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EDITORIAL

What is worse: the political crisis or the economic one?

That's right!

In autumn we make a balance of the work's results over the year. And the autumn of 2008 came with not quite good news.

The whole world has been rocked by the news announcing that a famous investment bank in America, Lehman Brothers, has come into bankruptcy. After some time, the stock market in America is hit by a dramatic decrease of the stocks. This was the beginning ... Banks and stock markets in America, Asia and Europe pass through a difficult period.

Many economists watch these events as a deja-vu.

Why?

Because, in time, humanity has gone through such moments. We mention the economic crisis that has unbalanced the world in the 30's or the long economic involution of Japan in 1989, to point just a few important moments.

In Romania, the crisis has a fragrance and appearance of Balkans. If in summer, the Romanians disbelieved that the economic crisis would come also to our country, now, everybody is trying to fire alarm signals and to warn us that we shall live times which only our grandparents lived at the beginning of the last century.

Namely, the Romanians came to their senses. Nobody knows if, somehow, it's not too late.

But it is certain the fact that this crisis came for us in a very bad time, because it is overlapping with a campaign and a giddy election post-campaign and with a moment of political indecision.

That means that the anti-crisis measures shall be taken only after it will hit us in full.

The economic crisis comes to us, so, over a political crisis that maybe only we've had in the 90's. The fact that things are like this is also proven by the fact that politicians come out on the streets with fists, not ideas, are throwing water on the face and then they do not cease showing that the adversaries are the real opponents. For them, the crisis is on the second plan, somewhere far away.

Can it be a paradox, an unwritten law which confirms that history repeats and the moments overtaken with ability by Caragiale are more timely than ever?

So probably, depending on how these events affect us, we'll find the explanations.

Interesting in this regard is a statement of Irving Kahn (Chairman of Kahn Brothers & Co., Inc.), survivor of some more stock collapses: "People are greedy. And very often, greed is stronger than fear".

Therefore I'm asking you, paraphrasing a famous disquiet of any child (which is harder: planet or rocket?), which is more dangerous for us, Romanians: the economic crisis or the political one?

Lecturer Narcis Eduard Mitu Ph.D.

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AUDITOR INDEPENDENCE, AUDIT COMMITTEE QUALITY AND INTERNAL CONTROL WEAKNESSES

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Abstract: In this paper we investigate the relation between auditor independence, audit committee quality and the disclosure of internal control weaknesses. We begin with a sample of firms with internal control weaknesses and, based on industry, size, and performance, match these firms to a sample of control firms without internal control weaknesses. Our conditional logit analyses indicate that a relation exists between audit committee quality, auditor independence, and internal control weaknesses. Firms are more likely to be identified with an internal control weakness, if their audit committees have less financial expertise or, more specifically, have less accounting financial expertise and non-accounting financial expertise. They are also more likely to be identified with an internal control weakness, if their auditors are more independent. In addition, firms with recent auditor changes are more likely to have internal control weaknesses.

Keywords: internal control weakness; audit committee financial expertise; auditor independence.

1. Introduction

Firms are more likely to be identified with an internal control weakness, if their audit committees have less financial expertise or, more specifically, have less accounting financial expertise and non-accounting financial expertise. They are also more likely to be identified with an internal control weakness, if their auditors are more independent. In addition, firms with recent auditor changes are more likely to have internal control weaknesses.

Independent audit committees and audit committees with more financial expertise are significantly less likely to be associated with the incidence of internal control problems. Material weaknesses in internal control are more likely for firms that are smaller, less profitable, more complex, growing rapidly, or undergoing restructuring. Firms with more complex operations, recent changes in organization structure, auditor resignation in the previous year, more accounting risk exposure, and less investment in internal control systems are more likely to disclose internal control deficiencies. In addition, we document that auditor independence is an important determinant of internal control weaknesses.

2. Background and hypotheses

2.1. Background

Internal control is defined as a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives, according to the COSO framework[1]. Management must disclose significant internal control deficiencies, when they certify annual financial statements. Specifically, the signing officers, being responsible for internal controls, have evaluated the internal controls and reported in their findings: (1) a list of all deficiencies in the internal controls and information on any fraud that involves employees who are involved with internal control activities; (2) any significant changes in internal controls or related factors that could have a negative impact on the internal controls. Management not only provide an assessment of internal controls, but also auditors provide an opinion on management's assessment.

Most of the internal control weakness disclosures are related to financial systems and procedures. This group typically involves financial closing processes, account reconciliation, or inventory processes. For example, one company disclosed problems with ''the design and effectiveness of internal controls relating to receivables from suppliers''. Personnel issues rank as the second largest category of weakness disclosures. This category is related to the poor segregation of duties, inadequate staffing, or other related training or supervision problems. For example, other company cited a ''lack of sufficient personnel with appropriate qualifications and training in certain key accounting roles.'' Other common types of weaknesses include revenue recognition, documentation, and IT system and controls (e.g., security and access controls, backup and recovery issues). In addition, issues related to international operations and mergers and acquisitions are sources of weakness disclosure, although they represent a relatively small percentage of all disclosures.

Based on their severity, these internal control problems are classified into three types: material weakness, significant deficiency, and control deficiency. Auditing Standards defines a material weakness as ''a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual financial statements will not be prevented or detected.'' Under Auditing Standards, a significant deficiency is ''a control deficiency, or a combination of control deficiencies, that adversely affects the company's ability to initiate, authorize, record, process, or report external financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the company's annual financial statements that is more than inconsequential will not be prevented or detected.'' A control deficiency occurs ''when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatement on a timely basis.'' For the sake of brevity, we will refer to material internal control weaknesses as internal control weaknesses hereafter.

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[1] COSO stands for the Committee of Sponsoring Organizations of the Treadway Commission

2.2. Audit committee quality and internal control

Since an entity's internal control is under the purview of its audit committee, we investigate the relation between audit committee quality and internal control weaknesses. The audit committee not only plays an important monitoring role to assure the quality of financial reporting and corporate accountability, but also serves as an important governance mechanism, because the potential litigation risk and reputation impairment faced by audit committee members ensure that these audit committee members discharge their responsibilities effectively. We thus expect that firms with high-quality audit committees are less likely to have internal control weaknesses than firms with low-quality audit committees.

On measuring audit committee quality, we focus on the financial expertise in these committees. It is recommended that each audit committee have at least one financial expert highlights the importance of the financial literacy and expertise of audit committee members. Such financial expertise of audit committee members has been shown to be important for dealing with the complexities of financial reporting and for reducing the occurrence of financial restatements. In addition, audit committee members with financial reporting and auditing knowledge are more likely to understand auditor judgments and support the auditor in auditor-management disputes than members without such knowledge. Moreover, financially knowledgeable members are more likely to address and detect material misstatements. Audit committee members with financial expertise can also perform their oversight roles in the financial reporting process more effectively, such as detecting material misstatements. Indeed, there is a significantly negative association between an audit committee having at least one member with financial expertise and the incidence of financial restatement. Audit committees with financial expertise are less likely to be associated with the incidence of internal control problems.

Hypothesis 1. Firms with greater audit committee financial expertise are less likely to have internal control weaknesses.

Audit committees with accounting financial expertise improve corporate governance. Therefore, we further separate audit committee financial expertise into accounting financial expertise and nonaccounting financial expertise and test the relation between these two variables and internal control weaknesses.

An audit committee member is a financial expert if he or she can be classified into the following two categories:

(a) an accounting financial expert who has experience as a public accountant, auditor, principal or chief financial officer, controller, or principal or chief accounting officer;

or

(b) a non-accounting financial expert who has experience as the chief executive officer, president, or chairman of the board in a for-profit corporation, or who has experience as the managing director, partner or principal in venture financing, investment banking, or money management. With this definition, we measure audit committee financial expertise as the percentage of audit committee members who are financial experts. We further separate audit committee financial expertise into accounting financial expertise, measured as the percentage of audit committee members who are accounting financial experts, and non-accounting financial expertise, the percentage of audit committee members who are non-accounting financial experts.

2.3. Auditor independence and internal control

Auditor independence can be related to the disclosure of a firm's internal control problems. When there is a strong economic bond between an auditor and a client firm, the auditor has an incentive to ignore potential problems and issue a clean opinion on the client firm's internal controls. While some studies find no relation between non-audit fees and auditor independence and argue that an auditor's concern with maintaining its reputation for providing high-quality audits could restrain it from undertaking activities that jeopardize independence, since the revenue from each client will be a small percentage of the auditor's total revenue, other studies suggest that the provision of non-audit services compromises auditor independence. Non-audit services are associated with increased discretionary accruals and the achievement of certain earnings benchmarks. For example, the abnormal returns for Andersen's clients around Andersen's indictment are significantly more negative, when the market perceived the auditor's independence to be compromised. Given these mixed empirical findings, we measure auditor independence as the ratio of the audit fee to the total fee, and propose the non-directional null hypothesis, as follows.

Hypothesis 2. Auditor independence is not associated with the disclosure of internal control weaknesses.

2.4. Control variables

2.4.1. Audit committee

In addition to audit committee financial expertise, other attributes of an audit committee have been found to be important factors in effective monitoring. Specifically, we control for audit committee independence, there is a positive relation between audit committee independence and the quality of internal control. An audit committee member is independent, if he or she is not affiliated with the firm and does not accept any consulting fees.

We next control for the natural logarithm of audit committee size, measured as the number of audit committee members, because research suggests that a large audit committee tends to enhance the audit committee's status and power within an organization. We thus expect that a large audit committee is more likely than a small one to improve the quality of internal controls, because increased resources and enhanced status will make the audit committee more effective in fulfilling its monitoring role.

We also control for the natural logarithm of audit committee meetings, measured as the number of audit committee meetings held each year, because research shows that effective audit committees meet regularly. However, it is also possible that an audit committee meets more frequently to discuss internal control issues, when there are significant problems associated with a firm's internal controls. Therefore, we make no prediction on the relation between the number of audit committee meetings and the quality of internal controls.

2.4.2. Board of directors

The quality of an entity's internal controls is a function of the quality of its control environment that includes the board of directors and the audit committee. First, we focus on board independence, measured as the percentage of outside directors on the board[2], because research suggests that board independence is negatively related to the likelihood of financial fraud. We also control for the natural logarithm of board size, measured as the number of directors on the board. While some researchers find that a large board has more expertise than a small one, that it tends to be more effective in monitoring accruals, others suggest that a small board is more effective in mitigating the agency costs associated with a large board. Given the mixed empirical evidence on board size, we expect that the relation between board size and the likelihood of internal control weaknesses is indeterminate. Finally, we control for the natural logarithm of board meetings, as measured by the number of board meetings held each year. While board meeting frequency is important to improve board effectiveness, it is inversely related to firm value, because of the increased board activities following share price declines. Since board independence, size, and meeting frequency all influence a board's effectiveness, they, in turn, are related to the quality of internal controls.

2.4.3. Auditor types

We use a dummy variable (BIG4) to measure auditor type, because a firm's decision to hire a Big 4 auditor is likely to be associated with internal controls for several reasons. Smaller and less profitable firms are more likely to have internal control problems than larger or more profitable ones. On the one hand, such firms with internal control problems are less likely to hire a Big 4 auditor, because they are constrained by financial resources and cannot afford it. On the other hand, they might also be avoided by the Big 4 auditors, because they are perceived as being risky and may expose the Big 4 to potential litigation. Given that a firm shunned by a Big 4 auditor may signal that it has potential internal control problems, we introduce the dummy variable BIG4 to control for auditor quality.

2.4.4. Auditor changes

Firms with recent auditor changes are likely to have internal control problems. On the one hand, auditors may drop risky clients as part of their risk management strategies, since firms with material internal control weaknesses may represent high audit failure risk. On the other hand, firms may dismiss auditors for lack of performance, when the firms discover material internal control weaknesses.

2.4.5. Other variables

We also control for firm characteristics that may be associated with internal control problems. Small and high growth firms are likely to have internal control weaknesses, we control for size, measured as the natural logarithm of total assets (TA), and growth, measured as industry-median-adjusted sales growth. It may take some time for a firm that recently engaged in mergers and acquisition to integrate different internal control systems; consequently, such a firm is more likely to have internal control problems. A firm experiencing restructuring is also likely to have internal control

[2] Outside directors are those who are not affiliated with the firm, other than serving on its board.

problems, because of the loss of experienced and valuable employees and because of the dramatic changes associated with such an event Also, firms with greater complexity and scope of operations are more likely to have internal control problems than those without.

3. Conclusion

In this paper, we examine the relation between audit committee quality, auditor independence, and the disclosure of internal control weakness.

The results from our conditional logit analyses suggest that a relation exists between audit committee quality, auditor independence, and internal control weaknesses. Firms are more likely to be identified with an internal control weakness, if their audit committees have less financial expertise or, more specifically, have less accounting financial expertise and non-accounting financial expertise. They are also more likely to be identified with an internal control weakness, if their auditors are more independent. In addition, firms with recent auditor changes are more likely to have internal control weaknesses.

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NEW FINANCIAL DIMENSIONS OF THE SMES' INTERNATIONALIZATION

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Abstract: Globalization has brought a shift to the economic environment of the European SME. The progressively disappearing barriers and borders are exposing all companies both to new markets and to international competition. Consequently SMEs that do not consider internationalisation are self imposing a severe restriction on their potential for long term survival. Internationalisation is not to be considered as a separate part of the company or a strategy to be enacted only in times of reduced local demand, but fully integrated into the SME's long term activity, been proven as a key engines for competitiveness and growth.

Key words: SMEs, internationalization, drivers, limits, financing, strategy

Introduction

Globalisation means the free movement of goods, services, capital, knowledge and leade to a more integrated global economy. Through globalisation national borders are constantly losing their significance as limitations for human interaction in general and for economic collaboration in particular. This means that for all economic actors their natural spheres of activity are expanding from national into multinational or even global. On a global scale the benefits of this greater economic integration and expanded trade relations have been praised and demonstrated so far.

But what is good in this macroeconomic scenario is also good for SMEs? And more importantly, how can European SMEs transform this into their advantage?

For an SME globalisation means that the natural or local environment is being constantly transformed and growing, which brings greater opportunities in the form of larger markets and new suppliers but also threats in the form of greater competition and shorter product life cycles. Yet many SMEs remain passive despite the fact that this shift to an increased complexity and faster pace of events can only be expected not just to remain but possibly accelerate in the future.

The greater integration and reduced barriers mean that international competition starts at home. Even businesses that focus primarily on the domestic market have to be competitive internationally in order to secure long-term growth.

This new, ever changing scenario that is globalisation will require and reward inventiveness, agility and flexibility: the very qualities that are commonly used to define SMEs. Embracing these qualities means that competitive SMEs will not only be in a position to tackle globalisation but embrace it and profit from it. Therefore, a pro-active attitude to global competition and markets is increasingly becoming not a choice but a matter of necessity. Each company must adopt internationalisation as part of the strategic search for the company's competitiveness and not as a reaction to a reduced national demand.

Theoretical approaches regarding the SMEs' internationalisation

A number of theoretical approaches have been advocated as playing a key role in the internationalisation approach adopted by SMEs. They can be grouped in three categories (Lloyd-Reason et al, 2004): sequential, network and international orientation approaches.

1. *Sequential theory of internationalisation*

Adherents of this approach (sometimes called the "Uppsala model") include Johanson and Widersheim-Paul (1975) who examined the internationalisation of Swedish firms. They found a regular process of gradual change involving the firm moving sequentially through four discrete stages:

- intermittent exports;
- exports via agents;
- overseas sales via knowledge agreements with local firms, for example by licensing or franchising;
- foreign direct investment in the overseas market.

This particular sequence is sometimes called the *establishment chain;* the argument being that each of these stages marks a progressive increase in the resource commitment by the firm to the overseas markets involved. There is also a suggestion that as firms move through these sequential stages the knowledge and information base expands and the "psychic distance" between themselves and the overseas markets involved contracts making progression to the next stage that much easier. In this sense the model is dynamic, with the stage already reached by the firm in the internationalization process helping determine the future course of action likely to be taken. Put another way, the greater the resource commitment to the overseas market and the information and knowledge thereby acquired, the smaller the uncertainty and the perceived risks associated with further internationalisation, leading eventually to foreign direct investment and the establishment of a production affiliate overseas. Firms will move initially to countries which are culturally similar to their own (a close psychic distance) and only later move into culturally diverse geographical areas.

2. *Network theory*

In a network perspective the process of internationalisation is seen as building on existing relationships or creating new relationships in international markets, with the focus shifting from the organisational or economic to that of the social (Chetty and Holm 2000). It is people who make the decisions and take the actions. The series of networks can be considered at three levels:

• *Macro* - rather than the environment being seen as a set of political, social and economic factors, network theory would see it as a set of diverse interests, powers and characteristics which may well impinge on national and international business decisions. To enter new markets a firm may have to break old relationships or add new ones. A new entrant may find if difficult to break into a market which already has many stable relationships. Those firms better able to reconfigure their existing networks or which are seeking to enter overseas markets with few existing networked relationships, may be more successful in the internationalisation process.

• *Inter-organisational* - firms may well stand in different relationships to one another indifferent markets. They may be competitors in one market, collaborators in another and suppliers and customers to each other in a third. If one firm internationalises, this may draw other firms into the international arena.

• *Intra-organisational* - relationships within the organisation may well influence the decision making process. If a multinational enterprise (MNE) has subsidiaries in other countries, decisions may well be taken at the subsidiary level which increases the degree of international involvement of both the parent MNE and SMEs in the supporting value chain, depending on the degree of decentralisation of decision making permitted by the firm. Outsourcing opportunities within an increasingly globalised economic environment may play a part here.

The network approach would suggest that internationalisation can be explained, at least in part, by the fact that other firms and people who are involved in a national network themselves internationalise.

3. *International orientation of decision makers*

An extensive literature identifies the international orientation of the owner-manager or other key decision makers in SMEs as a key determinant of the nature and extent of internationalization (Weidersheim-Paul 1972, Reid 1981, Cavusgil and Godiwalla 1982, Harrison 1992, Mugler 1996, Morgan 1997, Lloyd-Reason and Mughan 2002). In terms of the "internationalisation web", the willingness and ability of the strategic leader (CEO/owner manager) is seen as dependent on the exposure to a range of factors including existing formal and informal international contacts, knowledge of foreign competitors, cultures, language skills, educational background.

The effective use of scarce governmental resources directed towards the encouragement of SMEs to begin, for the first time, to internationalise their operations might usefully take account of such indicators (Harrison 1992). For example, the first phase of policy support mechanisms might focus on further developing the international orientation of strategic leaders/key decision makers in SMEs as a precursor to subsequent, more functionally directed phases of support. More and more, the policy focus shifts from issues of international orientation and is now directed towards equipping SMEs in terms of their skills and resource base.

Drivers to internationalization

The attitudes that lead to internationalisation stem from the same source as start-ups, innovation and entrepreneurship: developing lines of growth. In the case of SMEs the reasons that move companies to internationalise are closely related to the personal and professional experiences of the owner/manager and the evolution of the SME.

Extensive literature supports that international orientation of decision makers is a determinant of the nature and extent of internationalisation. Thus, one of the key predictors of performance is the international commitment of the founders, entrepreneurial firm behaviour and pro-activity in foreign markets. Also, the firm age and the CEO age are the main predictors for becoming an internationally committed company.

This international orientation is a consequence of the professional experience of the owner/manager and the industry/sector to which the SME belong. In these cases the level of international exposure plays a key role. The central role of the entrepreneur and his personal networks is even more important in the case of “born globals”.

Therefore, the exposure to internationalisation, either because the sector is particularly exposed or because of the personal and professional experience of the owner/manager, are the main drivers to internationalisation.

Dynamic entrepreneurs are particularly well placed to reap opportunities from globalization and from the acceleration of technological change. This somehow makes internationalisation a “closed loop” where previous experience is the best guarantee to the future one: internationalisation breeds internationalisation.

This already indicates what should be the first and earliest intervention in order to foster internationalisation. An international orientation by the SME decision makers is necessary and the first phase of policy support mechanisms might focus on developing the international orientation and formal entrepreneurial training of key decision makers in SMEs.

Raising more international SMEs will require raising more international entrepreneurs. This calls for early interventions preferably in the educational system, to actively promote greater exposure to the international environment and demonstrate the benefits of an international orientation.

On the short term this calls for policies on continuous education for SMEs, particularly in the area of language acquisition. But more important, the Government policies could consider the relevance of this driver in order to boost the pool of future international entrepreneurs by promoting greater awareness and exposure to foreign cultures, supporting early language acquisition and fostering the acquisition of entrepreneurial attitudes and internationalisation.

The other drivers to internationalisation are the followings:

- access to know-how and technology;
- increased efficiency and economies of scale;
- increased competence by entering difficult markets;
- exploiting the advantage of leading edge technology which are closely related to innovation.

In this context, the Small Business Act adopted recently by the European Commission, settled up a set of ten principles to guide the conception and implementation of SME’policies both at EU and Member State level. The first of this principles stipulates that the EU and Member States should create an environment within the entrepreneurs and family businesses can thrive and entrepreneurship is rewarded. Therefore, the Commission is promoting entrepreneurial culture and facilitating exchanges of best practice in enterprise education. Another principle regards the commitment of the EU and Member States which should support and encourage SMEs to benefit from the growth of markets outside the EU, in particular through market-specific support and business training activities.

Main barriers to the internationalisation of SMEs

Successful policies to increase the number of internationalised SMEs must start by understanding which are the main problems faced by SMEs when considering the possibility to start operating with a foreign partner. According to the OECD the main barriers to greater internationalisation as reported from SMEs are:

1. Shortage of working capital to finance exports;
2. Identifying foreign business opportunities;
3. Limited information to locate/analyse markets;
4. Inability to contact potential overseas customers;

5. Obtaining reliable foreign representation;
6. Lack of managerial time to deal with internationalisation;
7. Inadequate quantity of and/or untrained personnel for internationalization.

These problems could be grouped in the three SME's main areas of concern:

- insufficient managerial time and/or skills required for internationalization;
- lack of financial resources;
- lack of knowledge of foreign markets.

A successful and sustainable internationalisation will require an internationalization strategy and the acquisition of a series of capacities, abilities and resources prior internationalisation. This is the explanation for the proven relation between competitiveness and internationalisation. The relationship between internationalisation and productivity at firm level is valid both for exports and for imports. The latter is consistent with knowledge and technology acquisition through imports of intermediates and capital goods.

Empirical research has associated successful small firms with greater skills in organizational learning and strategy development (Julien and Ramangalahy, 2003). Numerous studies have shown that companies with a structured market strategy are more active exporters than firms lacking formal planning (Sadler-Smith et al, 2003). There was identified a positive relationship between organizational capabilities and small business performance.

Comparing exporting and non-exporting firms it was discovered that companies with formal market planning were more likely to be active exporters, while firms lacking formal market planning failed to enter foreign markets. The more systematic the selection of foreign target markets the higher the export performance will be for SMEs. This underlines the importance of support in the area of managerial competences for those SMEs considering internationalisation. It also starts to hint one of the main SME problems in terms of internationalisation readiness: the severe SME lack of international strategy.

This situation is closely related to size: on average, the smaller the SME the more management building capabilities required. Small SMEs tend to have lesser structured management procedures and a tendency to making opportunistic rather than systematic strategic decisions.

There is certainly concern that SMEs have usually resorted to using support services in a rather haphazard and ad hoc manner, reflecting the particular needs perceived at any given point in time by the key decision makers themselves rather than using such support services as part of a strategic approach to internationalisation.

A structured management system is fundamental for a successful internationalisation and may be one of the key elements that hinder further SME internationalisation. This already point out to one of the main areas of support.

The lack of financial resources to tackle internationalisation is another key impediment for many SMEs and has been consistently reported in surveys as one of the main areas where support is required. Policies or programmes that fail to incorporate the financial dimension of internationalisation will not be providing support that not only is demanded but required from SMEs willing to internationalise.

Accordingly with the sixth principle of the Small Business Act, the EU and Member States should facilitate SMEs' access to finance, in particular to risk capital, micro-credit, mezzanine finance and develop a legal and business environment supportive to timely payment in commercial transactions. Therefore, the Commission evaluates the options for introducing a private placement regime destined to facilitate cross-border investment in order to strengthen European venture capital markets and it will offer assistance to Member States to develop high quality investment programs.

Level of internationalization for European SMEs

SMEs represent 99% of SME across Europe and similar figures around the world. Yet their level of internationalisation and weight in world trade is substantially below that number. According to the Observatory of European SMEs:

- only 8% of total EU27 SMEs are involved in exports,
- only 12% of the inputs of an average SME are purchased abroad,
- 5% of SMEs in the EU receive some income from foreign business partnerships, either from subsidiaries or joint ventures abroad.

This picture broadly coincides with the evidence gathered from Member States. In Romania, SMEs represent 99.6% of total companies but only 90% of exporters and a very modest 27.5% of total exports. Not all SMEs present the same internationalisation profile. The latest data confirm that internationalisation is related to company size. As an example, the table 1 shows the import intensity of EU companies by size.

Table 1. Inputs purchased abroad – EU27 (%)

Size class	Inputs purchased abroad (%)
1-9 persons employed	11.5
10-49 persons employed	13.3
50-249 persons employed	15.8
250+ persons employed	17.6
EU27 SMEs	*11.7*

Source: European Commission, Final Report of the Expert Group on Supporting the internationalisation of SMEs, Dec. 2007

This tendency is also reflected when plotting other internationalisation aspects like exports or external foreign direct investment: the larger the size of the SME, the more internationalised. This relation between size and internationalisation is universal across all EU 27 countries and is one of the most relevant.

Another important aspect is the analysis of internationalisation by trade partner countries. For any European country the internal market remains the key partner any internationalisation activity. In terms of trade the EU represents 2/3 of total trade for the average Member State.

The importance of the internal market as the key partner is even more accentuated in the case of SMEs. The figure 1 shows the relative importance of the internal market for European SMEs. The evolution reflects that SMEs tend to interact more with countries across the border rather than distant ones. The predominance of the EU as the key market remains universal and constant across all SME sizes (table 2).

Table 2. Main destination of exports for SMEs – by size (% of exporters)

Size class	EU country	Europe, outside EU	Outside Europe
1-9 persons employed	73	14	13
10-49 persons employed	71	9	20
50-249 persons employed	73	11	16
EU27 SMEs	*72*	*13*	*15*

Source: European Commission, Final Report of the Expert Group on Supporting the internationalisation of SMEs, Dec. 2007

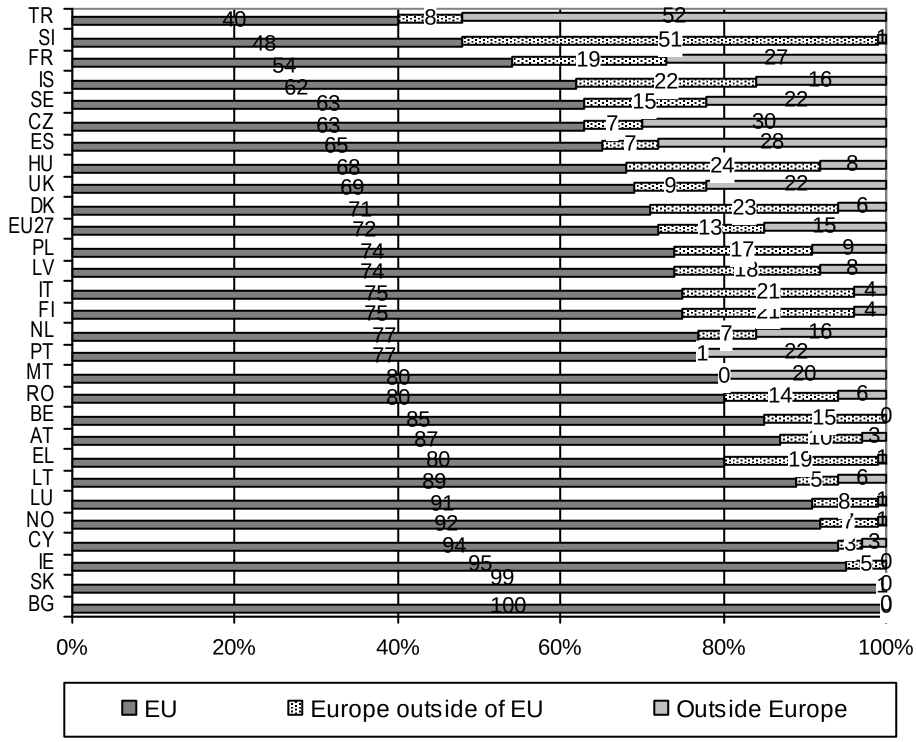

Figure 1. Main destination of exports for SMEs – by countries

Considering only trade flows the importance of the EU as the key partner for SMEs is also reflected across all sectors of activity (table 3).

Table 3 Main destination of exports for SMEs, EU27 – by sectors (%)

Prime destination of exports (% of exporters, EU27)	EU country	Europe, outside EU	Outside Europe
Manufacturing	73	12	15
Construction	72	17	10
Wholesale and retail	66	14	20
Hotels and restaurants	97	0	2
Transport, storage and communication	83	9	7
Financial intermediation	85	11	3
Real estate, renting and business activities	77	13	10
Health and social work	92	8	0
Other community, social and personal service	83	16	0

Source: European Commission, Final Report of the Expert Group on Supporting the internationalisation of SMEs, Dec. 2007

The data indicate that the services are even more dependent (in terms of trade) on the EU market than products.Also, the analysis indicates a particularly relevant increase in intra-industry trade which has grown faster than total trade, particularly inside the EU.

Trade in intermediates is growing and domestic production increasingly relies on foreign inputs. This seems to indicate very clearly that further integration both at a global level and most particularly at an European level (full consolidation of the internal market) have been gaining momentum in the last number of years.

The evolutions on FDI and capital flows underline the previous statement and indicate strongly that even for SMEs internationalisation is growing beyond just foreign trade. Accordingly with Eurostat (European Foreign Direct Investment Yearbook, 2007) the Intra-EU FDI flows (inflows+outflows) account for 80% of total EU FDI flows in 2004-2005. North America represents half of the remaining 20% both for inflows and outflows.

Again, for European SMEs the destinations of foreign business partnerships are more likely to remain in Europe: 77% of the locations of all joint ventures and foreign subsidiaries mentioned are in the territory of the EU.

Measures to promote greater SME internationalization

Internationalisation of SMEs in the form of export promotion has been a prominent element in European Government policies for a long time and nowadays all European Governments devote a considerable amount of resources to the issue.

Programmes to support SME internationalisation have traditionally been focused on promoting greater exports and usually developed independently from other policies. In fact, approximately 70% of all of them are focused exclusively on supporting exports. Yet the most potent argument in favour of governmental support lies on the fact that SMEs play a key role in the stability and potential of any national economy. As most SMEs face resource limitations, they need to be supported to acquire the capabilities needed to compete successfully in the international market.

In this context, one of the central concerns of Governments and support organisations must be the low numbers of SMEs involved in internationalisation which may be curtailing their future growth and competitiveness. In order to maximise the effectiveness of government funds for supporting internationalisation of SMEs policies should consider:

a) *A successful policy for internationalisation must consider the barriers that impede or restrain the internationalisation of SMEs and the drivers that move companies to internationalise*. The former is essential to produce results in the short and medium term. The second creates the basis for a long term policy on internationalisation.

b) *For increased effectiveness each country will have to build its own set of policies based on experience* and focused around the actual SMEs they are trying to support. Increased and regular co-ordination between the Central Government, the support agencies and sectoral, local and regional actors should be improved as the best way to guarantee best use of available resources. A fluid, integrative and consultative process between all the stakeholders (Government, support agencies and SMEs) is possibly the best key for successful policy development. In the case of Romania, the business community was involved both in the creation (in 2004) and currently the management of the National Export Council, the body charged with developing national export policy.

c) In the dilemma between concentrating support on a short number of winners (usually companies that have already started their internationalisation process) or providing support to the larger number of non or minimally internationalised companies *the greater effort must be placed in increasing the number of internationalized SMEs.* Evidence from studies (De Clercq et al, 2005) supports this second approach as the most efficient in the long term. This also supports the fact that there is a performance advantage in rapid internationalisation. That is, the earlier a company internationalises the faster it seems to grow.

d) *Internationalisation is a moving target.* The level of internationalisation of the SME is related to its size and resources. The problems and the corresponding support measures required will have to change as the company evolves and grows.

e) *Micro and Small companies present a vast internationalisation potential.* Thus in recent years an impressive increase has been reported in the 1 person firm and 2-9 person firms category.

f) One of the main reasons for non utilisation of support is *that enterprises lack awareness.* In general smallest SMEs do not have the desirable knowledge about the support measures due to the lack of resources devoted to internationalisation. *This calls for a simplified information and access points.* Yet the common situation is of numerous and often un co-ordinated support institutions providing what some SMEs describe as a "Promotion Jungle". In terms of actual support in Germany only 34% of micro SMEs (up to 10 employees) participate in promotion programmes in contrast to 54% for medium sized companies (50 to 250 employees) and 70% for companies of over 500 employees.

g) *Stimulating higher value-added activities*. There is a progressive shift from low and medium-technology manufacturing exports towards high technology manufactures.

h) Effective support to SMEs must consider the variables that influence the process of internationalisation: available financial and human resources, company size and stage of internationalisation, sector, geographical location, target markets, etc. All this strongly supports *an approach based on individualised support to each SME* and the implicit recognition that internationalisation goes well beyond the international department of the company.

In general, there is a strong relation between all competitiveness policies. Just as with internationalisation, the main support to promote more innovation intensive start-ups should focus on the promotion of management skills, supporting the creation of trans-national networks, bridging the financial gap and the need for government support.

In the case of high tech firms usually characterised by intense competition and shorter windows of opportunity, early internationalisation is fundamental to increase their economic success. In addition to sharing common drivers, SME innovation and internationalisation are inversely related to the size of the company and share the same main barriers: lack of financial resources and lack of management skills. Another area of potential synergies between innovation and internationalisation is in the management of support programmes to "born globals". These are companies usually associated with a new technological development, that internationalise extensively shortly after inception and in a very short period of time.

Building on this and on the proven relationship between technology, knowledge, productivity and exports a trend is starting to appear fundamentally in the most advanced countries towards integrating policies for competitiveness and growth.

Internationalisation is starting to be merged with the other (particularly innovation) policies and they are stating to be seen as part of the same issue: policies to enhance sustainable long term competitiveness. As sectors and progressively countries move up the value chain the rationale for the integration of internationalisation and innovation into a single set of competitiveness policies becomes more evident.

But it is critically important to remember that innovation is a lot more than research. It comprises technological innovation and innovation in operations and management. In relation to SME competitiveness, for the vast majority of companies there is a large potential for innovation in operations and management, including the acquisition of IT and quality systems and capabilities. The eighth principle of the Small Business Act regards the promotion of upgrading of skills in SMEs and all forms of innovation

As part of SME innovation, standardisation plays a key role in fostering the competitiveness and growth of SMEs and has been identified as one important element for SME greater involvement in global value chains. Accordingly with the ninth principle of the SBA, The EU and Member States should encourage SMEs to benefit more from the opportunities offered by the Single Market, in particular through improving the governance of and information on Single Market policy, enabling SMEs' interests to be better represented in the development of standards and facilitating SMEs' access to patents and trade marks.

Conclusions

It is difficult to separate internationalisation from the context in which it is a natural element: competitiveness and growth. This calls for a more integrative "holistic" approach in all the areas related to supporting the internationalisation of SMEs: in the development of policies, programmes and in the delivery of support. It will also require policies to upgrade the human resource base of the economy. Addressing this through education and training policies will require a growing focus on life-long learning.

Policies to support internationalisation should start by considering the drivers and the barriers for SME internationalisation.

A long term policy outlook should consider policies based on the main driver to internationalisation: positive attitudes toward entrepreneurship and international activities, which calls for interventions in the educational system.

More immediate support should be based on supporting SMEs in the areas of reported need: lack of managerial resources and skills for internationalisation, lack of sufficient financial resources and availability of usable information.

Government support for the internationalisation of SMEs remains vital. SMEs are likely to benefit disproportionately from the pro-competitive effects of internationalization and government support produce a high level of "additionality": an important number of SMEs would not have internationalised without the Government support.

Taking into consideration that countries are not competitive but the companies are, internationalisation can not be separated from a company's competitive position. And each company will have its own set of individual variables and barriers for competitiveness. Consequently, the most effective way to guarantee a successful long term internationalisation is to provide individualised support for each company, beyond supporting the merely "international" part of the company.

Successful support will have to be based on building capabilities inside the SME where access to training and consulting should play a central role. This will require scoring, filtering and analysing companies prior to providing any support and adapting the mix of standardised support programmes to create a company specific support plan.

All key stakeholders must be involved in the development of policies and programmes: regional and national bodies, internationalisation agencies, business representatives and banks. This is conducive to developing support that is required by the SMEs, avoid overlapping of programmes and maximise allocation of resources. Development of policies is probably better co-ordinated at national level. But for maximum results implementation must be at local or regional level.

In order to enhance competitiveness and growth, programmes must support internationalisation, not only exports. The main internationalisation programmes must permit the participation of the widest number of SMEs possible. Also, programmes must be demand driven and adaptable. They must incorporate feedback from SMEs in order to evolve as SME needs shift. A strong emphasis must be placed in supporting and promoting networks at all possible levels.

Internal size is conducive to greater competitiveness in the international arena. In this respect the potential of the internal market is far from fully exploited as the internal market could act as a breeding ground for international companies that may become global players. Support of direct SME co-operation, matchmaking, promotion of intra-European value chains could be conducive for greater competitiveness and growth An important effort must be placed in raising SME awareness of the need to internationalise. Ideally this should be coupled with an easy access to support based on the one stop shop principle.

Internationalisation agencies have to become customer led and customer centred and offer comprehensive support. This also opens the door for service integration which is conducive to additional synergies.

It is recogniyed that the key challenge for the EU today consist on managing the transition towards a knowledge-based economy. Success will ensure a competitive and dynamic economy with more and better jobs and a higher level of social cohesion.

Dynamic entrepreneurs are particularly well placed to reap opportunities from globalization and from the acceleration of technological change. The capacity to build on the growth and innovation potential of SMEs will therefore be decisive for the future prosperity of the EU. In a globally changing landscape characterised by continuous structural changes and enhanced competitive pressures, the role of SMEs in our society has become even more important as providers of employment opportunities and key players for the wellbeing at the local, regional and global level.

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THE NECESSITY AND OPPORTUNITY OF ACCOUNTANT INFORMATION IN THE MANAGEMENT OF MOBILITY OPERATIONS

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Abstract: Financial-accountant information represents, no doubt, one of main information sources of each decisional proces. From reports regarding obtained production and holding stores and till the organization of every year counts, the motivation is the same: supporting various categories of users chossing the best solutions. We can say that the information right represents, generally an obligation which results from legal regulations and a necessity used by management to promote the interests of entity.

Key words: financial-accountant information, mergers and acquisitions, insolvability, decision of the firm

The evolution of economic environment demonstrated that **promoting of strategies and objectives of companies, as essential in the ensuring of economic developing of these, in competition terms more and more severe it isn't possible without adequated information regarding the economic-financial situation.**

The total of financial market represents, as well as we showed, a phase of internationality process of commercial societies inside of which the economical activity is subdued to an abstract changes of capitals and information.

The enterprises are the main actors of total process through their trying to develop their presence abroad as a result of presure of technological, competitive and regulated factors mentioned before. If in 1970 the number of transactional companies approached of 7000, at the beginning of 1990s this crossed over 35.000, in 2006we attended at an increase with 125%, these number grew up over 78.000. The economical power of one of these gets over even one of developed European countries.

The organization of the enterprises is subdued to achievement constraint of an equilibrium between urban and local and transnational companieshave to adapt the production and administration methods.

In a recent study, is remarked the fact that the last years were marked by that who financial analists name „mergermania" or „mergers and acquisitions mania"[3].

The author considers this phenomenon makes the inversion of classical model of administration of enterprise's balance sheet. A classical administration of the balance supposes its own resources and, eventually , its debts to finance the developing of enterprises, then business to develope itself through business letter. The mutation consists that „inflation" of accountant balance through external increase and indebting, starting from premise that bought actives will bring a profitableness superior to the cost of the debt contracted through their aquisition, the profit resulting from this famous „lever effect”.

To take something into consideration of those presented, the theorists in the developing of international of firm propposed models of making a decision in this area, wich retain two criteria. It is about, on a hand, by the level of financial risk and by the other hand by the control level linked by this decison (regarding technology, know-how, market and other parameters considered essential in given activity area).

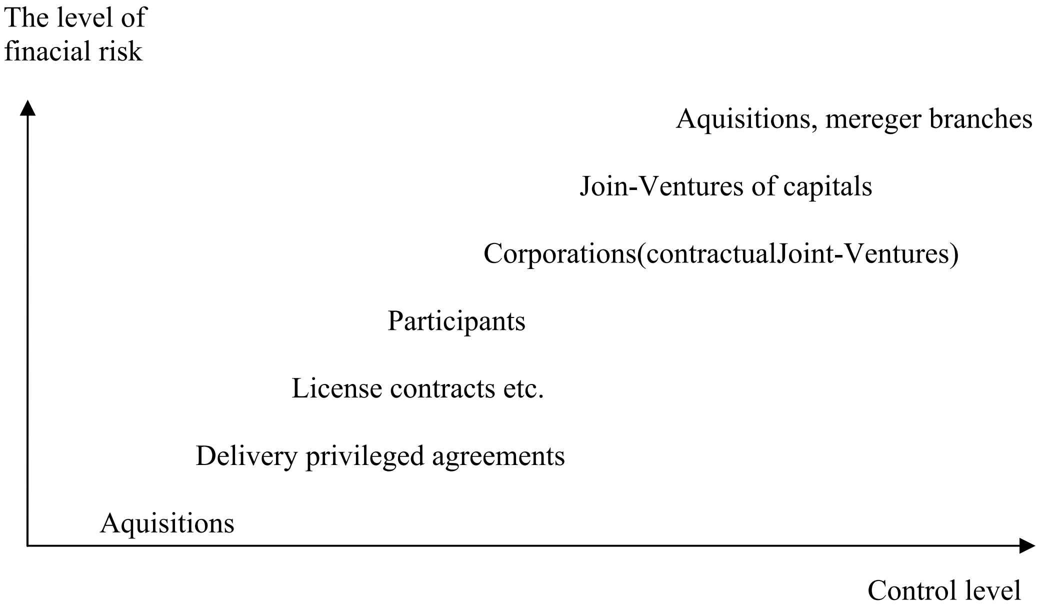

Figure no. 1 Internationality Decision of the firm

From the studying of deals of partial or total sales and buyings of enterprises, the increase of mobility and volatility of the capital on the financial markets consists of ampleness of these prints a financial orientation of enterprises'concentration. The financial logic of concentration is often based on the searching of plusvalue obtaining in short term, through salling and buying enterprises. Even then aquisition-merger operations aren't firstly determined by a financial logic, this is strong determined through inovations and financial facilities, especially when the market is speculative.

