN	1254	10	-18	29	18	1
MERCOSUR	340	11	-22	29	26	-4

Source: Own processing after the Romanian Statistical Yearbook 2006-2013, Publishing National Institute of Statistics, Bucharest

A brief comparison of the evolution of flows of goods in Romania in terms of value and dynamic during and after the economic crisis, with the internationally exhibited trends, is shown in table 3. In 2009, the first year of economic crisis, Romanian exports of goods decreased by -14% a smaller decline compared to the drop of 22% recorded in the EU and worldwide.

Since 2010, in both Romania and worldwide the volume of exports of goods recovered. It is interesting that, the recovery of exports of goods in Romania (28.5%) exceeded the level in the EU by only 12% (WTO, 2013). Nevertheless, the following year, 2011, the expansion of Romania exports of goods slowed down to 21.2%, while in the EU it continued to increase reaching 17%. Further, in 2012, there was a drop by 5% in the EU exports of goods compared to 2011, mainly because of the sovereign debt crisis. In Romania, the decline of exports was smaller, only 0.5%, close to global values.

2. THE STRUCTURE AND GEOGRAPHICAL ORIENTATION OF ROMANIA'S FOREIGN TRADE

2.1. Romania's goods export structure

In 2009, the exports were affected by the economic crisis. The main source of exports of goods was the processing industry, which provided 92.3% of Romania's exports, but the value of manufactured goods exported was just 86.3% from the value recorded in 2008, down by 17.3% (Table 4). In 2012, the processing industry remained the main source of exports of goods, providing 91.7% of Romania's exports. Overall, exports of manufactured goods remained at the previous year's level (increases were sizeable in the activities of supplying road transport vehicles, machinery and mechanical equipment).

Table 4 - Export (FOB) on the major activities of Romanian national economy

	Million euro		Indexes (%)	Structure (%)	
	2008	2009	2009/2008	2008	2009
Total	33725	29084	86,2	100	100
Agriculture, forestry and fisheries	1394	1316	94,4	4,1	4,5
Extractive industry	56	48	85,7	0,2	0,2
The manufacturing industry					
Electricity, gas and water	275	140	50,9	0,8	0,5
Other activities	895	742	82,9	2,7	2,6

Source: Own processing after the Romanian Statistical Yearbook 2009-2010, Publishing National Institute of Statistics, Bucharest

Above average decreases in exports were recorded in the following activities: metallurgical products (-50.6%), coking products of refined petroleum products (-46.7%), chemicals and chemical products (-43.5%), steel construction products industry and metal products (-24.1%) and clothing (-

20.5%), products of the metal construction industry (-24.1%) and clothing (-20.5%). Six of the twenty-two sections of the Combined Nomenclature hold together 71.5% of total exports, as follows: Machinery and mechanical appliances; electrical equipment; sound and image recorders and reproducers (25.4%); Vehicles and associated transport equipment (15,2%); Base metals and articles of base metal (11,4%); Textiles and textile articles (8,1%); Plastics, rubber and articles thereof (5,8%); Mineral products (5,6%).

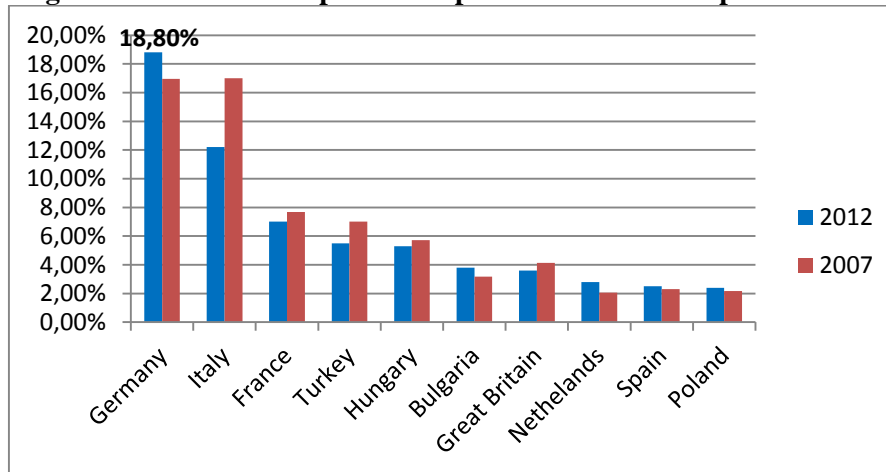
2.2. Geographical distribution of Romania’s exports

Regarding the geographical distribution of exports of goods to Romania, the intra-EU exports declined by 9.1% in 2009 compared to the previous year; however, the total exports share was 74.3%, up by 3.8 percentage points compared to 2008.

The year 2011 was marked by the sovereign debt crisis in Europe, the occurrence of natural disasters in Japan and the unrest in the Arab states. Therefore, economic growth reached only 2.4% lower than average of 3.2% from the last 20 years that preceded the year 2008.

The intra-EU exports decreased by 1.8% compared to the previous year. Decreasing sales in Italy and France have made the share of intra-EU exports to decline by 0.9 percentage points compared to 2011, reaching 70.1%. Although the 2009 crisis severely affected the extra-EU exports, in 2012 the export value represented - 29.9% of total exports, surpassing the pre-crisis level by 0.4 percentage points.

Figure 1 - Romania’s export trade partners in 2012 compared to 2007



Source: Own processing after the Romanian Statistical Yearbook 2007; 2013, Publishing National Institute of Statistics, Bucharest

As regards the main trade export partners of Romania, in 2012 we can notice an increased share of Germany in Romanian exports to 18.8%, up by 1.85 percentage points from the first year of EU membership (figure 1). At the same time, Germany surpassed Italy and became the main export partner of Romania. The Italy's share in Romanian exports considerably decreased by 4.8 percentage during the 2007-2012 period.

2.3. Romania's goods import structure

In 2012, four groups of goods supported the demand of imports counting for almost 75%: Machinery and transport equipment (34.1%), Chemical and plastics products (17.4%), Mineral products (13%) and Base metals (10,7%).

Table 1.5 - Romania's import by groups of goods

	Million EUR		Indexes (%)	Structure (%)	
	2011	2012	2012/2011	2011	2012
TOTAL	52686	52449	99,6	100,0	100,0
Food Products	4262	4593	107,8	8,1	8,8
Mineral products	6396	6835	106,9	12,1	13,0
Chemical and plastics products	9034	9152	101,3	17,1	17,4
Wood and paper products	1338	1246	93,1	2,5	2,4
Textiles and article textiles	3981	3915	98,3	7,6	7,4
Base metals	5930	5597	94,4	11,3	10,7
Machinery and transport equipment	18500	17864	96,6	35,1	34,1
Other goods	3245	3247	100,1	6,2	6,2

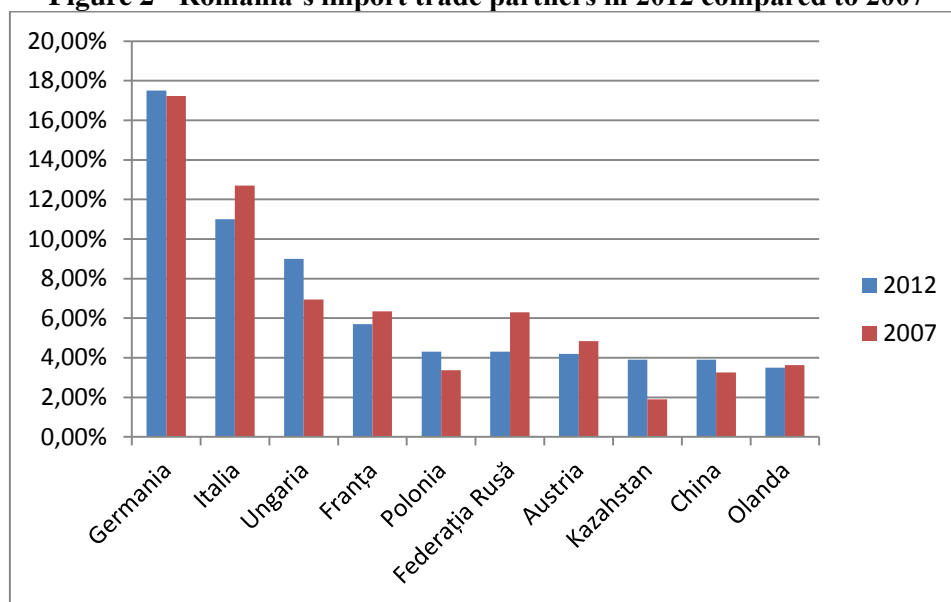
Source: NBR Romania's Balance of Payments and International Investment Position, Annual Report 2012

Six sections from the Combined Nomenclature hold 75.2% of total imports, as follows: Machinery and mechanical appliances; electrical equipment; sound and image recorders and reproducers (26.4%); mineral products (12.7%); Base metals and articles of base metal (10.8%); chemical products (10,4%); Vehicles and associated transport equipment (7.6%); Plastics, rubber and articles thereof (7.3%).

2.4. Geographical distribution of Romania's imports

After joining the EU, the share of Intra-EU imports in Romania's imports increased by 0.7 percentage points reaching 74% in 2012. The major contributions have returned to Germany (17.5%), Italy (11%) and Hungary (9%).

Figure 2 - Romania's import trade partners in 2012 compared to 2007



Source: Own processing after the Romanian Statistical Yearbook 2007; 2013, Publishing National Institute of Statistics, Bucharest

We also notice a 2% increase of imports from Kazakhstan making it one of the top 10 most important import partners of Romania in 2012. Although Italy's share in Romania's total imports declined by 1.7 percentage points, Italy is still the second partner regarding imports.

CONCLUSION

Romania is a net importer since it has joined the European Union; however during the crisis the decrease of imports was sharper compared to exports. Our country is part of the group of countries with a lower export dynamics compared to imports.

In 2013 Romania recorded the lowest trade deficit in the last six years. On the background of the economic crisis, exports of goods fell sharply in 2009 (-13.8%); simultaneously there was an even bigger

decrease in the volume of goods imports (31.9%). Both exports and imports have resumed growth since 2010. Although exports overreached the pre-crisis level in 2011, imports overreached 2 years later, in 2013.

Weakened growth in the European Union will continue to affect the import demand, negatively reflecting in both intra-EU and extra-EU trade. Since the trade of goods in Romania is dependent on the EU economy, we believe that, at least in short term, we cannot have positive expectations from the European economy which is still affected by the sovereign debt crisis. We should rather anticipate positive developments in the emerging economies.

After the EU accession, Romania's foreign trade was readjusted according to the situation in the international markets. Romania's foreign trade is not efficient; the trade balance is the best proof for this statement. Romanian exports are below the level of imports with many trading partners. We can explain this by the fact that although there is great potential in exporting towards different countries, who are more efficient and who are supported by the EU through bilateral and preferential trade agreements, Romania has focused mainly on markets it has concluded free trade agreements prior to accession. The share Romania's export and import to the EU countries considerably increased, at the expense of the third countries.

Romania's economy has a higher level of imports for a given volume of exports, a situation caused by the high degree of dependence on imports of Romania's economy. The general conclusion that can be drawn is that the export potential of the economy is quite limited and in spite of an increase in GDP, the trade deficit will not be reduced, Romania continuing to remain dependent on imports to a high extent.

REFERENCES

- Edwards, S. (1992) *Trade orientation, distortions and growth in developing countries*, Journal of Development Economics, no. 39.
- Romer, P. (1989) *Endogenous Technological Change*, Journal of Political Economy, Vol. 98, no. 5,
- Victor A., Octavian B. (2005) *Aderarea României la Uniunea Europeană și implicațiile sale asupra comerțului exterior*, Bucharest: Editura Ager-Economistul.

INS (2005-2013) *Statistical Yearbook of Romania*, National Institute of Statistics, Bucharest.
NBR (2012) *Romania's Balance of Payments and International Investment Position*, Annual Report.
WTO (2013) *Trade to Remain Subdued in 2013 After Sluggish Growth in 2012 as European Economies Continue to Struggle*. Press Release, PRESS/688, 10 April, Geneva.

CETA - BILATERAL TRADE AGREEMENT BETWEEN THE EU AND CANADA

Ludmila Borta*

Abstract: *The international trade for wide world countries in the means more growth, more jobs and access on more products at competitive prices. The European Union is a major economy and an important trading partner for many countries and regions in the world. To stimulate growth and to create jobs in the Union, this economy has concluded multilateral trade agreement (under the World Trade Organisation) and a number of bilateral (preferential) trade agreements. The aim of this paper is to present an example of fully elimination of tariffs and tariff lines under a bilateral trade agreement. In this case, we have analysed Comprehensive Economic and Trade Agreement (CETA) negotiated by the European Union and Canada. For both sides of Atlantic, the CETA is supposed to bring the solution for today's issues concerning the important trading aspects and, also, to facilitate the EU-Canada bilateral trade by creating competition.*

Keywords: elimination of tariffs; CETA; exports; imports; non- and agricultural goods; duties.

JEL Classification: F13; F19; F43; F53.

INTRODUCTION

Over time, the European Union has created and developed strategic relationships with both developed and developing countries and regions of the world, and international organisations. Through its actions in providing access for its trading partners to the Community market, the EU has proved to be adept of free and fair trade. The EU's participation in so many multilateral and bilateral trade negotiations (the number of the seconds is rapidly increasing in recent years) shows again its interest in reducing or eliminating tariffs and non-tariff barriers in the world trade.

The current trends of the European Union to negotiate and complete many bilaterally trade agreements proves that multilateral relations are not efficient anymore for facing the nowadays economic level. It seems that the EU considers trade bilateralism a better way to get a lot more benefits. For this region, multilateralism remains the basis of its trade policy, but it is not seen as the best way to solved trade disputes.

Thus, in this paper we chose to present a bilateral trade agreement negotiated by the EU. CETA is a comprehensive agreement that will eliminate tariff and tariff lines (as soon as the agreement enters into

* Ludmila Borta, PhD Student at the Faculty of Economics and Business Administration within Alexandru Ioan Cuza University Iași, Romania, e-mail: borta.ludmila@gmail.com.

force) and will cover all sectors and aspects of the EU-Canada trade. It will open new markets and increasing market access for goods and services and providing new opportunities for European and Canadian investors and exporters.

1. CETA - FULL ELIMINATION OF TARIFF LINES

The European Union and Canada are World Trade Organisation's member since 1995. They have always been fully committed to the regularisation of a strong multilateral trading system. For the EU and Canada it is of great importance that the WTO is an international organisation that reflects and respects the needs and concerns of developing countries. Nowadays (characterised by numerous and different crises), the existence of that international organisation was not sufficient to ensure free, fair and open trade. The EU has always recognized the importance of the fight against all forms of protectionism, ensuring market access. At least, for the EU the trade agreements negotiated bilaterally represent a global basis. These provide for the development of global rules in areas where the WTO has not been able to provide effective solutions for disputes at multilateral level.

The European Union and Canada chose to appeal to bilateralism. Thus, the current EU-Canada trade relations are based on a Framework Agreement for Commercial and Economic Cooperation, which is in force since 1976. Over the years, these two economies meet annually to review bilateral economic and trade issues, designing a number of additional bilateral agreements to facilitate trade between them, such as The Veterinary Agreement (1999), the Wine and Spirits Agreement (2003), the Comprehensive Air Transport Agreement (1999) etc. (Canada, 2013). Thus, by stimulating trade cooperation with other site of Atlantic, the European Union aim to generate new opportunities to increase growth and to create jobs in the Union.

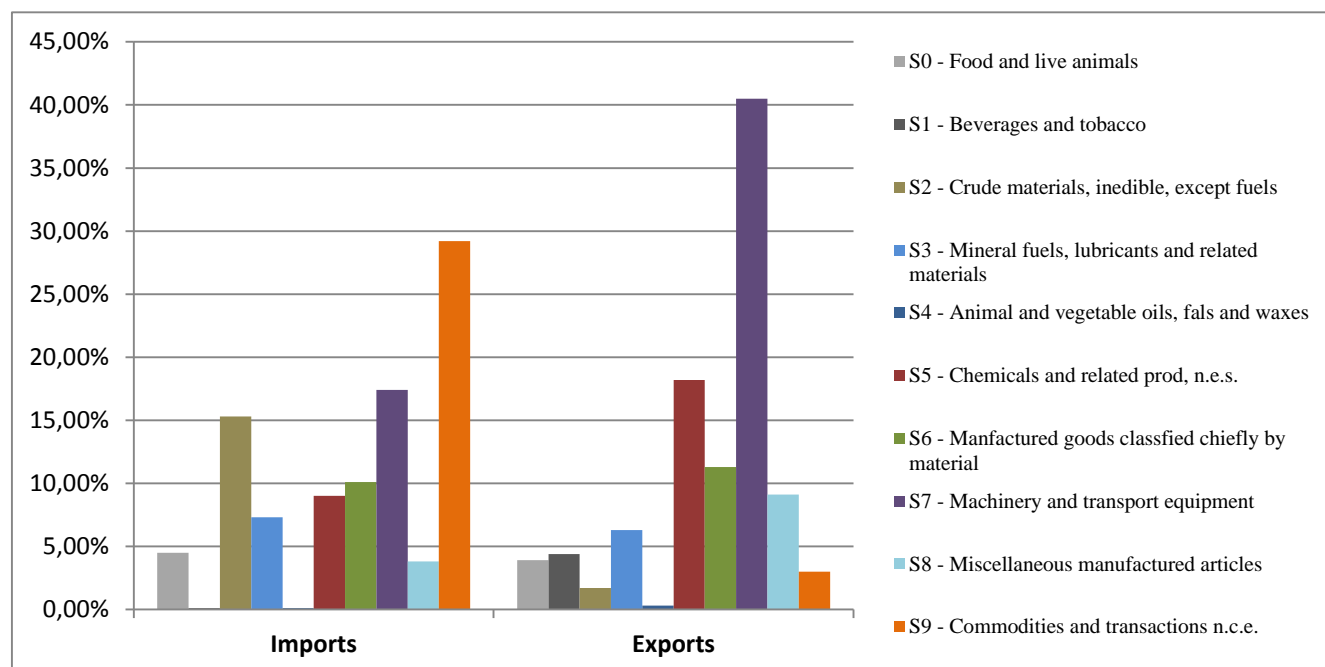
In May 2009, EU and Canada have launched negotiations for CETA (Comprehensive Economic and Trade Agreement), and a month later they are agreed about the content and general modalities of the agreement. On 18 October 2013, they have reached a political agreement on the key elements of this trade agreement, which aim is to eliminate the tariff lines between these two economies. Through this political cooperation, the parties will now be able to continue the process and settle all the remaining technical issues. The next step of negotiations is represented by approval of the Council and European

Parliament of the CETA. After it will be implemented, the agreement is expected to increase EU-Canada bilateral trade in goods and services by 23%, providing for growth and employment on these two economies.

The EU is a major trading partner for almost all countries and regions in the world, developing multilateral and bilateral trade relations with certain countries. For Canada, the European Union was the second most important trading partner (after the United States) in 2012, with around 9.5% of Canada's total external trade. For the European Union, Canada was the 12th most important trading partner in 2012, with 1.8% of the EU's total external trade. Thus, it is obvious that both regions are interested to stimulate bilateral trade cooperation by negotiating of strengthen and beneficial, for both parties, contents of CETA.

In 2012, the value of bilateral trade in goods between the EU and Canada was 61.6 billion of euro. In Figure 1, it can be seen that the EU's exports of goods to Canada are dominated by machinery and transport equipment and chemicals, with 40.5% of the EU's total trade flows. These categories of products also are an important part of the EU's imports of goods from Canada (with 17.4%), as well commodities and transactions (with 29.2%, dominating in the top of the EU's trade flows from Canada) and crude materials, inedible (except fuels) (with 15.3%). Trade in services and the investment relationship are equally highly important area of the EU-Canada trade relationship. The value of bilateral trade of services amounted to approximately 26 billion of euro, being dominated by travel, transportation, communication and insurance.

Figure 1 - EU trade flows with Canada by SITC section, in 2012



Source: Own processing after the European Commission Statistics

Canada is one of the most advanced economies in the world. For this country, CETA is most ambitious trade initiative. It will open new markets and increasing market access for goods and services and providing new opportunities for European investors and Canadian exporters. Besides bringing almost all tariffs to zero, CETA will also liberalise trade in services, in particular financial services, telecommunications, energy and transport.

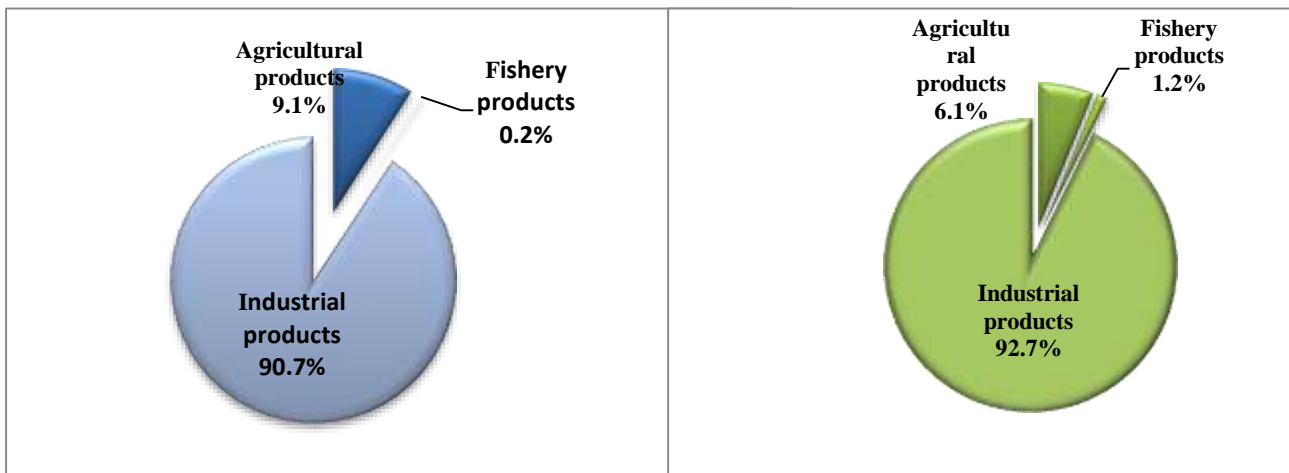
After this agreement enters into force, Canada will be one of the only developed countries in the world to have preferential access to the both EU and the United States markets. The investment opportunities of this double access will lead directly to jobs and opportunities in the country access to more than 800 million of the world's most affluent consumers (Opening New Markets in Europe. Creating jobs and Opportunities for Canadians, p. 3, 7-8). After entry into force, all levels of Canada's government will open up their public procurement markets to European suppliers. CETA will insure the closer level of the Canadian protection of intellectual property to that of the EU. The pharmaceutical sector and exporters of agricultural products of specific geographical origin known as GIs will be the sectors that will be in the beneficial position (*EU and Canada strike free trade deal*, 2013).

International commercial purpose of the European Union is to facilitate the access of EU's exporters to new markets. Following the research, we found that the EU is able to form an open global trading system based on fair rules, and at the same time ensuring that these rules are respected. In international trade, the success of the European Union depends on the success of the EU's trading partners.

2. KEY ELEMENTS OF THE EU-CANADA CETA

Trade relations traditionally begin with trade in goods. The EU-Canada cooperation is based on this type of trade that is the longest-standing and most extensive part of the Agreement. In Figure 2, we can see that, in 2012, the trade relations in goods between Canada and the EU have been represented by three type of products: agricultural, industrial and fishery products.

Figure 2 - EU's exports (left) and imports (right) of AMA/NAMA product Group to and from Canada, respectively, in 2012



Source: Own processing after the European Commission Statistics

Under CETA, the fully elimination of tariff lines will determinate more benefits especially concerning the EU's exports and imports of industrial products which accounted for 90.7% and 92.7% of total EU's exports and imports, respectively, of agricultural and non-agricultural products to and from Canada. Also, we observed that the fishery products only accounted for 0.2% and 1.2% of exports and imports, respectively, of AMA/NAMA product group in 2012.

In conclusion, the most important element of the EU-Canada CETA is represented by the elimination of duties. These two economies agreed to undertake an ambitious obligation to fully eliminate tariffs on approximately all tariff lines, as soon as the agreement enters into force. While almost all tariffs will be eliminated when CETA comes into force, 1% of tariffs will be eliminated over a period of up to seven years.

2.1. Non-agricultural goods

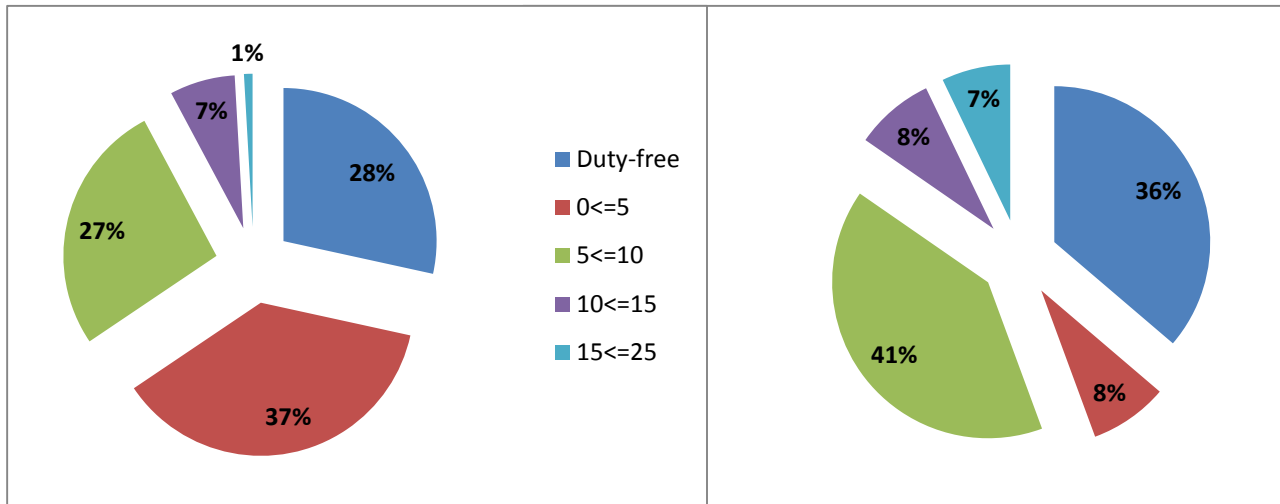
With regard to non-agricultural goods, under this trade agreement 98% of EU and Canada tariff lines will be set at 0%. The tariffs and tariff lines will be duty-free seven years after entry into force of CETA. Industrial tariffs will be fully liberalised saving EU exporters an expected around 500 million of euro in duties a year. In other words, EU exporters will be relieved of the costs of paying tariffs when selling goods on the Canadian market. Also, CETA assumes customs and trade facilitation by providing access to advance rulings on the origin or tariff classification of products.

For fishery products, most duties will be eliminated. Thus, 95.5% of EU's tariff lines will be set at 0% and Canada will eliminate 100% of tariff lines. CETA guarantees to EU's firms a better access to Canadian fish for the EU processing industry. Sustainable fisheries will be developed in parallel, in particular with regard to monitoring, control and surveillance measures, and the fight against illegal, unreported and unregulated fishing. Under favourable rules of origin the majority of Canadian fish and seafood products will qualify for preferential treatment. EU imports of fish and seafood from Canada will be treated at minimum processing requirements. Canada already has eliminated tariffs on all of its fish/seafood tariff lines in almost of its past free trade agreements (*Facts and figures of the EU-Canada Free Trade deal*, 2013).

Also, Canada commits to provide most-favoured nation treatment for EU member state vessels as compared to vessels of any other foreign states and to recognise a list of EU car standards. One of the ongoing disputes is represented by quantitative restrictions and related measures by the Canada - used car import ban. Under the Canadian Customs Tariff a prohibition on imports of used or second-hand vehicles of all kinds remains in place, except on those imported from the United States (*Trade Barriers*). The most sensitive lines of current duties of automobiles for both regions have maximum seven-year

phase-out. The EU and Canada have agreed to strengthen cooperation and to share of information between them, without compromising safety North American integration of the auto manufacturing market.

Figure 3 - Frequency distribution of the final bound duties of the EU (left) and Canada (right), on non-agricultural products (in 2012)



Source: Own processing after the WTO

In Figure 3 is presented the share of final bound duties on non-agricultural goods applied by both the EU and Canada. We can see that, in 2012, Canada has set 36% of tariff lines as duty-free, but the EU by 8% less. Also, the first one has appealed to more duties at 5-10% (for example, on automobiles). The EU has applied more duties at 0-5% (for examples, on forestry products, chemicals and plastics etc.). Over all, under CETA the EU will be the one of the parties of this agreement that will eliminate more tariff lines.

We can conclude certainly that Canada will have access on more "cheaper" EU non-agricultural goods than the EU on Canada products of this type. This means that Canadian goods that faced tariffs will become more competitive in the EU market, giving Canadian exporters a significant advantage over other exporters still facing tariffs. This will allow Canadians to expand or create new markets for their goods in the EU. One important benefit to protect is the preferential access given to goods: only goods made in Canada or the EU will benefit from preferential tariffs.

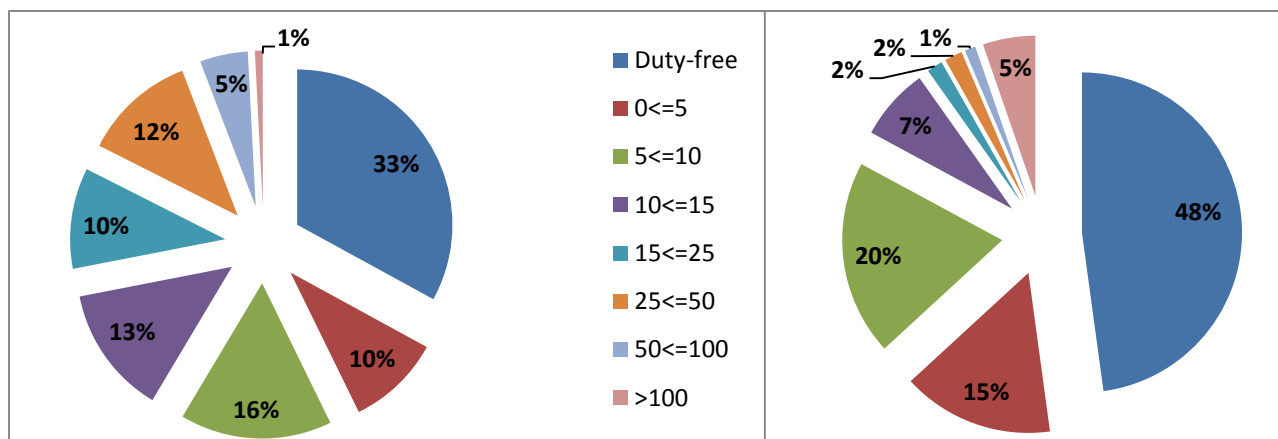
2.2. Agricultural goods

Canada is a very valuable export market for EU's agricultural, with annual sales of over 2.9 billion of euro. CETA will rapidly eliminate duties on agriculture products by 92.8 % (Canada) and 93.5 % (the EU) of trade lines, by the end of the transitional periods. This industry will considerably gain from CETA as all the tariffs will be eliminated. As example of ongoing disputes, in Canada, imports of wheat and barley originating in the NAFTA countries do not comply with WTO rules, at the same time continuing to benefit from the preferential NAFTA duty rates. Therefore, EU exporters must face this preferential trade on the Canadian market. Under CETA, the elimination of tariffs is "considerably more comprehensive and ambitious than required by Article XXIV GATT", with no tariff lines excluded a priori, including agriculture, thereby possibly resulting in the liberalisation or even the elimination of these restrictions on EU wheat and barley exports (*Trade Barriers*).

The EU is Canada's major import source of wine, this accounted for half of Canada's imports. The elimination of tariffs on this products provides also the removal of other relevant trade barriers which will significantly improve access to the Canadian market for European Wines and Spirits (*Facts and figures of the EU-Canada Free Trade deal*, 2013). In accordance with the Agreement on trade in wines and spirit drinks, Canada will shall to respect and follow some rules to have the EU names listed in Annex of the Agreement entered on the list of protected geographical indications (GIs) in Canada. Canada currently recognizes a number of wines and spirit GIs of the European Union, such as Cognac and Bordeaux.

With regard to Canadian trademark that use English and French languages, CETA will offer protection for GIs without prejudicing the validity of existing trademarks of this country. Some EU GIs were protected but with the caveat that they not impact the ability of producers to use specified English and French languages terms that are commonly employed in Canada [Technical Summary of the Final Negotiated Outcomes]. Under this trade agreement between the EU and Canada, the agricultural goods from Canada will treated at the main rule of origin, qualifying for duty-free treatment.

Figure 4 - Frequency distribution of the final bound duties of the EU (left) and Canada (right), on agricultural products (in 2012)



Source: Own processing after the WTO

In Figure 4 is presented the share of final bound duties on agricultural goods applied by both the EU and Canada. We can see that, in 2012, Canada has set 48% of tariff lines as duty-free, but the EU by 15% less. Also, the first one has appealed to more duties at 0-10%. The EU has applied more duties at 5-15% (for example, on fresh and frozen fruits, processed fruits and vegetables etc.) and 25-50% (for examples, on beef). Over all, after entry into force of CETA the EU will be the one of the parties of this agreement that will eliminate more tariff lines on agricultural products.

We can conclude certainly that Canada will have access on more "cheaper" EU agricultural goods than the EU on Canada products of this type. As regards products considered sensitive (dairy for Canada and beef, pork and sweet corn for the EU), it has been agreed that new market access, amounting to a further 1% and 1.9% of tariff lines respectively, will be granted in the form of tariff rate quotas. According to European Commission, today, Canada apply unjustified import restrictions on a number of animal products relating to BSE (Bovine Spongiform Encephalopathy). Canada has indicated that it is waiting for the publication of the US rule to align the US legislation to the OIE (World Organisation for Animal Health) standards, the rules of this organisation is respected by the Canada. After that, Canada has indicated that it will informed the EU after this publication and will discuss the following steps of cooperation [Trade Barriers].

The EU and Canada agreed to reaffirm and build upon WTO sanitary and phytosanitari (SPS) commitments. They subscribe to WTO requirements that ensure that SPS measures, which governments

use to regulate the protection of human, animal and plant life and health, are not used as a cover for trade protectionism [Facts and figures of the EU-Canada Free Trade deal]. Thus, to be ensured that consumers have access on safety food and to prevent the introduction of animal diseases, the EU and Canada have agreed to maintain sanitary measures. Under CETA, these two economies have agreed to build on their shared WTO commitments (at multilateral level) and bilateral cooperation in order to make sure their respective sanitary and phytosanitary measures remain effective yet do not unnecessarily hamper trade.

2.3. Other sectors

In the field of technical regulations, CETA contains provisions that will improve transparency and foster closer contacts between the EU and Canada. With regard to trade in services, CETA will bring new opportunities for European exporters by creating access on the market on other sites of Atlantic in key sectors such as financial services, telecommunications, energy and maritime transport. The GDP gains for the EU could amount to up to 5.8 billion of euro per year, once the agreement is fully implemented. The EU's important sectors and services activities of export interest to Canada are:

- services related to energy;
- mining;
- research and development;
- environmental services;
- technical testing and analysis services;
- professional services;
- computer and information technology (*Technical Summary of the Final Negotiated Outcomes*).

FDI create new jobs and introduces the receiving country to new technologies, different management techniques and broader international markets. Investments are one of the key pillars of economic relations between the EU and Canada and FDI is an important contributor to growth and to create jobs in Canada. The EU is the second largest source of foreign direct investment in Canada and the second largest destination for Canadian direct investment abroad. Under CETA, will be removed barriers to FDI both horizontally and in specific sectors, improving legal certainty and predictability for businesses. The European Commission has negotiated provisions to protect European investors in

Canada, ensuring non-discrimination, a fair and equitable treatment and appropriate compensation in the event of expropriation [Facts and figures of the EU-Canada Free Trade deal]. CETA covers all services unless Canada or the EU specifically excludes a particular service from coverage. Canada and the EU are giving each other's service suppliers the most favourable access either has given to a trading partner.

Thus, to support trade in services and investment, CETA will make it easier for firms to move staff temporarily between the EU and Canada. This will make it easier for European companies to run their operations in Canada. EU commitments are the most ambitious ever in a free trade agreement. Canada's offer is in line with the level of ambition taken by the EU.

The agreement provides a framework for a future mutual recognition of qualifications in professions such as architects, engineers, and accountants. First time that substantive and binding provisions on licensing and qualification have been included in any of Canada's free trade agreements. Thus, CETA will be the first of Canada's free trade agreements to include substantive and binding provisions on the mutual recognition of professional qualifications. As a result, the process of recognizing foreign qualifications will provide a detailed framework. Through this framework professional organisations will be able to negotiate mutual recognition agreements. This will be of key importance to professional associations that is interested in engaging in discussions once CETA enters into force (*Technical Summary of the Final Negotiated Outcomes*).

Because CETA, it will be the first time when in Canada all sub-federal levels of government will have committed themselves to bilaterally opening their procurement markets. In this country will also be created a single electronic procurement website that combines information on all tenders and access to public procurement at all levels of government. This will make it much easier for European suppliers to compete in the Canadian procurement market (*Facts and figures of the EU-Canada Free Trade deal*).

With regard to Intellectual Property Rights (IPR), CETA will create more of a level playing field between Canada and the EU, leading, in particular, to developments in the Canadian system regarding pharmaceuticals. The request of the EU to provide 10 years of data protection was been rejected by Canada which agreed to lock in the current Canadian practice of providing eight years of market exclusivity current regulations. This economy chose to provide a six year "no-filing" period and a two-year "no-marketing" period. During these periods no applications for generic drugs are accepted for regulatory consideration and generics can progress toward market readiness but cannot be sold. Canada

agreed to provide additional (*sui generis*) protection for pharmaceutical products protected by eligible patents in Canada. Time of approval of new biotherapeutic products in Canada has increased dramatically in the recent past to the point where Health Canada's Biologic and Genetics Therapies Directorate (BGTD) is, by wide margin the slowest agency amongst its international peers to review and approve new products. The problem is mainly the amount of time a submission is in queue waiting for a review to be initiated. As the European industry complains about this issue that is dealt with in the EU-Canada Trade and Investment Subcommittee (TISC) (*Trade Barriers*).

In field of intellectual property rights, CETA's strong commitment will complement access to EU markets for citizens of Canada who develop innovative and creative products, bringing benefits for investors and consumers alike. CETA will help Canada to maintain its leadership in innovation-driven industries (such as information and communications technology, aerospace etc.) and key industries of 21st century including health, energy and sustainable technologies. The chapter of CETA also includes provisions on trademarks, designs and copyrights, and overall it reflects high standards for IPR protection. Reiterates existing aspects of Canada's copyright regime, including term of protection, broadcasting, protection of technological measures (technology designed to protect copyrighted material), protection of rights management information, and liability of intermediary (e.g. Internet) service providers (*Technical Summary of the Final Negotiated Outcomes*).

CETA recognises the special status and offers protection on the Canadian market to a list of numerous European agricultural products from a specific geographical origin, so-called Geographical Indications (GIs). Examples are Grana Padano, Roquefort, Elia Kalamatas Olives or Aceto balsamico di Modena. In addition, thanks to the agreement, some prominent EU GIs such as Prosciutto di Parma and Prosciutto di San Daniele will finally be authorised to use their name when sold in Canada, which was not the case for more than 20 years (*Facts and figures of the EU-Canada Free Trade deal*).

CETA provides for an efficient and streamlined horizontal mechanism covering most areas of the agreement. The system is intended as a last resort should the parties fail to resolve disagreements relating to the interpretation and implementation of the Agreement's provisions by other means. It proceeds along a fixed set of procedures and time-frames (*Facts and figures of the EU-Canada Free Trade deal*). Under CETA, the state-to-state dispute settlement provisions are based on the WTO Dispute Settlement Understanding model, but improve on it in several ways. For example, CETA includes a more robust

voluntary mediation mechanism than has been included in Canada's previous trade agreements and an accelerated arbitration procedure for cases requiring urgent resolution. Mediation is a cost-effective and expeditious way to resolve disputes without the need for a third party to decide the outcome.

The EU and Canada have in CETA also reaffirmed their strong commitment to the principles and objectives of sustainable development. This means that investment and trade relations should not develop at the expense of the environment or of social and labour rights, but instead foster mutual supportiveness between economic growth, social development, and environmental protection. As the US and Canada have already liberalised their trade under the North American Free Trade Agreement (NAFTA), this agreement will allow EU companies to compete with US exporters on the Canadian market by levelling the playing field, while in addition benefitting from preferential treatment going beyond NAFTA (Facts and figures of the EU-Canada Free Trade deal).

CONCLUSIONS

As a WTO member, the EU and Canada are fully committed to the regularisation of a strong multilateral trading system that reflects and respects the needs and concerns of developing countries. However, current economic and financial crises put under questions the efficient of that international organisation. For both sides of Atlantic, the WTO is not anymore sufficient to ensure free, fair and open trade, not being able to provide effective solutions for today's disputes at multilateral level. The EU has always recognized the importance of the fight against all forms of protectionism, ensuring market access.

WTO is an organisation within which the European Union could achieve an essential part of its business objectives. Even the EU's common commercial policy was "designed" under the World Trade Organisation. It seems that economic globalisation "poisoned" the multitude of crises - having the world, regional or global impact eventually - weakened the WTO action and set a uncertainty among the members participating in global trade in the efficiency of this international organisation.

The EU Global Agenda This provides a new generation of ambitious bilateral trade agreements with major trading partners. Some emerging economies already represent a significant and growing share in world trade. European bilateralism is important and extremely challenging. These new trade agreements go beyond import duties whose importance has diminished. Regulatory hurdles are addressed

in terms of goods, services and investment, intellectual property, public procurement, protection of innovation, sustainable development and other important issues. The EU resorted to negotiate such agreements in solving problems that are not ready for multilateral discussion and by preparing the ground for the next level of multilateral liberalisation.

We believe that ambitious agreements, especially with large developed countries may have a systemic range. They provide a laboratory for gaps in multilateral normative acts. They can develop regulatory solutions that can be the basis for further activities at the multilateral level. Thus, by negotiating a bilateral trade agreement with Canada, the European Union's purpose is to generate new opportunities to increase growth and to create jobs in the Union. For Canada, which is one of the most advanced economies in the world, the CETA is most ambitious trade initiative. It will open new markets and increasing market access for goods and services and providing new opportunities for European and Canadian exporters. Besides bringing almost all tariffs to zero, CETA will also liberalise trade in services, in particular financial services, telecommunications, energy and transport. In a few words, the most important element of the EU-Canada CETA is represented by the elimination of duties. These two economies agreed to undertake an ambitious obligation to fully eliminate tariffs on approximately all tariff lines, as soon as the agreement enters into force.

On every trade sectors, under this trade agreement almost all the EU and Canada tariff lines will be set at 0%. CETA assumes customs and trade facilitation by providing access to advance rulings on the origin or tariff classification of products, guaranteeing to EU's firms a better access to Canadian goods that faced tariffs will become more competitive in the EU market, giving Canadian exporters a significant advantage over other exporters still facing tariffs. This will allow Canadians to expand or create new markets for their goods in the EU.

FDI create new jobs and introduces the receiving country to new technologies, different management techniques and broader international markets. Investments are one of the key pillars of economic relations between the EU and Canada and FDI is an important contributor to growth and jobs in Canada. The EU is the second largest source of foreign direct investment in Canada and the second largest destination for Canadian direct investment abroad. Thus, to support trade in services and investment, CETA will make it easier for firms to move staff temporarily between the EU and Canada. This will make it easier for European companies to run their operations in Canada. EU commitments are

the most ambitious ever in a free trade agreement. Canada's offer is in line with the level of ambition taken by the EU.

EU wants especially to take advantage of free trade and investment triple, which requires: more growth, more products for sale at competitive prices and more jobs. For this, the EU has chosen to negotiate free trade agreements. Stipulating global existence of uncertain perspectives on successful completion of WTO Doha Round, the EU has redirected its trade strategy to bilateral negotiation. Considering this as a better solution to face the crisis that has affected the global economy.

REFERENCES

- *** (2013) *Canada*, European Commission, accessed on February 2014 at <http://ec.europa.eu/trade/policy/countries-and-regions/countries/canada/>
- *** (2013) *EU and Canada strike free trade deal*, European Commission, accessed on February 2014 at <http://trade.ec.europa.eu/doclib/press/index.cfm?id=973>
- *** (2013) *Facts and figures of the EU-Canada Free Trade deal*, European Commission, accessed on February 2014 at <http://trade.ec.europa.eu/doclib/press/index.cfm?id=974>
- *** (2013) *Opening New Markets in Europe. Creating Jobs and Opportunities for Canadians*, accessed on February 2014 at <http://actionplan.gc.ca/sites/default/files/pdfs/overview.pdf>
- *** *Technical Summary of the Final Negotiated Outcomes*, the Canada-European Union Comprehensive Economic and Trade Agreement, accessed on February 2014 at <http://actionplan.gc.ca/en/page/ceta-aecg/technical-summary>
- *** *Trade Barriers*, the European Commission, accessed on February 2014 at http://madb.europa.eu/madb/barriers_crossTables.htm?table=countrysector

THE EMPIRICAL ANALYSIS OF THE RELATION BETWEEN FDI, EXPORTS AND ECONOMIC GROWTH FOR ROMANIA

Lenuța Carp (Ceka)*

Abstract: *FDIs are considered a key engine to enhance economic growth both in developed and emerging economies, through various channels such as technology transfer, human and physical capital accumulation, commercial channel. The present paper aims at emphasizing the strong, long – term impact of FDI inflows on economic growth through the volume of exports. Using data over the period 1990 – 2012, the article has proved the existence of an important influence exerted by foreign inflows on the GDP growth rates based on a Johansen Co-integration and VECM analysis. Further research will be developed through a panel study on developed and developing economies.*

Keywords: FDI; exports; economic growth; Johansen Co-integration.

JEL Classification: F1; F21; F43.

INTRODUCTION

Since 2000, Romania was one of the most attractive destinations for foreign investors who want to develop and expand their activities, due to the policies and strategies adopted by the authorities. Unfortunately, even if FDI inflows and trade flows recorded significant increases, their impact on the national economy was relatively low because, despite of the efforts made to increase their effects, our country has to face some serious problems regarding corruption, legal and administrative barriers.

The situation charged under the influence of the wave of globalization and under the integration in the EU community. The foreign capital flows externalities in our economy stimulated the economic activities and generated positive influences on the dynamic and evolution of the macroeconomic indicators. Using various econometric techniques, important researchers and academics demonstrated the key role FDI and trade flows play in boosting economic growth rates.

Relevant research on this topic has emphasized on one hand the most important channels through which FDI may exert a positive and significant impact on economic growth, but highlighted on the other hand that foreign flows impact in the beneficiary country is often correlated with internal features. The

* Lenuta Carp (Ceka), PhD. Candidate at Doctoral School of Economics and Business Administration - Alexandru Ioan Cuza University of Iasi Romania, e-mail: lenutza_carp@yahoo.com

exports have become in several developed and developing economies an important path in achieving a higher rate of economic growth, which was also our country's objective over the last ten years.

The aim of this paper is to determine the existence of a potential connection between FDI inflows, economic growth and volume of exports. The article is structured in the following sections: a short literature review focusing on the past results of the analysis on the correlation between FDI and growth; the following section presents general aspects on the data and the methodology used; the next part of the paper emphasizes the main findings and the most important conclusions drawn from the research.

1. DO FOREIGN INVESTMENT FLOWS STIMULATE ECONOMIC GROWTH? THEORETICAL ASPECTS

International capital mobility during the globalization phenomenon and financial markets integration had generated a strong positive impact on FDI, especially in developing economies. This effect highlights the increased interdependency between the worldwide economies and the ascending trend of their volatility degree.

