



2nd International Conference

***ECONOMIC SYSTEM OF THE EUROPEAN UNION
AND
ACCESSION OF BOSNIA & HERZEGOVINA***

Vitez University of Travnik

University of Rijeka – Faculty of Economics – Partner in EU Integration
Jean Monnet Ad personam Chair

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Publisher

Vitez University of Travnik, Školska 23, BH-72270, Bosnia & Herzegovina

For publisher

Nikola Grabovac

Technical editor

Vinko Zaninović

First edition (2013)

100 copies

Date and Venue

September 27-28th, 2012

Hotel Central in Vitez, Bosnia & Herzegovina

First edition (2013)

100 copies

ISBN 978-9958-641-10-7

A CIP catalogue record for this book is available from the National and University Library of the Bosnia and Herzegovina in Sarajevo under number

339.923:061.1EU]:338.246(497.6)(063)(082)

338.246(497.6):061.1EU(063)(082)

INTERNATIONAL Conference Economic System of European Union and Accession of Bosnia and Herzegovina (2nd ; 2012 ; Vitez) / Economic system of European Union and accession of Bosnia and Herzegovina [Elektronski izvor] / 2nd International Conference Economic System of European Union and Accession of Bosnia and Herzegovina, [Vitez, 27-28th September 2012]. - Elektronski tekstualni podaci. - Travnik : Sveučilište / Univerzitet "Vitez", 2013. – 1 elektronski zapis : tekst, slike, animacije / Tekst s nasl. ekrana.

COBISS.BH-ID 20273670

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PLENARY SESSION

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ECONOMIC DOCTRINES AND THE EU CRISIS

ABSTRACT

From the beginning of the world financial crisis in the autumn of 2008, the EU started to slide into increasingly complex economic, monetary, sovereign debt and formal functioning crises. What at first looked just as »imported« financial market crisis from the USA, gradually developed into a complex crisis of the EU functioning and of its future development. The impacts of the EU crisis created strong unemployment growth in a number of EU member states. Further it is characterized by low, decreasing, and even negative growth rates in some member countries. The crisis is combined with sovereign debt crisis which is spreading from the PIIGS group to some other EU member states, like Slovenia and Cyprus. Increasing danger of a financial default of same EU members started to create doubts about the credibility of € as the EU common currency and about its future use as the international payments and reserve currency.

The policies and proposals to solve the EU growth, employment, monetary, financial, and integration functional problems are based on strategies developed and advocated mostly by central EU nations, predominantly by Germany, France, and Great Britain. The vision how to handle the crises was partially amended after the 2012 presidential election in France. None the less, the major concept of the economic policies proposed for solving the complex EU crisis is based on the so called neo-liberal ideas. In the paper we assess the nature and specifics of the EU crisis. On such grounds we suggest the need for strategic change of the present leading policy concepts used to overcome the EU crisis. Instead of further implementing the neo-liberal approach in the implemented economic actions to overcoming the EU crisis, we suggest implementation of the new strategy and policies which should be based on the ideas and concept developed in the so called economic innovation doctrine.

Key words: *The EU, crisis, indicators of the crisis, economic doctrines, technology and innovation importance*

JEL classifications: *A1, O1*

1. INTRODUCTION

From the beginning of the world financial crises in the autumn of 2008, the EU started to slide gradually into increasingly complex economic, monetary, sovereign debt and formal functioning crises. What looked at first only as financial markets crisis »imported« from the USA had gradually developed into a complex crisis of the EU economy and of its functioning efficiency. In the second part of 2012 the crisis was still present in its full and even growing potential. The negative impacts of the EU crisis are shown in growing unemployment in a number of EU member states. The crisis generates low and negative economic growth rates in the EU and in its member states. The number of member states has problems with too high level of their sovereign debts. Increasing possibility of a potential financial default of some EU member states with their high sovereign debt level started to create doubts about the €credibility as common currency and as a currency being increasingly used as an international-global currency.

The complexity of EU crisis creates different concepts and proposals how to get EU and € out of the present unstable and negatively connoted economic, financial and general functioning position. In the EU from the beginning of the crisis official suggestions how to deal with problems were closely related to political assessments and decisions which were basically coordinated between Germany, France and partially with GB and less with some other member states. Unfortunately the past economic and political suggestions and implemented economic measures based on economic strategies of leading EU nations have not produced substantial and generally appreciated positive results yet. For that reason we would like further to concentrate on two major aspects of the EU crisis with intention to evaluate adequacy of the major vision and economic policy of the EU member states in handling the impacts of the crisis.

The first aspect of the crisis to be analyzed is based on assessing the background and data about the economic performance of the EU and its members. Using data and past EU developments related to the deepening and enlargement processes will help us to show that some elements of the crises – especially structural unemployment started to develop well before the 2008 crises. In fact the deepening of the EU with creating increasing competitive pressures inside the internal market were further accelerated by growing impacts of the process of the economic globalization. These developments caused in the EU in general and in some member states specifically problems of structural nature with slow economic growth and protruded problems of growing unemployment.

The second part of our paper discusses the EU crisis from the aspect of the major policies used to overcome the crises. The policies which are often defined as neoliberal are compared to the achievements in controlling the crisis and towards the official strategies EU has used in the past to become more competitive and with better growth and jobs creating results. Combination of globalization drivers and EU development achievements will serve to show some potential advantages of changing present neoliberal policies for policies based on so called Innovative Economic Doctrine.

2. EU CRISES IN RETROSPECT – BACKGROUNDS AND DATA

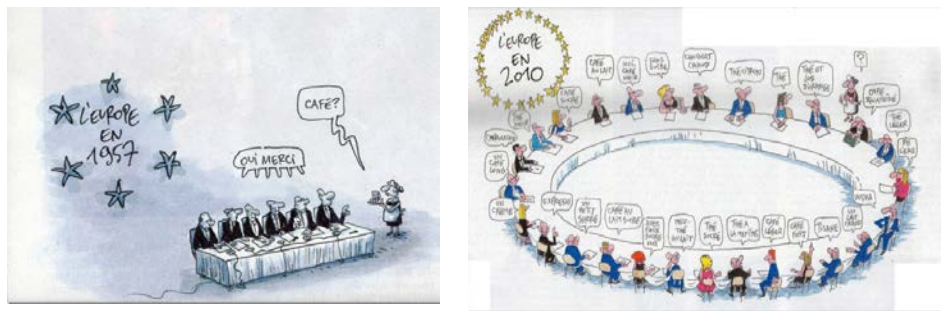
EU crisis has formally started in 2008 with the global financial crises. In fact some root elements of the present crises date well back in the EU deepening and enlarging processes. Accumulation of the past EU development specifics together with the economic globalization impacts, and with the international financial crisis of 2008 impacts, have created the entirely new environment in which the traditional polices and economic measures used might not bring positive results soon or at all.

2.1. EU development backgrounds

Presenting the backgrounds and data related to the past EU economic and formal developments can help us to understand why EU approach in crisis elimination is not really effective up to now. Additionally it might help to understand better why the general crisis elimination approach is so much based on the neoliberal believes and practices used by the leading political and economic elites through the major part of the all EU member states.

From 2007 EU with its 27 member states is a complex and unique structure never to be seen in the up to now know political or economic history of the World. The EU complex formal structure, together with its economic and political performances has grown from its beginning in 1957 when the “Treaty of Rome,” establishing the European Economic Community, was signed. The EU complexity consists of a numerous different and influential structural elements. They start with cultural, historical, language (see Figure 1) and a number of other “soft” but highly influential differences among societies and economies of the EU member states.

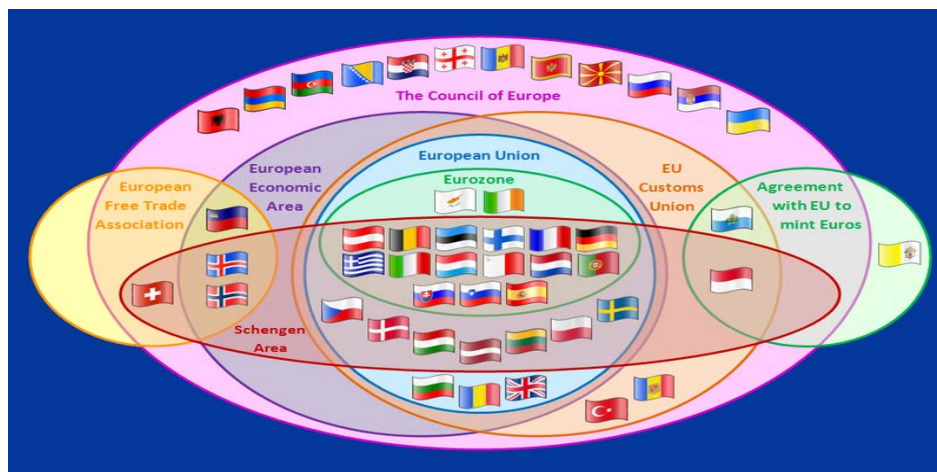
Figure 1: Increasing EU complexity related to languages and cultures from 1957-2012*



Note: *The number of member states and different language complexity is the same in 2012 as was in 2010, but it will be increased in 2013 with expected enlargement of the EU by Croatia. The language complexity is just a symbol of all other complex differences among the EU member states, ranging from culture, religion, history, ethical standards and other differences affecting all aspects of cooperation and decision making among member states, among companies and individuals from different nations.

The EU complexity further extends to differences in economic and formal institutional specifics among the member states. Beside differences in, for example having € as national currency (17 members of the EMU out of 27 EU members), the differences among EU members extend to the diverse nature of their formal-contractual- relations among them and among them and the other non- EU European states. Just to make an easy grasp of that part of the EU complexity we use the following picture (Figure2). It shows contractual interstate relations between EU members and other European states. The picture clearly explains that not all EU member states are in the same formal/contractual and/or functional position among themselves or towards the rest of the European states.

Figure 2: Complexity of interstate contractual relations in the EU and in Europe



Source: http://en.wikipedia.org/wiki/Member_state_of_the_European_Union Note: Schengen Treaty 2012: EU with ought GB, Ireland, Bulgaria, Romania and Cyprus. Outside of EU “Schengen” countries are: Swiss, Norway, Island, Monaco, Vatican, San Marino

The complexity of the interstate contractual relations in Europe and within the EU creates difficulties in the process of present searching, accepting, and implementing the effective common policies measures, necessary to overcome the EU crisis. One of the examples of the seriousness of the above problem could be illustrated by the fact the only 25 of the 27 EU member states took part in signing the “Treaty on Stability, Coordination, and Governance” (TSCG).¹ It is an important document which should to be part of the general acceptance in the entire EU; otherwise the EU is fragmented and weakened in its efforts to implement measures for getting out of the present crisis.

The past enlargements of the EU and past EU integration deepening processes created not only the complex relations among EU members and among them and other states in Europe and globally but have created some additional elements of complexity. Among

¹ Treaty on Stability, Coordination, and Governance in the Economic and Monetary Union; <http://european-council.europa.eu/eurozone-governance/treaty-on-stability>. Treaty was signed during the European Council meeting on 1-2 March 2012. Ratification is still in progress.

them is complex and permanently changing structure of and relations among the EU institutions. Beside new institutions created, new relations among them are created periodically. Process of deepening and process of enlarging the EU created a number of changes in the voting and other positional “strengths” of the member states in the past. The number and frequency of the past institutional changes created difficult and non-effective structure for accepting necessary EU legal acts and decisions to combat the crisis effectively.

The institutional “rigidity” is evident in the development of the present EU crises through the way how EU Commission together with member states and other EU institutions formulates and how slowly implements proposals needed to cope with the crises². The EU crisis, where a big part of it is related to banking sector, is in progress from autumn of 2008. However after close to four years from the beginning of the crisis the EU Commission was able to make only the following proposal and not a solution of the problem. “On 6 June 2012, the Commission adopted a legislative proposal for bank recovery and resolution. The proposed framework sets out the necessary steps and powers to ensure that bank failures across the EU are managed in a way which avoids financial instability and minimizes costs for taxpayers.”³ Evidently the process to create the Commissions banking regulating proposal was taking far too long. Additionally the eventual implementation of the banking regulatory proposal is still part of further negotiations between member countries, before it could be accepted and after that implemented.

² Crisis Management; document of the EU Commission,
http://ec.europa.eu/internal_market/bank/crisis_management/index_en.htm#maincontentSec3

³ EU framework for bank recovery and resolution (June 2012), source:
http://ec.europa.eu/internal_market/bank/crisis_management/index_en.htm#maincontentSec3

Figure 3: Basic structure of the EU institutions – one of the reasons for too long and too complicated procedure of accepting EU decisions necessary for coping with the crisis

EUROPEAN COUNCIL 27 Heads of state or Government, President of the European Council and President of the Commission		
COUNCIL 27 Ministers (one per Member State)	EUROPEAN PARLIAMENT 751 Members*	
EUROPEAN COMMISSION 27 Members (until 2014)		
COMMITTEE OF THE REGIONS 350 Members (maximum)	EUROPEAN ECONOMIC AND SOCIAL COMMITTEE 350 Members (maximum)	
COURT OF JUSTICE OF THE EUROPEAN UNION 27 Members (until 2014)		
EUROPEAN CENTRAL BANK	COURTOF AUDITORS 27 Members (one per Member State)	EUROPEAN INVESTMENT BANK

Note: *When the Lisbon Treaty came into force on 1 December 2009, the number of Members was increased temporarily to 754. However, the maximum of 751 must be restored by the next elections of 2014.

After Lisbon Treaty Dec. 2009, two additional “institutions” were introduced:

- President of the European Council; a principal representative of the European Union (EU) on the world stage,
- The High Representative of the Union for Foreign Affairs and Security Policy (HR) is the main coordinator and representative of the Common Foreign and Security Policy (CFSP) within the European Union (EU).

The structure of EU institutions in Fig. 3 is no doubt really complex. Decisions are taken step by step with time consuming activities. The implementation on the members’ level takes additional time. Beside, long “reaction” time of the Commission to make legislative proposals, the institutional and voting structure of the EU make the process of accepting policies and measures, affecting EU and national levels, too much time consuming. Beside time consuming procedures adopted proposals are often additionally “adjusted” based on interstate compromises reached during the negotiations. EU decisions making process in relation to the crisis solving activities is further burdened by the so called EU “democratic deficit”. The deficit makes the actually accepted EU measures often less appreciated in the individual member states or among their citizens. In spite of a number of changes made by different EU Treaties including the Lisbon Treaty, EU Institutional structure is not effective enough to react fast and properly in the relation to the protruded crisis environment. The last increase in the number of the EU institutions, with the creation of the two individual positions (see

Fig. 3) is not actually proving to be a substantial contribution to the improvement of the EU institutional effectiveness in the process of the crisis solving.

2.2. EU economic performance indicators

Economic data on the EU during the years of the crises show increasing economic and cohesion divergence among member states. The processes of economic cohesion development and of “catching up” of the less developed regions are losing their momentum. The debates in the EU bodies about financing cohesion policy objectives for the next years are characterized by more and more divided objectives, visions, and interests among the EU member states. Difficulties in setting commonly accepted objectives and finances for the next years’ cohesion policy realization are based on growing economic difficulties of all EU member states, caused by the complex and protruding EU crisis.

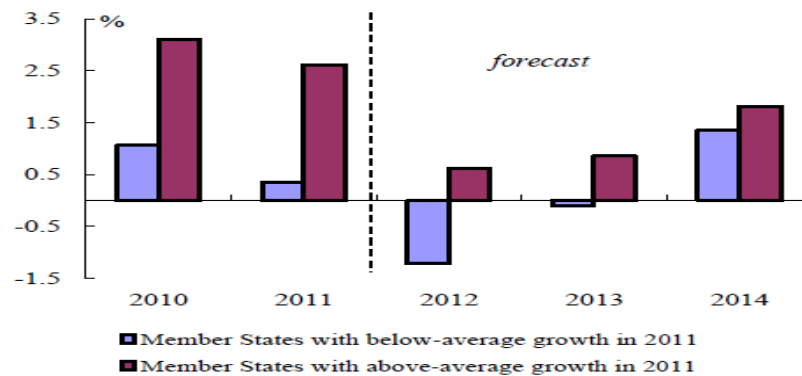
Table 1: EU and EU member states main economic indicator 2011 and forecast to 2014

		Real GDP, Autumn 2012 forecast				Inflation, Autumn 2012 forecast				Unemployment rate, Autumn 2012 forecast		
COUNTRY	2011	2012	2013	2014	2011	2012	2013	2014	2011	2012	2013	2014
Belgium	1.8	-0.2	0.7	1.6	3.5	2.6	1.8	1.6	7.2	7.5	7.7	7.8
Germany	3.0	0.8	0.8	2.0	2.5	2.1	1.9	1.8	5.9	5.5	5.6	5.5
Estonia	8.3	2.5	3.1	4.0	5.1	4.3	4.1	3.3	12.5	10.5	9.8	9.0
Ireland	1.4	0.4	1.1	2.2	1.2	2.0	1.3	1.4	14.4	14.8	14.7	14.2
Greece	-7.1	-6.0	-4.2	0.6	3.1	1.1	-0.8	-0.4	17.7	23.6	24.0	22.2
Spain	0.4	-1.4	-1.4	0.8	3.1	2.5	2.1	1.3	21.7	25.1	26.6	26.1
France	1.7	0.2	0.4	1.2	2.3	2.3	1.7	1.7	9.6	10.2	10.7	10.7
Italy	0.4	-2.3	-0.5	0.8	2.9	3.3	2.0	1.7	8.4	10.6	11.5	11.8
Cyprus	0.5	-2.3	-1.7	-0.7	3.5	3.2	1.5	1.3	7.9	12.1	13.1	13.9
Luxembourg	1.7	0.4	0.7	1.5	3.7	2.9	1.9	1.8	4.8	5.4	6.4	6.4
Malta	1.9	1.0	1.6	2.1	2.5	2.9	2.2	2.2	6.5	6.3	6.3	6.2
Netherlands	1.0	-0.3	0.3	1.4	2.5	2.8	2.4	1.6	4.4	5.4	6.1	6.2
Austria	2.7	0.8	0.9	2.1	3.6	2.4	1.8	1.9	4.2	4.5	4.7	4.2
Portugal	-1.7	-3.0	-1.0	0.8	3.6	2.9	0.9	1.3	12.9	15.5	16.4	15.9
Slovenia	0.6	-2.3	-1.6	0.9	2.1	2.8	2.2	1.6	8.2	8.5	9.3	9.6
Slovakia	3.2	2.6	2.0	3.0	4.1	3.7	1.9	2.0	13.6	13.5	13.5	13.1
Finland	2.7	0.1	0.8	1.3	3.3	3.0	2.5	2.2	7.8	7.9	8.1	8.0
Euro area	1.4	-0.4	0.1	1.4	2.7	2.5	1.8	1.6	10.1	11.3	11.8	11.7
Bulgaria	1.7	0.8	1.4	2.0	3.4	2.5	2.6	2.7	11.3	12.7	12.7	12.5
Czech Republic	1.9	-1.3	0.8	2.0	2.1	3.6	1.1	1.1	6.7	7.0	7.3	7.1
Denmark	0.8	0.6	1.6	1.3	2.7	2.4	2.0	1.7	7.6	7.7	7.7	7.6
Latvia	5.5	4.3	3.6	3.9	4.2	2.4	2.2	2.3	16.2	15.2	14.3	12.7
Lithuania	5.9	2.9	3.1	3.6	4.1	3.4	3.1	3.0	15.4	13.5	12.4	10.9
Hungary	1.6	-1.2	0.3	1.3	3.9	5.6	5.3	3.9	10.9	10.8	10.8	10.6
Poland	4.3	2.4	1.8	2.6	3.9	3.8	2.6	2.4	9.7	10.1	10.5	10.3
Romania	2.5	0.8	2.2	2.7	5.8	3.5	4.9	3.3	7.4	7.4	7.3	7.3
Sweden	3.9	1.1	1.9	2.5	1.4	1.0	1.3	1.8	7.5	7.5	7.4	6.9
UK	0.9	-0.3	0.9	2.0	4.5	2.7	2.1	1.9	8.0	7.9	8.0	7.8
EU	1.5	-0.3	0.4	1.6	3.1	2.7	2.0	1.8	9.7	10.5	10.9	10.7

Source: European Economic Forecast; EUROPEAN ECONOMY 7|2012, Economic and Financial Affairs, autumn 2012

Crisis has increased the differences between rates of economic growths among the EU member states. That implies growing difficulties with all efforts intended to improve economic cohesion among the EU members and their regions even more during the period of crisis.

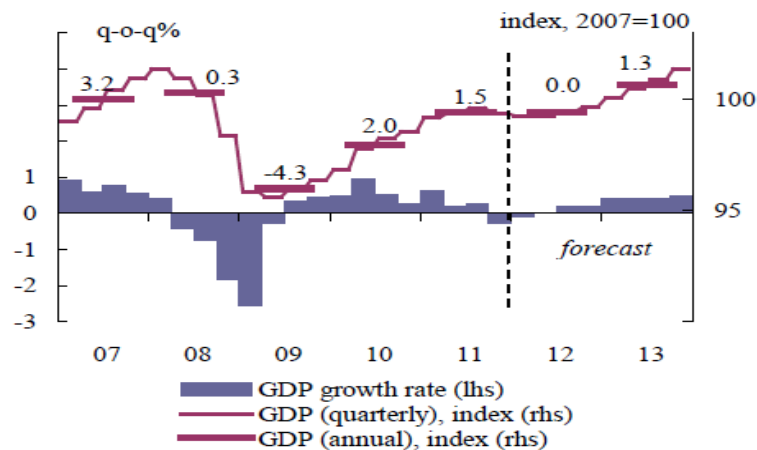
Figure 4: Multi-speed real GDP growth in the EU, annual growth rates (weighted)



Source: European Economic Forecast; EUROPEAN ECONOMY 7/2012, Economic and Financial Affairs, autumn 2012

After the beginning of the global financial crises EU growth rates are low or in some members states even negative. In 2012 EU growth rate is actually lower as was expected. Surprising is the fact that the €zone members are having growth rates even below the EU average growth rates.

Fig.5: Real GDP growth rates in the EU with forecasts; 2007- 2013 (spring 2012; in September 2012 forecasts were even further reduced)

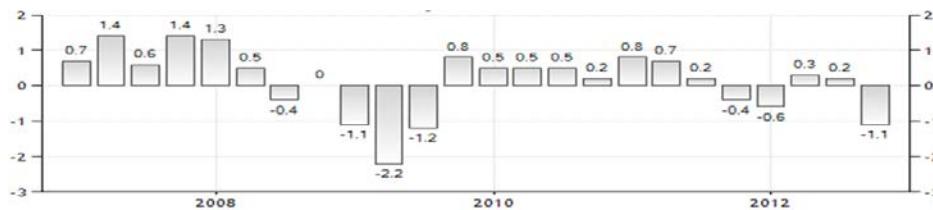


Figures above horizontal bars are annual growth rates.

Source: European Economic Forecast, EUROPEAN ECONOMY 1/2012, EU Commission, spring 2012, ISBN 978-92-79-22818-6.

The prospects for next two years as stated by OECD and by EU Commission are not bright. Eight members of the EU 27 have negative growth rates forecasts, with the highest negative for Greece – 4, 7% (European Economic forecast, p. 10). Among the black signs for the economic future development in the EU is the forecast for German economic growth. Europe's largest economy is likely to expand by just 1% or less based on CB projections next year, down from an earlier projection of 1.8% growth, according to a biannual forecast published by Germany's Economy Ministry (source: Germany Slashes 2012 Growth Forecast). Similarly to large surprise of many slowing down is evidenced as well in some other “core” EU member countries. Netherlands for example has a prosperous and open economy, which depends heavily on foreign trade. The economy is noted for stable industrial relations, moderate unemployment and inflation, a sizable current account surplus, and an important role as a European transportation hub. But still the growth rate has a negative tendency.

Figure 3: Decreasing GDP growth rate in Netherlands 2008-2012



Source: www.tradeingeconomics.com, Dutch Statistic Office

Slowing down in Germany, Netherlands and in some other core EU member countries creates new questions about the nature and roots of the EU growth and general development crises. The major economic policy direction used in the core EU members, together with their policies suggested to the “peripheral” EU countries, is based on the concept of strong and fast reduction in the public spending and of the public deficits. Additionally such policy concepts suggest implementing of the massive deregulation (flexibility) of labour markets, tax cuts, and general privatization as a measure of the state retreat from the economy. Such neoliberal policy concept probably contributed to rising reductions in demand for German and other core EU countries’ sales to other EU or Eurozone member countries. Declining EU economies as a result of used neoliberal concepts and policy measures create negative impacts for the future growth of German economy together with some other core EU countries already. Germany's central bank projects that German GDP will grow 0.6% in 2012 which is even lower than the above mentioned Finance Ministry’s projection. The low growth projection is a reflection of the worsening of the euro-zone financial crisis placing the financial burden on Germany. It is as well a result of falling demand for German exports caused by generally falling national aggregate demand in the group of over indebted EU member countries, together with falling demand in all EU countries based on permanently decreasing of their already low levels economic growth rates. German domestic demand is therefore becoming increasingly significant driver of Germany's economic growth performance in the future. That puts the present neoliberal policy concept under the serious questions and test. The dilemmas and concerns about the adequacy and efficiency of the practiced neoliberal policy approach in the process of

coping with the negative impacts of the EU crisis are actually not a novelty at all. Actual doubts about the adequacy and efficiency of the neoliberal policy implementation to cope with the effects of crisis are voiced even by some of its past most respected advocates and practitioners. Among them we may mention Mr. Alan Greenspan the former US Federal Reserve Chairman who conceded that he had made a fundamentally flawed assessment: »I made a mistake in presuming that the self-interests of organizations, specifically banks and others, were such that they were best capable of protecting their own shareholders and their equity in the firms.«⁴ Evidently Mr. Greenspan is not any more convinced into the efficiency of the banks and other institutions' to act properly only on the bases of their "self-interest". The necessary freedom for the actions of banks and other economic subjects is on the other side the main concept advocated by the neoliberal policy paradigm. Following such "disappointments" as was expressed by Mr. Greenspan there are growing discussions about the potentially needed more effective and broader government intervention into the economic and market developments. Such discussions point out that establishing an »appropriate balance between the market and public interest«⁵ might be helpful for overcoming of the crisis. Further we will show that such balance could be well created by implementing the concept and ideas contained in the so called Innovation Economic Doctrine, which is becoming a matter of growing interest in last few years. It is interesting to note that such new doctrinal attitude has its actual roots in the J. Schumpeter's classic published already in 1942.

Before showing potentially more effective - alternative to neoliberal attitude - economic development policy orientation for better future coping with the crises, we would like to show some other dimensions of the present crises. They show together with already shown growth problems perhaps even better how the neoliberal policy approach is not able to effectively eliminate and control economic and social problems created by EU complex and lasting crisis.

2.3. Structural nature of EU unemployment growth and globalization effects

Economic globalization as a process of opening of the markets, of increasing competition and economic and other growing interdependence, has started to show its characteristics in the first part of eighties of 20th century. Theodor Levitt with his article "Globalization of Markets" in Harvard Business Review published May 1983 was the first to show the changes on markets and in nature of competition worldwide. To understand some roots of present crises and some reasons of unemployment problems in the EU in the era of globalization is good to repeat what Levitt in his article said among the other topics. "The new commercial reality is the emergence of global markets for standardized consumer products on a previously unimagined scale of magnitude. Technology, by proletarianizing communication, transport, and travel drives the world toward a converging commonality. Well-managed companies have moved from emphasis on customizing items to offering globally standardized products

⁴ Quoted from "The Guardian", 24 October 2008.

⁵ As stated by the governments in the Final Document of the UN Summit on the Global Economic and Financial Crisis (UN General Assembly, 2009: para. 9).

that are advanced, functional, reliable, and low priced. They benefit from enormous economies of scale in production, distribution, marketing, and management”.

EU started to deepen its integration with preparing for internal market in second half of eighties last century. Globalization impacts growth and opening of national markets in the EU internally were affecting the member states economies parallel. Both processes created pressure on unemployment growth following the product standardization effects. Standardization effects created growing migration of production capacities for “standard” products within the EU and towards the third countries. Growing global (Chinese and of other BRIC nations) competitiveness started to press down the production costs. The solution was to introduce new technologies and new products combined with the effects of economics of scale. Where some of these elements were not available the pressure on salaries and employment has started to develop. The present EU crisis has a long structural background following the impacts of globalization and deepening of the integration on some EU members’ economies. Where were not enough knowledge and not enough investment capital to create new products, to develop and implement new technologies and to effectively utilize economics of scale effects, the companies and economies have started to slow down and to increase unemployment. Before 2008 the process of slowing down and of connected structural problems was well hidden by unprecedented international growth of financial markets, making financing even of not perspective producers and nations cheap and easy. After 2008 such financing was not available anymore and short term loans given to companies, banks, and national budgets were not any more prolong automatically. The growth, unemployment, and sovereign debt crises have started to develop.

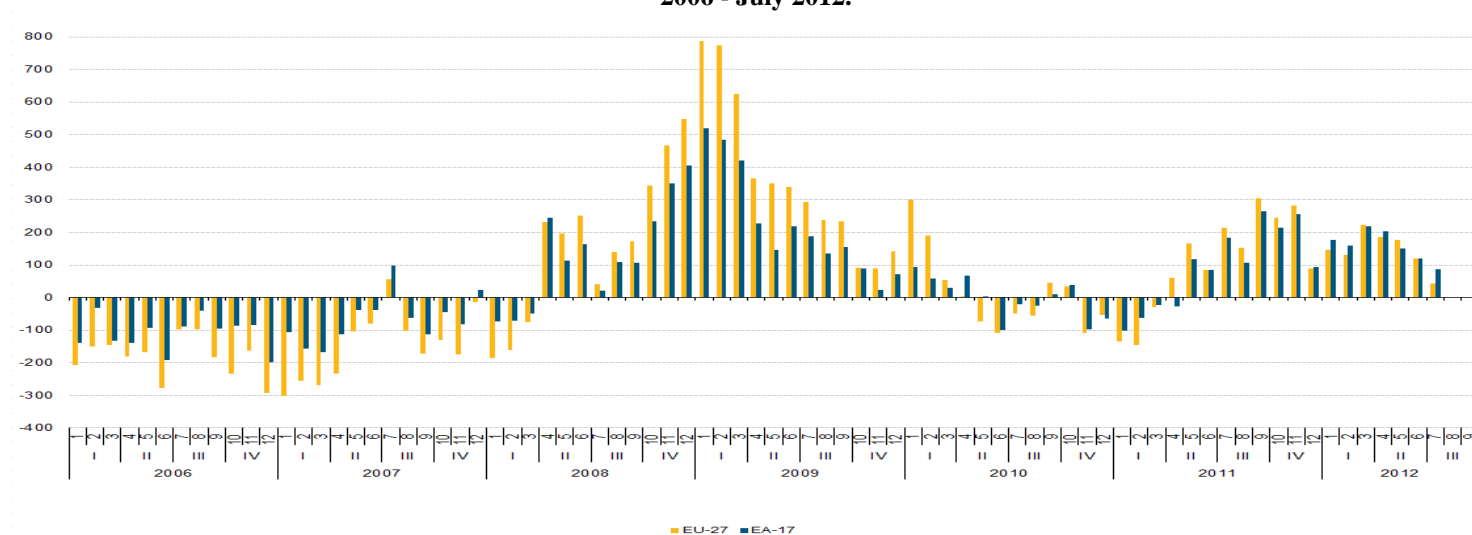
The fact is that the EU has realized the danger of growing unemployment following globalization and internal integration impacts rather early. Additionally, on formal level of agreed common policies, and in some aspects of their national economic policies, EU member states recognized the importance of the major economic globalization process drivers like: importance of technology development and its impact on production and competition, importance of innovation and creating of the new consumer products, need to reduce production costs for standard products, creating effects of economy of scale and scope, etc.

The problem of increasing unemployment in the EU was realized and directed to the potential solution with the ideas contained in the White paper of 1993. The document was titled “Growth, competitiveness, employment. The challenges and ways forward into the 21st century.”⁶ Evidently economic growth was a solution to increased employment levels and growth challenges were linked to expected successful growth in competitive position of the EU and its business entities. The concepts and ideas were unfortunately not realized adequately in a number of that time EU member states. Growing globalization impacts, with more and more evident role of the technological progress and of the new products development, created the second reaction of the EU in its coping with the growing unemployment problem caused again by increasing global competition on open EU and member states’ markets. When the Heads of States

⁶ White paper; Supplement 6/93: Growth, competitiveness, employment. The challenges and ways forward into the 21st century, COM(93) 700. 5 December 1993.

met at the Lisbon summit in March 2000, European Union leaders set out a new development strategy, based on a consensus among Member States, to make Europe more dynamic and competitive. The initiative became known as the “Lisbon Strategy” and came to cover a very wide range of policies. The Strategy was re-launched in spring 2005 after initially moderate results and became more focused on growth and jobs. Moreover, the Commission launched a major Recovery Plan for growth and jobs in November 2008, to drive Europe's recovery from the negative impacts of the economic crisis. Unfortunately 1993 White Paper strategy and the Lisbon Strategy with all its amendments were mostly not successful in the EU generally and especially not in a number of the EU member states. Following modest results of the EU growth strategy on the level of member states created the background for the present problems of the high and even increasing unemployment level in a growing number of the EU member states. EU members have nowadays major problems with high unemployment and often combined with the problems of too high sovereign debt levels. Often the group of the EU member states with such excessive problems is called the PIIGS group (Portugal, Ireland, Italy, Greece, and Spain).

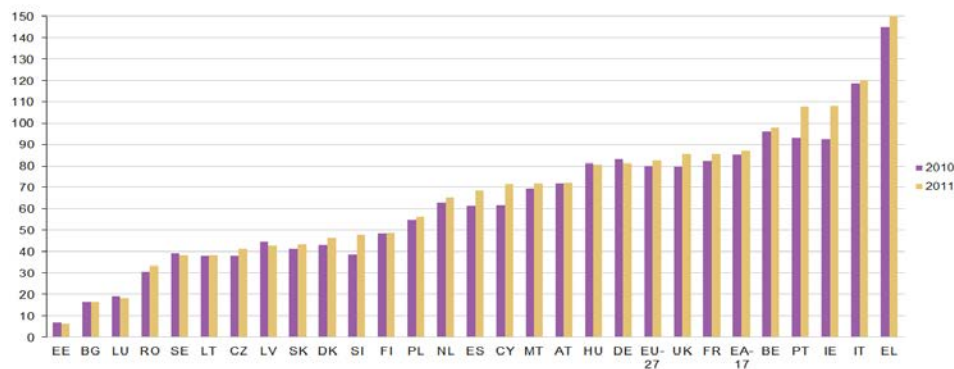
Figure 4: Change in the number of unemployed persons (compared to previous month, in thousands), seasonally adjusted, January 2006 - July 2012.



Source: http://epp.eurostat.ec.europa.eu/statistics_explained/images/0/05/Change_in_the_number_of_unemployed_persons_%28compared_to_previous_month%2C_in_thousands%29%2C_seasonally_adjusted%2C_January_2006_-_July_2012.PNG

In 2012 the number of unemployed persons grow faster in the EMU (17) member countries. In the years 2006-2012 the number of unemployed persons the EU was increasing on the average. As data show (Fig.4) the number of unemployed persons is growing from the second half of 2011 to the thirty quarter of 2012. The data suggest that all past concepts and strategies in combination with the practiced neoliberal economic policies have not been creating results of reducing unemployment or resolving the growth problems. In fact the concept and the measures contained in the both EU strategic documents together with the present EU development strategy⁷ “Europe 2020” are in conceptual and logical opposition with the practical implementation of the present neoliberal policy. All mentioned documents presume “intervention” on the bases of EU financial support and following the nationally coordinated government policies. Actual EU and national governments policies based on neoliberal paradigm are in essence in conceptual and logic opposition to the major economic policy concepts contained the past and present EU strategic development documents.

Figure 5: The EU member states sovereign debt levels as percent of GDP (2010-2011)

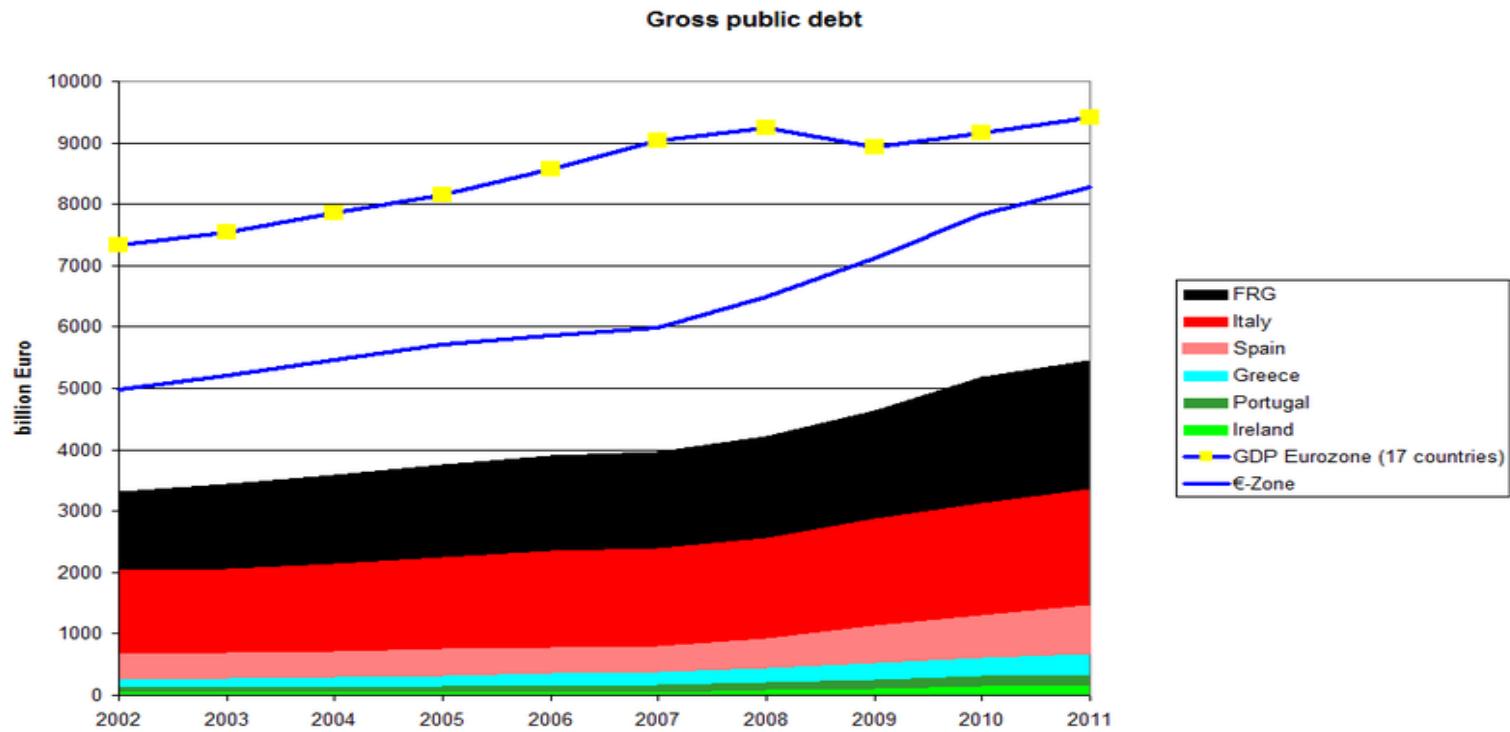


Source: http://epp.eurostat.ec.europa.eu/statistics_explained/index.php?title=File:Maastricht_Debt_as_a_percentage_of_GDP,_2010-2011.png&filetimestamp=20120709121057

In 2012 17 members of the EU are already over 60% of the national GDP, being an agreed mark in the Maastricht Treaty or in the Pact on growth and stability. It is necessary to note that among such formally over indebted EU members are even Germany and France. The amounts of sovereign debts of some most indebted EU member states are not really substantial when one looks to the total amount of the sovereign debts in the EU.

⁷ Europe 2020

Figure 6: Sovereign debts in the EU and country structure (2002-011)



Source: <http://en.wikipedia.org/wiki/File:BruttostaatsschuldenEuroEngl.png>

Total sovereign debt of Ireland, Greece, and Portugal together, if one takes EU as a single entity, is just a small fraction of the total EU sovereign public debt. The debt of the three countries is small even in comparison to the amount of the German's sovereign debt. Obviously such comparisons are not correct by the fact that each nation, although part of the EU, is still sovereign in the area of national debts. On the other side for a number of economic issues all members are having limited economic sovereignty following the system of qualified majority voting in the Council of the EU. That kind of conceptual contradiction is one of the formal reasons for difficulties in the EU finding the way out of the crisis. The other part of the problem is in the misunderstanding of the long term structural nature of the crises. The EU and its member states' crisis is in fact substantially related to the long term problem of the structural – unemployment. Unemployment problem is accelerated by the impacts of the increased global competition on the EU and its members' markets. The neoliberal policies used to overcome the crises in fact are not effectively dealing with the both major EU problems.

3. CHALLENGES AND LESSONS OF GLOBALIZATION AND EU CRISIS

The Economic crises of thirties of last century (The Great Depression) was deepening for some time because the diagnoses of its characteristics and its roots were mostly wrong. The economic policy measures taken to overcome the crises were on such grounds wrong too. The basic assumption was that the crisis is result of the too big aggregate supply. The reason for such assumption was in the fact that many states tried to introduce again the gold standard monetary system, where the quantity of money in national circulation automatically varies in response to the balance of payments' deficit/surplus levels and to the related change of the central bank gold reserves level. On the other side economic historians usually attribute the start of the Great Depression to the sudden devastating collapse of US stock market prices on October 29, 1929, known Black Tuesday some dispute this conclusion, and see the stock crash as a symptom, rather than a cause, of the Great Depression. However till the new economic policy approach had been introduced by USA president Roosevelt with his New Deal, following the Keynes suggestion of aggregate demand level importance, there was no success in controlling and overcoming the crisis. Comparing such historic facts with the present crisis specifics discovers a number of similarities which could help in the efforts to find proper economic policy attitudes in solving of the EU present crisis.

Both crises were related to financial market collapse. In both cases old methods of economic policies were used to overcome the crises. In the Great Depression liberal concepts of automatic (gold based) regulation of the quantity of money in national circulation. In the present EU crises neoliberal policy approach of reducing public spending is used, combined with privatization and reducing government regulation of the economy. As in the past equally today the "old" liberal approach is not offering positive solution for the crises. Present neoliberal attitude is "old" because it was introduced as a new paradigm in eighties of last century in the US and Great Britain so well before present crises started. The economic policy concept developed that time was liberal stressing the supremacy of the supply side of the economy. Such liberal, or neoliberal approach (neo- due to the conceptual adjustments necessary because of national and international market changes) is named "reganomics" or supply side

economics. Supply side economics attitude in fact replaced mostly used economic policy concept till then. The economic policy approach used from the Great depression till the introduction of the supply side attitude was mostly based on neo-Keynesian doctrine. It was the policy or doctrine developed by Lord Keynes who suggested that the level of aggregate demand creates growth and employment. After the New deal success, the “Keynesian” and “Neo-Keynesian” policy or doctrine was focused on creating adequate aggregate demand level and more or less full employment as to support properly high level of aggregate demand. High employment and higher level of aggregate national demand were created or at least consistently supported by different forms of the government intervention activities, including deficit public spending increases. As it is evidenced such economic policies were implemented in a big number of countries all around the world after the WW II and up to the eighties of the last century. Neo-Keynesian policy approach was practiced in a number of states, including USA, Germany, and other countries. Parallel with the development of the economic globalization impacts the neo-Keynesian policies were in great number of states replaced by the policies similar to those used before the Great depression. Obviously these policies were adjusted to the new economic environment and are so called neoliberal policies.

To make it simple in overcoming of the negative impacts created by the Great depression liberal policy was not effective. We can see similarities of these developments in the present crisis. In the case of both crises the generally accepted beginning of the crisis was the collapse of the financial market. In both cases liberal or neoliberal policies were used to overcome the crises. In the Great depression only the new policy approach made successful way out of the crisis. Could we believe that the same may happen today? If it is so, what new policy approach could be acceptable? The answer must probably be related to the new characteristics of the today’s markets and competitive developments. Before further explaining the new approach let us try to compare different historic economic policies or doctrines, to see which could be a good choice for present crises in globalized and open competitive economic environment.

Figure 7: Differences among selected contemporary economic doctrines

Factor	Conservative Neoclassical Doctrine (supply-side)	Liberal Neoclassical Doctrine (Rubinomics)*	Neo-Keynesian Economic Doctrine	Innovation Economic Doctrine (IED)
Locus of Economic Growth	Supply-side (individuals and organizations)	Supply-side (individuals and organizations)	Demand-side	Supply-side (organizations, enterprises, and “prosumers”)**
Sources of Economic Growth	Accumulation of capital	Accumulation of capital	Spending	Productivity and Innovation
Ultimate objective of policy	Consumers	Consumers	Workers	All residents
Principal economic policy goal	Growth and managing the business cycle	Efficiency and managing the business cycle	Fairness and managing the business cycle	Growth and innovations
Key economic processes	Allocation efficiency	Allocation efficiency	Consumer demand, full employment	Productive efficiency and adaptive efficiency
Principle means	Lower top marginal tax rates, lower tax rates on capital, and reduce regulation	Financial discipline, reformed economic regulation	Public spending, progressive taxes, Stronger regulation	Tax, expenditure and regulatory policies to boost innovation, skills, investments in new equipment, competition and entrepreneurship
Trade theory	Free market boost locative efficiency and consumer welfare	Free market boost locative efficiency and consumer welfare but government policies should compensate those hurt by trade	Trade can hurt the workers and lower consumers demand	Trade can bring gains principally through competition and learning but for it to be more effective policy must fight mercantilist distortions and actively promote innovation at home
Organization of Government	Limited	Limited, focused on the basics	Large and powerful government	Reinvented government increased reliance on quasi-public organizations and public private partnership

Note: * “Rubinomics” – was originally used to collectively describe the economic policies of President of the United States Bill Clinton. It is named after Robert E. Rubin, former United States Secretary of the Treasury.

** “Prosumers”; interactive subject comprised of producers’ and consumers’ specifics.

Source: Robert D. Atkinson and David B. Audretsch; Economic Doctrines and Policy Differences: Has the Washington Policy Debate Been Asking the Wrong Questions?, The Information Technology & Innovation Foundation, September 2008; p.13.

Comparing the different historic doctrines with concepts contained in the relatively new Innovation Economic Doctrine shows reasonable relevance of the new doctrine in relation to the global economic environment characteristics and in relation to the roots of the present EU crisis.

After the WW II the concepts of different national economic policies were based on Keynes doctrine, or on the adapted neo-Keynesian doctrine. It is generally accepted that policies which were following general concept of state regulation in the economy, as suggested by neo-Keynesian doctrine, created welfare state effects in the USA, Western Europe and in many other developed countries around the globe. The concepts of state intervention in the economy were more or less followed and used till the mid-eighties of the last century. That was the time of a change in governments' practices by introducing the "supply side economics" or "reganomics"⁸ with growing concept and practice of economic neo-liberalism. All of which include reducing; the role of state (development) regulation, taxes (for rich) reduction, limiting social transfers, and increasing military expenses. The change of the economic vision –doctrine – how to run best national economic police was changed to neo-liberal approach because of different reasons. Among them were accumulated economic inefficiencies during the long periods of more or less intensive government intervention into the national economies performance. General change of technology and its increasing dynamic, together with more open national markets based on multilateral liberalization introduced by agreements among the World trade organization members and among different regional economic agreements, created an environment where neo-Keynesian doctrine was replaced by neo-liberal doctrine. In the USA in Great Britain and in some other countries the neo-liberally based economic policies produced positive growth results for a number of years. On the other side neo-liberal policies started to create growing unemployment and growing wealth differentiation within many nations. We mentioned development of unemployment problems created within the EU in the period of neoliberal doctrine implementation already. Growing unemployment, different tax reforms and general neoliberal policy attitudes developed among other effects increasing social and wealth differentiation in the EU states and in number of states around the globe. Social and economic stability of the EU and a number of other nations around the globe was increasingly threatened with the most severe negative impacts created by the crisis started in autumn of 2008.

