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Performance and Risks in the European Economy

Regional Educational Disparities vs Underperforming Educational Management in Romania

Romeo-Victor Ionescu[1]

Abstract: The paper deals with the regional educational disparities across the EU, with a special focus on the Romanian NUTS 1 and 2 regions. The comparative analysis allows quantifying the Romanian regions position in the EU regarding education, using three indicators: population in all levels of education, students in tertiary education and leavers from educational and training. Forecasting procedures are used in order to describe the indicators' trend until 2020. Regression allows quantifying the regional disparities between European and Romanian regions related to the above three indicators. The main conclusion of the analysis is that the great Romanian educational dysfunctions are the result of an inefficient educational management at macro and regional levels. The analysis and its results are supported by the latest official statistical data and pertinent diagrams.

Keywords: regional educational disparities; levels of education; regional educational management; forecasting procedures.

JEL Classification: H52; H75; I24; I25; R12.

1 Introduction

It is impossible to build a new society without education. Education has a powerful impact on socio-economic development. In Europe, the most economic developed countries have the best educational systems.

In order to maintain its position as main global economic actor, European Union adopted Europe 2020 Strategy (European Commission, 2010). The Strategy is focused on five fundamental objectives. One of them is reducing school dropout rates to below 10 %, with at least 40 % of 30–34-year-olds completing tertiary education. Romania seems to go to another direction related to education. Using demographic argues, the decision makers consider the low educational level and the decrease of those who attend to an educational form as normal trends. Moreover, the Romanian universities, for example, face to acute lack of students. The paper is focused on the idea that only an underperforming educational management led to this phenomenon in Romania.

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2 Related Works

Across the EU, education is the responsibility of each Member State. On the other hand, the European institutes support the educational development by encouraging cooperation between the Member States and increasing quality education (European Union, 2008).

The global crisis' impact on European economy imposed budgetary strain. As a result, many Member States introduced spending cuts in higher education. As a reaction, the universities were forced to find other financing sources. This is why the higher education has to be analyzed as an economic resource and commodity, which is fostered by European-level processes such as the Bologna Process and the Lisbon Strategy (Garben, 2012).

An interesting book presented an analytical description of the education systems across Europe using common guidelines. The analysis is focused on the ways of increasing the quality of a good education system. The comparative analysis between Eastern and Western European educational systems is very useful (Hörner, Döbert, Kopp, & Mitter, 2007).

From the American point of view, the educational policy has to be focused on two targets: what are the major obstacles to substantial change in the public education system and which are the societal implications of not finding ways to make schools successful (Wolk, 2011).

3 Regional Disparities across the European Educational System

According to the latest official statistic data, Romania is not in the best position related to population in all levels of education. The best ranked NUTS 2 Romanian region (Bucuresti-Ilfov) covers only 23.1% of the total population in all levels of education, less than in all Belgian, Finnish, Swedish or English regions, for example. The same indicator represents only 15.9% of total population in Sud-Muntenia region (Eurostat, 2015).

Unfortunately, the population in all levels of education in Romanian regions has a negative trend (see Figure 1).

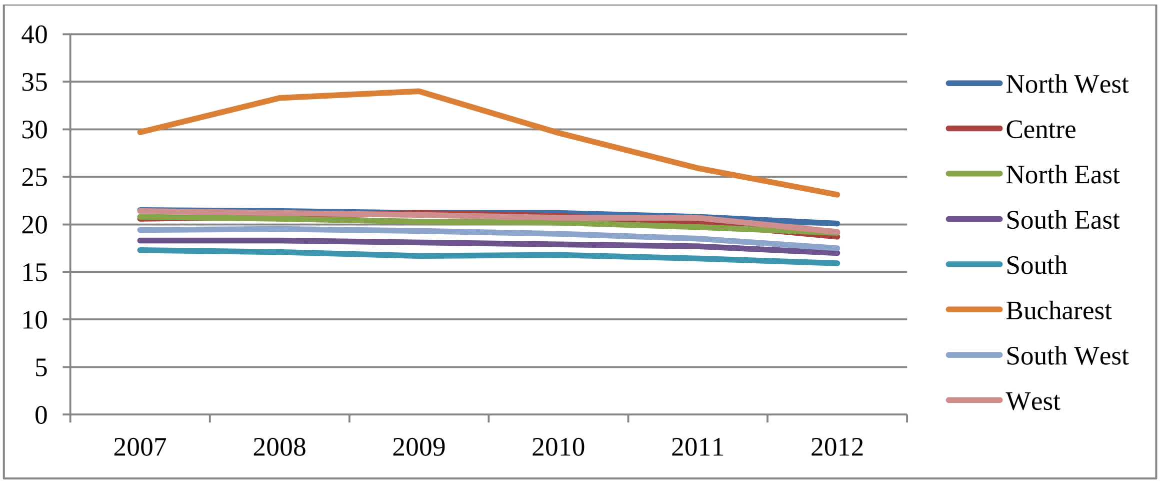


Figure 1. Population in all levels of education in Romanian regions (% of total population)

The population in all levels of education in Romanian regions represents only ½ from the same population in developed countries. As a result, there are great potential resources to increase the value of this indicator in all Romanian regions. The forecast of this indicator until 2020 leads to the following values (Figure 2):

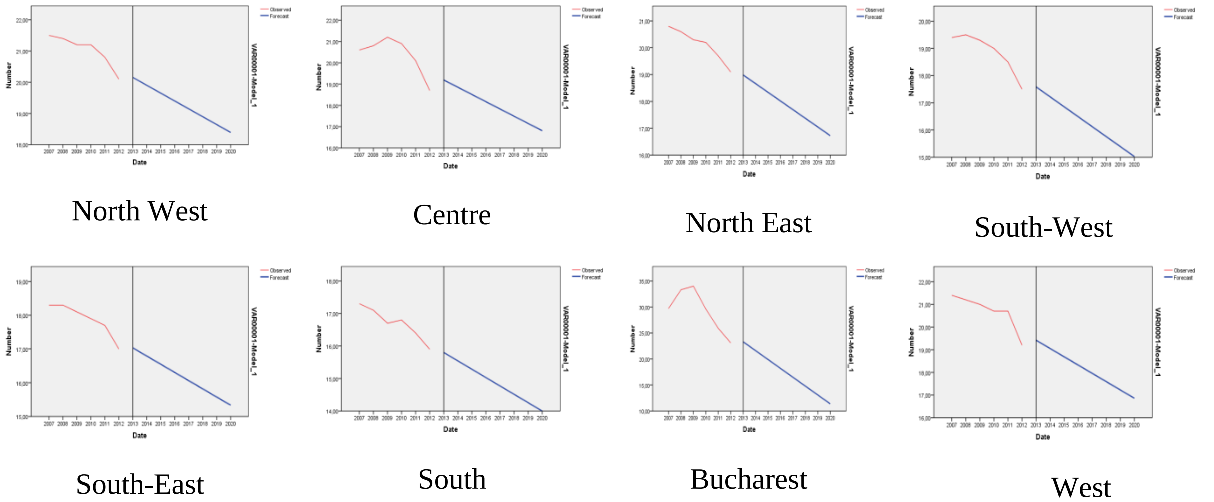
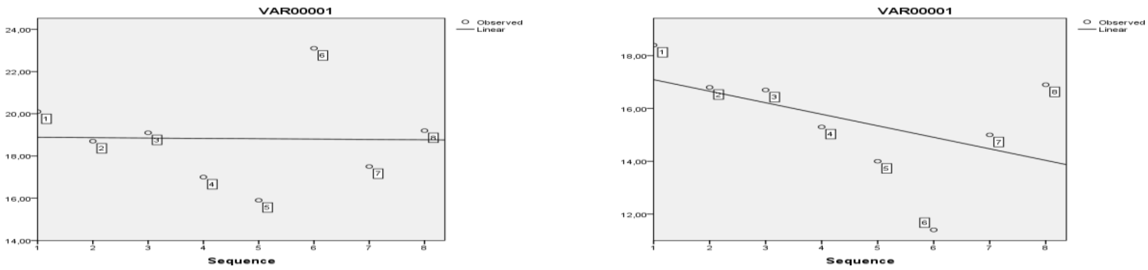


Figure 2. Population in all levels of education in Romanian regions' forecasting (% of total population)

According to Figure 2, the forecasted levels of the above indicator are worse in 2020 than in 2012. Moreover, the disparities related this indicator will increase in 2020 compared to 2012 (see Figure 3).



2012 2020

Figure 3. Population in all levels of education in Romanian regions' disparities

According to Figure 3, the disparities will increase in 2020 compared to 2020. As a result, the population in all levels of education will decrease in all Romanian regions.

Another indicator used in the analysis is students in tertiary education. Students represent 142.6% of the population aged 20-24 years in Bucharest-Ilfov, but only 14.9% in Sud-Muntenia. The greatest regional rates were in Bratislavsky kraj (220.5%), Praha (214.7%) and Dytiki Ellada (Greece-182.9%). On the other hand, there are great disparities across the Romanian regions related to this indicator (Eurostat, 2015).

Students in tertiary education have an inconstant evolution in Romanian regions (see Figure 4).

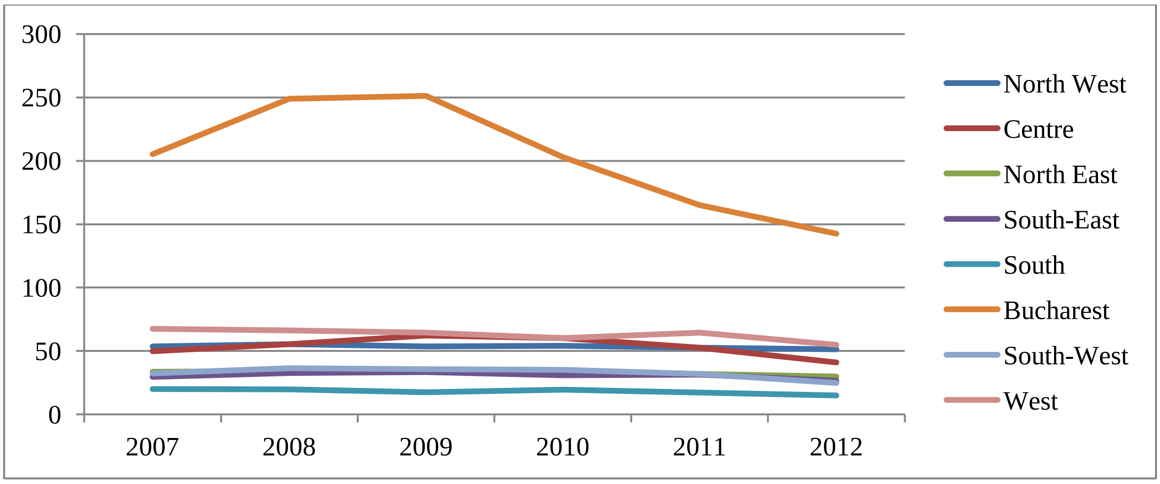


Figure 4. Students in tertiary education (% population aged 20-24 years)

All Romanian regions faced to the decrease of the students' number. The greatest shock was in Bucuresti-Ilfov, where the number of students decreased by 62.6% in only six years. Under the same conditions, the future of the students' number is not good (Figure 5).

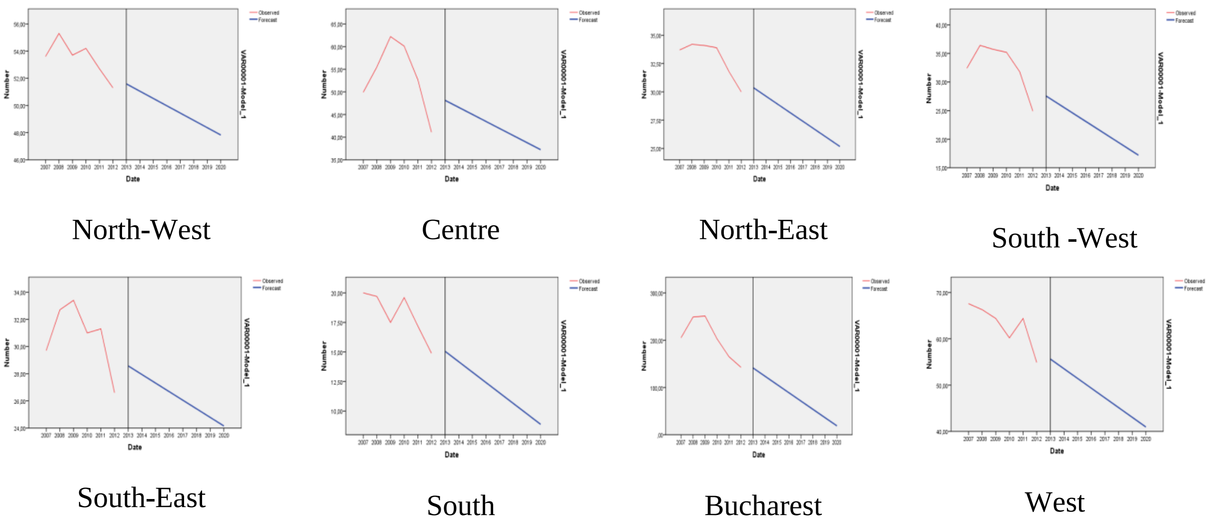


Figure 5. Students in tertiary education forecasting (% of population aged 20-24 years)

All Romanian regions will face to a drastic decrease of the number of students in 2020 if the present educational management doesn't change. Moreover, the disparities between these regions related to the number of students in 2020 will increase (see Figure 6).

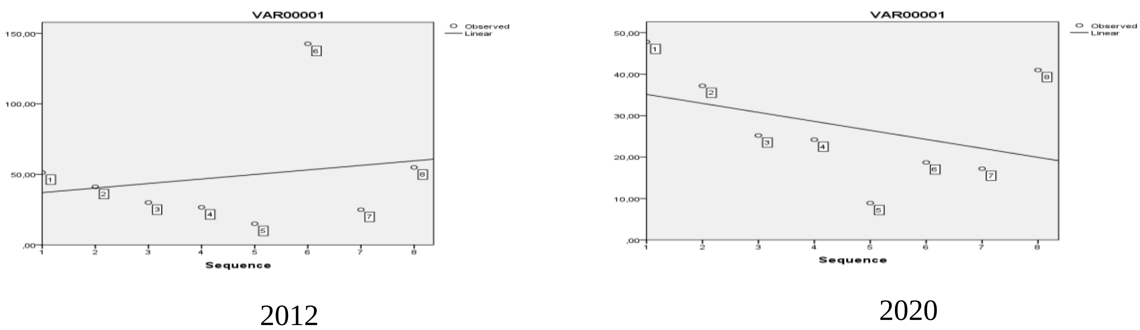


Figure 6 Students' disparities

The third educational indicator used in the European statistics is early leavers from educational and training. It represents a target of Europe 2020 Strategy, as well. The data for this indicator is analyzed on NUTS 1 regions. Macro-region 4 from Romania achieved the best performance of 14.6% from all Romanian NUTS 1 regions. Across the EU28, Polludnlowy achieved 3.8%, Slovenija 3.9%, Czech Republic 5.4% or Hrvatska 4.5% (Eurostat, 2015). The regional evolution of the leavers from educational and training in Romania is presented in Figure 7.

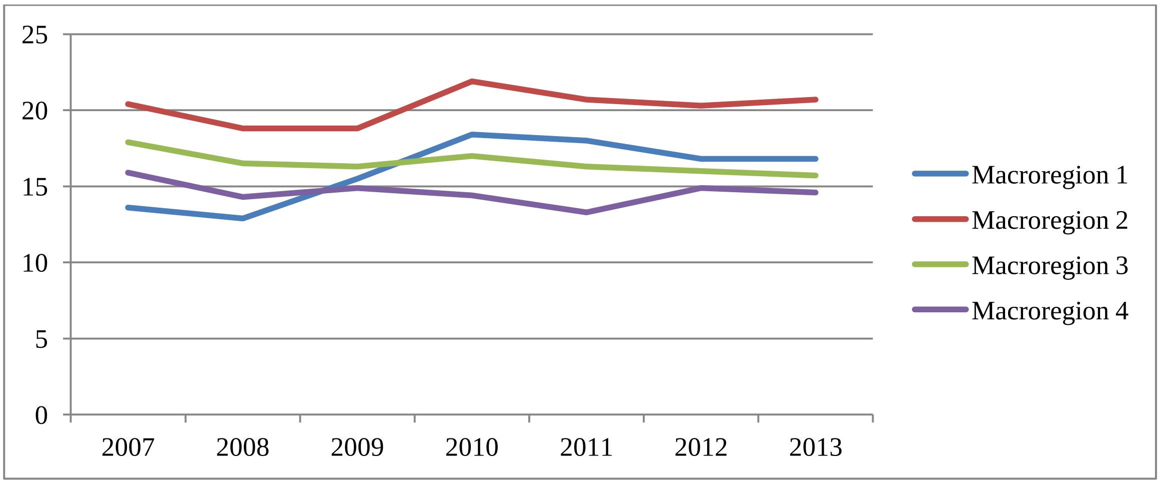
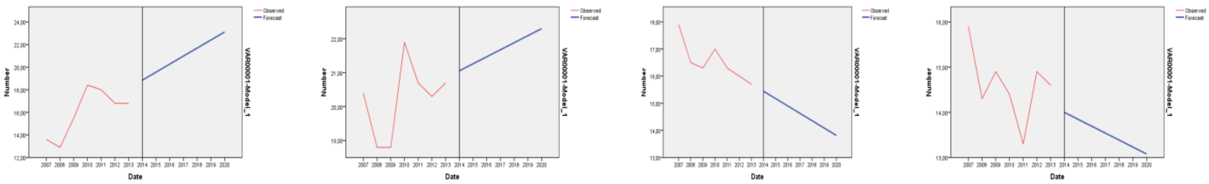


Figure 7 Leavers from educational and training (%)

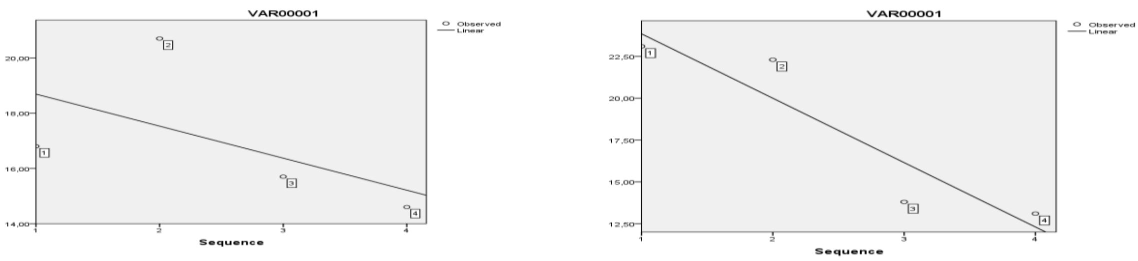
The greater disparities from 2010-2011, decreased in 2012-2013. The evolution of this indicator until 2020 is presented in Figure 8.



Macroregion 1 Macroregion 2 Macroregion 3 Macroregion 4

Figure 8 Leavers from educational and training forecasting (%)

Macroregion 3 and Macroregion 4 will achieve better rates in 2020 than in 2013, while the other two NUTS 1 regions will face to worst performances related to this indicator. The regression supports the conclusions from Figure 8 (see Figure 9).



2012 2020

Figure 9. Leavers from educational and training’s disparities

4 Conclusions

Education doesn’t represent a priority in Romania, nowadays. This is why there is not budgetary adjustment without cutting educational funds. The national educational system in Romania faces to important decrease of the number of those who want to learn. Even the social value system is not connected to education.

At regional level, the disparities connected to educational indicators are high and increase. There is a wrong approach from the decision makers at macro, regional and local levels. This is why only 20% of the population studies in all levels of education in Romania. Moreover, just a little part of the population attends in tertiary education.

The forecasts are not optimistic. The situation may become worst in 2020 if urgent incentive measures will not be implemented. The solution has to imply a new framework in Romanian educational system and a good management at regional level.

5 Acknowledgement

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The Crisis of the Sovereign Debt - Interdependencies, Responsibilities and Risks

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Abstract: The increase of government debt continues and maintains the financial crisis as an additional risk factor at national, regional or global level. The causes which lead to the raise of the national debt can be found in the effects of a major crisis but, in turn, this phenomenon feeds imbalances generating economic and financial crisis. The importance of this topic is defined by its magnitude and dynamics, in the long-term effects on the economy, finances, policies and, ultimately, on the completeness of a state. Solutions are available to the national public authorities in the context of regional policy, but they are circumscribed also to the imperatives imposed by the international lenders. Not infrequently, their efficiency was affected by subjective factors, along with the lack of preventive actions or of proper long-term vision. There have been made references to the analysis of international bodies or financial authorities, at authors dedicated to this complex problem. As method of approach we have used the bibliographic study, processing and analysis of data, and previous researches. The results are the analysis and explanation of specific developments of sovereign debt crisis, of interactions, highlighting the effects and solutions. The research is an important basis for specialists, public authorities and academics. As value, the work is a synthesis and a comparative analysis so as to identify trends, responsibilities and solutions.

Keywords: financial crisis; international creditor; budget deficit

JEL Classification: G01; H63

1. Introduction

In the current stage of the world, crises are becoming more complex and virulent, they involve extensive forces, produce upheavals and disorders in the most diverse spheres (economic, monetary, financial, social, moral, political, public and private sector) they propagate with speed in time and space and they have a more extended period.

The 2008 financial crisis was accompanied, in turn, by the exchange rate crashes, banking crises, currency debasements (Reinhart & Rogoff, 2008) and it expanded including in public finances of the developed countries and the effort of public authorities failed to resorb many emerging imbalances.

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Amid these realities, the sovereign debt crisis induces, to an economic and financial process, political risks, of national sovereignty, as the name of the phenomenon indicates. Moreover, over time, many times, the international financing organizations were suspected of interfering too deep and delicate in the state's policy, actions and strategies. If we refer to the absolute value of the external debt at the global level, which rose from about 2000 billion $ in the early 2000s to about 57,000 billion $ currently, the force possible to exert by the main debtors becomes evident.[1]

The official doctrine explains and proposes solutions for the recent financial crisis, unfortunately often overtaken by the new realities, it was built from the experiences of previous crises, motivated by the insolvency of debtors at the level of the sovereign state: deterioration of macroeconomic fundamentals, worsening public deficits and external debt, excessive appreciation of the real exchange rate, excessive inflation or deflation, reducing private savings, official reserves, etc.

2. Experiences, Favoring Factors and Developments of the External Debt Crisis

Recent decades have noted, along with strong financial crisis, an increase in international debt crisis which continues to have "victims" and create global imbalances, under the conditions where the origins, motivations and responsibilities are difficult to sustain. In association with economic crises, many countries needed financial aid, which often took the form of loans from abroad, which led in time to the excessive growth of foreign national debt.

In the second half of the 70s, banks were pressed to grant loans to developing countries without prior thorough analysis and without an exacting control over the final use of funds for various reasons, mainly economic, but also political. A large number of countries took the opportunity and were heavily indebted to fund important projects or to remedy the social, economic problems, especially through excessive subsidies of certain activity sectors.

The beginning of debt crisis in developing countries was considered in 1982, by the Mexico's decision not to repay the debt, which created a major risk in the international financial system as a whole. Resulting in the disruption of trade and financial flows, the consequences would have resulted in driving the world's economy into a crisis similar to that of 1929. (Tinbergen, 1988)

The sovereign debt crisis occurred in August 1982 while the international banking sector was the main financier; even if an important number of international banks attended to the international accreditation (about 750), several large engaged international banks facilitated an agreement between creditor banks and indebted countries. It made such a transfer of financial resources in surplus towards developing countries and a separation of funding sources for capital utilization areas. Basically, the link between funds and certain investment destination is no longer evident, a factor favored also by the magnitude that the operations on the created financial market.

The Public Power from the creditor countries warned late the system changes of financial institutions and the combination of circumstances from the debtor states and it did not impose cautious appropriate measures in due time.

With the onset of the unfavorable economic social or political environment, in the '80s there was a general detachment of financial institutions towards most developing countries. The Net capital outflows from these countries, as a result of the very oppressive external debt service, "the capital

[1] http://databank.worldbank.org/data/views/variableSelection/selectvariables.aspx?source=world-development-indicators#.

flight", given their situation extremely difficult, and the brutal interruption of foreign capital inflows have imposed severe constraints on their ability to develop.

Adjusting liquidity crises is difficult to achieve in the new context of international finance. (Eichengreen & Portes, 1996, pp. 26-45)

During the 90s, the international financing arrangements involved a very large dispersion of creditors and a multitude of lenders support only a small part of a country's debt crisis. In the absence of coordination procedures between creditors on the one hand and between lenders and borrowers on the other hand, each creditor has a tendency to withdraw first from the market, in order to limit the capital losses induced by the "escape/flee" of other investors.

The difficulties were compounded by the deterioration of trade relations with developed countries, with protectionist measures to cease funding. Developing countries not only that they do not receive loans in high risk situations, but they are isolated in international trade, with negative consequences for other states with which they have commercial or financial relations.

The real cost of debt service of developing countries increased with the accumulation of variable interests established to the contracting credits.

The current global financial crisis started from a subprime loan problem in the United States (2007), continued with the US mortgage market crisis, the growth rate of mortgage debtors insolvency, surplus of liquidity, toxicity extension of credit, resounding bank failures, not only in the US (about 150 banks), unemployment, economic recession. The crisis of confidence had spread including by the decrease of confidence in the euro area economy and in the European single currency; the effects were found also in the financial policies background.

Since the pre-crisis period, there has been registered an ever-increasing growth of public debt, which affects most countries, regardless of their development. Increasing budget deficit since 2008, caused also an increase in public debt balance, one of the reasons being the loans engaged for restoring macroeconomic balance and fiscal consolidation, see Table 1. Real GDP growth rate – volume and General government deficit follows the same trend.

Table 1. Evolution of economic growth, the budget deficit and public debt - meaningful comparisons

Indicator	**State / year**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Real GDP growth rate - volume Percentage change on previous year (%)	***EU****	2.0	3.4	3.1	0.5	-4.4	2.1	1.7	-0.4	0.0
	of which *Romania*	4.2	8.1	6.9	8.5	-7.1	-0.8	1.1	0.6	3.4
	Euro area	1.7	3.2	3.0	0.5	-4.5	2.0	1.6	-0.7	-0.5
	United States	3.3	2.7	1.8	-0.3	-2.8	2.5	1.6	2.3	2.2
General government deficit/surplus % of GDP and million EUR	***EU****						-6.4	-4.5	-4.2	-3.2
	of which: *Romania*	-1.2	-2.2	-2.9	-5.6	-8.9	-6.6	-5.5	-3.0	-2.2
	Euro area						-6.1	-4.1	-3.6	-2.9
	United States	-4.16	-2.98	-3.56	-7.03	-12.69	-12.02	-10.59	-9.15	

General government gross debt % of GDP and million EUR	***EU****						78.2	80.8	83.5	85.4
	of which: *Romania*	15.7	12.3	12.7	13.2	23.2	29.9	34.2	37.3	37.9
	Euro area						83.7	85.8	89.0	90.9
	United States	78.1	75.6	75.8	91.9	105.0	115.3	120.6	122.5	71.8

Note: *28 Countries

Sources: Eurostat, http://ec.europa.eu/eurostat/web/government-finance-statistics/data/main-tables; http://ec.europa.eu/eurostat/web/national-accounts/data/main-tables http://data.oecd.org/gga/general-government-deficit.htm; http://data.oecd.org/gga/general-government-debt.htm#indicator-chart

In 2013, United States public debt-to-GDP ratio was 71.8%, according to the CIA World Factbook[1] or 104.5%, according to the IMF including external debt[2]. The level of public debt in Japan 2013 was 243.2% of GDP, in China 22.4% and in India 66.7%, according to the IMF[3].

In a series of complex studies that focused on data analysis over a period of about 200 years, representing all areas of the world, Carmen M. Reinhart and Kenneth S. Rogoff (2008) showed that public debt increased on average by 86% during the three years following a banking crisis. And the realities of the 2008 financial crisis reached to these conclusions.

One of the Euro convergence criteria was that government debt GDP to be below 60%. The financial crisis has left its mark on respecting this requirement. Data analysis indicates that most EU countries recorded an increase in public debt under the crisis impact, so the European average, more pronounced in the euro area exceeds the required level, which means that the European economic space remains as a whole it is one of the chronic deficits and indebtedness (Table 1). Long-term sustainable public finances can be an imperative for being out of the crisis, especially for Eurozone Member States, the currency being strongly put to test by the sovereign debt crisis. A total of 16 EU Member States reported a debt level of over 60% of GDP in 2013 and more than 6 countries had levels above 100% of GDP.[4] Greece is the leader in the ranking (174.9%), followed by Portugal (128%) and Italy (127.9%) - values of over 100% for this indicator, they appear in the first year of crisis, not only for the European countries, being considered historical levels which had not been much reached in peacetime.

Moreover, there is a risk of self-supplying the crisis (crise autoréalisatrice) for all states that had a public debt of over 100% of GDP, unable to obtain new funding markets, regardless of interest rates. (Marini, 2011) This is an additional risk to EU leaders, who bear the full burden of covering these serious shortcomings. The figures show that the EU remains an economic area in which the state plays an important economic and social role, many of the major infrastructure projects to modernize Europe being built also by the public authorities through debt. There is a policy space and a social welfare, at great expense in order to ensure a minimum welfare for a large part of the population. The main threat is related to the accumulation of deficits that will lead to an increase of public debt by borrowings that the states contracted from the economic resident agents or financial institutions abroad. The solutions lead, at the same time to inflation, special taxes or unjustified cuts of government spending. The data

[1] https://www.cia.gov/library/publications/the-world-factbook/rankorder/2186rank.html.
[2] International Monetary Fund: All countries Government finance, General government gross debt (Percent of GDP).
[3] Idem.
[4] http://ec.europa.eu/eurostat/web/government-finance-statistics/data/main-tables.

lead to adverse developments, growth will remain weak because of still-high public and private debt, tight credit conditions and high unemployment.

Studies show that the high levels of public debt limit the effect of economic policy, in the event of future shocks, i.e. too indebted economy will be more volatile (Villieu, 2011)

It appears that Romania is not subject to alarming developments in the sense that the analyzed indicators remain within the limits more favorable than the European average. However, the accelerated pace of growth of public debt remains worrying and it is yet another reason to adopt proactive budgetary fiscal policies of fiscal consolidation. The public debt, since 2009, has increased continuously and with a very high rate, i.e. tripled in only six years, it increased from 12.7% of GDP in 2007 to 37.9% of GDP in 2013. This public debt was created for consumption and not for investment. The long-term attenuation rate of the economy by these consumed amounts is zero or close to zero.

3. Interactions and Responsibilities

If we analyze the problem of responsibilities in the external debt crisis, the debtor states are primarily responsible, given that they must provide reasons of trust of citizens in their national economy and to lead them to repatriate the capitals that they have sent abroad. Foreign creditors will not provide funds to countries whose investors have not, themselves, trust in the national economy. The countries that have difficulties must find the paths which lead towards economic efficiency. For this to happen there are required efforts towards creating a trusting climate for domestic and foreign investors.

In parallel, the industrialized countries should ensure open markets, stable interest rates, sustainable economic growth and to provide necessary assistance and public support under the conditions of not finding the solutions for a viable market economy.

The banks also have their share of responsibility. In periods of optimism on the economic development of the medium and small banks, the major banks had spontaneously granted loans to borrowers without having, objectively and thoroughly, their own analysis, being about the action of a gregarious instinct or mimetic behavior which would characterize the fund managers. (Aglietta, 1998) It can be exemplified by the financial crisis developments in the recent years or more precisely, the situation recorded in the US in 1982 when about 1,500 banks have granted loans to enterprises and governments in Latin America. (Slighton, 1983, p. 3) Similarly, third world countries have benefited from a large volume of loans relative to productive investment opportunities.

In addition, the availability of banks to grant loans led to the postponement of economic austerity programs promoted by governments in difficulty.

After acknowledging the risks they pose and the losses they entail, including during the times of economic uncertainty, the creditor banks are no longer willing to accept risk taking, and the debtor countries would be deprived of external funding indefinitely, being isolated of the international trade.

Excessive or inconsistent reaction of creditors was an additional source of economic instability at a global scale. Even borrowers who have honored the commitments had difficulties in financing, interruptions of credit lines due to the negative consequences generated by the insolvent debtors. Also, the collapse of banks will induce losses also to other banks of sound management, business associated (e.g. interbank loans, mutual customers, etc.) or cause withdrawal of customers that lose confidence in banks operating in the same market.

Thus, it appears that problems arise from both debtors and creditors: information asymmetry, mimetic behavior of financial intermediaries, liquidity crisis on critical segments of the money market are only a few factors that “infect” the fast international financial system and it presents symptoms of *systemic risk* at global level.

It is estimated that the ideal forum to address the external debt problem is the International Monetary Fund (or partially the World Bank), where all countries involved (developed or developing, debtors and creditors) are members. (Aglietta, 1998) Promoted by the IMF, the *conditional financial support* can be an effective tool to ensure the implementation of appropriate and realistic adjustment policies, in order to protect the developing countries, export promotion and thereby ensuring the fulfillment of their financial obligations. But lasting solutions cannot be applied without structural adaptations in the indebted countries, which promotes competitiveness, productive spending, stopping the exodus of capitals, corruption.

4. Specific Risks of State Creditors and Possible Solutions

Giving the customer a loan from a foreign country involves additional risks compared to the normal national credit, included in the country’s risk and which involve:

- The risk of losses caused by government actions in the detriment of the bank or its customers (administrative, trade, monetary restrictions, exaggerated taxation);
- Transfer risks arising from difficulties on debtor’s currency non-convertibility and the establishment of an exchange rate control;
- The risk of social, political or military conflict;
- Some governments may deny the predecessors’ commitments or attempt to evade the obligations (often as a result of changes in regime or serious crises);
- Most governments, mainly in developing countries or with economies strongly nationalized, provide incomplete and distorted information;
- Risks derived from the failure of economic reforms.

For risk prevention and protection of foreign creditors, the debtor countries were subject to the legislation of the creditor country, but the procedures are difficult and the protection is modest against in relation to the loan value.

The international debt problem *solutions* are structured around a number of possible different directions, depending on the specific situation of each country and the global context:

- Restructuring debt portfolios by extending the date of payment; there are proposed different rescheduling solutions, including swaps “debt-own funds”, which involves converting debts into own capital, therefore of bank loans in investments or direct equity - this tool allows the country to repay a part of the foreign debt in local currency.
- Conversion of debt in real assets or securities, sold on secondary markets;
- Facilitate imports of products from Member debtors by market liberalization;
- Policies to reduce financial obligations;
- For very poor countries that do not provide real prospects for debt repayment, it is preferable to convert part or all of the debt in financial support.

5. Conclusions

In their development, the financial crises affect sovereign states, the regional stability, the relations between nations in many areas, forming attitudes and reactions, constituting a major risk associating with huge risks network that maintain each other and connect the crises in a chain harder to loose. Increasing government debt turns into a new crisis, which continues to maintain financial crisis, with the same destructive power at national, regional and global level.

Deciphering crisis poses problems both for the national responsible executive and for those with international prerogatives and the crisis' inventiveness is hard to beat with the proposed actions or solutions. Not infrequently, their efficiency was affected by subjective factors, of unexpected developments, which are the unique aspects of each crisis, along with preventive actions or lack of proper long-term vision.

A way forward for debt reduction may be stimulating the economy, above the level of the interest rate of the public debt, so that the level of budget revenues would increase along with the turnover and GDP, and the state debt would diminish. The results are highly dependent on many factors, but the same effect proves correct that "it is unlikely that an appropriate macroeconomic policy is sufficient to keep the economy in balance, much less if it is not supported by sane micro-economic conditions". (Lindgren, 1996) This is a true statement both in budgetary and financial-monetary policy – related to the external debt, monetary stability and the banking system.

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The Vulnerability of the Regional Labor Market

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Abstract: In the past decades, the European and Romanian economies have been strongly affected by major changes which have influenced also the labor market: the alert pace of the international economic integration, the creation of work division in order to protect some economic sectors, the accelerated development and implementation of new technologies, the increase of the demographic aging trends. In the context of the amplified labor force crisis, the present paper will analyze some dysfunctions which have affected especially the regional labor market: the chronic unemployment, the mismatch between the demand and the offer of jobs and the localized consequences of the labor migration. The approach on these aspects was done in a vaster context intended to analyze the regional labor market of Galati and Braila, starting from the existent imbalances on these markets. The present paper starts from the premise that the proposal of some measurements which should lead to a balancing of the regional working market, must take into account the way in which the direct actors involved are defining these obstacles and opportunities for professional (re)insertion. In order to highlight both the opinions and the perceptions of the participants on the labor market, the research had to take place on two levels: among the groups with a difficult position on the labor market and among the employers.

Keywords: unemployment; professional competences; the impact of migration

1 Introduction

Les transformations politiques, économiques et sociales de Roumanie dans les dernières vingt années ont influencé de manière considérable le marché du travail. Le processus le plus frappant et, en même temps, le plus inquiétant en ce qui concerne l'occupation, le long des années de transition, a été la diminution sévère de la population occupée (Borza, Popa & Osoian). Ce processus reflète les exigences du passage à un nouveau modèle occupationnel, spécifique à l'économie de marché, et la manière dont les *facteurs économiques, démographiques et sociaux* interfèrent sur le marché du travail. La contraction de l'activité, la faillite des entreprises, la re-technologisation et le changement de métier dans le secteur industriel ont déterminé une réduction sévère de l'occupation de la force de travail. La restructuration de l'agriculture et, implicitement, le renvoi d'une partie significative de la force de travail occupée dans l'agriculture de subsistance a eu des effets similaires. La diminution de la population, le vieillissement démographique et l'émigration de la force de travail de Roumanie ont eu aussi une forte influence sur le marché du travail (Voineagu & Pisică, 2012). Dans le contexte de ce processus de restructuration accélérée et de l'érosion de la sûreté des emplois, le marché de la force de travail a accumulé des tensions sociales importantes. A cause de ces déséquilibres structurels, la crise

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économique s'est manifestée sur le marché du travail de la Roumanie par une forte réduction de l'occupation, l'augmentation du nombre de chômeurs et l'intensification des flux migratoires. Dans notre étude nous nous sommes proposé d'évaluer l'impact de la migration de la force de travail sur le marché local dans une double perspective : d'une part, la manière / la mesure dont la crise économique influence l'intention de migration des personnes appartenant à des groupes défavorisés du point de vue des opportunités occupationnelles et, d'autre part, le déficit de force de travail ressenti par les employeurs, suite à la migration de la force de travail. L'analyse de ces aspects fait partie d'un contexte plus large qui vise une analyse régionale du marché du travail des départements de Galati et de Braila (Rotilă & Mihail, 2012) à cause des déséquilibres qui existent sur ces marchés.

Pour surprendre les opinions et les perceptions des acteurs directement impliqués sur le marché du travail, la recherche s'est déroulée à deux niveaux : dans les groupes avec une situation difficile sur le marché du travail (jeunes chômeurs, chômeurs de longue durée, chômeurs âgés de plus de 45 ans, personnes inactives) et au niveau des employeurs. La composante quantitative de l'étude s'est basée sur un questionnaire adressé aux chômeurs et aux personnes inactives des départements de Galati et de Braila. Suite à l'échantillonnage non probabiliste sur côtes et conformément aux critères de stratification considérés (le statut occupationnel, sexe, résidence, catégories d'âge), l'échantillon a été établi à 730 sujets. La composante qualitative de l'étude, ayant comme méthode de recherche l'entrevue de type *focus group*, a eu comme but de compléter, détailler et développer les résultats obtenus suite à la recherche quantitative et d'obtenir des informations détaillées concernant les besoins des groupes cible, les opportunités concrètes pour dépasser le statut de chômeur/personne inactive, considérant aussi l'intention de migration pour le travail à l'étranger. Les groupes de discussion (8) ont été homogènes conformément à la variable statut occupationnel et hétérogènes conformément à la variable âge, niveau de formation, durée du chômage et domaine de qualification professionnelle. La connaissance approfondie de la dynamique du marché du travail de Galati et de Braila, de la perspective des employeurs, s'est concrétisée dans un sondage basé sur un questionnaire, l'unité statistique étant la société commerciale. A une population statistique de 19.398 sociétés commerciales en 2009 (conformément à la Direction Régionale de Statistique de Braila), conformément à l'échantillonnage non probabiliste sur côtes, nous avons alloué une probabilité à chaque unité de population, différente de zéro et variable au niveau des unités, d'appartenir à l'échantillon. La probabilité allouée à chaque société commerciale a été corrélée à sa dimension, exprimée par le nombre d'employés, et avec le domaine d'activité. Le volume de l'échantillon final a été de 377 sociétés commerciales, et pour les former, nous avons utilisé le procédé du tirage au sort à l'aide des tableaux avec des nombres aléatoires.

L'analyse quantitative et qualitative des données résultées a permis d'obtenir une perspective nuancée de la manière dont les groupes mentionnés perçoivent les effets de la crise économique sur le marché local du travail : la réduction significative des emplois disponibles, la diminution de la capacité économique des départements de Galati et de Braila de créer de nouveaux emplois, l'aggravation des problèmes sociaux associés au chômage / à la période d'inactivité, surtout la diminution dramatique du niveau de vie. Ainsi, malgré la réduction impressionnante de la pauvreté après huit ans de développement économique rapide, l'onde de choc de la crise économique et financière globale a mis en évidence les déséquilibres et la vulnérabilité de l'économie roumaine (Montagnana, 2010).

2 Le chômage – déséquilibre du marché du travail

Le chômage apparaît, généralement, comme un déséquilibre du marché du travail, étant influencé par des particularités économiques, démographiques et socioculturelles. Dans le contexte de la récession économique actuelle, le taux d'occupation se réduit de manière significative, la sécurité de l'emploi devient fragile, et le chômage se chronicise. Même si le taux du chômage en Roumanie était de 6,8%, dans le 2e trimestre de 2010, sous la moyenne de l'UE (9,6% en février 2010), les conditions sur le marché du travail sont beaucoup plus difficiles comparé à la majorité des pays communautaires, étant générés par le manque de compétences et par des taux réduits de participation et un excès de force de travail dans les secteurs trouvés en déclin (surtout l'agriculture). A part ces éléments « négatifs », les données statistiques indiquent un *chômage asymétrique*, qui affecte surtout les ouvriers non qualifiés, les jeunes et les personnes âgées, réalité qui soulève des questions concernant le système éducationnel de Roumanie. En outre, les *groupes de risque élevé* – surtout les personnes découragées et les personnes inactives – sont surtout de sexe féminin, ce qui signifie une certaine passivité et manque de confiance de ces catégories dans leurs propres forces.

Ayant la même tendance du niveau national, la Région de Sud-Est se confronte au *problème de la diminution de la population* et la *production de l'effet de vieillissement démographique*. La cumulation de ces phénomènes avec les effets de la restructuration économique et la nécessité de l'adaptation aux demandes du marché du travail ont généré une *dégradation de l'occupation*, au sens où certains secteurs d'activité perdent des emplois, malgré le fait que d'autres en créent. Ainsi, dans les départements de Galati et de Braila, pendant les dernières années, les branches industrielles sont entrées en déclin et ont ainsi généré soit la liquidation, soit la restructuration des grandes entreprises, avec un impact négatif sur l'occupation. Pour Galati, le processus de restructuration de Arcelor Mittal est représentatif pour expliquer, au moins partiellement, la croissance du chômage dans ce département. En échange, la création de micro entreprises, de petites et moyennes entreprises, importantes dans l'économie de la région, a eu un rôle décisif dans la détente du marché du travail par la création de nouveaux emplois. Dans les deux départements, la plupart des grandes entreprises a comme domaine d'activité l'industrie d'usinage, constructions, transports et dépôts.

Malgré certains éléments positifs, la situation difficile de l'économie régionale, le manque d'investissements mais aussi la faible implication des autorités locales pour attirer des investisseurs a déterminé *un taux du chômage plus élevé à Galati et Braila* (de 10,32%, respectivement 8,4% au mois de septembre 2010), comparé à la moyenne nationale. Dans les conditions où les gens ne réussissent pas à s'intégrer sur le marché du travail, il est nécessaire qu'ils s'adressent aux agences départementales pour l'occupation de la force du travail pour recevoir de l'aide. De tous les chômeurs qui ont répondu à notre questionnaire, nos données montrent que seulement 41% d'entre eux déclarent être enregistrés. Nous remarquons aussi qu'il n'y a pas de différences significatives en ce qui concerne le sexe des répondants : les femmes et les hommes suivent le modèle général de la disponibilité d'enregistrement à l'Agence Départementale d'Occupation de la Force de Travail, ce qui dénote un manque d'intérêt dans la modification du statut occupationnel et un manque de confiance dans l'institution nommée ci-dessus. *Le chômage de longue durée* constitue un problème dans les deux départements, vu que dans toutes les catégories de population analysées, les chômeurs non enregistrés / les personnes à la recherche d'un emploi depuis plus de 12 mois sont les plus nombreuses.

En ce qui concerne le *niveau d'études* des personnes avec une situation difficile sur le marché du travail, le sondage montre que les plus nombreux sont les chômeurs avec des études moyennes de spécialité, et ensuite ceux avec des études supérieures. Vu que les deux départements ont suffisamment d'institutions pour l'enseignement supérieur, l'Université « Dunarea de Jos » et l'Université « Danubius » à Galati et une filiale de l'Université « Constantin Brâncoveanu » de Pitesti à Braila, il faut remarquer que seulement 15% des répondants ont achevé des études supérieures, pendant que la grande majorité des autres répondants (81%) ont achevé une unité d'enseignement de second degré. Concernant leur *niveau de qualification professionnelle*, 12% des répondants n'ont pas de métier et 9% se déclarent des ouvriers non qualifiés. 14% des femmes n'ont pas de profession ou pourraient être encadrées dans la catégorie des ouvriers non qualifiés (9%). En ce qui concerne les hommes, seulement 9,5% déclarent ne pas avoir un métier mais le taux des ouvriers non qualifiés est le même que pour les femmes. *L'expérience de travail* des groupes questionnés est limitée : 26% des répondants n'ont jamais travaillé et 12% n'ont pas réussi à trouver un emploi à la fin des études. Dans les deux catégories prédominent les personnes inactives. Parmi les répondants qui ont perdu leur emploi pendant la dernière année, 38% sont des jeunes entre 15 et 24 ans. Les répondants qui n'ont pas d'emploi depuis plus de 3 ans proviennent de la catégorie d'age 34-54 ans. Ces données montrent que les renvois des dernières 5 années ont influencé les personnes de toutes les catégories d'âge.

L'analyse des données qualitatives enregistrées au niveau des 8 groupes a relevé trois variantes de discours concernant les chances de l'insertion professionnelle. Le discours dominant identifié est celui que, dans les conditions économiques actuelles, *les emplois disponibles* sont extrêmement limités et non attrayants. Les difficultés auxquelles se confrontent les chômeurs sont influencées par les traits caractéristiques de la demande de force de travail. La disponibilité des participants aux *focus groupes* pour trouver un emploi est extrêmement élevée ; beaucoup d'entre eux aimeraient travailler dans n'importe quel domaine d'activité. Mais la disponibilité et la flexibilité pour travailler sont valables notamment pour les personnes sans formation solide, qui accepteraient n'importe quelles conditions de travail à cause du manque d'alternatives viables. « *N'importe quoi, que ce soit du travail…* » (femme, 28 ans). « *Je voudrais travailler n'importe où, l'important est que je travaille* » (femme, 18 ans).

Malgré le fait que certains participants aux *focus groups* ont identifié des modalités concrètes pour trouver un emploi, on a fréquemment exprimé des opinions conformément auxquelles les pouvoirs individuels sont très limités dans ce sens, sinon inexistantes. *Le manque de guidage et de conseil* spécialisé limite les chances d'obtenir un emploi, ce qui mène au découragement et au manque de confiance dans les propres forces. Le *système des relations* et le *manque d'expérience* constituent les autres obstacles souvent mentionnés. Organiser des concours pour occuper un lieu de travail est une simple formalité, du moment où les employeurs sont obligés à faire ces annonces, bien que les postes soient déjà occupés. On n'a pas d'accès à un bon emploi sans relations et sans argent. On a souvent mis l'accent sur *les éléments spécifiques de la ville ou du village* natal des répondants. Les participants aux *focus groupes* considèrent que les villes de Galati et de Braila manquent de perspectives dans le développement économique. Galati est une ville industrielle, tandis que Braila n'attire pas d'investisseurs étrangers, ce qui signifie une offre limitée d'emplois. Même si, à première vue, le niveau d'éducation de la population investiguée est un élément important de cette situation, l'opinion de certains participants aux discussions contredit cette hypothèse. Ils soutiennent que toute personne se confronte au problème des relations pour trouver un emploi, n'importe son niveau de formation. « *On m'a demandé si j'avais une recommandation de la part d'un employé de l'entreprise. Je lui ai répondu que non…et je me suis rendu compte que c'est pour ça qu'on ne m'avait pas appelé. Donc l'expérience et la recommandation d'autres personnes m'aideraient à trouver un emploi…* » (femme, 23 ans).

Les perceptions et les opinions des employeurs concernant l'évolution du marché du travail complètent l'image du chômage dans les deux départements. Pendant cette crise économique et financière, les entreprises ont gardé leurs employés qualifiés (67%). Mais cette stratégie est valable surtout pour les *petites entreprises* (jusqu'à 9 employés), qui n'ont pas le pouvoir financier d'investir dans la formation de la force de travail. Au niveau des *grandes entreprises,* la situation est différente, au sens où plus de 50% ont perdu leur personnel qualifié depuis le début de la crise. Les prévisions concernant l'évolution du nombre d'employés reflète les incertitudes liées à l'évolution de l'économie roumaine. Ainsi, les *projections* pour la période suivante ne sont pas optimistes : 59% des managers n'ont pas pris de décisions concernant la stratégie d'emploi ; cela démontre le manque de perspective dans le contexte actuel.

3 La non concordance entre la demande et l'offre d'emplois

Pendant la dernière année, on a observé une croissance du taux du chômage et du taux des emplois vacants, ce qui pourrait indiquer une non-concordance entre les compétences des chômeurs et les compétences nécessaires pour les emplois disponibles. L'apparition et la disparition des qualifications associées à des modifications importantes dans le contenu des professions et des qualifications sont, dans le processus de transition, très rapides, et, en Roumanie, ce processus est plus complexe comparé à d'autres pays membres de l'UE.

La nécessité du renouvellement du stock de qualifications, le changement des rapports de travail et des demandes du marché du travail ont entraîné des modifications diverses dans la structure occupationnelle des individus ; ainsi, le risque d'être rejeté du marché du travail ou la difficulté de la (re)intégration sur le marché du travail augmente, notamment pour les groupes défavorisés : jeunes chômeurs, chômeurs de longue durée, travailleurs âgés, personnes qui reviennent sur le marché après une longue absence.

La concordance entre les demandes de l'emploi et les caractéristiques de la personne qui l'occupe ont une grande influence sur l'efficacité des institutions, qu'elles soient d'état ou privées, du domaine industriel ou des services, grandes ou petites. Pour la plupart des entreprises de l'étude, les *compétences professionnelles* sont un critère essentiel d'emploi. Si on part de la prémisse que le but de toute activité économique est, en premier lieu, de maximiser son profit, les managers considèrent comme prioritaire le niveau de qualification dans la stratégie de recrutement du personnel. La probabilité la plus élevée d'emploi (67%) sera, en 2011, pour les *personnes qualifiées,* sans autres conditionnements. Les chances les plus modestes, du point de vue de la stratégie adoptée par les managers, seront pour les *personnes sans expérience*, malgré les diplômes qui certifient leur formation professionnelle.

Les entreprises choisissent plutôt *les jeunes* (13%), mais ceux-ci ont du mal à trouver un emploi à cause du manque d'expérience. Un problème essentiel **est** le décalage significatif entre les connaissances professionnelles à la fin des études et celles demandées par l'entreprise, réalité qui devrait être prise en considération par les institutions d'enseignement qui s'occupent avec la formation professionnelle des spécialistes des divers domaines. L'Agence Nationale pour les Qualifications de l'Enseignement Supérieur et Partenariat avec l'Environnement Economique et Social (ACPART) a comme mission d'analyser la compatibilité des spécialisations des domaines fondamentaux de l'enseignement supérieur avec les standards du cadre national des qualifications, mais aussi de faciliter l'ouverture des institutions d'enseignement supérieur vers l'environnement économique et social. Malheureusement, la situation sur le marché du travail ne reflète pas une harmonisation des qualifications de l'enseignement supérieur avec les demandes des entreprises de l'économie réelle, du moment où beaucoup de diplômés ne trouvent pas d'emploi conformément à leur spécialisation.

Si on fait une analyse des métiers considérés par les employeurs en déficit sur le marché du travail, on constate facilement qu'à l'heure actuelle les entreprises demandent un haut standard de professionnalisme et de compétences de la part des employés potentiels. D'une part, nous pourrions déduire que la formation professionnelle des jeunes dans les institutions d'enseignement est sous le niveau des attentes des entreprises. D'autre part, le niveau des salaires offerts par les employeurs n'est pas assez motivant. Ainsi, souvent, les potentiels candidats préfèrent partir travailler à l'étranger que de travailler en Roumanie pour un salaire insuffisant pour leurs besoins.

Même si, les dernières années, les institutions d'enseignement supérieur et de deuxième degré ont formé le plus grand nombre de spécialistes pour le marché du travail, *le manque de personnel avec une haute qualification* persiste, au moins dans l'opinion de la majorité des managers (52%) des deux départements. Une des causes possibles serait leur incapacité d'identifier les spécialistes vraiment qualifiés ou l'incapacité financière de les payer conformément à leur formation. Nous considérons que la chance d'employer des spécialistes dans cette période de ralenti économique n'apparaît que par un management de la performance bien géré, à condition que l'employeur dispose du fond salarial approprié.

Evidemment, trouver un emploi dépend de la qualification des personnes qui souhaitent accéder sur le marché du travail. Si on analyse *le niveau des compétences et des qualifications détenues par les chômeurs / personnes à la recherche d'un emploi*, de notre étude a résulté que 12% des répondants n'ont pas de métier et 9% se déclarent des ouvriers non qualifiés. Parmi les répondants qualifiés, les plus nombreux sont des travailleurs dans l'agriculture / la pisciculture, des mécaniques et des serruriers mécaniques et des spécialistes IT. 14% des femmes n'ont pas de métier et 9% pourraient être encadrées dans la catégorie des ouvriers non qualifiés. Les métiers les plus pratiqués par les femmes sont dans la couture, l'agriculture et le commerce. Seulement 9,5% des hommes n'ont pas de métier ; le pourcentage des ouvriers non qualifiés est le même que pour les femmes. Les hommes sont surtout qualifiés comme des mécaniques et des serruriers mécaniques, travailleurs dans l'agriculture, opérateurs sur ordinateur et électriciens.

Pour attirer et maintenir les *personnes inactives* sur le marché du travail, il faut trouver, d'un côté, la meilleure corrélation entre les aptitudes individuelles, l'éducation et le potentiel de travail et d'autre côté les opportunités sur le marché du travail. Vu que ces personnes n'ont jamais travaillé ou ne travaillent pas depuis longtemps, elles ont des difficultés à s'adapter aux demandes du marché du travail moderne, sont faiblement motivées pour chercher et maintenir un emploi, et leurs qualifications sont redondantes sur le marché du travail. Une des raisons serait le bas niveau d'éducation, si nous tenons compte du fait que 26% des personnes inactives ont achevé seulement le premier degré d'études. Elles sont aussi réticentes concernant les cours de qualification/requalification qui pourraient leur offrir des solutions pour s'intégrer sur le marché du travail.

La situation difficile du point de vue occupationnel des groupes mentionnés peut aussi avoir des causes objectives qui tiennent aux changements technologiques, organisationnels et structurels qui ont lieu dans les entreprises. Ces changements mènent à la disparition de certains emplois considérés comme « dépassés » et à l'apparition de nouveaux emplois, avec de nouvelles qualifications et habiletés. Dans ces cas, *les personnes âgées de plus de 45 ans* sont les plus désavantagées, car leurs qualifications sont le plus souvent dépassées et peuvent difficilement faire face aux nouvelles demandes.

La non-concordance entre la demande et l'offre de travail peut trouver son explication dans le fait que le marché du travail n'est pas adapté au niveau plus élevé de qualification qui existe surtout parmi les jeunes. Dans beaucoup de cas, les emplois ne sont pas à la mesure des qualifications détenues par les *jeunes chômeurs*, en général beaucoup plus hautes que nécessaire. Ainsi, les personnes en question acceptent parfois un emploi qui ne correspond pas à leur qualification. En outre, en Roumanie on demande souvent des études supérieures pour des emplois qui ne demanderaient que des études moyennes (Fecioru, 2008, p. 318).

4 L'impact de la migration sur le marché local du travail

Au niveau macroéconomique, la migration mène à la déstabilisation du marché du travail, soit par la création d'un excédent dans certaines zones, soit par l'apparition d'un déficit de la force de travail dans certains secteurs, pendant certaines périodes et dans certaines zones (Nicolae, 2009, p. 30). L'impact au niveau de la Roumanie n'a pas été linéaire, mais a connu une certaine dynamique en fonction du contexte international.

Jusqu'en 2008, notre pays était confronté à un déficit de force de travail. Le phénomène peut avoir au moins deux explications : d'une part, la croissance économique des pays développés de l'Union Européenne et la diminution des restrictions appliquées à la libre circulation de la force de travail de Roumanie ont favorisé la croissance des flux migratoires de notre pays vers ces destinations. D'autre part, le développement de l'économie roumaine, la migration temporaire des Roumains pour le travail et le manque d'ouvriers qualifiés ont déterminé les employeurs roumains à faire appel à la force de travail d'autres pays : la Turquie, la Chine, le Pakistan, l'Ukraine ou la Moldavie.

A présent, la situation est complètement différente. La récession qui a envahi tout le monde a envahi aussi la Roumanie et sur le marché du travail de notre pays il y a un excédent de force de travail. Dans le contexte de la crise économique, d'autres états aussi sont confrontés au problème du chômage. En Espagne, par exemple, où la communauté des Roumains est de presque un million de personnes, le taux du chômage était de 20% en 2010, le taux le plus élevé de l'Union Européenne. Les stratégies de ces pays impliquent d'accorder de la priorité aux travailleurs autochtones. Cette réalité a influencé de manière négative la situation des Roumains immigrants qui ont dû choisir de changer de métier dans le domaine forestier, pâturage, certains services comme les salons de coiffure et les restaurants, d'attendre l'aide sociale une fois devenus chômeurs ou de retourner en Roumanie. Le marché du travail de Roumanie se trouve donc dans une situation difficile : au nombre des chômeurs de Roumanie s'ajoute le nombre de compatriotes qui reviennent de l'étranger.

La migration des jeunes et des personnes adultes détend le marché du travail de Roumanie par la diminution du chômage. Mais ce phénomène a aussi des effets négatifs : la réduction de la qualité professionnelle et de la productivité potentielle de l'offre de force de travail de notre pays. Dans ce cas, les employeurs perdent implicitement. La migration des spécialistes ou « la migration de l'intelligentsia » comme on dit, est une perte encore plus importante pour les entreprises s'il s'agit d'une migration permanente. Cette perte diminuerait considérablement si la migration était temporaire, et l'expérience acquise serait finalement valorisée sur le marché du travail de Roumanie.

En évaluant l'impact de la migration de la force de travail sur le marché du travail local, nous avons pris en considération la perspective des employeurs concernant le déficit de force de travail ressenti suite à la migration temporaire pour le travail. L'analyse des raisons pour lesquelles les entreprises répondantes ont perdu leurs employés indique comme principale motivation le départ à l'étranger, suivie par le recrutement du personnel qualifié par les compétiteurs. La probabilité la plus élevée d'avoir besoin de nouveau personnel est pour remplacer les employés partis pour diverses raisons : le travail à l'étranger, le changement de domicile ou d'activité, les renvois ou les disponibilités.

La migration massive pour le travail, le processus de vieillissement de la population et la diminution démographique influencent à présent l'offre de force de travail. La situation à l'échelle nationale est aussi valable pour les entreprises de Galati et de Braila, du moment où 23% des répondants apprécient comme insuffisante l'offre sur le marché du travail de la région où ils déroulent leur activité. L'évaluation de l'offre du marché du travail du point de vue des besoins des entreprises indique pourtant qu'un taux important des répondants (49% cumulant les options « grande » et « adéquate ») apprécient favorablement cette correspondance. Pour le déficit de personnel qualifié, mentionné par 42% des répondants interviewés, plusieurs facteurs pourraient expliquer le phénomène : l'émigration d'une partie de la population apte de travail à l'étranger, le fait que les métiers et les professions offertes par les institutions d'enseignement supérieur ne sont plus attrayantes pour les jeunes ou le profil des spécialisations et des qualifications des diplômés ne correspondent pas à la demande qui existe sur le marché du travail. Le fait que 2% des entreprises ressentent le manque des ouvriers non qualifiés pourrait être une conséquence de la migration à l'étranger de ceux qui n'ont pas trouvé d'emploi en Roumanie ou pour lequel le salaire reçu ne leur offrait pas de vie décente.

L'évaluation de l'intention de migration des personnes qui appartiennent à des groupes défavorisés, du point de vue de la perspective des opportunités occupationnelles, a révélé que le taux des personnes qui voient une solution dans la migration pour le travail à l'étranger pour dépasser la situation difficile du marché du travail autochtone est assez réduite (1,16%). Les avantages de la faible migration circulatoire se voient tout de suite dans les chiffres positifs concernant la disponibilité des ressources humaines dans les deux départements.

Même s'ils n'ont pas perdu l'espoir de trouver un emploi en Roumanie, le départ à l'étranger n'est vu, par les participants dans divers groupes, qu'une dernière solution. « *A l'étranger on apprécie le travail* », c'est pourquoi la rémunération adéquate est suffisante pour accepter un emploi à l'étranger, même difficile. « *J'ai appelé mes connaissances, mes amis, j'ai acheté le journal. Je voudrais quitter la Roumanie pour toujours* » (femme, 34 ans). *« J'ai pris en considération la possibilité de partir à l'étranger, mais je suis liée à ma famille. Je ne sais pas si je pourrais me débrouiller. A vrai dire, je ne sais pas si je voudrais partir »* (femme, 31 ans). Le travail à l'étranger est ainsi perçu comme une dernière solution, si toutes les variantes pour un emploi dans le pays ont été épuisées ou se sont avérées inefficaces. « *J'ai déposé mon CV, personnellement ou sur Internet, j'ai téléphoné, j'ai acheté le journal, j'ai fait appel aux gens que je connaissais…à l'avenir…je ne sais pas…j'ai déjà renoncé à la possibilité de trouver un emploi en Roumanie parce qu'il est difficile, très difficile…je ne sais pas, je chercherai un emploi à l'étranger »* (homme, 22 ans). Nous pouvons facilement constater des déclarations des participants aux groupes que les difficultés d'accès sur le marché du travail, surtout dans le contexte de la crise économique, transforment l'émigration de la Roumanie dans un possible avenir.

5 Conclusions

La diminution de la capacité de l'économie des départements de Galati et de Braila de créer de nouveaux emplois est due à la diminution des investissements étrangers et des perspectives de développement de l'activité des entreprises locales. En outre, le manque de ressources financières, la contraction du marché de vente, donc le manque des commandes ou le manque de clients, et la fiscalité excessive déterminent l'orientation des entreprises des deux départements vers la réduction des coûts avec le personnel et implicitement la réduction des recrutements. Mais le travail à l'étranger est perçu surtout comme une dernière solution si toutes les autres variantes pour trouver un emploi dans la zone de résidence ont été épuisées ou se sont avérées inefficaces. Au niveau régional, on constate l'aggravation des problèmes sociaux associés au chômage / à la période d'inactivité pendant cette période de crise : la diminution du niveau de vie des familles avec un des membres chômeur / inactif, la perte de la motivation du travail ou de chercher un nouvel emploi, la perte de la confiance et du respect pour soi et pour les autres, des amis et de l'entourage habituel, l'assistance sociale des chômeurs etc.

Les pertes importantes en ce qui concerne les emplois et la détérioration dramatique des finances publiques et de la situation sociale, dans le contexte de la crise financière et économique, démontrent la nécessité d'une *politique sociale* qui diminue l'impact social et économique provoqué par la plus grande récession des dernières années, conformément à la Commission Européenne (2010, p. 9). Ces politiques doivent se concentrer de manière prioritaire sur l'insertion et la re-insertion dans la vie active des catégories qui se trouvent dans l'impossibilité de profiter de la croissance économique. Les chômeurs à long terme, les travailleurs âgés et les jeunes chômeurs sont très affectés par le chômage élevé et la faible participation. La politique d'occupation devrait aussi se concentrer sur les groupes de risque élevé, surtout les personnes découragées et inactives, qui ont une faible motivation pour chercher et maintenir un emploi ; beaucoup plus important, leurs qualifications sont redondantes sur le marché du travail.

Une autre solution destinée à corriger les déséquilibres sur le marché du travail, surtout du point de vue structurel, et de diminuer le phénomène d'inadéquation de l'instruction et de la formation de la force de travail conformément aux emplois offerts à un moment donné est le *changement de métier*. L'orientation et la qualification des individus dans des métiers qu'on demande sur le marché du travail impliquent une anticipation des mobilités professionnelles par rapport aux changements techniques et en fonction des prévisions concernant la restructuration des emplois. Vu que dans la vie professionnelle d'un individu peuvent apparaître deux ou même trois reconversions professionnelles (Pitariu, 2000, p. 29), surtout dans les conditions d'une situation difficile sur le marché du travail, l'importance accordée pour acquérir des compétences nouvelles est bien justifiée.

La migration circulatoire pour le travail est une des solutions auxquelles les familles qui se trouvent en impasse, surtout des localités avec un potentiel économique réduit, font appel fréquemment en Roumanie. Vu l'ampleur du phénomène et les conséquences sur le marché du travail, notre pays devrait adopter des mesures pour gérer de manière cohérente la migration économique (Blaga, 2009): *surveiller les flux d'émigrants roumains* qui ont un emploi à l'étranger et *développer des programmes de réintégration des Roumains* qui veulent retourner dans le pays, avec des effets bénéfiques pour le déficit interne de force de travail.

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An Evaluation of the Sale of Public Assets as Alternative Public Debt Reduction Strategy in European Countries

Irina Bilan[1]

Abstract: Against the backdrop of the recent crisis, many European countries have been confronted to high and unsustainable public debts, the issue of conceiving and implementing debt reduction strategies becoming one of great interest to both the scientific community and public policy-makers. Several options have been put forward, some of them (like fiscal consolidation) explored in depth by researchers and already applied in many countries, while others have benefited of less, even minor attention. Thus, our paper aims to evaluate the sale of public (financial and non-financial) assets as possible alternative for restoring public debt sustainability in European countries, contributes to existing literature by providing a more thorough analysis of a usually overlooked alternative. The paper is designed as a case study, mixing qualitative and quantitative evidence on the topics of interest with regard to the situation of 20 European countries, selected on criteria of data availability. The general conclusion is that the sale of public assets should, at least in the most indebted countries, be incorporated into public debt reduction strategies, but in addition to other measures (mainly fiscal consolidation ones) and always on the basis of realistic and extensive cost-benefit analysis.

Keywords: financial assets; non-financial assets; economic crisis; government debt; public policy

JEL Classification: G01; H27; H63; H82

1 Introduction

Not long after the outbreak of the global economic and financial crisis, in late 2009, it became obvious for some European countries that the worst was yet to come, as a new, sovereign debt crisis, was emerging. As a result of the economic recession, but also of the financial support measures aimed at helping banks and other financial institutions in trouble, public debt severely increased in many countries, becoming unsustainable. In just two years, by 2011, the general government gross debt overpassed 100% of GDP in Belgium, Greece, Ireland, Italy and Portugal, but increased substantially in many other European countries. This was adding to preexisting fiscal vulnerabilities, like the large amount of implicit liabilities resulting from unsustainable public pension schemes (Nuta, 2014). As public authorities realized that the issue of high and increasing public debt should be immediately addressed, it became imperative to conceive and implement public debt reduction strategies aimed at restoring debt sustainability. Several policy approaches were considered, namely fiscal consolidation

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(by means of public expenditure cuts and/or increasing taxes), promoting economic growth, the amortization of public debt through inflation, the sale of public assets and even public default.

On this background, our paper aims to evaluate the sale of public assets as possible alternative for restoring public debt sustainability in European countries. In particular, we seek to answer the following questions:

- What is the amount and composition of financial and non-financial assets that European public authorities hold?
- To what extent the sale of public assets could contribute to public debt reduction in Europe?
- What are the pros and cons of this option and how should it be incorporated into the wider public debt reduction strategy?

Our paper is designed as a case study, mixing qualitative and quantitative evidence on the topics of interest with regard to the situation of 20 European countries (19 EU Member States and Norway). The selection of countries to be included in our analysis was mainly driven by data availability. As data sources, we used the databases of the International Monetary Fund (Government Financial Statistics) and the European Commission (Eurostat), as well as several national sources.

2 Short Literature Review

As the sovereign debts of European countries began to visibly grow, against the backdrop of the economic and financial crisis, threating to become unsustainable, the issue of conceiving and implementing public debt reduction strategies has become one of great interest to both the scientific community and public policy-makers. However, a detailed investigation of all the options of indebted public authorities and of the way they could be exploited, in relation to the implications that an alternative or another would entail, but also with the concrete conditions of each country or period, was rarely addressed in the literature. Only a few studies deal with all the alternatives public authorities have to cut down debts (Reinhart & Rogoff, 2010: Bilan, 2014; Kirkegaard et al., 2011). Most of the studies (among the most recent ones those of Sutherland et al., 2012; OECD, 2012b; Cafiso & Cellini, 2014; Antelo & Peon, 2014) focus on the analysis of a single option, namely that of fiscal consolidation, evaluating the size of the consolidation efforts needed to restore public debt's sustainability, the composition and potential effects of different consolidation measures, or assessing the quality of the measures adopted in different countries. With regard to the evaluation of the sale of public assets as alternative to reduce public debt, only a few studies directly address this issue, and some of them only as complementary measure to other options (IMF, 2012; OECD, 2011; OECD, 2012a). The most conclusive study is that of Bova et al. (2013), that analyzes the size and composition of public non-financial assets for 32 countries, mainly advanced G-20 economies. The authors appreciate that, although governments tend to consider relatively small amounts of such assets to be disposable, their sale could prove to be an important part of future public debt reduction strategies. Rawdanowicz et al. (2011) consider that, although the selling of non-financial assets could help reduce public debt and improve fiscal positions, privatization measures aimed only at raising revenues, without regulatory provisions that address potential market failures, are to be avoided. Referring only to Italy's situation, Fabrizio (2008) concludes that the sale of non-financial assets is complicated in practice and might weaken fiscal discipline. Also, Kirkegaard (2012) estimates both public financial and non-financial (fixed) assets and considers the possibility to dispose of the distressed assets acquired by governments during the crisis to reduce public debt.

An overall assessment of recent studies on public debt reduction strategies shows that, although this subject is widely addressed, by both practitioners and researches, such studies almost unanimously focus on fiscal consolidation strategies, aimed at reducing budget deficits and promoting budget surpluses as means of cutting down public debt. Therefore, our paper contributes to existing literature by providing a more thorough analysis of a usually overlooked alternative, that of the sale of available public financial and non-financial assets.

3 Some Evaluations of the Assets Public Authorities Hold in European Countries

There are two kinds of assets public authorities could use to reduce their outstanding debts, namely non-financial and financial assets. Non-financial assets comprise produced assets (such as buildings, roads, machinery, weapons and equipment, intellectual property products (e.g. computer software and databases; entertainment, literary and artistic originals), valuables, inventories) and non-produced assets (such as land, subsoil resources, water resources, licenses and leases). Financial assets comprise both very liquid assets (such as monetary gold and SDRs, currency and deposits) and less liquid assets (such as shares and other securities, or loans). As we can see in Table 1, the amounts of non-financial assets public authorities hold vary substantially across the European countries for which data have been reported, although differences in definitions and methods of valuations, as well as the reporting of incomplete data could, at least in part, explain for this situation. For example, only a few countries report data on all types of non-financial assets (Czech Republic, France, Slovakia), most of them considering only fixed assets (Austria, Finland, Belgium, Hungary, Lithuania, Slovenia, United Kingdom) and sometimes land, as non-produced asset (Germany, Italy). However, even such incomplete data show us that there are countries that have relatively large holdings of non-financial assets, exceeding by far 100% of GDP. It is mostly the case of some Central and Eastern European countries, like Czech Republic, Hungary or Latvia, possibly in relation to their communist legacy. Also, there are countries where public authorities hold quite small amounts of non-financial assets, compared to the former, of about only 30-50% of GDP, like Austria, Belgium, Finland, Ireland or Norway.

Table 1. Non-financial assets held by the general government sector (% of GDP)

Country	*Year*	*Produced assets, out of which:*	*Fixed assets*	*Buildings and structures*	*Machinery and equipment*	*Other fixed assets*	*Inventories*	*Valuables*	*Non-produced assets, out of which:*	*Land*	*Total non-financial assets*
Austria	2012	:	36.5	33.5	2.8	0.3	:	:	:	:	36.5
Belgium	2010	37.9	37.9	36.4	1.3	0.2	:	:	:	:	37.9
Czech Republic	2012	135.5	128.3	124.4	3.6	0.3	7.1	0.07	19.5	19.5	155.0
Finland	2012	:	49.6	46.6	2.7	0.2	:	:	:	:	49.6
France	2012	58.4	57.5	50.1	3.3	4.2	0.8	0.0	38.4	37.7	96.8
Germany	2012	:	47.8	42.1	3.1	2.6	:	:	:	7.4	55.2
Hungary	2011	113.9	113.9	108.6	5.1	0.2	:	:	:	:	113.9
Ireland	2012	:	:	:	:	:	:	:	:	:	33.5
Italy	2008	51.8	51.8	45.6	5.7	0.4	:	:	32.6	32.6	84.4
Latvia	2010	168.8	166.4	161.9	3.9	0.6	2.3	0.05	15.2	:	184.0
Lithuania	2012	:	54.0	50.9	2.7	0.3	:	:	:	:	54.0
Luxembourg	2011	84.7	57.7	55.5	2.1	0.1	:	:	:	:	84.7
Netherlands	2012	:	65.3	62.2	2.7	0.3	0.08	:	35.3	8.2	100.7
Norway	2012	:	:	:	:	:	:	:	:	:	47.1
Slovakia	2012	:	42.2	28.3	8.0	5.8	2.4	0.05	7.8	7.7	52.4
Slovenia	2011	:	52.8	47.7	4.1	1.0	1.1	:	:	:	53.9
United Kingdom	2012	59.9	59.8	46.6	11.2	2.0	0.05	:	:	:	59.9

Notes: For Germany, national authorities report as non-produced assets only the value of land underlying buildings and structures. For Ireland and Norway, IMF reports only the total amount of non-financial assets held by the general government. According to UK's national methodology, the value of land underlying buildings, structures and cultivated biological resources is included in the value of the latter. The total amount of non-financial assets held by the general government sector has been determined as the sum of all available amounts for different non-financial assets categories, thus the total amount may be underestimated for countries that do not report data for all categories

Source: the authors, data from IMF (2012), IMF (2015), European Commission (2015) and national sources (INSEE, 2014; Office for National Statistics, 2015; Federal Statistical Office, 2014; Marini, M., 2011)

Buildings and structures are the main form of non-financial assets, counting for more than 80% of overall fixed assets (with the exception of United Kingdom and Slovakia) and more than 50% of non-financial assets in all countries, even those for which data on all types of such assets are available (80.3% in the Czech Republic, 54.0% in Slovakia and 51.8% in France). As for non-produced assets, they consist mostly of land, counting for more than 90%, with the exception of Netherlands, where subsoil assets are very important, representing more than 75% of non-produced assets. It thus results that a strategy aimed at reducing public debt by the sale of non-financial public assets should focus on two types of assets, namely buildings and land.