FDI can be considered an important opportunity to stimulate the restructuring process of the global economy through the externalities these foreign flows may generate (technological transfer, competitiveness economies). Many relevant previous studies have developed advanced analyses to determine whether foreign capital flows enhance economic growth or not. Unfortunately, their opinion is not unanimous as some of them have identified the existence of a positive correlation, unidirectional or bidirectional between FDI and economic growth (De Mello, 1999; Chong, Baharumshah, 2010) or a negative connection (Moran, 1998), meanwhile others were not able to identify any correlation between FDI and host country economic growth (Ericson, Irandoust, 2001; Li, Liu, 2005).

Globalization has exerted a favorable impact of foreign capital flows movements across the countries, easing their effects on the beneficiary economies. However, these implications are highly dependent on the internal market features – labor force, technology, how – how, exports, exchange rate or the type of investment, having a major contribution in development of certain competitive advantages based on specialized production factors (Anghel, 2002, p. 38).

The literature on the topic has emphasized the main channels through which FDI may stimulate economic growth: gross capital formation, market development and free access, occupancy degree of the work force, fiscal incomes, human and physical capital accumulation, commercial channel (Hermes, Lensink, 2003). Alfaro (2010) has established a strong connection between FDI and national economic development, if the financial markets are developed enough not to limit the externalities generated. Similar results have been confirmed by the analysis carried out by Chee (2010), Abzari, Zarei, Esfahani (2011). The increased interdependencies between national markets stimulate international capital mobility, generally from the developed countries to the emerging ones. In consequence, financial market liberalization, along with the globalization wave and the economic and financial integration have determined a sharp growth of foreign capital flows mobility, creating the environment to gain higher rates of economic development.

The implications of foreign capital flows in the beneficiary economies are highly dependent on their economic characteristics, contributing to the reduction of the lag between the host countries and other developed economies. National politics usually play a key role in attraction of FDI, through the strategies and politics the policy makers develop. Lipsey (2008) appreciates that the national policies regarding international trade are the basis of the interdependency between FDI and economic growth, as the mobility and flexibility of foreign flows at the global scale boosts incoming and outgoing flows (through exports), increasing the national competitiveness in the global economy and creating the perspectives for a higher rate of economic growth.

Jayasuriya (2011) has demonstrated the existence of a positive correlation between FDI and host country economic growth using in his analysis variables such as GDP growth rate, GDP per capita, investment rate and human capital level.

Previous research has provided strong evidence on the influence that national market development has on enhancing the attractiveness of the foreign capital flows over long term, leading to higher economic growth rates in the developed economies. The level of development of the internal market can be considered an indicator for the foreign investors to evaluate the potential of the destination of their flows, providing them an environment for expanding their businesses, technological acquisitions and transfer of managerial and organizational skills.

FDI are widely recognized by their positive influence on the *technological transfer*, multinationals aim to use advanced equipment which requires professional trainings for employees, but, in the meantime, develop the perspectives of gaining a higher level of productivity by stimulating the competition (Javorcik et al., 2006). The expansion of their economic activities often is associated with an increase of the incomes to the national budget and a decrease of the unemployment rate. Alfaro (2009) and Burke (2007) have shown that, actually, not always foreign flows impact on the work force is positive, because FDI as mergers and acquisitions lead in the first place to massive layoffs and a sharp increase of the unemployment rate.

Relevant studies on the topic underlined that, through the *capital accumulation channel*, massive inflows of capitals enhance the implication of the work force in economic activities, increasing the competitiveness in the internal market through the development of their abilities (Salman, Feng, 2009). Bengoa and Sanchez – Robles (2003, p. 529) have emphasized the major importance of the human capital for the success of a multinational and the country's perspectives for development, saying that “host country still requires adequate human capital, economic stability and liberalized markets to benefit from the long term capital flows. Supporting the same idea, De Mello (1999) has focused on investigating the relationship between GDP growth rate and human capital development and provided evidence that “the degree in which FDI stimulate growth are strongly dependent on the substitution degree between FDI and local investments”.

Following this perspective, we consider that the impact of FDI in the beneficiary country is higher when foreign flows do not replace national investments, decreasing their role and their impact in the welfare of the country.

Most of the past studies have succeeded to demonstrate a favorable influence of the foreign inflows in the host country through various channels. However, few researches have shown the existence of a negative connection between FDI and economic growth. Durham (2004) has confirmed that the capacity for financial and institutional absorption has a major role over the externalities of FDI in the economy. Carkovic and Levine (2005, p.197) ended by highlighting that, under a minimum level of education, of economic and commercial level of development in the beneficiary country, “the hexogen component of FDI does not exert a positive and robust influence on economic growth” and “there are no empiric evidence which may support the statement that FDI accelerate economic growth”. Lipsey and Sjoholm

(2005, p. 297) support the same idea and sustain that “there is not a universal relationship between the percentage of FDI flows in GDP and the economic growth rate of a country”.

2. DATA AND METHODOLOGY

The analysis of the relationship between FDI, exports and economic growth is performed in the case of Romania, using data from World Bank database, over the period 1991 – 2012. The variables included in the model are: FDI inflows, GDP growth rate and volume of exports.

The first step in performing the analysis is to determine whether the variables included in the study are stationary, through the Augmented Dickey – Fuller test and afterwards Johansen co-integration test will be implemented. The VECM helps us determine the equations of the model which will be tested using the least square method.

3. RESULTS AND DISCUSSIONS

Augmented Dickey – Fuller test will emphasize the degree of stationary for the selected variables. The findings will confirm whether we can apply Johansen Co-Integration test or not to test the long-run correlation between FDI, exports and economic growth in the case of Romania. The results are provided in the table below.

Table 1 - Augmented Dickey – Fuller test

Null Hypothesis: lgdp has a unit root Fdi has a unit root Lex has a unit root			
Augmented Dickey – Fuller test	Critical values	t-statistic	Probability*
Ln_FDI	-3.052169	-4.796509	0.0017
Ln_GDP	-3.052169	-5.204692	0.0008
Ln_Ex	-3.040391	-4.616936	0.0021

Source: own processing. Note: significance at 5 % level

As we can see in the table above, all the selected variables are stationary at level, meaning that they are I (0), which allows us the application of the Johansen Co-integration test. The findings of this test are presented in the following table.

Table 2 - Johansen Co-integration test

Unrestricted Co-integration Rank Test (Trace)				
Hypothesized		Trace	0.05	
No. of CE(s)	Eigenvalue	Statistic	Critical Value	Prob.**
None *	0.763232	40.65089	29.79707	0.0019
At most 1 *	0.602146	16.15945	15.49471	0.0397
At most 2	0.028472	0.491044	3.841466	0.4835
Trace test indicates 2 cointegrating eqn(s) at the 0.05 level				
* denotes rejection of the hypothesis at the 0.05 level				
**MacKinnon-Haug-Michelis (1999) p-values				

Unrestricted Cointegration Rank Test (Maximum Eigenvalue)				
Hypothesized		Max-Eigen	0.05	
No. of CE(s)	Eigenvalue	Statistic	Critical Value	Prob.**
None *	0.763232	24.49144	21.13162	0.0162
At most 1 *	0.602146	15.66841	14.26460	0.0298
At most 2	0.028472	0.491044	3.841466	0.4835
Max-eigenvalue test indicates 2 cointegrating eqn(s) at the 0.05 level				
* denotes rejection of the hypothesis at the 0.05 level				
**MacKinnon-Haug-Michelis (1999) p-values				

Source: own processing

According to the results of the Johansen co-integration test, at a 5 % level, there are two co-integrated equation which can be analyzed and developed. This paper aims to examine the role of foreign capital flows and exports in achieving economic growth and therefore, the VECM will estimate the regression equations and we will chose only the one with FDI as dependent variable and the others as independent variables.

The regression equation whose parameters will be estimated using the least square method is:

$$D(\text{FDI}) = C(1) * (\text{FDI}(-1) - 0.0317486933522 * \text{GDP}(-1) + 1853.07867452) + C(2) * (\text{EXPORTS}(-1) - 0.304686998277 * \text{GDP}(-1) - 2208.44743431) + C(3) * D(\text{FDI}(-1)) + C(4) * D(\text{FDI}(-2)) + C(5) * D(\text{EXPORTS}(-1)) + C(6) * D(\text{EXPORTS}(-2)) + C(7) * D(\text{GDP}(-1)) + C(8) * D(\text{GDP}(-2)) + C(9)$$

The least square method allows us to estimate the parameters of the regression equation and to identify the independent variables which have a strong influence and explain the evolution of the dependent variable. The results are presented in the table below.

Table 3 - Least Square method

	Coefficient	Std. Error	t-Statistic	Prob.
C(1)	-0.548777	0.743366	-0.738232	0.4815
C(2)	0.503938	0.192944	2.611836	0.0310
C(3)	-0.529470	0.741398	-0.714150	0.4954
C(4)	0.326451	0.553748	0.589530	0.5718
C(5)	-0.512184	0.164396	-3.115553	0.0143
C(6)	0.025022	0.159483	0.156897	0.8792
C(7)	0.204871	0.059403	3.448849	0.0087
C(8)	-0.153308	0.044564	-3.440166	0.0088
C(9)	3041.935	1375.686	2.211213	0.0580
R-squared	0.963955	Mean dependent var		167.4118
Adjusted R-squared	0.927911	S.D. dependent var		3051.100
S.E. of regression	819.2037	Akaike info criterion		16.55959
Sum squared resid	5368758.	Schwarz criterion		17.00071
Log likelihood	-131.7566	Hannan-Quinn criter.		16.60344
F-statistic	26.74335	Durbin-Watson stat		2.026983
Prob(F-statistic)	0.000054			

Source: own processing

The regression equation results emphasize the positive and direct correlation between FDI and exports and economic growth at a 5 % level. The Wald test is used to investigate the short – run causality between FDI, economic growth and exports. According to the results of the Wald test, with a probability of $p = 0.0000$ and chi-square = 67.50685 Ln_GDP can influence in the short – run the volume of the foreign capital flows. Regarding the second interdependency, with a probability of $p = 0.0047$ and chi-square = 10.70671, it is shown that exports can have an important influence on foreign capital flows in the short – run.

Although the model has shown the significant impact trade and economic growth has on foreign capital flows, the regression model should be examined to establish if it is significant or not, meaning the checking of the residual diagnostics:

The R-square is equal to 96.39 % meaning that 96.39 % of the variation of the dependent variable is explained by the variation of the independent factors and the probability associated is $p = 0.000054$

With a probability of $p = 0.502931$, the value of Jarque – Bera test is 1.374604 and proves that the residuals are normally distributed.

To test if the residuals are homoskedastic, we used Breuch – Pagan – Godfrey test and we obtained a value of $\text{Obs} \cdot R\text{-square} = 10.26009$ which is associated to a probability of $p=0.3298$, proving that the null hypothesis is accepted

To investigate if the residuals are not serial correlated, it is implemented a LM test and is obtained a value of $\text{Obs} \cdot R\text{-square} = 1.752772$, with a probability of $p=0.4163$, demonstrating that the residuals aren't serial correlated.

All the above affirmations and demonstrations show that the model is efficient, good and the selected variables are significant in explaining the variation of the dependent one.

CONCLUSIONS

The aim of this paper was to investigate the interdependencies between FDI, economic growth and the volume of exports in the case of Romania, using annual data over the period 1991 – 2012. The results of the analysis highlighted the key role that foreign capital flows play in the national economy through the positive externalities they generate – technology transfer, creating new job opportunities, managerial and organizational skills, stimulating the increase of economic growth rates. On the other side, based on the Wald test, both GDP growth rates and the volume of exports have a strong influence in the short – run on the volume of foreign capital flows attracted by the national economy.

Although Romania passed through a long transition period along with other countries from Central and Eastern Europe, our country has important gaps in the process of development and in the national economy, the differences between Romania and the others are significant and increase each year. The political instability, wrong reforms and policies adopted by the national authorities accentuated the investors distrust in the national business environment. Policy makers should focus on boosting the attractiveness of the domestic economy with positive and important externalities in all economic areas due to the interdependencies among them, boosting the economic growth rates.

REFERENCES

- Abzari, M., Zarei, F., Esfahani, S.S. (2011) *Analyzing The Link between Financial Development and Foreign Direct Investment among D – 8 Group of Countries*, International Journal of Economics and Finance, vol.3, no. 6.
- Alfaro, L., Chanda, A., Kalemli – Ozcan, S., Sayek, S. (2010) *How Does Foreign Direct Investment Promote Economic Growth? Exploring the Effects of Financial Markets on Linkages*, Journal of Development Economic, vol. 61.
- Alfaro, L., Kalemli-Ozcan, S., Sayek, S. (2009) *FDI, Productivity and Financial Development*, The World Economy, vol.32, issue 1, 2009.
- Anghel, I.E. (2002) *Investitiile straine directe în România*, Bucuresti: Editura Expert.
- Bengoa, M., Sanchez – Robles, B. (2003) *FDI, Economic Freedom and Growth: New Evidence from Latin America*, European Journal of Political Economy, vol.19.
- Burke, A., Görg, H., Hanley, A., The Impact of Foreign Direct Investment on New Firm survival in the UK: Evidence for Static v. Dynamic Industries, Leverhulme Centre Research Paper 09, 2007.
- Carkovic, M., Levine, R. (2005) *Does Foreign Direct Investment Accelerate Economic Growth?*, in: Moran, T.H., Graham, E.M., Blomstrom, M. (eds.) *Does Foreign Direct Investment Promote Development?*, Washington DC: Institute of International Economics Press.
- Chee, L. Y. (2010) *The Impact of FDI and Financial Sector Development on Economic Growth: Empirical Evidence from Asia and Oceania*, International Journal of Economics and Finance, vol.2, no. 2, 2010.
- Chong, K., Baharumshah, A.Z. (2010) *Private capital flows, stock market and economic growth in developed and developing countries: a comparative analysis*, Japan and the World Economy, vol. 22.
- De Mello, L.R. (1999) *Foreign Direct Investment – led growth: evidence from time series and panel data*, Oxford Economic Papers, vol. 51, issue 1.
- Durham, J. (2004) *Absorptive capacity and the effects of foreign direct investment and equity foreign portfolio investment on economic growth*, European Economic Review, vol. 48.

- Ericson, J., Irandoust, M. (2001) *On the causality between foreign direct investment and output: a comparative study*, The International Trade Journal, vol.15, issue 1.
- Hermes, N., Lensink, R. (2003) *Foreign Direct Investment, Financial Development and Economic Growth*, The Journal of Development Studies, vol.40.
- Javorcik, B., Özden, C., Spatareanu, M., Neagu, C. (2006) *Migrants Networks and Foreign Direct Investment*, The World Bank Policy Research Working Paper 4046.
- Jayasuriya, D. (2011) *Improvements in the World Bank's Ease of Doing Business Rankings, Do They Translate into Greater Foreign Direct Investment Inflows?*, Policy Research Working Paper no 5787, The World Bank.
- Li, X., Liu, X. (2005) *Foreign Direct Investment and Economic Growth – An Increasingly Endogenous Relationship*, World Development, vol. 33, issue 3.
- Lipsey, R. (2008) *Measuring the Impacts of FDI in Central and Eastern Europe*, National Bureau of Economic Research, Working Paper 12808, Cambridge.
- Lipsey, R., Sjöholm, F. (2005) *The Impact of Inward FDI on Host Countries: Why Such Different Answers?*, in: Moran, T.H., Graham, E.M., Blomstrom, M. (eds.) *Does Foreign Direct Investment Promote Development?*, Washington DC: Institute of International Economics Press.
- Moran, T. H. (1998) *Foreign Direct Investment and Development: The New Policy Agenda for Developing Countries and Economies in Transition*, Washington DC: Institute of International Economics Press.
- Salman, A., Xiao Feng, H. (2009) *GDP Growth with Economic Stability: An FDI perspective*, International Symposium on Finance and Accounting.

BETWEEN FRAILITY AND INSTITUTIONAL REFORM. THE CASE OF ROMANIA

Flavian Clipa*
Raluca Irina Clipa†

Abstract: *Our approach aims to emphasize the role that the institutional legacy of the past has in generating institutional blockages in transition countries (including Romania), while advancing several courses of action in order to overcome the difficulties found in the socio-economic frameworks. We believe that the success of the transition to capitalism equals most often with a institutional reconfiguration supported by the participation and active involvement of civil society.*

Keywords: institution; performance; legal system.

JEL Classification: E02; K4.

INTRODUCTION

The legacy of the past (the path dependency of a post-communist country involved in the transition towards market economy) is an issue that should not be neglected, as it often generates distorted formal and informal institutions, which alter economic performance to date.

The complexity of the transformations that took place in Central and Eastern Europe after the collapse of communist regimes, had some defining characteristics formed by the interaction of these mutations with the Western-European mainstream, defined by capitalism (in economic terms) and democracy (in political terms); such transformations were found in all the spheres of life of individuals – ideology, economy, politics and social order; they were not generated by wars or military requirements, but they were adopted at a fast pace within the institutional frameworks.

Success of the transition to capitalism depended largely on the extent to which the adequate institutions were present; ultimately, the established theory of transition is equivalent to a theory of institutional change, which deals with the redesign and reconfiguration of institutions in the countries who once owned a centralized economy (Raiser, 1997).

* Flavian Clipa, Alexandru Ioan Cuza University of Iasi, Romania, e-mail: flaclipa@yahoo.com.

† Raluca Irina Clipa, Alexandru Ioan Cuza University of Iasi, Romania, e-mail: riclipa@gmail.com.

1. PATH DEPENDENCE AND INSTITUTIONAL FRAILITY

By using economic and geographic variables (initial level of development, urbanization, unbalanced distribution of industries, governmental intervention over trade mechanisms paralleled by black market operations), some authors establish a direct link between the initial conditions found in the states with a planned economy and economic performance (De Melo, 1997). This interrelation is investigated amid the analysis of a key institutional variable – the market imprint, representing the number of years spent under a centralized-economy regime.

Other studies establish baseline conditions as determinants of economic performance, in a number of 25 countries (including Romania), using certain variables of institutional development – reform index and state capture index (Fisher and Sahay, 2004). The reform index requires the quantitative determination of institutional changes and adopted reforms, and it is calculated as the average of the indices of liberalization and financial and market reforms. State capture index measures the proportion in which businesses in general are subdued by a ruling system of private interests (Helmann, 2000).

If some of the contributions in the literature have been concerned with establishing a causal link between initial conditions and institutional change, as the hard core of the alleged transition reforms, others have been interested in establishing the optimal rate at which these changes should occur (Aghion and Blanchard, 1994). Executive role is valued here as a prerequisite for establishing a rhythm of transition from gradual to sudden (a big-bang type), where two approaches emerge: shock therapy and gradualism (Roland, 2000). In this respect, the shock therapy proponents propose changes made at a fast pace, to eliminate the risks of gradualism and individual resistance to change, while those who support a gradual approach rely on a reduction in transition costs related to generating high rates of unemployment.

Another category of concerns focuses on determining how institutional change will alter the path-dependent formal and informal institutions that may not be in harmony with the new socio-economic order.

For some authors, planned economy has had an impact on society as a whole, by promoting a climate of distrust both among individuals and between them and the state per se (Rose and Mishler, 1997). For others, paradoxically, the imperfections of the state economy have had a beneficial social effect, leading to the creation of a second economy (a parallel economy, yet bearing the seeds of

capitalism) with its own regularities and institutions, ready to assist the transition towards a competitive-market climate (Stark, 1997). We are tributary to the first view point, although we acknowledge the existence of a second economy with its own regularities, formed during the communist age, characterized by multiple failures that disrupted the interaction with the market forces (the high incidence of bribery offences in awarding public-procurement contracts). For example, the business ties established between the communist elites remained internalized by the state capture paradigm, thus removing open competition and fostering a general distrust in state institutions, regarded as unable to dismiss such behaviours.

We are witnessing the continued presence of anachronistic behaviours for economic performance (as informal institutions), derived from the legacy of a generalized, resistant-to-change mistrust. The phenomenon can be explained if we consider that certain aspects are difficult to change only within formal institutions (legislative), hence a typical case of lack of harmony between formal and informal institutions (Elster, 1998). The aspects that remain difficult to change are: cultural patterns, identity crisis, path-dependent informal institutions, the various behaviours that inhibit or promote the adoption of solutions to the problems that society, as a whole, is facing, as well as the vigour with which the incentives for entrepreneurship and economic performance are initiated.

The lack of harmony between the two institutions has led to the proliferation of opportunistic individual behaviours that are detrimental to overall economic performance and social conduct rules – tax evasion, corruption, bribery, organized crime, theft of public property assets, components of an underground economy.

2. THE REFORM OF INSTITUTIONAL ARRANGEMENTS

Reforming institutional arrangements is the only way to stimulate economic performance by considering both formal and informal institutions, as well as their interaction (Raiser, 1999). Thus, the reform paradigm of institutional arrangements is structured around a series of informal (moral norms, trustworthiness and the way these values are imposed by the civil society) and formal institutions (governance, rules, laws, regulations).

The existence and propagation of such institutions are under the impact of historical, ideological, technological exogenous variables. Technology and preferences are important to institutional arrangements in that, as North (1981) postulated, they determine the level of costs and benefits resulting from the compliance with the set of formal and informal institutions, through the process of social and economic interactions between given actors.

From a dynamic perspective, we can say that social morality is influenced by ideology, history (e.g. the influence of Ottoman institutions on Romanian social life has resulted in the manifestation of a so-called *Balkan* behaviour) and leadership (the degree to which society adheres to the idea of institutional change). The presence of moral norms in a society (generalized or specific to certain structured groups, according to certain criteria) is associated most often with civil society involvement (media, churches, etc.), that supports and catalyses the manifestation of individual moral tendencies. In its turn, this leads towards social harmony, by increasing trustworthiness between economic actors as a prerequisite for trade facilitation, even under the circumstance of imperfect information – a feature of modern societies.

But ideology and history, along with social norms, may influence the effectiveness of governance, i.e. its active manifestation as a system of laws and regulations that punish disruptive behaviours and value constructive ones.

Seldom are the cases in which a society based on honesty, solidarity, decency, simplicity (i.e. moral norms that are scarcely found in the Romanian society) culminates by having an aggressive, wasteful, dishonest government that encourages state servitude to private interests. In contrast, the prevalence of particularism, individualism, formally or informally unsanctioned opportunism, represents a fertile ground for such a government (i.e. a more than familiar Romanian scenario). The type of governance will influence the adoption and effective implementation of a set of rules and regulations that will structure the socio-economic interactions and potential economic trade.

In our opinion, governmental leadership plays an important role in institutional change, as it acts as an interface between government and society; it also indicates the pulse of civil society and its effective involvement in the proposed formal changes, thus ensuring future harmony (convergence) between the newly introduced formal institutions (whether imported or not) and the existing informal infrastructure.

Of course, the existence of such a mechanism is a matter of political will, if political leaders understand to engage in a dialogue with their society members. The reward will match the efforts – society will gain trust in political actions. Only then can we talk about a high complementarity between the level of trust (social capital) and government effectiveness.

When trust in government is low, the society's pressures on officials to promote measures that stimulate economic performance are also low (such an approach is viewed as lacking purpose, as those in charge of governing are only there to preserve their acquired power *status*). Poor governance leads to poor performance, reducing society's trust in the political factor.

Given the foregoing considerations, we consider that the institutional change conducive to promoting economic performance (in general, and Romania, in particular) can occur in various situations.

Firstly, the modification of institutional arrangements may occur due to the impact of exogenous variables. E.U.'s post-accession pressures and its recommendations for the strengthening of jurisdictional capacity and elimination of corruption are a good example of this.

Secondly, institutional evolution can be under the impact of mutations happening in the political sphere, i.e. changes in the ideology and / or leadership, or in the economic sphere, i.e. the evolution of preferences, the (discontinuous) technical and technological progress.

The government may adopt effective laws and regulations, while ensuring an optimal infrastructure for their *de facto* implementation. Changes can be promoted more or less voluntarily (E.U. recommendations), even if they *harm* the existing power *status* (state capture).

Also, the political factor may adopt measures likely to reduce the possibility of the arbitrary actions of public organizations through institutional restriction of their power and effective control over decision-making processes.

Eliminating corruption (as an informal institution) may occur as a result of shifting the decision-making responsibilities towards other institutional levels, strengthening the organizations responsible for fighting corruption (Romanian National Anti-Corruption Department) or increasing the salary level of the state apparatus to ensure a decent standard of living and eliminate propensity towards crimes consisting in bribery, undue acquisition, influence peddling etc.

Such actions must coincide with the initiation of a participatory dialogue with the civil society that will ensure the latter's agreement with the proposed institutional changes. Even if we are in the presence

of a low credibility level in the executive, legislative and judicial powers, the best way to increase their credibility is to demonstrate a high determination in adopting institutional reforms designed to stimulate overall economic performance.

We believe that, at least initially, the adoption of strategic alternatives may underlie the valuation of existing formal institutions and increase their predictability, through legislative stability. Their modification can only be achieved gradually, in parallel with the evolution of specific informal institutions, to promote harmony and avoid frictions in the structure of institutional arrangements. However, such a strategy should be relaxed, if we consider E.U.'s claims of *de facto* institutional changes, not *de jure*. The costs of failing to rapidly adopt these normative changes, in this case, could exceed the costs of virtual friction between formal and informal institutions.

An alternative strategy involves sudden institutional changes of normative and judicial frameworks, to comply with the new requirements supporting economic performance; this strategic decision is relatively risky in terms of the formal-informal relationship. This strategic choice is not exactly new, as Lipton and Sachs (1990) were the first who valued the specificity of this course of action. In these circumstances, the costs of introducing and maintaining the new *de facto* formal institutions will be high at first, keeping the same trend for a good period of time, given the lack of convergence with the existing informal institutions. Costs will be higher if we consider that the new formal institutions may require other (secondary) formal institutions in order to help them become effective and efficient, thus the formal institutional system becoming lush. From the social point of view, we can expect the possibility of an institutional reluctance to coercion (coercion being the method that ensures institutional implants, amid the resistance to change of existing informal institutions).

Another strategic alternative to institutional change is subsumed to political feasibility, revolving around the adoption of reforms in formal institutional frameworks, characterized by low implementation costs, due to the simplicity of the new institutions or the existence of an average convergence with the informal ones. For example, in Romania, progress was faster in areas that have not required extensive institutional changes in the design or conduct of public and private actors – price and trade liberalization, small-scale privatization. Things were different when the privatization and restructuring of large public enterprises were imposed, along with the regulatory reform in the areas of competition, finance and law (EBRD *Transition Report*, 1997).

The main drawback of this approach is that at some point reform no longer multiplies itself in the institutional sphere which is the most important for economic performance (also due to state capture and opposition of the bureaucratic network that internalizes the benefits of political and economic power *status*, thanks to corruption, arbitrariness etc.); ultimately, the change lacks depth.

In our opinion, a feasible strategy to promote institutional change is the one that considers this process as having a dual determination: exogenous and endogenous. From an endogenous perspective, the process of institutional development can be viewed as Darwinian, as institutions adapt and are being influenced (in a one-way relationship) by human behaviour on which there is a wide range of temporary contextual constraints (Tridico, 2004). Thus, we have shown during our research that technological changes may cause changes in the formal and informal institutional context, which in its turn transforms the actors' behaviours and habits. Also, redesigning formal institutions may alter the formal framework; this phenomenon transposes an evolution of behaviour and habits of the actors, which in turn changes the informal paradigm; the latter subsequently reconfigures the formal paradigm. At another level, developments registered in the transformation of social values determine behaviour and habit evolutionism, whose *status* carries a mutation within society's institutional arrangements (formal and informal).

The character of change can shift from an incremental to a discontinuous one, catalysed by radical changes, wars, revolutions, dictatorship or by the promotion of harsh sanctioning measures, as the state's response to the breach of the prearranged conduct of formal institutions.

However, formal institutions do not generate the immediate change of informal ones (as true as the reverse), given that they require additional time for the new institutions to resonate with individual behaviours that, in turn, evolve under the influence of old informal institutions and customs, as inertia manifests itself.

The idea according to which technological changes matter only within their institutional framework, is also found in the work of Veblen (1961) and Neale (1998). According to the latter, an institution cannot exist in isolation, but only as part of an institutional ensemble, and, consequently, a change in an institution generates the need for transformation in the others as well, in order to preserve the existing interrelations within this whole.

A change in the value system will cause mutations within the spheres of attitude change, knowledge, behaviours, habits, but a possible source of institutional change can also be found in the idea of reform.

But institutional change can also be a discontinuous process, intensified by revolutions, radical changes and power imbalances, by dramatic changes in the economic and political system. Such changes will only reconfigure, at least initially, the formal institutions, not the informal ones. So can we explain the discrepancies between *de jure* and *de facto* existence of institutions designed to stimulate economic performance in Romania – a path-dependent mentality.

The survival of old informal institutions is virtually responsible for the institutional collision, where the formal and informal diverge, as institutional frameworks become characterized by a striking inconsistency (in the context of informal inertia and path dependency). The imminence of institutional blockage becomes more likely as formal institutions are urged to be implemented, without having sufficient time for institutional harmonization.

Factual evidence in Romania confirms our assertions. Economic performance will not be enhanced by introducing, redesigning and importing formal institutions (even if done under the impact of E.U.'s post accession recommendations). It will ultimately remain dependent on mentality, on the level of confidence in the political factor and in its commitment to reform institutional frameworks.

As a result, institutional change is not only path-dependent (this concept explains why some ineffective institutions continue to survive), but it is also related to the human behaviour's reaction to formal change. Given the foregoing arguments, we consider the process of institutional change as being a complex one, whose consequences can often be unreliable, inconsistent with the initial objectives of those who support reform, largely determined by the legacy of the past, a possible antithesis between the formal and the informal, new constraints triggered by old behaviours that characterized the actors / organizations of public or private law.

The task of the institutional-change promoters in Romania becomes more difficult, not necessarily from this perspective, but because the evolution of the institutional paradigm has been imprinted with some features related to: path dependence, alteration of the state law, lack of interpersonal trust, lack of individuals' trust in the ability of the state to impose equitable laws and contracts, *de jure* introduction of formal institutions under the influence of national and international political factors, disregarded by

individuals, *de facto* operational inefficiency of these institutions which failed to eliminate opportunism and to decrease transition costs, formal climate instability and persistence of conflicting statutory provisions, the prevalence of diachronic institutional relations which trigger possible discrepancies in the process of institutional synchronization.

From another perspective, the institutional reform can be achieved by promulgating laws and regulations that support direct foreign investments. We make this assertion not necessarily thinking that FDI bring certain advantages to the economy of the host country, related to improved employment rate, capital inflows and so on, but rather highlighting that they bring with them the seeds of capitalism (as a lifestyle, valuing individual performance, removing private interests and the mentality of socially-assisted citizens). Moreover, FDI introduce new ways of organizing the technological progress as a source – as we have earlier revealed – of formal institutional change and behaviour transformation.

When the institutional change paradigm will support cooperation between formal and informal institutions, by overcoming tensions due to the survival of an archaic mentality, the frailty of economic performance will be removed.

In our opinion, the register of institutional changes should include primarily active measures meant to eliminate the negative effects of corruption (informal institution), in order to overcome a possible institutional blockage, given that recent studies show Romanians' low level of confidence in the legal effectiveness of regulations and public organizations designed to restrict the effects of pervasive corruption, considering that this phenomenon is the main problem that society is currently facing.

Moreover, the vast majority of people participating in the conduct of these studies believes that this informal institution underwent a resurgence in recent years, affecting the public health, border protection and judicial systems. In this respect, *The Global Competitiveness Report* for 2011-2012, identified corruption as the fifth largest obstacle for the Romanian business environment. Therefore, we believe that economic performance will be boosted by the resolution of such issues which have been found in Romania for a long time (perhaps due to the informal institutional heritage of Ottoman or Tsarist origins?).

We believe that in the eradication of such phenomena, not only the state (through its normative regulations) or the supranational bodies promoting exogenous institutional change (European

benchmarks) will have an important role, but civil society as a whole as well, as the main actor designed to achieve the creative destruction of the Balkan mentality and particularism.

Ab initio, to highlight the role that civil society plays in eradicating corruption, we should highlight the concept of social responsibility, as a civic engagement designating a wide range of actions and mechanisms that citizens, communities, the (independent) media and other civil society organizations use to obtain a reasonable level of control and transparency for the actions of individuals (those involving the exercise of public functions and dignities) and public organizations (adapted from Malena, 2004).

But in order to have the expected results, the involvement of civil society has to fulfil a number of criteria related to the effectiveness of this involvement (Fukuyama, 1995; Rose -Ackerman and Kornai, 2004; Putnam, Leonardi & Nanetti, 1993; Almond & Verba, 1963). First, the prevalence of honesty and integrity, as informally imposed values by the society. Then, the existence of NGOs and a civil society-engagement tradition in promoting integrity and common values shared by societal frameworks, is another prerequisite for structuring behaviours and actions that restrict the manifestation of corruption, along with the participation and commitment of the political to work in favour of the community (as part of the civic culture). According to recent studies, the effectiveness of civil society is responsible for about 70% of the level of corruption in a country, while representing an important indicator of a country's development level and consistency of government policies (Mungiu-Pippidi, 2010).

Consequently, solving the problem of the persistence of informal institutions that alter economic performance would involve primarily a set of measures meant to strengthen the active and effective involvement of civil society. Against this background, tangible measures should be taken to eradicate corruption, instead of measures that consider this phenomenon *in abstracto*, as a *sine qua non* trait implied by the transition to capitalism. In fact, this scourge spreads to society due to the specific self-reproductive effects of the way individuals understand to preserve clientèle, by vitiating the fundamental mechanisms of resource allocation and economic performance.

Designing and implementing an anti-corruption strategy requires the involvement of NGOs and the independent media as an infrastructure meant to support the dissemination of information, impact and awareness measures among individuals and the social values to defend, including the fact that the capitalist doctrine requires, in Romania, first and foremost, a mind-set change related to the exclusion of clientèle and private interests from socio-economic interactions.

CONCLUSIONS

The lack of convergence between formal and informal institutions has led to the proliferation of opportunistic individual behaviours that are detrimental to the overall economic performance and standards of conduct. The current transition period wears the flaws of the former regime, characterized by an institutional vacuum, in which the partial lack of adequate formal institutions that could have stimulated economic performance, has been replaced by informal institutions that translate deviant economic behaviours and allocate resources and activities to a second (underground) economy.

Government leadership may play a special role in the process of institutional change, as it could act as an interface between society and its government; it could also indicate the pulse of civil society and its effective involvement in the proposed formal changes, thus ensuring future harmony (convergence) between the newly introduced formal institutions (whether imported or not) and the existing informal infrastructure. Addressing the persistence of informal institutions that alter economic performance also requires a set of measures designed to strengthen the active and effective involvement of civil society.

REFERENCES

- Aghion, P. and Blanchard, O. J. (1994) *On the Speed of Transition in Central Europe*, NBER Working Papers, no. 4736.
- Almond, G., Verba, S. (1963), *The Civic Culture*, Boston, Little, Brown and Company.
- De Melo, M., Denizer, C., Gelb, A., Tenev, S. (1997) *Circumstance and Choice: The Role of Initial Conditions and Policies in Transition Economies*, The World Bank - International Finance Corporation, Washington, DC.
- EBRD (1997) *Transition Report*, London.
- Elster, J., Offe, C. (1998) *Institutional Design in Post-Communist Societies – Rebuilding the Ship at Sea*, Cambridge, Cambridge University Press.

- Fisher, S., Sahay, R. (2004) *Transition Economies: The Role of Institutions and Initial Conditions*, Paper presented at Calvo Conference, IMF.
- Fukuyama, F. (1995), *Trust. The Social Virtues and the Creation of Prosperity*. New York: Free Press.
- Hellman, J., Geraint, J. and Kaufmann, D. (2000) *Seize the State, Seize the Day: State Capture, Corruption, and Influence in Transition*, World Bank Policy Research Working Paper 2444, September, Washington DC: World Bank Institute and EBRD.
- Lipton, D. and Sachs, J. (1990) *Creating a Market Economy in Eastern Europe*, Brookings Papers on Economic Activity, No. 2, pp.75-133.
- Malena, C. (2004) *Social accountability: An introduction to the concept and emerging practice*, World Bank, Social Development Paper no. 76.
- Mungiu-Pippidi, A. (2010) *Civil Society as an Anticorruption Actor. Some Lessons Learned from the East Central European Experience*, German Institute of Global and Area Studies, Leibniz.
- Neale, W.C. (1988), *Institutions, in Foundations of Institutional Thought*, edited by Marc Tools, Sharpe Inc. New York.
- North, D. (1981), *Structure and Change in Economic History*, New York and London.
- Putnam, R., Leonardi, R, Nanetti, R.Y. (1993) *Making Democracy Work: Civic Traditions in Modern Italy*, Princeton University Press.
- Raiser, M. (1997) *Informal institutions, social capital and economic transition: reflections on a neglected dimension*, EBRD Working Paper no. 25.
- Raiser, M. (1999) *Trust in transition*, European Bank for Reconstruction and Development, Paper presented at the conference on “Postcommunist Transformation and the Social Sciences: Cross Disciplinary Approaches”, EBRD Working paper, no. 39.
- Roland, G. (2000) *Transition and Economics: Politics, Markets and Firms*, Cambridge: Cambridge University Press.
- Rose, R., Mishler, W. et al. (1997) *Getting Real: Social Capital in Post-Communist Societies*, Studies in Public Policy 278, Glasgow, Centre for the Study of Public Policy.
- Rose-Ackerman, S., Kornai, J. (Eds.) (2004) *Building a Trustworthy State in Post Socialist Transition*, New York, Palgrave/Macmillan.

- Stark, D. (1997) *Recombinant Property in East European Capitalism*, Restructuring Networks in Post-Socialism: Legacies, Linkages, and Localities, G. Grabher and D. Stark, Oxford University Press.
- Tridico, P. (2004) *Institutional Change and Economic Performance in Transition Economics*, Sussex European Institute.
- Veblen, T. (1961) *The place of science in modern civilization*, New York.

CFSP – VACILLATING BETWEEN SUPRANATIONALISM AND INTERGOVERNMENTALISM?

Ligia Corduneanu*

Abstract: *The Common Foreign and Security Policy (CFSP) of the European Union (EU) faces an identity crisis to which the member states do not seem eager to put an end. Making incremental changes without defining the objectives will not rise the trust in the EU as a strong international actor. Thus, this paper aims to indicate the supranational and intergovernmental characteristics of the CFSP in order to highlight that the neofunctionalist model of governance has also shaped a policy area believed to belong exclusively to the member states' power. The paper analyses the supranational and intergovernmental dimensions of the CFSP in order to provide a better understanding of how this policy is constructed.*

Keywords: Common and Foreign Security Policy; intergovernmentalism; supranationalism; multi-level governance.

JEL Classification: Y80.

INTRODUCTION

The European Union (EU) is currently confronted with a general state of disappointment and scepticism about the state of its internal affairs. Through its model of external governance, the EU is also exporting its domestic concerns and lack of clear orientation outside its border. Thus, the current economic downturn has yielded a negative impact on the coherence of its foreign and security policy.

Europe's struggle to achieve a common army and a shared defence body is not recent. On the 11th of August 1950, Winston Churchill, within the fifth session of the Consultative Assembly of the Council of Europe, proposed the creation of a United European Army located under European democratic control and whose actions should have been undertaken together with the USA and Canada (Centrul de Resurse Juridice, 2004, p. 9). The then president of the Council, the French prime-minister René Pléven, launched on the 24th of October 1950 within the National Assembly of France – the plan for the creation of a European Defence Community. This plan envisaged the creation of a European army, whose military

* Ligia Corduneanu, MA Student at Alexandru Ioan Cuza University of Iași, Romania, e-mail:ligiacorduneanu@yahoo.com.

staff would be pooled from the European Coal and Steel Community's member states. It would have been, moreover, led by a European minister of defence and would have had a common budget under the supervision of the European Parliaments Assembly (Centrul de Resurse Juridice, 2004, p. 9). On the 25th of May 1952 the agreement was signed in Paris by the European Coal and Steel Community member states, together with the constitution treaties of the European Defence Community and the protocols of cooperation between this new body and NATO. Until 1954, the European Defence Community (EDC) treaty has been ratified by five member states; however, the rejection of the whole project by the French National Assembly, without even debating the content of the treaty, put an end to the European Defence Community (Centrul de Resurse Juridice, 2004, pp. 9-10).

Despite the failure of the EDC, there has been constant interest in restarting the political construction and integration in the defence area, particularly during de Gaulle's tenure. Between 1961 and 1962 three proposals by Charles Fouchet (the "Fouchet Plan") were prepared (Naghi, 2010, p. 12). This plan sought to enhance interstate cooperation that would lead to a unique external policy of the member states, to the strengthening of common security policy mechanisms and to a closer coordination of defence policies (Naghi, 2010, p. 12). Whereas Germany was the only state to accept the French plan, the other European Community member states blocked the initiative arguing against excessive collaboration between states on the security and defence levels. The main risk would have been the fracture of relations with the US or NATO (Naghi, 2010, p. 12). Hence, on the other hand, it is obvious that since the inception of the European Community project's member states have put considerable emphasis on the idea of sovereignty. On the other hand, another specific feature of the European states which can be distinguished is the security and defence dependence on US/ NATO, which is present even today.

Even though there have been other initiatives to create a common external and security policy, and especially to develop an effective defence mechanism, the Maastricht moment is of particular relevance. Moreover, the end of the Cold War, the disintegration of the Soviet Union, the Balkan crisis and the emergence of a new international order meant that the European states needed to (re)act. Hence, the discussion over this security and defence future of the EU could not have been again postponed. After the dissolution of the Soviet Union, the ex-communist countries aspired towards a partnership with both NATO and the European Community, which represented for the latter the chance to affirm itself as an

important actor in the international security area (Ivan, 2007, p. 98). By establishing the second pillar – The Common Foreign and Security Policy (CFSP) - through the Treaty of Maastricht, the EU has acquired a common policy extended to all the sectors of the security and external policy, building the basis for an enhanced cooperation framework between member states (Naghi, 2010, p. 23). The main objective of the CFSP was to boost the role of the EU at the international level, especially by progressively defining a common defence policy which could ultimately lead to a real common European defence mechanism (Ivan, 2007, p. 100).

THEORETICAL BACKGROUND

It is commonly agreed that the EU is a new and unique form of international organization. After the Second World War, the contacts between governments, private groups and individuals have been institutionalised more than ever before (Hass, 2006, p. 105), creating a supranational system. This system has been proved successful especially concerning the economic integration, creating also a sense of European identity. This attitude underlined by Hass in 1958 can also be observed today. According to Hass' standpoint political integration is "the process whereby political actors in several distinct national settings are persuaded to shift their loyalties, expectations and political activities toward a new center, whose institutions possess or demand jurisdiction over the pre-existing national states. The end of a process of political integration is a new political community, superimposed over the pre-existing ones" (Hass, 2006, p. 114). Initially, this supranational model has been fundamental for consolidating the European Community. However, by late '70s the governments have started to play a much more assertive role (Hoffman, 2006, p. 145). In his 1966 paper Hoffmann argues (2006, p. 135) that the "political unification could have succeeded if, on the one hand, these nations have not been caught in the whirlpool of different concerns (...) and if, on the other hand, they had been able or obliged to concentrate on community-building to the exclusion of all problems situated either outside their area or within each one of them." These two perspectives have been mutually reinforcing over the time, Hoffmann upholding in his paper de Gaulle's view who "has consistently warned that the application of the supranational method to the area of high policies would lead not to a strong European entity, but to a dilution of national responsibility whose only beneficiary would be the US" (Hoffman, 2006, p. 147).

As far as the foreign and security policy is concerned it is difficult to frame the policy only within a single tenet (either the intergovernmental criteria or the supranational one). Apart from these two *grand* theories of the EU integration process, a process of socialization and organizational adaptation could be added, together with a fusion of international opinions, in which national political decedents modify decisional processes to make them more alike to a common policy (Jørgensen, 1997, apud Kjaer, 2010, p.116), particularly in the current globalization era. Hence, whereas the EU uses the supranational/neofunctionalist model that through its spill-over effect contributes to both *bottom-up* and *top-down* changes in the *low-policies*/bureaucratic domain (i.e. commercial policy), in the field of *high-policies* (i.e. security and external ones), the role of nation-state is still of utmost importance (Hoffmann, 2006, p. 137). Thus, the intergovernmental dimension, where member states possess the power and are able to make major decisions remains the main realm for conducting the *high politics* and particularly the CFSP. The QMV is only used when a decision that defines the action or position of the Union according to a previous decision made by the European Council is adopted, when a decision involves the action or position of the Union undertaken at the proposal of the High Representative after a formal request to the European Council, when the decision of naming a special representative is considered (Naghi, 2010, p. 34). Furthermore, the decision-making process within the CFSP is of special nature because all the decisions adopted are not subjected, with very few notable exceptions, to the European Court of Justice (Naghi, 2010, p. 35). Because of its intergovernmental construction, previous experiences show that EU lacks a spirit of unity, coherence and efficiency. Unity does not exist because the member states often agree to intervene through agreements between two or three states, often in the basis of the shared interests. Moreover, the military budget of the EU is raised only by those member states that agree to involve themselves in a certain conflict/peace-building area. The lack of strategic coherence weakens not only the CFSP framework, but also the international actorness of the EU.

2. CFSP – VACILLATING BETWEEN SUPRANATIONALISM AND INTERGOVERNAMENTALISM?

The CFSP nature is intergovernmental by its own definition but there can also be underlined some supranational aspects. First of all, the world today is characterized by multilateralism, where cooperation

and interaction are mandatory. Thus member states cannot anymore perceive the EU just as a way of fulfilling their own interests. Equally, threats have recently changed, where energy security, cybernetic attacks, terrorism, have replaced the classic warfare methods. There is onwards a persistent need to establish close cooperation between states and international organizations in order to avoid international risks. Even security has added other dimensions, apart from the military one; it has a broader understanding which includes economic, social, cultural and environmental matters (Naumescu, 2005, pp. 30-33). Whereas the former dimension – the military and defence one – is a sensitive area where member states are not (yet) ready to cede sovereignty, in other security aspects which pertain to the latter dimensions (economic, cultural, environmental), the EU has made important steps forward. Through effective, supranational means and instruments in order to disseminate European values and principles, to grant human aid, to help democratic consolidation, to defend human rights, to promote international cooperation, all by providing legal and administrative consultation, financial aid, and cross-border projects, the EU has managed to be an active player in the international milieu.

CFSP is intergovernmental because the most important institutional actors involved in the policy are the European Council and the Council of the European Union in which the heads of state act based on unanimity and decision-making process is controlled largely, but not exclusively, by the member states. However, these two institutions – despite their overwhelming implications in the CFSP sphere – are not the sole players engaged. The European Parliament (EP) is not totally absent from the process, this institution having an impact on CFSP. Before the adoption of the Treaty of Lisbon, the Council of Ministers used to consult the EP on CFSP matters by organising regular meetings in order to maintain the MEPs informed, these practices being carried out even today, including the participations also of the High Representative and the president of the Council (Mix, 2011, p. 21). The EP can also influence the member states by acting as a forum for debate and launching initiatives. Moreover, the EP has a committee of external affairs that monitors the external policy of the EU within two subcommittees (human rights, security and defence). The EP could also establish special committees meant to analyse concrete matters for a limited period of time and it has 41 delegations that maintain contacts and relations *parliament to parliament* with the representatives of many states and regions around the world (Mix, 2011, p. 21). Having an essential role in the drafting of the budget, the EP has strong impact on the structure, the budget and the staff of the European External Action Service (EEAS). The EP has also the

right to examine the non-military parts of the CFSP budget, to delegate EU ambassadors. By being granted the role of co-legislator, together with the Council of Ministers, the EP's involvement in the external agreements has significantly risen (Mix, 2011, p. 23).

Another supranational response to the intergovernmental dimension of the EU external affairs has been the creation of the position of High Representative on External Affairs of the European Union, who is also the acting vice-president of the European Commission. This position of High Representative cumulates the responsibilities of three former functions: the High Representative of CFSP, the minister of external affairs of the rotating presidency of the EU and the commissioner of external relations (Mix, 2011, p. 3).