Neoliberal economic policy practices were not yet showing positive results in solving unemployment and growing social differentiation problems. The dilemma about introducing and using eventually some new doctrinal and practical approach, for better solving of the present economic crisis, is evidently widely open. One of the options could be to go back to some form of neo-Keynesian doctrine and policy. It is probably not the best solution for a number of reasons. Among others reasons for limited chance to go back to neo-Keynesian practices are the essential changes which are developed during globalization and fast technology development in last 20 to 25 years. State intervention focused on increasing of employment in neo-Keynesian form probably could be successfully only in combination with some form of national or regional protectionism. As it is known from economic history, protectionist approach could gain

⁸ See: <http://www.investorwords.com/4052/Reaganomics.html>

positive employment and growth results in short run mostly. But it is dangerous for long term growth of the nation practicing protectionism. If such reasoning is adequate then Innovation Economic Doctrine (IED) offers some solutions which might better support creation of economic policies on national and EU levels to overcome the crisis and its problems. The IED approach follows concepts related to the essence of successful development of market based capitalistic societies.

The IED approach in fact follows the concepts and ideas contained in Joseph Schumpeter's classic 1942 book *Capitalism, Socialism, and Democracy*.⁹ Writing around the same time as Keynes, Schumpeter's work had a decidedly different take on the economy and on economics. For Schumpeter it was institutions, entrepreneurs, and technological change that were at the heart of economies and economic growth. Schumpeter explained: "The essential point to grasp is that in dealing with capitalism we are dealing with an evolutionary process...the fundamental impulse that sets and keeps the capitalist engine in motion comes from the new consumers' goods, the new methods of production or transportation, the new markets, the new forms of industrial organization that capitalist enterprise creates".¹⁰

Not going into detailed commenting of different doctrinal approaches used in recent past national economic practices (Figure 7) we believe that for the EU to get out of the crises probably Neo-Keynesian Economics Doctrine or IED approach or a combination of the two, could be better suited solution as is the presently generally practiced neo-liberal approach. One of the facts supporting the use of IED in future EU policy practices is based on the EU past formally accepted economic policy approaches contained in both development strategic documents of the EU.¹¹ Both in fact are at list to some extent in conceptual opposition with the practices used to overcome the EU crisis in the last few years. Additional argument supporting considering IED approach or its combination with Neo-Keynesian approach in coping with the crisis is generally proclaimed support to the use of the solidarity rules among the EU member states. The EU accepted and proclaimed social and interstate relation standards are in fact part of attitudes offered in the context of the neo-Keynesian or of the IED approaches. Comparing neo-Keynesian and the IED approach suggests that the last approach is probably better suited to deal effectively with the contemporary structural unemployment problems, with the growing openness of the economies and with the global growth of competitive pressures.

4. CONCLUSIONS

EU and its member states are part of the global economic development problems which has started to develop with the financial market crises in autumn of 2008. Globally and in the EU individual states are differently hit by the crisis impacts. States are as well

⁹ Schumpeter, Joseph; *Capitalism, Socialism, and Democracy*, New York: Harper, 1942

¹⁰ Ibid., 82-83

¹¹ The so called Lisbon EU development strategy (http://en.wikipedia.org/wiki/Lisbon_Strategy) and present EU strategic development document (http://en.wikipedia.org/wiki/Europe_2020), both containing proposals and suggested instruments how to support R&D activities and how to take care of growth and unemployment by some EU and national economic policies.

differently successful in dealing with the problems of unemployment growth, growing amounts of sovereign debts and declining or even negative economic growth rates. Activates and decisions collectively accepted on the EU level, to make EU and € stronger, and to bring them out of the crisis, are unfortunately not too effective and are generally too slow in their acceptance and implementation processes. Some of related EU crisis problems are additionally tribute to the history and nature of the EU development and of its past decisions taken in the process of enlargement and deepening of the integration. Beside of a number of the “objective” problems like national, historic, cultural, and other differences, complex, and changing institutional structure, etc., make EU objectively slower and less efficient in coping with the crises. Additional problem of the EU in handling the crisis is probably related to not the best selected economic policy orientation. Generally appreciated and implemented neoliberal background of economic proposals and actions unfortunately has not been creating good growth results or increased employment. Historic experience with overcoming the Great depression and the lack of positive results in overcoming present EU crisis suggest a reasonable need for introduction of a new economic doctrinal approach.

To improve success in coping with the crises one of the acceptable options for the EU could be to concentrate more on effective use and respect of all institutional and procedural environments which are already in place. Permanent searching for new institutional and formal EU environment (examples are: the president Barroso proposal of creating a federation of national states¹² in June 2012, or a numerous suggestions about Lisbon Treaty adjustments and changes, etc.) eventually take too much energy and interest from actual problems related to the crises solving. Beside suggestion to develop more pragmatic approach and practice in utilizing all formal and institutional options which the EU has already in place, there is additionally a need to change the understanding and dealing with the crisis on national and on the EU levels.

The present, mostly neoliberal economic policy approach to deal with the crisis in the EU and the in most of the member states is probably not best suited to the real roots, nature, and specifics of the present crisis. Comparing different practiced and known approaches in selecting the best economic policies in dealing with the crisis, we reason that IED approach could be one of the most effective. Reasons for such estimate are related to the fact that IED approach considers most of the present “novelties” related to the impacts of globalized competition, of the increasing number of standardized products, and of huge technological progress impacts on changes in all societies and economies. Focusing on new solutions in handling the economic and social aspects of the crisis, could be additionally supported by historic experience. In the last century the Great depression was overcome in fact only on the bases of the new approach contained in the proposals of Lord Keynes and which was practically implemented by the USA President Roosevelt’s New Deal.

IED approach eventually offers ideas and concepts for the EU development of a specific European “New Deal” for crisis overcoming. Debates and evaluations of such proposal probably should not be rejected without serious and standing arguments.

¹² <http://www.euractiv.com/priorities/barroso-seeks-public-space-launch-news-514761>

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CONVERGENCE OF CORPORATE GOVERNANCE PRACTICE IN EUROPE – EVIDENCE FROM SEE COUNTRIES

ABSTRACT

Corporate governance is one of the most important themes of debate in today's modern business world. Understanding the impact of governance principles on business efficiency and competitiveness is of crucial importance. Hence, harmonization of the rules relating to company law and corporate governance, as well as to accounting and auditing, is essential for creating a single market for financial services and products – one of the key elements of EU agenda. Focus of this paper is insight to convergence of corporate governance practice in selected countries of SEE (Bosnia and Herzegovina, Croatia, Serbia and Montenegro) with the EU action plan. In order to determine course of development of corporate governance institutions in selected countries we have observed specific corporate governance codes, as indicators of development of corporate governance practice. By understanding convergence processes and level of convergence it will be possible to recommend trajectory for future development of such kind of legal regulative in observed countries and diminish the gap between current state of affairs and EU practices.

Key words: corporate governance, SEE, convergence, EU

JEL classification: G34, O52

1. INTRODUCTION

Economic growth in transition countries was in last 20 years quite lower than expected at the beginning of transition period (Gregorič, Prašnikar, Ribnikar 2000, Tipurić et al, 2012). Transition countries of South and Eastern Europe (SEE) can significantly differ according to present institutional framework but they still share historical context as well some other common characteristics. All countries have or they have had big number of corporations in state ownership which needed to go through process of restructuring. Besides that, it was important to introduce changes in dysfunctional legal system as well as to build fundamental institutions from the beginning (Berglöf, von Thadden, 1999). According to Stieglitz lack of good corporate governance is one of

most important reasons why in many transition countries new owners of privatized companies found it more profitable to tunnel out valuable assets than to invest in development (Stieglitz, 1999).

Convergence in corporate governance across countries has been a subject of interest and controversy in a variety of disciplines. Despite the vigorous intellectual position of the proponents of convergence, there is only limited evidence to indicate that such convergence is actually occurring. Even when there is ostensible convergence, much of it is convergence in form rather than substance, and governance convergence is not a context-free phenomenon (Yoshikawa, Rasheed 2009.).

The nature and content of the corporate governance framework varies from jurisdiction to jurisdiction depending on the different legal traditions across the SEE countries. Nevertheless, these laws need to comply with international standards and best practices as they give a perception of the soundness of the legal framework and the degree of investors' protection in a given country.

Focus of this paper is insight to convergence of corporate governance practice in selected countries of SEE, namely Bosnia and Herzegovina, Croatia, Serbia and Montenegro. As a reference point we have used the EU action plan in addition to well known OECD principles of corporate governance and EBRD Core Principles of a Corporate Governance Framework. In order to determine course of development of corporate governance institutions in selected countries we have observed specific corporate governance codes, as indicators of development of corporate governance practices and consequently their convergence.

2. IMPORTANCE OF CORPORATE GOVERNANCE IN TRANSITION ECONOMIES OF SEE

Corporate governance should give answers to questions about who supervises the corporation and why (Kaen, 2003), how the corporation is managed and in whose interest (Blair, 1995) and in which manner changes in corporate control positions occur (Tipurić, ed., 2011).

Good corporate governance is composed out of rules and practices that govern the relationship between the managers and shareholders of corporations, as well as stakeholders like employees and creditors - contributes to growth and financial stability by underpinning market confidence, financial market integrity and economic efficiency.

Corporate governance encompasses the mix of internal and external factors that build the relationship among owners and professional managers who have mutual responsibility for the corporation and for the stakeholders. Since it provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performances (OECD, 2004), corporate governance thus can be defined as a kind of management of the management or meta-management (Tipurić, ed., 2011).

Way in which country regulates relation between shareholders and managers significantly differs, mostly on the level of different economic situations and national traditions. That is especially correct for nations of south and eastern Europe that in the period of last twenty years went through fundamental political and economic changes (Mallin, Jelic, 2000). Corporate governance systems of these transition countries share several common characteristics (Pučko, 2005). Firstly, supervisory and executive functions are rarely separated due to the fact that executive managers are often most influential shareholders. Secondly, even in case when managers do not have significant ownership of the company they try to establish significant level of control through concentration voting rights. Thirdly, there is significant influence of workers in corporate governance structures. And finally, supervisory boards of companies in transition European economies are rarely composed of experts.

Recent and current legal and regulatory reforms have improved the corporate governance institutional framework of many SEE countries by providing better protection against abuse. Several national initiatives to issue guidelines, statements of best practice or to set up specialized good corporate governance tiers on the stock exchange have contributed to raising awareness and improving practices. Investors have become more aware of the issues and have pressed for change, while some large corporations have changed their practice for the better. Finally, stock exchanges and securities regulators have reinforced their monitoring of companies' conduct and have taken the lead in corporate governance reforms.

3. THE PROSPECTS FOR GLOBAL CONVERGENCE IN CORPORATE GOVERNANCE

The increasing economic globalization has fuelled vivid debates on the similarities of and differences between national corporate governance systems and the barriers to the development of a single system of corporate governance (McCahery et al. 2002). The key questions are whether a particular national corporate governance system has a competitive advantage over all other systems, and if yes, whether other systems ought to move towards it. These are important questions as the choice of corporate governance regime has an impact on the availability and cost of capital, corporate performance and the distribution of corporate value in a country (Goergen, Martynova, Renneboog, 2005).

Some 15 years ago comparative research has shown that, even at the level of the largest firms, corporate ownership structure tends to be highly concentrated, with dispersed ownership structures characterizing only the Anglo/American context. More recently, economists working on the privatization of transitional economies have focused on the difficulties in establishing viable securities markets. They have concluded that common law regimes vastly outperform civil law regimes in fostering the development of equity markets. That way of thinking led to an alternative "legal" hypothesis for the observed dichotomy between concentrated and dispersed ownership: namely, only those legal systems that provide significant protections for minority shareholders can sustain active equity markets (Coffee, 1999). This "legal" hypothesis is the mirror image of the earlier noted "political" theory of corporate finance: under the "legal" hypothesis, dispersed

ownership evidences not the overregulation of institutional investors, but the law's success in encouraging investors to accept the status of minority owners (Hruška, 2010).

These two contrasting theories yield very different predictions about the likelihood that globalization will produce significant convergence in corporate governance (Coffee, 1999). Emphasizing the inertial impact of path dependency, proponents of the former political theory have focused on the barriers to formal convergence and been skeptical of the prospects for legislative change. Proponents of the "legal" hypothesis have yet advanced no logical corollary to their arguments, but this article examines an alternative and more likely route to significance convergence in corporate governance: namely, functional convergence attained, first, through the migration of foreign issuers to the U.S. securities markets and, second, through international harmonization of securities regulation and disclosure standards.

Since the mid-1990s, there has been much talk of the convergence of corporate governance systems to Anglo-American standards, and several trends have pointed in this direction. However there is even some evidence that US/UK corporate governance is also converging to European standards through the concentration of ownership, increasing levels of insider ownership, the separation of management and control in more independent boards, the deregulation of the banking system and the increasing importance of stakeholder concerns (Thomsen, 2003). Support for the mutual convergence hypothesis is found in a statistical study on the evolution of ownership concentration in 2,238 companies during the 1989-1998 period. Ownership concentration, which is substantially higher in Continental Europe than in the United States and the United Kingdom, has been increasing in the United States and the United Kingdom and decreasing in Europe. However, the process is slow, and even if the observed trends were to persist, differences in corporate governance between Europe and the United States would persist for decades.

La Porta, Lopez-de-Silanes, Shleifer and Vishny argue in a series of papers (La Porta et al. 1998, 1999) that diversity in corporate governance around the world results from attempts by stockholders to overcome poor legal investor protection (Guillén, 1999). Thus, ownership concentration is a frequent way in which investors try to gain power in order to protect their interests. Using detailed data from nearly 50 countries, La Porta et al. (1998) identify four legal traditions—French (which includes the French, Spanish and Portuguese spheres of colonial influence), German (Central Europe and Japan), Scandinavian, and Common Law (the Angloamerican world)—which help explain patterns of variation.

There are at least three arguments that provide a rationale against the assumption that the American governance system—characterized by its shareholder-centered corporate governance model with weak financial intermediaries and well-developed capital markets—is unlikely to take over the world any time soon. First, corporate governance systems are tightly coupled with regulatory traditions in the areas of banking, labor, tax and competition law that are unlikely to be modified in the near future. Second, corporate governance systems do not exist in isolation of other institutional features directly related to the ways in which firms compete in the global economy. Third,

global pressures on corporate governance practices are mediated by domestic politics in ways that make convergence across countries rather unlikely (Guillén, 1999).

4. CONVERGENCE POINTS OF REFERENCE FOR CORPORATE GOVERNANCE IN SEE COUNTRIES

As it is well known there are two polar systems of corporate governance: the market-based system and the blockholder-based system. The former prevails in the UK, US and the Commonwealth countries, and relies on legal rules largely resulting from case law and on the effective legal enforcement of shareholder rights. The blockholder-based system of Continental Europe relies on codified law and emphasizes rules protecting stakeholders such as creditors and employees (Goergen, Martynova, Renneboog, 2005).

Between those two antipodes there is a myriad of possibilities for every country to organize its own system of corporate governance. SEE countries have a specific historical context, determined with recent struggles for independence and economic downturn. Question that each transition country had to think about at the beginning of its market economy path is which way to go? In what way should a country develop its market economy institutions – from legal system to capital market system?

Also an important question in this regard is how far the economies of south-eastern Europe resemble or differ from other emerging markets, and indeed how far they resemble each other. Economies that we observe in this paper vary in political and security contexts, stages of development, and financial maturity. But they have elements in common that suggest a potential for cross-country learning. They have been progressing towards a common goal of EU accession, they share legacies of transition and they have been experiencing a rapid opening to capital (Herzberg, Watson 2007).

In order to facilitate development of consistent corporate governance frame in their areas of influence many institutions have published their own recommendations and trajectories of development. We are presenting three most influential reference points for corporate governance system development in SSE countries – OECD's Principles of corporate governance, EBRD's core principles for a Corporate governance framework (CGF) and an EU action plan - Modernising Company Law and Enhancing Corporate Governance in European Union.

The OECD provides a forum in which governments can work together to share experiences and seek solutions to common economic, social and environmental problems. During the last decade, the OECD has taken the lead among international organizations to promote good corporate governance. The OECD Principles of Corporate Governance has become the global benchmark, accepted in OECD and nonOECD countries alike.

The OECD Principles of Corporate Governance provide specific guidance for policymakers, regulators and market participants in improving the legal, institutional

and regulatory framework that underpins corporate governance, with a focus on publicly traded companies. They also provide practical suggestions for stock exchanges, investors, corporations and other parties that have a role in the process of developing good corporate governance. The OECD Principles were originally issued in 1999 and have since become the international benchmark for corporate governance, forming the basis for a number of reform initiatives, both by governments and the private sector. The Principles were revised in 2003 to take into account developments since 1999, through a process of extensive and open consultations, and drawing on the work of the Regional Corporate Governance Roundtables for non-OECD countries. The new Principles were agreed by OECD governments in April 2004.

The Principles cover six key areas of corporate governance - ensuring the basis for an effective corporate governance framework; the rights of shareholders; the equitable treatment of shareholders; the role of stakeholders in corporate governance; disclosure and transparency; and the responsibilities of the board.

Another reference point for development of corporate governance in SEE countries are the EBRD's recommendations. As a major lender and investor in enterprises domiciled in the countries of south and Eastern Europe the European Bank for Reconstruction and Development (EBRD) made an effort to improve corporate governance standards. This need has led the EBRD to define a set of 10 core principles for a corporate governance framework (CGF). These principles are based on international standards and best practices, and therefore can assist in assessing a country's CGF in identifying the need for reform. These principles are meant as guidelines only and identify the results to be achieved rather than the process by which to achieve them.

The major corporate governance principles set for by the EBRD are (1) A CGF should aim promote business ethics, fairness, transparency, accountability, responsibility and market efficiency, (2) A CGF should be flexible and enforceable (3) A CGF should ensure clear division of tasks, rights and responsibilities between management and shareholders, (4) Shareholders should have easy access to their rights, (5) Shareholders of the same class should be treated equally, (6) Stakeholders should have the opportunity to obtain effective redress for violation of their rights, (7) A CGF should ensure timely, accurate and verified information disclosed to all Stakeholders, (8) The shareholding structure of a company should be transparent, (9) A CGF should put in place a structure able to independently verify and safeguard the integrity of a company's financial reporting (10) the management should act at all time in the interests of the company and the shareholders.

Document named *Modernising Company Law and Enhancing Corporate Governance in European Union – A Plan to Move Forward* was issued in 2003 by the Commission of the European Communities in order to enhance and converge corporate governance practice in the European Union.

The main objectives of the Action Plan are to strengthen shareholders' rights and protection for employees, creditors and the other parties with which companies deal, while adapting company law and corporate governance rules appropriately for different

categories of company; to foster the efficiency and competitiveness of business, with special attention to some specific cross-border issues.

The European regulatory framework for company law and corporate governance was to be modernised for the following reasons: the growing trend for European companies to operate cross-border in the Internal Market, the continuing integration of European capital markets, the rapid development of new information and communication technologies, the forthcoming enlargement of the EU to 10 new Member States, and the damaging impact of recent financial scandals (e.g. Parmalan in Italy and Enron in USA).

The Action Plan was prioritized over the short-term (2003-2005), medium-term (2006-2008) and long-term (2009 onwards), and indicated which type of regulatory instrument should be used for each proposal, with approximate timescales.

The Action Plan is based on a comprehensive set of legislative and non-legislative proposals, under the following headings: corporate governance capital maintenance and alteration, groups and pyramids, corporate restructuring and mobility.

Most important corporate governance issues proposed by Action Plan are: (1) introduction of an Annual Corporate Governance Statement. Listed companies should be required to include in their annual documents a coherent and descriptive statement covering the key elements of their corporate governance structures and practices; (2) development of a legislative framework aiming at helping shareholders to exercise various rights (for example asking questions, tabling resolutions, voting in absentia, participating in general meetings via electronic means). These facilities should be offered to shareholders across the EU, and specific problems relating to cross-border voting should be solved urgently; (3) adoption of a Recommendation aiming at promoting the role of (independent) non-executive or supervisory directors. Minimum standards on the creation, composition and role of the nomination, remuneration and audit committees should be defined at EU level and enforced by Member States, at least on a "comply or explain" basis; (4) adoption of a Recommendation on Directors' Remuneration. Member States should be rapidly invited to put in place an appropriate regulatory regime giving shareholders more transparency and influence, which includes detailed disclosure of individual remuneration; (5) creation of a European Corporate Governance Forum to help encourage coordination and convergence of national codes and of the way they are enforced and monitored.

Other corporate governance initiatives proposed in the Action Plan cover: achieving better information on the role played by institutional investors in corporate governance; giving further effect to the principle of proportionality between capital and control; offering to listed companies the choice between the one-tier and two-tier board structures; and enhancing directors' responsibilities for financial and key non-financial statements. The Action Plan notes that there is a strong medium to long term case for aiming to establish a real shareholder democracy and that the Commission intends to undertake a study on the consequences of such an approach.

5. NATIONAL CODES OF CORPORATE GOVERNANCE AS A TOOL FOR CONVERGENCE

The EU Action plan pronounces that the EU Commission does not believe that a European Corporate Governance Code would offer significant added value but would simply add an additional layer between international principles and national codes. However, a self-regulatory market approach, based solely on non-binding recommendations, is not sufficient to guarantee sound corporate governance. In view of the growing integration of European capital markets, the European Union should adopt a common approach covering a few essential rules and should ensure adequate coordination of national corporate governance codes. This directive also moves corporate governance framework towards voluntary disclosure through national corporate governance codes.

Corporate Governance Codes contribute to raising national corporate governance standards and practices by adding voluntary requirements to the national framework's statutory provisions.

One of the essential differences between corporate governance codes and traditional company law is that even if the code is binding as a requirement – which is rarely the case – it is not binding as to substance. This feature lies at the basis of the famous “comply or explain” principle. Firms subject to the code are invited or obliged to adhere to the code: in practice, they cannot “just say no”. However, they are not bound to follow the provisions of the code on any given item.

If the company do not want to it may comply to specific part of the code they state their reasons. This is the “explain” alternative. According to the “comply” principle, by stating the objectives that a company wants to achieve, codes introduce significant flexibility in the system, and allow them to take account of the myriad of individual situations Codes are an incentive for companies to grow towards better governance practices, without having to revolutionise their internal structures and procedures.

There are a number of advantages to the 'comply or explain' approach. Its inherent flexibility means that it is possible to set more demanding standards that can be done through hard rules. Experience has shown that the vast majority of companies attain these standards. In addition, requiring companies to report to shareholders rather than regulators means that the decision on whether a company's governance is adequate is taken by those in whose interest the board is meant to act.

There are different types of codes: they can be the product of private or public initiatives, they can be endorsed by the government, a Securities Commission or stock exchange; they can be incorporated into secondary legislation or listing requirements; they can have the form of mere recommendations or include a “comply-or-explain” clause, requiring companies to issue statements with their Annual Report.

The basic requirements of the institutional and legal/regulatory framework needed to support effective corporate governance are an integral part of the corporate governance codes. They include principles for developing such a framework and address the need

for laws and regulations which are both enforceable and are backed by effective enforcement agencies. Experience around the world shows that although the powerful concept of a listed company has been successfully introduced in many countries, the accompanying legal and regulatory system has often lagged, leading in some cases to abuse of minority shareholders and to reduced growth prospects when financial markets lose credibility - or fail to achieve it in the first place.

Code of corporate governance in Croatia was first issued in 2007 by the HANFA – Croatian Financial Services Supervisory Agency and Zagreb Stock Exchange. Updated version was put into effect on 1 January 2011. Serbian Code was introduced by the Belgrade Stock Exchange in 2008. In Republika Srpska, part of the Bosnia and Herzegovina, first Code named Standards of Corporate Governance was adopted by the Securities Commission of the Republika Srpska in 2006 and updated version was enacted in 2011. In Montenegro the Code adopted in 2009 by the Montenegro Stock Exchange. Actually the Code was the result of cooperation between the Montenegro Stock Exchange and the IFC. IFC, a member of the World Bank Group, has been implementing a Corporate Governance Program in Southern Europe, covering Albania, Bosnia and Herzegovina, Macedonia and Serbia. The overall financing has been provided by the State Secretariat for Economic Affairs of Switzerland (SECO). All these standards of corporate governance are set on the basis of the principles of corporate governance adopted by the OECD.

Additional note should be made about corporate governance in Bosnia and Herzegovina. Corporate governance is enacted at the Entity level. In practice, two distinct corporate governance regimes exist and each Entity has its own Securities Commission and framework of primary and secondary legislation. According to the results of the EBRD's 2007 Corporate Governance Sector Assessment, the FBiH recently made important amendments to this act to align it with EU legislation. According to this law, joint stock companies are organised under a two-tier system, where the general shareholders meeting appoints the supervisory board and the latter appoints the management board (EBRD, 2010).

6. MAJOR DIVERGENCE ISSUES WITHIN SELECTED SEE COUNTRIES

The purpose of this Comparative Study is to further the understanding of commonalities and differences in corporate governance practices among SEE countries through an analysis of corporate governance codes and - to a limited extent - relevant elements of the underlying legal framework. This Study identifies and compares existing corporate governance codes in four SEE countries that may affect the operation of companies within the area.

Although there are many similarities we have identified several major divergence points. They are the segment of shareholder rights and participation mechanics; board structure; disclosure and finally in the area of board committees and responsibilities.

6.1. Shareholder rights and participation mechanics

The laws and regulations relating to the equitable treatment of shareholders, including minority rights in take-overs, squeeze-outs and other transactions controlled by the company or the majority shareholders, vary significantly among observed SEE countries.

Notice of and participation in shareholder general meetings, and procedures for proxy voting and shareholder resolutions also vary significantly. Such variations in laws and regulations, especially as relates to shareholder participation rights, likely pose barriers to cross-border investment, and may cause a not-insignificant impediment to eventual successful blending in to a single unified capital market in the European Union (Clark 2007). To the extent that codes address these issues, they generally call for shareholders to be treated equitably; for disproportional voting rights to be avoided or at least fully disclosed to all shareholders; and for removal of barriers to shareholder participation in general meetings, whether in person or by proxy.

Table 1: Comparison of participation mechanics in observed SEE countries

National CG code	One share-one vote
Croatia	Yes
Bosnia & Herzegovina	Yes
Serbia	No
Montenegro	No

6.2. Board structure

Major corporate governance difference embedded in law relates to board structure –the use of a unitary versus a two-tier board. However, notwithstanding structural differences between two-tier and unitary board systems, the similarities in actual board practices are significant. Both types of systems recognise a supervisory function and a managerial function, although the distinctions between the two functions tend to be more formalised in the two-tier structure. In making this decision, general perspective should consider what is best for that particular company. For example, a unitary board may be more suitable if investors of the company understand the unitary board system better (Clark 2007). Whichever system is adopted, the board should ensure that it explains the structure to investors so that they can understand and appreciate how the system works and how the board sees its role.

Generally, both the unitary board of directors and the supervisory board (in the two-tier structure) are elected by shareholders although, as explained above, in some countries employees may elect some supervisory body members as well. Typically, both the unitary board and the supervisory board appoint the members of the managerial body - either the management board in the two-tier system, or a group of managers to whom the unitary board delegates authority in the unitary system (Tipurić et al 2011). In addition, both the unitary board and the supervisory board usually have responsibility for ensuring that financial reporting and control systems are functioning appropriately and for ensuring that the corporation is in compliance with law.

Table 2: Comparison of board structure in observed SEE countries

National CG code	Board structure
Croatia	both
Bosnia & Herzegovina	two-tier
Serbia	one-tier
Monte Negro	one-tier

6.3. Disclosure

Disclosure requirements continue to differ even among EU Member States (EC, 2002). However, across the EU Member States, the amount of disclosure about corporate governance practices is increasing and there is a converging trend regarding the type of information disclosed. In part, this is due to efforts to promote better regulation of securities markets and broad use of International Accounting Standards. Consolidation and coordination among listing bodies may encourage further convergence.

The code movement has also played a role in heightening awareness about the importance of disclosure to shareholders. There appears to be a developing “hardening of norms” concerning disclosure of individual executive and director remuneration across the EU Member States. As an example of disclosure efforts we can empathize calendar of important events that certain national codes propose as important and other do not.

Table 3: Comparison of disclosure practice

National CG code	Calendar of important events
Croatia	Yes
Bosnia & Herzegovina	Yes
Serbia	No
Montenegro	No

Board committees and responsibilities. It is fairly well accepted in law that many supervisory body functions may be delegated, at least to some degree, to board committees. The codes reflect a trend toward reliance on board committees to help organize the work of the supervisory body, particularly in areas where the interests of management and the interests of the company may come into conflict, such as in areas of audit, remuneration and nomination. While recommendations concerning composition of these committees may vary, the codes generally recognize that non-executive and, in particular, independent directors have a special role to play on these committees.

Table 4: Comparison of comities that a board should form

National CG code	Comities that a board should form
Croatia	Appointment commitie Remuneration commitie Revision commitie
Bosnia & Herzegovina	Appointment commitie Remuneration commitie
Serbia	Appointment commitie Remuneration commitie
Montenegro	Appointment commitie Remuneration commitie Revision commitie

7. CONCLUSION

Changing governance structure might be slow except in times of financial crisis, increased public scrutiny and reforms (Bozec, Dia, 2012). EU Accession – with its potential for trade and investment integration, and an acquis-based strengthening of institutions – improves the chances of good outcomes. But deep structural reforms, as well as sound fiscal and prudential policies, are essential to foster sustainable growth and to avoid financial stress.

The credibility of SEE corporate governance practices, the development of financial markets and the improvement of the investment climate will depend on further reforms of the corporate governance institutional framework, the reinforcement of implementation and enforcement by the regulatory authorities and eventually, improvements in private sector practices. Momentum has to be maintained to deepen the scope and impact of recent reforms, to complete them and, more importantly, to make them enforceable.

Governance changes seem to be primarily attributable to the quest for greater efficiency in governance and enhanced legitimacy in capital markets. However, local forces such as institutional embeddedness and politics can hinder governance changes or create “hybrid” practices (Yoshikawa, Rasheed 2009.). Asking “what is the best corporate governance model” could seem like a futile endeavour. Rather, countries develop corporate governance models that fit their legal, institutions, political circumstances, and position in the global economy. Moreover, convergence is unlikely because any process of change, whether induced by globalization or not, takes place in a political context, which is in the observed countries quite complicated.

We can conclude that the debate as to the worldwide convergence of corporate governance regimes is still ongoing. A growing number of studies predict global convergence of corporate governance regimes either via changes in the regulatory and institutional framework or via contractual arrangements. However, the predictions of these studies depart substantially from each other with respect to the motives for and the direction of convergence (Goergen, Martynova, Renneboog, 2005). While regulatory and institutional convergence may be driven by motives of economic efficiency, contractual convergence may be driven by other motives such as managerial

entrenchment (Tipurić et al, 2011). Given the infancy of our efforts to understand the impact of convergence on corporate governance, it seems sensible to ask for more studies using a comparative approach. The differences and similarities across different settings ought to give us a handle on the patterns according to which the causes and effects of convergence change from one setting to another. Without a comparative approach, the literature on convergence of corporate promises to remain puzzling and contradictory.

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ADMINISTRATIVE ABSORPTION CAPACITY FOR THE EU FUNDS IN CROATIA

ABSTRACT

The paper examines the problem of absorption capacity in Croatia, namely extent to which it is able to fully spend the allocated financial resources from the EU funds in an effective and efficient way. While the absorption capacity has restrictions on both demand and supply side, the paper focuses predominantly on the supply side of absorption capacity, moreover on the administrative absorption capacity. Namely, looking at the supply side the absorption capacity is determined by following three main factors:

- 1. Macro-economic absorption capacity is defined and measured in terms of GDP e. g. the upper limit for EU. For the Structural funds (SF) and Cohesion Fund (CF) is defined as (4) % of the GDP of the respective country;*
- 2. Financial absorption capacity is defined as the ability to co-finance EU supported programs and projects;*
- 3. Administrative absorption capacity is defined as the ability and skill of central, regional and local authorities to prepare suitable plans, programs and projects in due time, to decide on programs and projects, to arrange the co-ordination among partners, and to finance and supervise implementation properly.*

The administrative absorption capacity is determined by design of the whole implementation system and also by its functioning.

Taking into account the absorption capacity definition it is confirmed that it is influenced mainly by the administrative-managerial capabilities. Problems of administrative absorption capacity depend heavily on national institutional factors related to the real structure of the economy, the administrative capacity, the political system, and the economic policies. Analysis of the administrative absorption capacity of EU pre-accession programs includes several factors, namely structure (relates to the clear assignment of responsibilities and task of legal body), human resources (relates to the ability to detail tasks and responsibilities for all relevant actors in the system), systems and tools which relate to the availability of instruments, methods and procedures.

The precise measurement of the effectiveness of pre-accession programs, as well as of the absorption capacity is often hampered by the unavailability of indicators. The impact of EU assistance aimed at strengthening the public administration is more difficult to assess, because structural changes take longer to generate and more often suffer from the lack of systematic evidence. Therefore, using the questionnaire on the level of the Croatian municipalities the adequate indicators of the administrative absorption capacity were defined. The effectiveness of absorbing EU funding on national level was also presented in different ways such as: the share of committed funds, the share of signed funds (contracting rate) etc.

Key words: *absorption capacity, pre-accession programs, structural funds, administrative absorption capacity*

JEL classification: *F3*

1. INTRODUCTION

Absorption of the European Union (EU) financial assistance is of the exceptional political, financial and economic importance not only for the candidate countries, but for a Member States as well. Croatia, as candidate country is confronted with the challenge to ensure high absorption of the EU assistance, currently from the pre-accession programs while with EU membership from the Structural Funds and Cohesion Fund. The ability to use EU financial assistance, defined as ‘absorption capacity’ are needed at all levels in order to improve overall functioning of the system, as well as to be prepared for the EU funding that will greatly increase (almost tenfold). The EU financial assistance in the pre-accession phase totaled approximately EUR 1 billion while with the full membership is expected to secure another EUR 8-12 billion over the 2014-20 period¹. Capturing the post-accession assistance would depend on the Croatia’s absorption capacity to effectively disburse and use allocated future funds. From the several dimension of the absorption capacity, the administrative absorption capacity, if not adequately tackled, can be of a major obstacle to Croatia’s absorption of post-accession funds. Therefore, the analysis of the administrative absorption capacity seems to be adequate field of the research. The aim of the paper is to analyzed administrative absorption capacity, having a special emphasis on the municipality level.

The paper is divided in four parts. Firstly it proceeds with the short description of the EU financial assistance. Basic characteristics of the pre-accession programs and Structural Funds are presented. Second part is devoted to the concept of absorption capacity and contains short overview of the literature on absorption problem. Third part deals with administrative absorption capacity in Croatia. Croatia is due to become the EU’s 28th Member on July 1, 2013 so not much time is left to address issues of

¹ The ultimate financial outcome depends on the conclusion of the overall EU budget talks for the next financial perspective, 2014-2020.

absorption and management of the Structural Funds. At the end of the paper is conclusion with some suggestions for the possible future work.

2. EUROPEAN UNION FINANCIAL ASSISTANCE

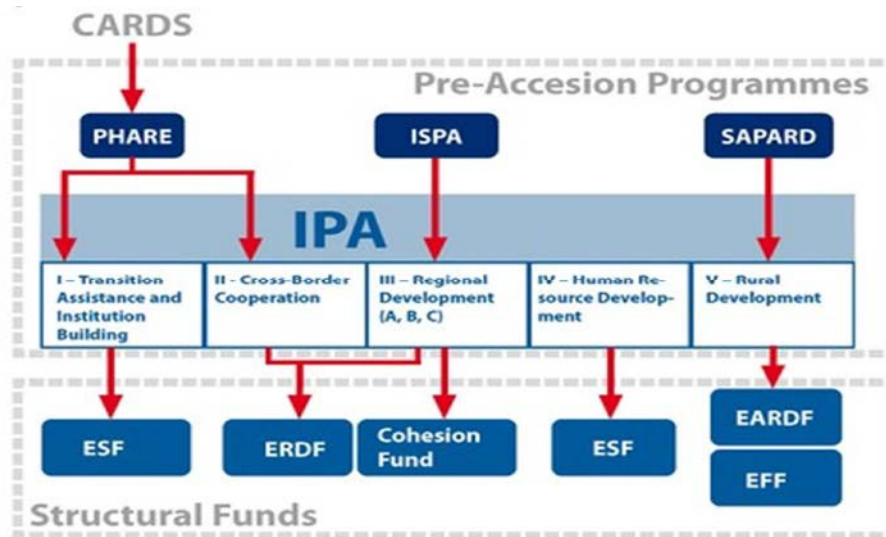
Financial assistance of the EU is aid from the EU budget given to the certain countries. If it is a case of a Member State that the assistance is coming from several funds funding a special type of intervention and region, while during the period before a membership the country is eligible to get assistance from different types of programs.

2.1. Pre-accession programs

Pre-accession programs are part of the accession process with the main purpose to support the negotiation process and enable candidate countries for the membership in the EU. The aim of the EU pre-accession programs is to prepare candidate countries to adopt the EU laws and policies in order to achieve full economic integration and social cohesion. The European Union has been established pre-accession programs to support a preparation of the candidate countries in order to fulfil the membership criteria, including a financial management of Structural Funds.

In the pre-accession period EU financial assistance is received from the several financial instruments so called PHARE, ISPA, SAPARD and IPA programs. PHARE (Poland and Hungary Aid for Reconstruction of the Economy) was created in 1989 to assist Poland and Hungary, but later on it was extended to cover all other candidate countries. ISPA (Instrument for Structural Policies for Pre-accession) and SAPARD (Special Pre-accession Assistance for Agriculture and Rural Development) were introduced within the framework of Agenda 2000 which set strategic and financial directions of the EU in the period of 2000-2006. All three instruments were intended to support candidate countries in adoption of the *acquis*, institutional building and preparation for the future participation in the EU's structural and cohesion policy. IPA (Instrument for Pre-Accession Assistance) was introduced in 2007 for the programming period until 2013 and it replaced all three pre-accession programs. IPA brings together for the first time in a single framework EU financial assistance to candidate countries while having the main objective to help the beneficiary country to implement the reforms needed to fulfil the EU requirements. Institutional framework under IPA is similar to the institutional framework in the Cohesion/Structural Funds so IPA presents for the candidate and potential candidate countries kind of 'training field' for membership. Therefore, the sound management of IPA under decentralized manner gives assurance that the country is ready to manage and implement EU funds. IPA is structured into five components of which potential candidate countries could benefit of two components only, while the candidate countries have access to all five IPA components. IPA financial assistance model is similar to the one of Structural Funds, namely to European Regional Development Fund (ERDF) and the European Social Fund (ESF). Transition from the pre-accession to post-accession EU financial instruments is presented in the Figure 1 below.

Figure 1: Transition from pre- to post-accession EU financial assistance



Source: Ministry of Finance, Croatia, 2011

2.2. Structural Funds

The EU funds are allocated to the Member States and designed to play a crucial role in improving their social and economic cohesion within the European Union. Structural Funds² are focused on regions with a low per capita income, and regions with a level of GDP per capital below 75 per cent of the EU average (Kandžija, Cvečić, 2011). Therefore, in strictly financial terms the EU Structural Funds represent a system of side-payments from the governments of richer EU countries to those of less-developed EU countries (Marks et al., 1996). Structural Funds are aimed to help regions that represent significant part of the total EU (22 percent of the population) and receive about 70 percent of total funding (European Union, 2007).

The three funds underpinning the EU regional policy contribute differently to the policy's main three objectives. They have distinct territorial outreach, determined in accordance to the policy objectives. The main objectives and territorial eligibility of the EU Structural Funds and Cohesion Fund is summarized below.

² Structural Funds are the European Regional Development Fund (ERDF) & the European Social Fund (ESF).

Figure 2: EU Structural funds and Cohesion fund in the financial perspective 2007-2013 by objectives and territorial eligibility

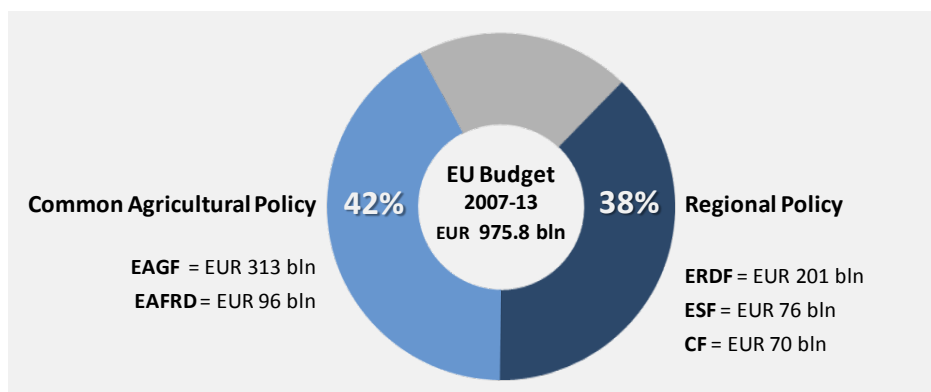
Objectives	EU structural and cohesion funds			Territorial eligibility
	ERDF	ESF	CF*	
Convergence	ERDF	ESF	CF*	Regions with a GDP per capita < 75% of EU average; *CF only in countries with GNI per capita < 90% of EU average
Regional competitiveness and employment	ERDF	ESF		Regions not covered by the "Convergence" objective
European territorial cooperation	ERDF			Border regions for cross-border cooperation, all regions for inter-regional cooperation

Source: European Union, 2007.

From the relative modest beginnings, the EU structural policy has grown to become the EU's second most important spending policy after the Common Agricultural Policy. The EU spends about one third of its budget on supporting cohesion by assisting member states and their regions in efforts to promote catching-up. The policy has a distributive dimension as the significant net transfers are headed to the poorer member states with the aim primarily to enhance efficiency and growth. Therefore, the main goal of the Structural Funds and Cohesion Fund is to support the main determinants of catching-up.

In the current financial perspective (2007-2013) Structural Funds and Cohesion Fund represents 38% of the EU budget (in the Figure 3.). 'Structural funds regions' are those very often characterized by a number of economic problems such as a low level of investments, a higher than average unemployment rate, a lack of services for businesses and the poor quality of the basic infrastructure.

Figure 3: The EU Budget in financial perspective 2007-13 by allocations and funds



Source: European Union, 2007

The difference between the pre-accession programs and Structural Funds is not only in their aim and purpose, but also in eligible amounts allocated to them. Becoming EU Member State a candidate countries become recipients of significant funds from the EU budget, while the total receipts as a percentage of the GDP of recipient countries vary inversely with the level of GDP.

2.3. Main characteristics of the EU financial assistance

European Union financial assistance is a grant money (aid), meaning that the purpose is that should be spent it. It could lead to the situation in which is more emphasis on its quantitative side, neglecting the quality effects of the financial assistance.

The EU financial assistance is project-related. There is probability that some projects will not go through for different reasons, therefore in reality net transfers are going to be smaller than the appropriations. Grants are allocated to projects within the framework of a program, subject to specific conditions regarding the nature of expenditure eligible for a grant (either from pre-accession programs or from a Structural Funds).

Project goes through several phases so called project cycle starting with programming, implementation, financial management, monitoring etc. For SFs monitoring operations and verifying their execution are parts of the demanding requirements by the European Commission posed to the beneficiary country. Member States should have an ability to establish convincing programs, involve local and regional authorities as well as social and economic partners. Furthermore, countries are responsible for creation of environment for potential beneficiaries (mostly local and regional authorities) to apply and submit applicable projects. Therefore, the administrative capacity is necessary at the central government level and local/ regional levels during all phases of the project cycle.

EU projects/EU-funded operations should be co-financed to a large extent by beneficiary country that could pose a significant burden on a government budgets.

Another important characteristic of the EU programs/funds is that they take place within the multi-level policy networks that involve a various actors from the EU to the national and sub-national authorities, as well as social and economic partners, NGOs etc. Such co-operation implies multiple horizontal and vertical interactions between actors across different layers of decision-making process. Even the legal provision³ of the Structural Funds requires creation of a effective association of all relevant bodies in Member States, explicitly stating the need for the participation of regional/local authorities and economic and social partners (European Commission, 2004).

Another characteristic is complexity, not only at the policy level, but also in management and implementation of the EU financial assistance. Lang (2003) stated 'Policy model of the EU Structural Funds is more elaborate and demanding than of the most domestic regional policies. It requires the co-operation of several actors and

³ Council Regulation 1260/1999, European Commission, 1999.

demands more efforts than domestic regional policies in terms of the time and resources of the participants involved in implementation.’ As the regional policy in a national state is usually implemented within a uniform framework of national and sub-national relations, the EU structural policy are divergent in its nature and involve wide range of scope within different territorial actors.

Brusis (2002) pointed out a challenge of EU accession states as they have been subjected to essential changes in order to employed and empowered sub-national actors and regional administration while seeking to join the EU. In some cases states spent some time in order to restore the partnership arrangements as a necessary precondition for a successful implementation of the EU structural policy.

The major challenge issue derives from the inability of the country or lack of capacity to utilize that grants/financial assistance. Country needs to establish institutional framework and build up administrative capacity for the utilization of the allocated EU funds. The experience so far has showed that there is no unique recipe but the build system is country specific.

Another set of issues are in regard to the effects, results and impacts of the EU financial assistance. Last couple of year’s literature was focused mostly on the impact of structural funds on economic growth and convergence. In general, the research so far does not lead to clear-cut results.

Some authors do find empirical evidence for a positive impact of EU Structural Funds. The based conclusions on different sample size like EU-15 or EU-8 etc. Some studies concentrate on single country. In spite of different opinions it is evident that interest on studying the impact of the EU funds is growing. Others have criticized the Structural Funds as having – if any – only a marginal impact on real convergence in Europe. However, most of these studies use growth regressions subject to methodological, econometric and data weaknesses. Standard growth regressions testing for convergence cannot as such provide any evidence on the impact and effectiveness of the EU cohesion policy. No causality can be inferred from either the occurrence of the lack of convergence or from its speed which may result from many economic, social and policy factors other the EU assistance.

Still a number of different models and approaches are taken in order to calculate the efficiency and impact of the funds. Aiello and Pupo concluded (2012) “Macro and micro economical modelling do not offer convincing evaluations on the cohesion policy because of the lack of information on steady state level, where there would be no EU funds invested in the convergence.”

Experience with so-called ‘cohesion countries’⁴ has showed that the implementation of the EU structural funds can be a powerful driver for the institutional and policy change as it promotes adoption of rules and principles while involving the stakeholders in the decision-making process and multi-level co-operation.

⁴ Those are Ireland, Portugal, Spain and Greece.

3. ABSORPTION CAPACITY

3.1. Broader meaning of absorption capacity

The absorption capacity in broader context at EU arena was firstly mentioned at the beginning of the Eastern enlargement when the European Council absorption capacity introduced as condition in order to accept new members. The concept was related to implementation of institutional reforms enabling a functioning of the enlarged EU, adoption of the budget and reform relevant sector policies - e.g. structural policy, a common agricultural policy etc. With the Eastern enlargement also the absorption capacity of the Union came to be questioned. In order to integrate new Members two factors were determined by European Commission. First one was oriented to the functioning of the enlarged EU, while the second one was aimed towards the obligations of the candidate countries. The European Union's capacity means the capacity of good and service markets to absorb new Member States, capacity of EU budget to absorb the new member states, capacity of EU institutions to function with the new member states etc. (Emerson et al., 2006). Capacity of country is focused on issues to fulfill all conditions of the future membership. OECD defines absorption capacity as the accumulation of adequate information dissemination, capacity building in local governance and civil society for the conception and implementation of development projects (OECD, 2006).