A great variability among European countries is also recorded with respect to general government financial assets, for which more complete and comparable datasets are available. It results from Table 2 that some countries (like France or Norway) have significant holdings of such assets, of over 100% of GDP, while the public authorities of others dispose of only a small amount of financial assets, below 30% of GDP (e.g. Belgium, Hungary, Italy, Latvia, Lithuania), some of those countries also having large public debts (namely Belgium and Italy). Although Norway clearly stands out of other European countries, its situation is a particular one, as it disposes of large oil reserves and invests a great part of the proceeds from oil sales in financial market assets (OECD, 2011). The data in Table 2 also show that, shares and other equity generally count for almost 50% and even more of overall non-financial assets, while currency and deposits, the most liquid assets that could be immediately be used to reduce gross debt, do not generally count for more than 25% (with the, although not very noticeable, exception of Czech Republic, Germany and Ireland).

Table 2. Financial assets held by the general government sector (% of GDP)

Country	*Monetary gold and SDRs*	*Currency and deposits*	*Securities other than shares*	*Loans*	*Shares and other equity*	*Insurance technical reserves*	*Other accounts receivable*	*Total financial assets*
Austria	0.0	4.6	2.5	9.6	16.8	0.0	2.5	36.0
Belgium	0.0	4.1	0.3	2.6	11.9	0.0	5.1	24.0
Czech Republic	:	12.9	0.2	1.0	21.3	0.0	8.6	44.2
Finland	0.0	8.4	23.1	15.8	67.3	0.0	4.8	119.4
France	:	2.7	2.2	3.6	20.6	0.1	9.9	39.0
Germany	:	10.4	3.9	6.9	12.5	0.0	4.3	38.0
Greece	0.0	10.7	6.6	0.6	33.9	0.0	12.4	64.2
Hungary	0.0	6.9	1.7	0.7	14.6	0.0	5.0	28.9
Ireland	0.0	14.8	5.9	4.1	14.6	0.0	5.1	44.5
Italy	0.0	4.8	1.7	5.6	8.0	0.1	8.7	29.0
Latvia	0.4	5.8	0.1	2.4	11.5	:	4.1	24.1
Lithuania	:	5.8	0.3	2.3	14.0	0.0	4.5	26.9
Luxembourg	0.0	11.8	0.5	2.3	53.7	0.0	11.9	80.1
Netherlands	0.0	2.3	5.1	9.4	15.3	0.0	8.4	40.5
Norway	:	8.1	52.7	20.8	109.9	:	10.8	202.4
Portugal	0.0	11.6	5.5	3.5	22.8	0.0	6.8	50.2
Slovakia	:	5.4	0.3	3.9	18.1	0.0	3.7	31.4
Slovenia	0.0	12.0	0.6	4.7	29.9	0.0	6.3	53.5
Spain	0.0	8.2	0.5	6.2	13.9	0.0	4.4	33.3
United Kingdom	1.2	6.6	3.1	4.9	14.6	0.0	5.1	35.5

Notes: Consolidated data for 2012
Source: European Commission (2015)

Also, the amount of available public assets considerably varied in time. In France, where data on general government non-financial assets were available for a longer period of time, their value has continuously risen from 2000 to 2012 (with the exception of 2008), so that the assets available in 2012 were more than double the ones in 2000 (INSEE, 2014). Public financial assets followed the same pattern, their value more than doubled (in Belgium, Czech Republic, Ireland, Spain, Portugal, Slovakia, Finland) or even tripled or quadrupled (in Greece, Latvia, Norway) between 2000 and 2012. However, the value of non-financial assets slightly decreased in many countries in the aftermath of the crisis, mainly in 2008 and 2010-2011 (e.g. in Czech Republic, Ireland, Greece, Spain, France, Italy, Latvia, Lithuania, Hungary, etc.) (European Commission, 2015).

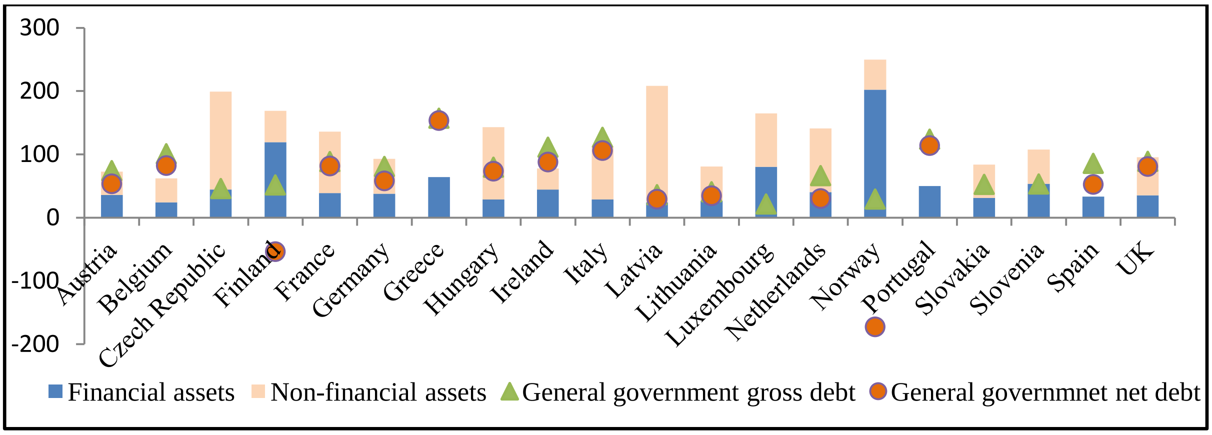
This evolution was mostly determined by the dynamics of real and financial assets prices, that rose in the years preceding the crisis but dropped, sometimes significantly, once the crisis emerged. For financial assets, the drop in prices was, at some extent, compensated by the assets acquired by general governments within their financial sector rescue programs. This proves that, if the sale of public assets is decided to be a good strategy, the moment should be carefully chosen, in order to maximize the revenues raised in this way.

4 The Sale of Public Assets - a "Magical Solution" for Indebted European Countries?

To see if the sale of public assets could have an important contribution to solving the public debt problem in indebted European countries, and if this could be the central pillar of their public debt reduction strategies, a first and simple (though not without shortcomings) approach would be to compare the overall amount of such assets to the consolidated gross debt of the general government sector in each country.

Although such an analysis is highly affected by the lack of data, especially for non-financial assets other than fixed assets, it results from Figure 1 that, for most countries (Czech Republic, France, Finland, Hungary, Latvia, Lithuania, Luxembourg, Netherlands, Norway, Slovakia and Slovenia), the overall value of their public assets exceeds by far the value of their public debt liabilities.

However, these countries are not confronted with very large public debts. In the highly indebted countries, the situation does not appear to be so bright. In Belgium, Ireland, Italy, and also Greece, Portugal and Spain (although in these later cases data for non-financial assets have not been available), even by the sale of all available public assets, public debt could not be liquidated.

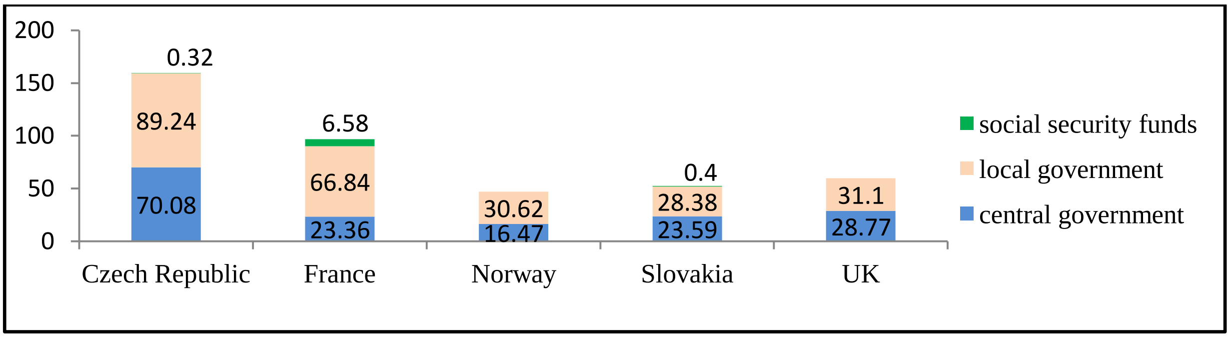


Notes: Data for 2012, with the exception of general government non-financial assets, for which data can be for previous years (see table 1). For Greece, Portugal and Spain data were not available for general government non-financial assets, while for Czech Republic, Luxembourg, Slovakia and Slovenia, data on net debt were not available.

Source: the authors, data from IMF(2012), IMF (2014), IMF(2015), European Commission (2015) and national sources (INSEE, 2014; Office for National Statistics, 2015; Federal Statistical Office, 2014; Marini, M., 2011)

Figure 1. Total amount of financial and non-financial assets of the general government sector and general government gross and net debt (% of GDP)

A more credible strategy would rely mostly on the sale of financial assets, for which data are available for all European countries. A common approach, in this respect, is to compare the value of general government gross debt with the value of financial assets that could, at least in principle, be liquidated in order to repay the former. By subtracting such financial assets from gross debt, a new concept, of net debt arises. A small positive and even negative value of the general government net debt would imply that available financial assets cover, for the most part, existing debt liabilities, and so public debt problem could be, at least apparently, easily dealt with. From this point of view, the situation, as depicted in Figure 1, appears to be even more alarming. With the exception of Finland and Norway, all the countries included in our analysis (for which data on net debt have been reported) have positive general government net debt, exceeding 100% of GDP in Greece, Italy and Portugal, and ranging between 80-100% of GDP in Belgium, France, Ireland and United Kingdom.



Notes: Data for 2012, with the exception of Czech Republic, for which data are for 2010. For Norway and United Kingdom, the non-financial assets of the central government include those of the central social security funds.

Source: the authors, data from IMF (2015) and national sources (Czech Statistical Office, 2012; INSEE, 2014; Office for National Statistics, 2015)

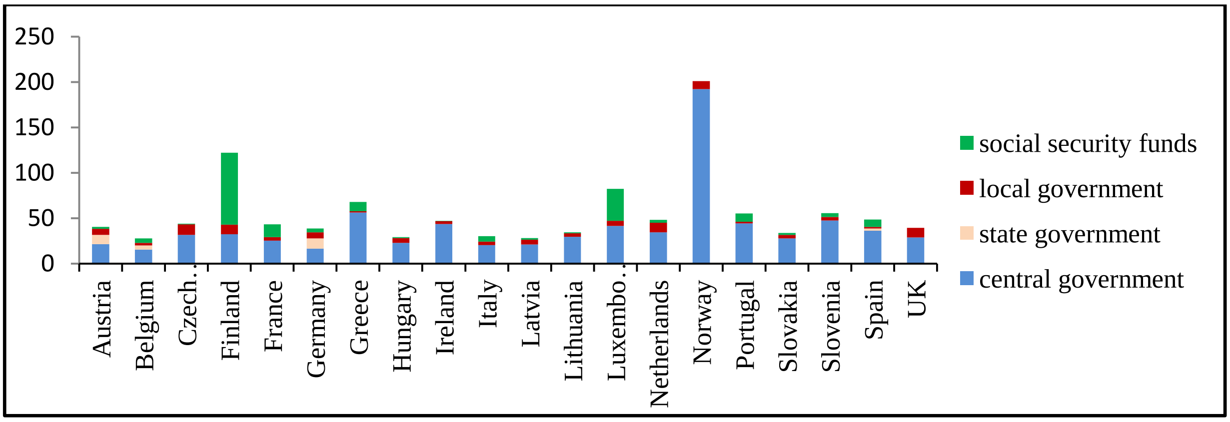
Figure 2. The amount of non-financial assets by levels of government (% of GDP)

An important issue when evaluating the sale of public assets as an alternative public debt reduction option is that arising from decentralization. In particular, the proceeds resulting from the privatization of public companies or the sale of other public assets should be used by the authorities owning these assets to repay their debts. In this respect, it becomes relevant to evaluate the amount of public (financial and non-financial) assets and corresponding debt liabilities by levels of government.

Although data on non-financial assets by levels of government are available for only a small number of countries, it results from Figure 2 that real assets are for the most part owned by local governments, while social security authorities hold only small amounts of such assets. Local governments own 55.9% of overall non-financial assets in Czech Republic, 69.1% in France, 65.0% in Norway, 54.2% in Slovakia and 51.9% in United Kingdom.

The situation is quite different with respect to financial assets. It results from Figure 3 that they are held mostly by central authorities, with some exceptions like Finland (where social security funds play an important role) or Germany (where the distribution of financial assets holdings among different levels of government is more even). In countries like Greece, Ireland, Lithuania, Norway, Portugal, Slovakia and Slovenia, central governments hold more than 80% of overall financial public assets.

Considering that local public debt represents only a small part of the overall general government debt in most of the European countries, generally less than 10% (and even much smaller in some highly indebted European countries like Greece – 0.6% and Ireland – 2.5%) (European Commission, 2015), it thus results that the sale of financial assets is expected be the main option for public debt reduction by means of assets selling, when such an alternative is even considered.



Notes: Data for 2012. Data on social security funds' financial assets were not available for Norway and United Kingdom
Source: the authors, data from the European Commission (2015)

Figure 3. The amount of financial assets by levels of government (% of GDP)

At the first sight, the sale of public assets, when large amounts of such assets are available, is an easy way to deal with unsustainable public debts, as it allows public authorities to raise a large amount of resources and in a quite short period of time. No one can argue that it is easier to sell buildings, land and equities than to cut down public expenditures (especially those with the remuneration of public employees and social security ones, leading to strong social reactions) or to increase taxes. However, when deciding to consider such an option as part of public debt reduction strategies, public authorities should carefully assess all economic, social, and even political consequences of such a decision.

However tempting (and highly appreciated by the international community) it may seem, the sale of public assets may entail several negative effects, as follows:

- It might give rise to future revenue losses, if such assets are a source of public income. This is especially important for local governments that rely, on a greater extent, on property revenues.

- Public expenditures may rise in the future, for example when public buildings are sold and alternative space must be leased.
- It might entail the loss of jobs and deterioration of public services, especially to poorer communities (e.g. health care services).
- In some particular cases, like in the railway or energy industry, the few players on the market could lead, once privatization is accomplished, to the creation of a private monopoly or oligopoly, and the prices and tariffs could increase. Consumers are thus affected, although governments could still support them through subsidies.
- Governments may lose control over national resources (land, subsoil resources).
- Some non-financial assets (e.g. works of art) are heritage assets, having important historical value.
- The future creditworthiness of public authorities could be damaged as such assets are a general guarantee of government's ability to repay its debts.
- The political parties responsible for this decision may have to deal with the loss of political capital as such measures are not very popular, frequently been associated with the loss of "national identity and pride".

In some cases, however, the sale of public assets could prove to have additional benefits than the raising of revenues. If bank assets holdings are liquidates, this could help reduce the exposure of government balance sheets do macroeconomic shocks. Also, this could help reduce future costs with the administration of such assets and, when resources are less efficiently administrated by public authorities, this could boost economic efficiency.

In fact, except for the situation when public debt problems are really pressing, one rule of thumb should be to accept such an alternative only if some other goals are aimed at in addition to revenue raising, like increasing economic efficiency. In some cases, like buildings or transport infrastructure, better options are available, like leasing buildings or setting up user fees (e.g. road tolls).

Also, policy-makers should always keep in mind that the sale of public assets gives rise to one-off resources so, if the causes leading to the unsustainable growth of public debt are not temporary ones and adequate corrective measures have not been adopted, it is highly expected that public debt issues will rise again. So, such alternatives should be accompanied by wider reforms and programs aimed at keeping budget deficits low and ensuring the long-term sustainability of public finances.

Finally, as the prices of financial and real assets generally are still low compared to their pre-crisis level (Simionescu & Gherghina, 2014), to wait until financial and real estate markets fully recover, if public debt is not a very pressing issue, would be a good decision, in order to maximize revenue.

5 Conclusions

The general conclusion of our analysis is that, although the sale of public assets (mainly financial ones) should, at least in most indebted countries, be incorporated into public debt reduction strategies, it should not be the core part of such strategies, but come in addition to other measures, mainly fiscal consolidation ones.

On the one hand, even all available (financial and non-financial) public assets do not cover, in some countries with large public debts (like Belgium, Ireland, Italy but possibly even Greece, Spain and

Portugal, for which data on non-financial public assets have not been available), the value of their general government gross debt. On the other hand, this would only temporarily solve the problem, as when the issue of unsustainable budgetary policies is not addressed, the debt problem is very likely to reappear, at least when the economy will once again be confronted with macroeconomic and financial shocks.

The decision to sell public assets, in order to cut down public debts, should rely on realistic cost-benefit analysis, taking into account both positive results (e.g. lower public debt and future interest payments, increasing economic efficiency) and costs (the loss of future revenue sources, higher public expenditures, the loss of control over national natural resources or of political capital), according to the particularities of each country and period. Maybe with the exception of some really serious debt problems, such a decision definitely should not be driven only by the necessity to raise revenue.

6 Acknowledgement

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Management and Marketing Elements in Maritime Cruises Industry. European Cruise Market

Romeo Boşneagu[1], Carmen Elena Coca[2], Florin Sorescu[3]

Abstract: European cruises market has a major impact on all aspects of maritime industry: boarding ports, ports of call, shipbuilding, ship maintenance, supplies, sales and marketing, ship crews and administrative facilities. While in 2013, fiscal and economic conditions in Europe have continued to have a constraint to increasing demand for cruises, the number of passengers, Europeans or visitors of European ports, has grown moderately. For the next years, a higher growth of Europena market cruises is expected.

Keywords: management; cruise; passengers; European ports; cruise market

JEL Classification: H12; R 41; N70; A12

1. Brief Introduction in the World Seaborne Trade

In the world economy history, the economic, political and social, and also military and geopolitical importance of the international seaborne trade has been proven. Today, shipping has the lead role in the international transport, an efficient way for economic exchange of material goods.

Shipping carries out about 75 ... 80% of world merchandise traffic and ever-increasing share of passenger traffic, beeing far the main form of transport.

The world seaborne trade interdependently grew with the World Economy, with the developement of the design and construction of specialized vessels by type of goods transported, and also multifunctional vessels, more efficient and higher rates of exploitation which are operated in new generation ports, provided with specialized terminals equipped with advanced facilities for loading and unloading.

The maritime transport has three basic components: the commercial ship, the port, the cargo or passengers, but also the usages, "common law" or maritime trade regulations, including relevant international agreements.

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The worldwide shipping performs its economic crucial role by involvement in the national and international circuit of goods. This role is exerted by low price, large amount of freight per mile, into contracting time and safe of navigation, ship, crew, cargo and marine and port environment protection.

The world maritime transport is strictly regulated by law, based on international conventions accepted and used by all schipping companies, and any dispute shall be arbitrated or judged in specialized tribunals vested with power of decision (Bosneagu, R., 2011).

Maritime transport is a catalyst for economic development, being a source of cheap transportation, cost-effective even for the normal products transport, due to the much lower prices than those of others transport modes.

The economic development of the human society has imposed transport development, and of course by sea, between the development of economic relations and international transport being a strong interdependence: firstly, increasing of the international economic exchanges default state leads to increased needs for transport of goods, with direct investment implications in the transport growth; development of transport which is the appearance of transportation improved, efficient and competitive ports, modern airports and railways, new transport routes lead to simplification and efficiency of the international trade.

2. Elements of Management and Marketing In Shipping

General management principles are applied with specific features in the maritime transport field. The main goal is that of achieving organizational structures (companies, ships) capable of providing the optimum combination of human, material, financial, informational resources for the profit maximization.

Regarding to the capital management, great importance is rendered for: the financing resources; types of capital invested; the analysis of financial markets and identification of the advantages and disadvantages offered by international and national financial resources; risk analysis. Regarding freight management, the analized factors are: freights practiced situation; ways of saving and cost optimization.

General marketing has direct application in shipping. Any successful business in the shipping industry (where the amounts invested are usually very large) is based on a thorough analysis and forecast based on feasible figures, developments in economic, political, social (including consumer behavior).

3. European Cruises Market

The most important functions of management applied in the interntional shipping - analysis and synthesis - briefly shows the following situation of the international and European cruises markets:

- first transatlantic merchant ships were aimed at goods transportation and less the passengers one; first shipping company which has established a passenger line-Europe America was the American company *Black Ball Line* in 1818; the voyage, especially in the Atlantic and adjacent seas, was promoted by the British Medical Journal, which, in 1880, advised the British to travel at sea for great curative purposes (Kresl, 2005), early transport of passengers by sea in the modern era has its beginning in the 60s, when shipping companies start passenger cruise campaigns in attractive exotic areas, using luxurious ships, for new categories of customers who were are able to afford the cost of such vacations at sea. New cruise ships were designed, offering a relaxed atmosphere and multiple entertainment opportunities on board. Unlike the classic passengers transportation, now ships no longer travelled to specific destinations, the purpose of those on board being the the trip itself, like visiting the attractive port cities. Today, cruises are still popular with the established routes, usually in the Caribbean, Mediterranean and Alaska. Since not all ports offer identical tourist conditions, "their ability to win in the cruise business depends on several important factors of geographic location" (Brown, 2009).

- cruises are a very popular choice for holiday, since they offer a wide range of products and services tailored to each passenger tastes, regardless of age, knowledge or interest. Since 1980, going on a cruise has been one of the segments which grew the fastest in the tourism market in North America. According to *Cruise Lines International Association* CLIA (Cruise Lines International Association), in 2012 approximately 17.2 million cruise passengers were in one of the member companies, compared with 7.2 million passengers in 2000, meaning an annual increase of 7.2%.

Based on CLIA studies, the cruise industry is estimated as still untapped and represents approximately 12% of the tourism market in North America. According to the number of berths for passenger ships or the number of cabins for passengers, the cruise industry is relatively in its infancy, compared to the wide variety of tourist destinations on land along North America. In addition, according to marketing research of maritime tourism industry, only 24% of the US population has ever taken a cruise, but that percentage will increase. European tourism market, the fastest growing market worldwide, is very low for cruise industry, about 1% of Europe's population reserving a cruise in a year, compared with 3% of the population of the United States and Canada.

- European shipping situation analysis shows that the network ports in Europe has known a lively port activities even since antiquity (especially in the Mediterranean basin), continued in the Middle Ages and amplified with great geographical discoveries. Ports are essential for European trade and transportation, with direct effects on the competitiveness of Europe, with a huge potential for creating jobs and attracting new investments. The ports of Europe are the main transit points throught inland. Over 100,000 kilometers of European coastlines there are over 1,200 commercial ports. Ports are key points of modal transfer and handling a total of more than 90% of all international trade in Europe and over 40% of total intra-community trade. Also, over 74% of all goods are transported via ports. European ports are equally important for intra-European trade: every year 37% of freight traffic pass through these ports within the EU and 385 million passengers.

- the passenger transport industry has had a large dynamic development for over 30 years. Cruise industry has its beginnings in North America, then more and more requests came from Europe and other parts of the world. Analysis of the international statistics on international cruise industry shows an increase in international cruise industry sector in the period 2003 - 2013 (Table 1).

Table 1. The evolution of international carriage of passengers by sea in the period 2003-2013

million passengers / year							
Region	**2003**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
North America	8.23	10.29	10.40	11.00	11.44	11.64	11.82
Europe*	2.71	4.47	5.04	5.67	6.15	6.23	6.40
Subtotal	10.94	14.76	15.44	16.67	17.58	17.87	18.22
Rest of the world**	1.08	1.54	2.15	2.40	2.91	3.03	3.09
Total	12.02	16.29	17.59	19.07	20.49	20.90	21.31
% Not applicable	68.5	63.2	59.1	57.7	55.8	55.7	55.5

*including Russia and the Central and Eastern countries non EU

** rest of the world: most data is estimated and adjusted in 2009 to take account of the dynamic growth in the southern hemisphere

*** G.P. Wild (International), CLIA, IRN and other sources

- during the 10 years analyzed, the demand for cruises worldwide increased from 12.0 million to 21.3 million passengers (+77%), with an increase of 2.0%, achieved only in 2013. In the same period the global tourism increased by 57% to an estimated 1.087 billion tourists in 2013 (figure 1).
- although the number of passengers in North America increased by 44%, the relative share of the total market in the region declined from 70% in 2004 to 55% in 2013.
- the overall share of the North American market in recent years has stabilized around 55% share, while market expansion in Europe cruises moderated compared with the previous period (table 2). In 2003, 2.6 million Europeans were cruising, but by 2013 this number increased by 6.4 million, representing an increase of 146% (figure .2). At the same time, onshore tourism market expanded by 38% reaching a total of 563 million tourists.

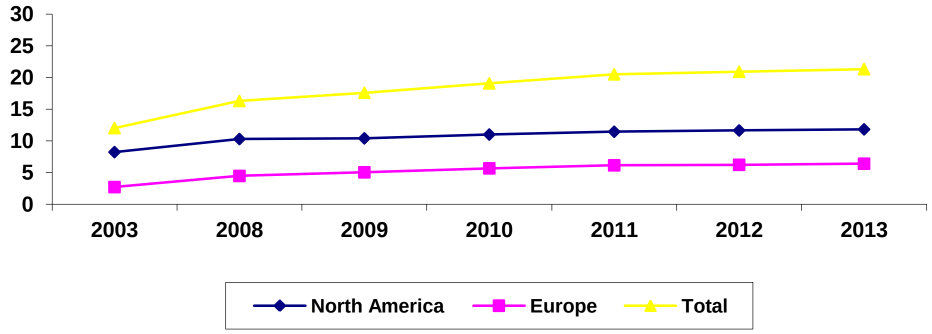

Figure 1. The evolution of the international carriage of passengers by sea in the period 2003-2013

Table 2. Evolution of the Europe cruises market in 2011-2013

Market	**2011**		**2012**		**2013**		**2011 – 2013 %**
	total thousand passengers	market share %	total thousand passengers	market share %	total thousand passengers	market share %	
UK	1.700	28.0	1.701	27.7	1.726	27.2	+2
Germany	1.388	22.9	1.544	25.2	1.687	26.5	+22
Italy	923	15.2	835	13.6	869	13.7	-6
France	441	7.3	481	7.8	522	8.2	+18
Spain	703	11.6	576	9.4	475	7.5	-32
Others	913	15.0	1.002	16.3	1.078	17.0	+18
Total	6.068	100	6.139	100	6.357	100	+5

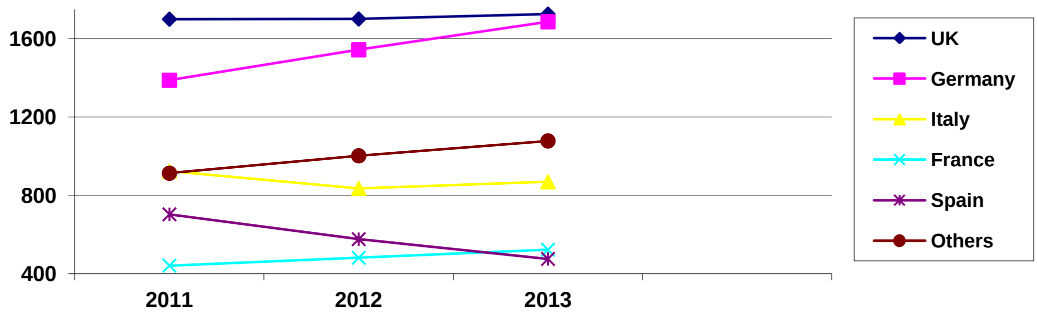

Figure 2. Europe cruises market evolution in 2011-2013

4. European Fleet of Cruise Ships Evolution

Cruises market developments is closely related by precise knowledge of the trend of the European fleet of passangers ships. In 2013, there worked 43 passengers companies (line passengers companies) having their headquarter in Europe and 125 cruise ships operated, with a capacity of 144,717 passenger seats (in cabins with twin beds). In addition, there were 24 companies headquartered outside Europe line, but participating in the cruise market in Europe. These companies, mostly North American, 73 ships were distributed in Europe with a capacity of 104,497 passenger (in cabins with twin beds). In 2013 there were at least 166 active ships in the Mediterranean and 108 ships in the Northern Europe. These ships varied as transport capacity: from 4,200 passengers *Norwegian Epic*, to ships with less than 100 passengers. *Norwegian Epic* was the largest cruise ship in European waters until 2014, when that honor went to the ship *Oasis of the Seas*, with a capacity of 5,400 passengers.

5. Conclusions on the Future of the International Carriage of Passengers by Sea

The report published in 2013 by *Cruise Lines International Association* (CLIA)[1] shows that the turnover of the international cruise industry reached 91,000 million. Euro/year, with a total of 891,009 full-time employees; amount of wages paid was 30,000 million. Also, the same report shows that in the last decade the demand for cruises worldwide increased by 77%, from 12 million passengers to 21.3 million passengers.

Cruise industry has become truly global. It allows bringing together people of different nationalities, ages, backgrounds and life experiences professions (passengers and crew), the great experience at sea and on land, in all parts of the world, unattainable in other times and other means, rate so high. The attractivity of holidays at sea is increasing due to management and marketing applied in this very complex and dynamic, which offers its customers great fun at sea. The increasing of the international cruises industry lead to the increasing of employment and income for companies and the general tourism industry located to the seaside.

The 2013 CLIA report shows that almost 45% of the total cruise industry this year was generated in Europe. So we can say that sea passenger transport can contribute in a significant proportion of Europe's economic recovery, generating economic growth, new jobs, in a post-crisis period still

[1] http://www.cliaeurope.eu/images/downloads/reports/CLIA_2014.pdf-CLIA's Cruise Industry Magazine – Annual Economic Contribution Report.

unclear economically. Attracting as many Europeans as possible on holidays at sea, on European waters, with stops in as many European ports and as many passenger ship built in Europe, is an ongoing objective, perfectly feasible for economic growth in the European Union.

According to the Global Report on the global economic contribution of cruise tourism in 2013, conducted by CLIA for *Business Research & Economic Advisors* (BREA), the main conclusions are[1]:

- the total number of passengers boarding in ports worldwide was 21.31 million people;
- geographical origin of the passengers was as it follows: North America 55% (11.82 million), of which 10.92 million passengers residing in the United States; Europe 30% (6.4 million), of which 1.73 million British, German and 1.69 million; Australians (833,000 passengers); Brazil (723,000) and China (727,000);
- an average cruise was 7 days with 3 or 4 stops;
- daily expenses of passengers and crew members were on average of 100 euro / day [2];
- statistically, it has been established that less than 3% of Europeans have done a cruise and less than 1% of Asians.

The main conclusion taken by the meeting of cruise industry, from *Seatrade Med Congress* Barcelona 2012: there is a great opportunity for future growth in turnover in the field. However, the lack of specialized port infrastructure, passenger complaints and geopolitical tensions in some destinations are factors which must be taken into account in developing the economic efficiency of the sector.

It should be noted that ports in the Mediterranean region, members of the association of ports *MedCruise*, received in 2013 a total of 2.7 million passengers, 4% more than in 2012, a record number of passengers increased by 23, 6% compared to the worst - 2009, the year when the global financial crisis started.

In addition, the stop cruise ports of call in the Mediterranean increased by 6.28% in 2009-2013, reaching 14,628 port calls.

Corroborating data of the moderate economic growth forecasts of the European Union can be said that there are opportunities to prolong growth in passenger transport for the next generation in Europe, despite the economic downturn still faced some countries (table 2, figure 2).

It remains that to the government understands the correct value of the cruises industry, reflected in: jobs embarked personnel (given that the number of passengers aboard a ship crew members is almost identical to that of passengers), new jobs in shipyards, positively conomic and social impact on shore destinations etc.

Another big problem of the cruises industry (especially in some areas of the Mediterranean and Black Sea) is the lack of modern port infrastructure, appropriate new passenger ships (larger, faster, more luxurious, etc.) in several ports, and the existence of different national regulations on environmental protection, safety of the ship, navigation and passengers etc.

So, it is necessary that contractual and economic relations between ports and cruise companies are developed as long-term projects. This cooperation should not be just a business relationship but a complex "contract" for cooperation between companies - local and central authorities, ensuring sustainable development of tourism areas, directly related to economic efficiency, environmental

[1] Ibidem.
[2] http://evisionturism.ro/

marine and terrestrial protection. A good example would be that of cooperation between airlines and airports in many parts of the world, even if they are different realities.

Another concern is the uncertainty of political, social and military field in some destinations in North Africa, Eastern Mediterranean and Black Sea. Political and economic stability are critical factors on business and management and marketing of passenger companies. The Arab Spring, instability that was installed in the area, the war in Syria, piracy, terrorist threats, the crisis in Ukraine have forced companies to rethink their strategy quickly and suddenly change their itineraries planned, with serious economic repercussions on the profitability of companies, and the planned tourist destinations, now avoided due to high degree of risk.

The Eurpean cruise industry is a dynamic source of activities that provides economic benefits to all industries and European countries.

European cruise tourism has an impact on the maritime industry: boarding ports, ports of call, shipbuilding, ship maintenance, purchasing, sales and marketing teams and administrative facilities. While the 2013 fiscal and economic conditions in Europe have continued to constrain the growing demand for cruises, number of passengers, or come to visit European ports, has grown into a moderate pace.

An estimated number of 6.4 million European residents have booked cruises in 2013, which is an increase of 3.6% compared to 2012. In 2013, Europeans accounted for 30% of the world's cruise passengers, compared with a rate of 21.7%, 10 years earlier.

With just over 6.0 million passengers were embarked in an European passanger port, remarking an increase of 5.2% over 2012. Nearly 5 million (83%) were Europeans.

The great majority of tourists visited ports in the Mediterranean, the Baltic Sea and other parts of Europe and 31.2 million passenger visits were generated in 2013, registering an increase of 8.7% compared to 2012. Cruise lines covered a total of about 250 European ports, including the Black Sea and in the British Isles. In addition, in 2013, an estimated 15.2 million members of crew were embarked on board passenger ships during stopovers in European ports. Direct expenditures made by the cruises industry, passengers and crews passenger ships throughout Europe grew by 4.7% in 2013, 16.2 billion, after rising 3.4% in 2012 and 3.3% in 2011.

The estimate is a moderate grow up of the European cruises industry, with outstanding growth, according to the general development of the economy increasing States of the EU and non EU states.

6. New Cruise Ships Evolution in the Next Years

In the next period, from now until 2017, several cruise ships have been ordered for delivery all over the world (27 ships with over 76,000 passengers capacity. 24 cruise ships will be built in European shipyards, one in USA and two in Japan. Ten of these ships with over 21,000 berths (about 28%) will serve the European cruise market, that is an investment of about 3.8 billion euros (table 3, figure 3). It is most probably that many of the others cruise ships will visit European ports and countries. These data show that with a total investment of 12.8 billion euros will be built 27 cruise ships, with 76,000 passengers berths. This means an average of 420 million euros for a cruise ship, and approximately 175 000 euros per each passenger embarked.

Table 3. Worldwide New Cruise Ships 2014 - 2017

No.	Year	Ships	Investment bil. EUROs	Passengers berths thousand
1	2014	6	2,840	18,200
2	2015	7	3,140	19,000
3	2016	10	4,400	26,000
4	2017	4	2,400	13,000
5	Total	27	12,800	76,000

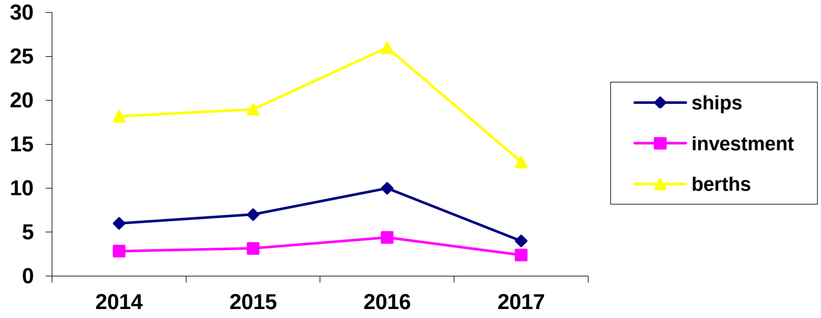

Figure 3. Worldwide Investments in New Cruise Ships 2014 - 2017

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Risk, the Element of Any Economic Activity

Carmen Elena Coca[1]

Abstract: The financial risks have appeared since the beginnings of trade relations. While the step up where they were recognized, limited and checked differed greatly. Financial losses endured by internationally famous companies, due to inadequate Risk Management activities and especially highly publicized, have raised awareness by managers of growing importance to risk management In the economic and financial life, the risk is an element of any activity, being exposed in the agenda of company managers. Unforeseeable changes in the interest rate development, the cost of a good or of the exchange rate affects not only the financial effects of an enterprise, but can cause its bankruptcy as well. Financial decisions are made depending on cash flows of contracts foreseen to come, that through excellence are unsafe.

Keywords: risks; economic activity; financial losses

JEL Classification: G32; H12

The financial risks

The risk is thus an uncertain component of financial decisions. It is not at all astonishing that a significant task of the financial system is the allocation of interest rate risk combined with the development, the cost of shares, the rates or the cost of replacing certain products. Risk management is a multilateral activity, and proposes completion of stages in any process of management.

These steps may be consecutive or simultaneous, showing the following specific stages:

- recognition of all types of risk;
- characterization of the Risk Management Policy;
- estimate of the risk
- each type of risk perception;
- producing risk limits;
- checking the risks;

The capital market proposes instruments both for the branching of many risks, and for reallocating those risks that cannot be branched in a business field by sharing them between many companies. In Romania, the Risk Management activity is approximately insufficiently evolved. Risk is defined as the exposure to a great replacement or the likelihood of an opposing deflection for the circumstance foreseen. Knowledge of risk is a versatile and individual action, therefore the analysis of global,

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aggregate idea is important. Extreme risk events proposes a succession of attributes that require adjustment of methods, procedures and instruments that replicate the appropriation of low possibility - extreme impact - governments have checked various solving both for the case of natural hazards and for the events caused by human action (biological or technologic accidents , international terrorism).

Risk models are:

- risk of market;
- risk of insolvency;
- credit risk;
- operational risk;
- liquidity risk;
- other types of risk;
- risks associated with derivative instruments.

Market Risk

The risk rises from the opposite modification of price or volatility of assets of an enterprise's portfolio. It is differentiated by the market deepening of a firm, which symbolizes the current importance of the financial instruments of the enterprise concerned. The market risk corresponds to the possible property damaged as a consequence of changing costs or the assets volatility. An enterprise has to estimate the market risks resulting from the portfolio owned. Enterprises that have an extremely active portfolio must assess daily market description, while the ones with low and not very active portfolios may perform it more rarely. Market risk includes the interest rate risk and currency risk (exposure contract, accounting the exposure and economic exposure). Contract exposure refers to a collection / payment in currency specified in a certainly future understanding or exists in performing process. This can be observed in the moment of closing a contractual relationship or receiving the remuneration which comprises currency, or the remuneration is made in lei, but the cost of the goods is shown in foreign currency. The economic exposure relates to the changing position of goods/ enterprise in the market quota and thanks to changes in replacement rates between the currencies.

The accountancy exposure exists because of the influence of foreign exchange enrollment of shares in the accounting records or payments / receipts currency spread over for a period. The market risk can be assessed as profit or the possible damage corresponding to a whole portfolio, positions or fellowship with a change of cost or an opportunity time in a known -time horizon - the VaR approach (Value at Risk). The calculation method shows a significant judgment which is taken most of the time by the steering committee of a company. The senior management must establish the key parameters which will be used in calculating the VaR. They can be analyzed and reflect the duration horizon or the safety period - part of the portfolio which is taken into account when calculating the VaR. The parameters mentioned above should be part of any relationship of market risk, as they are required for the outcome of the calculation analysis.

For example, a figure of 10 million USD daily VaR at a 95% the safety period, can be understood as it follows: the company may lose / win up to $ 10 million in 19 of 20 trading days. A VaR daily number of $ 10 million at 99% the safety period symbolizes the company may lose / win up to $ 10 million in 99 of the 100 days. Intuitively, the company with daily VaR of $ 10 million at 99% has an insufficiently risky portfoliothan that with VaR $ 10 million with 95% safety period.

The Risk of Insolvency

The risk of insolvency or not paying on time, turns out when the bank clients fail to pay the loan contracts and has as consequence either a final loss of capital or regain partially / delayed, as legal procedure against borrowers is done.

Studies in the field have highlighted the determinants of insolvency. The risk of insolvency is directly proportional to the mass of credits granted and is inversely proportional to the supply of credit. Concomitantly with development of aggregate lending, insolvency situations is larger, because, among the mass of borrowers there appear more and more potentially bankrupt people.

The bank itself being sensitive to the risk of bankruptcy, it imposes a threshold beyond which it will not lend, regardless of the profitable terms arising from high interest rates. Thus, it is created an area of inflexibility in the relation demand - loan supply.

Each bank promotes a certain restraint in the lending strategy, taking a series of security measures.

These regulations, known under the name of prudential norms relate to the following:

- duty of the banks to form a minimum reserve capital;
- the provision of a certain rate to hide risks, determined as a ratio between the amount of own funds and of credits granted;
- establish a division rate risk, which limits the size of loans that can be given to a single
- customer, so that the bankruptcy of a small group of clients do not considerably affect the bank's liquidity status.

The risk of insolvency is closely related to the performance at the microeconomic level. The degree of risk is different depending on the nature of the customer (if company or individual) and depending on the type of loan. By their nature, loans granted to individuals have a greater degree of assurance.

Real estate credits secured by mortgage are subject to less risk. In the same conjuncture there are the consumer credits, whereas the designated borrower is subject to the refund rates in the pledge to the creditor. These loans and borrowings granted to employees is under the mandatory domicile except income in bank accounts.

For economic agents, the investigation of financial and operational terms ample knowledge is a great way to alert the risk of insolvency.

Customer solvency analysis requires detailed knowledge of all his activities:

- increasing trend;
- development of profit;
- conjunctural developments;
- the solvency and the liquidity indicators evolution;
- characteristics of the enterprise;
- the evolution of the level of indebtedness;
- business development factors;
- evolution and perspective of the marketing of goods;
- the evolution of the working capital;
- evolution availabilities in bank accounts.

Wanting to reduce the risk of bankruptcy, banks have a tendency to help current lending to activity and especially commercial lending cycle.

The Credit Risk

The risk arising from doubt capacity, the skill of or interest partners desire to fulfill contractual obligations.

Examples:

- on forward foreign exchange contract term because of time zone differences, there is a time
- difference to the bank pay dollars so the risk that the bank cannot pay is a risk of the counterparty for the enterprise;
- bank that is lending a company is subject to counterparty risk;
- on a swap on interest rate between two companies, there was a risk of failure of the obligation or counterparty risk.

Issues:

- counterparty risk is very common;
- method of calculation, evaluation: the derivatives counterparty risk is evaluated based on the sum of current expenditures changing positions, plus an evaluation of the company's future exposure due to market movements;
- risk on derivatives is different because their value depends on an underlying asset, their exposure value not being equal to the underlying asset; if the counterparty fails to perform the contract it is deemed to cost change.

Operational Risk

This type of risk can be depicted by the deficiencies occurring in our system of internal checks or business enterprise. The operational risk can be compared with human error, system loss or misapplication of procedures. By its nature, this risk is difficult to quantify.

In the 90s, financial units have started to focus their interest on the risks associated with back office actions, which would call themselves operational risk. Being already interested in the market risk and counterparty risk, many units have included in the operational risk all other risks except premiums. Others have characterized much more limited operational risk, associating it with.

For extra clarity, I would recommend a few examples of operational risk:

- back office of a bank does not notice a mismatch between the reference to a transaction and its proof by the partner. In this case, the transaction may be the subject of a dispute, which may also cause financial harm;
- a trader performs a hedging operation, its damage being of 10 mil. USD;
- instead of communicating the operation performed, the trader enters the computer system of the institution and hides the wrong hedging. Then, he enters a speculative position, waiting to recover from the incurred loss;

The Liquidity Risk

Most of the institutions meet two types of liquidity risk degrees. The first one relates to the depth of the market and refers to characteristic traded goods, and the second relates to funding the activists of the trading. Deciding the judgment limits for different risk types related with the traded products, senior management should take into account the size, depth and liquidity of these markets because those goods market liquidity may affect the company's or institution's ability to modify risk profile, flexibly, quickly and cost effectively.

The liquidity risk occurs when a company cannot fix a big deal in a certain period of time or when that company is fit to receive funds to honour its projected cash flow. In the case of extreme risk events, the amounts to be mobilized quickly are huge and the classical solutions are often difficult or even impossible. Risk management must therefore find innovative solutions, better adapted in terms of dynamic, effective, workable and robust.

An example is the case of Barings bank financial system where lack of liquidity has led to the collapse of the famous British banks with a length of over 200 years. This case is more than convincing, being the proof for damaging consequences of the global liquidity crisis and especially by the absence of a policy to hide liquidity risk that may lead to rapid destruction of even a solid enterprise.

Other Types of Risk

The variety of activities in a company requires a lot of other risks in addition to those expressed above and especially the legal risk, the country risk, the regulatory risk, the risk of accounting transposition, the model risk, the systemic risk, etc.

Legal risk mainly aims at risk that a particular contract is not recognized by the Contracting Party and, consequently, his contractual obligations are not met.

The risk of taxation aims at analyzing the legislation concerning the hedging taxation or the lack of legalization on hedging's taxation, such as Romania's case.

The regulating risk aims at the probability of financial market regulations to handle unexpected change. Therefore, certain types of business can become illegal.

The systemic risk presents an unfavorable shock on the economic chain. A convincing example is the financial bankruptcy of the US in October 1987, when the stock market suffered huge losses and participants were panicked. The crash of financial institutions can lead to the collapse of many other financial institutions, leading to a financial bankruptcy. Systemic risk is that circumstance as the financial bankruptcy, that extends in all economic sectors and negatively affects the entire economy.

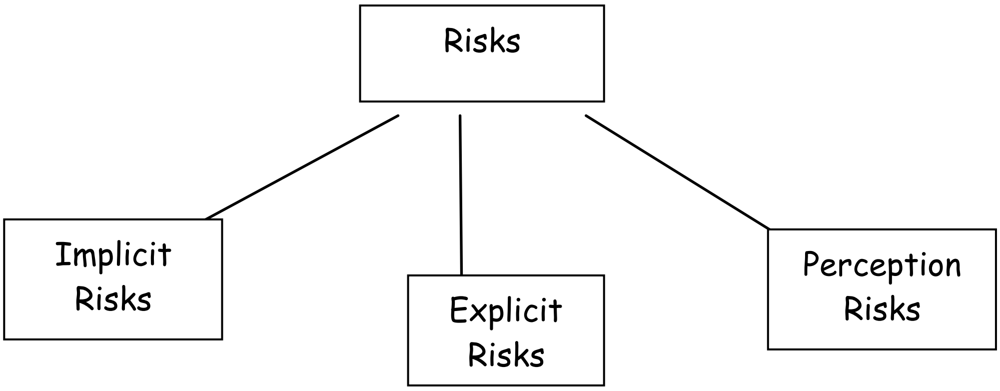
The financial risk is common and is established by differences in accounting legalizations of different countries, especially in the case of multinational companies.

The specific risks with extreme events are hard to predict and evaluated because of its specific characteristics. Analyzing them is done with special methods which are adapted to the specific characteristics and mechanisms of the analyzed of events.

Risks Associated with Derivative Instruments

The risks mentioned above may be partially or totally hidden and managed by the application of derivatives (forwards, futures, options contracts). But exactly the use of these instruments induces more risk at the enterprise level. In recent years, the worry of banks, regulatory fora and other market institutions was held particularly on qualitative recognition and measurement such risks. More specifically, there is a very strained relationship between the economic indicators and the fickleness unchanged capacity development of derivatives trading, sets out both of changing the financial and the detention of goods, and the growth of the OTC market.

Analysis of chain that connects derivative goods of its past users due to their functions within an economy:



The variety of explicit risks includes the exposure of the usual market risks, both the derivatives market, and the market of the underlying asset. The variety default of risks includes risks concerning the use of derivatives in a certain economic circle and within determined circumstances of market. Counterparty risk of derivative transactions is a common model of such a risk. For example, a contract traded on the OTC market choices express evolved counterparty risk towards a contract traded on the market like CBOE (Chicago Board Options Exchange). This risk will be comprised in the importance of the first elections, which will be more reduced to the OTC market and higher on stipendista market.

Besides the counterparty risk, other types of risks are liquidity risk, operational risk, legal risk. What must be specified in this context is that not the derived goods represent such risks, but the shape/ structure of the market where they are traded. What I called earlier perception risks are those risks owed to disagreements or wrong agreements upon ideas about derivatives, the irregularities of the market regarding the legal framework and that of self-regulation.

Three conditions can generate or develop these risks, namely:

- the lack of transparency on the information market;
- lack of education and knowledge about derivatives;
- the wrong use of these tools and due to incorrect measurement risks in a company.

Thus, it can be clearly inferred that awareness and education on derivative financial instruments causing significant exposure to the associated risks.

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Sea Global Containerized Trade. Present and Future

Romeo Boşneagu[1], Carmen Elena Coca[2], Florin Sorescu[3]

Abstract: The global economy, global trade and maritime transport show a trend of development in the next period of time, remaining still some serious risks with the potential to reduce the positive trend, including: modest economic recovery of developed economies, difficulties in emerging growth and development of increasing geopolitical tensions in many parts of the world. Stimulating measures are presently applied in order to achieve the world economic growth, the international trade, the investment and profit growth in consumer's demand, especially in Western Asia and Africa, as well as increased exports of mineral resources.

Keywords: world economy; container; containerization; future prospection

JEL Classification: F40; N70; N70; N10

1. Maritime Transport - link between Production and Consumption

The main role of maritime transport is to provide the link between production activity and consumption of goods and commodities, the primary objective being to ensure a permanent flow of raw materials, machinery, spare parts to industrial production and service and timely move finished products to markets and consumers.

Maritime transport, by its close connection to the shipbuilding industry, has a multiplier effect in the economy by training related industries or economic sectors. Beyond this multiplier effect, the importance of modern maritime transport has also been recognized through the jobs they create and significant revenue to the national budgets and private sector.

Maritime transport has grown along with the development of the world economy, while knowing both the growth of world trade and the decline due to cyclical economic crises, but gradually turning into a global industry. Today, shipping is represented by an international community well-defined, using fleet performance, advanced communications systems, highly specialized, enjoying the fundamental principle of free trade.

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Since its beginning and up to the present, maritime transport, not only kept pace with the global economy, but also contributed greatly and effectively to its development. The crucial role played by the carriage of goods by sea in the early stages of economic development has been recognized by the great economists of the world. Given the economic speed that current ships have reached, the current overcrowding road and rail infrastructures, and the need to minimize pollution levels, the seas and oceans of the world assume special importance in a globalized world trade.

2. The Prospect of the World Economy and the International Maritime Trade

According to the 2014 edition of the specialty publication UNCTAD, Review of Maritime Transport, while reorientation in terms of world production and trade continued with developing countries with great contributions to world economic output, trade and global economic performance in 2013 has improved very little in industrialized regions and stagnated in other parts of the world (table 1 and figure 1). Increased global trade in goods was only 2.2%, in line with the increase of 2.3% of GDP in the world. Global maritime trade decreased on average by 3.8% to a total volume of approximately 9.6 billion tons / year.

The proportion of global maritime trade by type of goods was as it follows: 70.2% dry goods (in particular, bulk cargo volume increased by 5.5%), containerized cargo, general cargo, and 29.8% was represented by crude oil and petroleum products .

Table 1. Global economy and major economies evolution in 2011-2014 [%]

Annual percentage change	**2011**	**2012**	**2013**	**2014**
World	2,8	2,3	2,3	2,7
UE	1,7	-0,3	0,1	1,6
France	2,0	0	0,2	0,7
Germany	3,3	0,7	0,4	1,9
Italy	0,4	-2,4	-1,9	0,1
UK	1,1	0,3	1,7	3,1
Japan	-0,6	1,4	1,6	1,4
USA	1,6	2,3	2,2	2,1
South Africa	3,6	2,5	1,9	1,8
China	9,3	7,7	7,7	7,5
India	7,9	4,9	4,7	5,6
Brazil	2,7	1	2,5	1,3
Russian Federation	4,3	3,4	1,3	0,5

Source: UNCTAD Trade and Development Report 2014

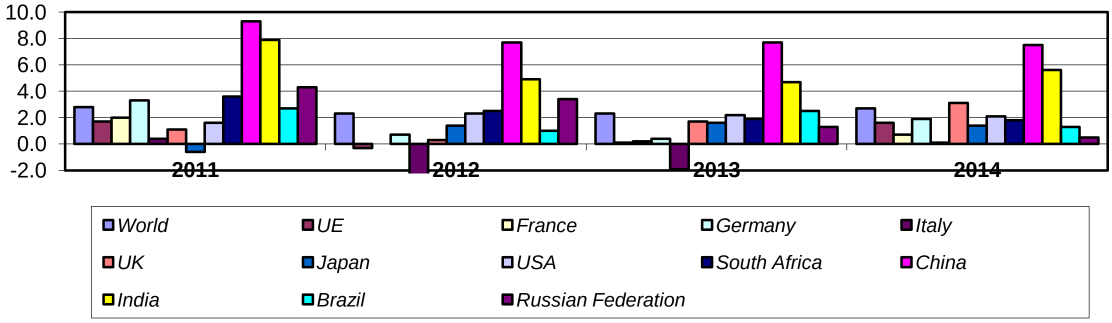

Figure 1. Global economy and major economies evolution in 2011-2014

Analysis of future prospects for the global economy, global trade and maritime transport show a tendency to improve the conditions of development in the next period of time, remaining still some serious risks, potentially reducing the positive trend, among which we mention: the modest economic recovery of countries with developed economies, emerging difficulties in growth and development of increasing geopolitical tensions in many parts of the world. In addition *G20* countries have established their 2014 meeting incentives for world economic growth, international trade, investment and profit growth in consumer's demand, especially in Western Asia and Africa, as well as export growthof mineral resources.

Major effects involved in the EU's economic problems developing economies are obvious, while the slowdown in emerging countries, particularly China and India, resonate with other regions in the developing and underdeveloped countries. Meanwhile, especially domestic demand growth in China and the development of intra-Asian and South-South, led to a relatively good development of international maritime trade with volumes increasing by 4.3% over the year. International maritime trade performance remains, however, vulnerable to downside risks and uncertainties affecting the world economy and international trade (table 2 and figure 2, 3).

Table 2. The volume of world merchandise trade 2010-2013 [Annual percentage change]

Annual percentage change	**2010**	**2011**	**2012**	**2013**
	export/import	export/import	export/import	export/import
World	13,9/13,8	5,5/5,4	2,3/2,1	2,2/2,1
UE	11,6/9,4	5,5/2,8	-0,1/-2,5	1,4/-1,2
Japan	27,5/10,1	-0,6/4,2	-1,0/3,8	-1,8/0,5
USA	15,4/14,8	7,2/3,8	4,0/2,8	2,6/0,9
China	29,5/25,0	13,4/10,7	7,4/6,1	4,8/8,8
India	14,0/13,8	15,0/9,7	-1,8/5,5	7,6/0,1

Source: UNCTAD, Trade and Development Report 2014

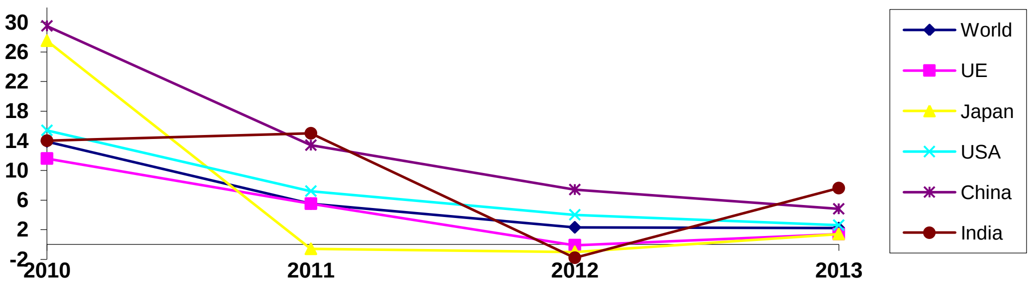

Figure 2. The volume of merchandise trade export 2010-2013 [Annual percentage change]

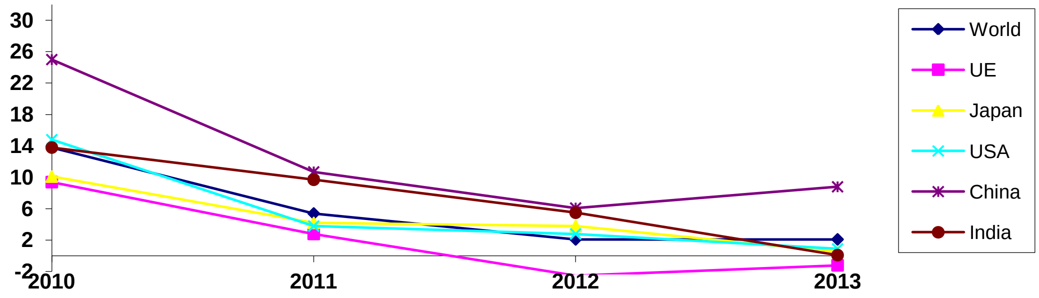

Figure 3. The volume of merchandise trade import 2010-2013 [Annual percentage change]

3. Maritime Containerized Present

Containerization is a system of intermodal freight transport in containers made of steel. The containers have standardized dimensions of 20 or 40 TEU. They can be loaded and unloaded, stacked, effectively transported over long distances and transferred from one mode to another, container ships, railway cars, truck trailers without being opened. The containers have appeared in international trade in the 50s. The advantage of the container is that it saves substantial cargo packages, up to almost substituting economies that expresses the lower value of the goods, cargo insurance cost is lower.

For a period of several decades, container trade segment was the fastest growing market, accounting for over 16% of global maritime trade volume in 2012 and more than half that amount. How containerization is closely associated with globalization and fragmentation of global production, it was necessary to make a study which had a sample of 157 countries. This study provided empirical evidence for the period 1962-1990 the overall economic development in the twentieth century is the containment (Bernhofen et al. 2013).

In the 22 industrialized countries examined, containerization indicates a 320% increase in bilateral trade in the first five years after the adoption of this type of transport and 790% over 20 years. By comparison and for a period of 20 years, a bilateral free trade has increased trade by 45%, while the members of the General Agreement on Tariffs and Trade add to 285%.

In the 1962-1990 period, containerization seems to have had less of an effect on the north-south and south-south trade, probably reflecting the role of the port and the availability and effectiveness of transport infrastructure.

The complexity is due to the global maritime industry, among others decisive factors influencing supply and demand in the market for shipping, such as:

- the average distance - in 2012, container trade tonnes/mile increased by 3% compared with 8.8% in 2011. Between 2000 and 2012, the average distance travelled by container trade fell by 1.2%, with lower long trade routes Asia-Europe and Trans-Pacific, being offset by a rapid increase in intra-Asian flows over shorter distances;

- specific consumption - higher oil prices have a major impact on transport maritime trade, both by their inhibitory effect on growth and upward pressure on and put the cost of fuel used to propel ships. Since 2005, oil prices began to rise faster, observable since 2007, and in 2008 when there was the historical value of $ 150 per barrel. For comparison, the average price provided by European Brent was around $ 29 in 2000, $ 55 in 2005, $ 73 in 2007 and $ 112 in

2012 (Energy Information Administration data from the United States - 2013). This means that oil prices have doubled between 2005 and 2012 and have increased by more than half since 2007;

- climate changes - which continue to affect international policy agenda, including shipping and port activities. Despite some positive developments, the world is not yet able to limit global average temperature increase to 2° C reached (above pre-industrial levels) and thus ensure that climate change remains manageable (International Energy Agency, 2013);

- the global economy - the negative effects of the economic crisis of 2008-2009 and

still has a significant impact on demand, finance and trade. The global economic crisis has destabilized rather than container transport, it depends, more than other modes, the world economic situation. Despite this decrease, International container volume still reached 160 million TEU value. (Review of Maritime Transport, 2014), an increase of 4.6% / year;

- characteristics of consumption - a major cause of short-term volatility is seasonality. Despite positive growth occurred in 2012, international shipping remains vulnerable to many disavantages, risks and exposed to some possible changes and trends that could redefine the operation mode. International shipping is facing a new and complex environment that involves both challenges and opportunities as global uncertainty still hanging over the economy and geopolitics tensions. All these challenges, linked with security issues and energy costs, climate changes are probably the most important. Despite all the gloomy predictions, however, new opportunities arise, such as the emergence of new navigation routes and improving existing (Panama Canal expansion and development of the Arctic route), the appearance of new business partners, due to the better understanding between corporates and the arise of national banks on the international market which can finance economic growth (Brazil, India, China, South Africa, Russia) and lead to the stabilization of international maritime trade.

4. Containerezed Maritime Transport Perspective

Containerization has reduced costs in international trade, has increased the speed of rotation of goods, especially consumer goods and commodities. It also dramatically changed the character of worldwide city-ports. Sometimes ago crews of 20 ... 22 people individually packed goods in the ship holds, container transport is now almost mechanized and automated. So large crews packaging the goods in the past are no longer needed, port facilities were modernized, and thus sailor profession has changed drastically. The port facilities necessary for the full container ships have changed, have become more complex, automated computer driven. One effect was the decline of certain ports and development of others.

Generally, the importance of inland ports with big depths, situated inland decreased in favor of seaports, where they built large container terminals. The importance of containerization has gradually increased worldwide, container ships were built increasingly larger and more complex. There were companies in the transportation of containers by sea, which entered the competition, but they have cooperated for winning huge markets evolving. Inevitably, some companies have developed some have disappeared. In 1989, Hong Kong became the largest container port in the world, able to operate 4.5 million TEUs. In 1994, Hong Kong and Singapore have exceeded together operating capacity of 10 million TEU / year, in 2013 were operating together about 56 million TEU / year (table 3).

Table 3. Top 10 container terminals in the period 2011- 2013

	2011 Thousands TEUs	2012 Thousands TEUs	2013 Thousands TEUs	2012/2011 %	2013/2011 %
Shanghai	31700	32529	36 617	2,62	12,57
Singapore	29937	31649	32 600	5,72	3,00
Shenzen	22569	22940	23279	1,64	1,48
Honk Kong	24384	23117	22232	-5,2	-3,31
Busan	16184	17046	17686	5,32	3,75
Nigbo	14686	15678	17351	6,70	10,73
Quingdao	13020	14503	15520	11,39	7,01
Guangzhou	14400	14743	15309	2,39	3,86
Dubai	13000	13270	13641	2.08	2,80
Tianjin	11500	12300	13000	6,96	5,69
Rotterdam	11876	11865	11621	-0,09	-2,06

Source: Review of maritime transport 2014 from UNCTAD Secretariat and Dynamar B.V., June 2014

Now, the container transport by sea is truly globalized and is part of everyday life, everywhere. And continues to grow, in 2013 China became the largest exporter and importer in the world, 7 of the top 10 container terminals are located on Chinese territory. The global market is constantly changing and container transport provides the support that enables this change (table 4 and figure 4) which are the main shipping routes Containerized transportation and value of the goods transported (million TEU) during 2011-2014. One can notice the following: South-South route is the most important (approx. 50…70 mil.TEU / year) than Transatlantic route (aprox.6 ... 7 mil. TEU/ year), which is approximately 8 times less; on all routes (except the transatlantic) containerized cargo volume is increasing in the years 2011 ... 2014.

Table 4. Distribution of global containerized trade by route, 2011–2014 (Millions of TEUs)

Region	**2011**	**2012**	**2013**	**2014**
South-South	56,2	60,1	63,7	68,0
North-South	25,8	26,0	27,2	28,7
Trans-Pacific	20,8	20,8	21,7	22,7
Far East-Europe	20,4	20,1	21,0	22,1
Secondary East-West	18,8	19,5	20,1	21,3
Transatlantic	6,9	6,1	6,2	6,5

Source: Review of Maritime Transport 2014, based on Clarkson Research Services, Container Intelligence Monthly, June 2014 (Clarkson Research Services, 2014b).

For several decades, container trade segment was the fastest growing market, accounting for over 16% of global maritime trade volume in 2012 and an increase of 7.2% in 2013 compared to 2012 (for developed economies) to the percentage of 5.2% achieved in the previous year. Containerization is closely associated with the term globalization of production (the global growth of container transport by sea in 2013 was 5.2% higher than in 2012, with a volume of 466.1 million TEUs transported in 2013), it was necessary to make a study which had a sample of 157 countries.

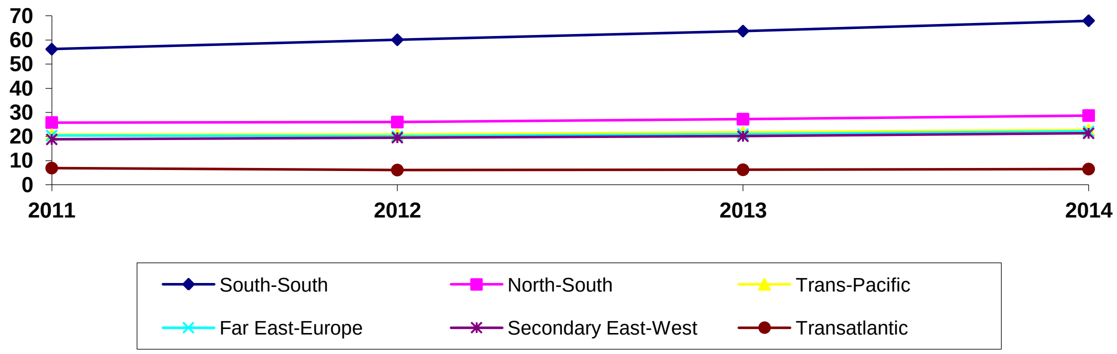

Figure 4. Distribution of global containerized trade by route, 2011–2014 (Millions of TEUs)

5. Conclusions

For a long time, containerized trade flows could be predicted by looking at the performance of global GDP, the multiplier effect of the increasing volume of containers. This report is currently being questioned by some observers point out that it is not an accurate predictor container growing demand because other factors are also at play, such as offshore production rate the degree of containerization of bulk goods, the report goods - services. Some analysts argue that the multiplier GDP declined from an average of 3.4 times more than in 1990-2005, only 1.5 times in 2012, but should be considered much higher value containerized cargo carried on sea.

The low multiplier has implications for future growth in demand and trade of container, a fact that is increasingly recognized as an industry. Current growth rates should be seen as a "new normality" for the container industry and the fact that the result of the maximum crisis of 2008...2009 led the economic growth very down, comparing it with the flowering period before the global crisis.

In this respect, while economic growth meets difficulties, containerized trade volume has increased steadily. Container trade, which was in 2012, 65% of "other dry goods" (value which is almost two thirds of 2.28 billion tons of dry cargo remaining after removal of dry-bulk cargo) increased by 3,2% in 2012, down from 13.1% in 2010 and 7.1% in 2011.

Container trade linking Asia, South America, Africa and Oceania has been increasing in recent years, emphasizing increasing South-South economic relations. Reflecting volume enhancing inter-regional trade, the average size of vessels deployed on these routes has increased significantly. With consumer demand in developing regions aimed to increase, the "south" markets will continue to lead global growth container trade. While, as mentioned above, the impact of containerization on trade North-South and South-South, during the period 1962-1990, appears to have been relatively lower than in advanced regions, the rapid growth of containerized trade observed in recent years highlights, in a certain extent, the increasing importance of containerization in promoting trade within and among developing regions.

Weak market and the evolution of vessels that have become increasingly large forced the owners to send ships on secondary and regional routes. However, during the year, the market has seen the arrival of the largest ships to date (16,000 TEU container vessel and Triple-E of 18,300 TEU). In addition despide the appearance of these giant ships, in 2012 there was an operational restructuring through which the largest container ships companies *Maersk Line*, *Mediterranean Shipping Company* (MSC) and CMA CGM alliance formed P3, which supports large vessels and affects three major east-west trade routes. It will likely affect not only carriers but also ports, shippers and smaller operators.

Another trend is the continuous entering of containerization in bulk trade, in particular interconnection routes that are based on an unbalanced trade. Regulatory developments in commodity sector supports this trend as in the case of grain from Australia. Since 2008, when grain trading was liberalized in Australia, containerized shipments of wheat in the country has increased tenfold. Similarly, the recent regulation in the grain market in Canada is likely to lead to greater containment grain trade. Finally, an issue that is mentioned more and more concerns *nearsourcing*, whereby a number of companies are forced to move closer to home markets, which is generated by the increase in production costs in China.

Some observers argue, however, that *nearsourcing* affects limited areas of business and, therefore, is overrated. In addition, it was observed that there was more than one factor to consider when deciding on places of production and that there was no solution to solve all these, in some cases - by product - *nearsourcing* can generate significant savings, while others may prove to be costly.

In 2012, the volumes transported by sea has been declining, especially on the containerized trade routes main East-West, combined with an oversupply of tonnage, especially large container vessels. This led to volatile prices for freight containers to a weaker market, while rates for chartering contracts remained in decline.

The worldwide container trade volume grew 3.3% in 2012, compared to 7% in 2011. At the same time, the high influx of new vessels continued to affect container transport market in 2012, with global supply container ship up 5.2%, exceeding global demand. In an attempt to deal with the imbalance between excess demand and low supply, carriers have made voyages with vessels of less capacity on routes where trade was in decline.

The shipping companies have tried to use navigation of large vessels on developing north-south routes, where the trade volum increased by 4% and in the inter-regional which increased by 7% in 2012, boosted by rising consumer demand developing economies. Given the growing gap between supply vessel capacity and demand for freight services, the freight containers of different markets remained low, but improved in relative terms compared to 2011.

This may be attributed, in particular, to the routes that have changed the point of view, by imposing market discipline and that is because they have not sought to obtain the same market share as in 2011, but rather wanted to improve earnings. In 2011, rates remained low because shipping lines have sought to maintain market share and volume of goods transported. In an effort to control freight tariffs, operators exercised in the first half of 2012 a degree of power by applying a common discipline in terms of pricing in the market.

As a result, the average freight rates increased by 51% for the trade in the Far East to Europe and Trans-Pacific route. The rates in the Far East to the West coast of the United States reached $ 2,600 per TEU unit in June 2012, up from $ 1,800 per TEU unit in January 2012. The comparable rates on routes to the Far East Northern Europe rose from $ 750 per TEU unit in January 2012, to a maximum of $ 1,900 per unit TEU in June 2012 (BIMCO, 2013). However, this judgment of the maritime industry ceased in the second half of the year due to positive operating income encouraged by some carriers to return to price competition and reduce prices in order to seize market share. Consequently, rates for Northern Europe declined so much that reached $ 1,000 per TEU in November 2012, due to the continuous decrease in demand (BIMCO, 2013). Globally, the freights observed low income in 2012 decreased almost carriers, and even lower operating costs, especially when fuel prices have remained so high and changeable. Accompanied by considerable price fluctuations, fuel costs have averaged $ 640 per tonne in 2012, an increase of 4% over the previous year. This was partially submitted by customers adding fuel surcharges pressure on operating costs and low income growth. As a result, the shipping companies tried to apply different strategies to remedy the situation, such as decommissioning of vessels, reducing travel speeds, delaying delivery of new vessels, increasing surcharges and reduced services, suppression of the transmission capacity main routes and scrapping. However, the containerized trade continued to suffer another year due to negative operating income in 2012. A recent study showed that 21 of the 30 comppanies who have published financial results reported a total loss of 239 million in 2012, and only 7 companies have had positive results. Although only a third of the 21 companies have reported profit, the overall result is seen as an improvement in the combined operating losses. On the other hand, the ships providers, outsourcing operation of their ships were direct victims of low demand and overcapacity. The largest decline in freights in 2012 was observed on the large vessels, which amount decreased by 34 ... 48%, compared to the previous year. Large surplus of ships (greater than 8,000 TEUs) leads to decreased transport capacity (redistribution on different routes), and generates pressure on tonnage charter and charter rates volatility. Reallocation of smaller container ship on the main routes faced with declining demand, the rapid growth of secondary route was crucial in managing substantial orders for new ships large.

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The Stackelberg Model for a Leader of Production and Many Satellites

Catalin Angelo Ioan[1], Gina Ioan[2]

Abstract: Oligopoly is a market situation where there are a small number of bidders (at least two) of a good non-substituent and a sufficient number of consumers. The paper analyses the Stackelberg model for a leader of production and many satellites. There are obtained the equilibrium productions, maximum profits and sales price where one of the company is the leader of quantity, and other satellites. There are also survey the situations where the firm based on its marginal cost of production can effectively take the lead of production.

Keywords: oligopoly; Stackelberg; equilibrium

JEL Classification: D43

1 Introduction

Oligopoly is a market situation where there are a small number of bidders (at least two) of a good non-substituent and a sufficient number of consumers. Oligopoly composed of two producers called duopoly.

Considering any number of competing firms producing the same normal good, is interesting the analysis of each activity in response to the activity of other companies.

Each of them when it sets the production and the sale price will be considered the productions and prices of other firms. If one of the companies will settle the price or the quantity produced, the other adjusting after it, then the price will be called leader of price or leader of production, the others called price satellites or production satellites.

2 The Stackelberg Model for a Leader of Production and Many Satellites

Consider now m firms F_i, $i=\overline{1,m}$, a function of price: $p(Q)=a-bQ$, $a,b>0$ and the total cost of production $TC_i=\alpha_i Q$, $i=\overline{1,m}$, where α_i is the marginal cost of firm F_i.

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Consider now that the company F_s is a leader of production, where s=$\overline{1,m}$ is fixed. It sets at a given time a production Q_s.

Considering a certain satellite F_k, it will establish a production that will seek to maximize its profit but at the same time it will take into account the production of the leader which will influence the selling price of the product. Therefore, let the firm F_k, k=$\overline{1,m}$, k≠s reaction function:

$$Q_k = f_k(Q_s),\ i=\overline{1,m},\ i\neq s$$

The leader's profit F_s is through price, a function of both its production and those of satellites:

$$\Pi_s(Q_1,...,Q_m) = p\left(\sum_{i=1}^{m} Q_i\right)Q_s - \alpha_s Q_s$$

Taking into account the reaction functions of satellites: $Q_i = f_i(Q_s)$, i=$\overline{1,m}$, i≠s follows:

$$\Pi_s(Q_s) = p\left(Q_s + \sum_{\substack{i=1\\ i\neq s}}^{m} f_i(Q_s)\right)Q_s - \alpha_s Q_s$$

The profit of a satellite F_k, k≠s is:

$$\Pi_k(Q_1,...,Q_m) = p\left(\sum_{i=1}^{m} Q_i\right)Q_k - \alpha_k Q_k,\ k\neq s$$

The condition of profit maximization of the leader F_s is:

$$\frac{\partial \Pi_s(Q_s)}{\partial Q_s} = a - b\left(2Q_s + Q_s\sum_{\substack{i=1\\ i\neq s}}^{m} f_i'(Q_s) + \sum_{\substack{i=1\\ i\neq s}}^{m} f_i(Q_s)\right) - \alpha_s = 0$$

and for satellite F_k:

$$\frac{\partial \Pi_k(Q_1,...,Q_m)}{\partial Q_k} = a - b\left(Q_k + \sum_{i=1}^{m} Q_i\right) - \alpha_k = 0,\ k=\overline{1,m},\ k\neq s$$

In conditions that the production of the company F_s is given, we have the system of equations:

$$Q_k + \sum_{\substack{i=1\\ i\neq s}}^{m} Q_i = \frac{a-\alpha_k}{b} - Q_s,\ k=\overline{1,m},\ k\neq s$$

Adding the resulting m-1 relationships: $\sum_{\substack{i=1\\ i\neq s}}^{m} Q_i + (m-1)\sum_{\substack{i=1\\ i\neq s}}^{m} Q_i = \sum_{\substack{k=1\\ k\neq s}}^{m} \frac{a-\alpha_k}{b} - (m-1)Q_s$ from where:

$$\sum_{\substack{i=1\\ i\neq s}}^{m} Q_i = \frac{(m-1)a - \sum_{\substack{k=1\\ k\neq s}}^{m} \alpha_k}{mb} - \frac{m-1}{m}Q_s.$$

Substituting in the above formula, we find that:

$$Q_k = f_k(Q_s) = \frac{a - m\alpha_k + \sum_{\substack{i=1 \\ i\neq s}}^{m} \alpha_i}{mb} - \frac{1}{m} Q_s$$ - the reaction function of F_k to F_s, k=$\overline{1,m}$, k≠s

Substituting in the condition of profit maximization of the leader, follows:

$$Q_s^* = \frac{a - m\alpha_s + \sum_{\substack{i=1 \\ i\neq s}}^{m} \alpha_i}{2b}$$

the satellite production of F_k being:

$$Q_k^* = \frac{a + m(\alpha_s - 2\alpha_k) + \sum_{\substack{i=1 \\ i\neq s}}^{m} \alpha_i}{2mb}, \ k=\overline{1,m}, \ k\neq s$$

But now, the condition that F_s be really production leader returns to: $Q_s^* > Q_k^*$, k=$\overline{1,m}$, k≠s that is:

$$\frac{a - m\alpha_s + \sum_{\substack{i=1 \\ i\neq s}}^{m} \alpha_i}{2b} > \frac{a + m(\alpha_s - 2\alpha_k) + \sum_{\substack{i=1 \\ i\neq s}}^{m} \alpha_i}{2mb}, \ k=\overline{1,m}, \ k\neq s$$

which finally leads to:

$$\alpha_s < \min_{\substack{k=\overline{1,m} \\ k\neq s}} \frac{(m-1)a + (m-1)\sum_{\substack{i=1 \\ i\neq s}}^{m} \alpha_i + 2m\alpha_k}{m(m+1)}$$

Therefore, the marginal cost of F_s will be higher limited to:

$$\sup\alpha s = \min_{\substack{k=\overline{1,m} \\ k\neq s}} \frac{(m-1)a + (m-1)\sum_{\substack{i=1 \\ i\neq s}}^{m} \alpha_i + 2m\alpha_k}{m(m+1)}$$

If $\alpha_i \leq c$ - constant, i=$\overline{1,m}$, i≠s resulting from the above: $\alpha_s < \frac{(m-1)a + (m^2+1)c}{m(m+1)}$.