Regarding the substantiation of decisiond about reorganization or the bankrupcy of some firms, we consider this kind of decision should be the result of deep analisys of causes wich have determined the insolvence state, so:

- if the stopping of pays to loaners is a temporal treasury problem (state of technical insolvability);
- if it is about an operational problem, about accented usage of actives or their utility value regarding the production profile and by the beficient ability of the firm comparative to the debts toward loaners (insolvability in bankrupcy).

Table no. 5 Synthesis of operations and economical and juridical bearings

Dificulties	Measure (option)	Economical and juridical bearings
Technical insolvability	Voluntary Reorganization through: -postponing of pays toward loaners - *agreements with loaners*	Redused
Severe financial suffering	Juridical reorganization	Significant
Collapse	Bamkrupcy	Maximum

The accountant information plays an important role in substatiation of these decisions. The earlier warning over financial difficulties is possible on the basis of information delivered by retrospective accountantbut especially on the basis of financial-accountant predictions which every company can make. In this situation we consider of a real interest are information delivered by predictive accounts.

In a dynamic economy, the financial accountant of an enterprise can't cantone only on past description. Such orientation of representation, which adds every year report of information regarding the patrimony, the result and financial situation, ask about the utility of accountant as an administrative instrument and financial analisys. To cross over the below deficience, in doctine and practice of accountant af many countries it was created the alternative of predictive accounts. They deliver every trimester the predictive information regarding the active and the passive, charges and incomes.

In functional plan, such infomeation is delimited as a prevention instrument of difficulties which an enterprise can confront and driving of efforts. Any accountant management proposses aperformant administration must accept predictive financial documents.

From methodologic point of view, the predictive methods are bases on past analisys of financial accountantwhich it correlates and substatiates reporting to predictive information refound in the budgetary network. Placed in accountant system of Romania, the predictive accounts are connected at trimestrial reports being used in the same time with these. The methods and techniques used to prevent the actives and passives, charges and incomes are very much. Through thei efficacy are detached the procedures used in budgetary system used to prevent the available and possible active, exigible passive, as well as charges and incomes.

Convergency point of real and monetary values is represented by treasury budget.

In this context we confim that accountant information represent an important factor in taking decisions.

But, fo obtain some financial-accountant information are necessary passing through some stages, and thay can be sum up like this: systematic recording of deals regarding monetary expressing of these; clasification of deals in variuos categories; grouping of information obtained in a using form.

We consider the process doesn't stop here. After the obtaining of accountant information must to deliver to these interested by it and interpreted in taking deciison purpose.

Because of big diversity of requires information by users or delivered toward patrimonial entities, we can delimitate some qualitative characteristics od financial situations. These vise inteligibility, relevance, trust, and comparision of presented information. The inteligibility refers to easy understanding of these information by various users categories. We refer of course at those users categories who have necessary knowledges for such a step.

The relevance supposes the existence of an impact over taking decision as a result of delivery of these information. Seen often as a past image, tha accountant gains field if we take into account the fact that the relevance of information presented by it doesn't suppose anly the confirmation of some past events and (we especially say) the prevision of entity's activity. Practical both lines of any decision process , the analisys of past, future prediction, complete one each other. The analisys of information about the obtained production, its costs, acording to estimates regarding future evolution of detached markets, can dtermine a certain behaviour of the user of such information. Wanting to analisys all aspects of any event, appears the danger of overinformation, underinformation. This precious threshold depend by element or error's size, taking into account omission cases or wrong declaration. It shouldn't be neglect the cost problem of these information, or delivery at optimum moment.

The trust of some information supposes the lack of some significan errors and any partial interests to obtain and deliver them. So we talk about devoted reprezentation of a deal, in report to ist economical reality, the lack of any influence which can affect the neutrality, by a precaution degree to avoid the overevaluation of the actives and incomes, respective under-evaluation of debts and charges, and finally the integrality or presented information.

The comparision of information supposes the possibility of the achievement of some paralel analyses to the same nature at different moments or belonging some different entities. The permanence of methods and these uniformity remain on a secondary place if the ensurance of devoted image ask infringements from both „behaviours". The simple justifying of an option for other method and the effects of these new options, are enough for ensuring of comparision of financial-accountant information.

Unfortunately, the subiectivism refound sometimes in accountant infrormation, especially in the evaluation of patrimony, determined by interests belonging of a „priviledged" users group, of accountant information, the impossibility of quantification of all aspects which influence an entity (it is about aspects about competition, the preparing of staff or the impact of management quality over obtained performances), are many obstacles in the way toward truth. The reporting achieved on the basis of costs for just value, refound in the practice of many companies, is like an ilustration of the past before prevision. Of course, we consider that a pertinent prediction refound a staring point in the past information.

Otherwise, across less favourable aspects, the accountant information, the result of any principles and rules' system relative homogenuous, we can say that ace remains of different users group with a high level of trust reporting other informative sources.

Over its informative valences and the role played in the decisive process, the accountant is often perceived like precious „arbiter" between information offer, on the other side the variety of informative requests belonging each users' category. The developing of accountant is unsolvable linked by that of society, we can admit without wrong, every step made to become an evaluation coherent system and the making-evident of economical-financial operations. If the variety of informative requests is for the permanent wish of new, a big diversification of answer modalities at all these questions would take difficulties in the understanding and caomparision of delivered information.

We appreciate, now more than ever, normalization, harmony and internationality of account takes a special importance. The normalization constaints in efforts sustained of international organs in creation of postulates, principles and accountant norms. If these postulatescan be defined as „sentences of which acceptance is necessary to achieve a demonstration", the accountant principles are „conceptual element which gives to elaboration of accountant norms."About the accountant norm , we think this can be perceived like strict rule respected by each economic entity. The harmony represents the consense regarding the applying of rules imposed by normallization, ant the internationality purchases to eliminate the obstacles generated by conceptual differences of accountant information.

In conclusion we can say that the normalization process is necessary for dtermination of reference frame taking fundamental purposes tohe following three aspects:

- the obtaining, by public power, of homogenous information, about enterprises;
- capitalization of accountant information by external users, especially about time and space comparisions;
- contribution at a better allocation of financial resources, at the level of a country.

Also, the normalization representa a starting point in the analisys of obtained performances, in comparision not only with previous results and with those of other competitives, but a genuine launching grade of some future actions. At the same time, the normalization process ensures a communication instrument between actual entity adn different users categories.

There are four types of normalization approaches, defined by .A. Daley and G.E. Muller:

- political type approach, in which the state intervention has a big role, French and German cases are the most representative;
- pragmatic type approach, the liberal accountant profession, (see British case), plays a decisive role in elaboration and appication of norms;
- mizt approach, through which the norms, made by professional organs, are „validated" by public intervention, It is the USA case, where Securities and Exchange Commission, which plays a regulation role, in the communication of financial information of quoted societies, passed for payment a privet independent organism Financial Accounting Standards Board:FASB- regarding the elaboration of an ensemble of admited general accountant principles;
- a mixt approach, the result of a large process, in which the norms th ecompromise of participation of syndicates, accountant profession, and of employers associations: it is about Tripatite overleg, in Netherland; after that the „Committee" was replaced with „Foundation for accountant" , private organism which regroups four employers and syndicate organizations, wich add representatives of accountant profession, an important particularity of situation of Netherland it is the presence of tight relations between profession and universitary environment.

Although on international plan is manifested a general normalization tendency of accountant there are voices which aren't agree with this thing. Their opinion is based firstly on historical reasons. Otherwise the appearence of normalization being considered an accidental historical interpretation, as a result of money market crisis in 1929-1933. The sustainers of this variant invokethe lack of structured ensemble of accountant principles in literature, till the starting of 20th century. Great economical crisis of 1923-1933, wasn't only one of money market or of capital, such one of accountant information. The diversity of accountant practices which are at the basisof financial situations of quoted societies, was considered the main cause of collapse of New York money market. To invoke, only the lack of transparency or uniformity in the presentation of some financial-accountant information about the quoted societies, the main cause of collapse of money market is not enought the accountant normalization, the sustainer of this theory consider. So we can say that on the basis of accountant normalization aren't only storms of money markets rather than a lately reaction at the requirements of economical environment.

As a politic argument, poeple who contest the normalization say that the main objective of normalization isn't the economical efficacy or equity concept, and the meeting of requirement of some interested groups. „The elaboration of accountant norm is, rather, a product of political actions than of logical and empiric descoveries. Why? Because the elaboration of norms is a social decision. The norms establish behaviour restrictions and these must be accepted by the affected parts. The acceptance can be forced or voluntary.In a democratic society, the obtaining of acceptance is a complicated process which necessitates much work in political area".

To show the limited interest of normalization for efficacy and equity, K. Naser discusses the next vectors:

- allocation and redistribution effects: beeing a good as any other, the accountant information is the subject of the requirement, from interested users's part, and of the offer, from interested preparators' part. That wich results is an optimum quantity of information delivered at an optimum price. The market is, an ideal mechanism to determine information types which must tell, information receivers and the rules which govern the production of theseinformation.
- the governing of enterprises and social responsibility: tha accountant norms can't have a benefit influence over the governing of enterprises and social responsibility, because the measure required by a useful norm can't be achieved.
- informational asymmetry : the actual practices demonstrate that accountant norms doen't eliminate informational asymmetry.

The last category of arguments against normalization is represented by economical arguments. The accountant normalization process imply a big voolume of costs (direct and indirect). The direct costs contain consumed resources of normalization organism to develop the financial telling and to enforce the according to norms. The indirect costs results of the impact of normalization over investment decisions, financing and production. The result shows that the benefits obtained through improvement of social goodness, and it doesn't equalate the costs of normalization.

We consider tnat between simplicity and inteligibility , costs and advantajes, the market of ccountant information feels again the need of a normalization process. Over producer's interests of information or those of different users categories took into account , the normalization process it called to find an equilibrium point under different provocations of economical environment. In conclusion, the mise being showed, the conception of accountant norms represented and will represent in following years a disputed subject.

In Romania, to ensure a great degree of comparision of information contained by financial situation Minitery of Public Finances, as regulation authority in accountant area interved frequently in the last years over General accounts plan, economical content and accounts' functioning, reporting odalities, as well as content and structure of financial reports. Abour these modifications, teacher Nicolae Feleaga shows, in the first wave of accountancy reforme of French inspiration „the excelent cut hadn't a sewing on its size"because „synthesis documents didn't receive the utility which they diserved . The same establishment is made about the regulations package, of Scottish inspiration, in harmony with provisions of European Ivth Directive, but he appreciates that difficulty is located in the zone of contestable forming of staff ".

About the third wave of accountant reforme and financial reporting, the author expresses the belief of the implementation successful in 3 stages: the end building and implemetation process of standard platform; the achievement convergence between national and international standards; the establishing of a flexibile frame for achievement of IAS-IFRS convergence, with those American (US-GAAp)

Through recent regulation in the domain are considered in general usage: information present in the balance, profit and loosing account, situation of own capital modification, and the situation of treasury fluxes which address to all users and which are listen , obligatory, by people of the exterior of entity to increase the trust degree in information and thei fiability.

From these reason and to facilitate the usage of information presented in financial reports are established norms applied which can do possible the interpretation of account information for a large audience.

In conclusion we opinion, preocupations and adapting and modernization measures of account system can't make abstraction by general characteristics of accountancy which limitates in the informative economical frame system. These characetrisdtics can synthetize this way:

- the accountancy isn't a purpose but a specified economic knowledge meansof economical and financial situation of patrimony unity, to touch some practical objectives of enterprises through adopting on the basis of information which procurate them, of most efficient decisions, actual and perspective, refering at optimization of the activity, allocation and administration in good terms of enterprise's resources, decisions which can have effect over the increasing strategies in mergers and aquisitions or against in restructure of activity.
- the existence of accountancy is justified through permanent utility, appreciate throght satisfaction of users' requirements of financial-accountant information and substatived on following essential reasons : the amplification of economical exchanges, between economocal agents, limited character of natural, human, financial, technical resources, big interest of third people for financial-accountant information;
- includes more user among those privilegeds brings new elements in the theoretic and practical accountancy. Otherwise, USA and Canada the priviledged users are the main investments, In France are provided the employers, in Germany are included the ecologists, in Romania, the main user is the state.
- tha accountancy produces information, and increase the sphere of action at microeconomic level, meaning indivdual enterprises and society groups;
- financial accountancy and financial situations vises, through information they produce, the enterprise in ensemble and not the sectors, centers, headquarters, and services;
- the accountancy reflects, in general, past events and deals, but the users are interested about the future, that which takes into discussion the inopportunity of

usage of historical costs, but in other countries the usage of some costs is considered a pertinent mood to elaborate of predicitve financial situations;

- quatification of monetar shape of events, phenomena, and facts which make the object of accountant recordings give a false precision decision of information, because currency doesn't constitute measuring shape of established that in inflation terms create uncertanties over the possibility of comparision between financial situations and implicitly between financial results of exercises, starting from this, the elaboration necessity of some accountant norms specific the organization of inflation accountant;
- the obtaing of financial-accountant information in Romania is based on angajament accountancy, this is a net superior treasury accountant;
- under influence of some factors, the appearing of share companies, the developing of financial markets was showed the accountant dualism in the existence on the hand of financiial accountancy, and on the other side, of administrative accountancy which vises with predilection the informational needs ofe the enterprise's management;
- postulates, principles, accountant norms aren't subdued of nature laws actions and they evolute in a certain economical, social, political and cultural environment in a permanent evolution, that which genereates certain evolution stages of different accountant systems.

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TAX COMPETITION – AREAS OF DISPLAY AND EFECTS

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Abstract: In the past, governments had more freedom in setting their taxes as the barriers to free movement of capital and people were high. The gradual process of globalization is lowering these barriers and results in rising capital flows and greater manpower mobility. Tax competition exists when governments are encouraged to lower fiscal burdens to either encourage the inflow of productive resources or discourage the exodus of those resources. With tax competition in the era of globalization politicians have to keep tax rates "reasonable" to dissuade workers and investors from moving to a lower tax environment. Most countries started to reform their tax policies to improve their competitiveness. However, the tax burden is just one part of a complex formula describing national competitiveness. The other criteria like total manpower cost, labor market flexibility, education levels, political stability, legal system stability and efficiency are also important.

Key words: tax competition, positive effects, negative effects, flat tax

1. Introduction

The concept of "tax competition" was introduced by Charles Tiebout (1956) and started from the idea of the existence, for public assets, of the equivalent for the markets of public assets. As a consequence, the taxpayers should opt for those residences which offer them the combination of public assets and tax rates (meaning the prices of public assets), which would satisfy most of all their preferences. In their turn, the tax authorities shall try to attract the taxpayers within their own jurisdictions, giving them the combination tax rates – public assets, as they wish, until reaching an optimum dimension of the base assessment, meaning that which allows the minimization of the cost for the provided public assets.

The analogy with the competition between the private economic agents can be looked at in the shape of two hypotheses. On one hand, it can be translated as a "race" towards the cost reduction, which is equivalent to the rise of the efficiency with which the public funds are spent, and on the other hand, it can be noticed an effect of "limiting the waste", by offering an attractive combination of prompt and reliable delivery of the public assets, for a price which would not exceed the level necessary for covering the costs and obtaining a reasonable profit.

Tax competition displays especially regarding the attraction of:

1. direct foreign investments, considered as being more and more important for generating workplaces in the countries of the European Union;
2. mobile financial capital (portfolio investments), useful for financing the investments, for strengthening the financial markets and obtaining comparative advantages in delivering financial services;

3. financial flows inside-company, which can be channeled towards the own tax jurisdiction by attracting those corporate functions used for the international transfer of the profits;
4. workforce with high professional skills.

Tax competition presents both advantages and disadvantages. Low tax rates may stimulate economy and, under the proper conditions, may increase the finances at the budget. But if they are too low, these may be harmful for the finances at the budget and may endanger the public assets, such as infrastructure, education and health..

2. Positive effects of tax competition

One says that tax competition is capable of generating important ***positive effects.***

I. It is about, first of all, the *reduction of the vulnerability of the taxpayers in regard to the exploitation carried out upon them by the state*.

However, it must be taken into account the existence of some inherent limitations in displaying this protection effect. Therefore, the taxpayers can not avoid the necessity of living or having the residence in a state, so they remain "exploitable" (unlike the users of a private market, who can decline to purchase the too onerous asset or service).

Then, the activity of tax authorities allows the coercion, while the owners of resources less mobile can not carry out this kind of censorship upon authorities.

Finally, the authorities can form (by coordination or tax harmonization) real "cartels". Tax cartels are more harmful than the commercial ones, as commercial decisions are made every day, while reorientations of tax policy are made a lot rarely.

The problem with this argumentation line is that it presumes that the authorities' decisions are intrinsically unfavorable to citizens, which can only take place if politicians attend narrow groups of interest and/or bureaucrats aim for own objectives, of maximizing the profit or the prerogatives. Or, is the things are really like that, then the preferable manner to correct these distortions is the direct action upon them, not by indirect mechanisms, such as tax competition, which may generate own distortions.

II. Tax competitions may stimulate *the rise of budgetary efficiency,* as it determines the presentation of the best services at the lowest cost for the taxpayer.

As tax competition reduces the resources of the budget, the expenses must be well «managed», thus limiting the waste. But this thesis is valid only if the government acts as a benevolent maximizing item of the citizens' welfare, hypothesis which is though in contradiction with that which funds the first argument.

III. In the third place, tax competition can *stimulate economic activity,* by releasing the investments of one part from the burden of the taxing, which damps them in many ways: by discouraging the saving and, therefore, reducing the "*pool*" of available investment capital (Teather, 2005); by reducing the available profit for reinvestment; and, by the fact that, if the revenue from investments of the shareholders is strongly taxable, then the companies would have to pay higher equities in order to attract capital.

A study presented under the aegis of OCDE has estimated that economies grow one-half of 1 percent (0.5 percent) faster for every 10-percentage point reduction in marginal tax rates (Mitchell, 2004). But this effect is not equally produced. If the reduction of very high tax rates stimulates the rise, one can not say the same thing about the tendency to zero of some very low tax rates.

IV. Finally, tax competition *allows the obtaining of some information which would "discover" the desirable features of a tax system*.

3. Negative effects of tax competition

Tax competition is not always a game with a positive value, the circumstances in which its ***consequences are negative*** are neither a few, nor rarely encountered. Concisely presented, they refer to:

A. *Producing a suboptimal level of public assets*: as the tax competition intensifies, it is more and more difficult for the taxpayers to be taxed at levels which would cover the marginal cost of delivering the public assets.

It is true that this hypothesis seems to be infirmed by a study of Tanzi and Schuknecht (2000), according to which there aren't any indications that the countries which mobilize lower budgetary revenues in proportion to the GDP, "produce less desirable social economic indicators" than the countries with higher budgets in proportion to the GDP: much of what governments want to achieve through public spending could be achieved by levels of spending ranging from, say, 25 per cent and 35 per cent of GDP (Micossi, Parascandolo & Triberti, 2003).

More than that, the statistic data do not support the thesis of a reduction, at the level of the European Union, of budgetary cashing, capable of limiting the delivery capacity of public assets, not even regarding the taxes which are the most influenced by tax competition, those upon the revenues of corporations (profit or corporate tax). Finally, it is not obvious that a possible reduction of budgetary revenues should be automatically translated as a under deliver of public assets. Firstly, it is expected that, in such a situation, the governments would react compressing the budgetary transfers.

B. *General erosion of budgetary revenues*, with the consequence, among other things, of frustrating the reduction efforts of budgetary deficiencies, a problem which is particularly delicate in the European Union, in the context of the limits imposed by the Pact of Stability and Rise.

This effect is presumed to rise from many causes:

- reducing the cashing from the taxes upon the tax mobile bases, as a consequence of reducing the tax rates;
- the flow of mobile factors of production from the countries with high rates towards those having lower taxes, with the consequence of reducing the tax bases in the countries which practice higher tax rates;
- the reallocation of mobile factors of production can also lower factor payments to immobile factors, thus further eroding the tax base (Rabitsch, 2007).

As it is shown below, this phenomenon hasn't been encountered in practice so far, but for some small countries which engaged themselves in an aggressive tax competition, with the purpose of attracting investments of important dimensions in proportion to their economic dimension.

More than that, although it could be checked in practice, the reduction of budgetary revenues would be a negative effect of tax competition only if the dimension of public budgets would be the optimal one, previous to their reduction.

According to a study, if governments were otherwise perfectly efficient, tax competition would reduce levels of capital taxation by 3 per cent. To put this in perspective, levels of capital taxation in the EU are roughly 20 per cent of GDP, so a reduction of 3 per cent of expected capital taxation receipts amounts to a reduction in government revenue of roughly 0.5 per cent of GDP. In other words, even if governments are perfectly efficient, the damage caused by tax competition will amount to government spending being 0.5 per cent of GDP below the optimum. Of course, this is on the assumption that governments are perfectly efficient, and so perfectly benevolent and knowledgeable; if government inefficiencies lead to taxes being more than 0.5 per cent of GDP above their optimum then tax competition is likely to be beneficial (Teather, 2005).

C. *The movement of tax burden upon the less mobile tax bases*, with negative effects on social plan.

The loses of budgetary revenues associated to the reduction of tax burden upon the mobile factors of production could be, theoretically, compensated by increments of indirect taxes, but these – also a consequence of the harmonization measures taken for a few decades at the level of the European Council / European Union – are already at high levels. This situation leads to the re-setting of the structure of direct taxes, meaning that the less mobile tax bases come to be taxed more than the mobile ones. According to a Report of the Commission from 1996 (“Monti Report”), within the European Union the tax rates of the capital and independent activities (*self-employed*) decreased with a tenth between 1980-93, while the tax rates of the employees increased with a fifth (Bratton & McCahery, 2001). On the other hand, though, the budgetary cashing from the taxes on personal incomes in relation to GDP remained practically constant as a proportion of GDP of over 20 years: they represented 11 percent of GDP in 1980 and 10,8 percent in 2002 (Boss, 2005).

Unrighteous effects appear also due to their driving effect, in order to tax the personal incomes, the reductions of the tax rates upon the corporations' revenue. This takes place as, if the corporate tax is more reduced than the personal one, there is a tendency of the natural persons to organize the activity in the shape of a trading company, thus taking advantage of the lower tax rates. In order to avoid this pervert effect, many countries aim to align the marginal tax rate on personal income at the profit tax rate, with the consequence of reducing the progressiveness of personal income taxation and, implicitly, of the re-distributive capacity of the entire tax system (Rixen & Uhl, 2007).

Also, the structure of the delivered public assets changes in the favor of those appreciated more by the most mobile taxpayers, social fractures may occur, as a consequence of the citizens' segregation or pervert situations such as “the exploitation” of the generous social services from a country, without contributing with taxes to their support (“the fiscal-social nomadism” of the taxpayers who change their residence according to the costs and benefits offered by each national system *in different stages of life).*

Since the fear towards the outgoing capital attracted by more attractive destinations, fiscally speaking, seems to have been at the basis of the restraints of several European countries to reorient the taxes from the labor taxes towards those of capital income taxes, limiting the tax competition might have as a result a collateral result making this readjustment, with the consequence of stimulating the employment. This effect doesn't seem to be important, but: stimulating a rise with 10 percentage points of the effective tax rate of the capital incomes in the European Union-15 and a reduction of the labor tax so that the public revenues could be maintained constant show that the reduction obtained like this of the unemployment rate is only of 0,6 percentage points (Sorensen, 2001).

In this respect, there might be brought as counterargument the fact that the authorities should respond to the tax competition by reducing the taxes, not by transferring them to other tax bases (Teather, 2002).

D. *Influencing the decisions of placing the investments* (distorting the allocation of resources: these are taken from the most efficient usages).

A strong and suggestive analogy of this situation is offered by the theft of valuable jeweleries, with the purpose of their melting and using just the valuable metal which are made of.

This effect of the tax competition was sometimes argued, considering that choosing the place for an investment depends mostly on other factors than the tax regimen (e.g., approaching the consumers, cheap labor force and with an adequate qualification, infrastructure, favorable regulations, and so on).

Nevertheless, if there aren't important differences between the host-countries from the point of view of other elements, the tax regimen can have an important role, a phenomenon stressed by several studies which identify a connection statistically significant between the tax level and foreign direct investments. Recent assessments (2000 and 2003) at the EU level reached to results remarkably close regarding the effect of the tax rates in the host-country determine a rise of the foreign direct investments in that country: a 1 percentage point decrease of the host-country tax rate determine a rise of the foreign direct investments in that country by 4.3 per cent (Cnossen, 2002) and, respectively, 3.3 per cent (Eggert, 2006).

But the tax system influences the investment decisions and indirectly, through the effects which other of its parameters have upon the business climate: the ambiguities of tax regulations, multiplicity of tax rates, frequent and unpredictable amendments of the rules, and so on.

Recent studies emphasized another important feature of the relationship between the tax regimen and foreign direct investments.

This way, it was shown that the host-country taxation play a limited role in investment decisions when investment is horizontal (i.e. targeting market access), as, in this case, the opportunity cost is given by the export one and there aren't locational alternatives. But when investment is “vertical”, representing a chain of an international productive network (global), there are several localization options, and the resulted end-product compete with the similar ones made by other producers. In this case, minimizing the production cost is more important so that the level of taxes from other possible different placings play a more important role (Lahreche-Revil, 2006).

Finally, another important feature of the relationship between the foreign direct investments and the variation of the tax rates is its nonlinearity. Concretely, the investments do not seem to respond significantly only to important reductions of the tax rates, which can have two explanations: even if the European Union is a well-integrated economic space, there are still significant transaction costs associated to the cross-border capital flows (especially in the shape of direct investments), so that it is created a kind of an “arbitrage tunnel”, in the way that the companies redirect their activities only if the changes of tax rates are high enough to “come out” of this tunnel. Secondly, the small reductions of tax rates can be enough in order to compensate the “avoiding” of taxes carried out by methods already tested of tax planning in tax jurisdictions of which rules became well-known to the corporate taxpayers (Lahreche-Revil, 2006).

There are opinions according to which there is no valid reason in order to treat the tax regimen other than the other defining elements for the attraction of a certain placing potential for investments. Since the taxes represent the financing source of the public assets delivered to the citizens, assets which can be regarded as an indirect way of remuneration, an investment decision made according to them is equivalent to a decision made according to the labor force cost from one country to another (Teather, 2005).

E. Inducing strategic interactions among the tax authorities of "prisoners' dilemma" type*,* with the consequence of establishing to lower and lower levels of tax rates (*race to the bottom*).

The existence of this effect is empirically researched. A study refering to the situation from EU concludes with a 10%-point higher tax rate in neighboring countries implies an 8% higher rate in a particular European country (Mooij, 2004).

Its development is much facilitated by the occurrence, in the contemporary world, of the possibility of dissociating the advantages (infrastructure, education) and, respectively, the inconveniences (contribution to public cashing) which are presented by a tax jurisdiction or another, phenomenon known under the name of *free riding*.

It is practically impossible to can be determined which of the presumed effects of tax competition are more susceptible to display, since this thing depends on a variety of factors, which specialty literature emphasized step by step:

- availability of the alternative mechanisms which can substitute the taxes as an instrument of attracting the capital;
- asymmetries among the countries from the point of view of dimensions and endowment with resources;
- condensing the production in certain geographic spaces ("agglomeration" within the "center-outskirts" models);
- existence of scale economies in delivering public assets and services;
- offering by the public sector of some inputs which reduce the private production cost;
- mobility level of production factors;
- existence or not of the home bias;

possibility of cross-border compensation of tax losses, and so on.

4. Tax competition – how does Romania react

Tax competition is a two blades gun, a boomerang which turns against the state, which tries to attract capital through reduced tax quotas of the profits. The investors who today applaud the obtained tax facilities, tomorrow will run, since they won't have labor force trained at the standards imposed by the level of technological development. A symbolic taxation of business means less money to the public budget, so it means amounts which are not enough for qualitative education, for primary medical care, for rehabilitating and maintaining of a fund of human resources to European standards.

Romania is not the most attractive country, fiscally speaking. While in our country double taxation makes unattractive the stock market, the Czech Republic and Bulgaria introduce more friendly flat taxes (15% in Czech Republic and 10% in Bulgaria). But, Romania can become the economic center of Balkans.

The reality is more rough. We take the 12th place from 19 places[4] in the area regarding the taxes' share in the net revenue of a company (with 46,9 per cent - table 1).

[4] *Paying Taxes 2008 – The global pictures*, The World Bank and PricewaterhouseCoopers Survey, 2008.

Table no. 1 Total Tax Rate – in Eastern Europe

Country	Total Taxe Rate - TTR (% of comercial profits)	Corporate income tax TTR	Labour tax TTR	Other taxes TTR	TTR Rank
Albania	46,8	17,7	24,5	4,6	105
Bosnia and Herzegovina	44,1	21,5	17,2	5,4	90
Bulgaria	36,7	6,6	26,6	3,5	59
Croatia	32,5	11,4	19,4	1,7	34
Czech Republic	48,6	5,9	39,5	3,2	115
Estonia	49,2	9,3	38,3	1,6	118
Georgia	38,6	14,1	22,6	2	70
Latvia	32,6	2,2	27,2	3,3	37
Lithuania	48,3	8,3	35,2	4,9	112
Macedonia FYR	49,8	13,1	33,2	3,5	119
Moldova	44	10,5	31,6	1,9	89
Montenegro	31,6	9,3	20	2,3	30
Poland	38,8	12,7	23,6	2,1	67
Romania	46,9	10,4	34,4	2,1	107
Russia	51,4	14	31,8	5,7	131
Serbia	35,8	11,7	20,2	3,9	53
Slovakia	50,5	9	39,7	1,8	121
Slovenia	39,2	14,3	22	2,9	74
Ukraine	57,3	12,2	43,4	1,8	145

And this taking into consideration the main taxes and tax rates (on revenue, on profit, on property, Health Insurance House) and not all the 278 para-fiscal taxes which disturbs the free initiative in Romania.

Meanwhile, the wind of change breezes near us. In 2007 and 2008, five countries from the area (Albania, Macedonia, Montenegro, Bulgaria and Czech Republic) have introduced flat taxes smaller than quota of 16% from Romania.

In Romania, the flat tax is seen as a panacea, either as an universal evil. For the followers of the flat tax, who want to tax with 16% everything related to economy, it solves all the problems, despite double taxation which brings in its Romanian shape. For its competitors, it is the cause of inflation and of introduction of new taxes, even though the budgetary revenues are rising.

In a debate organized by the "Wall Street Journal", the president of the Czech Republic, Vaclav Klaus (the architect of the tax reform from 2008) drew the attention that proportional taxation can not be a solution to all the problems which an economy confronts with. Also, the laureate of the Nobel Prize for economy, Gary Becker, warned that "a flat tax is not so flat", referring to the double taxation and to the taxation of special groups of interest. "Which is desirable is a low rate of taxation, doesn't have to be flat!", was the conclusion of the American economist.

Which shakes the tax competitiveness of Romania in the area is above the high share of social contributions, the radical form of applying the flat tax. There aren't taxed only the regular incomes with 16 per cent, but also the savings and investments.

The extension of the flat tax principle to all the income forms puts us on the second place in the area regarding the tax on equities. Ahead of us there is only Poland, with 19 per cent. Neither to the tax on capital revenues we are not much better, since we are somewhere in the average of the area. But in Estonia, after introducing the flat tax, it was eliminated the double taxation of profit and equities. Taxing the equities is also absent in Croatia and Hungary. Noticing that it loses ground regarding the tax competitiveness (115th place in the world, with a share of taxes of 48,6 per cent from the commercial revenue of companies), in exchange, the Czech Republic introduced starting from the 1st of January 2008 a proportional taxation system. Regarding the tax on income of natural persons, the ex-system with four rates (12, 19, 25 and 32 per cent) was replaced with a flat tax of 15 per cent, which would be followed by a new discount of 12,5 per cent in 2009. In exchange, the social and health contributions were included in the tax basis of the tax on income.

According to the calculations of the American expert Alvin Rabushka, the author of the most important treaties about the flat tax, including the contributions in the tax basis makes that in reality the flat tax applied to the income in 2009 to be of 19,4 per cent and not of only 12,5 per cent. Another component of the tax reform from Prague aims the tax on profit of the companies: this was reduced from 24 to 21 per cent in 2008, going to be dropped at 19 per cent in 2009. Which, in practice, means only that in 2009, the Czech Republic (through 19,4 per cent tax on income and 19 per cent tax on profit) will be equal to Slovakia, where is a flat tax of the personal incomes and that of companies of 19 per cent.

Meanwhile, in Romania there are several forms of double taxation: on profit and equities, on income and on the trading of capital assets, and so on.

But in the current European context, Romania needs a simple and competitive tax vision, which would attract the investors and bring forth a transparent and easy to manage business environment, in parallel with bringing to light the underground economy and severe fighting of tax evasion. Still, the highest risk is that tax legislation to be held by certain groups of interest, opposing to the main principle of defending the competition and not the competitors.

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THE ROLE OF MARKET RESEARCH INFORMATION IN CORPORATE DECISION MAKING

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Abstract: This paper aims at understanding the role of market research information in the corporate decision making process concerning marketing decisions (4Ps). Information is an asset and resource that is essential for decision-makers so that they can define the company's short and long term goals, execute and evaluate them. The whole process can be supported by customized research and retail measurement results.

Key words: marketing, research, information, decision making, strategy

I. Introduction

While marketing forms a connection between a manufacturer or a services provider company and the market, i.e. the set of actual and potential consumers, marketing research creates a link between the consumers, the public and the manufacturers/distributors by using information to define and identify marketing problems and to help with the planning, execution, development and evaluation of marketing actions. It aims at providing the management with data, information and advice as the basis of strategic and tactical decision making. The understanding of the marketing environment is essential for the management in order to be able to define the purpose, the mission, long term objectives, direct goals and operative targets – therefore it takes part in the process of long term strategically and short term tactical decision making.

It is necessary to divide marketing research into two main areas based on the focus of the research: customized research aims at exploring the behaviour, opinions and attitudes of the consumers and is carried out mostly on an ad-hoc basis. Retail measurement deals with data and information provided continuously. The source of data here is the actual market place where the exchange takes place and the products finally reach the end consumers, i.e. outlets and stores. Consequently, the two types of market research information answer different questions, though these are only the different aspects of the same problem: how to create value for the customers and gain profit.

II. The Role of Market Research Information

In order to make decisions on the 4Ps the management requires a complex collection of information, which needs to be organized into a structure that will contribute to the decision making process and from which the information is easily accessible over time (Figure no. 1).

Market research is a process carried out by either the company itself or agencies. Either way it has to outline the relevant pieces of information that are crucial to understand the marketing environment in a way that helps the management make decisions, only delivering the results and actionable recommendations to them at a topline level, which is user-friendly enough to the decision makers to facilitate fast, effective and efficient decision making.

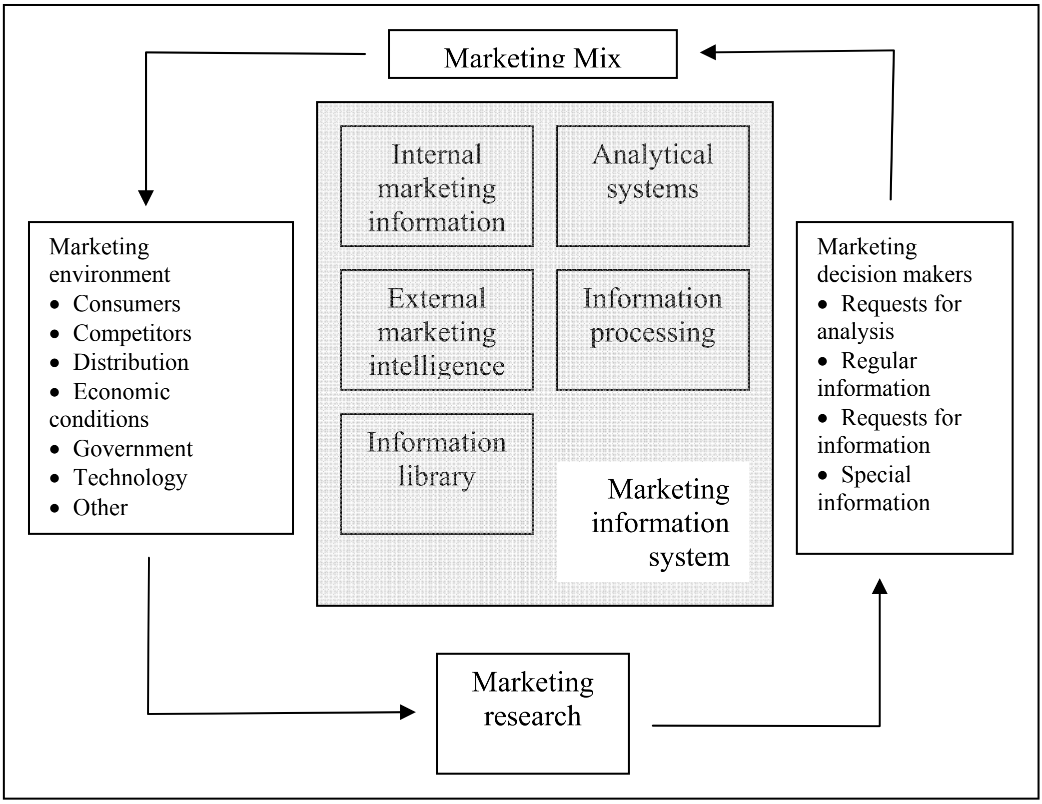

Figure no. 1: Marketing research and the marketing information system[5]

Information provided by customized research and retail measurement helps the management see the same problem from different points of view, they explain the same phenomenon with different tools. Decisions about the 4Ps can be supported by a wider scope of information using the results of both sorts of research as can be seen in Table no. 1.

Table no. 1: 4Ps and Market Research Results

	Customized Research	Retail Measurement
Product	• Consumer needs' assessment • Niche identification • Consumers' expectations, attitudes towards a certain category/brand • Consumers' behaviour, category purchasing frequency • Brand/product awareness	• Competitors' existing products • Actual market size • Potential sales/shares • Keeping track of long term trends and short term changes

[5] Marketing: Principles and Practice, p. 126

	Customized Research	Retail Measurement
Place	• Purchasing habits • Description of consumers purchasing in certain shop types	• Channel specific strategies, distribution
Price	• Consumers' reservation prices • Relationship between positioning and prices accepted by consumers	• Channel specific pricing • Price comparison between different brands and segments
Promo-tion	• The role of ATL and BTL marketing in the purchasing process • Promotion awareness • Awareness of trade marketing techniques	• Channel specific promotion strategy/tactics • Evaluation of promotions/promotion types • Identifying the most effective/efficient promotion tools

III. Conclusion

Information is an asset and resource that is essential for decision-makers so that they can define the company's short and long term goals, execute and evaluate them. The whole process can be supported by customized research and retail measurement results, which underpin the managements' decisions from the customers' perspective (behaviour, attitudes and opinions) and with recommendations from hard facts and figures received from the actual outlets where the purchase takes places.

The usage of these two sorts of information sources is not an either-or question: the two give an integrated view of the situation, which makes the analysis of the current situation, the definition of the goals and the evaluation of the execution possible.

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THE COMPETITIVE ADVANTAGE THEORY AS A GROWTH STRATEGY

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Abstract: To do well in any business you must develop a long-term strategy. Making consistent decisions in all aspects of a firm's operations is difficult without a well-defined and clearly integrated strategy. By far the most widely pursued corporate directional strategies are those designed to achieve growth in sales, assets, profits or some combination. Companies that do business in expanding industries must grow to survive. Continuing growth means increasing sales and a chance to take advantage of the experience curve to reduce the per-unit cost of products sold, thereby increasing profits. This cost reduction becomes extremely important if a corporation's industry is growing quickly and competitors are engaging in price wars in attempts to increase their shares of the market. Firms that have not reached “critical mass” (that is, gained the necessary economy of large scale production) will face large losses unless they can find and fill a small but profitable niche where higher prices can be offset by special product or service features.

Keywords: competitive advantage, growth strategy, growth resources, core competencies, explicit knowledge, tacit knowledge

Michael Porter in his book The Competitive Advantage of Nations, has developed a model that allows to analyze why some nations are more competitive than others and also why some industries within nations are more competitive than others.

This model of determining factors of national advantage has become known as Porters Diamond. It suggests that the national home base of an organization plays an important role in shaping the extent to which it is likely to achieve advantage on a global scale. This home base provides basic factors, which support or hinder organizations from building advantages in global competition.

Porter's Five Forces Analysis is a tool for analyzing the attractiveness of an industry. It has 5 components -customer, competitor, suppliers, barriers to entry, threat of substitutes. The tool allows you to consider each of these areas and to determine whether this is going to be profitable or not for companies in that industry. Porter identifies many elements that can be considered in each of these areas. These factors can be scored, the higher the score the better the industry. A simple way to do this is to score each factor out of four: 1: weak; 4: strong.

Threat of New Entrants

New entrants to an industry typically bring to it new capacity, a desire to gain market share, and substantial resources. They are, therefore, threats to an established corporation. The threat of entry depends on the presence of entry barriers and the reaction that can be expected from existing competitors.