2.2 Absorption capacity for the use of EU financial assistance (funds/programs)

Literature on the absorption capacity of the EU funds does not offer a unique definition. Herve and Holzmann (1998) define the absorption capacity as a lack of institutional and administrative capacity. Most definitions state that it represents capacity to absorb the allocated EU funds/programs. Šumpikova et. al. (2004) see absorption capacity as the extent to which a country is able fully used all allocated financial resources from the EU funds/programs in an effective and efficient way. Opreescu et al. (2005) state that the absorption capacity stands for the degree to which a country is able to effectively and efficiently spend the financial resources from the Structural funds to make a contribution to economic and social cohesion. For European Commission absorption capacity means capability of state (or region, unit) to use allocated funds on efficient way (European Commission, 2004).

A review of academic literature indicates the absence of a conceptual framework to comprehensively assess the issue of absorption problems related the EU assistance. The existing literature on the EU financial assistance establishes the lack of an in-dept analysis of the implementation process, given that the vast majority of authors have been more concerned with the policy-making process or the final economic impact of the resources to the economic and social structure of the country (Milio, 2007).

Absorption capacity is broadly depended on two groups of factors that are usually categorized as those on the supply and demand side. The first one is usually connected with programming and managing of EU funds and it is essentially within the responsibilities of the national/government level. The demand side of the absorption capacity is in connection with recipients. In the case of pre-accession programs final

beneficiary and recipients are bodies at the government level, while in the case of Structural Funds recipients are mostly at local level. One could also speak about two distinct characteristics of the absorption capacity for the EU funds Horvat (2005).

The absorption capacity of the supply side has according to Horvat (2003) three different categories:

1. Macroeconomic absorption capacity;
 2. Financial absorption capacity;
 3. Administrative absorption capacity.
-
1. Macroeconomic absorption capacity is defined and measured in terms of the ratio of the GDP levels to the EU funds allocated. The EU system foresees the upper limit for the Structural and Cohesion Funds as maximum four percent of the GDP of the respective country. This is not so relevant in the case of candidate countries as the amount is significantly limited compared to the volume of the funds provided to the member countries.
 2. Financial absorption capacity is defined in terms of co-financing ability by the national authorities including from planing these contributions in the national multi-annual budgets to collecting these contributions from several public and private partners.
 3. Administrative absorption capacity is define as ability and skills of central, regional and local authorities to do the all functions during the EU project cycle. In other words that includes all activities starting with the preparation of acceptable programs consisting of the project proposals in a due time. Then to make decide on programs and projects, to arrange co-ordination among the partners, to do the proper reporting to the EC, to implement adequately projects in line with the EU requirements, to finance adopted programs, to supervise and evaluate projects.

The problem with the administrative absorption capacity emerged for the fist time with the implementation of Structural Funds at the new Member States countries from Central and Eastern Europe. Administrative capacity, including absorption capacity of candidate countries, has not been a key issue before the EU enlargement in 2004. States that acceded previously (e.g. 1995 enlargement with Austria, Finland and Sweden) traditionally had well-established and functional administrative system.

Factors explaining the administrative absorption capacity of EU funds for Kalman (2002) are exclusively related to inadequate institutional framework and issues in connection to the area of human capacity development. She pointed out need to have adequate number of staff in administering EU funds. If it is shortage of staff in the EU system the whole process could be delayed and cause problem in contracting. Besides quantity of staff dealing with EU funds she pointed out question of quality. Qualified staff working on EU projects should have adequate skills and knowledge to implement projects on time. On the other hand lack of specific knowledge and rules in connection to the programming could slow down the whole process and at the end resulted with the low absorption.

Papadopoulos (2003) argues that administrative absorption capacity is determined by the design which includes:

1. Structures - consists of precise designation of responsibilities, tasks and functions within the bodies designated for the management of EU funds.
2. Human resources (HR) – number and quality of staff is essential, than process of recruiting, training, system of promotion, as well as to retain skilled staff.
3. System and tools – manuals, checklists, management information system (MIS), risk management tools etc.

The proper design (structure, HR and system) for him is an input for managing Structural funds that are in relation to the EC requirements. The ratio between design and requirements determines the actual functioning of a system (throughput), or the supply side of administrative absorption capacity. He produced study carried out between July 2002 and March 2003 according to the thorough analysis come up that Estonia, Slovakia, Hungary and Slovenia are of the best scoring and ready to administer the future Structural Funds.

Administrative absorption capacity for EU funds includes skills and ability for planning, programming coordination, management and implementation. Administrative absorption capacity has to be equally developed in all levels from central to local authorities. Higher administrative capability would result with more successful absorption of the pre-accession programs measured by the contracting and absorption rates.

4. ABSORPTION CAPACITY FOR THE USE OF EU PRE-ACCESSION PROGRAMS IN CROATIA

Macroeconomic absorption capacity in Croatia could be measured by total value of the EU pre-accession programs (PHARE, ISPA, SAPARD and IPA) in relation to the GDP. For the period 2005-2011, the total amount of the pre-accession programs is EUR 749 million⁵. Therefore, the macroeconomic absorption capacity bears a great potential as the right now available amount is very limited.

Financial absorption capacity is measured as a percentage from the total allocated amount of the pre-accession assistance. It differs in accordance to the programs (PHARE, ISPA etc.), as well as to the type of the project within the each of the pre-accession programs. Calculating for co-financing an average percent (approximately 20-25%) it comes up to about EUR 187 million for the given period of time. Most of the amounts for co-financing are secured in the state budget, while for some the co-financing was obtained through the loans from the international financial institutions like European Bank for Reconstruction and Development (EBRD) and European Investment Bank (EIB).

Administrative absorption capacity started to develop with the first EU assistance program that had been provided to Croatia⁶, but actual progress was made after

⁵ CARDS program is not included. It amounts EUR 260 million.

⁶ The assistance was initially provided through the Community Assistance for Reconstruction, Development and Stabilization (CARDS) program.

receiving the status of candidate country (June 2004) and later on with the introduction of the PHARE program in 2005. PHARE was complimented by the Instrument for Structural Policies for Pre-Accession (ISPA) and the special accession program for rural development (SAPARD). The purpose of the pre-accession assistance in Croatia, as well as for other candidate countries was to support the adoption and implementation of the *acquis communautaire* and to help strengthening the administrative capacity in preparation for managing the larger amounts of EU funding available once it becomes a Member State. From 2007 these three instruments were replaced by the Instrument for Pre-Accession (IPA), which provides funding of approximately EUR 150 million per annum (totalling EUR 1071 million for the 2007-2013 period).

Decentralized management of PHARE/IPA funds in Croatia are based on established institutional system with the internal rules and procedure with defined responsibilities of the all actors within the system. Manuals of procedures were developed for each body within the system, with clear description of all processes and procedures, as well as with audit trails developed. The accredited decentralized⁷ system with ex-ante controls represents a basis for future implementation of SF funds.

Absorption problems of EU pre-accession programs are mainly caused because of insufficient administrative capacity including the number and quality of staff, as well as continuity. Key risks for the absorption capacity are: understaffing of the Managing Authorities (MA), Implementing Bodies (IB), discontinuity of staff, lack of bodies for some Operational Programs (OP), lack of experience in project preparation by Final Beneficiaries, lack of experience of NGOs and companies, lack of awareness in regions and NGOs, implementation problems (so called N+2 rule) etc.

Absorption of pre-accession programs measure with contracting rates shows relatively good results. Contracting rates for PHARE and IPA (most of the components) are significantly exceeding 90%. The different situation was with SAPARD and later on IPARD (fifth component of IPA) that was accredited later than expected and where absorption is still at the low level. Contracting rates are presented in the Table 1 as of March 2011. It is evident that in some IPA components, besides IPARD rates results are relatively low. The reason is that contracting deadline is still not due.

⁷ Decentralized Implementation System, DIS.

Table 1: EU pre-accession programs in Croatia – budget (in EUR million) by programs and contracting rates and payment rates in percentage (as of March 2011)

Programs in Croatia	Budget (in EUR million)	Contracting rates (in %)	Payment rates (in %)*
CARDS	260	97 %	92 %
PHARE	147	86 %	78 %
ISPA	59	96 %	63 %
SAPARD	25	62 %	48 %
IPA I 2007	45	90 %	57 %
IPA I 2008	42	27 %	20 %
IPA I 2009	42	11 %	11 %
IPA II 2007-09	8	64 %	36 %
IPA III 2007-09 (of which)	143	29 %	7 %
- OP transport	54	20 %	4 %
- OP environment	54	25 %	2 %
- OP regional competitiveness	35	48 %	20 %
IPA IV 2007-09 – OP human resources development	38	71 %	9 %
IPA V 2007-09 (IPARD) – Measure 101 and 103	51	12 %	0 %

Note: * Excluding advanced payments of 30% for Components III, IV and V.

Source: European Court of Auditors, 2011

Good results of absorption of pre-accession programs should be interpreted with cautious. Court of Auditors (2011) as one of the main concern in regard to absorption capacity see the insufficiently strong capacities, especially on the local level and pointed out that the potential beneficiaries of future post-accession funds (Structural Funds) do not possess even sufficient knowledge of EU funding opportunities and procedures.

The analysis of the administrative absorption capacity at the level of municipalities covers management of pre-accession programs and readiness for Structural Funds. Questionnaire was sent to all municipalities to obtain information on different aspects of the administrative absorption capacity. Questionnaire consists of different set of questions covering all areas of the administrative absorption capacity including staffing issues, organizational and management capability, communication and co-operation with other actors, participation in decision-making process and engagement in programming with the national level, development of partnership relations with all stakeholders, flow of information on project opportunities, availability of trainings etc. The questionnaire was structured into five main groups of questions that are relevant

for assessment of their administrative absorption capacity. Special attention was given to the questions related to the strengthening relations with other actors in the system as it is important for the implementation of the future Structural Funds.

The questionnaire-based survey was conducted in early spring 2012, after new Government announced changes in the organizational structure for the pre and post-accession EU assistance, but it was not yet engaged in the restructuring of the functions and organizations involved in the EU fund management.

Last section of the questionnaire covered data about programs and projects contracted, as well as information regarding type of projects (grants, supply, work etc.) as well as duration of projects, project components, categories etc.

Assessment shows that municipalities have high perception on their success in regard to the implementation of pre-accession programs, much more above average. Readiness for the management of the pre-accession programs in their opinion is even higher. Majority of municipalities have established structures for management of EU funds for quite some time.

Importance of the EU funds were also assessed with relatively high scores while participation of municipalities in the process of planning and drafting strategies and priorities to be financed was stated as much more than average (even low). It reconfirms a fact that in spite of the perception of the importance of the EU funds they can not put forward their ideas and project priorities at the national level. Almost all answered that with pre-accession programs a great amount of knowledge was accumulated that are necessary Structural Funds. 'Institutional knowledge' and skills are also rated with high importance. Almost half of municipalities are of opinion that projects financed from the pre-accession programs did not have development impact. It is partially understandable because of the nature of the pre-accession programs, as well as relatively modest amounts. Lastly, most of the IPA projects are still not finished and it is still too early to capture the impact and results.

Most of municipalities stated problem in cooperation with the national level and reported that as one of the major obstacle. On contrary, availability of information on the EU matters they do not see as a problem.

Survey includes all municipalities in Croatia which is still relatively small sample. The research could capture more units – like for instance cities etc., but as they were not much involved in the management of the pre-accession programs it was no reason to include them into study. Second major limitation is connected to the matter of subjectivity. Their perceptions of factors including in the analysis of administrative absorption capacity also could be questioned. All of that could be reasons to continue work on absorption capacity and broader research which seems to be quite relevant and accurate.

5. CONCLUSION

The paper focuses on the administrative absorption capacity in Croatia. The absorption capacity concept is undertaken in accordance to its three major dimensions; namely, macroeconomic, financial and administrative. In regard to the objective the analysis of administrative absorption capacity were carried out at the national and municipality levels in Croatia. The work is based on data collecting from all municipalities, as well as from other secondary documents and analysis.

An introspection of the literature regarding the absorption of EU funds reveals a lack of adequate conceptual framework. As the explanation could not be related to the lack of interest in studying such a problem, the reasons are essentially linked to its relative novelty, to the difficulties in assessing the impact of EU funds, to construction of appropriate indicators, including for the measurement of the absorption capacity.

The paper contributes to the literature of the absorption capacity by introducing and implementing an analytical approach for analyzing the performance of the EU pre-accession programs in municipalities in Croatia.

Further research could focus on the several improvements in theoretical framework, methodology, as well as on developing measurable indicators for the administrative absorption capacity.

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NIC-NAMED TIGER INDUSTRIES IN EMERGING COUNTRIES

ABSTRACT

Since about half a century, tiger economies have generated a copious literature on the sources of their sustained growth. At regular times, the notion of a tiger economy has been copied to any growth process, even when the growth process softened in the aftermath of an initial boom. In the EU, these booms are well-known in the pre-access period of new members in the many enlargements since the initial EEC-6 club. There are, of course, many corollaries to the literature on the grail of development where real sources of development ask for a comprehensive format. For West-Balkan countries, the record is not simple. Some previous conferences contributions in Rijeka and Vitez focused on the low trade-intensity in the region. Often, gravity-models are used in order to obtain comparative settings related to distance and the size of the related economies. Depending on the actual way to implement the basic model, the conclusions are unanimous in pointing at a low trade-intensity. The regional reality supports this thesis. Though traffic keeps growing in ports, on highways and for Danube navigation, the current level remains below the peaks of the belle époque in the eighties.

As opposed to the geographical gravity setting, this paper aims to introduce a kind of tiger notion in view of a traditional price equation, linking a particular market share of any (international) sales flow (q) in its relevant EU market (Q) to the relative competitive world price (PRC). This simple approach from managerial economics: $q = f(p, p \text{ (competition)}, Q)$, can be simplified in a market-share setting: $\ln q/Q = a + b \ln PRC$, which allows for a wide range of applications from the finest detail of about 10,000 products in the CN nomenclature up to both industrial or country aggregates. This 'procedure' is applied to the wood & furniture industry in three Balkan countries, i.e. our guest country and two main neighbours. The results are quite promising. First, the rough wood and paper sections of the trade classification reveal a sharp growth towards the EU with marked upgrades for BIH, compared to Croatia and Serbia. Second, since overall production volume remains below the reforestation capacity, export growth-strategies remain valid, including a value-added capacity in the furniture business. Therefore, the NIC (New Industrialized Country) status of tiger

countries can also be applied as a nickname to (NIC-named) sectors and industries. On top of the nice results for detailed products, the method also allows a wider macro-regional comparative analysis. On the one hand, the method invites to compare economic sectors such as rough wood (including sliced and peeled) and (half) finished products (e.g. furniture and their components). On the other hand, the traditional price equation may suggest aggregated research-based expansion tracks, either in the pure sense of macro-economic models or the more encyclopaedian setting of European and global business-environment.

Key words: development, regional trade, wood & furniture industry

JEL classification: F1, R1

1. THE SETTING

The notion of ‘tiger nations’ is backed by a copious literature, ranging from a pure NIC status (Newly Industrialized Country) to any combination between real economic growth and genuine sustained development. Apart from the initial Nic-club (Taiwan, Hong Kong, Singapore & South Korea), the tiger notion often proliferates to any kind of revealed growth. On the one hand, the last decades itemized a series of the ‘happy few’ of which the BRIC is the latest. On the other hand, every EU enlargement sparked off growth effects in the concerned countries, fueled by both the inward FDI and the larger EU-market access. Often the initial acceleration slowed down in the aftermath of EU-accession, once the honeymoon was over.

The pending accession of Croatia generates a curious BiH-geography, half-pinched in a kind of Croatian ‘horseshoe’ designed by the circuitous borders the ancient Ottoman empire, with one EU TEN-corridor (5b, Budapest-Ploce) linking the Adriatic coast to the Danube by crossing the river valleys of the Drava, the Sava, the Bosna and the Neretva. We cannot predict that there will soon emerge a BiH-tiger, but one may point at certain emerging industries which offer a chance to lead the recovery process. As forests cover most of the region and wood production capacity still falls below the reforestation capability, all the concerned industries present a relevant case-study for value-added ventures and sustained growth. (FIFA, 2011, ERDF, 2008 and Junginger, Sikema & Faaij, 2009).

2. THE MODEL¹

As opposed to more traditional macro-economic models, a purely managerial-economic approach has been selected, based on the basic price equation: $q = f(Q, p, p_{comp})$, in which:

- q stands for sales, viz. exports to the EU,

¹ We here use a traditional textbook approach in Managerial Economics, such as Douglas’ fourth edition (1992), o.c. (chapter 4 on price and demand equations)

- Q stands for the 'relevant market' , i.e., EU world imports,
- p stands for price, viz average value of exports,
- pW stands for world price, viz. average value of EU imports,
- $pcomp$ stands for price of the competition, i.e. pW in which the trade specific partner has been omitted. Normally, as in this paper, $pW=pcomp$, except when the trade partner has a quite important market share at a different price.

All the above variables may have subscripts for:

- i (partner country of origin for imports),
- j (EU member state of first import clearance),
- k (product category);

3. TIME SERIES VERSUS CROSS-SECTIONS

Since a few years ago the Eurostat has reconstituted trade statistics of the EU-27 down to the previous EU-15 enlargement of 1995 or 1999 (the split-trade statistics for Belgium & Luxembourg) such that a some kind of homogeneous series is available over more than a decade, with a due distinction between external trade and internal traffic. This limited time span allows already some basic pooling exercises between the EU market as-a-whole and the major 'importing gates', whether in EU-transit or for the home market of member states. Table 1 summarizes six options for estimating the price equation, on the one hand, linear versus log-linear and on the other hand, equilibrium or trend-corrected.

Table 1: OLS estimation suggestions

Models	1. Neutral equilibrium	2. Trend related	3. Fading time impact
Specification	$Ms = f(rp)$	$Ms = f^*(rp, t)$	$Ms = f^{**}(rp, 1/t)$
Linear	$Ms = a + b \cdot rp$	$Ms = a' + b' \cdot rp + c' \cdot t$	$Ms = a'' + b'' \cdot rp + c'' \cdot 1/t$
Log-linear	$\ln ms = \alpha + \beta \cdot \ln rp$	$\ln ms = \alpha' + \beta' \cdot \ln rp + \delta' \cdot t$	$\ln ms = \alpha + \beta'' \cdot \ln rp + \delta'' \cdot 1/t$

4. A BASIC EXAMPLE FOR WOOD AS A RAW MATERIAL (HS CHAPTER 44)

The basic neutral model ($\ln ms = \alpha + \beta \cdot \ln rp$) is presented by the generic HS 44 of wood with:

EU Trading partner	constant		elasticity		R ²	
	EUR	vol.	EUR	vol.	EUR	vol.
Bosnia Herzegovina	- 0.136	- 0.134	- 0.79	-1.77	0.72	0.94
Croatia	0.83	0.83	- 0.57	-1.53	0.72	0.95
Serbia	-0.067	- 0.066	-2.55	-3.54	0.76	0.86

Source: excerpts from annexe 1: model nr. 1

It can be proven mathematically (Claessens & Goessens, 1994) that the price elasticities differ by one unit when market-shares are expressed in € versus volume (tonnes or kg), as is herewith approximately sustained by the empirical results. Croatia features the highest constant and the lowest price elasticity, which might indicate a mature industry. The high elasticity in Serbia may point at the current overcapacity in the wood processing sector, with a total stock of 204 million m³ of which an annual production of 2.6 million m³ and a reforestation potential of 5.2 million m³ p.a. Nevertheless, the highest wood potential is found in Bosnia with more than half a billion m³ with an annual production capacity of 7 million m³. On top of the wood production, the joint-output of pellets is considerable too, with most factories around the border regions between B&H, Croatia and Serbia, between Croatia and Slovenia and some in central Bosnia. Calculations reveal that one kg of pellets produces almost 5 kWh, about the equivalent of half a liter of heating fuel (Junginer, e.a. 2009). It is evident that the reproduction of the whole business cycle from the woods to the final market products is possible, but this falls beyond the scope of this paper. Instead a typical wood product bracket is selected, in order to compare the relevant parameters on the EU market.

5. SNAPSHOT ANALYSIS

The basic model can be visualized in a graph plotting over time the relation between relative price and market shares (both in € and volume terms). The teaching version of this paper portrays six alternative snapshots which correspond to three specific brackets of the β -elasticity in the neutral equilibrium version, each with two price moves (up or down) (Claessens, 2007).

5.1. Price elasticity

On price-elastic markets, economic theory suggests price decrease. Volume grows faster than the price drop which produces a net value increase. We call this snapshot lucky girl for 'evident' reasons. The wrong decision (price up) decreases both volume and value market shares, the latter being softened a bit by the increased value. This situation is labeled next-time-better with, however, one considerate statement. It may happen indeed that the lower €market-share hides a net increase in real €terms (i.e. a latent cream skimming effect).

5.2. Price inelasticity

When markets are price inelastic, raising the price reduces volume but improves the value component by a clear cream skimming. This situation is labeled happy boy, the male equivalent of the lucky girl. The wrong decision (price down) is called tricky gambler, suggesting that the price cuts are gambling on market expansion, initially however at the cost of losing value. This situation can be clarified in time-related models. Sometimes indeed these models produce a lower β -elasticity (by lowering price) because the trend-effect absorbs the progressively rising market share. When price drops in international trade because of currency devaluations, this situation is close to the well-known J-effect.

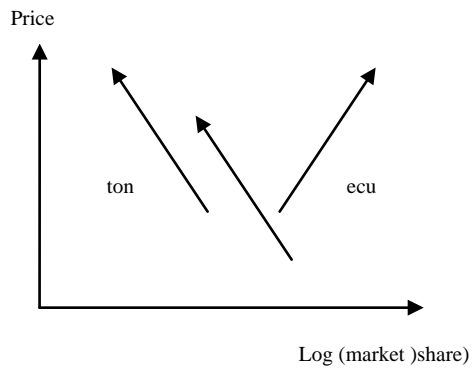
5.3. Wrong sign

Economists often call a ‘perverse relation’ when the parameter happens to produce the wrong sign, such as a positive price effect. The snapshot of the snobby girl combines rising market shares (both volume and value) with rising prices. Rather than a real snob effect for specific products, it especially stands for a clear upgrading of the product basket, either by better products or by a switch from low-value sub-products to a higher scala. At the opposite, when lower prices fail to produce any market response (i.e. lower market shares in both € and volume terms) a tragedy of price erosion looms over the concerned trade.

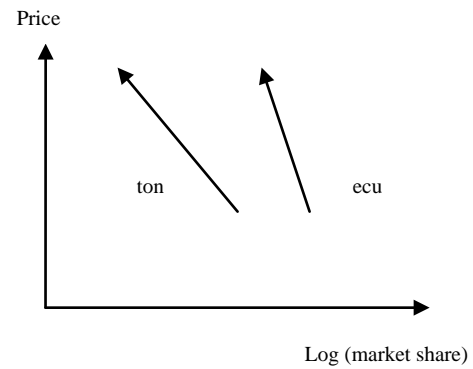
Figure 1 summarizes these six generic snapshots, whereas the actual plots are portrayed in annexe 1, for the selected case studies.

Figure 1: Six basic snapshots relating relative price to market share in volume €value.

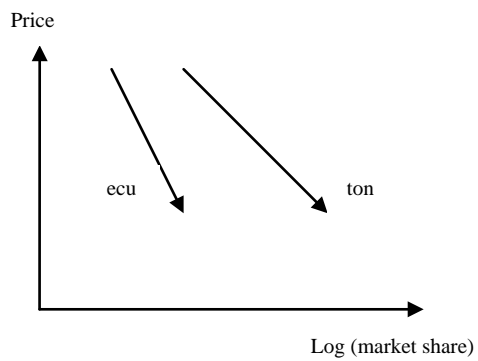
(1) HAPPY BOY



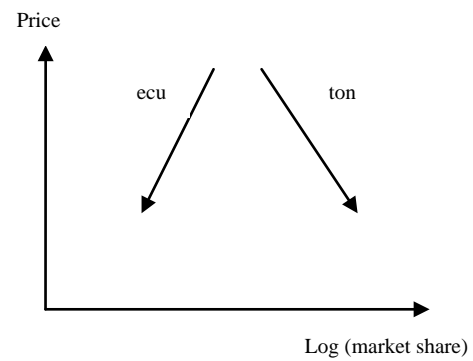
(2) NEXT TIME BETTER



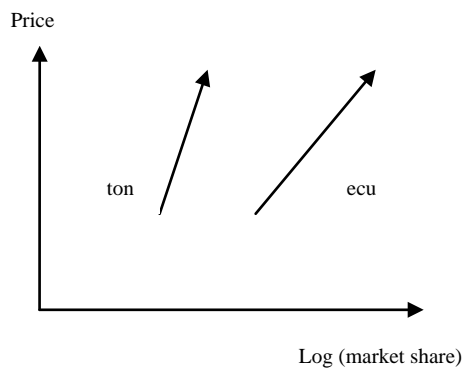
(3) LUCKY GIRL



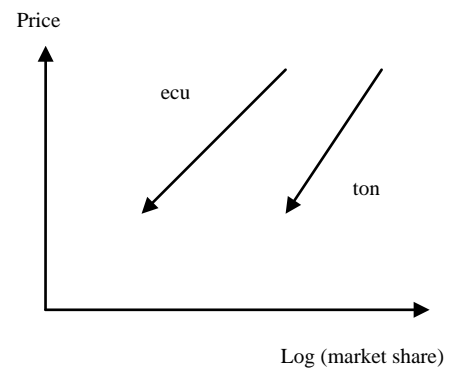
(4) TRICKY GAMBLER



(5) SNOBBY GIRL



(6) PRICE EROSION



5. COMPARATIVE PRODUCT STUDIES: 44⇔ 48 & 94.01, (94.03 & 94.06)?

Apart from the lucky girl situation for the basic wood products (HS 44), our limited study compares more valuable wood-related products, such as paper (49) and pulp (48). For furniture a 4-digit scale (94.04) was necessary in order to get wooden furniture. This can be specified down to the 8-digit CN-nomenclature, e.g. including the type of furniture (office, kitchen or sleeping room). The results are presented in annexe 1, which also compares the pure model 1 with both the linear trend (model 2) and the fading-trend option (model 3).

Only in the reported case of pure wood (HS 44) from Croatia, the elasticity of - 0.57 (model 1) drops to -0.28 when a trend is added (model 2) proving that an initial price effect fades out. Consequently, the fading trend in model 3 produces again a higher elasticity of -0.63. All this is plus one for the volume case. A similar situation is found in Bosnia Herzegovina, with an elasticity of about -0.8 for the pure model 1 and the fading trend (model 3) which drops even down to -0.04 when a (quite strong) linear trend is added. For Serbia, the linear trend seems without influence and therefore the elasticities are almost equal in models 1 and 2. Now, however, the fading trend activates model 3, which invites to analyze the relevant events behind this process.

Pulp and wood produce a positive elasticity for Croatia and Bosnia, indicating a clear room for product upgrading within the broad class of HS 47. A similar situation is portrayed for paper and paperboard (HS 48) but only for BiH-based imports, with Croatia keeping a price-elastic behaviour. Serbian statistics do not yet seem ready for this straightforward analysis, partly because of the shorter time-span of relevant data.

It is possible to discuss these results in further detail with the graphs, reproduced in annexe 2. Nevertheless, it shows that this type of rough-and-ready price models are well tuned to an initial desk research, preparing a more detailed field research including some tracking of facts and events. Eventually, the same price model can be applied to the finest product detail at six (HS-6) or eight (CN-8) digits, such that average value is a good proxy for price.

6. SECOND THOUGHTS AND CONCLUSIONS

The model is simplified both in terms of specification as in data coverage, which is confined to the EU market. This means that trade flipping from EU entries to other non-EU destinations of the partners concerned, are not taken into account. This may especially apply to Serbia with relatively good access to non-EU markets. We had a similar experience with the textile trade from Uzbekistan (switching to China) and Kazakhstan for steel traffic.

Also the 'price' definition is a matter of concern. On the one hand, the €/kg is a good proxy when the finest product detail is used. Otherwise, the analysis is confined to analyzing the upgrading or downgrading of the average trade basket, which is valuable information too.

Finally the definition of an industry ought to be specified in a broader context, such that both intra-industry B2B-company deliveries, transfers pricing can be addressed in a proper network.

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*** sitography from websites Eurostat (comext on external trade) and maps.

ANNEX 1: Results

Table A1: Bosnia and Herzegovina

	Product	44: wood and wood products		47: Pulp of wood or other fibrous cellulosic material		48 : paper and paperboard		9401: Seats, whether or not convertible into beds and parts thereof	
	Explanatory variables	Dep. var. share EUR	Dep. var. share volume	Dep. var. share EUR	Dep. var. share vol.	Dep. var. share EUR	Dep. var. share vol.	Dep. var. share EUR	Dep. var. share vol.
Model 1	c ln_PRC adj.R ²	-0.136** -0.79** 0.72	-0.134** -1.77** 0.94			-1.267** 3.24** 0.8	-1.267** 2.24** 0.65		
Model 2	c ln_PRC t adj.R ²	-0.23** -0.04 0.04 0.76	-0.23** -1.03* 0.04 0.93	-3.31** 1.69** 0.14** 0.82	-3.31** 0.7* 0.14** 0.7	-2.62** 1.82** 0.15** 0.95	-2.62** 0.82** 0.15** 0.91		
Model 3	c ln_PRC 1/t adj.R ²	-0.17 -0.84** 0.07 0.7	-0.17 -0.18** 0.07 0.93	-2.27** 1.22** -2.67** 0.96	-2.27** 0.22 -2.67** 0.94	-1.14** 2.47** -1.13 0.8	-1.14** 1.49* -1.14 0.67	1.13** 0.22 -2.58** 0.96	1.14** -0.77** -2.6** 0.88

Table A2: Croatia

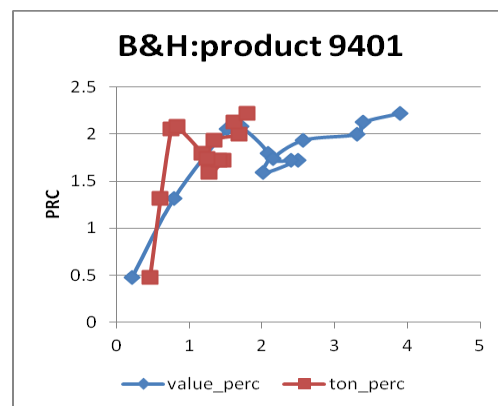
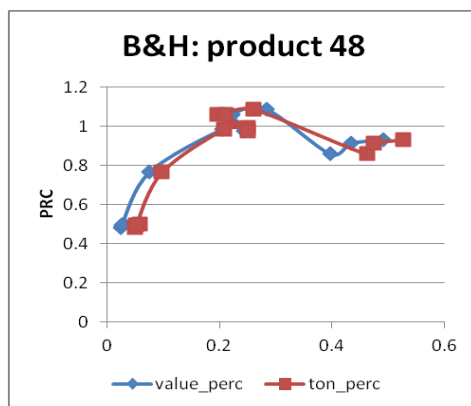
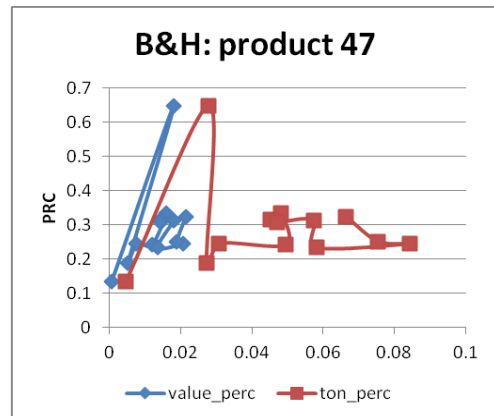
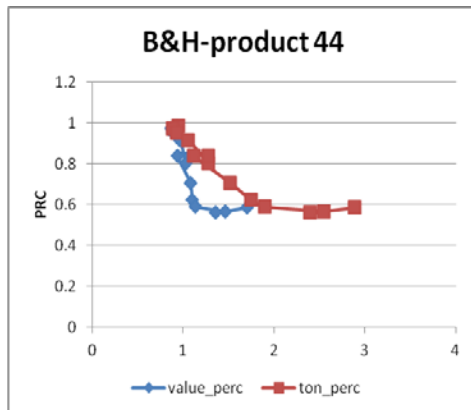
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	Explanatory variables	Dep. var. share EUR	Dep. var. share volume	Dep. var. share EUR	Dep. var. share vol.	Dep. var. share EUR	Dep. var. share vol.	Dep. var. share EUR	Dep. var. share vol.
Model 1	c ln_PRC adj.R ²	0.83** -0.57** 0.72	0.83** -1.53** 0.95			0.55** 0.87* 0.18	0.55** -0.12 -0.08		
Model 2	c ln_PRC t adj.R ²	0.77** -0.28 0.017 0.73	0.77** -1.24** 0.017 0.95	-0.69** 1.09** 0.05** 0.92	-0.69** 0.09 0.05** 0.9	-0.434 -0.576 0.04** 0.52	-0.43 -1.55** 0.04** 0.36	1.169** 0.764** -0.11** 0.57	1.69** -0.2 -0.11** 0.95
Model 3	c ln_PRC 1/t adj.R ²	0.8** -0.63** 0.07 0.7	0.8** -1.58** 0.06 0.95	-0.413 0.76** -0.62** 0.6	-0.41 -0.23 -0.62** 0.51	0.323** 0.11 -0.55** 0.81	0.323** -0.873** -0.546** 0.75	1.13** -0.07 -0.54 0.16	1.137** -1.05** -0.55 0.9

Table 3: Serbia

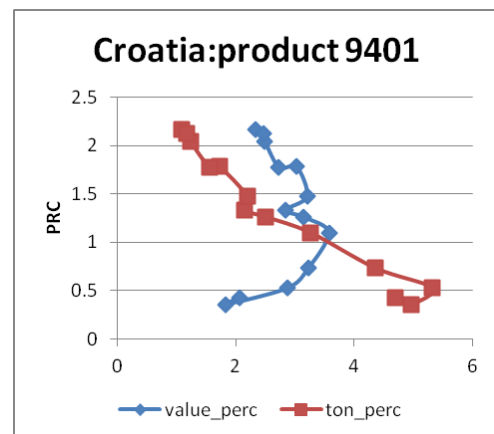
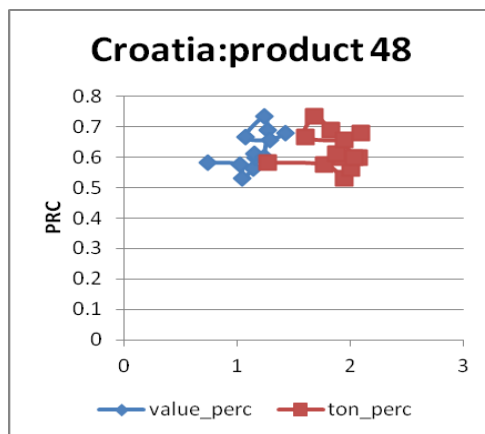
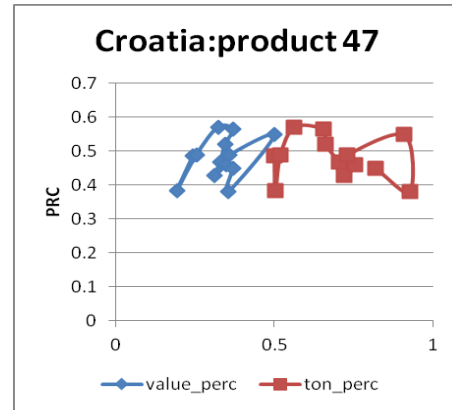
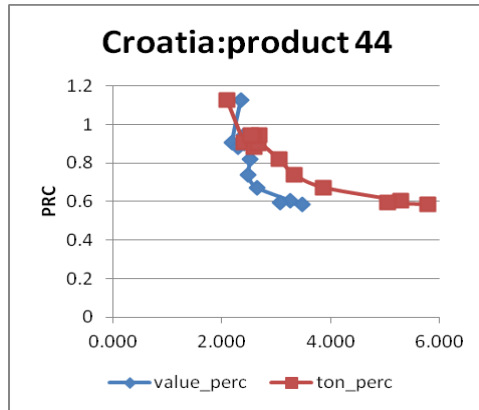
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	Explanatory variables	Dep. var. share EUR	Dep. var. share volume	Dep. var. share EUR	Dep. var. share vol.	Dep. var. share EUR	Dep. var. share vol.	Dep. var. share EUR	Dep. var. share vol.
Model 1	c	-0.067	-0.066	-0.33	-0.33	-0.56*	-0.6*	-0.89**	-0.9**
	ln_PRC	-2.55**	-3.54**	2.24	1.24	4.41	3.41	1.63**	0.64*
	adj.R ²	0.76	0.86	-0.098	-0.17	0.3	0.16	0.85	0.4
Model 2	c	-0.022	-0.02	-7.62**	-7.6**	-1.6**	-1.6**	-1.11**	-1.1**
	ln_PRC	-2.66	-3.66*	-1.56**	-2.55**	-0.83	-1.82	0.56	-0.43
	t	-0.0066	-0.0066	0.49**	0.49**	0.312**	0.31**	0.11	0.11
Model 3	adj.R ²	0.7	0.83	0.98	0.976	0.87	0.85	0.89	0.6
	c	-0.107	-0.11	0.268	0.26	0.28	0.28	-0.67**	-0.67**
	ln_PRC	0.06	-0.93	1.89	0.89	0.87	-0.12	1.28**	0.28
	1/t	-1.089**	-1.09**	-2.94**	-2.93**	-1.92**	-1.92**	-0.4	-0.4
	adj.R ²	0.93	0.96	0.84	0.83	0.93	0.92	0.89	0.58

ANNEX 2: Graphical Representation of the Time Series per Country and Product

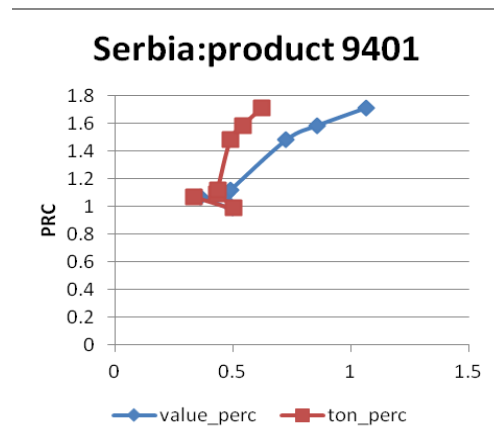
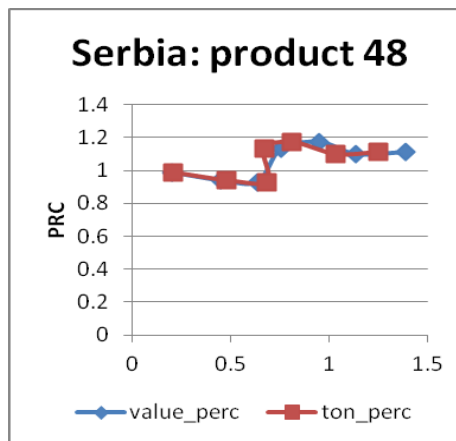
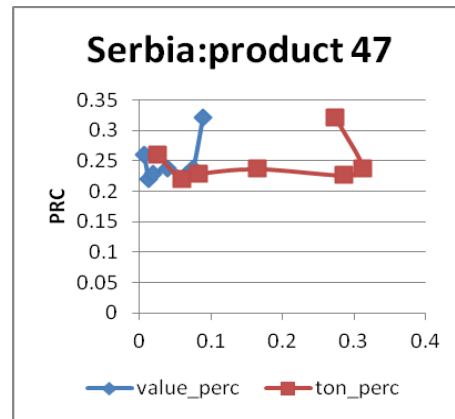
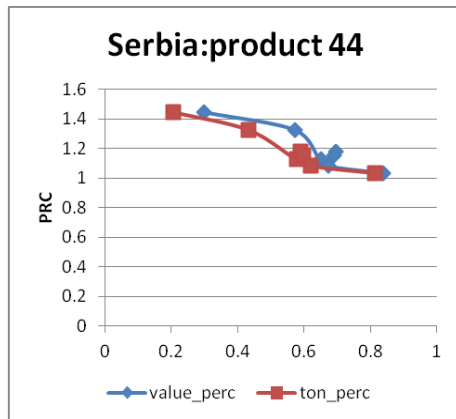
Bosnia and Herzegovina



Croatia



Serbia



SESSION I

THEORY AND PRACTICE OF INTERNATIONAL INTEGRATION

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UNRESOLVED MONETARY ISSUES, IN AN ASYMMETRIC FINANCIAL INTEGRATION

ABSTRACT

The process of the European integration has been evolving through some very complex roads map. The Treaty of Rome, as signed in 1958¹, after some long initial efforts, was compacted into the small Europe following a path of incremental steps convergence and entered into the financial single market promoting a monetary union, the EMU, which was endorsed by the issuance of a single currency in the year 1998, the ECU. This incremental step did not at all consider the protective CRA (Community Reinvestment Act) provision².

Provision that was envisaged in the US when adopting a loose attitude towards the interstate banking asking all the banks doing business over the border to supply evidence of a reallocation of funds within the areas of inception, in order to avoid a financial transfer of funds from weak less developed States toward stronger financial areas. Furthermore, underlying real economy issues, linked to the huge shift of the world financial order from the English speaking world communities to the Asian reemerging Countries, as changed after the monetary disorders following the demission of the gold exchange standard, announced by President Nixon on the 15th August 1971 (Ferguson, 2008).

We are now living through one of the most astonishing shifts there has ever been in the global balance of financial power, from the English-speakers to the Asian continent, from the monetary or fiscal policies to the supply side economics, the booming China is tracing her final own asymmetric path to prosperity according to the Wealth of Nations principles, as outlined by Adam Smith. The European economic integration process must take in serious consideration such an event. The financial turmoil is just a side effect and financial globalization has aggressive activities like predatory banking and destructive take over by banks in search of new larger critical sizes. As free banking over the border activities have been deregulated in both Europe and North America, the Central Bank functions have been necessarily substituted by larger institutions as the BCE, the FMI and the World Bank, while a global Authority is not yet available or likely to be soon operating.

Key words: interstate banking, financial imbalances, community predatory banking.

JEL classification: G210

¹ <http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ec/032a0006.htm>

² <<http://www.occ.gov/news-issuances/bulletins/2011/bulletin-2011-41.html>>

1. INTRODUCTION

Along the implementation of the single currency the euro, three major stock market bubbles burst in the international financial arena: the dot.com bubble in the year 2000, after the market closed at 10.395 on 27 September 1999, on October 2002 it was at 7.286, the related and consequent subprime rate bubble in the year 2007, few months after the Standard & Poor regained its 2000 value and, thirdly the derivative bubble in the year 2008, as a likely final consequence of the monetary policies adopted by the FED in those years. Meanwhile, the sovereign massive debt reached unbearable levels in many Southern Countries, challenging all the convergence criteria and reaching the annual GDP level in several countries:

- price stability, inflation should not to be over 1.5% of the average percentage points of the three best-performing Member States;
- the annual government deficit: it should not have exceeded 3% of national GDP;
- government should have never exceeded the limit of 60% of national GDP.

Since the Keynesian revolution, the economic theories and economic policies, prevailing during these years were:

- a general opinion that the 20th century Great Depression should have been managed with monetary, rather than fiscal policies, (MUNDELL, 199)
- hence any fiscal policy, according to Milton Friedman and the Chicago School, were commonly perceived as doomed to failure,
- thirdly, the trade off between inflation and unemployment was accepted as an unavoidable final effect of a monetary expansion, lately defined quantitative easing, without too much concern for the purchasing power of money. (FISHER, 1997)

"We used to think," James Callaghan told the Labour party conference in 1976, "you could spend your way out of a recession and increase employment by cutting taxes and boosting spending. I tell you in all candour that this option no longer exists....."³

2. CONCURRING EVENTS

During the period in which the European Union, surfacing out of the Rome Treaty, was shaped into the final Maastricht EU frame, the following events changed the global economic perspective:

- on the 15th August 1971 the gold exchange standard and the dollar gold parities, were *temporarily suspended* by President Nixon, with the demise of the Bretton Woods pact when he invited *Secretary Connally to suspend temporarily the convertibility of the American dollar*⁴. As a consequence, a loose monetary policy

³ <<http://www.newstatesman.com/search/google/Callaghan%20%20and%20candour?query=Callaghan%20%20and%20candour&cx=014587529549946006773%3Aq0ke2unon2y&cof=FORID%3A11&sitesearch=>>>

⁴ <<http://www.wtffinance.com/2011/08/when-did-the-us-get-off-the-gold-standard/>>

started during the seventies and eighties turbulences and after the black Monday's DJ fall in October 1987, when the index slipped 23% to 1.738; credit facilities systematically endorsed by Alan Greenspan were supplied through all the *roaring nineties*, bringing the D.J. index to an unexpected level up to 10.500 in the year 2000;

- the Berlin wall, the cold war and the Warsaw Pact were eventually dissolved, introducing new instability after the last order established lastly at Yalta. The new landscape emerging from the new era disrupted all the social welfare basic working social relations with the unprecedented competition of low labour Asian costs;
- major Asian economic areas, the South East Asian Nations, China, India Korea, the Philippine, Indonesia and many other previously emerging Countries started to resurface hosting Western Countries firms outsourcing their production to the Eastern world as a consequence of some important economic resource,
- the BCE became an issuing authority receiving some monetary policy powers in year 1998. The EU second banking directive opened a new era of interstate banking in a market opened to credit, financial services and banking merger and acquisition deals all through European State adhering to the European Union with the free financial market directive Council Directive 88/361/EEC of 24 June 1988 for the implementation of Article 67 of the Treaty⁵,
- in United States, the Clinton's *modernization act* and the *monetary easing* policies as a financial remedy, induced an irrational financial euphoria and a huge assets inflation alongside a commodities and goods stable pricing path. The WorldCom and Enron devastating bankruptcies, as the technology dot-com first bubble erupted as unavoidable consequences, and the 9/11 World Trade towers attack, prompted a downward push in interest rates to an unprecedented 1%, which promoted new financial assets bubbles with the sub prime and derivative crisis as interest rates were first lowered, then raised in the year 2005, to offset some CPI inflation tendencies,
- Minsky spent much of his career advancing the idea that financial systems are inherently unqualified to control speculation and irrational euphoria behaviors. At a time when many economists were coming to believe in the efficiency of markets, Mr. Minsky stressed their excess and upheaval, as a predictor of the oncoming markets crisis, which started in the year 2000 and is still a prevailing issue in most general discussions. (MINSKY, 1993)
- The supply side economics as envisaged in an 1978 article by Arthur Laffer, at The University of Chicago, who linked an increasing taxation rates to potential decreasing tax revenues⁶, promoted lowering British and North American taxing rates towards a flat rate during the eighties and nineties, consequently enlarging the public debt. The tax issue, has become nowadays the only left path to reduce the internal sovereign growing debts as an unparalleled recession appeared at the opening of the world markets to the lower costing Asian new productions.
- The deregulation of financial and banking markets have allowed a global activity in reallocating capitals, promoting foreign branches and financing activities in the whole global arena.

