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"FREE TRADE SEMANTIC DISAGREEMENTS": WHY WTO-STYLE MULTILATERAL LIBERALIZATION AND FTAS STAND MUCH CLOSER TO PROTECTIONISM

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Abstract:

It is "mainstream" to say that the World Trade Organization (WTO) and Free Trade Agreements (FTAs) lead to the liberalization of the member states' economies. Even "old school" pro free trade authors, known nowadays rather as being "against the tide" for promoting unilateral measures outside the WTO / FTAs sphere, still advocate, in an utilitarian manner, the need for commerce agreements between countries or regions as a way of extending the genuine free trade, basically due to two main reasons. Firstly, the economic gains from international trade are consolidated and improved when more countries or regions agree on a mutual reduction of commercial barriers, and by widening the markets, concerted liberalization of commerce increases competition and specialization amongst countries, thus giving a bigger impulse to both efficiency and consumers' incomes. Secondly, the multilateral cut-offs of trade barriers may deter political opposition against free trade in each of the countries involved, since those groups that otherwise would have opposed or would have been indifferent to the commercial reform may join the campaign for free trade provide they see export opportunities to the other member countries of these trade agreements. Such lines of reasoning are, in our understanding, a too charitable way of reading the reality, and to look at trade agreements between governments as drivers of the freedom to trade is a "false friend", a piece of wishful thinking, a semantic illusion.

Key words*:* World Trade Organization, Free Trade Agreements, free trade, unilateralism, multilateralism, protectionism

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Introduction

In an academic survey (Frey et al. 1984), revisited also by Irwin (1996, 3), designed to test the market for economic ideas and conducted somewhere at the beginning of the ninth decade of the last century in a series of economic universities' scholar communities from several countries of the world, it looked that free trade was still in fashion: despite the claims raised by interested practitioners and pundits opposing its foundations, 95 per cent of the American surveyed academics declared themselves, with some small amendments, relatively favouring *free trade* – arguing that "tariffs and import quotas reduce general welfare". They were accompanied by over 75% university-based professors, coming from other countries. The survey had been done in the 1980s, at the beginning of the Reagan-Thatcher-inspired "revolutions" – those inward- and outward-looking "neoliberal" movements originated in US and UK, two main poles of the otherwise Keynes-inspired modern capitalism, and continued afterwards in other epigone-states, including those "Washington Consensus"-driven transitional economies.

A decade later, the World Trade Organization (WTO) was putting in (institutional) order what the General Agreement on Tariffs and Trade (GATT) had been trying to achieve for almost half a century: to get the governments closer, if not in a *credo*, at least utilitarian, to the idea of free trade (actually, towards the idea of incremental trade liberalization).

Free trade, the paradigm formalized by Adam Smith (2008 [1776]) – though preceded him, as human logic is *a priori* to each of its specimens –, had to face, in time, a myriad of accusations and corrective (by no means disinterested) verdicts, raised against it "of principle" or just "politically"[3]. The protectionism's instability, detectable both argumentatively – "I have a solution (intervention), give me a solvable problem to match it" (sic!) – and praxeologically – "what is half thought in theory confuses doubly in practice" , makes even the much invoked "limits" of free trade to remain, when rigorously analysed, inferior to the logical (and practical) flaws of the obstructionist alternative, promoted for different rationales.

The economists supporting the protectionist paradigm have always encountered difficulties in providing a scientific, non-arbitrary answer to the

[3] See Irwin (1996), for a notable synthesis of the diachronic dialogues regarding the "free trade"-type logics with its protectionist-type and allegedly improved substitutes.

very dilemmas raised by the free trade advocates. For example: how can we precisely identify the real distortions in wages?, which are the unjust rents achieved on international markets and how can they be brought to light and resorbed?, which industries fall within the definition of "infant" and should be protected?, where could the external economies of scale, that need encouraging, be discovered? and so on. Frankly speaking, the answer to these questions is, essentially, "pragmatic", "political" and "perverse" all together, difficult to anchor in a sound logic of correction / justification[4].

Faced, if not with the fragility of the anti-free-trade petitions, at least with their tiring ever changing variety (depending of interests and times), Alfred Marshall (himself an economist from the cast of those preaching the need for corrective intervention of the governments) suggested that he values free trade, be it only for its propensity to "advantageous simplicity" in all this corrective ubiquitous turmoil... The advantage of free trade would be, in the famous economist's opinion, the fact that it is not a tool in itself, but, contrariwise, implies exactly the absence of any specific (discretionary) tools. Instruments prevalent in an era become obsolete later on, and, thereby, are deeply ineffective, given the ever changing conditions. "The simplicity and naturalness of free trade – that is, the absence of any device – may continue to outweigh the series of different small gains which could be obtained by any manipulation of tariffs, however scientific and astute" (Marshall quoted in Groenewegen (1998, 118)).

Even "shaved" with this "Occam's (operational) razor", the case of international free trade (whose glory had been achieved in the nineteenth century) didn't inspire the governments in the next century. Placed on the slope of protectionist solutions to problems of internal development – not generated / caused, but only unmasked by free trade (their source being the economic interventionism of various kinds, a philosophy which became "orthodoxy" in modern times) – and furthermore wrongly reading the causes and effects of the Great Depression (the largest peacetime economic calamity of the XXth century), they (the governments) boldly adopted protectionist policies. The practice had become more acute by the end of the interwar

[4] Where, naturally and ethically speaking, an injury / aggression must be proven to have materially occurred against someone's property, the patrimonial damage must be measurable and attributable to a culprit identified without doubt, so that the remedy has a meaning. See, i.e., Rothbard (1998).

period. Tariff and non-tariff barriers had become an odd "lingua franca" in this conflicting Babylon of general meltdown.

Faced with the empirical evidence of disaster, one completed by war, though still unwilling to admit the natural superiority of the free trade setting (being both just and operationally simple), post-war world leaders were finally forced by realities to swallow their pride and experience the regenerative attributes of trade liberalization.

We are speaking of, *nota bene*, a shy liberalization, vitiated by various myths and phobias, and discounted, "pragmatically", by governments[5].

Why "trading" "free trade" for "managed trade"!?

Despite the popular idea that political agreements between states can lay solid foundation for free trade, there are some rationales to amend such confidence.

First of all, some slight prudence may be needed as long as there are empirical analyses pointing out that multilateral trade liberalization is not a decisive *explanans*. In a highly quoted study on the types of trade policies of different states, Rose (2002) shows that the trade policies of GATT / WTO member states have not become more liberal after accession than those of non-members. The author uses a quantitative methodology of no less than 68 ways

[5] The two major concerns – *trade deficits* and *strong competition* coming from foreign products which would cause the domestic economic activity reduction – represent theoretical conclusions based on erroneous analyses that prove more detrimental when they are delivered during "systemic transitions", matching the efforts to become globally competitive with simply running away from globalization! Counterarguments are plenty. Firstly, there are countries and territories that have undertaken a bold liberalization and, instead of economic decline and balance deficits (the mainstream forecasts), have enjoyed extraordinary economic performance (see Hong Kong, Estonia, etc.). Secondly, one has to be aware of the main cause for the "chronic trade deficits", that is the deadly combination: domestic inflation (monetary expansion), exchange rate control (overvaluation of own currency by interventions of the central bank), and foreign loans. Thirdly, higher imports favour two processes that the government (with its social obsessions) ignores and which may favour restructuring and increase economic activity. Therefore, higher imports can be achieved only by increasing production of foreign firms producing those goods, but, since we live in a world of scarcity, this is impossible without certain decrease in the production of other goods. Consequently, trade liberalization will lead to increased activity of indigenous firms now benefiting from cheaper imports, but also of those who are now able to export goods whose production has declined (and whose prices have risen) abroad. Without the reduction, corrected by imports, of activity in other domestic sectors, these companies cannot get the resources (labour, natural resources, capital goods) needed to increase their production. Schematically, this means the process of broad reallocation of resources – the premise of maximizing wealth creation – which the populist dirigisme destroys by suffocating labour markets and hampering private enterprises.

for measuring (that is all the existing methods of quantitative measurement) the level of liberalization and the trade policies to prove this, concluding that: "There are almost no discernible differences between GATT / WTO members and non-members for tariff rates, measures of non-tariff barrier coverage, price-based measures, measures of openness, and so forth" (Rose 2002, 19). In another study (Rose 2004), using also empiricist-quantitative research methods, the same economist holds that the thesis which claims that GATT / WTO have significantly encouraged trade between the member states is not supported by the collected data.

Second of all, from the old economic tradition[6] we know that what free trade needs is the unaltered respect for property rights from all the participants in the market exchanges across jurisdictions and not simply to follow the "legal" rules and regulations which rather smother trade. International trade is nowadays nothing more than managed trade, at the mercy and caprices of the bureaucrats delegated by politicians to supervise and regulate it from within the international organizations or agreements. The rather mute question is: what would be the reason for the individuals "to ask for" supranational organisms in order to engage in transactions? We also know that throughout time traders did not feel the need to establish such organisms, the respect for genuine freedom of exchange representing the core aspect. In case of misunderstandings, merchants might have adhered to some non-judicial solution: commercial arbitration. Not only it was more effective to handle disputes without the coercive state instruments, but this detail brought more harmony in business relations, strengthening them long-lastingly. For instance, it is eloquent what the law historian Jerold S. Auerbach (1983, 43-44) had pointedly noted regarding this aspect: "As the geographical, religious, and ideological boundaries of community receded, commercial bonds were strengthened. Paradoxically, the pursuit of self-interest and profit generated its own communitarian values, which commercial arbitration expressed. The competitive individualism of the marketplace was checked by the need for continuing harmonious relation

[6] In order to be more specific, we state that we have in mind the authors that have supported the property rights paradigm in an unadulterated manner: the representatives of the School of Salamanca, later on, the members of the French School (Cantilion, Bastiat, Turgot, etc.), and in the last century, the coryphaei of the Austrian School of economics. This perspective is less present in the theorizations of the consecrated free-trade-economists such as Smith, Ricardo or Mill, who agreed on, in certain degrees, (too) many aspects of state involvement in trade issues and, implicitly, in private property rights.

among men who did business with each other. [...]. Once commercial activity stabilized in a marketplace economy, merchants were conspicuous for their retention of anti-legal values. Their hostility to judicial dispute settlement did not recede until courts, early in the nineteenth century, moderated their own anti-commercial doctrines. It may seem odd that in a highly competitive economic culture merchants and businessmen retained the most enduring commitment to non-legal dispute settlement".

For the classical economists, particularly starting with Adam Smith, the fact that from pursuing one's own interests the whole society benefits is not a paradox. Quite the contrary. It is not the time, nor the place to recollect this cardinal debate in the economic science that marked its epistemic existence and practical developments, and has inspired economists over time. A minimal consultation of the documents related with trade between nations fully reveals an ever growing obsession towards regulating trade instead of securing the definition, defence and disposal of property rights. Today, accession to a multilateral organization or signing a bilateral agreement, such as GATT / WTO or the various FTAs, should stimulate trade development in an unparalleled manner, since it rests upon governmental commitment, the most consistent and coherent form of sovereign will in modern social relations. These frameworks should solidly increase trade volume and develop strong free market habits. And the question is: why in such thick, paper mongering, bi- or multilateral trade agreements, what is noticeable sensibly more often are the (so) many types of barriers (still) allowed to exist and the myriad of references to the regulations of commerce among countries the enterprises had to obey?

As a benchmark for the forgotten pre-modern simplicity, some economists pointed out that the old US Constitution needed only 54 words to establish free trade with countries such as Canada and Mexico. Later on, the North American Free Trade Agreement, which was officially established in 1993 (and came into effect on January 1, 1994) as a form of dissatisfaction with the slow and dull process of liberalization under the auspices of GATT, managed to reach no less than over 2,000 pages, 900 of which dedicated to tariff quotas, while members' obligations targeted only 10 per cent reductions in tariffs, and this only for 15 years[7].

[7] "No tax or duty shall be laid on articles exported from any state. No preference shall be given by any regulation of commerce or revenue to the ports of one State over those of another: nor shall vessels bound to, or from, one State, be obliged to enter, clear, or pay duties in another" (quoted in Batemarco 2007, 67).

These kinds of bureaucratic arrangements simply operate on the old principle "thus he who advocates tariffs, censorship, foreign exchange control, price control supports a positive program that will provide jobs for customs officers, censors, and employees of the offices for price control and foreign exchange control" (Mises 2012, 61). GATT, which aimed to remove, as much as possible, governments and red tape from economic transactions, has failed for 50 years to lower state involvement in international trade. Nowadays, "the crowning jewel of managed trade is the World Trade Organization. Instituted to replace GATT, its 29,000-page treaty is a bureaucrat's dream came true. Its driving force comes from those who see government's job as civilizing the market (which they believe would otherwise operate as the law of the jungle). While those 29,000 pages say little about deregulating trade, they say a great deal about regulating everything else" (Batemarco 2007, 70)[8]. Of these new stars (better said, "black holes") of this quasi-Orwellian "newspeak" built in the name of "fairness" there may be mentioned: a). advocating minimum wage laws in low-wage countries (thus erasing those workers competitive advantages, under the camouflage of social concern and equitable treatment across the world); b). advocating anti-dumping laws (nothing more than shielding entrenched multinational corporations from the competition of Third World upstarts); c) advocating (upward) harmonization / uniformity of standards in labour, environment and health (the countries with the least restrictive measures being coerced to ratchet them up to the level of the most restrictive). The allegedly free (also allegedly fair!) trade enters the vertigo of international interventionism: the aim is not "worldwide free trade based on the division of labour, but rather [...] a worldwide welfare state based on the faith that bureaucrats know best how to run businesses in which they themselves have no stake" (Batemarco 1997).

As highlighted long time before the WTO upgrade, measures which are being put into practice in the form of (fairness-inspired) "nee-protectionism", whose methods are based on old GATT's "safeguard clauses" or on new variants of protectionism not covered by multilateral trade regulations, are of vested-interests origin. "«Undesired imports», for example, are being blocked by import quotas or «voluntary» marketing agreements. Currencies are being

[8] For a discussion on the bureaucratic divorce of the free trade rhetoric and the real policy measures in international trade, see also Hudgins (1997).

devalued or necessary revaluations delayed so as to make national exports cheaper and imports more expensive. Other non-tariff trade barriers are being erected by subjecting imports to stiff rules and regulations as well as to tough specification standards or complicated clearance procedures" (Lang 1984, 131). The international-conflict state of spirit in world trade pays tribute to the dynamics of vested pressure groups which simply annihilates the logic of genuine free trade universal / public benefits: "Trade disputes [...] are the external manifestation of an internal struggle within each country: a struggle between vested interests and the public interest. The rise in protectionism is simply a sign that special-interest pressure groups have been increasingly successful in their quest for public support; [...] that governments have found it increasingly difficult to resist" (Banks 1984, 133).

That man has historically become civilized through trade, through the essential advantages that derive from its voluntary nature, as peace, cooperation – always advantageous for both sides, regardless of religion, ethnics and other social categories –, and division of labour, looks nowadays for too many a thesis of "obsolete philosophers" unable to care for current and practical things. The "new man" is involved in the city's administrative life, is quite adapted to the current state of affairs, he is a technocrat who always proposes measures of "civilizing" the expansion of the state, but nevertheless expanding it. Bureaucrats maintain the functions within the WTO / FTAs-type entourages by proposing shelves of documents, plethora of commissions and sterile forums in order to legitimize the favours for certain members(' interests) at the expense of the silent majority of worldwide consumers(' community). This could be summarized in the following dictum: "we are favouring free trade as long as it does not affect the influent producers and our administrative jobs". What other purpose could have the policy of criminalizing dumping, for instance? Numerous tests and calculations, pre-emptive measures, assessment and control diligences are necessary to determine and solve the issues of "dumping prices". Even those who do not resort to dumping waste time and financial resources to prove their innocence, actually contributing to the consolidation of the administrative apparatus and the protection of political entrepreneurs' interests.

Enlarging the picture, if we make the indispensable distinction between the *political integration* which assumes territorial expansion of state's power to tax and regulate property (meaning expropriating) and *economic integration* which represents a widening of the inter-personal and inter-regional division of labour and the participation to the exchanges being held on the market (Hoppe 2010, 289-290), then we can include the bureaucratic management of trade relations as being part of the process of political integration of WTO / FTAs member states. As such, we identify a process lacking the vital instrument of economic calculation and the work of sound incentives. Without significant calculation and proper incentives, the costs of bureaucratic actions cannot therefore be known or measured, and the decisions taken will not reflect the values of the private owners of tradable goods, which will be diverted from the real ends (as it is supposed to happen in case of pure economic agreements, voluntarily established between "private agents". Unable to get encapsulated in freely-formed-price-calculations, "officials"' undertakings in the realm of the WTO / FTAs can be named only metaphorically "services". Moreover, given the need for entrepreneurs to ease the shift throughout the tough mechanisms of the politically enrooted bureaucratic system and not to jeopardize their business activity by getting to be accused of so-called "unfair practices" (such as breaking the regulations concerning environment, quality standards, costs, rivalry or intellectual property), bureaucratic functions tend to spread also in the private companies, and the oases of calculational chaos also tend to reign in hampered markets (problem theorized by Rothbard (2004, 952)).

The thesis according to which global trade managed by an intergovernmental organization or bilateral trade agreements are not genuinely free trade should not surprise too much. Even a prestigious economist like Jagdish Bhagwati (2002, 116), ex-counsellor of WTO and GATT directors, draws attention on such illusion: "as the great economist Jacob Viner pointed out in 1950, when asked by the Carnegie Commission to write a report on post-war commercial arrangements, free trade areas (FTAs) are not free trade. While they remove tariffs for member countries, they also increase the handicap (for any given external tariff) that non-members suffer vis-à-vis member-country producers in the markets of the member countries, implying therefore protection against them. So, FTAs are two-faced: they free trade and they retreat into protection, simultaneously"[9]. [...] Affirming a couple of pages

[9] See the book *Free trade today*, by the law and economics professor of the Columbia University, Jagdish Bhagwati (ex-professor of Paul Krugman), released in 2002 at Princeton University Press (Bhagwati 2002, 107).

after, that few bureaucrats and politicians "really understand the distinction between FTAs and FT (free trade)"[10].

After we've briefly raised some doubts on the free trade pedigree of multilateral formats such as GATT / WTO or Free Trade Agreements, it is useful to examine further the principles underlying the WTO so as to identify the (perverted) effects upon the international trade it allegedly frees, as in fact it (only) succeeds in managing / controlling.

The World (of-not-so-free-) Trade Organization

The idea of establishing an organization to regulate the trade among countries was not new. Before the WTO there were circulated projects such as the Multilateral Trade Organization or the World Trade Council and it was even attempted the setting up of an International Trade Organization. All of these had in common the objective of global trade regulation and planning in the name of "free trade". Lew Rockwell (1994) pointed out that along with the name of the newly created World Trade Organization the governmental representatives wished to somehow get rid of the bureaucratic mantra associated with the obsolete General Agreement on Tariffs and Trade[11]: "at the end of the Uruguay Round in December, US Trade Representative Mickey Kantor changed the name of the bureaucracy. It would now be the World Trade Organization, or WTO. That title has more «gravitas» […] and sounds less bureaucratic".

But the step of converting the GATT agreements into a global organization meant nothing less than mere internationalization of interventionism (Lal 2005; Jora 2013): the transition from the national asymmetrical protectionism / interventionism to an international compatibilized and concerted

[10] Or in another paper, when analysing the effects of preferential agreements upon free trade, he points out the political nature of Free Trade Agreements: "Despite a flurry of activity to launch an East African Common Market and the Latin American Free Trade Area, nothing transpired. Why? The reason was pretty simple. The developing countries in question wanted to allocate the different import-substituting activities among themselves by bureaucratic decisions and then support these allocations and intra-PTA (Preferential Trade Agreement – A/N) specialization by managed trade, instead of liberalizing trade among themselves and letting the market decide who got what of the activities. The sheer difficulty of bureaucratic allocations, and the politics that would attend such decisions, got the whole effort mired in the mud. Trade should lead to production specialization; these PTAs tried to do it the other way around, putting the cart before the horse" (Bhagwati 2008, 30).

[11] Wisely nicknamed "Gentleman's Agreement to Talk and Talk".

interventionism. The privileged national companies got in the position of receiving their own governments support also on the global markets once negotiated and agreed upon the cross-sector and cross-country trade-offs. Besides the protectionist effect of retaliation from foreign competitors, there are established and developed common protective measures, now made relatively compatible with each other: "trade policies of different countries interact, which is the same to saying that there are interactions also between political markets on which the levels and the benefits of protection are being determined" (Negrescu 1998, 209).

It is obvious, therefore, that not only the name of the organization was intended to resonate with business and liberal economy, but also the entire props of terminology delivered by the WTO officials. Only it was profoundly twisted from the semantic referential provided by the marketplace functionality. Therefore, we have a *political competition* instead of an economic one, we have *trade negotiations* although there are not business negotiations between entrepreneurs, but political negotiations, we have *regulated trade* even if free trade is invoked. The economic philosophy of the organization is a conventional one. Operating with the *neoclassical theory of market equilibrium*, it operates with the policies inspired by the highly unrealistic concepts related to the model of *perfect competition*, *fair competition*, *fair trade* or *perfect knowledge*, and keeps theoretical contradictions in the system[12].

At the meeting in 1994 in Marrakesh those who signed the act establishing this famous organization were not entrepreneurs, companies and operators, but ministers from 117 countries (out of 124 who participated). It was not the owners from various countries who decided, peacefully and profitably, rules and standards to govern their trade. The whole Uruguay Round was explicitly politics-oriented: customs duties, non-tariff barriers, trade in tropical products, trade in natural resources, trade in textiles and clothing, trade in agricultural products, revision of GATT provisions, safeguards, completion and update of the agreements concluded in previous rounds, settlement of disputes between contracting parties, subsidies and countervailing duties, trade aspects of intellectual property rights, commercial aspects of investment measures, trade of services, or functioning of the international trading system (Miron 2007).

[12] On epistemic realism within economics, see Hülsmann (2000).

A free-trade-principled analysis of WTO principles

The WTO themes of negotiation express, in our understanding, rather than the promised freedom of exchanges, the *politicization of trade*.

In relation to its nominal goals of opening markets to competition, the main thing needed is still far from being achieved: "real free trade, consisting of unilateral lowering of trade barriers, is unheard of at the WTO. Economic freedom would leave its bureaucrats with essentially nothing to do" (Sheehan 2009).

WTO's work is of political type, with all the characteristic elements of politics: a type of political competition and political entrepreneurship habits, specific incentives and collective / coercive decisions against entrepreneurs-owners.

Furthermore, we will argue that the entire system of rules created within its settings is based on a plethora of principles – among which the main are *non-discrimination*, *reciprocity*, and *liberalization*[13] – which do not (necessarily) promote free trade:

(1) *The principle of non-discrimination*

This principle is grounded on the two well-known clauses: (a) "the most favoured nation (MFN) clause", under which a member country is compelled not to discriminate between WTO members, giving all members equal treatment (any advantage conferred to one must be extended to all members) and (b) "the national treatment clause", which prohibits the granting of preferential treatment, by differentiating between inward produced economic goods and those imported, once reaching the domestic market. The entry barriers are still allowed. This principle resonates more with the protectionist policies and denotes a lower understanding over the functioning of the market economy for at least two reasons: it involves other laws and regulations that overlap with free trade, which has its own laws and institutions (private property, free and sound money), while it is not a so wise decision to intend to reach at some indiscriminately trade through hoards of documents and

[13] Other principles are that of *encouraging the development and economic reform* which, by granting concessions and assistance to developing countries, that focus primarily on increasing the periods for the implementation of agreements, technical assistance and trade barriers, ignores and contradicts what the WTO is aiming through an open global trade; and that of *predictability through measures of regular surveillance of national trade polici*es, trying to ensure a transparent and stable business environment, kept in this manner exactly by promoting the WTO policies of incomplete market opening.

regulations that only hinder trade. Once applied consistently, this clause would mean the institution of continuous tracking and supervision, thus turning the WTO into a Big Brother of world trade, though useless since the nationalist measures within the country can be unnoticeable or indirect. At every step, the governments, through their specific interventions on their domestic market, are capable of prejudice, to discriminate the foreign goods and services by offering incentives (tax, banking, monetary, etc.) to national companies in all stages of their production process and distribution, along with the obstructing and the hindering of the foreign firms' businesses. By setting up some WTO regional agencies to ensure the transparency and implementation of the non-discriminatory measures, we may arrive just at the bureaucracy and the politicization of trade that we were presumably trying to escape from through the foundation of the organization. This principle of non-discrimination is consecrated as the basic principle of the international trading system and seems to be accepted by everyone, from the public space technocrats and the policy makers to the multinational companies and consumers, at least at the rhetorical level. Ironically, at this "politically correct" principle it has been arrived because of the interventions that the same state(s) (and not the free market) enforced, so not discrimination should be considered a virtue and sought after in international trade, but freedom. On the free market, not discriminating is, in fact, pure nonsense. Any individual when chooses to take an action discriminates[14]. As essential and natural, the principle of freedom to trade internationally and respect for private property is to be followed in the global trading system and not the equivocal principle of non-discrimination.

(2) *The principle of fair competition*

This principle aims at ensuring equitable trade conditions by decreeing certain practices as "unfair" through various protectionist ways. The following

[14] If a student that has a 100 bill decides to go to a bookshop instead of a shirt shop, we could say that he discriminates the shirts' seller. If, in that bookshop, he decides to purchase an imported book, we could say that national and local publishers' writers are being discriminated. But this reasoning (to accuse him of discrimination) is absurd, when all he does, as legitimate owner of the 100 bill (acquired by peaceful, economic means), is to decide the preferred destination of his money. For a discussion on the subjective nature of preference, value, cost and reconstruction of the utility concept and welfare economics, starting with private property and demonstrated preference (*volens nolens*, involving discrimination), see Rothbard (1997a; 1997b), commented in Moşteanu and Iacob (2010) and Iacob (2011).

practices were established as incorrect, affecting competition: dumping, subsidies, procurement, breach of environmental standards, breach of intellectual property rights, anti-competitive practices and others. But, carefully scrutinized, "fair competition" is a concept, part of the dominant neoclassical model which overlooks and so obstructs precisely what was inbuilt in this principle: the intensification of the competitive process. This concept involves equilibrium, a perfect knowledge and a perfect and pure competition, in which those who generate the market process on a free market, giving birth to prices (that is the entrepreneurs and consumers) are ignored along with the real conditions of their actions: uncertainty and inconstancy, dynamic competition, dispersed and intimate knowledge etc. "Dumping", for instance, is just a common and legitimate business practice of those owners that act within the boundaries of their legitimate property, thus not materially harming the competitors and the competition process. Consistently defined, "illegitimate" means to allow someone else and not the owner and its consented partners to set the price of tradable goods. Moreover, subsidizing foreign goods is a benefit to the citizens of the importing country, both as consumers (whose consumption is eased) and as manufacturers (using cheaper foreign components). Fighting dumping is, as in the case of all protectionist measure, fighting first and foremost your own consumer compatriots. People involved in trade want benefits, not equality. Then for whom is desired this alleged equality? Besides laissez-fair "dissidents", only few authors from the mainstream had formulated an analytically reasonable answer regarding the fair trade policy. Dominick Salvatore is one of them. He attaches to the fair trade a protectionist character: "Free trade is based on the notion of laissez-faire and lack of interference with the trading system. Fair trade, on the other hand, refers to unilateral rules as to what is permissible and what is not. Procedures to enforce fair trade often end up in protectionist measures. As Finger (1991, 21) points out, «in domestic politics, fair trade has come to mean the right to protection». Talking of fair trade, however, has put the defenders of a free multilateral trading system on the defensive since no one can really argue against fairness in trade" (Salvatore 1993, 312). At this point, our intention was basically to emphasize that free competition is not covered by this principle, the reasons of unfair trade and its protectionist inherent character stand in a rather counterintuitive relation to trade freeing / liberalization.