An entry barrier is an obstruction that makes it difficult for a company to enter an industry. Some of the possible barriers of entry are:

- Economies of scale: scale economies in the production and sales of some products give to the manufacturing company a significant cost advantage over any new rival
- Product differentiation: some big corporations create high entry barriers through their high level of advertising and promotion
- Capital requirements: the need to invest huge financial resources in manufacturing facilities creates a significant barrier to entry to any competitor
- Switching costs: for example for a new software which training costs are very high
- Access to distribution channels: small entrepreneur often have difficulty in obtaining supermarket shelf space for their goods because large retailers charge for space and give priority to the firms who can pay for the advertising needed to generate high customer demand
- Cost disadvantages independent of size: once a new product earns sufficient market share to be accepted as the standard for that type of product, the maker has a key advantage
- Government policy: governments can limit entry into an industry through licensing requirements by restricting access to raw materials such as oil-drilling protected areas.

Rivalry Among Existing Firms

In most industries, corporations are mutually dependent. A competitive move by one firm can be expected to have a noticeable effect on its competitors and thus may cause retaliation or counterefforts. According to Porter, intense rivalry is related to the presence of several factors, including:

- Number of competitors – when the competitors are few and roughly equal in size, they wath each other carefully to make sure that any move by another firm is matched by an equal countermove.
- Rate of industry growth – anythe only path to growth is to take sales away from a competitor
- Product or service characteristics - many people choose a product based on location, variety of selection and pricing
- Amount of fixed costs – special offers for customers
- Capacity – if the only way a manufacturer can increase capacity is in a large increment by building a new plant, it will run that new plan at full capacity to keep unit costs as low as possible -thus producing so much that the selling price falls through industry
- Height of exit barriers – exit barriers keep a company from leaving an industry ; the brewing industry, for example, has a low percentage of companies that voluntarily leave the industry because breweries are specialized assets with few uses except for making beer
- Diversity of rivals - rivals that are very different ideas of how to compete are likely to cross paths often and unknowingly challenge each other's position. This happens often in the retail clothing industry when a number of retailers open outlets in the same location, thus taking sales away from each other.

Threat of Substitute Products or Services

Substitute products are those products that appear to be different but can satisfy the same need as another product (for example, Nutrasweet is a substitute for sugar).

According to Porter, "substitutes limit the potential returns of an industry by placing a ceiling on the prices firms in the industry can profitably charge." To the extent that switching costs are low, substitutes may have a strong effect on an industry. Tea can be considered a substitute for coffee. If the price of coffee goes up high enough, coffee drinkers will slowly begin switching for tea. The price of tea thus puts a price ceiling on the price of coffee. Identifying possible substitute products or services is sometimes a difficult task. It means searching for products or services that can perform the same function, even though they have a different appearance and may not appear to be easily substitutable.

Bargaining Power of Buyers

Buyers affect an industry through their ability to force down prices, bargain for higher quality or more services, and play competitors against each other. A buyer or a group of buyers is powerful if some of the following factors hold true:

- A buyer purchases a large proportion of the seller's product or service (for example, oil filters purchased by a major auto maker)
- A buyer has the potential to integrate backward by producing the product itself (for example a newspaper chain could make its own paper)
- Alternative suppliers are plentiful because the product is standard or undifferentiated (for example, motorists can choose among many gas stations)
- Changing suppliers costs very little (for example, office supplies are easy to find)
- The purchased product represents a high percentage of a buyer's costs, thus providing an incentive to shop around for a lower price (for example, gasoline purchased for resale by convenience stores makes up half their total costs)
- A buyer earns low profits and is thus very sensitive to costs and service differences (for example, grocery stores have very small margins)
- The purchased product is unimportant to the final quality or price of a buyer's products or services and thus can be easily substituted without affecting the final product adversely (for example, electric wire bought for use in lamps)

Bargaining Power of Suppliers

Suppliers can affect an industry through their ability to raise prices or reduce the quality of purchased goods and services. A supplier or supplier group is powerful if some of the following factors apply:

- The supplier industry is dominated by a few companies, but it sells to many
- Its product or service is unique and/or it has built up switching costs
- Substitutes are not readily available
- Suppliers are able to integrate forward and compete directly with their present customers
- A purchasing industry buys only a small portion of the supplier group's goods and services and is thus unimportant to the supplier

Relative Power of Other Stakeholders

A sixth force should be added to porter's list to include a variety of stakeholder groups from the task environment. Some of these groups are governments (if not explicitly included elsewhere), local communities, creditors (if not included with suppliers), trade associations, special interests groups, unions (if not included with suppliers), shareholders, and complementors.

A complementor is a company or an industry whose product works well with another industry's or a firm's product and without which the product would lose much of its value.

Michael Porter proposes two "generic" competitive strategies for outperforming other corporations in a particular industry: lower cost and differentiation.

These strategies are called generic because they can be pursued by any type of size of business firm, even by non-profit organizations.

- Lower cost strategy is the ability of a company or a business unit to design, produce and market a comparable product more efficiently than its competitors
- Differentiation strategy is the ability to provide unique and superior value to the buyer in terms of product quality, special features or after-sales service.

Cost leadership is a low-cost competitive strategy that aims at the broad mass market and requires "aggressive construction of efficient scale facilities, vigorous pursuit of cost reductions from experience, tight cost and overhead control, avoidance of marginal customer accounts and cost minimization in areas like R&D, service, sales force, advertising, etc. Because of its lower costs, the cost leader is able to charge a lower price for its products than its competitors and still make a satisfactory profit. Having a low-cost position also gives a company or business unit a defense against rivals. Its lower costs allow it to continue to earn profits during times of heavy competition. Its high market share means that it will have high bargaining power relative to its suppliers (because it buys in large quantities). Its low price will also serve as a barrier to entry because few new entrants will be able to match the leader's cost advantage. As a result, cost leaders are likely to earn above-average returns on investment.

Differentiation is aimed at the broad mass market and involves the creation of a product or service that is perceived throughout its industry as unique. The company or business unit may then charge a premium for its product. This specialty can be associated with design or brand image, technology, features, dealer network or customer service. Differentiation is a viable strategy for earning above-average returns in a specific business because the resulting brand loyalty lowers customers' sensitivity to price. Increased costs can usually be passed on to the buyers. Buyer loyalty also serves as an entry barrier - new firms must develop their own distinctive competence to differentiate their products in some way in order to compete successfully. Research does suggest that a differentiation strategy is more likely to generate higher profits than is a low-cost strategy because differentiation creates a better entry barrier. A low cost strategy is more likely, however, to generate increases in market share.

Porter further purposes that a firm's competitive advantage in an industry is determined by its competitive scope, that is, the breadth of the company's or business unit's target market.

Before using one of the two generic competitive strategies (lower cost or differentiation), the firm or unit must choose the range of product varieties it will produce, the distribution channels it will employ, the types of buyers it will serve, the geographic areas in which it will sell and the array of related industries in which it will also compete. This should reflect an understanding of the firm's unique resources.

Evaluate the importance of the resources to ascertain if they are internal strategic factors – those particular strength and weaknesses that will help determine the future of the company. To the extent that a resource (such as a firm's financial situation) is significantly different from the firm's own past, its key competitors, or the industry average, the resource is likely to be a strategic factor and should be considered in strategic decisions. A resource is an asset, competency, process, skill, or knowledge controlled by a corporation. A resource is a strength if it provides a company with a competitive advantage. It is something the firm does or has the potential to do particularly swell relative to the abilities of existing or potential competitors. A resource is a weakness if it is something the corporation does poorly or doesn't have the capacity to do although its competitors have the capacity.

Just because a firm is able to use its resources and capabilities to develop a competitive advantage does not mean it will be able to sustain it. Two characteristics determine the sustainability of a firm's distinctive competencies: durability and imitability.

Durability is the rate at which a firm's underlying resources and capabilities (core competencies) depreciate or become obsolete. New technology can make a company's core competency obsolete or irrelevant.

Imitability is the rate at which a firm's underlying resources and capabilities (core competencies) can be duplicated by others. To the extent that a firm's distinctive competency gives it competitive advantage in the market place, competitors will do what they can to learn and imitate that set of skills and capabilities. Competitors' efforts may range from reverse engineering (taking apart a competitor's product in order to find out how it works, to hiring employees from the competitor, to outright patent infringement. A core competency can be easily imitated to the extent that it is transparent, transferable and replicable.

- Transparency is the speed with which other firms can understand the relationship of resources and capabilities supporting a successful firm's strategy.
- Transferability is the ability of competitors to gather the resources and capabilities necessary to support a competitive challenge.
- Replicability is the ability of competitors to use duplicated resources and capabilities to imitate the other firm's success.

It is relatively easy to learn and imitate another company's core competency or capability if it comes from explicit knowledge, that is, knowledge that can be easily articulated and communicated. This is the type of knowledge that competitive intelligence activities can quickly identify and communicate. Tacit knowledge, in contrast, is knowledge that is not easily communicate because it is deeply rooted in employees experience or in a corporation's culture. Tacit knowledge is more valuable and more likely to lead to a sustainable competitive advantage than is explicit knowledge because it is much harder for competitors to imitate.

Porters Diamond has been used in various ways. Organizations may use the model to identify the extent to which they can build on home based advantages to create competitive advantage in relation to others on a global front. On national level, governments can (and should) consider the policies that they should follow to establish national advantages, which enable industries in their country to develop a strong competitive position globally.

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MARKETING STRATEGIES FOR INCREASING THE SERVICES EXPORT PERFORMANCE. THE CASE OF DEVELOPED COUNTRIES VS. EMERGING COUNTRIES

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Abstract: The activity of export of services is novel and complex in comparison with the export of goods and the same marketing techniques cannot always be applied as they are applied for the goods. The study develops a framework for examining the export strategies of firms from emerging economies and their performance in foreign markets. The result is that cost-based strategies enhance export performance in developed country markets and differentiation strategies enhance performance in other developing countries. Adapting marketing mix variables to the specific needs of developed country also enhances export performance. The relationship between geographical diversification and export performance is nonlinear.

Keywords: marketing strategy, services, export, differentiation, cost-leadership, developed countries, emerging countries, performance

1. Marketing strategies and export performance

The studies that have examined the behaviour and the performance of the exporting companies have first of all, identified the attitudes and the characteristics of the management (e.g. the experience on foreign markets, cultural orientation, tendency to risk), the company's characteristics (the size of the company, the international experience), the variables of the export market, of the sector and service as key element, in explaining the initiation and the performance of the export. (Aaby and Slater, 1989; Rosson and Ford, 1982). These studies point out as well a few methods of quantifying the export's performance, the tendency toward exports included, (Rosson and Ford, 1982), the level of the sales for exports (Madsen, 1989) and engaging in exports (Diamantopolous and Inglis, 1988).

Although the organizational characteristics and the managerial risks have an impact on the international behaviour of the services company (the decision of initiating exports), the actual global competitive environment requires the proactive application of the specific export strategies in order for the company to have success on the external markets.

In order to explain the export performance, I took into consideration three strategic distinct factors: *cost-leadership competitive strategies and differentiation, standardization of the marketing elements on the external markets and geographic diversification of the exports.*

Leadership strategies through differentiation costs refer to the way the services company develops an advantage toward the competitors. The companies that follow a differentiation strategy aim at creating a service that the consumers will perceive as unique. This usually materializes through a superior brand image, technology, and service for consumers or innovative services (Miller and Friesen, 1986a). The objective of the companies that follow a differentiation strategy consists of consolidating the clients' loyalty and creating new entry barriers for the newcomers on the market. The cost-leadership strategy implies offering the consumers a value comparable with that of other services, but at lower prices (Porter, 1986). According to Porter, the cost-leadership requires "the aggressive building of favourable locations, the pursue of cutting costs through experience, fixed costs and continuous control, as well as reducing the costs for the research-development area, maintenance, sales resources and advertising" (1980:35). This strategy can ensure incomes over the average as the company that follows the cost-leadership strategy can diminish the prices in order to get closer to those of the competitors and still to obtain a profit (Miller and Friesen, 1986b).

Marketing standardization can be defined as the stage where the exporting company uses the same marketing programs on different external markets (Samiee and Roth, 1992). On one hand, the exporting company can develop marketing programs that are different in terms of services, prices, distribution and promotion on external markets. On the other hand, the company can develop only one marketing program that is implemented on all the export markets. As strategy, standardization of the marketing elements is similar to the market segments differentiation strategy put forward by Chrisman, Hofer and Boulton (1988), which has two approaches: (i) a differentiated approach o the market likely to adaptation and (ii) homogeneous approach of the market equivalent to standardization (Carpano, Chrisman and Roth, 1994; Douglas and Wind, 1987; Porter, 1986). It has to be pointed out that the marketing standardization strategy is different from the cost-leadership and differentiation strategy. The latter refers to the position of the company in respect to the competitors, and marketing standardization targets the consistency of the marketing programs between the domestic and the foreign markets, as well as between multiple markets. Thus, the companies that follow cost- leadership strategies or differentiation can implement either standardized marketing programs or their own programs on specific markets.

The third strategic component is the exports diversification. The number of foreign markets targeted by an exporting company is a strategic option that can have important implications for the exportation general performance of the company.

As the emerging economies compete on the export markets in services sectors with high added value, the success of their exports will depend on their ability to develop and implement unique competitive strategies. When developing cost-leadership strategies or differentiation, the companies have to adjust their comparative and competitive internal advantages, as well as the ones specific to the location, to the demands of the external environment in which they compete. Because of the relatively poor technologic base, the companies focus mainly on the services that are at a mature stage of life cycle, removing any other competitive advantage derived from the development of the innovative services and/or of the process technologies. Even so, the companies that derive from emerging economies have certain comparative advantages due to the reduced production costs and manpower. The main issues concerning the development of the competitive export strategies for the companies from the emerging countries would be the following: (i) given their cost related advantages, should these companies refer to cost-leadership as being the primordial competitive strategy on the external markets? Since they don't have innovative services to offer, can these companies differentiate their services on the external markets and thus, delimitate their competitive weapons towards the competitors? Is it viable for these companies to use an integrated strategy through which to simultaneously accomplish the differentiation and cost-leadership? I have examined in the following paragraphs the viability of using by the companies that derive from emerging economies, the individual competitive and integrated strategies as well as their implications on the performance.

The markets of the developed countries are characterized by a harsh competition (due to the free market economic philosophies, to the presence of a big number of companies endowed with resources that compete on the markets of some specific services, as well as those of consumers) and dynamics (due to the continuous introduction of innovative services and to the frequent changes of the consumers' preferences). The companies from the emerging countries that export on these markets have a disadvantage in comparison with the local companies because the latter ones have more financial, managerial and technological resources, stable brands and innovative services. In addition to that, the researches (Cordell, 1993) have shown that the consumers from the developed markets perceive the services and the brands from the emerging countries in a negative way, and generally, they are equivalent with the low price and poor quality. The image of an inadequate quality, focusing on services that are at the maturity stage of life cycle and the competitors endowed with resources become an obstacle for the companies from the emerging countries in delimiting an advantage through services differentiation. Even so, the companies from the emerging countries have cost related advantages toward their competitors from the developed countries. These advantages are due to the more reduced research-development activities of the companies from the emerging economies, services development and marketing costs that on the other hand arise from focusing on mature services and the absence of expenses oriented toward the development of the brand and of the other interest areas. Thus, the companies from the emerging countries will have successes in the developed countries as a result of using a strategy based on costs that allow the multiplication of the comparative cost advantages. Moreover, a low price-low cost strategy is compatible with the perceptions and the expectations of the consumers regarding the services produced within the emerging economies.

The characteristics of the emerging markets are different from those of the developed countries because the protective environment together with the state control have created situations where consumers either face a lack of services, either with a limited offer. Because of these factors, the competition on the market is quite limited, the retrenchment of the demand for certain types of services being substantial (Arnold and Quelch, 1998; Gillespie and Alden, 1989). Thus, the emerging countries have ensured great opportunities for the foreign products together with the liberalization of their markets. But still the question is what competitive strategy will lead to a superior performance for the companies from the emerging economies that penetrate in other developing countries? The companies from the emerging economies have no cost specific advantage compared with the companies from other developing countries because the marginal differences of costs won't be appreciated because of the transportation costs and the maintenance of the scheduled and non-scheduled tariff barriers. Therefore, a costs based strategy may not be very efficient in the emerging countries. On the other hand, the companies originating in these countries can differentiate their services from those of the competitors in order to build an advantage. The consumers from the emerging countries perceive the foreign services as having a higher quality and therefore are willing to pay a superior price for these services to the disadvantage of the local services (Hulland, Todino and Lecraw, 1996). These observations suggest that the exportations from the emerging countries can amplify the positive perceptions of the consumers through services differentiation towards the ones from the origin country and can build in time long-lasting brands. In addition to that, the implementation costs of the differentiation strategies are lower in the developing countries than in the developed ones because the first ones are less competitive markets characterized by a small number of local competitors with famous brands.

Given the above mentioned reasons, it can be suggested that the relation between the competitive strategy and the performance on exports, meaning the efficiency of the cost- leadership strategies and differentiation, will depend on the type of external market on which they are implemented. With other words, the following possible hypothesis can be stated:

H1: Using the cost-leadership strategy improves the performance on exports for the companies that have oriented towards the developed countries rather than for those that have targeted the emerging countries.

H2: Using a differentiation strategy improves the performance on exports for the companies that have oriented towards the emerging countries rather than for those that have targeted the developed countries.

Porter (1980, 1986) has argued that although the companies can successfully follow both strategies under certain circumstances, such an approach can't be supported because of the specific requirements of each strategy (extensive research-development activities and promotion expenses for the differentiation strategy versus scale and goal economies, and low control for the cost-leadership). Therefore, Porter has suggested that "a company has to choose one of the two strategies because the achievement of the cost-leadership and differentiation are, usually, inconsequent and the differentiation is expensive" (1985: 17-18).

Hill, on the other hand, has pointed out that the differentiation can be a way for the companies to acquire a general low-cost position and thus, cost-leadership and differentiation isn't necessarily inconsequent. Then again there are many situations where establishing a backed competitive advantage enforces the company to simultaneously follow both low-cost and differentiation strategies (1988: 401).

In the following paragraphs I'll analyze the capacity of the companies from the developing countries to follow both cost-leadership and differentiation strategies. The circulated reason for this situation is a mix of factors referring to the nature of the services exported by the companies originating in the emerging economies, as well as their low endowment with resources that will encourage the implementation of a very expensive integrated strategy therefore with a negative impact on the export performance.

Hill (1988) suggested that following both of the above mentioned strategies can determine a superior performance when the company pushes the demand curve towards the exterior by increasing the differentiation expenses, but in the same time it can ensure that the change occurred in the cost's curve is lower than the motion of the demand's curve. He has also identified certain elements that will support the company in fulfilling dual task: the ability of making the difference between scale and goal economies and those that derive from learning. Similarly, Karnani (1984) has underlined that the companies can obtain lower costs independently of the scale strategy that can allow the success of the cost-leadership and differentiation.

But still it has to be mentioned that not all conditions for successfully implementing these strategies are available for the companies from the emerging economies. To begin with, the goal economies and the effects of learning are less relevant as the majority of the companies from the developing countries have a limited offer of services, thus eliminating the possibility of cutting costs through apportioning the resources between more services. Secondly, these companies focus on services that are at their growing and maturity stages of life cycle which can't afford them to diminish faster the costs respect to their competitors. Thirdly, the relative lack of experience on the foreign markets and the weak endowment with resources comparatively with the competitors from the developed countries, places them in a comparative disadvantage and therefore following the two strategies can be expensive for these companies. Thus, combining the elements regarding the service, the experience and the resources disables the companies from the emerging countries to implement an integrated strategy on the foreign markets. These reasons support the following hypothesis:

H3: Using simultaneously the cost-leadership and differentiation strategies by the companies from the emerging countries it's in a negative report with their export performance.

2. Marketing standardization and export performance

Yip (1992), Samiee and Roth (1992) have identified a series of benefits from using the standardized approach on the external markets. First of all, important cost economies can be achieved by developing one or more marketing programs and implementing them on multiple markets. Secondly, the efficiency of the marketing program increases as the company focuses more resources that support standardized marketing programs. Thirdly, the consistency of the marketing program (for e.g., in terms of services and promotion) eliminates the confusion that haunts the consumers and intensifies the acknowledging of the brand among the consumer segments. In the fourth place, a standardized approach allows the company to enter faster a new market and to cut down the costs of simultaneous entries on multiple markets.

Even though companies can build competitive advantages by standardizing the marketing programs, this approach has equally its limitations. The biggest regress is probably the one related to the implementation. In the case of the multinational companies, the managers of the branches responsible with the marketing can be reluctant in offering full support to the standardized programs imposed by the mother company (Kotabe, 1992), because they perceive it as being a limitation of their autonomy. This issue becomes even more critical for the exporting companies where the marketing programs are implemented by independent providers that tend to favour their own strategies founded under local circumstances. Moreover, the exporting companies have less power of making transactions with local distributors than the multinational companies. Besides the implementation difficulties, developing a standardized strategy can be burdened by the cultural, economic and political constrains as well (Douglas and Wind, 1987). The researches have shown that the success of the standardized approach depends on the nature of the sector where the company competes, the global industries having a greater tendency towards standardizing than the multi-domestic ones (Porter, 1986).

In order to fructify the advantages of the standardization strategy, the companies can follow two possible approaches. In one hand, they can extend the marketing programs developed for the domestic markets in the foreign countries. This approach works for the companies with stable brands that address to similar segments from different countries. On the other hand, the companies can develop in a proactive way, global programs and services by incorporating in them the consumers' preferences and of other external factors from different countries. This action usually requires high marketing and research-development costs, a superior involvement of the branches on the different markets, global marketing and production coordination and long periods of time between launching an order and executing it (Kotabe and Helsen, 1998). Essentially, both approaches require a mix of favorable conditions (lasting global brands, resources for the development of the marketing programs, etc.) in order for the company to enjoy the benefits of standardization. The issue is whether the companies from the emerging countries have such favourable conditions.

As I've mentioned above, most of the companies from the emerging countries confront themselves with a relatively limited base of resources, a lack of brands (or at least of global brands), services that are at a mature stage of life cycle, and not enough experience on the foreign markets. In addition to that, because most of these companies are at the embryonic stage of the process of internationalization, they do not have subsidiaries on the foreign markets. These characteristics make it even more difficult to implement a standardized marketing strategy, either by extending the internal marketing programs on the foreign markets or by a proactive development of the global standardized programs and services. Moreover, the empirical studies focused on the exportation activity (the basic way that the companies from the emerging countries participate on the international market) suggests that the exporting companies will obtain a superior performance on the foreign markets by adjusting the marketing elements to their specific needs (Cavusgil and Zou, 1994), as the approach oriented towards the market (accommodation) prevail the cost economies of the standardization strategy. Therefore, it can be advanced the hypothesis that, although the exporters originating from the emerging economies can obtain certain immanent benefits of the standardization (such as lower marketing costs, market advantages, etc.), given their lack of experience on the foreign markets (which increases the difficulty of proactive incorporation of the heterogeneous preferences of the consumers in their standardized offers) and the limited capacity of making transactions in relation with the local distributors (compromised implementation), they will be successful by adapting their marketing strategy on individual markets, especially in the first stages of the international expansion. Therefore, the following hypothesis can be advanced:

H4: The degree of standardization of the marketing elements on the foreign markets by the companies from the emerging countries is in a negative relation of dependence with the export performance.

Even though the negative impact of the standardization on the export performance has been predictable, this association can be stronger in the case of the developed countries. On one hand, the market conditions of these countries are very different from those encountered by the companies from the emerging economies on their domestic markets. Because of the cultural distance (Kogut and Singh, 1988) between the developed countries and the emerging ones, as well as the competitive environment of the former ones, the exporting companies originating from the developing countries have to modify their marketing elements in order to be successful on the markets of the developed countries. On the other hand, the analyzed companies face economic and infrastructure conditions similar to the ones from their own

countries in other developing countries. The reduce cultural difference and the limited request from the emerging countries exercises on the exporters a lower pressure to adapt their marketing programs, allowing them to extend their internal marketing programs over the markets of other developing countries.
H5: The negative relation between marketing standardization and the export performance is stronger for the companies that are oriented towards the developed countries rather than for those that target the emerging countries.

3. Diversification and export performance

The diversification on a foreign market or on multiple markets allows the company to build and to support a competitive advantage by reaching the scale and goal economies, by obtaining synergies in geographically dispersed locations, by amplifying the property, location and internalization advantages, etc. (Dunning, 1988; Hitt, Hoskisson and Kim, 1997).

For the exporting companies, the main benefits of the exports diversification come from four sources. In the first place, the exporters have to face out the exposure at higher currency rates than the multinational companies because their costs are expresses in national currency and the profit from the selling of the services in convertible foreign currency. This leads to superior transactional risks given the fact that the exchange rates (especially in the emerging economies) are volatile and the currency exchange markets don't exist for certain currencies. Thus, a major benefit of the exports' diversification consists in minimizing the transactional risks by engaging in commercial exchanges expressed in multiple currencies (Dominguez and Sequeira, 1993). In the second place, the companies can address to a wider area of market by targeting similar segments of consumers in the destination countries of the exports. This advantage of exports diversification is more important for the companies whose services address to limited segments of the market. For such services, the market's potential saturated and the only way to extend its dimension is by targeting some segments from different countries. In the third place, it's about scale advantages of the exports diversification. The promotion programs of exports initiated by the governments of some emerging economies aims to amplify the exports sales thus motivating the companies to develop services designated especially for the export markets. In this case, the only way of obtaining scale advantages consists in increasing the sales abroad, which can be accomplished by targeting simultaneously more foreign markets. In the fourth place, according to the organizational learning developed by Kogut and Zander (1993) and to the internationalization theory (Johanson and Vahlne, 1977), the exporting companies can use the accumulated knowledge in one country to orient themselves towards other economically and culturally similar foreign markets. This comes to say that the exporting companies can obtain and conduct their competitive advantages by targeting multiple foreign markets for their services.

The exporting companies have to face some challenges of the diversification similar to those that the multinational corporations are confronted with (Hitt, Hoskisson and Kim, 1997). In the first place, the growing geographic diversification amplifies the coordination of the managerial costs of the export operations. Cavusgil and Zou (1994) and Madsen (1989) have suggested that among the important determinatives of the exports performances are the support offered to the foreign distributors and the commitment towards the specific exports markets. Thus, the increased geographic diversification can assign the managerial resources on the target markets, diminishing the capacity of supporting the marketing programs of the foreign distributors. In the second place, the geographic diversification increases both the needs of the information processing managers, because they are confronted with a culturally diversity of markets, and the transacting costs that manifest because of the tariff and non-tariff related barriers from the different countries.

The previous discussion suggests that the exporting companies have to determine the best level of the export diversification, there is the point where the benefits prevail over the costs. The best point will be a function of the company's base resources, and to a certain extent, of its services, showing a non-linear relation between the exports diversification and their performance. The growing export diversification will determine a superior performance until a certain point, beyond which the diversification costs surpass the benefits, thus diminishing the export's performance. Consequently, the following hypothesis can be advanced:

H6: The relation between the diversification of the exports of the companies from the emerging countries and their export performance has the shape of a reversed U; the ramp is positive in the case of moderate levels of exports diversification and negative for the high levels of diversification.

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MANAGEMENT MODEL OF THE CORRELATION BETWEEN THE RATE OF TAX PRESSURE AND THE FLOW OF INLAND REVENUE. THE LAFFER CURVE

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Abstract: The adaptation to the Romanian macroeconomic realities of the theory according to which an increase in the tax pressure will not necessarily entail the corresponding increase of the Inland Revenue, but in exchange, the decrease of the tax pressure will create favorable conditions for the increase of the inland revenue, implies the creation of correlative models to support the idea and to provide a proper management at macroeconomic level. Such a model is the one using as statistic instrument the Laffer Curve starting from the concrete data of Romanian economy.

Key words: Rate of tax pressure, normal range, prohibitive range, Inland Revenue, fiscal facilities

The theoretic basis of the Laffer law

Using as analysis base the market economy in the U.S.A. also influenced by mathematic reasoning, the American economist Arthur B. Laffer renders evident, through a curve, the connection between the rate of tax pressure and the flow of the inland revenue, currently known as **The Laffer Law.** This rapidly became the theoretic ground and the reference basis for theorists of the offer economy.

Analyzing the relation between the tax pressure and the inland revenue, in the work intitled "Taxation, GNP and Potential GNP, proceeding of the business and economics statistics sections"[6], A. Laffer together with V.A. Canto and D.H. Joines have reached the conclusion that an increase of the tax pressure will not necessarily entail the corresponding increase of the inland revenue, but in exchange, the decrease of the tax pressure will create favorable conditions for the increase of the inland revenue. This conclusion was based on a mathematic reasoning for which the capital and the labor are rewarded depending on the incremental revenue:

$$P = K^{\alpha} x M^{1-\alpha}, \qquad (1)$$

where $0 < \alpha < 1$

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[6] **Human Rights Report – the basis of electronic information including statistics refering to various economic and statistic indicators, http://www.cato.org/pubs/journal/cj1n1/cj1n1-1.pdf**

α and 1-α = elasticity of the factors K and M
P = value of production
K = the capital factor
M = the labor factor

In the analysis model, a series of simple hypotheses are introduced, for which reason they are considered as a weak point of the theoretic basis:

The rates of compensation of the capital (R_V) and labor (W_V) factors are achieved by their incremental value and are expressed depending on the value of production (P):

$$R_V = \frac{\partial P}{\partial K} \text{ and } W_V = \frac{\partial P}{\partial M} \qquad (2)$$

The net recompensation of the capital (R) and labor (W) factors are different from the gross recompensation (R_V and W_V) because of the rates of taxation (t_K and t_W) applied on the revenues of the factors:

$$R_V = R(1+t_K) \text{ and } W_V = W(1+t_W) \qquad (3)$$

The functions of the capital and labor offer are:

$$K_0 = \left(\frac{R}{W}\right)^a xR^e, \qquad a < 0, e < 0 \qquad (4)$$

$$M_0 = \left(\frac{W}{R}\right)^b xW^e, \qquad b < 0, e > 0 sia + e > 0; b + e > 0 \qquad (5)$$

The expressed hypotheses lead to the following preliminary conclusions:

For a certain production level, any change in the rates (R_V and W_V) of gross recompensation of the factors modifies the demand of enterprises for the capital and labor factors;

Any change in the net recompensations (R and W) of the factors modifies the offer of the management field on the market, under the circumstances where a factor can be substituted to a certain proportion by the other factor.

Therefore,

$$\frac{K_0}{M_0} = \left(\frac{R}{W}\right)^\mu, \qquad \text{by } a + b + e > 0 \qquad (6)$$

where: μ = the elasticity of substitution of the offer factors

According to the last hypothesis, the state budget is considered as balanced and financed based on the taxes applied on the revenues of the factors:

$$IB = t_K RK + t_M WM \qquad (7)$$

where: IB = the total amount of inland revenue which finance the state budget;

RK = revenues achieved by the fiscal factor;

WM = revenues achieved by the labor factor;

Under the circumstances of factors substitution, the report between the offered factors is in a balance state with the factors demanded on the market:

$$\frac{K_0}{M_0} = \frac{K_C}{M_0} \qquad (8)$$

Using the expressed hypotheses and the mathematic reasonings it is demonstrated that:

Under the circumstances where the total income is entirely distributed in the propositions α and (1 - α), the functions of the demanded capital factor (K_C) and labor factor (M_C) are:

$$K_C = \frac{\alpha P}{R_V} \quad \text{and} \quad M_C = \frac{(1-\alpha)P}{W} \qquad (9)$$

The ratio between the capital and the demanded labor on the market is influenced by the rates of taxation:

$$\frac{K_C}{M_C} = \frac{\alpha P}{(1-\alpha)P} x \frac{(1+t_M)}{(1+t_K)} x \frac{W}{R} \qquad (10)$$

The rates of taxation influence the ratio between the gross recompensation of the labor (W_V) and the gross recompensation of the capital (R_V):

$$\frac{W_V}{R_V} = \frac{1-\alpha}{\alpha}\left(\frac{1-\alpha}{\alpha} x \frac{1+t_K}{1+t_M}\right)^{\gamma-1} \qquad (11)$$

As well as the ratio between the net recompensation of the labor (W) and the net recompensation of the capital (R):

$$\frac{W}{R} = \left(\frac{1-\alpha}{\alpha} x \frac{1+t_K}{1+t_M}\right)^{\gamma} \qquad (12)$$

where: $\gamma > 0$ and represents the elasticity of substitution of the factors demanded on the market.

The influence of the increase of taxation rates on the production is rendered evident by deriving the production function by the rates of taxation of each factor.

The resulting conclusion is that aside from the elasticity of the offer, of the capital and labor factors, which generates a variation of the production, the increase of tax pressure entails the decrease of production and does not necessarily entail an important increase of the inland revenue.

The continuation of the analysis based on the mathematic reasoning, at the level of the function of inland revenue which finances the state budget and the deriving of this equation in relation to the rates of taxation of each factor, have resulted in mathematic relations which have been rendered as a curve named "the Laffer curve".

The elaboration and the analysis of the Laffer curve

The whole of mathematic relations, expressed synthetically, represents the theoretic basis for the elaboration of the Laffer curve which is mentioned in most of the studies on the level of fiscality, particularly because its suggestive attribute and reflects the relation between the tax pressure marked on the abscissa and the inland revenue marked on the ordinate.

The graphic analysis of the Laffer curve (figure 1.) reveals the existence of two areas (OMP_0 and P_0MP) marked by three points 0, M, P. It may be noticed that when the tax pressure records extreme values (0% and 100%) the inland revenue is null, but the cause is different.

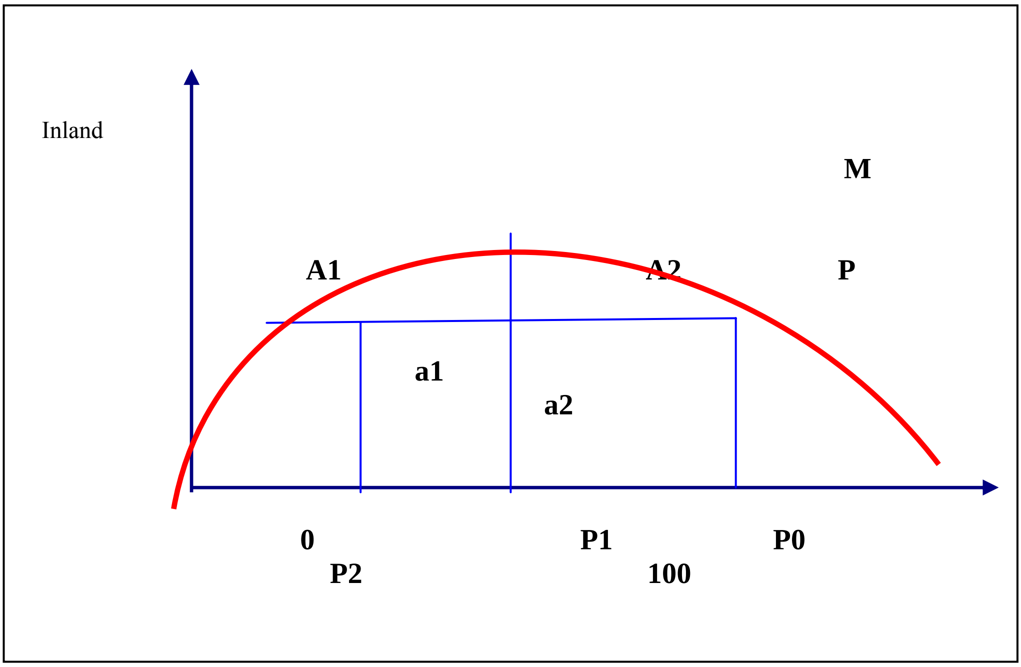

Figure 1 Laffer curve

Thus, if the tax pressure is 0% the entire revenue will be allotted to owners of production factors, since there is no difference between the gross and the net recompensation for them and no influence on the production from the state, because it ceases to exist. The level of income is influenced by the preferences of economic subjects concerning spare time. If the tax pressure reaches 100% in a first stage there will be a decrease of the inland revenue and later on these will disappear, because the entire revenue of the factors is taken over by the state, the economic subjects are no longer interested in carrying out taxable economic activities, in which case the monetary economy will be replaced by the barter economy.

Between the two limits, which are both impossible for a market economy, on the chart there is a point M where the incremental receipt is null:

$$\frac{\partial iB}{\partial t_K} = 0 \qquad \text{and} \qquad \frac{\partial iB}{\partial t_M} = 0 \qquad (13)$$

This corresponds to a level of tax production which maximizes the inland revenue. At M point the production, the inland revenue, the private and public utilities are at maxium level. *The M point represents the threshold of tax pressure which will no longer bring additional receipts for the budget if it is exceeded, generating by contrary their decrease.*

The simple attribute of the hypotheses concerning the elasticity of the rate of fiscal tax bites and the analysis of the curve, considered as a reflection of a country's tax history and the last stage of the evolution of a tax system, made French economist Henri Sempe propose the analysis of only a part of these (a_1Ma_2) and thus, the rest of the parts ($0a_1$ and 0_2P) to be represented by dotted lines, in order to avoid the risk of reaching a barter economy and of the state's disappearance.

The novelty of the Laffer theory consists in identifying two areas:

The acceptable area or the "normal range" marked by points 0, M and P_0, where the economic subjects accept the increase of tax pressure because they look for a greater quantity of public utilities. The inland revenue increases, although there is a gradual decrease of the economic activity and taxable materials, some of the economic subjects preferring to increase their spare time to the detriment of the time allotted for labor, while others do the opposite. The rate of increase of inland revenue tends to decrease while the tax pressure increases, but with a decreasing rate:

$$\frac{\partial iB}{\partial t_K} > 0 \qquad \text{and} \qquad \frac{\partial iB}{\partial t_M} > 0 \qquad (14)$$

The impermissible area or the "prohibitive range" marked by points P_0, M and P, where an important part of the factors' revenue is taken by the state. As a consequence, the economic subjects restrict their taxable activities, while the taxable materials will be less. The economic subjects reject new public utilities, preferring private utilities. While the tax pressure increases, there will be a decrease of production and inland revenue:

$$\frac{\partial iB}{\partial t_K} < 0 \qquad \text{and} \qquad \frac{\partial iB}{\partial t_M} < 0 \qquad (15)$$

It may be noticed that for a low tax pressure P_1, situated in the "normal range" area and for a very strong tax pressure P_2 situated in the "prohibitive range" area, the same amount will be obtained from the inland revenue.

Determining the area where a country is situated on the Laffer curve depending on the level of tax pressure is therefore difficult, as long as the theoretical maximum permissible threshold has always been exceeded. As a rule, when a country is situated in the impermissible area, it targets an increase of the taxable materials and of the inland revenue, generated by the stimulating effect of the measures taken for stimulating the production and the investment process.

The same effects are desired also when a country is situated in the permissible area. However in this case it is possible for the effects not to appear, when the population demands new public utilities, the financing of which is not possible or desired in a first stage, because of the rigidifying of the labor offer. Furthermore, a policy of tax relaxation rejects the expansion of public economy to the detriment of the exhange economy, because of the negative effects on the total offer.

The analysis of the tax pressure and of its relation with the amount of inland revenue gives the following conclusions:

Once the rates of taxation have increased up to the point of optimum taxation, there will be an increase of the inland revenue with a rate which tends however to decrease while the tax pressure decreases;

Once the rate of optimum fiscality has been exceeded, the increase of the rates of taxation entails the decrease of inland revenue; when the incremental revenue is null (at the optimum point of the rate of fiscality) the inland revenue is maximum; the variations of the rates of taxation entail variations of the inland revenue which directly depend on the tax pressure exerted on the revenues; the increase of the tax pressure considerably influences the offer of the production factors on the market; the disposition of taxpayers for labor or for spare time influences the predominance either of the revenue effect or of the substitution effect; the decrease of the tax pressure entails the increase of the labor offer, the shifting of the consumption towards savings and investments, the final end being the stimulation of production and economic growth.

The Laffer curve for Romania

As mentioned in a previous paragraph, according to the theory promoted by A. Laffer, inland revenue is directly proportional with the rate of fiscality, *up to a point,* called "the rate of optimum fiscality", after which this relation becomes inversely proportional. Under these circumstances, it is interesting to study, for Romania, the influence of the tax pressure on the tax income collected at the level of the state's consolidated general budget, for the period 1990-2005.

In order to work out the Laffer curve for Romania it is necessary to determine both the level of real tax incomes collected for the state's consolidated general budget, using as reference year the year 1990, and the level of the tax pressure recorded during each year of the analyzed interval.

It must be mentioned that although *it's necessary to differentiate between tax income and the contributions to social insurance*, the latter being incorrectly included up to the end of 2005 in the category of tax income, however in the analysis carried out in this paragraph (extending over the interval 1999-2005) in the concept of tax income we will also include the contributions to insurance in order to ensure the compatibility of data[7].

In order to determine the real tax income, based on the data provided by the Romanian National Bank and the Statistics Institute, we will relate the rated tax income

[7] The new budgetary classification introduced by the OMFP no. 1954/2005 excludes the social contributions out of the category of tax income

to the GNP deflator with a fixed base, the year of reference being, as mentioned, the year 1990. The tax pressure will be determined as a ratio between the total tax income and the gross national product.

The data calculated in this manner, necessary for the elaboration of the Laffer curve for Romania are presented in table no. 4.5.