⁵ <<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:31988L0361:EN:NOT>>

⁶ <<http://www.laffercenter.com/arthur-laffer/the-laffer-curve/>>

Under these actual preconditions and structural framework, the Euro and the European banking sector have undergone a concurrent structural reform, from an operational point of view and within a limited set of possible local alternatives in a very fragmented market.

From a general and global point of view, the world economy has been presenting a huge shift from a prevailing western industrial production to a large scale Asian delocalization process, which has fundamentally changed the financial structure of the world economy.

Such shift has interested all the last twenty years and has started with the Japanese recession and the saving banking sector crisis, up to the European Euro crisis, under strict parameter rules and the huge financial assets inflation, as the world GDP was progressively by and large increasing. It is strange to focus on the fact that generally the present economic recession in Western industrialized countries and in most Mediterranean area are commonly treated as being under specific conjuncture crisis transitory conditions while most of local problems are commonly linked to the vast general structural conditions where scale mass production and low Asian costs are globally affecting all local industrial production facilities. The grounds lie mainly on the two factors, limited market, local or continental and strict labor rules.

Figure 1: World GDP from year 2000

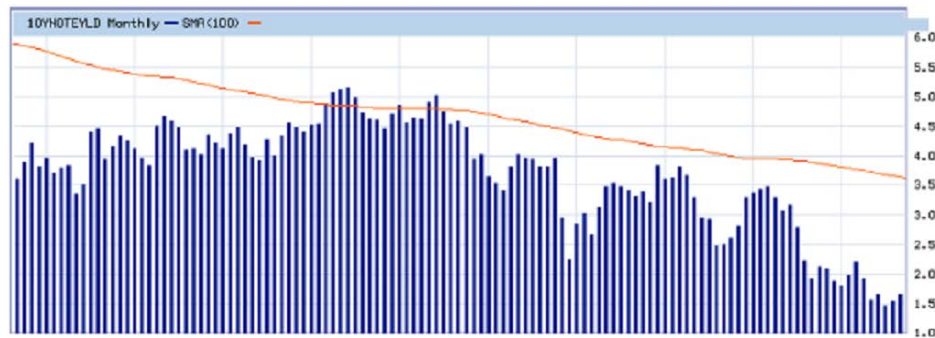
Year	2000	2005	2007	2008	2011
GDP (current US\$ bill.)	32,001.93	45,232.14	54,891.06	60,587.02	81,172.27
GDP growth (annual %)	4.1	3.5	3.8	2.0	1.7
Inflation, GDP deflator (annual %)	4.7	4.9	5.4	8.1	4.0

Source: <http://www.worldbank.org/>

These factors explain and show clearly and definitely the huge shift to the Asian industrial centers. Meanwhile, the world financial markets have actually been unified in a single interest rates market as most major banks are nowadays operating globally. The general monetary perspective universally adopted have progressively reduced the cost of money almost to zero, not considering essential for the business activity the Keynesian marginal efficiency of capital or, better said the profit expectations. The trend in interest rates, according to the prevailing monetary and fiscal policies adopted, have shown a common shift to the lower interest rates values: after the Japanese applied even zero rates, the US 10 years bond, according to the schedule below, looks

decreasing progressively in the following schedule, pulled towards the zero value from over 6% ⁷:

Figure 2: US 10 years bond interest rates



Source: <http://online.wsj.com/mdc/public/page/2 3050. html?symb= 10Y Note Yld&sid=1224> 11/09/2012

Accordingly same has been the European 10 years euro bonds outlook.

Figure 3: European 10 years euro bonds rates



Source: http://sdw.ecb.europa.eu/browseSelection.do?DATASET=0&sf_A&sfI5=4&DATA_TYPE_FM= PY_10Y 1M&node = 3570581

Assuming a common general suggestive definition, the present financial and banking market crisis may look like the final effect of an originating global deregulation of most financial markets, as started in the USA through the *Depository Institution Deregulation and Monetary Control Act* passed in 1980, the *Garn-St. Germain Depository Institution Act*, deregulating the *Savings and Loan* industry in 1982, finally and disruptive, the *Gramm - Leach - Bliley Act 1999*, known also as *Commodity Futures Modernization Act*, a general unleashed control over banks and a widely spread abuse of management

⁷ <<http://online.wsj.com/mdc/public/page/2 3050. html?symb= 10Y Note Yld&sid=1224> 11/09/2012>

compensation through generous stock options programs and common leveraged buy out and take over and by some management recurring misbehaviours culminating with the eloquent Enron and WorldCom financial disasters.

On the other side, the market bubbles eruptions in the years 2000, 2007 and the last 2008 derivative toxic financial bubble and connected stigma, might be seen as the natural consequence of all worsening monetary scenarios, or the grounds final effect of very deep rooted series of monetary mistakes, like a *tsunami* in a recent phase of severe global monetary bubbles.

The traditional inflation values, as connected to the money supply growth, were since then divided into two separate paths: financial assets inflation on one side and consumer price inflationary index on the other; they split and started to move along separate value paths. The financial assets expansion were strictly linked to the monetary expansion policy, while the CPI was restricted from the progressive substitution of Western productions with cheaper Asian goods and not linked to the productivity growth, as Alan Greenspan was continuously telling the media and the Senate Banking Committee: “..... productivity explained it all. Companies felt good, analysts felt good – all was well because increasing productivity was promoting a new era.” (Fleckentein, Sheenan, Greenspan, 2008)

The main deregulation, since the introduction of the Glass and Steagall Act, during the great depression, with the devaluation of the dollar and the establishment of the new \$35 gold price parity in the year 1933, has been terminated when the United States took the dollar off the gold convertibility for foreign Central Banks, with the Nixon’s announcement stating in 1971: *“I have directed Secretary Connally to suspend temporarily the convertibility of the American dollar except in amounts and conditions determined to be in the interest of monetary stability and in the best interests of the United States”*.

3. THE CONSEQUENCES

The unavoidable transition from the gold-exchange to the flexible exchange rates system, with the subsequent outbreak of massive inflation and stagnation during the 1970's, the huge interest rates volatility, the hedging derivative innovation and the new supply – side economics in the 1980's, may be considered connected consequences.

Finally, the return to some monetary stability, is mostly based on the oil standard and the EMS plan. Since its suggestion in 1978, the European Monetary System (EMS) as outlined by the Luxembourg Prime Minister Pierre Werner, was designed as a framework for monetary policy coordination to overcome the long lasting unsettled turmoil among European and World currencies with the final project for a single currency. As Fisher wrote in uncertain and fluctuations’ similar times, *“Instead of resisting in a monetary fatalism, some economists, bankers, and statesmen have come to recognize that nearly all inflation and deflation are man-made, and why should we not therefore have a man-made stabilization?”* (Fisher, 2009).

Disillusioned by the uncertain attempts to restore a global monetary reform, likely due to cold war grounds, through the Gold Commission appointed by President Carter and chaired by Donald Reagan in 1982, which minutes were not published, and by the devastating floating exchange rate system, the EMS founding fathers wanted to restore a system of fixed - but - adjustable exchange rates within most of the European Community, which finally brought to the issuance of the Euro at the end of the 1990's.

At Bretton Woods in New Hampshire in the year 1944, the gold reserve problem was eluded by the establishment of the new platform leading to the *gold-exchange standard*, supported by Harry Dexter White, from the U.S. Treasury Department, a necessary compromise between gold supporters and gold contrarians, based on the circulation coverage by both gold and dollars. The IMF with the linked gold parities system, lived up to its dismissal by the President Richard Nixon in August 1971. In that year the *gold standard* was unquestionably and unconditionally definitely abandoned and we entered the present cycle of ever growing financial and monetary turbulences, likely primary precondition to an *oil standard* first and to the more or less deep pretentious fine tuning of most of the monetary policies implemented by the issuing Central Banks up to the wrong presumptions of Mr. Greenspan. (Fleckentein, Sheenan, 2008).

An other set of adverse deregulations is linked to the cross border banking activity, with the abolition of some of the Mc. Fadden Act provisions, the 1994 Riegle Neal Interstate Banking and Branching Act, the 1999 Gramm-Leach-Bliley Act and the EU mutual recognition principle, as expressed in the EU Directive 646/89, furthermore have all brought new problematic issues. The most recent legislation provided a complex new framework of limits, in order to avoid predatory deposit acquisitions and prescribed compulsory reinvestments paths, aimed to restrain excessive capital attraction toward regional overdeveloped areas.

Modern technology, the progress in the telecommunications sector and the end of the cold war, have all promoted the deregulation of most of the banking activity, in order to create a looser framework of rules able to widen the globalization banking process. The economic crisis, traditionally and in previous periods, even if originating in the USA, were generally affecting the peripheral emerging countries and distant areas of the world, like the Asia crisis of 1998-1999, the Russian default of 1998 and similar numerous different cases in those years, nowadays, with a terrific astonishing shift in the normal financial behaviour, the crisis hits the core countries: Europe and most of the English speaking countries, scarcely affecting the BRICS, (Big, Rapid, Industrializing Countries), which have been increasing their GDP along a trend above the level of the previous developed countries "*Capital, by its votaries' accounts, was outpacing outmoded structures, breaking the binds that had tied it, and taking the path of least resistance as it spread across the globe, digging in and taking root wherever it could.*"(Brittain-Catlin, 2005)

In the rapid growth of new markets and industrial areas, as well as for the financial disparity existing among different regions, powerful forces drained originally sensitive funds and available resources for the investments from less developed areas to more developed regions, which most of the times took advantage of the offshore or special industrial areas outside the EU, like Turkey or the free industrial' special zones within

the Moscow region, or several other free zones around the world. (Brittain-Catlin, 2005).

The resulting huge process of delocalization has surfaced only as a recent force attracting capitals and skills which have been transferred only in present times and under specific globalization asymmetries, to the high financial risk and less developed areas, from already developed ones, downsizing the spread between the less developed and the industrialized zones. “*When my publisher asked me to write a book on outsourcing, I immediately jumped onto the internet to see whether I could pay a guy in Calcutta to do it. Too many choices popped up on the screen, so I did it myself.*” (Buchholz, 2004)

This process, for instance, was one of the main reasons of the everlasting underdevelopment of some southern Italian agricultural insulated regions, after the Italian State unification, ratified in year 1860. The South, once industrially developed, became all of a sudden and for mostly Northern a source of investment initiatives attracted Northward despite recurrent announcement of financial and fiscal facilities for all Southern areas were always announced by all Italian governments.

When the US adopted the interstate banking legislative, a remedy was adopted through a strong review of the Community Reinvestment Act, enacted according to the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994, which repealed restrictions on interstate banking, stressed the *Community Reinvestment Act* ratings, received by the out-of-state banks as a consideration and compulsory operating base, when deciding whether to allow interstate branches mutual financial relations or not.

According to Bernanke, a surge in bank merger and acquisition activities followed the passing of the act, therefore: “... *the CRA affirmed the obligation of federally insured depository institutions to help meet the credit needs of communities in which they are chartered, consistent with safe and sound operations*”,⁸ and supporting groups increasingly used the public comment process to protest bank applications refusals on *Community Reinvestment Act* grounds. When applications were highly contested, federal agencies held public hearings to allow adverse comment on bank's lending records. In response many institutions established separate business units and subsidiary corporations to facilitate CRA-related lending. Local and regional public-private partnerships and multi-bank loan consortia were formed to expand and manage such CRA-related lending. In 1999 the Congress enacted and President Clinton signed into law the Gramm-Leach-Bliley Act, also known as the *Financial Services Modernization Act*. This law repealed the part of the Glass-Steagall Act that had prohibited a bank from offering a full range of investment, commercial banking, and insurance services since its enactment in 1933. A similar bill was introduced in 1998 by Senator Phil Gramm, but it was unable to complete the legislative process into law. Resistance to enacting the 1998 bill, as well as the subsequent 1999 bill, centered around the legislation's language which would expand the current types of banking institutions into other areas of service but would not be subject to CRA when shifting to the new financial areas. The Senator also demanded full disclosure of any financial “deals”

⁸ <<http://www.federalreserve.gov/newsevents/speech/Bernanke20070330a.htm>>

which community groups had with banks, accusing such groups of "extortion". The Community Reinvestment Act was intended to encourage depository institutions to meet the credit needs of the communities in which they operate, including low- and moderate-income neighborhoods, consistent with safe and sound banking operations. It was enacted by the Congress in 1977 (12 U.S.C. 2901) and was implemented by Regulations 12 CFR parts 25, 228, 345, and 563e.⁹

4. THE PRESENT TREND

Apart from the CRA provision and compliance requirements, the second pillar enforcement against the fund transfer from producing to savings and investment areas is represented by all the instruments created in order to avoid some predatory banking products, as the credit securitization.

Credit securitization is a new age structured process whereby loans and other receivables are packaged, underwritten, and reshaped in the form of transferrable securities. Often these instruments, called asset-backed securities, provide capital to companies in financial stress, therefore qualifiedly predatory and this circumstance is one of the central motivations of securitization. (Kravitt, 2002)

Most of the sub prime mortgage collateralizing activity might be placed under this perspective, often with consequence a sophisticated path towards cheap take over of minor or stressed banks, financial companies, industrial concerns and similar local operating entities.

On the other side, banks on an interstate environment are moving from the traditional individual prime rate to the new, more volatile base rate, like LIBOR or EURIBOR which, sometimes, the banks themselves control. They may agree to fix, raise, maintain and stabilize such rate, using it as a *benchmark* for commercial loans to so-called *middle-market* and *smaller* borrowers, and thereby suppress or eliminate competition between themselves. So, they may forecast the onset of worldwide inflation and raise commercial interest rates, which might increase their profits: they raise and standardize the spread points charged above the new base rate for commercial borrowers. So they may move away from fixed-rate loans toward *floating*, variable-rate loans, linked to the new prime, and adjust those rates to fluctuations in short-term interbank basic rates. This reduces bank competition and lead to noncompetitive, higher rates for middle-market borrowers, while set banks free to make prime loans to their preferred, multinational corporate borrowers.

"The hypothesis that acquisitions serve to transfer resources from less efficient to more efficient uses receives substantial support from our results, as do a number of other relevant hypotheses" (Timothy, Hannan, Steven, Pilloff, 2006). In specific researches made within the FED research department, the predatory banking addressed to the funds reallocations from less efficient areas to developed segments and regions, appear to be substantiate by many factors surfacing as a result of such studies.

⁹ <<http://www.ffiec.gov/cra/history.htm>>

From an other point if view, the predatory activity reflects the desire to assume a global configuration with local crossed worldwide activities, *“We also find a robust relationship between the proportion of local deposits (sometimes called “core deposits”) that a bank has and the hazard of being acquired. Banks with higher ratios of local deposits to assets are more likely to be acquired, no matter the type of acquirer examined. This may reflect a preference for local customers as a result of some synergy associated with acquisitions of banks with substantial local deposits, such as the ability to cross sell to local depositors”* (Timothy, Hannan, Steven, Pilloff, 2006, 29). Actually, the simple evidence of present rapid globalization has become obvious and undisputable as the volume of Eastern handled containers has dramatically growing in a depressed Western progressive recession.

Figure 4: Overall TEU Traffic: First 20 ports year 2002

Geographic Area	TEU	%
Asia	84.951.148	65,89%
North Europe	22.448.422	17,41%
Nord America	14.381.242	11,15%
Middle East	4.194.264	3,25%
Mediterranean	2.954.571	2,29%
Total	128.929.647	100,00%

Figure 5: Overall TEU Traffic: First 20 ports year 2011

Geographic Area	TEU	%
Asia	214.130.458	79,10%
North Europe	29.586.043	10,93%
Nord America	14.001.610	5,17%
Middle East	13.000.000	4,80%
Mediterranean	-	-%
Total	270.718.111	100,00%

<http://www.ci-online.co.uk>

The globalization process has taken advantage of low Asian work direct and indirect costs, low taxation and transportation improvements, associated to the near technological era in telecommunications, production innovation and fall of any barrier to the world trade as empathized by Adam Smith.

5. CONCLUSIONS

This new perspective has mixed up recession, depression and growth angles on a global scope, too new to be faced trough classical 19 century monetary and fiscal policy models, *“... for the first time in two generations, failures on the demand side of the economy – insufficient private spending to make use of the available productivity*

capacity – have become the clear and present limitation on prosperity for a large part of the world.” (Krugman, 2008) Furthermore “As I noted in chapter one, globalization has also brought huge benefits – East Asia’s success was based on globalization, especially on the opportunity for trade, and increased access to markets and technology.”(Stiglitz, 2002)

So was commenting Stiglitz, just after the first dot.com bubble outbreak shocked most of the Western markets, already at the beginning of the new century, forecasting the potential huge impact of the technology mobility and the falling out of World’s asymmetric social frameworks. In this general picture, the EU decided to issue a single currency unit, the Euro, and opened the banking markets to the uniform mutual recognition all over Europe, on a mostly universal bank operating model. The consequent large scale merger and acquisitions and change in operating models, products, technology and critical bank size, has boost amalgamations and over the border operations, that most of the times violate the community protection principles, as already stated in the US model of the CRA, and has become in Europe predatory banking when the final result is the reallocation of funds, fiduciary deposits and capitals to the most developed areas, generally in northern Europe.

As the mutual operating agreements, the widening of the local EU market are now unavoidable, there must be a concern in ruling the local activities and consider the potential drainage of funds and consequent damage of the peripheral regions. At same time, only remedies against the general economic depression seem to be a restructuring of the unbearable conditions of the welfare state, when supported by widening income taxation or growing sovereign debt, which have not been of help in any similar previous social condition and promote a general open attitude to the unavoidable global market, which is promoting and requiring competition, quality and a wide range of new cheap productions.

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TOURISM POLICY IN EU – FINANCIAL FRAMEWORK FOR (POTENTIAL) CANDIDATE COUNTRIES

ABSTRACT

Tourism is very important sector of the European economy. According to the research of World Travel and Tourism Council EU tourism industry generates directly nearly 3% of the EU GDP and 3,3% of total workforce are employed in the EU tourism sector. However, the EU does not lead to a common tourism policy.

The importance of the tourism sector is even higher in the candidate countries. Since the candidate countries forecast high growth rates of tourism, the tourism industry can be considered one of the most important sectors of their economy.

*The process of EU enlargement highlights the need for more economic and social cohesion. After enlargement in May 2004 when the EU access regions and also countries whose the GDP per capita is 40% below the average for the EU-25, concepts of solidarity and cohesion become more important than ever. For this purpose EU provides focused pre-accession financial aid to the acceding country, candidate countries and to the potential candidates. One of the main instruments which are available to the candidate countries is Instrument for Pre-Accession assistance – IPA, which continues to support measures in areas that have been funded through the pre-accession assistance programs CARDS, PHARE, ISPA and SAPARD. The main objective of the IPA assistance to candidate and potential candidate countries in their harmonization and implementation of the *acquis communautaire* is to prepare them for the use of Structural Funds of EU.*

*The purpose of this paper is to analyze the possibility of funding projects in the field of tourism for both the candidate and potential candidate countries for EU accession. As a candidate country progress in the accession process, and exploit less funding for harmonization and implementation of the *acquis communautaire*, gets more opportunities to fund projects from different areas including tourism. While on the one hand, the experience of the former candidate countries that have already joined or will join EU has shown a low degree of exploitation of pre-accession funds, and on the other hand there is a limit to the amount of financial resources for the projects in the field of tourism, candidate countries should learn as much from the experiences of former candidate countries in order to better utilize the provided funds.*

Key words: *tourism policy, European Union, (potential) candidate countries, pre-accession funds*

JEL classification: *L83, F15, G15, O52*

1. INTRODUCTION

Tourism as an economic, social, and cultural activity is one of the most important activities of modern society and economic development in the world, especially has become significant in many European countries (Vuković, 2006).

Often emphasized the phrase that tourism is one of the largest and fastest expanding sectors of the European economy, confirms the fact that tourism in its narrow definition (traditional travel and tourism providers — hotels, restaurants, cafes, travel agencies, car rentals and airlines, that supply goods and services directly to visitors) contributes to 2,9 % of the EU's gross domestic product in 2011 (WTTC, 2012). Direct contribution of tourism to gross domestic product varies among EU countries, ranging from 1,4 % in Romania and 2,3 % in Slovakia, up to 14,5 % in Malta. Since the analysis based only on the direct contribution to GDP underestimate the importance of tourism for economic development, it is necessary to take into account the indirect and induced impact of tourism. When related sectors are taken into account, the total contribution of tourism to the EU's gross domestic product is 7,9 % in 2011, varying from 4,5 % in Romania and 6,0 % in Slovakia to 27,7 % in Malta in the same year.

Another essential aspect of the impact of tourism on economic growth is generating a large part of the labour force. In 2011 tourism sector in European Union directly supported 7.281.000 jobs (3,3% of total employment). On the other hand the total contribution of tourism to employment, including jobs indirectly supported by the industry, was 8,5% of total employment (18.769.500 jobs).

In addition to direct effects on economic growth and employment, tourism plays an important role in the development of many European regions. Taking into account the current enlargement of the European Union, the importance of tourism for the economic development potential candidate countries becomes even more obvious.

Table 1 shows the tourism's relative contribution to GDP and employment in 2011 for the candidate countries (Island, Montenegro, Macedonia, Serbia, and Turkey) and potential candidate countries for EU accession (Albania and Bosnia and Herzegovina) and the data in Table 2 show the average annual growth rate of long-term growth of tourism's contribution to GDP and employment for candidate and potential candidate countries for the period 2012 – 2022 estimated by World Travel and Tourism Council.

Table 1: Tourism's relative contribution to GDP and employment in (potential) candidate countries in 2011 (%)

Country	Tourism's direct contribution to GDP	Tourism's total contribution to GDP	Tourism's direct contribution to employment	Tourism's total contribution to employment
Iceland	5,2	17,4	5,2	18,8
Montenegro	7,5	15,4	6,5	13,7
Macedonia	1,3	4,8	1,2	4,3
Serbia	1,7	6,0	1,5	5,5
Turkey	4,3	10,9	2,1	8,1
Albania	6,2	21,8	5,5	19,8
B&H	2,0	7,4	1,8	6,7

Source: World Travel & Tourism Council (WTTC) (2012), The Authority on World Travel & Tourism, Travel & Tourism Economic Impact 2012, Country Report for Albania, Bosnia and Herzegovina, Iceland, Montenegro, Serbia, Turkey, (adapted by author)

From the data presented in Table 1 can be seen that the most tourism's direct contribution to GDP and employment have Montenegro, Albania and Iceland. If you take into account the tourism's total (indirect and induced) contribution to GDP and employment, tourism contributes the most to the GDP and employment in Albania, Iceland and Montenegro. As can be seen from the above data, indirect and induced effects of tourism in Iceland and Albania are three times larger than the tourism's direct contribution to GDP and employment, which additionally emphasizes the importance of tourism for the economic development of these countries. On the other hand, tourism direct and also in total contributes at least to GDP and employment in Macedonia, Serbia and Bosnia and Herzegovina.

If we take a look into the data on the expected long term growth rate tourism's (direct and total) contribution to GDP and employment, we see an impressive high expectation of growth in tourism's contribution to GDP in Montenegro (about 12 % per annual to GDP and about 8 % per annual to employment). It is important to emphasize that (with the exception of Montenegro) is expected among these countries the highest growth of tourism's contribution to GDP and employment in Bosnia and Herzegovina (about 6 % per annual to GDP and about 2 % per annual to employment). World Travel and Tourism Council expects the tourism's contribution to GDP and employment to grow at a rate greater than 5% per annual in Serbia and also in Albania.

From the data shown above it can be concluded that tourism has great significance for the development of the candidate and potential candidate countries for EU accession. Specifically, in those countries where tourism has a relatively small contribution to GDP and employment, the expected high growth rates will strengthen the role of tourism in economic development.

Table 2: Long term growth of tourism's contribution to GDP and employment in (potential) candidate countries, 2012-2022 (% growth pa)

Country	Tourism's direct contribution to GDP	Tourism's total contribution to GDP	Tourism's direct contribution to employment	Tourism's total contribution to employment
Iceland	3,6	3,4	2,6	2,1
Montenegro	11,8	12,4	8,3	8,8
Macedonia	4,7	5,0	1,6	1,8
Serbia	5,3	5,2	0,8	0,5
Turkey	2,9	3,0	2,6	1,4
Albania	5,4	5,3	2,7	2,4
Bosnia and Herzegovina	5,9	6,2	1,9	2,0

Source: World Travel & Tourism Council (WTTC) (2012), The Authority on World Travel & Tourism, Travel & Tourism Economic Impact 2012, Country Report for Albania, Bosnia and Herzegovina, Iceland, Montenegro, Serbia, Turkey, (adapted by author)

For this reason it is necessary but also very attractive to analyze the tourism policy of the European Union. In the framework of tourism policy and also in the context of EU accession and the possibilities of financial assistance for candidate and potential candidate countries for EU accession, it is important to explore the possibility of financial support for tourism-related projects that could ensure sustainable development of tourism and support the overall economic progress of these countries.

2. TOURISM POLICY IN EUROPEAN UNION

Although the European Union does not lead directly to a common tourism policy, European policies in a number of areas have a considerable impact on tourism.

European Union has recognized tourism's role in creating new jobs and regional development until 1990's, however, EU did not follow a sectoral approach. EU has tried to promote tourism with transport, social policy, environment, taxation, education, competitiveness, government subsidies, consumer protection, regional development, employment policy, research and statistics, SMEs and inception of the Single Market, although it hasn't set up any tourism policy on union level. However, in the beginning of 90's, with the pressure of institutional organizations, EU has started to follow a sectoral approach. The European Commission, the Council, the European Parliament play an important role in tourism activity (Purnar and Miral, 2008).

In 2006 the European Commission presented its communication "A renewed EU Tourism Policy: Towards a stronger partnership for European Tourism" (Commission of the European Communities, COM(2006) 134 final). This policy is complementary to

national tourism policies and does not purpose to replace national policies but to provide added value at European level. The main aim of renewed policy is to improve the competitiveness of the European tourism industry increasing awareness of economic, social and ecological importance of tourism and create more and better job. The renewed tourism policy emphasizes the importance of reinforcement the partnership of all stakeholders involved in tourism development at the international, European, national, regional and local level. One initial area for stakeholder partnerships is better regulation. All tourism stakeholders should actively participate in the effort to improve the regulatory framework related to tourist activities. At the same time, the European Commission is aiming to integrate tourism in all the related common policies of European Union in way to secure satisfied coordination between the various policy initiatives that have impact on tourism industry. To enable effective achievement of the objectives of the renew tourism policy, the European Commission has allowed the use of financial resources from European funds to support the tourism industry.

Tourism-related projects can be funding trough four structural funds and EU Framework Programme (for more information please see Web portal of European Commission). European Regional Development Fund (ERDF) supports tourism-related projects to enhance cultural and natural heritage, develop accessibility and mobility related infrastructure as well as to promote ICT, innovative SMEs, business networks and clusters, higher value added services, joint cross-border tourism strategies and inter-regional exchange of experience. European Social Fund (ESF) co-finances projects targeting educational programs and training in order to enhance productivity and the quality of employment and services in the tourism sector. The new European Agricultural Fund for Rural Development (EAFRD) that integrates the development of rural tourism and farming activities in rural economy will provide support for: improving the quality of agricultural production and products, improving the environment and the countryside, encouraging tourist activities as part of the diversification of the rural economy objective and studies and investments associated with the maintenance, restoration and upgrading of the cultural heritage. The European Fisheries Fund (EFF) in the aim to restructure of the fisheries sector and to regenerate fisheries-dependent supports projects in field of eco-tourism, as employment alternatives of fishermen. Overview of the projects that are partially or fully EU funded is given in Table 3.

Table 3: EU funding of tourism-related projects

Project acronym	Project name	Project cost (€)	EU funding (€)	Share of EU funding in total cost
ISAAC	Integrated e-service for advanced access to heritage in cultural tourist destination	2.080.707	1.579.700	75,92 %
Green hotel	Integrating self supply into end use for sustainable tourism	3.690.005	1.250.000	33,88 %
REST	Renewable energy and sustainable tourism	814.471	379.393	46,58 %
Capitals ITTS	Capitals providing integrated travel and tourism services	4.972.307	2.474.997	49,78 %
Aladdin	Mobile destination – management for SMEs	1.800.768	1.299.199	72,15 %
Hi-touch	E-organizational methodology and tools for intra-European sustainable tourism	572.000	286.000	50,00 %
Picture	Pro-active management of the impact of cultural tourism upon urban resources and economies	1.750.000	1.500.000	85,71 %
Ciutat	Tourism, culture and the production of urban space: changing images, shifting meanings?	129.644	129.644	100,00 %
REGEO	Multimedia geo-information for e-communities in rural areas with eco-tourism	3.250.000	2.054.097	63,20 %
Sprite	Supporting and promoting integrated tourism in Europe's lagging rural regions	2.266.135	1.881.840	83,04 %

Source: European Commission, Research EU, Competitiveness & sustainability in European tourism, No 1, September 2008 (calculated by author)

As we can see from the data shown in Table 3 share of EU funding for tourism-related projects ranged from 34% to finance the full amount of project costs. That suggesting although the EU does not lead directly to a common tourism policy, EU supported tourism-related projects not only indirectly by the legal regulation but also financial in a significant proportion.

3. FINANCIAL ASSISTANCE FOR (POTENTIAL) CANDIDATE COUNTRIES

European Union not only supports tourism-related projects of member countries. Within the pre-accession strategy EU provides specific and targeted financial aid, named pre-accession instruments, for candidate countries, potential candidate countries and acceding countries. Although the primary goal of these instruments to support candidate countries in order to enhance political, economic and institutional reforms needed to fulfill EU membership criteria, candidate country, as they advance in the accession process, have the ability to fund projects from different areas including tourism.

During the time, European Union has developed several pre-accession instruments intended for the candidate and potential candidate countries:

- PHARE, whose purpose is to support the implementation of the *acquis communautaire* in the form of institution building and investment in economic and social cohesion and cross-border cooperation,
- ISPA, was founded to support investment in the environment and transport infrastructure and prepare the beneficiary countries to use funds from the Cohesion Fund
- SAPARD, which supports rural development through the adoption of the *acquis communautaire* of the Common Agricultural Policy and investment in improvement of productivity and competitiveness, create jobs, and raise living standards of rural areas
- CARDS, intended for the Western Balkans countries.

However, in late 2004, the European Commission in trying to provide better performance and greater efficiency with the available resources creating a new integrated instrument for pre-accession assistance, named IPA. The main objective of IPA is supporting institution-building and the rule of law, human rights, including the fundamental freedoms, minority rights, gender equality and non-discrimination, both administrative and economic reforms, economic and social development, reconciliation and reconstruction, and regional and cross-border cooperation.

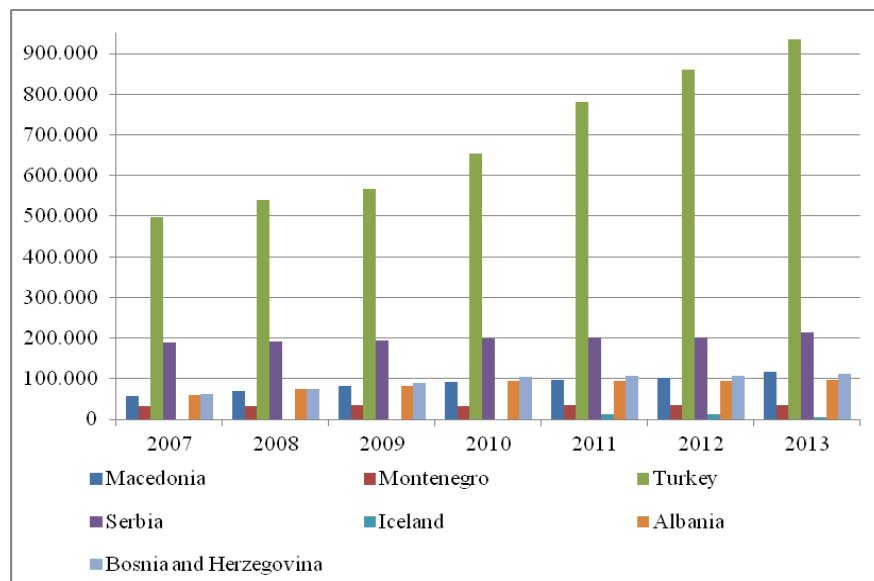
It is important to emphasize that IPA was created as a flexible instrument which consists of the following five components:

- Transition Assistance and Institution Building which promotes direct continuation of PHARE programme activity, with the exception of economic and social cohesion component
- Regional and Cross-Border Cooperation which finances common cross-border activities between beneficiary countries as well as member states
- Regional Development which promotes integral part continuation of ISPA programme and economic and social cohesion component of PHARE programme and finances infrastructural projects of larger extent on the field of environmental protection and transport
- Human Resources Development which promotes social cohesion projects aiming at European Employment Strategy

- Rural Development which directly continues on SAPARD programme and allocates financial means for projects which implementing agricultural *acquis communautaire*.

The total pre-accession assistance to candidate and potential candidate countries was in the accounting period 2007 – 2013 11,5 billion €. Structure of funds allocated to the candidate and potential candidate countries shown in Chart 1.

Chart 1: EU's pre-accession assistance allocated to (potential) candidate countries



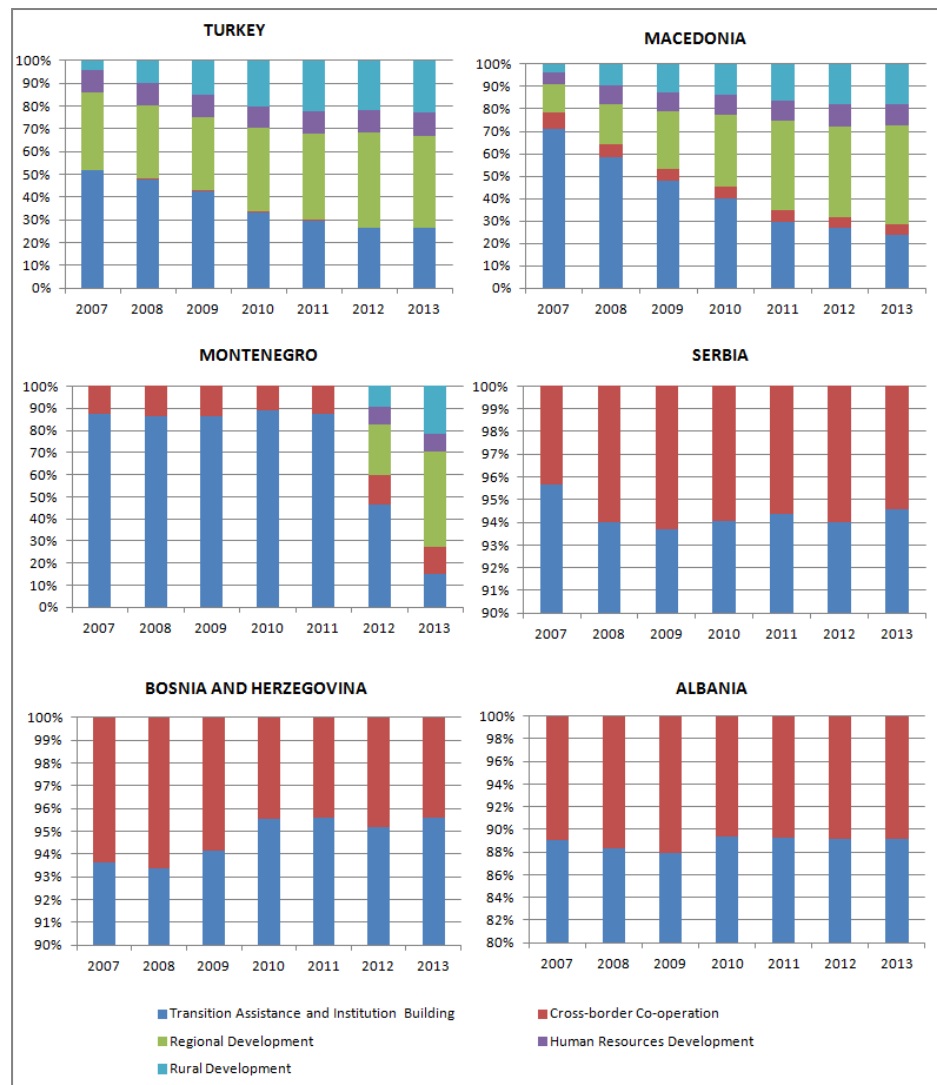
Source: European Commission: http://ec.europa.eu/enlargement/how-does-it-work/index_en.htm (calculated by author, in 000 €)

It is easy to see that the amount of pre-accession aid from year to year increases for each of these countries. The greatest amount of pre-accession funds in this period was allocated to Turkey, than to Serbia. With the exception of Iceland, at least pre-accession funds in this period were allocated to Montenegro, and potential candidate countries, Bosnia and Herzegovina and Albania. However, the potential candidate countries can expect a significant increase of allocated funds of pre-accession assistance when they get official candidate status and when they are advanced in the process of EU accession. For comparison, to Croatia, as the only acceding country, in this period was allocated less than 1 billion € which represents a significantly lower amount of funds than was allocated to Turkey and also poorer amount compared with pre-accession aid allocated to Serbia.

Keeping in mind that the primary goal when designing the IPA was to modernize all the pre-accession instruments and combine them into one single instrument available to candidate and potential candidate countries, it is important to emphasize that there are differences in the exploit of allocated funds for pre-accession assistance between

candidate and potential candidate countries. The new instrument also had to feature a real differentiation between the two groups of countries, in order to take account of the political decision which “promotes” a country from potential candidate to candidate status, and address the differences between potential candidates and candidates in terms of their administrative, programming and management capacity.

Chart 2: Funds allocation of pre-accession assistance under IPA components



Source: European Commission: http://ec.europa.eu/enlargement/how-does-it-work/index_en.htm (calculated by author)

The main difference in the allocation of pre-accession funds is reflected in the fact that the candidate countries use the funds within all five IPA components, while in the potential candidate countries the pre-accession assistance focused only on two IPA components (Transition Assistance and Institution Building and Regional and Cross-Border Cooperation).

The structure of allocated funds to candidate and potential candidate countries by purpose of the IPA components in budget period 2007 – 2013 has shown Chart 2.

As shown in Chart 2 Bosnia and Herzegovina and Albania, potential candidate countries, using pre-accession funds only through the two components of the IPA: Transition Assistance and Institution Building and Cross-border Co-operation. The same holds true for Serbia, which has been granted status of candidate country for membership in March this year. On the other hand, Montenegro became a candidate country in 2010, and from 2012 year allocated to it the funds of pre-accession assistance through all 5 categories of the IPA. At the same time, the candidate countries are typically reduced funds of pre-accession assistance proposed to Transition Assistance and Institutional Building in favour of Rural and Regional Development.

This suggests that to the potential candidate countries, as they progress in EU accession process and obtains the status of candidate country for EU membership, will be available more pre-accession funds for regional and rural development. And these are the two components of the IPA, for which may apply tourism-related projects.

4. EU FINANCIAL ASSISTANCE FOR TOURISM-RELATED PROJECTS – LESSONS FROM CROATIAN'S EXPERIENCE

Croatia is a traditional tourist-oriented country. According to the World Travel and Tourism Council more than a quarter of Croatian GDP comes from tourism industry. Specifically, the contribution of tourism to GDP is estimated in 2011 year to 26.5%, almost double the world average. That same year, the tourism sector was 311 000 employees, which makes 28.3% of total employment, and more than double the world average (WTTC, 2012). Tourism investment in 2011 consisted of 11.4% of total investment in Croatia. It is estimated that they should grow in the year 2012 by 14,2 % and grow by 5,2 % per annual over the next ten years. The growth of the tourism product in recent years confirms that Croatia is on its way to tourism an active generator of economic development (Republic of Croatia, Ministry of Tourism, 2010.)

Croatia in recent years has experienced significant changes related to process of joining the European Union, both on political and economic level. Although the status of official candidate for the full membership Croatia received in June 2004, today Croatia has the status of acceding country after five and a half years of negotiations on the conditions under which Croatia joining the EU.

The experience, which Croatia has in recent years from a very dynamic relationship with the European Union and the importance, which tourism has for the Croatian economy has sufficient reason to analyze how much Croatia has managed to exploit the

possibility of financing tourism-related projects for pre-accession funds of the European Union. Croatian's good and bad practice can be of great assistance to candidate countries and potential candidate countries in finding the best ways of using financial assistance from the European Union.

According to the Ministry of Finance of the Republic of Croatia shown in Table 4, it is easy to observe remarkable percentage of contracted funds of total allocated pre-accession funds. CARDS 2003 and CARDS 2004 assistance programs were contracted in a very large amount of 97,68 % and 94,61 %. Percentage of contracted funds under accession program PHARE 2005 and 2006 exceeds 85%, the lowest percentage of contracted funds generated through the SAPARD program, only 61,7 %.

Table 4: Financial overview of pre-accession programs CARDS, PHARE, ISPA, SAPARD on the day 31.12.2010 (000 €)

	CARDS 2003	CARDS 2004	PHARE 2005	PHARE 2006	ISPA	SAPARD
Allocated funds	29.367	46.574	73.141	64.149	59.000	25.000
Contracted funds	28.686	44.065	63.910	54.669	56.052	15.426
Contracted/allocated	97,68%	94,61%	87,38%	85,22%	95,00%	61,70%

Source: Republic of Croatia, Ministry of Finance (2010.) Izvješće o korištenju prepristupnih programa pomoći Europske Unije za razdoblje od 1. srpnja do 31. prosinca 2010.

Unfortunately, the good practice of contracting a high percentage of the first generation of pre-accession funding is not continued in the next two years. Table 5 gives a financial overview of the pre-accession program IPA components per its components. Comparing data from Table 5 with data from Table 4, it becomes clear that the percentages of contracted funds of IPA program significantly lower.

Table 5: Financial overview of pre-accession program IPA, components I - V on the day 31.12.2010 (000 €)

	IPA I 2007	IPA I 2008	IPA I 2009	IPA II 07-09	IPA III 07-09	IPA IV 07-09	IPA V 07-09
Allocated funds	44.554	41.374	42.101	5.359	142.350	38.277	102.900
Contracted funds	41.119	9.930	5.068	2.722	33.781	25.389	6.075
Contracted/allocated	92,29%	24,00%	12,04%	50,79%	23,73%	66,31%	5,90%

Source: Republic of Croatia, Ministry of Finance (2010.) Izvješće o korištenju prepristupnih programa pomoći Europske Unije za razdoblje od 1. srpnja do 31. prosinca 2010.

The largest percentage of the contracted funds has program IPA I in 2007 and to 92.29%. More than 50% of allocated funds are contracted just under programs IPA II and IPA IV, while the other components of the IPA have a very small percentage of the contracted funds, even less than 25%. One of the reasons for low exploitation is the fact that the Central Finance and Contracting Agency (CFCA) that is responsible for cash management, tendering, contracting, payments, accounting and reporting on funding the entire procurement system in a decentralized implementation of EU funds in

Croatia, founded only in 2007. The delay in construction of infrastructure has significantly contributed to the slowdown. (Bilas at al., 2011)

Table 6 provides an overview of tourism-related projects in Croatia financed by the European Union. The data presented in Table 6 also confirmed significantly lower realized projects under IPA program compared with the first generation of pre-accession assistance. However, it is evident that the tourism-related projects not funded only by funds of pre-accession assistance. Even three of these projects were financed under the Community Initiative INTERREG IIIA.

Table 6: Tourism-related projects financed by the European Union in Croatia

Project name	Funding sources	Project cost (€)	EU funding (€)	Share of EU funding in total cost (%)
Institutional strengthening and implementation of Natura 2000 network in Croatia	PHARE 2005	1.600.000	1.300.000	81,25
Trout and Tourists	PHARE 2005	630.222	472.667	75,00
Parenzana - the path of health and friendship	INTERREG IIIA	174.170	153.126	87,92
Restoration railways Vinkovci - Tovarnik - State Border	ISPA	75.761.000	28.789.180	38,00
Culturevive	IPA 2007	99.694	84.760	85,02
BASTION - Cities along the Drava open their fortresses	INTERREG IIIA	184.416	162.416	88,07
CIVITAS ELAN	FP7	5.140.000	2.981.200	58,00
Multifunctional sports and tourism hall Delnice	PHARE 2005	2.725.525	981.189	36,00
INFI - Adriatic cities in flowers	INTERREG IIIA	812.296	100.080	12,32
Biodiversity of subterranean fauna of Karlovac County	PHARE 2005	94.895	75.916	80,00

Source: Zajedno za europsko danas i sutra, Hrvatski projekti financirani sredstvima Europske unije (2009) i Zajedno za europsko danas i sutra 2, Projekti financirani sredstvima Europske unije u Hrvatskoj (2011), Delegation of the European Union to the Republic of Croatia, European Union Information Centre

If you look at the share of total costs of tourism-related projects in Croatia funded by the European Union, as shown in the last column of Table 6, it can be seen that a great percentage of the total cost for a large number of projects financed by the European Union. In more than half of the presented projects funded even more than 85% of total costs by the European Union. And less than 40% of total costs financed by the

European Union only three of these tourism-related projects in Croatia. Such percentage should be satisfied with keeping in mind that the more the total cost of tourism-related projects financed by the European Union, Croatia remains smaller amount that should be funded from other sources.

5. CONCLUSION

The experience of Croatia as a country that has already passed the long way towards the full membership in EU can be of great help for countries in status of (potential) candidate for EU membership.

In times of financial crisis the importance of tourism, as a sector in which exists a potential of resolving one of the crucial economic issues-unemployment, all financial help should be considered as a possibility to make economic break true. That is the reason why the (potential) candidate countries need to put some extra effort in providing skills and knowledge to access financial means from EU funds. Example of Croatia shows that, although there is no unique European policy for development of tourism as a sector, tourism related projects can be successfully financed from accessible EU funds.

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BUILDING OF A NEW EUROPEAN ECONOMIC AND POLITICAL HORIZON: THE UNITED STATES OF EUROPE AFTER THE EUROPEAN UNION?

ABSTRACT

The current crisis of the European project is so strong that it is already talking about it in binary options: reform or disintegration of the EU (with a new grouping). When considered in the framework of reforms emphasizes the idea of strengthening European unity through fiscal and political unification. In the end, to unite at new levels led to to the emergence of the United States of Europe. Fiscal unification is already implemented through the harmonization of taxes (tax on financial transaction, european VAT) and control of public spending in the states, and a package of penal measures for disobedience (eg. Euro plus pact, Pact of competitiveness, Pact of stability and growth, single supervision of banks). However, already at the level of these partial measures targeting the saving appear first major obstacles the project of European federalisation. The fiasco of the European financial sector pushed the states toward economic policy which works to the interests of banking sector and stop the economic growth and development. In terms of market orthodoxy it is necessary means continuation of dismantling welfare states. The lack of economic growth and socialization of debts are the most powerful forces of disintegration. Because of fiscal consolidation, economic stagnation and impoverishment of the population boost national protectionism and political forces that have, say the least, democratic deficits. The same kinds of criticism have long been referred to the EU institutions. However, this insufficiency up to now justified with an economic and market reasons sufficient for the survival of European unity. During the construction of political unification problem of lagging democratization of the EU political space gets the sharpness and importance. Future transfer of the political sovereignty of the nation-state to the European federation would lead to a sharp left and right opposition. Hardest will oppose those who believe that EU has never created enough clear worlviews, and political and democratic basis for union. Because, as it known, federalism has no inherent political values or by itself can achieve defined policy objectives. Not at all did not matter which political party, left or right, dominated the parliament of a European federation. As can not resolve the economic and political problems the federalization not do much to overcome recent cultural (eg. behavior toward «southern» countries) and other european split. But uncertain fate of european market project and mentioned problems in the way of building political union are at the same time call for a new and stronger commitment to build some form of federation. It's foundation should be placed on strengthening democracy and social solidarity, both within the member states and within their borders, rather than solely on «bank accounting». Therefore, in this paper, through

political and economic analysis and critique of proposals for the reform of EU, examines the radical changes that will for decades strongly influence European unification (or detachment), but also to the general development of countries in southeastern Europe which want to become EU members.