An additional response has been the development of a diplomatic body, the EEAS, meant to support the High Representative in coordinating and implementing policies. Its institutional structure, the role of coordinating foreign activities and initiatives is perceived as a way of facilitating the decision-making process (Mix, 2011, p. 3).

CONCLUSIONS

Despite these supranational institutional innovations, the strong institutional intergovernmental dimension of the CFSP will not be cast into doubt at least for the near future. The EU is still not in the position to overlook the standpoint of the member states in foreign and security issues. The recent interference of supranational elements in the intergovernmental nature of the CFSP process could only be perceived as an answer to those member states who believe in an ever closer EU.

At least for the time being the Union does not seem to accept greater institutional alteration. However, a coherent approach towards external challenges may not be possible without a deepening of its supranational character.

REFERENCES

- Centrul de Resurse Juridice (2004) *Politica externă și de securitate comună*, Bucharest.
- Hass, E.B. (1958) *The Uniting of Europe: Political, Social and Economic Forces 1950-1957*, in Mette Eilstrup-Sangiovani (2006) *Debates on European Integration*, pp. 105-116, Palgrave Macmillan.
- Hoffmann, S. (1966) *Obstinate or Obsolete? The Fate of the Nation-State and the Case of Western Europe*, in Mette Eilstrup-Sangiovani (2006) *Debates on European Integration*, pp. 134-159, Palgrave Macmillan.
- Ivan, A.L. (2007) *Statele Unite ale Europei. Uniunea Europeană între interguvernamentalism și supranaționalism*, European Institute.
- Jørgensen, K.E. (1997) *PoCo: The Diplomatic Republic of Europe*, in Jørgensen, K.E. (ed.) *Reflective Approaches to European Governance*, London: MacMillan.
- Kjaer, A.M. (2010) *Guvernanța*, traducere de Natalia Cugleşan, CA Publishing.
- Mix, D.E. (2011) *The European Union: Foreign and Security Policy*, Congressional Research Service, 25 August 2011.
- Naghi, G. (2010) *Securitatea Europeană. Fundamentări normative și instituționale*, București: Editura C.H. Beck.
- Naumescu, V. (2005) *Spațiul securității europene*, în British Council, *Studii de securitate*, Cavallioti, pp. 29-48.

OPPORTUNITIES AND RISKS OF GLOBALIZATION IN RURAL AREAS. CASE STUDY: BOTOȘANI COUNTY*

Maria-Simona Cuciureanu[†]

Abstract: *The global economy plays an important role in the development of a region or a county/district as it promotes the exploitation of resources and space in a logical and rational manner. The trend of global economic uniformity allows opportunities and risks to Botoșani County since globalization involves economic development and rising living standards, but loss of cultural values, traditions and customs. The area of study currently confronts with socio-economic and demographic changes that may be addressed by globalization, but at the same time spatial development according to global standards will cause the loss of Botoșani County's authenticity.*

Keywords: globalization; economics; opportunities, risk; investment; economics; rural area; rural development.

JEL Classification: O18; R00; A10.

INTRODUCTION

Globalization involves a multitude of complex processes and phenomena (economic, technical, cultural, educational, and social) that are designed to change society, integrating it into the worldwide circuit and having positive effects on countries. Major foreign investments have an important role, especially in the commerce sector, and cultural exchanges and international migration. Globalization has started because of problems facing the whole world, such as: improving the quality of life, natural environment degradation and pollution, depletion of natural resources, economic crises, etc. Thus, globalization can be considered a process with a significant role in creating strategies of a country for worldwide or European integration from a socio-economic point of view.

The phenomenon of globalization has as goal to standardize economic and technological development and to support human activities. Economic globalization is globally increasing as globalization itself is based on numerous economic concepts. The main features are: internationalization and global civilization and among the consequences there are the globalization of some industries in those countries with resources or specificity, and also the decrease of national sovereignty concerning

* Acknowledgements: The research was supported by the European Social Fund in Romania, under the responsibility of the Managing Authority for the Sectorial Operational Programme for Human Resources Development 2007 – 2013 [Grant POSDRU/159/1.5/8/133391].

[†] Faculty of Geography and Geology, Alexandru Ioan Cuza University of Iasi, Romania; e-mail: cuciureanu.simona@yahoo.com.

the economic sphere. The definition of globalization given by the International Monetary Fund is the following one: "the development of worldwide countries from the point of view of economic interdependence through the increase of volume and a variety of transactions of goods and services across borders. A much freer and faster international capital flow, but also a wider fusion technology" (1997) and the World Bank defines it as "the freedom and ability of individuals and companies to begin voluntary economic transactions with residents of other countries."

At the European level regions were created as a form of administrative and territorial organization, according to NUTS II to establish a competitive and consistent economy, as the integration into the global economy was assured. So a premise for socio-economic development is created and this would reduce regional disparities existing in the European countries. The integration of regions into the global economy is achieved by attracting foreign investors, infrastructure and tourism and transportation development, a reduction in migration (although the intercultural exchange is an advantage for regional development).

The EU economic globalization may be built using the ESPON 2013 program that is an operational program under the European Territorial Cooperation Objective of the Cohesion Policy of the European Union by means of which financial assistance can be accessed from the European Regional Development Fund during the period 2007-2013. ESPON 2013 program is a program for the stimulation of the local development, where all the 27 EU member states participate, together with Norway, Switzerland, Iceland and Liechtenstein. The total budget of the ESPON 2013 for the 31 states is 47.1 million EUR.

The purpose of the ESPON 2013 program is to support the formulation of EU politics concerning the territorial cohesion and the harmonious development of a territory, by providing comparable information, statistics, analyzes and scenarios about territorial dynamics and by emphasizing the capital and development potential of regions and other territories, thereby contributing to the increasing of competitiveness, the strengthening of territorial cooperation and the sustainable and balanced development of the European territory.

Thanks to the ESPON program, information and statistics that serve the development and territorial cohesion of the European space are provided. It is inserted in territorial development that in turn is part of the regional development. The activities of this program are financed by financial instruments.

Cohesion and economic competitiveness may be achieved using ESPON as it provides scenarios for the European area. The baseline scenario constituted the support of two secondary scenarios that have

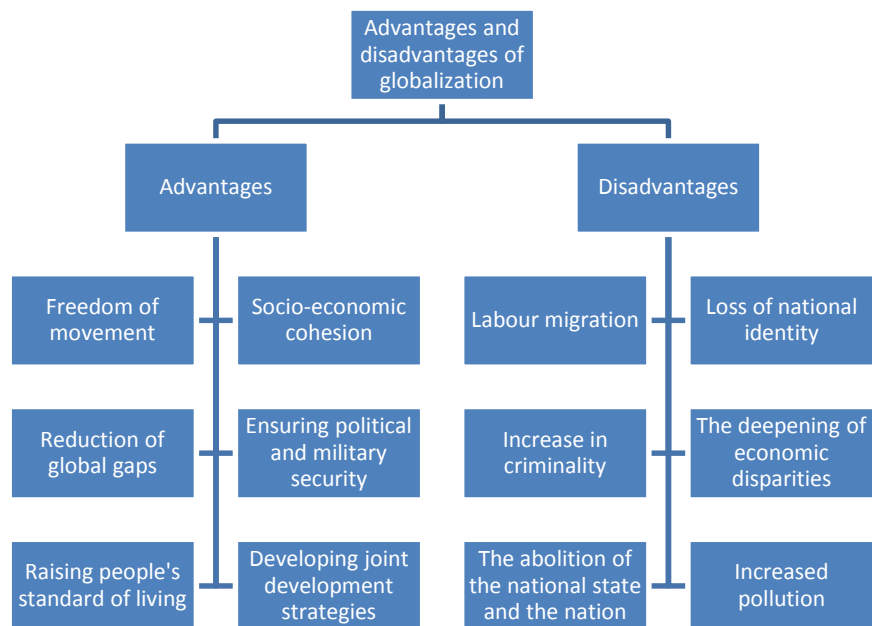
as main objective the cohesion of the European space from different perspectives (economic, social, territorial) and the competitiveness of the European space. Development policies of the member states of the European Union are established according to these scenarios because their main objective is the European regional integration in the global economy.

Now the EU economy is an impressive worldwide one and is considered a world power in economic terms. The European Union has a dynamic and well structured economy that facilitates a positive evolution of the Member States. Although there is a controversy regarding globalization and nationalism, as some consider them opposite, while others interdependent, in Europe it is observed that for the moment each one is independent, as globalization is strictly economic and helps to the national construction or reconstruction.

1. ADVANTAGES AND DISADVANTAGES OF GLOBALIZATION

We can identify opportunities and risks of globalization in the context of mondialisation in the European Union, but some advantages should be disadvantages, being susceptible to become vulnerabilities. The synthesis of these advantages and disadvantages is presented in Figure 1, but an important role of globalization is the reduction of economic and territorial gaps by creating policies that serve the development of competitiveness and socio-economic and administrative cohesion by capitalizing the potential of each state and creating opportunities by avoiding labor migration. The major disadvantage of globalization consists of free movement as workforce can migrate without restrictions and create the possibility of increasing the demographic risks because of the depopulation in poor areas without prospects of development.

Figure 1 - The scheme of the main advantages and disadvantages of globalization



Source: own representation

So globalization militates especially for economic development that the European Union adopted in the context of globalization becoming a world force. Although its purpose is to create prosperity, but at the moment there cannot be considered a certainty for each country, depending on the ability of states to take advantage of those opportunities because otherwise, the greatest risk of a nation is to remain outside the positive processes of globalization.

2. THE IMPORTANCE OF GLOBALIZATION FOR RURAL AREAS IN BOTOȘANI COUNTY

Globalization reinforces economic, political and cultural dependence, which at the level of the European Union it is obvious; however, it offers many opportunities for less developed areas of the member states to create a development policy with the risk of losing the local identity.

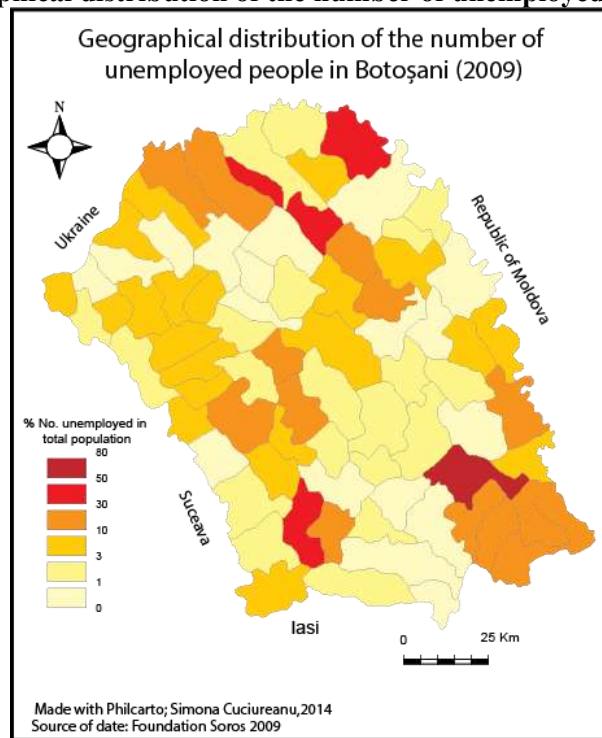
Botosani County currently must use the opportunities offered by globalization and integration into the European Union because it has a lot of socio-economic problems that can find potential solutions in the common development strategies at the European level. Among the significant issues facing rural

areas there are: the high number of unemployed people, of individuals receiving social assistance, of people who went to work abroad, road infrastructure and poor technical infrastructure, etc.

Priority that it attaches to the global rural economy due to the existing potential in every area and is insufficiently exploited involves a contradiction at the level of the study area because by addressing the key problems there is a risk of losing the local identity, especially since Botoșani is an area with a well-defined rural life and traditions/customs preserved over the years.

The number of unemployed in rural areas of the Botoșani County was continuously increasing in recent years, and in 2009 (Figure 2) we can see that they are dispersed throughout the region, and they tend to concentrate in the central-northern and southern areas, but this can be reduced by increasing the number of jobs, economic development and attracting investment to create a booming economy.

Figure 2 - Geographical distribution of the number of unemployed people in Botoșani;



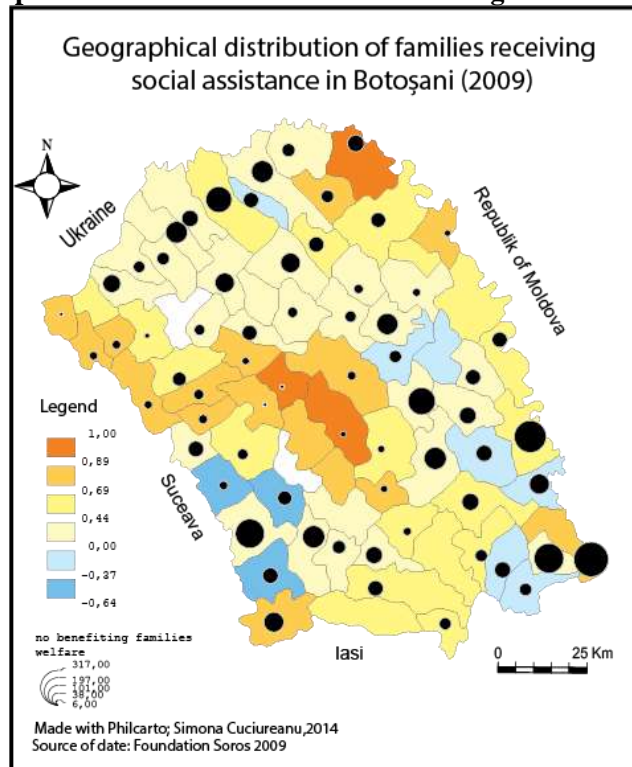
Source: own representation

The number of unemployed people indicates the municipalities which have a high qualified population, but they do not work and the areas are highlighted with a small number of unemployed because there are many working abroad. The municipalities with a high number of unemployed are

Durnești, Rădăuți-Prut, Cristești, Lozna, Mileanca, then the concentrations in the southern and north-west of the county (Răuseni, Călărași, Hlipiceni, Dorohoi, Șendriceni, Brăiești). The central area of the county (Dobârceni, Dângeni, Ungureni Gorbănești) has an insignificant number of unemployed because they have migrated abroad to provide a higher standard of living for themselves and their families. The cities do not face problems related to the number of unemployed thanks to their success in attracting investment and creating new jobs.

Another major issue in rural area that can be resolved by development strategies of economic sectors is the high number of individuals who are receiving social assistance; first this problem underlines the precarious socio-economic situation of communities and the need to implement an investment policy. People receiving social assistance can represent a criterion for determining the level of development of municipalities, but there is a shortage of people as the eligibility criteria for social assistance are subjective. We can observe a higher number of families receiving social assistance in eastern, northern and south-western regions of Botoșani.

Figure 3 - Geographical distribution of families receiving social assistance in Botoșani



Source: own representation

Demographic problems highlight the socio-economic situation and the need to benefit from globalization in rural areas in terms of economic development and higher living standards. In the study area, due to the integration of Romania into the European Union, the development of the global economy is supported by European programs and the possibility of accessing funds for applicable development strategies.

The development of agriculture and industry are the main priorities at the county level, so the official documents, the Landscape Plan and socio-economic development Strategy indicate the need to implement development policies. The major objectives of the county's agricultural policies are: reducing the fragmentation of agricultural holdings and attracting investors into agriculture for introducing high-level farming techniques and obtaining the basic raw materials for light industry (food, textiles and leather, garments and hosiery). Plant growth, being an important sector of agriculture, can ensure its development by identifying the problems encountered and setting the priorities. However, subsistence agriculture is a certain fact due to the aging of the rural population and lack of interest for the mechanization of agriculture, which are the causes for the increase of the unexploited agricultural land.

The industrial sector is a priority for socio-economic development of the county because natural resources need still to be harnessed (sand, limestone, clay, etc.). The priorities for the recovery of the neglected industrial activities are: glass industry (Dorohoi), sugar industry (Bucecea, Trușești) by establishing links with neighboring areas, and also by creating a common market.

Among the benefits of rural areas offered by globalization (and Botoșani requires the implementation of policies related to its opportunities) there are also the disadvantages resulting from this space. Freedom of movement has increased the number of emigrants searching for work abroad, and socio-economic development will lead to loss of the local identity due to the access to modernization and disappearance of customs and traditions. The risks are deducted from opportunities of Botoșani because it is a region with many gaps in rural areas and every opportunity for rural development and the reduction of the socio-economic impact determine the risk of a specific adverse effect of worldwide globalization.

CONCLUSIONS

Globalization is a complex and multidimensional process, but also dynamic and sustainable process. It involves global strategies for the whole of humanity in Europe through the EU programs because the goal of globalization is to create a uniform framework without major discrepancies from socio-economic, political, cultural perspectives.

The integration in the globalization process is easier due to large international companies that have successfully settled here (banks, commercial companies, industries, insurance companies) and attraction of investment for various economic activities. The area of study requires clear evidence of untapped potential and opportunities that prospective investors have thanks to the economic development of the county.

The opportunities and risks of globalization in Botoșani are interdependent because each advantage is a risk as economic diversification and higher living standards cause the loss of the local identity and uniqueness of places and freedom of movement is also considered a depopulation risk of the county because of the possibility of integration into the labor market in a developed country.

Rural development of Botoșani ensures cohesion and territorial, social and economic competitiveness, integration in the global context of globalization by identifying opportunities and risks and developing strategies to improve and reduce the possible risks of the global economy.

REFERENCES

- Held, D., McGrew, A., Goldblatt, D., Perraton, J. (2004) *Transformări globale: politică, economie și cultură*, Iași: Editura Polirom.
- Preda, M. (2002) *Politica social românească între sărăcie și globalizare*, Editura Polirom, Iași.
- Scruton, R. (2002) *Vestul și Restul. Globalizarea și amenințarea teroristă*, București: Editura Humanitas.
- Stiglitz, J. (2005) *Globalizarea. Speranțe și deziluzii*, București: Editura Economică
- Țigan, E. (2003) *Integrated development of rural areas*, Timișoara: Editura Eurostampa.

Zahiu, L. (2005) *Agricultural Policies and Markets*, București: Editura Ceres.

***Green Card Rural Development in Romania.

***La Charte europeenne de l'espace rural – un cadre politique pour le developpement rural, Strasbourg, 1995.

***SAPARD – le Programme Special de Preadhesion pour l'Agriculture et le Developpement Rural, DG Agriculture, decembre 2000.

*** Program Rural Development for Romania 2007-2013

*** Socioeconomic development strategy for 2007-2013 Botosani county.

*** Spatial Plan Botosani County.

http://europa.eu.int/comm/dgs/regional_policy/index_en.htm.

http://ec.europa.eu/agriculture/rurdev/index_ro.htm.

<http://europa.eu.int/eur-lex/en/treaties/>.

<http://www.soros.ro>.

http://www.mie.ro/_documente/atlas/res/text/a_int_euro_text.htm.

<http://www.insse.ro/cms/rw/pages/index.ro.do>.

<http://www.bnro.ro/Investitiile-straine-directe-3174.aspx>.

THE RELATIONSHIP BETWEEN BEHAVIOURAL AND NEOCLASSICAL ECONOMICS

Paula-Elena Diacon*
Mădălina Calance†

Abstract: *The purpose of this article is to analyze the relationship between the discipline of Behavioural Economics and the Neoclassical School. On the basis of the available literature, the paper aims to investigate if the two branches are totally opposite, or if the behavioural theories only extend and complement the mainstream economics.*

Keywords: behavioural economics; mainstream economics; economic behaviour.

JEL Classification: D01; D03.

INTRODUCTION

One of the object of the study of economics is the behaviour of the complex human beings; this science examines how people choose to act and to allocate resources in different market situations. The neoclassical approach, which dominates so far the economic analysis, is based on the implications that arise from a series of simple assumptions (which are sometimes cited as unrealistic) regarding the human nature. In this vision, the individual is characterized by unlimited rationality and by the ability to follow time consistent, in every situation, his self-interest. However, in the last decades, the standard neoclassical model, based on the maximization of the expected utility, has become the subject of intense debates and criticism. Although, throughout history there have been many eminent figures that advocated for a greater adequacy of the neoclassical model of *homo oeconomicus* and its assumptions to practice, recently, due to the global economic crisis of 2007, this aspect has become a primary goal in economics. In these conditions, behavioural economics attempts to consider a broader field of analysis in the study of economic phenomena. Although, its name seems to be a pleonasm (because, as it has been noted, economics deals with the study of human behaviour on the market), it highlights the human character of the science and the fact that, besides of all the patterns and models, the analysis refers to the real individual. It is also behavioural because it attempts to combine approaches from several sciences, mainly

* Paula-Elena Diacon is a Ph.D Candidate at the Faculty of Economics and Business Administration within Alexandru Ioan Cuza University of Iași, România, e-mail: diaconpaula@gmail.com.

† Mădălina Calance is a Ph.D Candidate at the Faculty of Economics and Business Administration within Alexandru Ioan Cuza University of Iași, România, e-mail: calancemadalina@yahoo.com.

from economics and psychology, and also from sociology, philosophy, anthropology or biology. This is not an easy mission, in the conditions in which these various disciplines have adopted in time different approaches that became, in many ways, contradictory. The essential philosophy of the field of behavioural economics is that a multidisciplinary approach will increase the explanatory power of economics.

1. ARE NEOCLASSICAL AND BEHAVIOURAL ECONOMICS OPPOSITE?

The available literature on behavioural economics is not uniform and there are some divergent points relative to its relation with mainstream economics. If, on one hand, there are specialists who argue that behavioural economics is a field of economics that continues the neoclassical approach, on the other hand, there are others who see it as a distinctive school of thought, which proposes a new paradigm. At a first glance, behavioural economists seem to depart almost completely from the neoclassical vision. They propose a multidisciplinary study, criticize certain assumptions on which the traditional model is build (such as rationality and self-interest, in their unlimited form), recourse to experiments (the classical method of psychology) to validate some assumptions, propose new theories (such as the prospect theory) and advance different interpretations of the economic behaviour (e.g. Simon argues that rather than to maximize consumers satisfy their needs). For example, Thaler (1980, p 39) argues that the prospect theory – one of the fundamental pillars of this new research programme – can represent the basis for an alternative which describes how individuals actually behave on the market, unlike the standard view which is both positive and normative.

Although behavioural economics is often cited as revolutionary when opposed to neoclassicism, many of the behavioural economists remain in fact on the neoclassical pathway regarding the utility functions. They do not leave this pathway, but reshape it and try to improve it. Rabin states, for example, that the empirical content of behavioural economics can help the economic science by describing more realistically the utility functions of the individuals. This field of study is based not on a paradigm shift, but rather it is a natural extension of the basic approach. In this respect, the author argues that “this research program is not only built on the premise that mainstream economic methods are great, but also that most mainstream economic assumptions are great” (Rabin, 2002, p. 659). However, complementary,

it can be claimed that behavioural economics is also built on the premise that psychology methods and assumptions are equally important. The author argues that because of the human nature the preferences do not remain stable, but are inconsistent in time, or, in his own words, that “we are highly attuned to changes in our circumstances, not merely the absolute levels” (Rabin, 2002, p. 659). The models of behavioural economics, allow the utility to depend on the differences between one’s own level and a reference level. People are sensitive to changes and preferences are not stable in time. The vision of behavioural economics concerning the inter-temporal choice (which assumes that individuals prefer immediate gains and delay unpleasant activities) seems to be more appropriate to the human behaviour than the one of the traditional model (which assumes that utility is updated exponentially over time). Also, the assumption of the self-interest was promoted unrealistically by the neoclassical economists in its unlimited (100%) form. Many studies conducted in the behavioural economic area have shown that, in some situation, individuals also care about others.

In the same direction as Rabin, Berg states that this research programme seeks to improve and adapt to reality the neoclassic utility functions, by adding new parameters and arguments (Berg, 2010, p. 870). For example, through *the prospect theory*, behavioural economics adds new parameters to improve the mathematical modelling method, which was advanced by the neoclassical economists for decisions taken under uncertainty. However, the theory also proposes a slightly different interpretation. The results are here interpreted by the individual as positive or negative deviations from a reference point, which has a neutral psychological value. In this case, the term utility is substituted with the one of value (the utility function becomes the value function). Furthermore, the utility of an outcome does not depend on absolute wealth (like in the neoclassical theory), but it is interpreted as a gain or a loss. Further, the behavioural patterns involved in the inter-temporal choice are based on time inconsistency. That is why the economists add a series of discounting parameters in the non-exponential scheme. These parameters are based on the assumption of maximizing a utility function separable in time and on the fact that, opposed to the mainstream view, preferences are not stable in time and can be reversed. Last but not least, in addressing social preferences, behavioural economics adds parameters that increase the concern of decision-makers to also assess their utility function in relation to others.

When science is in crisis, according to Kuhn, a new paradigm can be created. Is this the case of behavioural economics? Even if one would consider this possibility, the main difficulties encountered so far, according to Etzioni (2010, p. 53), are: firstly, there are too many variables established as being

involved in the choice theory^{*}; secondly, there is not a common consensus between the specialists of behavioural economics regarding the variables that should be included; and, finally, many variables that affect the behaviour are not quantitative, but qualitative, and cannot be precisely measured. The findings of behavioural economics are relevant and can help the mainstream theory by providing a more realistically base of study. But in the same time the findings are not yet cursive and integrated into a general design. Moreover, although the goal of Thales's essays was to reveal the anomalies and the paradoxes of the mainstream theory, process which according to Kuhn (1970, p. 52) is an important step towards a paradigm shift, lately this direction has been largely abandoned. This argument has contributed to the development of behavioural economics, because that there are a large number of empirical phenomena that cannot be entirely explained by the mainstream economics. However, the scholars of this emerging field are confident. At the beginning of their essay, for example, Camerer and Loewenstein argue that behavioural economics does not imply the totally exclusion of the neoclassical approach and that most studies in this area try to provide a more realistic base of the standard theory. In the concluding remarks of the same article, the authors stress out their belief that, in time, behavioural economics models will replace the simplified ones, based on unlimited rationality (Camerer și Loewenstein, 2004, pp. 3, 42). In the last period, economists have provided a great importance to the quantitative structures, departing from the human nature. However, behavioural economics can become truly revolutionary only if its scholars will always be receptive and will provide a critical insight to their own theories and perspectives, and especially the ones regarding the aspects that they reproach to the traditional economic theory.

* The neoclassical approach argues that the individual's behaviour on the market is determined only by economic factors. In brief, individual choices and, by this, the demand variation are explained only by the variations in the prices of goods / services and the available personal income. An important discussion in the field of behavioural economics is whether only these factors determine directly the economic behaviour of an individual. The specialists argue that it's possible that some influences which hitherto were considered as indirect (like the sociological and psychological factors) are actually active elements in the process of decision making. This assumption is very important because it can determine the reshaping of the utility functions. For example, as Loewenstein (2000) demonstrates, if we accept the Simon bounded rationality, than the emotions (or visceral factors) influence the individual behaviour on the market and can be considered in the utility functions.

CONCLUSIONS

The purpose of economics is to understand and explain as well as possible the conduct of the market phenomena, as it occurs in reality. In this sense, the research of behavioural economics aims to see how the neoclassical model could be improved, using mainly psychology concepts. Although, there are some specialists who argue that behavioural economics can be an alternative to the neoclassical theory, most of the facts seem to reinforce Rabin's belief that this discipline is rather an extension and an addendum to the theories of mainstream economics.

Most findings, of the studies conducted in this field, modify some of the standard economical assumptions, in order to provide a greater psychological realism. These results are not radical and they complement and expand the neoclassical analysis, rather than to replace it. The additions proposed by behavioural economists simply recognize the human limitations on (mentally) calculations, will and self-interest. These additions underline the individual's bounded rationality, in the words of Herbert Simon. For example, it was demonstrated that people often choose heuristics to solve their problems (which in present have become so complex that sometimes cannot be solved exactly even with the help of modern technique), instead of rationality.

Generally, Kuhn describes how traditional theories develop from a so called pseudo-scientific status to a normal one. In this process, the crisis generates new issues that have the potential to evolve. And even if this will not be the case of behavioural economics, scientists are interested in studying and deepening their knowledge by including new directions in order to improve (or to reinforce) the standard assumptions. In conclusion although the proposed analysis uses some different tools and techniques, behavioural economics is not a revolutionary change of the core of the neoclassical program. It rather seems that the changes proposed by it provide a strong support in the expansion and adjustment of the standard theory. The purpose of economics is to better understand and explain the conduct of the economic activities as they occur in reality. The human being is complex and its behaviour and constitution is studied by all the social sciences. Consequently, multi and interdisciplinary approaches can bring real benefits to the economic science, by providing a more realist foundation. Although, remarkable perspectives have been achieved, behavioural economics is still a rising field.

REFERENCES

- Berg, N. (2010) *Behavioral Economics*, in Free, R.C. (Ed.), *21st Century Economics: A Reference Handbook*, Vol. 2, Part VII – Emerging Areas in Economics, California: Sage Publications, pp. 861-872.
- Camerer, C.F., Loewenstein, G. (2004) *Behavioral Economics: Past, Present and Future*, in Camerer, C.F., Loewenstein, G., Rabin, M., *Advances in Behavioral Economics*, Princeton, New Jersey: Princeton University Press, pp. 3-53.
- Etzioni, A. (2010) *Behavioral economics: A methodological note*, *The Journal of Economic Psychology*, Volume 31, Issue 1, pp. 51-54, accessed on January 2014 at <http://www.gwu.edu/~ccps/etzioni/documents/A407%20behavioral%20economics.pdf>
- Kuhn, T.S. (1970) *The Structure of Scientific Revolution*, 2nd edition, Chicago: The University of Chicago Press (International Encyclopedia of Unified Science).
- Loewenstein, G. (2000) *Emotions in economic theory and economic behavior*, *The American Economic Review*, Vol. 90, No. 2, Papers and Proceedings of the One Hundred Twelfth Annual Meeting of the American Economic Association, pp. 426-432, accessed on January 2014 at <http://www.jstor.org/stable/117263>
- Rabin, M. (2002) *A Perspective on Psychology and Economics*, *European Economic Review*, Vol. 46, pp. 657-685, accessed on January 2014 at <http://web.cenet.org.cn/upfile/21563.pdf>
- Thaler, R. (1980) *Toward a Positive Theory of Consumer Choice*, *Journal of Economic Behavior and Organization*, Volume 1, Issue 1, pp. 39-60, accessed on January 2014 at <http://www.sciencedirect.com/science/article/pii/0167268180900517>

ANALYSIS OF PETER SENGE'S FIVE COMMANDMENTS LEARNING IN ORGANIZATIONS AND ADHERENCE TO THE ISLAMIC AZAD UNIVERSITY STAFF OF ITS COMPONENTS

Rasol Fanikhayavi*
Nooshin Mardani†
Sheida Mardani‡

Abstract: *To learn problem solving and the development of learning organizations has been added to the agenda; Therefore, organizational learning and ultimately, learning organizations, that meet the needs of current challenges such as environmental change, competition and quality are met. Peter Senge's five commands or discipline research and case study data, the compliance staff of Ardebil University defines these components. A descriptive study - a survey of the Islamic Azad University of Ardabil province were done in 2010. All statistics are community college employees that using stratified sampling 205 employees were selected as examples. Data collected by questionnaire in two parts with the scientific validity and reliability were 82%. By using SPSS research data were analyzed. The average amount of free functionality of the personal staff of employees with 10/18, The mental models with 92/17, the common cause against 87/16, after learning 94/16 and an average rate of systemic thinking employees with 14/17. Due to low compliance with the recommended five dimensions of learning organization mechanisms for universities to be respected by the authorities; to the staff of the University and the observed rate of learning will lead to the optimal level.*

Keywords: Learning organizations; Peter Senge's five commands; Staff; Islamic Azad University.
JEL Classification: I2, G00.

INTRODUCTION

Success, the computational preference and resistant permanence of organizations, is owing different managerial performances and the most important task may be to create a learning organization that today successful organizations of the world take that way (Najafbeigi, 2005). Today all managerial schools believe that an organization should be able to learn and that learning, is the base ability of the last decade of the 20th century and this thought is true in the 21st century as well (Dixon, 1992).

According to this need, some scientists like Olvin Tafler, Peter Der Aker, Jack Welch, Shushana Zablot, Charles Henry and Peter Senge, organize a modern paradigm through open mindedness about traditional management concepts and offer new ideas that eventually renamed as a learning organization

* Faculty Member of Islamic Azad University, Meshkin Shahr Branch, Ardabil, Iran, e-mail: rasulfani49@gmail.com.

† Young Researchers Club and Elite, Islamic Azad University, Takestan branch, Takestan, Iran, e-mail: nooshinmardani@yahoo.com.

‡ M.A. in Health Services Management, Science and Research Branch, Islamic Azad University, Tehran, Iran, e-mail: sheidamardani@gmail.com. (Corresponding Author).

(Iranzadeh, 2001). Among them, Peter Senge, define specific principles in 5 principles or command: developing individual abilities, mental models, common outlook, group learning, systematic thinking and providing executive fields to create these organizations (Senge, 2007). Also Peter Senge states that these 5 commands create these following new abilities:

First- enthusiasm. It means the ability to individual or group directing of tasks according to individual skill and creating common outlook.

Second -argument. It means the ability to talk (negotiate) in a thoughtful way, according to mental patterns and group learning.

Third- understanding the complication. It means the ability to watch patterns of contracting problems according to systematic thinking (Yari, 2006).

Industrial revolution occurrence was the opening of the period that its slogan was mass and cheap construction and gained it's altitude with expressing Tailer's opinion, the first who expand mechanizing thoughts with introducing scientific management. In these circumstances, they needed forces that could always work permanent and mass work like machine and live in accumulated community. To train these kinds of humans and to form training style out of the house and workplace, an educational system was needed to see all in a same way and execute standard cliché and a model for a large community of learners and for workers of factory, construct the same and homoshope construction. In this educational system an obvious program includes: instruction and conceal program includes 3 lessons, learning to be on time obedience and to work permanently (AbkenarNabi, 2007).

Many scientific references, organizational learning concepts and learning organization, have been used in a close usage. But a learning organization is an organization that organizes learning occurs there and in contrast to organization learning it includes specific organizational behavior that show and act in a learning organization. Learning organization is an observable reality and should have the ability to see the needs of in and out environment, but an organizational learning is a process and a set of measurements and is what the organization is and a learning organization is something that form an organization (Aggestam, 2006).

A learning organization is an organization that provides learning for its entire member and usually changes it. What is important in this definition is persisting on changing itself. An organization may oblige itself to education and development. But, it may be vulnerable, because it may not have the ability

to change itself in contrast to fast and sudden changes in environments out of itself (Peddler, 1997; Garvin, Edmondson, Gino, 2008). Also, these organizations have the ability to create, receive and exchange knowledge and modify their behavior in a way that reflects the knowledge and new opinions (Senge, 2007; Easterby, Lyles, 2003).

In this organization people increase their ability gradually to find intended conclusions. Learning organization is an organization that thought group argument. Finding opinion and new thought encourages in it. An organization that has enough capabilities to learn, to adapt and to change. Learning organization don't resist against changes. In contrary to traditional organizations that people have negative reactions toward each change. These organizations always try to be in change and evolution (Saemiyani, 2005; Lopez, Pean, Ordas, 2004). Mac Gil defines a learning organization as this: An organization that can reply to new information by setting different programs, so that information, analyze and evaluate through them (Tavakoli, 2001).

An organization that intends to be as a learning organization should have the ability to offer new opinions and think about new unexperimented resolve for the problems of the organization and all together to be creative. Although for an organization to be learning, creativity is not enough. A learning organization should react to new offered opinions and investigate the opinions and reject unsuitable ways. An organization that has these ideas, don't have the readiness to change in behavior. We should have in our mind that learning organization is an organization that is in contrast to its environments permanently and respond to an environment that react in that (Daft Rechar, 1988). Managers should learn that there's just a model of reality with themselves that were selected and formed based on theory and if not, they don't have the ability to gain a comprehensive picture of their environments (Zali, 2000).

Today in developed countries that care the role of organizational learning and learning organization, this though is governed that learning is not a selecting measurement from managers, but it's a necessity and this cause that some of pundits say that the aim of attempt to be a learning organization is necessary for the survival of the organization. It's revealed from the researches that, the leadership of the organization or the high manager of each institute has a crucial role in creating learning strategy in an organization and this task is because of the existence of opinion and obvious obligation all over the organization toward the object and the importance of organizational learning (Schein, 1993; Akgun, Keskin, Gunsul, 2007).

Deton has a research on 5 successful institutes in the world to find out that how these institutes can lead their organization to organizational learning. Of course he intends to reveal that which factors are the contact movement forces toward senior management level (Denton, 1998).

In this research we try not only to repeat the importance of learning organization and its role in creativity and the development of the organization, but also to investigate 5 commands or disciplines of Peter Sange and determine the amount of the adherence of the employees of an educational organization in Ardabil Province.

1. METHODOLOGY

The present research is a descriptive survey research that has been done in 2011 with the aim of investigating the amount of the obedience of the faculties of Islamic Azad University of Ardabil from components of learning organization from an employee. The Population of the present research is the employees of Ardabil Azad University that the amount of all employees based on giving statistics are 430 people. The method of sampling is traditional class and Murgan table was used to determine the amount of samples. Eventually 205 employees were selected as research samples (table 1). The Data collection tool was 2-part questionnaire. By investigating librarian references, scientific text and searching authentic web 5 effective factors in 30 questions designed individual abilities, mental models, common object, team learning and systematic thinking. The reliability of questionnaire calculated through Cronbach alpha was 82 percent.

To analyze the data, the SPSS Software (version 16) has been used. In this analysis descriptive and driving statistics methods has been used. In descriptive part, the table has been used to describe data and in analysis part, the first research question from comparison the average, variance and standard deviation have been used to analyze data and test of the question. In all of these procedures the restriction that the researcher has, was about lack of coordination of official and employees in easy accessibility of research samples.

Table 1 - The population of people community and employees sample in different unit

The name of unit	Ardabil	Bile Savar	Pars Abad	Khalkhal	Garmi	Meshkin Shahr	Total
The Population of Community	214	12	52	85	37	30	430
The Percentage of People	49.77	2.79	12.1	19.76	8.6	6.98	100
Samples	102	6	25	40	18	14	205

Source: Survey

2. RESULTS

According to the result of table No 2, the average of dimension of learning organization of Islamic Azad University of Ardabil province, was 103 that highest amount of learning was 141 and the lowest amount was 65. Because requiring criterion is getting the amount of more than 90 from 150 of the components and the average of this component is more than average extent, so the universities have the characteristics of learning organization very well at the employee's point of view.

The calculated average shows 18.10 that an employee's point of view the effect intensity agent of individual abilities in learning organization more than 16. 50% of respondent find out this agent more than 18.25% more than 21.

The calculated average shows 17.92 that an employee's point of view the intensity of the effect of agent of mental models in learning organization is at requiring extensive. 75% of respondents find the effect of the agent of mental models in learning organization more than 16. 50% of respondents find this agent more than 17 and 25% more than 21.

The calculate average shows 16.87 in respondents point of view that the intensity of the effect of common objective agent in a learning organization is lower than requiring extensive because requiring criterion is getting a score higher than 18 from 30. According to each component, this component is required. 75% of respondents find out the effect of the common objective agent of learning organization more than 14. 50% of respondents find this agent more than 15 and 25% more than 21.

The calculate average shows 16.94 that in respondents point of view the intensity of the effect of team learning agents in a learning organization is lower than acquired. 75% of respondents find out the effect of team learning agents in learning organization more than 14. 50% of respondents find this agent more than 16 and 25% more than 20.

The calculate average shows 17.14 in respondents point of view that the intensity of the effect of systematic thinking agent in a learning organization is lower than requiring extensive because requiring criterion is getting a score higher than 18 from 30 relating to each component, this component is required. 75% of respondents find out the effect of systematic thinking agent of learning organization more than 13. 50% of respondents find this agent more than 17 and 25% more than 21.

Table 2 - Distribution the amount of indicator of Islamic Azad Universities of Ardabil Province in employees' point of view

	Dimension of Learning Organization	Individual Abilities	Mental Models	Common objective Agent	Team Learning Agent	Systematic Thinking
Average	103	18.1	17.92	16.87	16.94	17.14
Standard Deviation	18.82	3.17	3.34	4.23	3.84	14.4
Minimum	65	11	13	9	10	9
Maximum	141	25	25	24	25	25

Source: own processing

3. DISCUSSION

Descriptive statistic results show that the average amount of dimensions of learning organization in universities in employee's point of view was 103 that the highest amount was 141 and the lowest amount was 65. Because requiring criterion is getting a source higher than 90 from 150 about 5 components that the average of this researching question is more than the average extent. In this respect Moghaddam (Rastehmoghadam, 2005) does the research of study of Allame Tabatabaie University as learning organization from the manager's point of view and concluded that Allame Tabatabaie University has all the characteristics of a learning organization that has aligned with this research. Haj Ali Akbari (Haj aliAkbari, 2006) in a research titled explanation and designing of the model of the learning organization in the Azad Zanzan University concluded that dimensions of the learning organization are not at requiring extensive and do not have alignment with this research.

Result from organization show that the average amount of the individual abilities of employees of the province Azad University in employee's point of view is 18.10, the minimum amount is 11 and maximum one is 25. Since acquiring extensively in this research is getting a source of 18 from 30 for each component that actually the extent of individual abilities in Azad University of Ardabil province is

at acquiring extent. According to these results Haj Ali Akbari (Haj aliAkbari, 2006) concludes that individual abilities in that university is not appropriate and is far from learning organizations and do not have alignment with the present research. Also Moghaddam (Rastehmoghadam, 2005) in this research concludes that Allame Tabatabaie University has all characteristics of learning organizations and has alignment with opinion and viewpoint of the research employees.

For the status of Ardabil Province Azad University based on the dimension of mental models according to taken information, the average amount of mental models among employees are 17.92 that the minimum amount is 13 and the maximum amount is 25. Of course, the amount of mental models in the province Azad Universities about employees is lower than acquiring extent. According to Haj Ali Akbari (Haj aliAkbari, 2006) in this research, he resulted that mental models in that university aren't appropriate and is far from learning organization, but it has an alignment with the present research employees. Also Moghaddam (Rastehmoghadam, 2005) in his research resulted that Allame Tabatabaie has all characteristics of a learning organization that has an alignment with the opinion and viewpoint of the research professors.

For the status of Ardabil province Islamic Azad University according to the dimension for common objective based on giving information, we can see that the average extent of universities common objectives the from the employee's point of view, is 16.87 that the minimum extent is 9 and the maximum extent is 24. It can be said that the extent of common objective in Ardabil Province Islamic Azad University from the employees' point of view is lower than acquiring extent and is acquiring from the professor point of view. Result from Haj Ali Akbari (Haj aliAkbari, 2006) in the study shows that common objective is not appropriate in that university and is far from learning organization, but it is in alignment with the present research. Also Moghaddam (Rastehmoghadam, 2005) in his research concluded that Allame Tabatabaie University have all characteristics of a learning organization and has an alignment with opinion and viewpoint of professor of the present research.

For the status of Ardabil Province Islamic Azad Universities according to the dimension of team learning according to the given information, the average extent of team learning universities is 16.94 based on employees 'point of view that the minimum extent is 10 and the maximum one is 25. It can be concluded that team learning in mentioned university is not appropriate and is far from learning organization that has an alignment with the employees of the present research. Also Moghaddam

(Rastehmoghadam, 2005) in his research concluded that Allame Tabatabaie University has all characteristics that have an alignment with the opinion and viewpoint of the professor of this research.

For the status of Ardabil Islamic Azad Universities according to systematic thinking dimension based on giving information of the present research. We can see that the average extent of systematic thinking of employee's is 17.14 that the minimum extent is 9 and the maximum extent is 25 and the extent of systematic thinking in the Islamic Azad Universities of Ardabil Province is lower than the acquired extent from the employee's point of view. According to the above results, Haj Ali Akbari (Haj aliAkbari, 2006) in his research concluded that systematic thinking is not an appropriate in mentioned university and is far from learning organizations and has an alignment with the employees of the present research. Also Moghaddam (Rastehmoghadam, 2005) in his research concluded that Allame Tabatabaie University has all the characteristics of learning organizations and has an alignment with the professor of the present research.

CONCLUSIONS

According to the results of this research about employees as it can see that in the 4 components of learning organization; it means, mental models, common objective, team learning and systematic thinking, taken averages are lower than acquired extensive. So it's suggested that honorable officials try to find its reason or reason. Because systematic thinking component has the lowest effect intensity, it is suggested to create and reinforce systematic thinking among employees.

REFERENCES

- AbkenarNabi, M. (2007) *Learning organizations, leading rationalism*. Publication Management, No. 185, October 2007.
- Aggestam, L. (2006) *Learning Organization Or Knowledge Management: Which Came First, The Chicken Or The Egg?*. Information Technology and Control, vol. 35, issue 3.

- Akgun, A.E., Keskin, H., Gunsel, A. (2007) *Communities Of Practice: An Important Actor Of organizational Learning*, From the Proceedings of III. International Strategic Management Conference, Antalya Turkey.
- Daft Richard, L. (1988) *Essentials of Organizational Theory and Design*. Cincinnati: South - Western College Publishing.
- Denton, J. (1998) *Organizational Learning and Effectiveness*. London: Routledge. 1998.
- Dixon, W. (1992) *Organizational Learning: a review of the literature with implication for HRD professionals*. Harvard Business, Quarterly, vol. 3, issue 1.
- Easterby-Smith, M., Lyles, M. (2003) *The blackboard handbook of organizational learning and Knowledge Management*. Oxford: Blackwell Published.
- Garvin, D.A, Edmondson A.C, & Gino F (2008) *Is yours a learning organization?*. Harvard Business Review; March, 109–116.
- Haj Ali Akbari, F. (2006) *Defining and designing the learning organization model in the Islamic Azad University of Zanjan*. [Master Thesis]. Tehran: Zanjan University, Faculty of Management.
- Iranzadeh, S., Amlashi, M.K. (2001) *Evaluating the Effective Factors on Customer Satisfaction from the Bank's Customers Viewpoint Using Improved Kano Model*. Life Sciences Journal 2013; vol. 10, issue 1, pp. 145-150.
- López S.P, Peaon J. M, & Ordas, C.J. (2004). *Managing knowledge: The link between culture and organizational learning*. Journal of Knowledge Management; vol. 8, issue 6, pp. 93–104.
- Najafbeigi, R. (2005) *Organization and Management*. [Master's Thesis]. Tehran: Islamic Azad University, Faculty of management and Economic.
- Peddler, M. (1997). *Action learning in practice*. Hampshire, England: Gower. pp: 61-75.
- Rastehmoghadam, A. (2005) *Tabatabai University as a learning organization from the perspective of managers*. [Master's Thesis]. Allameh Tabatabai University, School of Psychology and Educational Sciences.
- Saemiyan, S. (2005) *Learning organizations and its role in promoting the quality*. Journal of Management, no. 92-91, December and January 2005.
- Schein, E. H. (1993) *How Can Organizations learn Faster? The Challenge of Entering the Green Room*. Sloan Management Review, winter 1993, pp: 85-93.

- Senge, P. (2007) *Fifth Discipline*. Translated by Hedayat, Kamal and Roshan, mohammad 2007, Industrial Management Organization; pp: 50-61.
- Tavakoli, G.h. (2001) *The role of quality awards on organizational learning*. [Master's Thesis]. Tehran: Tehran University. Faculty of management.
- Yari, J. (2006) *Examined the barriers to learning in the educational center of Iran Khodro*. [Master's Thesis]. Tehran: Allameh Tabatabaei University, Faculty of Psychology and Educational Sciences.
- Zali, M. (2000) *Learning the most effective tool to achieve the administrative system development*. System Administration and Development Symposium, no 17 and 18.