Table no. 1 Necessary data for the elaboration of the Laffer curve in Romania for the interval 1990-2005

Year	Rated tax income* (million lei)	GNP (million lei)	Tax presure	GNP deflator	Real tax income (million lei)	Variation of real tax income	Variation of tax pressure
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1990	30,5	85,8	35,5	100	30,5	-	-
1991	73,3	220,3	33,2	295,1	24,8	-5,7	-2,3
1992	201,2	603,0	33,5	300,0	22,7	-2,1	0,3
1993	626,6	2.003,6	31,3	327,4	21,6	-1,1	-2,2
1994	1.404,2	4.977,3	28,2	239,1	20,3	-1,3	-3,1
1995	2.080,3	7.213,5	28,8	135,3	22,2	1,9	0,6
1996	2.924,8	10.892,0	26,8	145,3	21,4	-0,8	-2,0
1997	6.701,4	25.292,5	26,5	247,3	19,9	-1,5	-0,3
1998	10.541,6	37.379,9	28,3	155,2	20,1	0,2	1,8
1999	18.493,7	54.573,0	33,8	147,8	23,9	3,8	5,5
2000	23.748,7	80.377,3	29,4	144,3	21,3	-2,6	-4,4
2001	33.145,5	116.768,7	28,3	137,4	21,6	0,3	-1,1
2002	41.739,0	151.4750,9	27,5	123,4	22,1	0,5	-0,8
2003	53.564,9	197.564,8	27,1	119,4	23,7	1,6	-0,4
2004	67.623,6	246.371,6	27,4	115,8	25,9	2,2	0,3
2005	79.032,3	287.186,3	27,5	111,4	27,1	1,2	0,1

* this category includes rates, taxes and contributions to social insurance

Source: (1): 1990-1999: Romania's Statistic Annuary 2000; 1999-2004: calculated by the author based on the data published in Romania's Statistic Annuary; 2005: anaf.mfinante.ro/wps/PA_1_1_15H/static/buget/executii/;

(2) Romanian National Bank, Annual reports, 1998-2005

(3) calculated as a ratio between the rated tax income and the GNP

(4) Romanian National Bank, Annual reports, 1998-2005

(5) calculated by the author depending on the rated tax income and the GNP deflator, considering as reference year the year 1990

The analysis of the presented data reveals the following situation:

The real tax income, collected for the consolidated general budget has considerably decreased in the first half of the analyzed period, the year 1997 being the year when the lowest level of collecting the tax income for the budget was recorded;

After the year 1997, the evolution of inland revenue collected for the consolidated general budget has had an increasing trend, however at the level of the year 2005 these did not reach the level recorded for the year 1990.

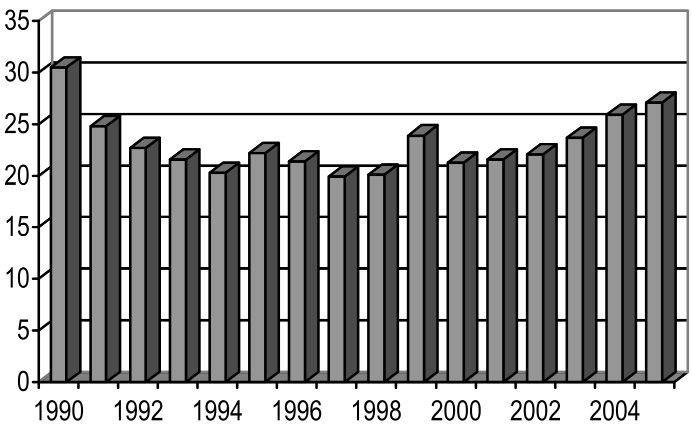

Figure 2 The evolution of the real tax income in Romania for the interval 1990-2005 (million lei)

Of course, the varying evolution of the inland revenue must be explained by the overall evolution of the Romanian economy, but also by the expansion (at least until 2004) of the tax evasion phenomena.

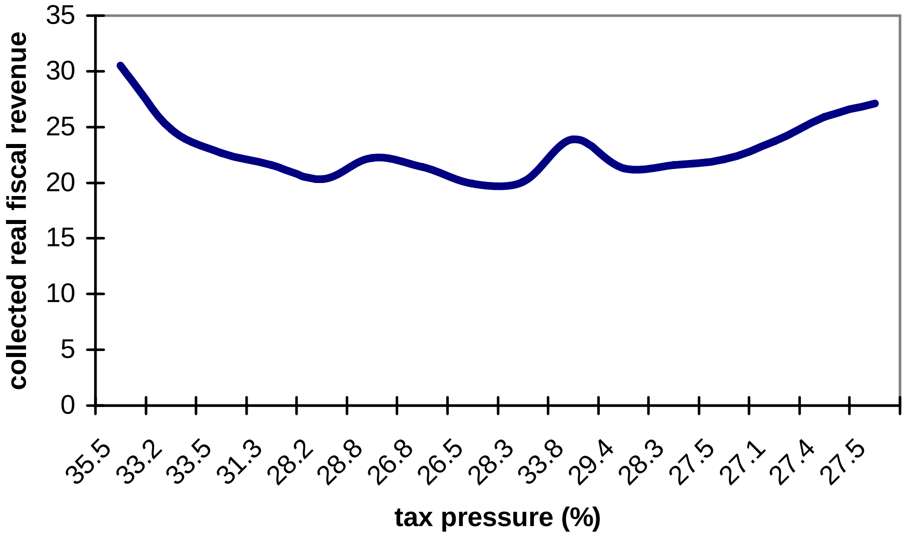

Figure 3 The Laffer curve in Romania

According to A. Laffer's theory, depending on the evolution of the inland revenue and the rate of fiscality, two areas can be identified:

An area considered as "acceptable", where the increase (the decrease) of the tax pressure is accompanied by a corresponding increase (decrease) of the revenue for the consolidated general budget;

Analyzing the data presented in table no. 4.5 it may be noticed that in Romania, within the analyzed interval there have been *11 periods of so-called "acceptability",* respectively the years 1991, 1993, 1994, 1995, 1996, 1997, 1998, 1999, 2000, 2004 and 2005. Within the mentioned intervals, *the increase of tax pressure has been accompanied by an increase of the revenue for the budget* for 5 years (1995, 1998, 1999, 2004 and 2005), while for the rest of the years (1991, 1993, 1994, 1996, 1997 and 2001) the decrease of the tax pressure entailed a corresponding decrease of inland revenue.

An area considered as "unacceptable", where the increase (the decrease) of tax pressure entails a decrease (an increase) of revenue for the state's general budget.

The analysis of data reveals the fact that, in Romania, the "inadmissibility" threshold has been reached in 4 of the 15 analyzed years, respectively the years 1992, 2001, 2002 and 2003.

However, we must mention that although it seems slightly illogical to assert that if the decrease of tax pressure entails the decrease of collected tax income, we are situated in the admissible area of the curve, and if the decrease of the tax pressure entails the increase of inland revenue, we are situated in the inadmissible area, the consideration must be carried out, according to the theory issued by Laffer, *in relation to the optimum level of tax pressure* which provides the maximum of receipts, therefore, for the first case the level of the tax pressure is under the optimum level, while for the second case, it exceeds the optimum level.

Although the intention for the elaboration of this curve was to determine a point of the optimum tax pressure, the attempt is rather difficult because we consider it to be delicately to determine such a point concerning absolutely the entire analyzed period. Therefore, if, for example, for the year 1999 a tax pressure of 33,8% at the level of the consolidated general budget was considered as acceptable, for the year 2001 a tax pressure of 28,3% at the level of the consolidated general budget has become unacceptable.

As a conclusion, the fact that the Laffer curve for Romania (chart no. 4.8) does not look like the one presented by the American economist bearing the same name demonstrates that, for the analyzed period, ***the tax pressure can not be considered as a variable of economic behavior or as an economic indicator***.

Romania has adopted a series of measures to consolidate the competitional mechanisms, and the reform concept was based on the idea that the most valuable support offered by the state consists in the creation of the constitutional and legislative frame which will consolidate the role of the competition in the absorption of tensions by rethinking the tax system, thus responding to current demands concerning the role of the state in economy. Thus there were adopted a series of measures concerning the reduction of tax pressure and there was an attempt of including it in the requirements of a modern code of taxation. There were offered a series of fiscal facilities which tried to support the capital, but which materialized in the increase of the profit remained after the economic agents have payed the taxes. Based on the principles practiced by states with market econmy, the new system of profit taxation was correlated with the new accounting system and with the mechanism of VAT gathering.

Analyzing in detail the current fiscal system we ascertain that there are still a series of inconsistencies:

It lacks predictability, the application standards being very often modified;

It still entails bureaucratic and expensive procedures;

It has an unequal influence on the different social categories;

It contains confusions and vagueness which led as practice experience has shown and will lead to abusive interpretations by fiscal authorities, to disputing the proposed solutions and to contradicting the text of the law;

It reflects the function of maximization of tax income and not the one of being an instrument for stimulating the economic development;

There is no stimulation of engaging people in several activities and especially those requiring high qualification, thus opening the way to fraud and labor without a work record.

The reduced level of the rate of fiscality in Romania, under the circumstances where the taxation quotations for the main taxes are similar to those practiced by other states in Eastern Europe (as mentioned in the second chapter of the paper), indicates *a weak collection of the fiscal tax bites* mainly because the phenomenon of evading the payment of fiscal obligations.

The continuous decrease of the rate of fiscality in Romania, after the year 2000, against the background of the increase, in real terms, of the gross national product and respectively of the decrease of the taxation quotations for the main taxes, can be explained either by the fact that the increase of the taxation base is not enough to compensate for the loss of revenue because of the decrease of taxation quotations, or by the drastic decrease in the rate of fiscal compliance and the expansion of the evading phenomenon.

However, in order to analyze the causes which led to the decrease of tax pressure in Romania, in the following paragraphs we will use the statistic analysis of the correlations established between different variables which influence the rate of fiscality.

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HEALTH CARE SYSTEM IN THE REPUBLIC OF MACEDONIA – CURRENT SITUATION AND DEVELOPMENT PERSPECTIVES

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Abstract: Health care in Macedonia is provided through an extensive net of health care organizations. After the independence, the need for central resource management led to the transformation of disjointed system of municipally-funded health services to a social insurance-funded model with central coordination and planning. The health sector management project supported by the World Bank addressed different reforms targeting health financing and management, primary and preventive health care and drugs policy and procurement. A lesson to be learned from the previous experience in the country is that increased competencies on national and local level have to go hand-in-hand with planning and setting standards, as well as coordination capacities.

Keywords: health care system, development, strategy, health care policy, planning

1. Introduction

Health is a critical component of sustainable human development. It is an important part of people's physical, mental and social well being, and at the same time it has a long-term impact on social and economic development.

The Republic of Macedonia, with the independence gained in 1991, inherited a large and well-established health care system with good geographical and financial accessibility, long positive experience with health insurance covering nearly the whole population, qualified staff, good control of infectious diseases, and almost full coverage of the population with the national immunization programme. The health status of the population is similar as in the other countries of South-Eastern Europe, but is lagging behind the EU countries. However, the health care sector is faced with several challenges associated with the improvement of the population's health status, the provision of basic benefits package, delivery of health services, public health, planning, management and development of human resources, quality assurance, health financing, and provision of a sustainable system of health care.

In this paper, we analyze the recent developments and current situation related to legal and institutional bases for health care system development in the Republic of Macedonia, as well as to reach recommendations for its improvement in the near future. We examined a vast amount of strategic documents prepared by the World Bank and Ministry of Health, which make a clear picture of the recent developments and planned reforms of the health care system development in the Republic of Macedonia.

2. Current situation in the health care system

The Law on Health Care has established the organizational structure of the system with the Ministry of Health (MoH) and the Government in charge of health policy formulation and implementation, the Health Insurance Fund responsible for the collection and management of funds, and the health care institutions responsible for service delivery.

Health care financing is organized around a social insurance system managed by the Health Insurance Fund (HIF). The HIF is primarily funded through payroll contributions, while most of remaining revenues come from the Pension Fund, the Unemployment Fund and general revenues. The HIF is responsible for the allocation of 90% of Government health expenditures. Financial management capacity within HIF is weak and a recent review by the State Audit Office (SAO) showed various problems in financial management such as payments that do not match invoices, improper write-offs, poor accounting and recording of transactions. Provider payment systems, especially at the hospital level are inadequate and are major cost-drivers in the system. The benefits package is generous as compared with available HIF revenues and is contributing to the problem of implicit rationing and informal payments.[8]

Health care in Macedonia is provided through an extensive net of health care organizations. It is organized on three levels: primary, secondary and tertiary. Health care is delivered through a system of health care institutions, covering the country's territory relatively evenly. This makes it possible for around 90% of the population to get a health service in less than 30 minutes. The health facilities range from health care stations and centers at PHC level and specialty-consultative and inpatient departments at secondary level, to university clinics and institutes at tertiary level, with the latter also carrying out research and educational activities. In general, smaller rural settlements are served with general medicine services only.[9]

Some major health care indicators (recent available data) for the Republic of Macedonia can be found in the tables 1 and 2.

Table 1 Major health care indicators for the Republic of Macedonia

	2003	**2004**	**2005**	**2006**
Vital indicators				
Natality per 1000	13.3	11.5	11	11.1
Mortality per 1000	8.9	8.8	9	9.1
Natural increase per 1000	4.4	2.7	2	1.9
Infant mortality per 1000 live births	11.3	13.2	12.8	11.5
Maternal mortality	7.4	12.8	13.3	n.a.
Health care personnel				
Physicians	4,448	4,490	4,392	5,134
Dentists	1,132	1,134	706	1,175
Pharmacists	319	322	205	187
Number of population per one:				
Physician	455.7	452.7	463.8	n.a.
Dentist	1,790.4	1,792.4	2,885.1	n.a.

[8] World Bank, 2004, 2

[9] European Commission, 2007, 140

	2003	2004	2005	2006
Pharmacist	6,353.5	6,312.2	9,935.9	n.a.
Hospital beds				
Total	9,743	9,699	9,569	9,343
Per 1000 population	4.8	4.8	4.7	n.a.

Source: *State Statistical Office of the Republic of Macedonia (2007): Statistical Yearbook, Skopje*

Table 2 Life expectancy - Republic of Macedonia

	2001-2003	2002-2004	2003-2005	2004-2006
Total	73.21	73.39	73.62	73.76
Male	70.80	71.15	71.44	71.63
Female	75.74	75.75	75.88	75.9

Source: *State Statistical Office of the Republic of Macedonia (2007): Statistical Yearbook, Skopje*

While the coverage of the country with health care organizations is quite extensive, it is characterized by overprovision, inefficiency, and duplication of services, capacities and equipment, due to the legacy of a highly decentralized Yugoslavian system, whereby health services were managed and commissioned by municipalities in the absence of central coordination and planning. In the same time, the system suffers from hyper-production of personnel, over-employment in hospitals, under-utilization of personnel, obsolete equipment, lack of medicines, and a general focus on hospital health protection, instead of primary and preventive protection. Some additional weaknesses of the existing system could be located in the insufficient of continuous medical education and of incentives for better quality services due to low level of wages as well as the lack of well-trained managers.

The advantages of a health care system for the time being are: relatively high accessibility, large number of well-educated and trained health care workers, well developed fund raising mechanisms with low administrative costs, system stability, and well-developed network of organizations for preventive and primary health protection.[10]

3. Recent health care reforms

Since the independence, the Republic of Macedonia has embarked on a number of reform initiatives in the field of health care. All reforms have been undertaken with the aim of sustaining access for the whole population to a comprehensive health system, as well as improving the quality of health services and enhancing the financial sustainability. At present these reform priorities still hold true: the objectives are to improve the population’s health by improving access to and quality of basic health services; to increase the efficiency of service delivery, thereby enhancing cost-effectiveness and fiscal sustainability; and to improve patient choice within the health system.

The *political and economic uncertainties* since the early 1990s have had a strong negative impact on the population’s health status, as well as on the health care

[10] United Nations Development Program, 2004, 75-80

system in Macedonia in general. The current system has yet to overcome the legacies of the system that existed until 1991, including oversupply of medical staff, especially in the PHC sector, strengthening continuing medical education and addressing low morale among staff, then remaining rationalization of health care facilities in order to redistribute limited resources more effectively and thereby improve the infrastructure of facilities, the low quality of PHC services, leading to low levels of patient satisfaction and high referral rates to higher levels of care, high expenses for drugs and hospital care, the limited solvency of the sector and the HIF altogether, with the latter facing a substantial deficit.

Decentralization is an important policy priority for the Government. So far the impact on the health sector has been limited, although the Law on Local Self-government essentially mandates the representation of local authorities on the boards of health facilities and provides the local communities with some responsibility for the design of health promotion and disease prevention programs. The central challenge in this process is how to harness the potential power of decentralization as a means to help achieve existing Ministry objectives for the Macedonian health care system. Decentralization needs to be designed in such a way so that it does not interfere with, or weaken, the ability of the country to achieve its central health system goals. A major issue will be ensuring that decentralization does not increase inequities in access to necessary services and/or in the quality of services received between different localities or between different population groups. If there is a lesson to be learned from previous experience in the country with regard to decentralization, it is that increased competencies on the local level have to go hand-in-hand with strong central planning, setting standards and coordination capacities.[11]

4. Ongoing and planned health care reforms

There are three key development challenges and opportunities for the Macedonian health sector:

- Achieving sound public expenditure management, especially through an increased emphasis on extra budgetary institutions which includes the HIF;
- Assuring undisrupted delivery of health services in the context of decentralization;
- Guaranteeing the quality, efficiency and access to health services.

In order to meet the demands for high quality accessible health care, the National Health Strategy recently adopted by the Government has launched the following basic priorities in the health sector: improvement of the population health status, increased efficiency and efficacy of the health care system through institutional and structural reforms in the health care provision, modernization of public health care system according to the EU standards, improved planning of the human resource base in the health sector and introduction of quality assurance system, and last but not the least, reforming healthcare financing by introducing stronger accountability and transparency and linking the financing to better healthcare outcomes.[12]

Republic of Macedonia has received a Specific Investment Loan from the

[11] European Commission, 2007, 143-147
[12] Ministry of Health, 2007, 32

World Bank in amount of US$ 10 million for the Health Sector Management Project. The objectives of the project are:

- to upgrade MH and HIF capacity in order to formulate and effectively implement health policies, health insurance, financial management and contracting of providers; and
- to develop and implement an efficient scheme of restructuring of hospital services with emphasis on developing day-care services and shifting to primary care.

The ultimate objective of the project is to make the health system more sustainable in the long-run by implementing policies and programs that contribute to a cost-effective, equitable and efficient health care system. The project will contribute to this goal by building the capacity of key players in the health system (MoH, HIF and health care providers) to effectively perform their individual roles. Hence, ensuring that the HIF operates effectively in the long-run requires a well-performing MoH as well as accountability linkages with the MOF. Likewise, provider performance is contingent on the HIF effectively performing its core function of purchasing, regulation by MoH, as well as continued access to training and information to make the best decisions.

The project comprises the following components:

Component 1: Policy Formulation and Implementation. This component will assist the MOH in implementing critical functions such as policy and strategy formulation, monitoring and evaluation of health reforms and public information and communication. The component includes three sub-components: (i) support to overall health policy and strategy development, (ii) public relations and communications, and (iii) improving MOH management and business processes.

Component 2: Strengthening HIF Governance and Management. This component aims to improve the governance and management of the HIF, as the organization responsible for purchasing health care services for its beneficiaries under the compulsory health insurance scheme. The component includes three sub-components: (i) Eligibility criteria and revenue collection, (ii) HIF management, and (iii) Purchasing functions.

Component 3: Improving Service Delivery. This component will improve the quality and efficiency of health care providers by supporting development of staff skills, introduction of a new management methods and instruments and essential upgrades of units selected to implement well defined sub-projects. These improvements will enhance the management and operational capacity of health care providers, putting them in a better position to respond to the challenges and incentives of new contracting arrangements with HIF. The component includes two sub-components: (i) Hospital Management and Primary Care, and (ii) the Grant Facility for Improving Service Quality and Efficiency.[13]

5. Major future challenges

The well-organized and effective health care system in the Republic of Macedonia, as a prime responsibility of the MoH, should have the following characteristics:

[13] World Bank, 2004, 1-6

- *Effectiveness*: medical interventions must be based on evidence of health benefit (further improvement in the introduction of clinical guidelines, clinical performance indicators, continuous medical education, management trainings, capitation models incentives etc**.**)
- *Efficiency*: health care services should try to obtain the best results for the cost that society can afford which in the Republic of Macedonia is extremely limited (adequate revision of the basic benefit package, improvement of the co-payment policy and National preventive programs).
- *Equity*: all citizens should have equal access to the services they need, without regard for income or background (revision of basic benefit package – one basic package for all, medical map outcomes, rational redistribution of the services, outcomes from the National Preventive Programs, Improvement of the Promotion programs).
- *Solidarity*: in pooling the funds for health care services, the healthy should contribute for the sick, the rich for the poor, and the young for the old (changes in the basic benefit package and co-payment policy).
- *Further strengthening of primary health care*. More efforts should be made to strengthen the capacity of preventive health teams, update standards and protocols for the key health prevention and health promotion interventions (strengthen the outreach immunization work, antenatal care, and systematic check-ups of children, especially for the most marginalized children, families and vulnerable groups). As a possible form Youth Friendly Services could be mentioned as an effective strategy to carry out health promotion and health prevention among children and young people.
- The MoH should insists on the *existence of a network of the different types of primary and secondary health services* in the whole country that combines good accessibility, lack of duplication, and an efficient and sustainable use of financial and human resources. The network should function as a system, which means that the various elements are complementary to each other and all contribute to the common goal of providing effective and efficient services to the public. In order the proper accessibility to be ensured, all health care facilities will need a license from the Ministry of Health, with regular re-licensing, which is one of the aims of the ongoing heath mapping process.
- All players in the field need to *improve performance and enhance transparency and accountability*. Performance measurements of the doctors and the services at all levels should be introduced to ensure efficiency of the human resources and utilization of the equipment and the available technology.

6. Conclusion

Since the independence in 1991, the Republic of Macedonia has been facing various structural, economic and political challenges, in light of which the preservation of the publicly-funded health system is a success in itself. The coverage of the established compulsory health insurance system is in effect universal and the current benefit package comprehensive, but also very costly. At present the system is facing a number of challenges, including the need to overcome the legacies of the health system that was is place until 1991. These include: strengthening of human resources planning and training, the rationalization of health care facilities to redistribute limited resources more effectively and thereby to significantly improve the infrastructure of facilities, as well as the quality especially of primary care services. In this context the reorganization of medical centers at primary health care level, very ambitious privatization trends on the same level and reforms regarding the remuneration of providers – with the introduction of a capitation-based system at primary health care level and an annual global budget allocation for inpatient care based upon performance indicators – represent important developments.

Overall, sustainable health financing will need to be secured, including adequate funding for the public health services; population based preventive programmes and capital investments. Another challenge is the decentralization process which is in the very early stage. To this end, the Ministry of health will need to strengthen its policy formulation, implementation and monitoring capacities, while the Health insurance fund has started to enhance its budget planning, monitoring and reporting instruments. So far the quality of the information system has not sufficiently supported this process. However, in a few strategic documents the country has put a special emphasis to provision of and improving health care services for some vulnerable groups. The strengthening of the health promotion activities, as well as proper transparency of the changes will be also among the challenges in this process.

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GLOBALIZATION – CHALLENGES AND DEBATES

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Abstract: Globalization refers to the emergence of a global society in which economic, political, environmental, and cultural events in one part of the world quickly come to have significance for people in other parts of the world. Therefore, globalization is a process leading to increasing integration of the national economies and diminishing importance of political boundaries so far as economic, political and social activities are concerned. This paper explains the meaning of globalization in five broad conceptions, reasons for globalization, key institutions of globalizations and debate over globalization.

Key words: Globalization, Development, Challenges, Developing Countries

1. Introduction

Globalization describes the growing economic, political, technological, and cultural linkages that connect individuals, communities, businesses, and governments around the world. Globalization also involves the growth of *multinational corporations* (businesses that have operations or investments in many countries) and *transnational corporations* (businesses that see they functioning in a global marketplace). The international institutions that oversee world trade and finance play an increasingly important role in this era of globalization.

Globalization is a comprehensive term for the emergence of a global society in which economic, political, environmental, and cultural events in one part of the world quickly come to have significance for people in other parts of the world. Globalization is the result of advances in communication, transportation, and information technologies.

The term “globalization” has acquired considerable emotive force. Some view it as a process that is beneficial - a key to future world economic development - and also inevitable and irreversible. Others regard it with hostility, even fear, believing that it increases inequality within and between nations, threatens employment and living standards and thwarts social progress.

Globalization offers extensive opportunities for truly worldwide development but it is not progressing evenly. Some countries are becoming integrated into the global economy more quickly than others. Countries that have been able to integrate are seeing faster growth and reduced poverty. Outward-oriented policies brought dynamism and greater prosperity to much of East Asia, transforming it from one of the poorest areas of the world 40 years ago. And as living standards rose, it became possible to make progress on democracy and economic issues such as the environment and work standards (Ramakrishna, 2006). By contrast, in the 1970s and 1980s when many countries in Latin America and Africa pursued inward-oriented policies, their economies stagnated or declined, poverty increased and high inflation became the norm. In many cases, especially Africa, adverse external developments made the problem worse (IMF, 2000).

The crises in the emerging markets in 1990s have made it quite evident that the opportunities of globalization do not come without risks - risks arising from volatile capital movements and the risks of social, economic and environmental degradation created by poverty. This is not a reason to reverse direction, but for all concerned - in developing countries, in the advanced economies, and of course investors - to embrace policy changes to build strong economies and a stronger world financial system that will produce more rapid growth and ensure that poverty is reduced.

2. Globalization: concept and drivers

Globalization refers to the on-going *economic integration process* worldwide. The process is not new of course, and started almost as soon as mankind began to trade. It experienced, however, through history a number of "bursts", such as at the time of the Great Explorers, the Industrial Revolution, the Colonial Experience, and more recently, the Transport and Communication Revolution, through which the world has progressively shrunk as far as the economic space and time is concerned. While it is true that state ventures (or adventures) have at times driven the process, e.g. the colonial conquests, the globalization process has largely *reflected market forces*, specifically, the *exploitation* by large and smaller businesses in the world *of benefits from trade in commodities, goods, services, capital, and even labor, and of opportunities for new investments and markets.* Through increasingly extensive and intensive trade relations, countries have been able to best utilize their respective comparative advantages and achieve other dynamic economic gains. Taking advantage of opportunities for new investments and markets has benefited both advanced and developing countries, the reward being higher growth for both and speeding up of the "catching up" process for the developing world.

The process that has come to be known as globalization i.e., the progressively greater influence being exerted by worldwide economic, social and cultural processes over national or regional ones— is clearly leaving its mark on the world of today. This is not a new process. Its historical roots run deep. Yet the dramatic changes in terms of space and time being brought about by the communications and information revolution represent a qualitative break with the past.

Globalization clearly opens up opportunities for development. We are all aware and rightfully so that national strategies should be designed to take advantage of the potential and meet the requirements associated with greater integration into the world economy. This process also, however, entails risks: risk generated by new sources of instability in trade flows and, especially, finance; the risk that countries unprepared for the formidable demands of competitiveness in today's world may be excluded from the process; and the risk of an exacerbation of the structural heterogeneity existing among social sectors and regions within countries whose linkages with the world economy are segmented and marginal in nature. Many of these risks are associated with two disturbing aspects of the globalization process. The first is the bias in the current form of market globalization created by the fact that the mobility of capital and the mobility of goods and services exist alongside severe restrictions on the mobility of labour. This is reflected in the asymmetric, incomplete nature of the international agenda that accompanies the globalization process. This agenda does not, for example, include labour mobility. Nor does it include mechanisms for ensuring the global coherence of the central economies' macroeconomic policies, international standards for the appropriate taxation of capital, or agreements regarding the mobilization of resources to relieve the distributional tensions generated by globalization between and within countries.

These shortcomings are the reflection of an even more disturbing problem: the absence of a suitable form of governance in the contemporary world, not only in economic terms (as has become particularly evident in the financial sector) but in many other areas as well. This lack of governance can be attributed, in its turn, to the sharp divergence between global problems and political processes that continue to be pursued within national and, increasingly, local frameworks.

An important dimension of the globalization process but certainly not one of the main focuses of attention in discussions on the subject is the gradual spread of ideas and values with regard to civil and political rights, on the one hand, and economic, social and cultural rights, on the other. These ideas and values are gradually laying the foundations for the concept of global citizenship. No one entity embodies this aspect of the globalization process more fully than the United Nations. Under its founding Charter, ever since its inception the United Nations has reaffirmed global ideas and values regarding these rights. These ideas and values have subsequently been ratified by the Governments at a series of world summits (UN, 2002).

Scholte (2005) has clearly stated that disputes and confusions about globalization often begin around issues of definition. Confusion persists because the more specific ideas of globalization are often highly diverse. At least five broad conceptions can be distinguished which are as follows:

Internationalization: When globalization is interpreted as internationalization, the term refers to a growth of transactions and interdependence between countries. From this perspective, a more global world is one where more messages, ideas, merchandise, money, investments, pollutants and people cross borders between national-state-territorial units. In this vein Hirst and Thompson (1996) have identified globalization in terms of 'large and growing flows of trade and capital investment between countries'. Evidence of such globalization is also to be found in enlarged movements between countries of people, diseases, messages and ideas.

Liberalization: A second usage has viewed globalization as liberalization. Here globalization refers to the process of removing officially imposed constraints on movement of resources between countries in order to form an open and borderless world economy. On this understanding, globalization occurs as authorities reduce or abolish regulatory measures like trade barriers, foreigner exchange restrictions, capital controls, and visa requirements. On these lines Sander (1996) suggests that globalization has become a prominent catchword for describing the process of international economic integration. Evidence for such globalization in recent decades can be found in the widespread reduction or even abolition of regulatory trade barriers, foreign-exchange restrictions, capital controls, and (for citizens of certain states) visas.

Universalization: A third conception has equated globalization with universalization. In this usage, globalization is the process of spreading various objects and experiences to people at all corners of the earth. Frequently, globalization as universalization is assumed to entail standardization and homogenization with worldwide cultural, economic, legal, and political converges. For example some economists have assessed globalization in terms of the degree to which prices for particular goods and services become the same across countries. (Bradford and Lawrence, 2004).

Westeranization or Modernization: A fourth common conception of globalization has defined it as westernization, especially in an 'Americanized' form (Spybey, 1996; Taylor, 2000). Following this idea, globalization is a dynamic whereby the social structures of modernity (capitalism, rationalism, industrialism, bureaucratism, individualism, and so on) are spread the world over, normally destroying the pre-existent cultures and local self-determination in the process. Martin Khor (1995) has declared that globalization is what we in the third world have for several centuries called colonization.

Respatialization: Following this interpretation, globalization entails a reconfiguration of social geography with increased transplanetary connections between people. On these lines, David Held and Anthony McGrew have defined globalization as 'a process (or set of processes) which embodies a transformation on the spatial organization of social relations and transactions' (Held *et al*., 1999).

Each of these five conceptions can generate an elaborate and in one or another way revealing account of contemporary history. However, in spite of some overlap between these various notions, their respective foci are significantly different. Thus for example, people who identify globalization as internationalization and people who approach it as respatialization develop very different understandings of the problem (Scholte, 2005).

Some of the main driverss for globalization can be considered the followings: advances in communication, advances in information technology and improvements in transportation.

Most experts attribute globalization to *improvements in communication,* transportation, and information technologies. For example, not only currencies, but also stocks, bonds, and other financial assets can be traded around the clock and around the world due to innovations in communication and information processing. A three-minute telephone call from New York City to London in 1930 cost more than $300 (in year 2000 prices), making instant communication very expensive. Today the cost is insignificant. Advances in communication and information technologies have helped slash the cost of processing business orders by well over 90 percent.

Over the last third of the 20th century the real cost of computer processing power fell by 35 percent on average each year. Vast amounts of information can be processed, shared, and stored on a disk or a computer chip, and the cost is continually declining. People can be almost anywhere and remain in instant communication with their employers, customers, or families 24 hours a day, 7 days a week, or 24/7 as it has come to be known. When people in the United States call a helpline or make an airline reservation, they may be connected to someone in Mumbai (Bombay), India, who has been trained to speak English with an American accent. Other English speakers around the world prepare tax returns for U.S. companies, evaluate insurance claims, and attempt to collect overdue bills by telephone from thousands of kilometers and a number of time zones away. Advances in communications instantly unite people around the globe. For example, communications satellites allow global television broadcasts to bring news of faraway events, such as wars and national disasters as well as sports and other forms of entertainment. The Internet, the cell phone, and the fax machine permit instantaneous communication. The World Wide Web and computers that store vast amounts of data allow instant access to information exceeding that of any library.

Improvements in transportation are also part of globalization. The world becomes smaller due to next-day delivery by jet airplane. Even slow, oceangoing vessels have streamlined transportation and lowered costs due to innovations such as containerized shipping. Advances in transportation have allowed U.S. corporations to subcontract manufacturing to foreign factories.

Advances in information technologies have also lowered business costs. The global corporation Cisco Systems, for example, is one of the world's largest companies as measured by its stock market value. Yet Cisco owns only three factories to make the equipment used to help maintain the Internet. Cisco subcontracts the rest of its work to other companies around the world. Information platforms, such as the World Wide Web, enable Cisco's subcontractors to bid for business on Cisco's Web site where auctions take place and where suppliers and customers stay in constant contact. The lowering of costs that has enabled U.S. companies to locate abroad has also made it easier for foreign producers to locate in the United States. Two-thirds of the automobiles sold in North America by Japan's Toyota Motor Company are built in North America, many in Kentucky and in seven other states. Michelin, the French corporate giant, produces tires in South Carolina where the German car company BMW also manufactures cars for the North American market. Not only do goods, money, and information move great distances quickly, but also more people are moving great distances as well. Migration, both legal and illegal, is a major feature of this era of globalization. *Remittances* (money sent home by workers to their home countries) have become an important source of income for many countries. In the case of El Salvador, for example, remittances are equal to 13 percent of the country's total national income- a more significant source of income than foreign aid, investment, or tourism.

3. Debates over Globalization

Many economists believed that lifting trade barriers and increasing the free movement of capital across borders would narrow the sharp income differences between rich and poor countries. This has generally not happened. Poverty rates have decreased in the two most heavily populated countries in the world, India and China. However, excluding these two countries, poverty and inequality have increased in less-developed including Pakistan and so-called transitional (formerly Communist) countries. For low- and middle-income countries the rate of growth in the decades of globalization from 1980 to 2000 amounted to less than half what it was during the previous two decades from 1960 to 1980. Although this association of slow economic development and the global implementation of neoliberal economic policies is not necessarily strict evidence of cause and effect, it contributes to the dissatisfaction of those who had hoped globalization would deliver more growth. A slowdown in progress on indicators of social well-being, such as life expectancy, infant and child mortality, and literacy, also has lowered expectations about the benefits of globalization.

Three key institutions helped shape the current era of globalization: the International Monetary Fund (IMF), the World Bank, and the World Trade Organization (WTO).

The IMF, in particular, has been criticized for the loan conditions it has imposed on developing countries. Economist Joseph Stiglitz, a Nobel Prize winner and former chief economist at the World Bank, has attacked the IMF for policies that he says often make the fund's clients worse, not better, off. So-called IMF riots have followed the imposition of conditions such as raising the fare on public transportation and ending subsidies for basic food items. Some countries have also objected to the privatization of electricity and water supplies because the private companies taking over these functions often charge higher prices even though they may provide better service than government monopolies.

The WTO has faced much criticism as well. This criticism is often directed at the rich countries in the WTO, which possess the greatest bargaining power. Critics say the rich countries have negotiated trade agreements at the expense of the poor countries. The Final Act of the Uruguay Round that established the WTO proclaimed the principle of "special and different treatment." Behind this principle was the idea that developing countries should be held to more lenient standards when it came to making difficult economic changes so that they could move to free trade more slowly and thereby minimize the costs involved. In practice, however, the developing countries have not enjoyed "special and different treatment." In fact, in the areas of agriculture and the textile and clothing industries where the poorer countries often had a comparative advantage, the developing countries were subjected to higher rather than lower tariffs to protect domestic industries in the developed countries. For example, the 48 least-developed countries in the world faced tariffs on their agricultural exports that were on average 20 percent higher than those faced by the rest of the world on their agricultural exports to industrialized countries. This discrepancy increased to 30 percent higher on manufacturing exports from developing countries.

The agricultural subsidies granted by wealthy countries to their own farmers have earned the strongest and most sustained criticisms, especially from developing countries. Japan, for example, imposes a 490 percent tariff on foreign rice imports to protect its own rice farmers. The average cow in Switzerland earns the annual equivalent of more than $1,500 in subsidies each year as the Swiss government seeks to protect its dairy industry from foreign competition.

The United States enjoys some of the greatest advantages. Because of government payments, U.S. farmers can sell their products at 20 percent below their cost of production in overseas markets. United States corn exports represent more than 70 percent of the total world exports of corn. The United States ships half of the world's total exports of soybeans and a quarter of all wheat exports. Farmers in the United States can sell these grains at half of what it costs to produce them. The resulting artificially low world prices hurt producers in poorer countries where there are no government subsidies.

The European Union (EU) gives its farmers even higher subsidies. The EU is the world's largest exporter of skimmed-milk powder, which it sells at about half the cost of production. The EU is the world's largest exporter of refined sugar, which it sells at a quarter of the cost of producing it. Governments in the developed world pay more than $300 billion a year in farm subsidies, seven times what they give in development aid. Such subsidies have a devastating impact on farmers in poorer countries. Mexican farmers are priced out of local markets for corn by subsidized U.S. exports. Sugar growers in Swaziland and cotton producers in West Africa must compete with products that rich countries dump onto the world market at prices well below the cost of their production due to these subsidies.

Foreign aid from rich countries does little to offset the impact of these subsidized farm exports. Foreign-aid spending by wealthy nations amounts to only a tiny percentage of their incomes and total government spending. The United States gives just 0.1 percent of its gross domestic product (GDP), or about $35 a year per American, in foreign aid. Of this, about one-third goes to just three countries - Israel, Egypt, and Pakistan - which together receive more than twice as much aid from the United States as the poorest billion people in the world do. Europe gives 0.33 percent of its collective GDP and has promised to increase giving to 0.39 percent. Although the United States and Japan, the world's two largest economies, give the most aid in absolute terms, they are at the bottom of the list of countries based on aid as a share of national income. The most generous are the smaller countries of Northern Europe, including Denmark, Norway, The Netherlands, Luxembourg, and Sweden.

Trade Disputes, Rules, and Agreements: Given the importance of foreign trade, one of the most important international agencies is the WTO's Dispute Settlement Board, which is empowered to settle trade disputes under WTO rules. Winners of such settlement decisions by the board are allowed to retaliate against countries found guilty of unfair trade practices. Smaller, developing countries, however, fear cross-retaliation if they confront larger, more powerful nations.

Critics of the WTO in developing countries charge that the rules do not help them and that they have been forced to bear the harsh adjustment costs to free trade while developed countries have not lived up to their liberalization commitments. According to these critics, the terms of trade have gone against the developing countries. The value of developing countries' exports has declined relative to the value of their imports. Not only have the prices of such commodities as coffee, copper, sugar, and cotton fallen substantially for decades but also earnings from labor-intensive manufacturing, such as textiles and clothing, have declined as an ever greater number of developing countries compete for the limited amount they can export to the rich countries. At the same time the developing countries have faced increased prices on goods they import, ranging from computer software to airplanes to medicine.

A WTO meeting in November 2001 in Doha, the capital of Qatar, set in motion a multiyear negotiating process aimed at further liberalizing world trade but with a focus on the needs of the developing countries. However, disputes over agricultural subsidies, the definition of intellectual property rights, and whether poor countries were to be entitled to "special and different treatment" were not easy to resolve. The rich countries had the greater bargaining power, and their trade negotiators were under pressure not to make concessions that would hurt people back home.

In 2003 these issues came to a head as WTO talks in Cancún, Mexico, foundered. Representatives of a group of 21 developing countries withdrew from the talks after the EU and the United States failed to meet their demands for lowering agricultural subsidies. The same countries also resented EU and U.S. proposals that they accept new rules for foreign investment without first agreeing on the issue of subsidies. Some observers believed that the failure of the talks in Cancún made it unlikely that global trade rules could be negotiated by a self-imposed deadline of January 2005. Critics of the WTO have also charged that the developed countries have obtained a set of trade agreements benefiting their large corporations. The Agreement on Basic Telecommunications, for example, opened world markets to large telecommunications companies based in the developed nations. These companies were previously excluded from these markets by government-owned monopolies. The Financial Services Agreement likewise opened opportunities for banks, insurance companies, and stockbrokers in the developed countries as they sought to expand into new markets. Instead of increasing economic stability, financial liberalization caused financial crises in most of the world's economies. An IMF study found that 133 of the fund's 181 member countries suffered at least one significant banking crisis from 1980 to 1995. The World Bank identified more than 100 major bank collapses in 90 developing or formerly Communist nations from the late 1970s to 1994. Many economists believe that these crises were caused by the IMF-imposed financial liberalization on countries that either lacked regulatory agencies or the experience necessary to oversee the financial sector.

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IS CHINA'S ECONOMIC GROWTH A DANGER FOR OTHERS ECONOMIES?

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Abstract: Extrapolating past real GDP growth rates into the future, the size of the Chinese economy surpasses that of the U.S. in purchasing power terms between 2012 and 2015; by 2025, China is likely to be the world's largest economic power by almost any measure. The extrapolations are supported by two types of considerations. First, China's growth patterns of the past 25 years since the beginning of economic reforms match well those identified by standard economic development and trade theories (structural change, catching up, and factor price equalization).

Keywords: max. economic growth, growth accounting, growth forecasts, development theories, human capital formation

Explanations of China's economic growth tend to focus on economic transition. The "success" of the reform process is explained by transition facts and strategies, where success is usually taken to imply economic growth (or a rise in living standards).

If one claims that economic transition "in total" has caused China's past economic growth, then one could argue that key elements of transition have been in place since the early 1990s (price and domestic trade liberalization, the entry of private enterprises) and that therefore the gains from transition have already been exhausted. Consequently, economic growth should since have slowed, which it didn't, or it could slow any time now. Alternatively, one could argue that past transition measures impact on economic growth over an extended period of time, or that transition is as yet incomplete, with further measures to go, in which cases the gains continue.