(3) *The principle of liberalization*

The pursuit of this principle is also done bureaucratically, and what is finally achieved is just a certain degree of freedom to trade, gradually got through public debates that take place in the rounds of negotiations with results that are modest relative to the intended scale, resources allocated and claims announced. "Since GATT's creation in 1947-48, there have been eight rounds of trade negotiations. A ninth round, under the Doha Development Agenda, is now underway. At first, these focused on lowering tariffs (customs duties) on imported goods. As a result of the negotiations, by the mid-1990s industrial countries' tariff rates on industrial goods had fallen steadily to less than 4%" (WTO 2011, 11). We notice here the operation with a different concept of liberalization, somehow departed from the authentic sense. This vitiated concept is common to the verbiage of Free Trade Agreements and GATT, containing exactly the same types of perverse incentives described above, and in which not only that some of the mercantilists' thoughts (e.g., policies to stimulate exports and restrict imports) were kept untouched, but new ones have been added. In the WTO framework, the true incentives to adopt authentic liberalization are missing. Due to the pentagonal structure, liberalization does not mean only removing trade obstructions coming from governments, such as those discussed (customs duties, quantitative restrictions, etc.), but also removing standards of all types (environmental, qualitative, quantitative, safety measures, etc.), as well as all regulations and interference with the pattern of trade which may not be consistent with the objectives dedicated to the full creation of genuine free trade. A policy of true liberalization means, in a substantive interpretation, the adoption of sound money, issued un-monopolistically, even outside the usual central banking system. By sacrificing any of these, "liberalization" will be used only as a tricky way of enriching officials and lobbyists. Assuming a liberalization policy in which currency is built so as to be issued exclusively by state authorities and not be subject to the market test leaves society still at the mercy of protectionist habits: the state's influence continues to be an essential tool for the distribution of privileges, ordinary people's monetary incomes being "softly" exfoliated through monetary mechanisms. Short of an un-manipulative currency, it is nonsensical to advance the idea that managed trade under the institutional auspices of WTO might help the carrying out of a structure sustainably devoted to liberalization. "If, therefore, the state is able to gain unquestioned control over the unit of all accounts, the state will then be in a position to dominate the entire economic system, and the whole society" (Rothbard 2013, 26).

Trade: market competition vs. protection market

Gradualism is, arguably, the means of obtaining (some) freedom, but all this according to government's tastes. Having other hidden purposes and a core misunderstanding of what liberalization means and serves for, the state enters the never-ending game of trying to mitigate the "unintended consequences" of (incomplete) freedom, even up to suppressing it, because, as Mises (1990) stated, interventionism is unstable and needs perpetual fixing. More precisely, since the economic calculation is a paramount societal tool (Mises 1998), the remoteness from this fundamental function of generating (in our case, international) market prices (where they are the result of free trade between legitimate owners) hampers both worldly peace and prosperity. Without rational economic calculations, the whole economic process is vitiated and the prolongation of protectionist policies could lead to the collapse of civilized society.

Gradualism only keeps still, to varying degrees, the political protectionism under the guise of various bottlenecks such as reciprocity measures. To rely on an argument that "those pauses are good in that they allow members to digest previous agreements and conserve energy for future multilateral trade negotiations" (Irwin 2000, 355) is as if we could substitute metaphors for pure economic reasoning with no significant cost. It's pretty clear that some countries seem to need a process of "digestion" to last for decades, but this may not be necessarily a prudent strategy as laymen think. These long "breaks" camouflage protectionist tools which consolidate poor economic performance, the waste of resources through calculations in terms of vitiated prices and through the perversion of human incentives, substituting at the margins the "hunt" of privileged positions in the economy for productive and socially coordinated work.

In terms of an enriched, property-rights-enrooted, economic analysis (Hülsmann 2004; Jora 2013), it is obvious that the "uninvited co-owners" should be excluded from trade, but this could be more easily achieved through unilateral liberalization strategy and not through political negotiations under WTO's "reciprocity aura", as many economists naively consider. Or: "Why should we subject our population to more tariffs and prohibitions merely because other countries do so to their populations? To borrow an analogy from the British economist Joan Robinson, there is nothing very clever about tipping boulders into your own harbors just because your neighbors have rocky and inaccessible coastlines that make it hard for your own ships to dock. Saying *I'm not going to allow myself to choose from a wider range of good, cheap products unless you do the same* is a sacrifice, not a cunning reprisal" (Norberg 2010, 117).

The logic of seeking "reciprocity" and "non-discrimination", and this as "gradually" as possible, denotes another fatal flaw in the mainstream line of reasoning: (international) trade is perceived by some as a "fight", not as mutual welfare enhancement. Liberalization is not about (good) rules universalization across jurisdictions, as root of sound ethics and economics, needed for acquiring peaceful and prosperous order, but concessions from the cross-border "double standards"' twisted normality. As North (2012) noted: "People who favour tariffs are willing to admit that people should have a legal right to trade without state interference with people across the street, or people outside the zip code, or people across the county line, or people across the state line, but then they think the state should revoke this right at the national border. The logic of free trade supposedly stops at the national border. So does the logic of ethics".

Conclusions

Within the framework of political agreements, a policy of genuine liberalization will not have many faithful supporters. The logic of political competition supports measures that extend protection and redistribution, as there never is a shortage of ideas about "how to build enterprises with other people's resources". The incentives also act in favour of maximizing the rent-seeking returns, since the bureaucrats / technocrats are able, under the auspices of international political agreements, to capitalize even more of the share of the society / societies' resources which they obtain, as they feature the scene as "unwanted co-owners" of the legitimate properties of fellow citizens. The political competition over socialized resources is heavily accelerated by development of the parasitic skills needed to secure the access to the bureaucratic apparatus[15], and this extremely erosive political competition grants the selection at the top of the hierarchy of precisely the most skilful bureaucrats and political entrepreneurs in the field of expanding the protection and interventionist measures. It is a utopia to believe that someone can convince them to give up these benefits by supporting liberalization through the WTO[16], FTAs, and, basically, the member states, as the sole pretended catalysts of free trade. Nobody should expect a regulator to be a promoter of liberty. Under the excuse of deregulating international trade, new dedicated measures are introduced (in a disguised manner, or politically consented at the international level, upon trade-offs involving benefits for the entrenched clientele and costs for the "unaffiliated" categories). These generate a whole political market with political decision-makers, entrepreneurs-clients (socially infertile), who are well organized so as to support those attracted by the benefits granted at the expense of their fellow citizens.

The alternative to political favours (often obtained at great societal cost) cannot be a profitable investment for the players accustomed with this altered market. The shift to a real free market, with real competition sanctioned solely by the consumers, with the real liberation of captive customers and adequate structural adjustments, would nevertheless mean losing the benefits (for politically "relevant" players) offered by trade barriers. All these make more difficult and unprofitable (costs would exceed benefits for the "relevant" agents) the implementation of the liberalization policy. Therefore, we can consider the multilateral bureaucratic management of liberalization as effective only to the extent that the expansion or preservation of trade protectionism is desirable. But such market, unfair and expensive for the population, is a fiction that cannot deliver its stated purposes and can never be flourishing at society's level.

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[15] For a straightforward analysis of the consequences of the socialization of property on human behaviours and types of personality, see Hoppe (2010).

[16] As Douglas Irwin (2000, 355) idealistically argues, hoping that liberal economists can set or change the objectives politicians paid precisely from the state expansion: "We should keep the WTO focused as much as possible on reducing border measures and not expand its agenda hastily by groping for new issues (many of which are going nowhere fast anyway) when there is plenty to do on the old issues".

As it can historically be observed, along with the resignation in front of such malformed markets, it is actually being accepted the entrenchment of the different forms of coercing trade, be they domestically camouflaged of internationally accommodates, and therefore the return to a simple way of trading, freely consented by private owners-entrepreneurs with their customers, gets not only difficult in practice, but also undesirable. And although "on the record", nowadays, positions supporting protectionism seem, despite the present crisis of spasmodic protectionist ideas, rather rare, we may still observe that the current concept of "liberalization" entails, as a priority, the accommodation of privileges (see the Doha spirit). By creating the WTO or establishing FTAs, the old protectionist instruments (tariffs and quotas) have been replaced with those of a new protectionism, preaching for "standards of fairness".

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INTEROPERABILITY IN EU CUSTOMS

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Abstract

In order to facilitate legitimate trade and the fight against fraud requires simple, rapid and uniform customs procedures and processes. Customs procedures should be merged or aligned and their number should be reduced to those that are economically justified in order to increase competitiveness.

Using information and communication technologies established by the Decision European Parliament and Council on a paperless environment for customs and trade, is a key element in ensuring trade facility and the effectiveness of customs controls as well, thus reducing costs for businesses and risks that society faces.

Key words: customs system, European Union

JEL Classification: F40, G0

Legal considerations

The implementation of the customs territory of the Community ECS emanates the following community rules:

- *Regulation (EC) no. 648/2005;*
- *Regulation (EC) no. 1875/2006.*

As of 01/07/2009, became mandatory use of phase II of the ECS, which involves establishing a common level of protection in customs controls on goods leaving the customs territory of the Community, the distribution of risk analysis performed between customs authorities involved and managing the exit summary declarations - EXS.

EU legislation requires that all goods out of the customs territory of the Community, regardless of their final destination, be subject to risk analysis and

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customs controls. Therefore, it is necessary to establish a common level of protection and to ensure uniform application of customs controls by each Member State.

The customs authorities of the Member States are obliged to exchange information on the risks posed by exported goods. For this purpose it is necessary to establish a common secure allowing authorities the access to information transfer and exchange them in a convenient and efficient way.

In case of goods leaving the customs territory of the Community shall be covered by a customs declaration or an exit summary declaration, they must be submitted to the competent customs office in the following terms:

When shipping:

1. For containerized cargo, other than those covered by (iii) or (iv) at least 24 hours before the goods are loaded onto the ship in which they must leave the customs territory of the Community;

2. For bulk/break, at least 4 hours before leaving the port in the customs territory of the Community;

3. For movement between the customs territory of the Community except French overseas departments, the Azores, Madeira and the Canary Islands and Greenland, the Faeroe Islands, Ceuta, Melilla, Norway, Iceland, ports on Baltic Sea, North Sea, Black Sea, Mediterranean or all ports of Morocco, at least 2 hours before leaving the port in the customs territory of the Community;

4. for movements performed in cases other than those covered in paragraph (iii) between the French overseas departments, the Azores, Madeira, Canary Islands and territories situated outside the customs territory of the Community, where the journey is less than twenty-four hours, at least 2 hours before leaving the port in the customs territory of the Community;

In the case of air transport, at least 30 minutes prior to departure from an airport in the customs territory of the Community;

In the case of rail and inland course, at least 2 hours prior to departure from the customs office of exit;

In the case of road transport, at least 1 hour prior to departure from the customs office of exit;

If suppliers of spare parts, for incorporation in ships and aircrafts to repair and maintenance of their motor fuels, lubricants and gas which are necessary for the operation of machinery and equipment used on board for food products for to be consumed on board, at least 15 minutes before departure of means of transport from the port or airport in the customs territory of the Community;

Another new set of Community customs legislation is the obligation to provide pre-departure information for all goods leaving the customs territory of the Community. This information must be available before the goods leave the customs territory of the Community.

There are established rules and deadlines vary depending on the type of product, mode of transport and type of businesses.

Exemptions from submitting exit declaration (EXS)

Community law provides for several types of goods/or traffic for which the EXS is not required. Among the most important means of carriage are:

- *Empty containers;*
- *Intra cargo movements;*
- *ROB cargo (cargo remaining on board - FROB), including cargo loaded in other EU ports.*

Also, are excluded from the exit summary declaration submission non-community goods temporarily stored or trans-shipped term.

The exit summary declaration (EXS) shall be lodged at the customs office of exit. For maritime traffic that is Community port where cargo is loaded on a vessel that will bring in the Community, even if the vessel makes stops in other EU ports before leaving the Community.

The exit summary declaration shall be lodged by the person who brings the goods from the customs territory of the Community or responsible for the transport of goods from the customs territory of the Community - the carrier or by any other person who has or may have the authority to present the goods to the customs.

Ics - import control system

As of 01/07/2009, the customs territory of the Community shall apply the Import Control System (ICS). ICS is the first phase of the Automated Import System (AIS).

The objective of AIS is that import operations started in one Member State can be completed in another Member State, without relaying the same information to the customs authority. This includes the electronic exchange of messages between customs authorities and other public operators on the different stages of import operations. In Romania, was implemented starting with 1.10.2009.

Advantages of using ICS

For customs: fast receipt of entry summary declarations and evaluation on the goods to be brought into the customs territory of the Community, making a more effective customs control of goods and the reasonably use of the information necessary for control.

For operators: the possibility of filing the entry summary declaration at a customs office different from the first office of entry into the customs territory of the Community.

How is applied ICS?

ICS functionality consists of the following operations which are carried out between the operators or shippers and customs authorities of the Member States as follows:

1. Operators transmit electronic entry summary declarations to the customs before entering the customs territory of the Community;

2. Computer application of the customs authority verifies the data contained in the entry summary declaration;

3. The customs entry summary declaration recorded by the computer program by allocating a number called MRN (Movement Reference Number) or reject its registration where it appears that it is not properly completed;

4. If the entry summary declaration is registered / accepted, the customs authority shall send its registration number (MRN) to the economic operator and carrier;

5. If the entry summary declaration is rejected, the customs authority shall notify the economic operator and carrier regarding this decision.

The data to be entered in the entry summary declaration are mainly those relating to: goods description (description of goods, quantity, weight, number of items, etc.), consignor, consignee, carrier, and other details relating to the carriage. This information is different depending on the transport mode.

The entry summary declaration shall be lodged by the person who brings the goods into the customs territory of the Community or arranges their transport to the territory.

The entry summary declaration may be lodged by:

- *The person in whose name acts the person who brings the goods into the customs territory of the Community;*
- *Or any person who is able to show or determine the goods to the competent customs authority,*
- *A representative of the people mentioned above.*

Exemptions from filing the entry summary declaration

All goods brought into the customs territory of the Community must be covered by an entry summary declaration. However, an exception applies to commodities such as:

- *electricity;*
- *goods entering through a pipeline;*
- *letters, postcards and printed matter, including on electronic medium;*
- *goods under the rules of the Universal Postal Union;*
- *goods covered by customs declarations made by any other act in accordance with art. 230, 232 and 233 of Regulation (EEC) no. 2454/93 of the Commission, except pallets, containers and means of road, rail, air, sea and inland waterway transport in the transport contract;*
- *goods contained in the personal luggage of travelers;*
- *goods for which an oral declaration is permitted in accordance with art. 225 and 227, and art. 229 (1) of Regulation (EEC) no. 2454/93 of the Commission, except pallets, containers and means of road, rail, air, sea and inland waterway transport in the transport contract;*
- *goods covered by ATA and CPD;*
- *lots of goods whose intrinsic value does not exceed 22 euros, provided that the customs authorities accept, with the economic operator to carry out risk analysis using the information contained / provided by the system used by the economic operator.*

Conclusions

Developing these measures, starting from 2009, and implementing electronic procedures have led to greater flexibility of customs, and increased their efficiency. These electronic declarations help to establish even from statistical point of view, much easier, the level for certain categories of goods.

Implementing new electronic procedures facilitates the export, or import operations, the economic operators are not suffocated anymore by bureaucracy, they can fill entry declarations even in other customs office in another Member State, not just the entry one.

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SUPPORTING GREEN ENTREPRENEURSHIP IN ROMANIA - IMPERATIVE OF SUSTAINABLE DEVELOPMENT

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Abstract

In the contemporary context of sutainable development we suggest that it is a strategic importance for romanian governement the elaboration and imlementation of a new strategy that should focuse on the problem of green development of entrepreneurial activity. In the vision of this strategy which we propose in this papper, the green entrepreneurs are those persons who are able to create or conceive new businesses after an realistic observation or preliminary identification of new opportunities and business ideas. Also, green entrepreneurs have the capacity to assume the risks necessary to attract resources (financial, human, technological) in order to implement and trade these ideas. Thus, in the context of this strategy we can emphasize that the green entrepreneur's motivation would range from pure economic opportunity (whereby the green nature is merely the best opportunity rather than a motive itself) to a simple desire to help or change the environment (whereby the entrepreneur could well be starting an environmental nonprofit).

Keywords: *entrepreneurial activity; green entrepreneur; green entrepreneurial sector; sustainable development;*

JEL Classification: M13, O31, O44, Q55, Q57

Introduction

Entrepreneurs are agents of change and renewal in the economy and, as such, are important actors in the transition towards a green economy. Entrepreneurial dynamics is fundamental for large scale transformation, as new firms bring new ideas to the market and challenge established patterns. New firms, created or run by green entrepreneurs, often exploit opportunities that have been neglected by more established companies and are a key driver of

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radical eco-innovations Green entrepreneurs are a highly heterogeneous group, with different motivations and strategic objectives. They combine to a different degree and in different market contexts financial and environmental motivations.

In the current post-crisis period romanian entrepreneurs exhibit certain specific vulnerabilities suffer due shock twofold: on the one hand, a sharp drop in demand for goods and services, on the other hand, a tightening of credit conditions. Thus we believe that the facilitating entrepreneurs access to finance is crucial for the adoption of green technologies and investments in sustainable business practices.[Berkery, D. (2007)] We can mention that it is also vital to support eco-innovation contribution of entrepreneurs. Financial constraints are extremely high for new entrepreneurs in the innovation process because they have no experience, and their access to internal financing is limited. Moreover in the case of green innovation it becomes opportune the measure of increasing risk premiums as a result of technological and market uncertainties particularly high.

In this way, the entrepreneurs can determine new directions and ways of action that can become efficiency and successful models in industry and the other economic sectors and branches. [Linnanen, (2002)]

The typology of romanian green entrepreneurs on the coordinates of entrepneurial theory

While green entrepreneurs do have their share of differences from other business sector entrepreneurs, there may be more commonalities among all entrepreneurs in that they all share the same common goal: to build a profitable business. That means the entrepreneur must take on numerous roles outside their comfort zone. [Croston, G. (2009)]

Most successful romanian entrepreneurs will sustain that the success in their business was due to countless reasons - the people, the idea, the market, the partners, the competition, and just plain hard work [Cooney, S. (2009)]. So what do most romanian green entrepreneurs share in common? As a possible answer at this question we can mention that the successful greentrepreneurs tend to be focused on action over introspection, are inventive and innovative, and operate best when they are in charge. In addition we emphasize that the greentrepreneurs were actually highly influenced by their environment, suggesting that entrepreneurial characteristics can be learned and heightened through education and experience.

The green etrepreneur's influences will tend to come from a mixture of places, but may be based more on hard or soft sources. For example, hard or structural influences would be things like environmental regulations, a rise in funding for green businesses, increases in green consumers, growing market opportunities, and greater influence in the mass media of green themes [Croston, G. (2008)].

On the other hand, soft or socio-cultural influences are things like the prior personal experiences of the entrepreneur, his family and friends, his education, the organizations he belongs to, and the people in his personal network. These tend to create almost a passion for environmental or social causes, whereas the hard influences are much more data and factually driven.

Taking into account the suggestive argumentes espressed in entrepreneurial literature we can identified four main types of green entrepreneurs that we consider adequate for Romanian entrepreneurs: innovative opportunist, visionary champion, ethical maverick, and ad hoc greentrepreneurs.

The first two types of greentrepreneurs are motivated by hard structural influences such as market regulation or the growth of certain green consumers. The innovative opportunist is an entrepreneur that spots a business opportunity in the marketplace that happens to be green. The researchers give the example of an entrepreneur that developed a recycling operation for refrigerators after the EU passed strict legislation on recovery of Chlorofluorocarbons (CFCs). Other examples include companies creating wind farms, new energy-effi cient lighting, and hybrid and alternative fuel vehicles all of which are likely motivated by new market opportunities from regulations, consumers, or similar market opportunities. The visionary champion shares the innovative opportunist's identification of a market opportunity, but likely has set out to change the world and founded a business on broader sustainable principles.

In the final lines of this section we mention that the last two types of green entrepreneurs tend to build green businesses based on more on soft influences in sectors that may not have the benefit of government regulation, subsidies, or a mainstream market pull. [Zamfir P. B. (2014)]. Instead, these businesses could well be in areas that could be described as niches and perhaps succeed because rather than in spite of that fact. The ad hoc greentrepreneur is referred to as an accidental greentrepreneur, someone motivated by fi nance and not values.. The ethical maverick is more likely to be influenced by friends, family, and his social circle to develop a sustainable business.

The necessity of elaboration of Green Strategy for entrepreneurial activity development in Romania

In order to support the development of green entrepreneurship in the context of sustainable development we propose for Romanian Governement the elaboration of a green economic growth strategy, that cosider the green economic growth as an instrument which ensure the economic development while preventing environmental degradation, biodiversity loss and unsustainable use of resources.

This orientative strategy should be aware that for obtaining a sustainable economic growth are necessary major changes in policies, institutions, economy and social values. The phenomen of green transformation implies the radical change of social norms and patterns behavior, the exploatation of new business ideas and consumption , and that existing institutions and undergo a radical rethinking conventions and a structural rethinking of existing institutions and conventions [Makower, J. (2009)]. In the figure below we represent a schematic view of our proposal Romanian Green strategy of entrepreneurial activity development.

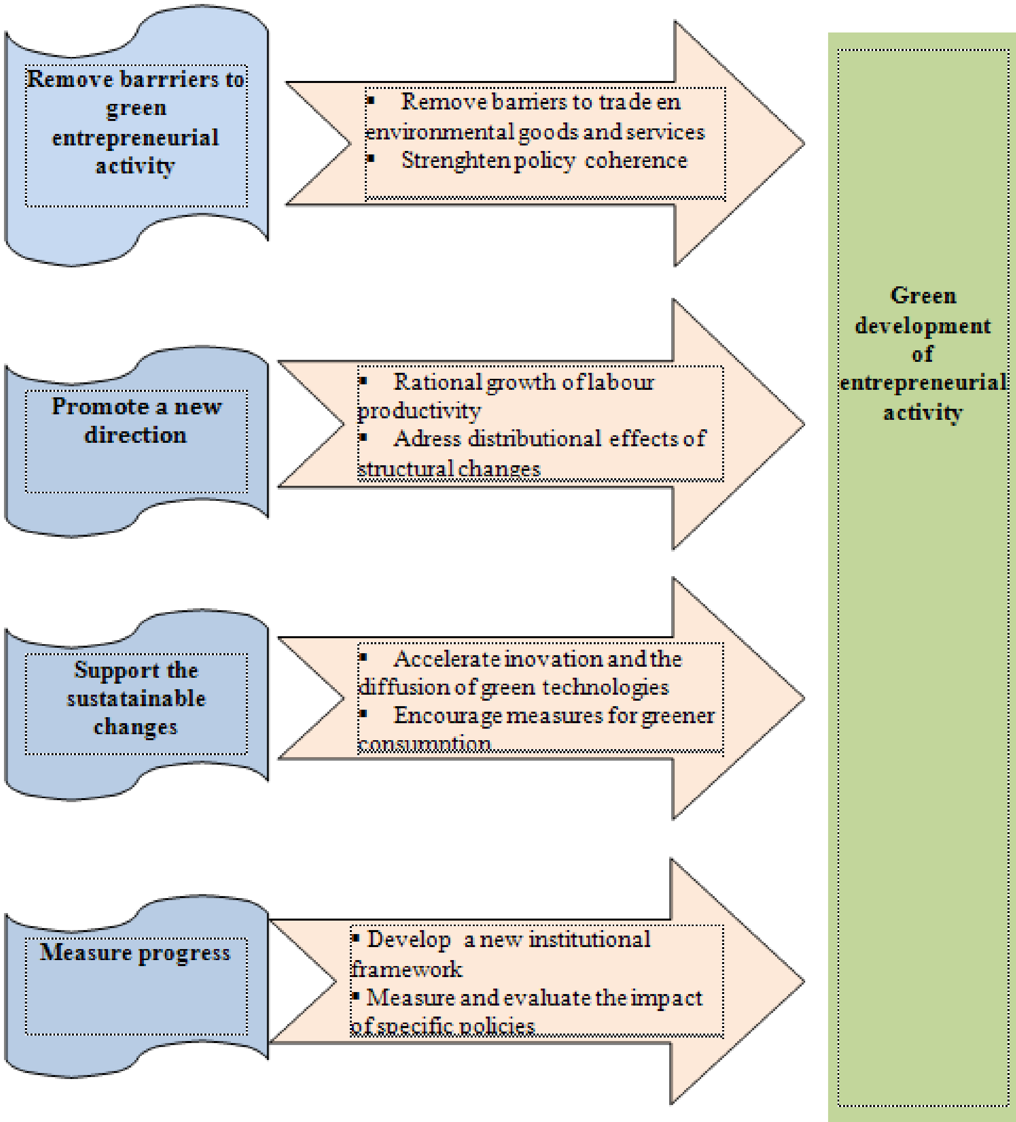

Figure no. 1
A schematic representation of proposal Romanian Green Strategy of entrepreneurial activity development

Thus, all these fundamental changes in the current configuration of existing structures and institutions are determined by the transition to green development of entrepreneurial sector that can provide huge opportunities for green entrepreneurs. In the vision of this strategy we consider that the green entrepreneurs can create new openings in industries where industrial field rapidly change as a result of transformations in the structure of social values, consumption patterns and reforms in the framework of legal and regulatory environment. Meanwhile green entrepreneurship provides the basis of new any green growth models such as innovation companies in the form of environmental solutions and high quality environmentally-friendly products, who substantially influences the national market. [Schaltegger, (2002)].

Green entrepreneurs in their quality of initiators of green business practices can be veritable patterns to follow for the entire business community. In this sense, we can say that the role of ecological models is to influence the behavior entreprenorial general, that will determine effective spread of their new ideas and sustainable practices in the field. In this sense we can say that the new business models can contribute to systemic innovation if they are widely disseminated. The spread and their impact is influenced by instituional and economic framework conditions which provide the economic efficiency of new models. However, new business models themselves could be one of the factors of change in framework conditions and trigger emergence of new patterns of production and consumption.

Also, we have to add that the success of green entrepreneur highlights the economic benefits that results from green businesses, thus providing for entrepreneurial environment the motivation to act in the same direction.

Therefore green entrepreneurs can contribute substantially to the acceleration of environmental progress by replacing products, existing market structures and consumption patterns with high environmental products and services. [Sharper M. (2010)].

The development of green entrepreneurship activity involves an adequate institutional and private environment that favor both setting up of new companies as well as market exit, thus facilitating the process of setting and liquidation of companies which will lead to new innovations.

In the content of this potential Green strategy for entrepreneurial activity development we can mention that antrepreneurial environement should be a priority area for Romania's economic development, in particular by encouraging the entrepreneurial initiative, valorisation their competitive potential and consolidation of the institutional and regulatory framework.

In the contemporary context of economic globalization entrepreneurial sector as an element of maximum visibility for Romanian economic environement have to pass to a superior stage, that of developing the competitiveness of on single market and in third markets.

The general objective of this strategy consists in support of entrepreneurial activity growth on the coordinates of sustainable development. Supporting the development of entrepreneurial activity based on increasing the production quality and eco-efficient business models provides encouraging innovation in entrepreneurial environement and in this way increase the competitiveness of romanian entreprises, especially on internal market.

At the same time romanian entrepreneurs are in direct competition with all the companies that offer products and services in global markets and therefore should be encouraged to use all opportunities to increase the competitiveness and business development.