GLOBALIZATION AND CULTURAL IDENTITY DILEMMAS

Sebastian Andrei Labes^{*}

Abstract: *This paper aims to present an important phenomenon of our world, namely the contradictory relationship between globalization and cultural identity. In this work identity is understood as a cultural practice therefore it cannot be analyzed without taking into account global communication and diversity. The multidimensional transformation of our society in the XXI century is marked by increased interconnectivity and affirmation of singular identities. These identities come in constant tension with the context in which the existing political forms that are in crisis and the restructuring processes through new projects are struggling to set up a new society. Globalization versus cultural identity it's not a zero-sum game even though the two might be perceived as opposite processes this paper argue that it globalization cultural identity can go hand in hand with globalization.*

Keywords: globalization; cultural identity.

JEL Classification: F60; Z13.

INTRODUCTION

Initially, globalization was seen as a broadening, deepening and acceleration of global interconnection in all aspects of contemporary social life, culture and crime, from finance to the spiritual sphere (Miliana, Constantin, 2006). Globalization reflects a broad perception that the world is fast becoming a common social space, influenced by economic and technological forces, so that developments in one region of the world can have profound consequences on individuals and communities across the globe.

A definition of globalization must list all its major effects: a deep tendency retrieval unit, the internationalization of production shifts, the free movement of goods, information and people, domination of international companies, growth global competition. (Brăilean, 2004)

The term culture comes from the Latin word *colere* which means 'to grow' / 'to honor' and generally refers to human activity. UNESCO's definition considers culture as 'a series of distinct features of a society or social group in terms of spiritual, material, intellectual or emotional'. (UNESCO, 2009)

^{*} Alexandru Ioan Cuza University, Romania, e-mail: labes.sebastian@gmail.com.

Culture is an inheritance that is transmitted using specific communication codes such as gestures or words, writing and the arts, media (press, radio, TV), interactive media (phone, internet). Similarly gestures, rituals, theoretical knowledge, abstract rules, and religion are transmitted (Saljooghi, 2011). Culture can be acquired through various forms of subjective memory (reflexes, words, pictures) but also through memory targets (objects, pictures, books, numbers, rules).

Popular use of the word culture in many Western societies may reflect exactly that layered character of those societies. Many people use this word to refer to the elite consumer goods and activities such as cuisine, art or music. Others use the label of ‘high culture’ to distinguish it from the ‘low culture’, designating all consumer goods that do not belong to these elite.

Cultural identity is the identity of a group or culture or of an individual as far as one is influenced by one's belonging to a group or culture. Various modern cultural studies and social theories have investigated cultural identity. In recent decades, a new form of identification has emerged which breaks down the understanding of the individual as a coherent whole subject into a collection of various cultural identifiers. These cultural identifiers may be the result of various conditions including: location, gender, race, history, nationality, language, sexuality, religious beliefs, ethnicity, aesthetics, and even food.

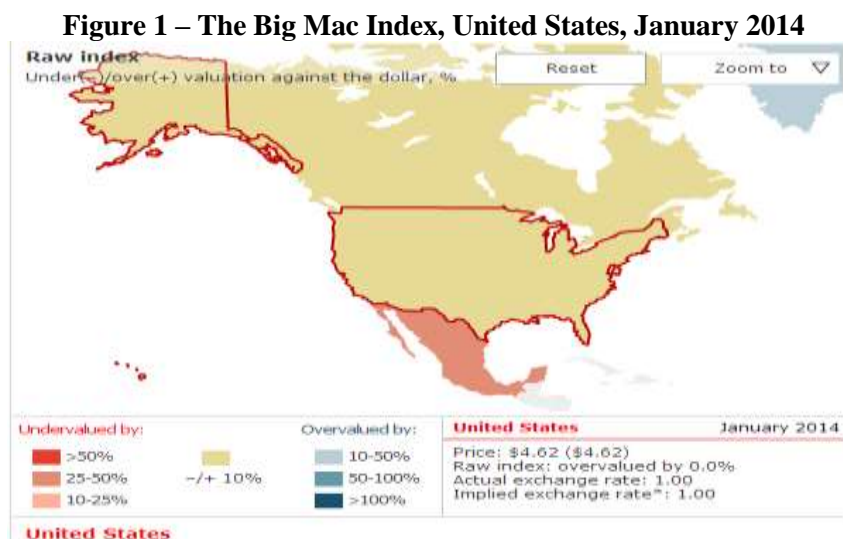
1. CULTURAL GLOBALIZATION

Scholars also stress the concept of cultural globalization which refers to the transmission of ideas, meanings and values across world space. This process is marked by the common consumption of cultures that have been diffused by the Internet, popular culture, and international travel. Cultural globalization involves the formation of shared norms and knowledge with which people associate their individual and collective cultural identities, and increasing interconnectedness among different populations and cultures (Inda, Rosaldo, 2002).

Encyclopedia Britannica defines cultural globalization as ‘a phenomenon by which the experience of everyday life, as influenced by the diffusion of commodities and ideas, reflects a standardization of cultural expressions around the world’ (Encyclopedia Britannica, 2013).

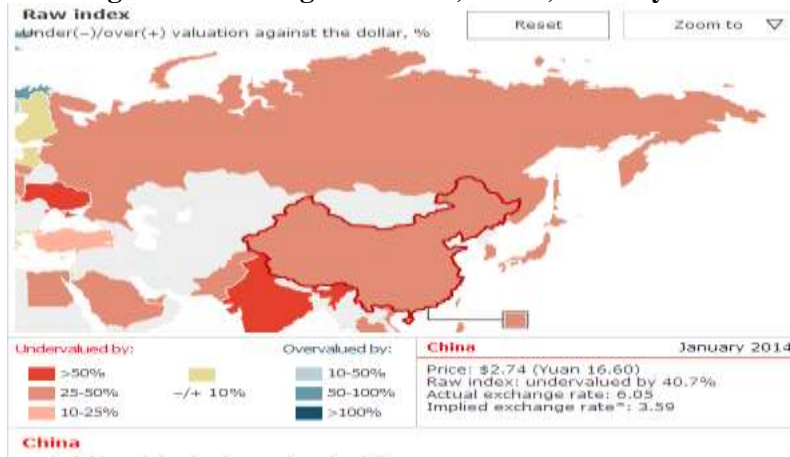
A visible aspect of cultural globalization is the diffusion of certain consumer products from certain parts of the world and more specifically there is a big debate considering the global influence of American

products like McDonald’s or Coca-Cola referred as Americanization or Coca-colonization. For instance, as a measure of the influence of McDonald’s chain of fast-food restaurants Pam Woodall, a Senior Economics Writer at *The Economist* introduced in 1986 the Big Mac Index which since then is published every year. The Big Mac Index is an informal way of measuring the purchasing power parity (PPP) between two currencies and provides a test of the extent to which market exchange rates result in goods costing the same in different countries. For example, the average price of a Big Mac in United States of America in January 2014 was \$4.62 (Figure 1 – The Big Mac Index, United States, January 2014); in China it was only \$2.74 (Figure 2 – The Big Mac Index, China, January 2014) and in the Euro Area \$4.96 (Figure 3 – The Big Mac Index, Euro Area, January 2014) at market exchange rates. So the ‘raw’ Big Mac index says that the Yuan was undervalued by 41% at that time, meanwhile the Euro currency overvalued by 7.3%. (The Economist, 2014) The Big Mac index has become a global standard that can be adapted in different themes like *Tall Latte index* with the Big Mac replaced by a cup of Starbucks coffee, *iPod index*, or *Ikea’s Billy bookshelf* built on the same principle.



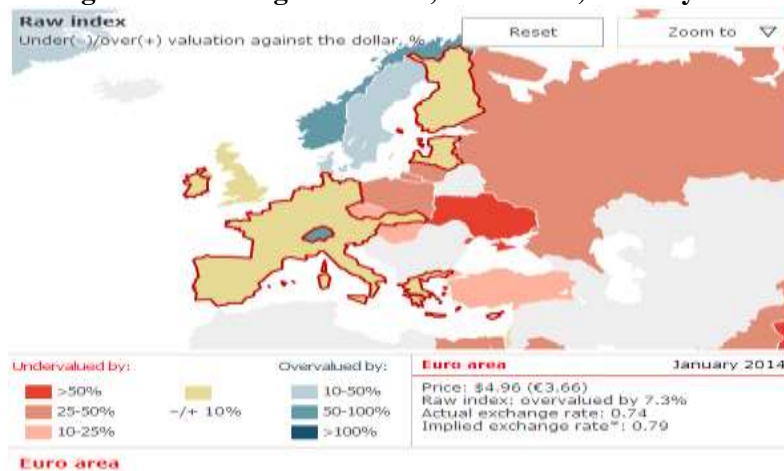
Source: *The Economist*, The Big Mac Index, Interactive currency-comparison tool

Figure 2 – The Big Mac Index, China, January 2014



Source: The Economist, The Big Mac Index, Interactive currency-comparison tool

Figure 3 – The Big Mac Index, Euro Area, January 2014



Source: The Economist, The Big Mac Index, Interactive currency-comparison tool

2. TRANSCENDING CULTURAL IDENTITY IN THE NEW GLOBAL SPHERES OF INFLUENCES

Mutations that have been occurring in the world in the last 50 years technologically, economically and politically (the spread of electronic computing and communication, economic globalization and the dissolution of the former communist states block), accompanied by the persistence of shocking inequalities regarding the human condition in different parts of the globe, fueled intensified ideological confrontations between different groups of society and the leaders of various countries. (Platon, 2010)

Gradually intellectual horizons and the conduct of publishing and intellectual registry have changed appreciably along with diversified benchmarks and priorities by which thinkers from different social status and from different parts of the world appreciate the nature and consequences of various events and social processes. Old prejudices that have been maintained for centuries continue to mingle with the spectacular progress of knowing humanity. The shadow of the cold war - which seemed to have ended in 1989 - and the ‘sparks’ of the nowadays hot wars which are still present in everyday life of some nations continue to obscure the righteous judgment of some thinkers. (Giddens, 2001)

Globalization is claiming new transnational public spheres and communities willing to transcend nationality and regional borders. In this category are usually included business people, artists, and youth culture. Equally visible is the propensity to fragment national communities, during that fewer people in close proximity share the same cultural inventory. This phenomenon was particularly spread in the former communist countries. After the collapse of the Soviet Union many groups have rediscovered their cultural identity – the question was whether the majority or minority – a condition in which they fought or are still fighting for eigenvalues using the same language. From the mentioned perspectives, globalization and localization are parts of one and the same process. Local participation in the economic and political life will make all the features of national cultures derived from such as French, German, Russian, Thai and so to be understood only in the global context. Regarding individual - despite the differences that separate one from another, despite the views of the world nurtured by his own culture and language - he has the opportunity to cultivate dialogue and benefit from it. (Neumann, 2009) It seems that this is a tremendous opportunity for self-realization and enrichment of society.

3. GLOBALIZATION AND CULTURAL IDENTITY IN THE EUROPEAN CONTEXT

When we speak of cultural identity we are thinking especially about language, cultural heritage, traditions and religion. However, none of them has become a character of uniformity and was not accepted unanimously by the Member States or those who crave integration into the European Union. Is there a European language? No! And probably never will be one anytime soon, although some countries have managed to impose and promote their language universally available - English, French, and Spanish and others. In the same manner we can also speak about their culture, traditions or religions.

European area is one of the nations. Let us remember that in 1954, when the Western European Union (WEU) was established the core idea was to strengthen cooperation between Western European nations in the security sphere and actually creating a European military alliance. All states were required components of general assistance in case of aggression against a member state, to preserve peace and security in Europe. Subsequently, WEU (Western European Union) member states provided a platform for social and economic cooperation, but each state has kept further identity and uniqueness.

This concept, which emphasizes the role of various societies in creating culture, could become the backbone of the concept of 'European interdependence'. Interdependence means not just a single European government, but involves understanding and global cooperation, based on a set of ethical rules, which act to prevent the transformation of national sovereignty in cultural aggression.

Europe became what the Europeans wanted or, to paraphrase Jonathan Scheele, former Head of European Commission Delegation in Romania in the period 2001 - 2006, 'Europe continues to be a project of its citizens'. In this context Europeans should be keeping contributing to this project, but they will not in any way lose their identity, to imitate or to copy what the others are. Integrating into a system is, without a doubt a great advantage but keeping the identity is not only an obligation but also the only chance of survival of individuality. However in order to fully harmonize a united Europe in a united system of various cultures will require a long-term perspective.

4. PRESERVING CULTURAL IDENTITY IN THE GLOBAL CONTEXT

The issue of preserving cultural identity in the complex process of globalization is twofold. On the one hand there is the danger of cultural homogenization, which means that people could reach to one single form of culture, and on the other an acute cultural and psychological disintegration for both individuals and society. Both risks are correlated. There is a form of behavior, often unconscious, which appears to some as a form of cultural aggression. Another name for it would be ethnocentrism wrong led. (Lieber, Ruth, 2002) This behavior, characteristic especially to developed countries like Germany, England, France, Netherlands, and Luxembourg, constitute a threat to European understanding and should be corrected. The great powers, consciously or not, could remove or abandon completely indiscriminate valuable cultural traditions. Instead, they bring cultural models of learning from outside,

promoting a foreign way of life of peoples, thus constituting a major source of incoherence and disorientation. (Kaygusuz, 2012)

A global system vulnerable to aggression from some and cultural disintegration of others does not constitute a firm basis for mutual understanding, dialogue, cooperation, joint initiatives and European solidarity. It is clear that such a situation has its roots in colonialism. Cultural identity at both levels - national and international, remains one of the main necessities psychological, spiritual, which could become a growing source of conflict within societies and between them. The risk of rupture increases as the side effects of backwardness of historical learning processes begin to be felt. There is tolerance, but not the most honest acceptance of nations located on a higher level of technological progress and civilization, for the values of the new countries that have entered or will enter the European Union. Here we must carefully stress two fundamental themes: the polarization (the intellectual tendency to see diversity without perceiving unity and vice versa) and redistribution issue. The redistribution issue is learning that the right to diversity implies the need for global solidarity. Cultural identity is the one that gives people dignity and allows them not to lean before others only to survive. There is of course a common cultural heritage of humanity, whose protection and recovery is one of our greatest responsibilities. This legacy could become even more relevant if the focus would be on the human role in its constant process of creation and not putting it in a museum of collections from ancient times.

Problems posed by the cultural identity are even more important as they can't be easily resolved through a process of redistribution. Cultural autonomy is not guaranteed (or withdrawn), as required by international agreements to redistribute resources; however they may be indispensable to others. Cultural identity is a way of perceiving a set of relationships and human values. (Tomlinson John, 1999) If we want to live in a culturally viable twenty-first century we need to start intensifying the learning processes of parents and their children who will reach maturity or old age at the beginning of the next decades. This process involves the mutual fertilization of cultures and global interdependence, based on a flourishing plurality of cultures excluding imposing a unique learning model. (Wang Yi, 2007) Also, we will need a total respect to the values of others, a consensus on a minimum number of universal values and a greater role for international trade, for people of all ages to travel freely and recognize global nature of the inheritance of the whole world from a perspective located outside our culture. Developing this understanding and its spread is one of the main objectives of a new approach to globalization.

Despite popular belief, namely that globalization requires cultural hegemony, the reality shows that there is a cultural resistance that persists and becomes a value, becoming stronger. This gives the possibility of cultural resistance, which can promote the common interests of society. Measurement, analysis and comparison of cultural values in different countries and geographical areas of the world have revealed that cultural values in different countries do not tend to converge although economic development pushes all countries toward a common direction. This direction provides common strengthening values. Communication is global, and yet it does not imply a cultural globalization. Strengthening identities is used in many cases as a control mechanism for chaotic globalization. Moreover, identity is a tool built on the foundation of experience and generator of meaning in people's lives. This effect, which can be a religious, national, ethnic, territorial, or in relation to gender equality is fundamental to people's lives and characterizes the world as much as globalization and technology do. Communication plays a major role as a new public space and it allows dynamic construction of intercultural and facilitates movement from monologue to dialogue, dialogue and cooperation. (Suiogon, 2011) Cooperation should be based not on words but on deeds, in close relationship with different identities.

CONCLUSIONS

Globalization is frequently felt as a menace to strong national and cultural identities. Some might fear about its tendency to homogenize different cultural realities, by annihilating every single mark of singularity (Gil, 2009). However, it cannot be denied that globalization tends to erase differences and to create similar life patterns around the world: consider, for example, the case of franchising's, such as McDonald's, Starbucks, Coca-Cola, etc. Societies find themselves eating the same food, watching the same movies, wearing the same clothes. In this process of homogenization, cultural particularities and differences are lost, cultural identities are shattered, critical thinking disappears.

On the other hand cultural identity if properly understood can be more a product of globalization than its victim as Tomlinson is arguing. Identity is not a zero-sum game but it does suggest that the way in which national identity is experienced within globalization is, like everything else, influx. (Tomlinson, 2003) Another, quite contradictory, conclusion stressed by the same author is that 'globalization, far

from destroying cultural identity, has been perhaps the most significant force in creating and proliferating cultural identity'. The idea that globalization and identity can go hand in hand it's surprising and reveals the actual power that identity has against the massive force of globalization.

In the European context national identity is a very powerful form of cultural identity in which the de-territorializing force of globalization meets the opposition of regulatory and the socializing institutions of the state. However Brussels efforts in building a Europe that shares common values and aspirations come in hand with preserving the cultural heritage of each Member State and even more of each cultural group. The model of European Union in the matter of cultural identity I believe is a successful one that manages to bring together globalization and cultural identity. This is one of the European Union's prerogatives that makes it to be perceived as a 'soft power' popular and desirable for the vicinity countries. The process of harmonization takes time as the European Union is expanding towards the Eastern countries but the European project it's one of the successful stories in which globalization actually proliferates rather than destroys identities.

When it comes to preserving cultural identity there is the danger of ethnocentrism a behavior of great powers especially noticed in Western Europe but not only that can led sometimes to cultural aggression. Two processes rise in the matter or preserving cultural identity in a global context: polarization and redistribution. If we want to we want to live in a culturally viable twenty-first century we need a total respect to the values of others, a consensus on a minimum number of universal values and a greater role for international trade, for people of all ages to travel freely and recognize global nature of the inheritance of the whole world from a perspective located outside our culture. Developing this understanding and its spread is one of the main objectives of a new approach to globalization.

REFERENCES

- Brăilean, T. (2004) *Globalizarea. Nenumele nimicului*, Editura Institutul European.
- Encyclopedia Britannica (2013) *Cultural globalization*, Free pass article accessed on January 2014 at <http://www.britannica.com/EBchecked/topic/1357503/cultural-globalization>
- Giddens, A. (2001) *A treia cale. Renașterea social-democrației*, Editura Polirom.

- Gil, A. C. (2009) *Cultural Identity and Globalization*, Culture, Politics, Ethics: Interdisciplinary Perspectives, ebook Inter-Disciplinary Press, pp. 121-131.
- Inda, J., Rosaldo, R. (2002) *Introduction: A World in Motion. The Anthropology of Globalization*, Wiley-Blackwell.
- Kaygusuz, C. (2012) *Psychological counseling within the context of globalization and multiculturalism*, Procedia - Social and Behavioral Sciences 47, pp. 895 – 902.
- Lieber, R. J., Weisberg, R. E. (2002) *Globalization, Culture, and Identities in Crisis*, International Journal of Politics, Culture, and Society, Volume 16, Issue 2, pp. 273-296.
- Neumann, V. (2009) *Globalizarea sau orientarea noii diversități culturale*, Revista Vestul. Tribună a Demnității Bănățene accessed on January 2014 at <http://www.vestul.ro/stiri/1022/globalizarea-sau-orientarea-noii-diversitati-culturale.htm>
- Platon, A.F. (2010) *Imaginarul politic și formarea identităților europene (secolele XIV/XVI – XIX)*, Handbook, Center for European Studies.
- Saljooghi, A. (2011) *The 'old' in new media: Critical divide versus globalized identities*, Procedia Social and Behavioral Sciences No. 15, pp. 1284-1286.
- Suiogan, D. (2011) *Identitatea culturală în contextul globalizării*, Memoria Ethnologică nr. 38 - 39 (An XI), pp. 84-85.
- Șerbu, M., Gheorghe, C. (2006) *Globalizare și identitate națională: Simpozion*, Editura Ministerului Administrației și Internelor, pp. 26-28.
- UNESCO (2009) *The 2009 UNESCO Framework for Cultural Statistics*, Institute for Statistics, Montreal, Quebec Canada accessed on December 2013 at <http://www.uis.unesco.org>
- The Economist, *The Big Mac Index*, accessed on January 2014 at <http://www.economist.com/content/big-mac-index>
- Tomlinson, J. (1999) *Globalization and Culture*, The University of Chicago Press.
- Tomlinson, J. (2003) *Globalization and Cultural Identity*, The global transformations reader, pp. 269-277.
- Wang, Y. (2007) *Globalization Enhances Cultural Identity*, Intercultural Communication Studies XVI : 1.

ROMANIA'S FISCAL STRUCTURE IN VIEW OF EURO ADOPTION. A MULTIDIMENSIONAL ANALYSIS

Maria-Isadora Lazăr*

Abstract: *The aim of this paper is to conclude whether the adoption of the single currency induced a trend of structural resemblance, and if so, to determine groups of countries with similar fiscal structures inside the Euro Area. Taking into consideration total revenues, indirect taxation, direct taxation and social contributions, we analyzed primary data and completed it with multidimensional classification. Having in view Romania's objective of adopting Euro currency we aim to establish to which subgroup is Romania more similar in terms of fiscal structure and whether this resemblance enhanced since the accession to the European Union.*

Keywords: total revenues; indirect taxation; direct taxation; cluster analysis; Euro Area; Romania.
JEL Classification: C38; E62; H71.

INTRODUCTION

The main objective of the European framework for fiscal policies regards monitoring budget deficits and government debt in the MS (MS), in order to maintain a balanced budgetary position that will not affect the economic activity of other states. Provisions for common rules for fiscal policy were introduced into European law by the Treaty of Maastricht, which was established as a basis element of preparation for achieving economic and monetary union, and were further completed by the provisions of the new European economic governance. Through these provisions, MS retain sovereignty regarding fiscal policies, but their autonomy was limited by the convergence criteria, in view of Euro adoption and of stability criteria, afterwards. Therefore, the differences in fiscal structures between Euro Area MS can be significant, as countries have different taxation levels, different collecting capacity, different needs and, therefore, different results. However, these countries maintain numerous similarities and, in some cases, the gap began to narrow.

* Maria-Isadora Lazăr, Bucharest Academy of Economic Studies, Romania, e-mail: lazar.isadora@yahoo.com

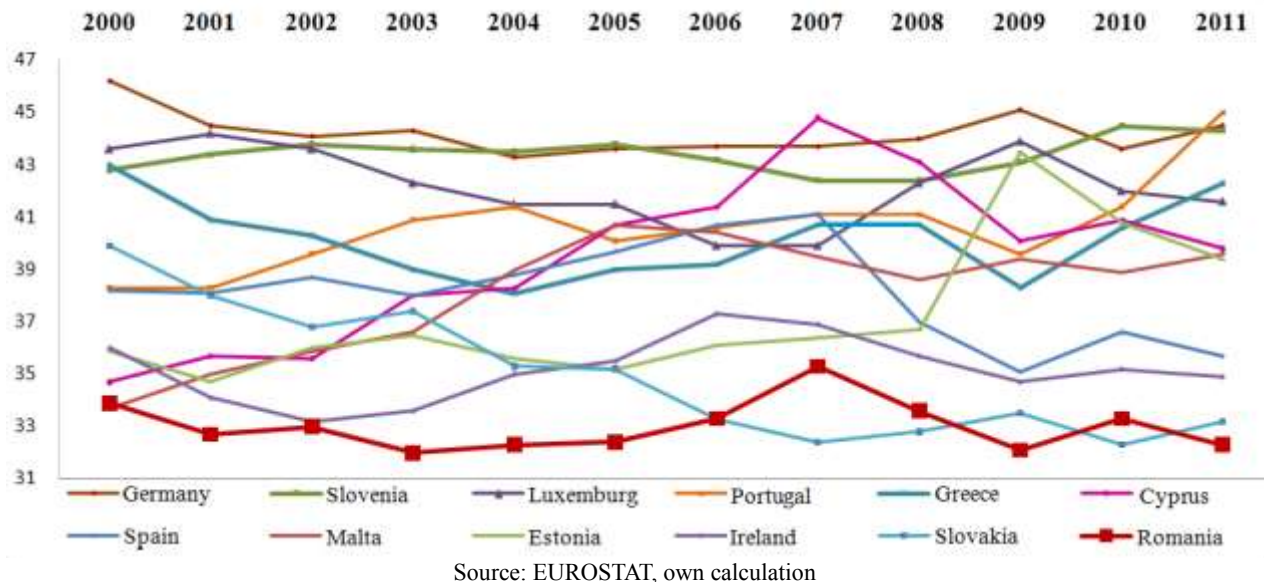
1. PRIMARY DATA ANALYSIS

In order to present an overview of Euro Area fiscal structures, we have analyzed data regarding total revenue, direct taxation, indirect taxation and social contribution for all Euro Area MS, during 2000-2011, with emphasis on level, structure and trends.

1.1. Total revenues

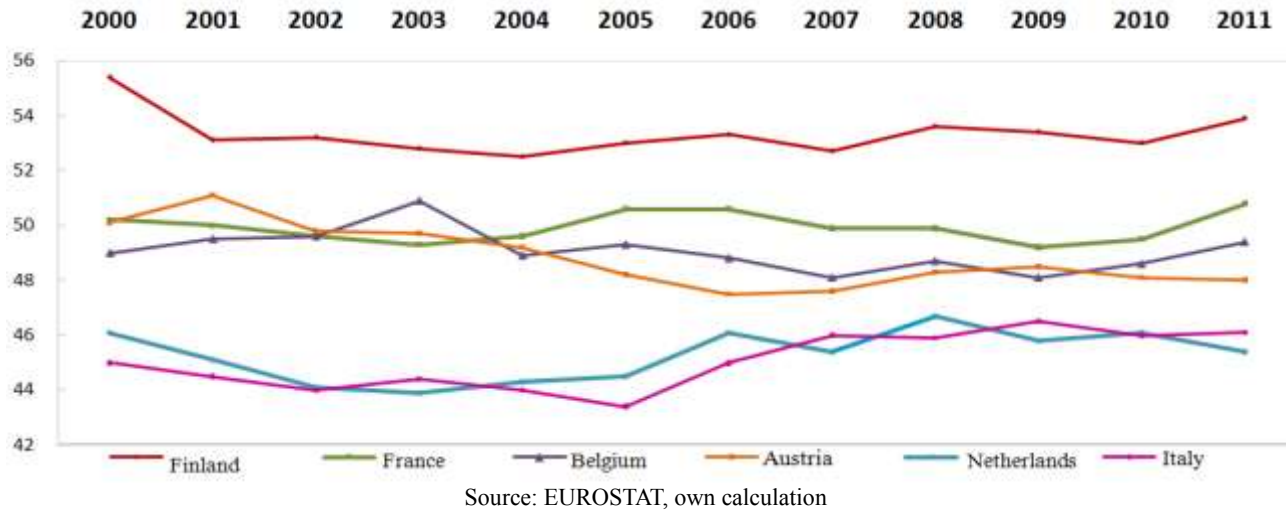
In the Euro Area, national total revenues range from 30% GDP to 50% GDP. The countries that registered the lowest shares of total revenues in GDP are Slovakia, Ireland, Spain, Malta, Estonia and Cyprus (the average of total revenues, during 2000-2011, is of about 40% of GDP). Greece, Portugal, Luxembourg, Slovenia and Germany cashed, on average, public revenue of 40-45% of GDP during 2000-2011. Compared to Euro Area countries, Romania has the lowest share of total revenues in GDP. Only during 2007-2008, Slovakia recorded less revenue (% GDP) than Romania, which indicates a low level of taxation in Romania, but raises questions on the revenue collection capacity.

Figure 1 - Dynamics of total revenues in Romania and Euro Area MS, during 2000-2011 (%GDP)
a. total revenue (% GDP), 2000-2011 average \leq 45% GDP



During the analyzed period, Cyprus, Greece, Estonia and Ireland showed strong fluctuations. Greece had a downward trend during 2000-2004, when total revenues decreased from 43% to 38.1% of GDP. Since 2004 the share of revenues in GDP rose up to 40.7% (level registered during 2007-2008). The economic crisis has induced a significant decrease of 2.4 percentage points, but in 2009 the share of revenue increased to the 2000 level, probably due to lower GDP. Cyprus had registered a significant increase during 2000-2007 from 34.7 to 44.8% of GDP, followed by a sharp drop to 2009 (40.1% of GDP). Slovakia's total revenue was on a downward trend, from 39.9% of GDP in 2000 to 33.2% of GDP in 2011. Estonia recorded in 2009, a substantial increase of almost 7 pp, reaching 43.5% after that, in 2011, total revenues decreased to 39.4% of GDP, a share that is nevertheless higher than the one registered during the period before the crisis.

Figure 1 - Dynamics of total revenues in Romania and Euro Area MS, during 2000-2011 (%GDP)
b. total revenue (% GDP), 2000-2011 average > 45% GDP



During 2000-2011, Finland registered the highest ratio of public revenue, with an average of total revenues relative to GDP of 53.3%. It was followed by France, Belgium and Austria, which recorded average total incomes of nearly 50% GDP. Netherlands and Italy also had a high tax, over 45% of GDP.

1.2. Indirect taxation

The Euro Area MS that are heavily dependent on indirect taxation are: Cyprus, Estonia, Greece,

Italy, Portugal, Malta and Slovenia. During 2000-2011 public revenues collected through indirect taxation in Euro Area MS ranged from 8.8% to 18.5% of GDP. The states that received the most income from indirect taxation are: Cyprus, France, Austria and Slovenia. At the opposite pole are Spain, Slovakia, Germany and Ireland. In most Euro Area MS, the level of public revenues from indirect taxation declined due to the crisis, as the average during 2008-2011 was below the average of the period 2000-2007. Exceptions are: Cyprus, Malta, Estonia and Germany. These countries had, on average, more income from taxes on goods and services during the crisis than in the past.

Indirect taxes consist of taxes on products and other taxes on products, of which the main source of income is the first group, composed of VAT type taxes, Taxes and duties on imports excluding VAT and taxes on products, except VAT and taxes imports (according to ESA 95 Methodology). VAT revenues reach, in Euro Area average, 30% of total fiscal revenues. The differences between Euro Area MS are revealed regarding this aspect also, as in 7 out of the 17 MS VAT revenues count for more than 30% of fiscal revenues. In countries as Slovakia and Estonia VAT revenues exceeded 40%, while in 4 countries (as Italy and Spain, in 2009) the share of revenue collected from VAT in total tax revenues was below 25%. Regarding the VAT rate, the analysis for the period 2000-2011 reveals two distinct trends. Before the economic crisis, most countries had attempted to reduce value added tax, but in the acute period of the crisis, and afterwards, in order to collect more revenue for overall budgets, many MS have increased VAT (as Estonia, Portugal, Greece and many others). The reason was, in most of the states, the need to increase budgetary resources and to cover costs, indirect taxation being the easiest tool to use, with more chances to meet the increased collection objective, compared to other types of tax.

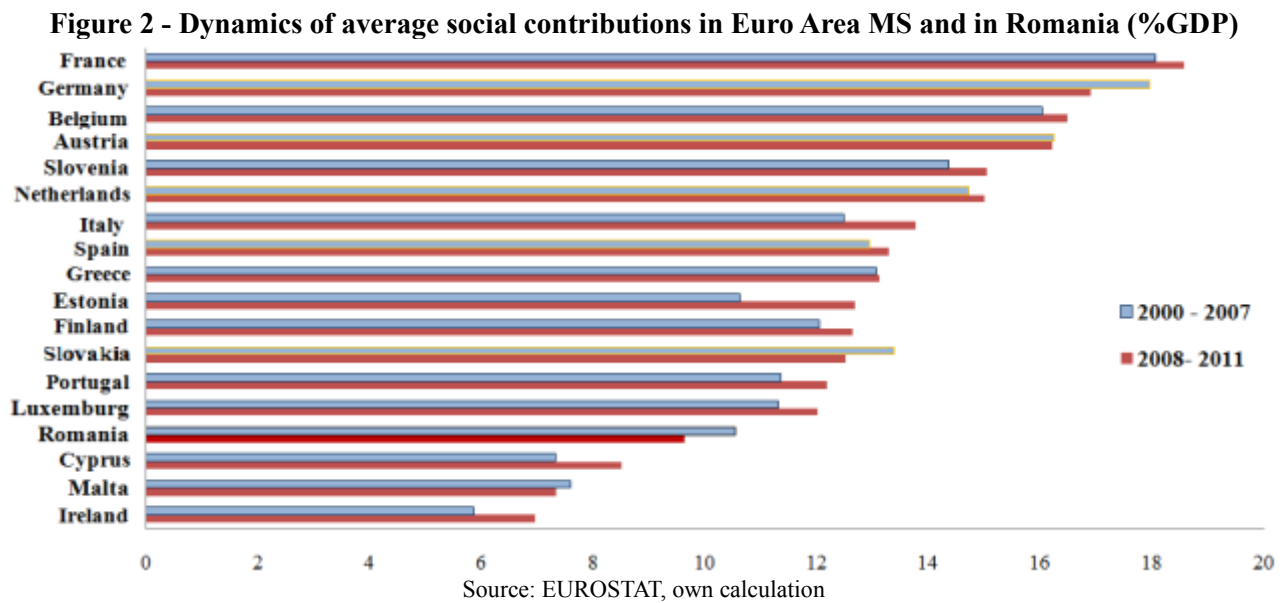
1.3. Direct taxation

Euro Area MS that rely primarily on direct taxation are Belgium, Finland, Ireland and Luxembourg. During 2000-2011 direct tax revenues were in the range of 5.3%-21.1% of GDP. The states that collected the most from direct taxation are: Finland, Belgium, Italy, Luxembourg and Estonia. At the opposite pole are Slovakia, Greece, Slovenia, Portugal and Spain. Also, Romania is very close to the minimum of Euro Area regarding direct taxation. The crisis has reduced revenues from taxes on income, profits and capital gains in Slovakia, Greece, Spain, Ireland, Austria and Belgium. In other Euro Area MS, and also in

Romania, direct tax revenues have increased, on average, in the period 2008-2011 compared to the average of the period 2000-2007.

1.4. Social contributions

Austria, France, Germany, the Netherlands, Slovakia and Spain are the Euro Area MS that rely primarily on social contributions. They have as well the largest share of social contributions in total revenues collected for general budgets (Figure 2).



Overall, during 2000-2011, the degree of social tax is between 5.6% and 18.8% of GDP. It is easily noted that, during 2008-2011, in the context of the economic crisis, the average revenue received from social contributions increased in most states, compared with the average of the period 2000-2007. Exceptions are Malta, Romania, Slovakia, Austria and Germany. Reduced level of revenue from social contributions, below 10% GDP was registered in Romania, Cyprus, Malta and Ireland, mainly due to the low level of social taxes compared to other European states.

2. SCORING ANALYSIS

Since the primary analysis of the tax systems of the Euro Area MS revealed many similarities but also significant differences, we used scoring analysis to group tax systems, taking into consideration standard deviation.

In order to group as correct as possible Euro Area MS depending on the structure of public revenues, and to, subsequently, compare Romania with the group of states that appear to be similar, we assigned scores from 1 to 17 for total revenue, direct tax revenues, indirect taxation and social contributions, with 1 being the lowest, 17 being the highest. Grouping was performed taking into account the deviation score obtained by each country to the average.

Table 1 - Results of scoring analysis for Euro Area MS and Romania

Country	Deviation	
Slovakia	-25	
Ireland	-20	Romania
Spain	-18	
Greece	-8	
Malta	-6	
Portugal	-6	
Luxemburg	-5	
Estonia	-3	
Cyprus	-2	
Slovenia	-1	
Germany	1	
Netherlands	2	
Italy	16	
Belgium	17	
Austria	18	
France	20	
Finland	20	

Source: EUROSTAT, own calculation

Classifying the Euro Area MS according to the structure of public revenues shaped the existence of three groups of countries (Table 1). The first group, consisting of Slovakia, Ireland and Spain, is

specific for states in which revenues from indirect taxation, direct and social contributions are well below the Euro Area average, as their distance from the average is very high.

The second group of countries is the largest and consists of: Greece, Malta, Portugal, Luxembourg, Estonia, Cyprus, Slovenia, Germany and the Netherlands. In these countries total revenues and revenues from the three main categories of taxes are close to the Euro Area average variation from the mean being in the $[-8, 2]$ range.

Italy, Belgium, Austria, Finland and France form a particular group of countries, for which the deviation is positive and very large. This highlights the main feature of this group of countries: high taxes and income from indirect taxation and social contributions above the Euro Area average.

Applying the same procedure for Euro Area MS and Romania, assigning scores from 1 to 18, group composition remained unchanged, while Romania has proved to be similar to the first group of countries, consisting of Slovakia, Spain and Ireland.

3. MULTIDIMENSIONAL ANALYSIS

As the primary data analysis revealed many differences between Euro Area MS that were highlighted by the scoring analysis as being in the subgroup, we considered necessary to complete the study with the multidimensional analysis of the fiscal structures. Therefore, we used cluster analysis to classify tax systems into subgroups based on common characteristics, with the aim of achieving a more appropriate division of fiscal structures.

3.1. Literature review

Multivariate statistical analysis methods, including cluster analysis, have been previously used to identify subgroups within the group of OECD countries with similar tax structures in order to explore the impact of globalization on the structure of taxation in 21 OECD countries over the period 1965-2003 (Kubatova, Vaneurova and Foltysava, 2008). Based on the hierarchical method, the analysis confirmed that the structures of OECD countries approached gradually under the pressure of globalization. The influence of globalization on the fiscal system was applied by Heinemann (1999) that took into

consideration also other dimensions as public spending, debt, and the total revenues in OECD countries. The importance of his results relies on the fact that it confirms a trend of convergence of tax systems regarding the division into direct and indirect taxes.

Cluster analysis was previously used by Peters (1991) in order to group 22 OECD countries, according to their tax systems, taking into account the proportion of each type of tax in total revenue. The result consists of four groups of countries that are still used today, as follows: English-speaking countries, Scandinavian countries, Latin countries and states with a broad tax base and total tax revenue estimated at the average of the OECD countries.

European countries were grouped through the multidimensional classification method by Kemmerling (2003), while Bernardi studied the OECD countries (2003). The analysis of European countries for the period 1970-1997, conducted by Bernardi (2003) highlighted four groups: Northern states, with high tax burden, countries that recorded a tax burden higher the EU average, Anglo-Saxon states with tax burden close to the European average and the Mediterranean countries, with tax burden below average. Although Kemmerling (2003) was more focused on the effects of fiscal structure on the evolution of the welfare state, the results obtained can be considered similar. Cluster analysis was also used to test Romania's and other Eastern European Countries' convergence with Euro Area, this method being useful for testing the degree of nominal and real convergence (Miron, Dima and Paun, 2009).

European Union MS were classified into subgroups based on common aspects by Delgado (2009) and Brasoveanu (2009). Taking into consideration fiscal burden and structure, Delgado (2009) grouped EU 15 MS in five clusters, as follows: 1- Belgium, Finland and Sweden; 2- Greece and Portugal; 3- Ireland and the United Kingdom; 4- Denmark, while the fifth cluster contained all others. Denmark was also kept in a separate cluster also by Brasoveanu (2009), that used cluster analysis for years 1995, 2000, 2006 and 2009, in order to determine changes in fiscal revenues.

3.2. Methodology

We have considered the structure of tax revenues in the first year of the introduction of the euro currency and annually since 2007, the year of Romania's accession to the European Union. We took into account the following four categories of fiscal variables: total revenue, direct taxes, indirect taxes and

social contributions, in two situations, with and without Romania.

We used the hierarchical method, as we considered it to be the most suitable taking into account the number of cases, being also one of the most direct methods of multivariate classification. We used the range of solution, with possible solutions from 2 of 6, as we started with the idea of differentiation up to the maximum number of clusters found in the literature so far (6). For interpretation we used the classification tree and agglomeration schedule showing the combinations for each iteration. For all years under review all 17 and respectively 18 (when Romania was included) cases taken into consideration were valid.

3.3. Cluster analysis

The analysis revealed the existence of six clusters during the entire period analyzed. During the analyzed period the number of clusters remained the same, but the composition of each subgroup has changed. The first cluster belongs to countries that have mostly managed to meet deficit targets. These are countries where the tax burden is high (Austria, Belgium, and France). An exception is Luxembourg, which is below the Euro Area average in this respect. Finland and Austria had the highest levels of financial resources, followed by France and Belgium.

Table 2 - Cluster composition in 1999, 2007, 2008, 2009, 2010 and 2011

1999	2007
C1: Austria, France, Germany, Netherlands C2: Belgium, Finland C3: Cyprus, Malta, Ireland C4: Estonia, Spain, Portugal C5: Greece, Slovenia, Slovakia C6: Italy, Luxemburg	C1: Austria, Belgium, France, Germany, Italy, Netherlands C2: Cyprus C3: Estonia, Ireland, Malta C4: Finland C5: Greece, Luxemburg, Portugal, Spain, Slovenia C6: Slovakia, Romania
2008	2009
C1: Austria, Belgium, Italy, France C2: Ireland, Malta, Cyprus C3: Slovakia, Romania , Estonia, Spain C4: Finland C5: Germany, Netherlands, Luxemburg C6: Greece, Slovenia, Portugal	C1: Germany, Netherlands, Austria, Belgium, France C2: Cyprus, Malta, Ireland C3: Estonia, Italy, Luxemburg C4: Finland C5: Greece, Portugal, Slovenia C6: Slovakia, Romania , Spain
2010	2011
C1: Austria, Belgium, Italy, Netherlands C2: Estonia, Luxemburg, Cyprus, Malta C3: Finland C4: Germany, Slovenia, France C5: Greece, Portugal, Spain C6: Romania , Slovakia, Ireland	C1: Austria, Belgium, Italy, France C2: Cyprus, Malta, Estonia, Luxemburg C3: Finland C4: Germany, Netherlands C5: Ireland, Greece, Slovenia, Portugal C6: Romania , Slovakia, Spain

Source: Own calculation

The first cluster consists of countries with high level of taxation, above the Euro Area average. Cluster 2 is comprised of countries that rely mainly on indirect taxation. Since the adoption of the single currency, Finland formed a separate cluster, due to the very high level of taxes, total revenue being over 50% GDP. The first and third clusters belong to countries that have mostly managed to meet deficit targets (2011). These are countries where tax burden is high (Belgium, Austria and France). Cluster 4 is typical for states with total revenues slightly above average, reduced indirect taxation and high social contributions (year 2011). The last two clusters are specific to countries with lower shares of total revenues in GDP that have a low tax burden, as Slovakia and Ireland. Cluster 5 includes states with excessive deficits like Greece, Ireland, and Portugal. Moreover, Greece and Portugal have proved to be similar in many aspects. The similarity between the Mediterranean countries confirms the result obtained by Bernardi (2003). Spain, however, has gradually differentiated from Portugal, becoming closer to Slovakia. Cluster 6 is specific for countries that have collected less revenue from taxes on income, profits and capital gains.

The analysis highlighted similarities between Romania and Slovakia in the structure of tax systems. One of the reasons for which both were part of the same cluster during 2007-2011 is the low level of total revenues collected from general budgets. Also, Cyprus and Malta had similar developments. The

difference is in 2007 when Cyprus registered high total revenues compared with the previous and with that later). Since 2010, Ireland, that was previously in was in the same group as Cyprus and Malta, began to distinguish from the others.

The analysis conducted for the period between 1999 and 2009 revealed changes in the structure of clusters, indicating a trend of changing taxation in the MS of the Euro Area. Regarding the structure of taxation and its division into direct and indirect taxes can not conclude on the formation of a cluster solely on this criterion. It is thus highlighted the importance of a multidimensional analysis that not only takes into account many variables but gives more complete and relevant results than the primary analysis.

CONCLUSIONS

The multidimensional analysis of tax systems showed reduced changes, but indicates a trend of changing taxation and structural convergence. During the analyzed period, the number of clusters remains the same, but subgroups have changed, some countries becoming more similar to their cluster members. Regarding the structure of taxation and its division into direct and indirect taxes can not concluded on the formation of a cluster solely on this criterion.

The comparative analysis for the years 1999 and 2009 revealed changes in structure of the clusters, therefore it can be stated that since the adoption the single currency, Euro Area MS became more similar in terms of fiscal structure. Applying scoring analysis for Euro Area MS and Romania, assigning scores from 1 to 18, the composition of the groups remained unchanged (being the same as for the 17 Euro Area MS) and Romania proved to be similar to one group of countries, consisting of Slovakia, Spain and Ireland. The results emphasize the low capacity of Romania in influencing the composition of the subgroups, but underline however the fact that Romania can easily be assimilated to one of the clusters. Moreover, the analysis enhances the results obtained through the multidimensional analysis, according to which Romania, Slovakia and Spain became more similar since Romania's accession to the European Union. These similarities with these Euro Area MS are worth taking into consideration, given Romania's objective of adopting the European currency.

REFERENCES

- Bernardi, L. (2003) *Tax Systems and Tax Reforms in Europe: Rationale and Open Issues of More Radical Reforms*, MRPA Working Paper, 2000, pp. 30-54.
- Braşoveanu I. (2009) *Analize ale politicii fiscale în România și în statele membre ale Uniunii Europene*, Bucureşti: Editura ASE, ISBN 978606-505-193-5.
- Delgado, F. J., Presno, M. J. (1993) *Tax policy convergence in EU: an empirical analysis*, University of Oviedo.
- Delgado, F. (2009) *La estructura tributaria europea: un estudio comparado*, Crónica Tributaria.
- Esteve, V., Sosvilla S., Tamarit C. (2000) *Convergence in fiscal pressure across EU countries*, Applied Economics Letters, vol. 7, issue 2, p. 117-123, ISSN 1350-4851.
- Ganghof, S. (2006) *Tax mixes and the size of the welfare state: causal mechanisms and policy implications*, Journal of European Social Policy, pp. 360-373, ISSN 0958-9287.
- Heinemann, F. (1999) *Does Globalization Restrict Budgetary Autonomy? A Multidimensional Approach*, Center for European Economic Research.
- Kemmerling, A. (2003) *The Political Economy of Tax Mixes in OECD Countries*, Berlin, Freie Universität.
- Kubatova, K., Vaneurova A., Foltysova M. (2008) *Impact of globalization on taxation mixes in OECD Countries during 1965-2003*, Prague Economic Papers.
- Lattemael, R. (2004) *Analysis of Asymmetric Shocks Among the EU Members and Accession Countries: Can the Baltic Sea Cluster Be Distinguished?*, Modeling the Economies of the Baltic Sea Region vol. 17, no. 17, P. 116-137, ISBN 9985568850.
- Lazăr, I. (2012) *EMU - Induced Tax Mixes Changes. A Multidimensional Analysis of Euro Area Fiscal Structures*, Revista Economică, Supliment nr. 4/2012, pp. 394-400, ISSN: 1582-6260.
- Lee, Y., Gordon, R.H. (2005) *Tax structure and economic growth*, Journal of Public Economics, 89, pp. 1027-1043, ISSN 0047-2727.
- Miron, D., Aima, A., Păun, C. (2009) *A model for assessing Romania's real convergence based on distances and clusters methods*, RePEc Archive MPRA Paper No. 40156.

- Peters, B. G. (1991) *The Politics of Taxation a Comparative Perspective*. Cambridge, MA: B. Blackwell, ISBN 1557862109.
- Sorensen C., Gutierrez J. (2006) *Euro Area Banking Sector Integration Using Hierarchical Cluster Analysis Techniques*, European Central Bank Working Paper Nr. 627.
- Sosvilla, S., Galindo, M.A., Alonso, J. (2001) *Tax burden convergence in Europe*, Estudios de Economía Aplicada 17, pp. 183-191.