Following these considerations, in order that the company F_s to maintain or to assume leadership role it is necessary that its marginal cost is higher limited by supαs.

The maximum profits of the firms will be:

$$\Pi_s^*(Q_1^*,\ldots,Q_m^*) = p\left(\sum_{i=1}^{m} Q_i^*\right)Q_s^* - \alpha_s Q_s^* = \frac{\left(a - m\alpha_s + \sum_{\substack{i=1 \\ i\neq s}}^{m} \alpha_i\right)^2}{4mb}$$

$$\Pi_k^*\left(Q_1^*,...,Q_m^*\right)=p\left(\sum_{i=1}^{m}Q_i^*\right)Q_k^*-\alpha_k Q_k^*=\frac{\left(a+m\left(\alpha_s-2\alpha_k\right)+\sum_{\substack{i=1\\ i\neq s}}^{m}\alpha_i\right)^2}{4m^2b},\ k=\overline{1,m},\ k\neq s$$

The condition that the profit leader be higher than that of any satellite returns to:

$$\frac{\left(a-m\alpha_s+\sum_{\substack{i=1\\ i\neq s}}^{m}\alpha_i\right)^2}{4mb}\geq\frac{\left(a+m\left(\alpha_s-2\alpha_k\right)+\sum_{\substack{i=1\\ i\neq s}}^{m}\alpha_i\right)^2}{4m^2b}$$

from where:

$$\alpha_s\leq\min_{\substack{k=\overline{1,m}\\ k\neq s}}\min\left(\frac{a\left(\sqrt{m}+1\right)-2m\alpha_k+\left(\sqrt{m}+1\right)\sum_{\substack{i=1\\ i\neq s}}^{m}\alpha_i}{m\left(\sqrt{m}-1\right)},\frac{a\left(\sqrt{m}-1\right)+2m\alpha_k+\left(\sqrt{m}-1\right)\sum_{\substack{i=1\\ i\neq s}}^{m}\alpha_i}{m\left(\sqrt{m}+1\right)}\right)$$

Therefore, the marginal cost of the leader must satisfy the condition imposed by the upper limit supαs and the expression above, otherwise the company is not leading amount or if in affirmative case doesn't have a higher maximum profit than the one of the satellites.

For two companies F_s and F_k (m=2) the condition that the maximum profit of the leader be higher than that of the satellite becomes:

$$\alpha_s\leq\min\left(\frac{a\left(\sqrt{2}+1\right)+\left(\sqrt{2}-3\right)\alpha_k}{2\left(\sqrt{2}-1\right)},\frac{a\left(\sqrt{2}-1\right)+\left(\sqrt{2}+3\right)\alpha_k}{2\left(\sqrt{2}+1\right)}\right)$$

The requirement that $\frac{a\left(\sqrt{2}+1\right)+\left(\sqrt{2}-3\right)\alpha_k}{2\left(\sqrt{2}-1\right)}\leq\frac{a\left(\sqrt{2}-1\right)+\left(\sqrt{2}+3\right)\alpha_k}{2\left(\sqrt{2}+1\right)}$ is equivalent with $a\leq\alpha_k$. Therefore, if: $a\leq\alpha_k$ we have: $\alpha_s\leq\frac{a\left(\sqrt{2}+1\right)+\left(\sqrt{2}-3\right)\alpha_k}{2\left(\sqrt{2}-1\right)}\leq\alpha_k$ and if: $a\geq\alpha_k$ follows that: $\alpha_s\leq\frac{a\left(\sqrt{2}-1\right)+\left(\sqrt{2}+3\right)\alpha_k}{2\left(\sqrt{2}+1\right)}\leq a$.

Returning to the case of the m firms the selling price is:

$$p^*=p\left(\sum_{i=1}^{m}Q_i^*\right)=\frac{a+m\alpha_s+\sum_{\substack{i=1\\ i\neq s}}^{m}\alpha_i}{2m}>0$$

From here, it follows:

$$\Delta p^*=\frac{1}{2}\Delta\alpha_s+\frac{1}{2m}\sum_{\substack{i=1\\ i\neq s}}^{m}\Delta\alpha_i$$

Therefore, a change in the marginal cost of the leader with an amount ε, will lead to a change in price $\frac{\varepsilon}{2}$ and a change of all others will change by an amount $\frac{m-1}{2m}\varepsilon < \frac{\varepsilon}{2}$.

Returning to the situation of the two companies F_s and F_k, the condition that F_s be leader was:

$$\alpha_s < \frac{a+5\alpha_k}{6}$$

It is possible that none of the companies can not be a leader? It should, in this case that $\alpha_s \geq \frac{a+5\alpha_k}{6}$ and $\alpha_k \geq \frac{a+5\alpha_s}{6}$ that is:

$$\begin{cases} 6\alpha_s - 5\alpha_k \geq a \\ 6\alpha_k - 5\alpha_s \geq a \end{cases}$$

Considering the straight lines: $6\alpha_s - 5\alpha_k - a = 0$ and $6\alpha_k - 5\alpha_s - a = 0$ we get the situation in Figure 1:

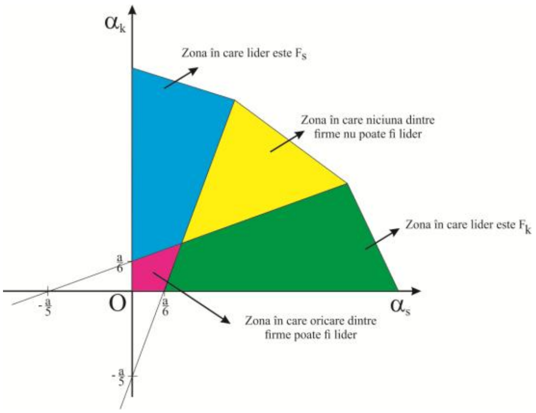

Figure 1.

Therefore, when a firm's marginal cost is sufficiently large relative to the other, it can not take the lead. If the two firms have marginal costs comparable to each other, but large enough, none can assume leadership, the reverse situation being when the marginal costs are low enough, the two companies being able to assume each leadership role.

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The Cournot Equilibrium for n Firms

Gina Ioan[1], Catalin Angelo Ioan[2]

Abstract: Oligopoly is a market situation where there are a small number of bidders (at least two) of a good non-substituent and a sufficient number of consumers. The paper analyses the Cournot equilibrium in both cases where each firm assumes the role of leadership and after when firms act simultaneously on market. There are obtained the equilibrium productions, maximum profits and sales price.

Keywords: oligopoly, Cournot, equilibrium

JEL Classification: D43

1 Introduction

For Homo Oeconomicus (the abstract concept around which Adam Smith builds scientific edifice), the ultimate goal is to achieve a maximum level of utility or profit with a minimum of effort. Regardless of the time, circumstances, or players, maximizing the effects can only get in a perfectly competitive scene, where responsibility of a efficient allocation of resources in a market have income, prices and profits, guided by an “invisible hand” or the freedom to choose.

In this scene, in which resists the strongest stands up to and where competition leads to efficiency and progress, the rules are quite tough, based both on their own actions and the anticipate the actions of other players.. The game, in its dynamics may be perceived as uninteresting to the player on stage (because he seeks only purpose), but it can also be interesting for the same player who withdraws from the scene and analyze it from the perspective of the researcher economist.

Depending on the number, the economic power of economic agents (either producers or consumers), the price elasticity of demand, the degree of mobility of factors of production, the market can be divided into: perfectly competitive market, a model more theoretical and imperfect competitive market where we meet market monopoly, monopolistic competition market and oligopolistic market, the latter manifesting the actual scene of the market economy.

When we refer to a perfectly competitive market, the price can not be influenced, it is resulting from the free play of supply and demand, the manufacturer aiming to maximize the production or cost minimization knowing the identity $R_{mg}=C_{mg}=price$ maximizes profit. If we discuss monopolistic

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competition market, the monopolist is protected by barriers (natural and legal) to the entry of competitors on the market, and he can maximize profits at a price determined by him.

Regarding oligopolistic market (duopoly) uncooperative, the question which is also subject to this scientific approach is how does oligopolistic / duopolistic to maximize profit knowing that its decision-making strategy depends on the behavior of other players, meaning a strategic interaction occurs.
To answer the question above, we report on game theory, Cournot equilibrium and Nash equilibrium.

Elements of game theory provides us the tools required to formulate, analyze, structure and understand the scenarios arising from strategic interaction.

A major contribution to game theory had John Nash, whose research is based on the absence of cooperation assuming that each player acts independently without cooperation with other players.

Nash equilibrium is a holistic strategy and involves two or more players in which it is assumed that each of them predicts the equilibrium strategy of the other players and no player wins nothing by changing their strategy. Games can be with unique and optimal Nash equilibrium and also may be games that allowed several Nash equilibria.

Cournot duopoly is characterized by symmetric role of companies, each agreeing to have the same role in the market. The profit of each firm depends on the amount produced by the other company. The set of options is optimal and it is the Cournot equilibrium occurs when maximizing profits for a given level of production of competitor player. In this reaserch it is studied the delay Cournot duopoly and dynamical behaviors of the game. The decision taken by a player at *t+1* moment depends on the decision taken by the other player at *t* moment, this making decisions more relevant.

2 The Cournot Equilibrium for Oligopoly

Let consider, for the beginning m firms F_i, $i=\overline{1,m}$ with price function: $p(Q)=a-bQ$, $a,b>0$ and the total cost of production being $TC_i=\alpha_i Q$, $i=\overline{1,m}$.

We assume that each firm assumes, successive a leading role. Consider therefore the reaction function of the company F_i to the others at a moment t:

$$Q_{i,t}= f_i\left(Q_{1,t-1},...,\hat{Q}_{i,t-1},...,Q_{m,t-1}\right)\ \forall t\geq 1,\ i=\overline{1,m}$$

where ^ means that the term missing.

If $\exists \lim\limits_{t\to\infty} Q_{i,t} = Q_i^*\ \forall i=\overline{1,m}$ we shall say that the vector in $\mathbf{R}^m$: $\left(Q_1^*,...,Q_m^*\right)$ is a Cournot equilibrium.

We ask ourselves whether this equilibrium exists, and if so, which yields the equilibrium productions of the m firms.

Considering a fixed time t+1, the selling price of the products of a company F_i, which assumes a leadership role is determined both by its production at this moment, as well as other production companies at the previous time t when the company F_i has informations about the competitors.

Therefore, the selling price will be:

$$p\left(\sum_{\substack{k=1\\k\neq i}}^{m} Q_{k,t} + Q_{i,t+1}\right) = a - b\sum_{\substack{k=1\\k\neq i}}^{m} Q_{k,t} - bQ_{i,t+1}$$

At time t+1, the F_i firm's profit is, for a quantity $Q_{i,t+1}$:

$$\Pi_{i,t+1} = p\left(\sum_{\substack{k=1\\k\neq i}}^{m} Q_{k,t} + Q_{i,t+1}\right)Q_{i,t+1} - TC_{i,t+1} = \left(a - b\sum_{\substack{k=1\\k\neq i}}^{m} Q_{k,t} - bQ_{i,t+1}\right)Q_{i,t+1} - \alpha_i Q_{i,t+1} \text{ from where:}$$

$$\Pi_{i,t+1} = -bQ_{i,t+1}^2 + \left(a - b\sum_{\substack{k=1\\k\neq i}}^{m} Q_{k,t} - \alpha_i\right)Q_{i,t+1}$$

The maximization of the F_i's profit at time t+1 returns to the cancellation of partial derivative of profit with respect to its production at that time, so: $\frac{\partial \Pi_{i,t+1}}{\partial Q_{i,t+1}} = -2bQ_{i,t+1} + \left(a - b\sum_{\substack{k=1\\k\neq i}}^{m} Q_{k,t} - \alpha_i\right)=0$ from where:

$$Q_{i,t+1} = \frac{a-\alpha_i}{2b} - \frac{1}{2}\sum_{\substack{k=1\\k\neq i}}^{m} Q_{k,t}\ ,\ i=\overline{1,m}$$

In a matricial expression the above relations can be written as:

$$\begin{pmatrix} Q_{1,t+1} \\ \dots \\ Q_{i,t+1} \\ \dots \\ Q_{m,t+1} \end{pmatrix} = \begin{pmatrix} 0 & \dots & -\frac{1}{2} & \dots & -\frac{1}{2} \\ \dots & \dots & \dots & \dots & \dots \\ -\frac{1}{2} & \dots & 0 & \dots & -\frac{1}{2} \\ \dots & \dots & \dots & \dots & \dots \\ -\frac{1}{2} & \dots & -\frac{1}{2} & \dots & 0 \end{pmatrix} \begin{pmatrix} Q_{1,t} \\ \dots \\ Q_{i,t} \\ \dots \\ Q_{m,t} \end{pmatrix} + \begin{pmatrix} \frac{a-\alpha_1}{2b} \\ \dots \\ \frac{a-\alpha_i}{2b} \\ \dots \\ \frac{a-\alpha_m}{2b} \end{pmatrix}$$

Noting now for simplicity:

$$A=\begin{pmatrix} 0 & \dots & -\frac{1}{2} & \dots & -\frac{1}{2} \\ \dots & \dots & \dots & \dots & \dots \\ -\frac{1}{2} & \dots & 0 & \dots & -\frac{1}{2} \\ \dots & \dots & \dots & \dots & \dots \\ -\frac{1}{2} & \dots & -\frac{1}{2} & \dots & 0 \end{pmatrix} = -\frac{1}{2}D + \frac{1}{2}I_m \text{ where } D=\begin{pmatrix} 1 & \dots & 1 & \dots & 1 \\ \dots & \dots & \dots & \dots & \dots \\ 1 & \dots & 1 & \dots & 1 \\ \dots & \dots & \dots & \dots & \dots \\ 1 & \dots & 1 & \dots & 1 \end{pmatrix},$$

$$Q_t=\begin{pmatrix} Q_{1,t} & \dots & Q_{i,t} & \dots & Q_{m,t} \end{pmatrix}^t,\ C=\begin{pmatrix} \frac{a-\alpha_1}{2b} & \dots & \frac{a-\alpha_i}{2b} & \dots & \frac{a-\alpha_m}{2b} \end{pmatrix}^t$$

we find that:

$$Q_{t+1}=AQ_t+C,\ t\geq 0$$

Let now P(n): $Q_{t+n}=A^nQ_t+(A^{n-1}+...+A+I_m)C$, $n\geq1$ (*where I_m is the unit matrix of order m*) – the vector of the production of the m firms at a point t+n with n units of time offset to a reference time t.

How P(1): $Q_{t+1}=AQ_t+C$ is true, suppose that P(n) is true. We have: P(n+1): $Q_{t+n+1}=AQ_{t+n}+C=A(A^nQ_t+(A^{n-1}+...+A+I_m)C)+C=A^{n+1}Q_t+(A^n+...+A+I_m)C$ – true, therefore, we have proved by mathematical induction that:

$$Q_{t+n}=A^nQ_t+(A^{n-1}+...+A+I_m)C,\ \forall n\geq0\ \forall t\geq0$$

In particular, for t=0 (reference to the beginning of the m firms), we obtain:

$$Q_n=A^nQ_0+(A^{n-1}+...+A+I_m)C$$

We ask ourselves, naturally the problem of determining the vector Q_n.

Let us note first that the matrix $A-I_m$ is invertible and:

$$(A-I_m)^{-1}=\frac{1}{m+1}\begin{pmatrix} -2m & ... & 2 & ... & 2 \\ ... & ... & ... & ... & ... \\ 2 & ... & -2m & ... & 2 \\ ... & ... & ... & ... & ... \\ 2 & ... & 2 & ... & -2m \end{pmatrix}=\frac{2}{m+1}D-2I_m$$

For the sum: $A^{n-1}+...+A+I_m$ we will take into account that: $(A-I_m)(A^{n-1}+...+A+I_m)=A^n+...+A^2+A-A^{n-1}-...-A-I_m=A^n-I_m$ therefore:

$$A^{n-1}+...+A+I_m=(A-I_m)^{-1}(A^n-I_m)$$

But we have: $A^n=\left(-\frac{1}{2}\right)^n(D-I_m)^n=\left(-\frac{1}{2}\right)^n\sum_{s=0}^{n}(-1)^s\binom{n}{s}D^{n-s}$ where $\binom{n}{s}$ is the number of combinations of n items taken by s. How $D^{n-s}=m^{n-s-1}D$ for $n-s\geq1$ follows:

$$A^n=\frac{1}{2^n}\left(I_m+\frac{(1-m)^n-1}{m}D\right)$$

We therefore have:

$$A^{n-1}+...+A+I_m=(A-I_m)^{-1}(A^n-I_m)=\left(\frac{m+1-2^n m-(1-m)^n}{2^{n-1}m(m+1)}\right)D-2\left(\frac{1}{2^n}-1\right)I_m$$

from where:

$$Q_n=A^nQ_0+(A^{n-1}+...+A+I_m)C=\frac{1}{2^n}Q_0+\frac{(1-m)^n-1}{2^n m}DQ_0+\frac{m+1-2^n m-(1-m)^n}{2^{n-1}m(m+1)}DC-2\left(\frac{1}{2^n}-1\right)C$$

or, in other terms:

$$\begin{pmatrix}Q_{1,n} & ... & Q_{i,n} & ... & Q_{m,n}\end{pmatrix}^t=$$

$$\frac{1}{2^n}\left(Q_{1,0} \quad \dots \quad Q_{i,0} \quad \dots \quad Q_{m,0}\right)^t + \frac{(1-m)^n-1}{2^n m}\left(\sum_{k=1}^m Q_{k,0} \quad \dots \quad \sum_{k=1}^m Q_{k,0} \quad \dots \quad \sum_{k=1}^m Q_{k,0}\right)^t +$$

$$\frac{m+1-2^n m-(1-m)^n}{2^{n-1}m(m+1)}\left(\frac{ma-\sum_{k=1}^m \alpha_k}{2b} \quad \dots \quad \frac{ma-\sum_{k=1}^m \alpha_k}{2b} \quad \dots \quad \frac{ma-\sum_{k=1}^m \alpha_k}{2b}\right)^t -$$

$$2\left(\frac{1}{2^n}-1\right)\left(\frac{a-\alpha_1}{2b} \quad \dots \quad \frac{a-\alpha_i}{2b} \quad \dots \quad \frac{a-\alpha_m}{2b}\right)^t$$

from where:

$$Q_{i,n} = \frac{1}{2^n}Q_{i,0} + \frac{(1-m)^n-1}{2^n m}\sum_{k=1}^m Q_{k,0} + \frac{\left(m+1-2^n m-(1-m)^n\right)\left(ma-\sum_{k=1}^m \alpha_k\right)}{2^n bm(m+1)} - 2\left(\frac{1}{2^n}-1\right)\frac{a-\alpha_i}{2b}$$

Because: $\lim_{n\to\infty}\frac{1}{2^n}=0$, $\lim_{n\to\infty}\frac{(1-m)^n-1}{2^n m}=\frac{1}{m}\lim_{n\to\infty}\left(\frac{1-m}{2}\right)^n=\begin{cases}0 \text{ if } m=2\\ \text{not exists if } m>2\end{cases}$,

$$\lim_{n\to\infty}\frac{m+1-2^n m-(1-m)^n}{2^{n-1}m(m+1)} = -\frac{2}{m+1}-\frac{2}{m(m+1)}\lim_{n\to\infty}\left(\frac{1-m}{2}\right)^n=\begin{cases}-\frac{2}{3} \text{ if } m=2\\ \text{not exists if } m>2\end{cases}, \quad \lim_{n\to\infty}2\left(\frac{1}{2^n}-1\right)\text{=-2}$$

we finally have that:

$$\lim_{n\to\infty}Q_n = \begin{cases}-\frac{2}{3}DC+2C=\begin{pmatrix}\frac{a-2\alpha_1+\alpha_2}{3b}\\ \frac{a+\alpha_1-2\alpha_2}{3b}\end{pmatrix} \text{ if } m=2\\ \text{not exists if } m>2\end{cases}$$

We determined so that the process has limit if and only if m=2 so there is a duopoly, in which case we have:

$$Q_1^* = \frac{a-2\alpha_1+\alpha_2}{3b}, \; Q_2^* = \frac{a+\alpha_1-2\alpha_2}{3b}$$

$$p^*\text{=a-b}\,(Q_A^*+Q_B^*) = \frac{a+\alpha_1+\alpha_2}{3}.$$

$$\Pi_1^* = \frac{(a-2\alpha_1+\alpha_2)^2}{9b}, \; \Pi_2^* = \frac{(a+\alpha_1-2\alpha_2)^2}{9b}$$

Computing the difference: $\Pi_1^*-\Pi_2^* = \frac{(a-2\alpha_1+\alpha_2)^2}{9b}-\frac{(a+\alpha_1-2\alpha_2)^2}{9b}$ we get:

$$\Pi_1^*-\Pi_2^* = \frac{(a-2\alpha_1+\alpha_2)^2}{9b}\left(1-\left(\frac{a+\alpha_1-2\alpha_2}{a-2\alpha_1+\alpha_2}\right)^2\right)$$

The requirement to $\Pi_1^*>\Pi_2^*$ returns to: $\frac{a+\alpha_1-2\alpha_2}{a-2\alpha_1+\alpha_2}\in(-1,1)$ which is equivalent to:

$$\begin{cases} \dfrac{2a-\alpha_1-\alpha_2}{a-2\alpha_1+\alpha_2} > 0 \\ \dfrac{3(\alpha_1-\alpha_2)}{a-2\alpha_1+\alpha_2} < 0 \end{cases}$$

If $a > 2\alpha_1 - \alpha_2$ the conditions become: $\begin{cases} \alpha_1+\alpha_2 < 2a \\ \alpha_1 < \alpha_2 \end{cases}$ and if $a < 2\alpha_1 - \alpha_2$ to $\begin{cases} \alpha_1+\alpha_2 > 2a \\ \alpha_1 > \alpha_2 \end{cases}$.

In order to $\Pi_2^* > \Pi_1^*$ from the same set of conditions, we have: $\dfrac{a+\alpha_1-2\alpha_2}{a-2\alpha_1+\alpha_2} \in (-\infty,-1) \cup (1,\infty)$ that is:

$$\begin{cases} \dfrac{2a-\alpha_1-\alpha_2}{a-2\alpha_1+\alpha_2} < 0 \\ \text{or} \\ \dfrac{3(\alpha_1-\alpha_2)}{a-2\alpha_1+\alpha_2} > 0 \end{cases}$$

If $a > 2\alpha_1 - \alpha_2$ the conditions become: $\begin{cases} \alpha_1+\alpha_2 > 2a \\ \text{or} \\ \alpha_1 > \alpha_2 \end{cases}$, and if $a < 2\alpha_1 - \alpha_2$ to $\begin{cases} \alpha_1+\alpha_2 < 2a \\ \text{or} \\ \alpha_1 < \alpha_2 \end{cases}$.

Considering a system of axes $O\alpha_1\alpha_2$ it follows that in the areas 1 and 2, the first company profit will be strictly greater than that of the second company, and in the third region, the second company profit will be strictly higher than that of the first company (figure 1).

If $a = 2\alpha_1 - \alpha_2$ then: Π_1^*=0 and how Π_2^*>0 follows, obviously that $\Pi_1^* < \Pi_2^*$. Similarly, if: $a = 2\alpha_2 - \alpha_1$ then: Π_2^*=0 and how Π_1^*>0 follows that $\Pi_1^* > \Pi_2^*$.

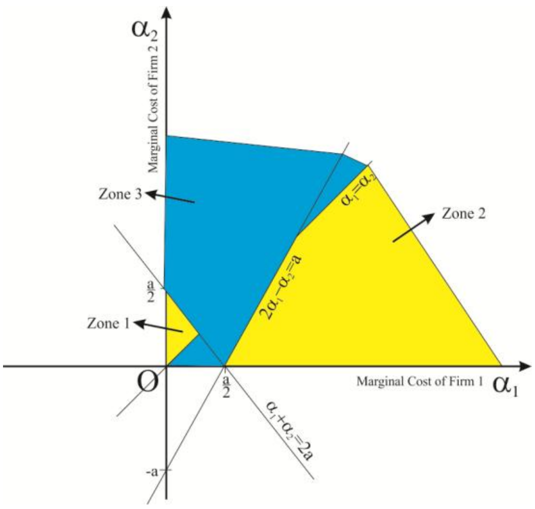

Figure 1

3 The Cournot-Nash Equilibrium

Considering again the m firms above, we assume now that the firms act independently, the selling price being the same for all firms, depending only on the total production.

The profit function for the company F_k is therefore:

$$\Pi_k(Q_1,...,Q_n) = p\left(\sum_{i=1}^{m} Q_i\right)Q_k - \alpha_k Q_k \text{ , } k=\overline{1,m}$$

The condition of profit maximization implies:

$$\frac{\partial \Pi_k}{\partial Q_k} = p'\left(\sum_{i=1}^{m} Q_i\right)Q_k + p\left(\sum_{i=1}^{m} Q_i\right) - \alpha_k = 0$$

which is equivalent to:

$$Q_k + \sum_{i=1}^{m} Q_i = \frac{a-\alpha_k}{b} \text{ , } k=\overline{1,m}$$

Adding the m relations follows: $\sum_{i=1}^{m} Q_i = \frac{ma - \sum_{i=1}^{m}\alpha_i}{(m+1)b}$ from where, finally:

$$Q_k^* = \frac{a-(m+1)\alpha_k + \sum_{i=1}^{m}\alpha_i}{(m+1)b} \text{ , } k=\overline{1,m}$$

The total price is:

$$p^* = p\left(\sum_{k=1}^{m} Q_k^*\right) = \frac{a + \sum_{i=1}^{m}\alpha_i}{m+1}$$

and the profits of companies:

$$\Pi_k(Q_1^*,...,Q_m^*) = \left(\frac{a + \sum_{i=1}^{m}\alpha_i}{m+1} - \alpha_k\right)Q_k^* = \frac{\left(a-(m+1)\alpha_k + \sum_{i=1}^{m}\alpha_i\right)^2}{(m+1)^2 b}$$

For m=2 we have:

$$Q_1^* = \frac{a-2\alpha_1+\alpha_2}{3b} \text{ , } Q_2^* = \frac{a-2\alpha_2+\alpha_1}{3b}$$

total price: $p^* = \frac{a+\alpha_1+\alpha_2}{3}$ and firms profits:

$$\Pi_1(Q_1^*,Q_2^*) = \frac{(a-2\alpha_1+\alpha_2)^2}{9b} \text{ , } \Pi_2(Q_1^*,Q_2^*) = \frac{(a-2\alpha_2+\alpha_1)^2}{9b}$$

It is noted that at equilibrium the two companies will have the same optimal amounts and record the same profits as if taking in the leadership analysis.

Comparing with the first case, when at the time n for two companies (m=2), we have:

$$Q_{1,n} = \frac{1+(-1)^n}{2^{n+1}}Q_{1,0} + \frac{(-1)^n - 1}{2^{n+1}}Q_{2,0} + \frac{2\left(2^n + (-1)^{n+1}\right)a + \left(3-2^{n+2}+(-1)^n\right)\alpha_1 - \left(3-2^{n+1}+(-1)^{n+1}\right)\alpha_2}{3\cdot 2^{n+1}b}$$

$$Q_{2,n} = \frac{(-1)^n - 1}{2^{n+1}} Q_{1,0} + \frac{1+(-1)^n}{2^{n+1}} Q_{2,0} + \frac{2\left(2^n + (-1)^{n+1}\right)a - \left(3 - 2^{n+1} + (-1)^{n+1}\right)\alpha_1 + \left(3 - 2^{n+2} + (-1)^n\right)\alpha_2}{3 \cdot 2^{n+1} b}$$

we obtain:

$$Q_{1,n} - Q_1^* = \frac{1+(-1)^n}{2^{n+1}} Q_{1,0} + \frac{(-1)^n - 1}{2^{n+1}} Q_{2,0} + \frac{2(-1)^{n+1} a + \left(3 + (-1)^n\right)\alpha_1 - \left(3 + (-1)^{n+1}\right)\alpha_2}{3 \cdot 2^{n+1} b}$$

$$Q_{2,n} - Q_2^* = \frac{(-1)^n - 1}{2^{n+1}} Q_{1,0} + \frac{1+(-1)^n}{2^{n+1}} Q_{2,0} + \frac{2(-1)^{n+1} a - \left(3 + (-1)^{n+1}\right)\alpha_1 + \left(3 + (-1)^n\right)\alpha_2}{3 \cdot 2^{n+1} b}$$

As a result, for n=odd, we have:

$$Q_{1,n} - Q_1^* = \frac{a + \alpha_1 - 2\alpha_2 - 3bQ_{2,0}}{3 \cdot 2^n b}, \quad Q_{2,n} - Q_2^* = \frac{a - 2\alpha_1 + \alpha_2 - 3bQ_{1,0}}{3 \cdot 2^n b}$$

and for n=even:

$$Q_{1,n} - Q_1^* = -\frac{a - 2\alpha_1 + \alpha_2 - 3bQ_{1,0}}{3 \cdot 2^n b}, \quad Q_{2,n} - Q_2^* = -\frac{a + \alpha_1 - 2\alpha_2 - 3bQ_{2,0}}{3 \cdot 2^n b}$$

From the above, the following conditions are observed:

Case 1: If $Q_{1,0} < \frac{a - 2\alpha_1 + \alpha_2}{3b}$, $Q_{2,0} < \frac{a + \alpha_1 - 2\alpha_2}{3b}$ then at odd moments $Q_{1,n} > Q_1^*$, $Q_{2,n} > Q_2^*$, and then at even moments: $Q_{1,n} < Q_1^*$, $Q_{2,n} < Q_2^*$;

Case 2: If $Q_{1,0} < \frac{a - 2\alpha_1 + \alpha_2}{3b}$, $Q_{2,0} > \frac{a + \alpha_1 - 2\alpha_2}{3b}$ then at odd moments $Q_{1,n} < Q_1^*$, $Q_{2,n} > Q_2^*$, and then at even moments: $Q_{1,n} < Q_1^*$, $Q_{2,n} > Q_2^*$;

Case 3: If $Q_{1,0} > \frac{a - 2\alpha_1 + \alpha_2}{3b}$, $Q_{2,0} < \frac{a + \alpha_1 - 2\alpha_2}{3b}$ then at odd moments $Q_{1,n} > Q_1^*$, $Q_{2,n} < Q_2^*$, and then at even moments: $Q_{1,n} > Q_1^*$, $Q_{2,n} < Q_2^*$;

Case 4: If $Q_{1,0} > \frac{a - 2\alpha_1 + \alpha_2}{3b}$, $Q_{2,0} > \frac{a + \alpha_1 - 2\alpha_2}{3b}$ then at odd moments $Q_{1,n} < Q_1^*$, $Q_{2,n} < Q_2^*$, and then at even moments: $Q_{1,n} > Q_1^*$, $Q_{2,n} > Q_2^*$

Following these considerations, we see that if all firms assume successively the leadership role their outputs can switch on both sides of the equilibrium (if in the case of the existence of the limit or in the contrary case).

More specifically, however, if the initial yields are sufficiently small (large) compared with $\frac{a - 2\alpha_1 + \alpha_2}{3b}$ and $\frac{a + \alpha_1 - 2\alpha_2}{3b}$ respectively, the the production alternates at odd or even moments.

If, however, the initial production of a firm is sufficiently small and the other's large enough, then those with low initial production will be directed upward (at any time) to the equilibrium production, whereas those with higher initial production will down to the equilibriu.

The consequence of this is that the company with a higher initial production will not give leadership to the other, preferring to ignore the actions of others and maintaining a constant production.

Now consider a situation in which a new company F_{m+1} enters on market and having marginal cost $MC=\alpha_{m+1}$. The new equilibriums are:

$$Q^*_{new,k} = \frac{a-(m+2)\alpha_k + \sum_{i=1}^{m}\alpha_i + \alpha_{m+1}}{(m+2)b}, \ k=\overline{1,m}$$

$$Q^*_{new,m+1} = \frac{a-(m+1)\alpha_{m+1} + \sum_{i=1}^{m}\alpha_i}{(m+2)b}$$

If before the entry of the new firm the total ammount was: $Q_{old} = \sum_{k=1}^{m} Q^*_k = \frac{ma - \sum_{i=1}^{m}\alpha_i}{(m+1)b}$ now we have: $Q_{new} = \sum_{k=1}^{m} Q^*_{new,k} + Q^*_{new,m+1} = \frac{(m+1)a - \sum_{i=1}^{m}\alpha_i - \alpha_{m+1}}{(m+2)b}$. The difference between the new and the old ammount is:

$$Q_{new} - Q_{old} = \frac{a + \sum_{i=1}^{m}\alpha_i - (m+1)\alpha_{m+1}}{(m+1)(m+2)b}$$

the total price being: $p^*_{new} = p\left(\sum_{k=1}^{m+1} Q^*_k\right) = \frac{a + \sum_{i=1}^{m}\alpha_i + \alpha_{m+1}}{m+2}$ with the difference:

$$p^*_{new} - p^*_{old} = \frac{a + \sum_{i=1}^{m}\alpha_i + \alpha_{m+1}}{m+2} - \frac{a + \sum_{i=1}^{m}\alpha_i}{m+1} = -b(Q_{new} - Q_{old})$$

Also for the profits:

$$\Pi_{new,k}\left(Q^*_{new,1},\ldots,Q^*_{new,m+1}\right) = \frac{\left(a-(m+2)\alpha_k + \sum_{i=1}^{m}\alpha_i + \alpha_{m+1}\right)^2}{(m+2)^2 b}, \ k=\overline{1,m}$$

$$\Pi_{new,m+1}\left(Q^*_{new,1},\ldots,Q^*_{new,m+1}\right) = \frac{\left(a-(m+1)\alpha_{m+1} + \sum_{i=1}^{m}\alpha_i\right)^2}{(m+2)^2 b}$$

and:

$$\Pi_{new,k} - \Pi_{old,k} = \frac{1}{(m+1)^2(m+2)^2 b} \cdot$$

$$\left[(m+1)^2\alpha_{m+1}^2 + 2(m+1)^2\left(\left(a+\sum_{i=1}^{m}\alpha_i\right)-(m+2)\alpha_k\right)\alpha_{m+1} - \left(a+\sum_{i=1}^{m}\alpha_i\right)\left((2m+3)\left(a+\sum_{i=1}^{m}\alpha_i\right)-2(m+1)(m+2)\alpha_k\right)\right]$$

Considering the equation of degree II in α_{m+1} we have its roots:

$$\alpha'_{m+1} = \frac{a+\sum_{i=1}^{m}\alpha_i}{m+1},\ \alpha''_{m+1} = \frac{(2m^2+4m+1)\alpha_k - (2m+3)\left(a+\sum_{\substack{i=1\\ i\neq k}}^{m}\alpha_i\right)}{(m+1)},\ \alpha'_{m+1} < \alpha''_{m+1}.$$

In order that: $\Pi_{new,k} > \Pi_{old,k}$ we must have that:

$$\alpha_{m+1} \in (-\infty, \alpha'_{m+1}) \cup (\alpha''_{m+1}, \infty) = \left(-\infty, \frac{a+\sum_{i=1}^{m}\alpha_i}{m+1}\right) \cup \left(\frac{2(m+1)(m+2)\alpha_k - (2m+3)\left(a+\sum_{i=1}^{m}\alpha_i\right)}{(m+1)}, \infty\right)$$

<u>Case 1</u>

$$\alpha_{m+1} < \frac{a+\sum_{i=1}^{m}\alpha_i}{m+1} \Rightarrow Q_{new} > Q_{old},\ p^*_{new} < p^*_{old},\ \Pi_{new,k} > \Pi_{old,k}\ \ \forall k=\overline{1,m}$$

so if the new company will have a marginal cost small enough, then the total output and profits of the old firms will grow, the selling price dropping.

<u>Case 2</u>

$$\alpha_{m+1} > \frac{a+\sum_{i=1}^{m}\alpha_i}{m+1} \Rightarrow Q_{new} < Q_{old},\ p^*_{new} > p^*_{old}, \text{ and}$$

$$\Pi_{new,k} > \Pi_{old,k} \text{ if } \alpha_k < \frac{(2m+3)\left(a+\sum_{\substack{i=1\\ i\neq k}}^{m}\alpha_i\right)+(m+1)\alpha_{m+1}}{2m^2+4m+1} \text{ and}$$

$$\Pi_{new,k} < \Pi_{old,k} \text{ if } \alpha_k > \frac{(2m+3)\left(a+\sum_{\substack{i=1\\ i\neq k}}^{m}\alpha_i\right)+(m+1)\alpha_{m+1}}{2m^2+4m+1}$$

If the new company will have a sufficiently high marginal cost, then the total production will decline, the selling price will increase and firms with sufficiently low marginal costs will increase their profits, while those with higher marginal costs declines in returns.

Case 3

$$\alpha_{m+1} = \frac{a + \sum_{i=1}^{m} \alpha_i}{m+1} \Rightarrow Q_{new} = Q_{old},\ p^*_{new} = p^*_{old},\ \Pi_{new,k} = \Pi_{old,k}\ \ \forall k = \overline{1, m}$$

When entering a new firm with marginal cost exactly determined by the cost of other companies, according to the formula above, both total production and the selling price and profits old companies will remain constant.

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The Monetary Policy in a Changing World

Mariana Trandafir[1], Georgeta Dragomir[2]

Abstract: In a context where "the economies' evolution is driven by the crisis", the monetary policies are facing, in the post-crisis period, challenges that bring to the forefront of debates the rethinking of objectives, strategies and even implementation tools. This paper presents in a comparative analysis, the relevance of price stability in terms of theoretical fundaments and effectiveness of the concept for the pre and post – crisis periods, in the Eurozone, the US and Japan in an attempt to identify the explicative resorts of the central bank's monetary behavior. At this time when the central banks are obliged to unconventional measures to save the global economy from the danger of deflation, the topic is important and timely addressed. The paper uses statistical data of official documents taken from the International Monetary Fund, European Union and central bank websites.

Keywords: price stability; central bank; the global financial crisis; unconventional measures

JEL Classification: E31; E52; E58

1. Introduction

Although in the conception close to the current one, the first central bank was founded in 1694 (Bank of England), the monetary policy occurred during the Great Depression of the years 1929 to 1933, as a government response that aimed at steming the Federal Reserve System US financial panic and bank insolvency and they have over time gained new values. Until the Great Depression, the central banks had to intervene as creditor of last resort to commercial banks and insuring financing of state government spending.

Following the line of Keynesian thought, the expansionary monetary policies implemented after the crash of 1929, designed to stimulate the economic growth by influencing the aggregate demand and which treated inflation as insignificant factor in the development of economy showed prominently its limits.

In the early 70s, the monetary practice, under the sphere of influence of Keynesian theory and theoretical construction of 1958, the Phillips curve, which established an inflation-unemployment compromise, confronted increasingly high levels of inflation, the monetary policy being mainly oriented towards ensuring full employment. It is the time for the emergence of new alternative

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theories, of which it quickly imposed monetarism, as “major pole of opposition to Keynesianism both politically and theoretically” (Beaud & Dostaler, 2000). The basic concepts of monetarism, monetary stability and reliability can be found in the famous “rule of the k percent” of Milton Friedman. Accelerating inflation and rising unemployment in most developed countries, under the impact of the collapse of the Bretton Woods arrangements and oil shocks of the 70s, will require a reassessment of the conventional thinking in monetary policy. The importance of anchoring inflation expectations in the context has represented the catalyst of the institution-building process, aiming at granting a new status to the central bank: independent institutions, with firm mandates for tracking price stability (Isărescu, 2013), which becomes the primary objective of central banks assumed at institutional level, in an intellectual, political and social consensus of the 90s. As a rather pragmatic reply to reality than putting into practice a new academic school of thought (Gill Hammond, 2012), it will be adopted, on a larger scale, a new strategy - targeting inflation, as a solution designed to create the best framework for ensuring price stability. The central banks will say, during the “Great moderation” as “saviors of the global financial system”, winners of the “bet with the inflation.”

Triggered in an economic context characterized by low levels of inflation, the global financial crisis that began in 2007 as a true “tsunami” has shown that insuring the price stability is necessary, but not sufficient to ensure the financial stability and it was brought into the attention of decision makers (i) the relationship between financial stability and price stability in the context macro-stabilization policies, including the opportunity of assuming a single fundamental objective for monetary policy, (ii) the foremost position of the objective of low inflation or (iii) the most appropriate measure to be expressed in the inflation target. They were brought back to the forefront of debates the attributions of central banks, the opportunity of maintaining the objective of insuring price stability, as the primary objective of central banks and even the institutional existence of the central bank.

2. Literature Review

The primary objective of central banks assumed at the institutional level, the *price stability* ensured by setting a numerical target for inflation, foreseen for a medium time horizon, transmitting clear messages on the task of monetary policy and criteria for assessing the performance of the central bank and it reflects the ability of the central bank ability “to achieve a stable currency based on trust in the interaction between the economic agents, the confidence in property rights, trust in society and, more generally, the confidence in the future.” (Issing, 2002)

According to Lucas Papademos (2006) the price stability is that state of the economy in which the general level of aggregates price is stable and the inflation rate is low and stable, so that the considerations on nominal dimension of transactions cease to be a relevant factor for economic decisions.

Emphasizing the dual role of price stability, Ben Bernanke (2006) reveals the qualities of “objective and means for monetary policy”: (i) as an objective, the price stability preserves the integrity of the purchasing power of the currency, while affirming as a means by which the policy can achieve other goals; (ii) as a means for monetary policy, the price stability provides a stable monetary and financial framework for the decision on micro and macroeconomic levels, formulated on medium or long time horizons. The effects of these decisions are found in improving the economic growth, increase of employment on long-term and they have a significant impact on the stability of production and occupancy on short and medium term. In a context where the previsions for the medium and long term are well anchored, the low and stable inflation determine the moderation of interest installments on long-term.

In a three-dimensional approach, Otmar Issing (2000) defines price stability as: (i) steady - state deflation experienced by the USA in the last thirty years of the 19th century, during which productivity earnings were found in lower prices and not in the most wages and subsequently laid down by Milton Friedman; (ii) a constant price level or zero inflation (iii) low inflation, accepted definition on reasons regarding both the seigniorage as a source of government revenue, implying the possibility as method of inflation calculation as being inadequate.

In the plan of practical approach, ensuring the price stability, it allows the monetary policy the reduction of uncertainty in the economy, contributing to an efficient allocation of resources (Isărescu, 2013) by:

- facilitating the formulation of long-term business plans / investments;
- improving the functioning of markets, increasing the signaling role of price changes;
- discouraging the speculative activities;
- elimination of undesirable redistribution effects (unanticipated inflation);
- facilitating the formation of resources for investments (savings) and their involvement in productive activities.

Understanding the dynamics of inflationary phenomenon, its causes and its effects on the economy, nationally and globally, and their relevance of the composition of indicators, where it is expressed, represent widely debated topics in the economic literature and practice, identifying the measures that confer quantifiable dimension of the inflationary phenomenon, representing a major concern.

3. Monetary Policy for Crisis or the Crisis of Monetary Policy?

3.1. The Consensus of the Pre-Crisis Period

Many national central banks and the European Central bank define inflation essentially as “a general increase - or generalized - of prices of goods and services for a long time, which leads to lowering the value of money and, therefore, their purchasing power” (ECB, 2011), thus replying to the controversy on the meaning of inflation – the prices increase or increasing the quantity of money in circulation.

The specialized literature (Petursson, 2004; Isărescu, 2013) summarizes, based on international experience, “as what the monetary policy is able to achieve”: the central bank can ensure price stability, resulting in long-term the inflation rate level in the economy without affecting the level and growth rate of GDP. Pursuing price stability, the monetary policy contributes to a sustainable economic growth, as on long periods of time, the relatively high economic growth is incompatible with a persistent high inflation. Although it has assumed the price stability as the primary objective, the central banks pursue the impact of monetary policy decisions on aggregate demand in the short and medium term, on the exchange rate and it pays attention to the developments in financial markets. Long-term objective of price stability can be achieved in the context of an effective and free of tension transmission of monetary policy in a stable financial system. (Isărescu, 2008)

In an attempt to restrain the inflationary phenomenon, more and more central banks choose, after 1990, the “road” open by the New Zealand, as a strategy of monetary policy, the direct targeting of inflation, “that frame that attaches the highest importance of a low and fixed inflation or price stability” (Napoleon Pop, 2008). Becoming a “global framework” (Sterne, 2001) the inflation targeting was adopted explicitly or implicitly by the central banks belonging to developed or emerging economies, including Canada (1991), UK (1992), Australia (1993), Sweden (1993), Finland (1993), Spain (1995), Israel (1997), which became, after the financial crises in Asia and Latin America, an attractive alternative for countries with emerging markets: Poland (1998), Brazil (1999), Czech Republic (1997), Hungary (2001), Romania (2005), Turkey (2006), Serbia (2009).

Many central banks, though they do not explicitly target the inflation, they apply elements of this strategy in formulating the monetary policy decisions. The European Central Bank, for example, defines the price stability to be maintained over the medium term, as the annual growth of less than 2% of the harmonized index of consumer prices for the Eurozone and it aims at maintaining the inflation rates at a lower level, but close to 2% on the medium term (the Governing Council, 1998).

Until the global financial crisis, the Federal Reserves of the US were intended as "maximum employment, stable prices, and moderate long-term interest rates." Price stability is defined as "a longer-run goal of 2% inflation", while the Bank of Japan lead the monetary policy based on the principle that the policy aims at achieving the price stability to contribute to the healthy development of national economy. Inflation remains, until 2007, on a path around the proposed target of FED in the Eurozone and ECB in the US, while Japan is experiencing deflation (Figure 1) amid the negative interaction between asset prices, the increase of the financial system malfunction and the deterioration of the real economy.

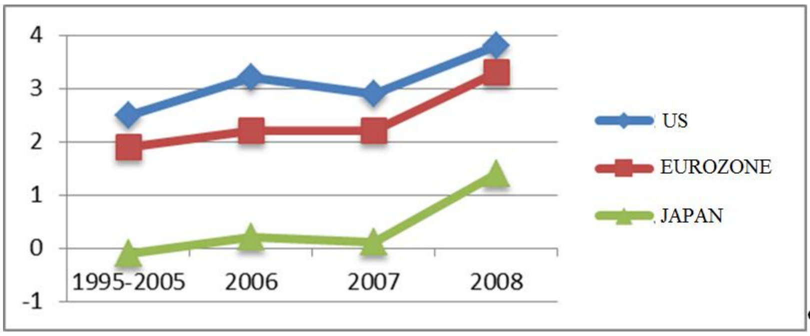

Figure 1. Evolution of Inflation 1995-2008

Source: IMF World Economic Outlook, October 2014

Hazard or best practice in monetary policy during the last two decades of the pre-crisis period, known as the "Great Moderation" was characterized by substantial reductions in inflation, and also on production volatility in almost all developed countries under the impact of structural economic, institutional, technological changes, of perfecting the macroeconomic policies and especially the monetary ones. The "Irrational exuberance" of this period facilitated the emergence of the global crisis, but as evidence of a compelling reality: the monetary theory and the practice of central banks have lagged behind with the development of financial systems in developed market economies and, therefore, many banks plants were unprepared to deal with the financial crisis that erupted in August 2007. (Cerna, 2014)

3.2. Price Stability and the Global Financial Crisis

Occurred amid unprecedented expansion of bank credit and the increase appetite for risk in all financial markets, inducing the adverse selection and moral hazard and creating the impression that only "the sky was the limit," the global financial crisis caused the most severe contraction of economic activity at global level since the Great Depression of the years 1929-1933 and it doubted even the central bank's ability to fulfill its mission amid the inflation rates close to zero in 1990 (US and Eurozone) or 1.3 in Japan (Figure 2)

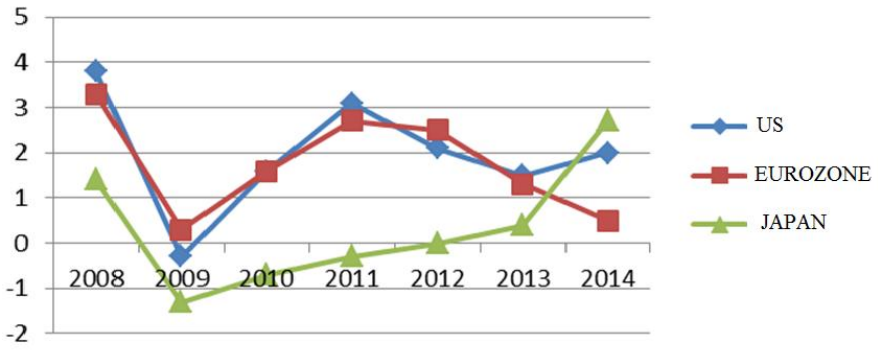

Figure 2. Inflation 2008 - 2014

Facing the shock represented by strong inflationary pressures, each central bank acted, in the post-crisis period, depending on the circumstances and the degree of economic development through measures meant to combat the deep and prolonged recession and financial instability from the Great Depression of the 1930s and to ensure the macroeconomic and financial stability.

The global economic crisis has damaged the transmission channels of monetary policy decisions in the economy and it has forced the central banks to act in the new framework emerged in the developed economies, where (Cerna, 2014):

- the balance sheet of commercial banks has been severely affected by their asset accumulation of a large volume of doubtful debts, generating a massive effort to cut debts (deleveraging), which led banks to restrict the credit supply at a time when the central banks also tried to tighten the monetary policy;
- The interest rate practiced on the interbank markets – as the interest on the private titles market - began to include a risk premium increasingly higher, which countered the effects of lower interest directory rates by the central banks;
- Rapid deterioration of the economic situation required a reduction of interest directories, so that in many countries, the monetary policy rate has reached zero or very close to this level (below which it may not decrease).

In many recent theoretical and empirical works caused especially by the debates on the economic policy pursued in the “lost decade” of Japan, it shows that the central banks may apply a wide range of “unconventional” measures of monetary policy (Cerna, 2014). In practice “the central banks in the United States, United Kingdom, Japan, and euro area adopted a series of unconventional monetary policies with two broad goals (IMF, 2013): to restore the functioning of financial markets and intermediation and to provide further monetary policy accommodation at the zero lower bound, (Bernanke & Reinhart, 2004):

• “The commitment on monetary policy orientation - policy duration commitment”, which is to ensure the investors’ confidence that short-term rates interest will be maintained in the future at a lower level than expected by the market in the absence of the commitment;

• “Quantitative easing” aimed at increasing the availability of banks' current accounts at the central bank beyond the level necessary to bring the overnight rate to zero;

• "Qualitative easing" (or credit easing), involving usually an expansion of central bank balance sheet, as in the case of quantitative easing, focusing on the structure of assets and not on the monetary base level, aiming at changing the structure of the portfolio of assets held by the private sector and, consequently, changes at the level of relative prices, with consequences on economic activity.

Accordingly, the central banks were forced to abandon the traditional instruments for reducing the real interest in the medium and long term, becoming largely ineffective. The strong return of credit risk and liquidity on financial markets it has put an end to an "age of innocence" in monetary policy (Liikanen, 2012).

4. Challenges of the Global Crisis and even ... Solutions

The crisis has "opened an opportunity" (Issing, 2011) for monetary policy makers and academic research: identifying the explanatory springs of the causes of the crisis, to embed the information in future decisions designed to improve the performance of monetary policies and to avoid repeating the past mistakes.

The importance of low and reduced inflation, as main objective and in many cases the only one, the monetary policy is a concept that the global financial crisis has brought to the forefront of debates: it has shown that maintaining a stable inflation does not necessarily provide a zero level of the GPD deviation compared to the potential. Price stability becomes from the "strong spot" of the pre-crisis to the "weak spot" of the post-crisis period (Table 1).

Table 1. Price stability

Price stability	
pre-crisis period	**post-crisis period**
- main long-term objective of monetary policy, assuming the price stability as the primary long-term objective of monetary policy represent a key element for the whole conceptual framework for policymakers (Bernanke, Laubach, Mishkin & Posen, 2001)	- price stability does not guarantee also the financial stability (Svensson and macroeconomic, 2011); it is necessary redrawing borders or rethinking connections
- maintaining a low and stable inflation is important, perhaps necessary, for achieving other macroeconomic objectives (Bernanke, Laubach, Mishkin & Posen, 2001)	- it is preferably targeting a price level or inflation targeting adapted in the light of the recent financial crisis and recession (Svensson, 2011)
- an explicit mandate for pursuing monetary policy stability and a high degree of operational autonomy (Roger, 2009)	- the ultimate goal should be the output gap and the stable inflation
- insuring price stability is a prerequisite (almost) enough to promote financial stability, being invalidated by the recent global crisis	

The identification of that indicator, while maintaining the set direction, could lead to a greater stability in the economic activity, named by Mankiw and Reis price stability index (2002) representing a debated topic among academics and policy makers in monetary matters.

In the conceptual plan, the crisis requires rethinking flexibility and limits of this flexibility: the liquidity trap into which many central banks fell, it has destroyed the illusion according to which there are no longer shocks that push inflation to zero. A low inflation risk presents the danger of the entry into a negative territory, causing zeroing the monetary policy interest rates, forcing the recourse to quantitative easing measures. (Isărescu, 2012) In order to avoid inflation on negative territory, Blanchard et al. (2010), for example, propose amendments to the inflation target from 2% to 4%, the proposal was not supported by Mishkin (2011) invoking the experience of the 1960s, as a result of accepting the level 4-5%, the inflation has continued to rise over the limit. However, a decision that would meet the consensus is still waiting.

In the field of monetary practice, the ECB has been very active since the beginning of the crisis and its actions helped the financial sector to avoid a complete meltdown and adopted measures that were mainly directed at ensuring the provision of liquidity and repairing the bank-lending channel. The Fed and the Bank of England quickly pursued unconventional monetary policies by implementing quantitative easing programmes that appeared to have a positive impact on financial variables and also on the real economy. (Claeys, 2014) The specialized literature and the international practice shows the effectiveness of the "unconventional" monetary policy measures, but only under certain circumstances, shown in Table 2. (Cerna, 2014)

Table 2. Constraints on non-standard measures

	Communication on future interests	**Targets on *quantitative easing via Credit easing***		***Credit easing in long term***	
		Public	Private	Public	Private
It involves achieving zero level of directories interest	No	Yes	Yes	Yes	Yes
Operational if the financial system is affected by extreme claims	Yes	No	No	Yes	Yes
Credit risk in the central bank's active	No	No	Yes	No	Yes
The risk for central bank independence	No	Yes	No	Yes	No

(*) No – in the first moment, Yes - from a certain level

Source: (Cerna, 2014)

According to official data published by the European Central Bank, for example, (Economic Bulletin no. 2/2015), the Governing Council has decided in January 2015 extending the assets purchasing program so that it includes, from March, titles in euro with low risk (investment grade) issued by governments and government agencies in euro area and EU institutions. The cumulative monthly purchases of securities issued by the public and private sector will rise to 60 billion Euros. It is intended to carry them to the end of September 2016 and, in any case, until the Governing Council shall determine a sustained adjustment of inflation trajectory, which should be consistent with the objective of maintaining the inflation rates below the level, but close to 2% on medium term.

For central banks that have adopted direct targeting of inflation as a monetary policy strategy, the global financial crisis has put into question all the concepts under which they operated, having even its "obituary" by Jeffrey Frankel in the summer of 2012, when announced "with regret, the death of inflation targeting", at only a few months after the FED and the Bank of Japan announced the establishment of medium-term inflation targets, with the stated aim of enhancing the transparency and effectiveness of monetary policy. (Trandafir, 2013)

The intellectual, political and social consensus of the pre-crisis period, crystallized around the belief that inflation is the main source of financial instability and that the ensurance of price stability is a prerequisite (almost) enough to promote financial stability, is invalidated by the recent global crisis. From this perspective, ensuring financial stability returns as an unsolved problem by the central banks. Reconciliation functions of price and financial stability in one institution, supported as possibility by Mugur Isarescu (2012), is considered inappropriate by Lars EO Svensson (2011) as he finds them as being conceptually distinct, each with separate objectives, instruments and control authorities. (Trandafir, 2013) We cannot omit the decision of European authorities which have reached a consensus: the Union Bank, considered an appropriate response in terms of the "impossible trinity", which points out that the financial stability and financial integration are not compatible with the supervision maintenance at national level. (Isărescu, 2012) If the implementation of a unique manual of rules in over 8000 banks, as they are now in Europe, will be able to reach its goal, in the absence of a fiscal union, remains an open subject.

Given the fact that "companies were managed in the past without central banks" Marvyn King (1999), attempts, since the pre-crisis to decipher, based on the realities of the new millennium, the future concept of central bank, imagining "the central bank with no money", as a result of innovations in the technology domain brought by the "new economy" of the 90s: eligible assets could become any financial asset for which there is the possibility of compensating the prices on the market in real time, the system could determine the price of financial assets, in terms of a unit of account, equivalent, probably, with a commodity standard, by confronting the supply with the demand of financial assets and it may perform the deductions. The concern of the central bank to limit the excessive monetary creation would be transferred to the requirement of ensuring the integrity of computer systems. In 2010, Huerta de Soto considers necessary to reform the banking system with the stated goal of "submitting it to its traditional principles of civil and commercial law, according to which every person and company must meet certain requirements (100% reserves), in addition to strict compliance with the terms established in each contract." In this context, the Austrian school followers propose, in in the banking domain, the following three steps (Cerna, 2010):

- Restoring obligatory reserves 100% for banks that receive deposits from the public and all similar institutions;
- Demolition of central banks as financier of last resort (a function which is no longer necessary in terms of applying the previous measures) and as central agency of financial planning;
- Privatization of fiat money issued by the state as monopoly and its replacement by a monetary system that cannot be handled by humans; for now, it can be the classical golden standard system.

5. Conclusion

As a conclusion, we can say that the recent crisis has submitted to the "resistance test" not only the applied strategies, but also the operational framework of central banks, global cooperation and it restored the financial stability in the center of the central bank, changing the very way of thinking of theorists and practitioners on the formulation of monetary policy decisions.

Although the progress registered in the realm of ideas and practice of the economic science, the reality too often does not listen to theory, and the theory claims without grounds from practice (Dinu, 2012) and, regardless of the degree of mastery of the art of distinguishing between cause and effect, it is still affected by the unexpected events, which become points of inflection for economic theory and practice, imposing paradigm shifts of the conventional framework of thinking. As long as it is still valid the consensus of the pre-crisis period and how much it should be rethought the monetarist principles, if the central bank has the right to broaden the objectives to include, along with price stability also the financial stability are challenges in a world of searches, evaluation, rethinking, where the authorities at the highest level of national and global monetary decision still seek answers. In this world of turmoil, we can say that, unfortunately, crises cannot be anticipated ... so far.

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An Analysis of the Relationship between Life Expectancy at Birth and the Total Public Revenues in Romania, during 1995-2013

Alina Cristina Nuta[1], Florian Marcel Nuta[2]

Abstract: This paper studies the nature of the relationship and the impact of the demographic phenomena (by life expectancy at birth indicator) on indicators of public finance (through analysis of total government revenue). In this respect, the analysis took into account the evolution of these indicators in Romania in the period 1995-2013 and the conclusions of the empirical analysis revealed positive link between those indicators.

Keywords: ageing; public revenues; life expectancy

JEL Classification: J11; E62; H53

1. Introduction

The phenomenon of the population aging has become one of the most important factors that affect the potential for developing of countries in many ways, generating the need for policy makers to adapt to changing demographics conditions. In this context, many studies examine the major impact on public finances (Auerbach, 2008, Bilan, 2014; Fehr, 2012; Jukka, et all., 2014; Torben, 2012; Zugravu, 2013).

Significant from this perspective are the costs revealed by age-related spending, but we need to remember that the population structure of a country can have repercussions even on the level of public revenues. In this regard, in this paper we analyzed how evolved the total public income in relation with life expectancy at birth, noting that in Romania, during the analyzed period, government revenues increased as a result of the influence generated by longevity.

This result can be explained by the fact that longevity determines an extension of time in which people contribute to public budgets. Also, we can admit that increase government revenue is determined precisely by the need to cover expenses related to age.

However, we must take into account that future developments will not resemble with everyday reality and the pressure on public finances will be extremely intense. Analysis on the sustainability of public

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finances is justified by the purpose of the governments to finance public services and transfers to the elderly in the future.

2. Data and Methodology

To determine how public finance indicators will be affected by the evolution of age-related variables, we took into account data on total public revenues in the period 1995-2015, as a percentage of GDP, in correspondence with the life expectancy of individuals in Romania, for the same period. The time series were adjusted using logarithm procedures and differentiation (Chirila & Chirila, 2011)

3. Estimating the Relationship between Life Expectancy at Birth and the Level of the Total Public Revenues

3.1. Stationarity

To be stationary, life expectancy variable values were logged and were calculated first difference. For public revenues we have calculated using logarithm procedures.

3.2 Model estimation

Table 1. Model estimation

Dependent Variable: L_GOVREVENUE

Method: Least Squares

Sample (adjusted): 1996 2013

Included observations: 18 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.475084	0.011573	300.2825	**0.0000**
DL_LIFEEXPECTB	3.965792	1.756611	2.257638	**0.0383**

R-squared	0.241596	Mean dependent var	3.491078
Adjusted R-squared	0.194196	S.D. dependent var	0.043249
S.E. of regression	0.038824	Akaike info criterion	-3.555139
Sum squared resid	0.024116	Schwarz criterion	-3.456208
Log likelihood	33.99625	Hannan-Quinn criter.	-3.541497
F-statistic	5.096931	Durbin-Watson stat	1.315360
Prob(F-statistic)	0.038298		

Source: own calculation

The model is: L_GOVREVENUE = 3.475 +3.965 DL_LIFEEXPECTB

The probabilities associated with the t test (to test the significance of the regression model parameters) are smaller than 0.05, so are the parameters of the regression model are statistically significant. The model shows that government total revenues depend on DL_LIFEEXPECTB . The relationship between variables is strong, DL_LIFEEXPECTB explain a proportion of 24.16 of L_GOVREVENUE

3.3. Hypothesis Testing

*** Testing the lack of autocorrelation of errors**

Table 2. Errors correlogram

Sample: 1996 2013
Included observations: 18

Autocorrelation	Partial Correlation		AC	PAC	Q-Stat	Prob
. |**. |	. |**. |	1	0.249	0.249	1.3180	0.251
. | . |	. *| . |	2	-0.038	-0.107	1.3513	0.509
.**| . |	.**| . |	3	-0.283	-0.265	3.2745	0.351
. *| . |	. | . |	4	-0.176	-0.047	4.0696	0.397
. |* . |	. |* . |	5	0.088	0.141	4.2851	0.509
. |* . |	. | . |	6	0.164	0.040	5.0913	0.532
. |* . |	. | . |	7	0.114	0.006	5.5162	0.597
. |* . |	. |* . |	8	0.152	0.201	6.3468	0.608
. *| . |	. *| . |	9	-0.130	-0.155	7.0203	0.635
.**| . |	.**| . |	10	-0.292	-0.253	10.845	0.370
. *| . |	. | . |	11	-0.151	0.053	12.022	0.362
. | . |	. | . |	12	-0.019	-0.022	12.045	0.442

Source: own calculation

Since all probabilities associated with Ljung-Box test (Q state) are greater than 0.05 (risk assumed) the estimated model errors are auto correlated.

***Testing the errors homoscedasticity**

Table 3. Correlogram of squared errors

Sample: 1996 2013
Included observations: 18

Autocorrelation	Partial Correlation		AC	PAC	Q-Stat	Prob
. |**. |	. |**. |	1	0.283	0.283	1.6981	0.193
. |* . |	. | . |	2	0.078	-0.002	1.8350	0.400
. *| . |	. *| . |	3	-0.163	-0.201	2.4740	0.480
.**| . |	.**| . |	4	-0.281	-0.207	4.5070	0.342
. | . |	. |* . |	5	-0.029	0.141	4.5302	0.476
.**| . |	.**| . |	6	-0.222	-0.285	6.0143	0.422
. *| . |	. *| . |	7	-0.172	-0.168	6.9773	0.431
. *| . |	. *| . |	8	-0.160	-0.104	7.8945	0.444
. *| . |	. *| . |	9	-0.103	-0.074	8.3224	0.502
. |* . |	. |* . |	10	0.191	0.088	9.9560	0.444
. |**. |	. |**. |	11	0.319	0.228	15.187	0.174
. |* . |	.**| . |	12	0.097	-0.227	15.746	0.203

Source: Own calculation

Since all probabilities associated Ljung-Box test (Q state) applied squared errors are greater than 0.05 (risk assumed) the estimated model errors are homoscedastic.

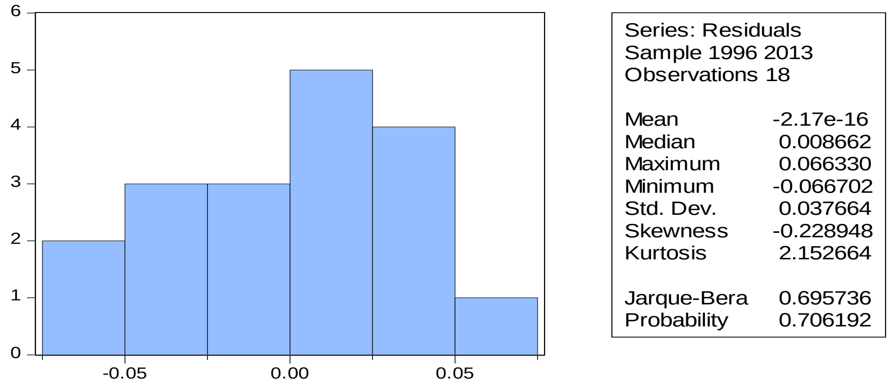

Figure 1. The distribution of the estimated error of the regression model

Since the probability associated Jarque-Bera test is greater than 0.05 errors follow a normal distribution law.

4. Conclusion

Therefore, the regression model assumptions are met. Thus, in the analyzed period, in Romania public revenues depend on the life expectancy. We finds that there is a positive relationship between these two parameters, which leads to the conclusion that public revenues increased as life expectancy at birth has increased. This conclusion leads us to the idea that in the analyzed period total public revenues increased because of the longer life of the taxpayer, which is consistent with other research findings in.

5. Acknowledgement

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Assessing Goodwill in Hotel Business Case Study: Milcofil SA. Vrancea

Dan Păuna[1], Luminita Maria Filip[2]

Abstract: This study focuses on the assessment of goodwill in the hotel business, an entity which brings together both tangible and intangible elements. Even though tangible elements are relatively easy to measure by typical accounting methods, the intangible part (which defines the most important feature of services) is rather difficult, if not impossible to measure. That is mainly the reason why the immaterial side, which defines famous businesses, brings the recognition of the image, advertisement, logo, emblem, fame or, in other words, all the elements that attract clients.

Keywords: goodwill; professional practices method; value in earning power method**;** updated financial flows method

JEL Classification: D12; L25; L83; M41

1. Introduction

We shall begin this paper with a defining quote from professor Lupu Nicolae[3] “Defining (designing) the hotel product must be done for an exactly determined segment of clients, that is the dissatisfied ones...The sharp reduction of accommodation prices, even at a modest hotel, would rather raise suspicion from clients. If a big and famous hotel would reduce its prices to half, it would be in danger of remaining empty...while potential clients would still be inhibited by the hotel luxury and fame and they will not even step inside...” (Lupu, 2010)

Generally, speaking about the hospitality industry, we consider a certain standard with implications on the quality of the services offered, and the clients of the hotel “hope that hotel will be clean, comfortable, safe and secure. They expect to be furnished with hygienic conditions, good and sanitary food and beverage at a reasonable price.” (Gonenc Guler & Yukselen, 2010)

Therefore, the defining element of this industry is the intangible part because, since it is difficult to measure, having standardized elements for offering the service, elements which are limited in time, if

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[3] Professor PhD. Nicolae Lupu, University of Economic Studies of Bucharest, Department of Tourism and Geography, skills and contributions regarding the management and technology in the field of hotels and restaurants.

an optimal marketing process is applied, it will bring fame, recognition, reputation which are essential elements in the clients choosing the hotel.

Services provided by hotels nowadays are designed for efficiency which, combined with the design elements, change clients' perception. This new element, a fusion between the two dimensions, offers more than the quality provided by standards and goes up to a significant commitment of the employees, so the offered product, mixing luxury with experience, is exceptional, "a kind of unique art work". (Michelli, 2008)

Implicitly, the hotel does not sell the basic product, accommodation, but much more than this, it will sell a commercial name, with emphasis on an identity, a success factor which will answer the question "How can we offer what people wish for?" (Diller, Shedroff, & Rhea, 2006)

2. Theoretical Concept

Hotels are enterprises whose financial assessment is relatively difficult to appreciate, this aspect being affected by a number of intangible factors, establishing the exact value being a process of making it tangible by means of common financial indicators such as turnover from accommodation and eating out, the rate of capitalization and updated financial flows.

The ability to produce profit depends on the ability to use tangible or intangible assets, but optimal performance management is put under the sign of the intangible assets, i.e., brand, the element that makes the difference, which ultimately translates into the total market value of the hotel.

Intangible assets can bring up to 70% of "the total value of the business "(Stanfield, 2005), however, despite their important role in financial performance they are not frequently used in common evaluation techniques.

In order to define intangible assets we can quote the *International Accounting Standards Committee*[1] which defines intangible assets to be "assets that manifest themselves by their economic properties, they do not have physical substance, they grant rights and privileges to their owner; and usually generate income for their owner. Intangible Assets can be categorized as arising from Rights, Relationships, Grouped Intangibles, or Intellectual Property" (Mard et al., 2002).

As an element of accounting, goodwill is defined as a set of movable and immovable, tangible and intangible assets which a businessman provides for a business in order to attract customers and thereby to gain profit.

According to some authors, the intangible assets can be grouped according to the possibilities of identifying them (Isfanescu, Serban & Stanoiu, 2008), as follows:

1. Unrecognizable intangible assets of business - with indefinite life span (cannot be written off), as real estate property, machines and equipment, existing clients, location, local reputation;

2. Unrecognizable intangible assets of the person – with uncommercial untransferable value, staff reputation, skill, relations with clients, managerial spirit;

3. Unrecognizable intangible assets of the business-can be individually assessed with definite life span, such as: brand, product name, contracts, licenses, patents.

[1] The International Accounting Standards Committee (IASC) was founded in June 1973 in London and was replaced by the International Accounting Standards Board on 1 April 2001. It was responsible for developing the International Accounting Standards and promoting the use and application of these standards.

In the field of goodwill assessment, it should be understood as follows:” beyond the market value of tangible assets and liabilities in the balance sheet, there may be an additional incorporeal value, (goodwill); its existence will be linked to the more or less effective use of the assets of the enterprise. If the assets are well managed and operated, so they bring out a higher expected return of the market, then you can get goodwill...” (Toma, 2011). Elements which generate this return refer to the reputation of the company, product quality, location, customers, and commercial competence of employees in relation to clients.

3. The Case Study: Assessing Goodwill within Fashion Center Hotel****, Focsani, Vrancea

3.1. Hotel’s General Presentation

The hotel belongs to Milcofil S.A company, registered at the Chamber of Commerce and Industry of Vrancea district, respectively at the Trade Register Office under registration number J19/228/1991.

- *The legal form* of the company is joint-stock.
- *Company headquarters* is in România, Focşani town , no.12 Bucureşti Blvd; the phone number is 0237-613200 and fax number is 0237-613200
- *Identification data* is as follows: fiscal code R1450313;
- *Its branch* is to provide travel services, retail trade, catering services, exchange operations, promoting and contracting foreign tourist programs and their implementation. code CAEN 5510; CAEN 5610.
- *Social capital* in amount of 1516985,99 lei divided among the shareholders with a total of 686419 shares with a value of $ 2.21 per share. Shareholder structure is as follows:
    1. Sorste S.A. – main shareholder 91.32 %
    2. Other shareholders – 8.68%

The services are structured as follows:

- ***basic service*** - which is the core business of the company providing the service-accommodation and catering;
- ***complementary services*** are provided so that the core service can meet certain quality standards - telephone, telex, telegram, fax, room-service, guarded parking;
- ***additional services*** are activities that support the provision of basic service - check-in, information, luggage loading and unloading, storing valuable items, internet connection, air conditioning, theater tickets booking, shows, organized meals for groups, ironing, washing, in normal or emergency system, reception hall, gym.

3.2. Accommodation and prices

Fashion Hotel accommodation capacity expressed in rooms and number of existing places to stay is emphasized in the following chart:

Chart 1. Accommodation capacity of Fashion Hotel

No.	Rooms	Total no of rooms	Number of places
1.	Single	6	6
2.	Double	11	22
3.	Apartment	8	16
Total no of rooms and places		25	44

Source: Hotel Fashion, operational department.

Accommodation prices displayed represent the price of renting a room for 24 hours and one can differentiate among them according to: type of room, way of occupying a double room (by one or two people), type of clients (on their own or clients of travel agencies, among which some travel in groups or individually), time span (during tourist season or off-season) which generate a system of charges.

The prices charged at Fashion Hotel for the 25 rooms with 44 available accommodation places are presented in Chart 2.

Chart 2. Prices charged at Fashion Hotel from 01.09.2013 to 30.04.2015

No.	Existing rooms	Price expressed in lei (day/place)	Price expresses in EURO (day/room)
1.	Single room	271	The price is according to the exchange rate. It uses the service Raiffeisen on line with the possibility of paying by card in currencies
2.	Double room	534	
3.	Apartment	534	

Source: Fashion Hotel, accommodation department

Prices for the accommodation of newly-arrived tourists are visibly displayed at the check-in desk and they are expressed in lei/day/place/room type; prices include breakfast. In order to encourage longer stays, they use long stay accommodation prices. Prices set by contracts for organized groups are not displayed.

3.3. Assessing Goodwill within Fashion Center Hotel****

In the category of S.C Milcofil S.A. tangible elements there are: materials, equipment, tools, buildings, that is the tangible goods that serve the merchant in order to operate the fund. These specialized tangible assets are in very good condition to attract clients.

Among the intangible assets of the company we can mention: company, logo, customer, top commercial location, industrial property law. The case law includes in the goodwill even the right of using the space in which one exploits goodwill.

The firm is the name used by the operator when carrying out the operations that are the subject of trade and under which they sign; this is S.C Milcofil S.A, the Fashion Center Hotel****. The logo is the sign which distinguishes a merchant from another ("shop-sign" in the English terminology). The emblems are representational (geometric shapes, plants, animals etc.), verbal (denominations, words, letters, numbers, etc.), or complex (combinations of the first two).