Increasing the level of technological innovation in Romanian enterprises to improve the production quality and labour productivity that involves a vigurous public intervention to support them for the acquisition of new technologies that allow them the entry into the competition on international markets. The innovation encouragement in Romanian entrepreneurial environment is essential for economic growth and the creation of jobs and for solving the challenges related to of climate change, security, including security energy or aging of the population.

Improving the regulatory framework for entrepreneurial environment, the simplification of input / output procedures and the reduction of market and administrative barriers provide a better regulatory framework for all romanian entrepreneurs as a part of the growth effort and the assurance of jobs started by EU through Lisbon Agend and EU 2020 Strategy.

Through this strategy, the Romanian Government will encourage entrepreneurial sector to benefit from the business opportunities arising from the implementation public investment in areas such as sustainable resource use natural preventing climate change and energy efficiency.

These projects are at the same time preceding, which can lead to access by Romanian companies to new markets, at european and international level where they can replicate successfully the results of sustained efforts at the national level in research and development field.

On the other hand the Government of Romania will sustain entrepreneurs and at the same time, the actors who support business development in order to reduce the energy intensity of the technologies used by enterprises and their impact on the environment.

The innovation is key to competitiveness, especially in the conditions of globalization. Thus, for remain competitive, Romanian entrepreneurs should be innovative and invest the more in research and technological development so that adapt to the of changes occurring in the global economy and to be equipped to create environmentally-friendly products and services to commercialization [Drucker, P. F. (2006)].

The measures to simplify of regulations or measuring and reducing administrative duties in Romania will be coordinated with the the same type efforts of European Commission, aiming to avoid the occurrence of additional administrative barriers to those imposed by European rules .

Essential for successful achieving of objectives of administrative burden reduction is the systematic and efficient conducting of measuring actions of administrative costs imposed on entrepreneurial activity by the the regulations applicable to them.

In economic theory and practice is a universal truth that internationalized firms have a increased capacity for innovation, and the internationalization and innovation are key factors for stimulating competitiveness, which has an essential role in for economic growth and creating jobs.

Romanian entrepreneurs involved in international trade have a determinant role in reshaping the national economic landscape so that they can become an important instrument for increasing of national welfare .

In this context, we emphasize as a crucial direction of action the stimulation and amplification the capacity of enterprises to capture, create and retain more value in the country in a sustainable manner. This should be done by introducing or strengthening the efficiency and quality by encouraging of innovation and diversification of both export supply and of export markets.

Finally we must add that this strategy, is intended to continue the diversification and amplification of actions and instruments for entrepreneurship supporting, which it will lead to stimulation the creation of new productive enterprises in order to create new jobs for the development of entrepreneurial sector through the improvement their performance on global market.

Conclusions

Entrepreneurs are agents of change and renewal in the economy and, as such, are important actors in the transition towards a green economy. Entrepreneurial dynamics is fundamental for large scale transformation, as new firms bring new ideas to the market and challenge established patterns. New firms, created or run by green entrepreneurs, often exploit opportunities that have been neglected by more established companies and are a key driver of radical eco-innovations Green entrepreneurs are a highly heterogeneous group, with different motivations and strategic objectives. They combine to a different degree and in different market contexts financial and environmental motivations. The businesses created by green entrepreneurs embody their environmental values, but also propose innovative solutions to existing and emerging needs, contesting established markets or opening up new market niches. In this sense, as they demonstrate the possibility to combine environmental performance with market targets and profit outcomes, green entrepreneurs can act as a role model and influence market competitors and other potential entrepreneurs, diffusing and scaling up new business concepts, thus contributing to the expansion of green markets. Green entrepreneurs, as innovative entrepreneurs in general, are embedded into socio-economic and institutional frameworks, business networks and support structures. In this strategy which we propose it highlights that innovation is a highly interactive and multidisciplinary process, which increasingly involves collaboration by a growing and diverse networks of stakeholders, institutions and users. Therefore, green entrepreneurial dynamics is a dimension of a complex co-evolutionary process, which involves interrelated changes in societal values and institutions, consumption patterns, technologies, linkages and knowledge networks, among others. Changes are required at the broader level to ensure markets and institutional structures are more supportive to green entrepreneurial activities. This implies that a carefully designed mix of policy instruments is needed to open up new markets and opportunities to green entrepreneurs and to tackle many of the challenges that new and small green enterprises meet to perform and grow. The green entrepreneur has a particular and indispensable role to play in the current context of sustainable development. In this conditions the green entrepreneurs are self-employed or working for organisations (as employees), they are often at the origin of radical innovations. At the same time green entrepreneurs create companies and jobs, they participate in the renewal of the economic fabric. The economic activity of green entrepreneurs represents a real engine of sustainable development. Finally we consider that the green entrepreneurs must look for change, potential sources of innovation and relevant information about business start-up opportunities. Also, they must know and apply the principles that can enable them to implement innovations with the best chances of success.

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CHINESE OUTWARD DIRECT INVESTMENT IN CENTRAL AND EASTERN EUROPEAN COUNTRIES. A ROMANIAN PERSPECTIVE

Sarmiza Pencea, Iulia Monica Oehler-Şincai*

Abstract

China has been one of the great beneficiaries of globalization. For decades this country has succeeded in attracting and turning to good account substantial foreign capital inflows, which contributed to its unprecedented growth and development. Given its changed economic fundamentals after decades of accelerated transformation, China is now bound to adjust to its new internal and external realities and implement comprehensive reforms, including some touching capital movement.

The present paper reviews the distribution, structure and trends of the Chinese ODI in five CEE countries, in the larger context of China's "going out"/"going global" approach and its policy towards Europe and the CEE. We look at China's new strategy towards CEE, its investment projects, motivations and constraints, focusing on the CEE-5 group and in the final part of the paper we emphasize Romania as a destination for Chinese ODI, providing an analysis of the Chinese investment evolution, specific traits, weaknesses, accomplishments and prospects of further development.

Key words: Outward direct investment, foreign direct investment, EU, China, CEE-16, CEE-5, Chinese ODI, Romania., China-CEE, China-Romania

JEL Classification: F21, F23, F29, G11, G18.

Introduction

To a considerable extent, the impressive development performance of Chinese economy over the last decades was due to a large and fairly constant influx of foreign direct investments (FDI) from other countries. For many years, China has been ranking the first most important destination of foreign

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capital flows among the developing countries and the second globally, turning to good account this opportunity to grow, develop, restructure, modernize and assimilate foreign technological and managerial know-how. On the other hand, until quite recently, its outward direct investments (ODI) remained insignificant, so that China was, and it still is, a net FDI recipient. Nevertheless, after WTO accession in 2001, international direct investments by China have increased markedly, hitting a historic high in 2012, when the country became the world's third largest outbound investor after the US and Japan. This success was outperformed in 2013, when Chinese ODI jumped 16.8 % compared to 2012 and reached a record $90.2 billion, although still less than the record $118 billion FDI inflow received (Reuters, 2014).

But the gap between China's outbound and inbound investments is closing rapidly because expanding globally has become a necessity of its future sustainable development. On the one hand, Chinese companies need to "go out" trying to secure reliable long-term supply of natural resources, seeking new markets, new opportunities to improve competitiveness and to climb up the technological ladder by getting access to new technologies, R&D resources, foreign expertise and brand names. On the other hand, the Chinese government needs to make the most of China's huge foreign exchange reserves and correct the external imbalances, one way of doing this consisting in speeding up and diversifying its outward investments. Furthermore, in recent years this "going out"/"going global" trend was additionally propelled by both the international environment, with the global economic crisis bringing a host of opportunities for China, and by the domestic policies implemented by the State Council with a view to encouraging and supporting a larger international presence of Chinese companies.

To sum up, China has the financial resources and is interested and willing to invest, searching the world for opportunities, and, at the same time, many other countries, both developed and developing, are in great need of financing, for their recovery in the aftermath of the global economic crisis and for their development projects. Under such circumstances, Chinese ODI are expected to continue growing, while businesses and governments across the globe will increasingly compete for Chinese investments.

Europe makes no exception from this trend and neither do the Central and Eastern European countries (CEE), which are in a catching up process with their western neighbours. Obviously, the global economic crisis has changed China's strategy to Europe, bringing this investment destination more to the forefront. China is now purchasing European government debts, is striking cut-price deals taking over firms, or acquiring stakes in European companies, harbours and airports and is financing *"projects in Europe's periphery much like it does in Africa"* (Godement, Parello-Plesner, Richard, 2011). However, unlike Africa, Europe is hardly a source of natural resources for China, but it is one of advanced technologies, reputed brands and trademarks, while its "*periphery*", the CEE countries, make, in addition, excellent locations for the manufacturing of "made in Europe" goods, by Chinese investors. Therefore, Europe and specifically the CEE countries are very attractive for China, while, at the same time, they need Chinese capital. This could be a "win-win" situation as long as the Europeans don't turn one against the other, competing for Chinese investments and engaging themselves in a "race to the bottom".

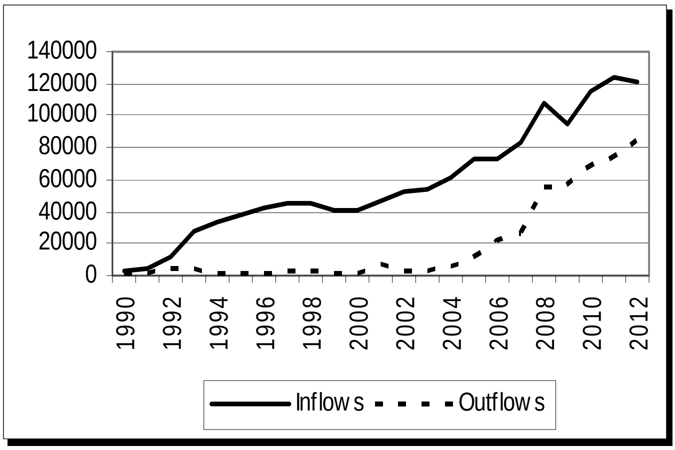
In the present paper, we examine the larger context of China's "going out" approach and its policy towards the CEE-16. We look at the distribution, structure and trends of the Chinese ODI in the five most important destination countries among the CEE-16, in correlation with the motivations and constraints pertaining the Chinese investment projects. In the final part of the paper we bring to the forefront Romania as a destination for Chinese ODI, providing an analysis of the Chinese investment evolution, their specific features, weaknesses, accomplishments and prospects of further development. The structure of our research is determined by its four main objectives: to generate an overview of the Chinese ODI, to underscore the new cooperation framework between China and CEE-16, to analyze the Chinese ODI in CEE-5 and appraise the untapped potential of its relationship with Romania. Our analysis is based on official FDI statistics, our own previous research, studies carried out by various institutions and experts, opinions expressed by scholars in their research papers or in mass media and is aiming at bridging the gap between the existing literature and the practical evidence.

Overview of the Chinese Outward Direct Investment (ODI)

China's ODI increased sharply in 2012 amidst a global downturn in FDI flows, "propelling" the country to become the world's third-largest FDI provider position, after the US and Japan, up from the sixth place in the prior year (BBVA, 2013, p. 1, UNCTAD, 2013). In 2012 the ODI Chinese flows increased by approximately 18%, to a "historical maximum level" estimated at $84-88 billion[1].

China, the second largest economy globally, remains a net recipient of FDI. Nonetheless, due to China's unabated "peaceful rise" (Bijian, 2013), the gap between its FDI inflows and outflows has been diminishing (Chart 1), especially after the world financial and economic crisis. Its ODI stock (estimated at $509-532 billion)[2] represented only 2.2% of the worldwide stock, as compared to its share in the total ODI flows, of 6% in 2012.

Chart 1: Chinese FDI inflows and outflows during 1990-2012 (in $ million)



Source: Chart elaborated by authors, based on UNCTAD (2013).

In 2012 the most important host countries for China's ODI in 2012 were, in this order: Hong Kong-China (58%), the US (4.6%), Kazakhstan (3.4%), the United Kingdom (3.2%), the British Virgin Islands (BVI) and Australia (2.5% each), Venezuela and Singapore (1.7% each), Indonesia (1.6%) and Luxembourg (1.3%). These ten recipients accumulated $71.0 billion and accounted together for almost 81% of total ODI flows. In interpreting these data, it should be taken into account the statistical distortions generated by the existence of certain

[1] Approximately $84 billion according to UNCTAD (2013) and $87.8 billion according to MOFCOM/NBS/SAFE (2013).

[2] Approximately $509 billion according to UNCTAD (2013) and circa $532 billion according to BBVA (2013).

regional hubs which intermediate investment flows such as Hong Kong-China, or tax havens such as BVI or Cayman Islands) (BBVA, 2013: p. 2).

Asia remains the largest recipient of Chinese ODI, accounting for almost 74% and 69% in its ODI flows and stocks, respectively (Table 1).

Table 1: Chinese ODI distribution of flows and stocks in 2012 (in billions of $ and %)

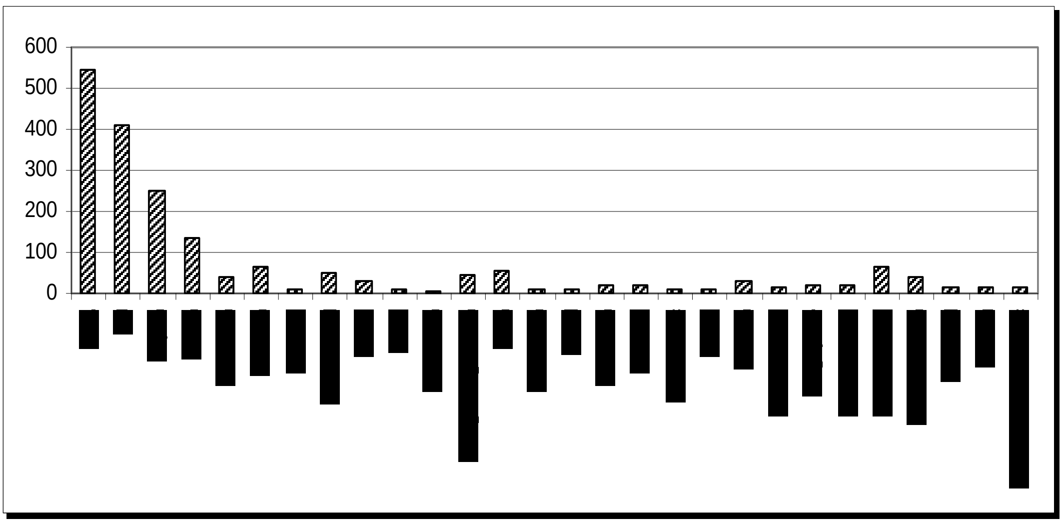
Region	**ODI Flows (billions of $)**	%	**Main destinations**
Asia	64.8	73.8	Hong Kong-China, Kazakhstan, Singapore
Europe	7.0	8.0	UK, Luxembourg, Germany, Russia
Latin America	6.2	7.1	BVI, Venezuela, Cayman Islands
North America	4.9	5.6	US, Canada
Africa	2.5	2.8	Angola, Congo, Nigeria
Oceania	2.4	2.7	Australia, New Zealand, Fiji
Total	**87.8**	100.0	
Region	**ODI Stocks (billions of $)**	%	**Main destinations**
Asia	364.4	68.5	Hong Kong-China, Singapore, Kazakhstan, Myanmar
Europe	37.0	7.0	Luxembourg, UK, Russia, France, Germany
Latin America	68.2	12.8	BVI, Cayman Islands, Venezuela, Brazil
North America	25.5	4.8	US, Canada
Africa	21.7	4.1	South Africa, Zambia, Nigeria, Algeria, Angola
Oceania	15.1	2.8	Australia, Papua New Guinea, New Zealand, Samoa
Total	**531.9**	100.0	

Source: Table elaborated by authors, calculations based on BBVA, 2013, pp. 5-7.

According to official statistics, the Chinese ODI remain concentrated in a limited number of sectors (business services, financial, mining, wholesale and retail, manufacturing, transport and construction, accounting for almost 90% of total ODI outflows). Nevertheless, the diversification process continues, even though in a gradual manner. Specific measures were included in the 12th Five-year Plan, launched in 2011, and also more recently, in November 2013, during the "Third Plenum", emphasizing "deregulation and market openness to promote both inward and outward FDI". The progressive internationalization of the Chinese currency (Yuan or RMB) represents a supplementary incentive for the Chinese companies and financial institutions to "go global" (BBVA, 2013: pp. 3-4).

By the end of 2012, 16,000 Chinese investors had set up about 22,000 foreign direct investment companies overseas (MOFCOM/NBS/SAFE). Taking into account the number of TNCs from different countries and the EU in the Global 2000 list of leading companies worldwide, China is placed the fourth (136 companies), after the US, the EU and Japan (Chart 2). Nevertheless more than 80% of the Chinese enterprises are individual and family-owned firms (The Antwerp Forum, 2013).

Chart 2: Number of TNCs from different countries and the EU, according to the Global 2000 list of leading companies worldwide



Source: Chart elaborated by authors, based on Forbes (2013).

On the whole, in 2012 Europe had only an 8% share in the Chinese ODI flows and a 7% one in the corresponding stocks – percentages which are similar to those held by ASEAN-10 in the Chinese ODI (MOFCOM/NBS/SAFE). The EU's share in the Chinese ODI stock in Europe was of approximately 85% in 2012. This was mainly due to the attractiveness of Luxembourg (almost $9 billion), the United Kingdom ($8.9 billion), France (almost $4 billion), Germany ($3.1 billion), Sweden ($2.4 billion) and Netherlands ($1.1 billion), which had altogether a contribution of almost 87% in the Chinese ODI stocks in the EU.

In the next sections we will shed light on China's new strategy toward CEE, its investment projects, motivations and constraints.

The new cooperation framework between China and CEE-16

China's policy towards Europe is made up of "three different layers": relations with European "powers" (Germany, France and the United Kingdom), interaction with EU institutions and relationships with regions (Northern, Southern and Central and Eastern Europe CEE-16) (Kong, 2013).

In recent years, in the context of the Eurozone crisis, the PIIGS[3] debt crisis and the diminishing EU capacity to invest in its peripheral regions, China started making "inroads" into Central and Eastern Europe (CEE-16)[4] (Stratfor, 2013). From 2009 onwards, the relationship between China and CEE-16 entered a "new era of cooperation" (Kong, 2013). Although China is now far from being a leading power in CEE, one can notice its increased presence in this region (Turcsányi, 2014), thought trade, investment and the new cooperation framework.

China's "new strategy toward CEE" – the so-called *regional approach* – has emerged in the recent years. In 2011, on June 25, the first China-CEE Economic and Trade Forum was held in Budapest. It followed the second China-CEE Forum in Warsaw, in April 2012, when ex-premier Wen Jiabao brought forward a 12-point initiative for deepening cooperation with CEE. One of them was implemented in the same year, on September 6, namely the setting up of China-CEE Cooperation Secretariat in China's Ministry of

[3] Portugal, Ireland, Italy, Greece, Spain.
[4] Albania, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Macedonia, Montenegro, Poland, Romania, Serbia, Slovakia and Slovenia.

Foreign Affairs. The special credit line amounting to $10 billion was also launched. In July 2013, the first local leaders' meeting of China and CEE countries was held in southwest China's Chongqing Municipality, in order to expand cooperation between provinces and cities of the two sides (Xinhua, 2013b). The third China-CEE Economic and Trade Forum took place in November 2013, in Bucharest. At the "November summit" the Bucharest Action Guideline on China-CEE Cooperation was agreed and an investment fund (amounting to $500 million) was officially launched (China Dialogue, 2013).

In spite of their economic potential (or maybe due to their potential), the ties which develop between China and CEE are viewed with concern in Brussels and considered as a part of the Chinese strategy to "divide and conquer" Europe (Deutsche Welle, 2013a). On the contrary, in the opinion of the Chinese premier, Li Keqiang, the principles of this relationship are "equal treatment, mutual respect, mutual benefit, win-win results and common development" which in the end is conducive to "stability and prosperity" in the CEE and also consolidates Europe's role as a pole of power in the multipolar world (Xinhua, 2013a). As a matter of fact, China considers the bilateral relations with the CEE as "part of Sino-Europe relations, and the stronger China-CEE relations, the stronger Sino-Europe relations" (Kong, 2013).

China's motivations to strengthen its ties with CEE are various. Among the declared ones are the following. The CEE countries are former socialist nations and the relations with these countries are different from the ties with the EU as a whole (Deutsche Welle, 2013b), as they are hybrid economies, between emerging and developed markets (EUbusiness, 2013). The growth rates in the CEE region are higher than in the Western Europe (countries like Poland were not affected by the financial and economic crisis) and the labour costs are lower than in the old EU member states (China Dialogue, 2013). On the motivations list it should be added the natural resources endowment (even though not at the level of other regions, such as Africa) and some CEE's function as a "springboard" and "bridgehead" to the EU (Zuokui, 2012).

Taking into account CEE geographical position and access to major harbours, China intends to finance large industrial projects such as equipment manufacturing and to build a new "artery for China-Europe logistics through the construction of land and sea transportation infrastructure" and, at the same time, to double the bilateral trade over the next five years in the areas of energy, technology, industrial projects, agriculture and transport (China Dialogue, 2013). At the beginning of 2000s, Chinese investment in the region was almost inexistent, but in 2010 it reached $800 million. Moreover, bilateral trade increased from $3 billion in 2000 to over $40 billion in 2010, China recording a net surplus (Eubusiness, 2013).

Last but not least, the CEE-16 format is logistically useful, as during one official visit the Chinese authorities can meet 16 prime ministers from CEE-16 (Deutsche Welle, 2013b).

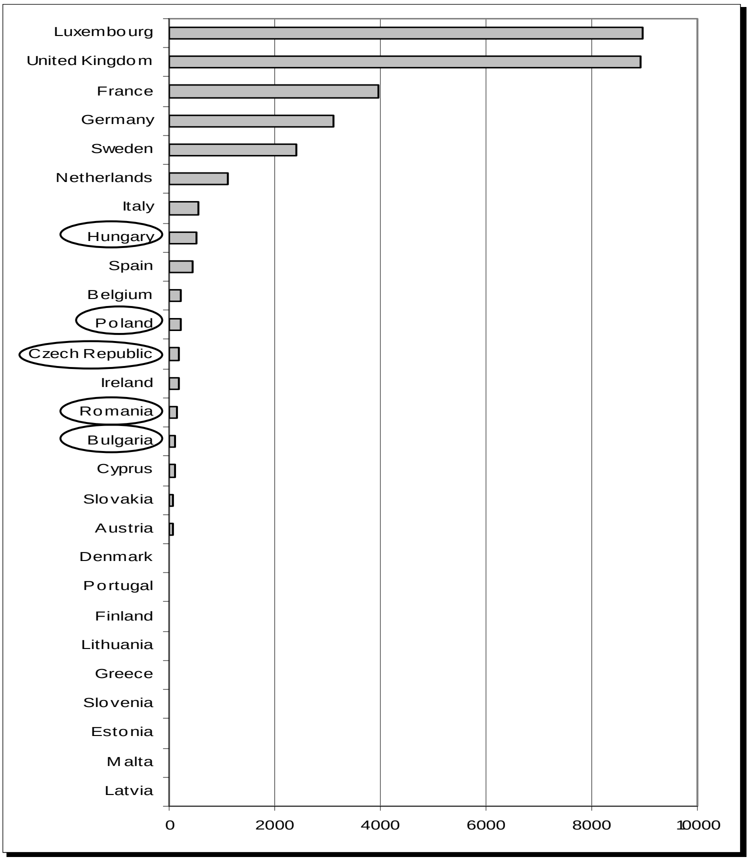
In spite of the rapid expansion of the Chinese ODI and the political will to fully tap the existing potential, the shares of the CEE countries in China's investment abroad remain minor as compared with the Western Europe. Chinese investments still encounter many obstacles at CEE level. In the next section we will analyze the Chinese ODI in a group of five most dynamic CEE recipients.

China and the CEE-5

Among the new member states, one can remark five countries, namely Hungary, Poland, the Czech Republic, Romania and Bulgaria (CEE-5), each cumulating an amount of Chinese investments larger than $100 million in 2012 (MOFCOM/NBS/SAFE). None of them has adopted the euro yet. However, the investment stocks from China in the CEE-5 group represented in 2012 only 3.8% of the Chinese ODI stock in the EU (Chart 3) and 0.2% of the Chinese stock worldwide.

According to recent studies, in spite of the "new strategy towards CEE", Chinese companies are generally reticent to investing in these countries, mainly due to their "unfamiliarity with the rules of the large EU market and the ambiguous positioning of the CEE". Moreover, "most of the high-quality assets of these countries have been absorbed by Western countries due to privatization in the transformation period in the 1990s" and some Chinese companies (such as China Overseas Engineering Group Co. Ltd. COVEC, targeting the Polish infrastructure market) failed to enter some CEE countries (Zuokui, 2012).

Chart 3: Hierarchy of the EU countries by value of Chinese FDI stock ($ million)

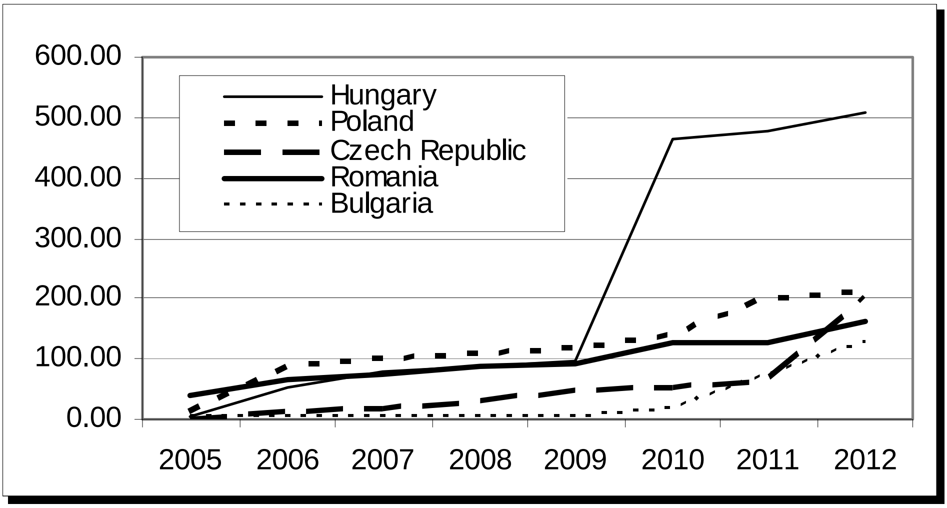


Source: Chart elaborated by authors, based on MOFCOM/NBS/SAFE.

Nevertheless, in China's investment relationship with CEE-5 some specific industries have emerged, such as: infrastructure construction (China Road and Bridge Corp.), information and communications technology (Huawei and ZTE), chemical industry (Wanhua Industrial Group Co. Ltd.), machinery processing and manufacturing (Liugong Machinery Corp.) (Zuokui, 2012). Hungary may be considered the "champion" of this group in terms of ODI stock attracted from China (Chart 3).

Hungary may be considered the "champion" of this group in terms of ODI stock attracted from China (Chart 3 and Chart 4).

Chart 4: Chinese outward FDI stock in relationship with CEE-5, 2005-2012 (in million $)



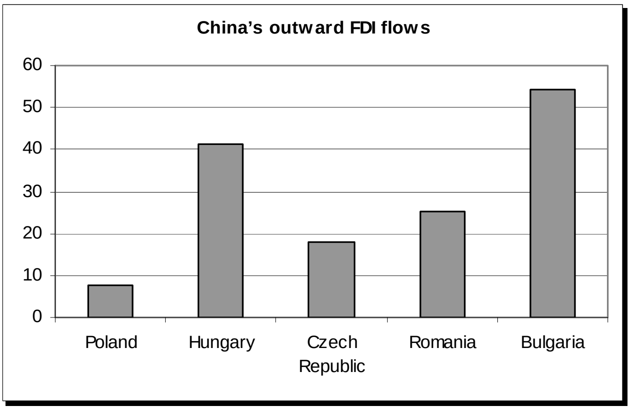
Source: Chart elaborated by authors, based on MOFCOM/NBS/SAFE.