AN INTRODUCTION TO THE UNDERGROUND ECONOMY OF ROMANIA

Loredana Maftai*

Abstract: *Shadow economy affected for a long time Romania, even since the old regime. During the period 1995-1996, the expansion of this phenomenon has become more serious. Along with Bulgaria, Romania is the second most affected country in the Eastern part of Europe, the shadow economy reaching around 28% of national GDP. This process is boosted by a high level of tax evasion, black labor and overregulation. With the ascension into EU, Romania made considerable efforts to combat the underground economy through a increase of electronic payments, credit card and deposit use.*

Keywords: shadow economy; overregulation; black labor; tax evasion.

JEL Classification: O17; O5; E26.

INTRODUCTION

The underground economy represents a vast section especially in economic literature, the most interesting points being focused on the main causes of the shadow market and the most efficient combating measures. Crime and shadow economic activities are a fact of life around the world, and almost all societies engage in trying to control these activities through education, punishment, or prosecution (Schneider and Enste, 2000, p. 3). The European Union is an economic and political centre with concerns and strong systems that acts against the causes of the informal economy. The EU member states made efforts to slow down this phenomenon, that in time it showed a significant increase.

The true fact is that there are hidden economies in our society, but what are the reasons why politicians and the other sectors, should be worried about the continuous growth of this phenomenon? Generally, the increase of the underground economy is caused mainly by a rise in the overall tax and social security burden, in other words it can be described as a reaction of individuals to over taxation managed through the state activities. Likewise, with a growing shadow economy the state faces several issues in terms of economic indicators, such as unemployment, income, consumption, labor force and so on, fact which can provide an unreliable economic situation of the respective country. Overall, the shadow economic activity have negative implications which strongly affect the macro-economic

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

objectives, leading to a decrease in tax revenues, to distort the fair competition and also to cause productive inefficiencies. Along with this factors it must be mentioned that the state practice, such as over regulation can determine the rise of the informal economy, otherwise diminishing the trust of the firms in market mechanisms, to affect competition, the labor force, the gross domestic product etc.

The underground economy is influenced by:

- pressure of fiscality and benefit obligations;
- pressure of state-imposed regulations;
- public sector services (Manole, 2012, p.5).

The economic literature consider that the existence of underground economy can be seen as an indicator of an unhealthy state between citizens and government. The informal economy usually is associated with a large number of activities derived from illegal activities: monetary transaction (trade in stolen goods, prostitution, gambling, fraud or smuggling) and nonmonetary transactions (drugs, arms etc.) and from legal activities which can involve tax evasion (unreported income etc.) and tax avoidance.

Regarding Romania, the term *shadow economy* appeared for the first time in 1995-1996, being used on a large scale and describing illegal acts like tax evasion, corruption and some cases of fraudulent privatization.

Observing the international reality, the routes of informal economy are quite old, back in time of communism system, where activities like illegal distribution of several imported products (cigarettes, coffee, clothes etc.) were found very common in that period of time.

Generally it is difficult to estimate the real informal economy, due the fact that it is undetectable. Romania is known that the labor market is affected by the expansion of workers on the black labor market. In fact, statistics presents that approximately 1 third from the active population works on the black labor market.

1. THE ROMANIAN INFORMAL ECONOMY

Romania`s transition from a planned economy to a market economy has created a perfect environment for shadow economy expansion. The changing system has brought also wealth to the country, through liberalization, investments etc. After 1990, on the market were found different kind of

contraband especially in operations of exports and imports, speculations, and all sorts of pyramidal games, such as CARITAS, who brought in bankruptcy millions of people. The transition processes towards a market economy were accompanied by corruption and by the creation and development of informal economy. In Romania, ten years ago, almost 30% of the population lived in poverty. The Corruption Index placed this country in the group of the countries in the eastern part of the continent with the highest level of corruption (Pintilie, 2012, p.112). Also some recent studies point out that the rate of illegal economic practices is high (between 35% and 50%), Romanian being one of those country, along with Bulgaria, Ukraine, Russia, Moldova, Latvia, Georgia, Brazil, Columbia, Venezuela etc. (Pintilie, 2012, p.113).

Over time, the size of the Romanian underground economy compared with the other European countries has risen considerable, emphasized also by the effects brought by the economic crisis. The main causes that sustain the growth of Romanian shadow economy are found in taxes, changes in official output per capita, overregulation and bureaucracy and the unemployment rate. The mentioned indicators are the main worsening factors that boost the limits of shadow economy.

In this context, the evolution of unofficial economy can be highlighted by some changes on the market:

- The legacy of a parallel economy left by the centralized market and the old regime;
- Imbalances launched by the legislation adopted later in the market economy;
- The growth of corruption and decentralization;
- The presence of small business which led easily in gaps of tax evasion and undeclared work;
- Overtaxes imposed by the government and private sector which led to a weak system where the taxpayers have to bear every tax rising;
- A lack of public financial resources.

The non-observed economy of Romania has drawn attention of the specialists, being analyzed and evaluated by several state institutions such as The Ministry of Public Finances, Financial Guard, National Institute of Statistics, Romanian Intelligence and so on. Numerous studies emphasized that in Romania the underground economy is obviously a subsistence economy, the labor market representing 46.5% of it (Toader, 2007, p. 81). According to National Institute of Statistics, the non-observed economy of

Romania consist in black labor which is the main branch, followed by VAT evasion and unregistered household activities.

2. THE MAIN CAUSES OF ROMANIAN NON-OBSERVED ECONOMY

The main causes which define the shadow economy at an international level can also be observed in Romania. According to Professor Mircea Cosea, the underground economy is a comprehensive concept, so the phenomenon causes are vast. Along with the causes the consequences are an important fact of the process ramification.

The consequences of non-observed economy are the following:

- diversion of resources to other purpose than the ones officially set (Pintilie, 2012, p.115);
- damaging the social assistance system;
- a growth trend regarding the budget deficit;
- possible reduction in the public investment process;
- the appearance of distrust in public authority and government programs;
- an increase recorded in social insecurity and crime rate.

Regarding *the main causes* of non-observed economy of Romania, can be mentioned:

- intensity of fiscal overregulation - fiscal practices are characterized by numerous modifications, bureaucracy and so on.
- fiscal pressure - a cause which affects seriously the taxpayers;
- corruption;
- poverty level and unemployment rate, which influence the hidden economy, due the fact that the labor force can use different activities found in the crime sphere or associated with the black labor;
- the desire of population enrichment;
- complex and cumbersome processes to strengthen domestic capital

3. DIMENSION OF ROMANIAN NON-OBSERVED - RECENT EVIDENCE

For years, the dimension of the underground economy in Romania has been an issue of concern for government. Today, this problem has become more seriously. In this order can be reminded the efforts of this country to be prepared for entering into EU at the beginning of 2007. Comparative with other EU countries, Romania continue to have a high level of shadow economy. The increase of the phenomenon is seriously felt in GDP and tax revenue. Financial Guard represents a specialized body in combating the illicit activities that define the shadow economy. In 2009, in order to achieve its objectives, the Financial Guard participated in collaboration with other specialized bodies of the ministries in detection of activities derived from non-observed economy (Mara, 2011, p.1118).

According to Institute of Economic Affairs, it seems that Romania is confronting with one of the worst cases of the EU, regarding underground economy. In the last 10 year, Romanian shadow economy registered about one third from GDP value. In the same context, recent studies highlighted that this situation is similar with other countries from Eastern Europe, like Bulgaria, Hungary, Poland or Baltic state, and even with Greece (IEA, 2013).

Recent evidence emphasized that in 2013, shadow economy reached 28% of national GDP (see Table no.1) and around 40 billion of euro, Romania being the second country with a worrying score after Bulgaria, Bulgaria remaining in top with a rate of 31% of GDP.

In contrast with the occidental part of Europe, Romania and other countries in the Eastern Europe come along with a great inheritance left by the old regimes and its quit difficult to adapt and to keep up with Western countries. In order to reduce the evolution of such phenomenon, the mentioned countries make considerable efforts. Accession to the EU and rapid expansion of electronic payment services, were the main factors which boosted seriously those efforts in the last period.

A solution to the growing shadow economies it seems to be electronic payments, credit card and deposit use. A study released by AT Kearney revealed that Nordic countries with a high level of electronic payments determine a very low level of shadow economy, while countries like Romania, Greece or Bulgaria, where electronic payments are minimal are dealing with a increase of shadow economy.

Table 1 - The shadow economy in relation to GDP in Eastern Europe (2013)

Countries	Shadow economy size (€ billion)	Official GDP (€ billion)	Shadow economy size (% of GDP)
Poland	95	400	24%
Romania	40	139	28%
Czech Republic	24	154	16%
Hungary	23	103	22%
Bulgaria	13	41	31%
Slovakia	11	74	15%
Slovenia	8	35	23%

Source: Schneider F. (2013), *The Shadow Economy in Europe 2013*, AT Kearney VISA Europe, accessed in November 2013, http://www.protisiviekonomiji.si/fileadmin/dokumenti/si/projekti/2013/siva_ekonomija/The_Shadow_Economy_in_Europe_2013.pdf

CONCLUSIONS

The Romanian underground economy is characterized by tax evasion, illegal employment, relationships with organized crime and terrorism, and involvement in almost all areas of economic crime (Manole, 2012, p.5). Despite the serious effects spread by underground economy, it is possible to mention that this phenomenon sustain in one way or another the Romanian real economy. The fact that the underground economy reaches around 30% of GDP is quite worrying. Although the country has experienced a slight decrease in the last five years, fact which helps the macroeconomic view. Yet, this country is still confronting with activities associated with crime and terrorism, such as drug, arms and cigarettes trafficking, car trafficking, prostitution etc. plus a weak government which is struggle to handle legislation, to take efficient measures to combat the underground economy. For Romanian government is it obvious that underground economy it is a big challenge, taking into consideration the fact that they to decrease the fiscal pressure, to create jobs, to implement new policies which can help the economy to move forward.

Some remedies against shadow economy are the electronic payments, online transactions which are minimal compared with Nordic countries. Although this are recommended solutions, Romania needs first quality of public services, state institutions, labor market regulation. However, is proved and it is logic that money earned in the cycle of underground economy are spent then in the real economy. Therefore, the market functions also with black money or dirty money, the most affected sectors by tax evasion being tourism, constructions and retail.

REFERENCES

- IEA (2013) *IEA: Economia subterana a Romaniei, una dintre cele mai grave situatii din UE*, available at http://www.money.ro/economie-situatie-grava_1249524.html
- Manole, S. D. (2012) *Impact of Underground Economy upon the Romanian Economy*, Management Strategies Journal vol. 18, issue 4, pp. 5-12, accessed on January 2014 at http://www.strategiimanageriale.ro/images/images_site/articole/article_8ed203a27d1505d5e5dd2d9719118edb.pdf
- Mara, E. R. (2011) *The Underground economy in Romania*, Annals. Economic Science Series, vol. XVII, (2011): pp. 1117-1123, accessed at <http://fse.tibiscus.ro/anale/Lucrari2011/176.pdf>
- Pintilie, D. (2012) *Corruption and Underground Economy - Implications for Economic Activities*, Romanian Military Thinking, 1/2012, accessed at http://www.mapn.ro/smg/gmr/Engleza/Ultimul_nr/pintilie-p.111-117.pdf
- Schneider, F. (2013) *The Shadow Economy in Europe 2013*, ATKearney VISA Europe, accessed on November 2013 at http://www.protisiviekonomiji.si/fileadmin/dokumenti/si/projekti/2013/siva_ekonomija/The_Shadow_Economy_in_Europe_2013.pdf
- Schneider, F., Enste, D. (2000) *Shadow Economies Around the World: Size, Causes and Consequences*, Journal of Economic Literature, vol. XXXVIII, pp. 77–114, accessed on January 2014 at http://elib.ukma.edu.ua/S/schneider_shadow_econom.pdf
- Toader, S. (2007) *The dimension of the underground economy, in Romania, in the period after 1989*, Romanian Economic and Business Review, vol.2, no.1, pp. 79-84.

THE LAW ON LOBBYING IN THE REPUBLIC OF POLAND. THEORY AND PRACTICE (2006 - 2010)

Maciej Olejnik*

Abstract: *Effective functioning of the lobbying phenomenon facilitates economic development for every country. However this form of political participation can weaken economic growth if it is not properly controlled. In order to do that the Polish Parliament passed the Law on lobbying. This act introduced new legal terms (lobbying activity, professional lobbying activity) and new institutions (the Polish Lobbying Register, the Legislative Work Programme, a public hearing). It turned out that this statute had been a total failure in practice. Although many entities entered into the Polish Lobbying Register, there were few professional lobbying activities exercised in the Chancellery of the Prime Minister, the Ministries, the Sejm and the Senate between 2006 and 2010. Other new institutions were used rarely as well. The Law on lobbying hinders development of lobbying phenomenon in the Republic of Poland and should be changed immediately.*

Keywords: lobbying; the Law on lobbying; Poland; professional lobbying activity.

JEL Classification: K40; Z18.

INTRODUCTION

Lobbying should be mentioned as a form of political participation, which is not fully understood by the society, politicians and the government in the Republic of Poland. Lobbying is usually perceived as a kind of activity that is connected with corruption and nepotism (Wenzel, 2009, p. 6). Does it mean that this type of political participation is not efficient and should be avoided or even eliminated from the process of making political decisions in the Republic of Poland? In my opinion, no. The better such an institution as lobbying becomes, the stronger democracy is in the state. Furthermore, if this phenomenon is adopted in the political culture of the society properly, the economy of the state will grow faster and in a more balanced way. I treat lobbying as a very important instrument which can facilitate economic development of the country.

*Maciej Olejnik, Phd Student at the University of Wrocław, Poland, e-mail: maciejolejnik001@wp.pl

It should be underlined that there is no general work summing up the results of operating of lobbying between 2006 and 2010. Due to the fact that such a recapitulation is essential, I decided to focus on and analyse the functioning of this phenomenon in the Republic of Poland in my article. The decision to analyse this particular period was determined by two reasons: firstly, the most significant legal documents concerning lobbying, especially *the Law on lobbying*, has been functioning since 2006 and, secondly, three governments and two coalitions of political parties were ruling the country within these 5 years. Alternation of power allowed to find out how certain Polish political parties treat this phenomenon. Basing on the examination of the legal acts that directly establish procedures of operating of lobbying (*The Law on lobbying, the Statute of Sejm RP, The Statute of the Senate RP*) I will present how this form of political participation functions in practice.

1. LEGAL REGULATIONS CONCERNING LOBBYING IN THE REPUBLIC OF POLAND

The Law on lobbying is the most important Act that concerns the discussed form of political participation because it defines rules of functioning of lobbying phenomenon in the Republic of Poland in a direct and precise way. This bill was passed by both Chambers of the Parliament and signed by the president in the second half of 2005. The new solutions entered into force in March 2006, after 6 months of *vacatio legis*. The main goal of the statute is to promote *good governance through enhancing transparency of the legislative process* (Bertók, 2009, p. 147). There are attempts to achieve this aim via such means as defining *the principle of openness in lobbying activity in the law making process, specifying the principles of professional lobbying activity and its regulation* (Wiszowaty, 2006, p. 48), and implementation of the lobbyists' register. Owing to this statute, two significant legal terms were introduced into Polish law: lobbying activity and professional lobbying activity. The former term should be understood as *every action carried out by means of official methods aimed at influencing public authorities or bodies during the process of law making*, the latter one as *profit making lobbying activity for the benefit of third parties with the view of considering the interest of the said parties in the process of law making* (Wiszowaty, 2006, p. 48). There are some clear-cut differences between these two notions. Firstly, contrarily to the professional lobbying activity, which is conducted on behalf of someone else in

exchange for money and on the basis of a civil law contract, lobbying activity is conducted by pressure groups and associations for free in order to realise their own interests. Secondly, professional lobbyists are allowed to perform their activity after they enter into the Polish Lobbying Register that was established by the legislator. It shall be added that only professional lobbyists can conduct their activity in such public offices as the Sejm, the Senate and other (The Law on lobbying 2005).

The Polish Lobbying Register is kept by the Minister responsible for the public administration (between 2006-2010 Minister of the Interior and Administration performed this function). It should be emphasized that the register is electronic and available to every interested person. It consists of the following data: *serial number entry, date of entry into the Register and dates of any further modifications; company of the entrepreneur conducting the professional lobbying activity or the first name and last name of a physical person who is not an entrepreneur conducting such activity; corporate seat and address of the entrepreneur or address of the physical person; national Court Register number in the Register of Entrepreneurs or, in the case of entrepreneurs conducting professional lobbying activity, the number in the Register of Economic Activity; date and grounds for removal from the Register; file reference number; and comments* (Bertók, 2009, p. 157). All information, except for addresses of natural persons, is published in the Public Information Bulletin of the appropriate Ministry. In order to be entered into the Polish Lobbying Register, one has to prepare and file a special application to which these data are attached, and pay an obligatory fee amounting to PLN 100 to the suitable department of the Ministry.

The heads of public offices are responsible for the transparency of the relations between professional lobbyists and the public authorities. All representatives of public authorities are obliged to publish a report concerning lobbying activities that were executed upon them by professional lobbyists in the Public Information Bulletin immediately (The Law on lobbying 2005). Secondly, the heads of public organisms must prepare annual reports, which *provide details on the lobbyists, matters concerned, specification on whether or not their activities were aimed at backing or contradicting statutes, (...) the methods used by the lobbyists and the result that gave* (Wiszowaty, 2006, p. 53) and publish it in the PIB by the end of February. The Legislative Work Program is another significant element of the statute which improves the transparency of the process of establishing acts and ordinances, and facilitates lobbyists' work. According to *the Law on lobbying*, the Council of Ministers is required to publish a legislative work program consisting of a draft bill in the Public Information Bulletin once every six months (The

Law on lobbying [2005]). Moreover, the Council of Ministers, the Prime Minister and all Ministers are obliged to publish their own programs of legislative work concerning draft bills and ordinances in the PIB (The Law on lobbying 2005). It shall be added that these projects are available in the PIB just after they were sent for coordinating consultations to other Ministers. The Legislative Work Program explains why a particular statute should be introduced or changed, and indicates new solutions of some significant public issues that are proposed by the government. The following data are also pinpointed in this program: the public organ that is proposing the bill, the name, surname and position of the person responsible for preparing the statute or the ordinance, and the PIB's website on which these documents are available. When the government withdraws from a particular project, it must also present all reasons which caused this decision in the Legislative Work Program. It should be stressed that, everyone has the right to submit "notification of interests" (...) to the draft laws or ordinance to the body responsible for such a draft (Bertók, 2009, p. 149) after publication of elaborated materials in the PIB. In such an announcement, which is also published in the PIB, the citizen is obliged to inform what interests he would like to protect and to present legal amendments that, according to him, should be covered by the statute.

The Law on lobbying establishes a new institution in Polish law – the public hearing. It can be conducted either to work on a draft statute by the public body responsible for preparing this document, or on a statute introduced to the Sejm. The statute describes procedures of performing the former type of the public hearing precisely. Firstly, *information concerning the timing of the public hearing on a draft ordinance shall be made available in the PIB at least seven days prior to the date of the public hearing. Secondly, everyone which has submitted its interest in the work on the draft ordinance at least three days before the date of the public hearing shall be entitled to participate in the public hearing* (Bertók, 2009, p. 149). If some technical problems appear (for instance, too many people want to take part in the public hearing), the organizer of the public hearing might postpone the public hearing, change its place, or cancel it (The Law on lobbying [2005]). The procedures of conducting the latter type of public hearing are presented in *the Statute of Sejm RP*.

According to *the Statute of Sejm RP* a committee which considers a particular bill has the right to pass a resolution about performing the public hearing. It shall be added that such a resolution can be proposed only by a deputy. The piece of information about the timing and the place of the public hearing

must be published in the Sejm's Information System (SIS) at least 14 days before the date of the public hearing unless the analyzed statute does not refer to the budget, other financial matters of the state, reports that concern their implementation or other bills classified as urgent by the Council of Ministers. In such cases, the basic information about the arrangement of the public hearing are published at least 3 days prior to the date of the public hearing in the SIS. Deputies can apply to this institution after the first reading of the bill and until the statute is not considered in details (the Statute of Sejm RP [1992]). Everyone who makes use of *the Law on lobbying* and submits a notification of interests to the draft law when it is drawn up by the Minister or the Council of Ministers has the right to participate in a public hearing. Other citizens can also take part in the public hearing if they file an application in which they indicate the interests that they would like to protect and the legal amendments that, according to them, should be covered by a particular statute. The application should be filed to the Sejm at least 10 days prior to the public hearing. The public hearing can be postponed or cancelled by the organizer if some technical problems emerge. It should be added that it can be conducted only during one meeting of the committee. Professional lobbyists also possess another privilege. They are allowed to attend these committee meetings during which draft bills are considered. Moreover they can take part in discussion during such sessions. They mustn't take part only in the sessions of the Sejm sub-commissions (the Statute of Sejm RP [1992]).

In order to perform the professional lobbying activity effectively, all professional lobbyists have the right to enter buildings that are managed by the Chancellery of the Sejm. Professional lobbyists file an application containing information concerning, for instance, the interests they protect in the Sejm. Then they obtain a temporary entrance card which authorizes them to work for particular time in the buildings administered by the Sejm Chancellery. Professional lobbyists are obliged to pin this card to their clothes (the Statute of Sejm RP [1992]). In this way deputies can easily get information with whom they are talking. All documents and every information (legal opinions, amendments) given to the deputies are made available in the Sejm's Information System.

Professional lobbying activity can be also carried out in the buildings managed by the Chancellery of the Senate. *The Statute of the Senate RP* allows for participation of the professional lobbyists in the sessions of the standing committees of the Higher Chamber of the Parliament. They are allowed to present their expert's opinions, arguments and legal amendments during the meetings of the particular

committee, if they follow all principles of conducting professional lobbying activity established by the chairman of this committee (they mustn't participate in the sessions of the Senate sub-commissions) (The Statute of the Senate RP [1990]). When members of the committee finish their work on a bill or on a draft statute, they are obliged to choose a reporter from themselves. Then this person informs other Senators and the public opinion about the activities that were performed by professional lobbyists. In particular, he is obliged to check what kind of and how many legal amendments and propositions suggested by professional lobbyists were accepted and introduced to the considered document by members of this committee. In order to achieve full transparency in the process of passing acts in the Senate, all professional lobbyists' expert's opinions, legal opinions, and amendments that were given to the committees are published in the Public Information Bulletin. All the information about the activities performed by professional lobbyists and the annual report concerning professional lobbying activity is available online in the PIB as well.

2. LOBBYING IN PRACTICE IN THE REPUBLIC OF POLAND

The most important institutions and rules concerning lobbying were established by *the Law on lobbying*, so it is obvious that the way of implementation of these principles determines the fact whether this form of political participation functions transparently and effectively in the Republic of Poland. Firstly, it is essential to discuss how the Polish Lobbying Register functions in practice. Table 1 presents the number of entities performing professional lobbying activity which were entered into the Register from 2006 to 31st December 2010.

Table 1 - Data concerning the amount of entities that carry out professional lobbying activity and had to be entered into the Polish Lobbying Register under the applicable law.

Year	Number of entities carrying out professional lobbying activity
2006	77
2007	108
2008	132
2009	155

2010	187
Total volume as of 31 December 2010	182 (there were 187 entities altogether but 5 of them were removed from the Register)

Source: Own processing after the official Register of entities engaged in professional lobbying activities

It should be underlined that the number of entities performing professional lobbying activity between 2006 and 2010 seems to be really small. The amount of participants registered and exercising this work becomes larger and larger, and reached the number of 182 entities at the end of 2010. However, in order to be able to state whether this register truly controls the most influential lobbyists, it is necessary to analyse how many activities were conducted by them, for instance in relation with the Chancellery of the Prime Minister and the Ministers. In Table 2, professional lobbying activity there is understood as submitting notifications of interests to draft statutes or ordinances, taking positions and appealing in particular matters or proposing legal amendments to statutes and resolutions.

Table 2 - Amount of professional lobbying activities performed in individual Ministries from 2006 to 2010.

Ministries	Amount of professional lobbying activities carried out in 2006	Amount of professional lobbying activities carried out in 2007	Amount professional lobbying activities carried out in 2008	Amount of professional lobbying activities carried out in 2009	Amount of professional lobbying activities carried out in 2010	Total amount in the period of 2006-2010
Chancellery of the Prime Minister	0	1	6	0	0	7
Ministry of Health	1	1	1	0	1	4
Ministry of the Environment	0	0	1	0	0	1
Ministry of Interior and Administration	0	0	1	0	2	3
Ministry of Justice	0	0	0	0	2	2
Ministry of Sport and Tourism	0	0	0	0	1	1
Ministry of the Treasury	0	0	0	0	1	1

Ministry of Regional Development	0	0	0	0	0	0
Ministry of Agriculture and Rural Development	0	0	0	0	0	0
Ministry of Labour and Social Policy	0	1	0	2	0	3
Ministry of National Defence	0	0	0	0	0	0
Ministry of Science and Higher Education	0	0	0	0	0	0
Ministry of Culture and National Heritage	0	0	0	0	0	0
Ministry of Finance	1	5	3	8	9	26
Ministry of National Education	0	0	0	0	0	0
Ministry of Foreign Affairs	0	0	0	0	1	1
Ministry of Economy (including the Ministry of Marine Economy, which was incorporated after 2007)	1	2	0	1	0	4
Ministry of Infrastructure (before 2008 it consisted of: Ministry of Construction and Ministry of Transport)	1	0	1	2	11	15

Total of professional lobbying activities	4	4	7	13	27	68
---	---	---	---	----	----	----

Source: Own processing after Bulletins of Public Information of all the Ministries and the Chancellery of the Prime Minister, private correspondence with the employees of all the Ministries and the Chancellery of the Prime Minister

The results from table 2 indicate that only 68 professional lobbying activities were carried out in the Polish Ministries and the Chancellery of the Prime Minister between 2006 and 2010. Apart from the professional lobbying activities above indicated, subjects entered in the Register of entities engaged sometimes in professional lobbying activities and e.g. drew up the invitations to conferences, presented reports or requests for coverage of conferences under the patronage of the Chancellery of the Prime Minister and the Prime Minister himself. Due to the fact that there is no information about possible reaction of the representatives of the government to this proposal, and its little effectiveness, these activities were not included in table 2. The data from table 2 show that a majority of professional lobbying activities took place in two Ministries: the Ministry of Infrastructure and the Ministry of Finance (altogether 41). There are several Ministries in which no professional lobbying activities were carried out within the analyzed period of time, for instance in the Ministry of National Education, Ministry of Culture and National Heritage, the Ministry of Agriculture and Rural Development, the Ministry of National Education, the Ministry of Regional Development. Some Ministries have not fulfilled their duties (The Law on lobbying 2005) and have not published all materials concerning professional lobbying activities that were conducted (or not) in their Ministries on time (for example the Ministry of Foreign Affairs). In many cases, such information was obtained upon official requests, by the use of the suitable articles from *the Law on availability to public information*. It is astonishing that only 10 of the activities mentioned in table 3 influenced the decision of the authorities – in these cases particular Ministries accepted the amendments proposed by the professional lobbyists. As it can be seen easily, the effectiveness of professional lobbyists is very small. Some doubts emerge whether the most influential and strongest lobbyists decided to enter the Polish Lobbying Register or they would rather stay outside this institution and attempt to exert influence on the authorities in another, nontransparent way. It is difficult to believe that there are so few contacts between lobbyists and representatives of Ministries or the Chancellery of the Prime Minister. Probably, the obligations that are imposed on professional lobbyists discourage many people from entering the Register. The transparency of professional lobbying

activities seems to be artificial because the most important lobbying activities are performed rather beyond the control imposed by statute. According to *the Law on lobbying*, the Chancellery of the Prime Minister and all Ministries are obliged to publish information about the citizens who submit notifications of interests to the draft laws or ordinances in their PIB (The Law on lobbying [2005]). Some of the Ministers reveal information concerning lobbying activities (not performed by professional lobbyists) in the Public Information Bulletin. In the period of 2006-2010, one could witness more than 170 examples of notification of interests or attempts of carrying out lobbying activities in the Ministries. The largest amount of them took place in the Ministry of Finance (102). It shall be added that these numbers are not that large as well, they confirm the fact that the citizens have no knowledge, motivation and trust to the discussed institutions, and they do not want to spend their time in order to try to influence any decisions of the public authorities.

According to *the Law on lobbying*, the Council of Ministers, the Prime Minister and all Ministers are obliged to prepare their own Legislative Work Program on the bills and ordinances at least once every 6 months and publish them in the Public Information Bulletin (The Law on lobbying 2005). The beginnings of implementation of this institution were tough for the government. The first Legislative Work Program prepared by the Council of Ministers in March 2006 consisted of 257 titles of bills and ordinances but it did not reveal the intention of changes. Even the experts were not able to state what content particular statutes could have. It is understandable that lobbyists having no access to some general information about particular acts could not prepare properly or influence the public authorities efficiently. Moreover, many Ministries have not started creating their own Legislative Work Programs since 2006 although they were obligated to do that by *the Law on lobbying*. In table 3, some information concerning the time of implementing this procedures by particular Ministers, the Council of Ministers and the Prime Minister can be found.

Table 3 - The time of launching publication of Legislative Work Programme by the Chancellery of the Prime Minister, the Council of Ministers and various Ministers.

Ministries	The year when publishing of the Legislative Work Programme started
The Chancellery of the Prime Minister	the first half of 2006
The Council of Ministers	the first half of 2006

Ministry of Health	the first half of 2006
Ministry of the Environment	the first half of 2011
Ministry of the Interior and Administration	the first half of 2006
Ministry of Justice	the first half of 2011
Ministry of Sport and Tourism	the first half of 2008
Ministry of the Treasury	the second half of 2007
Ministry of Regional Development	the first half of 2006
Ministry of Agriculture and Rural Development	the first half of 2006
Ministry of Labour and Social Policy	the first half of 2008
Ministry of National Defence	the first half of 2008
Ministry of Science and Higher Education	the second half of 2009
Ministry of Culture and National Heritage	the first half of 2006
Ministry of Finance	the second half of 2008
Ministry of National Education	the second half of 2007
Ministry of Foreign Affairs	the first half of 2006
Ministry of Economy	the first half of 2006
Ministry of Infrastructure	the first half of 2010

Source: Own processing after Public Information Bulletins of all the Ministries and the Chancellery of the Prime Minister

Among the 19 examined institutions, only 9 introduced and published the Legislative Work Program on time, in the first half of 2006. Two Ministries started preparing the Legislative Work Program in 2011. Many of the discussed Ministries began fulfilling this duty 2-3 years ago. On the other hand, it must be added, that after publication of the first Legislative Work Program, all these programs prepared by the Prime Minister, the Council of Ministers or the Ministries have covered all essential information, such as the title of the statute, the causes and the need for planned introduction of solutions, the aim of the project, the name and the position of the person responsible for preparing the bill and the webpage where the content of the act can be found. Summing up, there were many Ministries that were not publishing the Legislative Work Program from 2006 to 2010. There even were two Ministries which were not publishing the Legislative Work Program at the end of the period of functioning lobbying

phenomenon analyzed by this article. However, it must be emphasized that the quality of prepared programs (without including the exception that occurred at the beginning of 2006) is relatively high as they contain all the information that is required under the statute.

Public hearing is another important institution introduced by *the Law on lobbying*. It should be underlined that this body seems to be disregarded and underestimated by the majority of Polish Ministries. Most of them did not even publish any information about the possibility to organize a public hearing in their Public Information Bulletins. From 2006 to 2010, there were only 4 public hearings arranged in the Ministries, 3 of them in the Ministry of Environment and 1 in the Ministry of Economy.

As it was mentioned earlier, *The Statute of Sejm RP* regulates the procedures of performing lobbying activities and professional lobbying activities in the Sejm of the Republic of Poland, including organization of public hearings in the parliament. In Table 4, data about the amount of public hearings arranged from 2006 to 2010 there are presented.

Table 4 - Number of public hearings organized from 2006 to 2010.

Year	Number of organized public hearings
2006	2
2007	4
2008	3
2009	3
2010	5
Total number of public hearings in the period of 2006-2010	17

Source: Own processing after the official site of the Sejm and archives

It should be added that a resolution about arranging the third public hearing was passed in 2006 but the public hearing was cancelled due to the acceleration of works on this particular Act. In the period of 2006-2008, professional lobbyists did not participate in public hearings. Since 2009, they have been present during 4 public hearings (two in 2009 and two in 2010). A professional lobbyist took part in the discussion in the public hearing only once (in 2010). Based on these data, it can be claimed without any doubts that the discussed institution is neglected and underestimated by deputies and professional

lobbyists. Moreover, these statistics do not indicate that members of the parliament have gained any trust to this instrument because the number of arranged public hearings has not increased significantly lately.

Owing to *the Statute of Sejm RP*, professional lobbyists are allowed to participate in meetings of the Sejm committees. Table 5 analyses the use of this privilege by professional lobbyists in the period of 2006-2010.

Table 5 - Number of professional lobbyists participating in meetings of the Sejm committees in the period of 2006-2010.

Year	Number of registered entities which pledged to take action in the Sejm	Number of professional lobbyists authorized to represent entities which pledged to take action in the Sejm	Number of professional lobbyists who participated in the meetings of the committees	Number of committee meetings in which professional lobbyists took part
2006	11	31	2	4
2007	19	35	2	7
2008	17	29	8	35
2009	21	33	10	48
2010	19	31	7	31

Source: Own processing after Fidelus-Ninkiewicz, 2007; Fidelus-Ninkiewicz, 2008; Fidelus-Ninkiewicz, 2009; Czapla, 2010; Czapla, 2011.

Some information shall be added to this data. First, one professional lobbyist was invited to the meeting of the committee as an expert in 2006 so he was not included to the statistics presented above (Fidelus-Ninkiewicz, 2007). Secondly, it is worth mentioning that professional lobbyists did not give speeches at the meetings of the committees and did not provide any documents or expert's opinions at the Sejm committees in the period of 2006-2008 (Fidelus-Ninkiewicz, 2007; Fidelus-Ninkiewicz, 2008; Fidelus-Ninkiewicz, 2009). In 2009, professional lobbyists took part in discussions, proposed amendments or submitted documents to the deputies during 11 meetings of the committees (Czapla, 2010). In 2010, professional lobbyists gave speeches at 4 meetings of the committees, they did not submit any documents to the deputies (Czapla, 2011). Thirdly, apart from the session of the committees, the only meeting between professional lobbyist and the deputy took place in 22nd January 2010. It should be added that this meeting did not have any impact on the decisions of legislative power (Czapla, 2011, p. 8). The

data presented in table 5 indicate that only few professional lobbyists are interested in exerting influence on the decisions of the deputies. However, the number of entities that entered the Polish Lobbying Register is becoming larger every year (see table 1). There have not been any significant shifts concerning participation of the professional lobbyists in the committees since 2008. From 2007 on, the number of entities which pledged to take action in the Sejm has remained at the same, very low level and amounts to 17-21 per year. On the other hand, the number of committee meetings in which professional lobbyists take part has enlarged several times since 2006 although the number of professional lobbyists authorized to represent entities which have pledged to take action in the Sejm did not change in the discussed period of time. Still, only a small group of professional lobbyists generally attempt to influence the behaviour of the deputies. Moreover no effects of this activity have been noticed up to the end of 2010. It turned out that in fact *the Statute of Sejm RP* did not facilitate the lobbyists' work.

The Statute of the Senate establishes the functioning procedures for professional lobbying activities in the Senate in Poland. Some data about professional lobbying activities conducted during meetings of the Senate committees in the period of 2006-2010 are presented in table 6.

Table 6 - Professional lobbyists in the Senate committees from 2006 to 2010

Year	Number of professional lobbyists who participated in meetings of the committees	Number of committee meetings in which professional lobbyists took part	Type of action taken by professional lobbyists	Impact which professional lobbyists exerted on the Senators
2006	0	0	No actions	No impact
2007	1	2	Professional lobbyist participated in the works on the act and took part in the discussion	No impact
2008	3	4	Professional lobbyists were only present during meetings of the committees	No impact
2009	5	10	Expert's opinion was given to the Senators one. Moreover, professional lobbyists were present during meetings of the committees.	No impact
2010	9	14	Written proposals for amendments were presented to the Senators once,	One time amendments were

			professional lobbyists spoke three times during meetings, apart from that professional lobbyists were only present during meetings of the committees.	approved by Senators, apart from that – no impact
--	--	--	---	---

Source: Own processing after Polkowska, 2007; Polkowska, 2008; Polkowska, 2009; Polkowska, 2010; Polkowska, 2011

These data show that professional lobbyists are not interested in exerting influence on the Senators. Only few of them participated in the meetings of the Senate committees. It can be stated that the level of involvement of professional lobbyists' into the works at meetings of the Senate committees is very low – it is similar to the involvement of professional lobbyists into the work at sessions of the Sejm committees (see table 5). At the beginning (2006-2007), professional lobbyists saw no point in cooperation with the Senators. This tendency has been slightly changing within the last 3 years although their work does not seem to be effective. In 2010, nine professional lobbyists participated in 14 meetings of the committees but the Senators accepted the amendments proposed by professional lobbyists only one time. It is hard to state that it is a breakthrough but, on the other hand, there were no propositions of professional lobbyists from 2006 to 2009 which the higher chamber of the parliament approved. The changes made in the Statute of Senate concerning lobbying did not improve the situation of lobbyists in the Polish Senate. Table 6 clearly confirms that politicians still do not want to take lobbyists' proposals into consideration in most of the cases.

CONCLUSIONS

There are problems with efficient implementation of all statutes (*The Law on lobbying, the Statute of Sejm RP, The Statute of the Senate RP*) that apply to the lobbying phenomenon in the Republic of Poland. The most significant statute concerning lobbying – *the Law on lobbying* – functions very poorly. On the one hand, the Polish Lobbying Register was created, and on the other, this institution seems to be useless because professional lobbyists that entered this institution hardly ever take advantage of their privilege and attempt to influence the public authorities. Even though professional lobbyist were given the right to influence decisions of the government, only 68 examples of professional lobbying activity in the Ministers or the Chancellery of the Ministers were found in the period of 2006-2010. Another

significant institution – the Legislative Work Programme – started functioning well in 2009-2010. Before that, nearly half of the institutions that were obliged to publish their Legislative Work Programme failed to fulfil this duty. The politicians gave up the possibility of creating dialogue with the professional lobbyists and other citizens voluntarily. In the analysed period of time, there were only 4 public hearings organized in the Ministries. The implementation of *the Statute of Sejm RP* and *the Statute of Senate RP* does not look any better as there were only 17 public hearings organized by the deputies. Moreover, cooperation between professional lobbyists and deputies or Senators in the committees takes places very rarely and usually brings no effects. All the above mentioned data suggest that legal acts analysed in this article should be changed significantly. First, it seems obvious that Polish law does not cover all relevant institutions, for instance the President, local governments or the National Bank of Poland. Potential lobbying activities performed in these institutions should also be transparent. Second, it turned out that lobbyists have not obtained enough rights and because of that most of them have not been registered in the Polish Lobbying Register, which has become a facade institution. Third, changes concerning facilitation of arranging public hearings should be made. Theoretically, this institution could strongly influence the process of establishing law but the tool is definitely used by politicians too rarely. This opinion is shared by some social and political researchers (Makowski and Zbieranek, 2009, p. 4-5) who criticize the fact that in Sejm public hearing can be organized only between the first reading and the moment when a particular statute is considered in details. They indicate that the bill might be completely changed during the following readings and, therefore, there should be some possibility to make use of this institution at least before the end of the third reading (Makowski and Zbieranek 2009, p. 5). Moreover, the article concerning the right to cancel the public hearing due to organizational and technical reasons seems to be too general and should be removed from the statute. Fourth, the legal term *lobbying activity* was defined too broadly and also requires to be amended. According to Polish law, this activity may include social consultation and even submitting petitions (Makowski and Zbieranek, 2009, p. 2). Fifth, professional lobbyists ought to get the right to take part in the sessions of the parliamentary sub-commissions because deputies and senators very often decide about the final shape of the statute during such meetings. Sixth, professional lobbyists have also experienced huge difficulties while organizing meetings with politicians. On the other hand, it would not be easy to compel politicians by law to meetings with lobbyists. Perhaps, Polish political culture should be changed with regard to that. However,

this process may take a very long time, and the concept of introducing some legal amendments referring to the personal relations between politicians and professional lobbyists cannot be rejected totally. Finally, it should be underlined that although the law on lobbying was created wrong and needs some huge amount of legal amendments, the studied form of political participation does not operate correctly also because of the fact that politicians do not trust professional lobbyists. It is astonishing that lobbying activities brought some positive results and influenced political decisions only few times (for instance only 1 time in 5 years in Senate).

REFERENCES

- Bertók, J. (2009) *Lobbyists, Governments and Public Trust. Volume 1. Increasing transparency through legislation*, accessed on April 2011 at http://www.planejamento.gov.br/secretarias/upload/Arquivos/seges/arquivos/OCDE2011/OECD_Lobbyists.pdf
- Czapla, L. (2010) *Informacja o działaniach podejmowanych wobec Sejmu Rzeczypospolitej Polskiej w 2009 roku przez podmioty wykonujące zawodową działalność lobbingsową*, accessed on April 2011 at http://www.sejm.gov.pl/lobbing/informacja_roczna_2009.pdf
- Czapla, L. (2011) *Informacja o działaniach podejmowanych wobec Sejmu Rzeczypospolitej Polskiej w 2010 roku przez podmioty wykonujące zawodową działalność lobbingsową*, accessed on April 2011 at http://www.sejm.gov.pl/lobbing/informacja_roczna_2010.pdf
- Fidelus-Ninkiewicz, W. (2007) *Informacja o działaniach podejmowanych przez podmioty wykonujące zawodową działalność lobbingsową na terenie Sejmu w 2006 roku* accessed on April 2011 at http://www.sejm.gov.pl/lobbing/informacja_roczna_2006.pdf
- Fidelus-Ninkiewicz, W. (2008) *Informacja o działaniach podejmowanych przez podmioty wykonujące zawodową działalność lobbingsową w Sejmie w 2007 roku* accessed on April 2011 at http://www.sejm.gov.pl/lobbing/informacja_roczna_2007.pdf

- Fidelus-Ninkiewicz, W. (2009) *Informacja o działaniach podejmowanych przez podmioty wykonujące zawodową działalność lobbingową w Sejmie w 2008 roku* accessed on April 2011 at http://www.sejm.gov.pl/lobbing/informacja_roczna_2008.pdf
- Makowski, G., Zbieranek, J. (2007) *Lobbing w Polsce – żywy problem, martwe prawo*, Analizy i Opinie, Volumen 79 no 11, pp. 1-7, accessed on April 2011 at <http://www.isp.org.pl/uploads/analyses/5907360310779548001197980856.pdf>
- Polkowska, E. (2007) *Informacja o działaniach podejmowanych wobec Senatu RP w 2006 roku przez podmioty wykonujące zawodową działalność lobbingową* accessed on April 2011 at <http://www.senat.gov.pl/k7/lobbing/info/2006.pdf>
- Polkowska, E. (2008) *Informacja o działaniach podejmowanych wobec Senatu RP w 2007 roku przez podmioty wykonujące zawodową działalność lobbingową* accessed on April 2011 at <http://www.senat.gov.pl/k7/lobbing/info/2007.pdf>
- Polkowska, E. (2009) *Informacja o działaniach podejmowanych wobec Senatu RP w 2008 roku przez podmioty wykonujące zawodową działalność lobbingową* accessed on April 2011 at <http://www.senat.gov.pl/k7/lobbing/info/2008.pdf>
- Polkowska, E. (2010) *Informacja o działaniach podejmowanych wobec Senatu RP w 2009 roku przez podmioty wykonujące zawodową działalność lobbingową* accessed on April 2011 at <http://www.senat.gov.pl/k7/lobbing/info/2009.pdf>
- Polkowska, E. (2011) *Informacja o działaniach podejmowanych wobec Senatu RP w 2010 roku przez podmioty wykonujące zawodową działalność lobbingową* accessed on April 2011 at <http://www.senat.gov.pl/k7/lobbing/info/2010.pdf>
- The Law on lobbying*, Dz.U. z 2005 r. Nr 169, poz. 1414
- The Statute of Sejm RP* (Uchwała Sejmu Rzeczypospolitej Polskiej z dnia 30 lipca 1992 r. with amendments)
- The Statute of the Senate RP* (Uchwała Senatu RP z dnia 23 listopada 1990 r. with amendments)
- Wenzel, M. (2009) *Nepotyzm*, Centrum Badania Opinii Społecznej, accessed on April 2011 http://www2.mz.gov.pl/wwwfiles/ma_struktura/docs/komunika_cboc_682009_05102009.pdf
- Wiszwaty, M. (2006) *Legal Regulations of Lobbying in New Member States of European Union*, Participation of Civil Society in New Modes of Governance. The Case of the New EU Member

- States, no. 74, pp. 46-56, accessed on April 2011 at http://www.eunewgov.org/database/DELIV/D24D04_2of2_The_Case_of_the_new_MS.pdf
- *** *Public Information Bulletin of the Ministry Environment* accessed on April 2011 at <http://www.mos.gov.pl/>
- *** *Public Information Bulletin of the Ministry Health* accessed on April 2011 at <http://bip.mz.gov.pl/>
- *** *Public Information Bulletin of the Ministry Interior and Administration* accessed on April 2011 at <http://bip.mswia.gov.pl/>
- *** *Public Information Bulletin of the Ministry of Agriculture and Rural Development* accessed on April 2011 at <http://www.bip.minrol.gov.pl/DesktopDefault.aspx>
- *** *Public Information Bulletin of the Ministry of Culture and National Heritage* accessed on April 2011 at <http://bip.mkidn.gov.pl/>
- *** *Public Information Bulletin of the Ministry of Economic* accessed on April 2011 at <http://bip.mg.gov.pl/>
- *** *Public Information Bulletin of the Ministry of Finance* accessed on April 2011 at <http://www.mf.gov.pl/index.php?const=6>
- *** *Public Information Bulletin of the Ministry of Foreign Affairs* accessed on April 2011 at <http://bip.msz.gov.pl/?documentName=bip>
- *** *Public Information Bulletin of the Ministry of Infrastructure* accessed on April 2011 at <http://bip.mi.gov.pl/>
- *** *Public Information Bulletin of the Ministry of Justice* accessed on April 2011 at <http://bip.ms.gov.pl/pl/rejestr-y-i-ewidencje/okrajowy-rejestr-sadowy/>
- *** *Public Information Bulletin of the Ministry of Labour and Social Policy* accessed on April 2011 at <http://www.mpips.gov.pl/bip/>
- *** *Public Information Bulletin of the Ministry of National Defence* accessed on April 2011 at <http://www.biuletyn.wp.mil.pl/>
- *** *Public Information Bulletin of the Ministry of National Education* accessed on April 2011 at <http://bip.men.gov.pl/>
- *** *Public Information Bulletin of the Ministry of Regional Development* accessed on April 2011 at <http://bip.mrr.gov.pl/>

- *** *Public Information Bulletin of the Ministry of Science and Higher Education* accessed on April 2011 at http://www.bip.nauka.gov.pl/bipmein/index.jsp?place=Menu01&news_cat_id=1&layout=0
- *** *Public Information Bulletin of the Ministry of the Treasury* accessed on April 2011 at <http://bip.msp.gov.pl/>
- *** *Public Information Bulletin of the Ministry Sport and Tourism* accessed on April 2011 at <http://bip.msit.gov.pl/>
- *** *Public Information Bulletins of the Chancellery of the Prime Minister* accessed on April 2011 at <http://bip.kprm.gov.pl/>
- *** *Register of entities engaged in professional lobbying activities*, accessed on April 2011 at <http://bip.mswia.gov.pl/portal/bip/14/74/?poz=2&update=1>
- *** *The official website of the Sejm, archives, transcripts of the sessions of the Sejm, Senate, committees* accessed on April 2011 at <http://www.sejm.gov.pl/lobbing/lobbing1.html>

M&A, COMPETITION AND PERFORMANCE IN THE SLOVENIAN BANKING SYSTEM

Andreea Nicoleta Popovici *
Dragoş Gabriel Turliuc †

Abstract: *The process of mergers and acquisitions is the main method used by financial institution to grow and to obtain better performance. The main effect of the implication of banks in mergers and acquisitions (M&A) translates into a higher degree of market share of the banks and also that the small banks will soon become global banks. This article underlines the relationship between bank performance and degree of concentration of the Slovenian banking sector during 2006-2012 using a simple linear regression model.*

Keywords: banks; M&A; concentration; performance.