Growth patterns identified by economic theories of development and trade perhaps offer firmer ground. Economic transition could then be viewed as the removal of constraints that prevented well-known development patterns from unfolding.15 Furthermore, if China's reform period growth patterns match those exhibited by other countries at stages in their economic development similar to China's development level in the reform period, then China's future growth patterns may also match those of the other economies later. The argument has two foundations: one is a focus on standard growth patterns, the other is a cross-country comparison with countries with which a comparison is likely to be meaningful.

The growth patterns are structural change, catching up, and factor price equalization. These three patterns are not independent of each other, nor do they hold irrespective of the larger economic environment. They represent uni-causal explanations of economic growth that have the advantage that they do not rely on individual transition measures and have been identified by development economics and trade theory as of relevance. At the same time, in as far as they reveal China to be at the very early stages of accepted development patterns, they support the growth projections into the future.

The comparison countries are Japan, Korea, and Taiwan. These three countries are relevant for China only if the assumption of constant effect among the four countries is met: different countries do not differ systematically with respect to the impact of the explanatory variable (specific to each growth pattern) on the dependent variable (economic growth). While these four countries differ, as do the domestic and international circumstances under which they experienced a particular stage of development, this does not necessarily invalidate the assumption of constant effect.

The choice of countries to compare China to is a subjective choice, motivated only by the desire to make comparisons across a relatively homogeneous group of countries. China may share some economic growth patterns with Japan, Korea, and Taiwan due to cultural similarities, geographic location, similar economic development strategies, or, in the case of Japan, relatively large size of the domestic economy. Limiting the analysis to Japan, Korea, and Taiwan allows the careful compilation of the necessary data from each individual country's statistical office, with a very few holes filled using the *World Bank Development Indicators* database, the *International Financial Statistics* (IFS), and the PWT. An attempt was made to cover the years 1960 through 2002, with, in some instances, data available only beginning around 1970. Ideally, data for the 1950s should also have been included but are not available. The earlier in the development process of Japan, Korea, and Taiwan, the closer to the case of China the initial conditions might have been. Data on China are for the years of the reform period (the years since 1978).

Throughout, the variable to be explained is real GDP growth *per laborer* since GDP is produced only by the active working population, namely. Employment data are midyear data when related to a variable that measures an annual flow, and end-year data otherwise.

1. Structural change

As labor shifts from low-productivity agriculture to higher-productivity industry and services, economy-wide real GDP per laborer, i.e., (partial) labor productivity, increases, if only because those laborers who have shifted sectors now produce a multiple of their former output value. Data show just how big, and increasing, the labor productivity differences are between the three economic sectors in China. One would expect to see relatively high aggregate (economy-wide) labor productivity growth in those years when a relatively large number of laborers shifts out of agriculture.

Data confirms the expectations. In years with a high absolute reduction in the share of laborers in agriculture, the growth rate of (real, likewise below) labor productivity is high. This pattern holds equally for all four countries. Among Japan, Korea, and Taiwan, the shift out of agriculture was, on average, fastest in Korea, followed by Taiwan and then Japan; this matches the initial shares of laborers in agriculture, with the highest one in Korea and the lowest one in Japan. One would consequently expect China, with an extremely high share of laborers in agriculture in 1978, to exhibit rapid reductions in this share, comparable perhaps to Korea, but the decline is more gradual. However, if in the official employment statistics the primary sector were obtained as residual, it could include an over time increasingly undercounted migrant population. The share of the primary sector in employment of, in 2002, approximately 50%, would then be an overestimate.

At China's 1978-2002 rate of decline, with an annual reduction in the share of laborers in agriculture by approximately an absolute value of 0.01 every year (thus, for example, from 0.7 to 0.69 in one year), China has another forty years to go before its agricultural labor share reaches the level of just below 10% at which Japan, Korea, and Taiwan appear to bottom out. Even if China's primary sector employment of 2002 were somewhat overestimated, China still faces another two to three decades of labor transfers from the primary sector to the secondary and tertiary sector. But this implies that structural change as a source of economic growth has up to twenty to forty more years to contribute to labor productivity growth in China. Furthermore, in China, a given shift out of agriculture comes with higher labor productivity growth than in any of the other three countries.

2. Catching up

Catching up means that production techniques and technologies that have already been invented and implemented can be copied rather than need to be re-invented; technology transfer can also happen through the import of foreign equipment, possibly as part of foreign direct investment. Taking the U.S. as the leader in research and development, and proxying the level of technological development by labor productivity, the distance between a particular's country labor productivity (in USD) and U.S. labor productivity serves as a measure of the potential scope for catching up. One would expect to see relatively high real GDP growth per laborer in those cases where the distance to the leading country (the U.S.) is relatively high, i.e., where the potential for catching up is large.

Japan experienced its highest growth rates when its labor productivity was only ten to fifty percent of U.S. labor productivity. As the gap closed, growth rates in Japan fell (the trend curve shows a slight upswing at the highest labor productivity levels that appears to be an artifact of the imposed second-degree polynomial). Korea and Taiwan exhibit constantly high growth rates of labor productivity at around 4% to 6% throughout all years. But these two countries' level of economic development is in the range of 5% to 50% of the U.S. level, which is a range in which Japan also exhibited high and constant labor productivity growth rates. Korea and Taiwan may yet have to experience the slow-down that comes when the potential gains from catching up are exhausted. China also exhibits a downward pattern, but at a much lower level of economic development. Data show that China's labor productivity between 1978 and 2002 was only 1.2 to 2.4 % of that of the U.S. (using the official exchange rate to translate Chinese yuan RMB values into USD values). This seems almost too narrow a band to determine long-term trends. As/if more observations become available at higher labor productivity levels relative to the U.S., the negative slope could well disappear or turn into a positive one. Whichever direction future observations are heading, at China's highest level of catching up in the past, the growth rate of labor productivity was still at a relatively high 6-7%.

PWT data adjust for differing price levels across countries and may also, as in the case of China, undertake further adjustments to official data. Data are available for the 1950s through 1990s and are per capita (rather than per laborer); the observations for China are as always limited to the years since 1978. The pattern now is one of first rising labor productivity at low development levels before gradually falling off. This might reflect initial opening up effects as barriers to foreign direct investment and imports are removed and access to foreign knowledge increases. The Chinese observations are again concentrated in a very narrow band, with a negative slope.

Independent of the choice of data, China is at a very low development level compared to the U.S. It appears to be at a stage of economic development (labor productivity) where other Asian countries started out more than 30 years ago. While labor productivity growth appears to fall as China catches up with the technology leader (and still is at a very high level), the scale of catching up is so small that such factors as exchange rate effects or uncertainties about the scale of the purchasing power adjustment could well render the slope coefficient insignificant. In the long run, as (if) China catches up with the U.S. and observations at higher development levels become available, the negative slope might yet turn into the positive slope that the other three countries exhibited at their earliest stage of economic development.

3. Factor price equalization

The factor price equalization theorem (or Heckscher-Ohlin-Samuelson theorem) states that factor prices, such as skill-specific wages, should equalize between two countries as long as a range of assumptions are met. I.e., the skill-specific wage rate of one country divided by that of the other country should equal unity. The slightly less restrictive, relative version of the factor price equalization theorem focuses on the relative prices of factors of production. Thus, for example, a country with labor that is cheap relative to capital should see demand for its labor rise. As underemployed laborers become fully employed, labor productivity rises. An increase in the demand for labor may also be accompanied by wage rises, which in turn are likely to be accompanied by labor productivity growth. In the absence of reliable prices of capital, the price of capital is approximated here by the price of investment goods. The price of investment goods of any particular country relative to the U.S. is available in the PWT.

There are three explanations of economic growth from development economics and trade theory and applied them to the case of China. China's past economic growth matches these standard development patterns, as does economic growth in Japan, Korea, and Taiwan. In as far as China is located at the *early* stages of each pattern, in comparison to Japan, Korea, and Taiwan, there remains much scope for future gains in labor productivity and therefore growth.

Extrapolation into the future of China's reform period economic growth suggests that the size of China's economy will exceed that of the U.S., in purchasing power parity terms, in less than ten years. Per capita, the point of time when China catches up with the U.S. is much further into the future, thirty to forty years from now, although the coastal areas, especially the in the past fastest growing five provinces together with Shanghai, with a population exceeding that of the U.S., may catch up in as little as two decades.

China's economic development in the reform period fits well with the broad development patterns of structural change, catching up, and factor price equalization, not least in comparison with other Asian countries earlier in their economic development. On all accounts, China has twenty to forty more years of gains in economic growth to reap. Re-composing China's economic growth from growth in income components suggests that China's continued growth is inevitable. Based on the year 2000 population census combined with past and current trends in education, the quantity and quality of China's laborers can be predicted with near-certainty through 2015, and with high reliability for the years after. These forecasts suggest economic growth between 2005 and 2015 in the range of 7-9%, high enough for China to catch up with the U.S., in purchasing power terms, within a decade or less.

Demographics also matters in terms of market size (and 80% of China's population lives in the densely populated Eastern part of the country). Size of the domestic market should allow unprecedented variety and economies of scale. It is likely to have a positive impact on competition and, thereby, rationalization and innovation. The large pool of laborers, compared to other countries, could in time lead to a highly efficient allocation of labor in that each labor market niche can be filled by the appropriate talent.

Domestically, China's continued economic growth means that one-fifth of the world population will continue to experience significant improvements in their living standard. A share of China's population that exceeds the size of the U.S. population will enjoy living standards close to the level of developed countries in the near future. Others will rise out of poverty, while the sweatshops of early industrialization disappear sooner rather than later. Internationally, China's economic growth will continue to affect relative prices and production structures around the world. China's trade volume is exceptionally large by international standards. In 2000, China's ratio of 'exports of goods and services' to GDP was 25.90%, compared to 11.21% for the U.S.60 By 2003, China's ratio of exports of goods and services to GDP at 34.24% was almost ten percentage points higher (while imports stood at 31.69%). Even if this ratio only stays constant in the future rather than rises further, China's economic growth means that China will soon be the world's largest exporter and importer.

While some in the West fret about the "China price" and its impact on Western economies, some firms in Western economies will benefit from the increasing division of labor, as will those who have a stake in these firms (for example, the typical pension fund of citizens of Western countries). Two-thirds of China's imports originate in Asia (where it sends half of its exports). China's economic growth, therefore, induces economic growth in other Asian countries. India may be tempted by China's example into sustained, growth-promoting economic reforms. It appears only a matter of time before the center of world economic activity, as measured by GDP, shifts to Asia.

But the influence goes both ways. In 2003, 16.48% of value-added in industrial enterprises with annual sales revenue in excess of 5m yuan RMB (USD 0.6m) within China was produced by foreign-funded enterprises, a figure which excludes an additional 11.15% in enterprises funded by Hong Kong, Macau, and Taiwanese entrepreneurs. For years to come, China is likely to want to enjoy the benefits of access to foreign capital and foreign technology. China is adopting international standards and practices on a scale and at a speed as perhaps no other county in the world ever has. A larger share of China's bureaucrats and enterprise managers are likely to have a foreign education or work experience abroad than in Western countries. On many measures, China is an extremely open economy.

China's rapid economic rise is not guaranteed. Economic problems range from bad loans in the banking system to an under-funded pension insurance scheme, the lack of a rural health care system, and bankrupt local governments. Yet China's leadership has a track record spanning more than two decades of rising to economic challenges and addressing problems as they become urgent. At a 9.37% average annual real growth rate, furthermore, GDP doubles every eight years; if the absolute size of a financial deficit stays constant during this period, its significance, as a share of GDP, is halved. This provides all the more reason for China's leadership to stay focused on economic growth.

Economic growth also does not necessarily come with the connotation "good." Much of GDP growth could be accompanied by significant environmental degradation and resource exhaustion. A "green GDP" growth rate could be several percentage points lower.63 At some point, China's leadership may no longer wish to trade off China's environment and resources for GDP growth. But even once that happens, it is likely to be a gradual process.

Political constraints may yet pose greater constraints on China's economic growth than economic or financial imbalances. Growing inequality or increasing dissatisfaction with widespread government/Party corruption could lead to a breakdown of political governance in China. From a more continuous perspective, China's severe control over access to information is unlikely to advance economic growth. At least social scientists work within a framework of relatively scarce information; information is more freely available only to those who are part of internal circles. Consequently, public scientific discourse is limited and a significant Chinese language research community centered around Chinese language research publications has yet to emerge. When China's economy is ready to move from catching up to innovation on a larger scale, these information constraints are unlikely to be helpful. A second aspect is the Party's control over key appointments across the economy, from state-owned enterprises to the banking system. The consequences of the appointment of, when in doubt, "red" rather than professional managers, and the absence of effective control mechanisms is unlikely to be conducive to economic growth and efficiency; evidence in form of corruption scandals abounds. These political constraints not only threaten to have a direct impact on the operation of China's economy, but are also likely to continue to induce some of the best Chinese-born talents to move or stay abroad.

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SUPPORT FOR THE AGRICULTURAL PRODUCERS: OBJECTIVES, GOAL, INDEXES

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Abstract: Agriculture represents one of the national economy sectors of priority. Among the main measures taken by the Government, the following can be mentioned: promotion of the politics for reformation and consolidation of the agrarian terrains; creation of the conditions favourable for obtaining a new competitive production; support for the agricultural producers, including by the subsidizing and insurance system; adjustment of the agrarian sector and of the agro-alimentary industry according to European standards; offering consulting and informational assistance. It is necessary to have a new politics for offering subventions correlated with the economical relationships and with Romanian interests. The subventions must get to producers and not to processors. The actual system of offering subventions to agricultural producers is characterized by the application of a variable, inefficient, not transparent and bureaucratic system for the administration and allocation of budgetary resources, fact which involves the partial assimilation of the financial resources allocated from the fund used to offer subventions to agricultural producers.

Key words: agriculture, subvention, producer, resources

Romanian agriculture passes through a crisis period which never happened before. On national level, from 9 million hectares of arable terrain, it was negotiated with European union to cultivate 7 million hectares, and Romania inseminates only 3,5 – 4 million hectares. Romania loses annually 200 000 millions Euro from the non-capitalization of the agricultural potential and, in addition, it loads Romanian’s present and future, by a greater deficit of external payments balance due in a great measure to food import. Romania has a catastrophic politics in agricultural area, this putting in danger even the alimentary security of Romanian population. If gas oil won’t be subsidized. Taking into account the aberrant price from the filling stations, many of the actual farmers will not start the spring campaign or they will perform works on much smaller surfaces.

The agricultural producers are indignant because nobody considers them. They are totally ignored by the State authorities. Practically, there is no social dialog, there aren’t any development strategies for each sector. Romania could lose even the milk contribution from internal production, received from the European Union and then the whole milk will be imported. The milk for processing will be bought with 3 lei per litre, fact which will generate an unbearable blow up of the finite product price. This fact will change the milk and milky products in products that most of the citizens will not be able to afford.

Due to the total agriculture abandon, the prices of the basic agro-alimentary products will increase in the first term of 2008 with 25 – 30%, **the main reasons of this huge rise in the price being the following three:**

• the increase of the price of natural gases and fuels (electricity, gas oil);

• the increase of the price of fodders necessary for the zootechny: corn – 500 Euro/ton, soy – 400 Euro/ton, wheat – 290 Euro/ton;

• he rapid depreciation of the Leu reported to the unique European currency.

From the funds of European Union Development Bank there were built in Romania ten centres for vegetables and fruit wholesale, but Romanian producers, do not have where to sell their merchandise and are speculated by intermediaries who increase 3-4 times the prices on the market for consumers. The governmental authorities dedicated to promote the aboriginal agricultural production to get as soon as possible in the administration of agricultural producers professional associations and, in order to perform this desideratum, a law project has to be submitted to Romanian Parliament, project which should be debated in emergency procedure. It will not be easy, because many of the actual governors or other persons close to this economical sphere obtain great profits from food import or from processing agricultural products.

It is necessary to have a new politics for offering subventions correlated with economical relationships and with Romanian interests. The subventions must get to producers and not to processors. It is not normal that, from a subvention of 100% to the price of a litre of milk, 10 – 15% goes to the producer, 35 – 45% to small traders and the rest of 40 – 55% to processors.

In the strategic plan from agriculture field within the expenses on average term for the next years, it is indicated that one of the key-problems of agrarian sector is the elaboration and implementation of a new subvention mechanism for agricultural producers. The resources are limited for subsidizing the agricultural sector. In this respect, the efficient usage of the allocated budgetary resources is essential. Therefore, it is very important to minutely select the usage of the subventions from their contribution point of view in reaching with maximum efficiency the Government's objective regarding the economical increase and reduction of poverty.

The current general frame for the application of the different measures of agricultural politics performed to support the agricultural producers is often differentiated according to the circumstances and in many cases it is promoted without having strong arguments regarding the necessity and efficiency of the application of agricultural politics measures and finally, their utility for the agrarian sector. It is well known the fact that many of the field which benefit of the State support were selected according to the circumstances and outside a strategic frame on medium and long development term and outside a strategic frame for revamping the agrarian sector.

On the other hand, the actual system of offering subventions to agricultural producers is characterized by the application of a variable, inefficient, not transparent and bureaucratic system for the administration and allocation of budgetary resources, fact which involves the partial assimilation of the financial resources allocated from the fund used to offer subventions to agricultural producers. Due to this fact, it takes place the systematic change of the state budget law and of the regulations approved by the Parliament and Government.

For the reasons indicated above, there will be imminently performed the measures which foresee the revision of the existent subvention system from agriculture field in the context of the objectives of Economical Increase Strategy and Reduction of Poverty and introduction of a new system which provides a more efficient usage of the resources.

The goal and the objectives of the system for offering subventions to agricultural producers consist in establishing the principles, objectives and tasks which have priority in elaborating, monitoring and performing the politics supporting the agricultural producers by the intermediary of a system offering subventions to agricultural producers. The main **objectives** can be:

• modelling of a unique subsidizing system for agricultural producers, needful of the priorities established in the documents of the State agricultural politics, connected to the necessities of different farmers groups from the countryside.

• establishment and substantiation of the main directions and of the agricultural sectors financially supported from the fund used to offer subventions to the agricultural producers, annually approved by the state budget law.

• the rational allocation of financial resources from the fund used to offer subventions to the agricultural producers.

• determination of the basic criteria mandatory when establishing the eligibility conditions for the beneficiaries from agriculture field in order the State to offer support.

• creation of the institutional system for the administration of financial resources assigned for subsidizing the agricultural producers, monitoring of their allocation and quantitative and qualitative evaluation of the impact generated by the measures taken by the State to support the agricultural producers

The system for offering subventions to agricultural producers will be revised on the **purpose** of creating conditions:

• to increase the competitivity and productivity of rural economy and to increase the orientation towards the market.

• to provide the alimentary auto-sufficiency in the country, by supporting the aboriginal agricultural producers and to diminish the food import.

• to encourage the investments in the profitable sectors, in order to discourage the subsistence agriculture and to facilitate the creation of a fiscal business environment which should bring incomings to the State budget.

• to stimulate the increase of agricultural crops productivity and agricultural products quality, by introducing some productivity and quality norms mandatory for the support given by the State for agricultural crops.

• to stimulate the increase of organic agricultural production and of the agricultural production dedicated to export.

• to promote the chance equality, to stimulate the occupation and to stop the migration from the countryside, to fight poverty, to increase the capacity to answer the increased requirements for a better quality of life.

We believe that the application of the system subsidizing the agricultural producers in compliance with the current conception, doesn't substitute other way of supporting the agricultural producers performed by the State of by third parties.

The realization of the system subsidizing the agricultural producers will contribute to:

• the concentration of all budgetary sources dedicated to support the agricultural producers within the fund used to support the agrarian sector and its connection to the strategic priorities established for the development of the agricultural sector on medium and long term. Thus, the financial means dedicated to support the agricultural sector will be administrated more efficiently, more transparently, and they will have a greater impact upon the agricultural sector development.

• the creation of an institutional system for the administration of financial resources dedicated to subsidize the agricultural producers, monitoring of their allocation and quantitative and qualitative evaluation of the impact generated by the measures taken by the State to support the agricultural producers.

• the support from the State of a much various agricultural producers scale which provides the total assimilation of the financial means dedicated to agricultural producers.

• providing the alimentary auto-sufficiency in the country, by supporting the aboriginal agricultural producers and diminishing the food import.

• the creation of a business environment in the countryside which should bring incomings to the State budget.

• to encourage the investments in agricultural activities, in creating the rural infrastructure and to revamp the material basis of the agro-alimentary sector.

• the stimulation of the increase of agricultural crops productivity and of agricultural products quality.

• the stimulation of the increase of organic agricultural production and of the agricultural production dedicated to export.

• the creation of new work places for the population from countryside.

The subventions received in 2008 for the agricultural producers from zoo technical and vegetal sector

"Villages newspaper" presents the activities for which financial support is given to the agricultural producers from the zoo technical sector, in 2008, the quantum of the support and the total amount allocated to each activity.

Table 1. Support for the improvement of the quality of animal origin products, as follows:

Denomination	Value index
Improvement of the quality of meat productions by financially supporting the implementation of the system classifying the cases, respectively	- E pigs cases - 120 lei/case, - U pigs cases - 100 lei/case, - bovines - 100 lei/case;
Improvement of the production quality and parameters in increasing the effectives by supporting the meat and eggs production.	- sow from farms - 150 lei/head, - chicken meat – broiler chicken - 1,6 lei/head
Improvement of the quality of honey production by supporting the bees families	- 20 lei/bee families;
Improvement of the quality and hygiene of cow milk dedicated to processing in order to reach the quality standards from European union, respectively support for the delivered milk with a total number of germs (NTG) smaller or equal to 100.000/ml and with a number of somatic cells smaller or equal to 400.000/ml	- 0,3 lei/kg;

Source : http://www.gazetasatelor.com/

Table 2. Financial support form the State in order to support the improvement of the animals populations, as follows:

Denomination	Value index
Management of genealogic registers	bovines – 7,5 lei/head, ships/goats – 3,68 lei/head;
Official control of the milk production from ships and goats	– 5,8 lei/head;
Official control of wool production	- ships - 0,50 lei/head;
Official control of skin production from ships	- 1,0 lei/head;
Official control of ship/goat meat production	- 0,80 lei/head;
Introduction, on farms level, of modern techniques, biotechnologies and practices for the reproduction of animals' species, respectively the purchase of containers for the preservation of the frozen seminal material, with a capacity of more than 20 litres and with dynamic autonomy of over 90 days.	- 3.500 lei/piece;
Support for the expenses made on testing the reproduction males	- bulls - 1000 lei/head, - rams/bucks - 50 lei/head;
Support for the expenses made to perform the national dissection test for the authorization of the equipments used in order to classify the pigs cases	- 800 lei/head

Source : http://www.gazetasatelor.com/

The measures taken for the production and commercialization of bee products, such as:

• support for medicine purchase in order to eliminate the diseases specific to bee families - 6 lei/bee family;

• support for the repopulation in beehives on the national territory by purchasing the queen of an aboriginal breed - 15 lei/bee's queen.

Subventions in vegetal sector

The agricultural producers from the vegetal sector will receive a financial support of 300 lei per ton of conventional soy, capitalized between September, 1st 2007 – January, 31st 2008.

In order to take benefit from this support of the State, the agricultural producers have to submit until the 1st of March 2008, to agricultural and rural development authorities from the county a certain kind of request.

Being given the fact that in Romania the genetically modified soy was forbidden, the purpose of this support is to encourage the agricultural producers to cultivate conventional soy, which has a smaller productivity than the genetically modified soy, but which fulfils the environmental standards available on European Union level.

The soy is used as raw material in order to obtain alimentary and/or industrial products within the agricultural producer's own unity, products which are considered as agricultural products meant to be commercialized and which benefits of subsidizing.

The sugar beet and rice producers will benefit of financial support of 30 and, respectively, 500 lei per ton.

The method used to offer the direct support from the State per product for the sugar beet and rice production. This support is given as a total amount of 17 million lei for rice and 21,84 million lei for sugar beet.

During the calculation of the direct support per products, it was taken into consideration the expenses made per surface unit and per ton of a product, the production obtained during the previous years and the estimated average price for the capitalization of the product on the market.

Conclusions

Beside the European funds which will be received in order to support Romanian agriculture, Romanian Government, by the intermediary of the Ministry of Agriculture and Rural development and by the intermediary of the Agency for payments and Interventions in Agriculture, will support the agricultural producers by giving them some financial aids, as it happened last year. By the OUG no. 123/2006, it is approved to offer the financial support to the agricultural producers from the vegetal system and from zootechny, for land improvement and for the organization and systematization of the territory, but only for the activities which are not financed from the Agriculture European Fund for Rural Development, from the Piscine European fund or from structural or cohesion funds.

The Ministry of Agriculture will also support the purchase of IT equipment by the agricultural professional associations, software and database, it will encourage the associations to take part to the organizations constituted on European Union level, it will support the subsidizing of the gas oil in order to perform the dodged-up agricultural works. Very important is also the subsidizing of the vignettes costs for agriculture, in order to be able to drive the tractors and transport vehicles on the national roads, as well as to provide the transport of the agricultural production, of animals and other inputs.

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THE EUROPEAN SOCIAL FUND AND THE EMPLOYMENT AT THE EUROPEAN LEVEL

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Abstract: The economic and social cohesion was in the last decade one of the priority subjects of the European Agenda. In an enlarged European Union, ESF has to contribute to the growth of the employment of the internal market by facilitating the mobility and the adaptation of the labour force, determining the growth of the living standard of the European citizens and the consolidation of the social and economic cohesion.

Key words: Social European Fund, employment, economic growth

The economic and social cohesion was in the last decade one of the priority subjects of the European Agenda. By promoting the cohesion, EU encourages the harmonious and sustainable development, the enlargement of the labour force and the investments in the human resources, the protection of the environment, the elimination of the inequalities and the provision of equal chances. The enlargement of the European Union up to 25 Member States and recently up to 27, represents a challenge for the competitiveness and internal cohesion of the European Union.

The extension has led to the growth of the economic development differences between the old and the new Member States, where the development level is much lower. Together with the accession to the European Union of the new members, the Gross Domestic Product (GDP)/capita from EU went down with 12.5%. At the same time, one of the four NUTS II regions of the European Union has a lower GDP/per capita than 75% from the community average.

There are major disparities both between the Member States, as well as between the regions due to the degree of economic development, and this situation is also proven through the fact that the most developed 10 regions have a 5 times higher GDP than the less developed regions. These disparities were increased by the accession, in 2004, of the 10 new Member States. Under the new circumstances, 61% from the population of the European Union lives in regions with a lower GDP/per capita than 50% from GDP/capita in a European environment.

The reduction of the socio-economic disparities between the Member States and the regions is one of the priorities of the European Union. Taking advantage from a budgetary allocation of 336.1 milliards Euro for the period 2007-2013 (almost 35% from the Budget of the European Union), the cohesion policy is on the second place among the community policies, after the common agricultural policy. The final purpose followed by the cohesion policy is represented by the improvement of the Common Market and by the growth of the competitiveness of the European economy on an international level.

The cohesion policy has as a purpose the reduction of the inequalities between the EU regions and their sustenance for a better use of their economic and human potential in order to obtain a durable development.

GDP/capita in 2004(EU 27)

The wealthiest regions-GDP/capita			The poorest regions -GDP/capita		
1	Inner London (UK)	303	1	**Nord-Est (RO)**	**24**
2	Luxembourg (LU)	251	2	Severozapaden (BG)	26
3	Bruxelles(BE)	248	3	Yuzhen tsentralen (BG)	26
4	Hamburg (DE)	195	4	Severen tsentralen (BG)	26
5	Wien (AT)	180	5	**Sud-Muntenia (RO)**	**28**
6	Île de France (FR)	175	6	**Sud-Vest Oltenia (RO)**	**29**
7	Berkshire, Buckinghamshire & Oxfordshire (UK)	174	7	Severoiztochen (BG)	29
8	Oberbayern (DE)	169	8	Yugoiztochen (BG)	30
9	Stockholm (SE)	166	9	**Sud-Est (RO)**	**31**
10	Utrecht (NL)	158	10	**Nord-Vest (RO)**	**33**
11	Darmstadt (DE)	157	11	Lubelskie (PL)	35
12	Praha (CZ)	157	12	Podkarpackie (PL)	35
13	Southern & Eastern (IE)	157	13	**Centru (RO)**	**35**
14	Bremen (DE)	156	14	Podlaskie (PL)	38
15	North Eastern Scotland (UK)	154	15	**Vest (RO)**	**39**

Source: Eurostat, 19.02.2007

Beyond the GDP statistics, there are some complex inequalities between the Member States and the other regions between the differences regarding:

- Infrastructure
- The quality of the environment
- The unemployment and the abilities of the labour force which are important for the development
- The dimension and the diversity of the business
- The innovation levels and the use of technology in business

At the same time, the whole European Union has to respond the challenges resulted after the acceleration of the economic reorganization due to the globalization, to the openness of the markets, the technological revolution, the development of the economy and the knowledge-based society, the ageing of the population and the growth of the migrating phenomenon.

Moreover, the economic growth in EU started to slow down with 2001. As a consequence the unemployment rate grew in many parts of the Union, causing different social implications. In a future perspective of re-launching, the Union should fully exploit the opportunities given by the current trends of economic improvement.

The structural instruments which help at the implementation of the cohesion policy are:

The European Social Fund (ESF): finances projects which sustain the growth of the adaptability of the labour force and of the enterprises, the decrease of the unemployment rate, the promotion of the social inclusion, the extension and improvement of the investments in the human capital (education and professional training) and strengthening the institutional capacity and the efficiency of the public administration and services at a national, regional and local level;

The European Regional Development Fund (ERDF): finances projects which support investments in technological research and development, the protection of the environment, the prevention of the risks, tourism, transport, energy, health (infrastructure), local development projects, innovation and entrepreneurship, as well as support for investments in SMEs;

The Cohesion Fund (CF): finances projects which aim at the development of trans-European transport networks, major projects of environment infrastructure and fields which can provide sustainable benefits in what the protection of the environment is concerned.

Besides the structural instruments which reduce the disparities between the regions, the European Union offers the Member States other two grants:

- The European Fund for Agriculture and Rural Development (EFARD)
- The European Fishing Fund (EFF)
- The objectives of the cohesion policy are the following:

1. **Convergence**

Being in the centre of the European cohesion policy, the *Convergence* objective mainly aims at the assistance of the less developed states and regions where the GDP/capita is lower than 75% from the EU-25 average. The regions which are statistically affected (where the GDP/capita is lower than 75% from the EU 15 average) are temporarily eligible. Support shall also be given to the countries where the National Gross Income (NGI)/capita is lower than 90% from the European average, as well as to the regions which are statistically affected. The objective will be finances from the three objectives.

2. Competitiveness and fighting unemployment at a regional level

This objective addresses all Member States of the European Union and shall be funded from **ERDF** and **ESF.** Through the subsidies provided by **ERDF** one aims at the assistance of the regions in **order to prevent and promote the changes, having as a purpose the growth of the competitiveness and their attraction.** The priority themes of the programs financed from **ERDF shall be the innovation and the economy-based knowledge,** the protection of the environment and the provision of economic services of general interest. The subsidies offered by **ESF** have as a main purpose **to promote the occupation for the labour force and to strengthen the social inclusion.**

3. The territorial cooperation at a European level

This objective has as its purpose financing the territorial cooperation on community problems which are concerned with key priorities of the European Union, as they were identified in the revised Lisbon Strategy. This objective will be exclusively financed from EDFR. The amounts given for each objective of the programming period 2007-2013 are presented in the table.

The structural funds will be concentrated on the Member States and regions which are less developed, on the basis of a transparent and well-justified allocation system and of a common set of indices. As compared to the previous rate of 70% given to the less developed regions, the concentration rate of 78.5% proposed for the new generation of programs destined for these regions is even more indicated.

Table 1 Budgetary allocations 2007-2013 for the objectives of the cohesion policy

Objective	Allocated percentage	Amount- mld. EURO	Of which assigned for the reimbursement reserve
Convergence, from which - for the regions with GDP/capita<75% from the EU average – for the regions which are statistically affected – for the states with GNI/capita<90% from the EU average – for the far-away regions	**78.54** 67,34 8,38 23,86 0,42	**263,97** 177,76 22,12 62,98 1,11	**6,00** 5,33 0,67
Competitiveness and fighting unemployment: - for the regions which are not covered by the two categories of the convergence objective – regions which were covered by the 1 Objective in the 1260/1999 regulation and which are not included in the convergence objective according to the new rules.	**17,22** 83,44 16,56	**57,88** 48,30 9,58	**1,74** 1,45 0,29
Territorial Cooperation - Trans-border cooperation, ERDF contribution to the trans-border component of the Neighbourhood and Partnership instrument and of the Pre-Accession-trans-national cooperation instrument – Networks for cooperation and exchange of experience	**3,94** 35,61 12,12 47,73 4,54	**13,24** 4,71 1,61 6,32 0,60	
Technical assistance	**0,3**	**1,01**	
TOTAL		**336,10**	**7,73**

Source: „ Proposal for a Council Regulation laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund", COM(2004)492 final

For the “convergence” objective, the allocations were granted on the basis of an eligible population, of the degree of prosperity at a national and regional level and of the unemployment rate in the considered regions. For the “regional competitiveness and the occupation of the labour force” the allocation was grated according to the eligible population, the degree of prosperity at a national and regional level, the unemployment rate and the density of the population.

The cohesion policy should address the EU economy and territory, as a whole and should not be limited just to grant support for the poor regions. This is an aspect which can be related to solidarity, but also to the sustenance of the development potential.

For this purpose, the European Commission has proposed that all the regions should respect first of all the implementation of the Lisbon and Gotheburg agendas. The European Commission does not propose any more the placement, at a community level, of the regions which are outside the “convergence” objective (as it happened up to 2006 in the frame of the Objective 2) because this thing also presupposed the fact that the concentration was approached only from a micro-geographical point of view. While the geographical concentration of the resources from the most affected regions has to remain an essential part of the future efforts, one has also to recognize the fact that the perspectives of these regions are closely connected to the development of the whole region.

Table 2 Financial allocations of the structural sustenance on objectives in the period 2007-2013

Country	Convergence			Regional Competitiveness and Employment		European Territorial Cooperation	Total
	Cohesion Fund	Convergence	Phasing-out	Phasing-in	Regional Competitiveness and Employment		
Belgium			638		1 425	194	2 258
Bulgaria	2 283	4 391				179	6 853
Czech Republic	8 819	17 064			419	389	26 692
Denmark					510	103	613
Germany		11 864	4 215		9 409	851	26 340
Estonia	1 152	2 252				52	3 456
Ireland				458	293	151	901
Greece	3 697	9 420	6 458	635		210	20 420
Spain	3 543	21 054	1 583	4 955	3 522	559	35 217
France		3 191			10 257	872	14 319
Italy		21 211	430	972	5 353	846	28 812
Cyprus	213			399		28	640
Latvia	1 540	2 991				90	4 620
Lithuania	2 305	4 470				109	6 885
Luxemburg					50	15	65
Hungary	8 642	14 248		2 031		386	25 307
Malta	284	556				15	855
The Netherlands					1 660	247	1 907
Austria			177		1 027	257	1 461
Poland	22 176	44 377				731	67 284
Portugal	3 060	17 133	280	448	490	99	21 511
Romania	6 552	12 661				455	19 668
Slovenia	1 412	2 689				104	4 205
Slovakia	3 899	7 013			449	227	11 588
Finland				545	1 051	120	1 716
Sweden					1 626	265	1 891
Great Britain		2 738	174	965	6 014	722	10 613
Inter-regional Cooperation						445	445
Technical Assistance							868
Total	69 578	199 322	13 955	11 409	43 556	8 723	347 410

Source: European Union, Regional Policy, Cohesion Policy 2007-13 National Strategic Reference Frameworks

The European Social Fund (ESF) « the age dean » of the European structural funds was created in 1960 on the basis of the Rome Treaty and underwent some successive reforms. It sustains the measures which aim at the prevention and fight of the unemployment, the development of the human resources and the acceleration of the integration of different social groups on the labour market so that they can be assured: a high level of the labour force, equal chances between man and women, sustainable development, economic and social cohesion.

The European Social Fund is on the structural funds which were created in order to redcue the development differences between the Member States and ther egions of the European Union and to help them reach a higher living standard. They represent the financial instrument with which the European Employment Strategy is implemented, having as an objective the creation of better working places and the provision of abilities and competencies which are superior to the employees or to the persons who are searching for a job. ESF has invested for 50 years in programs destined for the development of the abilities and the employment in the EU Member States.

The rule of the European Parliament and Council no. 1081/2006 regarding the European Social Fund proposes the domains and principles according to which the development of the human resources will be accomplished for the next period. ESF finances the following priorities:

The growth of the adaptability of the labour force, of the enterprises and of the entrepreneurs in order to sustain the economic changes through:

a. the promotion of learning during the lifetime and the growth of the investments in the human capital in order to provide the access for training, the development of the skills and professional competences, the dissemination of the CAT tools, e-learning, the promotion of the entrepreneurship and the innovation as well as the initiation in business;

b. the elaboration and the dissemination of some innovative and more productive forms of labour organizing, the identification of the competencies and professions required by the labour market, the development of the services which support the employment and training.

The encouragement of the access to employment and sustainable inclusion on the labour market for the persons who are searching for a job and for the inactive persons, as well as the prevention of the unemployment especially in the case of the long-term unemployed and the young people by the means of:

a. implementing active and preventive measures as for example the personalized formation, searching for a job, reorientation and initiation in business;

b. the access to the labour force market by increasing the participation of the women, and the emigrants;

c. modernizing and consolidating the public institutions and services related to employment.

Supporting the social inclusion for the disabled persons in order to promote their integration on the labour market and to fight against all the forms of discrimination from the labour market with the help of:

a. the integration and the re-introduction of the labour market of the disabled persons using employment measures in the field of the social economy, the facilitation of the access to education and professional formation;

b. the diversity at the working place and fighting against the discrimination on the labour market.

The extension and the improvement of the investment in the human capital by elaborating and implementing the reforms in the formation and educational systems as well as the creation of networks between high education institutions, research and development centres and enterprises.

Promoting the partnerships on a national, local and trans-national level by collaborating the important actors in order to support the reforms in the field of employment and inclusion on the labour market. In the programming period 2007-2013, on the level of the European Union, there are almost 75 mld. € for ESF for the projects regarding the development of the human capital and of the growth of the participation on the labour market. This amount is supplemented from the own contribution and from public and private resources and it is different according to each objective of a Member State or region from the European Union.

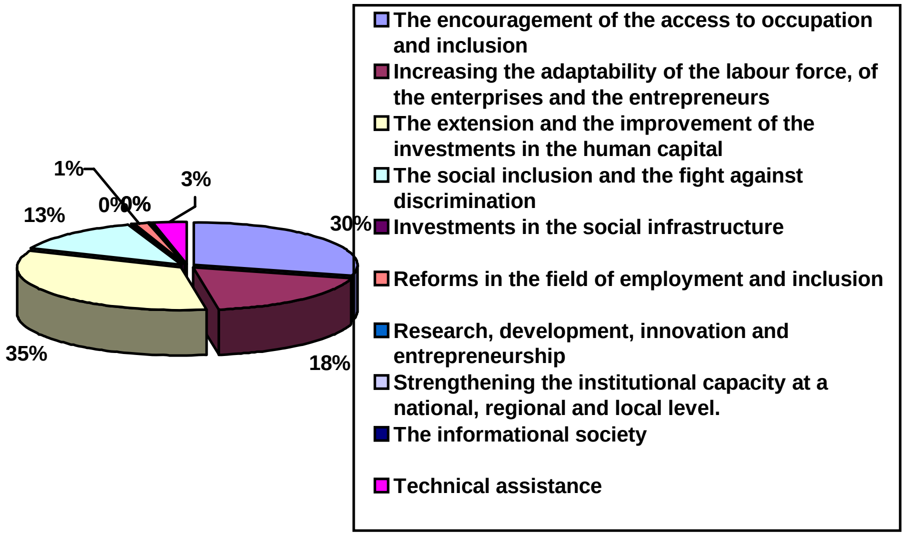

Figure 1 The Allocations of the European Social Fund on destinations in the period 2007-2013, EU 27

Source: European Union, Regional Policy, Cohesion Policy 2007-2013 National Strategic Reference Frameworks

ESF as the other structural funds respects some principles that are:

Complementarities, coherence, coordination and conformity. These funds will provide complementary assistance for the local and national actions, integrating them in the priorities of the Union. The coherence is set through the strategic orientations of the Community with the help of the national frame of strategic reference and the operational programs. According to each one's responsibility the Commission and the Member States will provide the coordination between the assistance offered by the Cohesion Policy (CF, ERDF,ESF) the Common Agricultural Policy (EAFRD, EFF), the interventions of the European Investment Bank and other financial instruments. The operations financed by the means of the funds will have to comply with the regulations of the Treaty and of other normative acts which were adopted.

Programming. The achievement of the objectives of allocating the structural funds will be supervised by the means of the multi-annual programming process, on different levels including the identification of the priorities, the financing and the management and control system.

Partnership. The achievement of the objectives of the funds will be supervised in the frame of a close collaboration between the Commission and each Member State. Each Member State will organize any time necessary and according to the national practices and regulations, partnerships with organizations as:

a) Public authorities or non-public local, urban and regional authorities;

b) Social and economic partners;

c) Any other approved body representing the civil society, partners in the field of the environment protection, non-governmental organizations as well as other organizations responsible for the promotion of the gender equality.

Each Member State will designate the most important partners at a local, regional and national level in different fields as for example the economical, social and environmental field according to the practices and national regulations, taking into account the necessity of promoting the gender equality and the sustainable development by integrating the new normative acts for the protection of the environment. The partnership should be operational for different levels of preparation, implementation, supervision and control of the operational programs.

Territorial level of implementation. Implementing the operational programs will be the responsibility of the Member States and will be accomplished at the best territorial level according to their specific institutional system.

Proportional intervention. The financial and administrative resources used by the Commission and the Member States for the adoptions of the Funds are proportional with the total sum of the necessary expenses for an operational program.