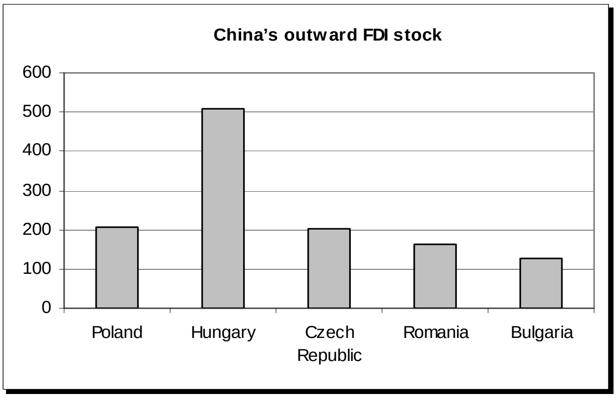
Among the Chinese investors based in Hungary there are: the Bank of China, Huawei (a networking and telecommunications equipment and services company), ZTE (a telecommunications equipment manufacturer) and Wanhua (a chemical industry company) (The American Enterprise Institute/The Heritage Foundation, 2013, Hungarian Chamber of Commerce and Industry, 2014). However, in terms of FDI inflows, Bulgaria surpassed Hungary in 2012 and attracted a larger amount of investments from China (Chart 5).

In our opinion, exactly this "race for Chinese investments" among the CEE-5 determined the Hungarian authorities to declare they were "ready to subsidize business developers from China" (Hungarian Chamber of Commerce and Industry, 2014).

Another strong competitor is Poland, "the only country in the European Union with more than 20 years of uninterrupted GDP growth" and one of the "best destinations for foreign investment with a good investment environment and stimulus packages". Besides, China and Poland established a strategic partnership in 2011. Nevertheless, Chinese investments in Poland are "far below" their real potential and expectations from both sides (China Daily, 2013).

Chart 5: Chinese outward FDI flows and stock in relationship with CEE-5, 2012 (in million $)





Source: Chart elaborated by authors, based on MOFCOM/NBS/SAFE.

Chinese investments in Poland are focused on electronics, such as the production of TV sets and monitors, the electro-machinery industry, IT and construction machinery. Major investors include: TCL Corp, Digital View, Nuctech, ZTE, Huawei, Liugong Machinery Co Ltd. In 2013 was opened the Chengdu-Lodz direct rail route, connecting China and Europe (China Daily, 2013).

At the same time, China's ODI in Czech Republic expanded significantly in the recent years, so that at present among the major investors there are: ZTE, Huawei, Changhong (TV sets production), Noark (electrical appliances and components), Shanxi Yuncheng Plating Group (manufacturer of rotogravure cylinders), Shandong Linyi Yuli Foodnuts (nut roasting plant) and Beijing Fight Company (crystal glass production) (Czech Position, 2012).

As regards Bulgaria, besides important investments in car production, chemical industry and energy, agriculture and food processing are considered “new highlights” in this country's cooperation with China. Bulgaria intends to strengthen cooperation with China in sectors including infrastructure, energy, new materials and high technology. Meanwhile, it is ready to offer favourable conditions to attract more Chinese tourists and investment (Zuokui, 2014).

Chinese investments in Romania

- **The recent history**

Romania was a favourite destination for the early Chinese investments in Europe. This is revealed both by the official governmental guidance to the potential Chinese investors in Europe and by the investment reality itself. The official governmental guidance was mainly substantiated into the “*Outbound Foreign Investment Catalogue*” (OFIC) of 2004, a document which indicated the countries and sectors where Chinese companies were advised to invest. In this document, Romania was topping the list of favourite destinations, equal only to Germany, followed closely by Poland, the Czech Republic and Hungary, and then by all the other European destinations. These four CEE preferred destinations, with Romania ranking first, were identified at the time as being more important than the EU-15 countries for the Chinese investors seeking manufacturing opportunities in the EU. The recommended sectors for investments in Romania were the textiles, leather goods and luggage, TV sets, communication equipment, computers and other electronic equipment – all of them industries where China enjoyed considerable export strength, but faced a growing pressure from the importing nations to reduce its trade surplus (Clegg, J., Voss, H., 2012). Therefore, the sector selection for Romania (as well as for the other CEE countries) revealed an option for *a trade-substituting investment strategy, meant to avoid import barriers and preserve, or even increase, the existing market shares of the Chinese exporters to Europe*.

Table 2: OFIC Top 15 most Attractive European destinations for Chinese investments, by number of attractive sectors

Country ranking in the EU27	Country	Number of attractive sectors by country			
		Total	Natural resources	Industry	Services
1	Germany	8	0	4	4
2	**Romania**	**8**	0	**5**	**3**
3	**Poland**	7	1	4	2
4	**Czech R.**	6	1	4	1
4	**Hungary**	6	0	4	2
4	Portugal	6	0	4	2
4	UK	6	0	2	4
5	Austria	5	0	3	2
5	Denmark	5	0	3	2
5	Estonia	5	0	3	2
5	France	5	0	3	2
5	Sweden	5	0	3	2
6	**Bulgaria**	4	0	3	1
4	Belgium	4	0	1	3
4	Greece	4	0	2	2
4	Ireland	4	0	2	2

Source: MOFCOM, Ministry of Foreign Affairs - *Outbound Foreign Investment Catalogue* (OFIC).

On the other hand, the factual Chinese investment in Europe demonstrated a bias for Romania too, in the early 2000s. As it can be noticed from the data in Table 3, in 2005 Romania was the most important European host for Chinese investments, cumulating over two thirds of the total investment stock of the CEE-5 and making Chinese officials declare at the time that "*Romania is the East European country where we got the best results in implementing our "going out strategy", with Chinese investments both in production, in infrastructure and in high technology.*" (Guanchao, 2005). These Chinese investors in Romania were part of the first wave of companies which dared "go out": private small and medium enterprises (SMEs), mainly family companies with little capital, involved in trade activities or low and medium technology manufacturing, which didn't benefit, in their great majority, from any kind of material support from their government. That is why, although great in number, these small companies could not cumulate high investment values in Romanian economy. Still, low as they were in Europe at the time, Chinese investments preferentially chose Romania, indicating a comparative advantage for our country, from this point of view. For Chinese investors, Romania was a country with a long record of good political, economic, commercial and cultural relations with China, a fairly large market, well-placed geographically, offering good local opportunities and good chances to build a bridgehead to the rest of Europe. Therefore the odds were very promising.

Table 3: Chinese Investment Stock in Major CEE, 2005 to 2012
(in million $)

Country	2005	2006	2007	2008	2009	2010	2011	2012
HU	2.8	53.7	78.2	88.8	97.4	465.7	475.4	507.4
PL	12.4	87.2	98.9	109.9	120.3	140.3	201.3	208.1
CZ	1.4	14. 7	19.6	32.4	49.3	52.3	66.8	202.5
BG	3.0	4.7	4.7	4.7	2.3	18.6	72. 6	126.7
RO	39.4	65.6	72.9	85.7	93.3	124.9	125.8	161.1
RO rank	**1**	**2**	**3**	**3**	**3**	**3**	**3**	**4**
Total CEE-5	**59.0**	**225.9**	**274.3**	**321.5**	**362.6**	**801.8**	**941.9**	**1205.8**
RO vs. CEE-5 (%)	**66.8**	**29.0**	**26.6**	**26.7**	**25.7**	**15.6**	**13.4**	**13.4**

Source: Authors' calculations based on MOFCOM/NBS/SAFE.

Unfortunately, this favourable state of facts was not going to last, as Romania was absorbed by its efforts to access the EU and didn't devise any specific strategy to attract more investments from China and capitalize on the comparative advantage it enjoyed. Additionally, on efficiency grounds, Romania interrupted the direct flights between Bucharest and Beijing (2004), while maintaining quite restrictive and lengthy visa procedures and providing little or no assistance to the Chinese investors, in their difficult attempt of adjusting to an unknown and challenging business environment. Hence, Chinese investment flows to Romania grew at a slower rate, while their pace accelerated in other CEE countries, especially in Hungary and Poland, which had already been accepted in the EU and could be more committed and more successful in attracting them. Furthermore, these two countries managed to capitalize on the second wave of Chinese outward investments, which was this time the result of the big state owned, or state-backed companies' "going global" strategies and implied considerable higher amounts invested per project.

Anyway, it is worth noticing that after the onset of the global economic crisis, a growing mismatch between the Chinese government investment guidelines (OFIC) and the factual investment decisions of the companies became increasingly apparent at the EU level, the bulk of investments going prevailingly to the EU15 countries (around 90% of the total inflow), even to the lower ranked ones in the initial governmental listing, and not to the CEE economies from the EU "*periphery*". Similarly, among the CEE-5 countries, the factual investment pattern didn't observe the official recommendations, a host of internal and external factors converging in changing the initial priorities, to Romania's disadvantage.

Considering our calculations using data from Chinese statistics (Table 3), Romania's share in the total Chinese investment stock of the CEE-5 group decreased, at first abruptly, from over two thirds of the total in 2005, to less than one third in 2006, and then gradually to only 13.4% in 2012. Accordingly, Romania's ranking within the CEE countries went down, from first position until 2005 and second in 2006, to third position between 2007-2011 and finally to fourth position in 2012. This decline has occurred as Hungary, Poland and, more recently, the Czech Republic managed to strike large investment deals with powerful state owned enterprises (SOEs), while Romania couldn't do the same, even if such companies have continually tested its market opportunities.

- **The present Chinese investment landscape in Romania**

China is Romania's main Asian investing partner. Among the foreign investors in our country it ranks the 5th by number of companies set up, but only the 17th by the amount invested (Paul, 2011), which is extremely far from the potential.

Currently, there are over 10,800 Chinese companies registered in Romania, accounting for about 5% of the total number of businesses with foreign participation. Although presumably just about one third of them are actually active (Wall Street, 2011), *Romania registers the highest number of Chinese companies in Europe*, ranking first before Germany (2nd), Serbia (3rd), the Czech Republic (4th) and Hungary (5th), the five countries which host together about 80% of all the Chinese firms in Europe (The Antwerp Forum, 2013). Also, Chinese businesses are present in only a small number of European cities, most of them choosing Bucharest (1st), Belgrade (2nd), Prague (3rd), Budapest, Hamburg, Moscow, Düsseldorf and Frankfurt to set up businesses. *Such a high degree of geographic concentration highlights a strong propensity to clustering so that these companies reap economies of agglomeration.*

Most of the Chinese businesses in Romania are still individual or family-owned companies from the first Chinese "going out" wave, fully matching the European pattern where more than 4 out of 5 Chinese companies (82%) fall in these two categories (The Antwerp Forum, 2013). Currently, the Chinese businessmen in Romania are regionally organised in 16 federations, about 90% of them developing activities in Bucharest, the capital city (Xiaoming, 2010).

According to the Romanian records, by the end of 2010, the total amount of the Chinese capital invested in our country raised to about €318 million, which accounted for just little over 1% of the total FDI stock in Romania, at the time (Paul, 2011). By the end of 2012, the investment stock had risen to about €420 million, but according to the president of the Romania-China Trade and Industry Chamber, this was an undervaluation. In November 2013 he declared: *"According to the National Bank of Romania Chinese FDI, reach €420 million. But their value is probably double. Actually, investments are much higher because not all the companies chose to increase their social capital."* (Gelmegeanu, 2013)

Obviously, when referring to the total investment value by Chinese companies in Romania, one has a quite difficult task in discerning their real level, as there is a certain informational shortage and huge differences between the statistical records in China, the EU and Romania. Taking, for instance, the 2012 total investment stock levels, one could notice that while the Chinese statistical data for 2012 (Table 3) recorded an investment stock in Romania of about €126 million (equivalent of $161 million),[5] the EU statistics recorded only about half that amount (€69 million)[6], in striking contrast with the Romanian records of minimum €420 million, which were, therefore, more than triple the Chinese level and six times larger than the EU one.

Although Chinese investments to Romania didn't progress as they could and should, and a lot of potential remained untapped, there were some significant achievements of their "first wave", worth reminding. First of all, the €200 million trade hub near Bucharest, the "Red Dragon" founded in 2003 by the Niro Group, (a joint venture with a 30% Chinese stake) and the neighbouring €100 million China Town (a whole trade and business centre, 100% Chinese investment, developed in 2010). These could be, or become, part of the 50 economic and trade cooperation zones in a worldwide network, which the Chinese government wants to progressively being built as an instrument for supporting the internationalization of domestic companies. Similar hubs can be found in other CEE-5 countries – for instance the Wolkovska Cetre in Warsaw, set up in 1994, or the China Brand Trade Centre in Budapest, opened in 2011 – but even more in the EU15 countries, especially the Netherlands (with 3 such hubs), Sweden (2), UK, France, Finland and Italy (1 each). All of them start by promoting international trade, mainly imports from China, but gradually turn to low risk investments and then to larger ODI, when the market proves sufficiently large and stable (Clegg, Voss, 2012).

Another remarkable accomplishment of the first-wave investors in Romania is the 22 000 hectares industrial park in Pârşcov, Buzău, developed by the F&J International Group, a 100% Chinese private corporation. The industrial park includes five factories with production, distribution and foreign trade operations in garments, wood processing, cigarettes, electronics, household electric appliances and ecologic electric bulbs, as well as a fresh fruit and vegetables import company. Besides these activities in the industrial park, Chinese investments by other small and medium companies achieved good results in bicycle production, recycling, construction materials and industrial printing (Annex 1).

[5] 1 $= 0.78 Euro, at 2012 average rate, CIA World Factbook, retrived in 30.03.2014.

[6] EUROSTAT, data retrived at 30.03.2014.

On the other hand, we can also speak of *a second wave of Chinese investors* in Romania too, although they are not many and have not yet committed to substantially high investments. We could first include here important *companies dealing in information technology (IT*), which came in the early 2000s, but only in very recent years have shown their readiness to make more sizeable investments in Romania. These are two prominent high-technology businesses: the state-owned company ZTE, the largest Chinese producer of telecommunications equipment, and the private company Huawei, the largest global provider of IT&C solutions. These two companies have already made inroads into the Romanian market and have established a significant European presence. Although they are in Romania for about 10 years – ZTE from 2004 and Huawei from 2003 – it is now that they intend to make more substantial investments. ZTE has a €100 million investment programme until 2015 to set up a €16 million Service Centre in the Western part of the country, another €23 million Service Centre in the South, and a telecommunications equipment factory worth the remainder €60 million (Business24, 2013). Huawei has already invested €90 million in Romania between 2007-2012 and has another €200 million investment project to open a global support centre by 2015. By 2018 the number of its employees in Romania will reach 1000 and another €100 million will be invested, mainly in research and education programmes (Ziarul Financiar, 2014).

Secondly, *another important component of the "second wave" of Chinese investors in Romanian economy may be considered the recent businesses involved in renewable energy (RE),* especially in building and operating photovoltaic (PV) parks, but also wind farms. This is a very recent wave, triggered by the green certificate programme of the Romanian government aimed at attracting foreign capital in renewable energy production. These are also high-technology investments, by Chinese larger private companies, involved in considerably higher value projects. Unfortunately, the Chinese investors reacted quite late to the Romanian incentive programme, missing its most rewarding phase, when lots of Western companies scrambled for *"a piece of the pie"*. As a result, in the recent few years Romania experienced a tremendous growth in the development of RE facilities. Therefore, considering its objectives met and the incentive scheme already too generous, in 2013-2014 the Romanian government changed the legislation on renewable energy, reducing the incentive scheme. Consequently, these late Chinese investors were discouraged, some of them choosing to partially give up their initial investment plans, as it can be noticed from the table beneath.

Table 4: Chinese investments in Romanian renewable energy (RE)

Investor	Project	Investment amount (mil. €)	Project stage
SUNOWE	25 MW PV park, 50km from Sibiu (the first project of the company outside China)	40	Finalized, functional before the legislation change
UNISUM Part of the WUXI GUOLIAN DEVELOPMENT GROUP	3 PV parks in Cluj and Brasov, totalling 19.6 MW	30	Finalized, functional
ASTROENERGY	65 MW PV park, Sebis, Arad	40 of the initial 100 for the entire project	Only 25MW built, the rest of the investment stopped due to law change
GREEN VISION SEVEN of the HAREON GROUP	168 MW PV park, Ucea de Sus, Brasov (the largest park in Romania)	100 of the initial 200 for the entire project	Only 82 MW built, the rest of the investment stopped due to law change
LIGHTWAY SOLAR	50 MW PV park, Prundu, Giurgiu	76	Approved by NDRC, China; in progress
MING YANG WIND POWER GROUP and PAUNESCU CORPORATION	200 MW wind farm, Vaslui-Husi	400	Contract signed in Nov, 2013, project in progress with deadline 2014

Sources: www.zf.ro, http://powerromania.ro, www.business24.ro, www.wall-street.ro.

It is worth mentioning here, that in January 2013, Sinovel Wind Group, the largest wind turbine manufacturer in China and the second largest globally, expressed its interest in investing in both wind farms, and wind turbine manufacturing in Romania (Agerpress, 2013). If Sinovel and Faur, a Romanian industrial engineering company based in Bucharest, manage a successfully cooperation agreement in this new, high-technology industry, China could get access to the larger European market, while Romania could diversify and upgrade its industrial structure, increase exports and create jobs. It remains to be seen to what extent the recent changes in Romania's and other EU Member States' RE legislation and market demand are going to impact on these potential investment and cooperation projects.

- **A glimpse into the future**

The analysis above shows that *what differentiates at the moment Romania from other European investment destinations, CEE-5 included, is that it has not succeed yet in attracting sizeable Chinese businesses in large investment projects.* If in Europe the proportion of Chinese corporate presence increased slightly in recent years, mainly due to their growing presence in the Western and Northern European developed economies, in CEE countries the trend is languid and in Romania still absent. In spite of the undeniable local potential in Romania and the genuine interest of the Chinese investors, the numerous, but sporadic and inconsistent attempts to negotiate and agree on larger projects didn't lead to any results yet.

Some of the older and most discussed projects bilaterally were either *infrastructure projects* (the Bucharest second beltway, plus other highway sectors countrywide; the Danube-Bucharest Canal; the Siret – Bărăgan Canal; the Brăila – Galaţi bridge over the Danube), or *projects in conventional energy production, mainly to overhaul, continue unfinished units, or extend existing facilities* such as thermo-power plants (Rovinari, Mintia, Halanga, Doiceşti), hydro-power stations (Tarniţa-Lăpuşeşti, Bicaz), or the Cernavodă nuclear plant (additional reactors 3 and 4). Among these older projects, the most advanced one is Rovinari, with China Huadian Engineering Co. (CHEC) – who won the tender organized by the Romanian Ministry of Economy – going to invest, provided everything goes on well, around €1 billion in a new 600 MW thermo-power station facility. Other large projects in energy which are currently being negotiated with fairly good chances of success are the 1000 MW / €1 billion hydropower station of Tarniţa-Lăpuşeşti, with Sinohydro, and the reactors 3 and 4 of the Cernavodă nuclear power plant, with China General Nuclear Power Group.

In *infrastructure development*, opportunities are huge as Romania is in great need of more and better highways, canals, irrigation systems, bridges, power grids and even airports and port extensions, while China has the expertise, financing availability and interest in such projects. The capital city, Bucharest needs a second beltway, other highway connections, a modernized rail ring, additional subway lines between its extremes, and better connections to other major towns, the Black Sea ports included. That is why, besides the old infrastructure projects mentioned above, the new project of a *high-speed railway connection* between Constanţa – the largest Romanian seaport and the second largest harbour in Europe – Bucharest, Braşov, Arad, Budapest and Vienna, is an attractive project, which could play a significant role in both the intra-CEE, intra-EU cooperation, and their bilateral trade and economic cooperation projects with China. This new transport corridor in Europe, which could cost around €11 billion, could be completed by the development of *an industrial park* in the Agigea port area and along the Danube-Black Sea Canal, with 2000 Romanian-Chinese joint-venture companies being hosted. The Constanţa-Arad high-speed line and the industrial park near the Black Sea and the Danube are key pieces in a larger strategic plan of setting up a modern new Silk Road connecting Asia and Europe, which could cross our country generating development and prosperity.

Conclusions

China has been one of the great beneficiaries of globalization. For decades this country has succeeded in attracting and turning to good account substantial foreign capital inflows, which contributed to its unprecedented growth and development. Given its changed economic fundamentals after decades of accelerated transformation, China is now bound to adjust to its new internal and external realities and implement comprehensive reforms, including some touching capital movement. Therefore, in recent years, this country has swiftly raised its outbound investments, becoming an increasingly important international investor. In its endeavour, it obviously follows its own interests of securing access to natural resources, new technologies, sources of knowledge and innovation, new markets and reputed foreign brands, but it simultaneously acts as a growth engine for the economies where its investments go. Consequently, the other countries, either developed or developing, strive for Chinese capital inflows, the more so in the aftermath of the global economic crisis.

The CEE countries make no exception from this trend, as they are in a catching up process with their Western neighbours and they need considerable investments. Business opportunities abound in their economies and they make good locations for economic activities by foreign investors, but, eager as they are to invest and aware of the potential, Chinese companies are very prudent and measure attentively each step and decision they make. There is a whole world of opportunities for them to tap and they want to strike the best deals, capitalizing on their privileged position. It therefore takes determination, consistency, persistence and a well-devised strategy from the European countries' part in order to succeed.

To date, Chinese investment flows chose mainly other destinations than Europe, and within Europe, they chose mainly the EU15 group of developed economies and not the CEE ones, in spite of the initial governmental "going out/going global" strategy, which favoured five CEE countries, namely Romania, Poland, the Czech Republic, Hungary and Bulgaria. Moreover, within the CEE-5 group of countries, the factual investment pattern did not match the recommended priorities of the government, getting changed – under the impact of a host of internal and external factors – to Romania's disadvantage.

Although it started as a privileged destination in the early 2000s, for lack of a purposeful strategy towards China and against the international economic landscape born after the outbreak of the global economic crisis, Romania lost ground in "the race" for Chinese capital. One could say that, lately, the other CEE-5 members scored better, but this should definitely not be treated like a competition between the CEE countries, or between the EU member states, if a race to the bottom is to be avoided.

Romania and the CEE countries have a good chance to capitalize on China's interest to expand globally in sectors it has identified as strategic (such as infrastructure development, telecommunications, agriculture, energy), a chance to take advantage on China's need to consolidate its position as a global leader in the low-cost versions of high value-added technologies (such as high speed rail and renewable energy) and also a chance to make a profit on China's strategies aiming at building an integrated Eurasian trade and cooperation corridor (a modern Silk Road). But this requires an intelligent strategy on Europe's part too and solutions to act as a group which shares common interests and avoids competing with one another. After the recent China-CEE16 Forum in Bucharest, Romania has a renewed opportunity to attract significantly larger Chinese investments and accelerate its catching up efforts, but to this end, it needs a deep, consistent and stable investment promotion strategy of its own, focussed on industry sector and company type, a strategy which encourages not exclusively quantitative accomplishments, but it also aims at attracting investments of high quality, which may help improve Romania's industrial structure, productivity, competitiveness and job creation. To date, the impact of Chinese ODI in Romania has been minor, but it may become significant if we act wisely.

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Annex 1

Selective Chinese "first wave" investors in Romania (1991-2010)

Company/ Project	**Field of activity**	**Location**	**Investment** (Euro, million)
China Town	Whole Trade and Business Centre	Ilfov County, Afumaţi	100.0
F&J Group **- Gentrade com** **- Sinoroma Distribution Com** **- Lemnking Industry** **- United Electric Industry** **- Vorton Lighting Industry** **- Everfresh Trading Agroproduct**	**Industrial park** - Lohn production of garments for export - Cigarette production - Wood processing - Electronics and electric appliances assembly - Ecologic electric bulbs factory - imports of fresh fruit, vegetables and sea fruit	Buzau County, Parscov	55.0 -100.0
Golden Way BV	Construction materials	Constanta County Ovidiu	28.0
Eurosport DHS	Bicycle production	Hunedoara County Deva	20.0
Ricky Impex	Bicycle, scooters, ATV production	Ialomita County Moviliţa	15.0

Marele Zid	Trade	Ilfov County	12.0
Ye Lin Activ	Trade	Ilfov County	12.0
Green Fiber Taiwan	Recycling	Buzau County	10.0
Donguang Yuncheng Plate Making Co.	Printing technologies	Buzau County	7.0

Sources: www.wall-street.ro, www.zf.ro.

RENEWABLE ENERGY SOURCES IN THE SUSTAINABLE DEVELOPMENT CONTEXT

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Diana-Mihaela Pociovălișteanu*

Abstract

Few are the studies that correlate the climatic changes with the use of the renewable energies, practical inexhaustible sources of energy, which do not pollute the environment. Planetary wise, the use of alternative types of energy was acknowledged for several centuries now. During the last century, the use through combustion of the energy from fossil fuels (oil, gas, coal) had disastrous impact on the environment, much higher than any other human activity in the History, leading to the accumulation of foul gases in the atmosphere, thing that has triggered processes (that might be irreversible).

The European Commission admits the need of promoting the Renewable Sources of Energy (RSE) as a priority measure, given the contribution of their exploitation to the protection of the environment and to the sustainable development.

Keywords: sustainable development, climatic nature, energies from fossil fuels, renewable energies, environment protection, Renewable Sources of Energy (RSE).

JEL Classification: P48, Q4

Introduction

Oceans absorb about a third of the carbon dioxide emissions (CO2) from the atmosphere. This gas is the bas for the decrease of the pH index of the water causing a series of chemical reactions of the chemical elements dissolved in the water, reactions described as acidification. Emissions of CO2 in the atmosphere,

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particularly from industrial sources have led to a rapid increase of acidity in the oceans, with consequences yet unknown on the long term, on the marine ecosystem, according to a study from March 2010 of the American Academy of Science. Climate change suffered by the oceans is a problem becoming more and more serious according to U.S. researchers, who report that marine animals will not survive to a so rapid change of their environment. Without a substantial reduction in CO_2 emissions or without other control methods of CO_2 emissions with greenhouse effects for the atmosphere, oceans will become more and more acid.

Climate bill – a black hole of national budgets

In the summer of 2008, Poland tried to form a blocking minority in the European Union regarding the launch of a full auctioning system of carbon quota fixed for the Member States. Poland was unhappy with the decision of the European Commission (EC) to reduce CO_2 emission quotas sought allies in the EU to block EC decision; Warsaw action targeted the EU Member States who have entered into the same wave accession in May 2004, that the desire to witness a rapid economic development need strengthening intensive sectors, but they are both responsible for almost half of all carbon dioxide emissions in Europe. Those measures, designed to lead to reduction of CO_2 emissions in the EU by 20 percent by 2020 compared with levels in 1990, suggest that Brussels decrease the total number of credits available for CO_2 emissions by 1.74 percent in every year since 2012. Poland, that produces 96 percent of its total electricity in coal power plants, fears that the system of auctioning of quotas of CO_2 emissions will lead to the bankruptcy of its energy companies in favor of wealthier Western firms that are more efficient and investing heavily in new technologies.

EU leaders agreed at the European Council at the end of October 2009, more than a month before the historic summit on environmental issues, in December the same year in Copenhagen to support the efforts of developing countries, including the European in fighting climate change. Although they said it would take 100 billion Euros, the EU leaders have not agreed on the amounts with which to engage the EU: 22 to 50 billion per year should come from international public funding. Analysts believe that the EU decision on its financial commitment must consider the decision of other developed and emerging countries on the planet.