Key words: *crisis, fiscal federalism, political unification*

JEL classification: *E62, F15*

1. INTRODUCTORY NOTES AND CONSIDERATIONS

Despite all the invested efforts, it is not difficult to observe that the eurozone and the rest of Europe are struggling under the burden of three crises. These are the banking, world debt and economic growth crisis. Due to them and all the negative consequences thereof, it has come to rigorous restrictions of budgets in the public sector, discouragement of investments and avoidance of shops by consumers. All of the three crises have appeared as a result of the American financial-economic crisis of 2008, though they would have emerged later anyway, regardless of their transatlantic incentive. As far as known, these crises have actually resulted from the creation of a monetary union, followed by the development of necessary economic and political institutional infrastructure without which the euro as a common European currency would be doomed. The issues related to the three-dimensional nature of the European crisis will gain additional importance if the fact that the search for and implementation of respective solutions might lead to eruption of crisis hot spots is taken into consideration. As one could expect, four years of the financial-economic crises have generated favourable conditions for emergence of a severe political and social crisis.

Due to the seriousness of the crisis, numerous scenarios, including some black ones, pertaining to the survival and future development of the eurozone and the European Union as well as of the entire world are being considered these days. In spite of the prevailing gloomy atmosphere, many intellectually and politically influential participants have started to discuss about a more comprehensive and integrated way to combat the crisis. Thereat, enhancement of European integrations implies development of a European banking, fiscal and political union, also open, in the principle, to those countries which will not, at least in a near future, join them. Basically, this is an attempt to utilize the crisis for enhancement of the European project and prevention of renationalization of a number of policies. These structural reform interventions are aimed to raise the level of the European unity and to, in the end, facilitate establishment of the United States of Europe through cohesion processes.

The commencement of contemplations about this exceptionally interesting, great and far-reaching idea means that the EU have begun to prepare itself for historical decisions which should thoroughly change and turn it into a federal European community. If sovereign European countries accept this initiative as their common political goal and assignment, development of the United States of Europe will represent a certain revolution in the long run. Of course, the way to a federation or some other special form (*sui generis*) of association of European countries is long, curvy and full of obstacles and mysteries since the EU has not even become a confederation yet. Despite

its joint currency, the EU cannot be called a confederation because it has neither a single monetary nor fiscal policy and it lacks a common foreign policy and an army. Nevertheless, irrespective of the troublesome categorization of the existing form from the perspective of constitutional law and of the level of European integration, the EU and its currency simply have no future without a harmonized monetary and budget policy. If and when they are adopted, this will represent not only the first step towards a (con)federation but also completion of a fair share of the quest for a solution for the current crisis and prevention of future crises. Moreover, this could be a good foundation for political unification and establishment of a real federation in which the European Parliament would be granted powers of a common legislative body and the Commission powers of a real government.

Due to the importance and complexity of the idea and project of the development of the United States of Europe, this paper provides for a short overview of their major origins, reasons, levels and features as well as for an explanation of their most serious drawbacks which might block further economic-political unification or even make the process reverse. Not to mention how the economic recovery of Europe depends on the success or failure of the wider banking, fiscal and political integration, but it should be noted that without running fast and strong growth across Europe banking and fiscal union do not make sense, and the idea of the future federation.

The introductory considerations are followed by a search for real causes of the still unresolved European crisis. The third part of the paper deals with the critiques of the (semi)official European austerity policy and caters for an explanation of its devastating economic, political and social consequences. The fourth part offers comments and proposals for economic and political measures which should be agreed upon by the Commission, European Central Bank and other international institutions in order to finally overcome the crisis and to reinforce the European integration. After highlighting the major insights into the sources and dimensions of the European crisis as well as quasi- and real solutions for dealing with it, the fifth part, which is also the concluding part of the paper, exposes the idea of the United States of Europe, its justification and plans for its realization to various forms of criticism which, more than less, denies the possibility of further development of the European (con)federation. Such critiques can be perceived as warnings with respect to issues that may slow down or stop the development of the (con)federal United States of Europe.

2. REAL CAUSES OF THE EUROPEAN BANKING-DEBT-ECONOMIC CRISIS

A noble experiment, the essence of which refers to the search for a reform solution which would provide Europe with permanent peace, economic growth and political democracy, has been being conducted in Europe for almost 60 years now. The integration of European countries began in 1951 when the *European Steel and Coal Community* was founded, which gave Germany and France the green light to free cross-border trade in coal and steel. The respective Treaty did not only cater for economic benefits but it also set grounds for mutual understanding and peaceful coexistence between countries and nations which had often been in armed conflicts

through the history. An even higher level of European integration was reached in 1957 when six European countries founded the *European Economic Community*. The new Community was a customs union, enabling free trade between the member states and introducing common customs tariffs regarding import from non-member states. During the 1970s, the EEC was joined by the UK, Ireland and Denmark. In the meantime, the Community expanded the list of its missions and started to provide undeveloped European region with assistance and promote a democratic form of government. The membership in the EEC grew in the 1980s too with the accession of Spain, Portugal and Greece after these countries had overthrown their dictatorships. The decades to follow were characterized by the accession of socialist countries which abandoned command economy and undemocratic regimes.

Harmonization of economic regulations, elimination of cross-border barriers and free movement of work force have gradually brought to deepening of mutual economic integration. Every higher level of economic integration implies firmer political ties between the member states. The long-lasting economic and political integration and unification were symbolically crowned in 1999 when the euro was introduced (i.e. the emission of coins and banknotes in 2002) and promoted in the official currency of more than 300,000,000 million citizens of the newly created eurozone, i.e. monetary union. The birth of the euro led to the expected simplification, price fall and expansion of safe business between the eurozone member states. However, some painful conclusions came to light in 2008 when the effects of the financial-economic crisis reached the coasts of Western Europe. The euro is unfortunately linked with the outbreak of the three-dimensional crisis which is still tearing apart the economy and society of a large number of European countries (Krugman, 2012, 167-169). The European integration is not intact any more since the long-lasting economic, political and social crises are being mutually stimulated. What makes us think that the emergence and expansion of the European crises can be attributed to the introduction of the common currency?

Soon after the introduction of the euro and raising trust and expectations, investors from leading European countries commenced with major investments into southern European countries. Such a volume of pecuniary investments had not been possible prior to the introduction of the euro since the lending interest rates in southern Europe were much higher than those in, for instance, Germany due to the fear of devaluation and state bankruptcy. The combination of a lack of experience and knowledge and the greed of European banks (particularly of German and French banks, still the extent of their greed was not so great as in case of American banks) created an atmosphere in which the cheapest loans ever could be easily granted in southern European countries. In some countries (not in all of them), these loans facilitated boom times in construction industry which were to be turned into a construction bubble in a relatively short time (Krugman, 2012, 174). However, before this bubble burst, vast capital flowing from the north of Europe to its south had encouraged a salary growth, a 35 % increase within the period of ten years. Unlike Germany in which salary grew by 9 % in the same period, huge salaries in southern countries made their industry uncompetitive with respect to the, for example, German or Chinese one. This was the reason why Europe's uncompetitive south (Greece, Portugal, Spain, Italy plus Ireland) accumulated trade deficits while it came to a trade surplus in Germany. In Krugman's

opinion (2012, 175), this rising competitiveness and trade balance gap represents only the core of the European issues since one of its effects included asymmetric economic shock. Due to the burst of the construction bubble, which, to a fair extent, resulted from the American crisis reaching the European soil in the meantime, the economy of southern Europe did not only go down with the recession but were also affected by the banking crisis and growing budget deficits. In fact, countries suffering from budget deficits are often forced to induce fiscal deficits in order to maintain their domestic aggregate demand. Without a fiscal deficit, such countries would face a high unemployment rate and the severe social and economic consequences thereof would be hardly swallowed by the politics (Stiglitz, 2010, 326). Cumulative shocks started to push national outputs and employment rates downwards and increased the expenses of the states both for the unemployed and social programmes and for rescuing banks and returning their debts. The tangled knot of the issue – recession, banking debts, budget deficits and public debts – enticed the growth of interest rates which, at a certain moment, skyrocketed and thus threatened indebted states with bankruptcy and economic collapse arising from the termination of the inflow of fresh (too expensive) capital.

The Greek crisis does not fully resemble crises in other countries since Greece was not affected by the overblown construction bubble. Prior to the outbreak of the crisis, Greece had suffered from the deficit of 5.1 % (2007). Although its unemployed rate (10 %) fitted into the European average, its deficit of 13.6 % was the second largest (next to Ireland) in Europe already in 2009. The external debt of the country amounted to 115 % of its GDP. Like other countries, Greece could not avoid huge import and trade deficits and was forced to cover the state income fall with foreign credits (about 80 % of the Greek debts refer to German and French banks) and huge public expenditure which supports aggregate demand and employability. Like many other governments and banks, the Greek Government used to cover up its financial status for a number of years and was thereby provided active assistance by foreign banks (especially by American banks such as Goldman Sachs which used to sell their knowledge of accounting policies and financial products to foreign governments for the purpose of deficit cover-up, e.g. derivatives) and ignorant credit rating agencies as well as the European Central Bank and the International Monetary Fund. After the elections held in October 2009, the Greek Government disclosed their own falsification, but financial markets decided to give it no credit for such a decision. On the contrary, they punished Greece undertaking a well-planned attack in 2010, probably due to the fact that Greece is a small country which can be raided with relatively little money (Stiglitz, 2010, 323-324). The attack against Greece is just an example of numerous attacks against developing countries. The financial sector, saved throughout the world by government interventions (including the Greek Government!), turned itself against their savers. Having noticed large deficits and state needs for financial products, the financial sector grabbed a new chance for making profit. Anticipating that due to the refinancing of debts and financing of deficits (this makes a huge deficit a huge problem), Greece would turn to capital markets and face problems in being granted expensive loans, banks simply sold it short-term bonds. This way, the bankers made the bet that these bonds will experience value decrease and hence they will make profit by buying them off later at lower prices. Banks actually utilized a new weapon for mass financial destruction against Greece - *credit default swaps* (CDS) (Stiglitz, 2010, 322-323).

While the good sides of the euro made the bankers, investors and governments unvigilant and thus indirectly enabled outbreak of the European three-dimensional crisis, the bad sides of the euro are directly deepening the crisis and making it longer and immune to anti-crisis measures. Namely, at the moment of the adoption of the euro as a common currency, the eurozone states got a currency with a fixed exchange rate. It means that all of them gave up on devaluation as an important instrument for adjustment to asymmetric economic shocks. If Greece, Spain or a third country was able to devalue its own currency as it had been possible before the introduction of the euro, the appertaining economy would competitively adapt itself to the crisis and commence with economic recovery. The recovery would be facilitated by devaluation which would be aimed at reduction of production costs (wages and other labour-related costs), creation of price advantage over more productive competition and enhance export. Raising its own competitiveness by cutting down on production costs when other solutions are only useful in the long run (e.g. technological advancement) contributes not only to larger export but also indirectly to protection of domestic producers and workplaces from excessive import and its bad sides. The current issues have gained even more importance due to the fact that the introduction of the euro made the member states to abandon devaluation and their own monetary policies. Monetary sovereignty and jurisdiction over the monetary policy was transferred to the European Central Bank (ECB). If the member states had not done this, countries affected by the crisis would be able today to, at least in theory, influence the decrease of interest rates and encourage investment which would then enhance production and create workplaces. Instead, countries affected by the crisis are not in position to do anything concerning encouragement of their own production since they do not have classical instruments of foreign currency and monetary policy under their control (Stiglitz, 2010, 322-323). It can be anticipated that in the future, countries like Greece, Portugal and Spain, regardless of the assistance provided and general socialization of debts and banking losses, will still be facing the same structural problem: how to achieve the competitiveness of their economies and start economic growth without monetary sovereignty and the possibility of exploitation of major pillars of economic policy?

3. AUSTERITY POLICY AS A QUASI-SOLUTION AND ITS ECONOMIC, POLITICAL AND SOCIAL CONSEQUENCES

Substituting devaluation with an instrument euphemistically called internal devaluation has been introduced as a solution, or it is deemed so, for the crisis. This is basically a second type devaluation, but it also effectively reduces the price of a labour unit. However, reduction of labour costs in one country urges other countries to implement internal devaluation too unless they want to lose their competitive advantage and face economic problems. The spiral decline of salaries leads to, naturally, to the issue of inadequate effective demand. Unfortunately, internal devaluation has an additional flaw which does not usually accompany classical devaluation. In fact, internal devaluation can be hardly embraced by those who make a living from their workplace, particularly if they are not so sure that this instrument will not affect all the workers equally and that a significant fall in their personal income will make their life easier by the time. While trying to break the resistance to the relative decrease of salaries and deprivation

of workers' rights, governments have to deal with workers and trade unions and they do it with varying success. Such government interventions cause social riots since the government cannot convince the employed that they have to carry the heaviest burden in overcoming the crisis. This has recently incited the Commission to unsuccessfully impose restrictions of the right to strike throughout the Union. The labour-dependant part of population and those whose existence depends on state transfers are directly demanding that the greatest share of the crisis costs are borne by the rich minority who in the last decades have made profit by the finalization of economy and society and thus seized the entire material advancement. In case the European crisis also originates from the neoliberal economic policy which deregulated banks, brought the irresponsible conduct of the financial sector in the whole world to the surface and supported financial speculations and profit growth putting the burden thereof on the back of the impoverished majority (*trickle-down* economy), politics should not blame ordinary people for big salaries, undeserved privileges and excessive personal consumption. The figures undoubtedly suggest that the living standard of app. 65 % Greek citizens fell down during the strong economic growth from 1993 to 2009 while life got better only for a small population who was firmly bonded with the German and French financial sector. Similar ratios characterize other European countries as well.

Instead of diverting attention and directing the anti-crisis measures towards diminishing uncompetitiveness and trade imbalance of southern European states, the response of European institutions wrongly focused on the Greek case and budget deficits as the main sources of the multidimensional European crisis. Still, apart from Greece and partially Portugal, other crisis-affected countries had not been featured by any major budget deficit or had been efficiently working on its reduction prior to the emergence of the financial crisis in 2008. These countries faced financial problem only after having taken foreign credits to save their own banks and banking systems. Taking inadequate account of the real genesis of the crisis, crisis-affected countries are forced to decrease their deficits by strict reduction of public expenditure and tax increase (Krugman, 2012, 177-179).

Strict austerity and financial consolidation compelled countries to adapt themselves to the European fiscal framework which does not allow a deficit exceeding 3 % of the national GDP, i.e. public debt exceeding 60 % of the GDP. Although it is a common fact that strict austerity has a negative effect on employability and aggregate demand, preferring austerity as a way of dealing with the economic crisis means following the neoclassical recipe for economic recovery based on return of confidence in business transactions (Stiglitz, 2010, 320-321). According to this doctrine, confidence and economic growth are restored after reduction of the public expenditure and budget deficit, accompanied with a simultaneous increase of taxes. However, similar IMF programmes implemented in east Asia, Latin America and Russia have provided evidence that this model of combating economic crises simply does not function in practice. Accordingly, reduction of public expenditure weakens the economy and decreases growth rates, which is followed by a rise of the unemployment rate, a fall in salaries and public revenues. The application of this model in Greece has brought to the fact that one fourth of the population of working age are unemployed whereas in terms of people under 35 years of age, the unemployment rate has hit the 50 % limit. The fall of economic activities causes a fall in country's tax revenues (which cannot be

compensated by the increasing rigorousness of the state concerning tax collection), which makes mitigation of the tax deficit even more difficult. Cutting down on public expenditure cannot restore business confidence and economic activism. Furthermore, an undesired effect thereof can be a decline in investment and public expenditure. What awakes concern is that most European countries, lead by Germany, prefers the neoclassical model of dealing with the crisis. Except for favouring interests of large financial institutions (smoother short-term collection of taxes), this failed model in the macroeconomic sense represents a threat for the society since it puts the recipe for resolving the crisis on the back of the broadest layers of population. In Greece, this model can be linked to a rise in the suicide rate, proneness to diseases, homelessness and divorce. The official European austerity, social stratification and monetary unity policy deprived of necessary mechanisms for more equal redistribution of economic surpluses is not only dangerous because it destroys the concept of social state and welfare but also since it, on an international level, produces national stereotypes such as the one suggesting that Greek people are lazy. Making a bad picture of particular nations is aimed at justification of the difficult economic situation and at galvanization of national protectionisms and creation of a political space for gaining popularity of extreme political parties and populist options. Unfortunately, even those countries which opted for Keynesian measures such as Greece and Spain are aware that they have no other option but autonomously reduce their deficit and public debt. These countries assess that otherwise they will not be in position to get necessary capital on financial markets and will finally be forced to primary reduction of the deficit and debts. The fact that these countries will face deepening of the economic crisis is of less concern to European leaders and institutions than the successfulness of the collection of bank receivables and satisfaction of their appetites considering profit-making.

For the sake of truth, one should point out that austerity programmes may lead to economic recovery, but only under unrealistic conditions and these are successful implementation of internal devaluation and decrease of interest rates. Nevertheless, even in case these conditions are fulfilled, there is still a serious problem since fiscal consolidation deteriorates the ratio of the national debt and gross domestic product, which then has a negative effect on the confidence of the market and investors. Even if the austerity measures efficiently do their job, it seems that the respective economic benefit is inferior to vast damages to the society. Therefore, it might happen that numerous and various social groups throughout the EU start to challenge their benefits from inclusion into European integrations.

4. THE NEW ECONOMIC POLICY, THE BANKING AND FISCAL UNION AS THE ROAD TOWARDS EXITING THE CRISIS AND THE BEGINNING OF THE FEDERATIVE EUROPE

The European banking, debt and growth crises can only be solved by applying several packages of various measures and instruments, all of which have in common that they would mean a systematic reform of both the Union and the euro zone. First, it should start with eliminating major systemic flaw of the eurozone, which stems from the failure of timely upgrades monetary union by creating a fiscal union. Due to this omission, the asymmetric economic shock has resulted in more severe consequences

than they could have been. Namely, each common currency zone can arrive at its optimal results only when three conditions are met: the existence of strong trade relations between the countries sharing a single currency, high workforce mobility and the fully-built fiscal union institutions. While in the euro zone's case the first condition has been met (about 60% of the trade is carried out between the Member States), the other two have yet to be fulfilled. Even though the Union has declared the freedom of employment, for a number of reasons the European workforce mobility is still poor. Because of that, the workforce from regions affected by the crisis and unemployment does not shift in any significant way to regions with economic growth and rising workforce demands.

The lack of the fiscal union poses another kind of a problem. Despite being a member of the monetary union, each state must in the case of a crisis solve its issues alone and isolated from others. No central government and common budget will stand behind it, and without that, banks cannot be rehabilitated, pensions and social benefits cannot be paid, nor can bank deposits be guaranteed for (Krugman, 2012, 171-172). If there is a crisis, a member of the monetary union can only get help by insecure non-institutional solutions such as *ad hoc* solidarity funds. It is exactly for this reason that the European Financial Stabilisation Mechanism (EFSM) and the European Financial Stability Facility (EFSF) have been formed. The EFSM allows the Commission to borrow in the financial market in the name of the EU and for the account of its budget. The borrowed funds are loaned to Member States with the payment of interests. The EFSF can emit highest credit rating (AAA) bonds, which are guaranteed for by the euro zone members up to the amount of 440 billion euros. The funds collected by bond sales can be used for lending money to euro zone members. Meanwhile, a long disputed permanent mechanism for crisis solving (ESM – European Stability Mechanism) has finally been established, as well as approved by Germany. This mechanism, also known as the "European rescue fund", has about 500 billion euros at its disposal and partially assumes the functions of a joint budget and central government body.

Having finally understood (after four years of crisis) that the majority of the problems come from the non-existence of a fiscal union, the EU has recently sped up its development. In the future, fiscal unification will be implemented by tax harmonisation (introducing taxes on financial transactions and the European VAT), public spending control in Member States (the Fiscal Pact and the Parliament Directives), and by implementing a package of sanction measures for undisciplined members (e.g. Euro-Plus Pact, Competitiveness Pact, Stability and Growth Pact). The so-called Fiscal Pact of March 2012 (coming into force in 2013, fully named Treaty on Stability, Coordination and Governance in the Economic and Monetary Union), requires from all the EU Member States (it has not been signed by Great Britain and Czech Republic) to balance their national budgets or bring them to surplus. Otherwise, any state that breaches the permitted limit will be fined up to 0.1% of its GDP. The future public spending control has also been increased by the adoption of two directives by the European Parliament, giving new powers to the Commission in respect of controlling the euro zone members' budgets. Although yet to be confirmed by Member States, these two directives have been presented as the "core of the fiscal union". They provide the Commission with the authority to demand new budget drafts to be developed in those states where national budgets fail to respect public debt limitations.

In the year 2013, a Single Supervisory Mechanism (SSM) for banks should be set in motion, this being another step closer to establishing not only the banking and fiscal union, but political union as well. This mechanism proposal puts the European Central Bank (ECB) into the position of a "supervisor" in charge of authorising or withdrawing authorisations of credit institutions in the euro zone, assessing acquisition and disposal of holdings in banks, making saving deposit guarantees etc. The central supervision would be financed by taxing financial institutions and transactions, with the aim to protect the financial stability of the euro area which has over 6,000 banks doing business in its territory. Their business activity has previously been regulated by national legislations, despite them actually having been (irresponsibly) active all over the world (Gligorov, 2012). The centralized banking supervision means that national supervisory bodies would lose virtually all of their powers in terms of shutting down or restructuring troubled banks. The central supervisory body will represent a crucial change in governing the euro zone because it introduces shared risk distribution. This will at the same time fulfil the precondition for the European Stability Mechanism (ESM) to directly finance troubled banks. In this way, it would no longer be necessary to first loan to countries in order to save their banks, which used to result in national debt increases, growth of loaning costs and decline in production (especially in the case of Spain). The budgetary issues of countries with bankrupted banks will be mitigated in the future, and the direct saving of banks and financial sector is the first condition for solving the financial crisis.

With regard to the debt crisis, the countries that are affected the most would be mostly aided by issuing special euro-bonds for which the euro zone members would bear joint responsibility. This federalisation of liabilities is not acceptable to Germany unless followed by the federalisation of powers, which in turn is not acceptable to France. Still, it is clear that joint euro-bonds would be a safer form of assets for banks than national bonds. So far, only the programme for purchasing national bonds of countries facing high borrowing costs has been successfully agreed upon.

In spite of everything that has already been done or is intended to be done, the crisis will not pass unless the current economic policy based on drastic saving is substituted by a Keynesian model to stimulate growth. A sustainable solution, that would not push country after country into a situation such as that of Greece, consists of changing the goals and the purpose of public spending aiming to generate high economic returns (Stiglitz, 2010, 319). Therefore, regardless of the size of its current debt, a country in crisis should keep borrowing, in order to be able to invest in the development of technology, infrastructure and education. This should, with a 5-6% annual growth, reduce its debts in a long term, but also increase its tax revenue that will pay for loan interests. Tax structure can also be influenced to stimulate economic growth, increase tax revenue and reduce deficit. Simply, corporate taxes should be increased for those who do not reinvest and reduced for those who do. Also, taxes should be increased for high earnings and reduced for low earnings. Further, governments should provide loan incentives for private entrepreneurship and citizens, and if old banks do not want to aid them in this, establish new banks. Only a fraction of money spent on saving old banks can support the emergence of a series of new financial institutions unburdened by bad decisions from the past. Although ECT has so far lent 1 trillion euros of cheap loans to commercial banks, encumbered by their own problems, the banks have largely kept the

money for themselves. Unfortunately, there has been no recovery of spending and investment, but not because the growing deficits diminish consumers trust (as neoliberals claim), but because governments rely on the trickle-down doctrine. They hope that non-restrictive injections of money into banks will lead to a rise in borrowing, which would be enough to start a more significant economic growth. Such policy has not brought many results for the time being and employment rates are not growing. The trust in the economy has weakened rather than recovered in respect of the neoliberal policies and promises given by governments. The adopted European package of approximately 120 billion euros intended to stimulate economic growth is only enough for introducing a different economic policy.

Among numerous proponents of European economic recovery measures, Jay Shambaugh has brought out some interesting ideas (The Economist, 2012, 36). He proposes that countries with high deficits should reduce their labour costs by reducing income taxes and increasing VAT to discourage imports. Countries with surplus should do exactly the opposite. In such case, Germany could help the most by stimulating its own economy and/or slowing down the process of consolidating its own budget. The ECB should permit a higher inflation rate, especially in Germany, and stand firm behind solvent countries. The EFSF/ESM funds should be used to recapitalise bad banks, and the joint protection of bank deposits would reduce entrepreneurs' fear from risk, re-establish interbank lending and prevent the outflow of money from problematic southern banks towards northern banks.

5. CLOSING CONSIDERATIONS

The banking, debt and economic growth crises have occurred as the result of the incompetence and irresponsibility of the American and European financial sectors, the disproportion in competitiveness between the euro zone members and the lack of a single monetary policy and common fiscal policy. These crises are not the consequence of overspending by Europe's social states and their over-indebtedness, as is commonly thought. Other than in the case of Greece, the deficits, debts and recession in the euro zone member countries have taken place after the outbreak of the crisis induced by the trans-Atlantic financial and economic breakdown of 2008. However, the same thing would have happened by some other turn of (mis)fortune, since the real reasons for the crises are related to the introduction of the euro as the common currency and the structural flaws of the European monetary policy. In addition to some major benefits, entering the euro zone also meant waiving the option to use own currency and monetary policy instruments for all its members. Without these instruments of quick adjustment, the euro zone members affected by economic shocks were unable to react to aggravated economic conditions. However, even this disadvantage would not pose a particular problem had all the euro zone members found themselves in the same set of problems. In that case, these problems could have been efficiently addressed by changing the common currency and monetary policies. Unfortunately, the euro zone member countries were struck by an asymmetric economic shock, due to which their various problems cannot be addressed by unified economic policy measures, i.e. such measures would in some countries result in an even worse economic situation.

Something along these lines happened after the most influential euro zone countries imposed an anti-crisis policy based on strict saving on all the others, while non-competitive countries were forced to internal devaluation as well. For the most competitive countries, such policy brings no harm in the long run, while facilitating the collection of receivables and balance rehabilitation on the part of their banking sectors. In this way, the economic future of the countries that are in crisis is being sacrificed in the interest of the most developed ones and their financial sectors. Their national products and budgetary revenues are in decline, while their unemployment rates grow. In the long run, such anti-crisis policy will ultimately lead all European countries into contraction and double-dip recession.

The duration of the crisis, saving policy, internal devaluation, disassembling of the social state and the confrontation of national interests have created doubts as to the legitimacy of the idea of the European community and the survival of the euro zone. The concepts and powers advocating leaving the Union, change of boundaries, protectionist measures to preserve national industries and jobs etc. have become stronger. On the other hand, an idea has emerged aiming to preserve and even further deepen the European unity by correcting previous mistakes. It is a political project of strengthening European cohesion through the completion of building the monetary union and adding a fiscal and political union to it. These processes would ultimately result in the creation of the United States of Europe, whose federal institutions and functions could prevent the devastating effects of economic shocks in the future. Although it seems that this is not the best time for developing and implementing the idea of further European federalisation, the historical example of the United States of America shows that it was exactly the crises and bankruptcies of individual states that the federal government exploited for the successful centralization of authority.

It appears that, despite of all the current problems, naked economic calculations speak in the favour of the survival of the euro and the integrity of the euro zone. Should Spain, Ireland, Portugal, Cyprus and Greece (whose joint debt presently amounts to an enormous 1.15 trillion euros) leave the euro zone, this would mean a cost of 500 billion euros incurred by Germany alone, i.e. twenty percent of its national GDP. This would lead to other costs induced by market disruptions, higher borrowing costs and national market closures. It costs less to save the euro currency and its zone than to destroy it. The necessity of solving the debt, banking and growth crises at the same time makes the saving effort even more difficult. For the purpose of exiting the banking and debt crisis, European solidarity aid funds have been formed, programmes for purchasing bonds issued by indebted countries have been approved by the ECB and the grounds of joint responsibility for business and funds of European banks have been established. The banking union, the development of which will cost between 300 and 400 million euros is complemented by fiscal union elements, such as control of public spending in Member States, sanctioning undisciplined members, introducing taxes on financial transactions and European Vat. There is a growing number of federal economic instruments that could strengthen the euro zone in handling future shocks, as well as further the level of integration of the euro zone.

The key issue remains the lack of a single agreement on mitigating the saving policy and accepting the economic reinvigoration and strong growth. Spain is a good example

of how bad the policy of saving is, since layoffs and salary cuts have reduced the ability to pay off debts, deepened the problems in the financial sector, increased the number of bankruptcies and unemployment rate and caused politically destabilising social tensions. Because of this, Spain and other highly indebted countries urgently need, in addition to systematic reforms, funds that would enable a rapid rise of their economies. Even though this would in relation to the prevailing developmental policy imply accepting the Keynesian model of exiting the crisis, sufficient funds for the development within the euro zone must promptly be secured. However, the most developed euro zone members are currently not interested in a different economic policy, seeking to maintain their high saving rates, competitiveness and export, and running away from joint obligations, money printing and stimulating demand in indebted countries.

It is a paradox that instead of leading to an improved cohesion the problem of initiating a strong economic growth in the entire Europe results in disagreements and threats to dismantle the euro and euro zone. There is simply a lack of understanding and vision that the absence of economic growth and the national socialisation of debts are the strongest forces of disintegration. Due to the fiscal consolidation, economic stagnation and impoverishment of parts of the population in all the euro zone members (both in the North and the South), individual national interests are on the rise, as well as the political forces opposing further transfer of sovereignty to central European institutions. Despite being referred by the concrete crisis situation and its causes toward a higher level of federalization, in the atmosphere of economic stagnation successful countries hesitate in fear of taking new commitments, while the countries in crisis are frightened by the loss of their remaining economic policy instruments. Political doubts and resistances in regard of transferring fiscal, executive and legislative government from the national levels to the Union would be far less significant if a different economic policy would prevail, one that can secure economic growth, a more fair distribution and the credibility of the seriously shaken European project. This credibility, in truth, is not the only factor related to economic growth (there are numerous other areas, such as e.g. the democratic and environmental legitimization of the Union), but it remains its key determinant. Establishing the banking union, permanent aid fund and the introduction of central control over national budgets are only the first and reversible steps toward the United States of Europe. But the survival of the existing integrations and the continuation of fundamental changes along the lines of the Union's federalisation primarily depend on the speed and strength of the economic recovery of the entire Europe.

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SERBIA ON THE ROAD TO THE EUROPEAN UNION

ABSTRACT

The cooperation between Serbia and the European Union has lasted for more than twelve years and its main goal is that Serbia becomes a fully-fledged EU Member State. A general legal framework for cooperation is the Stabilization and Association Agreement and the Interim Agreement on Trade and Trade-related issues with the European Union. In this way, Serbia has become an Associated State that has officially started preparing for and fulfilling the conditions of EU membership while promoting stabilization in the Balkans at the same time.

Key words: *association, EU membership*

JEL classification: *F15*

1. INTRODUCTION

With the end of war in Bosnia and Herzegovina and the signing of the Dayton Agreement, the legal conditions for stabilization in the Balkans were created. At the beginning of 1996, the European Union formulated so called Regional Approach, which included the Balkan states of Albania, Macedonia, Serbia, Montenegro, Croatia and Bosnia and Herzegovina. A basic characteristic of the Regional Approach was a development of bilateral relations and mutual cooperation of states in the region. The European Council meeting in Santa Maria da Feira on 20 June 2000 emphasized that West Balkan countries are potential candidates for EU membership and, consequently, the European Union initiated the enlargement process in the Balkans.

In 1999, the European Union changed its system of regional policy towards Balkans and it started perceiving the enlargement process in the Central and Eastern Europe in its broader context, as the Balkans showed an interest in becoming member states of this large international grouping. The negotiations between the EU and Serbia on conclusion of the Stabilization and Association Agreement started on 10 October 2005 and they were finalized on 10 September 2007. Upon the resolution of the problems in cooperation between Serbia and the International Criminal Court, the Council of the European Union decided that it was necessary to continue the ratification process of the international agreement in question. European accession agreements belong to important sources of international law because they establish a basic framework for

coordination and cooperation of the contracting parties. The agreements in question are concluded in accordance with the principles of the public international law.¹

After ratification of the agreement in question in the Member States and considering all circumstances the European Commission confirmed that the status of an associated state could be granted to Serbia. Thus, Serbia follows Croatia, which has already completed the process of preparation for EU membership. The strategy towards the Balkan states suggests that EU enlargement process has not been stopped and that there are other European states wishing to participate in the unification of the European continent. Upon completion of the negotiation process and the Accession Treaty's entry into force, Serbia will have to fulfill its commitments resulting from its membership in the EU. A new member state has a right to delegate its representatives to the institutions. The membership is also connected with an obligation to contribute to the EU budget in accordance with the legislation in force as well as repayment of a required amount of share capital in financial institutions and funds.²

2. INTERNATIONAL ASSISTANCE TO SERBIA

In the beginning, the cooperation between Serbia and European Union was focused on international assistance in the form of humanitarian aid that was designed for the following population groups:

- refugees from the conflicts in Bosnia and Herzegovina and Croatia
- displaced persons from Kosovo and
- the most vulnerable groups in Serbia (disabled persons, dependent children).

The total amount of aid given to Serbia in 2011 from the European Union was 2.2 billion EUR. Various projects were realized in the following areas: transportation, energetics, civil service reforms, local government aid, support for political reforms, strengthening the rule of law, protection of minority and human rights, development of the civil society, better regional cooperation, education, poverty eradication, etc.. States that provided Serbia with individual assistance were, among others, the following: Germany, Italy, Sweden, Norway, Switzerland, the Netherlands and Great Britain.

From among the EU Member States, Serbia has the best cooperation with Germany and since 2000, this country has given aid to Serbia in the amount of 1 billion EUR. In addition to this aid, Serbia has received also approximately 400 million EUR of aid from EU funds. It concerns provision of soft loans and subsidies for power plants and enhancement of energy efficiency, provision of assistance to small and medium enterprises, support of legislative reforms in the area of economy and improvement of business environment.

¹ Nováčková, D.: Základy európskeho práva a vnútorný trh Európskej únie, Eurounion 2004, Bratislava, ISBN 80-88984-58-0, pp.51

² Nováčková, D., Stachová, P., Hoffmann P.: Medzinárodné organizácie I, Kapitola : Členstvo v medzinárodnej organizácii, Skalica 2010, Západoslvenské tlačiarne Skalica, s.r.o, ISBN 978-80-89391-18-9, pp. 26

3. ASSISTANCE UNDER THE IPA PROGRAMME

In order to establish transparent procedures and effective use of pre-accession financial instruments, the European Union adopted Council Regulation No 1985/2006, which constitutes the IPA – Instrument for Pre-Accession Assistance of the Union to candidate and potential candidate countries.

The total budgetary funding under the IPA programme for the years 2007 to 2013 is 11.468 billion EUR. The goal of the pre-accession assistance IPA is to provide support to candidate or potential candidate states for the EU membership in fulfilling the Copenhagen criteria.

Funds under IPA may be drawn for the following areas:

- institution building,
- support of regional and cross-border cooperation,
- regional development,
- development of human resources and
- rural and agricultural development.

Since 2007, Serbia has received financial aid from the EU under IPA in the amount of 1.183 billion EUR. The following sectors have the most important share in the total approved non-refundable development assistance for the period of 2007-2011: education (10.1 %), local development (9.82 %), economy (8.58 %), civil service (6.21 %), transportation (5.82 %), direct budgetary support (5.47 %), jurisdiction (4.58 %), energetics (4.53 %), etc.

4. ECONOMIC DEVELOPMENT OF SERBIA

The country, destroyed by war, as well as the economy needed to be restored and new reforms had to be introduced to start up the economy. With the support of EU Member States, many production processes, services and economy as a whole were successfully revitalized. However, the inflow of foreign investment can be regarded as the most important step. International investments are the engine of the world economy. It is transnational corporations that play a key role in development of investments.³

Serbia has been one of the countries that have recorded an inflow of foreign investments of about 17 billion EUR since 2001, out of which around 60% are investments from EU Member States and European Economic Area countries. This confirms a high degree of economic ties of Serbia with the EU.

The table 1 shows an analysis of foreign direct investments

³ Nováčková, D.: Medzinárodné ekonomické právo, Eurounion 2011, Bratislava ISBN 9788089374120 pp. 89

**Table 1: Foreign direct investments, netto, from 2005 to 2010 according to countries,
where the payment was made (in thousand EUR)**

Nr	Country of origin	2005	2006	2007	2008	2009	2010	Total
1	Austria	168,864	409,815	848,627	330,567	234,149	145,850	2,137,872
2	Norway	24	1,296,061	2,326	4,025	-526	1,567	1,303,477
3	Greece	183,137	672,010	237,108	33,338	46,724	24,450	1,196,766
4	Germany	154,868	645,370	50,516	59,572	40,101	32,921	983,348
5	Italy	14,759	49,087	111,504	333,665	167,386	42,296	718,697
6	Netherlands	80,387	-176,560	-24,199	336,711	172,267	200,100	588,707
7	Slovenia	149,854	154,529	64,033	70,659	34,290	80,859	554,224
8	Russia	11,722	12,713	1,700	7,903	419,751	6,993	460,782
9	Luxembourg	88,331	4,839	185,226	48,576	6,002	6,739	339,713
10	Switzerland	45,922	-4,223	70,458	82,319	62,883	50,643	308,001
11	Hungary	24,613	179,260	22,901	21,891	17,787	15,488	281,941
12	France	34,816	79,087	61,458	53,810	7,150	17,089	253,410
13	Croatia	30,356	17,446	26,802	100,428	19,938	37,928	232,899
14	Great Britain	51,444	77,977	-21,054	10,122	51,842	53,344	223,675
15	Montenegro	10,466	152,631	54,078	-3,608	-64,947		148,620
16	USA	16,067	-20,593	23,536	35,624	12,583	54,779	121,997
17	Bulgaria	651	42,034	34,350	14,605	1,291	9,745	102,676
18	Slovakia	21,578	15,959	2,320	935	24,512	32,531	97,835
19	Belgium	10,306	4,160	17,276	12,000	2,366	3,536	49,643
20	Israel	11,588	3,681	19,397	-494	52	1,703	35,926
21	Latvia	5,208	8,178	2,645	482	1,065	80	17,657
22	Lichtenstein	-32,839	-14,595	-1,916	3,375	174	814	-44,988
23	Cyprus	56,697	-300,382	99,901	1,795	26,348	44,953	-70,689
24	Bosnia & Herzegovina	3,599	-13,582	-622,496	-47,327	340	-22,000	-701,466
25	Other	30,317	89,571	83,081	21,355	-39,895	53,066	237,495
Total		1,162,268	3,242,306	1,448,132	1,590,013	1,304,973	830,525	9,578,216

Source: Office for European Integration www.sieo.gov.rs (2012-03-03)

This was more than in Croatia (834 million) and Slovenia (538 million). In 2011, 1.6 billion EUR was invested in Serbia, which was again more than in Croatia and Slovenia.⁴

In addition to investment cooperation, business environment with market economy principles is currently being developed. Serbia has also become a sought-after destination for corporations that choose to carry out their business objectives in the country's territory. The following table displays business entities executing their activities in Serbia.

The most important companies coming from the EU are in table 2.

⁴Office for European Integration www.sieo.gov.rs (2012-03-03)

Table 2: The most important companies in Serbia coming from the EU

Nr	Name	Country	Sector	Municipality	Value	Jobs
1	Telenor	Norway	Telecommunications	Nový Beograd (Belgrade)	1602	1200
2	Gazprom Neft - NIS	Russia	Oil & Gas	Nový Sad	947	12000
3	Delhaize	Belgium	Retail		933	5814
4	Stada - Hemofarm	Germany	Pharmaceutical	Vršac; Šabac	650	2100
5	Mobilkom - VIP Mobile	Austria	Telecommunications	Nový Beograd (Belgrade)	633	700
6	Philip Morris DIN	United States	Tobacco	Niš	630	560
7	InBev – Apatinska pivara	Belgium	Food & Beverage, Agriculture	Apatin	530	900
8	BancaIntesa - Delta Banka	Italy	Financial	Stari Grad (Belgrade)	508	3000
9	Salford Investment Fund	United Kingdom	Food & Beverage, Agriculture	Palilula (Belgrade); Subotica; Požarevac	500	3300
10	Eurobank EFG	Greece	Financial	Stari Grad (Belgrade)	500	1622
11	Raiffeisenbanka	Austria	Financial		500	1890
12	Agrokor	Croatia	Food & Beverage, Agriculture	Palilula (Belgrade); Nový Sad; Zrenjanin	450	7000
13	National Bank of Greece - Vojvodjanska Banka	Greece	Financial	Nový Sad	425	2400
14	Merkator	Slovenia	Retail	Nový Sad; Nový Beograd; Niš	320	3714
15	Fiat Automobili Serbia	Italy	Automotive industry	Kragujevac	300	1100
16	US Steel	United States	Metallurgy & Metalworking	Smederevo; Šabac; Kučevo	280	5700
17	CréditAgricoleSrbija	France	Financial	Nový Sad	264	1000
18	Fondiaria SAI	Italy	Insurance & Pension	Nový Sad	220	2200
19	Lukoil - Beopetrol	Russia	Oil & Gas	Nový Beograd (Belgrade)	210	1150
20	Pepsi Co Marbo	United States	Food & Beverage, Agriculture	Nový Sad	210	1000

Source: Serbia Investment and Export Promotion Agency

5. TRADE RELATIONS OF THE EUROPEAN UNION WITH SERBIA

Through its rules, the European Union creates a fair environment for development of international trade exchange of goods and services and, with this aim, it introduces common rules applied by the Member States. Under the Stabilization and Association Agreement and the Interim Agreement on Trade and Trade-related issues, favourable conditions for development of commercial cooperation have been created and several barriers have been removed, especially quantitative measures and measures with equivalent effect to customs duties.

Mutual relationships are developed according to the internal market rules of the EU. *“A trouble-free functioning of the internal market requires, inter alia, a correct application of EU legislation and technical rules on products and services. A well-functioning internal market contributes to enhancement of European business’s competitiveness on world markets and advances the fulfillment of common objectives.”*⁵

In the pursuit of this aim Serbia has started eliminating customs barriers to industrial products and to the majority of agricultural products. Advantages for exporters from Serbia and EU resulting from customs duty reduction and preferential export also increase from year to year. In the period from 2009 to 31 December 2011, European exporters yielded 439 million EUR from export to the Serbian market. On the other hand, Serbian exporters exported goods worth 1.488 billion EUR.

Table 3: Advantages for exporters resulting from the application of the SAA in the years 2009 to 2011 in million EUR

Year	Advantages for European exporters	Advantages for Serbian exporters
2009	78	404
2010	147	522
2011	214	562
Total	439	1,488

Source: Office for European Integration⁶

The most important products imported from EU are: diesel fuel and natural gas, copper products, personal vehicles and components, pharmaceuticals, machines for material processing by temperature variation methods, iron semi-products, coal, telephone devices, chemical products (detergents), toilet paper, and electricity.

The most important products exported to the EU are: steel and steel products (strips, plates, tinplate), corn, frozen fruit (raspberries, cherries, blackberries), wires, cables, electric wires, automobile tires, textile products, aluminum products, sugar, shoes, copper and copper products, pharmaceuticals, polyethylene, and electricity.

⁵ Nováčková, D.: Ekonomické slobody vnútorného trhu Európskej únie, Bratislava 2010, Eurounion, ISBN 978-80-89374-09-0, pp. 11

⁶ Office for European Integration

As for the structure of the exchanges with EU countries, Serbia exports mostly to Italy, Germany, Romania and Slovenia and the imports mostly from Germany, Italy and Hungary. Serbia has surplus only in exchange with Cyprus, Lithuania and Latvia; however, the exchange with these countries is negligible given the proximity of the market.

For comparison, exports from Serbia to Italy (844 million EUR), Bosnia and Herzegovina (822 million EUR), Germany (760 million EUR) or Montenegro (610 million EUR) in 2010 were greater than the sum of exports to Russia, China, Turkey and USA (528 million EUR).

Table 4: Trade exchange Serbia – EU (2002 – 2011, million EUR)

Year	Exports	Index	Imports	Index	Exports divided by imports in %
2002	1,304	118	3,527	129	36.9
2003	1,316	101	3,842	109	34.2
2004	1,604	122	5,001	130	32.0
2005	2,116	132	4,577	91	46.2
2006	2,932	139	5,696	124	51.4
2007	3,603	123	7,438	131	48.4
2008	4,028	112	8,253	111	48.8
2009	3,196	79	6,528	79	48.9
2010	4,235	132.5	7,069	108.2	59.9
2011/10M	4,052	118.8	6,598	114.4	61.4

Source: Office for European Integration

These particular forms of cooperation document that there is an interest not only on the side of Serbia, but on the side of EU Member States as well, to further develop cooperation in the area of investments and trade that has a European dimension. The economic cooperation between Serbia and EU Member States will continue deepening as within the process of adoption of *acquis communautaire*, Serbia is obliged to harmonize the legal environment in the area of commercial law, tax law, and customs and in other areas.

6. CONCLUSION

Serbia's process of preparation for the European Union is quite lengthy and demanding. Serbia fulfills the assignments responsibly and it makes effort to effectively use financial instruments provided by the EU. With its activities, market liberalization and support of foreign investment inflow, Serbia proves its interest in belonging to the big European family. Serbian citizens wish to live in a stable Europe and not to experience war, poverty and misery ever again.

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SESSION II

INTERNATIONAL BUSINESS AND COMPETITIVENESS IN CHANGING GLOBAL ENVIRONMENT - THEORY AND PRACTICES

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IMPACT OF QUALITY MANAGEMENT SYSTEM ON BUSINESS SUCESS

ABSTRACT

This paper highlights the connection between business success and QMS based on business process orientation. The role of TQM is shown in enhancing business performance with an emphasis on modeling and analyzing, or on controlling of business processes, and this results as a reduction in operating costs, accelerate processes and continuously improving the quality and overall customer satisfaction. Goal is to achieve business excellence through QMS. It's necessary to implement a BPMS with an emphasis on controlling of business processes, to define the mission, vision, values and strategic goals. In the strategic phase creating a BPM strategy classifies business areas and processes according to their impact on the realization of the key success factors and the quality of performance. The challenge is to implement this system in organizational and in the technological sense. It is continuous and integrated and it includes organizational and technological approach to BM. The results of the survey conducted in large Croatian companies on the impact of process maturity and implementation of the ISO system to business performance show and confirm that the impact of the QMS can be seen only through a holistic approach.

Key words: *quality management, business success, business process management system, process orientation, holistic approach*

JEL classification: *M1*

1. INTRODUCTION

For a company to be successful in today's market environment of strong competition, globalization, technological innovation and rapid social change, it is crucial to have a vision of development, defined goals to be accomplished (development and strategy design), but also to have certain projects and programmes by which the defined goals will be met (strategy implementation), as well as metrics for the measurement of the level of achievement of those elements (strategy control) (Buble et al., 2005). Regarding company's level of success, it is fundamental to compare its goals to its

vision. Certain surveys have shown that only 5 per cent of companies are really successful due to a clearly defined vision, mission and goals (Osmanagić-Benedik, 1998:19). Proper definition of goals considerably influences a company's future success and that's why the goal must be: clear, attainable, measurable, divisible and time-restricted. But, without the implementation of a business strategy (strategic goals operationalization) that success is rather questionable due to the fact that strategy implementation itself is part of the process of strategic management, which represents the imperative of attaining business success (Mankins and Steele, 2005:65-72). The monitoring of business system performance, i. e. Business Performance Management (BPM), is nothing but the monitoring of business strategy implementation. Key performance indicators (KPI)¹ are indispensable examination and research instruments of a company's business operation efficiency, i.e. its business strategy (Vrdoljak Raguž, 2010:116). Company leadership and management are often crucial links on the path to success. "In every country, product quality and productivity of the work force are dependent on the management" (Peters and Waterman, 1994:34).