The number of clients is represented by all natural and legal persons who hold relations with S.C Milcofil S.A and from an accounting point of view they are expressed as a figure. The factors influencing the number of clients are either internal factors (objective – headquarters, the quality of productive fixed assets, the quality of products, or subjective – connected to the staff: loyalty, quality of service, advertising) or external factors which influence the number of clients and the company's overvalue: elements connected to competition and the held market.

The commercial location represents the power or capacity of the company to attract clients. The clients of Fashion Center Hotel **** are represented mostly by business people, but not only them, who are attracted by the quality of products or services and by the quality of the employed staff.

The most commonly used assessing methods of goodwill are grouped into two main categories, as follows:

- traditional assessing methods (goodwill value is determined by the market price);
- financial methods (hotel industry productiveness value is sought out).

However, the assessing methods can be grouped according to the size of the hotel, that is hotels belonging to a hotel chain or individual hotels (Stanciulescu, et.alli., 2003). In the case of the latter, we can distinguish a series of characteristic methods which assess the hotel according to its size. According to this criterion, we can distinguish:

a) professional practice method – mainly used in the case of evaluating individual hotels, but it can also be used in the case of medium-sized hotels which belong to a chain of hotels. The method is based on determining goodwill on the base of a multiplication factor. *"k" (defined by the evaluator according to the financial analysis and diagnosis, which can have values between 1,5 and 5)* , applied to the company's beneficiary capacity. In the case of Fashion Center Hotel****, which also owns a restaurant, the multiplication factor can have the following values (Lupu, 2010)

- 1 – 2.5 times the turnover from accommodation services;
- 0.5 – 1 times the turnover from food services.

b) the method of profitability value– or the method of capitalization of the result, is based on a future evaluation of the hotel in generating net flows of liquid assets (net profit, net cash-flow, gross overpayment from operations (EBE – from Romanian – excedentul brut din exploatare) in a sure environment.

Evaluating goodwill using this method starts from a multiplication factor applied to the net result of operations.

The multiplication factor *(k)* depends on the risk of the business (sure or unsure environment), on the yearly rate of inflation and on the rate of interest on bonds issued by the State.

This is calculated as proportion

$$k = \frac{1}{t}$$

where t is the capitalization rate (t) previously established, which is calculated according to the formula:

$$t = (r - f)(1 + R)$$

where:

r = rate of interest for bonds (the state bonds (state titles) issued in Romania are financial tools which confirm the public debt of the issuing entity (Ministry of Economy Finance) on short, average (1 - 5 years) and long term (over 5 years);

f = Inflation rate %

c) the method of updated financial flows– or the updated liquid assets flow (DCF), is based on the estimated cash-flow on long term.

$$Vf = \sum_{i=1}^{n} \frac{Cfi}{(1+t)^i} + \frac{Vr}{(1+t)^n}$$

where:

Vf = goodwill value

Cfi = cash - flow anticipated for the year i (i = 1,2,3.......10). It is made for a limited period of time, 10-20 years, usually 10 years.

t = capitalization rate

Vr = updated residual value of goodwill

n = number of years

The main point of the method is the assessment of he hotel "...which is done according to the development prospects. The method uses the financial principle according to which the value of an asset is equal to the present value of the net liquid asset flow (cash-flow) possible of being generated in the future by that asset". (Toma, 2011)

3.3.1. Evaluating by Professional Practice Method

Fashion Center Hotel**** is a hotel with a restaurant so we will apply the multiplication factors on the two categories of the turnover, obtained from accommodation and food:

- 1 – 2.5 times the turnover generated by the accommodation
- 0.5 – 1 times the turnover generated by food services.

The turnover considered is an average of the turnovers from the last 2-3 years.

Chart 3. Turnover structure on categories

Years	2009	2010	2011	Arithmetic average
Accommodation turnover	3.433.359	3.224.676,7	3.096.623,4	3.251.553
Food turnover	2.288.906	1.382.004,3	1.667.412,6	1.779.441
Total turnover	5.722.265	4.606.681	4.764.036	5.030.994

Source: processed by author according to data about S.C. Milcofil S.A

Applying the maximal values of the two factors we get the value of goodwill:

Chart 4. Calculating goodwill for S.C Milcofil S.A

Structure of goodwill	Applied factor	Average turnover	Goodwill
Accommodation	2,5	3.251.553	8.128.882,5
Food	1	1.779.441	1.779.441
Total			9.908.323,5

Source: processed by author according to data about S.C. Milcofil S.A.

Turnover – independent variable in the financial analysis is the determinant characteristic of S.C Milcofil S.A. value. Its level at the time of analyzing the company covers the expenses, the point when the company starts making a profit, except the year 2008, when the company management made the decision to modernize the accommodation places. As a matter of fact, one can notice that once work finished, the turnover of the company started to grow, which generated the growth of the profit and the market value of the company as well.

3.3.2. Method of Profitability Value

It allows the assessing of goodwill in a sure environment for an indefinite time, on the one hand, and for a definite period of time for which there is the certainty of getting the wished result, on the other hand. Determining the value of goodwill in a sure environment for an indefinite period of time is carried out by applying a multiplication factor calculated according to the capitalization rate:

$$k = \frac{1}{t}$$

$$t = (r - f)(1 + R)$$

An important issue in estimating the profitability value is taking into account the inflation and the interest rate for loans.

Chart 5. Average rate of yearly interest for loans from 2007 to 2012

Year	2007	2008	2009	2010	2011	2012
Interest rate %	6.10	10.25	8.50	7.47	6.25	5.50

Source: http://www.bnr.ro/Raport-statistic-606.aspx

Establishing the average rate of loan interest (r) during the analyzed period of time using the arithmetical average of the figures above we get the value of 7.4%, yearly average rate of interest.

In order to determine the yearly rate of inflation, we are going to calculate the arithmetic average of inflation rate values during the last 10 years.

Chart 6. Consumer price index and inflation rate from 2003 to 2012

Year	Consumer price index %	Inflation rate % (f)
2003	103.7	3.7
2004	102.9	2.9
2005	102.2	2.2
2006	101.3	1.3
2007	104.8	4.8
2008	107.8	7.8
2009	105.5	5.5
2010	106	6
2011	105.7	5.7
2012	103.3	3.3
Average	104.32	4.32

Source: INS, Romania statistical directory, 2013

Consumer price index measures the overall evolution of prices for a cart of products and for the specialized services used by population. Yearly rate of inflation is calculated by subtracting 100 from the yearly index of consumer prices.

For S.C Milcofil S.A the value of the capitalization rate is:

t = 9.02%

R = risk; in the case of hotels it is seen as low or medium and its values are 25 – 50%

k = multiplication factor; k = $\frac{1}{t} = \frac{1}{0{,}09} = 11{,}1$

Applying this factor to the value of net profit of the company, we get the net profit capitalization for a definite time, which represents the assessing of goodwill for S.C Milcofil S.A.

Chart 7. Assessing goodwill in a sure environment

Years	Net profit	Multiplication rate	Yearly goodwill
2006	309.220	11,1%	3.432.342
2007	3.278.657		36.393.092
2008	-267.471		- 2.968.928,1
2009	373.624		4.147.226,4
2010	334.889		3.717.267,9
Total goodwill for the 5 years			44.721.000
Goodwill average			8.944.200

Source: Data processed by author using the accounting balance of S.C Milcofil S.A

Assessing goodwill can also be done by capitalizing the result for a limited period of time for which it is certain to obtain that result. The period of time taken into account is of 10 – 20 years, usually 10 years.

In this case, capitalization is done by applying a multiplication factor (the factor of the present value of an annuity) calculated according to the formula:

$$\frac{1-(1+t)^{-n}}{t}$$

Taking into account the capitalization rate determined previously, which is 9%, the multiplication factor gets the value:

$$\frac{1-(1+0{,}09)^{-10}}{0{,}09} = 6{,}41$$

The value of goodwill obtained by the capitalization of yearly net profit is:

Chart 8. Evaluating goodwill by the capitalization of net profit

Years	Net profit	Multiplication factor	Yearly goodwill
2006	309.220	6.41	1.982.100,2
2007	3.278.657		21.016.191
2008	-267.471		-1.714.489,1
2009	373.624		2.394.929,8
2010	334.889		2.146.638,4
Total goodwill for the 5 years			25.825.370
Goodwill average			5.165.074

Source: Data processed by author using the accounting balance of S.C Milcofil S.A

The higher the number of years, the more the value of goodwill tends to the one associated to the indefinite time (infinite). For a period of 20 years, the multiplication factor is 9.13, and goodwill is estimated at 7.356.805,8 lei.

Loan interest rate represents the minimum limit of the profitability of the indebted company. Comparing loan interest rate to the economic profitability of the company during the analyzed time, one can notice that the latter has considerably decreased. An economic profitability rate lower than the average loan interest rate emphasizes the fact that the company is going through a hard time, and its market value is getting lower.

We can notice from analyzing goodwill by profit capitalization that at a high rate of interest during the observed time, inflation gets lower after the year 2010, which generates a higher rate of unemployment on labor market and to a reduction of staff within companies. Analyzing the evolution of positions within S.C Milcofil S.A, we observe a reduction of jobs in 2009, even if in 2008, when the modernization of the hotel finished, workforce considerably rose from 36 to 55 positions. Thus, in 2010 there were 29 workers (in 2014 the company has the same number of workers, respecting the manning rate for mandatory services for a four-star category).

3.3.3. The Method of Updated Financial Flows (Updating Future Cash Flows)

This method is based on the net cash flow estimated for a period of time of 8 to 15 years. Usually, a period of 10 years is adopted since it is considered that estimations are random for longer periods of time.

The updating rate (t) applied is similar to the capitalization rate, this model using present prices and calculating a yearly rate of future inflation.

Goodwill value (Vf) is given by the 10 – year addition of updated cash-flow to which the updated out-of-balance value of goodwill (VR) is added:

$$V_f = \sum_{i=1}^{n} \frac{C_n}{(1+t)^i} + \frac{1}{(1+t)^n} VR$$

$$VR = V_f (1+f)^n$$

Cash-flows are calculated starting from yearly net profit and rectifying it with all the operations that affect in one way or another the cash flow. Since we are interested in future cash flows, that means the availability of prognoses for balance which are practically absent. Moreover, theoretically we need very detailed data on the company’s activity and its accounting procedures in order to carry out the necessary changes.

The analysis makes a difference between the two periods in the future activity of the company: the near future, 5 to 10 years, considered a growth period, and the time after the growth, when the company reaches a certain stage of maturity.

Concerning S.C Milcofil S.A, we started off from a statement made by the company in 2010 when it was setting as target to reach a turnover of 10.000.000 lei in a 10 year span. Thus, we considered the period from 2011 to 2020 as being the growth period and we estimated a yearly growing turnover to reach 10.000.000 lei. For each year during this period we estimated the necessary balance sheet elements and we calculated the cash flows to be obtained by the company. The formula is as follows:

Cash Flow = Net Profit+ Amortization – Fixed assets expenses – Growth of working capital

Fixed assets expenses represent the asset acquisition during that year; the growth of working capital is the extension of the difference between current assets and liabilities during that year. This calculation gets us to a sum of cash flows generated by S.C Milcofil S.A from 2011 to 2020 as follows:

Chart 9. Anticipating future cash flows for S.C Milcofil S.A

Years	Anticipated cash-flow	Updating factor $1/(1+t)^i$	Cash-flow updated in 2008
2011	401.800	0.91	365.638
2012	423.000	0.84	355.320
2013	445.000	0.74	342.205
2014	465.000	0.71	329.685
2015	480.000	0.65	311.520
2016	515.000	0.60	306.425
2017	533.000	0.55	291.018
2018	561.000	0.50	281.622
2019	585.000	0.46	269.100
2020	615.000	0.42	259.530
Total	5.023.800		3.112.063

Source: Data processed by author

$$V_f = 3.112.063 + \frac{1}{(1+0,09)^{10}} V_f (1+0,014)^{10}$$

$$0,517 V_f = 3.112.063$$

$$V_f = 6.019.464,2 lei$$

Cash flow analysis is used when evaluating some complex tourist structures with diversified and numerous activities that need some yearly investments of high values in order to maintain or grow service potential and keep the clients. Falling into the category of commercial risks, the risk of losing clients is higher and higher within the company, once its spaces are getting more and more worn out. That is the reason why the management of S.C Milcofil S.A has carried out refurbishing and restyling works from 2006 to 2008.

4. Conclusions

The research has been implemented in order to verify the originality of the theoretical methods under debate in the already published papers. Even if the accounting data is not up-to-date (there is no accounting data available covering the time after 2010 since the company is under control carried out by state authorities), we can estimate the average of goodwill with the help of the used methods.

If using the first two methods leads to similar results, the third one shows a low value of goodwill. The causes of this considerable change based on future estimations show that location is not exactly an advantage, even if we talk about business tourism (far from downtown, on the outskirts of Focsani), it does not offer an attractive overall image (the building is redone in an industrial area with no pleasant view), and the proportion quality/price is very high compared to the offer of the other market competitors (Fashion Center Hotel**** does not post its prices on different booking sites unlike its competitors). Even in a positioning research (Accommodation Facilities Positioning, E u r o E c o n o m i c a, *Issue 2(33)/2014 ISSN: 1582-8859,),* the hotel offers only comfort and the complexity of services (ordinary for the category it belongs to) in contradiction to its reputation and positioning on the market in Focsani.

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The Impact of Real Estate Market in the Albanian Economy

Dorina Kripa[1], Dritjon Muçaj[2]

Abstract: The real estate market has an important impact on social and economic development of a country, and it involves many aspects which increase the complexity of the impact analysis and often have opposite directions. This can be supported by the fact that real estate is one of the most important items in public spending[3], but also in investment expenses in general (this is especially typical for Albania). These expenses are mainly related to infrastructure and accommodation of homeless people by the National Housing Entity. Researchers have studied the relation between the price of real estates with the GDP of a country, concluding that real estate prices and the government policies related to them, do impact the GDP growth, and movements in residential prices can be used to forecast GDP growth. On the other hand, when purchasing a home, individuals use all their savings, or take loans, which constantly cause the reduction of consumption and saving possibilities in order to afford the installments and other loan expenses. So, from this point of view, this investment may have an adverse effect, even on GDP. But, the question we raise in this study is: what impact has the real estate market in Albanian economy? We begin the study by emphasizing the importance of the real estate market, and then we identify key developments related to this market's financing, price developments and the construction activity, as an important part of the market itself. The study is concluded with a regression analysis on the role the real estate market plays in the Albanian economy.

Keywords: GDP; construction cost index; regression analysis

1. Introduction

Investment in real estates is and has always been one of the most controversial issues in the economic environment. This results mostly because of the complexity of this form of investment and the importance and close relations with several socio-economic aspects of a society. The claim that investment in real estate is one of the most profitable, sustainable and less risky investment is generally accepted, but we should expand the analysis on this issue.

The real estate market has a huge impact on social and economic development of a country, and it involves many aspects which increase the complexity of the impact analysis and often have opposite directions. This can be supported by the fact that real estate is one of the most important items in

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[3] According to economic experts

public spending[1], but also in investment expenses in general (this is especially typical for Albania). These expenses are mainly related to infrastructure and accommodation of homeless people by the National Housing Entity.

On the other hand, it is a valuable source of income, primarily for the state, through tax on transactions related to real estate, tax on personal income for employed people in this sector, the tax on profit for enterprises of this sector, etc.

The development of this market increases employment and it is one of the most important sectors in this regard, because it has enabled the employment of a large number of people, from simple unskilled workers to individuals with high qualifications. The employment in this sector is also related to the one in other joint sectors, such as raw materials and inputs market, intermediary market (real estate agencies, etc.). Employment, consequently, increases the purchasing power of many families, which of course means an increased demand for many goods and other services produced in an economy. This is a multiplier effect, which leads the GDP growth, one of key indicators of a country's economic development.

In terms of investment, it is a very profitable investment for constructors and investors in this market by generating large amounts of money, which can then be channeled in many other branches of the economy through investments, or can be easily transferred to the banking sector, causing further immediate effects in economic growth. In addition, we should consider also the service centers (offices, shops, shopping centers, etc.) which bring new opportunities and incentives for businesses, employment and development.

Another element that explains the high importance of the real estate market is the financial crisis which affected almost the entire global economy, starting from the United States. The inhibition of the real estate prices increase and then the decline, and the deterioration of the quality of home mortgage for unqualified borrowers, the subprime loans, caused problems not only in this market but also in other financial markets, which due to the complexity and lack of transparency of new financial instruments, were closely related to the performance of loans in this sector.

Researchers[2] have studied the relation between the price of real estates with the GDP of a country, concluding that real estate prices and the government policies related to them, do impact the GDP growth, and movements in residential prices can be used to forecast GDP growth. On the other hand, when purchasing a home, individuals use all their savings, or take loans, which constantly cause the reduction of consumption and saving possibilities in order to afford the installments and other loan expenses. So, from this point of view, this investment may have an adverse effect, even on GDP.

A number of recent empirical studies identify strong relations between developments in housing markets and the real economy. For example, Claessens, Kose and Terrones (2010, 2012) show that declines in housing markets are highly synchronized across countries and the level of this positive covariance increases, especially during periods of synchronized recessions. Results determine that the recessions associated with the decline in the housing market tend to be longer and deeper than the other recessions. Also, the economic developments associated with booms in housing markets, are faster and stronger.

However, despite the consensus that movements in the housing market are very important for the real economy, the further level of study is complicated by many factors: the characteristics of the housing

[1] According to economic experts.
[2] LHT Chui and KW Chau (2005). *Surveying and Built Environment Vol 16(2).*

market in a country; the nature and identification of economic shocks such as supply and demand shocks in housing markets, interest rates shocks on housing price movements.

Albanian researchers (Kripa & Kufo, 2013) have calculated a housing price index for Albania. They have also calculated an index for reference prices for the period 2007-2012, in order to understand if the trend of housing price index has any relation with the reference prices set by government. Thus, the authors concluded that market prices reflect only the market trend and the "bubble" phenomenon do still not exist in Albania.

Why Do We Study The Housing Market As Representative Of The Real Estate Market?

The real estate concept itself contains many elements such as: land, apartments, villas, industrial facilities, stores, etc., but in this study we are focused only on the apartment market, assuming that the other elements have the same characteristics and performance in this market.

In Albanian market, real estate market is classified as follows:[1]

- ✓ Buildings;
- ✓ Residential buildings;
- ✓ Other buildings (hotels, commercial buildings, industrial buildings, other buildings);
- ✓ Engineering construction;
- ✓ Transport infrastructure;
- ✓ Roads and highways;
- ✓ Water, electricity and telecommunications lines;
- ✓ Complex constructions in industrial sites;
- ✓ Other engineering works.

If we refer to INSTAT data, residential buildings account for approximately 90% of the total constructions. This is another reason that justifies our choice to represent the Albanian real estate market with the residential buildings.

Chart 1 illustrates the share of the two main subcategories: buildings and engineering constructions, and the portion of the main item: residential buildings in construction sector.

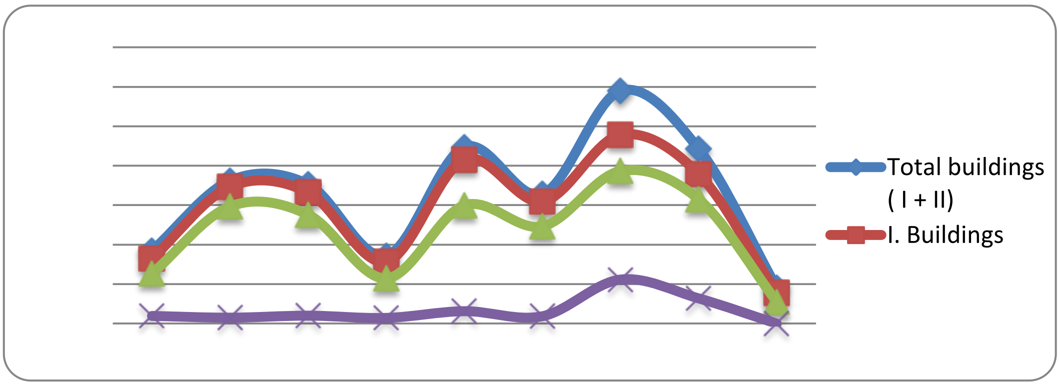

Chart 1. New constructions by type (in million ALL)
Source: INSTAT 2014

[1] The definition of Real Estates and their market can be found in the Civil Code of the Republic of Albania, Article 141, 142. But we are focused on the market classification reported by INSTAT, since we are mainly referred to this institution data.

Considering the above results, we will use the real estate term referring to apartments.

2. Price Performance in Albania

Studying the trend of prices in the housing market is a difficult work because of the high informality. We have gathered the data about real estate market from: partial studies from the real estate agencies, data from key institutions such as: INSTAT, Bank of Albania, Ministry of Finance; as well as studies from Albanian authors and researchers.

Based on the Real Estate Agencies

After the privatization process and reforms in 1991, the real estate market has experienced important changes. In 1993, the privatization of public housing was completed, by offering the opportunity for the apartment's trade. As a consequence, the apartment market, characterized by new and specific features, was born. Meanwhile, in 1994, began the construction of new apartments, especially in Tirana. In that period, the area in the center of Tirana was more favorable for construction than the former Block area, which was still unconstructed. The price of an apartment in the center of Tirana was approximately 70% higher than the price of an apartment in the periphery, such as Kinostudio or Lapraka. After 1996, together with the collapse of pyramid schemes, housing market experienced significant changes. The depreciation of the Albanian Lek resulted in impairment of the housing market. A significant drop in property sales transactions was identified and the main reason for this phenomenon was the political and economic collapse that the country was suffering by the failure of pyramid schemes. According to a study conducted by the real estate agency "Inf 93", an increase in prices by 190% was identified from 1996 to 2006, or an average of 19% each year. While the increase from 2002 to 2006 was 107%, representing the largest increase in prices by almost 26.7% annually.

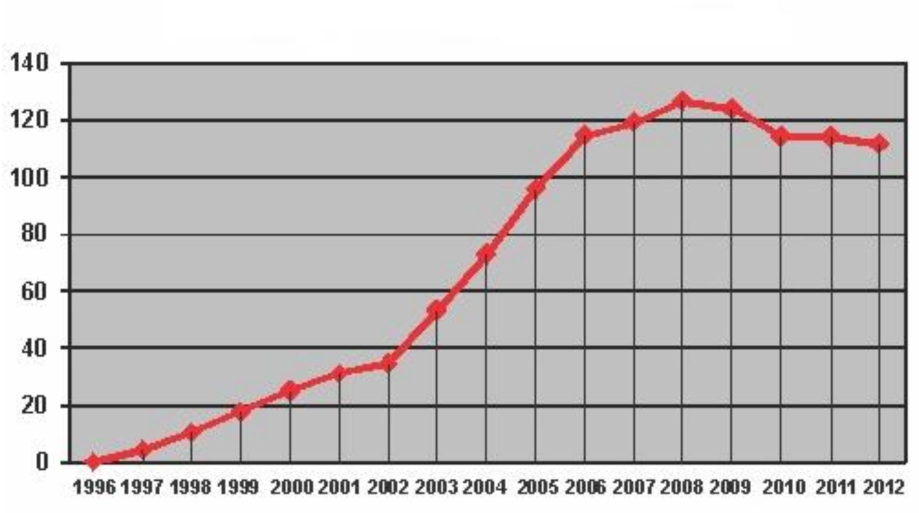

Chart 2. The increase in prices during 1996-2012 (in percentage)

Source: Real Estate Agency Inf '93

Given the above chart, we can see that from 2002 to 2008, the apartment prices have increased with positive trend. Besides the high demand for housing benefits, this growth has resulted from the high confidence that individuals had in this market during this period, considering the purchase of a house/apartment as a very good investment alternative. Starting from 2008 and the following years, it was seen a downward trend in prices. This coincides with the consequences of the global crisis (the main cause of this crisis was the real estate market) in our country, where people lost confidence that the investment in real estates was the best investment alternative.

Another analysis done by the real estate agency “Green Hours ltd” on the performance of the real estate value for the years 2008-2009, emphasized that there have been various factors which have influenced the developments in the market and the increased prices, such as:

- ✓ Increased demand for housing, especially in big cities;
- ✓ Constructions in city centers, through infrastructure and services;
- ✓ Use of new buildings especially for apartments, shops and parking areas;
- ✓ Increased portion that landowner benefits from total construction area (above 35% of the construction value);
- ✓ Increased quality of construction materials;
- ✓ Implementation of fiscal policy and reduction of the informal economy;
- ✓ Improvement on the property legalization, restitution and compensation process by the government authorities;
- ✓ Increased sales index.

Based on Bank of Albania and INSTAT data

The performance of the real estate market is evaluated through the housing and rental price index, but these calculations are performed only for Tirana (without including its periphery areas). In the below chart it is given the performance of the housing price index and the rental price index during years. Generally, the trend of housing price index is progressive till 2012, but we see slower growth trends (especially in 2011). In 2012 the housing price index increased by 3.6%, achieving a higher level than the 2011 year-end. After that the trend was regressive in June 2013 by 10.8% and increased by 4.9% in second semester of 2013. In June 2014, the housing price index decreased by 1%, compared to 2013.

Meanwhile the rental price index had a downward trend over the years. Thus, in 2012 the index decreased by 6.3% to a lower level than the end of 2011. The first semester of 2013 the rental index decreased by 9%, and the second semester increased by 7%. In June 2014, the rental price index increased by 11%, compared to 2013.

We should also consider the ratio between the housing price index and the rental price index, which in 2014 reached 2 compared with 2.2 at 2013.

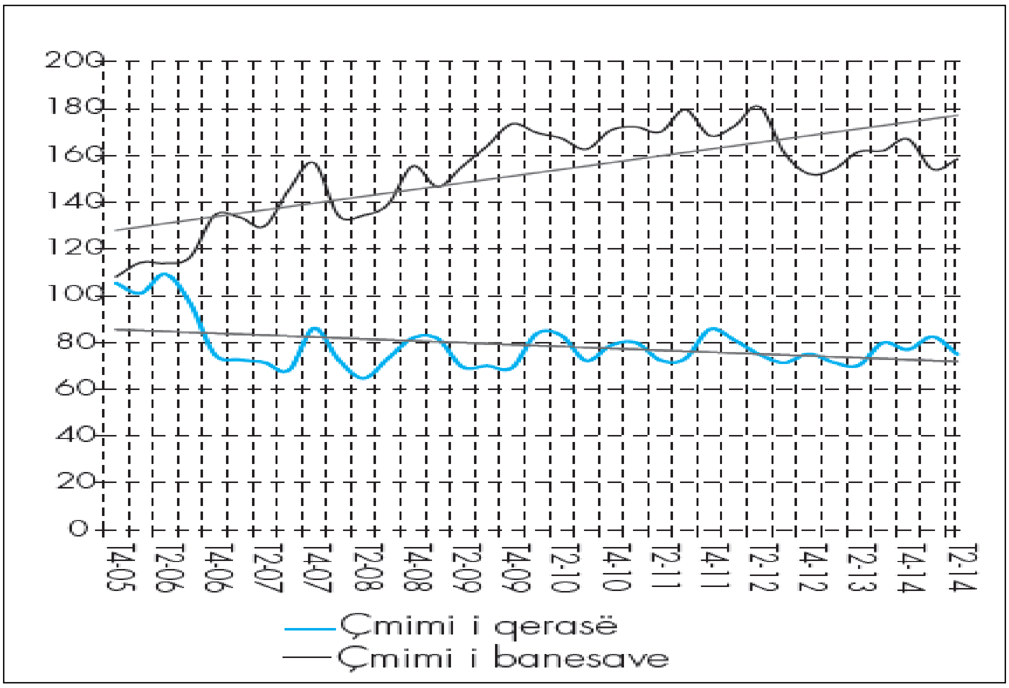

Chart 3. The performance of the housing price index in Tirana[1]

Source: Financial Stability Report, 2014, Bank of Albania

Based on Different Studies in Albania

Regarding the price performance in our country, the housing price index is built by the authors Kripa and Kufo (2013). The data to build this index are obtained by independent appraisers of a financial institution. The population of the study includes 99 houses around the country according to regions share. It is calculated the average price in euro as an average of the total price divided by the total surface (in cases we identify more than one house). This price in index is multiplied by the specific weight of houses number in the total number of data by determining a new price for the index. If we consider the year 2007 as the basis for the index and we evaluate its performance in percentage, we note a slight increase for the first two years (2008-2009) and a decline for the last three years (2010-2012), which is pretty logical. This index expresses the demand in the housing market, which is affected by: the global crisis, bank lending policies, the lack of liquidity in the construction sector, and the lack of individual's liquidity. Therefore, the tendency of this index is considered as a normal market behavior.

[1] Black line: housing price index in Tirana
Blue line: rental price index in Tirana

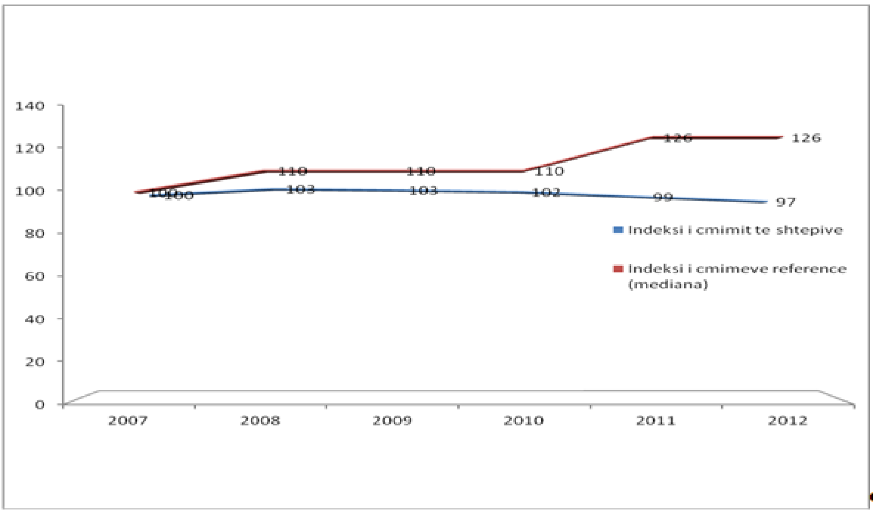

Chart 4. House price index

Source: Kripa and Kufo's calculations

On the other hand, the authors have also calculated an index for reference prices from 2007 to 2012 (Chart 5), in order to understand if the trend of housing price index has any connection with the reference prices set by the government. If we study the charts, we can note that, while market prices have a downward trend, the reference prices are in upward trend. This is because the reference prices are much lower than those of the market. However, the differences between them have been reduced over the years. Thus, the authors conclude that market prices reflect only the market trend and the "bubble" phenomenon can still not be considered in Albania.

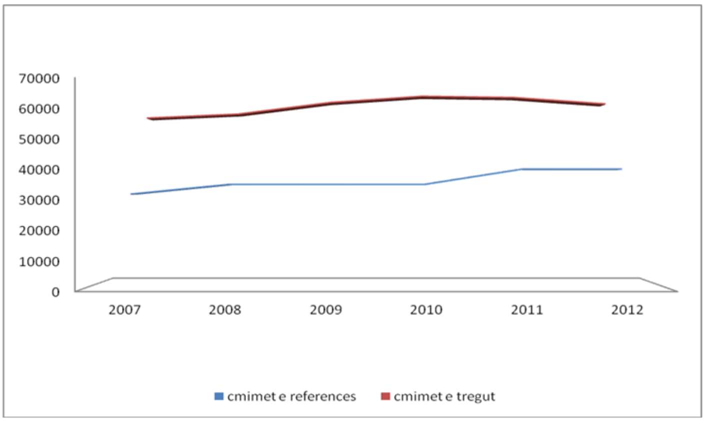

Chart 5. The difference between the market prices and the reference prices

Source: Kripa and Kufo's calculations

3. The Real Estate Financing System

The financial and banking system in Albania, compared with other countries in southeastern Europe, still appear weak. Its development over the years has not been significant, although this fact was turned into an advantage that "rescued" Albania by the Russian and Turkish crisis, in 1998 and 2001 respectively. The same we can say about the crisis in 2008.

Albanian financial market lacks trading stocks and bonds. The only developed market is the primary government securities market, while their secondary market is less developed. Derivatives have never been used, unless they appear in the section of foreign currency in commercial banks' balance sheets.

But we can surely take into consideration the financing opportunity for the real estates through real estate loans. Loans for individuals have marked the highest levels in 2005-2007. Further in 2008, the growth rate of these individual loans dropped to 30%, compared with 62% at the end of 2007. This decrease was observed in home loans and consumer loans as well. Individual loan portfolio is dominated by the real estate loans up to 66%.

Loans for real estate has experienced significant growth, but they have started from a very low or not existing basis. At the end of 2001, this loan was less than 10% of the GDP[1].

Meanwhile, if we refer to the property loans granted by banks, there is an increasing trend (but with a downward tendency). But, during 2012, while in the first quarter we have an increase in this loan by 6.3%, in the second quarter we have a drop by 0.6% of the outstanding loans for real estate purchase in annual terms. In the end of 2013, we have a drop of 1.26% in annual terms, compared to the positive trend by 3.5% in the previous semester. In 2014 the decline continues by 9.6%.

This loan has dropped, according to the Bank of Albania, also due to a lower demand from individuals, while its quality is getting worse[2]. This means that the relation between the real estate prices and the loans for them is not so easy to be explained, but while analyzing these figures[3], we should consider the complexity of factors that influence the demand for real estate, the level of their influence in a certain period and also the need to improve the index calculation methods.

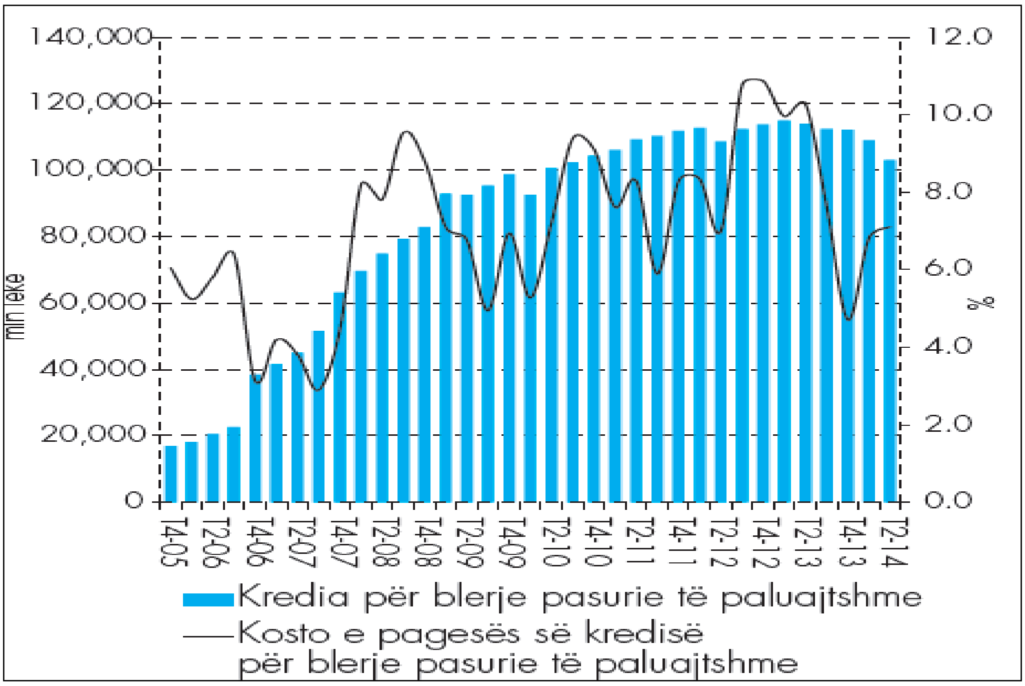

Chart 6. Performance of the real estate loan[4]

Source: Financial Stability Report, 2014, Bank of Albania

[1] According to the Financial Stability Report, the first six months of 2012, dated in June 2012, the ratio of nonperforming loans for real estate was 13.9% compared to 12.55% in December 2011.
[2] Values refer to the Bank of Albania data
[3] In comparison with the housing price index chart.
[4] Black line: the cost of the payment to purchase real estate & the Blue columns: real estate loans

4. The Performance of Construction in Albania

After the fall of communism, several changes in the public and private construction sector occurred. Initially, the public housing areas were privatized. In the 1990s the government, through the National Housing Entity, took over the completion of the unfinished public housing and the construction of additional apartments for sale at lower prices than the market. In 1990, 10,193 apartments were built from this institution in 555 buildings. During 1995-1996 it was encouraged the construction through loan financing by the World Bank.

But the old system of public construction sector has been almost totally replaced by the private sector. The construction sector had a very large increase in Albania and it has been caused by several factors such as:

- ✓ inherited lack of housing;
- ✓ new generated request;
- ✓ inherited deficiencies in infrastructure and the need for investment in this sector;
- ✓ growth in the private sector, especially in trading and tourism sector;
- ✓ better economic conditions for business development, using cheaper construction materials and higher productive labor force.

In addition, the construction sector has always occupied a high weight in the GDP of Albania. Therefore we consider this sector of particular importance and perform analysis of the phases of its development over the years, including the recent situation as well.

Based on INSTAT data and calculations of the Bank of Albania, we have analyzed the construction sector progress compared to other sectors of the economy.

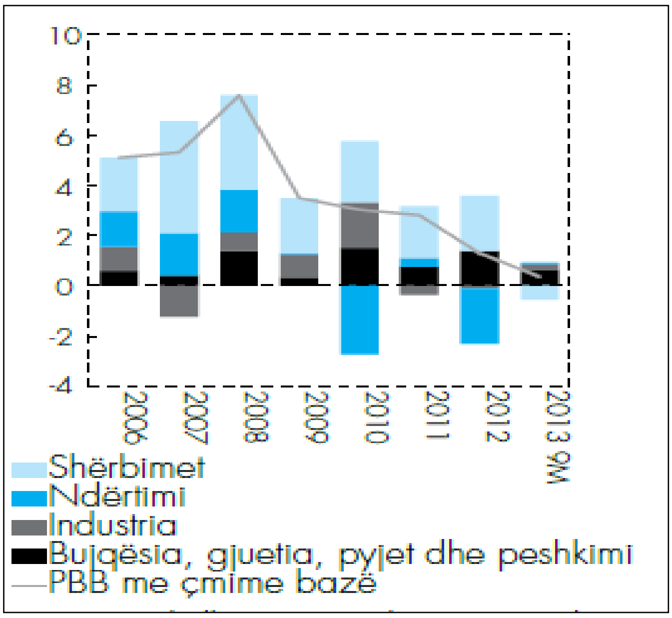

Chart 7. The real GDP structure and loan structure by economy's sectors[1]

Source: Bank of Albania

[1] Blue section: Construction

In 2009, the construction activity began to shrink and this process continued till 2011, but still the construction value added in GDP continued to decline. Further in 2011, the generated value was 0.8% higher than in 2010, but remaining 9.4 percentage points below the average of 2005-2009. In the end of 2011, the dynamics of the construction sector still remained non-positive, reflecting a lack of confidence in the sector. The construction activity suffered a strong reduction in 2012, after that, it began increasing due to the public investments. Despite all the negative signs on the sector, it had not stopped moving. It continues to suffer the weakness of private investments in economy. This sector has played the role of locomotive in Albanian economic output matrix due to the strongest relation with the other sectors. Thus, the construction of new buildings or roads has stimulated the production or trading of inputs, cement, iron, bitumen, tiles, sanitary equipment, doors, windows, household equipment, furniture, etc. This stimulation constitutes direct impact of the construction sector in economic output matrix. But besides this, it has caused an indirect effect with a higher influence.

The constructors have experienced financial difficulties caused by the declining liquidity, and therefore they have tried to sell at lower prices in order to generate income. In addition, the construction cost index has increased, due to the increased input prices, reducing in this way the profit margin of construction companies.

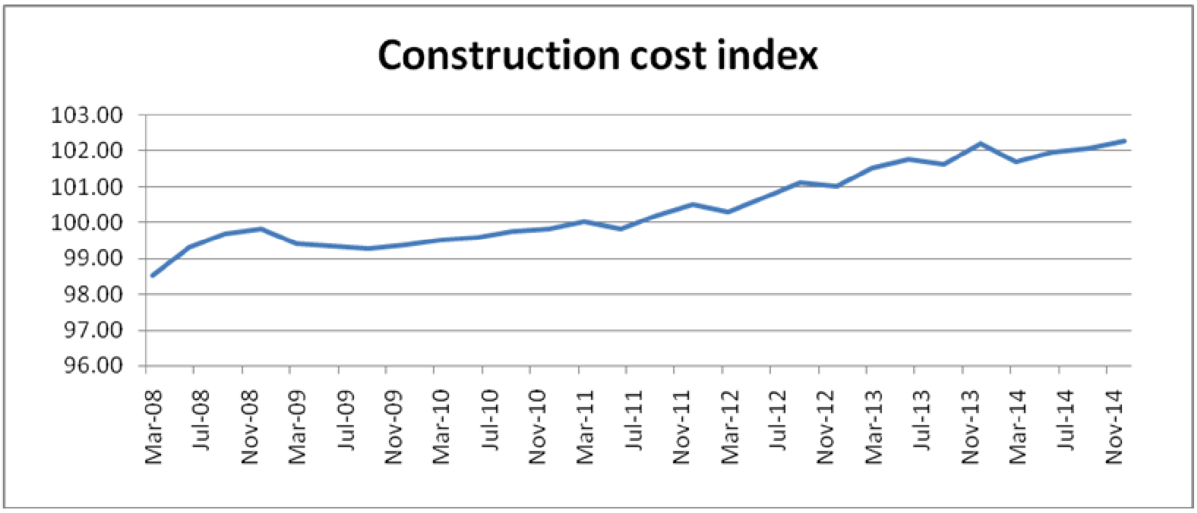

Chart 8. Construction cost index's trend

Source: INSTAT 2014

5. Analysis of the Impact of Real Estate Market in the Albanian Economy

The housing market and GDP exhibits an endogenous relationship, and hence, one cannot exogenously separate the effect of housing market on GDP and vice-versa. Previous studies suggest that real estate prices (mostly residential house prices) are the leading indicator of GDP (Chau, 2001; 2005). Other studies (Ganesan and Tse 1997, amongst others Hui and Yiu 2003) focus mainly on the dynamics of residential real estate on the economic performance of a country. Moreover, Englund and Ioannides (1997) estimate the abovementioned effect focusing mainly on the lagged impact of housing market on GDP. This is due to the lag information released from GDP and the housing price for market fundamentals (Chui and Chau 2005).

However, due to the lack of data in Albania, this study will make use of existing data such as the *Construction Cost Index* and/or *Housing Price Index*. The latter cannot be used for the purpose of this study, because the data available does not allow having a long data span for econometrical use. In this context, this paper will only describe the data and statistically (not econometrically) describe their relationship. Therefore, the former (Construction Cost Index) is employed for the purpose of investigating the relationship between real estate investment and economic growth. An important limitation, hence, consist of proper data in order to estimate the effect of housing prices and GDP. As a result, the data series for investigating the relationship between economic growth and the real estate market, measured through the Construction Cost Index, were obtained from the Bank of Albania and INSTAT (Institute of Statistics) for the data interval from March 2008-December 2014. Economic growth was measured by a non-seasonalized GDP in real terms, whereas the Construction Cost Index was calculated through the transaction evidence. Both, the GDP and the indices are the composite quarterly index for a certain type of premises. In general, the literature of housing market suggests the use of the change of quarterly GDP and quarterly housing price index/ construction cost index. Therefore, this study has employed the quarterly GDP and the construction cost index instead of the quarterly housing price index.

In table 1-5 in Appendix, the outputs of the regression, and the normality of distribution using Shapiro Wilk Test and skeweness and kurtosis test are conducted. A probability scatter plot of Residuals is also provided in appendix. All the tests and diagnostics suggest the use of a larger data span and some of the failure of diagnostics, which from the other hand suggests the use of more appropriate data. However, in the case of Albania we are aware of such data limitations. This study tried the use of natural logarithm, which from the econometrical point of view and economical as well, did improve the statistics. The following hypothesis was pursued:

Ho: There is a significant relationship between the quarterly GDP and the quarterly construction cost index.

Ha: There is not a significant relationship between the quarterly GDP and the quarterly construction cost index.

Results

The regression results in Appendix 1-5, suggests the existence of a linear relationship between economic growth (measures as the natural logarithm and the construction cost index). This can be observed as well from the graphical presentation (Figure 1) of the relationship between economic performance (measured by ln GDP) and Construction Cost Index (CCI). The Figure 1 display the quarterly GDP and Construction Cost Index relationship, which suggests a positive relationship between these two variables, hence, suggesting for a positive contribution of construction in economic performance.

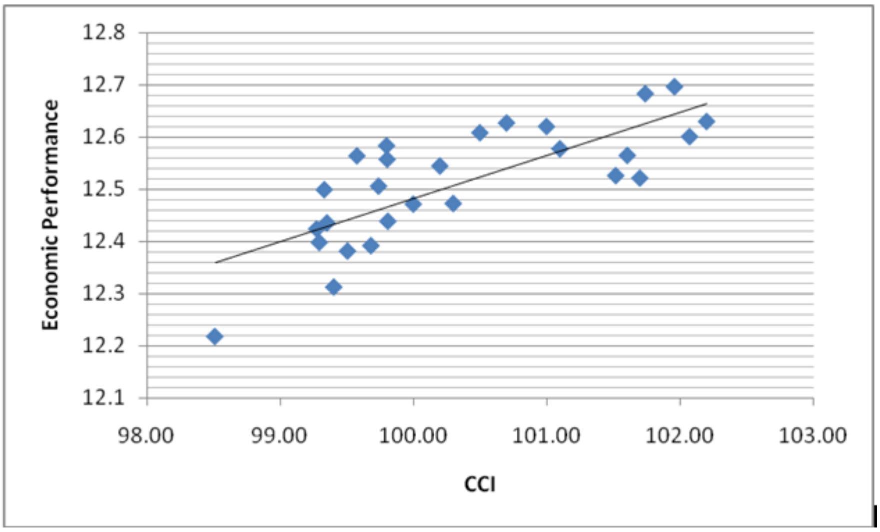

Chart 9. The relation between CCI and economic performance

Sourse: Authors' calculations, SPSS

However, one should take into consideration a statistically augmented investigation of the above mentioned relationship. Therefore, the regression between the dependent and the independent variable is conducted.

The equation suggested is as follows:

$$\textit{Economic performance} = 4.244^{*} + 0.082\ CCI^{**} \qquad (1)$$
$$(1.393)\ (0.014)$$

Two important tests were conducted related with the regression proposed: (i) the slope coefficient and (ii) the constant significance. For the abovementioned parameters, we rejected the null hypothesis of the zero slope and zero constant (intercept). The statistical p-value of 0.000 (see Appendix) suggests a significant relationship only. In this context, the increase of CCI by one percentage, may lead to an increase of the economic performance by 0.082 percentage points, which from an economical point of view is reasonable. Moreover, the significance of the intercept of equation (1) suggests for a positive effect of economic performance independently of the level of CCI (in this case, more specifically, if the level of CCI is 0). However, one should take into consideration the causality of this relationship (the endogeneity of this relationship) and the data limitation, and hence smooth the economic suggestion for the effect of housing prices on economic performance.

All the descriptive statistics are shown in Appendix too.

6. Conclusions and Recommendations

The real estate market has an important impact on the social and economic development of a country. It is related to many other sectors (banking, construction etc.) by causing mutual impact, especially in terms of employment, income, etc.

Studying the trend of prices in the housing market is a difficult work because of the high informality. However, by using several data sources for this market, we can conclude that the price performance has followed the same trend of world prices, with two years distance. But, the dynamics of prices in

Albania is more complex than that, and we should not concentrate only on the global crisis, but also on other internal factors, such as the cost and quality of construction, financing costs, and the legal and administrative framework of Albania.

Loans for real estate has experienced significant growth, but it has initiated from a low or not existing base. At the end of 2001, this loan was less than 10% of the GDP. According to the Bank of Albania, this loan has dropped, also due to a lower demand from individuals, while its quality has declined. Although we are used to consider a positive relation between housing price and the housing loan, data show the complexity of factors that influence the demand for real estate, the level of their influence in a certain period of time and the need to improve the index calculation methods.

Theoretically, the relation between housing prices and the real economy can be strengthened through financial accelerators and different mechanisms which operate between the balance sheets of firms, families and state. Through these mechanisms, an increase in the price of the asset, consequently improves the welfare of the unit (the entity), thus increasing its capacity to borrow, invest and consume. Further, this process leads to increases in housing prices, bringing the market to equilibrium. So, in other words, the fluctuations in the housing market mean larger cyclical fluctuations of the real economy.

Our statistical analysis confirmed the positive relation between the quarterly GDP and the Construction Cost Index, indicating a positive impact of the construction sector in the economy. However should also consider this relationship to be endogenous, which moderates the conclusion regarding house prices impact on economic performance.

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Appendix

Variables Entered/Removed[a]

Model	Variables Entered	Variables Removed	Method
1	CCI[b]	.	Enter

a. Dependent Variable: lnecoperformance

b. All requested variables entered.

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.765[a]	.585	.568	.07416

a. Predictors: (Constant), CCI

b. Dependent Variable: lnecoperformance

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	4.244	1.393		3.046	.005
	CCI	.082	.014	.765	5.936	.000

a. Dependent Variable: lnecoperformance

Residuals Statistics[a]

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	12.3599	12.6639	12.5122	.08634	27
Residual	-.14325	.11642	.00000	.07272	27
Std. Predicted Value	-1.764	1.757	.000	1.000	27
Std. Residual	-1.931	1.570	.000	.981	27

a. Dependent Variable: lnecoperformance

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The Challenges and Opportunities of Social Media in the Hospitality Industry. A Study of the North East Region of Romania

Andreea Maha[1]

Abstract: The purpose of this article is to explain what are the key benefits and challenges of Social Media adoption and to underline the importance of Social Media for hotel industry. The importance of Internet in sales and promotion of tourism products is reflected in the figures of recent studies. Social Media represents a new form of communication between hotels and consumers. In tourism, one of the most popular topics for Social Media is to share your experience: writing reviews, post photos, videos and comments. This consumer-generated content is considered credible and unbiased. Hotel industry is facing a similar situation now with Social Media, as they were hesitating to create a website. One of the major errors is that hotels do not respond to social media posts. We assessed the presence and visibility of each 84 hotels on the three major Social Media channels (namely Facebook, Twitter and YouTube) at the end of the year 2014. Where the official presence was not immediately found (usually the visitor is redirected from the official website), the first three pages search results were examined to try to establish the hotels official Facebook/Twitter/YouTube account. We carried out content analysis off all hotel Social Media accounts categorized between 3 to 5 stars in the North-East Region of Romania. Following our analysis, it was observed that North-East’s hotel units own in a 95% proportion an online presence. We cannot say the same thing about their presence on the Social Media platform. Surprisingly, most of the hotels we have analyzed have a functional website, 80 out of 84 hotels. We also noticed that the presence in Social Media is at the opposite pole (compared to the number of existing web pages), so that only 48 hotels have a Facebook page, 10 hotels have a Twitter account and 10 hotels have an YouTube account. Of the three networks we notice that Facebook is the most used network by hoteliers in the North-East region of Romania, Twitter and YouTube are apparently not that popular. Social Media accounts are not used at their full capacity and from the total number identified on each segment, not all have a direct reference from their own site, for in case of Facebook 31 out of 48, Twitter 7 out of 10 and YouTube 7 out of 10. The most important limitation is considered to be the consistency of the sample we used. We only investigated the hotels (rated 3 to 5 stars) from the North-East region of Romania. A sample including all the hotels from Romania would have given a more realistic view of the use of Social Media in the hospitality industry. Another possible study limitation can be that the Social Media accounts may have been missed as it did not feature in the first three pages search results. The worst part is that the same mistake would be made by the potential customers searching for that hotel that is why we considered this error an acceptable one. As we made only a qualitative research, the results must be validated in a future research. The results of this research can be used by hotel managers and also by those who manage Internet websites. Business people who intend to enter on hospitality market might also be interested in this information. For the North-East region of Romania, during our documentation stage for this article, there was no study identified, similar to the one we realized. Also Romania, as a country where tourism industry it is in early stages of development, needs to benefit from this kind of research, for creating new strategies and implement best practices in the field.

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Keywords: tourism; Social Media; Internet; hotels

JEL Classification: L83

Social Media is relatively young and the objective for hotels to invest and participate in Social Media platform is to offer an alternative mode of communication. It also helps to establish long term relationships with their customers.

The purpose of this article is to give a descriptive overview of the state of Social Media in the hospitality industry, focusing on the hotel sector and their use of social networks (Facebook, Twitter). We believe this is a relevant area of expertise because Social Media is not used the same way within the whole industry and also that hotel managers are not yet aware of what a powerful marketing tool it represents.

The research conducted attempts to give an insight to the hospitality industry on the effects of Social Media, furthermore to establish if Social Media is effective and recommended, and if so, provide an insight and suggestions for adopting Social Media as a platform for marketing purpose.

Limitation: This study is based on secondary data and personal approach to evaluate the effects of marketing and Social Media in the hospitality industry.

1. The Importance of Internet Technology in Tourism

The Internet economy, known as the New Economy or Network Economy, changes more and more the structure of post-industrial society, which leads to new interconnections with impact on the social, political and economic environment and also on the levels of business management. The rules of the New Economy can arise from the three main features of the Internet: digitalization, networking and globalization (Wirtz, 2000). According to the analyses conducted by Zerdik (2001) on the role of the Internet in the economy, we can appreciate that it also had a long-lasting effect on tourism:

- Digitalization of value creation covers all the fields of the economy;
- Customization becomes the key factor in the network economy;
- Traditional chains used in value creation get out of practice and leaves instead the dynamic networks;
- The competition for diversity becomes the main occupation;
- The new complex networks, value creators require both competitiveness and also collaboration;
- Individualization can be achieved by reducing costs and implementation of differentiation strategies;
- E-commerce is becoming a reference point and replaces the physical distribution;
- Digitalization facilitates price and product differentiation.

The proliferation of the Internet has enabled global network connections. Therefore, individuals and organizations have access to information that otherwise would have not been available. However, the Internet does not create completely new economic rules. Instead, it leads to new mixtures and eventually to an emphasis on individual norms (Zerdick, 2001 in *eTourism Case Studies Management and Marketing issues*, 2008, Egger, Buhalis, Part V).

“In the XXIst century, tourism is one of the biggest and most exquisite industries based on information” (Middleton, 2001, pp. 218-219). The access at Internet as a marketing tool provides a new way of bringing two dimensions together by integrating promotion and distribution. Websites facility is that they are able to achieve simultaneously publicity, to inform, promote special offers, to attain direct sales and last but not least to prompt reservations.

The Internet importance for the tourism industry has grown rapidly in the last years. Understanding how tourists act is of utmost importance for providers of tourism products and services and also for tourism authorities to create adequate marketing strategies in order to exploit the full potential offered by this channel.

Being considered an industry which relies intensively on information, tourism can obtain important synergies from the use of the Internet. The tourism sector has been an innovator in the adoption and development of Information and Communications Technology (ICT) applications and today is ranked among the top categories of products and services that are purchased through the Internet (Garín-Muñoz, Perez-Amaral, 2009; Marcussen, 1999). Marcussen (1999) suggests that services such as those offered in tourism are ideal for sale on the Internet because there are no shipping costs.

The Internet is one of the most recent developments in communications and information transfer. It is considered a technology asset due to its ability to spread rapidly and efficiently, a large amount of information for all stakeholders (interested parties), including employees, customers, shareholders and suppliers (Violino, 1996). Nowadays, the Internet is more accessible and less expensive than it was a decade ago, and the number of users is still in a galloping growth. Nowadays consumers are more focused on saving time and offer a greater amount of information involving the product/service of interest. The Internet seems to have more advantages over mass media as a tool for gathering information (Schonland and Williams, 1996; Walle, 1996), apart from searching information, Internet users can also make the reservation and then, buy the product through this channel.

Technology is considered a major driving force for service innovations and there are facts suggesting that it can further enhance the accessibility, attraction and standing for costumers. (Damanpour, Walker, & Avellaneda, 2009; McLoughlin, Kaminski, & Sodagar, 2007; Nielsen & Liburd, 2008; Pastuszak, Shyu, Lee, Anussornnitisarn, & Kaewchur, 2012).

The use of Social Media by hotels and businesses in general represents a continuous area of interest because of its popularity. Using Social Media is very often considered as a “mega trend” within the tourism and hospitality industry (Xiang and Gretzel, 2010, p. 179).

There is no exclusive definition of Social Media, but it can be generally described as “a large group of internet-based applications that build on the ideological and technological foundations of Web 2.0, and that allow the creation and exchange of User Generated Content”. This way, consumers are enabled to share personal opinions, experiences and insights (Chan & Guillet, 2011; Kaplan & Haenlein, 2010; Xiang & Gretzel, 2010). Social Media enables new ways to communicate, interact and work with partners, customers/potential customers and other individuals outside the organization.

Hotels Social Media describes hotels reliance on Social Media tools for business purpose (room reservations, brand awareness, etc.). Tools may include social networks (Facebook, Linkedin, etc.), microblogging (Twitter), blogs and/or other enterprise collaborative social software.

According to Digital, Social and Mobile in 2015 (wearesocial.net), Social Media continues to grow rapidly around the world too, with active user accounts in January 2015 equating to roughly 29% of the world’s population. Monthly active user (MAU) figures for the most active social network in each country add up to almost 2.08 billion which represent a 12 per cent increase as compared to January 2014 figures (wearesocial.net). This flow of Social Media may represent a threat to hotels since there is a lack of knowledge and understanding about its usage.

Table 1. Key challenges summarized from the literature

Key challenges	Examples of associate literature
Lack of adequate funding *Lack of specialized human resources* / difficulty of allocating skilled resources	• De Jong, Dolfsma, and Meijaard, 2003; • Hjalager, 2010; • Laursen and Foss, 2003; • Richey, Genchev, and Daugherty, 2005; • Venkatesh and Davis, 2000.
Lack of understanding of Social Media innovation	• Kärkkäinen, Jussila, and Väisänen, 2010; • Magal, Kosalge, and Levenburg, 2009; • Mangold and Faulds, 2009; • Xiang and Gretzel, 2010.
Lack of management support	• Agarwal and Prasad, 1998; • Atuahene-Gima, 1996; • Brentani, 2001; • Gupta, Raj and Wilemon, 1986; • Hu, Horng, and Sun, 2009.
Resistance to change	• Barton and Kraus, 1985; • Gilley, Dixon, and Gilley, 2008; • Olson and Boyer, 2003; • Tsikriktsis, Lanzolla, and Frohlich, 2004.
Lack of technological infrastructure and knowledge	• Blind and Grupp, 1999; • Gold, Malhotra, and Segars, 2001; • Hackney, Xu, and Ranchhod, 2006; • Howells, 2001.
Difficult to measure financial gains and lack of proven evidences	• Blanchard, 2011; • Chan and Guillet, 2001; • Evans, 2008; • Hoffman, 2013; • Kärkkäinen, et. al, 2010.
Concerns of potential negative impact on brand/ reputation	• ec.europa.eu *Business opportunities: Social Media 2013*

Source: Adapted from Quality Innovation: Knowledge, Theory, and Practices, ed. Latif Al-Hakim and Chen Jin, p. 393

Key reasons why hotels should adopt Social Media

- Increase awareness about the hotel and its products;
- Manage relationship with customers and potential customers;
- Gather ideas/feedback/reviews for products and services;
- Respond to customer questions or complaints.

The objective of Social Media marketing is to gain brand awareness and create interaction with the customers to talk about a specific business (Csutoras, 2008). Social Media marketing offers visibility and awareness of the brand, this way potential customers/customers may be transformed in loyal customers.

2. The Importance of Social Media

A hotel's number one goal with its online presence is to increase bookings, so visibility is important, especially through search engines like Google or Bing. Practically, the more subscribes, likes, comments, retweets and favorites your posts have the more visibility your hotel will get on Google.

To have a success with the Social Media platforms it is necessary to create a different strategy to that which has traditional been used with other distribution channels. O'Connor (2011) recommends that, to achieve this, a Social Media Management Continuum running from Monitoring through Presence and Activity to Engagement is proposed (Figure below). First it is a must to monitor the Social Media space (having some automated procedures to track what is being said about them). The next level is Presence, where hotels need to create accounts to be available when customers search for their brand. After the presence stage has been established, the hotel may start to generate activity and interaction with customers (Brogan, 2007 in O'Connor, 2011). Above all others the hotel tries to engage with its members (this last stage will function only if the other three were well implemented)

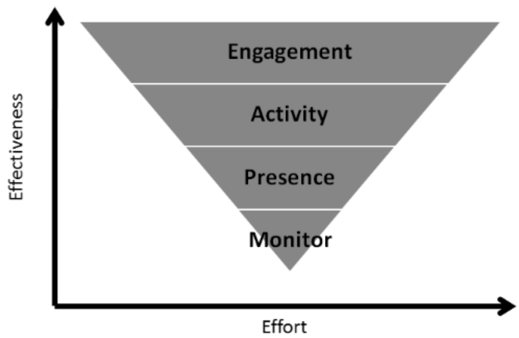

Figure 1. The Social Media Management Continuum

Source: O'Connor, Peter (2011, p. 8)

Social Media reflects a fundamental shift in how information sharing works. It enables consumers to interact with content and with each other whenever and however they want. (O'Connor, 2011) This way potential customers can choose to inform themselves from former consumers of the same hotel they are interested in and not especially from institutional sources as: organizations, mass-media, etc. Social Media platforms (like Facebook, Twitter, YouTube and many other) provide consumers with access to a vast and rapidly growing pool of high-quality, topical and most importantly impartial information, generated not by commercial interests but by other consumers (Sigala and Marinidis, 2010).

3. Purpose

The study aims to show how Social Media is exploited by the hotel sector from the North East region of Romania.

The objectives of this research are:

- To identify the number of hotels, rated three to five starts, from the North-East region of Romania, that utilize the Social Media platforms.
- To observe Social Media applications used by the analyzed hotels.
- To identify the major mistakes made by hoteliers when using the Social Media platforms.
- To provide managerial implications and also suggest recommendation.

4. Methodology

Secondary analysis, induction and deduction represent the foundations of the research methodology. Several statistics, specialized web pages were analyzed.

Furthermore, the content analysis for this study analyzed data for 84 hotels from the North-East of Romania, verifying the existing official Facebook pages, Twitter and YouTube accounts. We assessed the presence and visibility of each 84 hotels on the three major Social Media channels (namely Facebook, Twitter and YouTube) at the end of the year 2014. Where the official presence was not immediately found (usually the visitor is redirected from the official website), the first three pages search results were examined to try to establish the hotels official Facebook/Twitter/YouTube account. We carried out content analysis off all hotel Social Media accounts categorized between 3 to 5 stars in the North-East Region of Romania.

Data were collected through web observation, by visiting hotels websites by using Google Chrome browser, analyzing a series of criteria's and by using a specialized software instrument (Microsoft Excel) to analyze the gathered data.

5. Findings

Following our analysis, it was observed that North-East's hotel units own in a 95% proportion an online presence. We cannot say the same thing about their presence on the Social Media platform. Surprisingly, most of the hotels we have analyzed have a functional website, 80 out of 84 hotels. We also noticed that the presence in Social Media is at the opposite pole (compared to the number of existing web pages), so that only 48 hotels have a Facebook page, 10 hotels have a Twitter account and 10 hotels have an YouTube account. Of the three networks we notice that Facebook is the most used network by hoteliers in the North-East region of Romania, Twitter and YouTube are apparently not that popular. Social Media accounts are not used at their full capacity and from the total number identified on each segment, not all have a direct reference from their own site, for in case of Facebook 31 out of 48, Twitter 7 out of 10 and YouTube 7 out of 10.

The most frequent mistakes identified:

- most hotel webpages analyzed do not redirect the visitor to their official Facebook page, Twitter account or YouTube account; it is important that visitors can easily see where they can follow your hotel;
- hoteliers do not post regularly on their pages/accounts; not staying active won't get nothing good for the business, it is recommended to place daily updates on your Social Media account.
- the profiles and accounts created are most of the time incomplete and unattractive;
- hoteliers do not engage with their customers that post on their pages by answering to their comments; even the comments received are negative, you have to turn it into positive comments by understanding them and providing a solution on the spot.

This kind of mistakes hoteliers need to avoid and focus on creating a quality relationship with the hotel guests or potential guests by engaging with them.

Population and Sample

The services offered on hotel websites were registered through an extensive web search. Searching the Internet to study and identify online practices it is very common in the literature. (Sigala, 2003).

The investigated population is represented by accommodation structures from hospitality industry. The sample is represented by hotels, rated three to five stars, located in the North-East region of Romania. The study was made on the entire studied population, namely the 80 hotels that currently have a website, out of 84. We have selected the hotels to analyze from a public data base provided by the National Authority for Tourism for Romania. According to ANT, at the beginning of 2014, in Romania there were 1071 hotels rated three to five stars.

6. Findings

Following our analysis, it was observed that North-East's hotel units own in a 95% proportion an online presence. We cannot say the same thing about their presence on the Social Media platform. Surprisingly, most of the hotels we have analyzed have a functional website, 80 out of 84 hotels. We also noticed that the presence in Social Media is at the opposite pole (compared to the number of existing web pages), so that only 48 hotels have a Facebook page, 10 hotels have a Twitter account and 10 hotels have an YouTube account. Of the three networks we notice that Facebook is the most used network by hoteliers in the North-East region of Romania, Twitter and YouTube are apparently not that popular. What we identified is that Social Media accounts are not used at their full capacity. From the total number we identified on each segment: 31 out of 48 hotels have a Facebook account or page redirected from their website, 7 out of 10 Twitter accounts are redirected from the hotel website and 7 out of 10 YouTube accounts are redirect from the hotel webpage.

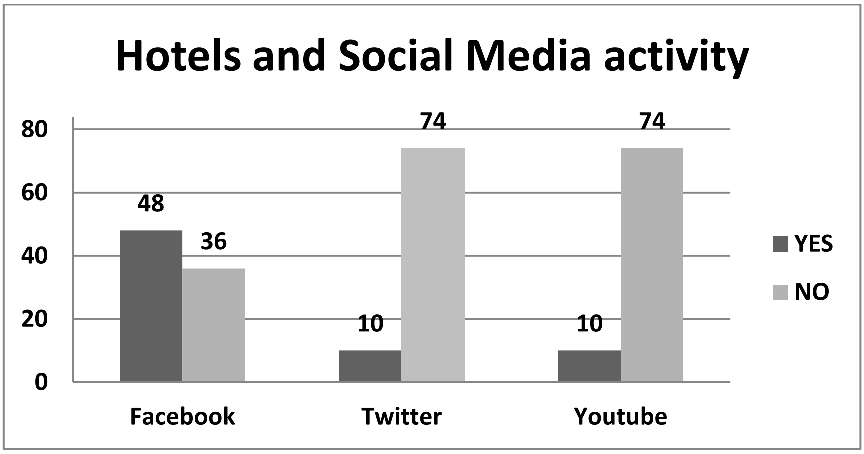

Figure 2. Results of the Social Media activity of the hotels analyses

Being present online represents the first step; in order for a hotel to be successful it has to be noticed by consumers. Every channel (even we speak about the website or the Social Media platforms) has a way to indicate support or just to keep in touch with their clients. A site can have a newsletter where the client can sign up, on Facebook we can count the number of Likes, on Twitter the number of Followers and YouTube has the number of Subscribers (Miller, 2010).

Independent of the level of the visibility, to be successful hotels also need to interact with their current and potential clients. Social Media channels provide a unique opportunity to contact the interested groups in the field – because those consumers already chose to follow your brand. It is very important to be visible and present, but the most important is to keep generating activity in the form of posting, tweets, add/share videos and photo submissions.

Limitations of the Research

The most important limitation is considered to be the consistency of the sample we used. We only investigated the hotels (rated 3 to 5 stars) from the North-East region of Romania. A sample including all the hotels from Romania would have given a more realistic view of the use of Social Media in the hospitality industry. Another possible study limitation can be that the Social Media accounts may have been missed as it did not feature in the first three pages search results. The worst part is that the same mistake would be made by the potential customers searching for that hotel that is why we considered this error an acceptable one.

7. Conclusions and Recommendations

The results of this research confirm the low presence of these features on the sites examined. Romanian hotels are at the initial stages of understanding and exploring with how to use Social Media in order to promote their business. Today, everything is about being online, therefore about Social Media. It allows companies to engage with the consumer in a timely and direct contact at a fairly cost and at a higher level of efficiency, which compared with the traditional communication tools, can be easier achieved. By connecting and engaging the consumer in the Social Media hotels can utilize the "fans" network in order to influence their friends and relatives through word of mouth or online page suggestions. Social Media networks give the opportunity to any costumer/potential costumer to express their positive or negative opinion that is why it has to be recognized as a very powerful tool. Promotion should be done primarily through Social Media, taking into account that 1 in 3 people choose their holiday destinations from the Internet. It was easily observed that the majority of the examined hotels are not currently using Social Media to their full effectiveness or not at all, when it comes to the ability to interact and engage with customers/potential customers; also that Social Media is not yet recognized as a powerful marketing tool. Further research might have as a main goal to identify best practice examples from the use of Social Media by hotels.

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Comparison of the Public Procurement System in Romania and the UK

Mihai-Bogdan Petrișor[1]

Abstract: The present paper aims at a comparative study in the EU, mainly focusing on the analysis of the United Kingdom and Romania on procurement systems. One of the points made is that the European Union is trying an upgrade and revision of the regulations on public procurement, thus trying to promote quality and innovation in this area.

Keywords: public procurement, reform, public system

JEL Classification: H50; K00; H53

Introduction

Constitutional framework for the organization and functioning of state administration structures differ considerably from country to country. It is necessary to know and understand this framework different constitutional principles and rules as this we can determine how to choose a specific operating structures of the state administration.

A simple comparison of these national systems we can reveal that there is a general pattern of organization and functioning of state administration. Study on National Procurement systems in the 28 Member States of the European Union has shown that, in every state, the legal framework is given by national legislation harmonized (Nuta A, 2014) with European legislation transposing EU Directives. Institutional framework highlights that there is a single common model of shape and tools used. Thus some states have public procurement regulatory institutions such as France, Latvia, Luxembourg's, Sweden, Germany, in contrast to other public institutions meet state regulatory role subordinate governments or ministries such as: Belgium , Bulgaria, Cyprus, Denmark, Estonia, Finland, Greece, Hungary, Ireland, Italy, Lithuania, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Malta, United Kingdom. In these countries, specialized public institutions are ministries, departments, offices, authorities, units and offices as appropriate.

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Comparative Analysis between the System Used by Great Britain and Romania

Great Britain is a member state of the European Union, and as such is governed by EU law. It has implemented the EU directives on public procurement in the regions of England, Wales and Northern Ireland, by the following regulations: Regulation of public contracts in 2006 for the implementation of Directive 2004/18 / EC on the coordination of procedures for the award of public works contracts, public supply contracts and service and utility contracts, Regulation 2006 for the implementation of Directive 2004/17 / EC on the coordination of procedures for the award of public contracts in the water, energy , transport and postal services.

Thus Procurement Rules 2006 regulate public procurement practices in the works, services and supplies of goods to the United Kingdom Government, local authorities and other public sector bodies. Procurement regulations and requirements implemented remedies under the Agreement on Government Procurement of the World Trade Organization (WTO Government Procurement Agreement) for contractors in countries signatory to the Agreement. It may be noted that in terms of WTO accession, Romania is a member originally from 1 January 1995.

In the UK operates a group efficiently and Reform established under the “Cabinet Office”, which took over in 2010 the Office of Government Commerce (Office of Government Commerce - agency work in 2000 under UK Treasury) and the Agency “Buying Solutions “. In July 2011, the latter agency was renamed the Government Procurement Service (Government Procurement Service). This group, through its structures, develop and publish recommendations, guidelines, models and documentation of best practices manuals that cover a wide range, including programming and project management, more efficient public spending. Also menus for government entities centralized purchasing system both classical and electronic means (e-Auctions), and provides expert advice for them.

Compared to the national level, we can see some similarities between the two authorities, namely, both in the UK and in Romania there is a regulatory authority, which is subordinated to the Government and having as main objective the development, promotion and implementation of policies in public procurement. At the same time we observed that unlike the National Authority for Regulating and Monitoring Public Procurement, which have the power to establish offenses and penalties for evading or violating legal provisions The Service of the Government Procurement in the UK, has a more indicative.

Regarding the contracting authority find that both the Romanian system and the Anglo-Saxon system, it can be represented by any state body acting at central, regional or local level of any public undertaking or any association law subject formed by one or more contracting authorities.

In addition to the entity specifically mentioned in regulation of public contracts in the UK and GEO 34/2006 of Romania, there is a wide range of other public health state law, which can be described as bodies created for the specific purpose of meeting needs in the general interest, not having an industrial or commercial character, and are either fully funded or in part by another contracting authority. If the British system in the same category of actors involved in the procurement process enters and associations formed by one or more contracting authorities, the Romanian system are included, in addition to these activities and public undertakings relevant legal subjects performing relevant on the basis of special or exclusive, and operators that were funded by a public body[1]. The associations that are involved with one or more of the above entities, also fall under the regulation on

[1] GEO no. 34/2006 regarding the award of public procurement of public works concession contracts and services concession contracts, with subsequent amendments, art. 8.

public procurement. The legislature defines special or exclusive rights as the right resulting from any form of authorization granted under the law or through the issuance of administrative acts, by a competent authority which has the effect of reserving conduct certain activities in the field of public services only to a limited number of people, essentially dividing others' ability to conduct such activity.

In Anglo-Saxon practice[1], some private entities may be subject to essentially public procurement rules, if they are financed or controlled by a contracting authority and fulfill a non-commercial purpose. There are other limited circumstances when a private entity may fall under this regulation, for example in the case of works concessions, where a public authority shall state subsidy or state aid, subsidized entity is bound by the Regulatory and like a public authority, and ultimately where some of the private sector is engaged in an activity of public utility, it must obey the regulation on utilities contracts.

Regarding the classification of contracts note that it is identical in both countries, as some encounter works contracts, supply contracts and service contracts. Works contracts having as their object the execution of works related to one of the activities of the nature of the works, the execution of a construction or design and execution of works related to one of the activities of the nature of the work. Service contracts as main provision of services, and ancillary activities carried out by the nature of the works and supply contracts for the supply of goods to pay the purchase, providing products hire, supplying products through rental with or without option to purchase and supply of products and ancillary operations / installation work and commissioning.

As in any field, I could identify exceptions to the application of legal regulations. In Romania there are a number of contracts that are considered exceptions to the law in this category include: contracts awarded by a contracting authority in the country's defense and national security because the contract may lead to the provision of information whose disclosure would be contrary to the interests essential security of the country and involves the protection of essential security interests of the country in connection with the production or trade in arms, munitions and war material. In the same category of exceptions include contracts that contain state secrets, contracts that require the imposition of special security measures for the protection of national interests, and works contracts awarded by a trader who is not a contracting authority if cumulatively: contract directly subsidized at a rate of less than 50% by a contracting authority and the estimated value of the contract is less than or equal to the RON equivalent of EUR 5,000,000.

In the UK[2], the British Ministry of Defence (MoD), the governmental body who purchase military equipment is subject to the provisions of the Regulation in the same way as any other public body. However, Article 346 on the Functioning of the European Union (TFEU) provides for a mandatory exemption in connection with the defense and made the ministry achiziţiile (“national security exemption”), which were introduced in the regulations as an express exclusion. There is also an express exclusion in Regulation secret contracts. Regulation on defense and security procurement contracts in 2011, has implemented EU Directive 2009/81 Defense, which entered into force on 21 August 2011. Rules for the Protection set specific rules for procurement of weapons, ammunition and war material (plus related works and services) for defense purposes and for the acquisition of sensitive goods, works and services for non-military security purposes.