European leaders have asked for any contribution to the funds of this kind to be made voluntarily. The EU supports a reduction target by 2050, of emissions of greenhouse gases in the planet's countries, 80-95 per cent lower than the 1990 levels: “I gave all world leaders a very dark vision of what science tells us and this should motivate us all, but I'm afraid I do not see evidence of that reasoning in the current stage. Science has been set aside and the remaining space was filled with political myopia, while each country is now trying to protect their own narrow short-term interests. They are afraid to go further because negotiations should compromise on these interests", said Rajendra Pachauri, the head of an international panel of the Copenhagen summit on climate change.

At the end of November 2009, before the Copenhagen summit, the U.S. announced to the general surprise, 17 percent reduction of emissions of greenhouse gas from now until 2020 compared to 2005 levels. This announcement has already been deemed insufficient by the environmental movement, which called for the U.S. to do more. In response, Washington appeared ready to commit to a reduction of 30 percent by 2025 and 42 percent by 2030. Nearly simultaneously, the Pekin presented its own figures: a reduction of 40-45 percent to "its carbon intensity" (pollutant emission per unit of GDP) from 2020, compared to 2005. We would like to remind you that the European Union has committed to a 20 percent reduction in greenhouse gas emissions and is prepared to increase this reduction to 30 percent.

As we will explain in detail in the second chapter of our work, the EU has committed 20 percent decrease emissions of greenhouse gases, use a rate of 20 percent renewable energy and achieve energy savings of 20 percent by 2020. EU has already reduced greenhouse gas emissions by about 16 percent by 2010 and increase the share of renewable energy to 10 percent of the total of energy consumed, according to data released by the European Commission. EU countries have registered delays in energy saving, which was only 3 percent, while the Member States are not subject to any constraint.

A checklist with new stages and targets was discussed on June 21, 2011 in Luxembourg, in order to provide consistency to the EU action to limit global warming to 2 degrees Celsius by 2050. There were proposed three stages: a reduction of 40 percent compared to 1990 levels by 2030, 60 percent by 2040 and 80 percent by 2050. In the day of the release of the checklist to limit global warming, Poland again opposed any additional commitment to reduce greenhouse gas emissions, thus blocking the EU's position in international negotiations on climate, a few days before taking over the EU presidency. that Poland refused any commitment beyond the 20 percent reduction approved in 2008 under the EU Action Plan. "It's disappointing," said the EU Commissioner for Climate Connie Hedegaard. She pointed out and isolated the position of Poland, noting that "the vast majority of EU states have agreed with the checklist of the Commission on further reducing the emissions of greenhouse gases. Producing coal and dependent on this highly polluting fossil used to produce electricity, Poland agreed with many hesitations, as noted above, only to the action plan adopted in 2008.

Importance of renewable energy sources

In the last century, the use of energy from fossil fuels (oil, gas, coal - through burning) has had disastrous effects on the environment, greater than any human activity in history: the accumulation of greenhouse gases in the atmosphere, which triggered processes (perhaps irreversible), such as depletion of ozone layer, global warming, etc. Therefore, the use of alternative energy sources becomes increasingly important for today's world. These sources, like the sun and the wind, are practically never consumed and they are called renewable energies. The electricity produced using the sun or the wind produces far fewer emissions, reduces chemical, thermal, radioactive pollution and is available virtually anywhere in the world. Renewable energies are also known as alternative or unconventional. The main types of alternative energy, which the author analyzes in this paper, are: solar energy, wind energy, hydro energy, wave energy, geothermal energy, renewable resources of forests and biomass.

Global emissions of carbon dioxide are increasing three times faster than the experts estimated and have a negative effect on the climate. The United Nations has warned since 2006 that following the acceleration of the global warming, the water supplies will decline, the glaciers will melt, and many species will disappear. The increase of the greenhouse effect raises the overall temperature of the planet. Due to human activity, the concentration of greenhouse gas has increased since pre-industrial period (1750-1800). The concentration of carbon dioxide (CO_2) gas emissions with the highest share has increased in the last 50 years by 30 percent compared to the pre-industrial era. The combined consequences of the growth of all greenhouse gases (CO_2, methane, ozone) are equivalent to a growth of 50 percent over that period.

Compared to 1860, the average temperature of the earth's crust rose with nearly 1 degree Celsius. According to several sources and statistics, in recent years the average temperature of Earth has been recording increases between 2 and 3 degrees Celsius, despite the measures taken to reduce the amount of CO_2 released into the atmosphere due to highly polluting human activities. Reducing this development, however, is only possible through the significant reduction of emissions of greenhouse gases. CO_2 natural absorbents such as soil, the leaves of trees and oceans are not only able to retain slightly more than half of the amount of CO_2 produced by present human activity. To stabilize the concentration of CO_2 in the next few years, the CO_2 emissions must therefore be urgently reduced by 50 to 70 percent. It is impossible, however, to achieve this reduction quickly but the action must be done urgently because we are presented with a cumulative problem. Since the lifetime of carbon dioxide in the atmosphere is of the order of centuries, several generations are required to achieve stabilization of CO_2 concentrations to acceptable levels.

CO_2 is produced by burning all the fossil fuels: oil, gas and coal. The residues of CO_2 from the coal combustion are approximately two times higher than those caused by natural gas, and that correspondent to oil ix somewhere between the two.

In the early 2000s, the distribution sector CO_2 emissions in the world were: electricity production - 39 percent; transportation - 23 percent; industry - 22 percent; housing - 10 percent; other fields - 4 percent and agriculture - 2 percent. This distribution is both very different from one country to another. For example, in France, where only a tenth of the electricity is produced from fossil fuels, the transport sector has the share of 40 percent of the CO_2 emitted into the atmosphere.

In 2000, the world energy consumption was of the order of 10 Gtep (1 tep corresponds to energy produced by burning one tone of oil). Fossil fuels are around 8 Gtep. Many energy scenarios are developed each year by energy specialized bodies. These scenarios indicate a need for 15 to 25 Gtep for the year 2050. Such future scenarios are based on different parameters such as economic growth, population growth, and progressive access to electricity of 1.6 million people that still lack electricity, the growing needs of developing countries and the development of policies to protect the environment. Uncertainties about the evolution of these different parameters explain the important differences between existing scenarios. At the same time, it is reasonable to predict that by the middle of the century, the energy demand will double.

This creates an urgency of developing new technologies inevitably more expensive in the beginning. At the same consumption, it is estimated that current reserves and shale oil will be exhausted in the next 40 years; other expert opinions estimate the exhaustion of the reserves in a period between 20 and 80 years, depending on the consumption growth and the discovery of new reserves. At the same level of consumption, current reserves of natural gas are expected to be exhausted in the next 60 years, while the natural gas consumption increases every year. But if you replace oil and coal to natural gas to reduce greenhouse emissions, gas reserves will be consumed in about 17 years. Replacing nuclear energy with the one produced through natural gas by some countries can accelerate the consumption of resources. Coal is the fossil fuel with the most important reserves. It is estimated that this would be sufficient at the current rate of consumption for another 200 years.

The energy demand by 2050 is expected to be between 15 and 25 Gtep and will be achieved by the countries of the planet, for the most part. The residues of energy from fossil fuels will greatly increase, which will have dramatic consequences on the environment, ignoring the needs of future generations. For the average temperature not rise more than 1-3 degrees Celsius the total greenhouse gas emissions in the coming decades must represent more than one third of emissions caused today by burning natural gas resources, oil and coal. This would mean to prohibit the burning of two thirds of conventional and relatively inexpensive energy. It is no reasonable hope that, the fast draining of natural resources will reduce emissions of greenhouse gases. On the other hand, the relatively low price of conventional resources slows the development of new technologies inevitably more expensive, as long as these technologies do not reach mass production. Starting with 2020-2030, the economic and political tensions could lead to diminishing exploitable fossil resources and concentration in politically unstable areas, which will harm the security of supplying the EU countries if they remain dependent on fossil fuels.

Conclusion

Through natural resources, according to Government Emergency Ordinance no. 195/2005, approved and amended by Law no. 265/2006, we understand all the natural elements of the environment that can be used in human activity, and those are: a) non-renewable resources (minerals and fossil fuels); b) renewable resources (water, air, soil, flora, fauna); c) inexhaustible resources (solar, wind, geothermal and wave energy). After the Environmental Protection Act in Romania, the last two categories of resources can be classified as renewable resources. Although the last category of resources is considered inexhaustible, we express the opinion that this approach was determined by the level of knowledge on which this classification was performed.

Current scientific knowledge allows us to consider solar, wind, geothermal and wave energy as renewable resources. The regeneration mechanism is quite complicated. Solar energy is produced by the most important star in our galaxy; the Sun. The thermal reaction produced in the Sun generates heat even now, the only energy that can be considered and inexhaustible.

At a global level, the use of alternative forms of energy has been acknowledged for centuries. In the last century, the use of energy by burning fossil fuels (oil, gas, coal) has had disastrous effects on the environment, much higher than any human activity in history, leading to the accumulation of greenhouse gases in the atmosphere, which triggered processes (may irreversible), such as depletion of ozone layer, global warming, etc.

Therefore, the use of alternative resources of energy becomes more and more important for today`s world. These sources, such as the Sun or the wind, practically cannot be consumed, they renew and this is the reason why they are called renewable energies. The use of the renewable energies, according to the stage reached by current human civilization on Terra, produces less toxic emissions, reduces chemical, thermic, radioactive pollution, and those resources are available, theoretically, anywhere on the globe. The renewable energies are also known as alternative unconventional sources of energy. According to a different classification, the types of *alternative energy are: a) solar energy; b) wind energy; c) water energy, also known as hydro energy, that ocurrs when the water – in fall – produces mechanical work or wave energy, when the oceans' and seas' water moves under the influence of some forces; d) geo-thermal energy; e) bioenergy (that results from the use of biofuels or of animal waste).*

The programme of using the renewable resources of energy meets the environment requirements undertaken through the Kyoto Protocol at the Frame Convention of the United Nations on climatic changes, adopted on December 11th, 1997 and approved by Romania throug Law no. 3/2001, respectively by the European Union under the Document 2002/358/CE. At the beginning of the third millenium after Christ, a new era foreshadows in the energetic usage – mankind's passing to the use of renewable (regenerative) energies: solar energy, wind energy, tide energy, water's hydraulic energy, thermal waters energy, biomass.

The European Commission admits the need of promoting the Renewable Sources of Energy (RSE) as a priority measure, given the contribution of their exploitation to the protection of the environment and to the sustainable development. Promoting the electric energy from SREs is a priority, due to energetic security measures, to vary the sources, protect the environment and maintain the economic – social cohesion. The elevated use of SRE represents an important part of the Kyoto Protocol on climatic changes that was effective up until December 2012. In order to capitalize the energetic potential of the renewable resources it is mandatory to fulfill some specific objectives – analyzed in the hereby work – activities that should be performed throughout average and long duration, in accordance with the undertaken regulatory stipulations.

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PERFORMANCE MANAGEMENT IN THE ECO-DEVELOPMENT

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Abstract

Environment and, in particular, the problem of global warming and responsible management of energy resources is a sensitive issue, especially important for each of us. It is a problem to be analyzed actively both in terms of absorption grants and project management and the prospect of the country of more efficient heating systems, including those based on the use of green energy. We need to understand first of all that green energy along with other alternative energies, were until recently the only sources of energy man has received over the millennia. But use the current requirements necessitated overcoming technological problems that have been solved only in recent decades.

JEL Classification*:* M10.

Key words: green performances, future business, performance management, eco-development

Introduction

A current concern of companies operating on the Romanian market, not only should be oriented towards saving resources and finding the most effective solutions for access to a green economy. In this context it can be successfully introduced the study management, environmental management. The market trends are environmental data that is designed to achieve the organization's policy and programs in the context in which economic activity takes into account compatibility with natural ecosystems, pollution prevention and environmental conservation, the need for information about the entity's commitment to environment. Hence the existence of a permanent impact medium to marketing. The marketing system there are situations where the desire to produce for the market, ignoring environmental requirements. As an

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effective management system is necessary to avoid environmental degradation, it should be comprehensive, well structured and scope of review. It can be said that any phenomenon that does not translate into a monetary exchange in a market economic system is ignored. Note that there is no universally valid model of environmental management, but have been developed environmental management. These systems are considered instruments of planned changes and projected to sustain the balance of the environment. Such a system includes a number of independent components work together to achieve efficiency targets for activities, products or services that have or may have an impact on the environment. The best known are ISO 14000 (that complete ISO 9000 quality management standards). These standards of environmental management are presented in a form of organizational structure assessments and product.

Illusion of centuries past , oil and coal that will be safe and sustainable sources , then the false belief that nuclear energy would be exempt from risk proved already in the last century to be a serious error . On the one hand, they are likely to be depleted and, on the other hand, leading to a dramatic deterioration of the environment. However , solar energy, of which only 4 % would be sufficient to cover the entire energy needs of the planet , wind , and one that can be extracted from geothermal or hydro power are inexhaustible , and without any damage to the environment . But higher costs and many mistakes made in the past have delayed the development of this field. Thus, a report of the European Court of Auditors highlight investment depreciation that reached even 150 years , the life of components and buildings but was much smaller . It's just one example that shows the importance of how it is approached management in this area. Today, however, technologies and management approaches have evolved, so the development of green energy is growing faster. Solar energy is already used in over two hundred million households and commercial and public institutions around the world , investment in solar grew by more than 50% already reaching nearly 150 billion dollars in Italy, Germany , United Britain, Spain, the United States and China.

Investments in renewable energy, however, is not a privilege of developed countries. In 2012, there were 118 countries that had well-established targets for renewable energy, of which more than half the emerging countries . It is interesting to observe and analyze 2012 of one of the largest professional services firms worldwide, Ernst & Young. The top of the leaderboard All

Renewables Index (ARI) in 2012, China remained the top and through support objectives solar absorbing surplus production of solar panels. In turn, the United States occupied the third place, Germany accounting for second place. Germany , however, is an interesting example , especially because , unlike other countries, more than half of the alternative energy industry is owned by individuals and small companies, the energy industry giants such as accounting for half of the industry.

Romania has a privileged position, because it has an extremely advantageous placement, both the efficiency of wind farms and those based on solar energy. In addition, Romania has a remarkable potential geothermal chapter , giving him the third place in Europe after Greece and Italy. But geothermal energy is just beginning, today is just one city, Beiuş, which for heating, is based entirely on this type of energy , geothermal energy production amounted to two hundred thousand gigacalories. But geothermal sources are used in Timis or Oradea. Geothermal potential, however, have many more regions, both for heating and for electricity generation. Geothermal energy, a great experience, long lasting, enjoy Iceland, and has signed a memorandum of cooperation in the field of geothermal resources.

But the real boom in green energy was recorded in Romania after we have assumed, in the European Union , the requirement to increase the share of energy supplied from organic sources , so that it reaches 2020 , at least 33 % of total. Commitment was possible because we have anyway intake of 20 % represented by hydropower. But in this area the achievement of minimum commitment SHP 150, of which 50 % have already been achieved and another 50 projects are advanced. However, the increase was regarded by many with skepticism maximum. However, after 2007, the development of energy from green sources grew mainly because EU funds used unfortunately only partially , and because of the support of the Romanian state subsidies . Due to these factors, and especially because of natural opportunities, Romania climbed early 2012 , the top 10 most attractive countries in the world in wind energy investment and 13th , according to the aggregate index for all forms of renewable energy .

The past three years have invested most in wind energy for about 2,000 MW, the equivalent of three nuclear reactors at Cernavodă. It is about 1,822 MW in wind farms, solar parks, 49 MW and 40 MW biomass investing nearly three billion. According to the National Plan of Action for Renewable Energy (PNAER) 2020, Romania should have 4,000 MW in the wind, 260 MW and 600 MW in the Solar Biomass, which, according to current costs, would require more than 4.5 billion. The growth is impressive but, in 2012, solar panels produce ten times more energy than in 2011. Meanwhile, as expected, remains by 2014 to double the number of wind generators.

Energy Conservation Management

Energy conservation, due to its complexity, is subject to management principles. Quality management in turn affect the economic efficiency achieved by manufacturing or service providing units that can implement various energy conservation measures.

The activity of a company should be oriented so as to ensure increased profits, output, employment stabilization and decrease economic risk. In the energy industry, prior to a policy generally led to increase production capacity at the expense of energy conservation. However, fuel crisis, environmental constraints and the tendency increasing reduction in capital investment in building new power plants, manifested in Romania led to the conclusion that the industry overall efficiency of use is 15-20% of the primary energy input to the process.

Reducing energy consumption can be done through technical solutions and social. Energy saving technical solutions aimed at reducing losses and efficient use of facilities; their result is reflected in economic terms. The experience of developed countries noted that investing $ 400 in energy saving measures (increased efficiency) may be waived investment of $ 1,000 in electricity generation plants.

Social solutions involve changing the life of people, so reducing energy consumption individually or have no harmful effects on the general welfare of the people. For example: the use of more fuel efficient cars.

A comprehensive program of energy conservation would allow future generations to benefit from the energy of the planet. This requires a shift in thinking of entire nations, or maybe there is a risk situation that may lead to radical changes in outlook ever. Therefore, today, is the most promising energy saving energy source available to mankind.

Conclusion

Romania under the conditions that you have, even in the context of climate change, we can say the market of biofuel production, both at regional and European level. Commission's Green Paper "Towards a European strategy for the security of energy supply", sets 2020 goal of replacing conventional fuels in 20% alternative fuels in the road transport sector. From all this it follows that the most effective and economic component of economic policy environment is the set of measures and means for changing the behavior of producers and consumers, civil society as a whole, in a sense favorable environment. Financial and economic resources are allocated to the environment as a component of environmental policy, on which there is a certain opposition political and economic reasons private. Total expenditures for environmental protection shall consist of: investment, current operating expenses, maintenance and supply of environmental services.

These costs include current costs (because their activities) and external current expenditure (for activities purchased from third parties). In this national environmental policy framework structured main indicators characterizing this area by specific indicators in the public and private sector such as total expenditure, investment, current expenditure. These expenditures at the national level in Romania are assigned to the producers for environmental protection which are grouped into three categories: non-specialized producers, manufacturers specialized Local Government.

At the current stage policies concept of environmental information has changed, this is driven by national and international developments in the field of sustainable development and environmental protection.

In this framework, national policy on information and communication sources on the environment had to answer two requirements: data quality and information (where to obtain the data) and cost information. From all this it follows that the Romanian national policy main source of information was actually directed to the following: periodic reports, national and international databases nationally balance environmental impact studies.

Management policy imposed on Romania gathering information through a quality statistical information service. Investment policies for the environment in Romania based preventive environmental policy environmental policy was conducted according to guidelines focus on priority programs, which aimed to achieve objectives that were related to the following: flood protection, complex spatial watershed management and sustainable forest unit investments ecological restoration and biodiversity conservation environmental factors.

Structural policies for environmental investment expenditures were versatile in that they provided funds for a wide range of projects for the environment. It made financing and financial destination private and public enterprises to achieve ecological projects. In parallel there were specific funds intended for financing the protection of environmental factors or components.

The total investment for the national level, the structure of the added and integrated were major success, being much higher than the integrated (mostly allocated to producers and a very low non-specialist public administration).

Effectively, in the current financial resources for environmental investments were primarily for areas such as waste management, water and sewerage infrastructure development, sustainable land management. Have been developed with special purpose instruments that allow for the private sector investment in environmental protection efforts. Within this framework of action there were inconsistencies investment policy environment in Romania. They were out in relief: the environmental action showing large gaps, serious financial problems which are industrial enterprises, the slow pace of privatization, underdeveloped banking system; early stage of development in which the capital market, political decision-making and budgeting, economic decisions taken are not always optimal from the point of view of environmental protection; NGOs rarely influence effectively decision making.

SF Environment in Romania have been aimed at improving the actual quality of the environment that were dependent on coordinated actions in the following areas: political reform, institutional strengthening and funding. In the framework of the programs of measures of central successively decided to establish main bodies responsible for environmental investments.

Implementation of various energy conservation measures must consider a number of specific sectors for which they are intended. Offers significant potential for conservation industry, transport and buildings. The industry can be considered energy-intensive industries: aluminum, steel, chemicals, cement, paper, etc. Each company has its specificity and therefore some measures. I can apply, some not. Increasing energy prices has influence mainly on businesses and companies in the energy has a large share in total expenditure. Increasing energy prices lead to lower profits, unemployment and lead to bankruptcy.

Implementation of energy conservation measures can improve the financial situation of company. Businesses large and old technologies and systems offer the potential for higher energy conservation.

Energy conservation measures can be applied to centralized or decentralized. In the first case can be made cogeneration of electricity and heat: the measure but requires public approval.

Decentralized, each individual in different circumstances and react in different ways, can provide favorable overall results. Times of implementing energy conservation measures are usually large due to high product life cycles and energy installations. For example, changing equipment is 20-30 years, the housing (buildings) in 100 years, and a car in about 10 years. However, there are gradual implementation measures, eg buildings by lowering short-term temperature, insulation and replacement heating medium and long term. Energy conservation measures should equally concern all people, all communities, all countries, energy is a global issue of mankind.

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SOCIAL INCLUSION THROUGH GREEN ECONOMY: THE CASE OF PRISON POPULATION IN SPAIN

María Barreiro-Gen· Xose Picatoste*

Abstract

Global sustainability is based on intergenerational responsibility. The planet cannot withstand environmental assaults that the capitalist production system can produce if there is not a regulatory mechanism. This mechanism is contained, at least in part, in several regulations and commitments, as "Europe 2020", which includes goals related with energy efficiency and green economy and others areas linked with social sustainability, as employment, education or social inclusion. This work is centred in a specific group at risk of social exclusion, the Spanish prison population, and the possibility of join two objectives: achieving the social inclusion of this collective through the enhancement of their skills in green economy to get a job. In this way, two of the most important sustainability areas, environmental and social, would be linked and improved. Types of work in prison in Spain are analysed and new proposals are provided.

Keywords: social inclusion, green economy, environment, employment, inmate, prison

JEL Classification: J64, J71, J78, K10, Q56, Q58

Introduction

Global sustainability is based on intergenerational responsibility (Lecaros, 2013). The planet cannot withstand environmental assaults that the capitalist production system can produce if there is not a regulatory mechanism. This mechanism is contained, at least in part, in several regulations and

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commitments, as the EU's 10-year strategy, known as “Europe 2020”, which includes goals related with energy efficiency and green economy and others areas linked with social sustainability, as employment, education or social inclusion.

This work is centred in a specific group at risk of social exclusion, the Spanish prison population, and the possibility of join two objectives: achieving the social inclusion of this collective through the enhancement of their skills in green economy to get a job. To analyse this issue, this article is structured as follows: section 2 and 3 present the analysis of the part of Europe 2020 linked with not only climate and energy, but also employment and social inclusion. Section 4 contains a description of the case of study, prison population, and the problems that they find to achieve social inclusion. Section 5 shows the major types of work in prison in Spain and some Government and NGOs actions in the labour area linked or not with green economy. Section 6 discusses the findings and shows the conclusions to be drawn.

Conflicting goals

Nowadays, the idea of “use once and throw away” and the primacy of short-term profits is extended and generalized. The main consequence of these way of thinking about is that the environmental sustainability have been put at risk.

Because of this, it is necessary to make decisions in this area to change the direction of the actions of governments, firms and households.

In this line, green economy is considered as a vehicle to deliver sustainable development (UNEP, 2012). In a clean energy economy, green businesses play a central role by utilizing renewable energy technologies and employing green labour forces to provide clean energy services and goods (Yi, 2014). Green economy is a new terminology for what is known since 40 years as ecological modernisation (Lorek and Spangenberg, 2014).

The apparently conflicting goals of green economy are, on the one hand, the resources efficiency and, on the other hand, reducing the impacts (externalities) associated with production and consumption. At first, doing compatible these objectives seems difficult, because short and long term targets may conflict:

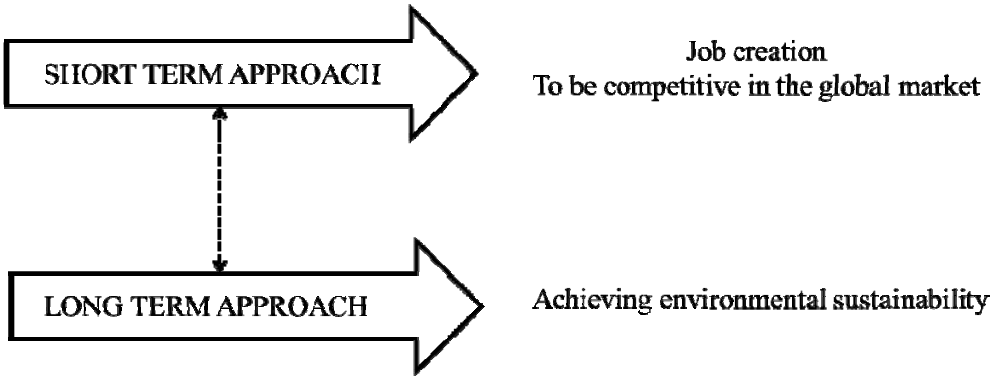

Fig.1: Short term approach vs long term approach

Source: *Authors' own*

As Figure 1 shows, if we follow short term approach, the main need is the job creation and being competitive in the global market. However, long term approach defends the importance of the environmental sustainability.

How can we make them compatible? A possible solution is the development and the merchandising of green technologies increasing energy efficiency. It would be a solution if it had the aid of public policies, as Europe 2020. In fact, one of the goal of United Nations Environment Programme is to demonstrate the contributions that green investments can make to the growth of income and jobs.

The aid of public policies: Europe 2020

According to the European Union (2010), we need to accept that the increased economic interdependence demands also a more determined and coherent response at the political level. Economic realities are moving faster than political realities, as we have seen with the global impact of the financial crisis. Europe 2020 is about delivering growth that is: smart, through more effective investments in education, research and innovation; sustainable, thanks to a decisive move towards a low-carbon economy, and inclusive, with a strong emphasis on job creation and poverty reduction.

The strategy is focused on five ambitious goals in the areas of employment, innovation, education, poverty reduction and climate/energy. These targets are interrelated and critical to overall success. To ensure that each

Member State tailors Europe 2020 to its particular situation, the Commission proposes that EU objectives are translated into national targets and trajectories.

The goal related with climate and energy (objective 3) says that increasing energy efficiency, supporting research and developing and commercialising innovative green technologies, Member States can also boost their competitiveness and create jobs. In fact, employment is a really important target in the States Members. The Commission has proposed the following EU headline target related with job (objective 1): 75 % of the population aged from 20 to 64 years old should be employed.

Moreover, the Commission is putting forward seven flagship initiatives: in the environmental area, the initiative is “Resource efficient Europe” “to help decouple economic growth from the use of resources, support the shift towards a low carbon economy, increase the use of renewable energy sources, modernise our transport sector and promote energy efficiency”. At EU level, the Commission is working in mobilising EU financial instruments, in enhancing a framework for the use of market-based instruments or in presenting proposals to modernise and decarbonise the transport sector thereby contributing to increased competitiveness.

In the employment area, the initiative is “an agenda for new skills and jobs”, with the objective of “modernising labour markets and empower people by developing their of skills throughout the lifecycle with a view to increase labour participation and better match labour supply and demand, including through labour mobility”.

On the other hand, Europe 2020 establishes a target related with poverty and social exclusion (objective 5): 20 million less people should be at risk of poverty.

There are interrelations between these three goals liked with climate, employment and exclusion and it can be done strategies that incorporates common elements to walk towards this smart, sustainable and inclusive growth (Figure 2). In fact, according to García-álvarez, Varela-Candamio and Novo-Corti (2013) renewable energy sector can be an opportunity to create employment.