There are a number of analytical and systematic business management methods and techniques used by managers in decision making, efficiency improvement and especially as a planning and control functions support. Methods of business management need to be distinguished from skills like coordination, delegation and such, as well as procedures and activities, for methods are their integral part and as such ensure greater efficiency realization. One of them is TQM (Total Quality Management), a technique related to production management, developed in Japan and accepted worldwide.

Standards and norms of business management have an increasing influence in modern business operations. Their application and importance increased in the 1980s when Japanese products flooded the American market. It came to be seen that quality not only pays off, but is necessary for survival (Blazey, 2003). This caused the emergence of Total Quality Management (Dale, 2003), which differentiated from earlier practice of quality control inspection in demanding top-level management to be involved in increasing the quality level of products and business operation as well.

Each of business management methods, in terms of respecting certain norms and standards, has its advantages and disadvantages. Each of these methods is devised for a specific company or industry branch (except for ISO standards, devised for broad employment, which is their principal disadvantage due to their overly general nature), so the company must choose which one suits it the most. It is a clear fact that during the last couple of years more and more companies are embracing ISO standards. But, what matters is that it's both desirable and necessary for the company to choose at least one standard, and using it constantly improves its business and increases its business efficiency.

¹The word "indicator" derives from Latin, generally denoting an index, address, sign, symptom, feature or proof. An indicator reflects a process taking place in reality. It is a rational number consisting of a measure unit and measurements of the amount of quality of particular economic phenomena and processes which, in the whole of a process devised to achieve goals and obtain results, in an existing work environment of a company, arise and develop in accordance with the appreciation of the principles of rational activity.

2. QUALITY MANAGEMENT SYSTEMS

2.1. Quality management

Quality management is a process which recognizes and manages activities necessary for the attainment of quality goals of an organization (Gryni, Juran 1999). TQM is a concept and a system based on the philosophy that it provides a comprehensive way of quality and performance improvement through research and continuous improvement of each process, in turn ensuring that work is carried out systematically, integrated, consistently, and at a company level.(Skoko, 2000).TQM refers to management quality as well. It is one of the most important roles of contemporary management which gains more and more significance, due to harsher competition of products on the market. Organizations that systematically cultivate and develop working climate and healthy relations towards its employees can expect high quality of products and services, ensuring longevity and satisfaction among customers. TQM seeks to ensure, i.e. create conditions in which all the employees will work together with maximum efficiency in reaching their goal: providing the product and services when, where and how the customer and the consumer want and expect for the first and each consequent instance (Avelini-Holjevac, 2002).

Basic strategic tasks of every organization which seeks to improve the quality of their products and services, in turn increasing their profits and improving their position on the market are as follows:

- to ensure complete engagement of the company's leadership
- to foster culture of quality
- to attain effective participation of the entire work force
- to establish partnership with the supplier's and the customers
- to develop and implement effective system of quality
- to develop strategy of continuous improvement

The key role of management today is contemplation of models and construction of quality systems. Even the smallest part of that role cannot be transferred to "someone on the side". For it is the management that determines the quality policy for future periods. From this the duties and responsibilities of everyone are derived, according to the matrix of responsibilities. In order for TQM to be successful, management must be trustful and must regard attaining quality for customers and buyers its principal organizational goal.

After reviewing the existing system, management is obliged to analyze values, effectiveness and cost-effectiveness of the quality system and consequently express their stance. Also, the management cannot delegate to others its responsibility for, e.g. systematic corrective actions, complaints, plans for improvement, motivation and the improvement of the employees, optimization of expenses etc. Actually, management can delegate work, but it cannot delegate responsibility.

Implementation of the quality management system is a project and its execution requires a project approach. During the realization of the project it is necessary to use positive experience of organizations and competitors. However, this brings about a

serious disadvantage. By adopting competitors' practices, organization is due to fall behind. Actually, competitors' practices need to be supplemented and adjusted to specific conditions using one's own experience and know-how. In fact, each management system is different and there is no such thing as an ideal, generally accepted quality management system. TQM requires development, application of education, implementation of programmes for more efficient business management and the know-how in specific tools and techniques, including continuous business operation improvement, while benchmarking and business process reengineering belong to discontinuous approach to the improvement of organizations (Zdrilić, 2000). In short, TQM embodies continuous improvement.

2.2. ISO quality management system

Quality management system directs an organization towards the achievement of set goals in terms of business quality and services. This system consists of organizational structure, responsibilities, processes and resources necessary for its management. It is a system in which “who“, “what“, “when“ and “how“ are precisely defined. Today's prevalent quality management system is that of International organization for the standardization (ISO). The word “ISO” derives from the Greek “isos“, meaning equal, thus explaining the purpose of the standard: “for all of us to conduct business in approximately the same manner, equally and rightly“. That concept incorporates knowledge as to how to determine the minimum set of requirements a business system needs to fulfil. The purpose of ISO 9000 system is to ensure the production of each product in the most efficient and the most effective manner. External causes of its implementation are crucial for such organizations in which the ISO system stands as a prerequisite for its survival on the market. Internal causes for ISO implementation are as follows: the improvement of the existing labour organization, increasing of product and services quality, increased efficiency and work with continuous improvement, the establishment of the liability system, increasing contentment of customers, the establishment of a prevention system, work records, increasing contentment of the workforce, etc. (Mihanović, 2007)

ISO 9000 consists of:

- ISO 9000:2000 – quality management systems; basics and glossary
- ISO 9001 – quality management systems; requirements
- ISO 9004 – quality management systems; instructions for capacity improvement

ISO 9000:2000 encompasses the basics of the quality management system and contains a glossary of the ISO 9000 set of standards. ISO 9001 is intended for the use at any organization designing, developing, producing, introducing and maintaining a product or providing any form of service. It holds demands an organization needs to fulfill in order to achieve contentment among customers through coherent products and services, meeting the customers' expectations.

The ISO 9004 standard represents constant improvement. It offers consults on how to advance an already existing system. It lies on eight principles: customer orientation, leadership, people involvement, process approach, systematic approach to

management, continuous improvement, factual approach to decision making, mutually beneficial relations with suppliers.

Implementation of an ISO system improves the quality of an entire organization, cuts down costs through complaint reduction, increases accountability and facilitates management, improves relations with business partners, gains market advantage and enables capturing of new markets. It allows survival on both the domestic and international markets, as well as continuous development and improvement, increasing customers' trust.

2.3. Implementation of quality management systems (ISO norm)

The implementation of quality systems is decided by the top-level management. It is introduced by employees assisted by expert advisers, while the established quality system is verified by an internationally certified organization. (Mihanović, 2007)²

The implementation of a quality management system is a project and it is thus preferable to take a project approach in its execution. In other words, project realization needs to be systematic in the sequencing of steps and activities necessarily ensuing. The method is devised as to block successful transition to one of the consequent activities unless the results of current activities have not been realized. Regarding the complexity of the preparation of a quality system for accredited certification and the influence of numerous factors, the time needed for the entire process – from decision-making to the issuing of the certificate – can last from at least several months up to several years.

The duration of the entire process depends upon the initial state, attitudes and conduct of the management, available resources, market demands, etc. Regulations set by all accreditations state that the system cannot be certified unless it has been in use for at least three months. This means that the previously established and documented system has to provide records for at least three months. Besides, it is necessary to complete the full cycle of internal evaluation, as well as the top-level management's assessment afterwards. All in all, the organization needs to set deadlines for the system implementation because certain organizations' experiences have shown that perpetual implementation of the system results in great expenses and poor effects of certification. Basic activities of the quality system preparation for accredited certification are as follows:³

- decision of top management, who need to know what ISO 9000 is and why it is necessary to implement it, and time and resources specification required for a quality system;
- the choice of an advisory/consulting organization;
- appointment of a person responsible for quality – a quality manager to conduct the process of application and maintenance of the quality system;

² In the Republic of Croatia, the majority of certifications are conducted by five major certification organizations and nine minor.

³ adapted from: Dujanić, M.(1995)

- appointment of a steering committee that will operatively direct activities towards the implementation of the system, as well as strategic decision-making aimed at system acceleration;
- forming a quality team or a number of teams, organizing the education of personnel involved in documenting and implementing the system;
- creation of Quality System Documentation – writing of the Rules of Procedure for quality to define the establishing of policies depicted in the Rules of Procedure, as well as the way of establishing the system;
- development of procedures and work instructions (manuals) which should facilitate the understanding and unambiguous use;
- application of procedures and instructions – it is advisable to alter practices regularly because people tend to put up passive as well as active resistance to change;
- implementation of internal audit of system efficiency;
- system audit carried out by top management;
- contacting the accredited agency – the certification organization that will carry out the certification audit;
- carrying out precertification audit by the accredited agency;
- the organization eliminates corrections within set period;
- auditing the quality of claimed corrections by the accredited agency;
- issuing a certificate.

There are three characteristic periods within the project (Kondić, 2000):

- the preparatory work encompasses: problem detection, problem orientation, problem definition, detection of the pre-existing condition of the system
- effective work on the project encompasses: education, records, quality system implementation
- final part encompasses: internal audit of the quality system, system certification carried out by an independent certification agency

3. BUSINESS PROCESS MANAGEMENT SYSTEMS

As quality management systems are, in most cases, based on process approach, prior to the implementation of a quality management system, it is desirable for a company to be process-oriented, that is, for it to have a business process management system already implemented.

Based on practice, a number of scientists and experts emphasize the key role of business processes in all fields of business, consequently in the efforts to improve business success. (Ivandić Vidović, 2012)

In their book *Strategy Maps: Converting Intangible Assets into Tangible Outcomes* (2004), R. S. Kaplan and D. P. Norton give business processes the central place in measuring a company's prosperity. By that the authors wanted to stress the fact that, in the course of transition towards process orientation, managers should carry out deep analyses based on which the aspects of process successfulness would be defined

through certain indicators most tightly linked to the achievement of overall organizational goals (Hammer and Stanton, 2001:8).

Processes involved in creating products and services (core processes) are directly involved in creating a company's value. The goal of management (managing processes) is the acceleration of value creation, while support function (support processes) sustain value-creating activities, as they must not result in the loss of value in the course of action.

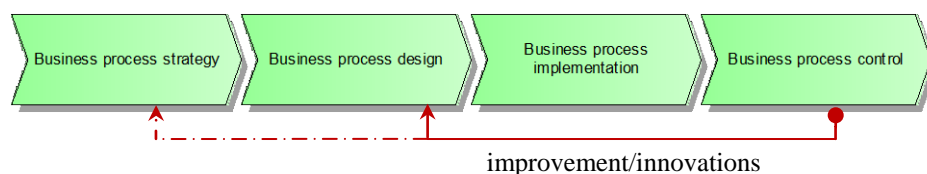
The imperative of today's business systems is the identification of business processes, their categorization, design and the introduction of monitoring and measurement of business processes according to critical factors of success (CFS) and key performance indicators (KPI). For that purpose every organization develops a business process management system (BPMS), which enables continuous management and supervision of business processes. The management can use the results of monitoring and measuring of the success of business processes in order to draw comparison with the competition, to define strategic portfolios of a company, but as well as to monitor the level of success in pursuing the company's strategy. Furthermore, process owners undertake corrective actions and propose improvement to business processes (Willaert and Williams, 2006).

Business process management appears to be quite a simple process (Scheer, 2005):

- business process strategy;
- business processes design;
- business process implementation;
- business process control (analysis).

The control of business process is nothing but measurement and supervision of business process performance through defined key performance indicators.

Figure 1: The life cycle of business process management



Source: IDS Scheer, 2005.

There are certain problems in the introduction of a process approach to an organization. One of them is the lack of awareness of the overall process, complicating a more efficient transition of operations between departments and individuals.

Business processes are often inflexible due to poor understanding of the whole process by individuals participating in them. Understanding of the whole is a key prerequisite for the opportunity to improve the process.

3.1. Process definition

In order to meet the customers' demands for a certain product or service, the organization needs to perform a sequence of actions to create a product or a service with minimum operating costs, maximum gain and content workers. In other words, business processes need to be elaborated, stable and adjustable to customer demands. That is – efficient.

Every company needs to recognize the course of business processes, their internal rules and backed up by theoretical knowledge of processes, define such processes. It is the only way to conjure up a clear image of business processes in a company.

It is particularly important to emphasize that, by defining a process which implies the documenting of processes using an unambiguous graphic language, we avoid a series of obstacles towards the unification of a business process. Such obstacles result from different viewings of the same process from different fields or different professional segments. Furthermore, people fail to see the difference between desired, prescribed and real practices. Without an actual understanding of the functioning of processes without their definition it is impossible to build an efficient company.

There is a number of business processes viewed from different segments. One of the basic definitions says: “The set of activities using one or more inputs and achieving a valuable result for the customer.” (Hammer, Champy, 1993). According to ISO 9000 norm⁴, a process is a set of measures and activities mutually influencing one another, transforming entries into results.

Most definitions basically include the same elements: entries, the transformation of entries, set of activities and process outputs (in relation to serving interest for the user or the attainment of a goal). All these definitions have a common denominator – a set of logically linked activities necessary to undertake in order to attain a goal.

3.2. Identification – categorization of business processes in a company

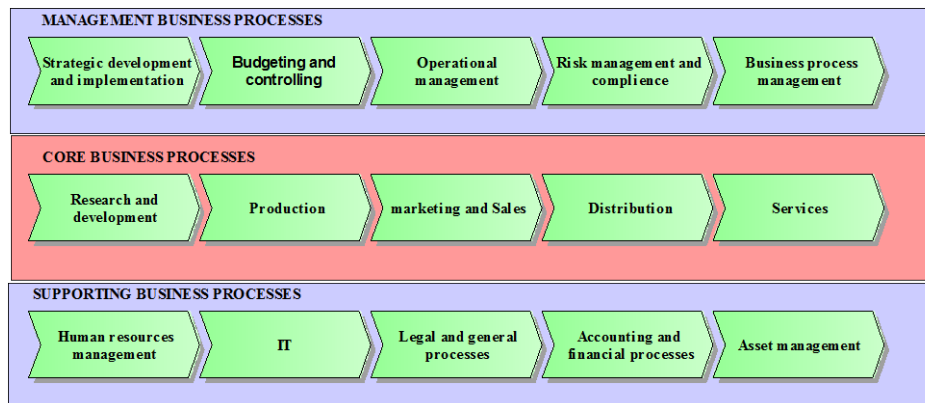
Company's processes can be divided following a number of criteria. The most general division follows the type of work conducted by a company. Thus, the business processes are divided into:

- management business processes by which the management runs a company
- core business processes – customer oriented processes
- operational business processes
- support processes, oriented towards internal customers and suppliers.

Depending on the type of company, there are different forms and types of business processes, as well as their quantity. The most general business processes within a company are here shown in a process map:

⁴ Lloyd's Register Quality Assurance - Auditor/lead auditor training course based on ISO 9000:2008 series of standards

Figure 2: Global model of a company's business processes



Source: <http://www.ids-scheer.com/ARIS Business Architect for SAP, Company process landscape> (10. 01. 2012.)

During identification and analyses of business processes, it is necessary to use appropriate methods and programme tools in order to model them and display them uniquely.

3.3. Life cycle of business process management

3.3.1. Business process strategy

In the strategic phase, alongside with the business strategy of a company, the strategy of business process management within a company is also being created – various business areas (products/markets) are being classified, as well as company's business processes according to their influence on the realization of key success factors and the quality of their execution (Paladino, 2007).

3.3.2. Business process design

Business processes need to be modelled on the basis of a defined management strategy. First of all, one should choose a methodology, means and tools to describe and record business processes within a company.

In today's market, there are various tools for modelling and analysing business processes which, in most cases, generate process maps (activity maps), displaying events (orders and payments of customers), activities (order processing and invoice issuing) and activities (a customer waiting to be served, waiting for a delivery). Information (data) runs through processes in which resources (people, machines, and computers) also take part. All these elements are interconnected. Apart from them, there is significance in elements and operators, that is operations displaying the logical sequence of process execution, whereas the previously undertaken operation serves as a

prerequisite for the next. Moreover, logical operators display the probability of conducting an activity within the process.

Current information technology enables the models of business processes to be “stored” in data bases adapted for the storage of business process models in the so called business process repository. Such a data base (“storage”) is the management’s key resource in making strategic decisions in their organizations.

3.3.3. Business process implementation

Model implementation of future processes is a very demanding and complex process. In most cases, it is organizational, as well as technological changes that are being introduced. For this purpose, detailed records on procedures and business regulations are developed, while new activities and organizational structure develop accordingly. It is highly important to educate and prepare the employees and their leadership, in order to implement the change successfully.

3.3.4. Business process control

After phase three, in which all models designed in phase two have been implemented, the weak spots in AS-IS processes are visually detected so the advanced process To-Be is proposed and implemented. At the same time, one should take a step further, quantitatively and qualitatively analysing and proving their increased efficiency. It is only on doing so that it is possible to get an independent opinion on whether the proposed change is justified. Certain phases of the process should be measured, for example physical safety function, that is the examination of individuals, objects and means of transport performed on entry and exit from a safeguarded area. Time and cost of execution are measured, as well as the number of guards etc. After a certain number of measurements and the input of parameters in different analytic tools and procedures, one should get an independent answer to which alternative of the business process is better. Regardless of the comparison, business processes need to be controlled and monitored continuously. Beginning with the process of static control accompanying process stability and a number of dynamic analyses such as:

- simulation
- what-if analyses
- analyses of time spent of certain activities
- analyses of business costs
- analyses of under capacity/overcapacity of resources
- determining contentment of internal and external customers and determining contentment of process owners, employees and process distributors
- ...

3.3.5. Continuous advancement of business processes

A great number of companies follow the principle of design and implementation of business processes. Analyses and optimization parts of the process have been neglected.

The basic task of each process organization is continuous monitoring and advancement of business processes.

There are two basic ways of continuous business advancement:

- step-by-step continuous advancement
- audit and improvement project of existing processes and/or implementation of new processes.

In a stable organization continuous advancement is done in small steps within pre-existing processes carried out by employees as part of their regular activities. Analyses and optimization of business processes are a corner stone of continuous advancement. So, design and implementation of business processes are followed by monitoring. Based on analysis results and set criteria for process assessment, the process as a whole and/or its parts are then evaluated. The data are then used to proceed with prevention and correction activities, if necessary. In other words, part of the process that failed to meet the assessment criteria is redesigned, implemented, analysed again and again. The said procedure refers to continuous advancement in small steps. Gradual continuous improvements need to be controlled and documented for their effect to be comprehensible to all. (Ivandić Vidović, 2002).

4. PROCESS MATURITY, QUALITY MANAGEMENT SYSTEMS AND BUSINESS SUCCESS IN LARGE CROATIAN COMPANIES

On the subject of process maturity research has been conducted in Croatian and Slovenian companies in 2005 and 2008, some in insurance companies in Croatia, Bosnia and Herzegovina, Macedonia and Serbia in 2012 (Ivandić Vidović, 2012). Respondents were asked questions representing dimensions necessary for measuring process maturity. Idea derives from the concept of capability maturity model (CMM)⁵, a model devised to assess maturity of software processes, but also overall business processes and the identification of key steps necessary for the improvement of process quality in an organization. CMM is applied in a number of areas (Škrinjar, 2010:92) including process management area. Since in most cases the questions (statements) were closed-ended with a list of answer choices, a discreet seven-point Likert scale: 1 = entirely incorrect, 2 = incorrect, 3 = more incorrect than correct, 4 = neither correct nor incorrect, 5 = more correct than incorrect, 6 = correct, 7 = entirely correct, x = I don't know. Examinees were asked to choose to express the level of compliance with the statements on the scale from 1 to 7.

Process management maturity has defined phases. Each of the phases has its known characteristics upon which company's maturity, in the sense of process management, can be evaluated. Each phase has a defined range of assessments. According to the data displayed in Table 1, it can be concluded that the results of 2012 exceed results of the

⁵ Capability Maturity Model (CMM) originated under the patronage of the Software Engineering Institute (SEI) in 1987. It was developed by the research centre of the American government at the Carnegie Mellon University. CMM model was initially developed as a tool for comparison of process maturity of software organizations. Today, it's regarded as an internationally accepted tool of maturity evaluation in various business fields, regardless of the type of company. (source: Hernaus, 2006:140)

previous two examinations. Also, it can be deduced that the implementation of a quality management system will be easier, since an organization's increase in maturity facilitates the introduction of QMS, its implementation and sustainability.

Table 1: Studies of process maturity in Croatian companies

Author	Year	Sample	Result – average value of process maturity
Bosilj Vukšić, V., Indihar Štemberger, M.	2005	202 Croatian and 203 Slovenian companies	3,47*
Bosilj Vukšić, V., Indihar Štemberger, M.	2008	200 Croatian and 129 Slovenian companies	4,88**
Ivandić Vidović, D.	2012	62 insurance companies from the basic set (Croatia, Serbia, B&H and Macedonia)	4,97

Source: the authors

Note: * displayed process maturity value refers to Croatian companies only (Škrinjar 2010, Hernaus, 2006)
 ** displayed process maturity value refers to Croatian companies only (Milanović, 2009)

Examination of the quality management system's influence on competitiveness and business success of large Croatian companies was conducted in 2006 through a questionnaire based on a sample drawn from 49 major Croatian companies. (Mihanović D., 2007). Survey questionnaire consisted of 17 questions, grouped in 7 parts. In order to simplify the survey and reduce the time needed for its execution, the questions were closed-ended, with enumeration answers (the first part of the survey) or intensity answers offered (other parts of the survey). Because most of the questions contained a number of secondary questions, there were 57 questions or claims altogether to be answered or assessed.

The first part of the questionnaire referred to general information concerning the company, such as ownership structure, type of business, number of employees, revenues, profits before tax, the estimated market position and the (non)possession of an ISO certificate. The second part referred to customer orientation, the third to top management's activities, the fourth to employee participation, the fifth to systematic management approach, the sixth to the manner of decision-making and the seventh to supplier relations. The said segments are structured as input in considering the influence that quality management system has on competitiveness and business successfulness of major companies, since those are generally accepted management principles, emerging from quality management. The company's competitive position assessment data, revenue and profit after tax data, both identified through the survey, were used as output (competitiveness and business success measure).

In all segments of Croatian economy, there is strong competition among products and services, so the implementation of the quality management system becomes one of the key tasks of modern management. Comparing the indicators between companies which have implemented, or are in the process of implementing, the quality management

system in accordance with the ISO norm, and those which haven't done so, it can be deduced that all companies, especially those without the ISO certificate, are still failing to nurture and develop favourable working environment climate and relations towards employees. Firms with ISO certificates focus more on customer satisfaction and have increased profits and market share. Moreover, they are leading the way in improving the efficiency of related business processes, long-term planning, company's vision forming, etc. Management, a prerequisite for the success of a quality system, yet not sufficient on its own, must lead the way and believe in the attainment of quality for customers and clients, not forgetting that it is its principal goal and that its attainment is only possible through complete synergy of the entire work force. Improvement of the quality of products and services is a prerequisite of a secure future, thus ensuring the satisfaction and loyalty of the customers.

If a company implements a quality system for certification purposes only, it often fails to build or implement it. This does not mean that such a company cannot be successful. There are, in fact, companies holding a certificate, but still performing poorly, as there are those which do not possess it, but are doing well.

The impact of quality management systems on the improvement of managerial practices should deeply reflect the more serious understanding of the requirements for the implementation of a quality management system. The inclusion of all employees and their additional training will affect the continuous improvement of companies which will, in turn, ultimately cause the quality management system to become part of everyday practices of large Croatian companies.

5. CONCLUSION

For a norm to be implemented into a company, it is necessary to describe business processes (As-Is), their interconnection and to show how all the elements work together, forming a single system. ISO 9001:2008 does not require the use of process sketches and flow diagrams but requires a way of identification of the processes needed in quality management. This in itself implies that the most efficient manner of establishing this system lies in defining and documenting databases of business processes. Characteristics of today's QM documentation architecture are as follows:

- QM documentation is done in a word processing software
- Processes are described in graphics software
- Maintaining such documentation is tedious and expensive.

Development of the ISO 9000 documentation process in a standard way (graphics software and word processor) often results in a failure to recognize the costs of maintaining such documentation, which often exceeds the so-called "cost of certification". In order to improve this kind of architecture, it is necessary to have:

- Process-oriented QM architecture
- Continuous Process Improvement
- TQM.

Companies that have a defined database of business processes, metrics and analyses of these processes may easily be awarded an ISO 9000 certificate. It is only necessary to

include standard specifications in the defined base of business processes. In this way, costs of certification, including the maintenance of a quality management system, are substantially reduced.

Today's computer technology enables the creation of links between different elements of modelled processes (e.g. business functions, data, units of organizational structure, etc.) and the existing documentation available in any other electronic form (text processor, another IT application, etc.). Benefits of implementing this technology are the answer to the core of the request contained in the basic principles of a new norm which requires the QM teams to focus on a study of processes and their continuous improvement, in which maintenance of QM documentation becomes of secondary importance because its role is taken on by an appropriate IT support.

Successful global companies are under constant pressure to create the greatest possible profits and claim the larger share of the market. In order to succeed, they must change their business models frequently, and their business processes accordingly. If Croatian companies want to become competitive in the global market, they must change their business approach. Managements of Croatian companies are facing an increasing and a more aggressive competition, more public pressure, finding themselves in an extraordinary struggle for successful business performance and their market share.

The basic business model is the same in all environments: there are processes in progress, people who generate them and, eventually, the technology that supports them. The question is: what is the organizational structure of the company and are the companies process-oriented? If the prevailing organizational structure is traditional, vertical and based on functions and structures, it is important to have a vision of establishing the process organization. From the vision then stems strategy, followed by tactics and finally, operationalization occurs.

For a company to be competitive and successful, it is essential that top management recognizes the need for quality business processes organization, develops a clear strategy for the establishment of the process approach and implements one of the methods and techniques for enterprise management, namely, the quality management system. To achieve this, it is necessary to give the highest priority to the project of establishing a unified system of business processes management, not just because of the results set forth in this paper but also for the opportunity to make their business process management the basis of existing projects, as well as positive developments of the future.

Establishment of a unified business process management system enables the management to implement, train and manage change within a company more easily. It produces better process efficiency, better utilization of the existing work capacity, reduces operating costs, strengthens the interconnectivity of employees and intensifies business relations with customers and suppliers. All this leads to an increase in market competitiveness and profitability of business.

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ENTREPRENEURSHIP: THE KEY TO GLOBAL COMPETITIVENESS

ABSTRACT

For more than a decade, the United States has lost manufacturing employment to low wage nations such as China and others on the Pacific Rim. While the Western industrialized nations can no longer compete in many of the lower skilled manufacturing sectors, they have maintained their status as incubators of new ideas and products. While a lack of access to financing has often been viewed as a key reason for a reduced level of new business starts in the West, public policy, and how it is perceived by the entrepreneurial community, can be an even larger obstacle to growth in this important sector. This paper examined policies that affect entrepreneurial vibrancy. The research identified policy consistency (a.k.a. “visibility”), financial stability, and global trade issues including insufficient protections for intellectual property, and household income as factors that influence entrepreneurial activity. Further study is needed to quantify the impact of policy uncertainty on entrepreneurial expansion, the number of jobs related to those decisions, the correlation between household income, entrepreneurial activity, and the universality of their impact across national borders.

Key words: entrepreneurship, global competitiveness, intellectual property, policy

JEL classification: L26

1. INTRODUCTION

The key to a nation’s economic growth is the nurturing and unleashing of its entrepreneurial talents. Whether in developed nations such as the United States or in emerging democracies, the development and stimulation of a culture of entrepreneurship can create jobs, opportunity, and a burgeoning middle class. The challenge cannot solely be met from top-down strategic planning from a central government, but through the development of a more entrepreneurship-friendly environment in such areas policy visibility, financial stability, global trade and associated intellectual property issues, and household income.

The fostering of entrepreneurship is important to every nation, emerging or enduring, because of its symbiotic link to liberty. As Blassingame (2012) noted, “over time ...as the ideals and values of entrepreneurship acquire critical mass, it will be discovered

that liberty has flourished on the foundation of entrepreneurship.” Entrepreneurship is not a modern phenomenon, and is present in all cultures, albeit to varying degrees of intensity. As Crowley noted by his description of entrepreneurs in *Liberty and Entrepreneurship*, humans in all states reap the ubiquitous benefits of entrepreneurship on a daily basis. “Just as the ubiquity of the air we breathe masks its indispensability to life, so too the workaday character of the entrepreneur’s contribution passes unremarked” (Crowley, 1994).

While this paper is focused on the policies and economic climate in the U.S., the significant drivers of entrepreneurship - necessity, independence, and wealth creation - can be generally found across national boundaries (Hessels, van Gelderen, and Thurik, (2008). Entrepreneurs have faced, and surmounted, challenges throughout history. Today, in the United States and around the globe, entrepreneurs face a complex set of obstacles to their creativity that can be ameliorated by enlightened public policy that celebrates private sector initiative and unleashes the job- and wealth-creating dynamism of entrepreneurship. The short-term policies of debt, deficit, and government intervention following the 2008 global financial crisis will not make the solution to those challenges easy. In fact, at a time when entrepreneurship should be blossoming, the U.S. experienced a 5.9% decline in new business creation (Kaufman Foundation, 2011), indicative of the headwinds faced by the entrepreneurial community.

There are many factors that influence entrepreneurship, including “economic and political to socio-cultural. Therefore, when discussing entrepreneurs as the agents of change, it is at least as important to discuss the environment in which they want to, or have to, create these changes” (The Entrepreneurs’ Ship, 2012), as is the focus of this paper.

2. THE IMPACT OF GOVERNMENT POLICY ON ENTREPRENEURIAL GROWTH

From early Mesopotamians to the present world of globalized opportunity, entrepreneurs have stimulated commerce and prosperity for society. In today’s environment of record levels of financial stimulus, accommodative monetary policies, and myriad free trade agreements, a first impression would be of friendlier environment for entrepreneurship. That, however, is not what many entrepreneurs are facing in the post-2008 financial crisis environment.

Governments, especially in the U.S. and Europe, are struggling to reignite their economies while faced with immense economic imbalances. As fiscal policy makers struggle with measures to address these imbalances, as well as high unemployment and a disgruntled electorate, fiscal policy from the U.S. Federal Reserve (Fed) and European Central Bank (ECB) is being employed to keep struggling economies afloat. The cost to the financial credibility of the nations involved is significant, and credit downgrades of pillars of strength, such as the U.S. Treasury, are taking their toll on the clarity of the economic landscape for entrepreneurs and small businesses. Coupled with political gridlock and growing calls for higher taxes that will impact the entrepreneurial

and small business class, the difficulty of future planning, or visibility, is hindering startups (Hatch, 2012).

2.1. Limited Visibility in the Post-2008 Environment

Entrepreneurs and small businesses have a lesser incentive to develop and grow in an environment shrouded in policy uncertainty (Patterson, 2011 and Barnes, 2012), such as the current, highly-contentious climate that remains deeply impacted by the 2008 financial crisis. Governments around the world were faced with extraordinary challenges following the failure of Lehman Brothers and the near-collapse of the global financial system. In the United States, the federal government increased spending from 21.4% of gross domestic product (GDP) in 2007, to a high of 27.3% in 2009, including the historic budgetary legislation in the Troubled Asset Relief Program (TARP), an expenditure of \$860 billion. With TARP and additional measures, U.S. government “stimulus spending over the past five years totaled more than \$4 trillion” (Laffer, 2012).

Those extraordinary expenditures have done little to boost GDP in the U.S., now hovering in the 2% arena and running well-below potential. The impact of attempting to solve a crisis caused in large part by excessive spending and debt by applying even greater levels of spending and debt has not achieved a significant growth in jobs and output. In fact, the recovery from the recession that ended in 2009 has been the weakest since World War II (Wiseman, 2012). As noted in Figure 1, the growth of nonfarm employment in the U.S. is the most muted of any post-recessionary period since 1981, despite the record federal spending and stimulus programs.

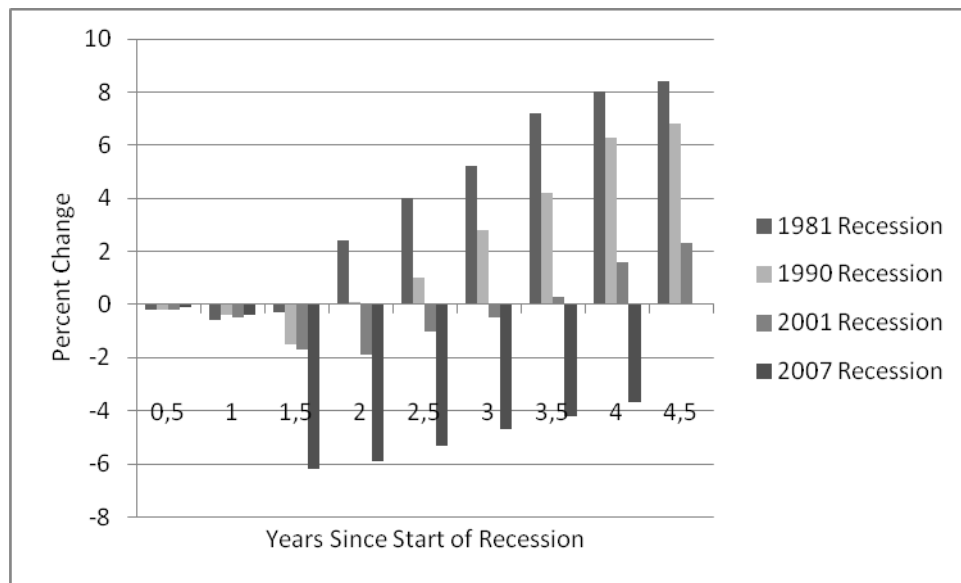
Flooding the market with a consumer-focused, debt-funded stimulus in an economy with high individual debt levels from the pre-recession period had little chance to succeed. Consumers with fragile balance sheets, homes with less value than their mortgage, and fearful of unemployment are loathe to take on additional debt (Mutikani, 2012). Businesses, cognizant of consumer recalcitrance, limit expansion, debt acquisition, and the hiring of new staff. Banks, aware of the fragility of the recovery and cognizant of the fallout from their past willingness to extend credit to questionable risks, are often recalcitrant in their lending to entrepreneurs and small businesses ((Ozanian, 2011).

The policy uncertainty, a polarized electorate, and the potential “Fiscal Cliff,” where myriad taxes are scheduled to rise and budget cuts are implemented in January 2013 are, in juxtaposition, negatively impacting consumption and small business expansion. According U.S. Federal Reserve Board member Jeffrey Lacker, the “significant fiscal adjustment ahead of us...is going to create uncertainty that’s going to impede growth for some time” (2012). The non-partisan U.S. Congressional Budget Office recently added to concern by announcing that, if the Fiscal Cliff occurred, the U.S. would quickly fall into recession, with a negative 2.9% GDP in the first half of 2013 and unemployment would rise to 9.1% by yearend (Murray, S. and Paletta, 2012).

In addition to the issues of policy uncertainty, this has been the first recession in the post-war period that combined U.S. federal, state, and local government employment

has fallen. Most of that employment loss is at the state and local level, where budgets must be in balance and deficits are not allowed. As a result of the myriad headwinds in the current cycle, such as falling housing prices and weak tax revenues, states and local governments have been a significant drag on the U.S. economy. Figure 2 shows the plunge of public sector jobs since the 2009 recovery began in the U.S., compared to the 1990 and 2001 recessions.

Figure 1: Percent Change in Nonfarm Employment since the Start of Recession



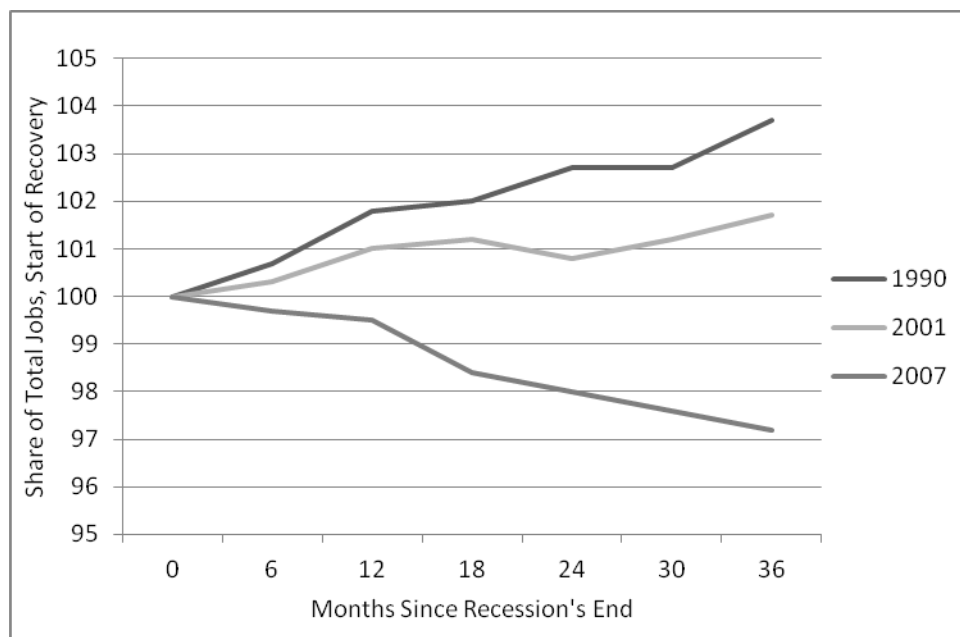
Source: Center for Budget and Policy Priorities, from Bureau of Labor Statistics Data

The rise in bankruptcies of U.S. cities, despite the public sector budget cuts and layoffs, is casting a further pall on consumer confidence, small business investment, and an increase in economic uncertainty. With 706,000 jobs lost by state and local governments from May 2009 through June of 2012 (Dewan and Rich, 2012), those important sectors of the economy are creating another large obstacle to economic recovery and a deterrent to new business creation. According to Nayab (2011), unstable political conditions and uncertain government policies suppress entrepreneurship. The historic financial problems of this important sector in the U.S. economy exemplify that instability. With state and local budgets highly dependent upon the health of the housing market, their problems are expected to continue (“How State,” 2012).

Although the large reduction in employment in state and local government is having a chilling effect on the current economic recovery, lessons can be learned from the retrenchment. According to Mitchell, “from 2000 to 2009, state and local government spending grew nearly twice as fast as the private sector” (2009), commanding a larger proportion of national income. Accommodative Fed policy that fueled the housing boom also spiked state tax revenues, as did rising house prices at the municipal level. Instead of returning those windfalls to the citizens in the form of lower taxes, thence

available for investment and business development, most state and local governments expanded their workforces and programs. Now, as they've had to learn quickly that they must live within their reduced revenue streams, a smaller portion of GDP could be absorbed in the public sector and made available, in part, for private sector entrepreneurship and small business creation.

Figure 2: Total Job Change for Public Sector Workers since Start of Recovery



Source: Center for Budget and Policy Priorities, from Bureau of Labor Statistics Data

2.2. Monetary Policy and Impact on Entrepreneurship

Another element of federal policy that is inhibiting entrepreneurship and small business formation is monetary policy. Four years after the financial crisis, policy makers at the Fed are still unclear about the cause of high unemployment. The Fed opines that it is principally due to a shortage of consumer demand, which they argue can be resolved by ultra-low interest rates and multiple rounds of quantitative easing. Other economists argue that unemployment is caused by structural factors, such as the inability of workers to sell their homes and move to a new geographic area, as well as the mismatch between skills and job openings (Hilsenrath, 2012). As Nayab noted in *Factors Having an Impact in Starting and Operating a Business*, the availability of qualified human assets is a key enterprise success (2011), and these structural factors are having a chilling impact on startups and small businesses.

The structural factors that are impeding job growth in the U.S. are compelling. Housing and worker training can be, in part, attributed to government policy. Failed housing policies fueled by an overly-accommodative Fed policy and geared to support bubble-

era home prices, congealed the housing market while costing taxpayers hundreds of billions of dollars in support of government sponsored enterprises (GSEs) Fannie Mae and Freddie Mac.

According to the U.S. Congressional Budget Office (CBO), the Executive Branch of the U.S. Government has woefully underestimated the true costs of bailing out the two GSEs. The Obama Administration estimated the cost at \$130 billion, while CBO states the real cost as \$317 billion through mid-2011, and is likely to rise further as the backlog of foreclosures enter the marketplace. As stated by Cover, “this merely transfers the risk to the taxpayer” (2011). Such an immense disparity in programmatic costs, on public display, is contributing to the expanding federal deficit. It is also a clear signal to business creators that the future economic landscape could soon be affected by corrective action in the form of higher taxes, having a chilling impact on new business creation (Nayab, 2011).

If policy had allowed housing to resolve by market forces, the temporary pain of lower prices would have been followed by a better-functioning market. It would be an environment in which workers would be free to choose new work opportunities – and fill the skills void for budding new businesses - without the burden of an unmarketable home and attendant geographic limitations.

The failure of federal policy to adequately support worker training programs that target needed skills for new and existing businesses further exacerbates structural unemployment and make it more difficult for small businesses to staff their enterprises. According to U.S. Senator Coburn of Oklahoma, the duplicative and ineffective training programs of the federal government “lack of demonstrable results” and are “outrageous examples of examples waste, fraud, abuse and graft” (2011). According to Coburn:

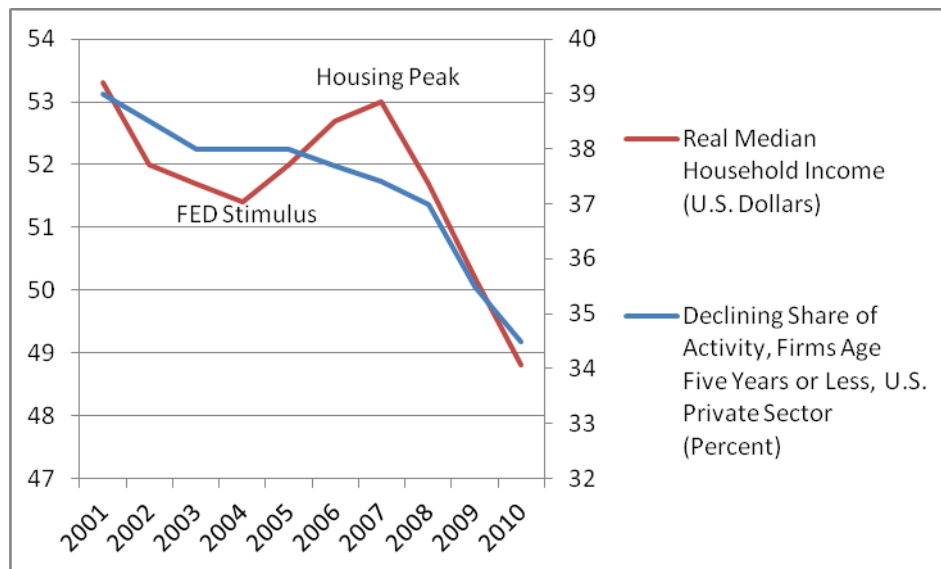
Washington can encourage an economic environment that attracts and retains investment and productivity in the United States. This can be accomplished in part by reducing the national debt, opening foreign markets to U.S. goods and services, reducing unnecessary regulatory burdens on small businesses and employers, and ensuring stable and predictable government policies so employers can make short- and long-term investment and management decisions. (2011)

The most salient element of Fed policy that has severely impacted the entrepreneurial activity and small business growth is their attitude toward the formation of financial “bubbles” in the economy. Their willingness to stimulate economic growth with often less-than-zero real interest rates provided major banks with the ability to market new and creative highly-leveraged financial instruments that spiked earnings and market share. However, the subsequent collapse of many of those instruments has led to the present environment where wounded financial institutions are unable or unwilling to lend to all but the soundest risk, leaving incipient businesses starved of capital. The Organization for Economic Cooperation and Development (OECD) noted in their “*Better Financing for SMEs for Job Creation and Growth*,” (2010), that entrepreneurs and small businesses face many challenging years ahead. They note that the low

interest rates of most central banks have led commercial banks to focus their lending on larger companies where risk is easier to assess than at new business formations.

It is clear that the most accommodative monetary policies in the history of the U.S. have failed to stimulate GDP growth and job creation. As can be seen in Figure 3, they have also failed to stimulate real median household income. In that figure, we find an apparent tight correlation between a declining share of young firm activity and a drop in median income. While the full meaning of that correlation is beyond the scope of this paper and will require additional research, entrepreneurs seem to perceive the impact of failed policy and falling incomes and act accordingly in their business activity.

Figure 3: Declining Share of Activity, Firms Age Five Years or Less & Real Median Household Income (thousands of U.S. dollars)



Source: Author's Analysis of Data from the U.S. Treasury & Kaufman Foundation

2.3. Entrepreneurs Disadvantaged in Global Trade Policy

According to the U.S. House of Representatives Committee on Small Business, entrepreneurs and small businesses face a variety of barriers that significantly inhibit their ability to compete in the export market. Those barriers include higher tariffs, and anti-competitive technical standards. Adding to the global issues, some nations, including the U.S. create complex domestic rules regulating international trade. Entrepreneurs must navigate multiple federal agencies to obtain that license. With their limited resources, entrepreneurs and small businesses rely on free trade agreements to navigate the complexities of international trade (2012).

Despite the agreements in place, their complexity and lack of enforcement have deterred entrepreneurial activity in international markets. Unfair trade practices, especially the theft of intellectual property (IP), deter small business engagement in that arena. According to the U.S. House of Representatives, China is the preeminent offender, including dumping, intellectual property theft, and market access. In total, domestic firms lost an estimated \$48 billion from this theft. As a result, only one percent of the 27 million small businesses are engaged in export (2012).

The U.S. Government has been a failure in ensuring that trade agreements with nations like China have been “fair” as well as “free.” Large enterprises have the scale and clout – for the present – to limit intellectual property theft. The U.S. could impose penalties on certain Chinese manufacturers and products where IP theft was known. The lack of strong action by the U.S., as some allege, may be due to fear of losing the nation’s key source for its debt-fueled economy. To stimulate entrepreneurial development and to restore manufacturing jobs in the U.S., the nation must take a stronger stance against global IP theft.

In a positive signal for entrepreneurs and a possible shift toward a tougher posture on violators, on February 29 of this year the Obama administration signed an executive order to target the unfair trade practices of nations such as China. Commerce Secretary John Bryson, who will appoint the deputy director, said his department “is committed to making it as easy as possible for U.S. businesses to build things here and sell them everywhere.” (Barklay, T. and Favole, J., 2012).

3. CONCLUSION

The role of governments can be quite helpful in the fostering of entrepreneurship and the growth of small businesses. Most efforts to stimulate such business creation have been in the form of tax incentives. While preferential taxation, such targeted capital gains reductions and investment tax credits can be helpful, other, sometimes more subtle policy factors noted in this paper may be more enticing. Chief among them is an environment in which a medium- to long-term assessment of government policy is possible. In the U.S., for example, the lack of policy visibility in a politically divided nation, and fear of new regulations, taxes, and government control is having a chilling effect on new business creation.

Adding to the downbeat dialogue, statements from the U.S. president about who actually should take credit for a successful business (Gardner, 2012). Some Western nations are recognizing the value of providing a more positive viewpoint from government, and one that can diminish policy fears harbored by entrepreneurs. The U.K.’s Department of Business, Innovation, and Skills recently announced the elimination or modification of 3,000 rules that impacted small companies. The U.K.’s Business Secretary noted that “in these tough times, businesses need to focus all their energies on creating jobs and growth not being tied up in unnecessary red tape” (Vina, 2012).