JEL Classification: F30; G34; L 10.

INTRODUCTION

The European banking sector had a rapid series of M&A's (mergers and acquisitions) beginning with the 1990s. Similar to the M&A's in other economic sectors, the economic rationale, such as the importance of value creation, efficiency and market power, has motivated the process of M&As in EU banks. Several factors have combined to facilitate the consolidation in the EU banking system, which include the globalization of the international financial system, technological development, regulatory reform, the introduction of the euro and the shrinking of country-specific barriers such as language and culture.

Another key factor facilitating bank M&A is the technological developments, in particular, the advance in information technology, which reduces banks' costs for collecting information, storage, processing and transformation. In addition, technological changes have also broadened banks' activities from their traditional banking activities such as loans and brokerages. As a result, new technologies are said to have increased the optimum bank size, providing a powerful rationale for consolidation.

* PhD Student at Doctoral School of Economics and Business Administration, Department Finance, Alexandru Ioan Cuza University of Iasi, Romania, e-mail: andreea_nicoleta_popovici@yahoo.com

† PhD Student at Doctoral School of Economics and Business Administration, Department Finance, Alexandru Ioan Cuza University of Iasi, Romania, e-mail: dragos_turliuc@yahoo.com

In order to obtain growth through M&A, many European banks looked at new opportunities in different geographical areas to benefit from the effects of geographical diversification. Many European banks entered into cross-border bank M&A deals both within and outside Europe.

The main effect of the implication of banks in M&A is the descending number of banks that do business into a country, and this translates into a higher degree of market share of the banks and also that the small banks will soon become global banks.

Considering these aspects, in this paper we want to seek a connection between the performance and the degree of concentration of the Slovenian banking system.

1. MARKET STRUCTURE CONDUCT PERFORMANCE HYPOTHESIS

The market structure conduct and performance (SCP) framework was derived from the neo-classical analysis of markets. There are two competing hypotheses in the SCP paradigm: the traditional “structure performance hypothesis” and “efficient structure hypothesis”. The structure performance hypothesis states that the degree of market concentration is inversely related to the degree of competition. This is because market concentration encourages firms to collude. More specifically, the standard SCP paradigm asserts that there is a direct relationship between the degree of market concentration and the degree of competition among firms.

This hypothesis will be supported if positive relationship between market concentration (measured by concentration ratio) and performance (measured by profits) exist, regardless of efficiency of the firm (measured by market share). Thus, firms in more concentrated industries will earn higher profits than firms operating in less concentrated industries, irrespective of their efficiency.

The efficiency structure hypothesis states that performance of the firm is positively related to its efficiency. This is because market concentration emerges from competition where firms with low cost structure increase profits by reducing prices and expanding market share. A positive relationship between firm profits and market structure is attributed to the gains made in market share by more efficient firms.

Traditionally, these hypotheses have been examined using the traditional measures of profit/profit margin as indicator of performance.

In this paper, we will explore the traditional hypothesis and we will try to demonstrate it using a sample data from Slovenian banking sector, taking into consideration data included in 2006-2012 interval.

It is important to see how the mergers and acquisitions have an impact on the degree of concentration in a banking system. To fulfill that, we want to take into-considerations the results that the next authors had in their studies. Dermine (2003) concludes in his study that the domestic consolidation has contributed significantly to operating efficiency and has increased the degree of concentration in several EU countries.

Altumbas and Marques-Ibanez (2008) point out in their paper that an increase in banking concentration tends to drive loan rates up in many local markets thereby probably hampering, to some extent, the pass-through from market to bank lending rates.

Ayadi and Pujals (2005) utter about the importance of the evolution of cross-border mergers and acquisitions and their contribution to the increased levels of concentration within individual European banking markets.

Hernando and Nieto (2008) show in their paper that Cross-border banking in Europe remained rather limited until the launching of the Euro and that banks operating in more concentrated markets are less likely to be acquired by other banks in the same country but are more likely to be acquired by banks in other EU-25 countries.

Therefore, it is questionable whether large banks made big profits are a consequence of their operations concentrated markets and adopting pricing practices, or superior production and management techniques that reduce costs, resulting in high profitability.

2. THE MAIN CHARACTERISTICS OF THE SLOVENIAN BANKING SYSTEM

At the end of 2012 the Slovenian banking system comprised 17 banks (including seven subsidiary banks), three branches of foreign banks and three savings banks. The number of banks was down by two last year. One smaller bank under majority domestic ownership merged with another bank, while one bank under majority foreign ownership ceased to operate in Slovenia.

According to the data published by ECB (2013), the total assets of all banks and savings banks stood at EUR 46.1 billion at the end of 2012, of which banks and the branches of foreign banks accounted for EUR 45.6 billion, while savings banks accounted for EUR 567 million. The banks thus accounted for 98.8% of the total assets of the Slovenian banking system. The total assets of banks and savings banks amounted to 130% of GDP. The total assets of banks and savings banks as a percentage of GDP were down 6 percentage points last year as a result of the contraction in total assets.

Regarding ownership of banking assets in the banking sector in Slovenia, there were seven banks under majority foreign ownership operating in Slovenia at the end of 2012, three of which were branches of foreign banks. Ten banks were under majority domestic ownership. The proportion of the banks' equity held by non-residents was up 2 percentage points last year to stand at 41%, of which the proportion held by nonresidents with equity holdings exceeding 50% stood at 32.3%. Government ownership as measured by equity was up minimally to stand at 22.9%, as it can be seen in table number 1.

Table 1 - Ownership structure of the banking sector (in terms of equity)

(%)	2006	2007	2008	2009	2010	2011	2012
Central government	17.9	15.1	17.7	20.5	20.1	22.7	22.9
Other domestic entities	44.4	47.2	44.1	43.0	42.9	38.1	35.8
Non residents, from which	37.7	37.8	38.2	36.6	37.1	39.3	41.3
Non-residence (over 50% control)	27.7	26.8	27.6	26.8	27.9	30.1	32.3
Non-residence (under 50% control)	10.0	11.0	10.6	9.8	9.2	9.1	9.1

Source: Financial Stability Report 2013, Bank of Slovenia, available at <http://www.bsi.si>, p.40

Market concentration on the banking market as measured by the market share of the largest banks and by the Herfindahl-Hirschman index (HHI) has declined in recent years, as the market shares of the largest banks have fallen, as it can be noticed in table number 2.

Table 2 - Market concentration of the Slovenian banking market as measured by the Herfindahl-Hirschman index and market share of the top three/five banks

Index	Calculation method	2008	2009	2010	2011	2012	Change (2012/2011)
HH	Total assets	1.275	1.262	1.149	1.11	1.041	-68
	Loans to non-banking sector	1.218	1.164	1.122	1.067	1.042	-26
	Liabilities to non-banking sector	1.578	1.278	1.471	1.392	1.256	-136
	Liabilities to banks	1.217	1.047	1.243	1.209	1.179	-30
Market share of the top three banks	Total assets	47.7	47.7	45.7	44.7	43.2	-1.5
	Loans to non-banking sector	46.7	46.0	45.9	44.4	43.5	-1.9
	Liabilities to non-banking sector	55.9	55.7	54.3	53.1	49.7	-3.4
	Liabilities to banks	48.0	46.3	53.9	53.6	52.3	-1.3
Market share of the top five banks	Total assets	59.1	59.8	59.2	58.9	57.1	-1.8
	Loans to non-banking sector	59.2	58.5	59.0	58.2	56.7	-1.5
	Liabilities to non-banking sector	68.2	67.9	66.7	65.5	62.5	-3.0
	Liabilities to banks	63.6	61.3	67.9	67.9	67.5	-0.4

Source: Financial Stability Report 2013, Bank of Slovenia, available at <http://www.bsi.si>, p.40

Regarding the performance indicators of the banking sector in Slovenia, as shown in Table 3, the values of ROA and ROE were evolving, an increase from 2006 to 2007, and in 2007 a downward trend with a steep slope for ROE.

Table 3 - Bank performance indicators in percentages

%	2006	2007	2008	2009	2010	2011	2012
ROA	1.24	1.35	0.67	0.32	-0.19	-1.06	-1.59
ROE	15.14	16.28	8.15	3.87	-2.3	-12.54	-18.85
Costs/gross income	57.91	52.94	57.27	53.95	52.2	53.68	47.42
Interest margin on interest bearing assets	2.35	2.32	2.21	1.98	2.14	2.13	1.93
Interest margin on total assets	2.19	3.79	3.01	2.88	2.88	2.87	3.23

Source: Financial Stability Report 2013, Bank of Slovenia, available at <http://www.bsi.si>, p.57

3. IMPLICATION OF THE CONCENTRATION ON THE PERFORMANCE OF THE BANKING SYSTEM

After obtaining data from official reports of the Bank of Slovenia, during the analyzed period 2006-2012, we proposed an econometric study to show the relationship between profit and concentration in the banking system using Econometric Views 5.0 software.

The first step was to verify the relationship between profit, measured by ROE and degree of bank concentration, the latter being measured by: Herfindahl - Hirschman, the concentration of the first three banks in the system and the concentration of the top 5 banks in the system. In the tables no.4, 5 and 6 we show this relationship.

Table 4 - Simple linear regression equation between ROE and HH

Dependent Variable: ROE Method: Least Square Sample:2006 2012 Included observations:7			
Variable	Coefficient	Std.Error	Prob.
C	-141.2361	14.46264	0.0002
HH	117.7946	11.89	0.002
R-Squared	0.951463	Mean dependent var	1.43000
Adjusted R-squared	0.9417	Akaike info criterion	5.4292
Log likelihood	-17.00248	F-statistic	98.014
Durbin-Watson stat	2.9790	Prob(F-statistic)	0.000179

Source: Authors' computation using Eviews 5.0

Following the Simple linear regression the following regression equation was obtained:

$ROE = 117.7946373 - 141.2361336 + * HH$, and it is important to note is that the value of the Herfindahl - Hirschman explains 95.14% of ROE in the period analyzed in the banking system.

Table 5 - Simple linear regression equation between ROE and the market share of the top three banks in the system

Dependent Variable: ROE Method: Least Square Sample:2006 2012 Included observations:7			
Variable	Coefficient	Std.Error	Prob.
C	-255.7293	24.94012	0.0002
TOP 3	5.491503	0.531987	0.001
R-Squared	0.955180	Mean dependent var	1.43000
Adjusted R-squared	0.946216	Akaike info criterion	5.334159
Log likelihood	-16.72365	F-statistic	106.5566
Durbin-Watson stat	2.625059	Prob(F-statistic)	0.000149

Source: Authors' computation using Eviews 5.0

Following simple linear regression, we obtained the following regression equation:

ROE = -255.7292632 + 5.491503485 * TOP3, and the concentration of the banking system, measured by assets held by the top 3 banks in Slovenia, explaining 95.51% of ROE developments related to the banking system.

The last equation, the corresponding relationship between ROE and the concentration of banking assets held by the top five credit institutions in the system is shown in figure no. 3, and in this case the concentration of the banking system explained 59% of ROE development.

Table 6 - Simple linear regression equation between ROE and the market share of the top five banks in the system

Dependent Variable: ROE Method: Least Square Sample:2006 2012 Included observations:7			
Variable	Coefficient	Std.Error	Prob.
C	-367.8361	136.8361	0.0434
TOP 5	6.206153	2.2989	0.0428
R-Squared	0.5930	Mean dependent var	1.43000
Adjusted R-squared	0.511694	Akaike info criterion	7.555574
Log likelihood	-24.44451	F-statistic	7.540120
Durbin-Watson stat	1.297045	Prob(F-statistic)	0.042809

Source: Authors' computation using Eviews 5.0

The analysis carried out, it can be said that the relationship that best demonstrates the relationship between the concentration and the evolution of ROE is the banking concentration used by the first three banks in the system. I have decided to further investigate the impact of the ROE on the concentration of the banking system, and as can be seen in the following table, we can say that there is one relationship between the two values.

Table 7 - The relationship between the concentration and performance of the Slovenian banking system

	HH	Top3	Top5
The regression equation	HH = 1.199592315 + 0.008077302475*ROE	TOP3 = 46.57984046 + 0.1739377431*ROE	TOP5 = 59.36334502 + 0.0955629208*ROE
R-squared	0.951463	0.955180	0.593078

Source: Authors' computation using Eviews 5.0

As can be seen in this table, the strongest relationship is obtained between ROE and the concentration of assets of the first three banks in the system, as was obtained in the first econometric study.

CONCLUSIONS

The number of institutions has dropped significantly due to numerous acquisitions and mergers that took place both on national and international level. The first banks interested in cross-border operations were those based in developed countries, countries with a high concentration of their banking systems.

Banking institutions are now looking for new opportunities in foreign markets to replace or supplement the decreasing growth opportunities. Removing regulatory barriers in the EU financial services industry will give further impetus to the strengthening of cross-border and cross-sectoral banking M&A.

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 a monopoly or downsizing.

The main objective of this study was to evaluate the relation between the degree of bank concentration and banking performance in Slovenia, the analyzed period being 2006-2012.

In this sense, using the financial statements of the National Bank of Slovenia and the Eviews 5.0 software we have shown that there is a strong link between the degree of banking concentration measured by the concentration of banking assets held by the top 3 banks in the system and system performance banking development measured in our case by ROE.

REFERENCES

- Altunbas, Y., Marques-Ibanez, M. (2008) *Mergers and acquisitions and bank performance in Europe. The role of strategic similarities*, Journal of Economic and Business, vol. 60, issue 3, pp. 204–222
- Ayadi, R., Pujals, G., 2005, *Banking mergers and acquisitions in the European Union: Overview, assessment and prospects*, The European Money and Finance Forum Vienna.
- European Central Bank (2013) *Banking structures report*, available at <http://www.ecb.europa.eu/stats/html/index.en.html>
- Dermine, J. (2003) *Banking in Europe: Past, present and future*, in: Gaspar, V., Hartmann, P., Sleijpen, O. (Eds.) Proceedings of the 2nd ECB Central Banking Conference on the Transformation of the European Financial System. ECB Frankfurt.
- Bank of Slovenia (2013) *Financial Stability Report* available at <http://www.bsi.si/en/publications.asp?MapaId=784>
- Hernando, I., Nieto, M. (2008) *Determinants of domestic and cross-border bank acquisitions in the European Union*, Documentos de Trabajo, The National Bank of Spain, no. 0823.

MEASURING BANKING EFFICIENCY BY USING ROAA AND ROAE: EVIDENCE FROM THE EUROPEAN UNION

Mihăiță-Cosmin Popovici*

Abstract: *In this paper, we want to analyse how efficiency evolves in the European Union 28 over the period 2003 – 2012. This period is selected to highlight the evolution before and after the global financial crisis. We used a sample of over 1000 banks with data available for at least ten years and at least three banks for each country. For measuring bank efficiency, we used two of the most popular financial ratios, Return on Average Assets (ROAA) and Return on Average Equity (ROAE). Our results showed that European Union integration can be improved and further reforms could be implemented and bank are affected differently by the international financial crisis.*

Keywords: European Union; ROAA; ROAE; Bank Efficiency.

JEL Classification: F15; F36; G21.

INTRODUCTION

European financial market integration has been a long time objective of the European Union. This process has known significant movers in the early '90 and later by the introduction of the single currency. The objective of financial integration is a deeper intermediation at lower costs. A better financial intermediation translates into higher economic growth. Along with the deepening of the European integration process appeared the need of measuring the effects of single market on banking efficiency. However, it is difficult to measure the benefits of integration and researchers have not reached a consensus on the best method.

In the literature four methods are mainly known for measuring performance, so efficiency. The methods for measuring the efficiency are Least Square Method (LSM), Total Factor Productivity (TFP), Data Envelopment Analysis (DEA) and Stochastic Frontier Analysis (SFA). The first two methods are commonly applied to aggregated time series and provide measurements of technical progress that measure the variation in total factor productivity. Both methods assume that the economy is in full employment point of factor, so it is an efficient one. The third and the fourth method do not start from the assumption of efficiency and therefore can be observed what causes inefficiency. TFP can be used to compare relative productivity of two economies at some point in time. Data Envelopment Analysis and

*Mihăiță-Cosmin Popovici, PhD Student at the Alexandru Ioan Cuza University of Iași, Romania, e-mail: mihaicosminpopovici@yahoo.com

the Stochastic Frontier Analysis can be used to measure both changes in the efficiency and the relative efficiency, if it is a panel data available.

Another variant to measure efficiency is based on the analysis of financial ratios. From the methodological standpoint, the rate is the ratio of two variables. The main objective in the studying rates based analysis consist of three dimensions of the financial institution: profitability, liquidity and financial structure. There are many possibilities to calculate rates and grouping them homogeneous and rigorous is difficult, so we present the most significant rates: Return on Average Assets (ROAA) and Return on Average Equity (ROAE).

1. DEFINITIONS

Return on Average Assets is the ratio of annual net income to average total assets of a bank during a financial year (financial year does not always correspond with the calendar year). It measures the efficiency of a bank in using its assets to generate net income (http://www.readyratios.com/reference/profitability/return_on_average_assets_roaa.html).

The formula for Return on Average Assets is:

$$ROAA = \frac{\text{Annual Net Income}}{\text{Average Total Assets}}$$

The annual net income is the portion of income remaining after tax. It can be found on the bank income statement. Average total assets are calculated by dividing the sum of total assets at the beginning and at the end of the financial year by two. Total assets at the beginning and at the end of the year can be obtained from year ending balance sheets of two consecutive financial years.

Return on Average Assets represents the number of cents earned on each dollar of assets. The higher the value the more profitable is the bank. This ratio should be used only to compare entities in the same sphere of activity. Some areas need more assets to operate and therefore the rate will be lower compared to other areas where demand for assets is lower and the ratio is higher.

Return on Average Equity is an adjusted version of the Return on Equity (ROE) that measures the profitability of a company. It can provide a more accurate picture of the bank`s profitability, particularity

in situations where the value of shareholder's` equity has changed significantly during the financial year. In circumstances where the shareholders` equity do not change over the year or change in a small proportion, the Return on Equity and the Return on Average Equity should be similar, or identical (http://www.readyratios.com/reference/profitability/return_on_average_equity_roae.html).

The formula for the Return on Average Equity is:

$$ROAE = \frac{Net\ Income}{Average\ Stockholders'\ Equity}$$

ROAA and ROAE are used in several studies of bank efficiency by many researchers. To compare bank profitability in Fiji with the banks in New Zealand, Australia and USA (Kishore, 2012), to assess the results of China banking reform (Heffernan and Fu, 2010), to examine the performance of 37 Bangladeshi commercial bank between 1997 and 2004 (Sufian and Habibullah, 2009). More studies are conducted on the European Union: to investigate the relationship between bank risk and product diversification in the European banking industry (Lepetit et al., 2008), to examine the determinants of performance of Greek banks over the period 1990-2002 (Kosmidou, 2008), to examines how bank`s specific characteristics and the overall banking environment affect the profitability of banks in the 15 EU countries over the period 1995-2001 (Pasiouras and Kosmidou, 2007).

2. METHODOLOGY

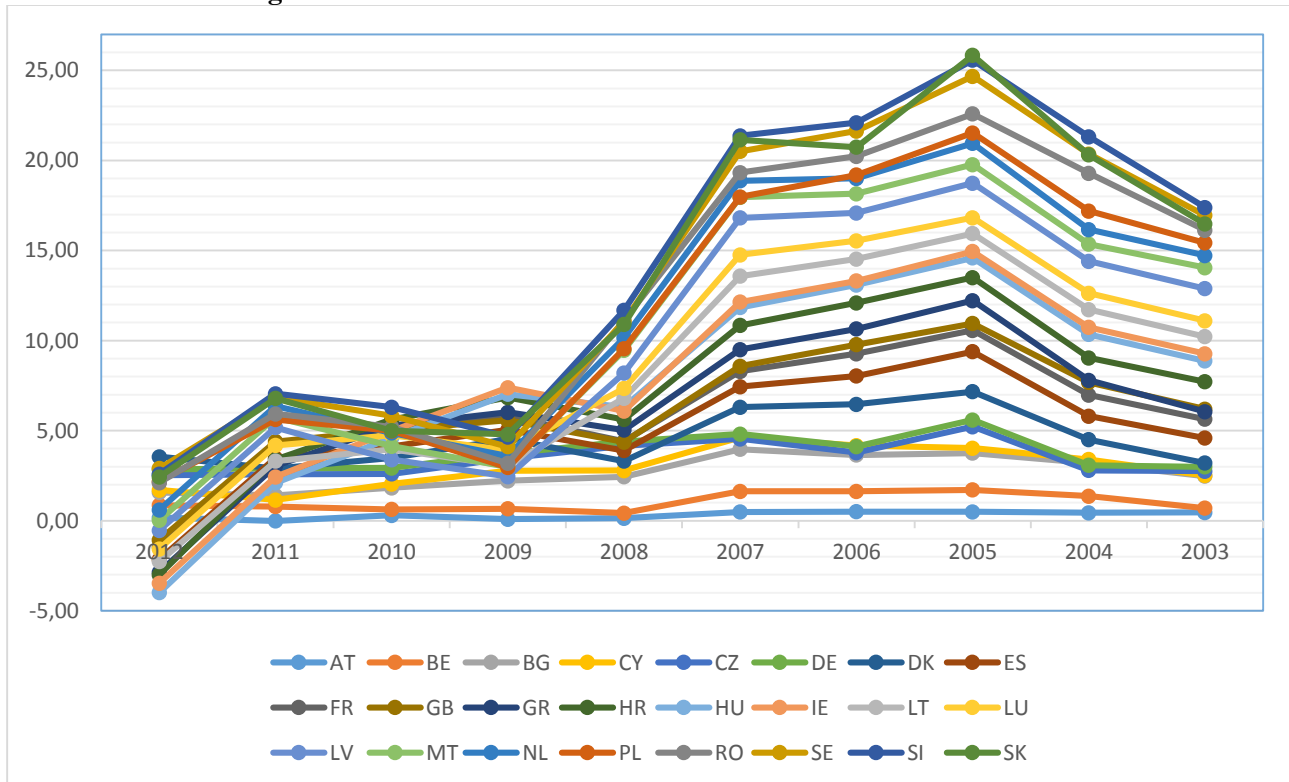
All information in this paper is taken from the Bankscope database. In the first step, we selected all active banks from the European Union 28. We removed banks that had not information for at least 10 years, 2003 – 2010. More, we eliminated countries that had not information for at least three banks (Estonia, Finland, Italy, and Portugal). After a quick analysis, we removed banks with ROAA greater than 10 or lower than -10 to remove outliers. In the final stage, we calculated the arithmetic mean for each country and for the entire period.

3. RETURN ON AVERAGE EQUITY

Until the financial international crisis was triggered, banks from most countries of the European Union had a similar evolution from Return on Average Equity standpoint. Since 2008, the effects of crisis began to be felt by all member states.

In 2009, some member countries (Lithuania, Slovakia, Sweden, Romania, Netherlands, Poland, Malta, Latvia, and Luxembourg) have experienced a deepening of the crisis, compared to other states that maintained ROAA at the same level or eased. In 2012, almost all countries experienced a deterioration of ROAA, except Denmark, Germany, Czech Republic, Bulgaria, Cyprus, Belgium and Austria.

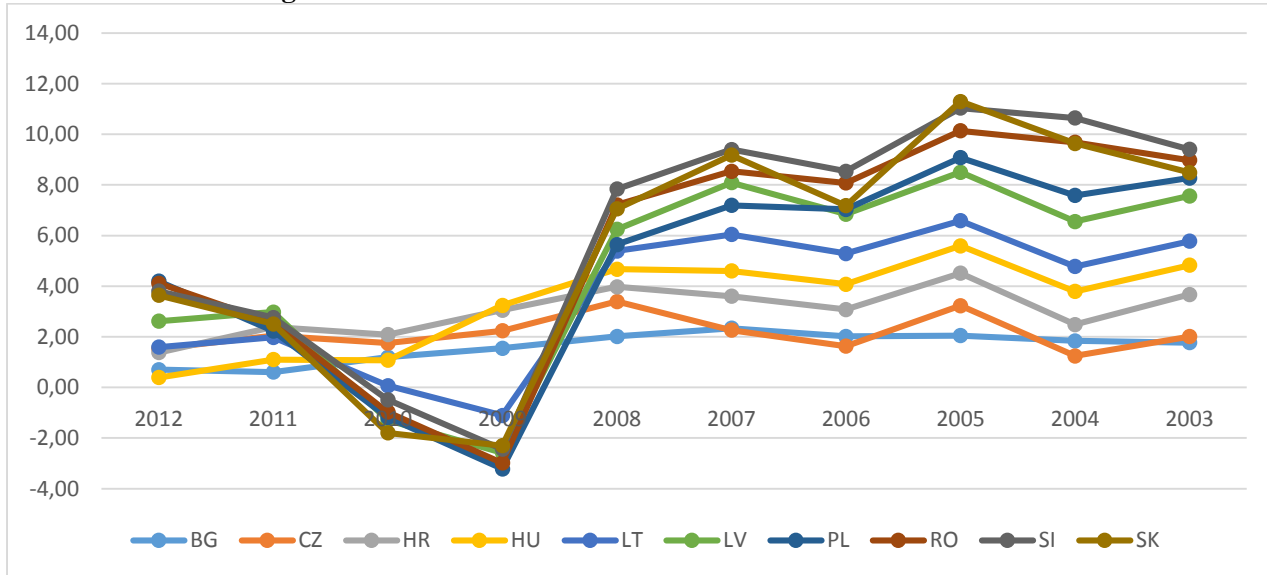
Figure 1 – ROAA for the EU member states banks 2003 and 2010



Source: Author's calculations

Second, we will look on the Central and Eastern Europe member states. Countries can be grouped into two subgroups: Bulgaria, Czech Republic, Croatia and Hungary, that experienced low variation over the period analysed and Lithuania, Latvia, Poland, Romania, Slovenia and Slovakia that experienced a steep drop once the crisis began and then a period of convergence to the level reached by other member states.

Figure 2 - ROAA for the CEE member states banks 2003 and 2010



Source: Author's calculations

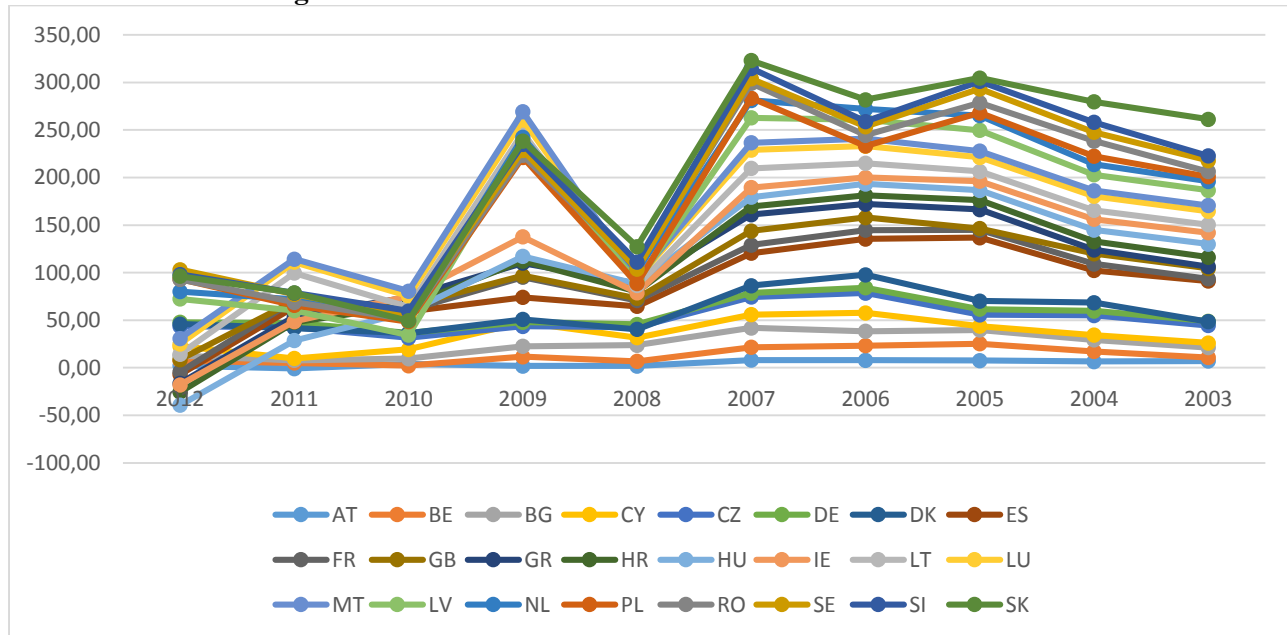
Surprisingly the group of countries that has been most affected by the crisis in 2009 shows higher levels of ROAA in 2012 compared with states that had a lower reduction of ROAA in 2009. On long-term a lower and stable rate is preferred than one that shows significant variations in high stress conditions. High ROAA in period of economic growth involves high risks and variations in time of crisis.

4. RETURN ON AVERAGE EQUITY

The evolution of Return on Average Equity is similar with the Return on Average Assets. All countries experienced a reduction in 2008, but year 2009 highlights two groups. First, one with a stronger recovery (Lithuania, Luxembourg, Malta, Latvia, Poland, Netherlands, Romania, Sweden, Slovenia and

Slovakia) and second with a mild recovery (Ireland, Hungary, Croatia, Greece, United Kingdom, France, Spain, Denmark, Germany, Czech Republic, Cyprus, Bulgaria, Belgium, and Austria).

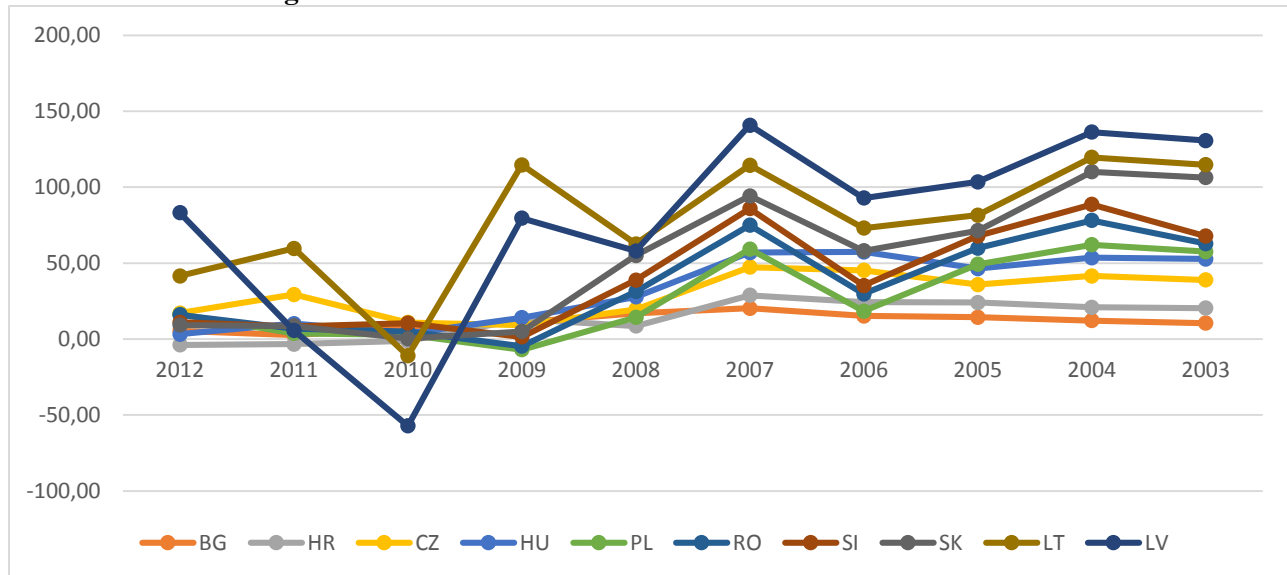
Figure 3 - ROAE for the EU member states banks 2003 and 2012



Source: Author's calculations

On the long-term a stable and lower ROAE is recommended, because it allows reducing financial crisis effects. As can be seen in 2012, Malta, Luxembourg, Lithuania, United Kingdom, France, Spain, Greece, Ireland, Croatia and Hungary have experienced a reduction in ROAE.

Figure 4 - ROAE for the CEE member states banks 2003 and 2010



Source: Author's calculations

ROAE shows a different pattern in Central and Eastern Europe member states. Surprisingly, many countries (Latvia, Lithuania, Slovakia, Slovenia, Romania and Poland) show a reduction of ROAE in 2006, before the financial crisis began. This group shows an improvement of ROAE in 2007, but then there is a decrease as in the rest of the group. Since 2009, states have maintained similar levels of ROAE, with the exception of Latvia and Lithuania, both Baltic States, which show high variation between 2009 and 2012.

CONCLUSIONS

The European Union has made many steps in the right direction towards deeper financial integration. Many economists consider the financial crisis of 2007-2008 as the worst crisis since the Great Depression of 1929-1933. It resulted in bankruptcies of banks, bailouts of banks by national governments and a steep drop in the stock market. It further transformed into a sovereign debt crisis that has gripped many countries in the European Union. Italy, Greece, Spain, Ireland and later Cyprus needed financial assistance to avoid default. Our results suggest that too little was done after the crisis, and more changes are needed to a true banking and fiscal union that could minimize the effects of a future financial crises. We can also observe differences between member states and we can speak about a two tier Europe.

This suggests the need to implement reforms towards convergence of ROAA and ROAE. In future research, we will extend the efficiency study on other aspects that we have not mentioned in this paper to get better results and a better image of European integration and banking efficiency.

REFERENCES

- Heffernan, S. A., Fu, X. (2010) *Determinants of financial performance in Chinese banking*, Applied Financial Economics, vol. 20, issue 20, accessed on February 2014 at <http://www.tandfonline.com/doi/full/10.1080/09603107.2010.505553>
- Kishore, R. (2012) *A comparison of bank margin and profitability*, International Journal of Education Economics and Development (IJEED), vol. 3, no. 2, accessed on February 2014 at <http://www.inderscience.com/offer.php?id=47079>
- Kosmidou, K. (2008) *The determinants of banks` profits in Greece during the period of EU financial integration*, Managerial Finance, vol. 34, issue 3, pp. 146-159, accessed on February 2014 at <http://www.emeraldinsight.com/journals.htm?articleid=1662841&show=abstract>
- Lepetit, L., Nys, E., Rous, P., Tarazi, A. (2008) *Bank income structure and risk: An empirical analysis of European banks*, Journal of Banking & Finance, vol. 32, issue 8, accessed on February 2014 at <http://www.sciencedirect.com/science/article/pii/S037842660700369X>
- Pasiouras, F., Kosmidou, K. (2007) *Factors influencing the profitability of domestic and foreign commercial banks in the European Union*, Research in International Business and Finance, vol. 21, issues 2, pp. 222-237, accessed on February 2014 at <http://www.sciencedirect.com/science/article/pii/S0275531906000304>
- Sufian, F., Habibullah, M. S. (2009) *Determinants of bank profitability in a developing economy : Empirical evidence from Bangladesh*, Journal of Business Economics and Management, vol. 10, issue 3, pp. 207-217, accessed on February 2014 at <http://www.tandfonline.com/doi/pdf/10.3846/1611-1699.2009.10.207-217>
- *** (2014) http://www.readyratios.com/reference/profitability/return_on_average_assets_roaa.html
- *** (2014) http://www.readyratios.com/reference/profitability/return_on_average_equity_roae.html

HOTEL MANAGERS' PERCEPTIONS OF THE IMPACT OF SOME GLOBAL PHENOMENA ON TOURISM. CASE STUDY ROMANIA - ITALY

Mirela Ștefănică*
Gina Ionela Butnaru†

Abstract: *Tourism is very sensitive to events that could trouble what is normal from a natural, economic, political and social point of view in the tourists' countries, in the countries they visit, and in the countries of transit. Consequently, the economic crises, the military, social or ethnical conflicts, the natural disasters, the terrorism acts and the negative publicity following them bring serious damage to the tourist activity in the areas where they are produced. The present work emphasises the perception of Romanian and Italian hotel managers of these phenomena that have an impact on tourism, using a comparative approach. In order to reach this objective, we have applied the questionnaire as a research instrument, with the help of which we have gathered the primary data, which were processed using the SPSS software.*

Keywords: economic crisis; terrorism; diseases; climatic changes; tourism.

JEL Classification: G01; Q54; L83.

INTRODUCTION

The economic crisis, terrorism and military conflicts, diseases and natural disasters are external factors that could influence negatively the flow of foreign tourists towards certain destinations, and implicitly the tourism businesses.

In 2008, Eduardo Fayos-Solá, representative of UNWTO for Europe, considered that the tourism would be affected in the following years by the world economic and financial crisis, since everything would be more expensive, and that the people should take care of the way they administered their money. This could be seen afterwards in the decrease of the number of tourists in the world, in the bankruptcy of different operators in tourism industry, and also in the increase of unemployment for the population occupied in tourism.

The decrease of the tourist circulation is also influenced by terrorism, another factor that affects tourism in all its components. The terrorist acts in the 1980', 1990', culminating with the ones on September 11th, 2001, had deep effects over the tourism industry and over the entire world. They

* Faculty of Economics and Business Administration, Department Management, Marketing and Business Administration, Alexandru Ioan Cuza University of Iasi, Romania, e-mail: stefanica_mirela@yahoo.com.

† Faculty of Economics and Business Administration, Department Management, Marketing and Business Administration, Alexandru Ioan Cuza University of Iasi, Romania, e-mail: gina.butnaru@uaic.ro.

determined the cancellation of holidays or the tourists' reorientation towards safer destinations, and substantial efforts to reinforce the affected tourist destinations. The tourists could easily choose safer destinations; however, the negative effects of the events affecting the destinations were hard to remove.

Besides the economic and financial crisis and terrorism, diseases are another factor of pressure over the tourism industry, with both human and financial losses.

In the case of the phenomena mentioned above, tourism is more likely a victim. However, we cannot state the same thing in the case of environmental problems, where tourism is both victim and generating factor. As a generating factor, tourism contributes to the global warming and pollution, especially by the emissions of carbon dioxide of the planes and vehicles (which assure both tourists' transportation and the transport of the products necessary to satisfy their needs at the destination), and also by the use of energy (which is vital for any food or accommodation unit, both for technological processes, and for the customers 'personal use) and fuel for different installations (liquid and gas fuel are used for the preparation of domestic hot water, central heating, technological steam for laundries/dry cleanings etc.).

Also, by the change of the destination of some fields, and by excessive urbanisation of some areas of tourist interest, or by the deforestations realised for building the infrastructure specific to its development, tourism contributes both to the increase of the volume of gas with greenhouse effect, and to the destruction of biodiversity.

These are just a few elements demonstrating that tourism is extremely vulnerable to the phenomena affecting the economic, social, or natural environment.

1. LITERATURE REVIEW

1.1. Tourism and economic crises

A review of the literature on tourism and crisis suggests that economic and financial crises receive the most research attention, with these crises events often being linked to other events such as terrorism and increased energy costs (Hall, 2010).

The global financial and economic downturn that affected tourism from 2007 through to 2010 and beyond has cast substantial attention on the role that crisis events play in tourism. These concerns have

only been exacerbated by natural disaster, such as the 2010 Icelandic volcanic plume, pandemics, and the potential of future global change (Hall, 2010).

The highest impact of the global economic crisis was on international arrivals of tourists in the countries with advanced economies that also experienced most acutely the reduction of the income from tourism (Sheldon and Dwyer, 2010).

A study conducted by UNWTO highlighted the fact that the number of travels with tourist purpose lowered by 8% between January and April 2009, as compared to the same period of the preceding year. Many tourists, from fear of the economic crisis, continued to stay at home, cancelling their travels.

In addition, more and more companies are tightening their travel cost guidelines. Employees travelling on official business are barely allowed to book business class or even first class tickets any more, regardless of their hierarchy level. Car rental firms are also noticing companies' restraint with regard to business trips. When it comes to rail travel, many travel managers are instructing their business travellers to journey second class from now on. In the hotel industry, the high quality segment has been hit particularly hard by the property and financial crisis, by up to 20% of its turnover. Again, the reason for this is the absence of many business travellers, who traditionally tend to favour upscale accommodation (Pechlaner and Frehse, 2010).

1.2. Tourism and terrorism

According to Pizam and Mansfeld (1996), safety, peace and quietness are the main conditions for a prosperous tourism, because the majority of tourists do not spend their money to go to a destination where their safety and wellness could be at risk. The terrorist attacks had always a strong negative impact, and they were a shock for the tourists and a change of the image and attractiveness of the tourist destination (Araña and León, 2008).

In general, the risk of terrorism affects the process of making the decision to travel (Sonmez and Graefe, 1998), it alters the tourists' behaviour during the journey to the risky destinations (Mukesh and Priyanka, 2014), and it determines the substitution of the choice of risky tourist destination with safer choices (Pizam and Mansfeld, 1996).

The bomb attacks in Bali had serious consequences over the tourism in Indonesia and South-East Asia. They determined the lowering of the number of tourists and great efforts of the authorities to re-attract tourists and to assure them in what concerns their safety and security (Henderson, 2003).

Different cultural and religious strategies, like the inter-religious cult and the consolidation of the capacities of mutual security, were adopted in order to help manage the crisis and re-building tourists' trust (Hitchcock and Putra, 2005). An important role belonged to the politicians, who had to act accordingly in order to lower tourism vulnerability (Richter, 1986).

1.3. Tourism and diseases

Other phenomena, like SARS (Severe Acute Respiratory Syndrome), H5N1, and H1N1 turned the world attention to pandemic threats. The increase of the number of tourist travels is one of the factors determining the spread of diseases in the world. The rapid propagation of SARS from Hong Kong to Toronto in 2003 demonstrated the quickness with which extremely pathogenic diseases can spread in the entire world (Gushulak, 2009). In a few weeks, SARS infected over 8000 people in 26 countries from 5 continents by the intermediation of 16 persons who had been infected by a doctor who had spent a single night in a hotel in Hong Kong (Peiris et al., 2004). The economic loss generated by this disease was estimated to 30-140 billion dollars (Skowronski et al., 2005). In the case of AIDS, the studies suggest that it spread over at least 5 continents, by air transport, sea travels, and human migration, and certain groups of people who are mobile and sexually active, among whom tourists as well, are important in spreading the disease (Chin and Mann, 1989).

1.4. Tourism and the environmental crisis

Tourism has a strong impact on the environment (Goessling, 2002), and a substantial impact on climate (Hamilton et al., 2005).

The increase of the number of tourist facilities leads to the fragmentation, and even to the destruction of the habitats, and implicitly to the decrease of the populations of plants and animals, which means the degradation of the biodiversity. Also, the destruction of some ecosystems is caused by the

introduction of foreign species (wild or cultivated plants, insects, diseases) by tourists. Tourists could also influence the loss of the biodiversity by their hiking in certain areas, or by stressing the wild animals with their activities (Hall, 2008).

In what concerns the natural disasters, the research in the field shows that 90% (floods, storms, droughts, earthquakes, snowfalls, extreme temperatures, fires, volcanic eruptions) have a climatic origin, and can highly affect tourism.

For example, key ecosystems offering winter sport and beach holiday facilities will be directly threatened by global warming and sea level rise. Enhanced temperatures in the mid-latitudes may well reduce the relative attraction of some Mediterranean and longer-haul destinations, especially if areas like the Caribbean become more prone to hurricanes (Smith, 1990). The extreme temperatures, the intensification of hurricanes, the melting of the ice caps, the rise of the level of seas and oceans threatens with the disappearance of special tourist destinations, like Maldives Islands, the Bahamas, the historical areas of many European cities, and so on (Haden, 2007). The warming and the acidification of sea waters will also lead to the decline of biodiversity. A small variation of temperature for a short period of time is enough to determine the corals, which are a special attraction for the tourists, and which host an exceptional biodiversity, to reject the algae they feed with, leading to the sudden “whitening” and death of many reefs (Hoegh-Guldberg et al., 2007).

Global warming indirectly contributes to the increase of human health issues. Tourists can influence with their travels the extension of the incidence of the diseases carried by aquatic vectors, like West Nile virus, Lyme disease, or malaria (Hall, 2006, Medlock, 2005). The increasing tourist travels and the human migration determine every year the appearance of over 40,000 of new cases of malaria only in Europe (Toovey and Jamieson, 2003). The tourists may contact malaria even if they just sit on the beach (Berry et al., 2011). The floods can also bring diseases like cholera and diarrhoea, and the spreading territory of the tropical diseases like Dengue fever might increase with global warming (Ansart et al., 2005).

These are just a few effects generated by the appearance of such phenomena, which are interconnected most of the times. Furthermore, all the phenomena mentioned above share a mutual element, which is represented by the psychosis generated by such events.

2. RESEARCH METHODOLOGY

The purpose of the research is the identification of the phenomenon with the highest impact on tourism, according to the perception of the managers in hotel industry.

The objectives of the research aim as follows:

O1: Identification of the hotel managers' perception of the impact of the economic crisis on tourism;

O2: Identification of the hotel managers' perception of the impact of terrorism;

O3: Emphasis of the hotel managers' perception of the impact of diseases;

O4: Emphasis of the hotel managers' perception of the impact of the phenomena generated by environmental issues.

In order to reach our purpose, we chose the inquiry research, because it assures a great flexibility, and the data and information are obtained more rapidly than in the case of other methods.

In the development of the questionnaire, we established the types of questions: closed questions, multichotomous questions, and questions with scale answers. We chose the closed questions, because they allow the easy codification of the answers, and implicitly the easier and quicker analysis of the data, and the questions with scale answers allow the evaluation of the intensity of the subject's opinions. The data obtained after the administration of the questionnaire were processed with the help of SPSS 13 statistical software.

In what concerns the sample group under research, 53.3% are hotel managers in Romania/North-East Region, and 46.7% are hotel managers in Italy/ Veneto Region. According to the category of comfort – most of the hotels are 3*** and 4***** hotels, and according to the number of employees– most of the hotels have between 10 and 249 employees.

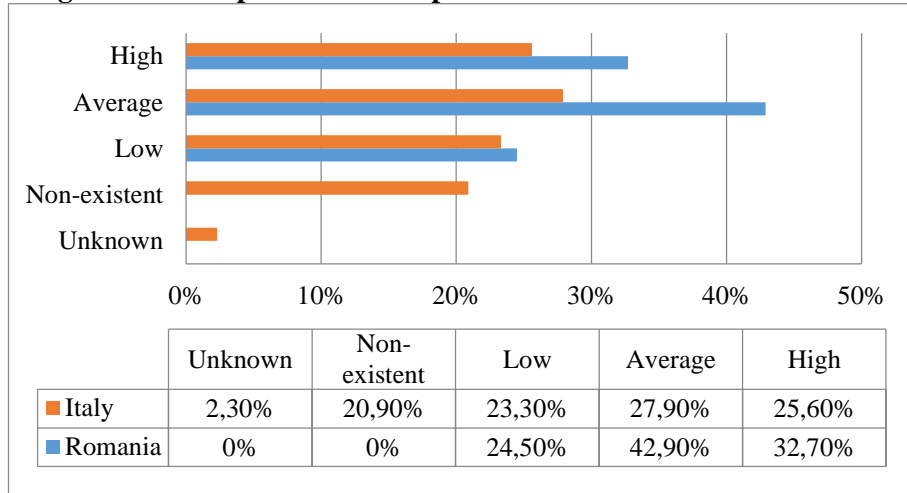
3. RESULTS AND INTERPRETATION

The study is primarily focused on the identification of hotel managers' perception of the extent to which the global phenomena mentioned above influence or could influence their activity.