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[1] The International Comparative Legal Guide to: Public Procurement 2012, published by Global Legal Group p. 69 www.ICLG.co.uk

[2] The International Comparative Legal Guide to: Public Procurement 2012, published by Global Legal Group p. 70 www.ICLG.co.uk

The principles underlying the interpretation of United Kingdom legislation that Romanian legislation, are those that are at the level of the European Union stipulated in the Public Procurement Directives, under the Treaty on the Functioning of the European Union (TFEU), which applies throughout Union teritory. These principles are: free movement of goods, that principle requires harmonization of the laws of each Member State to the rules at European level, including the provisions relating to technical standards and product certification. Another principle concerns the right of establishment and freedom to provide services. This principle states that the self-employed may freely exercise an activity in one of the following: the company can be built in another Member State or provide services in another Member State, even if it remains in the home. Other principles refer to non-discrimination, equal treatment, transparency, proportionality and mutual recognition. These fundamental principles underlying the interpretation of United Kingdom legislation applies to all situations where an authority purchasing works, goods or services from a third party, including where contracts fall outside the scope of directives or regulations of the United Kingdom.

If we refer to the method of awarding public procurement contracts can say that the two systems are similar simply because in both Romanian and administrative practice in the Anglo-Saxon open procedure and restricted the rule award any public contract, while competitive dialogue, negotiation, invitation to tender is the exception to the rule.

In British practice there are four different types of procurement procedures: open procedure, is the procedure for awarding public procurement contract to which all interested suppliers submit a single bid price. This procedure is used for simple purchases[1].

The restricted procedure, is the procedure in which the contract is promoted primarily bidders are invited to submit their candidacy. Only those bidders who were selected are invited to submit a quote. The procedure does not offer the possibility of negotiation or dialogue between the contracting authority and tenderers.

The competitive dialogue procedure, is the phase where interested bidders must first submit an application before being invited to enter into a dialogue with the contracting authority in order to identify and develop a solution. This procedure is very flexible, dialogue may take place in successive stages in order to reduce the number of bidders. This procedure is used in the award of complex contracts, such as contracts or public-private partnership projects such private funding initiative.

Negotiated procedure is used only in exceptional circumstances in public sector procurement, it is complex utility purchases. Procurement structure include the tendering stage followed by a stage of negotiation with a group of pre-selected bidders.

If the UK the most common procedure for the award of public procurement is the competitive dialogue, we can not say the same about Romania, as some here most contracts procurement shall be awarded by open or restricted.

Major differences between the two systems we encounter in setting deadlines for each procedure. UK law requires minimum periods for each procedure, the minimum periods applicable to both Regulations, Rules and Regulation public procurement contracts for utilities, are broadly the same in the open procedure, but there are variations as possible shorter periods, because the utility system as a whole is more flexible and less stringent.

[1] The Public Contracts Regulations 2006, Part 3 Procedures leading to the award of a public contract www.legislation.gov.uk.

In British practice where the call for the minimum time between the sending and receiving notice of the answer is 52 days and 10 days waiting period before awarding the contract. Time interval can be shortened by seven days if the notice is sent electronically and by another five days if the tender documents are sent electronically to the OJEU. However, there is the possibility of reducing the period of 30 days for the publication of a prior information notice between 52 days and 12 months before the notice. The Romanian administrative practice these terms are very dependent, and varies depending on the relationship between the estimated value and the threshold for publication in the OJEU and whether or not there was a notice. For example, if the estimated value is greater than the threshold for publication in the OJEU and was not published a prior information notice, the minimum time limit for submission of tenders is 52 days, and if a notice was published intentionally limit shall be reduced to 36 days reaching.

Regarding the restricted procedure, the minimum time between sending Britain[1] notice and receiving the response is 37 days, 40 days for receipt of offers 10 days standstill period prior to contract award. Time interval can be shortened by seven days if the notice is sent electronically and by another five days if the tender documents are dispatched from the date of notice in the OJEU. There is the possibility of a reduction by 18 days if a prior information notice was published between 52 days and 12 months before the notice. In Romania these terms are almost identical, but there is the possibility of conducting an accelerated procedure where the OJEU threshold estimates. Thus deadline for application in an accelerated procedure is 10 days and the deadline for submission of tenders without notice of intent is all for 10 days and the publication of a notice of 12 days.

Both the negotiated procedure and the competitive dialogue procedure require the same minimum time for applications. Thus we see that both procedures and specific terms are similar in both countries. The first term involves sending notice and receipt of tenders must be made in minimum 37 days and 10 days for the standstill period prior to contract award. Time interval can be shortened by seven days if the notice is sent electronically.

There is also an accelerated restricted procedure available if the requirement is urgent. The Commission made this procedure available to enable contracting authorities to acquire major projects that will benefit current economic industry.

In open procedures, tenders shall be submitted immediately after the publication of the notice, without any pre-selection. The contracting authority is not able to limit the participation of qualified providers and can therefore only assess issues such as economic and financial situation of a bidder once the tenders have been submitted.

Conversely, if limited dialogue procedures, negotiated and competitive dialogue, both in Romania and the UK, these procedures allow the contracting authority to select bidders may participate in the bidding process during a preselection, which occurs before being submitted bids. In the Anglo-Saxon pre-selection is to assess candidates by applying selection questionnaire completed by potential bidders. These questionnaires are applied to all potential bidders who respond to a notice. The purpose of these surveys is to provide preselection contracting authorities may identify any material legal grounds may be necessary to exclude a bidder. Also these questionnaires (PQQ - Pre-Qualification Questionnaires) will cover the criteria set out in regulations for acceptance or exclusion of a bidder.

[1] Public procurement procedures: a quick guide, www.competition.practicallaw.com.

Instead Romanian[1] system pre-selection of candidates is not based on a questionnaire, but the contracting authority has the right to determine qualification and selection criteria. The authorities must respect the principle of proportionality when setting criteria and minimum requirements that candidates must meet.

Also a contracting authority can exclude a tenderer for lack of technical and professional capacity, conviction for a criminal offense relating to the conduct of a business or profession, or to carry out an act in the course of a business or profession that requires serious misconduct, failure the payment of taxes or serious misrepresentation in supplying the information required under the Regulations.

A purchase will fall only if the value exceeds a certain threshold which specific financial differ depending on the classification of public procurement. Acquisition value is estimated as the net amount of value added tax. The rationale behind the use of these financial thresholds is that purchases above a certain threshold are considered capable of having an impact on competition and affect trade between Member States of the European Union because they are more likely to attract bidders from other countries. The European Union is to maintain the monetary thresholds established in accordance with the Public Procurement Agreement of the World Trade Organization. EU Commission review the thresholds from time to time. In addition, Member States of the European Union that are not part of the euro area, such as in Great Britain, receive a review of the financial thresholds every two years converted into national currencies based on the exchange rate published in the OJEU.

Both in Romania and in the UK under an acquisition is so goods and services, it will qualify as a purchase of services if the value assigned to service contracts is greater than its supply contracts, and If an acquisition is both works and services, it will be a purchase of services, provided that the item of work is only incidental to the provision of services.

After the deadline for receipt of tenders, the contracting authority will proceed to the evaluation of tenders on the basis of the award criteria. Public contracts may be awarded only on one of the following principles: either granting them to make exclusively, the lowest price is based on the most advantageous tender in economic terms.

In the UK there is a public body with responsibility for implementation of public procurement rules. Because the procedures are constantly threatened by auction unsuccessful completion of an award procedure, the contracting authorities are alerted throughout the procedure to seek legal advice to ensure that there are no violations of legal regulations. In Romania, however we can say that the Ministry of Finance, as a specialized body of central government is responsible for performing the verification function of the procedural aspects related to the award of contracts covered by the legislation on the award of public procurement contracts public works concession contracts and services concession.

Also we have seen that in the UK appeals are heard by the Court of Appeal and then the Supreme Court and there is no specific administrative tribunal for determination of appeals in public procurement. In Romania instead there is a judicial administrative oraganism independent National Council for Solving Complaints, which has jurisdiction to hear appeals lodged in procedures for awarding contracts before the end.

Following the analysis, we found a number of similarities between them we can mention the following: both Romania and the UK are members of the European Union and fall under European law. They have implemented the EU directives on public procurement by the following laws: in the

[1] ANRMAP, Operational Manual for the award of public procurement, vol I, 2009.

UK Directive 2004/18 / EC was implemented through public procurement Regulations 2006 and Directive 2004/17 / EC was implemented Regulation utilities contracts since 2006. In Romania the two EU Directives have been transposed by GEO no. 34/2006 regarding the award of public procurement contracts, public works concession contracts and services concession.

Another similarity that were able to identify what way was the classification of public procurement contracts, the contracting authorities, the principles underlying the interpretation of the laws of the two countries but also in terms of procedures for the award of contracts public procurement.

We have also identified a number of differences in terms of establishing deadlines for assigning each procedure. Another difference identified was the fact that in Britain, unlike Romania, there is a public body to be responsible for implementation of public procurement rules, and also there is a judicial body which is competent to determination of appeals in this area. Another difference between the two systems is the fact that the common law is used primarily competitive dialogue procedure while in the Romanian system most used open tendering procedures are those restricted.

Conclusions

Following the case study conducted found that both Romania and the UK, public procurement plays an important role in social and economic development of a society.

So in the European Union put a modernization and revision of the regulations on public procurement, thus trying to promote quality and innovation in this area. Also the same extent desired to reduce unnecessary bureaucracy and encourage the use of best value in terms of economic, rather than the use of the lowest price criterion, in order to more intelligent and efficient procurement. Among other goals, a major role is played by the need for a higher degree of professionalism, increasing the participation of SMEs, including social enterprises, combating favoritism, fraud and corruption, and promoting European cross-border contracts in public procurement.

In conclusion procurement conducted by public authorities and by other similar institutions are very important because through their state reflects how public money is used. This is done through public procurement interaction between the public and private contracting authorities being equal relations with suppliers of goods and services, in order, as both are required to apply specific public procurement legislation.

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Capital Market Integration. New Challenges in an Enlarged Europe

Delia-Elena Diaconaşu[1]

Abstract: The purpose of this paper is to analyse the linkages between Emerging European stock markets and the developed ones, in relatively stable times that followed the global economic crisis. One of the main reasons that served as an argument in studying stock market integration relies in the prior contradictory results regarding the regional versus international interdependencies. Using a Vector Error Correction Model we tested if the Central and Eastern European markets are more internationally or regional integrated. Our findings suggest that the stock exchanges from CEE react mainly to the arrival of price innovations from the most mature market in the EU perimeter. The main contribution of this paper is that it provides further evidence on stock market integration and correlations in emerging stock markets, emphasizing new connections between London Stock Exchange and the other CEE stock markets. The results are of particular interest for both portfolio managers and policymakers.

Keywords: emerging stock markets; interdependencies; price innovation

JEL Classification: C13; G15; F21

1 Introduction

On the background of European Union accession of eleven new member states, the capital markets from Emerging Europe have registered a considerably development, which lasted until the global economic and financial crisis of 2008. Unfortunately, the global crisis revealed major EU issues, issues that are related to the institutional weaknesses of the Euro perimeter. As an example we mention: Greece did not meet the convergence criteria on a sustainable basis at the time of joining the euro area, the existence of budget deficits exceeding the 3% limit, high government debt, the mispricing of risk by capital markets and an ensuing misallocation of capital that had the effect of giving wrong incentives to policymakers, the fact that democracies and financial markets did not operate “on the same clock”, the Western governments being blamed for the excessive deregulation of financial markets and for their growing dependence on borrowing (Tsoukalis, 2012), the fact the monetary policy rate is not sufficient for maintaining both price and financial stability (Schwartz, 2003), etc.

Briefly, in Central and Eastern Europe (CEE) it all started like this: the first market affected was Hungary that registered a significant reduction in portfolio investments. Shortly after, Romania and Bulgaria were contaminated; two countries that were struggling with a substantial foreign currency

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debt and a cumbersome growth in the volume of loans. The only states in the region that showed resistance during the recession are Poland and the Czech Republic. One consequence of this turmoil in which we are interested is the decrease in the European financial market integration. At present, even if the integration in financial markets improved, is still worse than before crisis.

Therefore, given the fact that the economic crisis of 2008 has not lost its pulse in the European perimeter, the purpose of this article is to investigate mutations within the dynamic linkages between Emerging Europe and more developed stock markets, namely, the British and Austrian markets, in the period that succeeded the crisis.

Our results generally support the increasing interdependencies between capital markets in Central and Eastern Europe and the most developed market in Europe.

The remainder of this paper is structured as follows. Section 2 describes the literature review. Section 3 presents the motivation and hypothesis of the research. Section 4 describes the analysed data. Section 5 describes briefly the methodology used. Section 6 reports on our empirical results. Section 7 concludes.

2 Literature Review

The discussion of correlations between CEE equity markets drives divergent opinions. Therefore, the first group argues for a weak interdependence among the CEE and international markets, and the second one supports the opposite of this assumption.

The first group of studies validates the hypothesis that the countries from CEE exhibit strong correlations between them, and not with the mature markets (Syriopoulos & Roumpis, 2009). In this regard, Li and Majerowska showed limited interaction between Poland and Hungary, on the one hand, and Germany, the UK and the US, on the other hand (Li & Majerowska, 2008). The authors Gilmore, Lucey and McManus Lucey found no strong relationship between British and German stock markets, on the one hand, and Hungary, Poland, Czech Republic, the other side (Gilmore *et al*., 2008). Moreover, other study emphasized the existence of a relatively modest link between French, German and British stock markets and Czech, Hungarian and Polish emerging markets (Égert & Kocenda, 2011). These authors consider the reluctant convergence as the main cause of the modest cointegration.

Standing at the border between the two contrasting views, Pajuste notified that capital markets from Central and Eastern Europe behaves different correlations with EU capital markets. Thus, while the Czech Republic, Hungary and Poland show high correlations with each other and with the EU, in the cases of Romania and Slovenia this correlation is inexistent and even negative (Pajuste, 2002).

Secondly, there are a large number of empirical studies that emphasizes increasing interdependence between Central and Eastern European markets, on the one hand, and between them and the developed markets, on the other hand. Syriopoulos pointed out that capital markets from Poland, Czech Republic, Hungary and Slovakia tend to maintain strong links with their “counterparts” (Syriopoulos, 2007). In addition, Syllignakis and Kouretas showed that the links between CEE and global markets have increased with the beginning of EU accession process (Syllignakis & Kouretas, 2010). The authors also highlighted the fact that the emerging markets from CEE - except Estonia - Germany and the US have a common permanent significant component that influences the stock markets in this region on the long run. Furthermore, other authors revealed that both long-term and short-term relations between stock markets in the US and Germany and Eastern Europe were strengthened in the period 1999-2002 as compared to the period before the Russian crisis (Hsiao *et al*., 2008). Finally, Lucey and Voronkova concluded that emerging markets have become increasingly integrated with world markets and showed the existence of long-term links between UK, Germany, France and the countries of Central Europe (Lucey & Voronkova, 2008).

3 Hypothesis of the Study

The working assumption is that the interdependencies between CEE and the British stock markets are greater than the intra-regional interdependencies, at least during a more stable period that succeeded the global crisis.

The reasons of the research are multiple. First, we mention that the global turmoil still has reminiscence over the degree of European integration, which still has not reached the levels before the crisis. Second, the emerging markets from the sample are those that joined the EU in 2004, 2007 and 2013, situation that facilitates the analysis of integration differences between the three categories of European stock markets. Third, the need of the study arises from the fact that the researches in the field are contradictory in the sense that either highlight the existence of a strong link between CEE and international leaders, or suggest a strong regional link.

4 Data

The analysed states are: the Czech Republic, Hungary, Poland, Bulgaria, Romania, Republic of Croatia, Austria and United Kingdom. The stock indexes are: PX50 Index for Prague Stock Exchange, BUX for Budapest Stock Exchange, WIG40 for Warsaw Stock Exchange, SOFIX for Bulgarian Stock Exchange- Sofia, BET for Bucharest Stock Exchange, CROBEX10 for Zagreb Stock Exchange, ATX for Vienna Stock Exchange and FTSE100 for London Stock Exchange.

The first six indices we considered to be representative for Central and Eastern Europe, while the last two indices belong to the developed markets. We have chosen these indexes because we want to highlight the interdependencies between emerging stock markets in Europe and the largest regional market - Vienna Stock Exchange - and European market – London Stock Exchange. We chose Austrian stock market for simple reasons: the intense financial relations between it and emerging Europe and the recent formation of CEESEG group. We chose the British Stock Exchange on the grounds that it is a commonly used proxy used to demonstrate the links between international markets.

The frequency of the data is daily. The time series are expressed in national currency and are collected from the Thomson Reuters Datastream. The period of analysis is from January 1st, 2010 to August 31st, 2014.

5 Methodology

In attempting to validate our assumption we used the Vector Error Correction Model (VECM) of size eight, the following variables: the logarithmic series of the Czech stock index (ln_CZ), the logarithmic series of the Hungarian stock index (ln_HU), the logarithmic series of the Polish stock index (ln_PL), the logarithmic series of the Bulgarian stock index (ln_BG), the logarithmic series of the Romanian stock index (ln_RO), the logarithmic series of the Croatian stock index (ln_HR), the logarithmic series of the Austrian stock index (ln_AT), the logarithmic series of the British stock index (ln_GB).

Briefly, the steps made in order to fit the appropriate VECM are the following:

1. Testing the stationarity of the variables in order to find the order of integration through performing the tests: Augmented Dickey-Fuller (ADF), Kwiatkowski-Philips-Schmidt-Shin (KPSS) and Phillips – Perron (PP). According to the tests' results, all the variables have a unit root, and thus, being integrated of order I;

2. The fact that our analysis focuses on eight stock indexes is indicating the possible presence of equilibrium relations between them. To check this we applied the Johansen Cointegration test and for an increased robustness we have used the Engel-Granger methodology. In order to obtain results with higher accuracy, we followed the study of Lutkepohl (2004) and performed Johansen test in pairs of two variables, and then we introduced the eight variables in the system. The presence of cointegration vectors requires the use Vector Error Correction Model (VECM) with the following specifications:

$$\Delta Y_t = \Pi Y_{t-1} + \Gamma_1 \Delta Y_{t-1} + \cdots + \Gamma_{p-1} \Delta Y_{t-p-1} + u_t$$

Where Y_t is a vector of size (K X 1) of the endogenous variables, with r cointegrating vectors and the number of lags resulted in the VAR estimation minus one, u_t is the error term. K is the number of variables and is equal to eight. The vector of endogenous variables Y_t is represented as follows:

$$Y_t = \begin{bmatrix} \ln\_GB \\ \ln\_AT \\ \ln\_PL \\ \ln\_CZ \\ \ln\_HU \\ \ln\_RO \\ \ln\_BG \\ \ln\_HR \end{bmatrix}$$

The order of variables is recursive, according to the market capitalization.

3. In order to check the VEC model, we use the following tests: the descriptive analysis of residuals - to see the distribution of residuals, Portmanteau test for autocorrelation test, Breusch-Godfrey LM test to determine the order autocorrelation of residues, ARCH-LM test - to test the homoscedasticity, Jarque-Bera test for normality vector observe residual values.

The VEC analysis is finalized, in our case, with the error variance decomposition.

6 Empirical Results

Table 1 presents the descriptive statistics of the eight indexes returns throughout the analysed period. In the descriptive analysis of the variables we chose the returns of the indexes because they provide noteworthy information in examining and explaining the evolution of stock indexes.

Table 1. Descriptive Statistics for National Stock Market Indices

Index	Mean	Std. dev.	Skewness	Kurtosis	Jarque-Bera
FTSE100	9.33E-05	0.011800	-0.321017	5.466501	176.7409
ATX	-0.000324	0.016828	-0.258197	6.138273	275.2237
WIG40	-8.94E-05	0.010956	-1.539074	12.09557	2508.727
PX50	-0.000327	0.013373	-0.522247	7.890552	680.4388
BUX	-0.000285	0.016509	0.103166	6.927988	420.9581
BET	-2.01E-05	0.016183	-0.909599	17.84789	6088.387
SOFIX	-0.000464	0.009159	-0.188302	6.177853	278.6291
CROBEX10	-0.000278	0.008984	1.032099	18.33245	6512.180

Source: author's calculations

At first glance, the data in the table supports the idea that almost all the indexes offer negative average returns, but the asymmetric distributions characterizing the examined series makes this indicator of central tendency not to be significant because it is heavily influenced by the values of tail. In addition, we see that the highest values of standard deviation are recorded on the stock markets of Austria, Hungary and Romania, but the differences are not large compared to the values of the other markets. The global economic crisis can be a reason for flattening the differences between advanced and emerging market volatilities. The indicator skewness is negative, with the exception of Hungary and Croatia, implying that the distribution is skewed to the right, having more extreme values to the left. The values of kurtosis are high, indicating that the distribution of all indices is leptokurtic. The characteristic of this distribution is that the probability of extreme events is high. Therefore, the two indices of symmetry measurement are sensitive to extreme observations, and the high values recorded by them are clearly related to global crisis. Also, the Jarque-Bera test highlights the pronounced deviation from normality in all the cases.

Table 2 shows the variance decomposition for the fitted eight dimensional VECM(1) with r=2.

Firstly, the table below shows that, in a horizon of one day, Polish, Romanian, Bulgarian and Croatian indexes are explained, in the highest proportion, by their own innovations. This result is consistent with that of the study authors and Li & Majerowska (2008) that showed that in the short-run emerging stock markets are determined mainly by specific country risk factors rather than external ones. Regarding the developed market importance, in this horizon, the movements registered by WIG40, PX50 and BUX are mainly determined by the FTSE index. Therefore, we can split our sample in two entities: one that has a higher degree of integration with the most developed market from Europe (Poland, Czech Republic and Hungary), being more sensitive to the shocks from London Stock Exchange, and one that does not react instantaneous to the news coming from the mature market (Romania, Bulgaria and Republic of Croatia).

However, at longer time horizon, this situation is changed. In this regard, Bucharest Stock Exchange and Zagreb Stock Exchange join the other stock markets that are mainly influenced by the British market. In Bulgaria the situation is different. The most important variation of the index (over 80%) is explained by its own innovations, while the shocks of FTSE100 and ATX sums up just over 15%.

Secondly, we would have expected that the formation of CEESEG in and the acquisition of majority shareholdings of Hungarian and Czech stock market lead to a significant increase interdependencies between them. Perhaps, following the example of another group in the area exchange, Nasdaq OMX Baltic, better strategies and medium and long term measures will drive in this direction.

Thirdly, from the variation in the analysed indices, a relatively small proportion, ranging from 2-10% is explained by the variation of the CEE indices.

Table 2. Variance decomposition of CEE stock market indexes

Index	Horizon	I_{OWN}	I_{FTSE}	I_{ATX}	I_{CEE}
ln_WIG	1	53.67674	42.33649	3.986773	0.000000
	10	41.70158	51.55834	4.591819	2.148254
ln_PX	1	39.73221	40.26982	17.45449	2.543479
	10	22.10829	48.15042	20.04012	9.701170
ln_BUX	1	49.31946	39.40850	6.385590	4.886450
	10	48.50330	37.24264	6.397480	7.856580
ln_BET	1	64.00564	22.89666	5.586654	7.511047
	10	48.51785	37.71800	7.234390	6.529766
ln_SOFIX	1	90.70608	3.098918	1.360094	4.834907
	10	82.55233	13.31721	2.575674	1.554794
ln_CROBEX	1	72.46432	16.41805	4.377623	6.740007
	10	57.97371	32.96453	5.825022	3.236733

Source: author's calculations

In conclusion, we have highlighted the existence of a relatively large influence on CEE capital markets from the British market and, to a lesser extent, an inter-regional integration. Therefore we place ourselves in the same line with the findings of Syriopoulos (2007) who showed that market movements in Central Europe mainly come from developed international markets.

7 Conclusions

To summarize, we have validate our hypothesis of high impact of most developed markets in the globe on Emerging Europe markets, after the big degringolade – except for Bulgaria. Firstly, this result can be directly utilized by portfolio managers in planning portfolio diversification strategies in accordance with the expected future volatility and risk measurement. They lead to the argument that investor can benefit, at least in the short run, from diversifying into the Central and Eastern European equity markets. Secondly, the stock market is often considered the "barometer" of economy, and for good reason, since the feedbacks received from this segment, the most dynamic of the nominal economy, play the role of a seismograph for the evolution of the entire economic system. Here, especially in times of crisis, novel things are occurring for which neither the standard theory, nor the "class lesson" do not find riveted answers. Therefore, the pragmatic utility of this study lies in the real force of prediction that a responsible policy maker is not allowed to disregard.

Given that most influence is coming from the British market, we can further research the determinants of volatility in this perimeter, considering as proxy for external shocks the FTSE100 index.

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Theoretical and Practical Considerations on the Execution of the Leasing Contract in Romania

Gheorghe Dinu[1], Raluca Antoanetta Tomescu[2]

Abstract: Leasing contract: the present study was made with the scope to underline the ambiguity and the controversies between the national laws and the international norms which govern this type of contract, which is so widely used in economically developed countries. The leasing contract is not a contract for instalments' payment nor a rental contract, it's a special type of contract, a form of financing by which all of the participants capitalize on their resources in a benefiting way, so no one loses and everybody wins. These benefits can become a reality only by obeying strict and clear norms, which leave no room for interpretation, because any personal interpretation may radically change its legal form, converting it to something totally different from a legal point of view. The main purpose is not to solve a previously solved equation, but to compare the national and international norms so as to raise necessary questions where they should be raised.

Keywords: residual value; instalment; financial leasing; operational leasing

Based on the translation of the word "leasing", excluding the strict morphological origin from English language, the verb "to lease"- giving towards usage, defines and benefits of a determined legal feature, to grant the right of the precarious detention (the use of something not owned) of an asset for a determined period of time, and at the end of the term having the possibility of transferring the property right, without confusing with the verb "to rent"- to lease, which consists of transferring the right of usage on a strictly determined period of time, at the end of which the owner will retrieve the asset. We make this statement in order to fundament the following theory on this principle.

Leasing is a way to finance individual or legal entities consumers, that wish to acquire movable or immovable assets, on a long time use, but which do not have financial possibilities or do not consider the investment stringently required. This way of financing comes to meet those who cannot or will not access bank loans by encumbrance of movable or immovable assets through the establishment of mortgages or liens. It has proven to be one of the most efficient means of financing productive investments, offering additional security to those who do not dispose of sufficient capital.

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The complexity of this contract which at first sight seems so ordinary, together with the legislative gap in our ambiguous legislation, is and will be a constant source of research and informing, but also a controversial source of conflict.

Based on the assumption that in modern society the notion of leasing is almost known, we will intentionally omit the thorough presentation of this contracts' legal features, insisting, on the other hand, upon this contracts' position in the context of current national and international law.

Due to its particular legal structure, but also to its alternative execution conditions, the leasing contract positions itself in a particular framework compared to the other types of contracts, being viewed on an individual basis in terms of enforcing international economic-financial provisions under current legislation.

The main issue that the leasing contract encounters in Romania is represented by the faulty and confusing legislation.

1. Performance of the Leasing Contract

In the operational area of the leasing contracts 'performance can be found:

- The purchase agreement;
- A lease;
- A contract of mandate;
- A real estate sale-purchase promissory agreement.

The provisions of international regulations such as SIC 17[1] and UNIDROIT[2], regarding the leasing contract, have precise specifications about its performing, under one of the two categories, financial and operational, as well as to their defining features , from both the legal and economic point of view. These directing provisions were taken respectively also in the Romanian legislation. Thus, we notice the following:

- The financial leasing contracts are defined as the leasing operation that transfers, largely, on all the risks and benefits incidental to ownership of the asset. The title deed can be transferred, eventually, or not.

I. The features that normally lead to a classification of the leasing operation, as being financial leasing, are:

1. The contract states that the ownership of the asset will be transferred to the holder by the end of the leasing term.

2. The holder has the option of purchasing the asset at a sufficiently advantageous estimated price (small enough in relation to its fair value), so as at the beginning of the leasing, there is a reasonable certainty that this option can be exerted.

[1] IAS were issued between 1973 and 2001 by the International Accounting Standards Committee (IASC) and represents a set of accounting standards, all listed companies in the EU are now required to prepare consolidated financial statements in accordance with IFRS (new name). The main purpose of IAS 17 is the definition and disclosure of financial or operational leasing operations.

[2] International Institute for the Unification of Private Law, commonly known under the name UNIDROIT is an independent intergovernmental organization whose purpose is to study ways of harmonizing and coordinating the private law of states and groups of states and progressive preparation for the adoption by its various members of uniform rules of private law.

3. The leasing contract covers most of the activities' economic life, even if there is no transfer of ownership.

4. The value of the actual minimum of the leasing installments (minimum leasing payments), at the date of the contracts' commencement is at least equal to almost all of the active's fair value to hire.

5. The assets that are subject to the leasing contract are of special nature so as only the holder may use them without making any subsequent changes.

II. Operational leasing contracts are defined as leasing operations which do not qualify as financial leasing.

The different aspect of land and buildings should be retained – overall, of real-estate assets – developed by SIC 17, putting this type of assets in a special class due to their longer lifespan, recommending their registration in terms of operational leasing in order to avoid , in the case of financial leasing, calculation of a high residual value or of a very high installment rate.

Within the meaning of IAS 17 (3rd paragraph), the following terms mean the following:

a) The fair value is the amount at which an asset can be traded or a liability settled, willingly, between knowledgeable parties, within a transaction in which the price is objectively determined , term which has been taken into G.O. no 51/1997[1], as an input value representing the acquisition cost of the asset.

b) The leasing term states the period of time, irrevocable, for which the lessee has contracted to lease the asset […], with or without additional payment, option for the exercise of which the lessee is certain, to a reasonable extent, at the beginning of the leasing. – this concept has been take into OG 51/1997 referred to as the leasing period, but whose definition, although very important, cannot be found within the contents of the ordinance.

c) Economic lifespan is the period of time in which an asset is estimated to be economically used by one or more users; - term that cannot be found in the leasing national legislation, the legislator perhaps considering that the duration strictly concerns the funder;

d) The useful life is the estimated remaining period of time, from the beginning of the leasing term, without being limited thereto, during which it is expected that the incorporated economic benefits are consumed by the entity; - term that cannot be found in the leasing national legislation, the legislator perhaps considering that the duration strictly concerns the user;

e) Minimum leasing instalments are payments which the lessee must or may be bound to make, during the leasing term, excluding contingent rent, cost of services and taxes that the lessee will pay and which will be reimbursed thereof – term which we absorb as instalment , defined by OG 51/1997 as being "the share of the assets' entry value and the lease interest rate, which is determined based on the interest rate agreed by the parties" – in the case of financial leasing;

f) The residual value represents the estimated fair or market value of the leased asset, at the end of the contract; only did this notion was taken over by Law no. 287/2006 as: "residual value represents the value at which, after payment by the user of all leasing instalments stipulated in the contract and all other amounts due under the contract, the ownership transfer is made upon the asset to the lessee and is settled by the contracting parties"; whose interpretation taking over evidently raises a number of

[1] Government Ordinance no. 51 of 28 August 1997 on leasing operations and leasing companies, the issuer Government of Romania, published in Official Gazette no. 224 of August 30, 1997.

questions to those interested, being an ambiguous and generic definition which is economically and legally unrelated with the definition found in international regulations. In art. 27 paragraph 3 of GO 51/1997, subsequently amended, residual value is looked upon as a random value that will be agreed upon willingly by the parties, in fact wholly misunderstood, from an economic point of view this value is mandatory agreed upon through specific regulations in the area.

In the case of returning the asset at the end of the leasing term, in order to be protected against various risks surrounding its activity and that may affect the residual value of the asset, upon request of the lessor, the lessee will ensure the achievement of the assets' residual value to at least a certain value, consented by the lessor, thus named guaranteed residual value. Such guarantee of the residual value can be directly made by the lessee or by means of an affiliated party to the lessee.

Only that this term in our legislation, we mention, was completely ignored, although of major importance in protecting the economic point of view of the financier. The contract provides, according to defining legal rules that ownership of the asset will be transferred to the lessee by the end of the lease term. Thus, given that the lessee takes possession of the title deed at the end of the lease, it will be clear that leasing instalments shall have to be sufficient in order to return the lessor his costs plus the reimbursement of invested capital. International regulations make no reference to the lessor / funder accounting registration of amounts collected in advance and that they could claim starting of the lease term. In contrast, G.O. no 51/1997[1], article 6, section. (2) letter "c" specifies imperatively the insertion in the leasing contract of the value of the advance payment, so by default a sum paid in advance.

We subscribe to the course of performing the leasing contract, only by paying instalments, without paying any amounts as advance, as defined by international regulations and established by practice, in general, through the annex schedule to the contract, thereafter being registered as revenue for the lessor/financier and as an expense for lessee/user.

Unlike loans, leasing essence is to ensure full funding of an investment, hence the entire cost of acquisition of asset that is subject to the contract.

All leasing companies in Romania claim their customers payment of an amount in advance, and this prior to purchasing the asset that is subject to a leasing contract. Under these circumstances, the financed amount becomes lower than the asset's cost of acquisition, reducing itself by the advance payment paid by the client, with which it basically auto finances.

We believe that by imposing the lessor/financer to make an advance payment as well as by paying the residual value simultaneously with the instalments – the leasing contract becomes a sale- purchase agreement with instalment payments, starting with the collection of the advance payment, the lessor/financer losing the capacity of lessor, while remaining financier - him becoming a promissory seller, and the lessee/user by accepting to make the advance payment, as well as the residual value simultaneously with leasing instalments receives the status of a promisor buyer, thus eliminating from the very beginning the essential and defining feature of the leasing contract, being the temporary transfer of right to use, with the right to option regarding purchase or restitution of the asset that was subject to the contract, because making the advance payment confers the lessee/user not only a precarious right of possession but rather a right to effective property.

[1] The Act includes changes in the following documents: Tax Code published in 2003; Law no. 533/2004, Law no. 287/2006, Law no. 241/2007; Law no. No 93/2009 published in the MOF. 259 of 21/04/2009; Law no. No 383/2009 published in the MOF. 870 of 14/12/2009.

Assuming that the lessee/user, after accepting the contracts' conditions on advance payment and inclusion in all or part of the residual value in the instalments, due to factors beyond their control or dependent, give up the option of buying the asset or of continuing their leasing contract during its performance, then the amounts representing advance payment, as well as the residual value collected by the financier, may constitute unjust enrichment, not constituting the subject of a leasing contract *stricto sensu* (strict sense).

In the case of leasing contracts, the investment is the lessor's/of the financier, who has the necessary funds to purchase certain movable or immovable assets, which he then gives to be used for an amount to be paid consecutively in instalments as leasing rates, on a preset time, the value of the instalments, upon enforcement of the contract is at least substantially equal with all of the value of the leased asset, so that at the end of this period the lessee/user can opt for termination of leasing or purchasing the asset. Only then through the collection of the market value or of the amount remaining to be depreciated, strictly defined as residual value and that will benefit the lessor/financer, as owner of the asset, in order to recover the investment made, a transfer of ownership will be done. Since leasing is different from loan precisely because it's meant to provide financing to those who lack equity or attracted (loans) for purchasing the asset, we believe that clear regulations should be imposed upon this issue in the leasing legislation, so that they could contract an asset in a leasing type system without a down payment.

2. Termination of Leasing

The leasing contract is considered terminated under the following circumstances:

a) If the user refuses to receive the asset upon the deadline stipulated in the lease.
b) If the user is in a state legal reorganization and/or bankruptcy.
c) Failure of the user's right to option
d) Failure to perform full payment of instalments obligations.

We consider analysing for the Romanian legislator appropriate, especially the situation in which termination occurs for default of payment, as this situation has that generated most disputes relating to the leasing market in Romania last years.

Whenever there is any cause of early termination of the contract, of the nature of wrongful default by a Contracting Party of the obligations derived from the contract, the New Civil Code states that: "*When, without justification, the borrower fails to perform the obligation and is in default, the creditor may, at its discretion and without losing the right to penalty clauses whether due to him [...] 2. obtain, if the obligation is contractual,* ***retroactive termination*** *or termination of the contract or, where appropriate, reducing their correlative obligations; [...] S. N.* "this being confirmed by para. (2) art. 1516.

In the case of the leasing contract when the lessee / user does not perform the obligation to pay the full instalments for two consecutive months, calculated from the due date specified in the lease, according to art.15 of G.O. no 51/1997, the lessor / financer has the right to cancel the lease and the lessee/user must return the asset and pay all amounts due up to the date of the refund under the leasing contract.

Art. 15. –"*If the contract does not provide otherwise, if the lessee / user does not perform its obligation to pay in full of the leasing rate for two consecutive months, calculated from the due date stipulated in the lease, the lessor / funder has the right to cancel the lease and the lessee / user is required to return the asset and pay all amounts due, until restitution under the lease.*"

Corroborating this benefit conferred by law to the lessor/financier with the power of enforceability of the lease term (art.8 of G.O. no 51/ 1997), recovery of the prejudice seems apparently usual. As such, issues arising from the provisions relate to its interpretation and practical application of the law, being the courts attribute.

In the matter of interest here, according to art. 8 G.O. no. 51/1997 on leasing operations and leasing companies, leases, are enforceable titles: "*Art. 8. - leases and real and personal guarantees, established in order to guarantee the obligations under the lease, are writs of execution*". If the lessor / funder will cancel the lease for failure to pay the lease rate according to art.15, the question is whether we can proceed to forced execution of the lessor / user based on the power conferred by art. 8 the lease term of the ordinance?

We think not, because once the lease terminated, it is no longer effective, it no longer has any an output between contracting parties, and a claim to that effect coming from the creditor would amount to the performance of the contract, provided that it opted itself for dissolution of the contract.[1]

1. Both the old Civil Code, the State under art. 1021, that the party who has fulfilled its contractual obligations has choice or to compel the other party to perform the convention if possible or to request cancellation of the convention with damages.

2. Furthermore in the New Civil Code the court prerogatives are intended to restore, where appropriate, the contractual balance of the consideration of benefits and avoid excessive conspicuously abuses, thus as cancellation of the contract for failure to pay, the company financing will be subject to the following provisions:

"Art. 1755 Reserve property and risks

When a sale with the instalment payment, the payment obligation is guaranteed with reservation of ownership, the buyer acquires ownership of the date of payment of the final instalment of the price; But good risk is transferred to the buyer upon delivery of it.

Art. 1756 Failure to pay a single rate of price

Unless otherwise agreed, failure to pay a single rate, which is more than an eighth of the price, does not give the right to terminate the contract and the buyer retains the benefit period for successive rates.

Art. 1757 Termination of contract

(1) When obtained terminate the contract for failure to pay the price, the seller is required to repay all amounts received but is entitled to retain, in addition to other damages, fair compensation for the use of the asset by the buyer.

(2) When it was agreed that the amounts received as rates remain, in whole or in part, acquired by the seller, the court may nevertheless reduce these amounts properly applying the provisions relating to the court reduced the amount penalty clause.

(3) The provisions of par. (2) applies if the lease and of the lease, if, in the latter case, it is agreed that upon termination of ownership of the property to be acquired by the lessee after payment of the agreed."

[1] Civil Sentence no. 1332-1307 Vaslui pronounced by the Court in April 2010 in case no. 1610/333/2010.

3. Conclusion

Therefore, if the creditor has chosen cancellation of the convention, it cannot require the debtor, naturally, than liquidated damages, damages that can, of course, be proved. We appreciate therefore that obvious inconsistency between the provisions of the Civil Code and art.15 of OG 51/1997, make it impossible for them to be simultaneously enforced, the legislator being left at the interpretation of the court's judgement to resolve this conflict of laws. Due to the unusual and complex leasing contract, and due to the lack of clear legislation in this field, leases are subject to numerous interpretations thus generating a large number of disputes.

Hoping to revitalize the leasing market in Romania, we consider it appropriate to revise the current legislation and its completion in accordance with international regulations, for this the beginning being constituted by the provisions of the New Civil Code, which already began to have effect.

Based on this, although major inconsistencies appear between theory and practice, sometimes daunting, we remain nevertheless at the opinion that the variant of leasing, financial or operational, gives the user account of the undeniable advantages in comparison to other methods of buying or renting.

4. References

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Tax Code published in 2003; Law no. 533/2004.

Law no. 287/2006, Law no. 241/2007.

Law no. No 93/2009 published in the Official Monitor no 259 of 21/04/2009.

Law no. No 383/2009 published in the Official Monitor no 870 of 14/12/2009.

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Past and Current Paths to European Union Accession: Romania and Turkey a Comparative Approach

Tatiana-Camelia Dogaru[1]

Abstract: Several decades ago, leaders of six European countries with an inclusive vision of Europe and strong courage started a construction without precedent, the European Union. The remarkable construction evolved not only concerning the number of the Member States, but also in terms of institutional and functional development. Nowadays, the European Union is one of the most important changing factor concerning the governance and the policy-making process at European level and not only, and there is no doubt that the EU will continue to grow as an increasing number of countries express interest in membership. This paper reveals in a comparative perspective the path to European Union Accession, and is based on documentary analysis, using strategy-level documents of the countries and the Progress Reports the European Commission provided during the past enlargement.

Keywords: Europeanization; EU Accession process; enlargement

1. Introduction

"The European Union is open to all European countries" states the Treaty on European Union. The article 49 of this treaty constitutes the legal basis for any accession, and mentions the basic conditions for enlargement „Any European State which respects the principles of liberty, democracy, respect for human rights and fundamental freedoms, and the rule of law may apply to become a Member of the Union". Notwithstanding, getting the membership status is not automatically, each enlargement accelerating the debate on deepening versus widening, specific policy issues, budgetary concerns and the EU politics of conditionality.

In this sense, a country can only become a member if it fulfils the criteria and conditions for accession as defined by the EU leaders at their summit in Copenhagen in 1993, and by a number of subsequent EU decisions (EU, 2013:5; Iancu, 2009). The so-called Copenhagen criteria are (Matei, Matei, Iancu, 2011): (a) political: stable institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities; (b) economic: a functioning market economy and the capacity to cope with competition and market forces in the EU; (c) the ability to take on the obligations of membership, including adherence to the aims of political, economic and monetary union. In December 1995, the Madrid European Council called on candidate countries to transpose the EU acquis into their

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national legislation and also to ensure that it is effectively implemented through appropriate administrative and judicial structures, as a requisite of EU membership.

Meeting these criteria transform the application for EU membership in a long and rigorous process. Whilst the pace of the accession procedure will differ for every applicant, generally speaking, a number of steps can be identified: (1) application for membership, (2) granting candidate status, (3) opening of negotiations, (4) negotiations, (5) accession. A view on this process can be drawn as follow (EC):

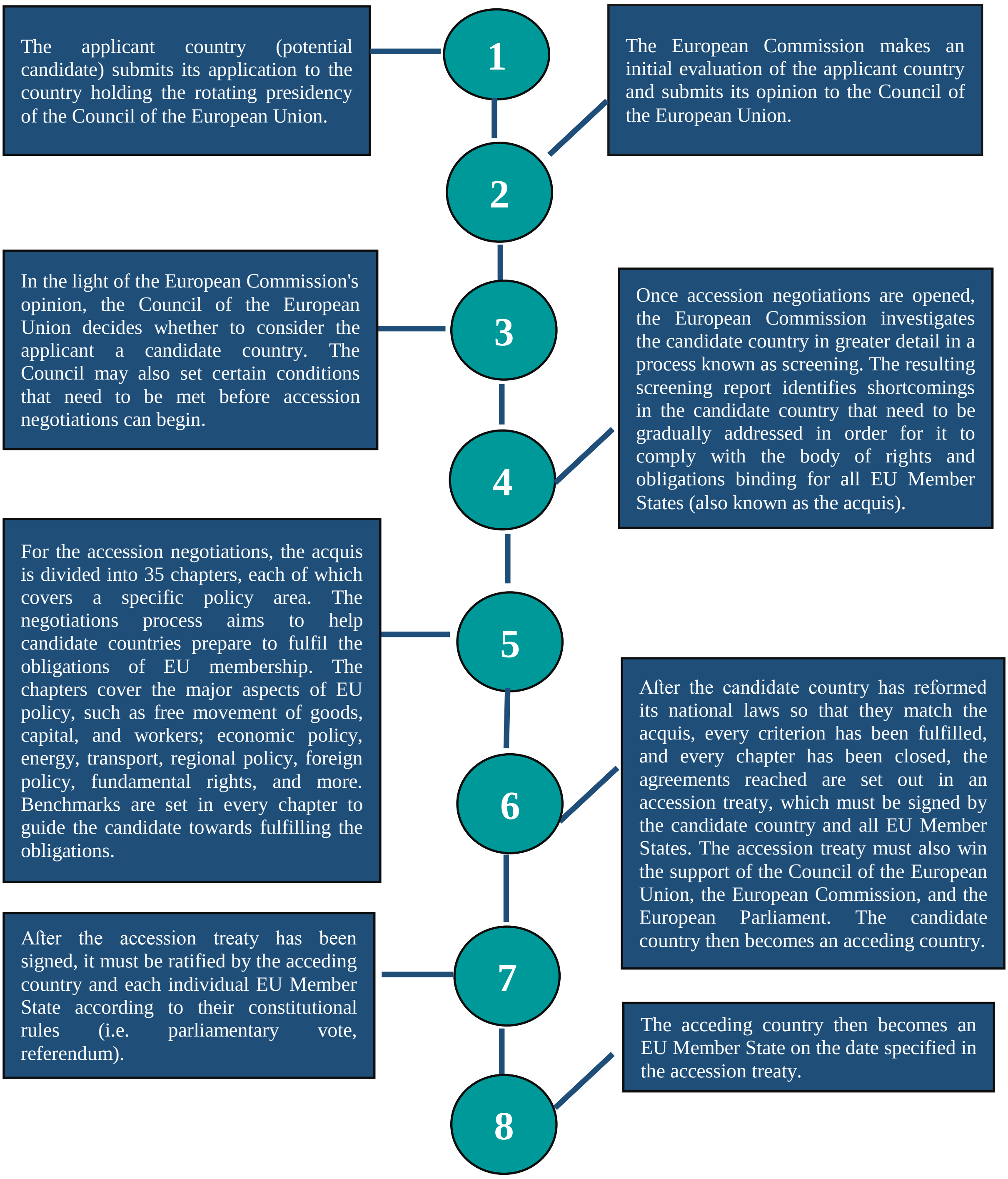

Figure 1. EU Accession process

Source: European Commission, http://ec.europa.eu/enlargement/pdf/publication/factsheet_en.pdf

2. Conceptual Framework: Theoretical Approach to Enlargement

Despite its enormous relevance, enlargement still needs clarification taking into consideration that throughout enlargement process, the European Union evolved through “learning by doing so” (LaGro, 2007:7). From European Union’s view the enlargement process is an historic opportunity to promote stability and prosperity throughout Europe. In this context, the enlargement of the European Union (EU) is a key political process both for the EU itself and the international relations of Europe in general.

The literature on EU enlargement (Schimmelfennig, Sedelmeier, 2002:504) has focused primarily on three dimensions, namely: (1) applicants’ enlargement politics; (2) member state enlargement politics; and (3) EU enlargement politics. During time, a further dimension started to receive attention, the impact of enlargement.

Each year the Commission adopts its “Enlargement package” - a set of documents explaining its policy on EU enlargement and reporting on progress achieved in each country. In its enlargement strategy Communication (COM (2012) 600 final) in 2012 the Commission introduced a new approach to rule of law. In its 2013 Communication (COM (2013) 700 final) the Commission set out a framework for strengthening economic governance. In 2014 (COM (2014) 700 final), the Commission sets out new ideas to support public administration reform in the enlargement countries.

Understanding enlargement links to European integration and Europeanization processes, and, also to multilevel governance. So few definitions of these processes are needed here. According to Ladrech (1994:69) (one of the most quoted sources) “Europeanization is a process reorienting the direction and form of the national politic order so that the economic and political dynamics of the Community becomes a component of the organisational logic of the national politics and policy-making”. Europeanization has been interpreted as a globalization process in the European realm, representing a state which is contiguous to the European integration, encompassing, among others, its impact upon the national administrations (Matei, 2004:29-43).

Others representative scholars give definition to Europeanization, for instance, Radaelli (2003:30) defines Europeanization as “a process of (1) construction, (2) diffusion and (3) institutionalisation of formal and informal rules, procedures, public policy paradigms, styles, “ways of doing things”’, beliefs and common values, which are first defined and consolidated in the European Union policy-making and then incorporated in the logic of domestic discourse, identities, political structures and public policies”. Börzel (1999) offered a similar definition: “Europeanization is a process by which domestic policy areas become increasingly subject to European policy-making.” (Börzel, 1999:574). Olsen (2002:923-924) described Europeanization as: (1) a change in external boundaries, (2) developing institution at the European level, (3) central penetration of national systems of governance, (4) exporting forms of political organization, (5) a political unification project. Concerned to improve the meaning of Europeanization concept, theorists (Matei, Matei,2010) have outlined the Europeanization approach in terms of a three dimensional process:

- top - bottom (from top to bottom, from the Union to the Member State) entitled by Dyson and Goetz (2003) [in Bache, 2005:6], Goetz, Hix (2000), George (2001) “the first generation” in Europeanization research, trying to explain the internal reactions to the exogenous pressures.
- bottom - up (from bottom to top) represents the second generation of studies, known according to Wallace's assertion as the metaphor of “magnetic fields” (Wallace, 2000:381).

- horizontal - through which administrations and different ways of governance tend to be convergent as result of a mimetic process.

Moreover, Olsen (2002) argues that the various definitions of Europeanization are complementary, without being in a relation of exclusion. Some scholars (Matei, Iancu, 2007:95) referred to Europeanization in terms of "Europeanization by deepening" and "Europeanization by enlargement". In other way, the enlargement (widening) means additional member states, while deepening represents the increasing scope and reinforce the EU's powers.

Regarding the European integration and Europeanization concepts, Andersen and Sitter (2006:315) argue that "European integration is the whole process of creating institutions and Community policies, and Europeanization defines the variation of national impact of integration". Linking EU deepening and widening is complex and multi-dimensional by nature, with many developments in different areas with different trajectories. Initially, EU deepening was broadly defined as a "rise in scope and level of European integration in terms of institution-building, democratic legitimacy and European policies" (Faber, Wessels, 2006:3). Therefore, the first meaning was as a process of gradual and formal "vertical institutionalisation" (Schimmelfenning, Sedelmeier, 2002:503). On the other hand, the EU widening was broadly defined as a "process of gradual and formal horizontal institutionalization" (Schimmelfenning, Sedelmeier, 2002:502). Due to the controversy on deepening and widening, some scholars (Umbach, Hofmann, 200910) drawn several pattern of EU deepening and widening. The table above presents these:

Table 1. Patterns of the interrelation of EU deepening and widening

Patterns […]	**means […]**	**is a central pattern of […]**	
		deepening	widening
Continuity	… despite some inevitable gaps in the integration process, the EU follows a course which is not always straight, but which has so far been characterised by gradual and simultaneous EU widening and deepening.	√	√
Cyclical relation	… that informal integration steps are followed by formal ones	√	√
Reaction to EU internal/external developments and crises	… both processes continue as results of certain dynamics already going on within the political system rather than as responses to a clear and well-designed intention to deepen or widen the system	√	√

Source: adapted by author from Umbach and Hofmann: Towards a theoretical link […]

In other words, Europeanization is discussed as a process which takes place under the guidance of the EU, necessary for any state interested in the EU accession (Grabbe, 2003; Papadimitriou, Phinnemore, 2008). For the purpose of its finalisation, it has been acted by virtue of the principle of conditionality, intrinsic to the EU program of expansion towards the Central and Eastern Europe. Conditionality is the negotiation strategy of the stimulants granted by the EU to a state so that its government can realize the conditions of accession to the EU (Schimmelfennig, Sedelmeier, 2004:662). Basically, the candidate countries have to respect the criteria decided during the Copenhagen Summit and to adopt the EU Acquis. Regardless, the approach of the above process, it is important to keep in mind, the idea from enlargement commissioner Olli Rehn speech, who in 2007 pointed out that "[d]eepening and enlargement are […] not contradictory but complementary" and that "[i]t is the amalgam of the two that has made the Europe of today stronger, more powerful and more influential" (Rehn, 2007:1; Umbach, Zuber, 2007:2). Moreover, the relationship between Europeanization and European integration is an interactive one, inter-networking elements affecting the distinction between the dependent and the independent variable. The graphic representation of this relationship can take the form drawn below.

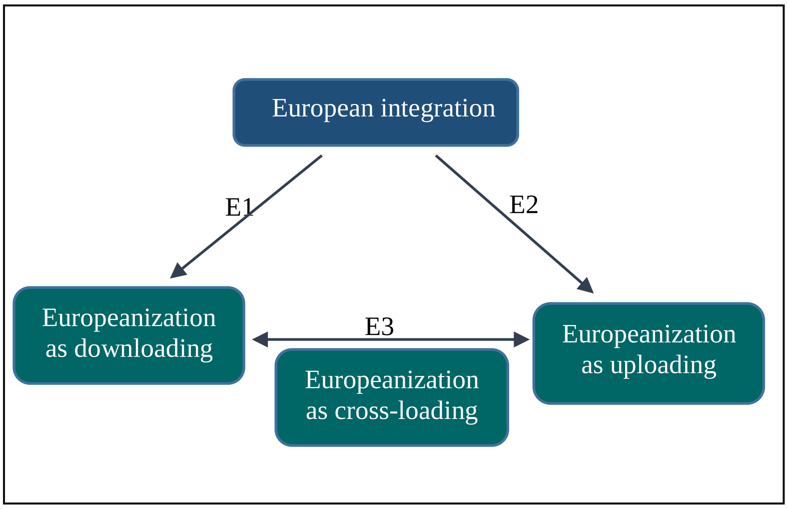

Figure 2. Relationship between the process of European integration and Europeanization

Source: adapted from K. Howell, [Developing Conceptualisations of Europeanization: Synthesising Methodological Approaches, 2004]

Regarding the governance term, it can be remark that today, the notion of governance is used in many different context. For some scholars (Torfing, Peters et al. 2012:14) governance represents the „process of steering society and the economy through collective action and in accordance with some common objectives", while for others (Popescu, 2014) the governance must be understood as „something totally different" from what is centralized state monopoly, which attempts to explain the dispersion of central government authority both vertically and horizontally.

3. Research Methodology and Analysis

In December 2004, the EU completed accession negotiations with Bulgaria and Romania, despite some continued EU concerns about the status of judicial reforms and anti-corruption efforts in both countries. Bulgaria and Romania formally joined the EU on January 1, 2007. Currently, five countries are considered by the EU as official candidates for membership: Iceland, Macedonia, Montenegro, Serbia, and Turkey. All are at different stages of the accession process, and face various issues and challenges on the road to EU membership. In this context, the research sample used in this paper consists of two countries, namely, Romania and Turkey. The main reason for choosing these is drawn on the controversial debate on the previous enlargement stage, the "big bang" enlargement of 2004 (Tatham, 2009) and the on-going one. In line with the goal of this analysis, the author consider that it is important to present a few relevant moments in the history of Romania and Turkey linked to EU accession.

In this respect, we notice that in 1993, Romania signed the Association Agreement with the EEC and EAEC, acquiring the status of an associated state. Looking back, it can be remark that 1993 is a very important moment, because in the same year EU asserted about enlargement and carried out, at Copenhagen, the access conditions for the membership. Two years later, in 1995 during another special moment for European Union development (meeting of the European Council in Madrid, adding a fourth criterion), Romania applied for candidacy. Keeping the same rhythmicity, in 1997 shifted from the associate state status to a candidate state status. As a consequence of the acceptance of application for membership, the European Council announces that since 1998, the Commission will make periodical monitoring reports on Romania's progress according to the criteria set up at Copenhagen (Matei, Dogaru, 2011). Officially, the European Council decides to start the accession negotiations with Romania after an analytical examination of the acquis and the preparation of the positions for each chapter in 2000. The negotiations for accession started in 2000 and ended in 2004. The year 2005 situates Romania among the countries that have closed all the negotiation chapters, aspect that facilitates the signing of the accession treaty with the EU. Two years later (2007), the new status of Romania (EU membership) is institutionalized. Particularly in this period, Romania is trying to comply with the practices and the patterns of the EU (Matei, Dogaru, 2012: 131-132).

Comparative to Romania, the European Union - Turkey relation has a long history. Looking back, it can be remark the difficult roadmap for EU accession, with ups and downs. In 1963 Turkey and the EEC entered into an Association Agreement containing a membership perspective. Nevertheless, Turkey’s 1987 application for full membership in the European Community was essentially rejected. In 1999 At the Helsinki Summit in December, the European Council gives Turkey the status of candidate country for EU membership, following the Commission’s recommendation in its second Regular Report on Turkey. Few years later, in 2001 the European Council adopts the EU-Turkey Accession Partnership, providing a road map for Turkey’s EU accession process. Oficialy in 2005, the accession negotiations were opened with Turkey. Negotiations are opened on the basis that Turkey sufficiently meets the political criteria set by the Copenhagen European Council in 1993, for the most part later enshrined in Article 6(1) of the Treaty on European Union and proclaimed in the Charter of Fundamental Rights. The European Union expects Turkey to sustain the process of reform and to work towards further improvement in the respect of the principles of liberty, democracy, the rule of law and respect for human rights and fundamental freedoms.

In 2007 the European Commission presented to the European Council the Regular Report concerning Turkey's accession negotiations, and one year later published the progress report on Turkey’s preparation for EU accession. No matter how long is the process, accession talks begin with a screening process to determine to what extent an applicant meets Acquis. Nowadays, the Acquis is approximately 130,000 pages of legal documents grouped into 35 chapters and forms the rules by which Member States of the EU should adhere. Coming back to process of negotiation and the time of this the analysis highlights the following findings. Accession negotiations with Romania were officially opened at the intergovernmental conference held in February 2000. Between 2000 and 2004, Romania was involved in a constant process of negotiation of the acquis, such as:

- [in 2000]: substantive negotiations started on five chapters of the acquis: “Small and medium-sized enterprises”, “Science and research, “Education”, “External relations, and “Common foreign and security policy”. The accession conference held in June 2000 decided to provisionally close all of these chapters. As recommended by the Commission, the Presidency has proposed to open negotiations for four additional chapters in the second half of 2000: “Statistics”, “Culture and audio-visual policy”, “Competition policy”, and “Telecommunications”, and provisionally closed the “Statistics” chapter. So, in 2000 had been opened nine chapters, and provisionally closed six chapters. The label “provisionally closed” is a consequences of one of negotiation principles of the fifth enlargement, according to that a chapter is permanently closed when the remaining 30 chapters are closed (RR, 2000:12-13).

- [in 2001]: negotiations started on eight new chapters: "Free Movement of Capital", "Company Law", "Fisheries", „Transport policy", "Taxation", "Social Policy and employment", "Consumer and Health Protection", and "Customs union", and had been closed three: "Company Law", "Fisheries" and "Consumer and Health Protection". Thus, at the end of 2001, the total number of chapters opened was 17, out of which 9 have been provisionally closed (RP, 2001).
- [in 2002]: the main objective of negotiation was to open all the negotiation chapters, to provisionally close as many chapters as possible, based on the advancement in accession preparations, and to fulfill the commitments taken during negotiation. Consequently, 13 chapters were opened: "Free movement of goods", "Free movement of persons", "Free movement of services", "Agriculture", "Economic and Monetary Union", "Energy", „Industrial policy", "Regional Policy", "Environment', "Justice and Home Affairs", "Financial Control", "Financial and budgetary provisions", and "Institutions". In the same time, 7 chapters have been provisionally closed: "Economic and Monetary Union", "Social Policy and employment", „Industrial policy", "Telecommunications", "Culture and audio-visual policy", "Customs union", and "Institutions". Also, in 2002 was opened the chapter "Others" (RP, 2002).
- [in 2003]: in the context of the two Intergovernmental Accession Conferences, Romania provisionally closed six chapters: "Free movement of goods", "Free Movement of Capital", "Taxation", "Free movement of persons", „Transport policy", "Financial Control". In this time, an intermediary negotiation round for "Free movement of services took place".
- [in 2004]: all 31 negotiating chapters have been opened. Now, were closed "Agriculture", "Financial and budgetary provisions", and "Energy". Therefore, from 31 chapters opened, 27 have been provisionally closed. The following chapters remain to be concluded: Competition policy, Environment, Cooperation in the field of justice and home affairs and chapter "Other" (RR, 2004).

After negotiation on the all 31 chapters of acquis, in 2007, Romania become member of European Union.

For Turkey, the analysis reflects the next findings (RP, 2006-2013). As agreed at the European Council in December 2004, accession negotiations have been launched on 2005 with the adoption of the Negotiation Framework by the Council of the European Union.

- [in 2006]: has been opened the chapter: „science and research", and provisionally closed in the same year. Concerning others 8 chapters, as a result of the EU Council decision of December 2006, the authorities decided that cannot be opened: „Free Movement of Goods", "Right of Establishment and Freedom to Provide Services", "Financial Services", "Agriculture and Rural Development", "Fisheries", "Transport Policy", "Customs Union" and "External Relations"(EC, 2006).
- [in 2007]: negotiations started on five new chapters: "Enterprise and Industrial Policy", "Statistics", "Financial Control", "Trans- European Networks", "Consumer and Health Protection". On the other hand, in 2007 France has declared that it will not allow the opening of negotiations on 5 chapters: "Agriculture and Rural Development", "Economic and Monetary Policy", "Regional Policy and Coordination of Structural Instruments", "Financial and Budgetary Provisions", "Institutions").
- [in 2008]: going further have been opened other few chapters, namely: "Company Law", "Intellectual Property Law", "Free Movement of Capital", "Information Society and Media".

- [in 2009]: two chapters got the attention of negotiation process: “Taxation”, and “Environment”, and 6 chapters have been block for opening: „Freedom of Movement for Workers”, “Energy”, “Judiciary and Fundamental Rights”, “Justice, Freedom and Security”, “Education and Culture”, “Foreign, Security and Defence Policy”).
- [in 2010]: only one chapter was opened: “Food Safety, Veterinary and Phytosanitary Policy”.
- [in 2013]: after three years Turkey succeed to open one more chapter, “Regional Policy and Coordination of Structural Instruments”, after France lifted its blockage on this.

Thus, in synthetic formula, the current status of the accession negotiations is: 13 chapters opened, 1 chapter opened and provisionally closed and 19 chapters that are not opened (Ministry for European Affairs, 2013).

The analytical examination of the acquis (screening) was conducted on the following negotiation chapters:

Table 2. Negotiation chapters

Negotiation chapters of the Acquis			
Romania		***Turkey***	
Chapter’s name	***Chapter’s number***	***Chapter’s name***	***Chapter’s number***
Free movement of goods	Chapter 1	Free movement of goods	Chapter 1
Free movement of persons	Chapter 2	Freedom of movement for workers	Chapter 2
Freedom to provide services	Chapter 3	Right of establishment and freedom to provide services	Chapter 3
Free movement of capital	Chapter 4	Free movement of capital	Chapter 4
Company law	Chapter 5	Public procurement	Chapter 5
Competition policy	Chapter 6	Company law	Chapter 6
Agriculture	Chapter 7	Intellectual property law	Chapter 7
Fisheries	Chapter 8	Competition policy	Chapter 8
Transport policy	Chapter 9	Financial services	Chapter 9
Taxation	Chapter 10	Information society and media	Chapter 10
Economic and Monetary Union	Chapter 11	Agriculture and rural development	Chapter 11
Statistics	Chapter 12	Food safety, veterinary and phytosanitary policy	Chapter 12
Social policy and employment	Chapter 13	Fisheries	Chapter 13
Energy	Chapter 14	Transport policy	Chapter 14
Industrial policy	Chapter 15	Energy	Chapter 15
Small and medium-sized enterprises	Chapter16	Taxation	Chapter16
Science and research	Chapter 17	Economic and monetary policy	Chapter 17
Education and training	Chapter 18	Statistics	Chapter 18
Telecommunications and information technologies	Chapter 19	Social policy and employment	Chapter 19
Culture and audiovisual policy	Chapter 20	Enterprise and industrial policy	Chapter 20
Regional policy and co-ordination of structural instruments	Chapter 21	Trans-European networks	Chapter 21
Environment	Chapter 22	Regional policy and coordination of structural instruments	Chapter 22
Consumers and health protection	Chapter 23	Judiciary and fundamental rights	Chapter 23
Co-operation in the field of justice and home affairs	Chapter 24	Justice, freedom and security	Chapter 24
Customs union	Chapter 25	Science and research	Chapter 25
External relations	Chapter 26	Education and culture	Chapter 26
Common foreign and security	Chapter 27	Environment	Chapter 27

policy			
Financial control	Chapter 28	Consumer and health protection	Chapter 28
Financial and budgetary provisions	Chapter 29	Customs union	Chapter 29
Institutions	Chapter 30	External relations	Chapter 30
Other	Chapter 31	Foreign, security and defence policy	Chapter 31
		Financial control	Chapter 32
		Financial and budgetary provisions	Chapter 33
		Institutions	Chapter 34
		Other issues	Chapter 35

Source: the author based on officially data

During the accession and negotiation process both countries got assistance from European commission through programmes concentrate to support the Accession Partnership priorities that help the candidate countries to fulfil the criteria for membership.

4. Conclusions

My research focuses on the path to European accession followed by Romania and Turkey, starting from the point of Treaty of European Union, art. 49. Pragmatically speaking, the statement of "Europe is open to all the countries from the continent sharing its values and agreeing on following its common policies" (Prodi, 2001:34), should be completed with: "Europe is pen to all states [...] ending their accession negotiation" (Matei, Iancu, 2007). The two models of Europeanization, Europeanization by deepening and Europeanization by enlargement represent a constant topic on European public agenda. In this context, the fifth enlargement, but especially, the next stage of enlargement, including Turkey create a large controversy.

Within the Enlargement framework, accession policy aims to help candidate countries to reach European standards through the support of empirical projects. The enlargement process is a very dynamic and constant process of translation of the acquis, which is made by different actors, including different European actors and also the candidate country itself.

Despite the lure of the benefits of membership and a similar process for joining, there is considerable variation in the efforts by applicant countries to meet the European Union's requirements, and Turkey is a relevant example in this sense. Regarding the goal of this paper, the analysis reveals that the impact of negotiating is different, from one case to other. Nevertheless, the process point out several patterns link to its stages. For instance, sequence of opening and closings, where although we are expected to find more differences in the sequence of chapter opened by each country, the analysis shows certain similarities. This can be explained by the practical demands of organizing the vastly complex process of enlargement (Glenn, 2002:7). Concerning length of negotiations for each chapter, the data shows that the negotiation process is not a linear relationship, however enlargement could be seen as a technical process. In one country the negotiation on a chapter may take few month, while in other may take few years. The analysis performed in this paper, having as sample Romania and Turkey, stresses this patterns. On patterns of transition periods (Glenn, 2002), one could notice that in some cases the transition periods reflects the European Union's concerns about the consequences of enlargement, and in other cases the transition periods emphasis the concerns of candidate countries.

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The Problems of Economy Integration of the Republic of Moldova in the European Union System

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Abstract: The fundamental problem of integration of Moldova in the EU is the faster growth of the national economy than the European one, creating an appropriate financial basis, avoiding poverty and increasing the life quality. The strategy and policies of growth and association of Moldova in the EU was not based on modern economic scientific theories. As a result, the economic development has been carried out primarily on the wrong doctrine and increasing policy and wrong economic integration, based, primary, on social consumption, which has not given a positive effect of European association expected from the reforms implemented in recent years. In the article it is proposed a new approach of economic development and association of Moldova, namely: the main emphasis to be stressed on focusing the investments for primary development of the exporting agro-industrial sector, by strengthening and supporting by the EU of the research and development activity in this field, by innovation and technical transfer oriented to competitive agro-industrial production for export. Achieving these priorities considerably will increase the potential of local economic integration in the EU and will get out the economy from decline, creating a solid economic basis for reducing the poverty.

Keywords: European association and integration; agro-industry; export; economic imbalance; investments

Introduction

The theoretical foundation of social-economic policy of association and integration of the Republic of Moldova in the European family was the doctrine of economic integration and growth based on consumption and operated by remittances primarily from the countries of the European Union and Russia. This paradigm has led, in the process of European integration and association, to fast increase of non-productive expenditures, including social ones, supported by the Government of the Republic of Moldova and to increase the tax burden towards the economic growth and domestic economic potential and the diminish of association rhythm and European integration. Finally, the social-economic potential of integration essential was reduced towards the European. As a result, gradually worsened the problem of association and integration of the economy of Republic of Moldova due to the economic and social imbalances, market expansion and deepening the social -economic crisis. All

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these have led to the reduction of the economic, social and political potential in the European integration process.

But the problem of integration got worse and more once with coming to power in the years 2001-2008 of a left ruling party, which under the slogan "European vector" of soviet-type development, which pleaded for a more social orientation, for a cesionist state model of general well-being. This communist doctrine of development based on consumption has reduced to minimum the financial-economic premises necessary for the reformation and integration in the European Union. This government instead to reduce essentially the unproductive costs, has increased considerably the social expenditures, the pensions, introduced a number of social facilities and has admitted the direct involvement of the State in the real economy. This tendency, at first sight positive, has led to the reduction of accumulations and investments in the local economic potential, increasing the inflation and decreasing the revenue already obtained, deepening the crisis and increasing poverty. All these have put in danger the possibility of the RM to association and integration in the European Union.

Therefore, solving the problem of association of the national economy in the European Union, it is impossible without changing the doctrine of growth and establish a new paradigm of development, which implementation would connect the Republic of Moldova to the European economic system.

Materials and Methods

The general nature and the characteristics of new economic doctrine of growth and integration of the Republic of Moldova in the European Union includes multiple conditions, elements and levels which are partly stipulated in the Association Agreement.

The new paradigm of development and association of the Republic of Moldova in the European Union includes: local growth economy system and integration in the European Union; activation of processes and integration of the European and regional factors that influence the growth of the national economy, especially, in the conditions of global financial-economic crisis; Moldavian-European integration and development at the interdepartmental, departmental and local level; the growth and integration of the social-economic system of local and European development at microeconomic level.

These elements, levels and domains of new doctrine of development and Moldo-European integration are closely related, interacting and influencing each other. At the same time, dominated, the nucleus of new paradigm of growth and integration constitute the reforms and policies of development achieved in the economic system at the national level that influence and determine the stability and integration effect at industry level and concrete activity.

The problem of new doctrine of economic growth and Moldovan-European integration requires: the analysis of factors and the specific of economic association and development process; by overcoming the socio-economic crisis and poverty; highlighting the influence of international and regional factors on the national socio-economic system.

The content and the effectiveness of new paradigm of development and Moldovan – European economic integration policies lies in the reactions on the acceptance or non-acceptance of these policies by the civil society, economic agents, potential foreign investors and state intervention in the activity of economic agents and of integration in European structures. These doctrine and new policies of integration include, on the one hand, social-democratic elements of development, reform of the justice, the fight against poverty and corruption, development of civil society, merged, on the other hand, with economic elements of free market, antimonopolism, combination of oligarchy, etc.

The political basis of economic growth and European integration is overcoming the socio-economic crisis in the process of recovering the local real economic sector.

New doctrine of growth will include the elaboration and realization of the development strategy of the real economic sector and its integration in the European economic system requires solving a set of problems:

- Highlight and achieving of a free and stimulating policy of growth and integration of the local real economic sector as a component part of the European development policy;
- Encouragement by the Government of the Republic of Moldova and by the European States of innovations, scientific-technical progress and the priority human factor in the types of activity, that are relatively more advantageous in the open local economy;
- Speeding up the process of privatization of the economic sector monopolized by the state and local administration, pursuing the goal of demonopolization by direct participation of the structures of the European Union in this process;
- Boosting the structural changes in the real sector of the economy adequate to a market European economic structure. The local economic structure, the place of the small and medium business must be similar to the structure of the European economy;
- Highlighting the most advantageous branches for the Republic of Moldova in the international and European Union's trade, the implementation in these activities of European stimulating policies which will allow intensification and integration of the real economic sector in the European one.

The Communist government in place to achieve the new doctrine of economic growth and a new strategy of development of the real national economic sector, practically stopped solving the set of problems described above.

Results

In such conditions, as a result of the Communist Government in the years 2005-2008, in the economy of the Republic of Moldova appeared specific situations, which have led to a deep economic -social crisis, a vicious cycle and a system of problems of association and integration in the European Union. In response to diminishing the incomes of economic agents, as a result of increase of taxes and social costs, the citizens and economic agents have diminished their possibilities of saving, investment and economic integration in the European Union. As a result, there appeared conditions of worsening the economic stagnation imbalance of the process of integration, and these, in turn, have generated diminishing the financial support of future social services provided by the State and have led to the situation, when economic and social imbalances took a character quite profound and chronic. The Communist government in place to realize this critical situation and to change the policy of development and to associate with the European Union stopped the relations with the IMF and missed out the chance to take advantage of the facilities and grants offered by the European Union and international institutions. In these circumstances we had the only support from the part of Romania.

The social-economic system of the Republic of Moldova since 2005, getting in a such vicious crisis, as more efforts the government made to suppress the phenomenon of crisis, the imbalance and solving the problems of social need by increasing social expenditures and inflation, more gains weight this negative phenomenon. The social-economic and political imbalance, the contradictions and tensions in society peaked in 2009 and turned into antagonistic contradictions expressed in increasing the poverty, massive migration of the active labor force, forced change of the power, etc. The social-economic situation worsened more the problems of national economic integration in the European system, but also strengthened the civil society and confirmed the need of local association and economic integration in the European Union. The critical situation clarified and highlighted the unique direction of development that has no alternative-European vector and the integration in the European Union.

But, for the economic growth and association of the Republic of Moldova there is no more important problem than overcoming the social-economic crisis, reducing migration in the country of human labor, which is the greatest wealth of the country. The importance of the new paradigm and solving the problems of association and rapid integration in the European Union further increases, if we consider that the domestic economic potential, developed on consumption, consumed rapidly and essentially compressed and, figuratively speaking, is in a coma, and the social-economic system is bankrupted and is maintained due to the drops of the remittances pipette and those billions of foreign currency coming into the country from abroad with a much higher price, if we consider the disintegration of migrant families and destruction of the nation.

A special place in avoiding the bankruptcy of the Republic of Moldova belongs to EU and especially Romania.

Therefore, for the economic science and for the practical activity appears the most actual and important problem: to change the doctrine of growth and to speed the social economic reforms which constitute the basis of association and integration of the national economy in the European Union. Solving the problem of adherence of the local economic potential to the European one, is impossible without strengthening the society and changing the vector of development from CIS to the European Union and establishing of such a paradigm of social -economic development, which implementation would get the economy out of a coma and would connect to the European economic system.

Discussions

The Moldovan Society in the year 2009 for the first time convincingly gave voting power to achieve the economic growth and to associate and integrate the economy in the European Union. But unfortunately, the national economy since 2009 – the year of vestiture to power of the “Alliance for European Integration” and so far, is developed by inertia, practically on the same doctrine based on consumption growth, which obviously does not remove the economy from the deep crisis and not opened the doors to the European Union. It seems that some currents of the Government Coalition directly or indirectly support the development and Pseudo-Europeanization based on erroneous doctrine of economic growth. Because of the policies and actions of pseudo-association and pseudo-European integration primarily is based on consumption. The minority parliamentary coalition supported by the Communists, advocating the social consumption, policies and reforms implemented do not have the required effect and convincing to accelerate the process of complex integration of the social system in the European Union economy. This is confirmed by pro-European government practice, when strategic objectives such as airport or major commercial banks, and are ceded to the business of the CIS system.

The inconsistence policy of adherence and the European integration is reflected in the National Development Strategy “Moldova 2020” where it is emphasized changing the paradigm of economic development of the Republic of Moldova. This theoretic Strategy involves attracting investment, the need to develop the export industry of goods and services. Also it is emphasized the need to promote knowledge-based sectors. However, this strategy highlights attraction and diffusion of investments limited in a number of priorities, beginning with education, roads, reducing financial costs, improving business climate and ending with reducing energy costs, stable ensuring of the pension system, quality of health, justice etc., implementation of which, according to governing opinion, will lead to increasing the living standards, as economic priority direction and poverty reduction. Highlighting as a priority practically the all national economic system shows that this strategy does not differ at all from the previous strategy and other government programs.

In our opinion, increasing the investment in these priorities, unfortunately, does not support and cannot fully realize the transition to a new doctrine of growth, association and European integration since the development is based again figuratively speaking on “spreading” the limited investments primary on social consumption and not productive investment priorities.