Perhaps the most important element in the need for improved policy visibility is fiscal and monetary policies that are sustainable. The post-Internet bubble recession in early March of 2001, followed by the September 11 attacks, were the spawning grounds for deficit spending and fiscal stimulus of the economy. That was quickly followed by the Fed with massive doses of accommodative monetary policy. While both were well-intended, they sowed the seeds for housing bubble and 2008 global financial crisis.

Notwithstanding the intentions of policy makers, entrepreneurs and small businesses realize that a nation that has incurred more debt in just four years than in its entire 200 year history, as is the case for the U.S., is on an unsustainable trajectory. As a result, their job creating and GDP enhancing efforts are tempered. Many of these same issues are an impediment to business formation elsewhere, such as the European Union. Until a more stable environment, built on policies that engender private sector growth and investment is visible to the entrepreneurial cadre, we can expect sub-par growth in this important sector. Further study is needed to quantify the impact of policy uncertainty on entrepreneurial expansion, the number of jobs related to those decisions, the correlation between household income, entrepreneurial activity, and the universality of their impact across national borders.

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THE IMPORTANCE OF CULTURAL DIFFERENCES IN INTERNATIONAL NEGOTIATIONS

ABSTRACT

Researchers analyzing cross-cultural communication processes tend to simplify the complexity of the challenge of knowing and understanding different cultures. Cultures are created, developed and regenerated under the influence of different environmental factors. When doing business abroad, clients, employees and business partners share their home culture, which may be quite different from the beliefs and lifestyle of their peers, the clients, employees and business partners in the host country. The key elements of establishing a successful communication process are the sensitivity towards and the understanding of the negotiating context differing from one's own. In many cases, insufficient preparation and lack of knowledge on cultural and business practices of the partner country may result in business failure. Therefore, the authors analyze the essential determinants of successful negotiation based on the awareness of the significance of knowing cultural differences, communication styles as well as the importance of verbal and nonverbal communication. The main goal of this research is to explore the relevant features and cultural differences in business negotiation processes of selected European and other countries. The focus is directed towards determining the significance and the affirmation of business behavior which applies to almost all human activities. The authors analyze the basic cultural communication styles and communication problems that may arise during negotiations taking place on the foreign market due to these differences. The research aims to prove the major premise that the interactions between cultures of individual countries have a crucial impact on the success and failure of business performance on both domestic and international markets.

Key words: *negotiation, European countries, cultural differences, communication styles, verbal and nonverbal communication*

JEL classification: *Z13, D83, F51*

1. INTRODUCTION

Negotiation is a social process within a wide context. The higher the number of cultures and nationalities involved in the negotiation process, the more complex the context, making thus international negotiation extremely challenging. Effective communication within the framework of one's own culture is demanding *per se*, and even more so, when there are several different cultures involved. The similarities between individual countries do not imply the same manner of negotiation. Negotiation strategies are not equally successful in all negotiation processes. Culture is one of the most commonly analyzed aspects in international negotiations, and the number of papers researching the cultural impact has been on the increase.

In today's environment, competencies and skills in effective negotiation represent a very important guideline of the company's business success. Globalization has succeeded in integrating a major part of companies into the global market. However, dimensions, such as cultural and business aspects of countries, remained unchanged. Therefore, within this research, the authors try to identify the differences among cultural customs which lead to effective international negotiations.

Moreover, the significance of communication styles in achieving negotiation goals is also an aspect that should not be neglected, as the verbal and nonverbal communication skills of negotiators contribute to the company's added value. As a result, the mentioned dimensions should be incorporated into the negotiator's training and education. The negotiator should (must) know what to expect and what is expected of him/her within in a certain cultural context. Adequate preparation and increased awareness of the cultural differences and their impact on the success of negotiations with foreign business partners increase the chances of job realization.

The paper also elaborates on the opposite, as well as related features of the low context and high context countries. These notions are complemented by the specific features of verbal and nonverbal communication styles of selected countries.

The fundamental hypothesis underlying the research is that there is a strong correlation between a country's culture and its impact on business performance and success on domestic, as well as on international markets. The main goal of this research is to explore the relevant features of business negotiation, the cultures of selected countries, including several European countries. The authors' attention is focused on determining the significance and the affirmation of behavior within the business system that is applied in almost all human activities. The authors analyze the fundamental cultural communication styles, and communication problems that may arise during negotiations on the European market.

2. AWARENESS OF THE DIVERSITY OF CULTURAL CONTEXTS AS A CRUCIAL GUIDELINE TO SUCCESSFUL INTERNATIONAL NEGOTIATIONS

Communication between cultures implies the process of sending and receiving messages among people of different cultural contexts (Rouse, 2005, p.256). Authors involved in researching cross-cultural communication tend to simplify the complex challenges of knowing different cultures, and in doing so, group analyzed countries into larger groups and categories, lead by different criteria. One of the dimensions used to explain the differences in different international environments is "contextuality" i.e. the degree of explicitness in presenting and providing information. According to this criterion, there are two cultural groups: the high and the low context cultures. Between the two mentioned extremes of cultural communication types, there are some countries, such as France, whose culture is a combination of these two cultural groups.

**Table 1: Fundamental features and differences
among low and high context cultures**

LOW CONTEXT CULTURES	HIGH CONTEXT CULTURES
Information is provided explicitly and very little remains unsaid	Information is very often implicit and is almost left out from explicit utterances
Directness is appreciated, and attention is rarely paid to "saving the face" of the other party	Indirectness is valorized, and the issue of "saving the face" is important
Personal relationships are less relevant. Relatively little time is spent on getting to know one another	Personal relationships are very important, and therefore a lot of time is spent on getting to know one another
The responsibility is individual	The individual is responsible for the entire group as well as the group values and rules
Success is reflected in overcoming others. Competitiveness is emphasized.	Success depends on the individual's contribution to the group. Cooperation is emphasized.

Source: DeVito, J.A. Human Communication, Longman, New York, 1998, cited in Jackson, R.W. Hissrich, R.D., Newell, S.J.: Selling and Sales Management, NPC – North Cost Publishers, 2007, p. 5.

The low context culture is individualistic and the majority of information is provided by means of the written or spoken word i.e. directly. In high-context cultures, most of the information is provided indirectly and can be understood only in the light of previous communications, perceived perceptions of the other party and on the basis of shared experiences. The high context cultures are more collectivistically oriented (Tomašević Lišanin, 2010, p.141).

In high context cultures, the obtaining of information relies on interpersonal relationships and broad social networks. Members of these cultures do not require and do not expect to receive extensive background information considering business decisions as they believe that they themselves need to obtain this information

previously. They thus have extensive information on everyone who is involved in the discussion, business or the negotiation process.

They usually use more culturally marked signs when interpreting messages within the communication process, and do not rely solely on the words used. The members of this culture observe their superior; they intuitively try to predict his/her expectations, reactions and acceptance of previous experience. In such cultures, it is very difficult for a foreign business partner to adapt as he/she lacks the knowledge of the certain code, i.e. the knowledge of a number of indirect and unwritten rules of conduct which lead to successful communication (Buble, 2009, P.289). The national cultures of Japan, China, Vietnam and Arab countries are generally high context cultures.

On the other hand, in low context countries, it is considered that words have weight and carry meaning in communication. Such cultures require a lot of background information and data on which to make decisions. Their members prefer to receive first-hand information, and even then, only if these are directly relevant for the current problem. Such low context cultures include the Germans, Canadians, Australians, the Dutch, the Swiss, Scandinavians, Americans and the British. They expect the information to be analyzed to be segmented so that they could deal with each segment individually at a specific and pre-allocated time.

The members of the low context cultures have a great affinity for planning; they act in accordance with the planned and agreed; they encourage and reward initiative; they tend to accumulate knowledge, capital and material goods; they tend to channel and adjust the environment according to their needs and rely on written rules and regulations.

Even the advertising in these cultures is mainly focused on facts. The conditions and clauses of certain transactions are considered to be extremely important, and at meetings little time is given to chatting. However, all cultures have elements of high and low contexts. In negotiations, for example, Americans (low context) insist on the presence of a lawyer at the very early stages of negotiations to make sure that the words/wording and its meaning are precise. Japanese negotiators will interpret such a request as proof of distrust. Even though the American reaction, from the Japanese perspective, seems unreasonable, it is the Japanese symbolic interpretation that will prevail. The presence of the lawyer might lead to a break up in negotiations resulting in the non-closure of the agreement. The Japanese believe that the "first round" of negotiations serves to build relations.

This is not the time to conclude contract details (Rouse, 2005, p. 225-226). Identification and encoding of high and low context symbols in a culture presents an efficient means of communication. The transition from low context types of relationships, in which only relevant information is exchanged, to the high context relationships, in which communicators exchange detailed, extensive and peripheral contextual information indicates increase in confidentiality. This transition marks the integration of communicators into an interpersonal confidential network. Once the income of contextual information ends, the relationship cools down.

3. THE SIGNIFICANCE OF VERBAL AND NONVERBAL COMMUNICATION IN MULTICULTURAL ENVIRONMENTS

All cultures have words for the most relevant terms; most of the words in each language express culturally colored terms which can be defined only in accordance with the particular culture. Studies analyzing the English language show that men use mostly imperative forms to give instructions, whereas women use indirect questions and question tags. According to some other research, women are generally more cooperative within the communication process.

Moreover, when management is concerned, women are more likely to use an interactive style, i.e. they share information and power, encourage cooperation and incite feelings of self-importance in their associates. Contrary to them, men prefer to use the control over resources and authority positions to motivate their subordinates. However, it was found that the differences in the use of a language derive from the imbalance in the distribution of social power. In other words, all those who have social power, regardless of sex, use "strong" or "male" language. It is well known that verbal behavior follows certain patterns and limitations called rules (Fox, 2006, p.135-138)

There are between 8,000 and 10,000 spoken languages in the world. Most of the companies use just a few of these languages. Some markets that are officially bilingual such as Canada (English and French) require both official languages to be used within the organizations. This practice is also evident in the European Union. Different languages reflect different views of the world. This is noticeable when learning a foreign language, as one becomes aware of the differences in the organization of "one's own" and "the foreign" world.

Effective communication does not solely depend on the knowledge of the vocabulary and grammatical rules, but also on a wide spectrum of inborn assumptions common to native speakers, which are not so obvious to a foreigner. Therefore, it is almost impossible to translate a text word for word as the meaning of sentences changes according to the use of different structures, dialects and idioms. Idiomatic expressions are common phrases or sayings unique to a language and culture. They are combinations of words that convey meaning to a native speaker, but lose meaning to a foreigner, if they are translated or taken literally, word by word.

Moreover, in order to communicate successfully one must be aware that his/her own assumptions about the world and the understanding of one's own experience are not absolute and constant, but relative (Rouse, 2005, p.70). When negotiating, one must make sure that his/her words, in addition to having a specific, generally accepted meaning, also convey a psychological, experienced meaning as they are burdened by emotions and attitudes.

On the other hand, we should also emphasize the role of nonverbal communication in international negotiations. Namely, in a multicultural environment one should be especially attentive to various forms of nonverbal communication, because it is in this area that misunderstandings occur more easily as there are fewer rules and standards than in verbal communication or written correspondence.

Nonverbal communication refers to the communication by facial expression, body movements, gestures and physical contact that make up for more than 50% of the message content (Buble, 2009, p.293). Nonverbal communication primarily expresses attitude. While, it is relatively easy to judge emotions, agreement, interest etc. based on the nonverbal signals, it is quite difficult to make conclusions about the ideas and concepts based on the other person's behavior. Successful nonverbal communication requires a complete, complex knowledge of the foreign culture. As a result, corporations organize courses developing cultural sensitivity for their international managers. The purpose of these courses is twofold: an individual acquires an understanding of their own nonverbal behavior and learns to properly interpret the behavior of others. (Dobrijević, 2009, p.194-195)

All communication is based on signs; languages are just sign systems. A sign system has its structure. It consists of a list of elements and rules that regulate the combining of these elements in order to produce a meaningful way of communication. This system can be opened and closed. In a closed system, signs can not be linked together to create a new sign, and each sign operates independently. Human communication is almost entirely symbolic. Symbols are arbitrary signs having arbitrary meanings. Different symbols can mean different things, and one symbol can have more than one meaning. In human communication, unlike most other types of communication, the meaning of the symbols is rarely genetically programmed i.e. interpretation of symbols is learned.

As symbols are arbitrary, different words in different languages may have the same meaning, e.g. items like flags, medals, logos or traffic lights. The success of any communication lies in its ability to convey a message from one person to another. As symbols are arbitrary, the interpretation of messages does not only involve decoding, but also putting messages into their proper context i.e. assigning them the meaning. For example, there is a difference between a wink and a twitch. Although they physically look the same, their meaning is different. Observers ought to interpret this gesture in relation to the context of the communication. In interpreting the meaning of a sign or symbol, one should be aware of the subtle cultural cues embedded in the context (Rouse, 2005, p.68-69)

Communicating without using words is mostly founded on gestures and signs, but also on the cultural relations towards time, space, things, friendship, gifts and agreements. Generally speaking, verbal communication is more used in the West whereas non-verbal communication in the East. An American business partner will probably feel uncomfortable and threatened by the presence of Arabs who tend to stay quite close to the people they are talking to. He or she will therefore have a need to move a bit backwards, which the Arabs will interpret as a negative reaction. Moreover, the people from the West will, at the least, be surprised to see that in Slavic countries business partners kiss each other on the cheek, regardless of gender. Some elements of non verbal communication are universal and thus certain facial expressions will be similarly or equally interpreted in different cultures.

According to some authors, interpretation of facial expressions may be one of the basic criterion according to which cultures are grouped based on the similarity in their interpretation. For example, a Portuguese will more easily understand the facial

expressions of a Spaniard than those of an Asian. Apart from culture, there are other factors affecting the non-verbal communication. The gender and the age of a person more closely determine the use and interpretation of non-verbal signs e.g. women are more likely to smile; men use different non-verbal signs when speaking to a woman than when speaking to another man. In addition, situational factors and the mere personality of the person also affect the non-verbal communication (Dobrijević, 2009, p.194-195).

In the following segment we will present and analyze four main categories important for communication: kinesics, proxemics, chronemics and chromatics (Buble, 2009, p.295-296).

Kinesics includes analyzing communication through body language and facial expressions. The primary areas of interest include eye movements, body posture and hand movements. The Italians and the Greeks are known for using their arms to give special, additional expression to words whereas the Chinese and Japanese do not use their hands but keep them crossed (one over the other). The Americans are known for scratching their heads or touching their earlobes when speaking, while other gestures are rare. The Germans consider negligent posture to be uncivilized, while Americans prefer informality. The left hand is considered unclean in the Muslim culture and the people belonging to these cultures not only avoid touching the others with this hand, but use their right hand for many movements - for eating, opening the door, greeting friends and other (Buble, 2009, p.293-294).

The understanding of body language is intensively related to cultural/anthropological sensibility. There is a great number of culturally marked ways of saying "yes" or "no". In most European cultures nodding one's head means "yes" and moving one's head from left to right or vice versa, means "no". In Ethiopia, the sign for "no" is putting and turning one's head towards the right shoulder, while the sign for "yes" is tossing one's head and raising one's eyebrows. A serious problem arises when two different cultures use the same gesture but which denote different meanings. For example, a raised head and chin in Sicily is a negative answer, whereas in the Moorish culture, it is a sign of a positive response. This leaves room for misunderstandings, and the only means to prevent it, is the knowledge of the other cultures' features.

When talking about non verbal behavior, regional differences are also noticeable. There is also a similarity of nonverbal behavior within the geographic region among languages belonging to different language families. The vertical movement of the head as a sign for "no" is recorded in Greece, Turkey, Arabia, and almost all of North Africa. The only exception is Israel, where the horizontal head movement is used as is typical of Northern Europe. Some elements of nonverbal communication are associated with gender. The Western people, especially Europeans generally shake hands regardless of gender. In Mali, men shake hands, whereas women do not. When greeting men, a woman may kneel, whereas a man never. The right of women to look into a man's eye is limited.

Proxemics, is a study of how people use physical space to transmit messages. The distance between the interlocutors is conditioned by culture. The normal distance in the

U.S. is about half a meter, while in the Middle East, South America and some European countries it is quite less. The distance zone in human interaction, characteristic for a particular society, provides information on the status and relationship of the participants. In western cultures, the intimate distance zone (very close relationships) is up to 45 cm, the personal zone (rather close) 45-130 cm, socio-consultive zone (impersonal relationship) 3-4 meters, and the public zone (public events and people holding public functions) over 4 meters. The tolerance of physical contact is also a cultural category. Some societies (South America, Arab countries) are prone to body contact, whereas others (Northern Europe, India) are extremely reluctant. All communication, verbal and nonverbal, is conditioned by the participants' social classes, networks and groups (Fox, 2006, p.140-143)

Alternatively, chronemics refers to the way in which a culture perceives and uses time. There are two types of time systems: monochronic and polychronic. In monochronic time schedules things are done linearly. Managers will first name problem A and only then turn to problem B. In such societies, timetables are important, and time is perceived as something that can be controlled and should be wisely used. In some cultures such as the U.S., UK, Canada and Australia, as in most cultures in northern Europe, managers remain faithful to schedules. This is rather contrary to the polychronic scheduling of time common in Latin America and the Middle East and characteristic of those trying to do several things at once. These cultures put higher value on personal involvement than on what is done on time i.e. in these cultures relations are above schedules.

Chromatics refers to the use of color to communicate messages. Every society uses chromatics, but a color might mean one thing in America and something quite different in Asia. In Croatia, it is common to wear black as a sign of grief, whereas, in some places in India, people wear white in these situations. In Hong Kong, red is worn as a sign of good luck or success and thus, traditional wedding clothes are red, while it is common for the bride to be in white in USA. In most Asian countries, shampoos are dark, because the consumers want it to match the color of their hair. In America, they tend to be light, because people perceive light colors as a sign of cleanliness and hygiene.

To conclude, within the framework of international negotiations, it is necessary to thoroughly investigate every feature of a particular culture. Not knowing cultural and business customs of the business partner's country can result in business failure. Business success requires investment of time and financial means in the preparation prior to negotiation. Preparation, as an unavoidable activity in any effective negotiation, represents a major step towards a successful ending of international negotiations.

4. THE IMPACT OF CULTURAL DIFFERENCES ON NEGOTIATIONS

The business world is systematically becoming an integral part of the globalization process. Globalization gives the perception of the world that is, in terms of space, completely interconnected and finite, but still provides endless opportunities for growth

and renewal. Globalization is a result of the development in information technology and an unimaginable growth of industry and commerce. It is associated with both cooperation and competition at global level. The companies cooperate and have joint responsibility going outside the borders of their country, self-responsibility and the responsibility towards the environment and that what remains for future generations.

Whereas in the past misunderstandings mostly stayed within the local context, in today's "global village" where messages immediately reach all corners of the world the consequences of misunderstanding and poor communication are much higher and wider (Dobrijevic, 2009, p 189-190). Communication has become global and multicultural, the world a global village where everyone interacts and communicates with everyone thus resulting in the need to learn the patterns of fast, consistent communication without borders, but with respect to cultural differences (Španjol-Markovic, 2010).

In conditions of increasing globalization, the numerous research and studies on organizational and managerial culture being conducted in the world, are gaining on importance. Wendy Hall conducted such an empirical research in which she grouped managerial and organizational cultures into four categories: northern, western, eastern and southern. It should be emphasized that in many cases these cultures are intertwined not only within national economies but also within multinational corporations (Poslovni forum, 2011).

Globalization processes and overall internationalization of business, which is particularly prominent in the recent decades, impose the need for a greater individual awareness for sellers and other people from the business world. This especially concerns respecting cultural characteristics and preferred ways of doing business in different parts of the world, different countries, and even regions within the same country. Awareness and knowledge about such differences, which contribute to the cultural richness of the world, make it easier to acquire the trust of partners coming from foreign countries, and to create the preconditions for simpler and long-term more secure business activity.

The success of corporations that operate globally depends on several factors such as competitive environment, political and legal context, economic forces, differences in climate and geography, and the differences in cultures. The key element of success, which connects and enables the mentioned factors, is the communication between cultures. Global corporations are faced with foreign legal and political systems, differences in the nature of the competition and relationships with competitors, relations with employees, suppliers, customers and other stakeholders in foreign countries. Finally, in order to create an international brand, corporations need to effectively advertise and implement successful marketing in foreign countries. The same way that communication is crucial to the domestic business, it is equally important in the global market (Rouse, 2005, p.255). International organizations and companies that intend to go global should carefully consider their communications networks and the way in which receiving and sharing information can become a competitive advantage.

In order to overcome the cultural differences that may emerge as obstacles in reaching effective negotiations, one should have in mind specific moments. Specifically, we need to develop an awareness of the negotiator about the social and cultural barriers in communication, the clashes in values and beliefs, stereotypes and ethnocentrism, language and jargon as well as culture shock.

Taking part in a culture, consciously or unconsciously, a person complies with the social norms. Social norms are tacit or informal "rules" about what, how, when and where is something being done. There are also norms of communication including gestures, various meaning expressed by colors, tone of speech and symbols. From a communicative perspective, it should be pointed out that the social norms and cultural characteristics are not just important because they enable better communication, but also because these same standards and qualities may present an obstacle in communication.

Key social and cultural elements that can become obstacles include among other: group thinking, clashes in values and beliefs, stereotypes and ethnocentrism, language and jargon. Group thinking is a social phenomenon that occurs when group behavior dominates and suffocates the process of decision making (Janis, 1982). It happens in cases when social norms or the desire of the group to reach a consensus overwhelm the desire to reach decisions that are in the best interest of the group i.e. when the common values and conformity get out of hand.

Furthermore, culture is based on common beliefs and values. When communication takes place across cultural boundaries, the possibility of misunderstanding increases. Cultural and social norms are so ingrained that people act on the basis of them, without even being aware of it. The people involved in unsuccessful business ventures which were conducted within different cultures often do not understand why the deal fell through. The failure is mainly due to communication failure caused by mutual ignorance of the basic values and norms.

In most cases, one of the protagonists desecrates someone values without being aware of it, thus causing tension and conflict. In some cultures, a successful business relationship is always preceded by the establishment of personal relationships, while in other cultures work is just a commercial transaction. Organizations need to be aware of the possible cultural differences before trying to expand their business across cultural boundaries. Knowledge of values, beliefs and norms of the other culture can help avoid communication problems that may cause unpleasant consequences.

Being aware of the beliefs and values of other cultures is not the same as having stereotypes about the members of that culture which are founded on one's own assumptions cultural members. A stereotype is an attempt to predict a person's behavior on the basis of their pertinence to a particular group. Stereotypes are usually associated with superficial behavior and inaccurate information, and not, with deeply rooted beliefs and norms. They represent a barrier in communication because the person involved in the communication process does not look at the person he/she is talking to as an individual and thus does not listen openly to their messages. They are considered dangerous as they may lead to prejudice, discrimination and racism.

Stereotypes which are usually subconscious can discriminate, overshadow reason and relations, and create barriers to communication and should thus be avoided. Creating stereotypes becomes a problem when they are used as a basis for prejudice or for condemning certain individuals even if one has not communicated with them. A stereotype is a mental representation of an "average social person" based solely on the person's exposure to selected information about a specific group. Stereotypes are inevitable and they are a form of cultural information. Ethnocentrism is associated with stereotypes. Ethnocentric people see their own culture as the only valid. They tend to assure persuade others according to the standards of their own culture for which they believe superior. Like stereotypes, ethnocentrism leads to prejudice and discrimination. The communication impacted by ethnocentrism, even in its mildest form, becomes patronizing and courtly (Rouse, 2005, p. 51-54). Therefore, it is essential that the participants involved in cross-cultural negotiations are open to different social values and norms of conduct so as to avoid ethnocentrism. (Dobrijevic, 2009, p.194)

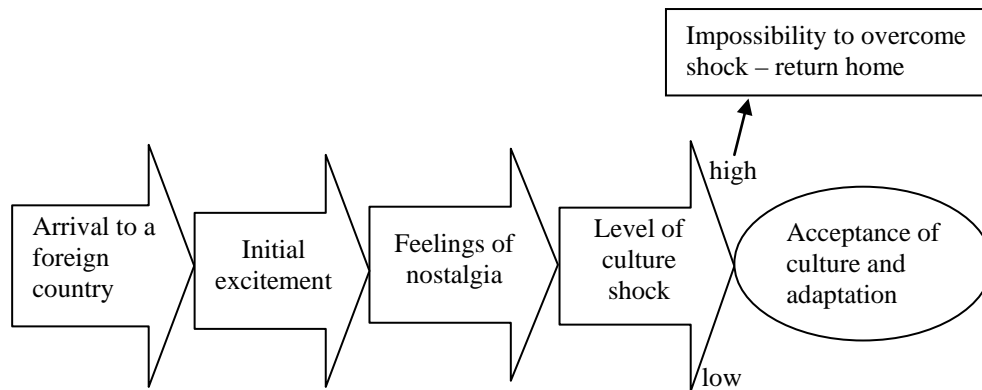
Language can become a barrier within the communication in several ways. The most obvious is the attempt to communicate the message between the sender and recipient whose languages differ greatly. Language is a culturally specific way of encoding the meaning of the message to be communicated. Anyone who speaks more than one language is aware of the fact that translation is not a direct process. Idioms and dialects in the language are difficult to translate and often lead to misunderstanding

Language may represent an obstacle in communication, even when all the interlocutors speak the same language. Status and class differences impact the different usage of the language thus often identifying or excluding entire groups. Jargon can have the same effect. Many professions, such as medicine or engineering, can have their own jargon which defines the boundaries between professionals and their clients. Jargon reveals the existence of the two groups, those who belong (insiders) and those who do not belong (outsiders) to the group. For the communication in a business context to be successful, it is necessary to avoid technical and scientific jargon wherever possible (Rouse, 2005, p. 51-54)

Culture shock occurs when people consciously and especially subconsciously realize that everything that has to do with the host country and the way in which people live there are different from their home culture. People are not sure what the symbols mean and how to interpret them. A number of symbols and behavioral patterns cannot be determined. Communicating a message in any direction, to and/or from others is thus not always clear and without obstacles.

Negotiators on their business mission to a foreign country feel excitement in the first few weeks. Then they realize that differences between cultures are deeper. They become anxious and may have a sense of nostalgia, frustration, alienation and isolation sometimes leading to depression. As a result, the negotiators become unable to do their work i.e. they are faced with the culture shock. However most of them overcome depression and learn to accept and adapt to the host culture. The reason for culture shock lies in the deeply rooted features of one's own culture (Rouse, 2005, p. 51-54). Diagram 1 illustrates the phases of culture shock and its outcomes.

Figure 1: Transition from culture shock to adaptation



Source: Rouse, S., Rouse, M. J. 2005, Poslovne komunikacije (Business Communication), MASMEDIA, Zagreb, p.257

The impact of culture shock is easily reduced, thus improving acceptance and adaptation, by understanding the culture and by being aware that the painful process of transition from culture shock to cultural adaptation is a normal process through which one passes while working in another culture.

In order to reach successful and efficient negotiations, negotiators must be aware of the possibility of the occurrence of culture shock. Culture shock does not result in cultural acceptance of and adaptation to international negotiators. A potential problem may be overcome by adequate preparation before the negotiation process where the negotiator is introduced to cultural diversities, different communication styles etc. Preparation has a preventive effect on the development of culture shock and increases the probability of meeting the set negotiation goals.

5. CONCLUSION AND RECOMMENDATIONS

In line with all of the above, it is important to note that lack of awareness and knowledge on cultural diversity can negatively affect the outcome of negotiations. The negotiator should have knowledge about the various aspects of cultural contextuality and the main differences between high and low context cultures. At the same time, it is impossible to ignore the importance of communication styles. Verbal and nonverbal communications are an effective tool in achieving negotiation goals abroad. Ignoring such aspects can lead to counterproductive effects.

In view of the fact that the Croatian negotiators mostly operate within the European environment it is necessary to have insights into the European business practices and management culture. In general, Europeans have a sense of reality and are patient in negotiations demonstrating a high appreciation of tradition and corporate history. Furthermore, the European negotiating style is marked by the following components: cynical realism, the belief that the individual is the center of social and business systems, social responsibility, suspicion in formal authority, desire for certainty, belief

that maximum profit is not the main goal of business. The above mentioned features are common to a number of European countries, but there are also significant differences among them, primarily as a result of historical heritage. Each country has built up a system of values and practices that are partly different in relation to such systems in other countries.

As previously mentioned, in order to reach successful communication between cultures it is necessary to teach and raise the awareness of the specific features of the host culture as well as, at least, the elementary language competences and skills. A negotiator or a global company abroad is the foreigner in the host country, which means that they are the ones who must change in order to achieve their negotiating objectives.

To improve the effectiveness of communication at international level, among the numerous options, the authors emphasize the following; enhancement of feedback systems, acquisition of foreign languages, raised awareness and knowledge of specific cultural features and development of interpersonal communication skills.

Enhancement of feedback systems. One of the most important means of enhancing effective communication in the international context lies in the open system of feedback. This type of feedback is especially important between the company and its subsidiaries (branches). There are two basic feedback systems: 1. Personal (e.g. face to face meetings, telephone calls and e-mail), 2. Impersonal (e.g. reports, budgets and plans). These systems help maintain the connection between the branches and the headquarters. They provide the necessary support to the main office in its monitoring and control of the effects of the branch as well as in setting goals and standards. It has been noted that there are different degrees of feedback between the local offices of international companies and their subsidiaries. There is a difference in the manner in which American companies communicate with their subsidiaries and the ways in which this is done by European and Japanese companies. The American companies tend to both systems of feedback more often than the latter two.

Acquisition of foreign languages. Learning a language definitely contributes to better cross-cultural communication. The corporate managers and representatives do not necessarily need to be fluent, but the more they know the better they'll understand the culture. The hosts look benevolently on a person who is sincerely trying to speak their language. By doing so, the guest shows his/her willingness to understand the culture and respect. Negotiators, who are not native speakers, should thus learn the language at least to the degree that they can talk face to face, make telephone calls and send e-mail messages. This applies to both spoken and written communication.

Raised awareness and knowledge on specific cultural features. It is very hard to communicate with people coming from other cultures if communicators do not have at least some knowledge about the other person's culture. It is possible that this could lead to a break up in communication. This is particularly important for companies operating worldwide. Learning about the culture can be at national, regional or even at the level of only a part of the country. One of the best ways to learn a foreign culture is through experience. By becoming aware of and by learning about cultural features, one

becomes an effective communicator in foreign countries and is thus able to make informed business decisions.

Development of interpersonal communication skills. Negotiators who are skilled in making connections and friendships facilitate the integration into the host country as they possess both sensibility and communication skills. Friendships are important for building trust and they facilitate the exchange of ideas all resulting in better coordination and control. A sense of humor also helps. It is usually a quality innate to those who possess interpersonal skills, and it helps confront the difficult period of culture shock. Interpersonal dialogue is the best way to eliminate interference in the communication between people and groups at the same organizational level (horizontal boundaries), as well as between those at different hierarchical levels in an international company. This is the best way to develop effective relational networks that are typical of international companies in which collaboration intertwines operations around the world. This could not be achieved without an effective communication system, in which individuals have the ability to understand one another through shared messages (Buble, 2009, p. 302-303)

Cultural differences among negotiators are always present in cases when conducting business in foreign countries or when receiving partners from abroad. However, these differences also exist when negotiating with people from the same country, but with a different origin. In fact, culture is a phenomenon that changes as soon as the one crosses national, regional, organizational and other boundaries. Specifically, human groups have culture as a framework within which communication is enabled (Segetlija, 2009, p.113).

Culture plays a major role in communication. Members of a culture generally transmit messages to each other by using appropriate symbols and behavioral patterns, often subconscious. As a result, foreigners may encounter problems in encoding and decoding these messages. Lack of knowledge about another culture leads to wrong assumptions and interpretations, especially about the behavior of foreigners.

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SUPPLY CHAIN MANAGEMENT AS A FACTOR OF COMPETITIVE ADVANTAGE OF STRATEGIC ALLIANCES

ABSTRACT

Contemporary economic trends are moving in the direction of reindustrialization based on high technology and the integration of the global economy. Firms function in an environment characterized by the globalization of business, growing competition, accelerated technological development and increasingly diverse demand of the ever more informed and demanding consumers. Small and mid-size enterprises, a characteristic of all small countries in transition (including Croatia and B&H), do not have capacity for the competitive contest through their own development of high added-value products for the consumers in the globalized market. Creation of strategic alliances is a path to the development of competitive small and mid-size Croatian and B&H firms as participants in the production of „common“ products that enable them a target-integrated development of specialization (flexibility) and utilization of the effects of the volume economy (adaptability) in the global market. Supply chain management, as a model of the integrated processing management of the participants' added-value creation flows, from the raw material sources, through the transformational processes of the strategic alliance's specialized participants, to the final consumer, is a problem solving area for the development of competitiveness of the Croatian and B&H economies in the European Union's integrated market, and respectively the globalized world market.

Key words: globalization, integration, competitiveness, strategic alliances, supply chain management

JEL classification: M21

1. INTRODUCTION

The Republic of Croatia and B&H have not yet completed a full transformation from the centralized-command to the market oriented economy, although the date of the accession to a full membership of the European Union is approaching. The European Union represents a market characterized by a high level of capital concentration,

developed forms of communication and information, high level of competitiveness, high mobility of the labor force and work skills, as well as reduction of various forms of trade barriers. Convergence of the EU market also connotes a radical reorganization of supply chains in the Republic of Croatia and B&H, as well as the establishment of new ones. Reorganization and development of supply chains is indispensable, since the Croatian and B&H enterprises are intensely facing the consequences of globalization and therefore have to adapt in a way that they cooperate with the members of supply chains outside their own country more intensively. Successful companies have recognized the strategic role of suppliers and agents, all the way to the final consumer, in the realization of long-term success, whether it be for the firm itself or an entire supply chain to which it belongs. This manner of mutual cooperation promotes strategic alliances and is one of the growing trends in the contemporary global economy. Small and mid-size companies in Croatia and B&H represent a growth generator of the national economy, so their mutual connection, as well as strategic association in alliances with the firms from the EU are essential for the development of competitiveness. Strategic partnership enables more efficient control of the commitment of limited resources, as well as more effective mastering of the change-susceptible environment. The state has to create stimulating institutional and other prerequisites for the target-organized cooperation between firms, which also includes the introduction of the concept of supply chain management in the entrepreneurial practice, as well as in the education system, since the basic knowledge concerning the possibilities of this concept of running of companies, cooperations, industries and the entire economy is acquired in this manner. Knowing the rules of the concept of supply chain management is of great significance to the managers in firms and strategic alliances, as well as to the political leaders of the state. In the Republic of Croatia and B&H, it is necessary to raise the degree of organizational knowledge at the macro and micro levels concerning the possibilities and applicability of the concept of supply chain management in order for small and mid-size companies, a characteristic of its economy, to engage more efficiently in the marketplace contest in the EU area.

2. THE IMPACT OF GLOBALIZATION ON MODERN BUSINESS ENTERPRISE

Globalization is a very complex and, it can be said, controversial concept introduced in the 1980s. However, unfortunately, there does not exist a universal definition or adequate empirical values to measure it. At the beginning, expectations from the effects of globalization used to be exclusively positive, but have lately grown to become more uncertain and pessimistic (Kahler, 2004). Globalization changes the accepted ideas of the market, marketplace contest and competition. Expansion and the ever growing importance of information and communication technologies, decrease of the role of classic physical factors in the creation of value, with augmented power of the role of knowledge and intellectual capital, growth of segments of the virtual economy – make the global economy entirely different from what it used to be twenty, or even ten years ago. Fast technological changes, increase of competition, market deregulation, digital convergence, rise of the Internet and other contemporary phenomena completely change the rules of marketplace contest, so the old models and theories are not able to

help anymore in a significant measure in the course of explaining the economic and management problems.

It can be said for the multinational companies that the markets in foreign countries are their domestic markets, too, and that it is difficult to connect them with any state, since the majority of their business activities and revenues are realized outside their domicile state. For the majority of them, it is hard to claim that they even „belong“ to any kind of state, since they function entirely globally. Multinational companies operate in a dynamic, uncertain and challenging environment (Maitland and Sammartino, 2012). As a representative model there can be taken an example of the company Husqvarna AB, originally from Sweden, which is a leading global producer of small machines for work in the open air. According to the data for 2011, Husqvarna AB realizes more than 92% of its revenues in the foreign markets. Currently Husqvarna AB has subsidiaries in more than 100 countries and sells its products through the network of more than 18,000 certified dealers (www.husqvarna.com). From the afore-mentioned example, it can be inferred that the multinational company optimizes the location of networks most efficiently at the international level. Multinational companies develop supply chains that include enterprises in many countries, so that, for example, raw materials can be obtained in one group of countries, production of components can be organized in another group, and production of finished products in yet another group, while distribution of the components can be realized in the fourth or fifth group of countries. Their comparative advantage is constant investment in knowledge, especially the managerial knowledge in the administration of supply chains. In only few years Husqvarna AB opened private universities in Brazil and Sweden, where the experts of specialized knowledge are educated. Specialized knowledge is directed to the education of experts that have been predetermined to hold managerial roles at Husqvarna AB in the future.

The previously mentioned changes of the economic system create a completely new context in the strategic attitude of the company. The trend of merging and strategic interconnection is intensified, through which mega-companies and/or groups of enterprises are created on the global scale. Strategic collaboration and integration have affected almost all economic activities: from banking, insurance, tourism, to various manufacturing industries – steel, automobile, oil, pharmaceutical, wood and timber, food industry, etc.

Over the last few decades, contemporary business records the creation of numerous and very different relations between enterprises. Companies collaborate in various forms that include licensing agreements, strategic alliances, joint ventures and networking (Bernardo et. al 2012). Although there is an increasing rivalry between firms, the number of various cooperative agreements grows constantly at the same time. The network of corporate agreements is intensifying, as well as global coalitions of firms which – combining their assets and other potentials – create revenues that are higher than revenues of many states (Freidheim, 1999). This is confirmed by the results of the research conducted by a group of systemic theoreticians from the ETH Institute in Zurich, studying 43,060 global companies and their ownership shares, as well as looking for the compatibilities that might connect them. The scientists selected a core sample of 1,318 firms with the intertwined ownership structures, that is, with relations

in more than two companies, and after a completed research they came to the conclusion that the global economy is lead by 147 closely linked firms, three quarters of which are in fact banks (www.popsci.com).

Marketplace competition changes forms: the firms simultaneously both compete and cooperate in order to gain competitive advantage. It is not rare that the companies competing in the marketplace are collaborating in the research and development activities. Perhaps the best examples of mutual cooperation can be found in the auto industry, where once-upon-a-time great competitors now collaborate (Toyota-BMW, Citroen-Peugeot-Toyota, BMW-Renault-Peugeot). In contemporary industries marked by fierce competition, it can be noted that the immediate rivals are not individual companies, but alliances of firms. The strategic alliances of firms are competing between themselves. In such situation, the company has to join in a certain form of strategic alliance in order to develop competitive abilities and ensure its survival in the global market. By entering into strategic alliances, companies establish mutual long-term business relations in order to, as efficiently as possible, compete against the firms outside the alliance (Shahanaghi and Yavarian, 2010).

Externalization of secondary business activities by the participants of global strategic alliances is an area for opening new business opportunities for the small and mid-size Croatian and B&H firms. Small and mid-size companies are flexible, so they can react quickly to marketplace changes and gain specific competitive advantages within a certain industry. By entering into strategic alliances with other companies, small and mid-size enterprises can compete even with the organizations larger than themselves, since together they have access to a larger number of resources (O'Dwyer et. al 2011). Small and mid-size Croatian and B&H firms, which are in close functional relations with their partners, domestic and foreign, as well as with global manufacturing networks, ought to develop a strategy of joining strategic alliances. The Republic of Croatia and B&H, through various programming areas, fosters the development of small and mid-size entrepreneurship, since precisely this represents the most significant and vital segment of the Croatian economy (www.croenergo.hr). The program areas (competitive entrepreneurship, favorable financing and warranties, education for entrepreneurship and crafts, improvement of the entrepreneurial infrastructure, EU programs and projects, institutional support for the development of entrepreneurship and crafts) are directed at the growth and development of entrepreneurial initiative in order to revitalize the Croatian economy and propel the industrial production. The animation of industrial production and future development of the small and mid-size entrepreneurship are also influenced by some limiting factors, such as: high cost of capital, inadequate structure of the labor force, lack of information, high taxes, restrictive access to the funds of the European Union, etc.

The Republic of Croatia and B&H, with the aid of the appropriate instruments and institutions has to create conditions so that the small and mid-size companies can easily integrate into the EU market. With a clear and stimulating legislative framework, it is also necessary to work on the improvement of entrepreneurial climate, which will have an encouraging effect in the development of companies, both in Croatia, B&H and of the potential partners from the European Union. Precisely this entrepreneurial climate, which guarantees transparency, legal security, clear tax policy and reduction of the

bureaucracy to a minimum, creates prerequisites for the strategic cooperation of firms within the borders of the Republic of Croatia, B&H and the European Union. With the clearly defined rules, it is possible to expect the increase in the number of domestic corporations – the all encompassed supply chains – small and mid-size firms, but also of entering of the Croatian and B&H firms in the global supply chains – strategic alliances with the companies from the European Union. The accession to strategic alliances represents one of the most efficient strategies through which small and mid-size Croatian and B&H enterprises successfully integrate into the EU economic system.

3. STRATEGIC ALLIANCES – MODEL OF THE MORE EFFICIENT INTEGRATION OF THE CROATIAN ECONOMY IN THE EU

Strategic alliances are one of the fastest growing trends in the global industry today. In certain industries, for example, information, auto, wood and timber or pharmaceutical, the entire groups of companies of various characteristics and means of mutual connection are competing against each other. Alliances between firms have a long history and originate from oil, mining and gas industries, and in Croatia and B&H primarily from the shipbuilding and auto industries. During the 1980s, the alliances and partnerships between companies ceased to be solely an auxiliary method in achieving the individual goals of the firm, but became a precondition of competitive success at the global marketplace. In the contemporary globalized economy, it is impossible to achieve market success without involvement in the activities of at least one alliance. The 1990s entirely changed the characteristics of the alliances. Numerous organizational transformations took place, in which more companies based their future on strategic collaboration. The number of implemented strategic alliances almost doubled in number over the last ten years, and experts predict an even higher rate of growth in the coming period (Booz et.al 1997). Both global and local companies enter into various forms of strategic alliances. Today, the alliances are being created in all industries – from the information technology, transport, manufacturing, telecommunications, electronics, pharmaceuticals, food industry, finance, to professional services. Strategic alliances are the firms' response to intense changes in the economic activity, technology and globalization. An increasing number of companies is uniting into different forms of strategic alliances in order to augment the competitive ability and growth of the market share. Difficulties in the actualization of access to the international market, realization of the volume economy and advance in manufacturing and technology lead companies towards the mutual collaboration. Partnerships become, by themselves, effective strategies for overcoming the gap in skills, resources and abilities in order to achieve competitive advantage in the global markets. Contemporary global economy is characterized by the interconnection and interweaving of the firms' interests in the contest of acquiring the market share. Strategic alliances are counted as the most important components of the contemporary global economy, so the accession of firms to such alliances does not have any alternative in the development of competitive abilities. The competitiveness of Croatian and B&H companies in the EU market is impossible to achieve without the creation of at least one strategic alliance and the participation in the activities of at least one other. Through involvement in them, the firms can achieve much better results in the strengthening of competitiveness than through the implementation of the internal

strategies, such as cost reduction, price reduction, reengineering, etc. (Rackham et.al 1996).

Strategic alliance can be defined as the association with a competitor, supplier or a customer, in which the company, through the combination of partners' advantages and strengths achieves a better competitive position in the global market. However, a great number of the formed strategic alliances fails (Das and Teng 1998). Being a part of strategic alliance means being at the origin of the construction of key advantages at the present and future markets. The companies enter into strategic alliances with others in order to improve their own competitive position by using the resources possessed by others and/or which are possible to build in cooperation with other business subjects. Main reasons for the creation of strategic alliances can be (Tipurić and Markulin: 2002):

- Globalization and an overall increase in the level of industrial concentration require a pooling of means, knowledge and skills, which a single firm can rarely provide independently. This revolution is built on large standardized systems. The standards are established in all types of business activities. Those who institute the standard accepted in the entire world achieve an exceptional competitive advantage.
- Today the markets are ruled by great uncertainty and business risk. This uncertainty is a prerequisite in the merger of strengths of more companies, not just in order to aggregate their complementary capabilities, but also to combine their knowledge and decrease the uncertainty and risk, and accelerate the process of learning. The existing markets are becoming obsolete increasingly fast today and their participants have to find new areas of business as soon as possible.
- A shortage of resources for everything the company would like to carry through is growing fast every day. Globalization, new technologies, dissolution of boundaries between industries, emergence of new industries, and an increasing competition constantly impel companies to improve their efficacy. For the constant improvement of efficacy there is necessary an ever larger amount of resources, which the firms can not procure independently.
- A development of the information economy is in the function of creating a new post-industrial paradigm. The increasing importance of virtual reality and internet connections completely transform the course of business processes. Information becomes the most important resource and transactional costs become the key to understanding the business.

In the function of realizing mutual goals, the firms have at their disposal various forms of collaboration, depending on what kind of competitive advantage they want to achieve. Unplanned collaboration can not provide stability and cost savings for the involved partners, so strategic alliances rise as a perspective form of cooperation for the countries in transition, including the Republic of Croatia and B&H. The firms involved in strategic alliances can realize the benefits such as implementation of the volume economy, acquisition of know-how, transfer of technology, brand strengthening, capacity of product distribution in the new markets, etc. Equally, the state itself has advantages from such alliances as it employs local population, collects various forms of taxes, acquires new management knowledge, gains access to new technologies, and generally the prerequisites for economic growth are being created.

The countries in transition, among which the Republic of Croatia and B&H can be counted, need to develop a positive attitude towards strategic alliances and systematically support their foundation, as this is one of the most efficient models with the aid of which it is possible to develop the competitive capacity of domestic manufacturers and the economy in general. The state that openly upholds accession of the domestic companies into strategic alliances, but has previously not created preconditions for their equal entrance to the marketplace contest can seriously harm its economy. In many cases, this kind of scenario leads to a loss of control over its own strategic resources and an excessive exploitation of resources by the foreign companies, as well as the exploitation of local population. Potential disadvantages of entering into strategic alliances from the company viewpoint can be the following (Dragomir, 2011):

- Loss of managing function, concerning the inability of full cost control, personnel policy management, influence over the product quality, planning of future activities, etc. By participating in the activities of the alliance, firms do not possess the power of independent decision making anymore, and they have to subordinate their own goals to the goals of the alliance.
- Poor communication between the firms in the alliance. If the strategic alliance has a supply chain with a large number of companies (links), there exists the possibility of poor communications, which most often results in the poor connection of business processes between firms. Absence of a shared information system integrating business systems in a single process results in a poor allocation of available resources.
- Poor allocation of resources. It can be a consequence of disconnection of business processes between the firms, but also the consequence of poor decisions of the alliance management. In some cases, the alliance management can make decisions against the interest of individual companies in the alliance.
- Loss of flexibility. By participating in the activities of the alliance, firms partially lose their flexibility and can not independently and timely react to market trends as they would if they were outside the strategic alliance.
- Difficulty retaining company's individual goals. Participation in the activities of the strategic alliances implies subordination of the individual goals with the goals of the alliance. In some cases this connotes that the firm's individual goals do not coincide with the goals of the alliance (this may apply to strategy, budgets, personnel policy, etc.).