The first phenomenon analysed is the economic and financial crisis. The data reflecting the perception of the population investigated on this phenomenon are presented in figure 1.

In figure 1 we can see that there are differences between the perception of the Romanian managers and that of the Italian managers in what concerns the impact of the economic crisis on tourism. Consequently, Romanian managers perceive more acutely the negative influence of the economic crisis, their answers focusing on the variants of answer: high (42.9%), very high (32.7%) and average (24.5%).

Figure 1 – Perceptions of the impact of the economic crisis on tourism



Source: Authors computation

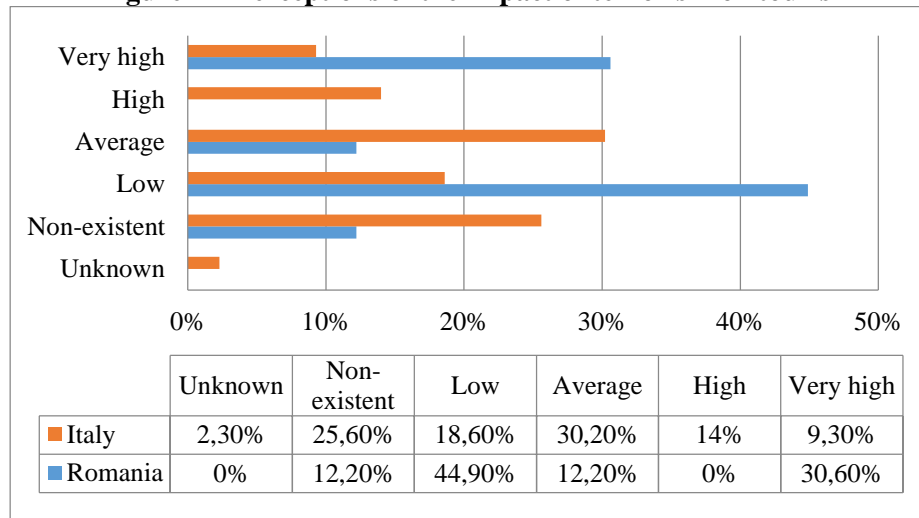
The Italian managers consider that the economic crisis is a phenomenon with average impact, offering close percentages for the variants of answer. Our attention is also attracted by the percentage of those who chose the variant of answer corresponding to a low impact (20.9%), or of those who consider that this phenomenon does not influence their activity. The figure also highlights the fact that both in Romania and in Italy, most of the persons who answered the questionnaire chose “high” as variant of answer; another element shared by both categories investigated was the approximately identical percentage of those who perceived the economic crisis as a phenomenon with average impact on tourism.

Another global phenomenon with impact on tourism that was proposed for analysis was terrorism. The data obtained are presented in figure 2.

From the perspective of the Romanian managers, terrorism has a rather low impact on tourism, 69.4% of the inquired persons choosing the variants of answer corresponding to this conclusion.

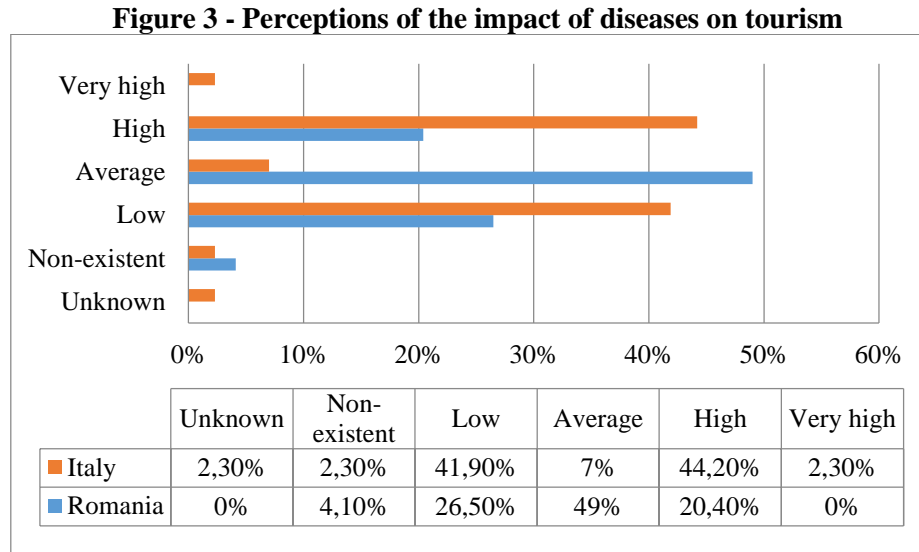
Consequently, 12.2% of the subjects state that terrorism does not influence tourism in any way, 44.9% consider that the impact of terrorism is low, and 12.2% that it is average. Only 30.6% of the subjects consider this phenomenon with a very high impact on tourism. In the case of Italy, most of the managers consider terrorism a phenomenon with average (30.2%) towards low impact (18.6%), while a quarter of them cannot see any relationship between tourism and terrorism, considering the impact as non-existent (25.6%). 14% of the managers consider that the acts of terrorism have a high negative influence over the tourism, and 9.3% - very high.

Figure 2 – Perceptions of the impact of terrorism on tourism



Source: Authors computation

In what concerns the diseases, the results are presented in figure 3.



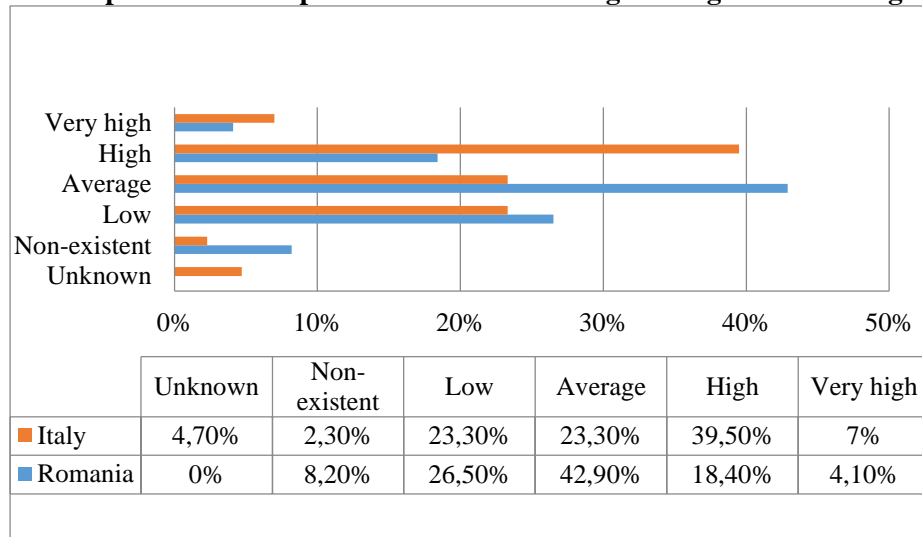
Source: Authors computation

We can see that most of the Romanian managers perceive this phenomenon as having an average impact on tourist activity (49%), even a low (26.5%) or non-existent one (4.1%); only 20.4% of them consider it has a high influence. In the case of the Italian managers, almost half consider that tourist activity is strongly influenced in a negative way by the incidence of diseases, while the other half of the hotel managers consider that diseases do not affect tourism very much, compared to other global phenomena.

Except the economic and financial crisis, terrorism and diseases, there are other phenomena as well, like the environmental ones, which register a negative influence on tourism. In the case of these phenomena, as we already mentioned, tourism is both a victim and a factor contributing to their aggravation.

The hotel managers' perception of the extent to which these phenomena affect tourism will be analysed below. In the case of the climatic changes and global warming, the situation is presented in figure 4.

Figure 4 - Perceptions of the impact of the climatic changes and global warming on tourism



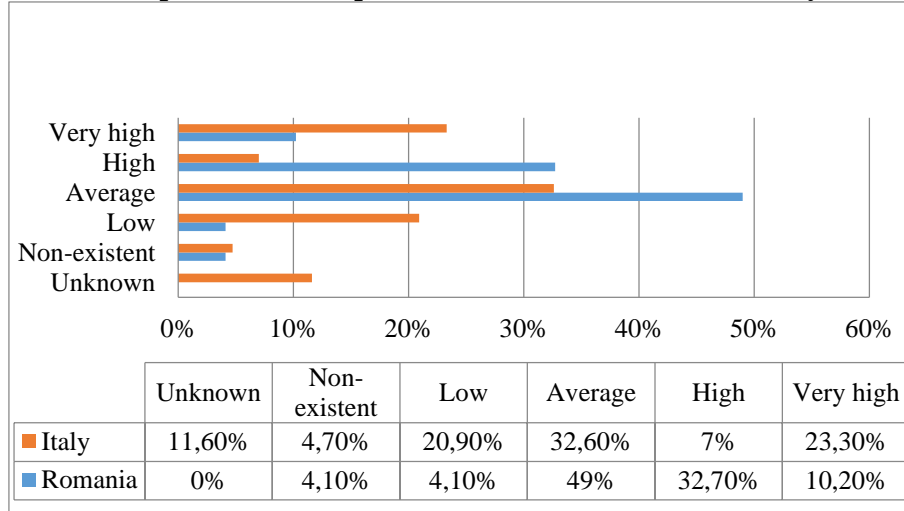
Source: Authors computation

In the case of Romania, most of the subjects perceive climatic changes and global warming as a phenomenon with average impact on tourism (42.9%), towards low impact (26.5%). Only 22.5% of them consider that this environmental issue affects in a high (18.4%) and very high degree (4.1%) tourist activity. 8.2% consider that this phenomenon has absolutely no influence on tourism.

In the case of Italy, climatic changes and global warming are seen as phenomena with high impact by 39.5% of the subjects, and very high impact– by 7% of them. The same number of subjects (23.3%) perceives the impact of these phenomena as being low or average. 4.7% declare that they do not know the possible influence of these issues.

Another important phenomenon is the destruction of the biodiversity. The results obtained are presented in figure 5.

Figure 5 - Perceptions of the impact of the destruction of biodiversity on tourism

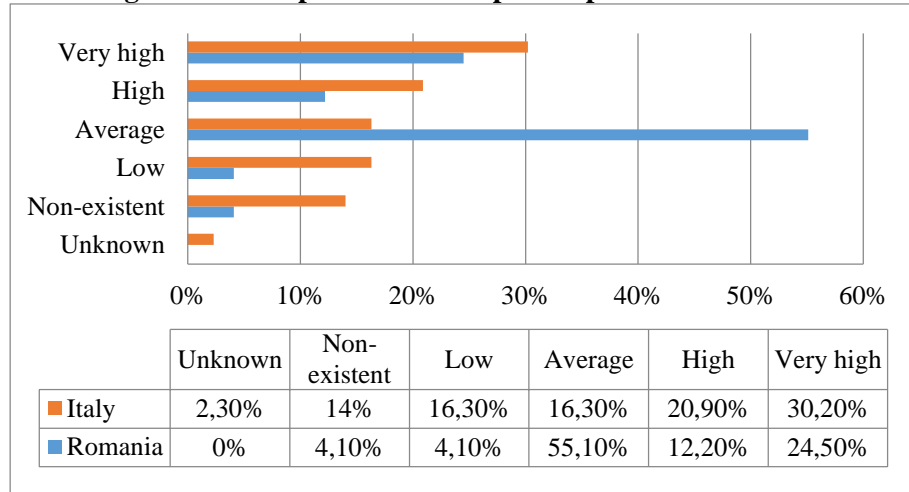


Source: Authors computation

Most of the subjects, both the Romanian managers (49%) and the Italian ones (32.6%), evaluate that the destruction of the biodiversity is an issue with average towards major impact on tourism. Consequently, the cumulated percentage of Romanian managers who chose the variants of answer “high” and “very high” is 42.9%, and in the case of the Italian managers it is 30.3%. We can see that 11.6% of the Italian managers do not know to which extent the destruction of the biodiversity could influence tourism. Also, we can see that 20.9% of them consider this phenomenon as having a low impact on tourism.

Pollution is another factor we analysed. The results obtained are presented in figure 6.

Figure 6 - Perceptions of the impact of pollution on tourism

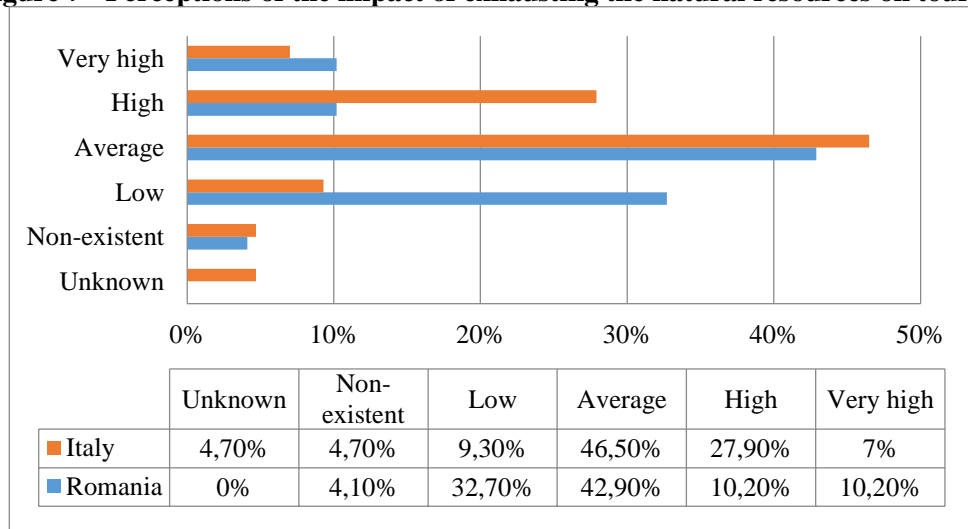


Source: Authors computation

The impact of pollution on tourism is perceived by most of the Romanian managers (55.1%) as a phenomenon of average intensity. A quarter of them (24.5%) evaluate pollution as a phenomenon with very high influence on tourism. Most of the Italian managers consider it a phenomenon with very high (30.2%) or high impact (20.9%). Also, 14% of them consider that pollution does not influence tourism.

Figure 7 illustrates the subjects' perceptions related to the impact which the exhaustion of natural resources has on tourism.

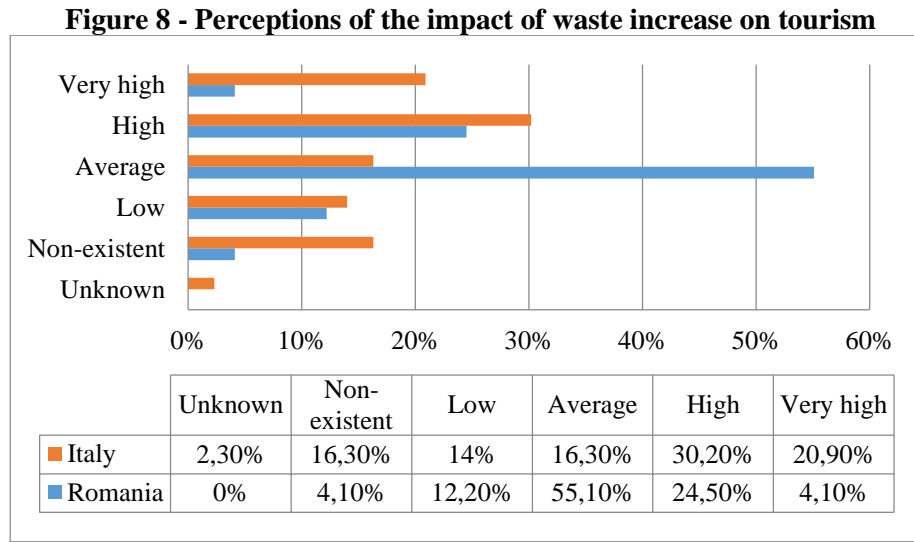
Figure 7 - Perceptions of the impact of exhausting the natural resources on tourism



Source: Authors computation

The perception of this issue is for most Romanian and Italian managers the same, the tendency being different. Consequently, the exhaustion of the natural resources is perceived like an issue with average (42.9%) towards low impact (32.7%) by the Romanians, as compared to the Italians, who perceive this issue as having rather an average (46.5%) towards high effect (27.9%).

The last issue analysed is the waste increase. Figure 8 presents the results obtained.



Source: Authors computation

The chart highlights the fact that most of the Romanian subjects (55.1%) consider the waste increase as a phenomenon with average impact on tourism, and 24.5% perceive it as a phenomenon of high intensity.

In the case of the Italians, we can see that the perception of half of them is that this phenomenon has a high (30.2%) and even very high impact (20.9%) on tourism. The other half perceives it, in close proportions, like an average, low, or non-existent phenomenon.

CONCLUSIONS

No matter if the hotel managers admit it or not, all the phenomena presented have an impact on tourism, either higher or lower: some on short term, others on long term, some with immediate visible effects, others with long time effects, some globally, others just regionally.

Taking into account the variants of answer of high and very high intensity, the conclusions we made as a result of the analyses are as follows:

- The perception of Romanian and Italian managers is that the phenomenon with the highest impact on the tourism industry is the economic crisis, with the difference that there are more Romanian managers (75.6%) who perceive this phenomenon as such than the Italian ones (53.5%);
- Among the environmental issues affecting tourism, the most serious is the destruction of biodiversity for the Romanian managers, and to the same extent pollution and waste increase for the Italian managers;
- The phenomenon with the lowest impact on tourism is considered the exhaustion of natural resources, and diseases respectively, in the case of Romanian managers, and terrorism for the Italian managers.

The final conclusion is that, no matter what their nature is, these phenomena create difficult, even tragic situations in the affected areas, with human losses and suffering, with economic losses, with long-lasting negative publicity. Furthermore, global warming threatens with the disappearance of the most beautiful natural and cultural tourist destinations on earth, as well as of the human existence in some more sensitive areas.

REFERENCES

Ansart, S., Perez, L., Vergely, O., Danis, M., Bricaire, F., Caumes, E. (2005) *Illnesses in Travellers Returning from the Tropics: A Prospective Study of 622 Patients*, Journal of Travel Medicine, vol. 12, issue 6, pp. 312–318, accessed on December 2013 at <http://onlinelibrary.wiley.com/doi/10.2310/7060.2005.12603/pdf>

- Araña, J.E., León, C.J. (2008) *The impact of terrorism on tourism demand*, Annals of Tourism Research, vol. 35, issue 2, pp.299-315, accessed on December 2013 at <http://www.sciencedirect.com/science/article/pii/S0160738307001120>
- Berry, A., Iriart, X., Wilhelm, N., Valentin, A., Cassaing, S., Witkowski, B., Benoit-Vical, F., Menard, S., Olganier, D., Fillaux, J., Sire, S., Le Coustumier, A., Magnaval, J.F. (2011) *Imported Plasmodium knowlesi Malaria in a French Tourist Returning from Thailand*, The American Journal of Tropical Medicine and Hygiene, vol. 84, no. 4, pp. 535-538 accessed on November 2013 at <http://www.ajtmh.org/content/84/4/535.full>
- Chin, J., Mann, J. (1989) *Global surveillance and forecasting of AIDS*, Bull World Health Organ. vol. 67, issue 1, pp. 1–7, accessed on December 2013 at
- Goessling, S. (2002) *Global environmental consequences of tourism*. Global Environ Change vol. 12, pp. 283–302
- Gushulak, B., Weekers, J., MacPherson, D. (2009) *Migrants in a globalized world — health threats, risks and challenges: an evidence-based framework*. Emerging Health Threats; Available from: <http://www.eht-journal.net/index.php/ehjt/article/view/7091>)
- Haden, L. (2007) *Tourism and climate change*, Journal Travel & Tourism Analyst, no. 1, pp. 1-37
- Hall, C.M. (2006) *Tourism, disease and global environmental change: The fourth transition*. in S. Gossling & C. M. Hall (Eds.), *Tourism and global environmental change* (pp. 159–179). London: Routledge.
- Hall, C.M. (2008) *Tourism and climate change: Knowledge gaps and issues*. Tourism Recreation Research, vol. 33, pp. 339–350.
- Hall, C.M. (2010) *Crisis events in tourism: subjects of crisis in tourism*, Current Issues in Tourism, vol. 13, no.5, pp. 401-417.
- Hamilton, J.M., Maddison, D.J., Tol, R.S.J. (2005) *Effects of climate change on international tourism*, Climate Research, vol. 29, pp. 245-254 accessed on December 2013 at <http://dare.ubvu.vu.nl/bitstream/handle/1871/21439/180200.pdf?sequence=3>
- Henderson, J.C. (2003) *Terrorism and Tourism: Managing the Consequences of the Bali Bombings*, Journal of Travel & Tourism Marketing, vol.15, issue 1, pp.41-58.

- Hitchcock, M., Putra, N.D. (2005) *The Bali Bombings: Tourism Crisis Management and Conflict Avoidance*, Current Issues in Tourism, vol. 8, issue 1, pp.62-76
- Hoegh-Guldberg, O., Mumby, P.J., Hooten, A.J., Steneck, R.S., Greenfield, P., Gomez, E., Harvell, C.D., Sale, P.F., Edwards, A.J., Caldeira, K., Knowlton, N., Eakin, C.M., Iglesias-Prieto, R., Muthiga, N., Bradbury, R.H., Dubi, A., Hatziolos, M.E. (2007) *Coral Reefs Under Rapid Climate Change and Ocean Acidification*, *Science*, vol. 318 no. 5857, pp. 1737-1742, Available at: <http://www.sciencemag.org/content/318/5857/1737.full>
- Medlock, J.M., Snow, K.R., Leach, S. (2005) *Potential transmission of West Nile virus in the British Isles: an ecological review of candidate mosquito bridge vectors*. Medical and Veterinary Entomology. vol.19, pp.2–21.
- Mukesh, R., Priyanka, P. (2014) *Terrorism terrorizes tourism: Indian Tourism effacing myths?* International Journal of Safety and Security in Tourism, issue 5, pp. 26-39 Available from:<http://www.repotur.gob.ar/bitstream/handle/123456789/3758/paper%202%20Terrorism%20terrorizes%20tourism.pdf?sequence=1>
- Pechlaner, H., Frehse, J. (2010) *Financial Crisis and Tourism*, Trends and Issues in Global Tourism, pp. 27-38
- Peiris, J.S.M., Guan, Y., Yuen, K.Y. (2004) *Severe acute respiratory syndrome*. Nature Medicine. vol.10, pp. S88–S97.
- Pizam, A., Mansfeld, Y. (1996) *Tourism, Crime and International Security Issues*. Chichester, UK: Wiley.
- Richter, L.K. (1986) *Terrorism and tourism as logical companions*, Tourism Management, vol. 7, issue 4, pp. 230–238
- Sheldon, P., Dwyer, L. (2010) *The Global Financial Crisis and Tourism*, Journal of Travel Research, vol.49, no.1, pp.39-45
- Skowronski, D.M., Astell, C., Brunham, R.C., Low, D.E., Petric, M., Roper, R.L., Talbot, P.J., Tam, T., Babiuk, L. (2005) *Severe acute respiratory syndrome (SARS): a year in review*,. Annual Review of Medicine. vol. 56, pp. 357–381.
- Smith, K. (1990) *Tourism and climate change*, Land Use Policy, vol.7, issue 2, pp.176-180

- Sonmez, S.F., Graefe, A.R. (1998) *Influence of terrorism risk on foreign tourism decisions*, *Annals of tourism research*, vol.25, issue 1, pp.112-144.
- Toovey, S., Jamieson, A. (2003) *Rolling back malaria: how well is Europe doing?* *Travel Medicine and Infectious Diseases*, vol.1, pp. 167–175.
- UNWTO (2009) *World Tourism Barometer*, June Edition.

IMPROVING THE LABOUR COSTS EFFICIENCY AT UKRAINIAN ENTERPRISES

Olga Sukach *

Abstract: *Generally, labor costs are more complicated than other inputs. But wages and labor productivity in Ukraine are significantly lower than in the market economies. Also the share of the basic wages consisted by 61.1 per cent at Ukrainian enterprises. While, the developed countries keep a basic wage at the rate of about 80-85 per cent. Consequently, wage is transformed into one of the version of a social assistance, which in less degree dependents on the results. The main purpose of the article is a theoretical studied of a system of economic indicators of labor costs efficiency and a critical analysis of their calculations in Ukrainian enterprises and abroad. In support of correlation between the share of basic wages and labor productivity the multiplicative model of labor productivity is developed and was practically used by the author on one of Ukrainian enterprises.*

Keywords: remuneration of labor; payroll; labor costs; labor productivity; own-product real wage.

JEL Classification: M52; J31; E22; C38.

INTRODUCTION

Recently, wages and labor productivity are among long-term debated topics. Undoubtedly, labor resources are crucial type of enterprise resources, which influence the competitiveness of companies. Nowadays the remuneration of labor is a problematic question for the Ukrainian economy. As we know, wage level is one of the most important indicators of labor market functioning. In fact, wage is a powerful motivator of labor potential. Unfortunately, it is transformed into one of the version of a social assistance, which in less degree dependents on the results.

Labor costs are segregated from other types of enterprises' costs. On the one hand, labor costs as all other costs are tried to be reduced by a company. As a consequence, we will increase production price and also will reduce profit. On the other hand, the increasing of labor costs leads to higher social tax and social insurance funds to the state budget and also improves levels of incomes and standards of living of the population. The remuneration of labor functions as a stimulator of employees to labor. Rise of labor

* Olga Sukach, Odessa National Economic University; Ukraine; e-mail: olechka-sukach@yandex.ru

costs on enterprises supposes enhance of labor productivity. And the efficiency results of the wage-fund usage can be obtained by a system of economic indicators. This system allows to estimate efficiency of wage-fund usage and to specify the departmental policy of remuneration of labor.

Recently, the attention of scientific researches and their publications have been focused on the problems of wages, for instance, such authors as T. Dolinina, O. Gamowa, L. Gorelova, S. Gordeev, L. Shevchuk, O. Grishnova, O. Doronina, A. Kalina, I. Laptiy, Y. Romusik, M. Semikina, A. Strup and others. The general organization of management wages is the main sphere of interests and focus of above mentioned authors. Obviously, that confirms the importance of our research as for labour costs efficiency.

1. INDICATORS OF LABOUR COST EFFICIENCY

Generally, in the process investigation of labor costs scientists used different terminology. Thus, V. Kerimov proposed the concept of “wage costs” (Kerimov, 2005). At the same time, V. Ivashkevitch and L. Popova focused their attention on definition of “labor costs” (Ivashkevitch, 2004 and Popova, 2006).

In their study, A. Sheremet, A. Nikolaeva, S. Popolyakiv, considered the term “labor expenses” (Sheremet, Nickolayeva, Polyakova, 2005) and M. Sapozhnikova called “personnel expenses” (Sapozhnikova, 2006). Economic theory interpreted the category of “labor costs” as a total cash income received by the employee for the work done. In turn, L. Shevchuk cited the conception of “labor fund” (circulating assets, which are formed from various sources and will be used for defrayal concerned with the following payment: official wages and salaries, social tax) (Shevchuk, 2011).

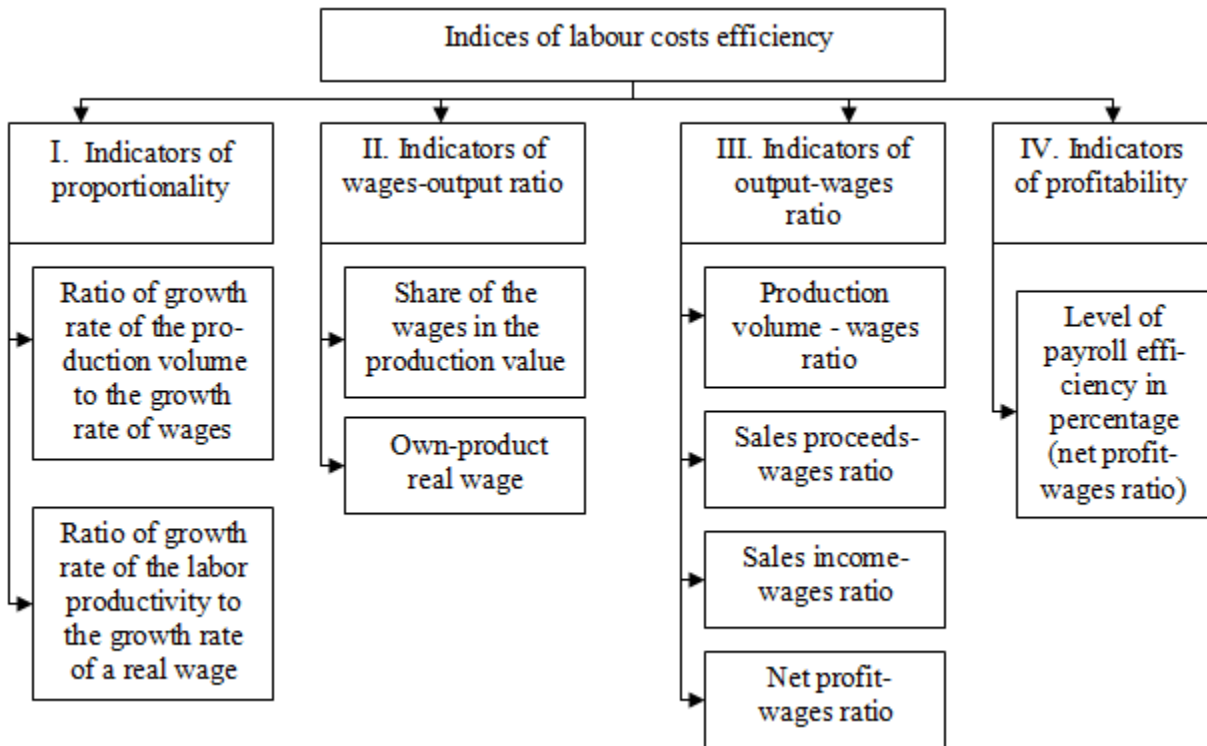
L. Gorelova and S. Gordeev examined the problems in a more comprehensive sense: “Expenses of organization on personnel are basic source to compensate the general costs on the reproduction of labor force. It represents sum of rewards in the monetary and non-monetary forms for the work performed and additional charges for workers’ benefit during the year.” (Gorelova and Gordeev, 2010). A. Liskov also distinguished the above mentioned term and treated it as relations regarding formation and distribution of personnel fund. But the author proposed not to identify the concept of personnel expense with certain directions with a personnel activity (Liskov, 2003).

In practice, the analysis of labor costs comes to analyze the formation and utilization of wage-fund. According to Dolinina (2008), an estimation of efficient use of the wage-fund is necessary for the ground of departmental policy of remuneration labor. The level of wages at enterprises must be established by taking into account a labor market data. However, the financial possibilities of organization play a vital role.

Thus, the generally accepted definition of labor costs efficiency can be represented as the ratio of the results, effects (products company) from labor activity towards the retroactive pay. This figure is called output-wages ratio. Offered method conjectures a determination of the degree of labor costs rationality in the process of creating aggregate output. The important thing is that an improving efficiency guesses increasing of wages and betterment of the performance indicators.

General method of labor costs calculation efficiency conventionally includes four groups of indicators: proportionality, wages-output ratio, output-wages ratio, and profitability (Figure 1).

Figure 1- General activities of labor costs efficiency



Source: Dolinina, 2008.

The following activities are represented in the first group: a ratio of growth rate of the production volume (output, works and services) to the growth rate of wages and a ratio between growth rate of labor productivity and the growth rate of a real wage. Indicators should be calculated twice. In the first case, we are using wages-fund as part of production and sales expenses. In another case, we can use only total payroll.

The second group consists of two indicators, such as the share of the wages in the production value and an own-product real wage.

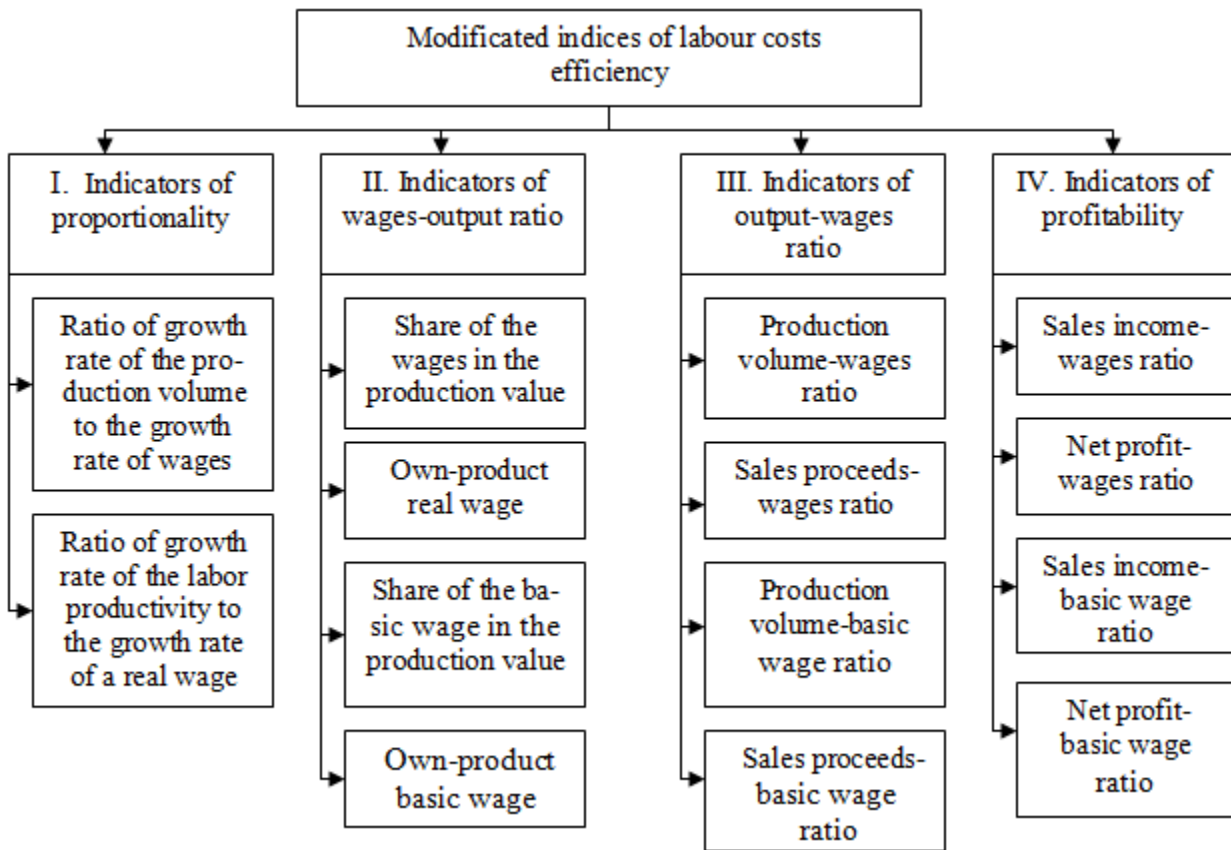
The third group includes four indicators responsible for the results from production volume, sales proceeds, sales income and net profit per 1 hour of payroll. It is also recommended to calculate it twice, as in the first group.

The fourth group has solely one indicator named wages profitability allowing us to estimate the level of payroll efficiency (Dolinina, 2008 and Gamova, 2010).

According to the figure we can find the almost identical indicators. There are net profit-wages ratio and wages profitability. Also one can mention such shortcoming as lack of ratio between results of labor and a basic wage. It is well known merely, that the basic wage distinguishes of another parts of wages-fund governs to perform the general stimulative function. The amount of basic wage forms subject to labor contribution and qualification of a particular worker.

On our opinion it is necessary to: 1) remove the indicators income-labor cost ratio to group of payroll efficiency; 2) remove the dubbed indicator of net profit per 1 hour of payroll; 3) add basic wage to wages-output indicators. Modified activities are represented in the figure 2.

Figure 2 - Modified Activities of Labor Costs Efficiency



Source: author's modifications.

Reducing own-product real wage is a positive result, because it increases the enterprise efficiency level, including the improvement of labor costs profitability. But there exists an opposite effect of own-product real wage. We mean that a low level of mentioned indicator is decreasing the labor efficiency in the final analysis since entrepreneur has not the economic reasons to invest in mechanization and automatization of labor.

Thereunder, we explored the socially unfair redistribution of value added in Ukrainian economy. There is an own-product real wage (a share of wages in GDP) consisted only of 24 per cent. To compare, this indicator in France and Sweden is obtained to 51.6 and 54.4 per cent. And so our economy has underestimation of labor. This is evidenced by a share of labour productivity comprised 15-30 per cent and 10 per cent – average wages in general level EU member states. In-depth study supported to research the standard of wages-output ratio, which was calculated about 4.17 USD/USD in Ukraine. And it is a

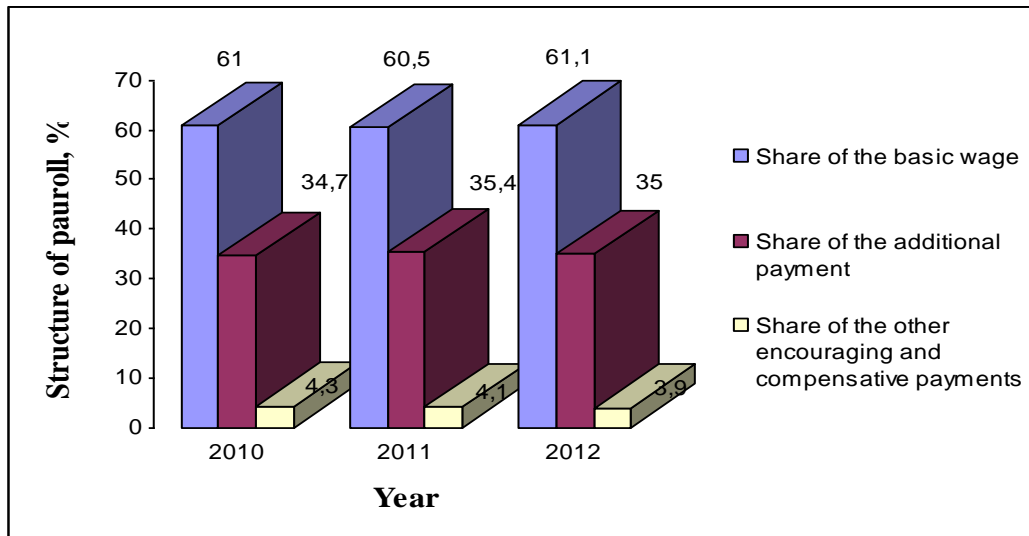
higher standard in comparison with France and Sweden. The appropriate rate calculated less than 2 USD/USD.

According to the activities it is preferable that the labor costs profitability would be demonstrated: the ratio calculated to 83 per cent for Ukraine and around 30 per cent in European countries (International Labor Office database and State Statistics Service of Ukraine, 2011). A general conclusion is made concerning the socially unfair redistribution of added cost. It is obvious, that a major portion of added cost is received by industrialists, unlike to the leading economies, where most part thereof is owned by staff in the form of wages. As a result, Ukrainian economy has the low level of labor productivity and another the interior efficiency indexes. By existing economic conditions, the law ahead of labor productivity growth over the rate of wages growth should not be held in Ukraine.

2. INEFFICIENT REDISTRIBUTION OF WAGES-FUND IN UKRAINIAN ECONOMY

In this case, we can supervise an inefficient redistribution the constituents of payroll: basic wage, additional payment and other encouraging and compensative payments. In 2012, the share of the basic wages consisted by 62.5 per cent in and 61.1 per cent is owned by the industry (Figure 3). While, the leading economics keep a basic wage at the rate of about 80-85 per cent. As we described earlier, increase the share of basic wage costs is a significant condition for motivation and, consequently, enhancement its efficiency (State Statistics Service of Ukraine, 2012).

Figure 3 - Structure of payroll, Ukrainian industry, 2010-2012



Source: State Statistics Service of Ukraine, 2012, accessed at <http://www.ukrstat.gov.ua/> and author's calculation.

In support of correlation between the share of basic wages and labor productivity we developed, theoretically grounded and practically used multiplicative model of working efficiency using the example of Ukrainian enterprise “Odeskabel” (a leading manufacturer of cables), which consists of three factor indices: average wage, sales proceeds-basic wages and the share of basic wage in payroll.

A three-factor model has the following forms:

$$LP = \frac{PR}{SF} \times \frac{SP}{BWF} \times \frac{BWF}{PR} , \quad (1)$$

or

$$LP = LCaver \times SPBW \times BWPR \quad (2)$$

Where:

LP – labour productivity (output per worker);

UAH thousand/person;

PR – payroll;

UAH thousand;

SF – number of stuff, persons;

SP – sales proceeds;

UAH thousand;

BWF – basic wage fund;

UAH thousand;

LCaver – annual average labor costs per employee;

UAH thousand/person;

SPBW – sales proceeds-basic wage ratio, UAH. ;

BWPR – the share of the basic wage in the payroll.

Benchmark data for the construction of multiplicative model of labor productivity is shown in Table 1.

**Table 1 - Influence of economic factors on labor productivity,
Odeskabel, 2008-2010**

Indicators	2008	2009	2010	Absolute divergence (2010/2010)
Payroll, UAH thousand	38009,8	31284	36034,8	-1975
Basic wages-fund, UAH thousand	21448,1	20714,8	24554,9	3106,8
Sales proceeds, UAH thousand	513714	363745	511589	-2125
Number of stuff, persons	1118	895	848	-270
Average wage, UAH thousand/per.	34	34,95	42,49	8,5
Basic wage-output ratio, UAH/UAH	23,95	17,56	20,83	-3,12
Share of the basic wage in the payroll, UAH thousand	0,56	0,66	0,68	0,12

Source: Stock market infrastructure development agency of Ukraine, 2010, accessed at <http://smida.gov.ua/> and author's calculation.

For our analysis we exploited chaining, logarithmic, isolation methods of factors influence. The benefits of the last two methods were detected. In accordance with calculations (performed by means of Microsoft Excel), investigation of the dynamic changes between 2008 and 2010 denoted labor productivity growth by UAH 143800. That was done at the expense of increasing the share of basic wages and annual average labor costs. However, reduction of sales proceeds-basic wage ratio and synergies had pernicious influence.

CONCLUSIONS

By the example of an individual enterprise we confirmed a direct positive impact of increasing the share of basic wage labor costs on the effectiveness of the company performance (labor productivity index). This allows us to emphasize that a low proportion of basic wage in total labor costs is one of the main unfavorable factors in the labor efficiency of Ukraine.

From the results, it is concluded that utilization of an inefficient or an unfair remuneration of labor system decreases labor productivity, goods quality and affects the company performance. Therefore, the assessment of the wage-fund efficiency is necessary to study intra wage policy.

So, present-day market reforms oblige enterprises to keep a competitive status at a high-level and estimation of labor cost efficiency is an inseparable part of their strategy. By this procedure we have the opportunity to improve the no effective functions of labor process, that we will get a maximum effect on employees.

In the future we plan to update the methods of labor cost efficiency more perfectly and they will be calculated on several companies.

REFERENCES

- Dolinina, T. (2008) *Estimation of usage wage-fund efficiency*, Socio-economic research bulletin, issue 23, pp. 98-103.
- Gamova, O. (2010) *Methodical basis of quantitative evaluation of labor payment efficiency at enterprise*, Economic Herald of the Donbas, issue 3, pp. 125-126, accessed at <http://dspace.nbu.gov.ua/bitstream/handle/123456789/23973/27-Gamova.pdf?sequence=1>
- Gorelova, L., Gordeev, S. (2010) *Innovative approaches to managing the personnel cost at organization*, Vestnik ekaterininskogo instituta, issue 1(9), pp.4-8.
- International Labour Office database, accessed at <http://laborsta.ilo.org/>
- Ivashkevitch, V. (2004) *Bookkeeping managerial accounting*, Moscow: Ekonomist.

- Kerimov, V. (2005) *Costs accounting, calculation and budgeting in industrial branches*, Moscow: Dashkov i Ko.
- Liskov, A. (2003) *Notion of personnel expenses efficiency and assessment*, Kadru predpriyatia, Issue 10, accessed at <http://www.kapr.ru/articles/2003/10/3036.html>
- Popova, L. (2006) *Costs accounting, calculation and budgeting in industrial branches*. Moscow: Delo i servis.
- Sapozhnikova, N. (2006) *Bookkeeping*, Moscow: Knorus.
- Sheremet, A., Nickolayeva, O., Polyakova, S. (2005) *Managerial accounting: Textbook* , Moscow: ID FBK-PRESS.
- Shevchuk, L. (2011) *Information technology to control wages by forming a network of accounting*, Herald of Khmelnytskyi National University, Economic science, vol. 1, issue 2, pp.101-106.
- State Statistics Service of Ukraine, accessed at <http://www.ukrstat.gov.ua/>
- Stock market infrastructure development agency of Ukraine, accessed at <http://smida.gov.ua/>

USING INTERNET AND TRAVEL AGENCIES IN PLANNING A TRIP. A QUALITATIVE APPROACH

Oana Țugulea*
Claudia Bobâlcă†
Andreea Maha‡
Liviu-George Maha§

Abstract: *The purpose of the present research is to discover and to understand young people's touristic behaviour. We investigated the process of planning a trip, the perception about travel agencies and about Internet using qualitative methods. The aim of this paper is also to establish how important are qualitative methods when trying to understand touristic behaviour. We used exploratory qualitative research. Even we made only a qualitative research there are some managerial implications of this study. Managers must focus on human factor when promoting a touristic product. They can use Internet to inform young tourists but they must understand the importance of presenting the real conditions and not an improved option of the real offer. Travel agencies must be as flexible as the situation allows. This paper is important because it investigates in-depth the young tourists opinions and allow a comparison between the perception on travel agencies and the Internet.*

Keywords: travel agencies; Internet; travel behaviour; qualitative research.

JEL Classification: L83; M31.

INTRODUCTION

Tourism represents a unique segment from the business environment because the services achieved cannot be tested before the purchase. Travelers have to believe the indirect or virtual experience. This is why the way you present the travel destinations is one of the most important success factor. Potential travelers can choose between contacting a travel agent or going online when planning a trip.

Travel agents are having quite a success in creating professional catalogues and brochures, where consumers can find important and well selected information combined very well with nice photos, useful tips and tricks, guiding maps and so on.

* Lecturer at the Faculty of Economics and Business Administration, Alexandru Ioan Cuza University of Iasi, Romania; e-mail: ciobanu.oana@uaic.ro.

† Lecturer at the Faculty of Economics and Business Administration, Alexandru Ioan Cuza University of Iasi, Romania; e-mail: iuliana.bobalca@uaic.ro.

‡ PhD Candidate, Alexandru Ioan Cuza University of Iasi; e-mail: andreea.maha@gmail.com.

§ Associate Professor at the Faculty of Economics and Business Administration, Alexandru Ioan Cuza University of Iasi, Romania; e-mail: mlg@uaic.ro.

On the other hand, nowadays it gets more and more difficult for “brick and mortar” travel agencies to compete and keep up with the Internet and its online booking potential. It seems that most of the travelers tend to prefer the online experience, because its better manner of visualising destinations.

Qualitative methods, like focus groups, interviews and other techniques can be useful in filling the missing answers from a quantitative research. Qualitative methods can be also used to improve the design and the analysis of investigations. For various reasons, researchers’ attention was caught by qualitative methods: “Qualitative research is vital to understanding the complexity of transportation behaviour, which rests upon the subjective beliefs and behaviours of the individual person” (Poulenez-Donovan and Ulberg, 1994).

Bon et al. (1998) conducted an exploratory study for analysing those travelers that seek information through Internet. The study concluded that most of the respondents, from each demographic category, use Internet for searching information about the travel destinations they are interested in. It also indicates that those that use Internet as an instrument for collecting touristic information are, most probably, more educated, younger, that have a high income, have the tendency to use plane as a mean of transportation and invest a significant amount of money in travel expenses.

Weber and Roehl’s (1999) observed that tourists that buy products or services online are, most probably, people aged between 26 and 55 years old, with high incomes, important professions and a notable experience in using the Internet comparing to those that refuse to inform or to shop online. However, the same study reveals at the same time, that those who don’t use Internet for informing or buying online and who prefer travel agencies, they tend to be aged under 25 years old and over 55 years old, with low incomes, correlated more often with the position of teacher or student compared with their counterparts that prefer Internet.