This it is confirmed by the fact that most investments are directed to the above priorities that constitute the social sphere of consumption. There is a paradox, because it is declared a new paradigm of development, association and European integration based on investment in the productive sector, but in reality, investments are directed primary again in social sectors, although it is absolutely necessary and the development of these directions.

This shows that the association and integration of national economies in the European family will be deprived by an essential sustainable growth of the real economy.

In our opinion, for the real change of the doctrine of economic development and ensuring real integration and association in the European Union, in perspective, we propose that in the Development Strategy “Moldova 2020” and in the future, mainly to be focused on the development and integration primary of the exporting agro-industry system by strengthening research activities and development of this area, through innovation and technology transfer, oriented to deep and final processing of the efficient and competitive agricultural production for export. In such conditions, there will be made the real foundation of integration of the exporting agro-industrial system in the economy of European Union countries. At the same time, the European Union will directly influence the exporting agro-industrial system, supporting by innovation and technical -technological transfers.

The priority development of the exporting agro- industry and its integration into the economic system of the European Union may be carried out with the support of European countries relying on the doctrine of economic nationalism promoted still by the German economist F. List. This doctrine provides a number of concrete policies including the introduction of the protectionist system for this branch, changing the legal system in order to stimulate the exporting agro- industry, institutional and business environment reorganization, their conversion into national productive force in order to achieve this priority.

This doctrine was the basis of a significant change in the US, Germany and other countries. For example, as a result of achieving this doctrine and developing as a primary branch the machine building industry, Germany has become one of the richest and most prosperous countries in the Europe. The development of the exporting agro-industry requires the development of programs, including the Moldovan-European in the agro-industrial branches. Among these programs we can highlight processing of fruits in juices and dried fruits or sublimed. The Republic of Moldova has about one million tons of fruit of which 50 percent is not processed because of various causes (Russian embargo, their un-interaction, etc.) and spoiled. Another branch of European integration is the development of the program for producing branded wines, champagne and cognac. It's hard to imagine that a liter of ordinary table wine, peasants sell it for about 50 cents cheaper than a bottle of drinking water. Figuratively speaking much mind needs the Government to organize and stimulate collecting and transforming this wine into a wine brand, increasing 2-3 times the income. A special interest of economic integration would present the program of primary processing of the local tobacco and production of cigarettes, including flavors. Finally, it is necessary to develop programs for processing of sugar in candies and in other sweets. Unfortunately, the agricultural products mostly are exported as raw material and are returned thoroughly processed with a price 3-5 times higher.

Achieving the integration of exporting agro-industry in the European Union requires stimulating the integration process and implementation of these programs according to the practices of free economic zones; amending the legislative framework towards real protection of this branch. It is necessary to introduce a system of protectionism for agro-industrial products; duty-free of production means and advanced technologies, patents and other important innovations for the agro-industrial system. It is also necessary to grant loans in the agro-industrial system with an interest rate of 0.25%; creating a joint bank with state share up to 49% to attract financial resources of the population and economic agents. It is also necessary to create a branched system of small banks in the agro-industrial sector which would focus investments from remittances in priority sectors; would issue common and preferred shares (with a fixed interest rate of up to 15% in banking system and agro-industrial programs).

It is necessary that the assistances of the European Union and other global institutions and internal resources from other branches, including agricultural subsidies, while 2-3 years, to be focused primarily on the agro-industrial system to save the domestic economic potential.

Conclusions

Developing the exporting agro-industrial sector and its integration in the European structures will give the possibility to build roads, to increase wages and pensions and to achieve other priorities that are highlighted in the National Development Strategy “Moldova-2020”. The implementation of these priorities and programs can considerably increase the economic domestic potential and to get the economy out of the coma, creating a solid financial -economic basis for avoiding poverty and increasing the standard of living of the population, the real association and integration of the economy of the Republic of Moldova in the EU economy.

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Towards the Importance for Sustainable Development: Case Study: Albania

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Abstract: Information has become an important element without which society cannot achieve its objectives. The term "information society" is increasingly used nowadays, because of the importance and necessity of information in today's dynamic environment. Western countries are convinced that the information society will result in economic and social benefits (Audenhove 2000). Organization for Economic Cooperation and Development (OECD), notes that information infrastructures are expected to stimulate economic growth, increase productivity, create jobs, and improve on the quality of life (Gichoya 2005). It is for these reasons that many studies state that the role of ICTs as enablers of sustainable development is growing. The overall goal of this paper is to point out the importance of ICT market development for the sustainable development of all the economy and the final development of Information society, especially in developing countries, where Albania is the case study illustration. The first step of this research is to show the importance of studying ICTs in the light of building an information society. In fact, the efforts of a country to build an information society, in order to benefit in terms of sustainable development, are closely related to the efforts of building strong information infrastructures and a growing ICT sector. Many indicators related to Information society measurement deal in fact with the infrastructures needed and the products and services of ICT sector. But, failures to submit ICT in contexts which are contrary to techno-economic rationality are reflected in many cases in developing countries. Thus, a defining characteristic of this research is to understand the contexts that confront ICT and information systems development in developing countries in terms of their conditions. In fact the development of ICT sector, depend not only on the political, economic and social conditions of each country, but also on the phase of e-readiness of the society. Measuring the readiness of this society to enter in the information and electronic age is very important, in the context of sustainable development. The methodology of this research includes two steps: analyzing secondary data about Information society and ICT market development in Albania, analyzing questionnaires directed to ICT market firms about the most important factors that are affecting today the development of ICT sector. New emerging technologies, such as broadband, wireless networks, cloud computing etc., are always changing the environment of ICT sector and the infrastructures used. Financial forces and investments are playing an important role when speaking about the research in this field. But the future challenge, especially for developing countries will be the decision to better interaction between private operators and public policies, inciting the ICT sector or the private investments oriented through more services and infrastructures for developing successfully an information society.

Keywords: Sustainable development; e-Marketing; ICT market

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1. Introduction

Based on United Nations, The World Commission on Environment and Development (Brundtland Commission) (1987) sustainable development is definition emphasizes on the concept that current generations should meet their needs without compromising the ability of future generations to meet theirs, and the debates of the Millennium Summit as presented by The United Nations Development Program (2001).

Vallega (2001) explains that sustainability is intended as the result of the contextual pursuit of (i) the integrity of ecosystem, (ii) the efficiency of the economy, and (iii) social equity, including the rights of future generations. Similarly Hughes and Johnston (2005) address sustainability through three major components: continued economic growth and human development, protection and extension of social capital with a special emphasis on social equity, and protection of the natural environment.

As we can see, sustainability can be achieved if society focuses on using the right models and means that assure growth and economic efficiency, social equity and environment protection. In this regard the role of information usage in the society is crucial. For this reason, the technologies that foster the use and the processing of information are considered nowadays, of primary importance for the development of the society. ICT is now part of development. The debate in the 1990's over choosing between ICT and other development imperatives has now shifted from one of tradeoffs to one of complementarities (Markle foundation 2003). Many examples show the impact of ICTs in the three areas related to sustainability.

We will have the possibility to show some of them in the section of literature review, to illustrate the relationship between sustainable development (in the three areas above) and the use of ICTs.

The efforts of many societies to use ICTs for the purpose of development have been integrated in the strategies for sustainable development of the countries and also in different action plans. To properly benefit from the use of ICTs there is need for the development of infrastructures and access, which is different in developed and developing countries. This leads to the concept of e-readiness. So the importance of studying e-readiness and the relationship with ICT sector and ICT market becomes very important in this regard. But, failures to submit ICT in contexts which are contrary to techno-economic rationality are reflected in many cases in developing countries. The literature review will help in developing a conceptual frame for the importance of Information society and e-readiness in the sustainable development. The place of ICT sector in this frame should be emphasized. A defining characteristic of this research is to understand the contexts that confront ICT and information systems development in developing countries in terms of their conditions. The case study of Albania, as a developing country, can help in a proper illustration.

2. Literature Review

2.1 The Role of ICT in Building Information Society And Sustainable Development

Western countries are convinced that the information society will result in economic and social benefits (Audenhove 2000). In a society where the information and knowledge are of vital importance for the purpose of development, the role of ICT is growing.

The term "information society" is increasingly used nowadays, because of the importance and necessity of information in today's dynamic environment. The 21st century is a period of economic, social and technological transformations that facilitate development of the new society that is referred to as the information society (Bell, 1973; Drucker, 1993; Tofler, 1980). The very notion of the information society was firstly used in the sixties, by a Japanese economist named Tadao Umesao. He paid much attention to the role of information and technology in the development of civilization. Literature of the subject provides different interpretations of the information society term. For the purpose of the research it is assumed that the information society is some society whose development is largely determined by utilization of information and knowledge and by diversified information and communications technologies (ICT). It is believed that in case of the information society, information is a fundamental resource and the national income generating source.

So, ICTs play the role of an enabler of development in several respects, cross-sector productivity and economic growth, specific social development goals and political participation and good governance, taking the society in the phase of Information society.

The World Summit for the Information Society (WSIS) is specific in its Declaration of Principles, ―Building the Information Society: a global challenge in the new Millennium. WSIS says it views ICTs as powerful instruments for productivity and economic growth through job creation and employability, leading ultimately to improved quality of life overall. The Global e-Sustainability Initiative (GeSI) considers extending the influence of ICT to all aspects of socio-economic development and applying these technologies to both rich and poor countries in order to achieve the strategic principle of sustainable development across the globe (WISIS 2012) .

Organization for Economic Cooperation and Development (OECD), notes that information infrastructures are expected to stimulate economic growth, increase productivity, create jobs, and improve on the quality of life (Gichoya 2005). The United Nations Development Program (UNDP) says, ―ICT is an increasingly powerful tool for participating in global markets; promoting political accountability; improving the delivery of basic services; and enhancing local development opportunities (http://www.undp.org/) ‖ as reported in GeSI (2008).

As a result of this discussion, it can be seen that the use of ICT is at the center of Information Society, the development of which in turn will lead in a sustainable development of the society.

2.2. IT and Sustainable Development

When we talk about the macro level, we are referring to the sustainability impact that arises out of the application of ICTs across society (Bengtsson and Agerfalk, 2011; Erdman et al., 2004; GeSI, 2005; Melville, 2011; Watson et al, 2010).

In some cases ICT is of direct benefit to the goals of sustainable development, and in others detrimental. In most cases, however, the overall effects will only become clear in the medium to long term. It is shown that despite its great potential, ICT is not in itself a force for sustainable development, but has both positive and negative effects. In order to maximize the positive effects and minimize the negative, the development and application of ICT should be guided by policy makers in government, business and civil society. (EITO 2002)

Economic efficiency is supported by ICTs since have considerable potential to cut administrative costs through the reorganization of internal administration and through alternative provision of services. The electronic availability of public information can be of major assistance to small and medium-sized enterprises (SMEs) in administrative procedures for export, import and business opportunities.

ICTs can constitute tools for *social development* like citizen involvement, soliciting feedback, and promoting private sector partnerships in development and testing of delivery mechanisms (Tang 1997). Different ICT applications have the potential to improve the quality of life for citizens also in developing countries, where a particular focus is on the areas of basic human needs (health, education, water, food).

A study claims that ICT diffusion accounts for up to 90 percent of the increase in the Human Development Index (HDI) observed in some nations. It is clear that ICTs have an important role to play in fighting poverty and in achieving the MDGs . The use of ICTs for educational purposes has been described as a paradigm shift in education owing to the focus on learning, rather than on teaching, the latter being a model, which concentrated on the teachers and their knowledge. Instead, emphasis on the learner means that they can devise a `personal learning action plan' (Bargellini 1997) to tailor knowledge and training to their own pace and style.

Environment conservation initiatives in all parts of the world greatly benefit from the networking and information exchange facilitates enabled by the use of ICTs in their aim to encourage compliance with environment clean-up and pollution prevention. The Sustainable Development Networking Program (SDNP) was established in 1989 to facilitate information exchange between users and suppliers of information in developing countries. Expectations are high that progressive innovation in information and communication technologies (ICTs) can be harnessed to sustainable development and, specifically, to environmental sustainability, goals. In the environmental domain, ICTs can foster sustainable development by enabling better resource and energy use and by dematerializing transactions (GeSI, 2008a; Harter et al., 2010).

A framework that summarizes the impacts and opportunities of ICT and sustainability has not been yet conceptualized by the research to date. Without such a framework, determining how to maximize the potential opportunities and minimize the negative impacts of ICT and sustainable development is problematic.

2.3. IT Sector and Sustainability

While it is clearly in their *application* that ICTs hold the greatest potential for economic and social development, many governments are actively seeking to spur domestic economic growth by nurturing the emergence of local ICT *industries*. A new market emerged and is growing very fast. This is hardly surprising, as the remarkable expansion of the ICT marketplace in recent years has generated millions of new jobs and billions in additional tax revenues, growth that has benefited nearly every region of the world. Many developing countries also perceive domestic ICT industry growth as an effective means to achieve related development objectives, including to attract foreign direct investment, provide a basis for technology transfer, satisfy local market demand for ICTs, and generate further growth in upstream and downstream industries (such as marketing or financial services).

There is a need for the ICT sector to drive energy and resource efficiency in its products and services to reduce the direct impact of ICT on the environment in areas such as material usage, manufacturing processes, supply chain transportation, product usage efficiency and end-of-life considerations.

At present a great deal of the research focuses on the impacts and opportunities created by the existence of ICT and the industry’s processes and procedures. These include the design, manufacture, operation and disposal of ICT. However, there is a great deal more to ICT than direct impacts alone. Some of the most important impacts come from how these technologies are applied.

There are, however, additional risks and complexities involved. Developing countries are a long way away, with different standards and different commercial and cultural realities. Quality control, traceability and accountability can be difficult to maintain in extended supply chains.

3. Methodology

After a thorough examination of literature review, the aim is to illustrate how the concepts of Information society, and ICT sector relate to sustainable development. The methodology, for this aim, includes two steps: analyzing secondary data about Information society and ICT market development in Albania, analyzing questionnaires directed to ICT market firms about the most important factors that are affecting today the development of ICT sector.

First of all, the necessary indicators for the Information society are analyzed. The Organization for Economic Cooperation and Development (OECD) started developing statistical standards for information society measurement about 10 years ago, through its Working Party on Indicators for the Information Society (WPIIS), which provided statistical standards for measuring IS through discussion with experts in the following areas WPIIS main achievements to date are:

- Industry-based definitions of the *ICT* sector and *content and media* sector
- An ICT goods and an ICT services classification (based on the Harmonized System and CPC
- Narrow and broad definitions of electronic commerce transactions; and
- Model surveys of ICT use by businesses and households/individuals.

An important distinction when considering ICT indicator is the one between access, usage and impact.

Impact indicators capture the impact of access and usage on economic growth, employment creation, improvement in public service delivery on a macro level; and company performance, household poverty levels and social inclusion on a micro level, to give just a few examples.

This is the level at which ICT indicators link to sustainable development, to focus only on the ICT sector development as part of its impact on information society and its measurement.

Another important indicator developed by ITU is the ICT Development Index (IDI), which is based on several indicators that are considered essential in terms of measuring ICT developments and Information society. The sub-indices on which the IDI is based further provide policy makers with the opportunity to identify strengths and weaknesses and to adapt and develop policies accordingly.

According to ITU (ITU 2009), ICT development process and a countries transformation to become an information society, can be depicted using the following three stage model:

1. *ICT readiness reflecting the level of infrastructure and access (Access sub index*
2. *ICT intensity reflecting ICT use in the society (Use sub index)*
3. *ICT impact reflecting the impact/outcome of Efficiently and Effectively ICT (Skills sub –index)*

The data about IDI in Albania and a comparison with world average data is given in the section 4. Than, according to the areas that IDI indicates, the questionnaire is directed to 50 managers of ICT firms in the country to identify most problematic areas in development of ICT sector and Information society in relation to sustainable development.

4. Albania as a Case Study for IT Market and Sustainability

In the industrialized countries, there is a rapidly growing literature on the potential of innovative ICT applications and on the organizational, social, political, and economic conditions that are likely to support their ejective use. This literature is playing an important role in generating interest in the ICT revolution. It is helping to bring representatives of the policy, supplier, and user communities together to discuss policy issues and to seek new ways of capturing the potential social and economic benefits of ICTs.

In the developing countries, there is also a growing literature but it is more fragmented, and often restricted to sector applications or to country specific interests. It is difficult for decision-makers in developing countries to access systematic information about the potential applications that are being developed and implemented and to consider how they could be applied to meet their own development needs. For these reasons and others related to the conditions and development of information infrastructures in developing countries, measurements are difficult to achieve. The situation of Albania will be the illustrative case. Even there is not yet any overall measurement of information society in Albania, development of information society or e-government in Albania has been part of the reports and studies done in global level by ITU, UN or other regional surveys. In national level there are some surveys done recently linked with e-government services, such as surveys done by Institute for Development Research and Alternatives (IDRA) on specific services such as e-taxes, e- procurement or licensing center. There are also different statistical report published by AKEP (Agency for Electronic and Postal Communications), but they include mostly telecommunication indicators, access and connectivity figures. There are some presentations done by National Agency for Information Society (NAIS), on e-government development as service offered, but there is not any overall measurement done considering usage of e-services, the way or reason of their usage etc. there are some indicators related with ICT included on the enterprisers survey done by INSTAT, but not any specific survey focused only on information society. Based on the figures, published on surveys and reports of UN and ITU we will give below the situation of Albania regarding IDI index during the years. As it was mentioned above, ITU has developed for some years IDI Index of ICT Development in order to assess the development of information society.

The following table 1 provides the IDI index for Albania compared to the World IDI average over time. According to ITU “Measurement of information society 2013” Sweden ranks in the second place, being the most developed country in Europe. The Republic of Korea is in the top of the list (ITU 2013).

Table 1. Albania IDI and sub-indexes, comparison with world avg data

	2002		**2007**		**2008**		**2010**		**2011**	
	World Avg	**Albania**	**World Avg**	**Albania**	**World Avg**	**Albania**	**World Avg**	**Albania**	**World Avg**	**Albania**
IDI	2.48	1.92	3.4	2.73	3.6	2.99	3.94	3.61	4.15	3.79
Access sub index	2.68	1.87	3.91	2.83	4.05	3.05	4.53	3.32	4.46	3.59
Usage sub index	0.54	0.01	1.43	0.63	1.75	0.91	2.16	1.69	2.47	2.17
Skills sub index	5.95	5.82	6.31	6.69	6.49	7.04	6.5	7.38	6.51	7.38

Source: ITU data

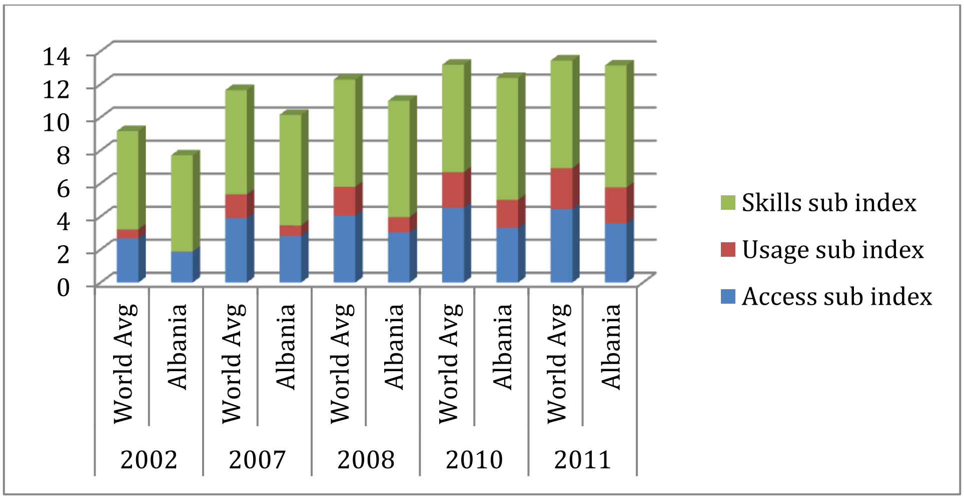

Figure 1

As the table 1 and figure 1 show, Albania is below the World average of the IDI index, but also show a progress in the Information Society development since the IDI values have increased in the last 10 years. This progress is done more on the usage sub-index, and less on the skills sub-index., as shown in tale 2. The data show a big increase of 62 times, in the usage sub index for the years 2002-2007, since ICT use was scarce in the first years of economic development in Albania. The country came from a situation of economic and political problems in the first decade of market economy 1990-2000, because of the problems of the former socialist regime. The use of ICTs began after the 2000 and this is the reason of such increase till 2007. Even in the next years (2007-2011) the usage sub-index shows a raise more than the other components. So, the development of Information society depends more on the usage component, while access component is developed in a lower extend, but the lowest developed is the skills component.

Table 2 Raise in IDI and its components according of figures of ITU

Years	2002-2007	2007-2011
IDI	0.42	0.28
Access	0.51	0.21
Usage	62.00	0.71
Skills	0.15	0.09

The focus on ICT usage and access, on the other hand may raise the question about the positive or negative impact of usage of ICT on the environment and the economy.

4.1 Impact of IT Companies in Sustainable Development according to Questionnaire Results

The questionnaire showed some results about the most important aspects that ICT companies that are actually offering products and services in the ICT market in Albania, that can impact the sustainable development.

The figure one shows the services offered by the different ICT service operators in the sample. It shows the nature of ICT market in Albania, which relies more on hardware trade and assistance, Internet connections and technical assistance. In fact Albania is not known for any kind of production in ICTs and the market is dominated by ICT services.

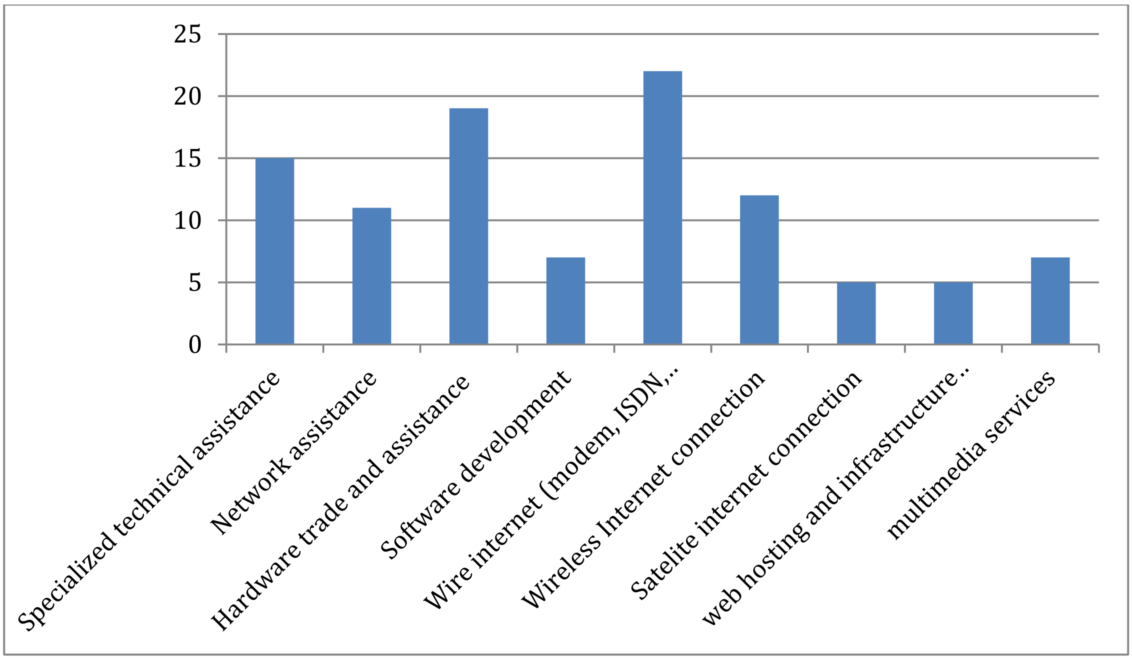

Figure 2. Type of services offered in the IT market

But the natures of companies that operate in this market are in most of the cases diversified, offering a range of products and services. So the portfolio is composed most by hardware trading that make 43% of the revenues, while 38% of them is made by Internet services. Only 25% of the revenues come from technical assistance services, offered most of the time together with ICT products. This is shown in figure 2. The figures are compiled as averages of those companies that have listed these as their main services

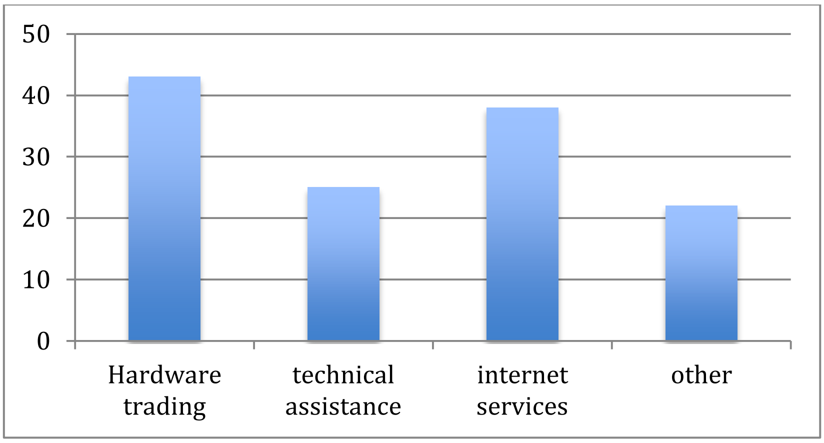

Figure 3. The weight of the product/service according to revenues in the company portfolio

The interviewed also listed the company factors that are affecting, in their perception, the sustainable development. These factors are related to their company supply in the ICT market. So, as figure 3 shows

The knowledge of the market impacts positively in the sustainable development. Modern technologies also have a positive impact, since the newest technologies are also protecting the consumer and the environment, dealing with more efficient operations. Related to the investment that must be done not only for supplying the product and service, but also for taking the appropriate measures related to sustainable development, the third factor is ranked the financial budget and investment. The know-how of IT staff is also considered, but in a very low level of impact, while other factors listed in the questionnaires are the application of technologies by the customers and the legislation about the process requirements in the sector.

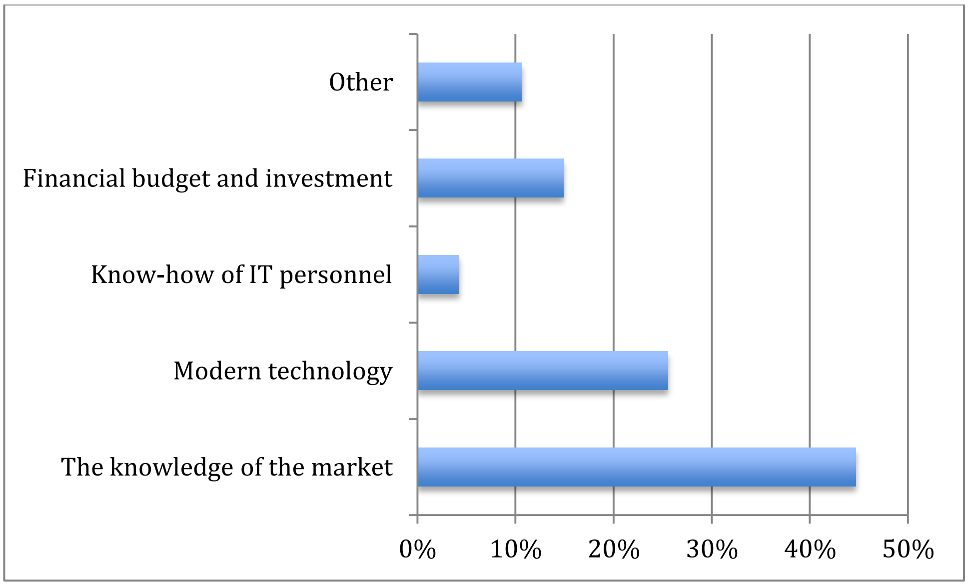

Figure 4. Factors that are positively affecting sustainable development

On the other hand, 45% of interviewed have mentioned the unfair competition as an element that risks the sustainable development. It is most probably related to problems in developing countries, where unfair competition is more present because of their stage of development, especially in new sectors such as ICT. According to their explanations, unfair competition causes problems with costs and prices, leading so in the inability to focus on sustainability issues for those companies that are willing to do so.

Financing and new technologies are also listed as factors that may cause possible risks, probably for the lack of knowledge for dealing with new technologies and the lack of budgeting. Other factors such as legislation, communication and energy are less mentioned.

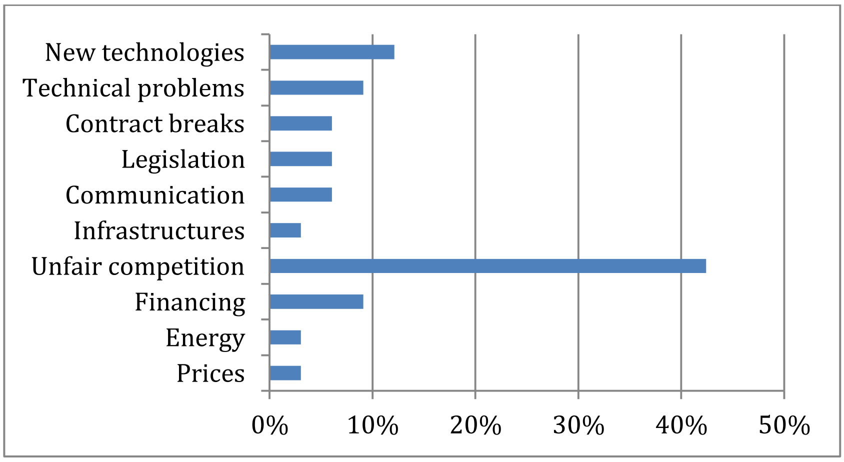

Figure 5. Perceptions of Risk of negative effects of ICTs

6. Conclusions and Future Research

It is widely accepted nowadays that ICTs play the role of an enabler of development in several respects, cross-sector productivity and economic growth, specific social development goals and political participation and good governance, taking the society in the phase of Information society. It is a new phase in which society depends mostly on the information spread and utilization. But the overall goal of the society nowadays are linking more with the sustainable development concept, since the need for not compromising future developments. ICT s and Information infrastructures are impacting positively in sustainable development through stimulating economic growth, increasing productivity, creating new jobs, and improving the quality of life for the citizens.

Even though, ICTs are of direct benefit to the goals of sustainable development, in other cases they are detrimental. It's the medium and the long term which will show The overall effects will only become clear in the medium to long term. It is shown that despite its great potential, ICT is not in itself a force for sustainable development, but has both positive and negative effects. These effects can be identified first of all in the new emerged market of ICT product and services, which development contributes in the Information Society Development. The development of ICT market is considered to be important for the information use and management especially in developing countries. But the implementation of the right policies to benefit from ICT market development in the light of the sustainable development and Information society, depends on many factors.

Albanian ICT market, as a case study in consideration, has been studied to gather information about the phase in which the Information society development is. Indicators show that Albania has done a lot of progress in areas such as usage of ICTs, but has done less in developing the right skills about the usage. The access component of the Information society is moderately developed. The point of view of Company managers and/or owners is reflected in this research as one of the important aspects to be taken in consideration by the right policies that should be undertaken to ensure sustainable development through ICTs. The factors that are listed in response to this research are divided into two groups, those with positive effects and those with negative effects. The better knowledge of the market and the newer technologies used contribute to positive effects on sustainable development according to specialists in ICT market. While, problems may be caused by such factors as unfair competition, technical problems, financing etc. Still remains the question about a possible relationship between the phase of development of a country, its Information society development phase and its sustainable development focus on one hand, and the most important positive and negative effects as perceived by the ICT actors in the market. A more in depth research must consider also the users consideration about the use of ICTs and sustainable development.

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The Insights on Polish E-Commerce – The Present State and Proposed Solutions

Janusz Grabara[1], Bartłomiej Okwiet[2], Paula Bajdor[3]

Abstract: The main objectives of this papers is to presented the current state of Ecommerce in Poland, together with the current state description and future development. Ecommerce sector is continuously spreading and its tools and techniques are used by both businesses and individuals. While in the case of individual physical entities, the polish government does not give any specific proposals, but in relation to the company, national efforts are aimed at even greater dissemination of Ecommerce in everyday business. While 94% of Polish companies have access to the Internet, only 65% of them have their own websites. And having an own website is a very first step to use the possibility of Ecommerce. This article focuses on the characteristics of Polish Ecommerce industry, but also presents visible trends, with emphasis on the E-point, as a tool, that has a strong impact on supporting the development of Ecommerce industry in Poland.

Keywords: Internet; enterprises; Ecommerce; E-Point

JEL Classification: L86; L81; L96

1 Introduction

The common use of the internet and its services, is increasingly linked with our lives. At the same time the role of the Internet in business increases. Small and medium-sized enterprises, that actively use the Internet tools, are able to quickly increase revenues and employment, and obtain greater reach and exports. 95% of companies have Internet access, and two-thirds has its own website, although it is mainly used for the presentation of its products and services without possibility to sell online[4]. More and more people see the company through the prism of its website. Not having an own website has a negative impact on the credibility of the company. But the data shows that, unfortunately, not all companies see the potential of this channel. The economic importance of the Internet is quite important, as a communication and information environment, that enables the capture of information on trade offer, exchange of opinions and recommendations. The Internet has become a crucial source

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[4] *Społeczeństwo informacyjne w Polsce/ Information Society in Poland 2013,* Warszawa, p. 2-12.

of information for the procurement process[1]. Consumers are actively looking for information on the Internet, in particular data on goods and services. Polish customers are the European leaders in terms of the number of queries per Internet user. The value of goods purchased in the traditional way, but its prices were checked in the Internet by the users, reached 26 bln PLZ in 2010. This represents more than 80% higher than the value of goods purchased by the Internet directly[2].

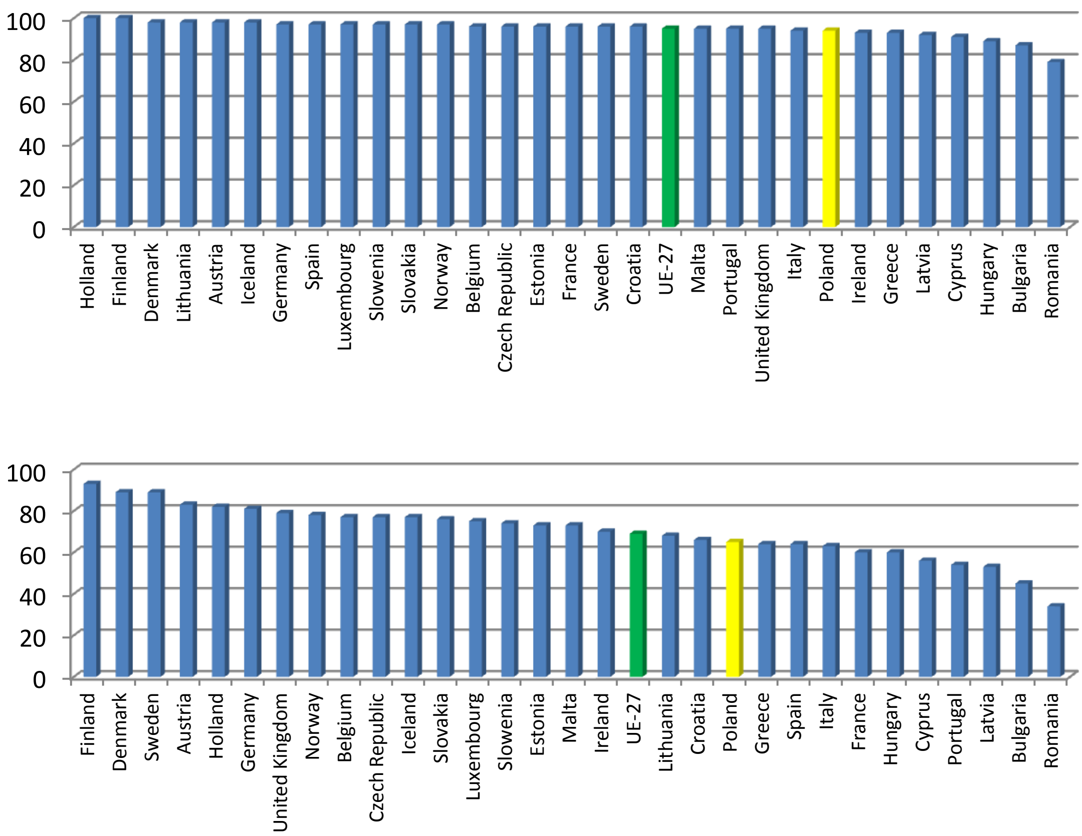

Figure 1. The use of ICT technologies - enterprises with access to the Internet (above chart) and enterprises having own website

Source: Authors' own work based on Eurostat

The Global Perspective on Retail 11 Report found that the most developed market for online commerce is Great Britain, which slightly is ahead of the United States - the largest e-commerce market (in 2012 the value of goods sold in the United States amounted to approx. 187 billion, which accounted for nearly one-third of the global online sales). United Kingdom, its position owns, primarily to the volume of sales online - both total (55 billion USD) and 1 per capita (USD 869 in 2012.). The potential of this market also provides a significant share of the Internet market in retail sales in the country (9.7%), the dynamic growth of the market in recent years, as well as openness to new technologies. (Tarnawa & Zadura-Lichota 2013, pp. 1-184)

Enriching themselves middle class, young population and high foreign direct investment are the most important factors of the development of emerging markets. This is an opportunity for growth also for

[1] *Polska internetowa. Jak Internet dokonuje transformacji polskiej gospodarki/ Polish Internet. As the Internet is transforming the Polish economy.* The Boston Consulting Group, 2011, pp. 10-20.
[2] *E-commerce ecommunication. Rola komunikacji w handle elektronicznym,* IAB Polska, 2013, pp. 1-13.

the luxury goods market, as enriching themselves middle class in these regions are looking for defined good and rooted global brands. (Lis, Lis & Grabara, 2009, pp. 881-889)

2 E-commerce in Poland – the Main Characteristics

E-commerce market in Poland is one of the fastest growing in Europe, despite a slowdown in the real economy. According to the SMB, Kelkoo and Forrester Research, the value of B2C e-commerce has increased in 2012 by nearly 23%, reaching a value of nearly 21.5 bln PLZ[1]. This result is a 3.8% share of the total trade. In the overall ranking of the most advanced e-commerce markets in the world, contained in Global Perspective on Retail, Poland has 28 place, behind Russia and Turkey, but ahead Spain. In terms of value of online sales in 2012, Poland was ranked on the 15 place in the world, with a score of 4.86 bln USD, while in terms of market size, has 17 place. In a statement on the volume of e-sales per 1 inhabitant, our country reached the 25th place. Online sales represents 4.6% of total sales, which gave Poland 14th place in this category. A good result (15.2%) also obtained the growth of online sales in the years 2007-2012. Indicators, that have decided about Poland's lower positions, has related to infrastructure, cyber security, the percentage of Internet users and the number of credit cards per person. On the Polish market, have seen a considerable increase in the importance of sales via the Internet, which is treated as another distribution channel in most industries. This applies especially to electronics and multimedia[2]. Polish fairly distant place in the ranking of Cushman & Wakefield, is primarily due to the small Internet access and our habits. Development of technical infrastructure, reducing the proportion of digitally excluded people and the younger generation entering the market, will help to close these differences.

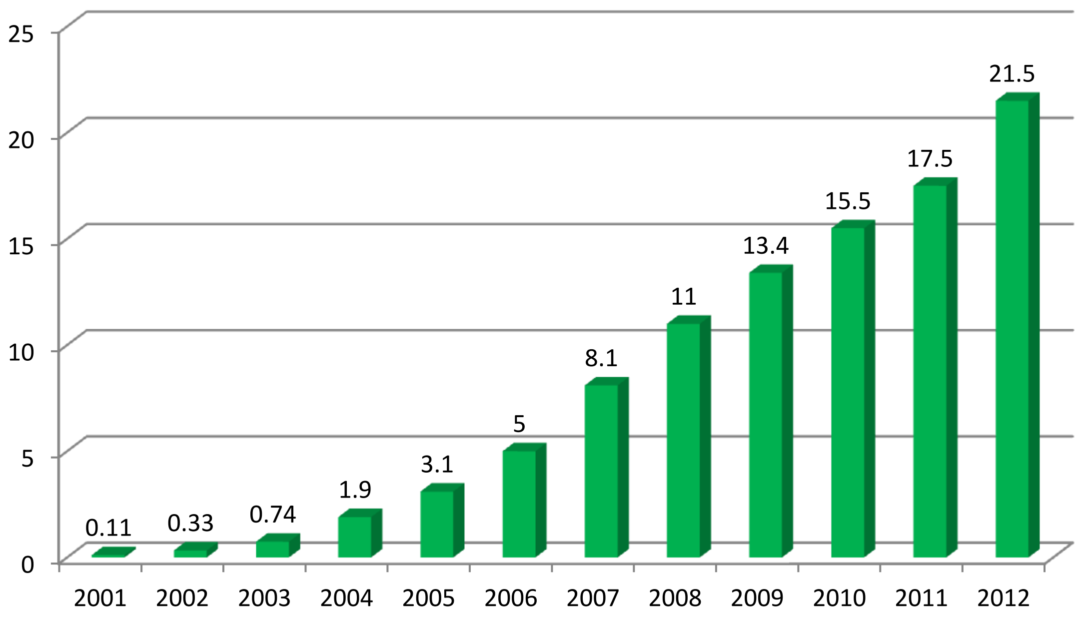

Figure 2. The value of polish e-commerce market (in bln PLZ)

Source: Authors' own work based on Forrester Research.

[1] *Europe B2C Ecommerce Report 2013,* Ecommerce Europe 2013, pp. 1-19
[2] *Global Powers of Retailing 2013,* Retail Beyond, Deloitte, 2013.

The chart above reflects the change, that has taken place in the e-commerce market in the course of the last decade. It may be recalled that back in 2002 the Polish e-commerce directed at consumers was worth only 330 million PLN, or about 1.5% of the value of 2012. Forecasts for 2013 were optimistic - estimated another double-digit percentage growth in market value and according to some forecasts even achieve a value of 26 billion PLN (we are still waiting for the report including year 2013 and 2014).

3 E-commerce Trends

A key trend that is currently being watched, and whose role will grow, is the development of the mobile sector. The dynamic development of mobile devices (especially smartphones and tablets), their widespread use and the growing demand for them, makes it so m-commerce gradually increases its market share. In Poland in 2013, 8 million smartphones were used (about 2 million more than in 2012), Which means 31% of the market penetration. The increase in the number of devices, we can use to browse the web, imposes a different approach to creating websites. Given the above, it becomes more and more common to use a new approach to design websites - so-called. RWD (Responsive Web Design). (Brzeziński, 2012, pp. 11-17) It allows creating websites with customized navigation system and method, according to the screen size of the device on which the web page is displayed. Each version of this site has the same content, which may be arranged in different ways, in each case providing the convenience of reading and navigating. In Poland, the number of transactions using mobile devices in 2011, increased by 7%. It is estimated that the value of these transactions in 2011 amounted to 640 million PLN, or nearly 4% of all online purchases. Mobile devices are currently only a few percent of the entire structure of the movement, but after a few years of dynamic, three-digit growth (over 100% per year), will represent a significant part of any internet business[1].

Taking into account the above trends, most banks, mobile operators, retailers and independent payment providers are aware, that they are the future of mobile payments, because devices such as smartphone, will shape the new business model in payments. Reflecting this trend are the results of a report by McKinsey & Company24, which published a list of 12 technologies that will change the world. According to the authors of this report, in 2025, mobile Internet may obtain the impact on the economy of up 10.8 trillion USD. Among the key technologies were also The Internet of Things, that is, the use of the Internet in everyday objects, as well as cloud-based technologies. (Bajdor & Lis, 2014, pp. 40-47)

A significant role in e-commerce, both globally and in Poland, social media play, among which the decisive role Facebook plays. It is difficult to point to a credible number of users of this service, as part of a fictitious accounts. Some data shows, that in terms of the number of users on the Facebook global list, Poland is on the 23rd place with approx. 10.7 million active users. There are also data, according to which the number is less than 9 mln. There is no doubt, that social networks play an important role in the business. In Poland, approx. 40% of Internet users has an account on the social networking site, while 86% of companies have a Facebook profile. It is emphasized that “social media” should not be used solely as an advertising channel. They have a much wider application, including in the interaction with the customer or as a consumer service. (Kot, Ślusarczyk & Starostka-Patyk 2013, pp. 78-90)

[1] Zanox Estimations, http://webhosting.pl/Polski.rynek.m_commerce.rosnie.najszybciej.w.Europie.raport.zanox

The challenge for e-shops will be a large number of changes, made in a relatively short period of time. These changes relate to, inter alia, new disclosure obligations to customers, increase the time , which consumer has to return the goods purchased over the Internet, without giving a reason (from 10 to 14 days), more precise records of shipping cost. Therefore, existing systems and sales procedures will be modified as well. Polish stores will also have to adjust to the new EU rules on alternative dispute resolution. They use an independent non-governmental institutions: consumer rights advocates, arbitrators, negotiators for the settlement of disputes between the seller or service provider and the customer. One of the tools is an online dispute resolution system, which will facilitate the procedure when the parties are from different countries, and there is a language barrier between them. Put simply, the functioning of the system is the possibility to complain (in the language) by the consumer through the this. After notifying the seller of the complaint, the parties will establish competent entity, which will assist in resolving the dispute. The platform will increase consumer confidence in online shopping, which is particularly important in cross-border shopping. In addition, consumers and retailers will avoid the costs and judicial procedures. (Łodziński & Brzeziński, 2013, pp. 90-97)

The new rules will bring about unification principles of e-commerce in the EU, which will be an opportunity for e-sellers to attract new groups of customers, especially from abroad. Proper implementation of the new rules, a good preparation of entrepreneurs and open to an amicable settlement of disputes system, will provide the development of e-commerce in Poland. (Stefko, Dorcak & Pollak, 2011, pp. 214-222)

Important for the e-commerce in Poland, was created in January 2013, Chamber of E-commerce Poland. In a short time, it expressed its support for the 110 entities. Among the signatories of the Statute of e-Chamber includes both large companies - market leaders in e-commerce, small and medium-sized enterprises, as well as the newly created entities. The aim of the organization is to develop the Polish market of services provided electronically, through the identification of needs, education and exchange of know-how, as well as representing the common interests of the e-commerce in the legislative process. Chamber of E-commerce Poland is a forum for discussion and a place to exchange experiences, also has a real impact on the development and image of the entire industry. It takes steps towards establishing uniform procedures and standards of performance across the e-commerce sector. A significant role in the dynamic development of e-commerce are also educational initiatives, that organizations take the IAB Poland (Interactive Advertising Bureau). They are supposed to wide-ranging education market in the methods of effective use of the Internet. An example of this kind of action is to create guides for shopping, organizing workshops and thematic conferences. They help in removing the barriers faced by newly-listed vendors on the Internet market. This is an important element of the use and development potential of the Polish e-business.

4 E-point as a Tool to Support E-Commerce Development

E-Point (Point of Contact for Service Providers and Clients) is a plane serving settlement legislation and issues related to e-commerce. It is run by the Polish Agency for Enterprise Development in September 2010. The main tasks of e-POINT should raise awareness of legal and practical issues related to Internet services, in particular in terms of contractual rights and obligations, as well as on the complaint and redress in the event of disputes, including information on the practical aspects related to the use of these procedures. These actions are intended to facilitate doing business with the use of ICT by businesses and to support safe and free exercise of these companies offers their customers. It is also important to popularize the use of e-skills in business transactions. These objectives are realized through a website. This site contains information and advice on the electronic trading rights, including topical articles, news, legislative base, e-books, videos from e-seminars conducted and the form to ask questions, through which you can ask a question regarding to electronic trading issues. E-POINT activities are addressed to anyone, who in their professional or personal life, use the Internet. Service providers can use the information in the field of (Tarnawa & Zadura-Lichota, 2013, pp. 1-184):

1. Knowledge of internet business, information on basic legal issues or reporting obligations associated with conducting business on the Internet, as well as the rules of e-services;

2. The protection of consumers , information on unfair commercial practices, consumer rights of e-services, Polish and European consumer protection policy, the consequences of breach of consumer protection laws or certification of e-services;

3. The security and privacy, privacy recipients, the issue of protection of personal data in e-business and information on rogue Internet registries;

4. E-business abroad, the basic principles of providing e-services abroad or information on cross-border disputes;

5. Copyright and personal property on the Internet, software patent protection in Poland and the European Union or the protection of a computer program and its operation in the company.

For service providers, a list of important institutions and professional organizations is also available, initiatives and services business associations operating in the e-shop or intended for them. Recipients can expand their knowledge of (Tarnawa & Zadura-Lichota, 2013, pp. 1-184):

1. Purchases on the Internet, what should be done before making a purchase, what are the conditions for making claims or returns, information about auction sites and the rules of e-services;

2. Disputes with service providers, what to do in case of a dispute with the contractor, the information on European proceedings concerning small claims and the amicable resolution of disputes - how to try to resolve the dispute before resorting to court;

3. The security and privacy, the basic advice on how to stay safe online and protect PC;

4. Copyright, information on the scope of intellectual property rights and personal property on the Internet, and YES, that allowed the free use of works.

E-POINT activities contribute to a better use of the potential of the Internet in the development of various sectors of the economy. The created information system facilitates the acquisition of basic information on the rules necessary to conduct business.

5 Conclusion

Internet helps to change the way of work, leisure or shopping. Also changes the picture of global trade. It would be difficult to ignore the considerable potential for Internet sales channel. In the last three years, the average annual turnover growth of Internet commerce in the world was 18%. For comparison, other retail channels recorded an increase of 1.3%. Average turnover achieved by means of e-commerce in Poland, is almost two times lower than for the whole EU. The situation may improve breaking down barriers in many companies, that fear of new solutions, mostly due to a lack of experience in this area. E-commerce market in Poland is still in the development stage. Currently, we are at the stage of intense transformation and optimization processes. This enhances the degree of openness of the market, which will contribute greatly to increase its scale in the coming years. E-commerce is no longer an additional project only for retailers. Today, it is a choice that has become a necessity, while creating the potential for innovation and space for creativity.

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The Determinants of FDI in the Central and Eastern Europe: The Impact of the European Integration

Hanna Makhavikova[1]

Abstract: The amount of FDI inflows to the Central and Eastern Europe increased dramatically during the last two decades. This article is aimed at identifying the ability of the Central Eastern European countries to attract FDI in the context of European integration, and at estimating the most important factors that influence the decision of foreign investors to invest in the region. Despite the broad research has been devoted to define the FDI determinants, the literature dealing in particular with the role of the European Union in the mobilization of FDI is rather scarce, and these findings are very discrepant. In order to understand factors that influence the location of FDI, we employ an empirical model for the period of 1992-2013 for twenty CEE countries. This study reveals that the most important determinants of FDI in CEECs are the market size, cost of labor and the European integration. The results of the research can be used to estimate the effect on FDI inflows from a prospective additional Eastern expansion of the EU by the countries currently not within the EU.

Keywords: FDI; transition economies; EU accession; panel econometrics

JEL Classification: F15; F21; C33

1 Introduction

After the fall of communism in 1991, the transition economies in Central Europe, Southeast Europe, and Eastern Europe have experienced a unique type of political and economic change in modern time. Following liberalization policies initiated by most of the CEE countries in 1990s, the post-soviet countries started dynamically integrating into the world economy and in particular in the EU. The time of the integration coincided with the increase of the importance of the FDI.

These countries have been great attention of developed and emerging economies associated with moving FDI into this region, and the integration with the EU can be viewed as a determining element of the operating business environment. However, after more than two decades from the beginning of transition of former centrally planned economies in Europe it is still difficult to assess the most important factors that influence the decision to invest in a particular country, because each country started its own transition course with a different economic potential, policies, and resource endowments.

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However, while there has been broad research devoted to study the determinants of FDI in developed and developing countries, very little has been done on this issue for transition economies, especially for those integrating into the EU.

2 Related Work

The problem of the effective mobilization of FDI in the leading countries of the region has not been fully investigated yet, and the obtained results contradict each other in many findings.

In general, many results confirmed that market access is considered to be the most important factor in investment decisions, with factor costs playing a lesser, although in many cases, still significant role (Klaus, 1995; Lankes and Venables 1996; etc). The influence of labor costs on FDI is found to be inconclusive: some studies find it relevant while others find it insignificant. However, Merlevede and Schoors showed that the impact of the relative unit labor cost becomes more important during a transition period, (Merlevede and Schoors, 2004) .

Literature dealing in particular with the role of the European Union in the mobilization of FDI is rather scarce. This scarcity is primarily due to the short period of the involvement into integration with the EU, which began only two decades ago.

Thus, Holland and Pain suggested that the effect of a prospective EU membership reduces the investor's perceived level of country risk within the CEE (Holland und Pain 1998), . Bevan and Estrin investigated the effect of the European Union's enlargement process on foreign direct investment in the CEE countries and showed that announcements impacted directly upon FDI receipts (Bevan und Estrin, 2000). Clausing and Dorobantu and Hakan, Oğus, Ayla indicated that the EU announcements had statistically significant and quantitatively important effects on foreign direct investment in the CEE states (Güngör and Oğus, 2010; Clausing and Dorobantu, 2005).

However, P. Brenton, F. DiMauro, M. Lücke, B. Kaminski showed that EU membership did not appear to influence FDI flows in a statistically significant way (Brenton et al., 1998; Kamiński, 2001). J.W.B. Bos, and M. Van de Laar studied an announcement effect on FDI from the Netherlands for the ten EU accession countries in CEE. There was also no evidence that the announcement effect exists (Bos und Laar, M. van de, 2004). Some considerable part of studies are devoted to the other type of integration such as concluding of bilateral and multilateral trade agreements. D. Medvedev found that PTA membership was associated with a positive change in net FDI inflows (Medvedev, 2006). A. Seric presented an attempt at determining how the Central European Free Trade Agreement (CEFTA) and the Baltic Free Trade Area (BAFTA) influence the location of FDI (Seric, 2011). E. Hengel illustrated how trade integration and institution building are conducive to higher FDI in South East Europe (Hengel, 2011). It was to be viewed as a complement to the work of A. Seric by extending the analysis to SEE countries.

The existing literature does not clearly indicate whether the integration with the European Union changes the amount of FDI received by the CEE countries.

3 Problem Statement

The overview of the existing literature showed that the most of the studies that are aimed at the estimation of the effects of the EU accession on FDI inflows consider almost the same group of countries - the ten EU-accession countries from CEE (Bulgaria, Czech Republic, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic, Slovenia, Estonia). These findings nowadays can be used with a great concern, because current integration of the CEE countries with the EU includes additional ten countries that differ a lot from first-wave and second-wave accession countries in many macroeconomic characteristics and liberalization progress. Moreover, the research foundation almost does not include the studies devoted to estimating the FDI determinants in the Southeastern Europe and completely do not examine former Soviet states. In our paper, we include Albania, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Moldova, Montenegro, Poland, Romania, Russian Federation, Serbia, Slovak Republic, Slovenia, TFYR of Macedonia, Ukraine. Belarus, Moldova, the Russian Federation and Ukraine are included as “control countries” to find the net effect of the integration with the EU. The most important limitation of the previous researches is the absence of a complex study that includes all the steps and types of integration with the EU. Previous studies investigated either the FTA or accession to the EU. We indicate 3 types of collaboration according to the tightness of relations: the free trade agreements (trade liberalization), Association Agreements (regulate economic, political, social and cultural aspects), and the EU-accession.

4 Variables

In order to understand factors that influence the location of FDI in the CEE we employ an empirical model. The data used comprise a panel of 22 transition CIS countries between 1992 and 2013. Year 2014 is not included in this study, because sources used to pool the data for independent and dependent variables are not sufficient. For the summary of data see Table 2.

Table 1. Descriptive Statistics

	Correlation with LNFDI	Mean	Standard Error	Median	Minimum	Maximum	Count
LNFDI	1,00	6,49	0,10	6,65	-6,91	11,28	423
LNGDP	0,74	10,21	0,07	10,10	7,07	14,58	423
GDPPC	0,41	5,89	0,26	4,03	0,28	26,84	423
GDPGR	0,12	2,36	0,37	3,80	-34,63	54,20	423
OPEN	0,17	101,36	1,72	101,44	0,00	191,65	423
WTO	0,39	0,56	0,02	1,00	0,00	1,00	423
LNRER	0,18	2,20	0,11	2,05	-7,35	9,09	423
SER	0,51	44,90	1,04	43,07	0,47	101,29	423
RES	0,28	3,48	0,28	1,79	0,09	44,53	423
LNWAGE	0,54	5,73	0,05	5,95	2,32	7,84	423
FTA	0,12	0,35	0,02	0,00	0,00	1,00	423
Aasig	0,10	0,38	0,02	0,00	0,00	1,00	423
Aafor	0,15	0,26	0,02	0,00	0,00	1,00	423
Poten	0,04	0,10	0,01	0,00	0,00	1,00	423
Candid	0,01	0,09	0,01	0,00	0,00	1,00	423
Acces	0,14	0,10	0,01	0,00	0,00	1,00	423
Acced	0,11	0,05	0,01	0,00	0,00	1,00	423
EU	0,32	0,21	0,02	0,00	0,00	1,00	423
Euro	0,01	0,04	0,01	0,00	0,00	1,00	423

The independent variables include GDP and GDP per capita, and GDP growth rate to identify the market-seeking investment. The figures are drawn from UNCTAD databases. Since GDP, GDP per capita and GDP growth rate are used as an indicator of the economic conditions and market potential for the output of foreign companies, the expected sign is positive.

We include in our model trade openness and membership in the WTO, which can be interpreted as a measure of the absence of trade restrictions. These proxies are important for foreign investors who are motivated by the export markets. It is widely believed that international trade openness promotes FDI, however, we suppose that FDI can substitute international trade, that is why the sign of the proxies is ambiguous. The trade openness made available from UNCTAD database and WTO membership from the WTO official website.

The average wages estimate the cost of the labor force. The sign of the wages is also ambiguous. On the one side, the investors could be driven by a cheap labor cost; on the other side, high wages also stand for high purchasing power. Our data for average wages come from UNECE databases and from ILO and ILOSTAT Databases. The general tertiary school enrollment rate indicates the quality of the labor force. We expect a positive impact of this factor. The data for tertiary school enrollment rate come from World Bank's World Development Indicators.

Total natural resource rents estimate the endowments of natural resources. The resource rent of a natural resource is the total revenue that can be generated from the extraction of the natural resource, less the cost of extracting the resource, it is the sum of oil rents, natural gas rents, coal rents (hard and soft), mineral rents, and forest rents. As posited by the eclectic theory countries that are rich in natural resources would receive more resource-seeking FDI. The data are gathered from World Bank's World Development Indicators.

To assess the efficiency of the economies, we include in our model exchange rates. We suppose, that high exchange rate means the weak competitiveness. The exchange rates are taken from UNCTAD.

The last group of explanatory variables is used to show the effects of the integration with the European Union. To proxy the effects of the integration with the EU we include in our regression model 9 dummy variables: the membership in CEFTA or BAFTA, the signing of the Association Agreement, entry into force of the Association Agreement, application for membership, granting the candidate status, the start of negotiations, the signing of the Accession Treaty with the EU, membership in the EU, and Euro area membership. The value 1 indicates that a country was approved for a particular stage of the integration, and 0 displays that the stage has not been reached yet. We expect to observe the same effect of membership in a FTA as for trade openness. Other EU integration proxies are supported to have a positive influence on FDI inflows, because integration into EU results in improvement of institutions and investment climate.

Often the distribution of values has econometric asymmetry. The use of the logarithm allows to reduce it. Moreover, in some cases the logged values bring closer the distribution of the residuals to the normal one. That is why we use logs for all natural values. Interior missing data are replaced by linear interpolation. Table 1 provides basic information about all variables.

5 Model

On the first step of our analysis, we employ four basic techniques to analyze panel data: the pooling model, the fixed effects model, the between and the random effects model.

The basic linear panel models used in econometrics can be represented in the following form:

Equation 1 The basic linear panel model

$$y_{it} = \beta_0 + \beta x_{it} + \nu_{it}, i = 1, \dots N, t = 1, \dots T$$

Where i is a country, t is a year, β_0 is an absolute term, β is a vector of the factor coefficients, x_{it} $(x_{1,it}, x_{2,it}, \dots, x_{n,it})$ is a vector of explanatory variables.

Equation 2 The error term structure

$$\nu_{it} = u_i + \varepsilon_{it}$$

The error term has two separate components, one of which is specific to a country and does not change over time. The individual component may be either independent from the factors or correlated with them. The residual ε_{it} is assumed to be independent from both the factors x_{it} and the individual error component u_i (Yves Croissant und Giovanni Millo 2008).

Our empirical equation has the next form:

Equation 3 Empirical Model

$$\begin{aligned}\mathrm{LNFDI_{it}} = {} & \beta_0 + \beta_1\mathrm{LNGDP_{it}} + \beta_2\mathrm{GDPGR_{it}} + \beta_3\mathrm{GDPPC_{it}} + \beta_4\mathrm{OPEN_{it}} + \beta_5\mathrm{WTO_{it}} + \beta_6\mathrm{LNRER_{it}} \\ & + \beta_7\mathrm{SER_{it}} + \beta_8\mathrm{RES_{it}} + \beta_9\mathrm{LNWAGE_{it}} + \beta_{10}\mathrm{FTA_{it}} + \beta_{11}\mathrm{Aasig_{it}} + \beta_{12}\mathrm{Aafor_{it}} \\ & + \beta_{13}\mathrm{Poten_{it}} + \beta_{14}\mathrm{Candid_{it}} + \beta_{15}\mathrm{Acces_{it}} + \beta_{16}\mathrm{Acced_{it}} + \beta_{17}\mathrm{EU_{it}} + \beta_{18}\mathrm{EURO_{it}} \\ & + \nu_{\mathrm{it}}\end{aligned}$$

When the **pooling model (Pool)** is used, the panel structure of the data is ignored and it does not take this special error structure into account. The estimations of the pooling model would give inconsistent results because of the correlation between y_{it} and ν_{it}. Therefore, the estimations of β_0 and β are biased (Yves Croissant, Giovanni Millo, 2008).

The **between model (BE)**, which is computed on time averages of the data, allows to estimate the individual effects in the variability of the predictor. This regression consists of averaged in time variables which are estimated by OLS (Yves Croissant, Giovanni Millo, 2008).

In the **fixed effect model (FE)** the residual ε_{it} is independent and equally distributed random variable and u_i. is fixed, and it does not change over time. Fixed effect model removes the inconsistency because it includes the individual effect of the countries (Yves Croissant, Giovanni Millo, 2008).

The least square dummy variable model (LSDV) helps to understand fixed effects model. This model includes a set of dummy variables, which identify the countries and hence additional parameters. The estimations of the LSDV are numerically identical with the FE model therefore consistent under the same assumptions (Yves Croissant, Giovanni Millo, 2008).

The least square dummy variable model has too many factors. The loss of the degrees of freedom can be avoided if we assume that individual effects u_i are random. This type of model is called **the random effect model**. The random effects model assumes that u_{it} is between-entity error and ε_{it} within-entity error. The major disadvantage of this model is driven by the assumption that, the unobserved effect u_i is uncorrelated with each independent variable (x_{it}) (Yves Croissant, Giovanni Millo, 2008).

In our model, the relation between FDI and GDP attracts special attention in the empirical studies. As a matter of fact, high market potential attracts more FDI. Foreign investors add capital stock in the host country, what in the issue stimulates the economic growth. That is why there is a problem of the endogeneity between FDI and GDP. To eliminate the endogeneity we use **the two-stage least square regression** on the second stage of our analysis.

The two-stage least squares model includes problematic an endogenous variable correlated with the error term, additional factors that are not correlated with the error term, and instrumental variables correlated with the endogenous variables, but uncorrelated with the error term.

Our choice of instruments includes the following variables: the lagged value of the LNFDI, year, consumer price index, the logarithm of the population and the average of the EBRD transition indicators. They are pure instrumental variables and were not included in the model. GDP growth rate, membership in the WTO, abundance of natural resources, school enrollment rate, exchange rate, wages and all European integration dummies are not correlated with the error term and also can be used as instrumental variables.

6 Analysis of Results

In columns 1 to 4 of the table 2 we represented the results from one-stage least square analysis. First, consider column 1, the pooling model. In whole, almost all variables enter the regression with expected signs in addition to their statistical significance. The adjusted R-squared for the pooling model indicates that the variables included explain approximately 70 percent of the variation in FDI inflows in a country. However, the pooling method is unsuitable since it fails to control the country specific effects. Comparing pooling and fixed effects model we should admit that the quality of the model has improved with the adding of dummy variables as adjusted R-squared has increased.

In the between model almost all coefficients are insignificant, moreover the adjusted R-squared is 13,6 per cent. In general, the between effects model is mostly used as an auxiliary analysis.

Equation 4 estimates the random country-effects estimation. The results are consistent with those in column 1 and 2. However, the interpretation of the coefficients is tricky since they include both the entity and between-entity effects.

We used F-test and Wald test to show, that the fixed effect model is more preferable than the pooling model. The Breusch-Pagan Lagrange multiplier (LM) test helps to decide between the random effects regression and the pooling model. Here we reject the null hypothesis and conclude that random effects are more appropriate, since there are differences across countries. The Hausman test allows us to choose between the fixed or random effects model. It is safe to say that the individual effects in our model are strong. This proves the necessity to explore the fixed effect model.

Table 2 Econometric Analysis

	Pooled		LSD and FE		BE		RE		2SLS FE	
Constant	-7,347	***	-9,706	***	-3,0745		-7,541	***	-24,139	**
LNGDP	0,9185	***	10905	***	0,4708	.	0,9158	***	28784	*
GDPPC	-0,121	***	-0,075	*	0,0838		-0,121	***	-0,6812	**
GDPGR	-0,005		-0,004		-0,18	*	-0,004		-0,0146	
OPEN	0,0084	***	0,0078	*	0,0194	*	0,0084	***	0,0149	
WTO	0,4646	*	-0,331		-0,9862		0,3165	.	-0,5144	.
LNRER	0,0921	**	0,3452	***	-0,3508	*	0,1082	***	0,2335	*
SER	0,0025		-0,023	*	-0,0027		0,0025		0,0042	
RES	0,0397	**	0,0257		0,0683	.	0,0382	**	0,022	

LNWAGE	0,5717	***	0,8399	***	0,7283		0,6172	***	0,8697	**
FTA	0,3228		-0,098		-1,6723		0,258		-0,8496	
Aasig	0,0497		0,4294	.	-2,8623		0,0743		0,3571	
Aafor	-0,216		0,2998		11,7	*	-0,161		0,2547	
Poten	0,442	*	0,2213		5,4443	*	0,4235	.	0,717	*
Candid	0,3287		0,3319		-9,8048	*	0,3909		0,8974	*
Acces	0,409		0,5128	*	-2,6988		0,4414	.	1,1557	**
Acced	0,329		0,5966	.	-2,6988	.	0,3632		1,2186	*
EU	0,6231	*	1,1925	***	0,6614		0,6615	*	2,7606	***
Euro	-0,186		1,4802	**	-2,731		-0,048		4,6564	**
df	404		383		18		404			
R-squared	0,7057		0,9803		0,9945		0,6824		0,635	
Adjusted R-squared	0,674		0,9782		0,1356		0,6518		0,5979	
Hausman test (p-value)			0	***						
Breush-Pagan LM (p-value)							0	***		
F-test (p-value)			0	***						
Wald test			0	***						
Wu-Hausman (p-value)									0,0018	***
Sagran (p-value)									0,0006	***

Signif. codes: 0 "***" 0,001 "**" 0,01 "*" 0,05 "." 0,1 "" 1

In column 5, we reported results from **the two-stage least squares fixed effect model**. The results are mostly consistent with one-stage fixed effect model, but a few changes are noteworthy.

The coefficient of GDP reflects theoretical expectations. Also of high statistical significance are the average wages, the positive sign indicates the high consumption power. Thereby, flows are expected to be greater in larger economies with high consuming capacity.

The WTO and FTA have negative sign – this supports the assumption, that foreign trade is replaced by FDI after integration in the EU. The Student-t confirms that the variables are significant.

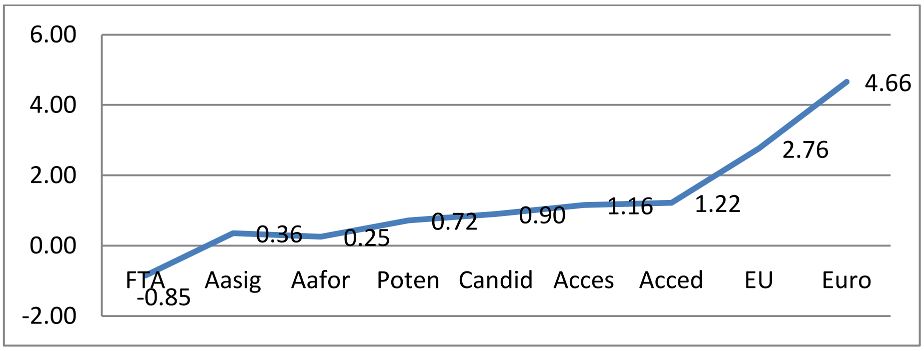

Figure 1. The Coefficients of the Integration Stages

Finally, we found the effects of EU accession starting from the application for a membership are positive and statistically significant. The significant result of the variables supports the hypothesis that even deeper EU integration of the CEE countries contributes the greater increase of FDI inflows (see Figure 1). The results also enforce our expectation that the efficiency-seeking FDI dominate the region during the time-horizon. From this point of view, it can be inferred that economic integration has a direct and positive effect on FDI flows.

7 Future Work

A suggestion for future studies would be to investigate the significance of the factors not analyzed in this study such as corporate taxes, structural reforms and their relevance as FDI determinants. As well it would be interesting to make special calculations for groups of countries to identify the factors of FDI in sub-regions.

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The Evolution of FDI in the Context of Globalization

Valeriu Laurenţiu Onose[1], Ecaterina Necşulescu[2]

Abstract: The importance of studying globalization under its most important aspects in economic terms is relevant in terms of the major influences that determine them as operating environment, development and manifestation of a country's economy. Globalization is a current, continuous process, accompanying the evolution of the society, the changes they produce are different from those prevailing in the first decades after the second world war. In the specialized literature there are presented the views according to which globalization can be defined in different ways depending on the considered level. In accordance with these views, we may speak of the globalization of the world, into a single country, of a certain industry, of a corporation or a business relationship or functions within a company. In our paper globalization refers to increasing the economic interdependence between countries, reflected by increasing the cross-border flows of goods and services, capital and know-how, the volume of incoming and outgoing flows of foreign direct investments. At the level of a certain country, globalization refers to the extension of the interconnections between the economy of a country and the rest of the world. In this regard, it is noteworthy that, despite the increasingly globalized world, not all states are equally integrated into the global economy.

Keywords: globalization; cross-border trade flows; foreign direct investment; the regional distribution of FDI; set of sustainable development goals

1. Introduction

The origins of globalization as it is currently known, are not new, however, the increasing dynamics of globalization is relatively recent.

Globalization becomes a process of creating a global dimension, with immunity and own structure in every aspect of a state in which the whole world is identifiable in itself, with its own economic mechanisms, and other subsystems of the new assembly, such as: culture, technology etc.

As an expression of globalization, dynamism of the national firms, their ability to invest and innovate, both through its own resources and by acquiring appropriate technology had led to expansions and operational relocations, beyond borders and thus contributing to the enhancement of the

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competitiveness of national economies of origin, the paid price being more obvious dissolution of national immunity of the companies concerned.

Figure 1. The Complexity of globalization

Source: Author's own processing

Globalization can rightly be described as representing a rupture of trend towards the earlier developments that characterized the period after the Second World War. In this sense, there can be identified few defining features of globalization, that determine if to be the "new change" in the evolution of human society, the constituent element of all these features being represented by the erosion process of borders.

Professor Joseph E. Stiglitz, winner of the Nobel Prize for Economics in 2001, said that the globalization phenomenon "is the stronger integration of countries and their populations as a result of significantly reducing the transport and communication costs and thus eliminating the artificial barriers from the way of movement of goods, services, capital and (to a lesser extent) of people between countries." He also said that globalization is a growing economic interdependence between countries in the world due to the high volume of varied transnational transactions, international flows of capital and the rapid spread of technology. (Streeten, 2001) In general it is considered that globalization uses the following development sources: international trade, the rapid movement of capital and financial market integration, labor migration. Globalization represents "the emphasis process on the interdependence between economies worldwide, through sustainable development of trade in goods and services and the development of foreign investment flows". (Shariff, 2003) Other interesting aspects on Globalization are noticed also by other authors.[1]

Globalization refers to the increasing economic interdependence between countries, reflected by increase of cross-border flows of goods and services, capital and know-how. Part of the evidence in support of these developments can be found in the following data[2]:

- In 1970, cross-border transactions in the capital markets with bonds and shares with a percentage of GDP stood under 5% in the US, Germany and Japan. For 1996, the shares corresponding to these countries had grown to 152%, 197% and 83% respectively.
- From 1989 to 1994, foreign direct investment increased from 4.8% to 9.6% of global GDP;
- In the period 1989-1996, cross-border trade in goods and services increased by an average annual rate of 6.2%, almost double the average of the annual growth rate (3.2%) of the world GDP in the same period.

[1] (Bari, 2001; Uslaner & Brwon, 2005, pp. 868-894; Marin, 2004; Herz, 2006; Roman, 2006; Voinea, 2007)
[2] OECD

Since the 2000s, the role of extra-community markets for the EU trade has increased. Although the single internal market still captures most of EU trade flows, the extra-community exports and imports recorded shares increasingly higher in the total flows.

At the level of 2013 (Eurostat), the exports of extra-community goods accounted a share of 35% of intra and extra EU exports, and the corresponding imports was of 38%. The situation is similar in terms of trade in services, except the fact that the percentages are slightly higher, and the export quotas in extra-community flows exceed those of imports (about 43% for exports and 41% of imports). These trends highlight the growing importance of EU import sources and markets outside the Union. At the level of trade in goods, the BRIC group in 2013 has had a share of 25.2% in EU trade, outpacing even this share of the group of countries of the North American Free Trade Agreement (NAFTA), 18.7% of the total. In 2013, the EU's main trading partners in the sphere of goods were: USA (15.9% of total), China (12.9%), Russian Federation (7.9%), Switzerland (7.1%), Norway (4.6%), Japan (4%), Turkey (3.5%), South Korea (2.3%), India (2.3%) and Brazil (2.1%). In contrast, trade in services has been dominated by the US (27.5% of total) and Switzerland (12.4%), China, Russia, India, and Brazil having much lower rates: 3.5%, 3.3 %, 1.8% and 1.7%.

Global Trends on FDI

At the level of a certain country, globalization refers to the extension of interconnections between the economy of that country and the rest of the world. In this regard, it is noteworthy that, despite the increasingly globalized world, not all states are equally integrated into the global economy.

This can be highlighted by several key indicators to measure the global integration degree of a country, such as the share of exports in GDP, the volume of inflows and outflows of foreign direct investment and portfolio inflows, and the size of ins and outs flows of payment as royalty associated to the international technology transfer.

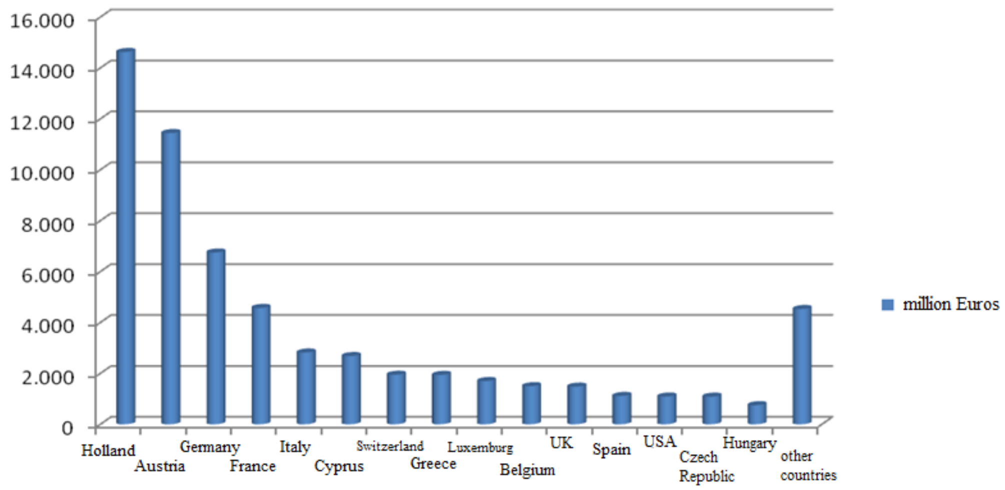

Figure 2. Foreign Direct Investment by country of origin

Source: NBR

According to the World Investment Report 2014 issued by UNCTAD (United Nations Conference on Trade and Development), the optimism returns cautiously regarding the dynamics of foreign direct investment (FDI) worldwide.