Shared management. The budget of the European Union given to the Funds is executed in the frame of the management shared between the Member States and the Commission. The Commission assumes the responsibilities of execution for the general budget of the European Union according to the following stipulations:

a) The existence and the good functioning of the management and control systems should be provided in the member States;

b) It interrupts or totally suspends the payments in the case of some disorders in the national management and control system and applies any financial correction which is requested;

c) It provides the reimbursement of the partial payments and allows for the withdrawal of the budgetary commitments.

Additionality

a) The contribution of the structural Funds can not be substituted to the public structural expenses or expenses which can be assimilated from a Member State;

b) For the regions included in the convergence objective, The Commission and the Member State set the level of the public expenses or for the expenses which can be assimilated by the Member State during the programming period. The level of the expenses from each Member State is one of the elements included in the decision of the Commission regarding the strategic reference frame;

c) The level of the expenses mentioned under line b) is al least equal with the sum of the annual average expenses in real terms along the previous programming period.

Gender equality and non-discrimination.

The Member States and the Commission provide the promotion of the equality between men and women and the integration of the principle of equality of chances in their respective field for each of the different steps of the Funds: The Member States and the Commission take adequate measures in order to prevent any discrimination based on sex, race or ethnic origin, religion or beliefs, handicap, age or sexual orientation for each of the different steps of applying the Funds and especially in what the access to the Funds is concerned. The access of the disabled persons is one of the criteria which have to be respected in order to define the operations which are co-financed from the Funds and which have to be taken into account for each of the steps in the implementation of the Funds.

Sustainable development. The objectives of the funds are respected in the frame of the sustainable development and the promotion of the objective of protection and improvement of the environment.

There were made a series of studies, on the level of the European Union, regarding the estimated impact of the structural funds on the economic growth and on the occupation of the labour force. So, the Hermin model was used in order to simulate on the data from 2005 the evolutions art the level of the year 2013.

Table.3 Simulation, with the help of the Hermin model of the impact of the Structural Funds on the economic growth, productivity and employment rate

Country	GDP growth (%)	Productivity	Impact on the employment	
			Percentage	Created working places (thousands)
Czech Republic	10,9	2,3	8,3	407
Slovakia	10,9	2,3	8,3	Nd
Hungary	8,4	4,1	4,5	157
Poland	9,8	5,7	4,0	536
Slovenia	6,8	2,7	4,3	40
Lithuania	11,1	5,8	4,9	Nd
Latvia	12,4	6,1	6,3	63
Estonia	11,1	5,8	4,9	29
Bulgaria	11,8	7,0	5,0	Nd
Romania	11,8	7,0	5,0	472
Portugal	2,8	1,7	1,2	59
Greece	1,2	0,5	0,7	28

Source: European Commission - Regional Policy Directorate-General, Investing in Europe's Member States and regions, http://europa.eu.int/comm/regional_policy

As one can see from the table, the two countries Romania and Bulgaria, which acceded in 2007, register the highest possibilities of GDP growth and of the productivity and create many working places: 472 thousand in Romania. In what the number of new working places is concerned, Poland and the Czech Republic are also situated on a high place.

As a consequence, even in an enlarged European Union; ESF has to contribute to the growth of the employment of the internal market by facilitating the mobility and the adaptation of the labour force, determining the growth of the living standard of the European citizens and the consolidation of the social and economic cohesion.

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SIGNIFICANT DIFFERENCES IN CROSS CULTURAL NEGOTIATIONS

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Abstract: This paper analyses the importance of different factors that influences cross cultural negotiations. Learning about the components of a cross cultural negotiation process to increase negotiators' success in avoiding barriers and failures in the international business arena is one of the most challenging achievements of the negotiators in the global environment. In the second part, the paper focuses on the one of the most important componenet of cross cultural business negotiations: differences in the use of non-verbal cues and body language of the parties involved with different cultural background. Undersstanding and recognising these differences is the first step to avoid costly misinterpretation during business negotiation.

Keywords: cross cultural negotiation, negotiation success, cultural differences, inter-cultural communication, body language

1. Introduction

The impact of international business in domestic markets compels us to ask a question: "How can we survive in this global playing field, and what can we do to run our businesses more effectively?" Nowadays, businesses of all sizes search for suppliers and customers on a global level. International competition, foreign clients and suppliers may become a danger, but they may also create huge opportunities to develop our business. The increasingly global business environment requires managers to approach the negotiation process from the global business person's point of view. This approach includes aspects which are usually unimportant in domestic negotiations. Some of the components of a cross cultural negotiation process are more complex and difficult, but will increase our success in avoiding barriers and failures in the international business arena.

When doing business internationally, we need to consider (Salacuse, 1991):

1. The negotiating environment
2. Cultural and sub-cultural differences
3. Ideological differences
4. Foreign bureaucracy
5. Foreign laws and governments
6. Financial insecurity due to international monetary factors
7. Political instability and economic change

If we consider the fact that negotiating with our fellow citizen is not an easy task due to many individual differences, it would be reasonable to suggest that negotiating with foreigners may be even more difficult. The way we perceive and create our own reality may be completely different to our counterpart's way of thinking, behaving and feeling. Unfortunately, knowledge of any foreign language is not enough to face and solve the problem. Language is a cluster of codes used in communication which, if not shared effectively, can act as a barrier to establish credibility and trust. We need more effective tools, and the most important is knowledge of all factors that can influence the proceedings. Nations tend to have a national character that influences the type of goals and process the society pursues in negotiations. This is why specifying and understanding cultural differences is vital in order to perform successfully in inter-cultural communication (Schuster-Copeland 1996, 33). As we better understand that our partners may see things differently, we will be less likely to make negative assumptions and more likely to make progress when negotiating.

2. Factors influencing cross cultural negotiations

When negotiating in the global markets, the negotiators must take into account the most important factors determined by the cultural aspects that influence the negotiations with theirparteners.

Negotiating goal and basic concept: How is the negotiation being seen? Is mutual satisfaction the real purpose of the meeting? Do we have to compete? Do they want to win? Different cultures stress different aspects of negotiation. The goal of business negotiation may be a substantive outcome (Americans) or a long-lasting relationship (Japanese).

Protocol: There are as many kinds of business etiquette as there are nations in the world. Protocol factors that should be considered are dress codes, number of negotiators, entertainment, degree of formality, gift giving, meeting and greeting, etc.

Communications: Verbal and non-verbal communication is a key factor of persuasion. The way we express our needs and feelings using body language and tone of voice can determine the way the other side perceives us, and in fact positively or negatively contributes to our credibility.Another aspect of communication relevant to negotiation is the direct or indirect approach to exchanging information. Is the meaning of what is said exactly in the words themselves? Does "...it's impossible" really mean impossible or just difficult to realise? Always use questions to identify the other side's needs, otherwise assumptions may result in you never finding common interests.

Risk-taking propensity - uncertainty avoidance: There is always risk involved in negotiations. The final outcome is unknown when the negotiations commence. The most common dilemma is related to personal relations between counterparts: Should we trust them? Will they trust us? Certain cultures are more risk averse than others, e.g. Japan (Hofstede 1980). It means that less innovative and creative alternatives are available to pursue during the negotiation, unless there is a strong trust-based relationship between the counterparts.

View of time: In some cultures time is money and something to be used wisely. Punctuality and agenda may be an important aspect of negotiation. In countries such as China or Japan, being late would be taken as an insult. Consider investing more time in the negotiating process in Japan. The main goal when negotiating with an oriental counterpart is to establish a firm relationship, which takes time. Another dimension of time relevant to negotiation is the focus on past, present or future. Sometimes the past or the distant future may be seen as part of the present, especially in Latin American countries .

Decision-making system: The way members of the other negotiating team reach a decision may give us a hint: who we shall focus on providing our presentation. When negotiating with a team, it's crucial to identify who is the leader and who has the authority to make a decision.

Form of agreement: In most cultures,only written agreements stamp a deal. It seems to be the best way to secure our interests in case of any unexpected circumstances. The 'deal' may be the contract itself or the relationship between the parties, like in China, where a contract is likely to be in the form of general principles. In this case, if any unexpected circumstances arise, parties prefer to focus on the relationship than the contract to solve the problem.

Power distance: This refers to the acceptance of authority differences between people. Cultures with low *power distance* postulate equality among people, and focus more on earned status than ascribed status. Negotiators from countries like Britain, Germany and Austria tend to be comfortable with shared authority and democratic structures. When we face a high *power distance* culture, be prepared for hierarchical structures and clear authority figures.

Personal style: Our individual attitude towards the other side and biases which we sometimes establish all determine our assumptions that may lead the negotiation process towards win-win or win-lose solutions. Do we feel more comfortable using a formal or informal approach to communication? In some cultures, like America, an informal style may help to create friendly relationships and accelerate the problem solving solution. In China, by comparison, an informal approach is proper only when the relationship is firm and sealed with trust.

3. Inter-cultural communication dimensions in negotiations

It is said that over two-thirds of the effectiveness of negotiation is determined by non verbal communication. Body language can therefore frequently provide valuable insight into a person's feelings and attitudes. Gestures and facial expressions can communicate diverse emotions and attitudes. They are, however, often misleading due to the marked cultural differences in the use and interpretation of nonverbal cues. It is therefore important to understand and recognise differences in the use of non-verbal cues, so that the body language of customers, especially those from other cultural backgrounds as your own, is not the cause of costly misinterpretation.

Broadly speaking, body language can be divided into the following categories: facial expressions, eye contact, touch, use of space, gestures, sounds and other actions.

Facial expressions and eye contact. If we, for example, compare African, Arabian or Asian women with American women, we shall quickly establish that there are many cultural variations, and that the only behaviour that has the same universal meaning seems to be the smile!

Cultural similarities	Smile	Eye contact
Arabian	X	
Asian	X	
European	X	X
American	X	X
Japanese	X	
South African	X	X

Many Asians, Africans and Orientals will look down and avoid direct eye contact as a sign of respect, while for Europeans and North Americans lack of eye contact is often an indication of lack of attention, and could be regarded as impolite.

Personal Space. An individual's need for personal space varies from culture to culture. In the Middle East, people of the same sex stand much closer to each other than North Americans and Europeans, while people of the opposite sex stand much further apart. Japanese men stand four or five feet apart when having a discussion Europeans and North Americans would probably regard having a conversation at this distance rather odd.

Touch. Touching is significantly influenced by someone's background and culture. Some cultures, such as Arabs, may touch once or not at all, while North Americans could touch each other between two and four times an hour, according to some researchers. People from the United Kingdom, certain parts of Northern Europe and Asia touch far less, while in France and Italy people tend to touch far more frequently. It is obvious that touch is a sensitive issue and, to be on the safe side, avoid touching during negotiation as far as possible.

Beckoning with the Fingers. In many regions of the world, to ask someone to approach you by beckoning with the upright forefinger is distinctly rude, as is the defiant gesture of disapproval indicated by the raising of a digit finger from a clasped fist on an extended arm. (The latter gesture is known to be, and usually intended to be, rude in almost any society).

Crossed Legs. There is a lesser gesture that could bemore offensive than expected, namely when the foot on the upper crossed leg is pointed directly and frequently in the direction of people from especially the Middle East. The foot, when 'bounced on the knee' in the general direction of people from Islamic countries, can cause discomfort, perhaps even distaste, since it may symbolise, in body language terms, an accusing or threatening weapon. The solution is not to cross the legs when in such company and to take care in which direction the foot is pointed.

If you also keep your arms crossed over your chest and lean back in your chair besides just keeping your legs crossed, you could be demonstrating distaste or defensiveness.

Other Gestures. Gestures such as a clenched fist or pointing the index finger often reflect an aggressive or frustrated attitude. Negotiators should avoid using these gestures.

Other gestures to avoid are 'thumbs up' and 'okay' signs. These have positive connotations in the UK and America, but in Iran and Spain the 'thumbs up' sign is considered obscene, while the 'okay' sign has a similar meaning in Greece, parts of Eastern Europe and Latin America. It could also mean 'worthless' or 'zero' in France.

Moving the head from side to side could indicate agreement in Asia, whereas elsewhere in the world a similar shaking of the head means the opposite.

Sounds and other Irritators. Audible signs of nervousness such as clearing the throat, sighing or making 'phew' noises are easily recognisable. Cigarette smoking, jingling coins in the pocket, fidgeting in the chair, beads of perspiration or wringing hands are other signs of growing nervousness. More subtle indicators are pinching or picking at flesh or fingernails, tugging at the ears or clothes when seated, covering the mouth when speaking or simply not looking at the person being addressed. Some of these gestures can also imply suspicion. This is compounded if the negotiator edges away (or leans back) or if the feet or body is turned sideways towards the exit. More subtle indications are sideways glances, rubbing of the eyes, touching and rubbing of the nose or buttoning the coat while drawing away.

A lack of cooperation can be manifested through a stiffened back, or the authoritarian stance of hands grasped behind the back. Hands on the lapels of jackets will also send the same message.

Negotiators may be frustrated by any uncooperative behaviour. The frustration may materialise itself by audible sounds, taking short breaths or by clenching the hands tightly or making fist-like gestures. As this frustration increases, other more visible gestures may follow such as pointing the index finger, running hands through hair and rubbing of the neck. If negotiators are more self-controlled, they may hold their arms behind their backs, grip their wrists, or lock their ankles while sitting.

Other Areas of Misunderstanding. Apart from nonverbal communication, other cultures could also be irritated by other habits and actions of negotiators such as the lack of attention to time and timing, to interpersonal relationships, dress, silence and the use of certain words and phrases.

Time. The inability of customers to keep to time is probably one of the most significant irritations in cross-cultural negotiation. Those cultures that are less aware of exactness in time and timing, often cannot understand the preoccupation of Americans and others with time, and vice versa. South Americans and Africans may claim that the inability to be on time is only the unavoidable and unforeseen occurrence of other duties - such as those involving family or friends - or unexpected duties placed on them by members of ruling families that draw them away from agreed meetings with Westerners.

Westerners normally have no concept of the absolute duty that some cultures have towards family situations that are, in general, far greater than those undertaken, or expected in the Western society. "My brother telephoned and asked to see me, so I had to go to him: I am sorry I had to miss our meeting" is typical of the remark an Arab, African or Spaniard would make. They seem to believe that the situation involving a family member would be understood, and they often fail to comprehend that such a reason would not be good enough for most Westerners. The Westerner would have been far less bothered if a phone call, rearranging the meeting, had been received. 'Time' is therefore a major area of culture clash. Precise habits are often regarded by some cultures as strange because it disregards the importance of the right 'psychological timing' in negotiation. Westerners will often plough ahead with unpopular subjects simply because the clock and agenda indicate that they should.

Interpersonal Relationships. Western negotiators are often hopelessly unaware of the personal relationships and general local under currents that dominate decision making in some countries and cultures. They are therefore well advised to be patient. But they should always be ready to act very quickly once a decision to proceed has been taken. This can occur quite without warning. As a rough guide, 95% of time spent in Japanese business activity will be spent discussing, collecting information, and waiting, followed by a 5% period of intense work against impossible deadlines.

Rude Words. Many Westerners will notice that some officials, such as traffic police or those at immigration or customs posts, appear rude in their demands: "Give passport now" and "I want documents" without the adoption of 'please' and 'thank you'. To many Westerners this is inexcusably rude English and quick offence is taken. They therefore fail to recognise that the local may not have a command of English above that of functional necessity.

Use of First Names. Most cultures will easily sense when personal relationships have developed to such a point that the use of first names may be adopted as natural and normal. They may know, for example, that such a point may be reached earlier with the Americans, later with the French, and somewhere in between these two nationalities for Britons and other nationalities. Some cultures, though, seldom use first names, even amongst friends (e.g. Japanese), and it could be important to make sure of the customs related to the use of first names before negotiation commences.

Dress. As a general rule a business visitor to a foreign country should dress well. Men should dress in a good suit and tie in most foreign countries. Be patient, be punctual, expect to wait, and do not be overly demonstrative in personality or mannerism. Businesswomen in Islamic countries should take care to dress with slightly lower hemlines than in the West and with the shoulders and arms covered down to the wrist.

Overt Emotions. Public loss of temper could, in many cases, end all further discussion or association. A person who has been seen to lose his temper will, in many countries, be regarded with suspicion and this behaviour must be changed if the project is to go forward. The whole process of developing trust and a close and personal relationship will then have to start from the very beginning.

Most Westerners find silence embarrassing and will seek to fill a gap in conversation. Many cultures are wholly unembarrassed by silence and are content with being in another's company. Speech is not always essential on such occasions, and there can be long periods of silence, intermingled with periods of gossip and story telling. Many cultures are aware of, and are perhaps amused by, the stress that silence can cause in Westerners, and it is not unknown for negotiators deliberately to create an embarrassing period of silence when bargaining perhaps to encourage a concession from the other side. The solution is to be ready to fall silent, and to remain silent.

4. Coping with culture - some guidelines to be followed by the negotiators

Negotiating in the international environment is a huge challenge for any negotiator. How do we cope with the cultural differences? What approach is more efficient and proper when dealing with Japanese, Americans or Germans? There are some very helpful guidelines we can apply (Salacuse, 1991):

1. ***Learn the other side's culture***
   It is very important to know the commonest basic components of our counterparty's culture. It's a sign of respect and a way to build trust and credibility as well as advantage that can help us to choose the right strategies and tactics during the negotiation. Of course, it's impossible to learn another culture in detail when we learn at short notice that a foreign delegation is visiting in two weeks' time. The best we can do is to try to identify principal influences that the foreign culture may have on making the deal.
2. ***Don't stereotype***
   Making assumptions can create distrust and barriers that expose both your and the other side's needs, positions and goals. The way we view other people tends to be reserved and cautious. We usually expect people to take advantage of a situation, and during the negotiations the other side probably thinks the same way, especially when there is a lack of trust between counterparts. In stead of generalising, we should make an effort to treat everyone as individuals. Find the other side's values and beliefs

independently of values and beliefs characteristic of the culture or group being represented by your counterpart.

3. ***Find ways to bridge the culture gap***
   Apart from adopting the other side's culture to adjust to the situation and environment, we can also try to persuade the other side to use elements of our own culture. In some situations it is also possible to use a combination of both cultures, for example, regarding joint venture businesses. Another possible solution is to adopt a third culture, which can be a strong base for personal relationships. When there is a difficulty in finding common ground, focusing on common professional cultures may be the initiation of business relations.

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ESTIMATING THE FDI IMPACT ON ECONOMIC GROWTH AND EXPORT PERFORMANCES OF THE EUROPEAN ECONOMIES IN TRANSITION

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Abstract: Within the last two decades, Foreign Direct Investment (FDI) has been observed as one of the prime instruments in the process of restructuring the European economies in transition. Many scholars argue that FDI is expected to be a source of valuable technology transfer thus might certainly have positive effects on host country development efforts. Nonetheless, there are no clear-cut findings about the FDI genuine performances in supporting the economic growth, productivity and export improvements within the European transition countries. Using a large and comprehensive data set, we will therefore analyze the linkage between FDI and above mentioned variables, so as to recommend national policy appropriate measures aimed at averting negative and strengthening the positive FDI spillovers.

Keywords: FDI, economic growth, export performances, European economies in transition

Introduction

Foreign capital is perceived to be a fundamental source of financing the necessary economic reforms within the European transition countries. Thus, alongside with the possible increase or substitution the domestic savings, FDI might have a great impact on the external financial position. Put differently, early FDI privatization revenues have improved the net foreign reserves in many transition countries (Hungary and Czech Republic at most), additionally to their external debt cutback. At the same time, FDI has facilitated financing the current account deficits since seems to be relatively stable, export supportive and non-debt creative. On the other hand, the host economy could attain positive gains from the interests of the country investor to protect its own capital against all the external threats or western protectionism (Stankovsky, 1995). Equally important to the macroeconomic function, FDI is also perceived to greatly improve the competitiveness at a micro level by proceeding the organizational and technology transfer. At this point, FDI performs completely different effects in comparison to portfolio investment or direct lending since looks as if being less reversible, thus facilitating the economic growth and prosperity of the countries (Sinn and Weichenrieder, 1997).

Many scholars, notwithstanding, argue that FDI positive spillovers are not to be always straightforward, but few or far between. Some recent findings suggest that a number of foreign investment might result into negative spillovers if induces the host enterprises to close down since those preserved not to finance the technology upgrade. On the other hand, FDI might not always help financing the balance of payments particularly if capital flows come into non-tradable sector. Put differently, FDI could impose nominal and real exchange rate appreciation and therefore diminish the export competitiveness.

Hence, the main purpose of this paper is to assess the consequences of investment liberalization for the European transition economies. Allowing for the competitiveness as an "ability to grow in an open setting", we will also address some of the main straits which FDI has been augmenting through the growth and export performance of the countries. After the short outline about theoretical and empirical findings on the particular matter, we consider to present an overview on recent trends and factors attracting FDI within Section 2. The statistical correlation between FDI and economic growth is to be an area under discussion in Section 3, while Secton 4 will look at FDI sectoral composition and related implications on export competitiveness. Section 5 exploits the long-term FDI effects, as well as the national measures a country has to undertake in order to improve the positive and diminish the negative FDI spillovers. Finally, we exhibit the short conclusions and recommend some national policy improvements recounted to the respective issues.

FDI, economic growth and export performances: theoretical and empirical considerations

The standard theoretical Solow model (1957) indicates that economic growth is dependent upon the growth rates of capital and labor weighed by their shares of income in addition to the level of technology progress.

$$\frac{\Delta y}{y} = \theta * \frac{\Delta K}{K} + (1-\theta) * \frac{\Delta N}{N} + \frac{\Delta A}{A}$$

where Y stands for GDP, θ and $(1-\theta)$ symbolize capital and labor share of income respectively, K indicates the amount of capital, N is equal to labor force and A denotes the level of technology. Additionally, Solow found that output growth has outpaced the weighted average increase in capital and labor inputs. Thus, if the output growth rates, labor force and capital stock are well identified, the growth of technical progress may possibly be estimated, too. On the other hand, technical progress depends upon the R&D expenditures, as well as the technological improvements with FDI as their best source of transmission.

The theory of endogenous growth, however, argues that FDI has an effect on economic growth passing either through the variable such as R&D or the human capital education (Romer, 1986). In consequence, the technology transfer might get moving the intermediate products development, increase the quality, make the international research cooperation possible, as well as establish some new forms of human capital (Aghion and Howitt, 1992).

Although most of those representatives prove the positive correlation between the technology transfer and economic growth, very few of them really assess the genuine role of FDI in creating the particular spillovers (Mello, 1997). [14] Namely, some empirical studies based upon the endogenous growth theory indicate that FDI may possibly allow the technology transfer and improve the economic growth if only the host economy has a minimum threshold of human capital (Borensztein, De Gregorio, Lee, 1998). On the other hand, the latest findings suggest that host R&D efforts have a better impact on productivity growth than foreign, so the other transmitters of technology transfer have to be observed more closely (Keller, 2000). At the outset, some effects of scale uncovered within the industry data point toward superior meaning of direct technology transfer than the spillovers, but the lack of statistically significant proofs indicate that conduits of technology transfer are not to be comparable but rather supplementary one to each other.

Recent trends and factors attracting FDI flows into European transition economies

There is widespread evidence that foreign capital flows are usually dependent upon factors differing among the various countries. Thus, FDI might be attracted by the terms of demand, political or macroeconomic stability, market size and liberalization, the factor endowment, skilled labor force, privatization, investment risk etc. FDI flows into European transition economies have been insignificant until the early nineties. The extent of reforms undertaken afterwards, as well as polices designed to engender an investment friendly environment are to be the major drivers of FDI flows into these countries (Figure 1). Consequently, the group of transition economies considered as EU candidates (Czech Republic, Hungary and Poland) accounted for 60% of all FDI inflows, principally drawn by the privatization process of state owned enterprises.[15]

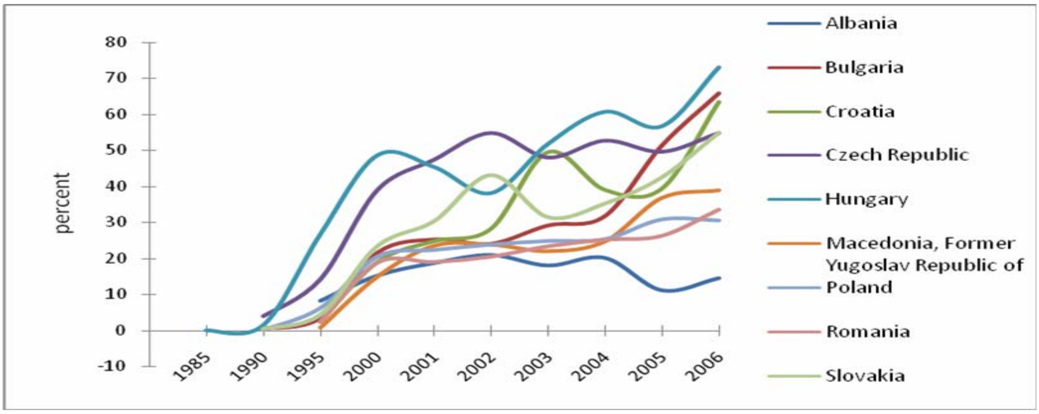

Figure no. 1 FDI inward stocks as a percentage of GDP

The other advantage for these countries is the geographical propensity to the Western European markets, but for the most part free trade provisions of the EU Association Agreements. FDI flows into the other EU transition economies, however, fell far from belief until the 1999 when succeeded to receive annual investment in

[14] For further details see also Coe, D. and Helpman, E., "International R&D spillovers", *European Economic Review,* Vol. 39, pp. 859-887*,* 1995.

[15] Hunya, G.,*"International Competitiveness : Impacts of FDI in CEECs ",* The Vienna Institute for International Economic Studies (WIIW), Research Reports, No. 268, Vienna, 2000.

approximate 4% of GDP. The major objective of the national policy makers was attracting the large scale foreign capital aimed at achieving faster economic growth and better integration into the world economy. The subsequent EU accession announcement seemed to be the foremost rationale for a large amount foreign investment into some transition countries such as Romania and Bulgaria. Consequently, the total FDI inflows kept getting higher despite the financial crisis during 1997-1998 expressing the long-run strategic prospects of foreign investors, as well as the opportunities put across the depressed asset prices. Distinctive point in this process was the Kosovo crisis, although the major privatization efforts did go forward. Noteworthy is to mention that 70% of these projects have been accomplished within the industry (electronics, food industry and raw materials extraction) and 30% in the service sector (finance, insurance and telecommunications). In addition, the utmost share of manufacturing noticed Romania (78.1%), followed by Poland (63.3%) and Czech Republic with the highest share of car industry, chemicals and food processing. On the other hand, data available for service sector confirmed that investment in finance took the major part in Poland and Slovak Republic (19% in 1995), as well as Hungary and Czech Republic (11.2% and 7.6%, respectively). At the same time telecommunication sector accounted for 12.1% of all the FDI flows within the European economies in transition, with special emphasis placed on Hungary and Czech Republic which have accounted for 90% of all the foreign capital in the particular sector.

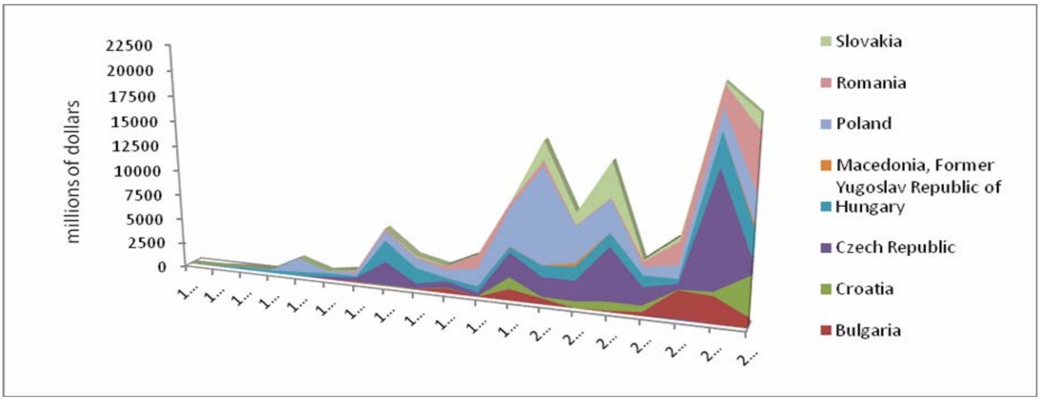

Figure no. 2 Cross-border M&A purchases in European transition economies (1988-2006)

Some of these countries have also attracted foreign investment in trade and tourism such as Bulgaria (19.5%) and Slovak Republic (19.5%). Finally, worth mentioning is that cross-border mergers and acquisitions (M&A) have been the principal approach for the majority of FDI entry into these privatization projects, predominantly caused by the extensive wave of liberalization and process of deregulation. The large-scale decline of the stock value traded on the world markets implied the M&A fall by 38% in 2002, in addition to twisting down of privatization within some transition economies (Figure 2). During the particular period, Greenfield investment managed to preserve the total FDI increase mostly in the form of reinvested profits.

FDI, economic growth and capital accumulation

Theoretical and empirical findings explained above indicate that countries are likely to achieve higher economic growth if only they are opened to new technologies. FDIs preserve to be one of the best channels to technology transfer and therefore is supposed to have an impact either on GDP or gross fixed capital formation (GFCF). Within the last decade opening, European economies in transition have undergone a huge transformation of their systems, followed by structural adjustment, loss of the markets, as well as the economic performances turn down. These problems have been resolved to some extent in the middle of decade when Poland, Slovak Republic, Romania and Czech Republic noticed the first more dynamic growth rates. After flourishing implementation of the so called "austerity package", Hungary has also achieved a 2% growth rate, as a starting point to further economic upswing. Generally spiking, almost all the European economies in transition succeeded to stop marking negative growth rates since 1995, which have marked the end of the transitional recession within the region (Figure 3). Put differently, the average growth rates of the European transition economies surpassed the world's average in about 1%, so every single excluding Croatia attained a full membership intro the European Union.[16]

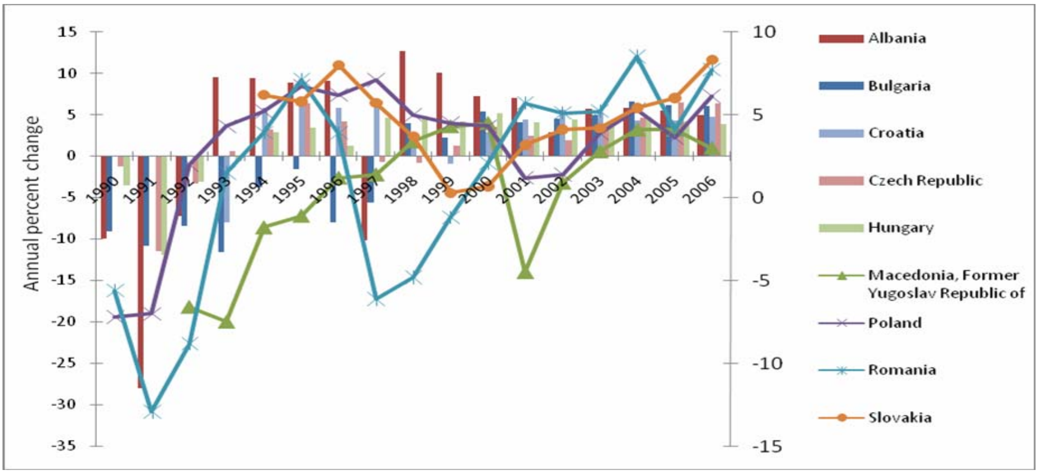

Figure no. 3 Annual GDP percentage change of the European transition economies

Looking at the data analysis (Figure 4), one can find positive but slightly significant correlation between FDI and economic growth for the selected European economies in transition. The reason behind come across the period taken into study which is distinguished by the level of stabilization polices assumed, as well as the strength of import demand within the key trading partners. Some transition economies, however, have improved their economic performances pursuing the FDI driven export growth. In fact, exports have been considered the most dynamic component of the final demand extremely going beyond the united contribution of investment and

[16] The reasons either for Croatia or other transition economies failure not to access the European Union are to be found in some political or structural reforms instability emerged principally by the recurrent disequilibrium between gross domestic savings and investment.

consumption.[17] Consequently, many countries have experienced a positive correlation between GDP and export growth, particularly if foreign companies affect a large share of exports. Empirical findings about the positive correlation between FDI and long-term growth put forward the possibility for the very same achievement within the transition economies, as well.

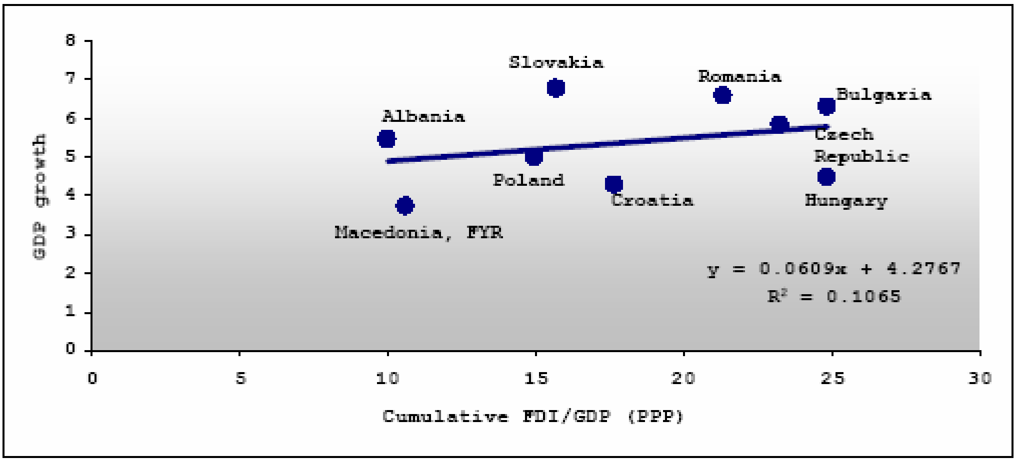

Figure no. 4 GDP growth and ratio of cumulative FDI inflows to GDP (PPP)[18]

Thus, FDI/GDP ratio of Eastern Europe has increased from 0% to 4% during the period 1997-1999 (in nominal GDP terms). In addition, elasticity estimated by Borenzstein suggests an increase of some 0.7-1.3 percentage points in the long-term GDP/capita growth, especially in Czech Republic and Hungary. The particular elasticity reveals the average human capital in developing countries. In other words, FDI is more emphatic in the countries with higher average level of human capital. Transition economies have not been faced with the lack of exacting capital, but had certain problems with the process of reforms. Thus, Borenzstein elasticity is not reliable enough to judge for the countries which haven't established long-term market system, such as transition ones. The above mentioned is considered to be the main reason one could not determine a direct linkage between amount of FDI inflows and dynamic economic growth. In other words, countries with high FDI inward stocks have run off lower growth rates (Hungary, Czech Republic), despite those vigorously growing economies (Slovakia and Poland) which have recorded smaller amount of foreign capital (Figure 4). The reason behind emerged from the basic premise that FDI inflows in European transition economies were motivated from the cheap labor force. Nevertheless, the most FDI inflows aimed at gaining market access while the labor costs seemed to be of secondary importance. Additionally, the mode of FDI entry into European transition economies is supposed to be the second reason behind this weak correlation between FDI inflows and economic growth. Thus, M&As whose share in FDI is very high, suggest smaller impact on economic growth, since they correspond to

[17] FDI driven export growth have been mostly responsible for the economic improvements in Hungary during the nineties. Czech Republic noticed the very same results even though GDP has been actually constricted owing to domestic absorption collapse.
[18] Average growth of real GDP, 2003-2006 (estimates). FDI inflows are cumulated from 1996 to 2006. GDP (PPP) refers to 2006.

a transformation of ownerships, rather than a new capital addition. They will certainly spawn positive spillovers and improve the economic performances of the privatized manufacturing firms save in a longer timeframe.

The importance of FDI might be also observed if one estimates the relation to gross fixed capital formation (predominantly the private corporate investment) and expresses the GFCF amount as a proportion of GDP (Table 1). Thus, private sector investment in Hungary with privatization revenues excluded declined from 29% in 1991 to 17% in 1994 (Hunya, 1995).

Table no 1 Gross fixed capital formation (% of GDP)

GFCF % of GDP					
Country	2002	2003	2004	2005	2006
Albania	32	25	26	24	26
Bulgaria	20	22	23	27	32
Croatia	29	31	31	31	30
Czech Republic	28	27	27	26	27
Hungary	26	25	26	24	23
Macedonia, Former Yugoslav Republic of	21	20	21	20	22
Poland	19	19	20	19	20
Romania	22	22	22	23	24
Slovakia	29	25	26	29	29

Source: UNCTAD

On the other hand, Stankovsky (1995) has estimated the foreign shares on 10% for Poland and Czech Republic in 1992, as well 4% for the Slovak Republic if privatization revenues included. Moreover, in-debt analyses on investment financing

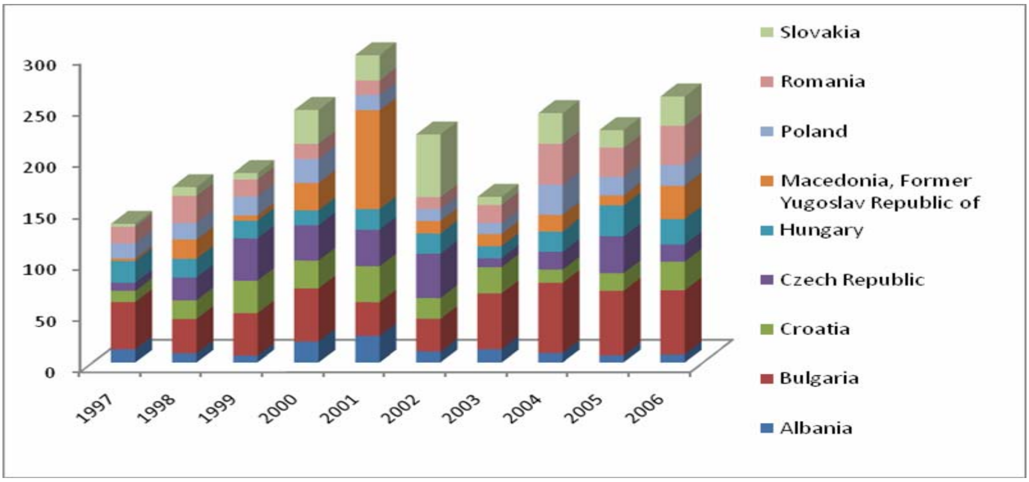

Figure no 5 FDI inward flows as a percentage of GFCF

carried out by Quaisser (1995) and Nesvera (1995) indicate that foreign capital did not exceed 10% as a proportion of the real investment in Czech Republic, while FDI in

Poland has started with 11.4% of GFCF in 1993, but come out to fall below 10% in 1994. Albeit many fluctuations of investment rates in European transition economies, evidence suggests that they are much higher compared to those of Latin America, but lower measured up to Asia, particularly if China included. Although European economies in transition have not achieved impressive investment rates, they still seem to be satisfactory in getting convergence with the European developed countries. In principle, transition economies, equally to middle-income developing ones have to attain investment rates in about 25% of GDP if want to pull off a sustainable economic growth (ELAC, 2000 and UNCTAD, 2001). The required investment rates, however, may not be achieved if the country props up the gross domestic savings only, since they are not considered to be as much as satisfactory in private sector. Therefore, European transition economies put much effort to attract foreign capital so as to close up the existing disequilibrium between investment and gross domestic savings, as well as to set off the private and public domestic investment in GFCF (Figure 5). Despite the other sources of finance, FDI might also internalize foreign savings and does not perform any subversive side-effects for the host economy. Additionally, the increased capital stock is believed to have more direct effects on economic growth than the technological progress. [19] Affecting the domestic savings as a supplementary source of finance, FDI might certainly help transition economies to create adequate conditions for getting on the trace of further technological improvements.

FDI, sectoral decomposition and export performances

National economies may achieve a sustainable long-term growth if only manage to attain persistent improvements in productivity and efficiency. Transition economies place special emphasis on reforms in order to generate higher growth rates, unlike developed ones with intra-industry expansion as the foremost rationale. Yet, intra-industry augmentation must not be undervalued for transition economies as well primarily due to differentials among the sectors for possible technical progress and relative productivity growth. FDI is the most convenient form of capital inflow that may perhaps add to productivity either by management or technology transfer and therefore increase the possibility to dislodge the current account disequilibrium especially if export-oriented. Thus, FDI has helped financing 86% of the fourfold increase in current account deficits of the European transition economies during the nineties.[20] This points toward the quite favorable disposition of foreign investment since looks as if being relatively stable, export promoting and non-debt creating. These commonly positive FDI aspects usually related to more dynamic export growth may also contribute to getting better perception about the host country creditworthiness. The potential benefits of FDI should not be overestimated, however, since the rising tendency of exports within the European transition economies was partially imposed by the upswing in Western Europe in 1994, but also the domestic (supply) factors. In other words, private consumption, stimulated by the real wages raise, has played an important role, as well. Furthermore, FDI may possibly impose the same risks such as the other capital flows. Put differently, foreign inventors might indispose their capital into non-

[19] For more details see also Eichengreen, B., *"Capital flows and crises",* The MIT Press, 2004.

[20] For several years Poland has turned to relative equilibrium noticing current account deficit in about 1.5% of GDP. Czech Republic and Slovakia have also kept the deficits under control with relative figures equal to 2.5% and 6%, respectively. The last reformers, Bulgaria and Romania have recently marked the deficits cut-back although they seemed to be very far from equilibrium.

tradable sectors and dependant on the exchange rate regime to create nominal and real exchange rate appreciation so as to weaken the export competitiveness. From this point of view, European economies in transition have to set down the inflation rates not to be much different from the world's average if want to preserve the competitiveness in terms of prices, principally for the sectors with the largest share in their exports. The FDI flows into service sector might be particularly important if one considers the level of transition economies development. The bulk of foreign investment in telecommunication, banking and different business services is supposed to spawn positive spillovers and enhance the exports. Thus, FDI is not promptly assessable in this sector as regards the productivity gains, nevertheless, might possibly add to improving the efficiency of the wider business climate. Put differently, developments of information and communication technology possibly will generate positive spillovers in all the other sectors and promptly change the tradability of information-related services. In addition, improvements in services of physical and technological infrastructure, as well as the local-bound tourism may possibly be an important resource of revenue.