1. THE IMPORTANCE OF KNOWING YOUNG TOURISTS’ BEHAVIOR WHEN PLANNING A TRIP

Turban et al., 2000 states that understanding the way that tourists behave represent a crucial issue for the providers of touristic services, but also for the authorities in tourism for developing a proper marketing strategy. Internet became such an important tool in tourism industry, not only because it allows

too achieve products and services through its electronic channel but also because it represents a huge information environment.

UNWTO and WYSE Travel Confederation* consider youth travel as a very important matter because it is a market for the future. *The power of youth travel* report shows that young travelers use to spend more money than other tourists, they are likely to return to the same destination over their life time and of course it is a growth market at a global level and also young travelers are the most familiar with using the new technology.

Youth travel is considered a very important segment and also a vital resource for innovation and change. Young travelers want to experience the new, in one word they think outside the box. According to the World Youth Student and Educational Travel Confederation, in 2010 young travelers generated 165 billion USD towards global tourism receipts, confirming their financial importance to the global tourism industry and local economies. Currently, the global youth travel industry is estimated to represent about 190 million international trips per year and by 2020 UNWTO forecasts almost 300 million international youth trips per year. (*The power of youth travel report - UNWTO*)

If their market is considered so important automatically we consider a point of interest to understand the young travelers' behaviour, investigating their process of planning a trip, the perception about travel agencies and about Internet.

2. USING INTERNET AND TRAVEL AGENCIES IN PLANNING A TRIP. ADVANTAGES AND DISADVANTAGES

Young travelers use the Internet when they decide to plan a trip. It is an environment for social interaction, where they can consult photos or reviews from friends past trips posted on Facebook or by unknown travelers that post reviews on sites like TripAdvisor, this way their decision will be influenced in a positive or negative way.

Young tourists tend to be very well informed, consulting a wide range of resources before departure. Internet is the main form of collecting information, overtaking family and friends. A study

* World Youth Student and Educational Travel Confederation

from 2003, realised by TNT/Uni Travel, concluded that 44% from the young tourists surveyed in Australia used Internet to gather information prior to arrival.

Referring at booking their trips, most respondents prefer to use travel agencies. Young travelers contact a specialist youth or student travel agents ('The Global Nomad: Backpacker Travel in Theory and Practice' Richards and Wilson, 2004 – survey conducted by ATLAS and ISTC).

Travel agencies tend to offer traditional information support, like printed materials (like catalogues, flyers, brochures) which represent a limited source of information. As Middleton, 1994 states, printing represents a fixed environment, that has a partial capacity to communicate such a complex tourism experience. They also involve semnificative costs, time and also they become rapidly outdated.

Zins (2007) indicates that for young travelers, the Internet represents an important source of information. Still, many travelers combine the online woth offline when planning a trip (Lee, Soutar and Daly, 2007, p. 165).

Every young tourist is interested in a customized pack of information, with different needs and requirements, and the improvement of information technology can deliver a solution to this “knowledge gap” (Buhalis, 2000).

3. YOUNG TOURISTS' BEHAVIOUR. QUALITATIVE STUDIES

A complex study dedicated to students and young travelers was realized in 2002 by ISTC (International Student Travel Confederation) and ATLAS (Association of Tourism and Leisure Education). The project was conducted and analysed by Greg Richards and Julie Wilson. The goal of the survey was to gather valid information on the youth and independent traveler market combining data on the social and cultural aspects of young travelers (their backgrounds, motivations and experiences) with data on travel purchases, information gathering, destinations and previous travel experience. The data was collected from 2.300 young people and students from 8 different countries using a survey (most of the questions that were completing the survey were tried and tested in different tourism surveys): Canada, the Czech Republic, Hong Kong, Mexico, Slovenia, South Africa, Sweden and the UK.

The survey discussed is considered unique because first of all it covers all aspects regarding to the “whole journey” and second because it is based on primary research at a global level with young consumers themselves, rather than by analysing conclusions from national tourism statistics.

According to this report *New Horizons in Independent Youth and Student Travel* when planning a trip the main information sources are the Internet (71%) and friends/family (70%). The study reveals also that less experienced travelers trust more the travel agencies for information. When they decide to book their travel details (accommodation and activities during the trip) the study finds that most of young people use travel agents to book their travel (65%). As they start to get more experienced, travelers tend to prefer making their own travel arrangements using the Internet, instead of contacting travel agencies. Considering the way they reach their destinations, the main mode of transport preferred is air travel (82% and higher percentage for long haul destinations) followed by rail travel (30%).

Google Travel Spain sponsored a Phocuswright report *Information and Purchasing Habits of Spanish Travellers*, for the years 2009 and 2010 editions. There were collected more than 88.000 surveys by over 40 travel companies in Spain. The sample was formed by young travelers aged from 18 – 24 and from 25 – 34 as separate groups and they wanted to look whether their travel behaviours is different. The study concluded that for specific services, the Internet plays the most important role in finding accommodation, in this matter search engines are very used. Traditional agencies currently play a marginal role as a source of information for planning a trip. The younger the traveler is, it was considered that they have the less value perceived for travel agencies „brick and mortar” type. For both analysed groups Internet plays the main role when they gather information, search engines being most used (27%). Also opinions offered by friends and relatives are considered a very reliable information (27%). Brochures were considered totally irrelevant when planning a trip, exception being made when young travelers start planning a cruise.

Travel Agents vs. Online Booking: Tackling the Shortcomings of Nowadays Online Tourism Portals represents a qualitative study that aimed to identify the reasons that lead many consumers still rely on traditional travel agencies instead of booking their trips through Internet. The study starts from the main research question: *Why do people go to travel agents instead of booking online?* Study hypothesis were formulated based on the literature review and the information obtained through a semi-structured interview. The sample was composed from 10 PhD students from the Faculty of IT, University

of Technology Sydney, Australia. Based on the hypotheses, there was constructed a questionnaire, that was tested and improved. After the refinement, the questionnaire has been used to collect data that provides evidence in favour or against these hypotheses. Some of the results from the interview and also from the literature consist in some suppositions: “The majority of people prefer booking their international trips from a travel agent. Domestic trips are usually booked online”, “Human expertise is an important convenience factor that is missing in online booking (Stewart, 2005)”, „Social interaction with a travel agent is the key to a good customer experience” (Prasarnphanich & Gillenson, 2003; Stewart, 2005), „Security and trust towards humans is higher” (Stewart, 2005), „The way package deals are composed now is not satisfactory and can be done better on the Web” (Klein et al., 1999). To validate the data, the survey was applied on 132 people from 25 different countries filled in the questionnaires (61% male, 39% female).

After verifying the hypothesis, the study confirms that various people still prefer to contact travel agents when planning a trip, instead of using the Internet. It shows also that respondents value the *expertise of travel agents*, the *possibility to receive help with impulse decisions* and feel a need for *social interaction before making an important decision*. Comparing to travel agencies usability, travelers like the convenience of booking online, where *they can enjoy the comfort of their familiar environments, fast responses on travel-related requests and multitasking*. The researchers of the analysed study recommend that the convenience of Internet should be combined with the convenience of a simplified decision making and collaborative booking from traditional travel agents. The expertise of travel agents should help online customers to find the best travel option under given constraints and provide efficient support for impulsive decisions. (Bogdanovych, et al., 2005)

The **purpose** of the paper is to investigate young tourist’s behaviour in planning a trip. We want to understand how young people make decisions when they decide to go on a trip, in their country or in a foreign country, the process of searching information and their opinions about travel agencies services and about using Internet for planning a trip.

The **objectives** of this research are:

1. Identify the sources of information and the reservation manners used to plan a trip (Internet versus travel agency);
2. Identify the advantages and disadvantages of using a tourism agency services;

3. Identify the advantages and disadvantages of using the Internet in planning a trip;
4. Investigate the usefulness of promotional materials offered by travel agencies;
5. Investigate the trust in Internet vs. travel agency when planning a trip;
6. Understand the trip planning behaviour (choosing the destination, the means of transport, the accommodation units, the tourists' attractions).

4. METHODOLOGY

4.1. Research method

We used qualitative exploratory research. The purpose of this research is to investigate, to understand tourist's behaviour. For this reason, we consider qualitative research is the best first step in the research. This type of research is suitable "where the research emphasis is on in-depth understanding of how, why and in what context certain phenomena occur" (Carson et al., 2001, p. 8). This research is an instrumental one. Based on the results of the focus groups we developed some hypotheses and also we built the questionnaire.

Next step will be a quantitative approach, based on a survey, as a future direction study. On the other hand, there are different particularities in young Romanian people' touristic behaviour and we cannot expand and generalize the results of previous foreign studies.

As a method, we have chosen focus groups. Focus group is "in-depth group interview employing relatively homogenous groups to provide information around topics specified by researchers" (Hughes and DuMont, 2002, p. 258). Using focus groups permitted us to observe a large amount of interaction on a specific topic in a short time. It is a quick and easy way to gather data (Alasuutari et al., 2008, p. 4). Participants are allowed to develop ideas collectively, to stimulate each other, to be more creative. This method allows students to respond in their own words as well as enhance the richness of the data (Taylor et al., 2011, p. 76). On the other hand, we are aware of the problems this type of research might involve: results are not representative for the population, moderating focus groups represents a complex and delicate action, the achieved data can be difficult to transcribe and analyse (Pini, 2002).

Three focus groups were used to collect data for the study. The number of focus groups necessary for a specific theme depends on the moment we reach a point of saturation, meaning the answers start repeating from one discussion to another, no more new things are revealed.

4.2. Population and sample

The investigated population is represented by bachelor's degree students, master's degree students and PhD students. The sample is represented by 21 students, 10 men and 11 women, ages 19-26 years. The unit of analysis is the group.

Young consumers (ages of 18-25) consist into a powerful segment, with distinctive features. For this reason this segment needs to be treated distinctively (Ness et al., 2002). The study of Shukla (2009) presents reasons that support the importance of this market for managers. Young people influence the family budget allocation, have bigger financial potential for the future and, usually, come with new tendencies. The studies show that this market has the biggest capacity to influence other segments' behaviour. Determining the factors that influence the young's buying patterns became a significant aspect in marketing research (Martin, Bush, 2000). We consider that students are an educational market, continuously shaping, profitable for tourism companies. Comfort ability, minimum costs and high response rate make students an attractive variant for academic research (Enis, et al., 1972).

We selected 7 people for each focus group. There are some theoretical opinions that recommend a number of 12 participants (Kreuger, 2002) but we consider this number is too big and that some participants will remain silent and will not have a chance to speak. Smaller groups, with 4 till 8 people, give the participants more space and more time to discuss, to connect to each other and to explore the suggested themes more deeply (Brannen et al., 2002 in Alasuutari, et al, 2008).

In the process for choosing participant for focus groups, there are important factors that must be considered: personal characteristics, location and research issue knowledge (Kolb, 2012, p. 2). Our research investigates a purchasing behaviour and, according to Kolb (2012, p. 4), demographic characteristics may be the most important consideration.

We selected students, ages between 19-26 years, men and women, studying in Iasi, Romania, who made at least one trip in the last half year, using Internet or travel agency services, so they can have at least one recent experience as tourists. Another condition was for them to be open to participate to a

discussion about their tourist experience. The sample is formed in order to respect the principle of homogeneity (Krueger, 2002, Ritchie and Lewis, 2003). As Hughes and DuMont (2002, p. 258) explained, “within-group homogeneity prompts focus group participants to elaborate stories and themes that help researchers understand how participants structure and organize their social world”. For the selection, we used a small questionnaire, with filter questions, in order to find the participants with the required characteristics.

We used “snowball” sampling. We selected two students during a class and each of them referred others with similar characteristics. We chose this sampling type because we wanted to reduce the tension a students must feel interacting with a teacher for a research.

4.3. Research instrument

The focus group was conducted respecting the suggested rules and techniques of the specialty literature.

We used open-ended type of questions to discover unknown topics and explore them: questions investigating the experience (*Tell us how was the last trip you had. Tell us about an experience you had with a tourism agency. Tell us about how you used the Internet in order to plan your trip. How do you choose the touristic destination? What kind of information are you generally looking for on the web pages when you plan a trip? Tell us about a pleasant experience you had when you used the services of a tourism agency. Tell us about an unpleasant experience you had when you used the services of a tourism agency. Tell us about a pleasant experience you had when you used the Internet to plan a trip. Tell us about an unpleasant experience you had when you used the Internet to plan a trip. What advantages/disadvantages has the travel agency for you, as a tourist? What advantages/disadvantages has the Internet for you, as a tourist?*) and questions investigating feelings (*Do you trust tourism agencies in Romania? How did you feel when you used the services of a tourism agency?*). In order to extract more opinions about travel agencies, hypothetical interaction was used: *Imagine you run a tourism agency; what would you do to attract clients among young tourists?* The interview guide included a contrast questions, helping us to extract advantages and disadvantages of Internet and travel agencies: *In what way is Internet different from a travel agency for planning a trip?* Discussing about using Internet and

travel agencies in planning a trip, the four-question sequence was used in order to deeply investigate these aspects: open-ended questions, follow-up questions, probing questions and prompted questions. We avoided closed or leading questions and also the *Why?* types of questions.

The focus groups were organized respecting the rules and the suggestion from other researches (Alasuutari, et al., 2008; Krueger, 2002). Participants were arranged on a round table, with snacks and refreshments on it, in a room with no distracting elements. The focus groups were videotaped, for a better understanding and analysis of the data. We were interested both in what people say and how they say something.

The beginning of the focus group is very important as much of its success can be attributed to the development of this open environment (Krueger, 2002, p. 4). First, the moderator made an introduction, presenting himself and then he announced the topic of the discussion. Then he presented general guidelines of the focus group such as: there were no right and wrong answers, only different points of view; every participant was encouraged to answer each question; they didn't have to agree with other participants but they had to listen respectfully as others shared their views.

Every discussion lasted approximately 100 minutes. The moderator was the same for every focus group, in order to keep the same conditions for every discussion. The moderator had previous experiences in conducting focus groups and was a well-trained person, trying to maintain his objectivity while he was flexible and involved. He maintained a comfortable and a relaxed atmosphere. For an in-depth investigation, during each discussion, the moderator asked probing questions (Krueger, 2002) such as: *Can you tell me more about this? Hmm, interesting, tell me more; I am not sure if I understood correctly; please explain me more about it; Why would you say that? Would you explain further?*

5. RESULTS

The first step in the process of analysing data was to listen and transcribe the tapes for each focus group. We identified patterns or themes and we organized them into coherent categories (Taylor-Powell and Renner, 2003). We included participants' statements on specific discussed issues because their "own language and mode of expression is crucial to the investigation" (Kassarjian, 1977, p. 11).

We identified the following *themes: sources of information, the utility of a travel agency, the utility of Internet, trust in travel agencies, trust in Internet, advantages of travel agencies, disadvantages of travel agencies, advantages of Internet, disadvantages of Internet, criteria for selecting a destination, people who influence the subjects, transport means, accommodation types, booking and tourist's attractions.*

For every theme, we identified the corresponding **categories**.

(a) Sources of information

Students use as sources of information the following:

Mass media sources- Internet websites, flyers, catalogues, magazines, TV, radio: “I look for information on Internet”, “I consult different materials I got, such as flyers and catalogues”, “sometimes I watched a magazine, it gave me an idea about the future destination to choose”

Family, friends and colleagues: “my friends’ opinion is very important for me, especially if I go on a trip with them”, “my parents helped me to choose a destination”

Presentation materials - presentations movies on YouTube, maps, pictures, images: “first thing I do is watching a clip on Internet about a destination”, “I look for pictures to see if I like it”, “I look for a map, it is useful”.

People with experience, who already have visited the place or worked with an agency (web reviews, oral recommendations): “when you choose a travel agency, the other peoples ‘opinion is crucial”, “for me, it is important to read reviews on the Internet”, “if a person I know tells me she wasn’t pleased with a travel agency services, I won’t go there”.

Travel agent: “a travel agent helps you to choose”, “he recommends you staff”, “it is easier when you talk with an agent”.

(b) The utility of a travel agency

Students consider that a travel agency is useful for:

Inform activity about potential tourist destinations (ideas about a new destination, reviews, pictures and presentation), transport means, accommodation, prices and tourist attractions): “I use materials from more travel agencies to collect information about the destination I am interested in”, “watching presentations made by travel agencies, I have new ideas about places I would like to visit”

As materials, most students usually use flyers, prints and catalogues.

Comparing prices and offers: “I look on travel agencies’ websites to compare prices”, “I want to know what offers they have”.

Only a few students use travel agencies to compare prices.

Buying airline tickets

Most students prefer a travel agency when they need to buy an airline tickets: *“it is safer to buy airline tickets from a travel agency, for abroad travels”.*

For reservation of accommodation and booking transport, they prefer to use the phone: *“phone is more personal”, “you hear a human voice”, “I have more confidence that way”.*

Students don’t trust to buy or book tourist products using Internet: *“you don’t know who are you talking to, it is risky”, “I have heard about friends how were cheated using Internet”.*

(c)The utility of Internet

Inform activity. All participants consider Internet useful for *collecting information* about potential tourist destinations (reviews, pictures and presentation), transport means, accommodation, prices and tourist attractions): *“when I need information, I look on the Internet”.* All participants declared they use Internet to collect information.

(d)Trust in travel agencies.

Most students trust a travel agency only if a friend/familiar person recommends it: *“I trust the agency only if someone I know recommends it to me”.*

Half of the students trust a travel agency if they had a previous satisfying experience with it: *“I trust it if I was satisfied last time I have worked with them”, “I will look for more information about the agency but I don’t really trust it”.*

Half of the students trust the materials a travel agency offers: *“I trust the materials they gave it to me (flyers, catalogues, prints)”.*

Only a few students trust the information presented on travel agency web site: *“yes, somehow I trust the information on their Internet page”.*

(e)Trust in travel Internet

Most students don’t trust the Internet for buying touristic products and for booking: *“you cannot be sure about the information posted on web pages”, “you don’t know the people involved in”.*

(f)Advantages and disadvantages of travel agencies

Table 1 presents the advantages and disadvantages of travel agencies in planning a trip, identified by the participants.

Table 1 - Advantages and disadvantages of travel agencies

Advantages	Disadvantages
Little effort (the agency organizes it all) Time to save (the trip is planned from the very beginning) It presents more offers to choose from Comfort ability Clear information obtained from the employees More information obtained from the agency's employees than from other sources Conversations with specialized employees It helps you decide if you are not decided The specialized employees clears out uncertainties You can benefit of a personalized touristic offer You can receive recommendations about what you need You get benefit of a touristic guide You can get discounts if you are a loyal client You can negotiate the touristic offer It allows the online payment of the touristic offer	The agency has a fix programme No confidence You don't have freedom concerning the trip's schedule You don't know how the people you go with during the trip are (for the group trips case) High prices Not all received information correspond to reality The offers are not very well promoted You depend on the agency's working schedule If you cancel the trip, you pay penalties

(g) Advantages and disadvantages of the Internet

Table 2 presents the advantages and disadvantages of the Internet in planning a trip, identified by the participants.

Table 2 - Advantages and disadvantages of the Internet

Advantages	Disadvantages
Offers more information It is easy to find what you want It costs less than using a travel agency It has no time limit for information search It allows trip planning as you wish (more freedom) You can see images or movies with the chosen destination It offers contact information of the hotel/place I want to get accommodation in There is no need to visit the agency's place You can access the information from any place with Internet connection You can find opinions of other persons (reviews) It is non-stop available You can compare offers easily You can postpone a trip with no penalties You can quietly take a buying decision, with no pressure from the agency's employee	I have no confidence as I can't see the person I chat to Information may be fake Images may be fake Not all information is updated The reviews aren't always real The reservation is not certain Is uncertain due to viruses and/or hackers You can't ask for a specialized employee's opinion You can't negotiate the touristic offer's price You don't know the person you write to A lot of time spent to get information

(h)Criteria for selecting a destination

Most students choose a destination taking into consideration the following elements: prices, distance until the destination, available means of transport, attractions in the area, other people's company: *"costs are very important"*, *"it is important to go with someone you can have fun with"*.

(i)People who influence the subjects

Most participants at the three focus groups we conducted mentioned that they were influenced by friends and family when they want to plan a trip: *"my friends' opinion is very important to me"*.

Other sources are: people who already travelled there, travel agents, people from mass media (VIP, TV moderators) and teachers.

(j)Transport means

Students presented at the focus groups talked about the comfort planes are offering, reducing the time of the travel and being more secure than cars. Most students preferred plane for outbound trips. Other transport means are train, car and minibus/bus.

(k)Accommodation types

Most students declared they prefer to stay at a hotel or even a tent, depending on the destination type.

(l)Booking

Participants preferred to use phone for booking because its human factor advantage they trust the phone more because they can hear someone's voice and they can judge better her credibility.

(m)Tourist's attractions

The main reasons students travel as tourists are: assimilate new information, having fun and knowing new places.

CONCLUSIONS

The most used information sources that students use are: mass media (Internet websites, flyers, catalogues, magazines, TV, radio), recommendations from family, friends and colleagues, presentation materials (presentations movies on YouTube, maps, pictures, images), information from people with

experience, who already has visited the place or worked with an agency or from travel agents. The main booking instrument is the phone.

The main advantages of travel agencies are: help for potential tourists (personal consultancy services, recommendations and experience, presents more offers, offer a lot of information), reduce customers' effort and time, convenience, customized offers financial benefits for loyal customers, online payment. The main disadvantages of travel agencies are: less flexible (agency schedule), the gap between reality and promises, lack of trust, big prices and penalties for cancelling the trip.

The main advantages of Internet are: free (no costs), nonstop schedule, offers a lot of information, no time or space limits, more freedom, offers images with destinations, presents other people's reviews, no penalties paid for cancelling the trip. The main disadvantages of Internet consist in: lack of trust, it is not a safe environment, negotiation not allowed.

As materials from travel agencies, most students prefer to use flyers, prints and catalogues. They consider these materials useful for their *informing activity* about potential tourist destinations (ideas about a new destination, reviews, pictures and presentation), transport means, accommodation, prices and tourist attractions.

Most students trust a travel agency only if a friend/familiar person recommends that agency or they had a previous satisfying experience with it. Participants don't trust the Internet for buying touristic products and for booking.

The main criteria used for choosing a touristic destination are: prices, distance until the destination, available means of transport and the attractions in the area. Most participants are influenced by friends and family when they want to plan a trip. As transport means they prefer planes and for accommodation they prefer to stay at a hotel or even a tent, depending on the destination type.

Digital channels need to be the fundament to any communication strategy as the Internet is developing as the heart of the young travelers world.

Using qualitative data, seven hypotheses were developed:

H1: The Internet offers more useful tools in planning a trip than the travel agencies do;

H2: Received help is an important factor when young tourist use the services of an agency to plan a trip

H3: Lack of trust is an important factor when young tourist use Internet to plan a trip

H4: Recommendations of the people that already visited a destination represent the most confident source of information;

H5: Young tourists are more influenced by friends when planning a trip;

H6: Young tourists prefer planes as means of transportation for a trip;

H7: Young tourists prefer hotels and tents as accommodation places for a trip.

These hypotheses will be tested in a quantitative survey.

Research implications

This paper offers a deeply understanding of young people touristic behaviour. Based on the results and the literature review, a questionnaire draft was framed. The questionnaire was tested on 30 students from the same population.

Managerial implications

The young tourists market is continuously shaping and it has a big potential. The young tourists' manner to choose a touristic offer is different comparing to the older generations manner.

This research results indicate a lack of trust in Internet but also in agencies. Managers need to work more on this confidence aspect by offering more quality and delivering according to what they promise.

The agencies can offer more warranties. They can communicate more often personally with potential clients.

The human factor grows credibility in any environment (Internet, agency). A voice on the phone, people's reviews, all these human aspects are more convincing.

A few suggestions to attract young clients by agencies

•first of all travel agencies must first understand the market – as a suggestion we recommend to consult reports published by WYSE Travel Confederation in partnership with UNWTO – they are available on their official website www.wysetc.org;

•second they have to develop as many partnerships they can support;

•effective marketing strategy – aiming the young travelers specific market;

•collaborate with the National Authority for Tourism (ANT)* to improve credibility;

•higher agency flexibility in order to allow clients to create their own offers;

* ANT is a public institution with legal personality, subordinated to the Ministry of Economy

- lower prices;
- a better promotion of Romanian travel agencies;
- a better promotion of travel agencies' offers;
- promote some less known destinations.

Limitations of the research

The selected population represents a limitation of this research. Some studies identify differences between studies using students as samples and those that use other sample composition (Sheth, 1970; Burnett, Dune, 1986; James, Sonner, 2001). Enis et al. (1972) are supporters of samples that are composed of students. Their answers quality can be better than if using other groups, due to factor structure analysis and correlations (Burnett, Dune, 1986). Another limitation of this research is the consistency of the group. There are researchers who recommend organizing distinctive focus groups for men and women (Churchill and Brown, 2004; Fern, 2001; Taylor et al., 2011). The results are not representative for the entire population and the hypothesis must be tested in a quantitative survey.

Further research

- The first step of the future research is developing a quantitative research to test the hypotheses we generated due to this study, using the questionnaire that resulted from this qualitative study.
- Also, we aim to develop a new qualitative followed by a quantitative study in order to better understand the Internet and agencies confidence issue.
- Another area of interest is Internet shopping in the tourism area in Romania. This aspect also needs a new qualitative followed by a quantitative study.

REFERENCES

- Alasuutari, P., Bickman, L., Brannen, J. (2008) *The SAGE Handbook of Social Research Methods*, SAGE Publications, Inc.
- Bogdanovycha, Anton; Bergerb, Helmut, Simoffa, Simeon și Sierrac, Carles (2006) *Information and Communication Technologies in Tourism - Travel Agents vs. Online Booking: Tackling the Shortcomings of Nowadays Online Tourism Portals*, Springer Vienna, pp. 418-428, available at:

<http://195.130.87.21:8080/dspace/bitstream/123456789/779/1/Travel%20agents%20vs.%20online%20booking.pdf>

- Bonn, M.A.; Furr, H.L. și Susskind A.M. (1998) *Using the Internet as a Pleasure Travel Planning Tool: an Examination of the Sociodemographic and Behavioral Characteristics Among Internet Users and Nonusers* - Journal of Hospitality & Tourism Research, vol. 22, no. 3, pp. 303 - 317.
- Buhalis, D. (2000) *Relationships in the distribution channels of tourism: Conflicts between hoteliers and tour operators in the Mediterranean region*, International Journal of Hospitality and Tourism Administration.
- Buhalis, D. (2000) *Tourism and information technologies: Past, present and future*, Tourism Recreation Research.
- Burnett, J., Dunne, P. (1986) *An Appraisal of the Use of Student Subjects in Marketing Research*, Journal of Business Research, vol. 14, no. 4, pp. 329-343.
- Carson, D., Gilmore, A., Perry, C., Gronhau, K. (2001) *Qualitative Marketing Research Justification of a Qualitative Research Methodology*, Sage Research Methods, SAGE Publications, Inc., pp. 8-15
- Churchill, G. A., Brown, T. J. (2004) *Basic marketing research*, Mason, OH: South-Western
- Enis, B.M., Cox, K., Stafford, J. (1972) *Students as Subjects in Consumer Behavior Experiments*, Journal of Marketing Research, vol. 9, no. 1, pp. 72-74
- Fern, E. F. (2001) *Advanced focus group research*, Thousand Oaks, CA: SAGE
- Hughes, D.L., DuMont, K. (2002) *Using Focus Groups to Facilitate Culturally Anchored Research*, pp. 257-290, in Revenson, T.A., Augelli, AR, (2002) *Ecological Research to Promote Social Change: Methodological Advances from Community Psychology*, Kluwer Academic/Plenum Publishers, New York.
- James, W., Sonner, B. (2001) *Just Say No to Traditional Student Samples*, Journal of Advertising Research, pp. 61-73.
- Kassarjian, H.H. (1977) *Content analysis in consumer research*, Journal of Consumer Research, vol. 4, pp. 8-18.
- Klein, S., Loebbecke, C. (1999) *Signaling and Segmentation on Electronic Markets: Innovative Pricing Strategies for Improved Resource Allocation*, In Proceedings of the 6th Research Symposium on Emerging Electronic Markets, pp. 127—142.

- Kolb, B. (2012) *Marketing Research, Sage Research Methods*, SAGE Publications, Inc. available at <http://srmo.sagepub.com/view/marketing-research/SAGE.xml>
- Krueger, R. A. (2002) *Designing and Conducting Focus Group Interviews*, available at <http://www.eiu.edu/~iheec/Krueger-FocusGroupInterviews.pdf>
- Lee, Julie Anne, Geoffrey Soutar and Timothy Daly (2007) *Tourist's search for different types of information: A cross-national study*, *Journal of Information Technology and Tourism*, vol. 9 (3/4), pp. 165-176.
- Martin, C.A., Bush, A.J. (2000) *Do Role Models Influence Teenagers' Purchase Intentions And Behavior?*, *Journal of Consumer Marketing*, vol. 17, no. 5, pp. 441-453.
- Middleton, V., (1994) *Marketing for travel and tourism*. Butterworth-Heinemann, Second Edition, Oxford.
- Ness, N., Gorton, M., Kuznesof, S. (2002) *The Student Food Shopper*, *British Food Journal*, vol. 104, no. 7, pp. 506-525.
- Pini, B. (2002) *Focus groups, feminist research and farm women: opportunities for empowerment in rural social research*, *Journal of Rural Studies*, vol. 18, no. 3, pp. 339-351.
- Poulenez-Donovan, Craig Jesus, Cy Ulberg (1994) *Seeing the Trees and Missing the Forest: Qualitative Versus Quantitative Research Findings in a Model Transportation Demand Management Program Evaluation*, *Transportation Research Record*, no. 1459, pp.1-6.
- Prasarnphanich, P., Gillenson, M. L., (2003) *The Hybrid Clicks and Bricks Business Model*, *Communications of the ACM*, vol. 46, no. 12, pp. 178-185.
- Ritchie, J. Lewis. J. (eds.). (2003) *Qualitative Research Practice: A Guide for Social Science Students and Researchers*, Sage Publications, London.
- Sheth, J. (1970) *Are There Differences in Dissonance Reduction Behavior Between Students and Housewives?*, *Journal of Marketing Research*, vol. 7, no. 2, pp. 243-245.
- Shukla, P. (2009) *Impact of Contextual Factors, Brand Loyalty and Brand Switching on Purchase Decisions*, *Journal of Consumer Marketing*, vol. 26, no. 5, pp. 348–357.
- Stewart, J. (2005) *Travel Agencies Say they are a Better Choice than Internet*, *The Frederick News-Post*, Frederick, available at <http://www.fredericknewspost.com/>

- Taylor, S.A, Hunter, G.L, Melton, H., Goodwin, S.A (2011) *Student Engagement and Marketing Classes*, Journal of Marketing Education, vol. 33, no. 1, p. 73 –92
- Taylor-Powell, E., Renner, M. (2003) *Analyzing Qualitative Data, Program Development and Evaluation*, University of Wisconsin-Extension, Madison, Wisconsin, pp. 1-12
- Turban, E., Lee, J., King, D., Chung, H.M (2000) *Electronic Commerce: A Managerial Perspective*, Prentice-Hall, New Jersey.
- Weber, K.; Roehm, W.S (1999) *Profiling people searching for and purchasing travel products on the World Wide Web*, Journal of Travel Research, vol. 37, no. 3, pp. 291-298.
- Zins, A. H. (2007) *Exploring travel information search behavior beyond common frontiers* - Information Technology & Tourism.
- Richards, Greg, Wilson, Julie *New Horizons in Independent Youth and Student Travel* (2002) Summary Report A Report for the International Student Travel Confederation (ISTC) and the Association of Tourism and Leisure Education (ATLAS), available at http://www.atlas-euro.org/pages/pdf/FINAL_Industry_Report.pdf
- The power of Youth Travel* The World Youth Student and Educational Travel Confederation (WYSE Travel Confederation and The World Tourism Organization (UNWTO), available at http://dtxtq4w60xqpw.cloudfront.net/sites/all/files/pdf/the_power_of_youth_travel.pdf
- Information and Purchasing Habits of Spanish Travellers* (2009-2010) Phocuswright Report
<http://www.ifitt.org/>
<http://www.trrworld.org/>
<http://www2.unwto.org/>
<http://www.tnooz.com>
<http://www.atlas-euro.org>
<http://www.fredericknewspost.com/>
<http://www.eiu.edu>

MACROPRUDENTIAL INSTRUMENTS USED BY EASTERN EUROPEAN COUNTRIES

Dragoş Gabriel Turliuc*
Andreea Nicoleta Popovici†

Abstract: *The recent financial crisis has highlighted the lack of analytical frameworks to help predict the global financial imbalances. The recent financial crisis has determined an increasing number of countries to use macroprudential instruments, in order to avoid systemic risks. According to the policy objective that wants to be achieved, country's authorities have to choose among several instruments. Work on selecting and applying macroprudential instruments is a priority in the European Union, both at a national and at entire Union. In the case of Eastern Europe countries, the authorities adopted several measures to curb bank lending in foreign currency, subject that will be treated in the present paper.*

Keywords: macroprudential policies; financial crisis; Eastern European Countries; Financial Stability Report.

JEL Classification: E52; E58; E61; G18.

INTRODUCTION

The current financial crisis revealed that the missing pillar in the existing financial stability architecture was the macroprudential approach to financial supervision. The European Commission was aware of the importance of macroprudential tools, and so, in 2009, in the report of the Group de Larosière, the importance of this issue was highlighted by The High-Level Group on Financial Supervision in the EU.

The report concluded that the operating arrangements for supervision had not been able to prevent the occurrence of a serious financial crisis. This happened because the surveillance solutions based on national models were inadequate to the degree of integration of the EU financial markets and the large number of entities operating in different countries of the European Union. Stronger, more complex and opaque interconnections of the financial system with the real economy as well as lack of a systemic perspective in conducting the financial oversight seem to be the key lessons that come from the experience of the recent financial crisis. So, in this case, it was obvious the need of firm

* Ph.D Student, Finance and Currency Department, Faculty of Economics and Business Administration, Alexandru Ioan Cuza University of Iasi, Romania, e-mail: dragos_turliuc@yahoo.com.

† Ph.D Student, Finance and Currency Department, Faculty of Economics and Business Administration, Alexandru Ioan Cuza University of Iasi, Romania, e-mail: andreea_nicoleta_popovici@yahoo.com.

interdependences between elements of the European financial system, underlining that effect of the materialization of aggregated risks could generate even greater losses than those occurring within individual institutions.

As a result, monitoring of individual institutions turned out to be insufficient in assessing the condition of the financial system as a whole. Macroprudential supervision with its systemic perspective aiming at safeguarding the stability of the financial system as a whole complements the traditional microprudential oversight focused on the health of individual financial institutions.

1. MACROPRUDENTIAL INSTRUMENTS USED TO ADDRESS SYSTEMIC RISKS

Acharya (2009) underlines the importance of macroprudential policies and shows that prudential regulation operates at a collective level, regulating each bank as a function of both its joint (correlated) risk with other banks as well as its individual risk.

The papers written by Borio (2003), Borio (2009) and Borio and Drehmann (2009) defines, compares and contrasts the macro and microprudential dimensions that inevitably coexist in financial regulatory and supervisory arrangements, examines the nature of financial instability against this background and draws conclusions about the broad outline of desirable policy efforts. Caruana (2010) and Crockett (2000) underline the fact that macroprudential policy has several advantages compared with other public policies to address systemic risk in the financial sector.

At a national level, country's authorities have used a variety of policy tools to address systemic risks in the financial sector. The toolkit contains mostly prudential instruments, but also a few instruments typically considered to belong to other public policies, including fiscal, monetary, foreign exchange and even administrative measures.

IMF conducted a survey in December 2010 to take stock of international experiences with financial stability and the evolving macroprudential policy framework. The survey was designed to seek information in three broad areas: the institutional setup for macroprudential policy, the analytical approach to systemic risk monitoring, and the macroprudential policy toolkit. The survey was sent to 63 countries and the European Central Bank (ECB), including all countries in the G-20 and those subject to mandatory Financial Sector Assessment Programs (FSAPs). The target list is designed to cover a broad range of

jurisdictions in all regions, but more weight is given to economies that are systemically important. The response rate is 80 percent.

In terms of macro-prudential tools most used, an IMF survey (2010) has punctuated the following 10 instruments that have been most frequently applied to achieve macroprudential objectives, under three types of measures:

✓ *Credit-related*, i.e., caps on the loan-to-value (LTV) ratio, caps on the debt-to-income (DTI) ratio, caps on foreign currency lending and ceilings on credit or credit growth;

✓ *Liquidity-related*, i.e., limits on net open currency positions/currency mismatch (NOP), limits on maturity mismatch and reserve requirements;

✓ *Capital-related*, i.e., countercyclical/time-varying capital requirements, time varying/dynamic provisioning, and restrictions on profit distribution.

When a country's authority chooses to use a specific instrument, it is well known the fact that there is usually a clearly stated policy objective when the instruments are applied. Specifically, the instruments have been used to mitigate four broad categories of systemic risk:

- ✓ Risks generated by strong credit growth and credit-driven asset price inflation;
- ✓ Risks arising from excessive leverage and the consequent deleveraging;
- ✓ Systemic liquidity risk;
- ✓ Risks related to large and volatile capital flows, including foreign currency lending.

The recent financial crisis has prompted an increasing number of countries that use macroprudential instruments, and with greater frequency. According to the IMF survey, two-thirds of the respondents have used various instruments for macroprudential objectives since 2008. Emerging market economies have used the instruments more extensively than advanced economies, both before and after the recent financial crisis. Elements of a macroprudential framework existed in some emerging market economies in the past, when they started to use some of the instruments to address systemic risk following their own financial crises during the 1990s. For these countries, the instruments are part of a broader "macro-financial" stability framework that also includes the exchange rate and capital account management.

The recent crisis has also led to an increase in the number of advanced countries that deploy the instruments within a more formal macroprudential framework. The work of the European Systemic Risk Board is an example.

Work on selecting and applying macroprudential instruments is a priority in the European Union (EU), both at a national and at a Union level. The European Systemic Risk Board (ESRB) was established as of January 1, 2011, in order to provide warnings of macroprudential risks and to foster the application of macroprudential instruments.

Macroprudential instruments have a particular relevance in the EU context, given the constraints on macroeconomic and microprudential policies and their coordination, including the absence of national monetary policies and policies to harmonize capital standards. The ESRB has an additional role to foster “reciprocity” through its “comply or explain” powers amongst the national authorities, so that all banks conducting a particular activity in a country will be subject to the same macroprudential instrument irrespective of the bank’s home country.

The European Commission has been focusing on countercyclical capital as the main macroprudential instrument. Other agencies, as well as some national authorities, propose casting the net much wider, to take account of regional, national, sub-national, or sectoral conditions. For instance, with real estate lending having been central to past financial crises, there is likely to be a focus on instruments such as the loan-to-value ratio.

2. ADVANTAGES AND FACTORS INVOLVING THE USE OF MACROPRUDENTIAL INSTRUMENTS

Macroprudential policy has several advantages compared with other public policies to address systemic risk in the financial sector. In their survey responses, country authorities indicate that macroprudential instruments are less blunt than monetary tools, and are more flexible (with smaller implementation lags) than most fiscal tools. Many instruments (e.g., caps on the LTV, DTI, foreign currency lending, and capital risk weights) can be tailored to risks of specific sectors or loan portfolios without causing a generalized reduction of economic activity, thus limiting the cost of policy intervention.

Some countries have imposed caps on foreign currency lending, for example, because these target excessive lending in foreign currency directly in a way that no other policies can. These instruments are especially useful when a tightening of monetary policy is not desirable (e.g., when inflation is below target).

Country authorities indicate that they choose instruments that are simple, effective, and easy to implement with minimal market distortions. They consider it necessary that the choice of macroprudential instruments be consistent with other public policy objectives (fiscal, monetary, and prudential).

They also believe it important to choose macroprudential instruments that minimize regulatory arbitrage, particularly in advanced economies with large nonbank financial sectors and complex and highly interconnected financial systems.

A number of factors seem to influence the choice of instruments.

✓ *The stage of economic and financial development* is one such factor. In general, emerging market economies have used macroprudential instruments more extensively than advanced economies. This may reflect a greater need to address market failures where financial markets are less developed and banks usually dominate relatively small financial sectors. Emerging market economies are more concerned about systemic liquidity risk and tend to use liquidity-related measures more often. Advanced economies tend to favor credit-related measures, although more of them are beginning to use liquidity-related measures after the recent crisis.

✓ *The exchange rate regime appears to play a role in the choice of instruments.* Countries with fixed or managed exchange rates tend to use macroprudential instruments more since the exchange rate arrangement limits the room for interest rate policy. In these countries, credit growth tends to be associated with capital inflows as the implicit guarantee of the fixed exchange rate provides an incentive for financial institutions to expand credit through external funding. Credit-related measures (e.g., caps on the LTV and ceilings on credit growth) are often used by these countries to manage credit growth when the use of interest rates is constrained. They also tend to use liquidity-related measures (e.g., limits on NOP) to manage external funding risks.

✓ *The type of shocks is another factor that may influence the choice of instruments.*

Capital inflows are considered by many emerging market economies to be a shock with a large impact on the financial sector, given the small size of their domestic economy and their degree of openness. Some Eastern European countries have used credit-related measures (e.g., caps on foreign currency lending) to address excessive credit growth resulting from capital inflows. In Latin America, several countries (e.g., Argentina, Brazil, Colombia, Peru, and Uruguay) have also used liquidity-related measures (e.g., limits on NOP) to limit the impact of capital inflows. In the Middle East, some oil exporters with fixed exchange rates have also used credit-related measures to deal with the impact of volatile oil revenue on credit growth. Unlike other policy tools aimed at the volume or composition of the flows (e.g., taxes, minimum holding periods, etc.), macroprudential instruments are more directly aimed at the negative consequences of inflows, i.e., excessive leverage, credit growth and exchange rate induced credit risks that are systemic.

3. THE USE OF MACROPRUDENTIAL INSTRUMENTS BY EASTERN EUROPE COUNTRIES

In Eastern Europe, the authorities adopted several measures to curb bank lending in foreign currency. The instruments appear to have been effective in slowing credit growth and building capital and liquidity buffers, although they were circumvented partly as lending activity migrated to nonbanks (leasing companies) and to direct cross-border lending by parent banks.

Moreover, the number of countries that have used macroprudential instruments in a systematic way is small since macroprudential policy frameworks have been put in place only recently, limiting the degree of confidence in any statistical analysis. In addition, establishing causality is not straightforward, or even feasible in some cases, with a selection bias that favors high risk countries where policies are implemented in reaction to adverse economic or market developments.

Macroeconomic conditions in a number of Eastern European countries were buoyant in the mid-2000s. Optimism about the region's prospects stemmed from its closer integration with the European Union (EU), with EU accession by Poland in 2004, and Bulgaria and Romania in 2007. GDP growth between 2003 and 2008 was strong, and current account balances showed large deficits (except Poland), financed by even larger net capital inflows. Credit growth boomed during this pre-crisis period, with

credit/GDP increasing by 19 percentage points in Croatia and as much as 45 percentage points in Bulgaria. At the same time, the large capital inflows led to strong asset price growth and increasing household and corporate indebtedness.

The primary risk that needed to be addressed was systemic risk arising from currency induced credit risk. Specifically, with the rapid expansion in credit (a significant portion of which was offered in foreign currency), rising asset prices, and increasing private indebtedness, the ability of unhedged borrowers to repay would be undermined in the event of a large depreciation.

As it can be seen in the following table, authorities from different countries of Central and Eastern Europe have used from 0 to 6 instruments in order to avoid systemic risks.

Table 1 - Intensity of use of the instruments

Instrument	Country	R	C	P	H	R	Cr	S	B	Se
caps on the loan-to-value ratio		0	0	0	3	2	3	0	4	0
caps on the debt-to-income ratio		6	0	3	3	5	3	0	0	5
caps on foreign currency lending		0	0	6	3	5	0	0	0	6
ceilings on credit or credit growth		0	0	0	0	0	6	0	0	0
limits on net open currency positions/currency mismatch		3	0	0	2	1	4	0	0	5
limits on maturity mismatch and reserve requirements		0	0	0	0	1	0	1	0	0
Reserve requirements		5	0	2	0	5	5	0	6	2
time-varying capital requirements		0	0	0	0	0	5	0	6	6
dynamic provisioning		5	0	0	0	4	5	0	6	0
restrictions on profit distribution.		0	0	2	0	2	0	1	0	2

Source: *Lim, C. ş.a., 2011. Macprudential Policy: What Instruments and How to Use Them? Lessons from Country Experiences, IMF*

Working Paper 11/238, octombrie 2011, pg.16

where: 0 represents no use of instruments, and 1 denotes the use of a single instrument. For each of the following attributes, i.e., multiple, targeted, time-varying, discretionary and used in coordination with other policies, the value of 1 is added, R=Russia, C=Czech Republic, P=Poland, H=Hungary, R=Romania, Cr=Croatia, S=Slovakia, B=Bulgaria, Se=Serbia

The instruments had been effective in slowing credit growth and building capital and liquidity buffers in these countries. The combination of measures created capital and liquidity buffers that helped most of these countries' banking systems withstand the financial crisis fairly well even as credit quality deteriorated.

CONCLUSIONS

National financial systems constitute a patchwork of differences and specificities at macro- and microeconomic levels. Attempts to pursue a one-size-fits-all macroprudential policy by introducing the same calibrations of instruments for different national financial systems without the possibility of national authorities to react could result in policies that are set too tight for some member states or too loose for others. Subsequently, this could have important consequences for the supply of financial services or could lead to insufficient systemic resilience. Finally, this could contrary to the policy makers intentions and objectives of the single market result in a situation that the stability of both the national and EU wide financial system would not be assured.

Furthermore, the fact that national authorities would not exercise the same powers as the European Commission means that the national policymakers would in fact not be able to carry out their macroprudential mandates. The inability to take necessary remedial actions through the use of prudential instruments when the downturn comes could raise questions about their accountability and responsibility for protecting the financial stability on a national level. As a result, the credibility of macroprudential mandates and powers could be undermined. At the same time, member states are responsible for the stability of their financial systems and bear the fiscal consequences of a potential crisis.

To this end, EU wide regulations should strive to avoid creating the potential conditions that may lead to an internalization of benefits and nationalization of losses. The need for nationally-calibrated policies has been already widely acknowledged.

REFERENCES

- Acharya, V. A. (2009) *A theory of systemic risk and design of prudential bank regulation*, Journal of Financial Stability, vol.5, pp. 224-255.
- Borio, C. (2003) *Towards a macroprudential framework for financial supervision and regulation?*, CESifo Economic Studies, vol. 49, no. 2/2003, pp 181–216.

- Borio, C. (2009) *Implementing the macroprudential approach to financial regulation and supervision*, Financial Stability Review, Bank of France, September.
- Borio, C., Drehmann, M. (2009) *Towards an operational framework for financial stability: 'fuzzy' measurement and its consequences*, Working paper no. 284.
- Caruana, J (2010) *Macroprudential policy: working towards a new consensus. Remarks at the high-level meeting on "The Emerging Framework for Financial Regulation and Monetary Policy"*, Washington DC.
- Crockett, A (2000) *Marrying the micro- and macroprudential dimensions of financial stability*, Speeches by members of the BIS, September 21, available at <http://www.bis.org/>
- International Monetary Fund (2011) *Macroprudential Policy: An Organizing Framework* (Washington), available at www.imf.org
- Lim, C., Columba, F., Costa, A., Kongsamut, P. Otani, A. Saiyid, M., Wezel, T. Wu, X. (2011) *Macroprudential Policy: What Instruments and How to Use Them? Lessons from Country Experiences*, IMF Working Paper 11/238.