By 2012, the global FDI resumed its positive trend, with an increase of 9% in 2013, i.e. 1450 billion dollars. The projection for the coming years of the UNCTAD is that FDI flows could rise to 1750 billion in 2015 and 1850 billion in 2016, with relatively higher growth in the developed countries.

The growth will be determined mainly by investments in economically developed economies, due to their recovery and development. As a result of expected growth on FDI in economically developed countries, the regional distribution of FDI could lean backwards towards the "traditional model", which will hold a larger share in global flows; the FDI flows towards the developing economies will remain at a high level in the coming years.

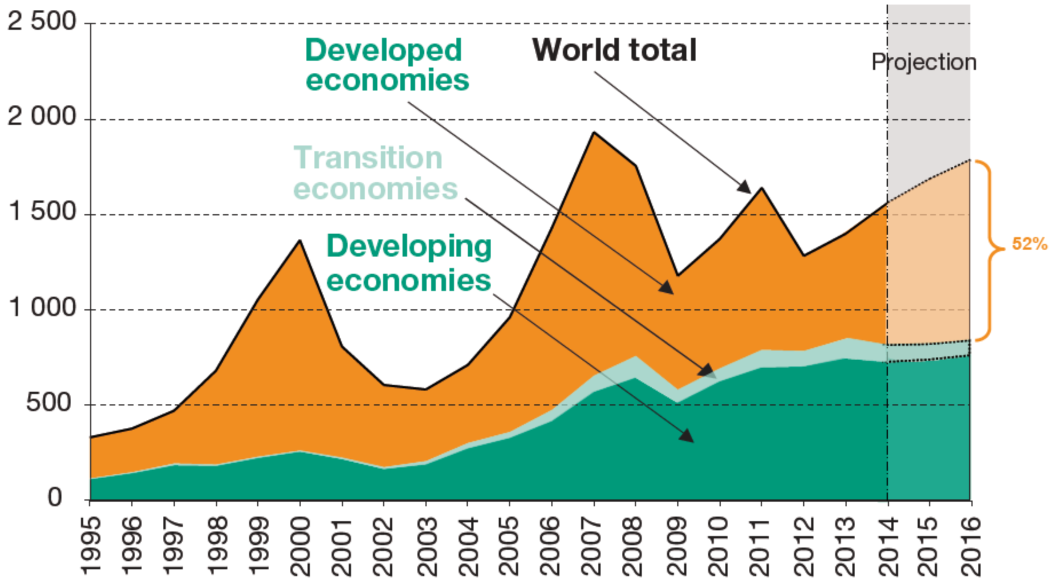

Figure 3. FDI inflows, global and categories of economy in 1995-2013 and 2014-2016 projection

Source: World Investment Report 2014: Investing in the SDGs: An Action Plan

Developing countries and economies in transition represent now, half of the top 20 economies ranked by the FDI entries. China recorded the largest FDI inflows ever and it maintains its position as the second largest recipient of FDI in the world, after the United States.

Asia continues to be the region with the largest FDI inflows, well above the EU which was traditionally the region with the largest share of FDI worldwide. The FDI inflows increased also in other major developing regions, Africa (to 4%), Latin America and the Caribbean to 6%, excluding the offshore financial centers.

Region	FDI inflows			FDI outflows		
	2011	2012	2013	2011	2012	2013
World	**1 700**	**1 330**	**1 452**	**1 712**	**1 347**	**1 411**
Developed economies	880	517	566	1 216	853	857
European Union	490	216	246	585	238	250
North America	263	204	250	439	422	381
Developing economies	725	729	778	423	440	454
Africa	48	55	57	7	12	12
Asia	431	415	426	304	302	326
East and South-East Asia	333	334	347	270	274	293
South Asia	44	32	36	13	9	2
West Asia	53	48	44	22	19	31
Latin America and the Caribbean	244	256	292	111	124	115
Oceania	2	3	3	1	2	1
Transition economies	95	84	108	73	54	99
Structurally weak, vulnerable and small economies[a]	**58**	**58**	**57**	**12**	**10**	**9**
LDCs	22	24	28	4	4	5
LLDCs	36	34	30	6	3	4
SIDS	6	7	6	2	2	1
Memorandum: percentage share in world FDI flows						
Developed economies	51.8	38.8	39.0	71.0	63.3	60.8
European Union	28.8	16.2	17.0	34.2	17.7	17.8
North America	15.5	15.3	17.2	25.6	31.4	27.0
Developing economies	42.6	54.8	53.6	24.7	32.7	32.2
Africa	2.8	4.1	3.9	0.4	0.9	0.9
Asia	25.3	31.2	29.4	17.8	22.4	23.1
East and South-East Asia	19.6	25.1	23.9	15.8	20.3	20.7
South Asia	2.6	2.4	2.4	0.8	0.7	0.2
West Asia	3.1	3.6	3.0	1.3	1.4	2.2
Latin America and the Caribbean	14.3	19.2	20.1	6.5	9.2	8.1
Oceania	0.1	0.2	0.2	0.1	0.1	0.1
Transition economies	5.6	6.3	7.4	4.3	4.0	7.0
Structurally weak, vulnerable and small economies[a]	**3.4**	**4.4**	**3.9**	**0.7**	**0.7**	**0.7**
LDCs	1.3	1.8	1.9	0.3	0.3	0.3
LLDCs	2.1	2.5	2.0	0.4	0.2	0.3
SIDS	0.4	0.5	0.4	0.1	0.2	0.1

Figure 4. FDI flows by region, 2011-2013

Source: World Investment Report 2014: Investing in the SDGs: An Action Plan

The Mega-regional groups shaping the global FDI flows are the main mega-regional groups in process of training (TPP, TTIP, RCEP) each have at least a quarter of global FDI flows, with TTIP registering a decrease in FDI flows, while the other (TPP, RCEP) are rising.

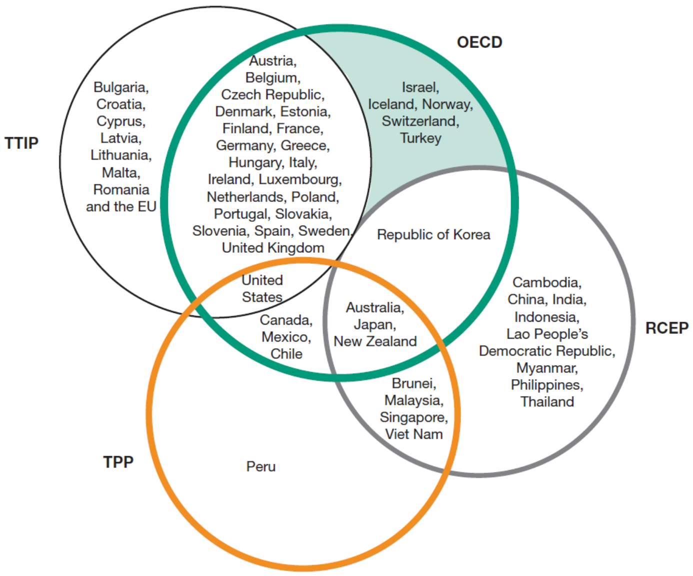

Figure 5. Participation at mega-regions and OECD

Source: World Investment Report 2014: Investing in the SDGs: An Action Plan

The Asia-Pacific Economic Cooperation (APEC)[1] group remains the largest regional economic cooperation, with 54% of capital inflows at global level.

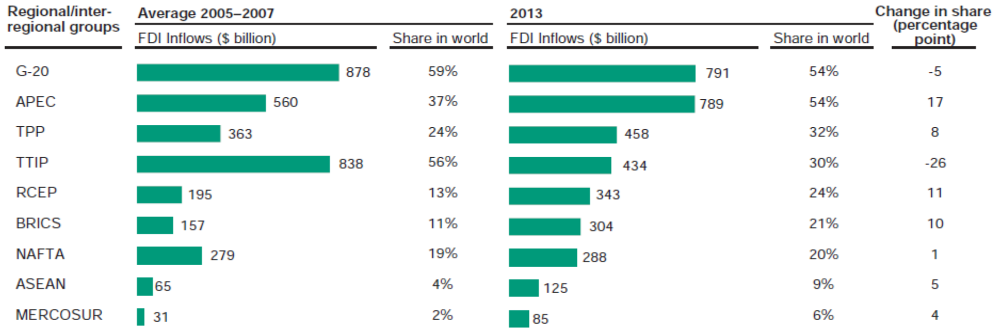

Figure 6. FDI inflows regional and inter-regional groupings, the average from 2005 to 2007 and 2013

Source: World Investment Report 2014: Investing in the SDGs: An Action Plan

Although their share is small, the FDI inflows of ASEAN and MERCOSUR in 2013 doubled compared to the level before the crisis, similar to the FDI inflows of BRICS (Brazil, Russian Federation, India, China and South Africa). The three initiatives of mega-regional integration currently emerging - TTIP, TPP and RCEP - show divergent trends in FDI. The US and EU negotiating the TTIP formation, have found that the combined share of global FDI flows almost halved, from 56% in the pre-crisis period to 30% in 2013. In TTP, the US share reduction is offset by the expanding group of emerging economies, strengthening the aggregate increase from 24% before 2008 to 32% in 2013. The Regional General Economic Partnership (RCEP), which is being negotiated between the 10 Member States of ASEAN and the 6 partners of the Agreement Free Trade Area (FTA) accounted for over 20% of global FDI flows in the recent years almost two times more than before the crisis.

Also we should not forget that, in the period 2005-2013, Romania has benefited from the growth of foreign direct investment which exceeded 35 billion euros over 2 times more than in the entire period 1991-2004.

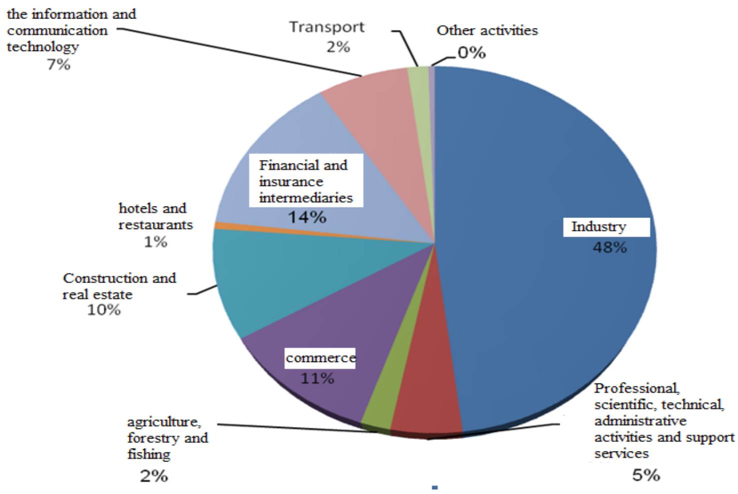

Figure 7. The Share of FDI in Romania, on branches of economy

[1] Australia, Brunei Darussalam, Canada, Chile, China, Hong Kong, Indonesia, Japan, Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, The Philippines, Russia, Singapore, Chinese Taipei, Thailand, The United States, Vietnam.

Source: Authors' processing author. BNR data source

Faced with common global economic, social and environmental challenges, the international community defines a set of sustainable development goals (SDGs);

They are formulated by the United Nations with the widest range of interested parties and they are designed to stimulate worldwide actions through concrete objectives for the period 2015-2030 for poverty reduction, food security, human health and education, diminishing climate changes and a number of other economic, social and environmental objectives.

Conclusion

The role of the public sector is fundamental and essential, while the private sector contribution is indispensable. The latter can take two main forms, good governance in business practices and investments in sustainable development. Policy consistency is essential in promoting private sector contribution to the GIS.

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Eurozone Integration - Performance and Risk to the National Economies

Adrian Petre[1]

Abstract: Given the theoretical basis of achieving monetary union and the legal framework of euro adoption, this paper aims to analyze the advantages and disadvantages arising from the adoption of the single European currency - Euro, and the implications of the single currency on individuals and businesses. Also, in this paper we highlighted the situation of Romania regarding the introduction of the single currency and its implications on the Romanian economy.

Keywords: euro adoption; economic risk; euro effects

JEL Classification: O110

Introduction

Euro is the best candidate for the role of the single currency and can not be replaced with any other currency whatever the short-term benefits would be. Euro will be especially a credible competitor for the dollar money market. The creation of euros could accelerate tilting movement of the dollar to the euro in the long term and gradually. Nearly three years after its launch, the euro has become the second most widely used currency after the dollar. This situation reflects the legacy of the old currencies of euro area countries, which were replaced by euros and results also from the economic weight of the eurozone in the world economy. The deepending of euro internationally is intended to serve to deepen cooperation based on proximity and convergence in foreign policies of key partners worldwide.

The Risks and Implications of Euro Adoption

Changeover involves a number of risks, among which the most important results from the persisting disparities between countries in the budgetary, fiscal and social protection. Besides taking harmonization measures, countries that have adopted a single currency will be characterized by dangerous fiscal and social competition to attract investors that would result in loss of jobs in one country or another. Harmonisation is required also because, once the switch to the single currency, countries will not be able, as hitherto, to resort to competitive devaluation to boost exports or to

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increase public spending and thus worsening the budget deficit will not be a solution once has been established a certain budgetary discipline within EMU.

However, if the single currency will be in great demand will revalue against the dollar, which would be a handicap for European firms which holds a fifth of world exports. The second risk is related to the fact that a single monetary policy would require sacrifices and risks from developed countries, rich, embodied in transfers of resources in favor of poorer countries.

The introduction of the single European currency will have profound implications on the main components of European financial market. The transition to the single European currency has led to radical changes in the euro area money markets. By eliminating currency risk, each individual country markets were merged into one integrated money market. It is estimated that, by the way is formed and how it works, the euro area will become the second largest global market for short-term securities market after the US. Also, the euro area will become the second market for bond transactions. By eliminating currency risk, the difference in profitability between the operations of the different national markets in the euro area will decrease greatly. Transactions in bonds issued in other markets than the national will be stimulated.

The liberalization of capital movements will extend the range of the investors and they will face more often with unknown borrowers and divergent economic and political conditions.

Therefore there will be a huge demand for information regarding credibility of issuers of securities, which will be more closely monitored. In Europe, issues and securities transactions still take place, largely, within the national stock exchanges. The single currency will lead to a greater internationalization of securities market. Advancement in computer technology will accelerate the integration of capital markets by integrating in a single electronic network.

The integration of stock markets will increase the efficiency, transparency and liquidity of the market share in Europe. Thereby, European stock markets in the future will attract more money and become strong competitors for exchanges of New York and Tokyo, will generate increased liquidity of securities markets and will reduce the difference between the sales price and the purchase price. However, the payments after the deal will be less expensive. The future is expected to create a global electronic network share transactions. The launch of EURO will increase the connection between European stock exchanges. In this situation investors and issuers of securities will have to adapt to new conditions.

The trend toward unification of tax policies and the common monetary policy will cause that the profits earned in securities transactions in various markets in the euro area to be less dependent on the economic cycles and on the interest rate. For the operation of Economic and Monetary Union is required a condition: deeper liberalization of legislation on institutional investors. Restrictions will be limited to the obligation to invest a minimum percentage of the value of assets held in the own currency - in this case, EURO.

The launch of the single European currency will lead participants on the monetary system to adopt new strategies. Experts estimate that banks will heavy cope with competitive pressure, and others will not survive on the market.

Money market has responsibility in launching the European single currency through its banking system. When a bank is more involved in international business, than that bank will benefit more from the launch of EURO. To strengthen the position of European money market banks have resorted to mergers and acquisitions. Regarding the foreign exchange market the main advantage of euro adoption is to reduce transaction costs. The negative implication is the reduce of bank charges and gains from currency arbitrage transactions, due to lower trading system and the disappearance of exchange rates between European currencies. To compensate the loss, banks will expand their transactions in euros, dollars and Asian currencies.

The launch of EURO will lead to the perfection of the single internal market and, therefore, to greater competition between European countries and production for foreign markets will be facilitated. Due to the size, the capital expressed in euro will be more stable than that formed from other European currencies. Therefore, the euro will become an important reserve currency. Due to the facilities created by the euro, economists believe that the euro will threaten the status of the dollar as the main reserve currency internationally. As the euro will become the common currency of the largest economic bloc in the world, banks will increase their reserves in euros.

Specific Factors that Determine the Stability of the Euro

Stability of the euro is just as important as his power because an unstable currency is a scourge for economic growth and investment. The unstable currencies strength the dependence of a state of trade, destroy the investments and splits business environments. When persisting exchange rate stability, this not only reduces consumption and investment, but also precipitates industrial chaos, social unrest, and even the possible political upheavals. An unstable EURO will not have only devastating economic effects, but it will attract the wrath of voters in countries like Germany, Belgium, Netherlands and Luxembourg, countries with high common external stability.

Changes in EURO stability are determined by the same factors that determine the strength of EURO. When the European Central Bank manages to control inflation and retains its reputation for strict independence, if the overall stability of the economic and fiscal and current account surpluses will be maintained if the euro is seen as a long-term store of value, the financial markets have no reason to constantly reassess the exchange rates of the euro. When we talk of short-term currency stability, long-term factors are less important than daily changes in estimates of central bank behavior.

Changes in interest rates in the euro area have a direct impact on investment income expressed in euro. Frequent changes in the estimates of the interest rate leads to a more unstable euro. Monetary policy is based on an economic area which changes more slowly than in countries like France, Italy, Ireland and Belgium. Therefore, interest rates in the euro area is expected to be changed less frequently than has happened in many individual countries before the euro adoption. This does not provide any stability of euro because the exchange rate policies of the European Central Bank should also be considered in this equation.

Changes in exchange rates can have a significant impact on inflationary pressures and can play a crucial role in determining the overall economic competitiveness of export-oriented industries. In countries where trade plays an important role, even minor changes in exchange rates can make or break the economic growth or substantial increase the inflation threat. For this reason, before the euro adoption, central banks in countries such as Austria, Belgium and Portugal have closely monitored the value of their currencies against the currencies of major trading counterparties and reacted appropriately to maintain stable exchange rates.

The Way Euro Revolutionizes Business Markets in Short-Term and Long-Term

Monetary Union lead to changes on European markets that pass far beyond issues of power and stability of the euro. Any market research, any strategy of a company or any political document regarding the new European economy must consider at least three trends general framework, namely:

1. *Financial framework*. European markets are not as different as they are accustomed. Short-term interest rates are the same everywhere in the euro area, a step made only because countries like Spain have reduced interest rates above 13 percent in 1992 to about 2 percent in 2009.
2. *European expansion*. The second major trend in business that EURO catalyzes refers to perception of the euro area as a unique environment booming. Because EURO eliminates transaction costs related to currency and exchange risk, promotes competitive prices across borders, creates deep financial markets and strength the idea of a single European market, companies began to reorganize as pan- European concerns. It is probable that mergers insurance companies and other financial services will be the next step. Other waves of mergers of some service providers and major manufacturers will follow them. An important aspect of strategic trans-European expansion is that countries are able to use their comparative advantages to attract investment from outside the continent.
3. *Policy harmonization*. The third major trend of the market established by EURO involves continuous harmonization of public policies related to market. Most importantly, the new currency will probably lead to a long term tax harmonization for participating nations. An important part of any business environment is the size, scope and complexity of its financial markets.

Euro Effects on Securities Markets

For companies that are just starting out, EURO creates a second market shares in the world in size. At the technical level, this transformation was relatively straightforward. Shares publicly traded on major stock exchanges in the euro area were converted into euros since the first trading day of 1999.

The calculating shares happened automatically because free markets determine stock prices and market participants were perfectly able to apply the official exchange rates of the euro for their own purchase orders and sales.

Conversion of the nominal value of ordinary shares in companies' balance sheets is a minor accounting change, and this did not affect marketing new values. Introduction of the euro has also effects on individuals and businesses. Therefore all public and private institutions in the world are advised to assess the effects of the adoption of euro have on their one economies.

Depending on the customers, on the profile of suppliers, on the strategic ambitions, on the competitive environment and technological complexity for each institution, EURO presents a variety of challenges and opportunities.

Almost any company, from small law firms and investment partnerships to the largest multinationals, has not guaranteed immunity to the effects EURO. The best method for assessing exposure to EMU is a systematic examination of each management level of an organization. Years of preparation for the introduction of the euro have made very clear that the new currency affects unevenly industries.

Euro Effects on Individuals And Businesses

In general, the biggest winners of the EURO are those companies or organizations where a large part of trade is done with the euro area countries. This includes enterprises located in member countries. Except the cases where the Euro is extremely strong or weak compared to previous national currencies, one of the four fundamental advantages of Euro (exchange rate risk, transaction costs, price transparency, deep financial markets) provide benefits for companies worldwide.

Euro benefits regarding exchange rate risk, transaction costs and price transparency is a potential advantage for any company that has seen mired in numerous national currencies in Europe. Benefits of the euro are diverse and are felt at different levels, from individuals and businesses and reaching the whole economy. For EU citizens, traveling in the euro area is much easier, without requiring cumbersome currency exchange. Also, the comparison of prices of goods and services is much easier, which contributes to improving the functioning of the internal market and to support healthy competition.

Economic and price stability as a whole brought by the EURO is favorable for the whole economic climate, from families to businesses. Recent data estimate that the introduction of the euro has led to increased intra-euro area trade by 5-15%. The single currency brings new strength and new opportunities derived from the integration and size of the euro area economy, the single market becoming more efficient. Before the euro, the need to achieve exchange transactions incur additional charges, involve risks and cross-border transactions were lacked of transparency.

With the introduction of the single currency, the business became more profitable and less risky in the euro area. At the same time, the possibility to compare prices easily encourages cross-border trade and investment of all types, from individual consumers seeking the cheapest product, to businesses purchasing the best quality service and large institutional investors who can invest more effective in the euro area, where there is not a fluctuation of exchange rates. Within the euro area, there is now one large integrated market using the same currency. Global benefits are also numerous. The single currency and the euro area means new opportunities in the global economy.

The single currency convert the euro area into a business area attractive to third countries, thus promoting trade and investment. Prudence and economic management makes the euro an attractive reserve currency for third countries and the euro area provides a stronger position in the world economy. Also, the size and prudent management provides economic stability for Eurozone, which resists better at so-called foreign economic shocks, ie sudden economic changes that may arise outside the euro area and can affect the national economies, such as increased oil prices and the emergence of turbulence on international currency markets.

Due to its size and strength, the euro area can also better absorb the external shocks without loss of jobs and without diminishing growth. The euro can not guarantee, as single, stability and growth. This is done, primarily, through sound management of the euro area economy according to the Stability and Growth Pact (SGP), a vital element for Economic and Monetary Union (EMU). Secondly, as a fundamental tool for enhancing benefits of the single market, trade policy and political co-operation, the euro is part of the economic, social and political structures of today's European Union.

The Impact of the Single Currency on the Evolution of Romanian Economy

Looking ahead, real and nominal convergence process of the Romanian economy will be done at a rate that depends, to a large extent, to the overall consistency of economic policies implemented by the authorities. Therefore, we think it is recommended that the economic program guidelines must be strictly complied, beyond the short horizon of the election cycle. Although the single currency seems a simple decision, in fact is a complicated one, and by it its aim to prevent similar developments in Hungary, where the central bank was forced to postpone the deadline twice for changeover. Compliance by Romania of those criteria and requirements imposed by the European Union, will lead to benefits but also the possible risks for the Romanian economy as a whole. To adopt the euro, Romania should speed up structural reform agenda. The most important priorities are public service efficiency, accelerating plans to privatize the energy sector, creating new jobs and reducing corruption and improving the business environment. Romania's attempt to recover the distance from the richer countries of the European Union will be supported also by funds allocated by the European Union. Accession funds, if will be used entirely and rational, would represent an injection which would amount to 3-5% of GDP each year in the first seven years from accession, which undoubtedly will allow Romania to join the Eurozone. In this situation, the introduction of the euro will have positive effects on Romania's foreign trade, given that 2/3 of foreign trade is oriented towards EU countries.

The new currency will be a catalyst that will stimulate imports and exports of Romanian companies. Romania lost large amounts of money due to the fact that until recently were chosen as currency contracts either US dollar or the fluctuating currencies of some EU countries. The euro will be a factor of stability which will greatly reduce losses caused by local traders exchange risks. At the beginning, the economic agents should use in transactions euro as the currency of payment, and the US dollar as the currency of consolidation. One of the main benefits of the introduction of the euro is that the euro will reduce costs for Romanian firms incur as a result of foreign exchange. These costs, according to estimates, represents about 1-2% of the transaction value. Also, due to the single European currency, it is saved valuable time in business management, the necessity of risk analysis disappear, and also disappear the necessity of expenditure-profit analysis for each transaction carried out by the firm. Another benefit resulting from the adoption of the single currency by Romania is that it simplifies business performance assessment conducted in terms of the enterprise, and is no need to take account of currency volatility. Easier access to export markets of any member countries is another advantage that could be exploited after removing monetary barriers within the EU. In this case it will reduce the number of intermediaries, so that enterprises will increase their income as a result of direct exports carried out and also will become more competitive in terms of price offered. Another important benefit that is offered by the European single currency is the transparency. This means that all prices in EURO will help Romanian companies to choose their suppliers that ensure the lowest cost and to export their products in those countries where they can get the highest income. For Romania, a particular importance resulted from introduction of the euro is the European Central Bank, which began operations in Frankfurt and took over several tasks of the IMF in terms of funding and pursuing policies consistent pricing. All the benefits listed above will lead to the increase of medium and long term economic growth rate of countries in the Eurozone. Risks arising from the entry into service the European single currency in Romania are few, but have a direct impact on everyday life and the financial system. The best known of these risks is the general rise in prices which is due to lack of familiarity of the population with new prices expressed in euro, the speculation of rounding errors. Another risk related to the transition of the Romanian economy to the single currency is proper sizing of short-term liquidity in the banking system in Euro, given the request for cash in Euro. The loss of choice for yhe level of inflation rate and the exchange rate loss are another disadvantage arising from participation in EMU. It should also be mentioned that changing the national currency in favor of the single currency implies loss of control and power of decision on monetary matters and the flexibility decisions that preserves the Romanian economy to external shocks.

Conclusions

This paper brings the arguments regarding yhe fact the single currency can bring both advantages and disadvantages for the participating countries, but also highlights Euro effects on businesses and individuals. Changeover involves a number of risks. The major risks arising from the disparities that persist between countries regarding the budgetary, fiscal and social protection. The second risk is related to the fact that a single monetary policy would require sacrifices and risks from developed countries, rich, embodied in transfers of resources in favor of poorer countries. Analyzing how a stable or unstable Euro can affect the business world, we can conclude that: Euro stability is at least as important as his power because an unstable currency is a scourge for growth and investment; the unstable currencies strengthen the dependence of economies to trade, destroys the investments and split up the business environments.; changes in interest rates in the euro area have a direct impact on investment income expressed in EURO currency; the Euro becomes more unstable when there are common changes in interest rates; changes in exchange rates can have a significant impact on inflationary pressures and can play a crucial role in determining the overall economic competitiveness of export-oriented industries. One of the main benefits of the introduction of the euro in Romania is that the euro will reduce costs for Romanian firms incurred as a result of foreign exchange. Due to the single European currency, disappear the necessity of expenditure-profit analysis for each transaction carried out by the firm.

Risks arising from the entry into service the European single currency in Romania are few, but have a direct impact on everyday life and the financial system. Finally, weighing both the benefits and risks of crossing the Romanian economy to the European single currency, we can say with certainty that the direction chosen by the Romanian political class is correct, namely the trend of integration in EMU, which in the medium and long term will contribute to achieving benefits for the entire Romanian society as a whole.

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Eco – Innovation in European SMEs: between Limitation and Possibilities

Ionica Oncioiu[1]

Abstract: During the recent decades many SMEs have started to use the term eco-innovation to describe the contributions of business to sustainable development while improving competitiveness. According to literature review, eco-innovation can be generally defined as innovation that results in a reduction of environmental impact, no matter whether or not that effect is intended. This paper examines whether using eco -innovation is an opportunity for increasing the competitiveness of SMEs at a European level. An empirical study is carried out using data from 112 European SMEs between May 2014 and December 2014 in the following areas: agriculture, manufacturing, environmental industries and construction. The results of this study show that the eco-innovative barriers and engagement in green innovative activities are strongly related to the SME's adoption performance. Moreover, this paper also provides that eco-innovation is therefore a powerful instrument, combining reduced negative impact on the environment with a positive impact on the economy and society.

Keywords: eco-innovation; SMEs; sustainability

JEL Classification: O32; O33; Q01

1 Introduction

The term eco-innovation seems to have first appeared in ‘Driving Eco Innovation’, a book by Claude Fussler and Peter James in 1996. The authors defined the concept as “new products and processes that provide customer and business value while significantly decreasing environmental impacts”.

Based on the Oslo Manual and drawing from other authors (e.g. Reid and Miedzinski, 2008; MERIT et al., 2008), eco-innovation can be described as “the implementation of new, or significantly improved, products (goods and services), processes, marketing methods, organisational structures and institutional arrangements which, with or without intent, lead to environmental improvements compared to relevant alternatives”.

Based on literature review, various eco-innovation activities can be analysed along three dimensions: targets (the focus areas of eco-innovation: products, processes, marketing methods, organisations and institutions); mechanisms (the ways in which changes are made in the targets: modification, redesign, alternatives and creation); and impacts (effects of eco-innovation on the environment).

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The application of the eco-innovation concept offers a promising way to move industrial production in a more sustainable direction and respond to pressing global challenges such as climate change. Also, the International Energy Agency (IEA) predicts that the global energy-related CO2 emissions will increase by 25% by 2030 even under the current best policy scenario (IEA, 2007).

More recently, Governments in OECD countries have supported to help achieve ambitious environmental and socio-economic goals simultaneously, as environmental and innovation policies can reinforce each other. The survey from ten OECD countries (Canada, Denmark, France, Germany, Greece, Japan, Sweden, Turkey, the United Kingdom and the United States) found that an increasing number of countries now perceive environmental challenges not as a barrier to economic growth, but as a new opportunity for increasing competitiveness.

To help companies step up their contribution to create a sustainable society while remaining competitive in the global market, the World Business Council for Sustainable Development (WBCSD) introduced the concept of eco-efficiency, which was put forth as one of industry's key contributions to sustainable development at the time of the UNCED in 1992 (Schmidheiny, 1992).

However, it explores the conceptual relations between sustainable manufacturing and eco-innovation as a means of analysing current initiatives from a broader perspective and spreading good practices in the sectors, especially among supply chain companies and small and medium-sized enterprises (SMEs) (Maxwell et al., 2006) . Initiatives and programmes for SMEs that promote eco-innovation are diverse and include both supply-side and demand-side measures.

In the EU, eco-innovation has been considered to support the wider objectives of its Lisbon Strategy for competitiveness and economic growth. In 2004, the Environmental Technology Action Plan (ETAP) was introduced to promote the development and implementation of eco-innovation. Eco innovation now forms part of the EU's Competitiveness and Innovation Framework Programme 2014-2020, which offered EUR 80 billion in funding to stimulate the uptake of environmental products, processes and services especially among SMEs. Eco-innovation is therefore a powerful instrument, combining reduced negative impact on the environment with a positive impact on the economy and society.

The paper is structured as following – firstly we review the relevant literature regarding eco-innovation barriers for European SMEs, then we describe the methodology and the data we employ from the analysis. The sectors involved in the survey are: agriculture, manufacturing, environmental industries and construction. Finally, we conclude and suggest some policy implications of the analysis.

2 A Brief Overview Regarding the Barriers Hindering the Adoption of Eco-Innovation in European SMEs

The primary focus of eco-innovation, as of conventional innovation, has been the development and application of different technologies, but recent evidence suggests that non-technological changes are becoming more important (Reid and Miedzinski, 2008). Also, from a practical point of view, it is important to show that the eco-innovation improves overall environmental conditions.

The emerging opportunities SMEs expanded the scope of intervention from environmental technologies to also include non-technical eco-innovation, a real focus on the global dimension and increased attention to networking. The actions are in two broad areas: additional actions specific to eco-innovation and going beyond the Europe 2020 flagships and global actions.

Rennings and Zwick (2003) define five drivers of eco-innovation: regulation, demand from users, capturing new markets, cost reduction and image. The EC-funded IMPRESS survey found many reasons for introducing eco-innovation besides complying with regulations. They include: improving the firm's image; reducing costs; achieving accreditation; as part of product and service innovations; securing existing markets; and increasing market share.

According with the European Commission in its Environmental Technologies Action Plan (ETAP 2014), five groups of barriers are identified:

- Economic barriers, such as the higher cost of investments in environmental technologies because of their perceived risk, the size of the initial investment or the complexity of switching from traditional to environmental technologies;
- Legislative barriers, when legislation is unclear or too detailed, while good legislation can stimulate environmental technologies;
- Insufficient research efforts, coupled with inappropriate functioning of the research system in European countries and weaknesses in information and training;
- Inadequate availability of risk capital to move from the drawing board to the production line;
- Lack of market demand from the public sector, as well as from consumers.

Another author makes a distinction between the following types of barriers:

- Technological barriers: availability of technology for specific applications;
- Financial barriers: research and development costs of technology;
- Labour force-related barriers: lack of person(s) in charge of management, control, and implementation;
- Regulatory barriers: uncertainty about future environmental regulation;
- Consumer-related barriers: risk of customer loss if output properties change slightly or if product cannot be delivered for a certain period;
- Supplier-related barriers: lack of supplier support in terms of product advertising, good maintenance service, expertise of process adjustments, and so forth;
- Managerial barriers: lack of top management commitment.

The European Council also strongly encouraged an initiative called "Small Business Act" (SBA) for Europe, to further strengthen the sustainable growth and competitiveness of SMEs, and urge its swift adoption. The review of the single market has also insisted on the need for further initiatives to better adapt the single market to the current needs of the SMEs, in order to enable them to achieve better results and more benefits. Thus, the "Small Business Act" aims to improve the overall policy approach to entrepreneurship, to irreversibly anchor the "Think small first" principle in policy making, from regulation to public service, and to promote the growth of SMEs by helping them tackle the remaining problems which hamper their development.

Also, through this document we encourage the Member States and regions to invest in innovation – these investments being sustainable and with a high added value, enhancing economic competitiveness on medium and long term.

Of the principles which aim for the innovation capacity development mentioned in SAB 2020 and place SMEs on an equal footing and improve the legal / administrative environment throughout the European Union, we must note:

- helping SMEs to benefit more from the opportunities offered by the single market;
- promoting the improvement of skills in SMEs and all forms of innovation;

- supporting SMEs to turn environmental challenges into opportunities.

The Romanian Government and Ministry of Environment and Sustainable Development, United Nations Development Programme and the National Centre for Sustainable Development have developed and published the final version of the National Strategy for Sustainable Development in Romania 2013-2020-2030.

This strategy aims to achieve medium and long term strategic objectives, as following:

- Horizon 2020: Reaching the current average level of EU countries in key indicators of sustainable development;
- Horizon 2030: The significant closeness of Romania to the average level of that year of sustainable development of EU countries.

Sustainable strategies to increase Romanian SMEs competitiveness concern:

- elaborating business strategies which include essential aspects of sustainable development aimed at increasing the capacity for research and innovation;
- developing networks / partnerships regarding sustainable development (innovation partnership – public and private sector);
- strategies for stimulating the concentration process of native private capital to increase the role of SMEs in the Romanian economy development;
- supporting national strategies for innovation and technology transfer for sustainable development (Network Centers of “Enterprise Europe Network”, Network ReNITT of Innovation and Technology Transfer Centers, innovation vouchers).

To summarize, in a world where success is almost required it can be said that sustainable development brings “prosperity” for SMEs because its message is consistent with the perspective of eco reconciliation with nature and creating a stimulating business environment for SMEs. Sustainable development requires a new kind of reference to reality and also the development of new forms of specific work organization – “smart economy” (clusters, poles of competitiveness, industrial parks, business incubators, industrial sites, etc.); it is important to develop nationwide voluntary eco-innovation roadmaps to facilitate assimilating the policy by the Member States and to increase confidence in environmental technologies.

3 Data and Methodology

Against this background, research methodology is based on 112 European SMEs between May 2014 and December 2014 considered to be representative stratified sample of EU-28 SMEs (10-249 employees). Sectors involved in the survey are: agriculture, manufacturing, environmental industries and construction. The survey instrument used for this study was a combination between an email questionnaire survey and research interviews. We also used the Likert Scale (1 = almost always, 2=to a considerable degree, 3=occasionally, 4=seldom and 5=never). The questionnaire is divided into two parts: the entrepreneurs’ perception towards eco-innovation and green entrepreneur in European business and the questions focusing on the following hypothesis:

H1: Entrepreneurs having environmental knowledge have an inclination to eco-innovation.

H2: There is a positive relationship between eco-innovation and the financial performance of SMEs.

H3: Eco-innovation can significantly affect a small and medium firm’s competitive advantage.

For the final survey, a total of 88 questionnaires were collected, containing information regarding the entrepreneur's attitude towards eco-innovation and the firm-level financial performance using eco-innovation. Evidence on barriers to innovation has revealed an important aspect that should be taken into account when dealing with data on perceived obstacles to innovation activities.

4 Result

In the internal consistency reliability, Cronbach's α coefficient is used. This study makes the message number as independent variables and eco-innovation as the dependent variable. Data was analysed using ANOVA.

Table 1 shows the results of ANOVA with participants overall shift to inspect H1. It is shown that there are significant differences regarding the attitudes of European entrepreneurs towards eco-innovation (p<0.001). The results support our predictions of H1.

Table 1. Attitudes of European entrepreneurs towards eco-innovation

	SS	*DF*	*MS*	*F-Value*	*P-value*
Between	3.821	0.78	3.821	15.024***	0.000
Within	74.750	202.22	0.163		
Sum	78.571	203			

Notes：*p<0.05， **p<0.01， ***p<0.001

Table 2 shows the results of ANOVA with participants overall shift to inspect H2. It is shown that there are the significant differences between eco-innovation and the financial performance of SMEs (p<0.001) and further analysis of the mean value of SMEs' financial performance. The results support our predictions of H2.

Table 2. Differences between eco-innovation and the financial performance of SMEs

	SS	*DF*	*MS*	*F-Value*	*P-value*
Between	1.881	1	1.881	5.24*	0.003
Within	35.394	97	0.260	19.75	
Sum	37.275	98			

Notes：*p<0.05， **p<0.01， ***p<0.001

This data was analysed using one-way ANOVA with participants overall shift to inspect H3. The result shown in Table 3 indicates that eco-innovation can significantly affect a small and medium firm's competitive advantage (p<0.001).

Table 3. Eco-innovation can significantly affect a small and medium firm's competitive advantage

	SS	*DF*	*MS*	*F-Value*	*P-value*
Between	19.315	1	19.315	51.817**	0.000
Within	28.179	101	0.264		
Sum	47.494	102			

Notes：*p<0.05， **p<0.01， ***p<0.001

By analysing the results of the survey, eco-innovation brings a large number of socio-economic benefits (over 70% increases in eco-efficiency) both for firms directly involved in its production and society as a whole (over 25% reductions of pollution). Due to the increasing impact of environmental policies and the reducing of the marginal costs of environmental policies by 50%, eco-innovation resulted from introducing innovation technologies is one of the main priorities regarding the strategy European SMEs.

4 Conclusions

In a sustainable development process there is a basic need of the harmonious, balanced use of three types of capital – economic, social and natural. This is the triple perspective from which there will be analyzed the role of SMEs in the process of sustainable development, in particular the role of marketing communication in ensuring sustainable development aspirations. SMEs will be equally regarded as the originator / generators and beneficiaries of sustainable development, so that we will deal with both the sustainable "offer" (green products, green marketing, etc.) and the sustainable "application" (sustainable consumption, green consumption, etc.), at a micro (SMEs implications and effects), mezo (regional) and macro level (country). A reference document which highlights the relationship between the world of SMEs, innovation and sustainable development is the 2020 Strategy Europe which stimulates a new kind of sustainable growth through: encouraging research and innovation, industry modernization, promoting a more efficient use of energy and resources. The initiative called for the adoption of an "Eco-innovation Action Plan" to bring to the fore the obstacles, challenges and opportunities for achieving environmental objectives through innovation. The Innovation Union aims to improve access to finance for research and innovation, to ensure that innovative ideas can be turned into products and services that can lead to growth, competitiveness and jobs. The results of this study show that the eco-innovative barriers and engagement in green innovative activities are strongly related to the SME's adoption performance. At the same time, not only firms' barriers to eco-innovation can discourage green strategies of European SMEs but they can also hinder the implementation of important EU macro policies.

To sum up, in many cases, small companies have found that what is good for the environment is not necessarily bad for business. In fact, it may lead to a competitive advantage because of better general management, optimisation of production processes, reductions in resource consumption, and the like. Experiences from European initiatives also show that a considerable number of SMEs are increasingly interested in implementing cleaner production to improve their economic and environmental performance. Today, most European SMEs focus on the environmental dimension of sustainable innovation by improving their green products. They are trying to resolve the equation: Eco-Innovation + Sustainable market = New Business Models. Therefore, eco-innovation is a key issue of today that requires a measure approach. Moreover, "going green" is progressively seen as a potentially profitable direction for European SMEs in recent years.

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Challenges Regarding the Romanian SMTEs' Struggle to Excellence through Innovation in a Global Economy

Ionica Oncioiu[1]

Abstract: The Internet and e-business adoption are the most important issues of this century for travel agencies. At the same time, e-Small and Medium Tourism Businesses do not receive the recognition they deserve in a world where success is mandatory. This is a strange fact, if one considers that 70% of the world business is represented by small and medium tourism businesses owned by visionary persons who take advantages of acting at a small scale and help create a more dynamic economy. With the current rapid transformation of markets, the first element which influences the strategy of the economic activity of travel agencies is the character of the innovation. In order to learn the current business processes and the requirements of travel agencies, interviews and questionnaires will he conducted, business processes will be observed and existing reports, forms and procedures will be reviewed. Competitive strength of Romanian Small and Medium-sized Tourism Enterprises (SMTEs) lies in competitive advantages and distinctive competencies that we possess in relation to other competitors. The paper also focuses on the question: what could the contribution of Romanian SMTEs to the development and competitiveness of tourism destination be?

Keywords: innovation; SMTEs; travel agencies

JEL Classification: O31; O33; L83

1 Introduction

The tourism phenomenon and the diversification of its forms have multiple consequences on the natural environment, the society and the economy. Meanwhile, the diffusion of the Internet usage to business environment has been tremendously increasing in the last few years. Thus, commercial introduction of the Internet has started a process of change in the travel product buying habits of both leisure and business users.

Small and Medium-sized Tourism Enterprises (SMTEs) must be able to present their products to target markets with the lowest cost distribution through access to economically tolerable electronic channels, which are known in the circles of the markets that interest them without having to become experts in computers and telecommunications. This approach requires reliable and accurate expert advice, to make the correct choice of material technology.

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During times of dramatic changes in the business environment or when SMEs exploited completely new opportunities, incremental innovations would not provide them sufficiently for rapid and large transformations. We refer to these large transitions over a short time period as radical innovations. They are also referred to with terms such as discontinuous or really-new innovate (Garcia & Calantone, 2002; McDermott & O'Connor, 2002).

The innovation capacity of an enterprise thus rests on the foundation of its resources, which have been accumulated as a result of previous activities. These resources have been shaped by the needs of the past and are subsequently applied in the current innovation process to respond to the needs of the future. The ability to come up with new solutions will therefore depend on an ability to adapt the resources in response to the new requirements of the innovation process (Eisenhardt & Martin, 2000; Pek-Hooi, Mahmood, & Mitchell, 2004; Teece, Pisano, & Shuen, 1997).

They need to support innovations that will be made to learn new tactics, improve the quality of services and strengthen their competitiveness. Network approaches are needed to enhance their relevance to the market, maintaining their autonomy. These approaches should take into account the different types suppliers (hotels, restaurants, and even organizers of cultural events), and different, perhaps conflicting interests.

The electronic alternatives' marketing is aiming at offering new or significantly improved services on the market. So, the virtual tourism may be seen as a revolutionary approach to the business attainment concept. We have to deal with some changes regarding the way in which the information is used or how the clients, the suppliers and the employees are contacted, regarding the marketing, the promotion method etc.

Currently, travel agents tend to market to local consumers, but the Internet gives travel agents the opportunity to market to non-local consumers who wish to travel to those agents' own vicinity.

Portable electronic communication devices such as cell phones, laptops, and personal digital assistants help people stay connected while away from home or office. In fact, large majorities of business travellers and pleasure travellers said that they brought cellular telephones with them on a trip taken in the past year.

The second element is the capability of the SMTEs to address those inherent challenges and also the capacity of the enterprise to muster resources and to act in a sufficiently dynamic way. Travel agencies also indicated the advantages of using the Internet as a marketing communication channel. The same results were observed in Romania with the reasons indicated previously.

With new technology and communication, operational costs are reduced, and flexibility, interactivity, efficiency, productivity and competitiveness are enhanced. Information technology has been responsible for leading the shift from product-orientated SMTEs organizations to more flexible and responsive market-orientated operation, where success depends on sensing and responding to rapidly changing customer needs. We can identify three basic types of networks used in Romanian SMTEs:

1. Internet facilitates the interactivity of the enterprise and individuals with the entire range of external world through multimedia representations;

2. Intranet consists of closed, secured or 'fire walled' networks within organizations, which harness the needs of internal business users, by using a single controlled, user-friendly interface to demonstrate all company data;

3. Extranet utilizes the same principle with external computer networks to enhance the interactivity and transparency between organizations and trusted partners.

This development facilitated (Internet and World Wide Web) an unprecedented opportunity for distribution of multimedia information and interactivity between principals and consumers. However, the information available on the Internet has introduced new practices and it is anticipated that the virtual home and enterprise will emerge. It also empowers the consumer through the provision of tailor-made products which meet their individual needs, therefore bridging the gap between the consumer and destination in a flexible and interactive way.

Background of marketing strategies in the new economy must take account of changes and progress of all environmental factors which influence action activities of financial institutions. The starting point is setting up a consumer strategy. It was shown that informed consumers in the financial markets are not only taken on a logical basis, the results of financial analysis and risk analysis, but often the psychological profile of investors, of their emotional reactions under the action of stress factors. The analysis of ordering emotional reactions of their psychological profile of investors is currently used in financial advisory work for investors.

Innovation, in general, means all those scientific, organizational, financial and commercial lead steps, intentionally or not, the implementation of new or improved products or processes. Innovation is based on the results of new technological developments, the combination of existing technologies and other knowledge acquired by a particular organization.

Smaller tourism firms tend to be more and more innovative, engaging step by step in efforts for research and development and innovation in fields related to commercialization of the existing technologies, creation of products and services and the implementation of the flexible working practices. The smaller tourism innovative firms have the agility to answer quickly to the technological changes and customer’s needs. However, they can experience problems in acquiring the resources needed to answer to rapid changes; some of them solved this problem by joining to the cooperation networks in order to improve their innovative capabilities.

On the other hand, innovations may represent novelties in one or along several dimensions. They may provide new products or services to a market; they may introduce new technology to existing products; they may introduce new forms of organization of a SMEs or a value creation chain. The focus here is on innovation processes that are more than minor improvements of existing products or processes.

The aim of this paper is to investigate the current state of innovation in Romanian SMTEs and try to answer to the following question: what are the factors that influence the low level of innovation in Romanian SMEs? The research will also establish constituents which are essential for the successful strategies of development of an innovation framework for SMTEs.

2 The Contribution of Romanian SMTEs to the Competitiveness of Tourism Destination

In the 'Digital Economy', tourism businesses should use digital distribution channels for their product (in conjunction with traditional) to come into contact with consumers, which means investment in hardware and software products as well as ability to the skilful use of new media. The SMTEs do not normally have the required qualifications and financial ability to exploit the opportunities of the Digital Economy. We disseminate product information, knowing what distribution options are available to them. These companies must be able to present their products to target markets with the lowest cost distribution through access to economically tolerable electronic channels, which are known in the circles of the markets that interest them without having to become experts in computers and telecommunications. This approach requires reliable and accurate expert advice, to make the correct choice of material technology.

The innovation provides an unprecedented opportunity to improve the competitiveness of SMTEs after bridging the gap with their customers, reduce the dependency and strengthen the channels using force. We also note that these benefits will last until the time and their competitors will emulate and set up systems similar to those in business.

Nevertheless it is clear that SMTEs, as well as remote areas are established, continually removed from the mainstream economy industry, since they cannot tolerate the cost. In addition, their independent and flexible nature creates serious obstacles to their integration in the rapid evolution.

We must not forget that ICT increases the levels of competition for all types of businesses. The ignorance of SMEs in the field of ICT and lack of infrastructure in the regions may cause additional disadvantages, because they are not only less likely than large corporations to exploit these opportunities, but also because they encounter fiercer competition from international organizations.

In this way, economy can be strengthened in these areas, since they will be able to evaluate and take advantage of improvements in infrastructure, and benefit from the incentives of their competitiveness. It will thus be able to offer the SMTEs a 'cut' in measures of customer commerce product, based on individual preferences. Despite these, however, the majority fails to understand evolution, because of lack of purchasing research and understanding of ICT. Therefore, SMTEs must take action to improve their products and distributing them.

In the same time, the economy distribution channel is arguably the most fundamental, but still on the market under investigation and management of economy. The variety and flexibility of use shows that the investigation should be extended to several levels, looking at distribution options and agencies promote equitable agreements between two members of the economy channel distribution.

The major technologies used by economy may create incentives for the beginning of an investigation on future developments in the economy industry.

The success of the innovation is largely dependent upon the accuracy and timeliness of the information it contains. This is a challenge because the commerce information is so specific and variable. Prices, plans, events are changing the days, weeks, months and seasons. Furthermore, commerce products require a complex thought to describe and illustrate the indefinite product to potential buyers. These two important characteristics to determine the design of electronic purchasing space creates a challenge for designers of these systems. If the service chosen is part of the information availability that is now changing even more, it will require more frequent updates from their suppliers.

Other specialists present the following paradigm shifts: from traditional advertising to interactive marketing and from developing and managing one-way information flows in electronic commerce.

The level of experience, knowledge and expertise of the Romanian SMEs already convinced some customers willing to pay for the extra value incorporated into the services and products they are looking for. In their role as information consultants, many agents now have access to a far wider audience than they have had traditionally.

At the same time, the Romanian SME is multi-dimensional content-marketing where we are expected to exploit the Internet in order to offer innovative interfaces for direct communication with consumers and support the emerging future trend to home shopping.

To become or to remain competitive, Romanian companies must continually develop ways of operating through more sophisticated strategies aimed at increasing research and innovation capacity and functioning in a business environment to the highest level. The competitive advantage of Romanian SMEs will depend on the state to create attractive conditions for such local or foreign companies to find ways most effective way to mobilize them. Creating a stimulating business environment for SME growth and their competitiveness is based on the national strategy and government policies to facilitate an incentive framework for foreign investment and development of commercial partnerships with small and medium firms in other countries. This should be stimulated along with the concentration of domestic private capital to help boost the sector's role the Romanian economy.

However, economic analysts are optimistic considering that previous experiences show that any difficult situation stimulates legal, fiscal or accounting creativity, and that management innovation helps companies quickly overcome the crisis by strengthening the administration of the competition for new customers and new markets. One of the leverage keys to increase competitiveness is management innovation. Still, Romania stands out through a low degree of innovation, but what is even more worrying, also through a highly reduced capacity to disseminate innovation. Economic analysts also state that this period provides Romanian companies with the opportunity of self-analysis and improvement, since the need for good strategies is particularly intense.

3 Methodology

The survey instrument used in this study was as a combination of a questionnaire survey and research interviews. The type of questionnaire is a self-administered postal one and it included a short glossary explaining the purpose of the survey. The questionnaire is divided into three parts and has a total of 35 questions. To collect data from interviewees a number of 207 Romanian SMTEs were contacted by phone between June 2014 and December 2014.

Research interviews will then deepen and expand the results of the questionnaire topics. The development and the design of the questionnaire and the research interviews will be obey and observe three maxims of scientific method: construct validity, internal validity and external validity.

A central role in both the questionnaire and interview surveys will be played by the construction of scoring variables. They will be the pivotal element in developing a typology classifying an innovation of Romanian SMTEs in strategies of development economic activity.

4 Results

This study analyses the quantitative and qualitative results of questionnaire and interview. Four hundred fifty representatives from different Romanian SMTEs that approved to participate in this survey were distributed the questionnaires as sample respondents for this study. Despite the repeated reminders, 170 filled-up questionnaires were received back in total. After elimination of received filled-up questionnaires in which item responses were missing, the final sample consisted of 148 responses. The usable response rate of 42,57% based on total number of respondents received the questionnaires are within the range typically reported for research studies in social sciences. Based on the scoring results in the questionnaire and the interview cases presented in table 1, typology for the companies' innovation process was derived. The typology of Bayer and Gann is widely accepted as being useful to assess the organizational behaviour Romanian SMTEs.

Table 1. Frequencies of the Types of Innovation process

Type of innovation process	Questionnaire Results		Interview Results	
Reactor	63	42,57%	10	45,45%
Defender/Prospector	36	24,32%	5	22,27%
Analyser	40	27,03%	3	13,64%
Pattern not evaluated	9	6,08%	4	18,64%
Total	148	100%	22	100%

To validate the scoring approaches, the multivariate methods of factor and cluster analyses were applied. The constituents of the scoring variables are a factor of analysis, and the resulting factors would become input for a cluster analysis. The present analysis also had the aim to investigate the state of planning and how innovation process of Romanian SMTEs is linked with it. However, the investigation has also revealed that business planning for Romanian SMTEs is developed only in a rudimentary way. The results of the questionnaire and the research views have shown that firms having a controlling unit use to assign it implement an innovation process of the strategy of economic development. The results also showed that; only 47,5% of the customers had been using the web sites of Romania travel agencies. Others either did not know if the agency had a web site (34%) or indicated that the agency did not have a web site (25,37%).

Lack of security was still a valid problem for Travel agencies web site users 78.6 per cent of the users did not check the security checkbox as a property for the web site they used. Another deficiency indicated by half of the customers was that all of the products / opportunities of the travel agency were not included in the web site. Some of the respondents made comments about the deficiencies of the web sites. These included the need for a comparison page for the services and a better and easier design. The expectations of customers from the web sites of travel agencies were also asked to all of respondents. According to the results, it can be said that 82% of the customers wanted to learn the prices of the services offered, and this was the most common expectation. It was followed by the advertisements of tours with 74,3% and transport information with 67,2%. This information was also provided online by Travel agencies which had web sites. 64,6 % of the customers wanted to see the photos or maps of the region they were planning to go, but only half of the web sites provided this service. The other services that more than half of respondents wanted were contact information, information about regions, travel insurance, promotions, tour sales/ reservations and different types of payments. The paper concludes that the model goes a long way to explaining the behaviour of SMTEs with regard to e-commerce. The model appears to be viable and could be used to analyse and diagnose the situation regarding e-SMTEs.

4 Conclusions

The influence of innovation in the strategy of Romanian SMTEs' development economic is mixed: both negative, by the superior concurrence, the increase of the turbulence of the businesses environment, and positive, facilitating the access to new markets of provision and sale, the acceleration of the know-how transfer, the access to new technologies, partnerships and strategic alliances at international level, etc. This innovation process is based on defining groups of companies having similar sets of scoring values and for validation there are applied types of risk management (reactor, defender/prospector and analyser) in contrast to the original four types of Bayer and Gann (2007). As justified by the scoring approach, this category led to merging of the two central types of Bayer and Gann into one. Empirical SME research in Romania faces several problems. Regarding size classes, the research object of Romanian SMEs has a very homogeneous structure. This study aims at covering the total range of SMEs including also the class of micro firms. So, for future studies it would be interesting to focus exclusively on the class of micro firms. Such a research project would require investing considerable time in collecting data. We certainly have many casualties among SMEs due to the incorrect application of innovation process, as we will have winners of the crisis, and the winners will be those who will be able to make accurate forecasts on medium and long term and manage the risks.

The results of questionnaire and interview deliver that the company size is an essential factor to distinguish the sophistication of Romanian innovation systems. Another factor for judging the innovation of SMEs is the personality of the owner or the Romanian managing director. Here the educational background and the interest business management topics play an important role, with owner-management showing more deficits than other managers. The interviews have revealed that some Romanian owner-managers have quite a fatalistic attitude towards innovation process. With increasing company size the problem becomes dramatic, but regulations for replacement and succession are generally established badly. In conclusion, the vision is the key to success of ICT in a highly competitive tourism industry. SMTEs are likely to use ICT to coordinate distance companies setting up branches and intra-organizational networks. Also, they have a fixed degree of endo-organizational electronic communication using technology to take deductions from employees and even to promote their products and unique offers. However, the use of ICT in the tourism distribution channel is very primal in relation to the capacity of emerging technologies and opportunities for streamlining and efficiency secured. The vast majority of small tourism businesses is hardly used the potential of ICTs and tend to use specialized applications to facilitate only some services such as accounting, payroll and deductions. So, once the business is small, they often feel that ICT cannot offer sufficient benefits to vindicate the required investment and should be used only by large enterprises. This is also shown by their inability to understand their future ICT needs, as opposed to big companies, which seem to have long-term plans for ICT. For this reason, we recommend a global participation so that customers can know precisely the availability and tourism businesses in turn to provide easy, cheap, efficient and reliable confirmation of booking.

The Romanian SMTEs should also find ways in which the use of ICT will make them able to achieve sustained prosperity satisfying their customers to offer them the best experience.

The use of the INTERNET, such as applications in the WWW, is another likely topic for investigation, having revolutionized the concepts of communication, and introduces unique opportunities for interaction with business customers.

5 Acknowledgement

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Quantitative Aspects of the Gap between Romania and the European Union

Florin-Dan Pușcaciu[1], Viorica Pușcaciu[2], Rose-Marie Pușcaciu[3]

Abstract: GDP per capita is an indicator that can be used in performance for international comparisons performance and which will provide information on the existence of differences of development. In this study we aim to determine the current position of Romania, starting from the evolution of GDP per capita in Romania and the EU average foreshadowed during 1990-2013 years. Taking into account the position of our country at the pole of poverty in the EU, we want to quantify the changes that have recorded growth rates, so Romania to reach the EU average. We pay special attention to the analogy by extrapolation method that can quantify the evolution of the gap, expressed in time, and thus, we use the parabolic functions.

Keywords: GDP per capita; time series; extrapolation by analogy

Introduction

An indicator that captures the level of development of a country and it can be useful in international comparisons is GDP per capita. It is a macroeconomic indicator which reflects the sum of the market value of all goods and services for final consumption goods in all branches of economy within a country within a year, reported on an inhabitant. (Modern Economy Macmillan Dictionary, 1999) Based on per capita GDP can highlight the material prosperity of individuals in a country. In this context an analysis of a country, like Romania, considered to represent a useful step. Romania in the last quarter century recorded two moments that marked the history. They are as follows: the former moment was the revolution of December 1989 when it was abolished the comunist dictatorship and when Romania went from centralized economy to a market economy; the latter moment was the accession to the EU in January 2007. In spite of significant economic and social costs borne by the population in transition to a market economy, Romania is far away from the registered EU development environment. This hypothesis of poor country EU has many causes, including: historical heritage, lack of coherent programs of development, lack of adequate transport infrastructure, the origins Balkan endemic corruption and exacerbated the political change of regime etc. For presenting the current level GDP per capita in the EU countries and also held the position of Romania, see Figure no. 1. Average number of this indicator in the EU is approximately 20,000 US $ / capita, ECAC cause countries in the left down rectangle to range below average UE. As it could be seen, Romania

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registered last place in terms of GDP / capita, having about 8,500 US $ / capita, after Bulgaria. We precise that this chart was made and also used data from Wolfram program Mathematica. Taking into account this position of Romania in the EU, our approach tries to analyze the GDP per capita in the period 1990-2013, in order to determine if there are prerequisites for Romania to register an elimination of gaps separating the EU, or is condemned to remain the EU periphery.

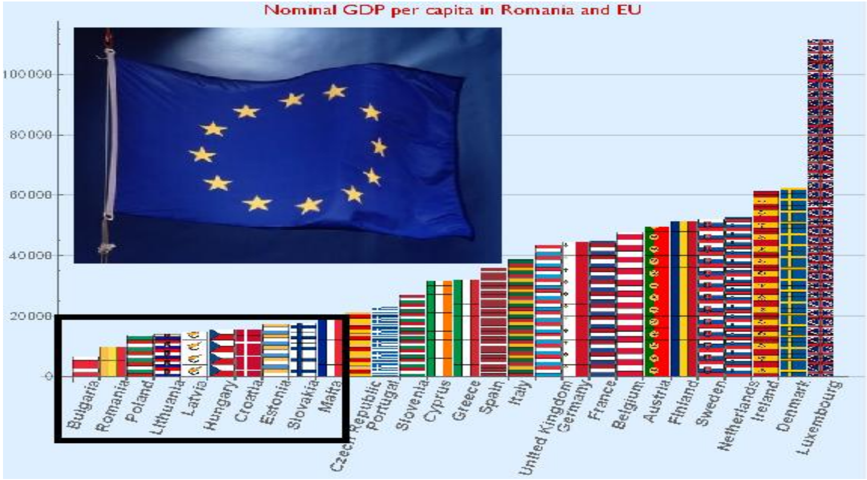

Figure 1.

Evolution of nominal GDP per capita in Romania and the EU average is shown in Figure no. 2 in which it can be seen, on the one hand, much lower initial level of the indicator recorded by Romania and, on the other hand, this gap not diminish during the period.

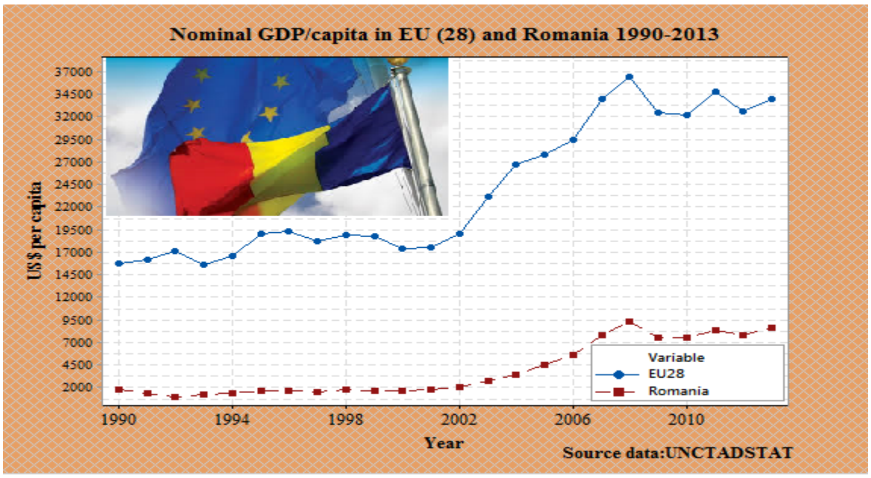

Figure 2.

Thus, in 1990 if the EU average GDP per capita was US $ 15,678 $ 1735US Romania scored in 2013 the following values 33916.5, 8592.2 respectively.

Based on data on the evolution of the difference between the level of GDP per capita in the EU average and Romania was obtained following regression equation:

Diference EU-ROM nom = 12596 + 590.3 t; where t is the time 1990 = 1

S = 1903.55; R-Sq = 83.4%; R-Sq(adj) = 82.7%

Analyze of Coefficients

Term Coef	SE Coef	T-Value	P-Value
Constant	12596	802	15.70	0.000
t	590.3	56.1	10.52	0.000

Analysis of Variance

Source	DF	SS	MS	F	P
Regression	1	400744191	400744191	110.60	0.000
Error	22	79717474	3623522		
Total	23	480461665			

The analysis result about significant coefficients and variation of the linear model of the relationship between the level recorded for the difference in GDP per capita between the EU and Romania. P-value for the null hypothesis tests each coefficient. That is equal to the coefficient zero (no effect). Therefore, low p-values suggest the predictor is a meaningful addition to your positive model. The positive sign t coefficient of regression equation highlights the direct relationship between time and the difference in GDP per capita, ie the passage of time this gap increases. The tendency is an ascending one, so the trend that we consider is "a broad, continues movement of the whole system" as defined by G Yule and MCKendall. (Yule & Kendall, 1969 p. 632) The value of this coefficient represents the average GDP gap change due to changes by one unit of time variable, i.e. the difference between GDP per capita increases by 590.3 USD from one year to another. This trend is displayed by the graph below:

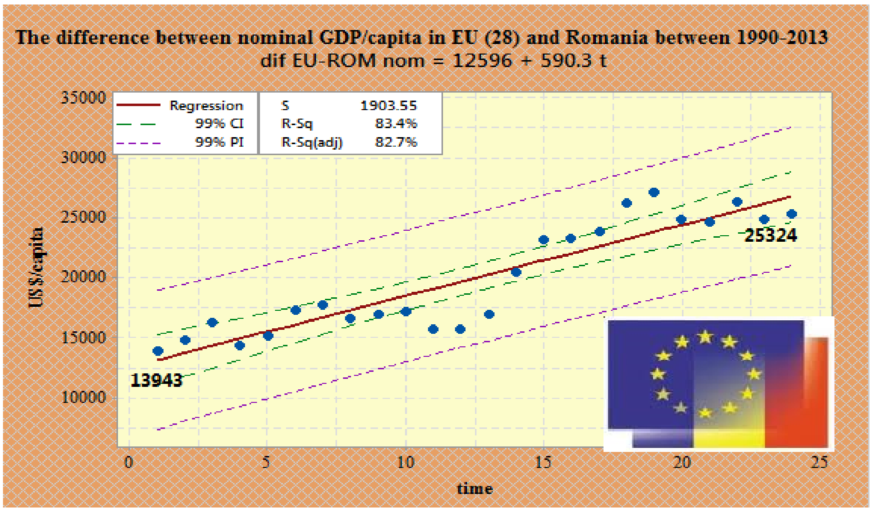

Figure 3.

Analysis of the evolution of the difference between GDP per capita in the EU and Romania can be achieved in terms of time, ie to determine the time gap separating the two entities. For this purpose we use an extension by analogy. Extrapolation method starts from time functions of the indicator compared in the two entities compared to a time lag. (Hetman, 1969) The method evidences such premises if there is a leveling of the indicator and also determine the range time you might realize.

Thus, for an evolution of indicators that can be adjusted by a second-degree regression function of time, we have:

$$y_1 = a_1 + b_1 t_1 + c_1 t_1^2 \qquad\qquad y_2 = a_2 + b_2 t_2 + c_2 t_2^2$$

Let's suppose it exists a time delay d between the first and second regression of the form:

$t_1 = t_2 + d$ and solve the equation $d = solve(y_1 = y_2, d)$

it will obtain the time lag depending on the time recorded by one of the functions of regression. The result will be one of the form:

$$d_1 = \frac{1}{2}\frac{-2c_1t_2-b_1+\sqrt{4c_1c_2t_2^2+4b_2c_1t_2-4a_1c_1+4a_2c_1b_1^2}}{c_1};\ d_2 = -\frac{1}{2}\frac{2c_1t_2+b_1+\sqrt{4c_1c_2t_2^2+4b_2c_1t_2-4a_1c_1+4a_2c_1b_1^2}}{c_1}$$

The difference is a null one after solving the following relations:

$$m_{1,2} = solve(d_1 = 0, t_2) \qquad n_{1,2} = solve(d_2 = 0, t_2)$$

$$m_{1,2} = \frac{1}{2}\frac{-b_1+b_2+\sqrt{-4a_1c_1+4a_1c_2+4a_2c_1-4a_2c_2+b_1^2-2b_1b_2+b_2^2}}{c_1-c_2} =$$
$$= -\frac{1}{2}\frac{b_1-b_2+\sqrt{-4a_1c_1+4a_1c_2+4a_2c_1-4a_2c_2+b_1^2-2b_1b_2+b_2^2}}{c_1-c_2}$$

$$n_{1,2} = \frac{1}{2}\frac{-b_1+b_2+\sqrt{-4a_1c_1+4a_1c_2+4a_2c_1-4a_2c_2+b_1^2-2b_1b_2+b_2^2}}{c_1-c_2} =$$
$$= -\frac{1}{2}\frac{b_1-b_2+\sqrt{-4a_1c_1+4a_1c_2+4a_2c_1-4a_2c_2+b_1^2-2b_1b_2+b_2^2}}{c_1-c_2}$$

Based on data recorded in the evolution of GDP per capita in the EU and Romania in the period 1990-2013 it was obtained regressions presented in Table no. 1. Also, the result presents that the two regressions are statistically significant as independent variable time it has influence on GDP per capita in the EU and Romania. It is also noticed high values of R-Sq measurements which designates the respective 87,3% and 89,0% of the variation in GDP per capita in both EU and Romania, and thus is explained by the time variable.

Table 1.

Polynomial Regression Analysis: EU28 versus t The regression equation is: **EU28 = 14876 + 249.3 t + 28.76 t^2**	**Polynomial Regression Analysis: Romania versus t** The regression equation is: **Romania = 1323 - 120.0 t + 19.92 t^2**
S = 2774.10 R-Sq = 87.3% R-Sq(adj) = 86.1% Analysis of Variance Source DF SS MS F P Regression 2 1114362877 557181439 72.40 0.000 Error 21 161607720 7695606 Total 23 1275970597 Sequential Analysis of Variance Source DF SS F P Linear 1 1078100659 119.87 0.000 Quadratic 1 36262218 4.71 0.042	S = 1035.48 R-Sq = 89.0% R-Sq(adj) = 87.9% Analysis of Variance Source DF SS MS F P Regression 2 181644101 90822050 84.71 0.000 Error 21 22516443 072212 Total 23 204160544 Sequential Analysis of Variance Source DF SS F P Linear 1 164245936 90.53 0.000 Quadratic 1 17398165 16.23 0.001

The shapes of the two regressions are relatively similar but, of course, with different values, highlighting the gap between them. It can be seen in this Fugure no.4 in which besides EMPR values and adjusted confidence intervals are found .The confidence bands (or confidence intervals, CI) illustrate the range of values for the Population Likely Means. They represent a series of confidence intervals span the range of Observed That density values.

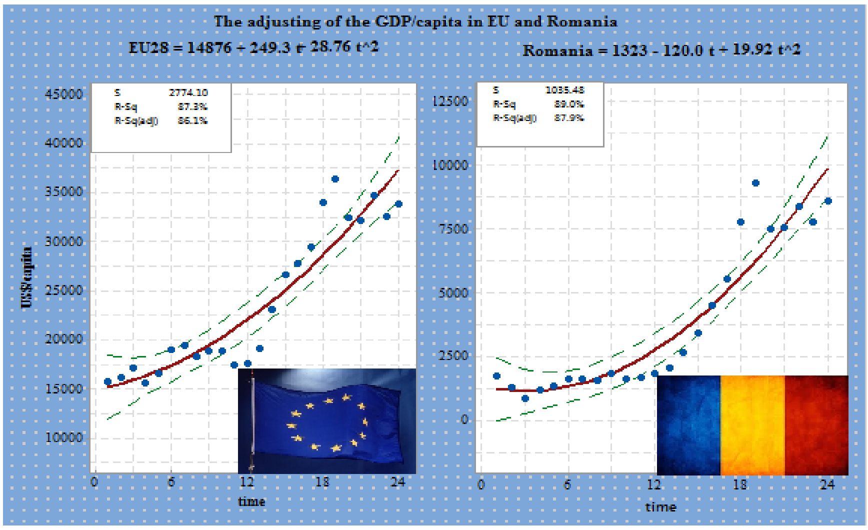

Figure 4

Applying the relation d according to t2, to the actual data is will be obtained:

$$
\begin{aligned}
d_1 &= -t_2 + 3.012048193 \\
&\quad + 0.002008032129\sqrt{3.5806210^5 t_2^2 + 3.103785 10^6 t_2 + 1.7098485010^8 d_2} \\
&= -t_2 + 3.012048193 \\
&\quad - 0.002008032129\sqrt{3.5806210^5 t_2^2 + 3.103785 10^6 t_2 + 1.7098485010^8}
\end{aligned}
$$

Now, it will be choosing an acceptable solution $d_1$whose representation is shown in Figure no. 5.

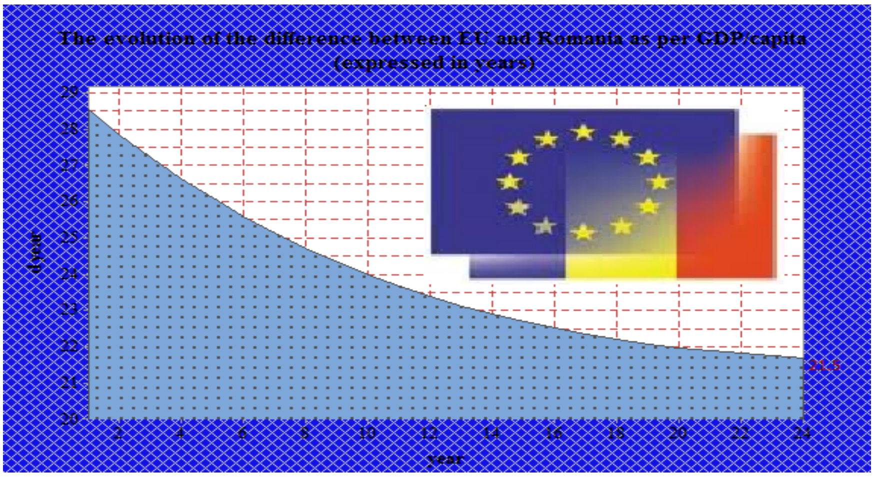

Figure 5

As you can see the time lag between GDP per capita of the EU average and Romania recorded a downward trend from 28,5 years to 21,7 years in the period 1990-2013. It is a modest reduction abd it is not able to contribute to an equalization of the two entities. The level indicator also considering the shape of the curve which becomes asymptotic to a gap of about 21 years, no future is not supposed eradication of the difference between Romania to the EU average, of course, by maintaining the same growth rates of GDP per capita. This gap of GDP of Romania's per capita versus the EU average is due to both initial level much lower in the register of Romania and average annual growth index sufficiently large to read this gap.

Table 2. GDP/capita in EU and Romania

Year	Time	EU 28	Romania
1990	1	15678.13	1734,97
2013	24	33916.5	8592.195
$\bar{I}$ of rising		**1.034118**	**1.072035**

Source of the data: UNCTADSTAT

Please note that it is envisaged geometric average growth index, determined according to the relationship:

$$\bar{I} = \sqrt[n-1]{\frac{y_n}{y_1}}$$

As it can be seen, the level of about 10 times lower GDP per capita in Romania could not be compensated by an increase in the index development environment from Romania so as to ensure eradication of the difference between the two entities compared.

We consider this approach useful in determining the level of time in which the GDP per capita in Romania will achieve a greater number of times. The relationship of calculation will be of the form:

$$t = \frac{\ln n}{\ln \bar{I}}$$

The results were recorded in the Figure no. 6 which shows that the period doubling GDP per capita in Romania is 9,6 years, the tripling of 15,7 years, 4 times increase of 19,9 years and 23,1 years for 5 times.