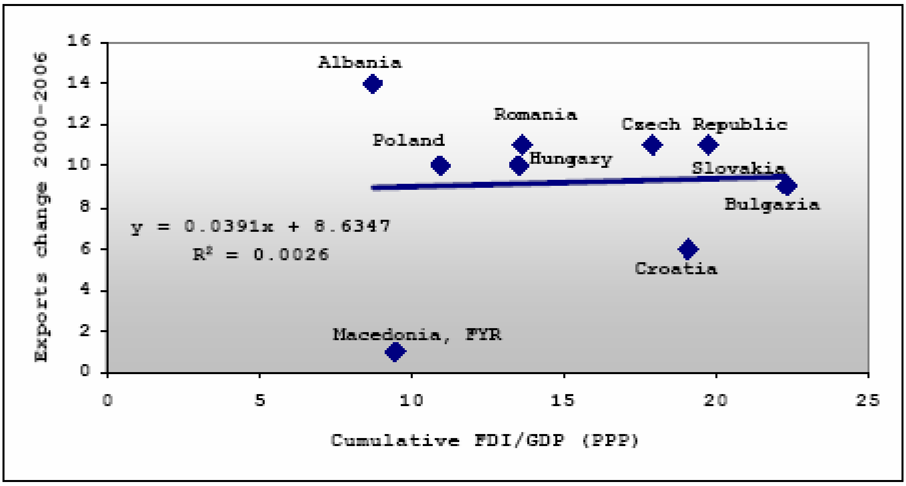

Figure no 6 Exports growth and ratio of cumulative FDI inflows to GDP (PPP)[21]

The recovery of industrial output, as well as the trade liberalization in many European transition economies raised a large amount of FDI flows into the manufacturing sector.[22] The principal motives are to be found within the proximity of the larger European market, the highly skilled labor force, but most of all the labor costs per production unit (ULC) which are perceived to be the most advantageous in West European comparison. The empirical findings suggest that countries which have traced more FDI in manufacturing have recorded an improvement in export competitiveness weighed against those with FDI flows in services (Figure 6). Thus, 70% of manufacturing sales in Hungary were credited to foreign investment in 1998, so the country tripled the exports during the period of subsequent five years. These figures actually revealed the authorities' privatization strategy indisposed towards foreign investors appeal as potential bidders using various forms of concessions such as tax and

[21] Exports change in 2006 relative to 2000. FDI inflows are cumulated from 2000 to 2006. GDP (PPP) refers to 2006.
[22] World Investment Report 1997

other forms of holidays. Yet, foreign owned firms have achieved the majority of total factor productivity gains producing time and again negative spillovers for the domestic owned enterprises (Aitken and Harrison, 1999). The reason behind are to be found in the technological gap between the two groups of firms and lack of possibility for the domestic ones to obtain necessary financing for upgrading their equipment and managerial know-how. Over the time as competition increases, backward and forward linkages started to grow up and outsourcing turn out to be more prevalent. Noteworthy is to mention that productivity lag of the countries might also appear on account of different relative prices of intermediate goods between foreign and domestic owned enterprises allowing for the transfer pricing. Yet, productivity gap is likely to be less significant if measured by value added per employee. Thus, labor productivity of local firms was estimated to two thirds of the foreign in Czech Republic and 80% of those in Poland at some stage in 1993.

The sectoral FDI composition in Czech Republic has been evenly scattered between services and manufacturing, thus the country has less frenetic growth in exports relative to FDI. Similarly, Croatia faced smaller effects on exports competitiveness, although the country experienced large FDI inflows. Those, however, have been mostly of the local market seeking type, such as retail and financial intermediation, with no large perspectives to change the export structure immediately. At the same time manufacturing comprises just one third of FDI in Bulgaria.

Table no 2 R&D contents of exports

Country	2002	2003	2004	2005
Albania	1	1	1	1
Bulgaria	4	4	4	5
Croatia	12	12	13	12
Czech Republic	13	13	13	13
Hungary	25	26	29	25
Macedonia, Former Yugoslav Republic of	1	1	1	1
Poland	3	3	3	4
Romania	3	4	3	3
Slovakia	3	4	5	7

Source: World Development Indicators

At the outset, noteworthy is to conclude that international competitiveness of the European transition economies in average has been greater than before opening to FDI. Thus, foreign owned firms have participated within the Hungarian exports in almost 90%. More intriguing, however, is the lower productivity improvements of the domestic in comparison to foreign owned sector, as well as the sort of the so called "postponed spillover effects syndrome". The technological gap running down is seemed to be the best way to improve the competitiveness of the local enterprises, as well as to make the growth and convergence sustainable. An additional way is following the possibility to alter the capital intensity of the exports (Table 2). Thus, the premature reformers such as Poland, Hungary and Czech Republic have granted the highest technology transfer while receiving the most FDI in manufacturing. They have increased the R&D composition of their exports, even though stayed within the low value added section of the high technology sectors. Time and again, the lack of FDI manufacturing inflows in Croatia was effectuated in no technology transfers and less changes in value added composition of Croatian exports.

National policy measures and Foreign Direct Investment

FDI driven productivity, exports and growth expansion stipulate many transition economies to implement various measures aimed at attracting foreign capital. Those include tax incentives or perk-filled economic zones, upgrading the overall business environment, upholding the predictable and transparent rules, starting the export processing zones etc. Evidence suggests that many of the above noted measures, however, might be inappropriate and less suited for the particular necessities. Thus, some of the tax incentives preserve to reduce regional disparities and increase spending on education and R&D. Yet, erosion imposed within the tax bases may augment the tax burden for the others, increase corruption and support the potentially unprofitable activities. The effects of special economic zones are mixed in some way as regards the experience of different countries. In other words, the advantages in terms of new employments or linkages with the local firms might be limited as the zones are likely to create only highly skilled jobs. Taking into consideration the above limitations the best way to attract investors is to improve the business environment as a whole principally throughout the predictable polices, transparent legal system and simple licensing regime. At the same time, domestic firms have to be also supported so as to compete more effectively with the foreign ones (escape negative spillovers, such as bankruptcy or become more dynamic partners). These activities are indispensable to be applied since FDI in parallel with the EU accession driven reforms enabled many transition economies to become fully-member states of the European Union.

Conclusions and policy recommendations

The evidence in the paper suggests that many European economies in transition have attracted significant FDI inflows, but there is also a rising disproportion among the countries within the region. Thus, the low-income transition economies have lagged behind the early reformers (Czech Republic, Hungary and Poland) which have received almost 60% of the total FDI inflows. Statistical analyses performed in the paper have also shown a positive direct FDI impact on growth and export performances particularly those which have received large FDI amounts. Transition economies where FDI are supposed to record a great influence, nevertheless, GDP growth rates are still not satisfactory to promptly shrink the income gaps with some of the EU 15 countries. The empirical findings for developing economies, however, suggest that FDI has a long-run impact on growth, so the very same might be expected for the transition countries, as well. Despite the belief that FDI, among the others, has a great importance in producing positive externalities, analyses presented here suggest that there have been few or no assenting productivity spillovers. In other words, the foreign owned enterprises impose relatively deprived productivity growth within the local firms. The reasons are to be found in the impulsive domestic competition evoked by the foreign investors and the lack of financial possibility for local firms to adapt properly within the new circumstances. Consequently, competitiveness of the entire economy might be improved only by locking up the particular gap in order to make the growth and convergence sustainable. FDI inflows may possibly increase productivity in the European transition economies principally affecting their exports performances so as to alleviate the balance of payments constraints. Many transition economies have been plunged into the foreign payments problems principally due to the lack of FDI inflows. Consequently, the policy makers have more counted on this source of external financing. Yet, some recent findings indicate that FDI concentration into non-tradable sector might undermine the export competitiveness and get the country up to greater exposure on economic crises. At the outset, noteworthy is to say that policy makers have to consider more active measures aimed at taking full advantage of FDI inflows, especially those that might create backward and forward linkages. The possibility to implement such measures, however, is limited either for the international commitments or the domestic restraints. Taking this into consideration, the best way to attract investors is to perk up the business environment, predominantly by employing predictable polices, transparent legal system and simple licensing regime.

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THE EVOLUTION OF HUMAN RESOURCES FROM CRUDE OIL EXTRACTION AND PROCESSING ACTIVITIES IN ROMANIA BETWEEN 1990 AND 2006

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Abstract: Providing qualified workers for the companies represents a step forward the normal and efficient operation of them. The modern industrial company presupposes that people should interact to each other, establishing multiple connections and passing through a continuous process of getting accustomed and integrated. The quality of the worker is given by the professional knowledge which allows him the fulfillment of the work tasks. The competence is the quality of the manpower in action. It reflects the capacity, the skills of the worker in his job, in fulfilling his tasks.

Key words: human resources, oil extraction, professional knowledge

The oil has always been one of the sectors with the most tumultuous history. During the communist period, Nicolae Ceausescu planned a huge industry, with ten refineries, four petrochemical complexes and more than 1.500 companies which were organically related to the activity from this sector. Ceausescu planned the mammoth complexes from Brazi, Pitesti, Onesti or Midia-Navodari. According to the statistics, in 1976, considered as best year for aboriginal oil extraction, only 30% from the 15,5 million tons of processed crude oil were used for the internal consumption. The products resulted from the processing of more than 10 million tons of oil were exported. In 1989, the last year of communist dictatorship, Romania had a refining capacity of 24, 4 million tons, from which only 70% was used. The situation radically changed in the 90's, when this sector entered a massive reorganization process.

In 1990, the aboriginal petroleum industry was "broken" and the first restructuring process began. Several entities were created and studies were performed regarding the efficiency of refining a quantity of crude oil greater than it was necessary on the market. The American company Bechtel recommended to the authorities from Bucharest to reduce the refining capacity to a half, to close some objectives considered as not profitable and to eliminate the crude oil import. The observance of these suggestions didn't have the expected effect, so that the first restructuring didn't have many results, mainly because of the fact that the whole industry continued to be controlled by the State.

The real restructuring began after setting up the National Crude Oil Society "Petrom" S.A. and after the Russian Group LukOil took over Petrotel refinery. The first privatization attempt of Petromidia refinery, with the Turks from Akmaya, quickly proved to be a wrong decision, therefore the State cancelled the contract and sold it at the end of 2000 to Rompetrol, which already had another refinery, Vega. But the market got completely free at the end of 2004 when Petrom, the main player, was taken over by the Austrian Group OMV, after a competition with not less than 15 applicants.

The investment represents an important qualitative and intensive factor of the revamp of the economy, being the fundamental source for renewing the technical base of oil industry and of the other branches, the most important material condition to assimilate the modern products and technology, which represent essential premises for work productivity increase. Representing the main factor of production development and, at the same time, being a consequence of their quick progress, the volume of the investments from the oil field increased continuously.

In oil extraction field, in 1993, the investments increased 9 times than those in 1991, and between 1995 and 1997 more than four times than the previous period, then the investments registered a slightly slow increase. Regarding the oil processing in 1991,the investments increased four times than in 1990, in 1993 increased 4, 8 times than in 1991 and in 1995 they increased 5, 3 times than in 1993. The investments evolution continued to be a climbing one, but the increase is smaller than the other years, thus in 1997 the investments increased 2, 3 times, in 2001 3, 5 times than in 1999, then the increase rate decreases more, the volume of the investments increasing 1,8 times in 2005 than 2003.

Table no. 1. Investments in oil extraction and processing activities during the period 1990-2005 (millions lei, current prices)

Year	Oil extraction	Oil processing
1990	1,1	0,1
1991	2,5	0,4
1993	22,5	1,9
1995	53,5	10,1
1997	236,6	23,7
1999	412,6	58,5
2001	805,5	207,2
2003	997,5	415,5
2005	1163,8	732,6

Source: Romanian Statistics Year Book from 2006 -page 445; year 2002-page 301; year 2000-page 303; year 1998-page 370; year 1994-page 394

Regarding the investment indexes in Romanian crude oil extraction, it is noticed an increase of the investment index between 1990 and 1993 with almost 45 percent than the period before the revolution, in 1995 it decreases with 35 percent and then in 1997 it increases with 9 percent, between 1997 – 2001 decreasing again with more than 30 percent, the investment index reaching 93 percent fact which means that in the respective year the smallest investments from the analyzed period were brought in oil extraction, following to increase in 2003 with 6 percent, and in 2005 it registers again a decrease of almost 9 percent. The investments index in crude oil processing increase until 1995 from 20,4% in 1990 with almost 85 percent, then it loses 60 percent in 1997, between 1997 and 2001 the investment index increasing with 104 percent after which it decrease again with 86 percent in 2003 and it increases with almost 60 percent in the following period, reaching 201,5 percent, fact which represents an almost ten times increase of the investment index afferent to oil processing as compared to 1990.

Table no. 2. The indexes of the investments in oil extraction and processing industry between 1990 and 2005 (percentage) 1989=100

Year	Oil extraction	Oil processing
1990	105,9	20,4
1991	137,5	32,9
1993	150,5	105,5
1995	115,2	184,9
1997	124,3	124,8
1999	98,5	139,9
2001	93,0	228,8
2003	109,2	142,5
2005	100,4	201,5

Source: Romanian Statistics Year Book from 2006-page 446; year 2002-page 302;year 2000-page 305; year 1998-page 371

The changes and tendencies in the qualification degree and in the structure of manpower, in the production technique, in the organization, in the revamp of petroleum industry and of the economy in its assembly, cause the reduction of the relative work consumption. Obtaining a product unit needs less and less work expenses, and so it needs less manpower. The increase of work productivity represents now the main development method. It was much exceeded now in society the situation of the Asian people from the ancient times described by Karl Marx in one of the paragraphs from "The Captain", when "in order to obtain the great moments which amaze us even nowadays there were sufficient the number of workers and the concentration of their efforts". The increase of work productivity depends directly on the development level of the work means, especially of the production tools, which condition, at the highest degree, the production technical characteristics and the efficiency. The technique improvement and its application in production represent the essential condition for developing the work productivity. The continuous outrunning of the increase of work technical endowment in crude oil industry by developing the work productivity expresses a favorable evolution of the economical efficiency; a greater development of work productivity in industry corresponds to each percentage of technical endowment increase.

The work productivity for crude oil extraction, although between 1991 and 1999 it meets a decrease of 6,3 percent, it will however register important increases of more than 30 percent between 1993 and 1999, after which it decreases with up to 12% until 2003 and it will increase with more than 8 percent until 2005. For crude oil production, the work productivity decreases with approximately 12 percent between 1991 and 1993, after which it follows an increase period between 1993 and 2005, reaching 215, 6 percent as compared to 55,1% in 1993, fact which means an almost 4 times increase.

Table no. 3. Work productivity indexes, per employee, in crude oil extraction and processing industry between 1991 and 2005 (percentage) 1990=100

Year	Extraction	Production
1991	80,0	66,9
1993	73,7	55,1
1995	75,3	63,8
1997	96,8	82,6
1999	103,7	95,5
2001	102,5	110,0
2003	91,7	162,4
2005	99,8	215,6

Source: Romanian Statistics Year Book from 2006-page 640; year 2002-page 409; year 2000-page 415; year 1996-page 496

Industry, the main propulsive factor of economical development, has a decisive role in creating, consolidating, extending and capitalizing the technical-material basis of Romanian economy, under the conditions of performing a competitive production from the technical and economical point of view. The usage of the huge created technical potential and of the manpower prepared according to the requirements of crude oil extraction and processing activity generated, between 1991 and 2005, a powerful dynamics of industrial production, which determined an alert rhythm of crude oil production increase in extraction field of 3-5 times from a period to another, and for the processing field the greatest increase of 8,6 times was registered between 1991 and 1993, after which the increase rhythm slows down gradually.

Table no. 4. Industrial production for crude oil extraction and processing between 1991 and 2005 (millions lei current prices)

Year	Oil extraction	Crude oil processing
1991	184,4	181,0
1993	731,0	1.563,0
1995	2198,0	4.621,0
1997	11095,8	18.045,2
1999	12339,4	31.245,4
2001	36633,3	10.464,7
2003	50618,9	15.946,4
2005	67959,0	25.342,4

Source: Romanian Statistics Year Book from 2006-page 628; year 2004-page 171; year 2002-page 397; year 2000-page 401; year 1998-page 465; year 1996-page 492

Between 1990 and 1995 the industrial production index for crude oil extraction and processing activity decrease with approximately 26 percent, between 1995 and 1997 it increases with almost 8 percent, after which it decreases with 10, 7 percent, and then it increases with 15,6 percent, degreases again with 13, 7 percent and it increase one more time with 7,5 percent until 2005. Between 1990 and 1993 the industrial production index for crude oil processing activity decrease with 42 percent, between 1993 and 1997 it increase with 33 percent, after which, in 1999 it decreases with 24, 4 percent, and between 1999 and 2005 it increase with almost 72 percent.

Table no. 5. Industrial production indexes for crude oil extraction and processing activity between 1990 and 2005 (percentage) 1989=100

Year	Extraction	Processing
1990	106,1	98,7
1991	85,4	64,1
1993	82,4	56,5
1995	80,2	67,3
1997	98,1	89,5
1999	87,4	65,1
2001	103	109,1
2003	89,3	113,7
2005	96,8	136,9

Source: Romanian Statistics Year Book from 2006- page 639; year 2002-page 408; year 2000-page 414; year 1996-page 488; year 1994-page 504

Analyzing the industrial production structure for oil extraction and processing activity, as well as the crude oil extraction and processing activity, it registers oscillations with increases and decreases in short time intervals, such as the oil extraction decrease with 3,2 percent between 1990 and 1995, then its increase with 1,5 percent in 1997, after which it decreases with 2 percent in 1999 and increase with 0,7 percent in 2001, then it decreases again in 2005 with 0,6 percent, while the oil processing registers an increase of 2,1 percent between 1991 and 1993 and of 2, 9 percent between 1999 and 2001 and it decreases with less than 1 percent between 1990 and 1991, 1993 and 1995, 1997 and 1999, 2001 and 2003.

Table no. 6. Industrial production structure for oil extraction and processing activity between 1990 and 2005 (percentage) 1989=100

Year	Oil extraction	Oil processing
1990	6,8	6,9
1991	6,7	6,5
1993	4,0	8,6
1995	3,6	7,7
1997	5,1	8,3
1999	3,1	7,9
2001	3,8	10,8
2003	3,2	10,1
2005	3,2	12,0

Source: Romanian Statistics Year Book from 2006-page 630-631; year 2004-page 172-173; year 2002-page 398-399; year 2000-page 400-401; year 1998-page 468-469; year 1996-page 490-491; year 1994-page 508-509

The main industrial products obtained during the crude oil processing activity are: crude oil, gasoline, petrol, gas oil, fuel oil, mineral oils, petroleum bitumen and liquefied gases. The smallest crude oil quantity obtained by processing was in 1999, and the biggest quantity was obtained in 1990 2,4 times more than in 1999. The biggest gasoline quantities were obtained in 1990 and in 2005, 2,7 times more than in 1997. The gas oil production registered the biggest quantity in 1990 and the smallest one in 1999 when the production was reduced to a half. Regarding the fuel oil, the production decreased since 1990 becoming 5 times smaller in 2003. The same phenomenon happened regarding the mineral oils production which in 2005, registered a quantity 4 times smaller than the one performed in 1990 and regarding the petroleum bitumen which was 2,6 times smaller in 2005 as compared to 1990. On the contrary, for liquefied gases, the smallest production, 3 times smaller, was performed in 1990 as compared to the one in 2005.

Table no. 7. The production of the main industrial products in crude oil extraction and processing activity between 1990 and 2005

Year	Extracted crude oil (thousands tons)	Crude oil Processing (millions m²)							
		Crude oil	Gasoline	Petrol	Gas oil	Fuel oil	Mineral oils	Petroleum Bitumen	Liquefied gases
1990	7928	23664	4667	453	6332	8126	371	414	217
1991	6791	15191	3122	407	3895	4969	273	379	224
1993	6713	13191	3078	394	3731	3711	230	319	239
1995	6717	15259	3922	248	4695	2984	208	347	280
1997	6517	12429	3642	168	3952	2083	171	305	242
1999	6140	9894	3017	205	3137	1825	115	204	261
2001	6011	10948	3394	340	3842	1797	153	184	325
2003	5651	10736	3841	443	3721	1558	148	204	327
2005	5215	13890	4956	455	4542	1707	98	157	658

Source: Romanian Statistics Year Book from 2006-page 631-632; year 2002-page 401-402; year 2000-page 406-407; year 1998-page 472-473; year 1996-page 498-503; year 1994-page 514-515

The organization and operation of industrial unities on scientific bases need an as rigorous as possible substantiation of the personnel necessity. This results from the fact that the establishment of a personnel number greater than the necessary one influences negatively the work productivity level, while the dimensioning of a smaller necessary causes difficulties in performing the production plan. Providing qualified workers to companies represents a step in performing a normal and efficient operation. The modern industrial company is not only a technical-productive unity, but also a social one, where people, acting on the work objects with the help of work means, interact between them, they establish multiple connections and they pass through a continuous process of getting accustomed and integrated. By this process, strong workers collectives are created, a climate favorable for the work, having the possibility to manifest their individual skills and to put in application the accumulated knowledge and experience.

The employed personnel from crude oil extraction activity between 1990 and 2000 have an oscillating evolution with ups and downs and within it the workers share is a preponderant one. The greatest personnel increases took place between 1990 and 1992, about 10.000 employees, reflected in the workers' category, increasing from 58.000 to 68.000, and the greatest salary decrease was performed between 1998 and

2000, when the personnel number decreased with 19.000 persons, from which 17.000 were workers. The greatest workers share in the total number of employees from crude oil extraction activity was registered in 1992 and it was of 86% and the smallest share of 77,2% was reached in 2005. In what concerns the employed personnel in crude oil processing activity, the evolution is a descendant one, except for 1994 when the personnel number increased to 36.000 workers from which 83,3% were workers. In 2005, the workers numbers of crude oil processing activity reaches 14.000 persons, from which 10.000 were workers, fact which represents a personnel reduction of almost 40% as compared to 1994. The workers have the greatest share within the personnel from crude oil processing activity, therefore in 1992 the workers represented 87,5% from the total personnel.

Table no. 8. The average employees number from crude oil extraction and processing activity between 1990 and 2005 (thousands of persons)

Year	Total number of employees		Workers	
	Extraction	Processing	Extraction	Processing
1990	69	33	58	28
1992	79	32	68	28
1994	81	36	68	30
1996	79	35	67	29
1998	78	27	65	22
2000	59	22	48	18
2002	59	18	48	14
2004	56	15	44	11
2005	57	14	44	10

Source: Romanian Statistics year Book from 2006-page 126; year 2000-page 109; year 1994-page 162

The integration within work appears as a process whose effect is to create a new qualitative manpower. The increase of workers number within the recruited population represents a general condition for the revamp of economical structure, for the recruitment and usage of the man power with increased efficiency. From the table below it can be noticed that the employees from oil extraction and processing activity between 1993 and 2005 are mostly men, more than 80%, women occupying only a small proportion between 17,5 and 19,5 %from the total number of employees from oil extraction and processing activity. Within workers, women are between 12 and 17% from the total number of workers of oil extraction and processing activity, while men have a share of over 83%.

The number of employees injured while working within oil extraction and processing activity is generally decreasing from a period to another, and among them the number of dead employees varies between 2 and 10% as compared to the number of injured employees which temporarily are not able to work. Regarding the collective work accidents, their evolution is an insignificant one from the point of view of the employees involved in collective work accidents, as well as from their gravity point of view. Therefore, the work accidents rate increase from 1,7% in 1993, up to 6,9% in 1999, after which it decreases to 2% until 2005.

Table no. 9. Employees of oil extraction and processing activity by sex between 1993 and 2005 (thousands of persons)

Year	Total number of employees				Workers			
	Total	Mostly private property	From the total		Total	Mostly private property	From the total	
			men	women			men	women
1993	120	0	96	23	00	0	83	7
1995	114	1	92	22	96	1	80	16
1997	113	2	91	22	93	1	78	15
1999	82	12	66	16	67	9	58	9
2001	80	14	66	14	65	11	56	9
2003	72	17	58	14	57	12	50	7
2005	65	60	53	12	49	45	42	7

Source: Romanian Statistics Year Book from 2006- page 130-131; year 2004-page 100-101; year 2002-page 104-105; year 2000- page 110-111; year 1998-page 136-137; year 1996-page 152-153; year 1994-page 164-165

Table no. 10. The number of injured employees during oil extraction and processing activity between 1993 and 2005

Year	Number of injured persons			Collective accidents			Work accidents rate (%)
	Total	From which:		Number of accidents	Number of injured persons		
		Deadly	Temporary incapacity to work		Total	Deadly	
1993	272	27	245	2	17	4	1,72
1995	197	4	186	2	9	-	2,25
1997	258	21	237	2	6	1	3,25
1999	227	14	213	1	3	-	6,9
2001	185	9	176	1	4	1	2,92
2003	148	9	139	2	7	-	2,06
2005	117	9	108	-	-	-	2

Source: Romanian Statistics Year Book from 2006-page 136; year 2004-page 107; year 2002-page 111; year 2000-page 118; year 1998-page 148; year 1996-page 163; year 1994-page 178

The permanent need of manpower within petroleum industry, allows the existence of a fluctuation on high level, but it doesn't represent its cause, but just a favorable factor. The real causes usually are of subjective nature: the conflicts with the work mates and with the collective chiefs, the lack of attraction to the job, the non-integration within the work discipline, the wish of gaining a more substantial incomings, etc. Regarding the interest conflicts which took place during the crude oil extraction and processing activity between 1993 and 2005, are not significant from the numeric point of view. 1995 registers the greatest number of interest conflicts, but a small number of persons were involved, only 1.788 as compared to 1999 when 3 conflicts took place involving a number of 4.801 participants, which represents a proportion of 86, 3% from the total number of employees. Maybe the year 1997 is more important when, although only one interest conflict took place, 100% of the employees took part to it as well as 2005 when, again during only one conflict, 97% of the employees participated.

Table no. 11. Interest conflicts during crude oil extraction and processing activity between 1993 and 2005

Year	Number of conflicts	Number of employees	
		Total	Participants to the conflict
1993	2	2500	1800
1995	5	2944	1788
1997	1	2700	2700
1999	3	5563	4801
2001	1	184	124
2003	1	1140	350
2005	1	2268	2200

Source: Romanian Statistics Year Book from 2006-page 142; year 2004-page 114; year 2002-page 116; year 2000-page 122; year 1998-page 154; year 1996-page 169

A company needs people who, by their activity, enrich not only the experience, but also the collective wisdom, people who are able to discover new things, people who improve and rationalize the work process, who work against routine, against traditionalism. The current scientific-technical revolution imposes such an affirmation of man.

The quality and competence express the substance of qualified manpower, practically being inseparable. Their essential knowledge is performed watching them as a unity. The quality of the worker is offered by his professional knowledge which allows him to fulfill his work tasks. It indicates the work potential formed based on a special education. The double quality of those who work offers the possibility to perform them. The competence is the manpower quality itself. It reflects the capacity, the worker's skills in the work process, in fulfilling the tasks. When the place occupied in production is in compliance with the knowledge, with the intrinsic qualities the worker has, he reaches the maximum competence. On the contrary, in case his work capacity evolution and his professional education do not keep up with the progress rhythm, with the new exigencies appeared in the work process, he reaches different incompetence levels. The quality and competence level is different from a stage of development to another, as the exigencies of practicing each social function are in a permanent dynamics.

The need of a superior quality of the workers organically comes from the new qualitative progress requirements of "going ahead". The increased role of high qualified persons is imposed by the promotion within production of the scientific conquests and advanced technique. The increased addiction of development to the assimilation within production process of the scientific conquests and advanced technique represent, nowadays, an indisputable fact. The always increasing efficiency can be obtained only by replacing the work means and old technologies in time and by having new achievements with superior efficiency, but which are unconceivable outside the human capacity for creating, assimilating and integrating the scientific conquests and technique.

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A REALITY FOR ANY FIRM – THE INFORMATION TECHNOLOGY

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Abstract: In a fast moving economy, no organization can expect good results without implementing new technologies. Computers, networks, software systems are a reality and denying it will eventually lead to a negative impact on the organizations' results. In this, we refer to some aspects of information technology and the advantages and disadvantages that software systems can provide to a manager or management team and, in the end, to an organization.

Key words: informational system, informatics system, DSS

The millennium in which we develop our activity is considered one of information, well selected and well invested. The present environment of competition growth, of diversification of opportunities on the market, makes absolutely necessary valuing the data and the information that we have this being possible only using advanced technical methods.

Using the computer to monitor the activity of commercial companies has as purpose, first of all, systemizing information and easy access to it, and secondly allows using a whole series of informational systems, in order to ease the day to day activity. The main advantages of using the calculating technique are excluding subjectivity and user's lack of experience in developing the activity, as well as easy access to the data base.

In the day to day life, computers are something common, even absolutely necessary in some cases and we are right to say that we live in an informatics society. Today, computers are everywhere, many times connected between them and creating thus computers networks. Still, we must not forget that a computer is in fact a "machinery" that processes a series of information which the user provides. Information is thus the main element in this chain. In practice, we encounter, among other things, two concepts related to this, which are the informational system and the informatics system.

The informational system represents all the elements implicated in the process of collecting, transmitting, processing information, its role being to transmit the information between different elements. Inside this system we have: the rumored information, the documents carrying information, the personnel, the means of communication, information processing systems, etc.

Most of the activities meant by the elements inside the informational system are being developed based on the calculation technique. The primary data is being processed, the result is being transferred forwardly to another processing department and the transfer is made electronically.

All the elements implicated in this whole electronic process and data transmission make up an informational system.

We can thus say that, the informational system is included in the informatics system, the latter being a main element of the first.

One of the most informatical branches today is economics. From ancient times, the man, even without being conscious of this, has been preoccupied with the area of economics. The motivation was s simple one – in order to satisfy certain needs, it is necessary to use certain goods, certain resources, all the used elements in producing new necessary goods are called economical resources. These resources are limited, thus needing to be managed correspondingly, in order to satisfy the main needs.

Thus it has appeared the general economical problem related to resources management and its way of use, which represents a man's work to choosing and using resources to better satisfy his needs.

We are aware that the process of introducing and use of new information technology in organizations is based on the skills of experts, who, along with their specific knowledge, have to master a series of interdisciplinary skills, too. Besides knowledge, different forms of organizing and managing human resources, long term planning, employment, training, motivating, encouraging creative work and proper stimulating are significant. Accompanying psycho-sociological and managing processes depend also on conditions, forms and area of work, human resources and skills available, working atmosphere, and other factors.

The informatics system covers all the problems of the economical agent, to create interdependencies between components, thus the physical structure from the system attached to the economical agent has another structure in the informational plan. He comes between the decision and execution systems being subordinated to them. By implementation of some mathematical methods and using the electronic calculation technique, *the informatics system gives increased values to the informational system under quantity and quality aspect*. Thus, we witness an increase in the calculation capacity, under the aspect of the amount of data processing and operations, increasing the information exactitude, increasing the information operation, in the conditions of increasing the complexity of economical activities. All these determine a closeness of all the phenomena and economical processes it coordinates, with all the positive economical effects which derive from it.

The fast changes in the business environment determine informatics systems to reach an essential component of the organization in fulfilling its purpose (mainly, obtaining profit). Thus, using information technology has become a necessary in the organization's functioning especially today when we sense new tendencies in the evolution of organizations like:

- using the Internet al organizational level locally or globally, which has become a main means of communication for the commercial activity, an important means of promotion etc;
- the emergence of Internet organizations, which develop their business only in this area, these organizations using Internet, Intranet and Extranet as well as other networks to ensure commercial activity support;
- globalization, the relation of this phenomenon being a relation in which every factor determines the other one, both being ample elements, cu tendencies of emphasizing (developing);
- reformulating the business process, a consequence of the globalization tendencies, because the business environment is in continuous change and new techniques and methods of elaborating this process are being imposed.

In a company with more activity spheres, any activity must be founded at the level of product groups' level which will be the purpose of commerce and not at a level of a corporative strategy. The company is afterwards divided in *main activities*, like, for example, the sale process, and *auxiliary activities*, like human resources management which creates the necessary general frame for the functioning of the company, but which cannot be directly correlated with any of the individual parts, examining afterwards the way in which we consider that each part contributes to generating value inside the company and the difference towards competitors in the area.

Economical modeling has proved to be a very helpful instrument in this situation, which in time has become a main element of the decision founding process inside companies. Economical modeling represents an instrument useful to the managers, economics being an area in which the application of experimental methods is rarely used, because in most of the cases it leads to extremely negative results (maybe even bankruptcy) for the economical agent, proportionally direct with the number of possible action alternatives.

Modeling and simulating economical processes – frontier economical area with mathematics and calculation technique – deals with founding managerial decision, in conditions of efficiency for the company, with the help of some flexible models and with the possibility of using the simulation technique.

The necessity of elaborating some economical models resides in the fact that the economical problems cannot be accurately modeled through strict, fixed models, mainly due to the fact that they cannot identify the special dynamics of the economical phenomenon, preferably we will use multiple elements from the theory of probabilities, heuristics, vague sets, dynamic programming, simulation techniques etc. Thus, in elaborating some models for the economical problems we must take into account, for example, the economical aspects, the decision type, the human behavior or the informatics systems, all these influencing directly the managerial decision.

Thus, the necessity for a market for developing solutions has appeared – decisions founded according to the evolution of commerce and the existing business environment. And the question the managers must answer is: which would be the most feasible way of founding and implementing a decision in such a manner in which to offer good advantages to the firm at a good relation between quality and price?

The answer derives from the opportunity of the technical environment itself, through administration programs of internal resources, of manager programs, soft programs for achieving different investments. The achievements in computer area and electronic industry have opened a lot of doors for product and services diversity. One of these fully developing sectors has resulted from the continuously increasing telecommunication industry. This sector is formally names "information technology". The concept of "information technology" (and the products and services it implies) as well as computer integration and networks, have changed the way in which business and personal communication are done. In the present competitive and difficult business environment, the process of finding clients is very important, of satisfying their expectations and of obtaining profit from that. In order to achieve this, the firms need improved strategies, improved business proceedings as well as that necessary organizational agility to take advantage of emerging opportunities.

Change is inevitable and the rate of technology change is continuously increasing, business, the processes implicated in business and the business models must permanently adapt to the economical climate and the competition pressures.

Computerized decision support systems became practical with the development of minicomputers, timeshare operating systems and distributed computing. As technology evolved new computerized decision support applications were developed and studied. Today, many computer programs are converging to provide integrated support for managers working alone, in teams and in organization hierarchies to manage organizations and make more rational decisions.

Starting from this point, in time, within the organizations' management, a new area has appeared that of "information" management, which means the activity of collecting, organizing, depositing and using internal or external "information", which sum up interest aspects for the organizations.

The emergence of this new area of management has imposed the necessity of its reflection in the international technologies plan, which meant creating and developing Knowledge Management Systems (KMS), and as a following "step", the emergence of decision support systems (DSS).

Knowledge Management System (KMS) refers to a (generally IT based) system for managing knowledge in organizations, supporting creation, capture, storage and dissemination of information. It can comprise a part (neither necessary nor sufficient) of a Knowledge Management initiative. The idea of a KMS is to enable employees to have ready access to the organization's based documented of facts, sources of information, and solutions.

On the other hand, Decision Support Systems (DSS) are a specific class of computerized information system that supports business and organizational decision-making activities. A properly designed DSS is an interactive software-based system intended to help decision makers compile useful information from raw data, documents, personal knowledge, and/or business models to identify and solve problems and make decisions.

Consolidating the society based on knowledge has lead to evolutions in the plans of informational and informatics technologies with a role in planning the organization's resources. The result was developing under quality and quantity aspect of informatics systems which "offer" a support in planning the organization's resources and, from this, of a support regarding the whole decision process of the firm.

Projecting decision support systems is based on the idea that quality information (from the content's point of view as well the presentation's type) is essential for the decisional process and the decision quality.

Research in the area of tactic and especially strategic management has confirmed that decisional processes at these levels are generally unstructured. Today, the major concern of the specialists in the area of informatics systems is to satisfy the increasing demand of the managers for information which will allow them to evaluate more rapidly and correctly the performances of the organizations that they lead.

The support systems for decision can satisfy this quality information demand and can improve the efficiency of the decisional work of the managers.

The dynamics of economical life and the contemporary information explosions make a necessity out of using the different types of assisting systems for the managerial process. In spite of the imposed limitations by the impossibility of perfect reproduction of the human judgments by a computer, informatics systems for management represent today absolutely necessary instruments of modern management, most of the routine decisional activities, the amount of all information necessary for the decisional process together with techniques of research and finding of information being completely overtaken by these systems. More, their perfection continues, doubled by improving computer performances, offering increased possibilities of taking over more and more comprising segments of the reasoning activity developed by humans.

The role of informatics systems for management consists of, first of all, reducing costs, increasing the potential of business growth and mechanization or assisting the decisional process. The advantages of introducing software systems in decision assisting consists of collecting and rapid processing of a huge amount of data, using economical and rough mathematical methods and models in the analysis and interpretation of the information, as well as achieving multiple correlations between elements and phenomena characteristic to the analyzed decisional situations, correlations which offer the possibility of some complex analysis and interpretations founded, and most of the time, presented in a most suggestive manner.

At the same time, we must also consider certain limits of a system like this one, limits deriving, first of all, from the impossibility of completely and perfectly substituting the human judgment, of the low level in which we take into account the uncertainty of the economical environment and the dependency between these software systems and the calculation systems upon which they are implemented. Even so, the influence of informatics systems for management upon increasing decisional activity efficiency cannot be doubted.

The support given by informatics systems for management differs according to the level of management and the type of decision it addresses. Some researches have showed that informatics systems for the executive are the most frequently used among all the types of systems for assisting the decisional process, at different levels of management.

The main advantage imposed by using informatics systems consists of time reduction of management decision founding, aspect which resides from the existence of a dynamic change of information between organization and partners (internal and external environment) provided by these – compulsory implementing and functioning of the systems in need of an adequate informational infrastructure, INTRANET technologies, VPN, etc.

Introducing information and computer technology, more exactly internal software programs of developing and improving the activity of a firm, within the processes of a firm, it is absolutely necessary for improving its availability and performance. Today, a firm's availability to do business is considered implicitly by potential customers to be 24/7.

Using information technology can thus offer an advantage of the firm in front of its competitors – the capacity to achieve something that the competitors cannot and something which is valuable to potential customers. Thus, the firm will be able to offer products to its customers more rapidly, cheaper and better than its competitors that do not use the information technology and software programs with the purpose to help the internal process of activity developing.

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MANAGEMENT MODEL OF THE CORRELATION BETWEEN THE TAX BITES AND THE GDP

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Abstract: The existence of a causality relation between the GDP and the amount of Inland Revenue leads to the necessity of creating a model which, based on the analysis of the intensity of connections between the phenomena, will allow a proper management of the correlative pair tax bites/GDP, with benefic effects at the level of national economy. The research reveals the hypothesis that stimulating the GDP growth, with the state involvement will inevitably lead through the redistribution process to an economic development with positive implications on the national capital.

Key words: correlation, tax bites, variables, correlative pair, redistribution.

The deep analysis of the level of taxation in a country inevitably leads to the approach on the problems related to the necessity of the GDP growth and to dealing with these aspects by following this indicator in a correlative manner, at macroeconomic level and based on the statistic instruments.

Considering the fact that an increase of the gross national product under the circumstances where no important differences would be recorded at the level of taxation, would implicitly draw an increase in the amount of Inland Revenue for the budget, we start with the hypothesis that there is a dependency relation between the GP and the amount of Inland Revenue. Therefore, starting from the premise of the existence of a causality relation between the two variables it is necessary to determine the intensity of connections between the phenomena.

As far as the analysis of the correlation between the tax bites and the GDP, the correlative pair includes two variables:

GDP – the factorial variable x;

Tax bites – the resultant variable y.

The existence of the interdependence relation between the two variables is evident, in the sense that an increase of the GDP will generate an increase of the level of tax bites.

For the analysis of the correlation between the tax bites and the GDP, we will refer to the same analyzed period (1999-2005) and we will use the values transformed in euros at the annual medium rate of exchange.

The calculation modality will be based on the Data Analysis program in Excel.

For the analysis of the correlation, two essential aspects will be taken into consideration:

The regression helping to determine the contribution of decisive factors to the variability of the effect phenomena;

The intensity of the correlation: it shows how intense the interdependence between the variables is.