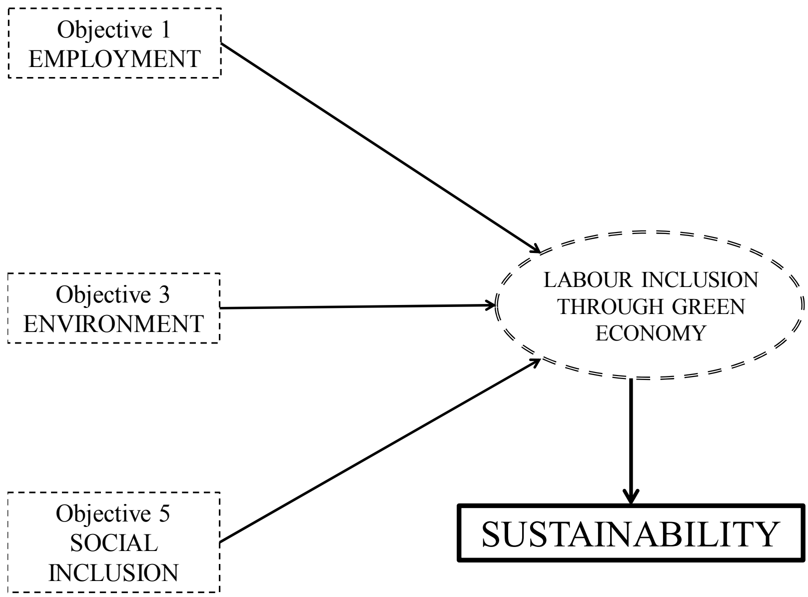

Fig. 2: Labour inclusion through green economy linking three Europe 2020 targets

Source: *Authors' own*

Acting all States together in these areas is the proposition of EU. According to the Commission, the EU adds value on the global scene. In this way, EU will influence global policy decisions only if it acts jointly.

The case of prison population

Nowadays, there are some groups with special problems to achieve social inclusion, as rural women, homeless or Gypsies (Gago-Cortés and Novo-Corti, in Press; de Souza et al. 2009; Hunter and de Simone, 2009; Novo-Corti, Varela-Candamio and García-Álvarez, 2014).

Prison population is another group at risk of social exclusion (Barreiro-Gen, 2012). Table 1 shows the relation among prison population and crimes recorded by the police in some European countries, as Spain, Romania or Germany (2003-2012).

As this Table shows, the most developed European countries, such as Germany, France or Finland, have fewer people in their prisons during whole studied period than others states such as Spain, Portugal or Greece. It has been included the case of Romania or Turkey because the percentage is higher, in the line with others European countries less developed.

Table 1 Relation (%) among prison population and crimes recorded by the police in European countries (2003-2012)

Country/Year	2004	2005	2006	2007	2008	2009	2010	2011	2012
Belgium	0,9%	0,9%	0,9%	1,0%	0,9%	0,9%	1,0%	1,0%	1,0%
Denmark	0,8%	0,9%	0,9%	0,8%	0,7%	0,8%	0,8%	0,9%	0,9%
Germany	1,2%	1,2%	1,2%	1,2%	1,2%	1,2%	1,2%	1,2%	1,1%
Greece	2,2%	2,2%	2,2%	2,7%	3,0%	3,0%	3,8%	6,4%	6,4%
Spain	2,8%	2,7%	2,8%	2,9%	3,1%	3,3%	3,2%	3,1%	3,0%
France	1,5%	1,6%	1,6%	1,7%	1,8%	1,9%	-	-	-
Italy	2,3%	2,3%	1,4%	1,7%	2,1%	2,5%	2,6%	2,4%	2,3%
Luxembour g	2,1%	2,9%	2,8%	2,4%	2,4%	2,1%	2,2%	1,8%	1,7%
Netherlands	1,3%	1,3%	1,3%	1,2%	1,1%	1,1%	1,2%	1,2%	1,2%
Austria	1,4%	1,5%	1,5%	1,5%	1,4%	1,4%	1,6%	1,6%	1,6%
Portugal	3,1%	3,2%	3,1%	2,9%	2,5%	2,6%	2,7%	3,1%	3,4%
Romania	16,9%	17,6%	14,6%	10,4%	9,1%	8,9%	9,7%	11,9%	10,3%
Finland	0,8%	0,9%	0,8%	0,8%	0,8%	0,7%	0,7%	0,7%	0,8%
Sweden	0,6%	0,6%	0,6%	0,5%	0,5%	0,5%	0,5%	0,5%	0,5%
England and Wales	1,3%	1,4%	1,4%	1,6%	1,8%	1,9%	2,0%	2,1%	2,3%
Scotland	1,5%	1,6%	1,7%	1,9%	2,1%	2,4%	2,4%	2,6%	-
Northern Ireland (UK)	1,0%	1,1%	1,2%	1,4%	1,4%	1,3%	1,4%	1,6%	1,7%
Norway	1,1%	1,1%	1,2%	1,3%	1,3%	1,2%	1,3%	1,4%	-
Switzerland	1,5%	1,7%	1,8%	1,8%	1,8%	0,9%	0,9%	0,9%	0,9%
Turkey	11,4%	8,4%	7,2%	9,3%	10,2%	9,0%	7,9%	7,8%	-

Source: *Eurostat, the author's calculation. Prison population/crimes recorded by the police*

Spain has a lot of people in prison. On the one hand, it is expensive. On the other hand, if these people cannot achieve their reintegration, the probability to continue in their criminal life is higher. Because of this, it is necessary to look for instruments to avoid it.

This collective finds many difficulties in different areas, as employment. Achieving a job is one of the most important instrument to avoid exclusion (de

Oliveira and Ornellas, 2011; Gallie, Paugam and Jacobs, 2003; Naraine and Lindsay, 2011). Leaving prison with a lawful source of income, such as a job or a pension, is decisive for the non-recidivism (Barreiro-Gen, Novo-Corti and Ramil-Díaz, 2013). Those prisoners who have good prospects in the labour market reoffend less, while those who do not, relapse more easily, especially if they have drug problems (Entorf, 2009). In fact, most of the models related with social exclusion incorporates employment as a key factor: for instance, according to Commins (1993), social exclusion should be defined in terms of the failure of one or more of the following four systems: 1. the democratic and legal system, assuring everyone is alike to the rest of the society; 2. the labour market, which promotes economic integration. The importance of this system stems from being able to pay your way; 3. the welfare state system, promoting social integration and letting social services help people who cannot manage entirely alone; 4. the family system, which promotes interpersonal integration.

According to the Spanish Constitution (1978), the model of prison in this state is based on social reintegration (art. 25). If different ways to find a job are analysed, it can be said that the personnel and recruitment systems adopted by public institutions prohibit the incorporation of candidates with a criminal record. The adverse effects of disqualification constitute a two-fold punishment for the inmate. Public employment is inaccessible for prisoners. In spite of serving their full sentence, those released from prison suffer, as do all inmates, the stigma of their criminal record (Barreiro-Gen, 2012; Jensen and Giegold, 1976). The institutions extend this behaviour to the inmates' life after prison.

In addition, these inmates have difficulties in obtaining employment in the private sector. Employment policy in most private companies includes the screening of candidates. The existence of any factors that undermine the employer´s confidence, such as being ex-inmate, is likely exclude candidate from the selection (Hitt et al., 2001).

It is necessary to walk towards the reduction of these obstacles and the construction of instruments that help this collective to find an employment.

In this line, work at prison can be an interesting key factor to prepare inmates in a specific area. De Alos et al. (2009) observe the inmates at work and conduct interviews with them. The results of their study confirm that prison work acquires several functions: it provides inmates with earnings that enable them to meet personal or family needs, working in prison allows them to make better use of their time, provides working habits and improves social relationships.

In this work it is proposed the possibility of join two objectives: achieving the social inclusion of this collective through increase their skills in green economy to get a job. In this way, two of the most important sustainability areas, environmental and social, are linked and improved.

Government and NGOs actions linked with this area in Spain are analysed.

Government and NGOs actions related with work in prison

There is an Autonomous Agency Work Prison and Training for Employment in Spain (OATPFE). According to this organism, the main goal of work in prison is the subsequent labour integration of inmates. They can acquire labour habits and skills to be competitive through different programs. Productive activity in prisons has to be self-funded, because Spanish General Budgets doesn't fund these activities. Because of this, the projects must be economically viable. Scenarios should be created similar to reality in the characteristics that it is possible (for instance, labour or technological characteristics).

There are different areas where prison population are working through this Agency as Table 2 shows.

Table 2: Activities per prison in the production units (Spain)

Production Units. Activities.	Prison
Industrial garment-making	Burgos Córdoba El Dueso Jaén Madrid I Madrid V Puerto III Segovia Topas

Metal carpentry	Almería Bonxe Cáceres El Dueso Jaén Monterroso Ocaña I Ocaña II Sevilla Valladolid
Wood carpentry	Albolote Almería Bonxe Cáceres El Dueso Ocaña I Sevilla
Graphic arts	Madrid II Madrid III,
Manipulated	Ocaña I
Electricity and electronics (repair of computers)	Ocaña I Ocaña II
Agriculture (self-consumption and sell of flowers)	Burgos Jaén Málaga Sevilla
Craft	Ocaña I

Source: *Autonomous Agency Work Prison and Training for Employment in Spain (OATPFE)* (http://oatpfe.es/portada/AreasdeActividad/ TrabajoPenitenciario/ seccion=1179&idioma=es_ES.do#).

There is a lack of programs directly related with green economy. Despite the work offered is linked with areas related with natural resources, they do not receive specific training in that field.

If we pay attention of NGOs actions related with work after prison, we can find some regional activities like these:

In Galicia, Itinere program consists in helping former drug addicts to get a job (Érguete Foundation, 2014). In other region, Murcia, Diagrama Foundation has created Insertion companies Bridge (Diagrama Foundation, 2014). On the other hand, in Andalucía, SAL-Córdoba is a labour inclusion program in the agriculture (Andalusian Public Foundation Training and Employment Fund, 2014). However, there are not specific programs linked with mechanisms of green economy.

Conclusion

On the one hand, prison population face serious problems to achieve social inclusion. Employment is an important instrument to facilitate the reintegration of groups at risk of exclusion, such as this collective, in the society.

On the other hand, there are some niches in European market, such as the sector related with the green economy, that is being promoted by European Union, trough Europe 2020.

However, it have been showed that there is a lack in the training in prison related with this sector. Increasing training in prison of green economy is a contribution to improve labour skills of prison population in this market niche, which is on the rise. This proposition not only would contribute with environmental sustainability, but also would do easier the social sustainability and the social inclusion of this group. In this way, three of the five Europe 2020 targets would be encouraged: the goals linked with environment, employment and social inclusion.

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RISK LEVEL OF VIET NAM ENTERTAINMENT INDUSTRY UNDER FINANCIAL LEVERAGE DURING AND AFTER THE GLOBAL CRISIS 2007-2009

Dinh Tran Ngoc Huy [1]

Abstract

After the financial crisis 2007-2009, this paper evaluates the impacts of external financing on market risk for the listed firms in the Viet nam entertainment industry.

First, by using quantitative and analytical methods to estimate asset and equity beta of total 5 listed companies in Viet Nam entertainment industry with a proper traditional model, we found out that the beta values, in general, for many institutions are acceptable.

Second, under 3 different scenarios of changing leverage (in 2011 financial reports, 30% up and 20% down), we recognized that the risk level, measured by equity and asset beta mean, decreases (0,168) when leverage increases to 30% and it increases (0,307) if leverage decreases down to 20%.

Third, by changing leverage in 3 scenarios, we recognized the dispersion of risk level, measured by asset beta var, decreases if the leverage increases to 30%. And the asset beta var value is quite small, showing leverage efficiency.

Finally, this paper provides some outcomes that could provide companies and government more evidence in establishing their policies in governance.

Keywords: equity beta, financial structure, financial crisis, risk, external financing, entertainment industry

JEL Classification: G010, G100, G390

Introduction

Financial system development has positive effect for the economic growth, throughout many recent years, and Viet Nam entertainment industry

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is considered as one of active economic sectors in local financial markets, which has some positive effects for the economy.

This paper is organized as follow. The research issues and literature review will be covered in next sessions 2 and 3, for a short summary. Then, methodology and conceptual theories are introduced in session 4 and 5. Session 6 describes the data in empirical analysis. Session 7 presents empirical results and findings. Next, session 8 covers the analytical results. Then, session 9 presents analysis of risk. Lastly, session 10 and 11 will present discussion and conclude with some policy suggestions. This paper also supports readers with references, exhibits and relevant web sources.

Research Issues

We mention some issues on the estimating of impacts of external financing on beta for listed entertainment industry companies in Viet Nam stock exchange as following:

Issue 1: Whether the risk level of entertainment industry firms under the different changing scenarios of leverage increase or decrease so much.

Issue 2: Whether the disperse distribution of beta values become large in the different changing scenarios of leverage estimated in the entertainment industry.

Beside, we also propose some hypotheses for the above issues:

Hypothesis 1: because using leverage may strongly affect business returns, changing leverage scenarios could strongly affect firm risk.

Hypothesis 2: as external financing is vital for the business development, there will be large disperse in beta or risk values estimated.

Literature review

Goldsmith (1969), Mc Kinnon (1973) and Shaw (1973) pointed a large and active theoretical and empirical literature has related financial development to the economic growth process.

Black (1976) proposes the leverage effect to explain the negative correlation between equity returns and return volatilities. Diamond and Dybvig (1983) said banks can also help reduce liquidity risk and therefore enable long-term investment.

Next, Brennan et all (1984) pointed that a firm's capital structure is dynamic. Aghion et all (1999) stated debt instruments can reduce the amount of free cash available to firms and thus managerial slack.

Peter and Liuren (2007) mentions equity volatility increases proportionally with the level of financial leverage, the variation of which is dictated by managerial decisions on a company's capital structure based on economic conditions. And for a company with a fixed amount of debt, its financial leverage increases when the market price of its stock declines. Then, Penman et all (2007) documented a negative association between leverage and future returns, after controlling for conventional risk proxies.

Reinhart and Rogoff (2009) pointed the history of finance is full of boom-and-bust cycles, bank failures, and systemic bank and currency crises. Adrian and Shin (2010) stated a company can also proactively vary its financial leverage based on variations on market conditions. Marco (2012) found out in Euro region, asset risk, measured as the annualized volatility of the market enterprise value, is the best predictor of observed leverage ratios. Thomas and Fredrik (2012) pointed asset specificity has a negative impact on leverage, but a positive impact on debt maturity.

Then, Ana and John (2013) Binomial Leverage – Volatility theorem provides a precise link between leverage and volatility. Chen et all (2013) supports suspicions that over-reliance on short-term funding and insufficient collateral compounded the effects of dangerously high leverage and resulted in undercapitalization and excessive risk exposure for Lehman Brothers.

Finally, financial leverage can be considered as one among many factors that affect business risk of entertainment firms.

Conceptual theories

The impact of financial leverage on the economy

Financial development and economic growth are positively interrelated. The interaction between these two (2) fields can be considered as a circle, in which good financial development causes economic growth and vice versa. A sound and effective financial system has positive effect on the development and growth of the economy. Financial institutions and markets can enable corporations to solve liquidity needs and enhance long-term investments. This system include many channels for a firm who wants to use financial leverage or FL, which refers to debt or to the borrowing of funds to finance a company's assets.

In a specific industry such as entertainment industry, on the one hand, using leverage with a decrease or increase in certain periods could affect tax obligations, revenues, profit after tax and technology innovation and compensation and jobs of the industry. Financing decisions relate to the growth of investments, which create tax effects for companies.

During and after financial crises such as the 2007-2009 crisis, there raises concerns about the role of financial leverage of many countries, in both developed and developing markets. FL On thehas been criticized as one factor contributing to financial crises. On the one hand, lending programs and packages might support the business sectors. On the other hand, it might create more risks for the business and economy.

Methodology

For calculating systemic risk results and leverage impacts, in this study, we use the live data during the crisis period 2007-2011 from the stock exchange market in Viet Nam (HOSE and HNX and UPCOM).

In this research, analytical research method is used, philosophical method is used and specially, leverage scenario analysis method is used. Analytical data is from the situation of listed entertainment industry firms in VN stock exchange and curent tax rate is 25%.

Finally, we use the results to suggest policy for both these enterprises, relevant organizations and government.

General Data Analysis

The research sample has total 5 listed firms in the entertainment industry market with the live data from the stock exchange.

Firstly, we estimate equity beta values of these firms and use financial leverage to estimate asset beta values of them. Secondly, we change the leverage from what reported in F.S 2011 to increasing 30% and reducing 20% to see the sensitivity of beta values. We found out that in 3 cases, asset beta mean values are estimated at 0,244, 0,168 and 0,307 which are negatively correlated with the leverage. Also in 3 scenarios, we find out equity beta mean values (0,470, 0,405 and 0,509) are also negatively correlated with the leverage. Leverage degree changes definitely has certain effects on asset and equity beta values.

Empirical Research Findings and Discussion

In the below section, data used are from total 5 listed entertainment industry companies on VN stock exchange (HOSE and HNX mainly). In the scenario 1, current financial leverage degree is kept as in the 2011 financial statements which is used to calculate market risk (beta). Then, two (2) FL scenarios are changed up to 30% and down to 20%, compared to the current FL degree.

Market risk (beta) under the impact of tax rate, includes: 1) equity beta; and 2) asset beta.

7.1 Scenario 1: current financial leverage (FL) as in financial reports 2011

In this case, all beta values of 5 listed firms on VN entertainment industry market as following:

Table 1: Market risk of listed companies on VN entertainment industry market

Order No.	Company stock code	Equity beta	Asset beta (assume debt beta = 0)	Note	Financial leverage
1	DNT	-0,482	-0,369		23,6%
2	DSN	0,107	0,096	FDT as comparable	10,3%
3	GTT	0,528	0,170	RIC as comparable	67,8%
4	RIC	1,360	1,096		19,4%
5	VPL	0,835	0,226		72,9%
				Average	38,79%

7.2. Scenario 2: financial leverage increases up to 30%

If leverage increases up to 30%, all beta values of total 5 listed firms on VN entertainment industry market as below:

Table 2: Market risks of listed entertainment industry firms (case 2)

Order No.	Company stock code	Equity beta	Asset beta (assume debt beta = 0)	Note	Financial leverage
1	DNT	-0,482	-0,335		30,6%
2	DSN	0,104	0,090	FDT as comparable	13,3%
3	GTT	0,208	0,025	RIC as comparable	88,1%
4	RIC	1,360	1,017		25,2%
5	VPL	0,835	0,043		94,8%
				Average	50,42%

7.3. Scenario 3: leverage decreases down to 20%

If leverage decreases down to 20%, all beta values of total 5 listed firms on the entertainment industry market in VN as following:

Table 3: Market risk of listed entertainment industry firms (case 3)

Order No.	Company stock code	Equity beta	Asset beta (assume debt beta = 0)	Note	Financial leverage
1	DNT	-0,482	-0,391		18,8%
2	DSN	0,109	0,100	FDT as comparable	8,2%
3	GTT	0,721	0,330	RIC as comparable	54,2%
4	RIC	1,360	1,149		15,5%
5	VPL	0,835	0,348		58,4%
				Average	31,03%

All three above tables and data show that values of equity and asset beta in the case of increasing leverage up to 30% or decreasing leverage degree down to 20% have certain fluctuation.

8. Comparing statistical results in 3 scenarios of changing leverage:

Table 4: Statistical results (FL in case 1)

Statistic results	Equity beta	Asset beta (assume debt beta = 0)	Difference
MAX	1,360	1,096	0,2641
MIN	-0,482	-0,369	-0,1136
MEAN	0,470	0,244	0,2257
VAR	0,4919	0,2823	0,2096
Note: Sample size : 5			

Table 5: Statistical results (FL in case 2)

Statistic results	Equity beta	Asset beta (assume debt beta = 0)	Difference
MAX	1,360	1,017	0,3434
MIN	-0,482	-0,335	-0,1477
MEAN	0,405	0,168	0,2369
VAR	0,5035	0,2538	0,2497
Note: Sample size : 5			

Table 6: Statistical results (FL in case 3)

Statistic results	Equity beta	Asset beta (assume debt beta = 0)	Difference
MAX	1,360	1,149	0,2113
MIN	-0,482	-0,391	-0,0909
MEAN	0,509	0,307	0,2015
VAR	0,5046	0,3104	0,1942
Note: Sample size : 5			

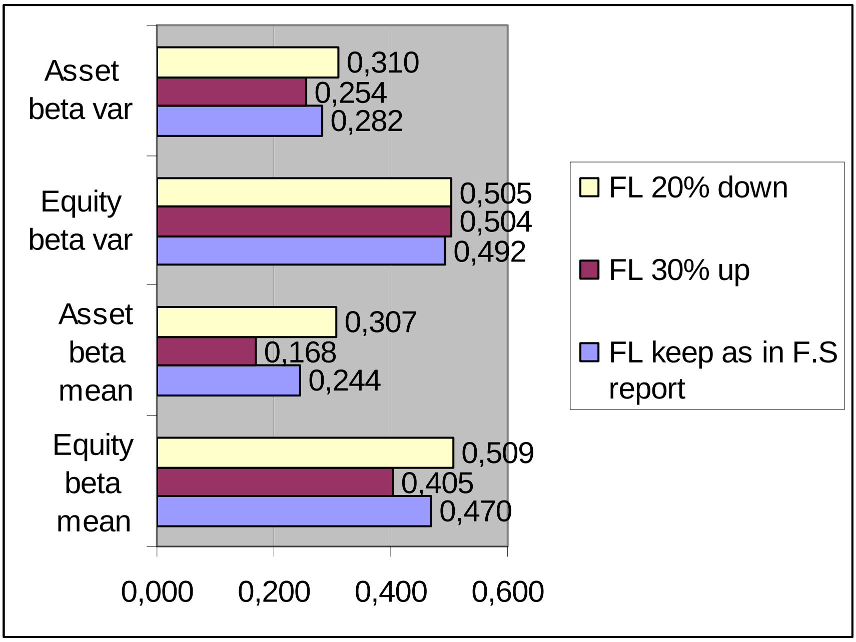
Based on the above results, we find out:

Equity beta mean values in all 3 scenarios are low (< 0,6) and asset beta mean values are also small (< 0,4) and max equity beta values in just a few cases are higher than (>) 1. In the case of reported leverage in 2011, equity beta value fluctuates in an acceptable range from -0,482 (min) up to 1,360 (max) and asset beta fluctuates from -0,369 (min) up to 1,096 (max). If leverage increases to 30%, equity beta moves in an unchanged range and asset beta moves from -0,335 (min) up to 1,017 (max). Hence, we note that there is an increase in asset beta min value if leverage increases. When leverage decreases down to 20%, equity beta value moves in an unchanged range and asset beta changes from -0,391 (min) up to 1,149 (max). So, there is a small decrease in asset beta min value when leverage decreases in scenario 3.

Beside, Exhibit 5 informs us that in the case 30% leverage up, average equity beta value of 5 listed firms decreases down to -0,065 while average asset beta value of these 5 firms decreases little more to -0,076. Then, when leverage reduces to 20%, average equity beta value of 5 listed firms goes up to 0,039 and average asset beta value of 5 firms up to 0,063.

The below chart 1 shows us : when leverage degree decreases down to 20%, average equity and asset beta values increase slightly (0,509 and 0,307) compared to those at the initial reported leverage (0,470 and 0,244). Then, when leverage degree increases up to 30%, average equity beta decreases little more and average asset beta value also decreases more (0,405 and 0,168). However, the fluctuation of equity beta value (0,505) in the case of 20% leverage down is higher than (>) the results in the rest 2 cases.

Chart 1: Comparing statistical results of three (3) scenarios of changing FL (2007-2009)



Risk analysis

In short, the using of financial leverage could have both negatively or positively impacts on the financial results or return on equity of a company. The more debt the firm uses, the more risk it takes. Beside, the increasing interest on loans might drive the earning per share (EPS) lower. And FL becomes a source of risk that need to be managed by finance managers.

On the other hand, in the case of increasing leverage, the company will expect to get more returns. The financial leverage becomes worthwhile if the cost of additional financial leverage is lower than the additional earnings before taxes and interests (EBIT). Considering risk vs. return, FL becomes a decisional variable for managers. And the maximum risk that a firm accepts will ask for the maximum financial leverage. Last but not least, FL becomes a vital factor in determining firms' capital structure.

Discussion

Looking at exhibit 7, it is noted that in case leverage up 30%, during 2007-2009 period, asset and equity beta mean (0,168 and 0,405) of entertainment industry are lower than those of consumer good industry (0,222 and 0,630). This relatively shows us that financial leverage does affect asset beta values.

Conclusion and Policy suggestion

In general, the government has to consider the impacts on the mobility of capital in the markets when it changes the macro policies. Beside, it continues to increase the effectiveness of building the legal system and regulation supporting the plan of developing entertainment market. The Ministry of Finance continues to increase the effectiveness of fiscal policies and tax policies which are needed to combine with other macro policies at the same time. The State Bank of Viet Nam continues to increase the effectiveness of capital providing channels for entertainment industry as we could note that in this study when leverage is going to increase up to 30%, the risk level decreases much as well as the asset beta var, compared to the case it is going to decrease down to 20%.

Furthermore, the entire efforts among many different government bodies need to be coordinated.

Finally, this paper suggests implications for further research and policy suggestion for the Viet Nam government and relevant organizations, economists and investors from current market conditions.