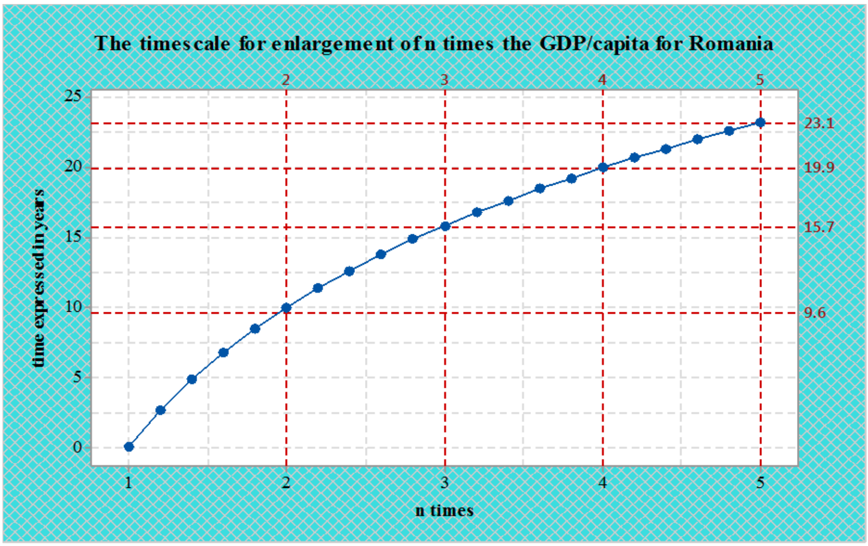

Figure 6.

If Romania had registered an average annual growth index greater time required for registering a GDP per capita of more than a number of times shown in the Figure no. 7. On the horizontal axis are submitted the number of times the GDP per capita and increasing of the number of times of the average annual growth index of GDP per capita, and the vertical axis the time required enlarging this indicator.

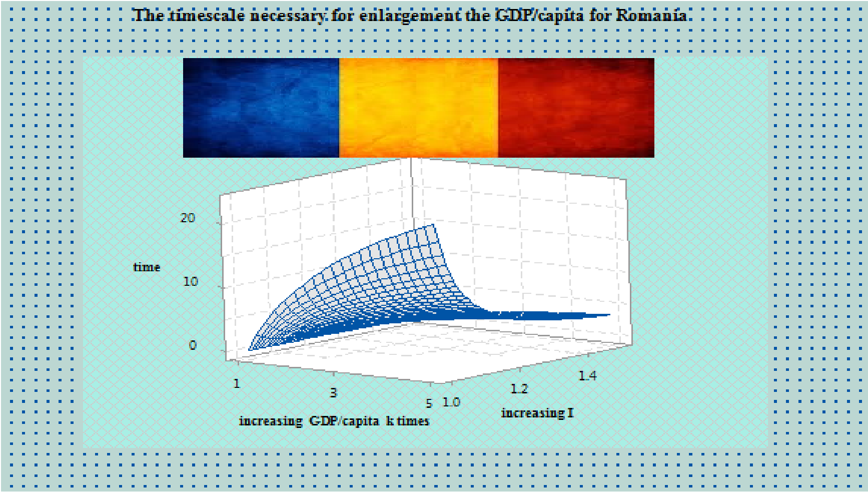

Figure 7.

Equalization of GDP per capita in Romania with that of the EU average in terms of effectiveness and growth indices initial levels can be determined based on the relationship:

$$t = \frac{\ln y_0^{UE} - \ln y_0^{ROM}}{\ln \bar{I}_{ROM} - \ln \bar{I}_{UE}}$$

in which:

y = GDP per capita in the initial period of the EU, namely Romania

$\bar{I}$ = average growth rate in the EU and Romania respectively.

As for Romania to register the same level of GDP per capita of the EU average requires about 61 years and taking into account the baseline or 1990 this will be done in 2050. If the average annual growth rate of Romania would have been bigger than a number of times, it is clear that the time of equalization it would have been much lower. This dependence between the increasing of a number of times of the average growth index of Romania on the time required to equalize the GDP per capita, under the conditions of keeping other factors unchanged thus, it is expressed in Figure no. 8. It can be seen that if the current conditions equalization will occur in 2050, given that the average growth rate of Romania was 1.5 times higher that equalization would have been produced in only five years, i.e. starting since 1994.

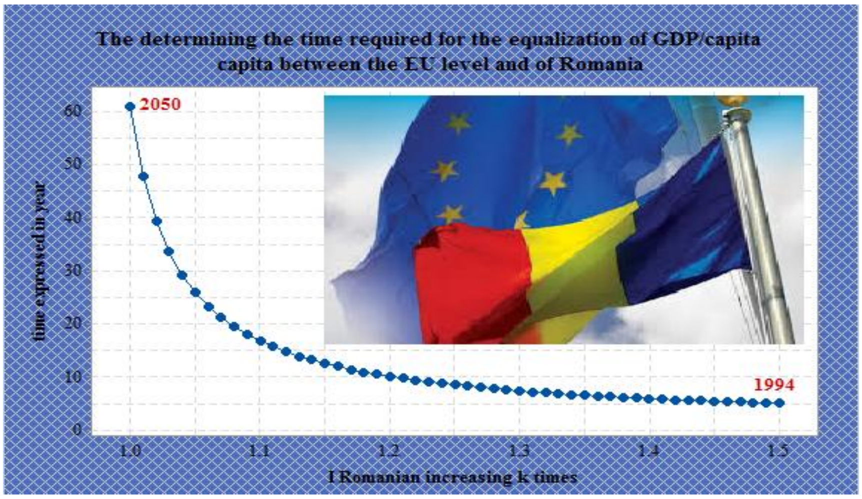

Figure 8.

For this comparison is relevant the average annual growth index; the determination is necessary to ensure equalization of per capita GDP over a certain period of time. The relationship of determination is of the form:

$$\ln \bar{I}_{ROM} = \frac{\ln y_0^{UE} - \ln y_0^{ROM}}{t} + \ln \bar{I}_{UE}$$

where t is the time that is supposed to equalize.

In the Figure no. 9 is shown the dependence of the time and average annual growth rate needed to ensure the equalization of per capita GDP. Dotted line figures index growth that was registered in Romania actually during 1990-2013.

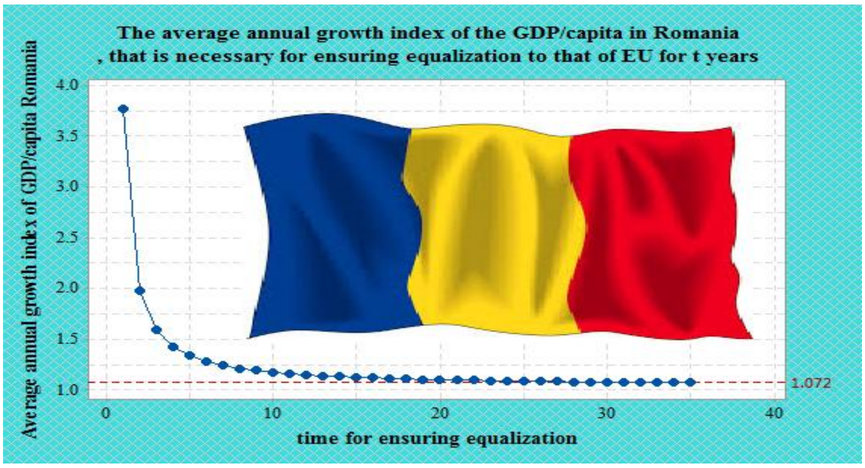

Figure 9.

But, in all our approaches we have used geometric average annual growth rate, which is the gap that relies only on extreme values of the indicators. This can be removed by calculating the growth medium parabolic index which takes into account all recorded values of indicators. Thus, if the designated growth medium parabolic index θ, with a_0 the initial series with n number of terms, we have the following relationship (Mihoc & Urseanu, 1962, p. 357)
:

$$a_0 + a_0\theta + a_0\theta^2 + a_0\theta^3 + \cdots \dots \dots \dots \dots + a_0\theta^n = \sum a_i$$

which can be processed as per the form:

$$a_0(1+\theta+\theta^2+\theta^3+\cdots\ldots\ldots\ldots.\theta^n)=\sum a_i \Rightarrow \quad 1+\theta+\theta^2+\theta^3+\cdots\ldots\ldots\ldots.\theta^n=\frac{\sum a_i}{a_0}\Rightarrow$$

$$\frac{\theta^{n+1}-1}{\theta-1}=\frac{\sum a_i}{a_0}$$

The determinating of the growth medium is done by solving parabolic equation above or on the use of tables. (Dobrescu, 1968, p. 353)
For data analysis we have:

$$\frac{\theta^{24}-1}{\theta-1}=\frac{3653.048}{100} \text{ for EU}$$

$$\frac{\theta^{24}-1}{\theta-1}=\frac{5379.4393}{100} \text{ for Romania.}$$

Whose solutions determine the following values of average of the annual growth indexes parable:

$$\bar{I}_{UE}=1.034; \bar{I}_{Romania}=1.064$$

As it can be seen, while the average annual growth indices of GDP per capita in the EU are equal, those afferent to Romania are sensitive smaller in the parabolic determining, comparing to those geometric, thus causing an even greater gap between the EU and Romania.

Conclusions

Our study showed that the level of development and economic growth of Romania is still far from the EU average index. In spite of increasing GDP per capita much higher in Romania, it was not enough to remove the gap from the EU. This is because the level of development in Romania, due to the legacy of the planned economy era and a relatively short time when EU accession. It is also added to this, the corruption that has noticeably diminished the development opportunities. The politicians did not issued plans for the development of Romania, limiting only to the issue of objectives, such as former finance minister said[1] "starting that Romania over the next 10-12 years will reach a GDP per capita equal to the EU average". Or in this work we have determined that this time is considerably higher. The benefits of the economic growth are still expected by the Romanian population, who came to believe that EU accession for which most people agree, and put his hope, this is more a political than an economic goal. Of course the internal factors are decisive in economic growth, but also external factors cannot be neglected.

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[1] See articole of Doru Cireașă, Vâlcov promite un PIB cât media UE în 10-12 ani/ Vâlcov promises a GDP as big as the EU average, in 10-12 years, *România Liberă/Free Romania newspaper*, 5 March.

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Why Foreign Direct Investment- Albanian Case

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Abstract: Among other financial inflows, foreign direct investment makes a major stimulus to economic growth in many developing countries. The ability to deal with two major obstacles, namely, the shortages of financial resources and the lack of technology and skills, has put foreign direct investments in the centre of attention for policy-makers, particularly in developing countries. Albania is committed to maintaining an open environment for investments. This is vital for a long-term and sustainable economic growth. As a low-savings developing economy, with high domestic investment requirements, Albania needs to attract foreign direct investment in order to support domestic investment financing requirements. However, Albania has not been successful in obtaining substantial and consistent FDI inflows. Furthermore, the meagre inflows that the country has received have not been utilized appropriately to enhance the economic performance. The type of FDI and its structural composition matter as much for economic growth. This paper reviews the recent evidence on the scale of FDI to Albania. The paper reviews also some of the main areas of the existing policy framework for inward FDI in Albania among the major factors determining foreign companies' decisions to invest in Albania. We discuss these issues and try to make the case for a more coherent, harmonized and transparent framework to cover all foreign direct investment into Albania. The regulation of inward investment is one of several policy and institutional variables likely to influence the volume of FDI.

Key words: foreign direct investment (FDI); developing countries; policy framework; structural composition; Albania

1. Introduction

The Asian currency crisis (1997) and 10 years later the global financial crises renewed among other the significance of prudential management of foreign capital flows in countries where domestic financial markets are not yet fully developed. The crisis poses many challenges including how to best supervise financial institutions, how to efficiently manage foreign exchange reserves, and how to prudentially manage foreign debt and investments[3]. The Asian crisis was a consequence of overinvestment, some or much of it misallocated (Stiglitz, 1997).

From the viewpoint of foreign resource mobilization, the crisis highlights the urgent need to re-examine the optimal combination of foreign capital i.e., proper composition of concessional public

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[3] Akyuz Y. (1998), "The East Asian Financial Crisis: Back to the Future?" http://www.unicc.org/unctad/en/pressref/prasia98.htm.

loans, commercial loans, portfolio investment, and FDI. To change the structure of capital inflows in order to increase the share of foreign direct investment and long-term loans within total capital flows, and above all to decrease the share of short-term and potentially reversible flows, by discouraging the latter. The lower level of short-term flows makes the country less vulnerable to currency crises. In the crisis context, volatile movements of portfolio investment caused the Asian crisis, reinforced by panic withdrawals of short-term commercial loans, while, FDI was a relatively stable source of foreign capital. Moreover, multinational enterprises affiliates were instrumental in ameliorating the severity of economic collapse and facilitating the recovery process (Athukorala, 2003).

FDI is a significant long-term commitment and a part of the host economy itself. FDI brings scarce capital needed in developing countries, new technology and managerial knowhow to enhance growth and productivity (Mody, 2004). FDI is also believed to be the most stable form of financial flows (IMF, 2010).

FDI produces a positive effect on economic growth in host countries. One convincing argument for that is that FDI consists of a package of capital, technology management, and market access. FDI tends to be directed at those manufacturing sectors and key infrastructures that enjoy actual and potential comparative advantage. In those sectors with comparative advantage, FDI would create economies of scale and linkage effects and raise productivity. For FDI, repayment is required only if investors make profit and when they make profit, they tend to reinvest their profit rather than remit abroad. Another benefit of FDI is a confidence building effect. While the local economic environment determines the overall degree of investment confidence in a country, inflows of FDI could reinforce the confidence, contributing to the creation of a virtuous cycle that affects not only local and foreign investment but also foreign trade and production. However, some empirical literature reveals contrary findings for an exogenous positive effect of FDI on economic growth due to the institutional limitations of a country's capacity to take advantage of FDI externalities such as a lack of financial markets. Borensztein et al. showed that FDI is an important vehicle for the transfer of technology, contributing relatively more to growth than domestic investment. However, the higher productivity of FDI holds only when the host country has a minimum threshold stock of human capital. Thus, FDI contributes to economic growth only when a sufficient absorptive capability of the advanced technologies is available in the host economy. In fact, Alfaro et al. (2004) provide further evidence that only countries with well-developed financial markets gain significantly from FDI in terms of their growth rates.

Albania is committed to maintaining an open environment for investment but the size of financial market is small and foreign exchange and debt position is precarious. During the last decade almost half of current account deficit is covered by FDI flows. However, the sustainability of external sector can be a concern with the increase of gross external debt from 23.6% in 2004 in 38.2 % of GDP in 2009, as well as with a reduced coverage of the reserves from short-term debt, from 520% to 165% over the same period (Vika, 2011).

Albania has been making efforts to attract FDI and such efforts have been intensified with the advent of deregulation, privatization, and liberalization policies initiated at the beginning of '90s. The success of FDI policies can be judged by the size of the inflows of capital. **Table 1** documents the size of the inflow of foreign investment in Albania during the last years. With the beginning of the overall liberalization program (1992/1993 onwards) the inflow of foreign investment grew at the compound growth rate of 30 percent. However, the collapse of the infamous pyramid schemes in 1997 and the instability that followed were a tremendous setback. FDI inflows to Albania remain relatively low and grew slowly before 2006. Since that FDI increase substantially, maintaining a positive rate even during 2009, year with serious setbacks in most European countries FDI flows, in the wake of financial crises. In 2010, for the first time ever Albania saw its FDI rise to more than $1 billion, making it the second largest FDI recipient country in the SEE, after Serbia (UNCTAD, 2011).

Table 1. FDI inflows and stock in Albania 2003-2013

FDI in Albania	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Inflows											
In million Euros	156.90	278.39	212.56	258.61	481.13	665.15	716.91	793.33	630.35	665.78	953.16
As a share of GDP	3.1%	4.7%	3.2%	3.6%	6.1%	7.6%	8.3%	8.8%	6.8%	6.9%	9.8%
Per capita, in euro	51.62	91.97	70.58	86.42	162.00	225.68	244.89	272.34	217.00	229.54	328.97
Stock											
In million euro	382.33	614.22	865.00	1,056.98	1,829.58	2,061.15	2,261.44	2,435.97	3,399.90	3,261.53	2,854.19
Per capita, in euro	125.78	202.92	287.23	353.20	616.02	699.33	772.48	836.23	1,170.45	1,124.48	985.10

Source: FDI – Bank of Albania; GDP and population – INSTAT

FDI flows in Albania have also grown relatively to the size of the economy. The ratio of FDI to Gross Domestic Product (GDP) increased from 3 to 9% over the 2003-2010 period. When FDI/GDP ratios are compared to trade/GDP ratios the former are lower. Export/GDP ratio has been around 5 percentage points bigger than FDI/GDP, although this difference has diminished during the last 2 years. This suggests that trade has played a more significant role than FDI in the Albanian economy over the period under review.

The impacts of FDI flows on trade specialization patterns depend on the mode and the motive for investment, i.e. whether it is market-seeking or export-oriented type FDI. The former is undertaken mainly to provide goods and services to the local market while the latter aims to exploit particular and specific resources at relatively cheap cost and export the output back to the home country and/or other markets. In Albania, the bulk of the FDI have been directed to the services sector (85% of the FDI stock), especially telecommunication and financial sectors - which accounted for around 60% of FDI stock at the end of 2008 (Bank of Albania). Apart from FDI directed to the services sector, which were motivated by market access due to the relative non-tradability of services, the remaining share of resource and efficiency seeking FDI projects is very low, with the manufacturing sector (efficiency seeking) of 16% and very insignificant position of primary sector (like mining, agriculture etc.), even if Albania is a resource-rich country. Recently Albania has experienced remarkable growth in investment in the natural gas sector. Manufacturing FDI in Albania is concentrated in capital and labor-intensive affiliates and not in skill intensive industries. It seems that most of the investment projects are local market-oriented, coping much easier with higher investment risk and higher transaction costs than export-oriented projects.

However, they still have high significance in the Albanian economy in terms of value added, production, employment and investment activity (UNCTAD, 2010). The degree of foreign participation in the economy is similar to that in the Central European countries which have the highest indicators of FDI participation in Europe (UNCTAD, 2010).

The foreign investors played an important role in economic development, contributing to the substantial growth of permanent capital as well as to the modernization of the capital assets of the companies bought. Albanian FDI inflows as a percentage of gross fixed capital formation (GFCF)[1] increased from less than 10% in 2005 to over 19% in 2008 and nearly 23% in 2009. Among countries of the region, only Montenegro has attracted much more FDI relative to GFCF, both due to relatively higher amounts of FDI inflows and to lower amounts spent on fixed capital formation. In Albania, the ratio of GFCF to GDP was 41% in 2008, much higher than in other countries of the region. Having such a high investment rate is supportive to economic growth especially as much of the investments have gone into infrastructure facilitating business investments including FDI (UNCTAD, 2010).

2. Albania in the Global and Regional Trends of FDI

Although the Albanian FDIs are significant in absolute terms, they compare low relative to more buoyant economies of the region and globally. The share of FDI inflows to Albania in the world total remains marginal, at 0.1% in 2010, even though its share grew four times in 2006. The country's weight in the South-East European region has, however, grown remarkably from 3% in 2006 to 26% in 2010. The pace of growth continued especially since 2007 when inflows to the South-East Europe decreased while flows to Albania kept increasing. (UNCTAD 2011).

During the last decade, Southeast European (SEE) countries experienced significant economic integration into the world economy through international capital flows and especially FDI. The region become an increasingly popular destination for FDI by EU member countries and overseas multinationals, and benefited from the worldwide surge in investment flows that characterized the period 2003-07. Underpinning this growth in FDI to the region has been the policy of liberalization and deregulation, which have been embraced by virtually all the countries. Moreover, a general expectation that the more advanced countries in the region will join the EU, affected positively the FDI developments. It is believed that the prospect of EU membership and the Stabilization and Association Agreements in force or being negotiated for most countries in the region contributed significantly to the considerable increase in inward FDI in recent years since foreign investors anticipate completion of reforms in a more stable political and economic environment (Bevan et al., 2001). During the most recent worldwide economic expansion (2003-07) the average growth rate of FDI inflows to SEE was 50%, much higher than the rise experienced by the developing (25%) and developed countries (30%) (UNCTAD 2010). In addition to the adoption of liberal policies, the strategies of transnational companies have been critical in influencing the type of FDI flows to the countries of the SEE. With respect to the strategies of transnational companies, the two major motives that have influenced FDI into the region have been the desire to have access to strategic resources as well as the need to reduce production cost in order to gain competitiveness in an increasingly globalizing world economy. It is, therefore, not surprising that the bulk of FDI inflows into the SEE has been directed to those countries that are deemed to have these advantages: real estate in Croatia and Montenegro, gas and energy in Serbia and Croatia, etc.

However, Albania is not very prominent into this picture of FDI development in the region. The largest recipients of inward FDI in the Western Balkans[2] have been Croatia, Serbia and Montenegro accounting for 77% of total investments, in the 2003–07. Over this period, Bosnia-Herzegovina attracted 13% of FDI inflows and the remaining 10% was shared equally by Macedonia and Albania.

[1] FDI inflows as a percentage of gross fixed capital formation (GFCF) provides a rough indicator of the size of FDI inflows relative to total investment in the economy.
[2] Throughout the paper we use SEE and the Western Balkans alternatively. Western Balkans includes Albania, Bosnia-Herzegovina, Croatia, Macedonia, Serbia and Montenegro.

The position of Croatia, Serbia and Montenegro was still comparatively smaller than the roles of other main SEE countries - namely Romania and Bulgaria. FDI cumulative inflows in these latter countries were twice those received by Croatia and Serbia and Montenegro.

This four years growth cycle of FDI in SEE, was broken up by the global financial crisis [1] with a deterioration of the investment situation starting in 2008. The current global financial crisis is probably the most severe since the Great Depression in 1929. It has gone far beyond the financial sector and has seriously affected the real economy, with negative impacts on FDI (UNCTAD, 2009). On one hand, tighter credit conditions and lower corporate profits have weakened companies' capability to finance their overseas projects. On the other hand, the looming global economic recession and a heightened appreciation of risk have eroded business confidence and therefore companies' propensity to expand internationally. As a result, many large transnational corporations (TNCs) have revised their global expansion plans, and a large number of greenfield and cross-border merger and acquisition projects are being cancelled or suspended. The trend is widespread, hitting many sectors ranging from extractive industries to manufacturing and services. For policymakers, major concerns are how long the downturn will last and how deep it will go (UNCTAD, 2009).

Largely dependent on the completion of the privatization process, the fall in FDI inflows in the SEE countries was less pronounced. In fact, during 2008-2009 FDI inflows into SEE decreased by 20%, while FDI to the developed economies decreased by 37% (UNCTAD data).

FDI inflows to Albania have developed independently of global and regional trends during the global financial crisis, showing a continuous increase in 2009 and 2010. Major privatization deals in 2009 (the sale of 12.6% of shares in mobile telecommunication company AMC to the Greek telecommunications group COSMOTE, for €48.2 million; the sale of 76% of shares in the energy distributor (OSSh) to the Czech company CEZ, for €102 million; investments in the cement industry by Italian companies and the sale of the fourth mobile telephony license to the Post-Telecommunication of Kosovo, for €7.5 million) contributed to maintain the upward trend of FDI. In 2010, Albania ranked the second largest FDI recipient country in the region after Serbia when its FDI rose to more than $1 billion for the first time ever.

However, Albania has the lowest FDI stock relative to GDP (22% in 2008) among the countries of South-East Europe. Comparing Albania sectoral composition, financial intermediation is the only sector in which Albania's FDI share exceeds that of other SEE countries. Albania's share is much lower across all other sectors of the economy, particularly manufacturing and network industries such as energy.

3. Review of FDI Policy in Albania

The factors driving investment decisions by multinational corporations are changing. When seeking business opportunities, companies are now more concerned about financial and political risks, with a focus on stable and predictable business environments. In response, governments everywhere recognize that their chances of attracting more foreign investment depend on making their investment climates more competitive (World Bank, 2010).

Albania has improved policies that directly encourage FDI, in order to provide an encouraging environment for FDI. The regulation of Foreign Exchange granted freedom to both inward and

[1] For more details on the impact of the global financial crisis in the Balkan countries, see Cutrini et al. (2010).

outward FDI now. There are no restrictions on the legal status of foreign residents. The legal framework to encourage investment is already in place. Law 7764 "On Foreign Investment," dated November 2, 1993, was designed to create a favourable investment climate for foreign investors in the country. However, in other respects the policy environment has not always been an instrumental in channelling investment flows toward sectors considered to be of particular importance to the country's development. Although Albania's governments recognised FDI be an important bridge to developing and opened an export oriented economy, there has been never developed a consistent policy framework to bring it about.

Increasing FDI is a top priority for the Albanian government. The government decided to be more active in attractive FDI flows through: opening the privatization of state owned assets to strategic investors; providing competitive regime of corporate taxation - including a 10 percent flat corporate and income tax; taking measures to improve the business climate by streamlining business procedures through e-government reforms; setting up an institution responsible for attracting FDI, with a clear mandate. These improvements along with NATO membership and progress toward EU integration have contributed to the increase in investor interest during the last couple of years.

Policies to directly encourage FDI are a part of overall strategy to attract FDI. Foreign investors are usually attracted by three principal factors: the expected profitability of individual projects; the easy with which subsidiaries can be integrated with global strategies, and the overall quality of the enabling environment that affect the risks and expected payoff to firm considering FDI. Because countries cannot influence local market size and geography its essential they focus on improving the quality of enabling environment. Key ingredient of a good enabling environment are (Blonigen, 2005; OECD, 2002): integration with foreign market and opening to trade and investment; sound macroeconomic policies and institutions to encourage strong growth while minimizing volatility, maintain fiscal discipline and contain inflationary pressures; transparent e efficient legal and political institutions to keep business environment stable; reduce information cost and reduce resources devoted to rent seeking and corruptions; an efficient and internationally competitive corporate tax regime; flexible labour market institutions; high quality educations institutions; well-functioning capital and intermediation markets; minimise the cost of setting up and doing business; competition policy and sectoral regulatory and supervisory bodies for domestic and foreign investors; corporate governance policies that encourage sound management and accountability in private and state owned enterprises; ownership policies that encourage the participation of private and foreign investors when anticipated efficiency gain from privatisation are large.

A perception survey of 80 foreign owned firm undertaken by UNDP Albania (2010) found that the Albanian business environment had features that both attracted and deterred foreign investment. On the positive side, a relatively stable political and macroeconomic environment, flat tax, social security system and low related costs for employers. On the negative side, incentives to doing business in Albania include the implementation of laws, tax collection, VAT reimbursement, land property, skill labour force and bureaucracy in general.

The ranking of Albania has improved significantly this year (2011) in the Global Competitiveness Index of the World Economic Forum. After taking 88th position last year, Albania jumped 10 places upwards, ranking as 78th. Albania's competitiveness is being surpassed only by Montenegro and Croatia. Amongst weakest sides Albania still has to improve the general government debt, market size and financial market development.

The qualitative assessment of policies and institutions, that critically affect the environment for direct investment, Investment Reform Index (IRI) of OECD, states the Albanian position over the period 2006-2010.

Investment and promotion policy. Based on this indicators Albania ranks on the average. The legal framework to encourage investment is already in place. Law 7764 "On Foreign Investment," dated November 2, 1993, was designed to create a favorable investment climate for foreign investors in the country. Since 2006 Albania has adopted a new investment promotion strategy covering 2007-2013. Yet, in supporting investment (with a very low rate on this indicator, with 2.5 points), Albania must focus on the improvement of the services for investors since the beginning of the activity.

Easily accessible and reliable information, and efficient and predictable actions by public institutions help create a business environment conducive to investment. For instance, studies have shown that 70% of countries miss out on foreign investment due to deficiencies of investment promotion institutions in providing potential investors with accurate and up-to-date information (World Bank, 2010).

Human capital **.** A technically trained, educated, and disciplined labor force along with a country's labor laws are critical factors in attracting foreign investors. Here, Albania ranks below region average. Albania has an acute shortage of technically trained and educated labor, especially in middle managerial positions and in engineering, which may have discouraged foreign investors. In particular, Albania is at a more serious, disadvantaged position in terms of education and health compared with other developing countries that have attracted FDI at much higher level.

Trade policies and facilities. This is the only indicator where Albania ranks above the region's average. Since 2006, important progress has been made in the standards and conformity assessment. In 2008, Albania adopted the law on Standardization and Product Safety and of the Conformity Assessment, in full compliance with EU directives. In 2008, Albania adopted a new law on accreditation in order to bring its legislation in line with EU requirements on accreditation and market surveillance. Few steps are taken to apply European and international standards with regards to food safety, animal diseases and protection of plants. Albania should make sure to take public's opinion on issues of trade policies a permanent practice.

Access to Finance. Even here, Albania ranks below the average. Although there have been attempts to improve the access to financing means, Albania is among those countries in SEE where business access to external financing is very hard. In 2009, BEEP survey (World Bank) showed that 75% of companies use internal resources to finance new investments, compared to 56% of the region's average. However, the same survey shows that in Albania, information on microcredit is particularly well developed. A large number of microcredit institutions are covering most of the territory. Bank of Albania (BoA) is the authority to license microcredit institutions and to supervise the deposit taking ones. In order to further facilitate access to financing, in 2008, BoA introduced the credit registry.

Nevertheless, further improvements are needed in relation to agreements on loan guarantee, and collateral registry and real estate registry. Apart from donors programs, Albania does not have a scheme for credit guarantees. While there is a real estate registry which can be used for collecting information on collateral, the collateral on tangible assets is only partly covered by legislation. The system of registering tangible assets is not fully functional. This situation is very unfavorable for SMEs which in their large part lack fixed assets collaterals.

The role of parliaments in economic reforms **.** Here, again Albania ranks below the average. The main weaknesses are in transparency and dialogue. Important progress has been made in reforming our legislation framework in the recent years. The main objective has been to simplify our legislation and regulations. This strategy has been successful in regulations on business registration and licensing, but further work is needed to simplify other areas.

Since 2006, little progress has been made in the area of regulatory impact assessment, (RIA). The implementation of RIA in draft legislative instruments has not been formalized in the law. RIA can be a very effective instrument to optimize the efficiency and effectiveness of legislative instruments to ensure that the main objectives are achieved at minimum costs.

Taxing policy analysis Albania ranks below average of the region with regards to tax policies. The country faces problems with taxes on investments and employment as well as taxes on SMEs and multinationals. In the last years Albania has improved considerably in developing and implementing an efficient tax system. At present, the Ministry of Finance (MoF) uses a model to forecast main revenues from taxes. The model takes into consideration not only the GDP growth and inflation but also the impact of new fiscal policies. MoF is also currently developing a macroeconomic model which will be used to forecast tax collection more efficiently. The process of tax collection and public expenditures is reviewed periodically, while tax revenues are monitored on daily basis. The MoF has implemented the Medium Term Budget Plan which is based on national priorities and objectives, in order to design public expenditures.

Investments infrastructure. Albania ranks lowest in the region with regard to internet broadband access – only one person in 100 (OECD 2010). This picture is highly correlated with the situation of land line communication. The situation might improve in case providers of wireless communication will offer this service (OECD 2010).

The same situation is with land lines access, where Albania ranks one before the last country in the region. Land line penetration falls far behind mobile penetration, which as grown rapidly in the last years. This is typical for countries that development of telecommunication happened during the age of mobile communication. The time needed to install a land line is short (7 days) while the service quality (measured by interruptions and other problems for 100 main lines) is among the lowest in the region (OECD, 2010).

Albania ranks second in the region with regards to road density. This is comparable with Germany. Albania is the first in the region to spend most on road construction per year. The situation is quite opposite when talking about railway infrastructure. Albania has the lowest railway density in the region. It also ranks lowest for the level of expenditures on road maintenance. Air transportation costs are above the region's average (OECD 2010).

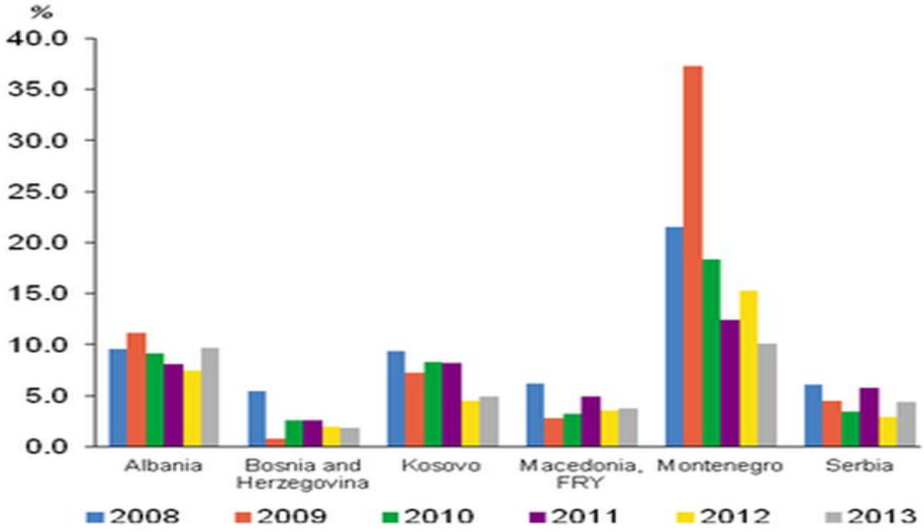

Figure 1. FDI net % of GDP (SEE countries)

Source: SEE central banks

4. Conclusions

So far FDI inflows to Albania have increased despite global financial crisis, showing a continuous increase in 2009 and 2010. Privatization has been the main contributor to maintain the upward trend of FDI. In 2010, Albania ranked the second largest FDI recipient country in the region after Serbia when its FDI rose to more than $1 billion for the first time ever. With privatization option exhausted a further global slowdown and the prolonged uncertainties around the Euro zone crisis is expected to influence Albania's economy through foreign direct investment.

In spite of privatizations, Albania has a relatively low transnationalisation index (FDI/GDP ratio) compare to other countries in the region. FDI has not facilitated much dynamic structural change into high value added production and trade. In terms of sectoral composition of FDI stock, the most salient trend has been the high concentration in services sector (mainly telecommunication and financial services) and a low FDI presence in production.

For a more sustainable path of external balance Albania needs to shift FDI from nontradable sectors received before the crisis towards the tradable sector. In the short run, this requires a further progress toward greater trade integration. In the medium term, Albania also needs to upgrade human capital and address remaining bottlenecks in infrastructure and further improve its business climate in general (in particular property rights).

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The Potential Sources of Change in Romania Regional Policy

Gabriela Marchis[1]

Abstract: There have been numerous debates on a new territorial organization of Romania during 2013 and 2014. The miracle of Romania regionalization was deemed to have contradictory effects from *territorial construction* to *dissolution*. Due to the presidential elections from the end of 2014, the process of regionalization was postponed, but some questions are still very alive: It is necessary to *regroup counties into regions*? The low development of Romania regions is caused by the lack of *administrative decentralization*? In Romania, *territorial reform* is synonym with *institutional reform*? Therefore, I consider that it is important to identify the potential *sources of change* in Romanian regional policy. The political debates on Romanian regionalization were mainly focus on *political interests*, without taking into account an important serious of *factors* that can spur growth and socio-economic development across our regions. Through this paper I try to investigate the specialised literature in order to identify some useful policy suggestions from regional scientists, which would be proper for Romania regional development, in the current context of Europe 2020 strategy.

Keywords: Europe 2020 strategy; government role; creative regions; innovation

JEL Classification: R50; R58; H75

1 Introduction

Regional integration is an old *desideratum* of Romania, that come into life by law 151/1998, when, in the context of adhering to European Union, 8 regions were outlined in accordance with European NUTS II level. The lack of *expertise* in defining and implementing regional development policies, together with the lack of *a long-run strategic vision* of policy-makers, determine that these 8 regions to be reconfirmed by law 315/2004. Even if, according to Romanian legislation, these regions are not territorial administrative units, the entire regional institution framework was constructed on the bases of these 8 regions and Romania succeeded to attract European financial assistance both in pre-accession and post-adhering periods. Without any scientific justification or practical demonstration, during 2013 and 2014, Romanian politicians advanced the idea that there is a strong need of change in Romanian territorial configuration and a series of debates took place on this issue and different models of how to *regroup counties into regions* arise. These political debates were focus mainly on *institutional reform* and on the *election/nomination procedures of representatives* in different

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institutions, without taking into account the real need of harmonious development across the country in accordance with European standards. Romanian regional integration assume to reach certain standards of socio-economic and territorial development that will allow people who live in this community to enjoy in their daily routine that there are European citizens and not to feel the need to emigrate in order to have better living standards. In this context, I consider opportune to review the regional development of Romania from the perspective of the regional science and then to try to reshape (if it is the case) the regions.

2 What is the Regional Policy and Why It Is Important?

A brief incursion in the history of EU regional development policy, reveal that European regional policy is like a *panacea* for overcoming different crisis. Over time, through its technical and financial instruments, European regional policy played a major role in rebuilding regional economies, in order to bring European economies more closely together. Founded 40 years ago, EU regional policy was focused on correcting the imbalances "*resulting notably from agricultural predominance, industrial change and structural underemployment*." (European Commission, 2015)

Throughout history, EU regional policy was the key-drive to restructure and modernizing the European economy. This policy was redesign and improved over the time in order to reach different goals, the funding and the efforts being concentrated on ensuring the widespread of wealth across EU citizens.

Nowadays, the important role of regional policy is fully recognized by all 28 member states, and confirmed by the fact that there were no cuts in budget allocated for 2014-2020, comparatively with many others policy areas. The current European regional policy is focus on investments in line with the objectives of Europe 2020 strategy. Thus, 2014-2020 EU regional policy will finance projects focused on increasing economic development, to the detriment of projects related only on infrastructure. Given that European Union is represented as a kaleidoscope of regions characterized by convergence and also by spatial differentiation, regional policy framework for the next 7 years is designed on the basis of *Partnership Agreements* between European Commission and the EU countries, which outlines the member state's strategy and a list of development programmes. These programmes are implemented by each member state, which means that each country has the major responsibility of selecting, monitoring and evaluating the projects and European Commission is monitoring each programme.

In this context, a good investment agenda in Romania implies a good understanding of regional processes related to existing economic and institutional structures.

3 What are the Factors that Can Spur Growth and Socio-Economic Development across Romanian Regions?

3.1. Romania Portrait in Terms of Innovation and Competition

For 2014-2020 programming period, in line with Europe 2020 strategy, the key-words for a genuine regional policy are: ***innovation*** and ***competition***. In order to measure the territorial competitiveness and the potential for innovation at regional level, European Commission developed the Regional Competitiveness Index, which shows the strengths and the weaknesses of each of EU NUTS 2 region.

(Annoni & Dijkstra, 2013) Accordingly to this RCI-2013, the two southern Romanian regions “Sud-Est” and “Sud-Vest Oltenia” are the worst performers.

Moreover, Romania also is situated on 28th place, the lowest position in the Europe 2020 Competitiveness Index ranking. (World Economic Forum, 2014)

Table 2. Ranks of Romania in accordance with Europe 2020 Index

	Rank (out of 28)	*Score (1-7)*
Smart growth	28	3.5
Enterprise environment	23	3.6
Digital Agenda	28	3.6
Innovative Europe	28	2.9
Education and training	28	4.0
Inclusive growth	26	3.7
Labour market and employment	22	3.7
Social inclusion	27	3.8
Sustainable growth	26	3.9
Environmental sustainability	26	3.9
Europe 2020 Index (2014 edition)	**28**	**3.6**

As it may be observed, Romania has a *very low capacity for innovation* ranking is 28th on the *digital agenda* and the *innovative Europe* pillars. Also, in the *education and training* and *smart growth* pillars, Romania’s performance is the worsts. Under these circumstances, translating the European priorities into the real investments decisions at regional and local level becomes a provocative task for our policy-makers.

3.2. Some Guidelines for Romania Long-Run Regional Trajectories

Important efforts are needed in order to develop a *long-term vision* for regional development. First of all, it is important to bring together a variety of representatives from central and local authorities, public and private stakeholders and civil society in order to *set up the priorities for development* for each area, *in accordance with the expectation and the needs of local communities and organisations*.

The real involvement of stakeholders in a decision-making process is necessary, in order to develop a *coherent and efficient agenda for investments*.

Different paths for regional development should be explored, in order to target the intervention towards that sectors that could optimise the regional evolution. Regional scientists [(Gunderson & Holling, 2002); (Folke, 2006)] show that regions, as complex system, are characterized at the same time by *the need for stability and change*. Thus, “*economic growth and human development depend on ecosystems and institutions and how they interact*”. Any region has its own capacity for *renewal, re-organisation* and *development*. This capacity for *adjustment* and *adaptation* has to be taken into consideration for *redesigning a sustainable future*.

For example, regions should not only preserve and economically enhance their material and immaterial cultural and artistic heritage, but also should transform/adapt themselves in response to external pressures, generating local development and growth. (Lazzeretti, 2013) For instance, local events (such festivals, conferences, etc.) may trigger global effects (attracting people in the region will increase the demand for transportation, accommodation, restaurants, leisure activities, local traditional products, etc. and all of these will determine the raise of funds in the community).

Therefore, innovation as key for regional development, should be understand as well as identifying the key actors and drivers of path renewal and new path creation and seek to find out to which extend such changes are related to existing economic and institutional structures.

Also, reflecting upon innovation, as the creative process by which transformation occurs from interaction between different entities, in the field of regional development, innovation might occur from *knowledge recombination*, which means to take the already existing innovations from one industry and to set and adapt them for wholly different industry solutions. The specialized literature defines this "*exploring the adjacent possibilities*". At this point, the "fertile-soil" of an area is very important. Economies with a higher degree of variety among industries perform better than those without it. Regional scientists demonstrated that "*the more diverse the economic web, the easier is the creation of still further novelty*…[leading to]…*a positive correlation between economic diversity and growth*". (Kauffman, 2008)

In other words, the potential of a region to develop more rapidly is influenced also by its rate of *connectivity*. Moreover, a strongly networked region can have an impact on a larger scale. For instance, a small region but with a high degree of connectivity can respond more rapidly to market demands and can adapt its products to novelty, being an example for the national regime. As in the saying "little strokes fell great oaks", a region may anticipate for example the slow-moving institution from national level regarding eco-innovation, and can act independently, expressing local collective interest for high quality eco-products. In this context, local initiatives are very important to spur economic growth and to transform small awakenings into strategic eco-market niche and further into a dominant design with a high potential for a national adoption. Withal, in regions where *inter-cluster communication* is possible, the knowledge will spill over among clusters and innovation will be disseminated in a more self-organised manner, even trans-national. The success over time of EU cross-border cooperation programs (such as INTERREG or CBS) carried out between different regional entities demonstrates the importance of designing policies in a transnational context, Danube Strategy, being a good example for the current programming period.

But, it is important to notice that applying the same strategy of development in different regions will result in different outcomes. That is way, it is very important to grow *awareness of civil society* and to increase the involvement of local public and private stakeholders in designing their own development strategies/operational plans, in order to better meet their needs. This *collective enlightenment* on indicators that need to change in order to fight stagnation and inertia will lead over time to a better understanding of regional development processes and to a greater involvement in a decisional process. Maybe a new generation of higher-educated policy-makers will rise.

Another aspect that will re-frame regional development concerns to the role of *learning, exploration and exploitation of knowledge*. Human capital endowment is held to be one of the key defining features of a region. Recent work of regional scientists [(Sheppard, 2000); (Porter, 2000); (Martin, 2005); (Bristow, 2005)] reveal that *attracting and retaining innovative firms*, together with *skilled labour* and *knowledge workers*, will guarantee a significant socio-economic change. If the microeconomic environment is ensured at regional level, namely *a top-line working and living conditions*, people will not emigrate and productive firms will operate in these regions, with a long-run consequences related to a strong economic growth, together with new sources of increasing returns and new network connections.

In this attempt to identify the potential sources of change in Romania regional development policy, we cannot neglect the *role of universities in promoting knowledge*. Recent studies [(Youtie & Shapira, 2008); (Power & Malmberg, 2008); (Huggins, 2008); (Benneworth, Charles, & Madanipour, 2010); (Kitagawa, 2013)] illustrates that the regional economic development can be actually achieved through the medium of higher education institutions (HEIs), which play an important role in *connecting knowledge and spanning boundaries to generate innovation*. But, in order to accomplish their mission, universities also need a proper microeconomic environment and a suitable political and socio-cultural space for fostering innovation.

The contribution of universities to the development of their region is not a new phenomenon, but without being integrated in regional growth strategies, recognizing in this way their distinctive role in the formation of the innovation agendas, their input remains unclear. In the development of regional innovation policy networks, local authorities should admit that in a region, the university is the only one that has this unique institutional characteristic of *fostering collaboration* and *building partnerships* with a broader range of sectors involved in innovation processes, such as: other higher education institutions, research centres, organizations, industry players and etc., within and without the region. Therefore, building a regional institutional infrastructure, where universities are embedded as part of the regional innovation architecture may represent the key for promoting economic growth and wellbeing through *workforce development* and *knowledge exchange*. Moreover, through their core activities, such as: professional or vocational training and placements, applied research and consultancy in different areas, universities contribute to their regions also by their *cultural and civic engagement*. According to Kitagawa (2013), "universities collaborate with local organization […] health sector, education – working with local schools on widening participation initiatives; cultural sector – with local museums, theatres, local cultural amenities or sporting organizations; third sector – including community engagement activities and student volunteering".

4 Concluding Remarks

Reshaping the Romania territory, by regrouping the counties into new regions, is not solving the basic problems of underdevelopment of Romania regions. The current regional portrait of Romania shows that the entire territorial is harmoniously underdeveloped, with the exception of the capital region, which is not very uncommon.

Re-framing regional development in Romania, in my opinion, implies a common effort and public engagement from our decisional policymakers to treat this problem in a more responsible manner, because it has very long-term effects. In the current economic climate, Romanian regional policy-makers should focus their attention in identifying the real challenges in regional development process, which is, accordingly with "The Europe 2020 Competitiveness Report - Building a More Competitive Europe", related with the *lack of basic infrastructure*, which is strictly necessary for the basic functioning of any economy and refer also to *the quality and fairness of governance* and *local public services*, which are important socio-economic determinants.

Another concern for our policymakers should be the *decreasing the bureaucracy for accessing EU financial assistance*, in order to permit the investments which will develop the microeconomic environment at regional level, with spillovers effects over time. The maximum and effective use of EU financial assistance plays a critical role for Romania regional development. Also, finding the way to *target the investments in developing the basic infrastructure* and also to *improve local public services* is a key feature that should take into account. Maybe the institutional reform should be focused mainly in *helping young people to find a job* and make use of their knowledge accumulated in their students years and not only in relation with the selection/nomination procedures of representatives in different institutions.

Moreover given that the role of knowledge and human sensibility in the labour process is essential for further development, public authorities should encourage the *cooperation* between local enterprises and HEIs, because it is essential to focus the entire efforts in developing skills, research, knowledge exchange and innovation. Recognizing the central role of university in local development and involving HEIs in designing strategies for regional development, will produce change and novelty. Furthermore, even if each university has different strengths and mission, their overall role in a region is to provide a *space for dialogue among stakeholders*. Hence, in this highly complex process of regional development, university should be involved, because it may represent not only an important solution to *respond to local skill needs in the community*, but also, through its connectivity and openness can bring partners together, facilitating the *development of ideas and projects*, and *attracting investments* from outside.

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Analysis and Trend Determination of the Evolution of Tourist Accommodation Establishments (Adjusted Data Based Seasonally) in the European Union (28) with Analytical Methods

Rodica Pripoaie[1]

Abstract: This work presents the comparative analysis and trend determination of the evolution tourist accommodation establishments in the European Union (28), adjusted data based seasonally, in the period May 2014 - December 2014 used the Analytical Methods. The principal causes of the evolution tourist accommodation establishments were: the general economic evolution of industries and GDP per capita, the relatively low revenue or low development of the infrastructure. Trend determination of the evolution tourist accommodation establishments in the European Union (28) with analytical methods requires least squares method. On the base the results of the absolute deviations between empirical and theoretical values for the linear, curvilinear and modified exponential regression, will choose the best trend equation for the smallest variation. The best trend model for evolution tourist accommodation establishments in EU (28) is modelled using linear regression equation.

Keywords: accommodation establishments; least squares method; trend

1. Introduction

A Tourism Satellite Account (TSA) is an economic measure of the importance of tourism. This TSA integrates in a single format data about the supply and use of tourism-related goods and services, and it permits a comparison of tourism with other industries since the concepts and methods used are based on the System of National Accounts.

"The tourist accommodation establishments - monthly data adjusted series is a collection of monthly, quarterly and annual series."

On the base of the evolution of tourist accommodation establishments in the European Union (28) between May 2014 and December 2014, we will adjust the series by least squares method.

We will calculate the linear, curvilinear and exponential modified regression, with the method of least squares for determining the trend of evolution tourist accommodation establishments in the European Union (28).

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Then, on the base of the coefficients of variation we will analyze the smallest variation $\sum(y_i - y_t)^2$ or for $\sum|y_i - y_t|$ and after we can choose the best trend.

2. Statistical Data

According to the data provided by the www.eurostat.ec.europa.eu the evolution of tourist accommodation establishments in the European Union (28) between May 2014 and December 2014 with adjusted data based seasonally, synthesised in the following tables.

Table 1. Nights spent total (residents and non-residents) at tourist accommodation establishments - monthly data

Nights spent	European Union (28 countries)		
GEO/TIME	**Total**	**Residents**	**Non-residents**
2014M05	222.632.381	121.991.458	100.640.923
2014M06	284.605.699	146.855.872	137.749.827
2014M07	409.160.653	217.666.521	191.494.132
2014M08	473.674.603	265.780.360	207.894.243
2014M09	268.705.197	134.186.545	134.518.652
2014M10	191.419.123	102.482.252	88.936.871
2014M11	124.510.713	74.125.038	50.385.675
2014M12	127.854.926	72.958.103	54.896.823

Sources: http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=tour_occ_nim&lang=en

2.1. Analyse of Statistical Data - Graphical Evolution

Analyse of statistical data for the evolution the evolution of tourist accommodation establishments in the European Union (28) between May 2014 and December 2014 with adjusted data based seasonally use the graphics, centralised as well as:

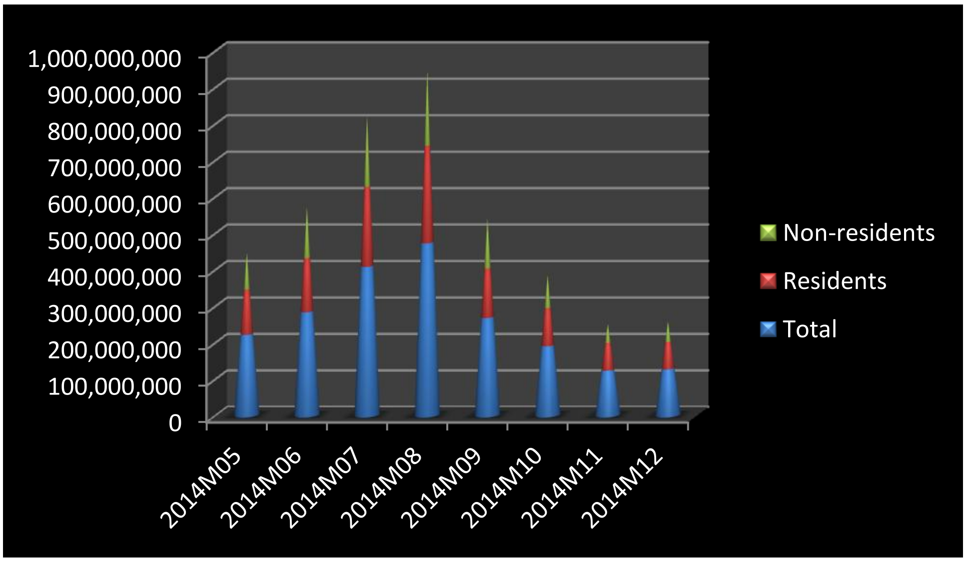

Figure 1. Evolution of tourist accommodation establishments in European Union (28)

Sources: own calculations

2.2. Determining the linear trend

Least squares method involves solving the following system of equations for a linear regression:

$$\begin{cases} \sum y_i = n * a + b\sum t_i \\ \sum t_i\, y_i = a\sum t_i + b * \sum t_i^2 \end{cases}$$

We will consider origin of the time variable the centre of the series such that $\sum t_i = 0$, because the terms of the series are consecutive numbers and the anterior system of equations becomes:

$$\begin{cases} \sum y_i = n * a \\ \sum t_i\, y_i = b * \sum t_i^2 \end{cases}$$

Table 2. Trend linear of evolution of tourist accommodation establishments in European Union (28)

Years	y_i	t_i	$t_i\, y_i$	t_i^2	$y_t = a + bt_i$	$\lvert y_i - y_t \rvert$
2014M05	222.632.381	- 4	-890.529.524	16	362810228,1	140177847,1
2014M06	284.605.699	-3	-853.817.097	9	337812774,1	53207075,08
2014M07	409.160.653	-2	-818.321.306	4	312815320	96345332,99
2014M08	473.674.603	-1	-473.674.603	1	287817865,9	185856737,1
2014M09	268.705.197	1	268.705.197	1	237822957,8	30882239,19
2014M10	191.419.123	2	382.838.246	4	212825503,7	21406380,74
2014M11	124.510.713	3	373.532.139	9	187828049,7	63317336,67
2014M12	127.854.926	4	511.419.704	16	162830595,6	34975669,61
Total	2.102.563.295	0	-1.499.847.244	60	2102563295	626168618,5

Sources: own calculations

So, on the data in Table no. 2 the system of equations becomes:

$$\begin{cases} 2.102.563.295 = 8a \\ -1.499.847.244 = 60b \end{cases} \qquad \begin{cases} a = 262.820.411,875 \\ b = -24.997.454,067 \end{cases}$$

We will obtain the linear regression equation:

$$y_t = a + bt_i = 262.820.411,875 - 24.997.454,067t_i$$

It can be observed that the linear regression equation for the evolution of tourist accommodation establishments in European Union (28) is $\boldsymbol{y_t} = 262.820.411,875 - 24.997.454,067t_i$ in the Table no. 2.

2.3. Determining the curvilinear regression equation

"For a curvilinear regression, least squares method involves solving the following system of equations:

$$\begin{cases} \sum y_i = n * a + b\sum t_i + c\sum t_i^2 \\ \sum t_i\, y_i = a\sum t_i + b * \sum t_i^2 + c * \sum t_i^3 \\ \sum t_i^2\, y_i = a\sum t_i^2 + b * \sum t_i^3 + c * \sum t_i^4 \end{cases}$$ " (Pripoaie, 2008).

We will consider origin of the time variable the centre of the series such that $\sum t_i = 0$, because the terms of the series are consecutive numbers and the system of equations becomes:

$$\begin{cases} \sum y_i = n * a + c\sum t_i^2 \\ \sum t_i\, y_i = b * \sum t_i^2 \\ \sum t_i^2\, y_i = a\sum t_i^2 + c * \sum t_i^4 \end{cases}$$

Table 3.Trend curvilinear of evolution of tourist accommodation establishments in European Union

Years	y_i	t_i	$t_i\, y_i$	$t_i^{\ 2}$	$t_i^{\ 3}$	$t_i^{\ 4}$	$y_i\, t_i^{\ 2}$	$y_t = a + bt_i + ct_i^2$	$\lvert y_i - y_t \rvert$
1	2	3	4	5	6	7	8	9	10
2014M05	222.632.381	-4	-890.529.524	16	-64	256	3562118096	361517716,1	138885335,1
2014M06	284.605.699	-3	-853.817.097	9	-27	81	2561451291	246044415,8	38561283,23
2014M07	409.160.653	-2	-818.321.306	4	-8	16	1636642612	156421357,3	252739295,7
2014M08	473.674.603	-1	-473.674.603	1	-1	1	473674603	92648540,52	381026062,5
2014M09	268.705.197	1	268.705.197	1	1	1	268705197	42653632,38	226051564,6
2014M10	191.419.123	2	382.838.246	4	8	16	765676492	56431540,99	134987582
2014M11	124.510.713	3	373.532.139	9	27	81	1120596417	96059691,37	28451021,63
2014M12	127.854.926	4	511.419.704	16	64	256	2045678816	161538083,5	33683157,53
Total	2.102.563.295	0	-1.499.847.244	60	0	708	12434543524	1213314978	1234385302

Sources: own calculations

So, on the data in the Table no. 4 the system of equations becomes:

$$\begin{cases} 2.102.563.295 = 8a + 60c \\ -1.499.847.244 = 60b \\ 12.434.543.524 = 60a + 708c \end{cases}$$

We will obtain:

$$\begin{cases} b = \dfrac{-1.499.847.244}{60} \\ 2.102.563.295 = 8a + 60c \\ 12.434.543.524 = 60a + 708c \end{cases}$$

$$\rightarrow \quad \begin{matrix} b = -24.997.454{,}067 \\ 2.102.563.295 * 15 = 8a * 15 + 15 * 60c \\ 12.434.543.524 * (-2) = 60a * (-2) + 708c * (-2) \end{matrix}$$

$$6.669.362.377 = 0 + 516c$$

$$c = \frac{6.669.362.377}{516} = 12.925.120{,}89$$

$$\begin{cases} b = -24.997.454{,}067 \\ c = 12.925.120{,}89 \\ 12.434.543.524 = 60a + 708 * 12.925.120{,}89 \end{cases} \rightarrow$$

$$\begin{cases} b = -24.997.454{,}067 \\ c = 12.925.120{,}89 \\ 3.283.557.933{,}88 = 60a \end{cases}$$

$$\rightarrow \begin{cases} b = -24.997.454{,}067 \\ c = 12.925.120{,}89 \\ a = 54.725.965{,}56 \end{cases}$$

The curvilinear regression equation is:

$y_t = a + bt_i + ct_i^2 = 54.725.965{,}56 - 24.997.454{,}067t_i + 12.925.120{,}89t_i^2$

It can be observed that the curvilinear regression equation is determined in column 9 of Table no. 3.

2.4. Determining the Regression Equation Type Modified Exponential $\boldsymbol{y_t = a * b^{ti}}$

For a type modified exponential regression of the type $\boldsymbol{y_t = a * b^{ti}}$, least squares method involves solving the following system of equations:

$$\begin{cases} \log a = \dfrac{\sum \log y_i}{n} \\ \log b = \dfrac{\sum t_i \log y_i}{\sum t_i^2} \end{cases}$$

We will consider origin of the time variable the centre of the series such that $\sum t_i = 0$, because the terms of the series are consecutive numbers.

Table 4. Trend exponential of evolution of tourist accommodation establishments in European Union

Years	y_i	t_i	t_i y_i	t_i^2	log y_i	t_i log y_i	**log y_t = log a + t_i log b**	**y_t=a*b^{ti}**	$\lvert y_i - y_t \rvert$
1	2	3	4	5	6	7	8	9	10
2014M05	222.632.381	-4	-890.529.524	16	8,35	-33,39	10,34	21627185237	21404552856
2014M06	284.605.699	-3	-853.817.097	9	8,45	-25,36	9,85	6998419960	6713814261
2014M07	409.160.653	-2	-818.321.306	4	8,61	-17,22	9,36	2264644308	1855483655
2014M08	473.674.603	-1	-473.674.603	1	8,68	-8,68	8,87	732824533,1	259149930,1
2014M09	268.705.197	1	268.705.197	1	8,43	8,43	7,89	76736148,94	191969048,1
2014M10	191.419.123	2	382.838.246	4	8,28	16,56	7,40	24831331,05	166587791,9
2014M11	124.510.713	3	373.532.139	9	8,10	24,29	6,91	8035261,222	116475451,8
2014M12	127.854.926	4	511.419.704	16	8,11	32,43	6,42	2600159,563	125254766,4
Total	2.102.563.295	0	-1.499.847.244	60	67,00	-2,95	67,00	31735276938,80	30833287760,25

Sources: own calculations

So, on the data in the Table no. 5 the system of equations becomes:

$$\begin{cases} \log a = \dfrac{\sum \log y_i}{n} = \dfrac{67}{8} = 8,375 \\ \log b = \dfrac{\sum t_i \log y_i}{\sum t_i^2} = \dfrac{-2{,}95}{60} = -0{,}49 \end{cases} \rightarrow \begin{cases} a = 237.137.370{,}6 \\ b = 0{,}32 \end{cases} \rightarrow$$

Results that the exponential trend equation is:

$\log y_t = \log a + t_i \log b = 8{,}375 - 0{,}49 t_i,$

or $y_t = 237.137.370{,}6 * 0{,}32^{ti}$

Therefore, the modified exponential regression equation is calculated in column 9 of Table 4.

3. Conclusions

Therefore**,** the best trend with the method of least squares for the evolution of tourist accommodation establishments in European Union (28) is what leads to minimum value for $\sum(y_i - y_t)^2$ or for$\sum|y_i - y_t|$.

The data obtained in previous calculations we can summarize in the following table, no. 5 thus:

Table 5

Years	Linear regression equation		Curvilinear regression equation		Modified exponential regression equation	
	$\mathbf{y_t} = a + bt_i$	$\mathbf{\lvert y_i - y_t \rvert}$	$\boldsymbol{y_t = a + bt_i + ct_i^2}$	$\mathbf{\lvert y_i - y_t \rvert}$	$\mathbf{y_t = a * b^{t_i}}$	$\mathbf{\lvert y_i - y_t \rvert}$
2014M05	362810228,1	140177847,1	361517716,1	138885335,1	21627185237	21404552856
2014M06	337812774,1	53207075,08	246044415,8	38561283,23	6998419960	6713814261
2014M07	312815320	96345332,99	156421357,3	252739295,7	2264644308	1855483655
2014M08	287817865,9	185856737,1	92648540,52	381026062,5	732824533,1	259149930,1
2014M09	237822957,8	30882239,19	42653632,38	226051564,6	76736148,94	191969048,1
2014M10	212825503,7	21406380,74	56431540,99	134987582	24831331,05	166587791,9
2014M11	187828049,7	63317336,67	96059691,37	28451021,63	8035261,222	116475451,8
2014M12	162830595,6	34975669,61	161538083,5	33683157,53	2600159,563	125254766,4
Total	2102563295	626.168.618,5	1213314978	1.234.385.302	31735276938,80	30.833.287.760,25

Based on the results synthesized in Table no. 5 the values for the linear equation regression are the lowest value and this is the best trend with the method of least squares for the evolution of tourist accommodation establishments in European Union (28) in the analyzed period.

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Types of Leader in Organisation

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Abstract: Besides leading theories of people in one way or another from different angles reveal the types of leaders who can meet in business management literature contains classifications of management styles, which take into account different criteria or viewpoints. The word "leadership" has been used in various aspects of human endeavor such as politics, businesses, academics, social works, etc. Previous views about leadership show it as personal ability. The individual leader traits depend not only on personal abilities and his characteristics, but in special on the characteristics of the situation and environment in which he finds himself. People could become members of an organization in other to achieve certain personal objectives, the extent to which they are active members depends on how they are convinced that their membership will enable them to achieve their predetermined objectives. The leader will support an organization if he believes that through it his personal objectives and goals could be met otherwise the person's interest will decline. The type leader or style of leading in an organization is one of the factors that play significant role in enhancing or retarding the interest and commitment of the individuals in the organization.

Keywords: type leader; abilities; organization; membership

1. Introduction

The first major study of leadership styles was performed in 1939 by Kurt Lewin who led a group of researchers to identify different styles of leadership (Lewin, Lippit, White, 1939). This early study has remained quite influential as it established the three major leadership styles: (U.S. Army, 1973):

- **authoritarian or autocratic -** the leader tells his or her employees what to do and how to do it, without getting their advice;
- **participative or democratic -** the leader includes one or more employees in the decision making process, but the leader normally maintains the final decision making authority;
- **delegative or laissez-fair -** the leader allows the employees to make the decisions, however, the leader is still responsible for the decisions that are made.

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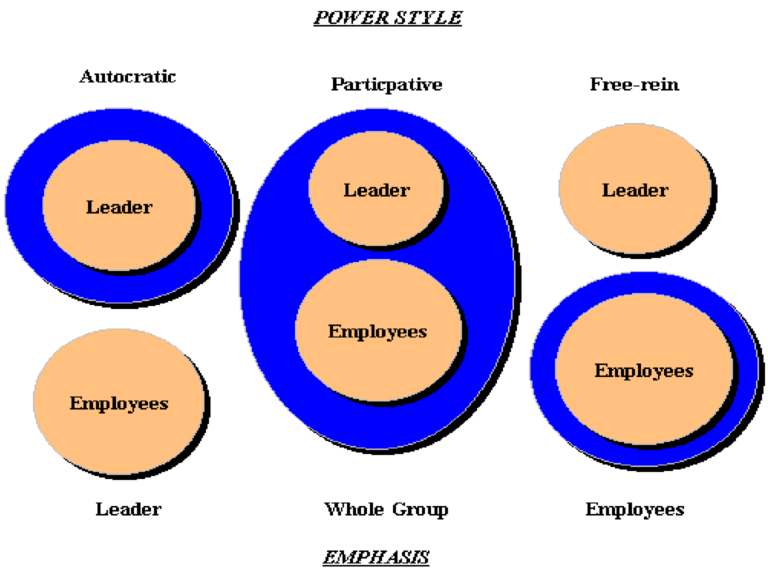

Figure 1.

Source: http://www.nwlink.com/~donclark/leader/leadstl.html

Two of the most prominent leadership theories are Transformational and Transactional leadership theories. Since the late 1980s, theories of transformational and charismatic leadership have been ascendant. Versions of transformational leadership have been proposed by several theorists, including Bass (1985, 1996).

2. Autocratic Leadership

The autocratic leader is given the power to make decisions alone, having total authority. They stand in master of the people and impose their wills and no one is allowed to challenge them. This is the style used by the Catholic Church for example, dictators and monarchs. On the other end, this leadership style is seems to be good for employees that need close supervision to perform certain tasks. Creative employees and team players resent this type of leadership, since they are unable to enhance processes or decision making, resulting in job dissatisfaction (Lewin, Lippitt, & White, 1939).

This type of leadership is focused exclusively on the achieving the objectives, sometimes involving issue directions to, force, sanctions, manipulation, threats to employees just to achieve these objectives. Therefore produces a tense atmosphere in the workplace, sometimes the environment and organizational climate itself becoming harmful to employees. In crisis situations, the abrupt changes or unexpected incidents, this style proves to be most effective to solve critical situations and make the best decision.

Some people tend to think that the autocratic style of leading by threats and abusing their power. Indeed, as Clark explains, this is not or should not be the authoritarian (autocratic) style, but rather is an abusive, unprofessional style called bossing people around. It has no place in a leaders repertoire. (Clark, 1997)

2.1. Advantages

The advantages of this type of leadership is most suitable in situations where subordinates are not motivated. In situations where productivity must be high, and the execution time is short it is recommended this style.

Decisions can be made quickly because there is no need to have a long consultation process before moving ahead. When speed is important this is a good choice because not only are decisions made quickly but employees tend to be more productive – as long as the boss is actually there.

2.1. Disadvantages

The negative effects of this type of leadership may affect the development of decision abilities and other skills of the employees Although the control it provides can reduce the leader's stress in the short-term, it will increase it in the long-term because of needing to bear all the responsibility all the time. Employees will stop feeling invested in the company or its services if they feel they aren't allowed to have any impact on them. This can lead to reduced motivation and morale.

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3. Democratic Leadership

Likert (1961) in research conducted at the University of Michigan revealed that a leadership style which was people oriented resulted to higher productivity than supervision which is primarily concerned with the job. The implication of this research is that a democratic style of leadership will generally provide better results than an authoritarian or laissez-faire style. A major problem in judging the correctness of this conclusion is that the variables involved in the leadership situation are most difficult to describe and measure objectively. There would appear to be some basis for assuming that the style of leadership should vary with different leaders, subordinates and situations.

The democratic leader listens to the team's ideas and studies them, but hold the responsibility to make the final decision. Team players contribute to the final decision therefore increasing people satisfaction and ownership feeling their input was considered when the final decision was taken. When changes arises, this type of leadership helps the team assimilate the changes better and more rapidly than other styles, knowing they were consulted and contributed to the decision making process, minimizing resistance and intolerance. A shortcoming of this leadership style is that it has difficulty when decisions are needed in a short period of time or at the moment (Lewin, Lippitt, & White, 1939).

3.1. Advantages

In a democratic leadership situation, team members are often more dedicated to their work because they feel that they have had input in not just what was done but how it was done. They take ownership of situations because that ownership is entrusted to them, and they are usually willing to work harder because they know that they will share in the credit. The sharing of credit also goes a long way to reducing the amount of internal politics because there is less need for competition.

If employees know that the whole team shares responsibility for the work, they are less likely to cover-up mistakes and more likely to be honest about problems they see in the process. Since feedback is given and received continually, in the long-term, decision-making is naturally improved. Overall, the work environment will tend to me more positive and collaborative. There also tends to be less turnover because employees are invested in the outcomes and they know that their employer will invest in their own development.

Democratic leadership results in dedicated, loyal employees who are willing to work hard to deliver results – and to share the credit for getting those results.

3.2. Disadvantages

The fact that everyone is continually consulted in the decision-making process means that decisions cannot be made quickly. If there is a high-pressure, or a need for fast decisions, this style will not work. In fact, the leader may be forced to change to an autocratic style in some cases, which could cause some resentment. This kind of style requires that the leader must work at creating a balance between allowing others to take the lead and keeping control of the overall process.

4. Laissez-faire Leadership

The laissez-faire leader gives no continuous feedback or supervision because the employees are highly experienced and need little supervision to obtain the expected outcome. This type of style is also associated with leaders that don't lead at all, failing in supervising team members, resulting in lack of control and higher costs, bad service or failure to meet deadlines. In government this is what the type of leadership which may drive to anarchy (Lewin, Lippitt, & White, 1939).

Robbins (2007) explained the laissez-fair style as "Abdicates responsibilities avoid making decisions" (p. 475). Similar Luthans (2005), defined laissez- fair style as "Abdicates responsibilities avoids making decisions" (p. 562).Laissez- Fair is uninvolved in the work of the unit. It's difficult to defend this leadership style unless the leader's subordinates are expert and well-motivated specialists, such as Scientists. "Leaders let group members make all decision" (Mondy & Premeaux, 1995, p. 347). "Behavioral style of leaders who generally five the group complete freedom, Provide necessary materials, participate only to answer questions, and avoided giving feedback" (Bartol & Martin, 1994, p.412). The concept of laissez was also given by Osborn as "Abdicates responsibilities and avoiding decisions" (Osborn, 2008, p.258). Above All the Authors defines the Laissez – Fair Leadership with their own words according to their given definitions the idea of this type of leadership is same. Authors defines that in this style the Leaders normally don't want their interference in decision making process. They normally allowed to their subordinates that they have power to get their personal decisions about the work. They are free to do work in their own way and they are also responsible for their decision. Normally Leaders avoids to making decision and don't involve in working units because the leaders gives to subordinates to completely freedom to do decisions. Sometimes the leaders provide them to important material and they just involve the answer and question but avoiding feedback.

4.1. Advantages

- Allow the visionary worker the opportunity to do what he wants, to do free from interference;
- Instills a higher sense of responsibility among team members;
- No work for leader;
- Workers are not constantly watched by the leader;
- Promotes trust in workers.

4.2. Disadvantages

- Workers may lack the motivation to complete a job;
- Less productivity as workers may not possess the necessary skills to complete a job, that it is means if the team members do not have adequate experience or required skills, the achievement of targets may be at great risk;
- Poorer quality of work;
- Team members may get off track and may not prioritize correctly.

5. Transformational Leadership

A transformational leader is a person who stimulates and inspires (transform) followers to achieve extraordinary outcomes (Robbins and Coulter, 2007). The leader pay attention to the concern and developmental needs of individual followers; they change followers' awareness of issues by helping them to look at old problems in a new way ; and they are able to arouse, excite and inspire followers to put out extra effort to achieve group goals. Transformational leadership theory is all about leadership that creates positive change in the followers whereby they take care of each other's interests and act in the interests of the group as a whole (Warrilow, 2012).

Warrilow (2012) identified four components of transformational leadership style:

(1) Charisma or idealised influence: the degree to which the leader behaves in admirable ways and displays convictions and takes stands that cause followers to identify with the leader who has a clear set of values and acts as a role model for the followers.

(2) Inspirational motivation: the degree to which the leader articulates a vision that is appeals to and inspires the followers with optimism about future goals, and offers meaning for the current tasks in hand.

(3) Intellectual stimulation: the degree to which the leader challenges assumptions, stimulates and encourages creativity in the followers - by providing a framework for followers to see how they connect [to the leader, the organisation, each other, and the goal] they can creatively overcome any obstacles in the way of the mission.

(4) Personal and individual attention: the degree to which the leader attends to each individual follower's needs and acts as a mentor or coach and gives respect to and appreciation of the individual's contribution to the team. This fulfills and enhances each individual team members' need for self-fulfillment, and self-worth - and in so doing inspires followers to further achievement and growth

5.1. Advantages

Transformational leadership enhances the motivation, morale, and performance of followers through a variety of mechanisms. These include connecting the follower's sense of identity and self to the project and the collective identity of the organization; being a role model for followers that inspires them and makes them interested; challenging followers to take greater ownership for their work, and understanding the strengths and weaknesses of followers, so the leader can align followers with tasks that enhance their performance.

5.2. Disadvantages

Transformational leaders motivate followers by appealing to strong emotions regardless of the ultimate effects on followers and do not necessarily attend to positive moral values. As Stone, Russell and Patterson (2003, p. 4) observe, transformational leaders can exert a very powerful influence over followers, who offer them trust and respect. Some leaders may have narcissistic tendencies, thriving on power and manipulation. Moreover, some followers may have dependent characters and form strong and unfortunate bonds with their leaders (Stone, Russell and Patterson, 2003, p. 4). Further, as Bass (1997) notes, transformational leadership lacks the checks and balances of countervailing interests, influences and power that might help to avoid dictatorship and oppression of a minority by a majority. In the absence of moral rectitude it is self-evident then that transformational leadership might be applied for less-than-desirable social ends.

6. Transactional Leadership

Transactional Leadership, also known as managerial leadership, focuses on the role of supervision, organisation, and group performance; transactional leadership is a style of leadership in which the leader promotes compliance of his followers through both rewards and punishments. Unlike Transformational leadership, leaders using the transactional approach are not looking to change the future, they are looking to merely keep things the same. These leaders pay attention to followers' work in order to find faults and deviations. This type of leadership is effective in crisis and emergency situations, as well as when projects need to be carried out in a specific fashion. Within the context of Maslow's hierarchy of needs, transactional leadership works at the basic levels of need satisfaction, where transactional leaders focus on the lower levels of the hierarchy. Transactional leaders use an exchange model, with rewards being given for good work or positive outcomes. Conversely, people with this leadership style also can punish poor work or negative outcomes, until the problem is corrected. One way that transactional leadership focuses on lower level needs is by stressing specific task performance (Hargis et al, 2001). Transactional leaders are effective in getting specific tasks completed by managing each portion individually.

6.1. Advantages

Transactional leaders use reward and punishments to gain compliance from their followers. They are extrinsic motivators that bring minimal compliance from followers. They accept goals, structure, and the culture of the existing organization. Transactional leaders tend to be directive and action-oriented.

Transactional leaders are willing to work within existing systems and negotiate to attain goals of the organization. They tend to think inside the box when solving problems Transactional leadership is primarily passive. The behaviors most associated with this type of leadership are establishing the criteria for rewarding followers and maintaining the status quo.

6.2. Disadvantages

The transactional Leadership of leadership is flawed since it motivates people only on the base level. Punishment and reward does not motivate on the higher level of peoples thought and development. This type of leadership will only be effective on works were followers perform their task and processes, which well-produced and designed dependably with strong good results. This is poor when higher thinking skills level is needed to utilize. In this, creativity is very limited since its objectives and goals cannot be defined only with set of process. This also limits its follower that wishes to engage with higher level of professional environment. Motivating is not effective this type of level, these followers is much motivated in unique individual way. The punishment and reward are very basic to a motivator of this level of subordinates.

7. Conclusion

The most important key to successful leadership is to know how, when and how much of what leadership style is needed in a particular situation. The choice is a judgment on the part of the individual performing the leadership role. The leader must a person with integrity who is committed to the organization and the people who work together to accomplish the organization's mission; this person leads by example, communicates without ceasing, and shows care, concern, and consistency in all dealings. The types of leadership help every individual of the organization to develop into a more effective leader if he wants to. It also can contribute to the organization's growth as well as helping each individual prepare himself to assume positions requiring a greater capacity for leadership. This allows the individual s goals to mesh with the organizations. It also permits the leader to draw on the resource of others so the resources are used to maintain and strengthen the organization's capacity and all the people involved.

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