Table no.1 The evolution of the GDP and of the compulsory tax bites

Year	Compulsory tax bites -billion EUR-	GDP -billion EUR-
1999	11,348662	33,488598
2000	11,900531	40,277265
2001	12,735044	44,864448
2002	13,354356	48,464275
2003	14,262674	52,605392
2004	16,684003	60,784479
2005	21,811641	79,258790

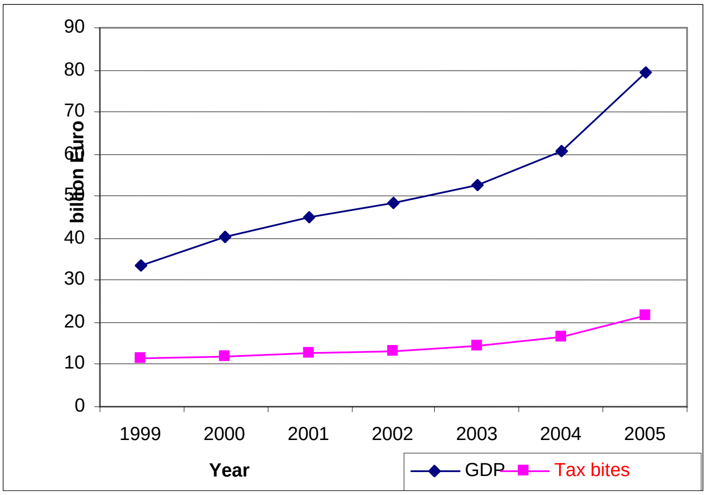

Figure no. 1 The evolution of the GDP and of the compulsory tax bites

The non-linear regression

Analyzing the values of the resultant Y (tax bites) and the determination coefficient we ascertain a non-linear tendency, respectively of parabolic type (see chapter 4.3.1.).

$$y = \beta_0 + \beta_1 \cdot x + \beta_2 \cdot x^2 \qquad (1)$$

Table 2 The correlation between the compulsory tax bites and the GDP

Year	Compulsory tax bites (y_i) -billion EUR-	GDP (x_i) -billion EUR-	$(x_i)^2$
1999	11,348662	33,488598	1.121,486225
2000	11,900531	40,27725	1.622,258075
2001	12,735044	44,864448	2.012,818735
2002	13,354356	48,464275	2.348,785904
2003	14,262674	52,605392	2.767,327262
2004	16,684003	60,784479	3.694,752879
2005	21,811641	79,258790	6.281,955806
Total	102,096912	359,743247	19.849,384886

SUMMARY OUTPUT								
Regression Statistics								
Multiple R	0,99826							
R Square	0,99653							
Adjusted R Square	0,99480							
Standard Error	0,26218							
Observations	7							
ANOVA								
	df	SS	MS	F	Significance F			
Regression	2	79,07616	39,53808	575,1715	0,000012			
Residual	4	0,27497	0,06874					
Total	6	79,35112	Total	6	79,351121			
	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95,0%	Upper 95,0%
Intercept	9,93334	1,49334	6,65176	0,00265	5,78716	14,07951	5,78716	14,07951
X Variable 1	-0,04828	0,05501	-0,87767	0,42968	-0,20101	0,10445	-0,20101	0,10445
X Variable 2	0,00252	0,00048	5,24997	0,00629	0,00119	0,00385	0,00119	0,00385

RESIDUAL OUTPUT		
Observation	*Predicted Y*	*Residuals*
1	11,137668	0,210995
2	12,069621	-0,169089
3	12,830620	-0,095576
4	13,501957	-0,147601
5	14,354879	-0,092204
6	16,292961	0,391042
7	21,909207	-0,097566
TOTAL	**102,096912**	**0,000000**

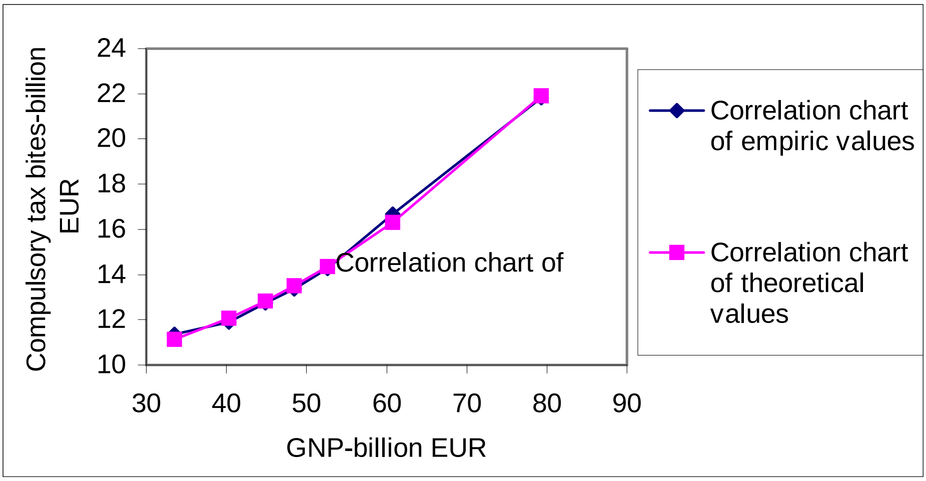

Figure no. 2 The correlation chart of the GDP – Compulsory tax bites

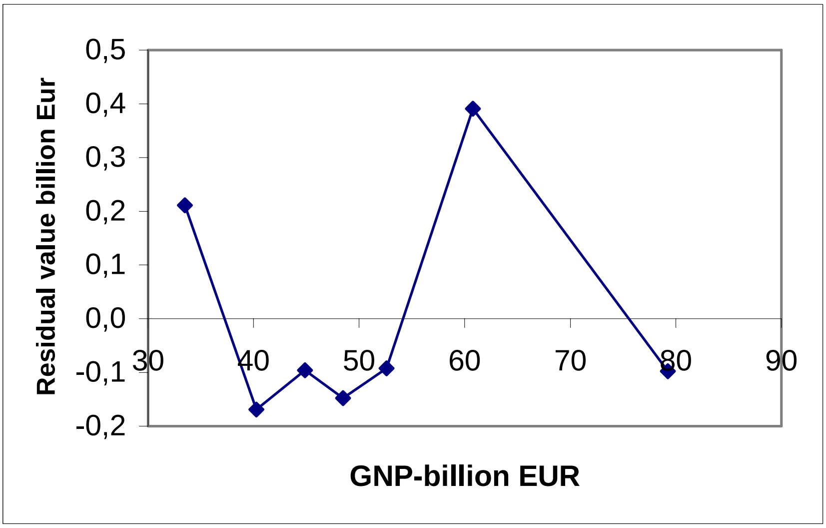

Figure no. 3 The tendency of the residual value

The following parabolic function of the second order will be obtained as a result of this analysis:

$$Y_x = 9{,}933338 - 0{,}048279 \cdot x + 0{,}002516 \cdot x^2$$

Therefore, the theoretic values for the period 1999 – 2005 are:

1999: $Y_{x_1} = 11{,}137668$ billion EUR

2000: $Y_{x_2} = 12{,}069621$ billion EUR

2001: $Y_{x_3} = 12{,}830620$ billion EUR

2002: $Y_{x_4} = 13{,}501957$ billion EUR

2003: $Y_{x_5} = 14{,}354879$ billion EUR

2004: $Y_{x_6} = 16{,}292961$ billion EUR

2005: $Y_{x_7} = 21{,}909207$ billion EUR

The equality $\sum y_i = \sum Y_i;\ \bar{y} = \bar{Y_i}$ is verified.

The intensity of the non-linear correlation

In order to determine the intensity of the non-linear correlation, we will determine the correlation ratio, which is based on the decomposition of the general dispersion into factorial dispersions. The general dispersion synthesizes the total variation of the resultant variable Y, determined by the simultaneous action of all the influencing factors. $\left(\sigma_y^2 = \frac{\sum (y_i - \overline{y})^2}{n}\right)$ (2)

The general dispersion is decomposed into:

The dispersion of the factor in the correlative pair, which synthesizes the variation of the resultant Y, determined by the influence of the factorial x, when the influences of other factors are considered as constant. It is also known as the dispersion of the explained variation.

$$\sigma_{Y_x}^2 = \frac{\sum \left(Y_{x_i} - \overline{Y}_x\right)^2}{n} = \frac{\sum \left(Y_{x_i} - \overline{y}\right)^2}{n} \quad (3)$$

The dispersion of the factors which are not included in the correlative pair, which synthesizes the variation of the resultant Y determined by the influences of other factors not included in the respective pair. It is known as the dispersion of the unexplained variation.

$$\sigma_{y,Y_x}^2 = \frac{\sum (y_i - Y_x)^2}{n} \quad (4)$$

Comparing the three dispersions we may notice that:

$$\sigma_y^2 = \sigma_{Y_x}^2 + \sigma_{y,Y_x}^2 \quad (5)$$

Table no. 3 Necessary data for the calculation of the non-linear simple correlation

Year	y_i -billion EUR-	x_i -billion EUR-	Y_x	$y - \overline{y}$	$Y - \overline{y}$	$y - Y$
1999	11,348662	33,488598	11,137668	-3,236611	-3,447606	0,210995
2000	11,900531	40,277265	12,069621	-2,684742	-2,515653	-0,169089
2001	12,735044	44,864448	12,830620	-1,850229	-1,754653	-0,095576
2002	13,354356	48,464275	13,501957	-1,230917	-1,083316	-0,147601
2003	14,262674	52,605392	14,354879	-0,322599	-0,230394	-0,092204
2004	16,684003	60,784479	16,292961	2,098730	1,707688	0,391042
2005	21,811641	79,258790	21,909207	7,226368	7,323934	-0,097566
Total	102,096912	359,743247	102,096912	0,000000	0,000000	0,000000

Year	$(y-\bar{y})^2$	$(Y-\bar{y})^2$	$(y-Y)^2$
1999	10,475650	11,885985	0,044519
2000	7,207840	6,328508	0,028591
2001	3,423347	3,078807	0,009135
2002	1,515157	1,173573	0,021786
2003	0,104070	0,053082	0,008502
2004	4,404666	2,916197	0,152914
2005	52,220392	53,640005	0,009519
Total	79,351121	79,076156	0,274965

$$\sigma_y^2 = \frac{79{,}351112}{7} = 11{,}335874$$

$$\sigma_{Y_x}^2 = \frac{79{,}076156}{7} = 11{,}296594$$

$$\sigma_{y,Y_x}^2 = \frac{0{,}274965}{7} = 0{,}039281$$

The equality is achieved.

The determination coefficient $\left(R^2 = \frac{\sigma_{Y_x}^2}{\sigma_y^2} = 0{,}9965\right)$ reveals the part of the total variation of the resultant Y which belongs to the factor in the correlative pair.

The correlation ratio $R = \sqrt{R^2} = 0{,}9982$ represents an intense relation of interdependence between the GDP and the tax bites.

If we analyze the GDP – compulsory tax bites based on the simple linear correlation $(Y = \beta_0 + \beta_1 \cdot x)$ and we make a comparison at the result level as well as at charts level with the non-linear correlation using the Data Analysis program we will ascertain the following:

Linear regression:

Table no. 4 The correlation between the compulsory tax bites and the GDP

Year	Compulsory tax bites (y_i) -billion EUR-	GDP (x_i) -billion EUR-
1999	11,348662	33,488598
2000	11,900531	40,277265
2001	12,735044	44,864448
2002	13,354356	48,464275
2003	14,262674	52,605392
2004	16,684003	60,784479
2005	21,811641	79,258790
Total	102,096912	359,743247

SUMMARY OUTPUT								
Regression Statistics								
Multiple R	0,986234							
R Square	0,972658							
Adjusted R Square	0,967189							
Standard Error	0,658730							
Observations	7							
ANOVA								
	df	*SS*	*MS*	*F*	*Significance F*			
Regression	1	77,181493	77,181493	177,868039	0,000042			
Residual	5	2,169628	0,433926					
Total	6	79,351121						
	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95,0%*	*Upper 95,0%*
Intercept	2,349185	0,950656	2,471119	0,056453	-0,094555	4,792925	-0,094555	4,792925
X Variable 1	0,238094	0,017852	13,336718	0,000042	0,192202	0,283985	0,192202	0,283985

RESIDUAL OUTPUT		
Observation	*Predicted Y*	*Residuals*
1	10,322611	1,026051
2	11,938950	-0,038419
3	13,031130	-0,296085
4	13,888226	-0,533870
5	14,874200	-0,611525
6	16,821589	-0,137586
7	21,220207	0,591434
Total	**102,096912**	**0,000000**

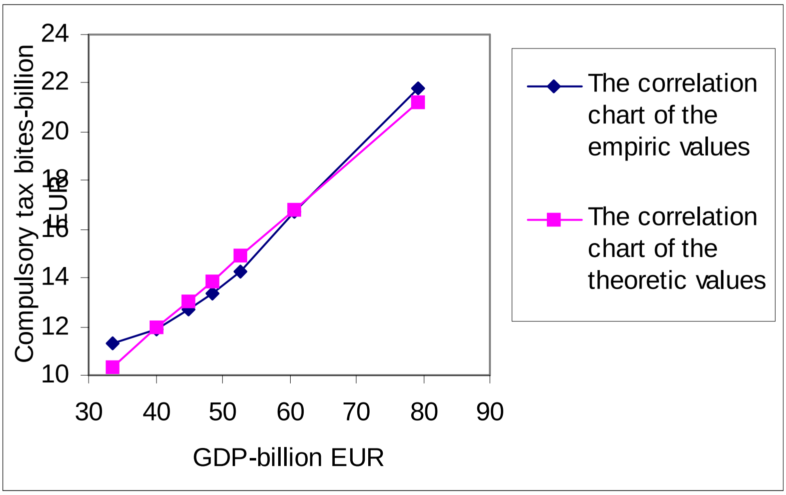

Figure no. 4 The correlation chart of the GDP – Compulsory tax bites

$$Y = \beta_0 + \beta_1 \cdot x, \qquad (4.74)$$

where:

$\beta_0 = 2{,}349185$

$\beta_1 = 0{,}238094$

As far as the linear function, the determination coefficient $R^2 = 0{,}9726$ is inferior to that of the parabolic function. At chart level, as far as the linear function we may ascertain a greater deviation of the theoretic values as opposed to the actual values than for the parabolic function, which leads to the conclusion that the expression of the smallest squares reaches their minimum at the level of the non-linear function.

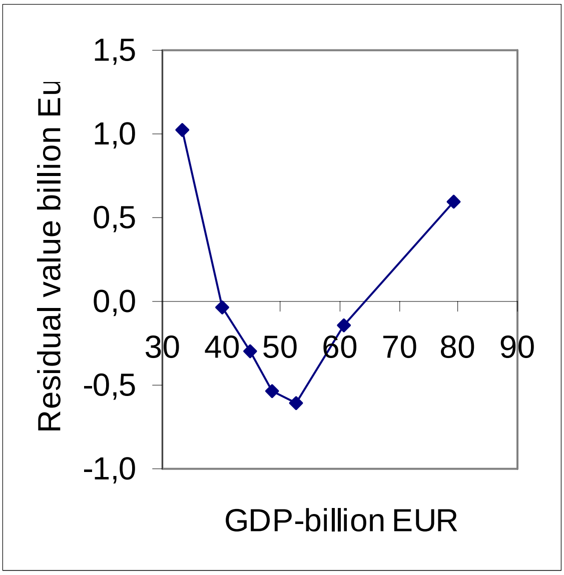

Figure no. 5 The tendency of the residual value

The intensity of the linear correlation

In order to determine the simple linear correlation, Pearson's linear correlation coefficient is being used, which is calculated as simple arithmetic value of the product of fixed deviations of x_i and y_i values. Using the Data Analysis program we will determine a correlation ratio $R = 0{,}9862$, which represents a strong relation of dependency of the tax bites on the GDP, but a relation which is more reduced in intensity than the one resulting in the case of the parable $(R = 0{,}9982)$.

Table 4 Necessary data for the calculation of the coefficient of linear correlation

x_i -billion EUR-	y_i -billion EUR-
33,488598	11,348662
40,277265	11,900531
44,864448	12,735044
48,464275	13,354356
52,605392	14,262674
60,784479	16,684003
79,258790	21,811641

	Column 1	*Column 2*
Column 1	1	
Column 2	0,986234	1

The intense and direct relation of dependency established between the compulsory tax bites and the GDP (R^2 = 0,9982), leads to the hypothesis that a stimulation for increase in the GDP by involving the state will inevitably lead through the redistribution process to an economic development with positive implications on the national capital also.

According to a correlative management approach at macroeconomic level and considering the current stage of the Romanian economy, the increase of the GDP (a significant increase over short periods of time) can not be achieved but through foreign investments, which have a double effect on Romanian economy: the first having short and medium term advantages, represents the engine of the economy in transition, while the second has long term implications and concerns on one hand how the national capital starts having less weight in the creation of the GDP and on the other hand the created plus-value, which will help maintain the discrepancy between states through the repatriation process.

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TENDENCIES OF THE GROSS DOMESTIC PRODUCT AT THE LEVEL OF THE SOUTH-WESTERN DEVELOPING REGION OLTENIA

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Abstract: The gross domestic product, the main evaluation index of the economic growth of a country is used in the analysis of the South Western Developing Region Oltenia, in the retrospective period 2000-2005. One can notice from these data that the South-Western Region was on the last place in the classification of the eight developing regions of the countries. At the same time the authors point out, according to the historical data, the evolution tendency of the GDP in the period 2006-2010. Unfortunately, these prognosis do not bring any significant changes for the region Oltenia in the classification of the regions, because this still remains on a last position.

Key words: gross domestic product, prognosis, regional development.

The Gross Domestic Product (GDP) represents the value of goods produced in a society during a year and which are to be found in the last stage of the economic circuit. This value can be determined according to the branches of the national economy and it sums up at its level. As a rule, at the level of the national economy, GDP is calculated as a difference between the gross Global product and the intermediary consumption; at a branch level is calculated as a difference between the global gross production and the respective intermediate consumption. The global gross production expresses the value of the manufactured goods, no matter if they are a commodity or not. This way to define the GDP at the level of the branch is known under the name of production method. [Ciurlău Constantin, 2006].

The difference between the gross production and product and the intermediate consumption can be expressed and characterized in many ways, as for example consumption, expenses or final demand and added value, and this thing has led to the formulation of two specific methods for the calculation of the gross domestic product, and namely the incomes method and the expenses method.

According to the incomes method, which is best known one, the gross domestic product is calculated as a sum of the costs which form the added value for all the manufacturing institutions from the countries, and namely: net indirect taxes, that are indirect paid taxes minus the subventions, the fixed capital consumption or the amortization, the payments of the employees and other personnel expenditures and the exploiting exceeding. The indirect taxes are the amounts of money which the unities are paying to the state or to some international bodies and which they are including in their production costs. And this refers to taxes on production, selling, purchasing or using the goods and import custom taxes. Here are not included the direct income taxes or wealth taxes paid by enterprises, because these are included in the added value as a part of the profit (operating income). The subsidies are granted by the state to the public or private enterprises for the partial covering of their costs. The subsidies are related to the value of the manufactured goods, exported or consumed, to the employment or the surfaces used for production as well as to the way of organizing and carrying out this production. The grants given by the state to the private enterprises for the financing of their investments, covering the damages or losses of the equipments and renewable assets are considered to be capital transfers and not subventions. The fixed capital consumption expresses the value of the goods, equipments which are consumed during a one year production, as a consequence of the normal physical use. The damages from different causes and taking them out of use because of their moral wear are considered to be fixed capital losses. The operating income is the difference between the product and the gross production, on one hand and on the other hand between the intermediate consumption, net indirect taxes, the fixed capital consumption and the payments of the employees; it is all about profit. The operating income may appear only in the enterprises which are turning to account the production at the market price; but this is not the case for the public administrations which are performing services to third parties at their costs. According to the expenditures method or the final used method, the gross domestic product may be calculated by summing up the final destinations of the production that are: the final public consumption (governmental), the final consumption of the population households (domestic), the final consumption of the private non-profit institutions, the gross formation of fixed capital, the fluctuation of the stocks and the net export.

The economic regional statistics plays an important role in formulating, implementing and evaluating the regional policies. It is especially used for the evaluation o the regional disparities and the eligibility of the region for certain objectives. The regionalization of the gross domestic product presupposes the regionalization of the gross added value, of the taxes per product and of the subventions per product.

Being a macroeconomic index and summing up the economic-social activity, the gross domestic product accomplished in Romania in the period 2000-2005 has evolved from 80.377,3 millions lei, current prices to 256.574 millions lei current prices.

At the level of the South Western Developing region Oltenia, the gross domestic product has grown from 7.488,9 millions lei current prices in 2000 to 22.291,9 millions lei current prices in 2005 (table 1, figure 1).

In this way, the South-Western region is n the last position, in the classification of the GDP of the eight developing regions on a national level. Unfortunately for the inhabitants of this region, this situation was valid both in 2000, but it continued along the analyzed period. The GDP values of the Western region are close to the South Western region, while on the first place is the region Bucharest-Ilfov which due to the huge investments has a clear tendency to detach itself from the other regions.

The regional development in Romania is the result of the combination of some local developing patterns with the complex influences of the other factors, than the real regional tendencies, as it is shown in table 2.

Table 1. The Evolution of the Gross Domestic Product at the level of the developing regions in Romania

- millions lei (RON) current prices -

Region \ Year	2000	2001	2002	2003	2004	2005
1. North-East	9634,8	14339,7	18607,4	24619,1	29418,2	30477,3
2. South-East	9286,8	13165,2	17112,3	22263,8	29413,1	29677,8
3. South - Muntenia	9807,1	14312,3	18773,6	24776,0	31709,5	32216,9
4. South-West Oltenia	7488,9	10485,1	13000,1	17931,4	21962,5	22291,9
5. West	7526,8	11223,6	14714,0	19982,7	25296,9	26587,0
6. North-West	9501,0	13667,3	18018,7	24110,8	30269,8	31147,6
7. Centre	10177,5	14421,2	19113,5	24810,8	30096,4	31059,5
8. Bucharest - Ilfov	16879,2	25071,9	31976,9	38920,0	48077,6	53029,6
Total	**80377,3**	**116768,7**	**151475,1**	**197564,8**	**246468,8**	**256574,0**

Source: National Institute of Statistics, National Prognosis Commission

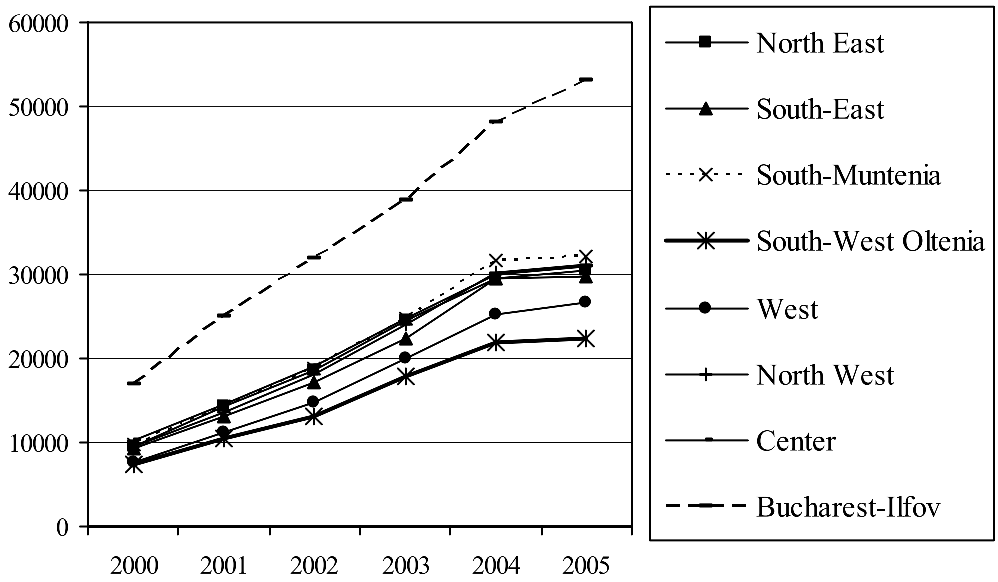


Figure no 1: The Evolution of the gross domestic product at the level of the developing regions from Romania in the period 2000-2005

The regional development was and is strongly influenced by the structure on branches of each region and by localization. So, in the regions North-East, South and South West, agriculture is the dominant economic activity, fact which hinders the sustenance of a fast developing rhythm. The regions West, North-West and Central taking advantage of the closeness towards the Western-European markets and the low dependence on the primary economic sector, have managed to draw a high number of foreign investors which contributed significantly to their development.

The South-Eastern region is a special case, combining less developed counties with the particularities of the counties Constanta, Galați and Tulcea. As a consequence the disparities between the regions have grown becoming an economic feature for

Romania. At the same time, the concentration of the economic growth around Bucharest generated a clear separation of some important regions from the country from the economic growth.

Table 2. Key indices for the regional development from Romania (national average = 100) -%

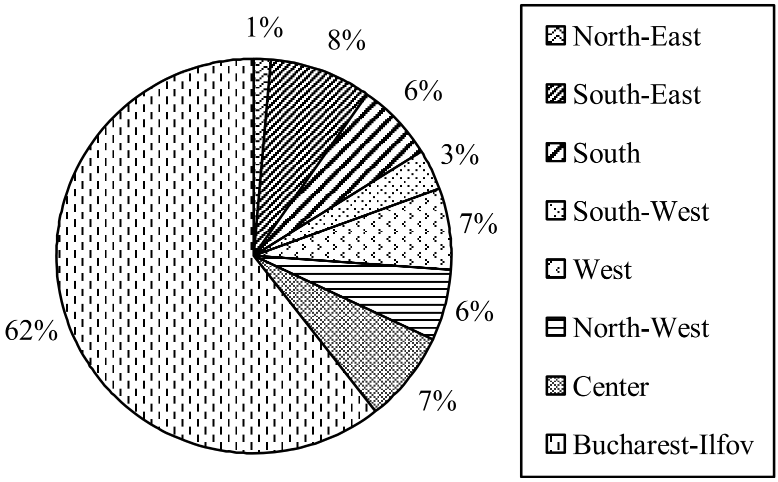
Region	GDP/capita		Unemployment rate		FDI/capita		SME/capita		Rural population	
	1998	2004	1998	2005	1998	2005	1998	2005	1998	2005
North-East	79,8	69,2	133,6	115,2	15,3	7,7	71,3	64,5	123,9	125,5
South-East	100,1	90,7	112,5	108,5	42,7	63,8	101,4	91,4	94,7	98,7
South	85,8	83,4	97,1	123,7	65,5	41,2	77,0	67,7	129,0	129,3
South-West	90,0	83,3	104,8	125,4	11,9	31,9	85,9	70,2	120,8	116,4
West	100,9	114,7	101,9	86,4	99,1	76,3	91,2	105,7	83,8	80,7
North-West	95,5	97,2	84,6	67,8	41,9	45,4	106,5	109,0	104,9	104,0
Center	105,9	104,2	98,1	123,7	87,7	62,9	101,1	105,7	87,1	88,9
Bucharest-Ilfov	162,2	191,5	47,1	40,7	598,3	593,5	194,1	228,2	24,8	21,1

Source: Calculations on the basis of the data from the Romanian Statistical Yearbook 1999, 2006

The main causes of this situation are: q) the high dependence of the economic growth towards the FDI volume and the concentration of the foreign investments around the capital – outside the region Bucharest-Ilfov; the foreign investments in the other seven developing regions, were only 39,4% from the total of the foreign direct investments in 2005; b)the liquidation of most of the old uncompetitive enterprises from the sector of the hard industry which were not always replaced (especially in some areas from the Southern and the Eastern part of the country) with SME's oriented towards the requirements of the market; b) the massive migration of the labor force, especially from the agricultural areas of the country as a consequence of the industrial restructuring and of the failure to replace the lost working places from the industry with another from the economic sectors, determining an important perturbation of the economic structure of the affected towns and countries.

The orientation of the foreign investments in Romania was done especially according to the accessibility to the Western markets and the urbanization degree of the respective markets, inclusively by the existence of an adequate level of facilities and services. So, it is not surprising that the region Bucharest-Ilfov is situated on the first place in what the foreign investments up to 2005 are concerned, registering 60,6% (13.264 millions Euro from a total of 21.888 millions Euro9 from the total of FDI from Romania. Another favorite location of the foreign investments was also the county Constanța from the South-Eastern region (figure 2).

The regions of the country, according to their specific have drawn up to the present different types of investors. So, in the Western and North-Western regions, there were concentrated a high number of companies with foreign participation, which often worked with subcontractors on a wage-basis or they exploited traditional business relation with Western Europe. The regions Bucharest-Ilfov, the Southern and South-Eastern regions have drawn many investments, especially from the non-Europeans.



Source: The Government of Romania, The Ministry of Development, Public Works and Housing, „The Regional Operational Program 2007 – 2013"

Fig. 2: FDI structure on Development Regions up to 2005 (%)

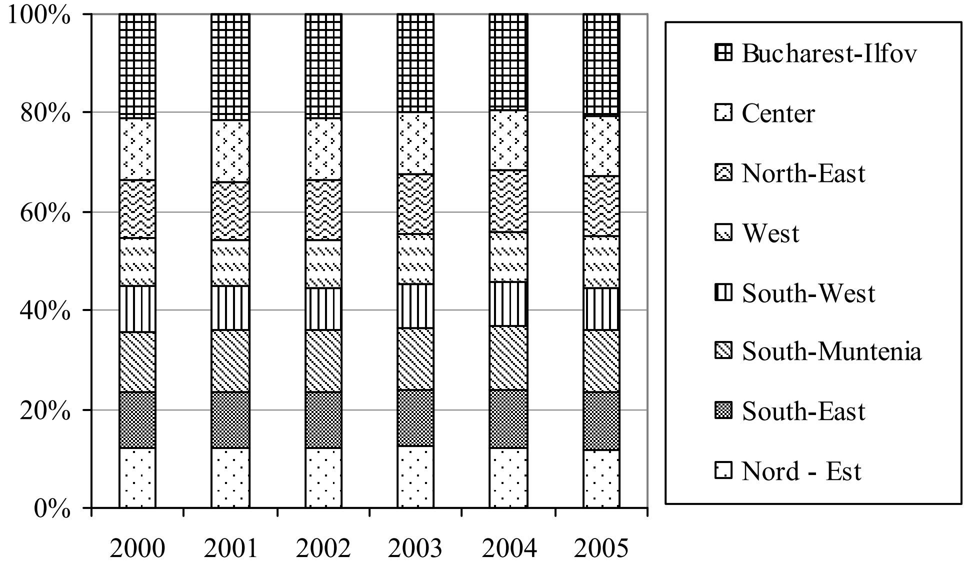
FDI has a positive effect on the labor market in these regions, because of the constant growth of the high-qualified labor force demand and the development of the services. The availability of the high-qualified labor force was and still is an important localization factor of the foreign investments. While the transfer of the productive and creative activities from Romania takes place, the high-quality labor force demand increases. The recent economic information point out the fact that in the regions were there were no considerable foreign investments, the enterprises are confronting with high difficulties in finding a highly qualified personnel.

At the same time, the contribution of the South-Western Developing Region at the formation of the national gross domestic product went down from 9,32% in 2000, to 8,69% in 2005 (figure 3). The most important percentage goes to the region Bucharest-Ilfov, which varies around the values of 20% the other regions have values between 8-13%.

The additional information regarding the GDP analysis at a regional level, points out the disparity index of the GDP/capita compared to the national average. So according to this index, the South-Western region is placed on the 6th place from the total of 8 regions, both in 2000 and 2006 and also in 2010, predicted values – table 3.

The prognosis for the GDP, at a national but also at a regional level, points out its growth in each sector (table 4). Bu the South-Western region is still on the last place. But the one thing which draws the attention is the tendency to increase the disparity between the South-Western region and the rest of the regions, on one hand but on the other hand between the Bucharest-Ilfov region, from the first place and the rest of the regions.

The GDP analysis for the South-Western Developing region Oltenia on counties points out the growth for all the component unities (table 5, figure 4). On the first place there is the county Dolj, being followed by the counties Gorj, Vâlcea, Olt and on the last place there is the county Mehedinți. In 2005, the counties Dolj and Gorj had 51,3 % from the gross domestic product of the region.



Source: National Institute of Statistics, National Prognosis Commission

Fig. 3: The structure of the gross domestic product on the developing regions from Romania, in the period 2000-2005

Table 3. GDP/capita dispatity index compared to the naitonal average (=100)

Year / Region	2000	2006	2006-2000	2010	2010-2006
1. North-East	0,700	0,678	-0,022	0,685	0,007
2. South-East	0,889	0,874	-0,015	0,869	-0,005
3. South-Muntenia	0,815	0,818	0,003	0,820	0,003
4. South-West Oltenia	0,838	0,829	-0,009	0,830	0,001
5. West	1,026	1,168	0,142	1,147	-0,021
6. North-West	0,930	0,951	0,021	0,947	-0,004
7. Center	1,071	1,050	-0,021	1,045	-0,004
8. Bucharest-Ilfov	2,068	2,008	-0,060	2,012	0,003

Source: National Prognosis Commission

The disparity indices, according to the Gross Domestic Product per capita, allow the completion of the analysis on the level of the South-Western Developing region Oltenia, Romania, in the period 2000-2005 (table 6, figure 5). So we notice that only the county Gorj is above the national level, while all the other counties are under the national average. One also notices that the county Dolj which has the first place in the GDP classification of the counties is now on the third place after Gorj and Vâlcea.

The contribution of the different branches of activity for the formation of the Gross Domestic Product is different both at a national and at a regional level. At the level of the South-Western Developing Region Oltenia, in the period 2000-2005, the highest percentage from the GDP is given to the industry, being followed by agriculture, hunting and silviculture (table 7). The other branches register higher or lower growth but the tendency is certain for all the branches: ascending.

Table 4. The prognosis for the gross domestic product at the level of the developing regions from Romania, in the period 2006-2010

- million lei (RON) current prices -

Region / Year	2006	2007	2008	2009	2010
1. North-East	32336,4	34535,2	36814,6	39170,7	41638,5
2. South-East	31725,6	33470,5	35579,1	37749,5	40014,4
3. South - Muntenia	34633,1	36745,7	39060,7	41443,4	43930,0
4. South-West Oltenia	24298,2	25853,3	27404,5	29021,4	30704,6
5. West	28820,4	30578,4	32413,1	34260,6	36179,2
6. North-West	33203,4	35228,8	37377,7	39545,6	41799,7
7. Center	34010,1	36254,8	38393,8	40467,1	42611,9
8. Bucharest - Ilfov	57112,9	61453,4	65509,4	69439,9	73536,9
Total	**276330,2**	**294291,7**	**312832,1**	**331289,2**	**350503,9**

Source: National Institute of Statistics, National Prognosis Commission

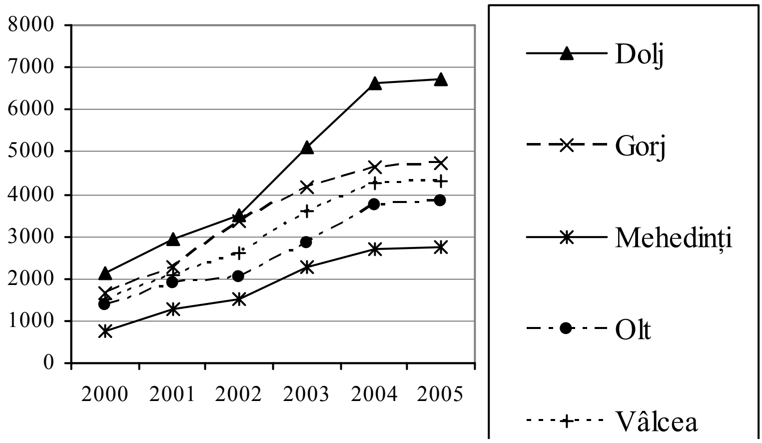
Table 5. The dynamics of the gros domestic product at the level of the counties from the South-Western Developing Region Oltenia in the period 2000-2005

County	Year	2000	2001	2002	2003	2004	2005*
Dolj	mil. lei (RON)	2147,3	2931,4	3511,5	5099,5	6610,6	6709,76
	%	28,67	27,96	27,01	28,44	30,10	30,10
Gorj	mil. lei (RON)	1668,1	2268,9	3350,1	4182,6	4659,9	4729,80
	%	22,27	21,64	25,77	23,33	21,22	21,22
Mehedinți	mil. lei (RON)	779,5	1293,2	1493,9	2251,0	2684,8	2725,07
	%	10,41	12,33	11,49	12,55	12,22	12,22
Olt	mil. lei (RON)	1387,7	1915,5	2045,6	2820,9	3759,8	3816,20
	%	18,53	18,27	15,74	15,73	17,12	17,12
Vâlcea	mil. lei (RON)	1506,3	2076,1	2599,0	3577,4	4247,4	4311,11
	%	20,11	19,80	19,99	19,95	19,34	19,34

Source: Regional Statistics Bureau Dolj
**) estimated value*

The prognosis of the National Prognosis Commission referring to the Gross Domestic Product from the South Western Developing Region, although it shows some increases for the analyzed years are not positive if we take into account the position where the region is in the national GDP classification.

So, the economic growth of the South-Western region is estimated to be above the national average 7,2% just for the year 2006, being supported by an industry with a dynamics of 7,2%. The industrial production of countries presents significant growths in the countries where this production declined in 2005 (in Gorj with 10%, Vâlcea with 15%). County Mehedinți continues to register, for the second year a reduction in the industrial production. The agriculture plays an important role with a GDP percentage above the national average, and after the serious decline from 2005, the estimated level of the gross added value is of 0,5%. The constructions (16%) and the services (6,6%) are the other two large sectors of the economy which contribute to the economic growth of the South-Western region. The exterior trade of the region, with an estimated dynamics for 2006 of above the national average both in exports (25,6%) but also imports (28,8%) still continues to increase the percentage in the national foreign trade. One has to mention that these regions represent a surplus of the trade balance.



Source: Regional Statistics Bureau Dolj

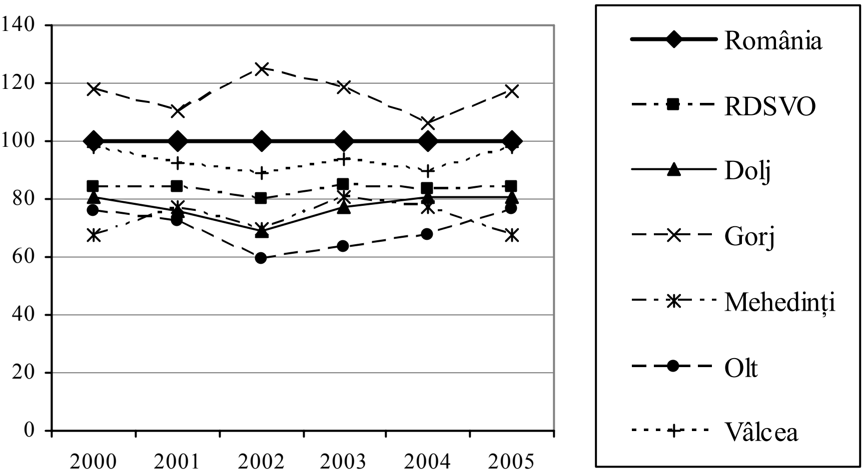
Fig. 4: The dynamics of the gross domestic product at the level of the counties from the South-Western Developing Region Oltenia in the period 2000-2005

Table 6. The gross domestic product per capita – disparity indices at the level of Romania, the South-Western Developing Region Oltenia, in the period 2000-2005

Year	2000	2001	2002	2003	2004	2005*
Romania	100,0	100,0	100,0	100,0	100,0	100,0
South-West Region	83,8	84,0	79,9	84,7	83,5	83,9
Dolj	80,5	75,8	69,2	77,3	80,7	80,6
Gorj	117,9	110,2	124,5	118,9	106,4	117,1
Mehedinți	67,6	77,4	69,5	80,6	77,3	67,7
Olt	76,2	72,6	59,5	63,2	67,9	76,3
Vâlcea	97,6	92,4	89,1	94,0	89,8	97,7

Source: Regional Statistics Bureau Dolj
**) estimated values*

The prognosis for the next two years provides for a growth of the GDP in the South-Western region of 6,2% for 2007 and of 6% for 2008, both values being under the national average. The constructions will have an important role in supporting the economic growth with dynamics of 14,2%, respectively 11%. Services (6,2%, respectively 6,1%) contribute to a great extent to the annual growth of the GDP, the accent being on the capitalization of the tourism potential of the region, but also for the development of the financial-banking services and the insurance services, the transport, social, collective and personal services. For agriculture, under normal climate circumstances, the growth for the years 2007 and 2008 are foreseen to be of 3% , respectively 3,2%. In industry, the rhythms of growth are of 4,9%, respectively 5,3%.



Source: Regional Statistics Bureau Dolj

Fig. 5: The gross domestic product per capita – disparity indices at the level of Romania, the South-Western Developing Region Oltenia, in the period 2000-2005

Table 7. The evolution of the gros domestic porduct in the South-Western Developing Region Oltenia, on branches of activity, in the period 2000-2005

\- millions lei (RON) currentprices -

Year / Branch of activity	2000	2001	2002	2003	2004	2005*
Agriculture, hunting and silviculture	1039,5	2076,5	1510,6	2577,9	3562,0	3615,4
Fishing and pisciculture	-	0,1	0,2	0,4	2,9	2,9
Industry[1)]	2469,8	3205,9	4387,0	5093,0	6338,3	6433,4
Constructions	413,1	625,6	830,9	1108,4	1397,1	1418,1
Trade	584,3	725,2	947,8	1214,1	1524,0	1546,9
Hotels and restaurants	142,6	202,9	252,5	290,4	335,4	340,4
Transport, warehouse and communications	600,6	877,7	1158,9	1542,4	1788,9	1815,7
Financial brokerage	72,2	129,3	188,2	183,1	272,5	276,6
Real estate transactions, rents and services carried out for the enterprises	688,4	808,0	1254,4	1638,0	2020,4	2050,7
Public administration and defense	343,5	425,1	602,8	1301,9	1284,8	1304,1
Education	241,2	323,6	414,5	604,2	778,4	790,1
Health and social care	162,3	178,3	289,8	446,2	566,9	575,4
Financial brokerage indirectly measured[2)]	-80,6	-162,4	-144,9	-	-	-
Gross regional added value	**6676,9**	**9415,8**	**11692,7**	**16000,0**	**19871,6**	**20169,7**
Product taxes[3)]	826,6	1100,3	1359,6	2013,4	2373,7	2409,3
Rights on the imports (custom taxes)	85,0	81,6	80,7	121,3	147,5	149,7
Product subsidies	-99,6	-112,6	-132,9	-203,3	-430,3	-436,8
Regional gross domestic product	**7488,9**	**10485,1**	**13000,1**	**17931,4**	**21962,5**	**22291,9**
Regional gross domestic product /capita	**3001,0**	**4378,1**	**5553,1**	**7698,0**	**9476,3**	**9618,4**

Source: Regional Statistics Bureau Dolj
**) estimated value*
1) Including electric and heat energy, gas and water.
2) Starting with 2003, the the FISIM value was relocated on branches of activity and institutional sectors.
3) VAT included.

Unfortunately for the inhabitants of the South-Western regions, the prognosis point out the same last place in the classification of the regions according to GDP. But, because the prognosis are based especially on historical data (the current events are not being taken into consideration), there is still the hope that the economic changes which took place in this region (the privatization of the factory Electroputere and the purchase of the factory Daewoo by Ford), will bring the necessary surplus for the sustainable development of the region.

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