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Exhibit

Exhibit 1 – Interest rates in banking industry during crisis
(source: Viet Nam commercial banks)

Year	Borrowing Interest rates	Deposit Rates	Note
2011	18%-22%	13%-14%	
2010	19%-20%	13%-14%	Approximately
2009	9%-12%	9%-10%	(2007: required reserves ratio at SBV is
2008	19%-21%	15%-16,5%	changed from 5% to 10%)
2007	12%-15%	9%-11%	(2009: special supporting interest rate is 4%)

Exhibit 2 – Basic interest rate changes in Viet Nam
(source: State Bank of Viet Nam and Viet Nam economy)

Year	Basic rate	Note
2011	9%	
2010	8%	
2009	7%	
2008	8,75%-14%	Approximately, fluctuated
2007	8,25%	
2006	8,25%	
2005	7,8%	
2004	7,5%	
2003	7,5%	
2002	7,44%	
2001	7,2%-8,7%	Approximately, fluctuated
2000	9%	

Exhibit 3 – Inflation, GDP growth and macroeconomics factors
(source: Viet Nam commercial banks and economic statistical bureau)

Year	Inflation	GDP	USD/VND rate
2011	18%	5,89%	20.670
2010	11,75% (Estimated at Dec 2010)	6,5% (expected)	19.495
2009	6,88%	5,2%	17.000
2008	22%	6,23%	17.700
2007	12,63%	8,44%	16.132
2006	6,6%	8,17%	
2005	8,4%		
Note	approximately		

Exhibit 4: GDP growth Việt Nam 2006-2010 (*source: Bureau Statistic*)

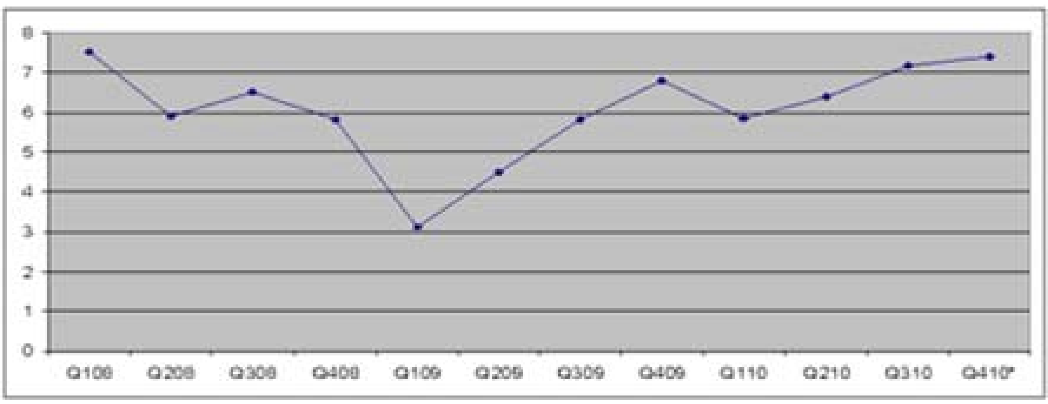


Exhibit 5 – Increase/decrease risk level of listed entertainment industry firms under changing scenarios of leverage : in 2011 F.S reports, 30% up, 20% down in the period 2007 - 2009

Order No.	Company stock code	FL keep as in F.S report		FL 30% up		FL 20% down	
		Equity beta	Asset beta	Increase /Decrease (equity beta)	Increase /Decrease (asset beta)	Increase / Decrease (equity beta)	Increase / Decrease (asset beta)
1	DNT	-0,482	-0,369	0,000	0,034	0,000	-0,023
2	DSN	0,107	0,096	-0,003	-0,006	0,002	0,004
3	GTT	0,528	0,170	-0,320	-0,146	0,193	0,160
4	RIC	1,360	1,096	0,000	-0,079	0,000	0,053
5	VPL	0,835	0,226	0,000	-0,183	0,000	0,122
			Average	-0,065	-0,076	0,039	0,063

Exhibit 6- VNI Index and other stock market index during crisis 2006-2010

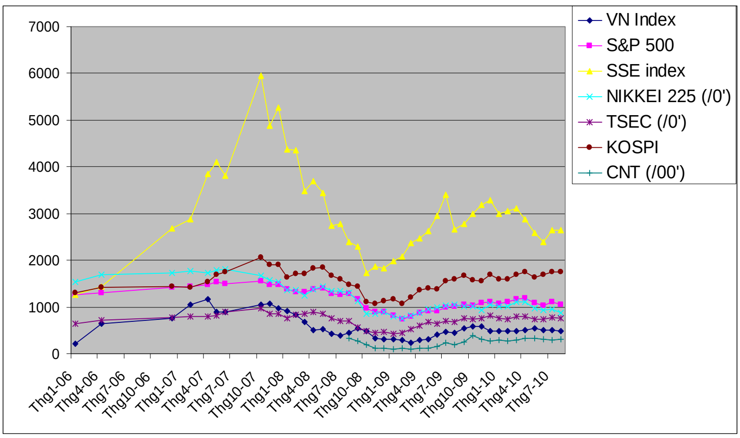
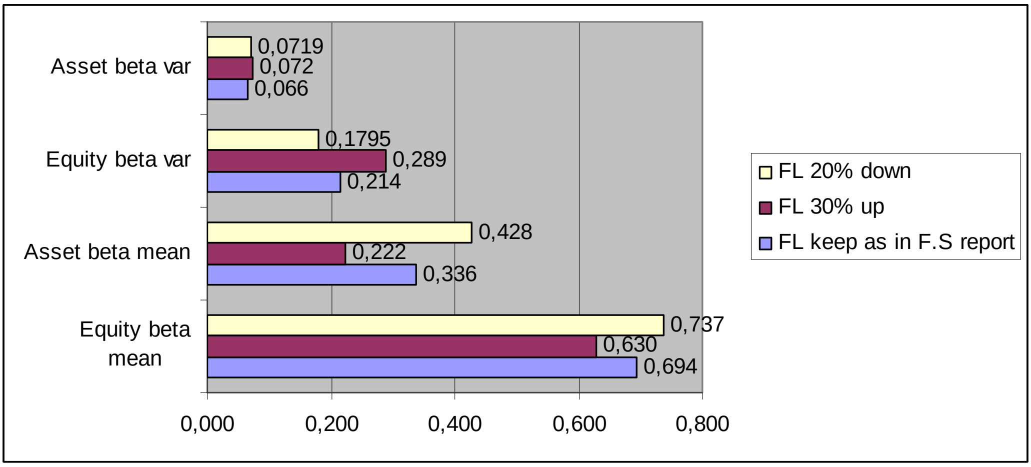


Exhibit 7 – Comparing statistical results of three (3) scenarios of changing FL of 121 listed firms in the consumer good industry



Author note: My sincere thanks are for the editorial office and Lecturers/Doctors at Banking University and International University of Japan. Through the qualitative analysis, please kindly email me if any error found.

THE LEGAL REGIME OF PROSTITUTION IN THE AFRICAN STATES

Florian Coman[1], Cristian Giuseppe Zaharie[2]

Abstract

This article surveys the peculiarities of development and regulation of the prostitution phenomenon in the space of Black Africa.

Key words: prostitution, punishment regime, African states, cultural specific.

JEL Classification: K42.

In Africa prostitution *"is criminally punished in the great majority of the states "*.[3] "The practice is frequently seen, its development being out of social control and being considered by the medical forums as responsible for the propagation of sexually transmitted diseases, especially of the Acquired Immune Deficiency Syndrome (AIDS) and syphilis "[4]. The increase in number of practicing persons is due to the low level of daily living standards and generalized poverty, to the low level of education and social welfare, *"to the generalized economic and social degradation caused by the frequent civil wars and revolts in Africa, to the fact that some destinations (especially in the western part of the region) are preferred for sexual tourism and so on"*.[5] Prostitution is legally regulated in Côte d'Ivoire and Senegal and permitted in Burkina Faso, Benin, Sierra Leone, South-East Africa, Malawi, Central-African Republic, Malagasy Republic, and Ethiopia.

South Africa. Prostitution in South Africa is a criminal offense, and the same holds true for the related deeds. Its practice was forbidden by a special law

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[3] *****Sex workers, prostitution and AIDS**,pe http://www.avert.org/prostitution-aids.htm.

[4] Especially in Tanzania, Uganda, Kenya, and the western and central parts of the continent.

[5] Http://www.wikipedia.en_prostitution by country.

in 1957, called "Sexual Offences Act (SOA)", which was amended in the year 2007.

"Section 20 paragraph 1) letter (a) of the SOA provides that any person who engages in sexual intercourse or commits an indecent act with any other person in exchange of a material compensation, is guilty of the criminal offense of prostitution. The South African Act includes in the notion of prostitution the abnormal sexual activities paid for by the customer.

The modification of the legal act mentioned above in the year 2007 provided for the punishment by fine of the prostitutes' customers as well (item 11 of the Amendment concerning the Offenses – 2007) ".[6]

In the South African Republic, the deed is punished in a quite different manner as compared to other legal systems. There is a criminal punishment provided by a special law that is applicable nationwide (SOA), which is completed by a criminal procedure provided by law no. 51 of 1977. At the local level (as the territorial administrative units have a large autonomy in the South African Republic), there are regulating and punishing administrative acts. Subsequently, both the proposals for a harsher punishment, and those for a permissive and controlled regulation of the social phenomenon *"make the object of Project no. 107 of the Law Reform Commission".*[7] Actually, the activity of the South African Law Reform Commission, although it produced a well-documented report of 275 pages, it did not lead to any modification of the legal regime in the sense of disincrimination, even if such proposal was of late part of the agenda of some political parties and NGOs.

Tanzania. Although punished by the criminal regulations of the United Republic of Tanzania, the prostitution phenomenon is extremely frequent In society. Similar t other states in the region (Democratic Republic of Congo, Uganda, Kenya, etc.), *"an extremely serious problem is the phenomenon of child and adolescent prostitution."*[8] To drastically fight against phenomenon, the special Tanzanian criminal law "*Sexual Offence Act – 1998*" provides that "*any*

[6] South African Law Reform Commission **, Project 107, Discussion paper on sexual offences and adult prostitution**, **Discussion Paper 0001/2009,** 30 June 2009, pe adresa http://www.pmg.org.za/files/docs/090507salrc-adultprost.pdf.

[7] See South African Law Reform Commission**, Project 107, Discussion paper on sexual offences and adult prostitution**, **Discussion Paper 0001/2009,** 30 June 2009, at the address http://www.pmg.org.za/files/docs/090507salrc-adultprost.pdf.

[8] Http://www.wikipedia.en_prostitution in Tanzania.

sexual intercourse with a person under the age of 18 years is assimilated to rape." It does not matter if the under aged person consented to having sexual intercourse. The application of this legal text is restricted to extramarital relations, as the Tanzanian constitutional law allows the marriage of girls starting from the age of 15. We do not think that the constitutional provision is able to facilitate submitting to prostitution of minors, such as it was appreciated in a document of International Labour Organization.[9]

The main causes of prostitution in this African state are generalized poverty, low degree of schooling and education, which generate an extremely low general cultural level, an extremely low economic and social development, a great number of families that were disorganized or dissolved by poverty, social convulsions, the armed conflict at the end of the '70 with Uganda and not only, the high rate of unemployment, the chronic lack jobs and the unattractiveness of the existing ones in point of remuneration, the lack of social and professional perspectives, the low rates practiced by the prostitutes, the ineffective police control, a wide opening to the Indian Ocean, with especially attractive beaches and islands, which determined the apparition of an intense sex tourism, generating a situation similar to Kenya's.

This situation led to 3 negative consequences: *"a high degree of social promiscuity, a widespread occurrence of sexually transmitted diseases";*[10] *"violation in several cases of the children's fundamental rights (especially in the regions of Zanzibar and Pemba)."*[11]

The criminal phenomenon of trafficking women for the purpose of sexual exploitation thereof is most frequent in the Province of Zanzibar. The victims of sexual exploitation come both from the continental regions of Tanganyika, and from other African states, most of them originating from Ethiopia, Kenya, Somalia, Uganda, and Zambia.

Kenya. Neither the Kenyan legal system accepts the practice of prostitution, or the other correlated antisocial deeds. Poverty and lack of

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[9] E., Kamala, E., Lusinde, J., Millinga, J., Mwaitula, M. J., Gonza, M. G., Juma, H. A., Khamis, **Tanzania- Children in Prostitution, A Rapid Assessment**, International Labour Organization, International Programme on the Elimination of Child Labour (IPEC), Geneva, November 2001, p.12, la adresa http:// www. childtrafficking. com/Docs/ilo_2001__child_prostitutio.pdf.

[10] **Country Report, Tanzania**, Sexually transmitted diseases in prostitutes, Int J STD AIDS. 1991 Nov-Dec, PubMed.

[11] Http://www.wikipedia.en_prostitution in Zanzibar.

education lead to the existence of a subsistential prostitution, specific to the social relations in Black Africa. Another trait of prostitution in Kenya, which corresponds to the dramatic situation in this part of the continent, is represented by *"the high rate of underage prostitutes. This is all the more serious, since the minors earn their living exclusively from this activity."*[12]

Almost 15,000 underage young girls practice prostitution in the regions and ports of the Kenyan coast, especialy in: Malindi, Mombasa, Kalifi, and Diani. UNICEF appreciates that these represent about 25-30% of the total number of young girls aged between 12 and 18 from those areas. But over 45% of these girls do not come from families living in the coastal areas, but they come from the interior provinces of the country. One may conclude that in Black Africa, the most dominant phenomenon is underage girl prostitution.

Almost 45% of the minor prostitutes in the harbors of Kenya started working at a very early age (12-14 years), and over 10% of them started their sex life before the age of 12. As a rule, customers of minor prostitutes are recruited through local meddlers in hotels, bars, in certain streets and frequently on beaches. The fees vary according to the age, physical look and contents of the sexual services (between 1,000 and 10,000 de KSH), the maximum fee being the one paid for girls of 16-18 years old.

This situation is specific to societies where poverty and lack of education and instruction prevail, and it can be frequently seen in South-East, East, Central, and South Asia, but also in East, Central, South, and West Africa. Dramatic is the excessive number of children involved in child prostitution and pedophilia. Most of those who solicit the sex services of minors are, according to the Kenyan Police, Kenyan and European citizens, who see in these practices punished by the criminal law an exotic for of sex tourism.

Those who practice these deviating forms of sex are, according to the statistics recorded by the police, Kenyans, Italians, Germans, Swiss, Ugandans, Tanzanians, British, and Saudis. According to the number of case files instrumented by the Kenyan Police, the perpetrators practicing minor prostitution are, in order: *"Kenyans – 38.5%, Italians – 18%, Germans – 14%, Swiss – 12%, other nationalities (Ugandans, Tanzanian, British, Saudis etc.) – 17.5%".*[13]

[12] Jones, Sarah, A study conducted by UNICEF and Government of Kenya**, The Extent and Effect of Sex Tourism and Sexual Exploitation of Children on the Kenyan Coast,** p.30-52.
[13] Jones, Sarah,op.cit.pag.48.

A report presented by UNICEF in 2001 reproached to the Kenyan administrative and public order authorities *"the tolerance toward the phenomenon of child prostitution ".*[14] The cause resides in the fact the sex tourism is a de facto part of the Kenyan tourism and economy, its eradication leading to great financial losses.

Democratic Republic of Congo. The practice of prostitution is not forbidden in this state, which was confronted with a long period of civil was and numerous social convulsions and internal conflicts. *"If the prostitute is minor, the deed is a criminal offense ".*[15] A phenomenon of great concern the prostitution of young minors. The possibility of criminal prosecution of such cases is made difficult by the frequent armed conflicts and by the involvement in such deeds of some militaries of the governmental troops, but also frequently from the United Nations Peace Corps. *"Between the years 2004 and 2008 there were reported 140 of cases of paid sex with minor girls, engaged by militaries from the United Nations Peace Corps. Most cases were related to militaries from India, from the UN forces, but also from Congo. The situation became tense after there appeared some hints that the Indian militaries, in complicity with members of the Congolese army, not only paid for sexual services of minor girls, but also engages in criminal activities of complex organized pandering, through criminal groups of dozens persons, which involved trafficking human beings and even determining child prostitution "* (including minors under 14 years of age).[16]

The forms of prostitution in Congo reach a typological variety that is rarely seen in the contemporary world, which reminds us of the Near East in the Antiquity. *"Shegues – represents the category of girls and boys with ages between 13 and 16 years, who ran away from home and make a living from street prostitution. Kamuke or Petit Poussins – refer to boys with ages of 10 to 17 years, who accet a passive role in sexual intercourse in exchange for money, goods, or food. Filles Londoniennes – are girls aged between 12 and 15, who offer sex services for money in the urban areas of the country ".*[17]

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[14] **Analysis of the Situation of Sexual Exploitation of Children in the Eastern and Southern Africa Region: The Vicious Cycle of Sexual Exploitation, HIV/AIDS, Vulnerability of Children and Violations of Children's Human Rights**, Nairobi, UNICEF, 2001.

[15] Patt, Martin, **Child Prostitution – Congo DRC**, http://gvnet.com/childprostitution/Congo.htm.

[16] Http://www.ecpatinternational.com/eng/Ecpat_inter/IRC/newsdesk_articles.asp?SCID=1610.

[17] Http://www.globalpolicy.org/component/content/article/168/40951.html.

"Encadreurs Filles – designates young, sometimes underage girls, who are offered to visiting dignitaries by the hosts, as a sign of appreciation. This practice is somewhat rarer at present, as the relative social stabiolity of the years '70-'80 no longer exists."[18] In Congo, starting from the capital city Kinshasa, there is no age limitation for prostitution, which is practiced even from earlier than the age of 10. The main cause, apart from poverty, civil wars, lack of involvement of the public authorities, is *"the great number of street children (approximately 40,000 in Kinshasa)."*[19]

Ethiopia. In this African state prostitution is no longer forbidden at present, after several years in which it was prohibited, but on the other hand there is no legal regulation that provides the way this activity should be carried out. *"Pandering, meddling, organization of brothels and trafficking persons for sexual exploitation are punished by imprisonment, in accordance with art. 634 of the criminal Code of the Democratic Republic of Ethiopia, this text of law having been revised in May 2005".*[20] *"According to a study made in Addis Abeba, child prostitution is on the rise. The report revealed that, mostly due to poverty, an ever greater number of underage girls from the countryside come to this city to become sex workers."*[21]

Disincrimination of prostitution, made by the democratic regime in the year 2005, is criticized by the national and international medical authorities, since *"the permissive regime, in the absence of a strict regulation of the practice, led to an increase of the number of cases of AIDS infections".*[22] Thus, a great number of mature prostitutes are infected with HIV. *"Poverty may determine children to become prostitutes, but (...) there is also an increased demand of children, because of HIV-AIDS. Some customers suppose that a 13-14 years old girl cannot be infected with HIV and they prefer to have sex with her instead of a mature woman."*[23]

Senegal. In this predominantly Muslim country from West Africa, prostitution is legally permitted following the law modifications of 1969 and

[18]Patt, Martin, **Child Prostitution – Congo DRC**, http://gvnet.com/childprostitution/Congo.htm.
[19] C., Maloney, **Suffer the Children, The street children of Kinshasa.**
[20] **2008 Human Rights Reports: Ethiopia - Section 5 Discrimination, Societal Abuses, and Trafficking in Persons,"** United States Department of State.
[21] Damian, Zane, **Ethiopian Girls Driven To Prostitution,** BBC News, 27 May 2003, at the adress http:// news. bbc.co.uk/2/hi/africa/3084226.stm.
[22] Kathleen Griffin**, Ethiopia - HIV/AIDS,"** Canadian Community Newspapers Association, mai 2009.
[23] Amara, Dejene, quoted in Damian, Zane, **Ethiopian Girls Driven To Prostitution**, BBC News, 27 mai, 2003.

"regulated from the perspective of the conditions that the practicing person should meet."[24] Prostitution can be practiced legally, subject to the individual authorization of the prostitutes by the local authority, while setting up or holding a brothel, or carrying out pandering activities and trafficking women for sexual exploitation are prohibited and punished by the criminal law with imprisonment. To be able to legally practice this occupation, the practicing persons must meet the following conditions:

- "be at least 21 years of age;

- be enrolled with the fiscal authority and local police department;

- to hold a valid health card;

- to use protection means that prevents the transmission of pathogens of sexually transmitted diseases. This chapter was a success of the Senegalese regulation policy, as just *"2% (in 2002) of the women in this country are HIV infected "*[25] as compared to the much higher percentage recorded in the Black African states (for example: *Botswana – 55.6% (2000), Swaziland – 42% (2005), Uganda – 30% (1992), etc;*[26]

- to undergo monthly medical checkups, including tests for finding infections with pathogens of sexually transmitted diseases "[27] (within territorial clinics subordinated to the Ministry of Health).

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[26] Http://ro.wikipedia.org/wiki/SIDA.

[27] **Trafficking in Persons Report,"** Bureau of Democracy, Human Rights and Labor, 2009, at the adress http:// www. state.gov/documents/organization/123365.pdf.

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***Sex workers, prostitution and AIDS, at the address http://www.avert.org/prostitution-aids.htm

THE LEGAL REGIME OF PROSTITUTION OF THE NORTH AMERICAN CONTINENT

Cristian Giuseppe Zaharie[1]

Abstract

The article studies the evolution of the prostitution phenomenon and the regulation thereof in the North American space.

Keywords: prostitution, legal and administrative regime.

JEL Classification: K 42.

The North American space is generally intolerant with regard to the prostitution phenomenon.

The United States of America. At present, the practice of prostitution is not permissively regulated in any of the American states, except for the majority of the counties in the State of Nevada (and previously and partially with the temporary exception of Rhode Island, due to a defective regulation that was remedied in the year 2009).[2] Nevada is the only American state where prostitution is legal and regulated, it can be practiced in brothels, based on a license issued by the local administration and after passing the compulsory medical tests.

"Street prostitution [solicitation] is prohibited everywhere in the United States. (...) In the other American states, prostitution is practiced within a disguised framework, such as massage parlors, spas, hotels, private buildings, saunas etc." [3]

The content of the prohibitive norms differs from one state to another, with regard to the definition of the of the material object of the deed or with regard to the punishment of the participants in the deed, the punishment applied being usually a fine or imprisonment for a maximum period that does not exceed 5 years. The prohibitive norms are instituted both at the federal

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[2] **Rhode Island Prostitution Law (H 5044 / S 0596) of November 3, 2009.**

[3] Http://*www.en.wikipedia.org/.../Prostitution_in_the_United_States*.

level, and by the federate states. At the federal level the following deeds are prohibited:

- practicing prostitution in the USA, within 10 years from entering the American territory by a foreign citizen, punished by expulsion from the USA;
- bringing persons to the USA for prostitution purposes is punished with imprisonment for periods of up to 10 years and/or penal fine;
- practicing prostitution in the vicinity of terrestrial, air, naval military facilities is punished with imprisonment for periods of up to 1 year and/or penal fine;
- interstate promotion of prostitution is punished with imprisonment for periods of up to 5 years and/or penal fine;
- intentional transportation of persons that practice prostitution over the federal border or from one state to another is punished with imprisonment for periods of up to 10 years and/or penal fine;
- interstate traffic of persons for the purpose of sexual exploitation by coercion or luring is punished with imprisonment for periods of up to 20 years and/or penal fine.

The criminal regulation in the State of New York is extremely severe, as it punishes as well the offer of prostitution or the agreement between the practitioner and the client, while such deeds do not have criminal connotations, being minor offences. Article 230 of the Criminal Law of the State of New York stipulates that *"a person is guilty of prostitution when she engages, offers her consent or offers to engage in a sexual activity with another person in exchange of a sum of money."* The prostitute is punished with imprisonment for periods of up to 3 months and/ or 500 dollars criminal fine (class B offences). The client risks 1 year of prison, while the pimp risks 7 years.

Section 653.20 of Chapter 2.5 of the Criminal Code of the State of California defines prostitution by expressly excluding artistic, erotic, or pornographic activities from the notion of prostitution. The latter represents *"engaging in a sexual activity in exchange of a sum of money or other benefits, without including therein a sexual behavior that is part of the interpretation of a show, theatrical piece, or other means of public entertainment."* The deeds committed by the prostitute and her client are offences and may be punished with imprisonment for periods of up to 1 year and/or 1000 dollars criminal fine.

The Rhode Island Prostitution Law [4] of November 3, 2009 (H 5044 / S 0596) provides in its art.1 (1) that *"a person is guilty of prostitution when she engages or agrees to get engaged in a sexual behavior with another person in exchange of a fee."* The deeds committed by the prostitute and her client are criminal offenses and may be punished with imprisonment for up to 6 months and/or cvriminal fine of up to 1000 dollars, while the pimp risjs up to 10 years in prison and a fine of 10,000 dollars.

Almost all American states punish cumulatively or alternatively by imprisonment or fine the prostitutes, their clients, the pimps and the brothel holders, the quantum of such sanctions being varying from one state to the other.

In point of public order defense, the deeds of traffic of women and minors for the purpose of sexual exploitation and coercion for prostitution that involve interstate activities fall under the federal competence, of the Federal Bureau of Investigation (FBI), while the deeds of prostitution and procurement with exclusively local implications are in the charge of the local police of the state where such deeds take place.

The police structures constituted at the federal level started as early as from the first part of the 19th century to fight against the phenomena of trafficking and obligating women into practicing prostitution, but also against some sexual activities considered immoral. Thus, in the year 1908 there was created at the central level the Bureau of Investigation (BOI) – which became the Federal Bureau of Investigation (FBI) in 1935 – under whose competence fell the investigation of cases of traffic of women for the purpose of sexual exploitation and coercion thereof into prostitution (*"white slavery "*) based on a special federal law (Mann Act 1910). Such act punished trafficking, coercing or determining engagement in *"immoral"* sexual intercourse or determining someone to engage in sexual intercourse. *The practice of the Federal Bureau of Investigation* extended the notion of *"immoral"* sexual intercourse to other activities that exceed prostitution, such as sexual intercourse freely consented by spouses with other persons, adultery, and polygamy.

The practice led to disputes, one of jurisdictional importance being the case United States v. Bitty, 1911. John Bitty facilitated the arrival into the

[4] **Rhode Island Prostitution Law (H 5044 / S 0596) of November 3, 2009.**

United States of his mistress, whop was a British subject. The Supreme Court established that the legal act does not limit the persons' freedom to travel. Nevertheless the law was modified subsequently in 1976 and 1986, to offer protection to the trafficked minors and replacing the phrase *"immoral sexual intercourse"* with *"sexual intercourse punished by the criminal law"* which restricts the sphere of application of this legal act.[5]

The federal Bureau agents developed an extensive work interviewing the brothel workers and other auxiliary employees, and succeeded in finding several cases of *"white slavery"*. The results were not what had been expected, for example, in a big American city, *"out of 1106 prostitutes investigated, only in the case of 6 of them"*[6] it was ascertained that there had been coercion involved. Nowadays, the Federal Bureau of Investigation is a governmental agency hierarchically subordinated to the State Department for Justice. The motto of the agency is *"Fidelity, Bravery, Integrity". FBI is based in Washington DC, it has 56 offices throughout the USA territory and over 400 resident agencies in cities and towns, and more than 60 international offices, attached to the American diplomatic missions."*[7] Since August 2000, FBI has had an office in Romania, as well. On September 30, 2012 the office had 36,074 employees, whereof 13,913 special agents and 22161 professional technicians (analysts, technicians, linguists, computer specialists, intelligence specialists, and so on[8]. In the year 2012, the budget of FBI was of 8.1 billion dollars, including 119,200,000 dollars special funds for fighting against terrorism.

[5] See **Mann Act – Federal Law no. 60 of June 25, 1910**, Chapter 395, Section 6, available on http: // www. pbs. org /unforgivableblackness/knockout/mannact_text.html.
[6] Http:*//www. en.wikipedia.org/.../Prostitution_in_the_United_States*
[7] Http://en.wikipedia.org/wiki/FBI.
[8] Http://www.FBIJobs.gov.

The Federal Bureau of Investigation is habilitated to investigate over 200 offences, having the mission to protect and serve the United States against terrorist threats, to observe and to apply the criminal laws of the United States of America, and to ensure the coordination and support of the federal, state, and municipal criminal services, as well as of the foreign partner agencies.[9] The FBI competencies related to prostitution deeds are those concerning fighting against national and transnational criminal organizations specialized in traffic of persons and materials related to the sexual exploitation of minors.

In the contemporary period, illegal prostitution in the United States has a tendency to concentrate in the large cities, being found in a couple of buildings in certain districts. Prostitutes are frequently arrested by the police, but as a rule they do not go as far as being sent to prison. Thus, according to a study,[10] in Chicago city, on an average basis, a prostitute is taken into custody by the police only after having had 450 paid sexual intercourses and is condemned to a freedom deprivation punishment once every 10 arrests.[11]

At present, Nevada is the only state within the Federation f the United States of America which accepts prostitution, in some counties and areas, within a legally regulated framework. Prostitution is allowed only in brothels, in an amply regulated framework, while street solicitation is punished, as the case may be, with imprisonment or fine, at a medium level of severity, as compared to the regulations of the other American states.

The deeds connected to prostitution are punished by the criminal law with up to 10 years of imprisonment, in case of traffic of minors for sexual exploitation purposes, the state legislation also provides very severe patrimonial sanctions to prevent the disguise sexual slavery in legally licensed brothels.

On the basis of a special criminal law, *"using a minor under the age of 14 years for prostitution, brings about for the patron a fine of up to 500,000 dollars,*

[9] In this sense, see the official site of FBI at http://www.fbi.gov/about-us/quick-facts/quickfacts.

[10] Steven, Levitt, and Sudhir Alladi, Venkatesh, An Empirical Analysis of Street-Level Prostitution, a study presented partially in the article "Trading Tricks, The Economics of Prostitution", Chicago Booth, University of Chicago, Chicago, April 2009 .

[11] Steven Levitt, Trading Tricks, The Economics of Prostitution, Chicago Booth, University of Chicago, Chicago, april.2009.

and of the trafficked person's age of between 14 and 17, the criminal fine may reach 100.000 dollars ".[12]

The idea of the existence of a state that regulates permissively this practice inside the United States is justified just to a small extent, considering that 75% of the population of the state of Nevada lives on the counties Clark, Washoe, Douglas, Lincoln, and Carson City.

Brothels *"function in a legal and regulated manner in 8 counties, while other 4 do not prohibit this practice. "*[13]

The regulated permissive regime is nevertheless extremely controversial in the civil society of Nevada and of the neighboring American states. The competence to grant or refuse the authorization of brothels lies with the county authorities, some media perceiving such situation as specific to a medieval country or as a refuse of modernization and recognition of the women's rights. The American society in which the institution of marriage holds an extremely important place, is a lot less disposed to tolerate this practice than the collectivities in the space of the European Union, a proof in this sense being also the fact that, in the most of the American states, both the prostitute and her client are punished by the criminal law. Also, another aspect that attests the controversial status of prostitution in this federate state are the repeated contradictory judgments (1981, 2007, 2010) passed by the Supreme Court of Justice of the State of Nevada with regard to the advertising of brothels, initially prohibited by a law of the state of Nevada that came into force in 1979.

The permissive regime sustained for financial considerations and for reasons related to historical tradition by the county authorities (deliberative county councils) is not instituted and sustained buy the legislative authority of the State of Nevada. The legal entities that hold the brothels (approximately 30 are legally licensed throughout the state) pay special local taxes to the counties in which they operate and contribute with their taxes (assimilated to service supply activities) to the American federal budget.

With a few exceptions, the federal authorities do not prohibit the practice, leaving it at the discretion of the normative decision of the local authorities and

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[12] See the **Assembly Bill 380**, in Pope Jeff, "**New law levies harsher child prostitution punishment,"** Las Vegas Sun, 2009-06-22.

[13] McKenna, Barrie**, Nevada brothel's 'shady' deal: Come often, get free gas,"** The San Francisco Chronicle, 2008-07-04.

taxing it as a profit making activity, as the case may be. *"There is a legislative initiative at the level of the state from the brothel owners with a view to regulate and tax the practice, which would be included among the entertainment activities (such as gambling, wrestling, and so on) which has not been accepted yet (a draft of state law in that sense was rejected in 2005).*[14] The local regulations also allow male prostitution, which is new for the American space.

"The State of Nevada grants the right of decision and licensing with regard to the setting up and management o brothels to counties whose population is less than 400,000 inhabitants."[15] Licensing involves, beside meeting certain conditions imposed, the payment of a license fee whose quantum is established in each county, on the grounds of the local autonomy. The quantum of the fees varies a lot: in Storey County it is of maximum 100,000. dollars, while in Lander County it is of maximum 200 dollars.

The brothel workers and service suppliers must meet the following requirements:

- to take periodical physical examinations and tests, some of them even on a weekly basis; weekly tests are made for *Chlamydia trachomatis* and *Neisseria gonorheae* and monthly tests for HIV and *Treponema pallidum*; HIV twsting has been compulsory since 1986; male workers undergo urethral examinations;

- to be 21 years of age (18 years in Storey and Lyon Counties). The prostitutes and brothel managers are civilly and criminally liable in case of contamination of clients with sexually transmitted diseases. *"The use of condoms has been compulsory since 1988, irrespective of the type of sexual intercourse."* [16]

The illegal practice of prostitution is a criminal offence, and so is facilitating and determining it and obtaining material benefits from illegal prostitution. A legal act issued by the Legislative Assembly of the State of Nevada (a law that was declared unconstitutional in 2007) *"prohibits advertising for prostitution in the counties where it is not legal."* [17] *"In Nevada there are*

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[14] Hennessy Kathleen, Kathleen, **Brothels want to be taxed; Legislature not that greedy**, Pahrump Valley Times, Mai, 2005-05.

[15] NRS 244.345 **Dancing halls, escort services, entertainment by referral services and gambling games or devices; limitation on licensing of houses of prostitution,**" Nevada Revised Statues, Las Vegas, 2005, pe http://www.leg.state.nv.us/nrs/NRS-244.html#NRS244Sec345;

[16] Levitan, Corey**, Stark Raving Madam,"** Las Vegas Review-Journal, Las Vegas, 2008-07-07.

[17] **Chicken Ranch Brothel Finally to Advertise in Las Vegas**, LasVegasNow.com, 31 aug. 2007.

operating 8 more important brothels (where there work officially over 300 female and a few male prostitutes) and several of lesser importance".[18]

The procedure of contracting in view of sexual service supply is not similar to the one used in the European countries, the tariffs are not preset and posted by the brothel. The price is negotiated between the client and a free worker (chosen by the client) in the presence of the business manager of a representative thereof. *"50% of the fee is retained by the brothel, which covers only its own share of the related public taxes"* (unlike the way of the European countries that have regulated this practice, where as a rule the taxes and social insurance contributions are retained and paid by the employer.[19] *"Tariffs range between 200 and 10,000 dollars an hour."* [20]

The workers do not conclude an employment contract, but a form of collaboration contract, so they do not have social insurance; they pay the local and federal taxes based on the tax return form 1099-MISC. As far as social insurance is concerned, the workers may only use the private medical insurance and benefits system.

Canada. The unregulated permissive legal regime is found in most states of the region, namely: Canada, Guatemala, Dominican Republic, Salvador, Nicaragua, Honduras, Costa Rica etc.

In Canada, the legal regime applicable to prostitution allows its practice, but punishes with criminally sanctions most deeds associated therewith, implicitly restricting its development. The Canadian Criminal Code punishes the advertising of prostitution and taking a person to a brothel. Holding a *"licentious house"* is punished with imprisonment for up to 2 years. Also punished are deeds such as attracting clients in public places, prostitution may be practiced only in private spaces, but in no case in a brothel. Article 210 paragraph (1) of the Canadian Criminal Code punishes holding or using a licentious house with imprisonment for up to 2 years. Paragraph 2) letter c) of the same text of law incriminates toleration of such activity by various circumstantiated persons (the owner, lessor, lessee, occupant, agent that intermediates the lease), who willingly allow the operation of a brothel in an

[18] Http://en.wikipedia.org/wiki/Prostitution_ in_ Nevada.
[19] McKenna, Barrie, op.cit.apr.2008.
[20] Albert, Alexa**, Brothel, Mustang Ranch and its Women**, Random House, 2001.

entire building or a part thereof. Art.211 punishes with imprisonment for up to 2 years the deed of a person who willingly transports or offers to transport persons to licentious houses. Art.212 punishes procurement of prostitutes, under the form of purchasing sexual services for another person, or to ask a person to have paid sexual intercourse with someone else. The following article is dedicated to practitioners, punishing the manifestations related to this activity, that are socially disturbing. The deed is punished only if it takes place in a public place, which is open for public access, as well as in a place that can be entered based on an invitation. Such deeds are incriminated if committed in view of practicing prostitution: stopping or attempt to stop a vehicle, solicitation of persons in the street etc.[21] By a decision of 1990, the Supreme Court of Canada found a lack of corroboration among the regulating norms. The general public opinion does not favor such a regulation:

" - 60% of the persons questioned feel that the Canadian Criminal Code only worsens the social situation of the persons who practice this occupation, as the interdiction of brothels forces them to work in the street, thereby exposing them to some dangers;

- 50% feel that freely consented paid sexual intercourse should not be punished;

- 67% of the men and 50% of the women questioned accept the setting up of brothels in view of protecting the practitioners."[22]

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THE VARIABLES BRAND'S RELATIONSHIPS AND BRAND EQUITY - A CASE STUDY OF MOBILE PHONE BRANDS CATERING TO ALBANIAN CONSUMERS

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Abstract

Managers today are aware of the fact that the brand name has become an important asset for the company and is required for their focus on creating brand equity. A strong brand is one that possesses high brand equity . What is evident in all studies is the fact that brand equity is considered as a key factor that can bring the following to the company: higher profits, brand extension opportunities, protection against the competition leading to a strengthening of the consumers purchasing intentions and customer loyalty.

Feelings generated by the brands are different from one brand to another and this becomes more evident when customers are emotionally connected only with a certain number of brands. These emotional connections with the brand reflect a specific connection with said brand and thus include feelings toward it which include: attraction, passion and consumer involvement with the brand. The level of customer involvement in this relationship depends on the consumers' perception of the brand as well as the importance that the product brings to the consumer. The power of a brand lies within the mindset of existing or potential customers and through what they have experienced directly or indirectly with the particular brand over a period of time. Brand relationships are not only the main aspects related to brand equity but also are key aspects of the buying process as well as indicators of brand loyalty. Brand relationships consist of thoughts, feelings, perceptions, images, experiences, beliefs and attitudes of consumers associated with the brand. Brand

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relationships can be described by some sub-dimensions such as values, personality, and organizational dimensions or some features of a company that gets incorporated within a brand and therefore identify a brand with the company itself. Brand relationships represents a psychological connection with the brand stored in the consciousness of the consumer and also represents aspects of the dimensions referred to tangible or intangible such as attributes, lifestyle, usage etc. .

The purpose of this paper is to study the relationship that exists between brand relationships and brand equity for the mobile-telephone brands included in the study. Furthermore it will also aim to identify the variables of brand relationships that are considered the most important to Albanian consumers and have significant impact on brand equity.

Keywords: brand equity, brand relationships, functional attributes, non-functional attributes.

JEL Classification: M30.

1. Brand relations as dimension of brand equity

Brand equity is a multidimensional concept and a very complex phenomenon. Keller (2002) focused on two main concepts related to two components: brand awareness and relationships. Aaker (1991 , 1996) lumped elements associated with brand equity in five categories : perceived quality , brand loyalty , brand awareness , brand relationships and other company-owned asset such as: patents, trademarks, etc. Among these five dimensions of brand, the first four represent customers and assess their reactions to the brand and this enables a better understanding of customers (Barwise , 1993 , Yoo and Donthu 2001) . Numerous studies have focused on measuring brand equity based on the customer. Thus it is evident that strong brand equity means that customers have high awareness of brand name, have a positive image to the brand, perceived that the quality associated with the particular brand is high enough to warrant their loyalty.

Brand relationships are not only the main aspects related to brand equity but also are key aspects of the buying process as well as loyalty to the brand (Aaker, 1991, 1992). Brand relationships consist of thoughts, feelings, perceptions, image, experiences, beliefs and attitudes of consumers regarding the particular brand (Kotler and Keller 2006). There are three important dimensions associated with the brand image such as being friendly, powerful and unique. Numerous studies focusing on the relationship of the brand and its impact on building brand equity have highlighted three types of brand relationships (Aaker, 1999;Chen 2001)

- a relationship with the brand as a product (the value) ,
- a relationship with the brand as a person (brand personality)
- a relationship with the brand as an organization (organizational relationships)

The relationship with the brand as a product include functional and non-functional attributes.

Functional attributes are visible and tangible product features (Keller 1993). So consumers evaluate a brand based on these characteristics associated with the brand. If a brand fails to submit those attributes and characteristics for which it is designed, it is therefore characterized by a low level of brand equity.

Non- functional attributes include symbolic attributes which are invisible or intangible, but for the customer are as important as functional attributes when assessing a brand. Through these dysfunctional attributes the consumer identifies and meets the needs associated with social acceptance or self-esteem. (Keller 1993). We include some of the following as dysfunctional product attributes: social image, perceived value, differentiation, country of origin as well as reliability .

Social image is defined as the consumer perception of the honor and respect for the social group of customers who use the particular brand (Lassaria 1995). All of this has to do with the attributes of a product that a consumer perceives it has, or what other consumers think of the consumers of a certain brand.

Perceived value is defined as the perceived usefulness of the brand associated with its cost and value drawn by the customer based on simultaneous consideration of what was benefited comparatively to the non-use of another product. Consumers choose a brand product by comparing price and all the benefits and values that they benefit from the product and its brand compared to competitors. (Aaker , 1999). The customer is willing to pay a price even higher than compared to normal for a product which is characterized by a high brand equity (Lassaria 1995) .

Differentiation is defined as the extent to which consumers perceive that a brand is distinct from competitors and customers believe they are reasonable in purchasing this brand over the competition. (Aaker 1999). A brand can have a premium price if it is perceived as very distinct from competitors (Kapfer 1991). Numerous studies have highlighted the importance of the distinct characteristics of the brand positioning and all this affects the success of a brand.

Country of origin is defined as country, region or state with which consumers perceive a brand association (Thakor and Kohli , 1996) . Place of origin of a product as well as brand name are important elements that affect consumer perceptions (Thorelli 1989). Country of origin refers to the country of origin of a company or a product or a place where the product is manufactured. For this reason the country of origin refers to the country of origin of the brand. Lavack and Thakor (2003) assert that the origin of the brand itself is perceived as the most important source of attraction and appeal of the brand. In their study the authors reflect that the perceived country of origin is a powerful agent in determining brand recognition rather than the actual country of origin of the company.

Reliability is defined as the confidence that the customer has with your company, the communications released from the public relations department of the company and everything that done by the company to serve a consumers' interest (Keller & Aaker , 1992) . According to Chaudhuri and Holbrook (2002), reliability is the determine the credibility of the brand will support the customer has the ability to perform to mark its stated function. Reliability affects consumers directly in building brand equity (Lassaria 1995) as many cases customers admire the brand of a product just because they belong to a company that has built a positive image towards the consumer (Aaker , 1999) .

2. Brand relationships and brand equity by Aaker 's model

According to David Aaker brand relationships deal with categories of assets and liabilities that include everything related to brand remembrance. Aaker states that the dimensions of brand equity relationships usually include the dimensions of the image which are unique to the product class or brand. Brand relationships can be described by some sub-dimensions such as: value, personality, and their organizational dimensions, some company features that are incorporated within a brand to identify the brand with the company. Brand relationships are represented by the psychological connection with brand which is stored in the consciousness of the consumer and also represents dimensions referred to tangible or intangible such as attributes, lifestyle, usage etc.

But brand relationships are also seen as a combination of brand image (i.e. functional and non-functional perceptions), brand attitude (on all brand assessment) and perceived quality (overall superiority trial). Relations consist of brand image in functional and symbolic beliefs of the product categories which are brand specific extensions and their measurement should focus on the unique features of the brand specific categories. Attitudes towards the brand consist of a general assessment of the brand. The perceived quality is related to customer judgments about superiority or excellent quality of the brand in general. This highlights the argument that strong brands can add value to consumer purchases. Brand relationships are important for the companies and for its consumers. Companies use brands to differentiate, position and expand the brand, to create positive attitudes and feelings towards it , and to suggest attributes or benefits from the purchase or use of a specific brand . Consumers use brand relationships to assist in arranging, organizing and reliving information stored within their memory and use it in the purchase making decision.

This article will use the model built by Aaker (1991), which is among the most frequently used by a great deal of the research and current studies to measure brand equity . This model has been tested empirically in a number of previous studies (Atılgan , Aksoy and Akinci , 2005 , Kim and Kim 2004 ; Yoo , Donthu and Lee , 2000) . Through Aaker 's model this study will retest the measurement of brand equity based on the products selected by Albanian consumers.

If a brand clearly positions itself through one or more relationships, it will be difficult for the competition to claim the lead on aspects implied by these relationships, which can lead to barriers to entry for competitors .

3. Explorative pursuit

Choosing brands of cellular phones was based on a preliminary test of 20 individuals. The selection of individuals was random. Each individual was asked to specify four of most popular brands of cellular phones, sought after or ideal. For each of the brands selected individuals were asked to give their assessment on a scale of 1 to 5. Results were obtained for the following brands: iPhone (Apple), Nokia, Blackberry, Samsung Galaxy , as the four most popular brands to be keen on by the surveyed customers . Participants in this study were asked to determine the degree of importance of each element of brand relationships.

Prior to the participation in questionnaire, a short presentation regarding the research that took place was distributed to inform the participant regarding the questionnaire and its purpose. Persons who assisted with the delivery and monitoring of the questionnaires were marketing students with sufficient knowledge regarding the elements of the brand.

The assessment rate used was according to the 1-5 Likert scale, under which the evaluation was based on the scale: 1 - not at all to 5 - very. The reason that we refer to 5 - tiered evaluation of Likerts' is because it is the most frequently used scale in studies made in the measurement of brand equity based on the customer (Washburn and Plank , 2002).

Malhotra (1999) suggests that the minimum sample for research should be at least 200. We consulted with experts on the methodology for a 95 % coverage of the population. For this reason around 320 sample questionnaires should have been built. To supplement any incorrect or blank questionnaires around 370 sets of questionnaires were distributed through which we managed to gather 356 questionnaires, 12 of which were invalid. Thus, the number of valid questionnaires for survey and data analysis was 344 questionnaires.

Sample / selection was aimed at interviewing people over the age of 18. This category was chosen because individuals over the age of 18 have their own income and make their own choice of brands for products they buy or want to buy. It was observed that the highest percentage of respondents belonged to the age group 18 to 25 years old (64 % or 221 individuals) mainly with a Bachelors' Degree (53 % or 183 individuals) . Of 344 individuals interviewed : 43 % (n = 147) were employed and 57 % (n = 197) were unemployed ; Male 53 % (n = 182) , Female 47 % (n = 162) . The 344 respondents chose the following brands of phones : 36 % - Nokia (n = 123) , 29 % - iPhone (Apple) (n = 101), 26 % - Samsung Galaxy (n=90) , 9 % - Blackberry (n = 30) .

Data analysis was conducted in SPSS 17.0 statistical software. Factorial analysis was used to view the underlying determinant variables of a factor, their structure. Statistically significant difference of a set of variables associated with capital, demographic variables in terms of customer and non-customer brand was tested by logistic regression analysis.

Pearson chi square analysis was used to make hypothesis testing but also to understand the meaning or connection variables with dimensions of brand equity. Having earlier settled that an error rate of $\alpha = 5\ \%$ and a 95 % confidence level , using chi square test we believe that we will have a significant and important link in those instances when the test results to p- value should be less than α .

Factorial analysis was used to find factors among the study variables by reducing the number of variables and grouping variables with similar characteristics together.

Through the use of the Structural equation models (SEMs) we could see the presence of multicollinearity . For the evaluation of the model the following indicators were used: Goodness -of - Fit Index (GFI) which measures the relative quantity of variance - covariance, Comparative Fit Index (CFI) that takes into account the size of the sample , and Root Mean Square Error of Approximation (RMSE) that explains how well the selected parameter values approximate with the Matrix covariance of the population .

We discovered the following bond between the sample population and the brand equity questions:

1. even if another brand has the same features as X marks I still prefer to buy brand X ;

2. if another brand is not different from brand X , then buying brand X is a wiser purchase

3. The brand X is more than a product of me.

Relying again on chi -square analysis and monitoring the p- values to see which elements or sub-dimensions of brand relations we see which one of the three questions about brand equity are the most significant. In this way for the product phone we recorded the following to determine the most important links.

The product Phone there seems to be a significant relation between the variables of the mobile brand relationship score all questions Item X and X brand equity as follows :

- This brand is innovative - Even if another brand has the same features as brand X , I will buy brand X ($p = 0.045$)

- This brand is secure and safe to use - even if another brand is not different from brand X , buying brand X is smart ($p = 0.015$)
- This brand is not just a product for me - Even if another brand has the same features as brand X , I will buy brand X ($p = 0.003$) ; Even if another brand is not different from brand X , buying brand X is smart ($p = 0.000$) ; brand X is more than a product to me ($p = 0.000$) .
- This brand has personality - Even if another brand has the same features as brand X , I will buy brand X ($p = 0.047$) ; Even if another brand is not different from brand X , buying brand X is wise ($p = 0.003$) ; Brand X is more than a product to me ($p = 0.000$) .
- I have a clear image of the type of person who buys - Brand X is more than a product to me ($p = 0.000$)

It also shows a strong link between three brand equity questions and variables as follows :

- I appreciate and admire people who use this brand
- It is interesting brand
- This is exciting brand
- This is the best brand to buy
- It is ethical brand
- This brand coincides with my style of life
- I believe the company that produces the brand
- I enjoy the company that produces the brand
- The company that produces the brand is innovative

Based on the answers given factorial analysis was used to see the connection of group variables with three brand equity questions. Based on KMO test, as has a value higher than 0.8 (0885 for mobile) shows a very good rating for the use of factorial analysis.

From this analysis to mobile, "Even if another brand has the same features as brand X, I will buy brand X"and " Even if another brand is not different from brand X , buying brand X is wise " have a coefficient of less than 0.4.

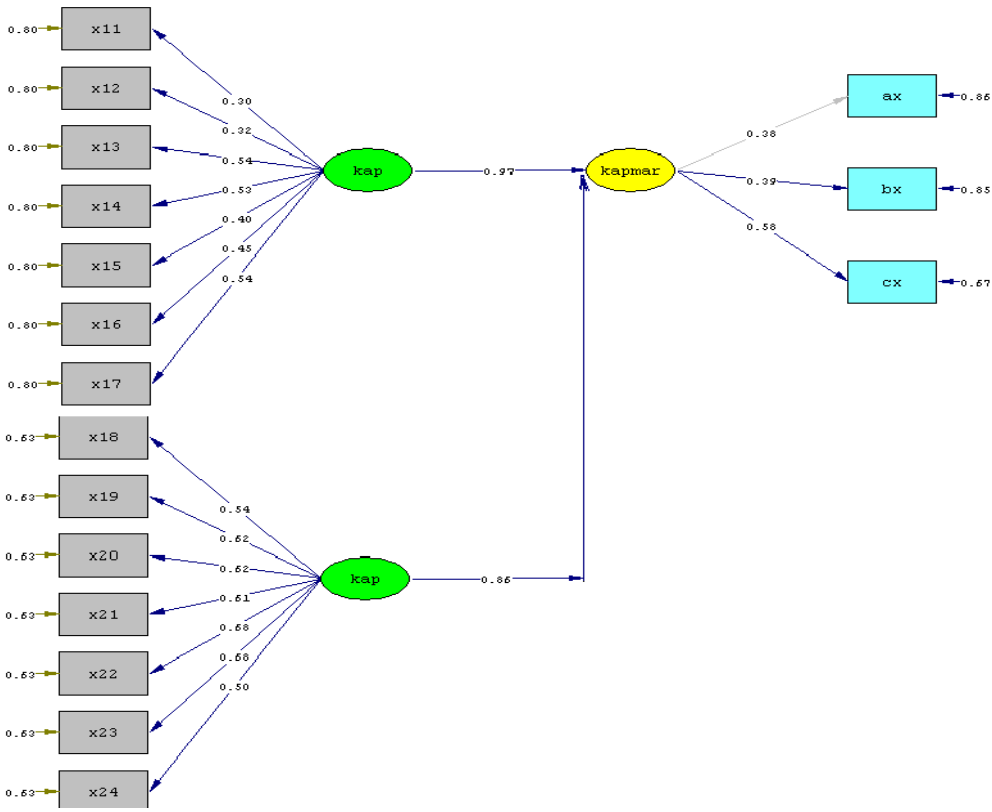
Based on chi -square test variable " I have a clear image of the type of person who buys " with " Even if another brand has the same features as brand X , I will buy brand X " and " Even if a brand the other is not different from brand X , X is buying wise " no statistically significant link .

Also variable " This brand is safe and safe for use " with " Even if another brand has the same features as X marks I will buy brand X " and " X is more than a product of me " not there is a statistically significant link . Variable "this brand is innovative" and "Even if another brand is not different from brand X, X is buying the wise " do not have a statistically significant relation .

Based on the correlation coefficients of all variables as brand relationship for mobile brands and athletes, positive impact on brand equity variable , where most of them to a large extent significance (p - value < 5%).

Question		
X11 This brand is innovative	*.676*	Kaiser-Meyer-Olkin Measure of Sampling Adequacy=*.885*
X12 This brand is safe and harmless to use	*.577*	Bartlett's Test of Sphericity
X13 This brand is not simply a product of me	*.535*	Approx. Chi-Square=*1499.703*
X14 This brand has personality	*.566*	*p-value=0.000*
X15 I have a clear image of the type of person who buys	*.488*	
X16 I appreciate and admire people who use this brand	*.612*	
X17 This brand is interesting	*.510*	
X18 This brand is exciting	*.458*	
X19 This is the best brand to buy	*.563*	
X20 This brand is ethical	*.427*	
X21 This brand matches my style of life	*.584*	
X22 I believe the company that produces the brand	*.551*	

X23 I enjoy the company that produces the brand	*.559*	
X24 The company that produces the brand is innovative	*.721*	



Based on factor analysis, correlation and SEM model, it is clear that the variables that most affect the brand equity of the phones are not the same and that in terms of weight or degree of importance they have on brand equity.

In summary, variable dimensions of brand equity and brand awareness respectively, according to their degree of importance of brand equity, for mobile phone are as follows:

Questions about the relationships of the elements of the mobile brand	Coeficient
X22 I believe the company that produces the brand	0.68
X23 I enjoy the company that produces the brand	0.68
X19 This is the best brand to buy	0.62
X20 This brand is ethical	0.62
X21 This brand matches my style of life	0.61
X13 This brand is not simply a product of me	0.54
X17 This brand is interesting	0.54
X18 This brand is exciting	0.54
X14 This brand has personality	0.53
X24 is the company that produces innovative brand	0.50
X16 I appreciate and admire people who use this brand	0.45
X15 I have a clear image of the type of person who buys this brand	0.40
X12 This brand is safe and harmless to use	0.32
X11 This brand is innovative	0.30

So this dimension for consumers considered most important: trust the company that produces the brand , the consent of the Company by the customer , trust that bought the brand worth , as well as the fact that it is ethical brand .

For mobile brands included in the study, considered unimportant or with a low coefficient of importance of brand equity variables associated with : the image of people who buy , safety and the safety of use and the fact that this brand is innovative .

4. Conclusions and recommendations

Relations with the brand as product include functional and non-functional product attributes (Aaker , 1999; Chen 2001) .

Details of the research show that consumers are very interested in the functional product attributes and the product being particularly safe and harmless to use shown by the 54 % choice of mobile brands. Among the dysfunctional attributes that customers consider important for brands, is trust and consensus with the company that produces the brand. Customers, due to strong association with some operational attributes, consider the particular brand of phone they chose to be the best one to buy as it satisfies their consideration on the brand being ethical, interesting and with personality. They state that brand X is the better as it corresponds with their lifestyle and not because it is the choice of other consumers. In this way it seems like a very unique customer relationships with mobile brand X as it was chosen without influence by other people who use these brands, furthermore consumers did not express any high degree of appreciation or admiration for people who use this brand.

The data show that the mobile brands are not just a product for consumers.

In the case of the mobile brand X brand relationships positively impact brand equity X, and the extent of this impact is high in value 0.92.

From the data, for the mobile brands, it is clear that the variables that influence this impact are some of the nonfunctional variables associated with: reliability and consent of the producer of the brand, the perceived value of the brand (the better to buy), compliance with lifestyle as well as a number of elements that relate to the personality of the brand. Despite the positive impact that these variables have, the extent of their influence is not very high.

For this reason the recommendation in connection with this conclusion is that manufacturing companies should care more about the personality of the brand but also in better understanding the personality of consumers who prefer to buy their brands.

In this way the company can help customers have a clear image of the type of person who buys this brand.

Companies should be looking more to understand whether the consumers buy brands X just to feel good about themselves or to better their current or ideal image. They should inform and persuade consumers that their brands X are not only distinct and innovative, especially since this paper shows that a customers' relationships with the brand as innovative, secure and safe to be used have a low impact on brand equity X.

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