The above mentioned difficulties are faced by all enterprises in strategic alliances, particularly firms in transitional economies.

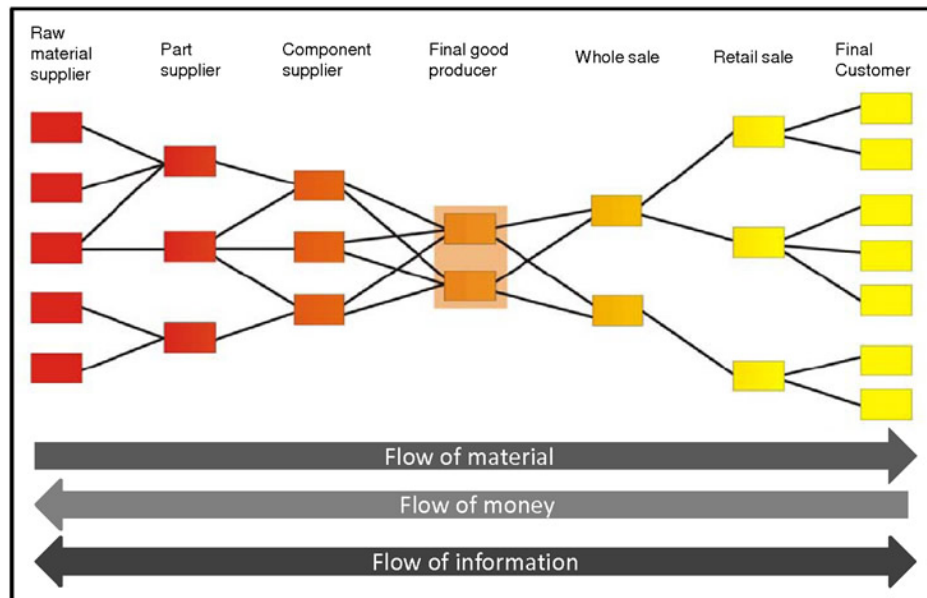
The strategic alliance represents a supply chain that includes all participants in the business process, from the raw materials phase to the consumption phase. Croatian and B&H firms, which in general do not have sufficiently developed competitive capacity concerning their technological, marketing, financial and managerial aspects, by participating in the activities of strategic alliances can not in the initial phase influence the politics and strategy of the alliance activities in a significant measure, so they have to subordinate to the decisions of the alliance top management. The alliance top management exercises control of the entire supply chain which includes all subjects in the production of the final product. Precisely the understanding of the strategy and the

concept of supply chain management is of a great significance for the company management in transitional countries, since it represents one of the effective models through which the development of the firm's competitiveness can be achieved.

4. SUPPLY CHAIN MANAGEMENT – A KEY FACTOR IN THE DEVELOPMENT OF THE COMPETITIVENESS OF BUSINESS SYSTEMS

Outstanding changes in the business environment at the end of the 20th and the beginning of the 21st century have contributed to the more intense development of supply chains as organizational models of the competitive capacity development of business systems. Supply chains started developing as a response to globalization and the consequential expansion of multinational corporations, which have also been affected by technological changes that reduced their business costs in a significant measure. The supply chain is a term which encompasses all activities included in the manufacturing and distribution of the final product from „the supplier's supplier to the consumer's consumer“. American Production and Inventory Control Society (APICS) defines the supply chain as a cluster of interdependent processes that connect the flows in the company through an array of activities in an integrated process. The supply chain comprises of all activities inside and outside the firm that enable the creation of products or services for the final consumer. Contemporary firms aim at the creation of partnership relations with the customers in a way that they develop solid relationships between the final customer and the supplier. The characteristics of these relationships are trust, loyalty and long-term cooperation. Supply chain as a chain of value creation is achieved through the realization of revenues, innovation and creation for customers. The supply chain can also be defined as the global network that delivers products and services using the material, financial and information flows (Alber and Walker, 1998). The concept of the supply chain does not imply only financial, material and information flows anymore, but there is also a pronounced need for intellectual capital, whose task is to manage these flows. Intellectual capital became a key resource on which the supply chain management is based. Its task is to optimize the flow of the supply chain from the first to the last link.

Diagram 1: Supply chain management



Source: Author

Supply chain management is comprised of minimally three or more firms directly involved in the downstream or upstream flow of materials, information and finance (Mentzer et. al. 2001). In the contemporary highly competitive globalized environment, there does not exist an alternative to the supply chain management. Its implementation and strategic development become indispensable to remain competitive in the market. Supply chain management has over the last twenty years become an area of great interest in the academic community, and among consultants and managers, primarily in Japan and the United States. With the aid of supply chain management, the resources are coordinated and activities optimized in order to gain competitive advantage over the competitors (Gunasekeran et. al. 2008). Today, a large number of companies recognize the supply chain management as a key competitive advantage that enables the competitiveness of their own products and services in the demanding EU market. According to a survey conducted by the Deloitte group, 91% of North American firms consider supply chain management as being crucial for the success of their business (A Deloitte Research Global Manufacturing Study, 2003). Dell, Wal-Mart and Hewlett Packard are examples of American companies, and Peugeot, Siemens, Novartis, Vodafone, Nestle and Shell, firms from the European Union which have successfully implemented the strategy of supply chain management in their business activities. Supply chain management is based on the development of long-term relationships with the suppliers and customers, and on the continuous improvement of the quality of products, as well as the reduction of costs.

Companies are aware that they have to keep developing the efficiency of supply chains in order to be able to compete in the global market. Delivery of the right product at the

right time to the consumer became essential in order to survive in the market (Towill , 1997). Over the last couple of decades, globalization and advance of the information technology enabled many companies to successfully build solid collaborations into the supply chains, in which each specialized business partner is focused solely on a few key strategic activities.

Such organization is defined as a group of semi-independent organizations, each with their own capacities, which cooperate in order to achieve a certain business goal specific for this partnership. Strategic alliances are made by minimally three firms, while the upper limit is not set. In some cases, strategic alliance can include even more than ten thousand members (the Estonian wood cluster). As a rule, strategic alliance is made of a single large company (has access to the resources based on which it has established dominant position at the market/markets), and small and mid-size enterprises that represent links in the supply chain. For successful management of the supply chain, it is necessary to connect all the activities of participants in a single process. These activities can be easily coordinated if the supply chain has a small number of participants, however, if the supply chain has a few tens, or even thousands of subjects, there arises a need for top management, whose main task is creation and synchronization of the activities of supply chain. The size and complexity, as well as the uncertainty of the environments determine the need for the supply chain top management.

5. PERSPECTIVE AND THE DRIVING FORCE OF IMPLEMENTATION OF THE CONCEPT OF SUPPLY CHAIN MANAGEMENT

Design and management of the supply chain presents a great challenge for the Croatian and B&H economy in the contemporary highly competitive environment. Globalization, deregulation, integration, and increasingly demanding customers, induced by the development of the new information-communication technology contribute to this complexity. Traditional information systems oriented towards the processing of historical internal data and information do not allow any more the efficient management of the development of contemporary firm's business activities (Zekić, 2012). Modern supply chains have to respond to challenges brought by the contemporary market through the fast development of a large number of products with the high added-value, as well as the ever shorter time in which it is necessary to deliver a product or service to the final consumer. Organizations therefore need to be innovative in order to meet these challenges. Inability for the independent compliance of small and mid-size companies, characteristic for the Croatian and B&H economy, to such conditions simply forces independent firms to join the appropriate contractual and proprietary strategic alliances.

Through the opening of national borders, the same rights are guaranteed to the companies from the European Union as to the domestic enterprises (firms in transition) at the domestic market, which, concerning their available technology, work force and financial capacity, renders the domestic firms inferior. Croatian and B&H companies will also have to face a much higher environment uncertainty in the EU market, in which they will compete with foreign companies that have a much higher bargaining

power, more developed management and more competitive resources (labor force, technologies, support from the banks). In order to bridge the existing gap, domestic firms have to start mutually cooperating and forming supply chains in their respective business areas and/or collaborate with foreign companies by participating in international supply chains. Strategic cooperation also implies implementation of the concept of supply chain management in the organization, which constitutes the responsibility of top management. It is of the utmost importance to understand all the laws and phenomena of supply chain management in order to create conditions for its optimal management. Croatian and B&H managers at all levels have to master these methods, activities and constructs of the supply chain management, as in this manner the preconditions are made for the construction of the competitive supply chain that develops competitive and cooperative abilities of the participants, as well as of the chain in general. Environment uncertainty and top management support represent the driving forces for implementation and development of the concept of supply chain management.

5.1. Environment uncertainty – external driving force in the implementation of the concept of supply chain management

Environment uncertainty is defined as an unpredictable sequence of events and trends that create opportunities and threats for businesses (Turner, 1993). In recent surroundings, the marketplace is global, dynamic and oriented towards the customer's needs. Contemporary consumers ask for an increasingly fast delivery, higher quality, diversified supply, and higher level of reliability, which forces producers to face an array of challenges that they have to meet, such as (Thomas and Griffin, 1996): lower life span of the product, dynamic development of high technology and increase of the investments in research and development. In order to minimize the level of environment uncertainty, it is necessary to implement the strategies of externalization of the firm's business activities and partnerships. These strategies are used in order to better respond to the following challenges (Gupta and Wilemon; 1990): 1) increased competition 2) continuous investment in new products (implies rapid obsolescence of the existing products) 3) fast changes in consumers' preferences (shortens the lifespan of the product) 4) increased need for involvement of external organizations, such as suppliers and consumers. Environment uncertainty implies the uncertainty of the acts of consumers and competition, and of technology development. Consumer uncertainty is defined as the level of change and unpredictability of consumer's demands and tastes. Consumers' preferences for products and services become more variable and uncertain, and are reflected in the frequent changes of product volume, time and location of delivery (Burgess, 1998). Consumers want a greater selection of products, higher quality, faster delivery and personalized products and services to meet their needs. Competition uncertainty is defined as the inability to predict the actions of competitors. Globalization, consumer needs, technology development make the action of competitors more intense and uncertain. Globalization opens the doors to new markets, and those companies that focus solely on the domestic market will have its market share reduced or will be liquidated. For the emersion at the global market it is necessary to ensure globally competitive resources, which in many cases individual companies do not have, so they engage in various forms of cooperation, combining and developing individual competitive advantages in a competitive supply chain.

Uncertainty of technology is defined as the rate of change of technology development depending on the industry in which the company operates. The development of information technology opens up great opportunities for further development of the organizations. The development of technology has enabled great progress in the implementation the concept of supply chain management, but also in the process of enterprise cooperation. Information management is of great importance for the efficient cooperation of enterprises. Information management occupies a crucial role in the supply chain. Information is like a source of competitive advantage, often not available, and shared in a controlled environment. In order to achieve competitive advantage, it is necessary to establish and coordinate the supply chain in the proper way, so to create an information-intensive environment. Technology and competition develop in today's environment as never before in history, enabling and intensifying the need for managing the entire supply chain of formally independent participants, creating maximum added value for customers, which results in a maximum added value for the participants in the supply chain.

5.2. The support of top management - internal driving force for application of the concept of supply chain management

Consideration of the entire supply chain as of a single system is the task of the company's top management involved in the chain, that is, supply chain management of a system. Top management has different agreed levers through which it helps to target coordinate the company in the supply chain, applying business technology management. A considerable number of authors consider precisely the support of top management as the most important factor affecting the efficiency of the supply chain of companies in the strategic alliance (Hamel and Prahalad, 1989). The vision of top management plays a key role in the design of the organization as well as in the allocation of the resources needed to achieve the intended goals of the supply chain - alliance. Supply chain management is an integral part of the strategy of each company in the supply chain. Integrated planning and common, unifying strategies are essential for the successful implementation of supply chain management in any form of firm's strategic alliance. The strategy represents a target-organized way of using limited resources to take advantage of supply chains and thereby achieve the desired effects of the supply chain for all its members.

6. CONCLUSION

Globalization as a concept was introduced in the 1980s and implies a fall in the importance of traditional factors of production, with simultaneous increase in the importance of factors of virtual economy. Factors of virtual economy have, along with intense reduction of mechanisms for the protection of national economies, had an important influence on the change of the global economic environment. The trends of globalization have affected the market of the European Union, and have manifested in the deregulation of markets, rapid technological change and convergence of capital markets, labor, goods and services. With these changes in the economic environment, individual appearances on expanding EU market have been difficult or impossible for many companies. In order to adapt to new market conditions, companies have begun to

enter into various forms of cooperative agreements. The strategic alliance is a form of cooperative agreement based on which the companies adapt to new market changes. Companies are, through the accession into a strategic alliance, connecting with suppliers, and combining their advantages and strengths in order to achieve the best possible competitive position in the market. This form of mutual cooperation between companies meets the needs of countries in transition. In the Republic of Croatia and B&H, the greatest number of business subjects are small and medium enterprises which are not sufficiently capacitated to independently appear in the EU market. Through accession into the alliance they can participate in the production of the final product and be competitively involved in the economic system of the European Union. Mutually process-connected companies contribute to the transformation of raw materials into a finished product, forming a supply chain. The management of the supply chain coordinates material, financial and information flows of the participating companies, through which goods and services are delivered to the final consumer. Management of the supply chain holds a special significance in the conditions of high uncertainty of the environment, where companies must quickly adapt to: the activities carried out by competition, changing preferences of consumers and the rapid development of technology. For the successful implementation of the concept of supply chain management in the strategic alliance, the key factor is the support of top management, which involves the implementation of activities for design of the organization and optimal allocation of available resources.

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ANALYSIS OF FACTORS INFLUENCING BANK SELECTION

ABSTRACT

The crisis that struck global economy in 2008 is still present in Croatia. Besides spillover effects, Croatia is facing many accumulated and structural problems of its own like the decline in manufacturing and processing industry, high unemployment and ambiguity regarding future. In these surroundings the traditional way of preserving value by keeping savings in banks gained on importance since riskier alternatives seem too risky to many. But even the banks are not all the same as they differ in size, business effectiveness, accessibility and offered services. Therefore, the aim of this research is to establish variables that could influence rational economic subjects (individuals or firms) in their bank selection process, and test these variables through the of multiple regression method. The results showed that some of the selected variables displayed statistical significance as expected, but also, that some of the theoretically important variables proved unusable as predictors of the banks' ability to attract deposits.

Key words: bank selection, decision making, bounded rationality, SMEs, multiple regression analysis

JEL classification: D11, D12, D22, G21

1. INTRODUCTION

The economic crisis struck the world's economy in 2008 and is still very vivid in Croatia. GDP has been declining since 2009¹, and according to last projections it will decline even further this year. Perhaps even more indicative is the continuous decline in the industrial production volume index that has also been decreasing since 2008². Besides the spillover of global problems, the fragile Croatian economy is faced with an

¹ Hrvatsko gospodarstvo 2011. godine (url: http://www.hgk.hr/wp-content/files_mf/Hrvatsko%20gospodarstvo%202011.%20godine.pdf)

² Industrial Production Volume Index And Indices Of Stocks, Persons Employed and Labour Productivity In Industry, September 2012, First Results (url: http://www.dzs.hr/Hrv_Eng/publication/2012/02-01-03_09_2012.htm)

escalation of many long-term problems of its own: privatization success/failure of previously state owned firms, decline in manufacturing, lack of export competitiveness, recovery from the Independence War, increasing domestic market competition brought on by foreign products, and problems with bureaucracy, corruption and slow and ineffective legal system. All these factors together created a situation in which entrepreneurial and investment activity is riskier than ever. Therefore, the global economic crises can possibly be viewed as a trigger or catalyst of many of Croatia's long standing structural difficulties. Moreover, the small and developing Croatian capital market still attempts to recover from the strong blow-off at the beginning of the crisis. This raises issues on how to not only increase but also retain value of firms' and citizens' savings.

A popular alternative for retaining value in Croatia, prior to the crisis, was by investing into real estate. However, in recent years, due to the above mentioned problems, in addition to high unemployment rate and uncertainty in keeping current employment, liquidity of real estate assets has gone down considerably. The struggling construction sector, with thousands of unsold units, further emphasizes the lack of liquidity of real estates. Constructing investors are facing an inability to pay high interest-rate mortgages back to the banks and are at the same time under constant pressure for price depreciation. Besides that, there is an active public debate in process regarding the introduction of the new real estate tax that raises fears about the sustainability of the investment model of preserving and creating value through real estate.

In described conditions, the traditional way of accumulating firms' and citizens' savings in bank deposits becomes even more important than usual. Keeping savings in banks is faced with the risk of depreciation and the exchange rate risk, which should not be neglected, especially due to the current concerns of the instability of Euro. Although preservation of value in foreign currencies could be risky, it is still often considered less risky than the above mentioned alternatives of investing. Moreover, there is a safeguard (state guarantee) for banks' cash flow problems for amounts up to 400,000 HRK (approximately 53,000 EUR) which applies to private citizen and small firm deposits. The collapse of a small Croatian bank in the winter of 2011, proved the efficiency of this guarantee in the fast response of the Croatian National Bank in paying back the deposit holders in just a few weeks.

An important question regarding bank selection should arise for those who, due to the perception of safety and the lack of other investment opportunities, decide to keep their savings in the traditional manner, in the form of bank deposit and savings accounts. At this moment, Croatia has 32 commercial banks. Once Croatia gains full EU membership (currently set for summer of 2013) the few remaining barriers for dealing with banks operating in the EU but not in Croatia will diminish. This means more choices for Croatian citizens, but the choice itself is about to get exacerbated considering possible differences in various policies, state guarantees, accessibility etc.

Within this research we have isolated variables for which we had expected to be of significant importance in generating the total amount of banks deposits. Further on, we have applied the method of multiple regression to establish which (if any) of the

selected variables can be used to predict banks' success in attracting private and business subject to entrust them with their savings.

2. THEORETICAL FRAMEWORK

In economics and especially in business the idea of basic economic subject being a *homo economicus* is automatically implied. The term *homo economicus* was introduced by J.S. Mill (Persky, 1995:222). The presumption of *homo economicus* presents humans as *deliberate maximizers*: rational self-interested subjects with the ability to make judgments toward their subjectively defined ends. Using these rational decisions, *homo economicus* attempts to maximize utility as a consumer and economic profit as a producer. The idea is in compliance with even older economic writings as Adam Smith introduce the term *invisible hand*, with the explanation that self interest seeking makes people involve in various economic activity. Therefore, a subject deciding between alternatives is expected to choose the one that maximizes her utility, and in this sense, individuals and firms should deliberately choose a bank that will allow them maximization. This maximization does not have to be limited to profit (interests) because the utility can be further comprised of needs for security, accessibility and many others. However, according to the rational choice presumption, it should be expected that a consumer is not indifferent to choices that offer different levels of utility.

There has been much criticism toward the idea of rationality and there is vast amount of empirical literature questioning human behavior. Perhaps the most influential in this area is the work of Kahneman and Tversky (1979, 1982, 2012). They conducted experiments on human behavior (descriptive analyzes) mostly by questioning students about their choices in various hypothetical situations. The results pointed out that in some sorts of decisions people make systematical mistakes or, at least, that their answers significantly differ from expectations of normative theory. Furthermore, they pointed out and explained reasons for these discrepancies which included insensitivity to prior probability of outcomes, sample size and predictability, misconceptions of chance, biases of imaginability, biases due to anchoring and many other. Although this empirical evidence shows that rational choice theory cannot strictly explain individual behavior, detailed elaboration is not necessary for the scope of this research. The exception is the insensitivity to predictability that will be explained by example. The people in the sample were asked to make predictions regarding future profit of a firm on the basis of its given description. If the description of the firm was very favorable, the predictions of future profit were mostly very high, and if the description was mediocre, predictions were also mediocre. This example is of importance for this research because "*if people are predicting solely in the terms of favorableness of the description, their predictions will be insensitive to the reliability of the evidence and to the expected accuracy of the predictions*" (Kahneman and Tversky, 1982:8). This led us to conclude that marketing and public relations efforts made by competing companies could and probably will heavily influence the decision making even in high-stake decisions such as bank selection. Moreover, a vast quantity of various commercials could make an impression that the competing firms are all similar and that

the decision is trivial. This could lead towards indifference; a situation with blurred differences and consequently, no clear preference between options.

Insufficient information, mental capacity and/or limited time to make decisions are the core determinants of *bounded rationality*; the concept proposed by Herbert Simon (Hastie and Dawes, 2001:238). According to this widely accepted theory, bounded rationality is characterized by a wide range of choice processes that do not adhere precisely to rationality but may or may not approximate them. A typical situation of bounded rationality is when it is not possible to specify all alternatives, their attributes and their consequences in advance so it seems rational to collect all possible data in some period and make a choice seeming best at that moment. This concept copes with some criticized presumptions of the rational choice theory; primarily the presumption that the decision maker is or can be aware of all consequences and involved ambiguity. The decision maker in the bounded rationality context tends to be rational but does not always succeed in being so.

The decisions regarding bank selection could be seen as trivial, especially among those who do not possess significant amount of cash, but, on the same time can be very important to others. Therefore, individuals and firms in the later group should make some effort in deciding who will take care of their belongings. These individuals might try to identify factors of importance in deciding. In this research, we have attempted to isolate some of the obvious criteria (or factors) and statistically distinguish between those which can be used to predict deposit and savings allocation among banks, and those who show less or no significance. Furthermore, as we already implied, all explanations of decision making behavior applies on, not only individuals, but also small and some medium sized firms, i.e. firms who can be characterized as noncomplex. The noncomplex firm is a firm in which “specific information relevant to decisions is concentrated in one or a few agents” (Fama and Jensen, 1983:6).

3. VARIABLES

The depended variable is the total amount of deposits in bank accounts and includes all business and personal, foreign and domestic currency accounts, and all savings accounts. The success in attracting deposits can be seen as a result of the perception of the bank’s security, accessibility and ability to create new value to its customers. We have selected 12 indicators that are representative of these three basic criteria, and those indicators are independent variables. Independent variables have been selected using common sense and some informal brainstorming among colleagues and friends.

3.1. Security

The first set of variables was chosen because they should, or at least could, be taken into consideration when addressing concerns towards the security of deposits and savings. As it was noted earlier in this paper, the Croatia State guarantees for all deposits and savings accounts for individuals and SMEs up to 400,000 HRK. Therefore, to some, the security issue is not existent. However, there are few strong arguments why it should still be considered:

- Risk aversion – humans are considered as mostly risk averse. Saving money in banks instead of investing into various stocks, funds or other alternatives is considered to be safer or conservative option. Therefore, it can be implied that those who choose this way for preserving value are among security seekers rather than profitability seekers.
- State guarantee is a significant safety net. However, it does not cover all groups and all amounts of deposits, and therefore, the risk of bank going bankrupt is still not totally negligible.
- Although the state guarantee has proven to be efficient in the recent case of bank insolvency, it should be noted that this was a case of a single bank, and that this bank was too small to endanger Croatian banking system. One should be reasonably worried if this occurred with a bigger bank or a cascade of banks encountering cash flow problems in the same time.

Variables chosen to represent security aspirations of bank's customers include: total assets, equity and liabilities, earning before tax, debt ratio, years since founding, and whether it is publicly listed on the Zagreb Stock Exchange. The selected basic financial indicators require little or no explanation considering that if one is interested in checking how a firm is doing, these indicators would probably be among the first thing one would look into. It can be expected that banks with greater assets, equity capital and earnings, and favorable debt ratio would be considered less risky. Years from founding can be seen as a security indicator since older financial systems are perceived to have a higher degree of knowledge. Moreover, a longer operating period indicates fulfillment of *the survivor principle* (Stigler, 1958:54), where younger firms can be seen as unproven. The information whether the bank is listed is important primarily in Anglo-Saxon point of view where market reaction is found as the best indicator of firm's success in creating value. Although in the continental Europe's bank-centric system the importance of stock markets is perhaps somewhat neglected, this indicator could be relevant to some decision makers.

One could argue that some more specific indicator of security could be used, but these indicators offer simplicity and availability as they consist of publicly accessible data which is easy to retrieve to almost any bank curious account holder. Therefore, we found them more appropriate than perhaps better suited financial data that is harder to reached by an average customer.

3.2. Accessibility

Set of variables concerning accessibility is selected primarily due to their importance in satisfying the needs of bank costumers in terms of speed and comfort when retrieving basic services and varieties of offered services. It can be expected that when comparing a few banks that seem similar in most criteria, the customer will tend to choose the bank which is easier to access, or which offers better or a wider range of additional services. The variables chosen for presenting accessibility in this research are: number of branches and ATM-s, number of offered credit cards, amount of granted loans and internet banking services.

Number of branches and ATM-s is a clearly important accessibility criterion. It is a common case that banks present in smaller towns where there are few or no competitors have a much higher market share when compare to their share in wider market. This can also be said for the numbers of ATM-s considering that they shorten the long waiting in queues for basic services of cash withdrawal or deposit. The importance of ATM-s is clearly seen in banks' practices to install them as a response to competitors ATM installation. It should be noted that the price of an ATM and the cost of its maintenance are considered to be rather high so banks have strict cost effectiveness calculations. However, the response to an ATM installation of another bank is rather fast.³ Therefore, even though there is a rise in e-banking and m-banking usage, the proximity of the bank and ATM is still factor of the great importance in bank selection process.

Internet banking (or e-banking) was the next accessibility variable for basically very similar arguments as the number of ATMs or the number of branches. In recent years, the share of individuals, homes and firms that have access to broadband internet is very significant. Consequently, internet banking has become a substitute for visiting banks as it allows customers to use a wide range of bank services. According to HACOM⁴, in August 2012, there were more than 1.25 million ports for broadband internet in Croatia or 3.5 persons per one port. Considering that more than one computer can be connected to a port, and that more than one person can use one computer, the availability of internet in Croatia can be described as wide. It can be expected that e-banking will become even more important in the near future because not only does it offer faster and more comfortable service for banks customers, but is also very economical for banks itself.

Among other bank services credit cards were selected as one of most popular. A few credit card brands are broadly used in Croatia, and most banks offer at least one of them. Credit cards are not only a way of paying without cash in almost any store, most restaurants and other paying spots, but they are also an opportunity for short, and sometimes even long term crediting without any paperwork. There are various kind of credited paying possibilities from charge options, revolving credits to special kinds of offerings. However, they are hard to compare and if some credit card brand, for example Visa, offers several kind of cards, these cards will mostly be offered in all banks having Visa. Therefore, instead of focusing on services, we have focused only on offered credit card brands.

Granted loans are an independent variable that needs some explanation. It is widely known that loans are being granted from the sum of savings and deposits. This link does not need to be tested as it is certain that there is a proportional connection. However, we have questioned if the relation goes both ways, i.e. if granted loans can attract savings and deposits. This relation could be expected since banks usually require at least a part of the client's finance i.e. some form of income of the person requiring

³ For example, citizens of small Croatian town called Ivanić-Grad (~15,000 habitants) frequently asked various banks to install the ATM considering that the nearest ones were 20 km away. Banks have for long refused to do so because they found installment unfeasible. However, after the first bank finally installed ATM, 4 other banks have followed in less than a year.

⁴ Url=<http://www.hakom.hr/default.aspx?id=150>

the loan goes through that bank. Automatically, granting more loans should increase bank's sum of deposits. Moreover, most people do not have reason to deal with more than one or two banks, so it could be expected that they will deal with the bank that granted them the loan. Therefore, even if it is theoretically neglected, we believe that this connection should be taken into account.

3.3. Ability to create new value

There is only one variable used to represent bank's ability to create new value to its customers: **savings interest rate**. However, whether decision makers are considered as being *homo economicus* or bounded in rationality, the interest rate should be of strong importance when deciding where saving are kept. It is true there are others forms of increased utility, but the pure financial aspect is always present.

3.4. Un-included variables

There are numerous others variables that could be used in this research. Some of them were excepted because they were unreachable to us or we found them unreachable to an average bank customer (like detailed financial data). Others are either hard to explain or hard to measure (like marketing efforts, patriotic feelings or any social conduct). One of the obviously excepted variables is the fee that the banks are charging for managing accounts. However, this variable would be hard to compare as there are various different options. In our paper we do not state that some of the excluded variables are of no importance, we solely try to establish if the included variables are.

4. SAMPLE AND DATA

The research was conducted on the data gathered from all 32 commercial banks currently active in Croatia. The data for the bank that bankrupted in the fall of 2011 were not included because it is not longer active and its data is no longer present in Croatian National Bank Bulletin⁵. Moreover, the data for Croatian Bank for Reconstruction and Development were not included because it is not a commercial bank.

All financial data was extracted from the Croatian National Bank Bulletin because it offers methodologically monotonous and trustworthy data. The data includes: granted loans, total assets, equity, liabilities and earnings before taxation. The debt ratio is a derivative and was calculated as a ratio between total liabilities and total assets. It could be argued that granted loans should be additionally analyzed through a number of deals instead of only through total value of deals but that data is not included in publicly available financial reports or any other known publication.

Other data was not analytically available through the Bulletin so it was mostly manually gathered from banks' own web pages. This could open questions regarding the trustworthiness of banks' web page data because certain banks might for instance

⁵ Bilten o bankama 24, Godina 12, kolovoz 2012

falsely note more favorable data about their number ATMs. However, although banks could forge this kind of data on their web sites, we have to rely on such info as we are unable check it.

The selected credit cards brands are the ones that are noticeably present in Croatia: MasterCard, American Express, Visa and Diners. As explained earlier, we did not include different versions of the same card brand in our counting but only counted, for simplicity, the credit card brands. The dummy variable regarding internet banking had no variance (because there is only one bank that does not offer this service) so it could not be statistically analyzed in the regression model. We found that banks have recognized that easy and relatively cheap way to approach their customers so internet banking has become “a must have” service.

One of variables that were expected to be of biggest importance: the savings interest rate, wasn't so easy to note because the banks do not have a single savings interest rate but rather have all sort of saving packages with different interest rates and short term special offers that are hard to compare. Therefore we decided to look at the basic rates and to ignore the short term special offers. Our variable was calculated on the basics of the interest rate for one year plus one day and for a rounded amount of 10.001 Euros⁶. The interest rate for Euros was chosen because most of Croatian savings are in this currency⁷ and the amount and the time period were chosen arbitrary for sole purpose of comparability.

For the purpose of establishing if they are listed on the Zagreb Stock Exchange, we used an e-trade web site of one of Croatian broker firms.⁸ This is also a dummy variable which could have only 0 or 1 values.

All gathered data on the selected variables are presented in two tables in Appendix 1 at the end of the paper.

5. REGRESSION ANALYSES

Before conducting the analysis, some issues needed to be addressed. Firstly, the independent variables must be independent among themselves. This created a problem with some interdependence among the values of assets, equity, liabilities and granted loans. Equity and liabilities are two integral parts of the firms' balance sheets and their sum equals the value of the firms' total assets. From a theoretical and financial point of view, this is the base for many calculations and ratios. However, in this multiple regression analysis, they are supposed to be independent variables showing different aspects of security in entrusting customers' savings to banks and this pose a problem because their interdependence doesn't allow them to be in the analyses together. The same problem occurred with the granted loans variable: theoretically and empirically it is clear that one customer might choose a bank with big assets because of her safety

⁶ One year +one day and 10.000+one Euro were used because it was expected that interest rate would differ for less and more than a one year period, and because it could also happen on 10.000 Euros limit.

⁷ According to Croatian National Bank vice-governor, 80% of Croatian savings is in Euros (url: <http://www.hnb.hr/dub-konf/predavanje-cicin-sain/ACS2011-prezentacija/files/h-lecture.html>).

⁸ url: <https://etrade.fima.com/> (15.9.2012)

considerations, and the other might choose to deal with a bank that has previously granted her a mortgage and this person prefers to deal with only one bank i.e. the same bank. However, granted loans are being granted from banks' asset that consists of banks' equity and liabilities, so statistically, these variables aren't independent. Therefore, we made several analyses with other variables but each time used only one of these variables that if combined could alter the results. All of these variables showed high significance in models that they were used in. At the same time, other financial and non-financial variables that were considered to be of importance regarding savings security appeared insignificant and was among those excluded from the model. This was the case with: earnings, debt ratio, years since founding, and the presence of their shares on the Croatian stock exchange.

Among the variables concerning availability, the number of ATMs showed significant in all variations⁹ and number of branches in some. The number of offered credit card brands proved insignificant but was close to significance. Other variables showed statistical insignificance in this analysis. This is especially interesting because savings interest rate, which is commonly regarded as a factor of mayor influence on savings allocation, showed statistical insignificance in all iterations of this analysis.

The internet banking variable had to be excluded from the analysis because it showed no variance so its influence on the dependent variable could not be determined. The lack of variance is the result of modernization of bank services in recent years that resulted with internet banking as a common service of all but one bank in Croatia.¹⁰

Appendix 2 shows two variations of the statistical regression model conducted in this research that differ in the usage of an independent variable that could not be in the model together: granted loans and total assets. Due to the fact that they both showed significance when used separately, showing both models seemed reasonable.

6. DISCUSSION

There are a few notable findings in the conducted analysis that needed additional attention. Firstly, it is interesting to note that among the variables that were chosen due to their expected impact on decision making for those subjects concerned with their money savings safety that some of them showed high significance and some showed none. One could argue that perhaps the statistically insignificant variables are those which actually bear no significance to decision makers when addressing these issues, i.e. the assumption of those variables influence on bank selecting process could be flawed. As a result, decision makers could think that value of assets, equity and even liabilities mattered, but that debt ratio and profit does not, as well as the non-financial information like years since founding or capital market listings. Although for some individual decision makers this could be the case, it seems reasonable to address this seemingly illogical evidence in another perspective. If we accept the idea of bounded

⁹ As explained, variations were necessary because of various variables concerning banks' size that needed separate use

¹⁰ In similar data gathering 4 years ago we established that 18% of the banks still doesn't offer internet banking service, so reduction to just 3%, and lack of variance for that variable is possitive sign.

rationality that was introduced earlier, we can also easily accept the fact that most subjects do not check bank's financial information prior to deciding, even though this data is publicly available. They, for example, could but probably do not know if some particular bank has better or worse debt ratio in comparison to others except in cases when this information appears in a newspaper headline or on evening news. Moreover, when this happens, if the news is bad, it could be the start of the bank run as witnessed in the past.

Among security related variables, statistical significance is shown only among variables that are also related to the bank's size. The size of the familiar firms (banks) can be perceived even without looking at its financial data (for instance, we perceived that Renault is bigger than Volvo although we do not know the precise financial info). Bigger firms are often regarded as safer because of the "too big to fail" premise. Subjects, therefore, might tend to choose to deal with bigger banks as they perceive them as being more secure and stable.¹¹

The granted loans variable is also a representative of banks' size because bigger banks are able to achieve higher total value of all granted loans. However, this variable wasn't regarded of importance for safety concerns. As explained earlier, banks' customers with active loans are commonly obligated to route at least part of their revenues (or wages) through that bank. Therefore, granting loans automatically influence the bank's deposits in some extent. As dealing with several banks can be seen as inconvenient and unnecessary to some (or most) people and even to some firms, the influence of granted loans to banks deposits will surpass the effects of requested automatism. Apart for the reasons of inconvenience, keeping savings in the same bank where someone is obligated to route her wages can be argued through saving time (waiting in one line) and transaction costs (switching money between one's accounts within same bank is commonly free of charge). Therefore, the statistical significance of this variable was expected and these expectations proved to be right.

The unexpected result of the regression analysis is the lack of statistical significance of the savings interest rate variable. Except for the reasons of physical safety and convenience of dealing with money without usage of cash, the main reason for keeping money in banks is expected to be the savings interest rate that allows some value creation. There could be two obvious reasons explaining this anomaly. The first reason could be due to the data collection restraints: in publicly available data there was no way of finding out which share of deposits is in savings and which is in regular current accounts (a-vista). It can be presumed that the savings interest rate is of importance for savings, but it is not of impact on a-vista deposits. Therefore, in terms of the interest rate on savings, the statistical significance will vary depending on the share of savings in total deposits. The other reason could be in the subjects' irrational (or bounded) behavior if they neglect the importance of seemingly small differences in interest rates among banks. According to the used criterion, banks' interest rates vary from 2.6 to 4.5 percent, which leads to difference of €190 a year for €10.000 deposit or almost 1/4 of an average monthly wage in Croatia. The lack of statistical importance of some important

¹¹ There are more than few other possible advantages in choosing to deal with bigger banks (like accessibility or additional services) but those issues were addressed through separate variables.

variables concerning safety is probably due to the state guarantee *safety net*, but the lack of interest for savings interest rate could be a clear sign of irrational behavior.

The importance of variables concerning accessibility shows one interesting finding: the number of ATMs seems more significant than the number of branches. The sole importance of this two variables is almost self-explained because although many subjects tend to avoid waiting in lines when ever is possible, it is not always possible. Therefore, the bank with more nearby ATM-s/branches is still in an advantage. But in relative terms, the number of ATMs seems more important. We find this logically to be connected to the previously mentioned widespread of internet banking service offer. As most firms, and more-and-more individual subjects use the benefits and comfort of current services of e-banking and credit cards, all contact to deposit accounts can in most cases be done through ATMs. Therefore, physical accessibility still bears some importance but emphasis is now more on ATMs than on nearby branches.

7. CONCLUSION

The scope of this paper is to find which of the presumably important variables are statistically significant in explaining, and maybe predicting decisions regarding the bank selection process. The importance of this decision lies in the differences among banks in terms of safety, accessibility and additional services. Moreover, especially in time of economic crisis, the differences in value creation should be of importance. This is additionally interesting knowing that this normative reasoning is not necessary fully in compliance with a real, descriptive subjects' behavior.

The results of the conducted analysis showed that variables concerning the banks size like value of assets, equity or granted loans are of statistical importance, as well as the accessibility variables such as the number of ATMs or in the lesser extent, the number of branches. Other variables like banks profitability, tradition, debt ratio, offered credit card brands and even savings interest rate showed less or no significance. To some extent, the bounded rationality was expected because most subjects do not browse through banks financial results, although they are publicly available, and are make decisions according to the limited information that they have. This is probably the case for most subjects with limited info (or limited funds which makes decision of less importance) like individuals or small firms. But, better judgment in the bank selection process can be lucrative to subjects' level of comfort, security and value creation. Therefore, the lack of deliberate rational thinking in the bank selection process can be seen as a signal of irrational behavior. However, the sole definition of instrumental rationality shouldn't be neglected, as it emphasizes actions that lead to a desired goal, but not the goal itself. Therefore, an economic subject that tries to choose a bank in order to maximize profit, security or reach additional services will be rational if she spends some time on information gathering and decision making. But if the subject, due to small personal funds or undemanding personality, finds the level of savings security and offered services homogenous among banks, perhaps the rational behavior could be to choose a big bank, or a bank granted them a loan and that has an accessible network of ATMs.

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Appendix 1: Gathered data

Table 1: Financial data (extracted from Croatian National Bank bulletin)

Bank	Deposits	Granted loans	Assets	Equity	Liabilities	Earnings before tax	Debt ratio
	dep1	ik	im	kap	obv	dpp	dug
Banco popolare Croatia d.d.	2.093.276	1.714.502	2.684.411	331.892	2.352.519	11.449	0,88
Banka brod d.d.	460.734	220.832	528.920	45.774	483.146	-8.123	0,91
Banka kovanica d.d.	834.982	783.336	1.121.377	89.353	1.032.024	-28.691	0,92
Banka splitsko-dalmatinska d.d.	272.172	236.971	342.245	52.049	290.196	540	0,85
Bks bank d.d.	577.047	697.227	1.073.474	134.582	938.892	45	0,87
Centar banka d.d.	879.793	1.205.839	1.600.295	193.684	1.406.611	3.285	0,88
Croatia banka d.d.	1.301.574	974.580	1.884.678	115.369	1.769.309	-8.032	0,94
Erste & steiermärkische bank d.d.	42.384.927	39.522.729	57.222.955	6.413.148	50.809.807	803.106	0,89
Hrvatska poštanska banka d.d.	11.392.930	9.574.121	16.453.547	1.255.403	15.198.144	82.396	0,92
Hypo Alpe-Adria-bank d.d.	27.400.527	29.786.855	41.085.768	5.456.405	35.629.363	54.911	0,87
Imex banka d.d.	1.549.053	1.269.379	1.904.906	140.026	1.764.880	25.328	0,93
Istarska kreditna banka Umag d.d.	2.164.201	1.444.895	2.540.871	248.242	2.292.629	23.292	0,90
Jadranska banka d.d.	2.205.560	1.513.297	2.878.558	323.808	2.554.750	3.517	0,89
Karlovačka banka d.d.	1.401.171	847.107	1.857.535	57.392	1.800.143	-33.546	0,97
Kreditna banka Zagreb d.d.	2.064.985	1.575.457	2.705.450	280.274	2.425.176	15.104	0,90
Međimurska banka d.d.	2.340.941	1.389.116	2.842.708	368.046	2.474.662	40.751	0,87

Nava banka d.d.	225.601	206.331	287.165	25.140	262.025	-14.561	0,91
Otp banka Hrvatska d.d.	10.237.378	8.708.916	12.836.729	1.390.187	11.446.542	124.811	0,89
Partner banka d.d.	828.577	970.801	1.318.008	175.446	1.142.562	261	0,87
Podravska banka d.d.	2.256.956	1.707.494	2.922.063	368.457	2.553.606	15.635	0,87
Primorska banka d.d.	131.877	57.186	185.720	28.015	157.705	-9.624	0,85
Privredna banka Zagreb d.d.	46.371.491	46.889.380	68.000.594	11.193.677	56.806.917	1.379.030	0,84
Raiffeisenbank Austria d.d.	24.001.799	25.192.421	38.805.436	5.630.772	33.174.664	382.513	0,85
Samoborska banka d.d.	314.592	174.504	409.914	86.015	323.899	1.420	0,79
Slatinska banka d.d.	1.050.667	668.160	1.331.201	173.469	1.157.732	4.577	0,87
Societe generale-splitska banka d.d.	14.079.751	18.027.345	26.870.168	3.459.284	23.410.884	181.774	0,87
Štedbanka d.d.	841.115	952.652	1.304.010	311.392	992.618	30.375	0,76
Tesla štedna banka d.d.	5.940	8.116	34.823	23.718	11.105	-8.394	0,32
Vaba d.d. Banka Varaždin	849.916	784.252	1.236.257	129.331	1.106.926	-13.456	0,90
Veneto banka d.d.	620.471	565.750	1.147.189	162.637	984.552	-30.218	0,86
Volksbank d.d.	5.198.079	5.132.559	7.513.770	1.568.794	5.944.976	2.405	0,79
Zagrebačka banka d.d.	75.052.461	70.320.391	104.006.887	15.507.674	88.499.213	1.628.270	0,85

Table 2: Other data (gathered from banks' web sites and from Zagreb Stock Exchange)

Bank	Listed on ZSE	No. of branches	No. of ATMs	Years since founding	E- banking	Credit cards brands	Savings interest rate
	zse	posl	bank	god	ib	kk	kam
Banco popolare Croatia d.d.	1	36	30	6	1	1	3,8
Banka brod d.d.	1	8	11	14	1	1	4,25
Banka kovanica d.d.	1	16	12	15	1	1	3,6
Banka splitsko-dalmatinska d.d.	1	11	6	10	1	2	4,4
Bks bank d.d.	0	2	-	19	1	1	4,05
Centar banka d.d.	1	7	19	20	1	1	4,5
Croatia banka d.d.	0	21	14	23	1	0	3,6
Erste & steiermärkische bank d.d.	1	192	588	58	1	3	3,4
Hrvatska poštanska banka d.d.	1	48	320	21	1	2	3,4
Hypo Alpe-Adria-bank d.d.	0	74	247	16	1	2	3,55
Imex banka d.d.	0	18	13	20	1	1	4,45
Istarska kreditna banka Umag d.d.	1	25	32	56	1	1	3,4
Jadranska banka d.d.	1	21	33	50	1	0	3,4
Karlovačka banka d.d.	1	9	36	58	1	1	4,3
Kreditna banka Zagreb d.d.	1	22	71	18	1	1	4,5
Međimurska banka d.d.	1	16	44	58	1	1	3,25
Nava banka d.d.	1	1	-	17	1	0	4,25
Otp banka Hrvatska d.d.	1	99	217	10	1	1	3,5

Partner banka d.d.	1	8	8	21	1	1	3,5
Podravska banka d.d.	1	28	30	138	1	1	3,2
Primorska banka d.d.	1	1	-	12	1	1	3,8
Privredna banka Zagreb d.d.	1	162	598	46	1	3	3,55
Raiffeisenbank Austria d.d.	1	73	132	8	1	1	3,3
Samoborska banka d.d.	1	12	12	23	1	1	3,7
Slatinska banka d.d.	1	24	8	20	1	1	4,2
Societe generale-splitska banka d.d.	1	130	244	47	1	2	3,2
Štedbanka d.d.	0	-	-	16	0	0	4,0
Tesla štedna banka d.d.	0	-	-	1	0	0	3,8
Vaba d.d. Banka Varaždin	1	11	11	7	1	1	4,4
Veneto banka d.d.	0	7	8	20	1	1	4,3
Volksbank d.d.	0	22	31	15	1	1	3,3
Zagrebačka banka d.d.	1	134	827	35	1	2	2,6

Appendix 2: Regression analysis details

Regression 1

Table 1:

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,997 ^a	,994	,994	1384174,035
2	,998 ^b	,995	,995	1281376,020
3	,998 ^c	,996	,996	1145911,576
4	,998 ^d	,997	,996	1130268,267
5	,998 ^e	,997	,996	1135270,499
6	,998 ^f	,997	,996	1156536,363
7	,998 ^g	,997	,996	1182330,844

a. Predictors: (Constant), im

b. Predictors: (Constant), im, bank

c. Predictors: (Constant), im, bank, posl

d. Predictors: (Constant), im, bank, posl, kk

e. Predictors: (Constant), im, bank, posl, kk, dpp

f. Predictors: (Constant), im, bank, posl, kk, dpp, kam

g. Predictors: (Constant), im, bank, posl, kk, dpp, kam, dug

Table 2: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	84624884511 29150,000	1	84624884511 29150,000	4416,891	,000(a)
	Residual	47898444008 589,900	25	19159377603 43,598		
	Total	85103868951 37740,000	26			
2	Regression	84709807070 19520,000	2	42354903535 09764,000	2579,589	,000(b)
	Residual	39406188118 211,510	24	16419245049 25,480		
	Total	85103868951 37740,000	26			
3	Regression	84801852883 17720,000	3	28267284294 39243,000	2152,692	,000(c)
	Residual	30201606820 013,650	23	13131133400 00,594		
	Total	85103868951 37740,000	26			
4	Regression	84822817553 09350,000	4	21205704388 27338,000	1659,929	,000(d)
	Residual	28105139828 389,380	22	12775063558 35,881		
	Total	85103868951 37740,000	26			
5	Regression	84833212738 98920,000	5	16966642547 79784,000	1316,428	,000(e)
	Residual	27065621238 816,740	21	12888391066 10,321		
	Total	85103868951 37740,000	26			
6	Regression	84836353679 38460,000	6	14139392279 89744,000	1057,090	,000(f)
	Residual	26751527199 274,980	20	13375763599 63,749		
	Total	85103868951 37740,000	26			
7	Regression	84838266768 71560,000	7	12119752395 53081,000	866,993	,000(g)
	Residual	26560218266 172,880	19	13979062245 35,415		
	Total	85103868951 37740,000	26			

Table 3: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-157936	309818,4		-,510	,615
	im	,703	,011	,997	66,460	,000
2	(Constant)	-277620	291597,3		-,952	,351
	im	,631	,033	,896	19,236	,000
	bank	8888,926	3908,538	,106	2,274	,032
3	(Constant)	143220,6	305396,4		,469	,644
	im	,632	,029	,897	21,528	,000
	bank	14186,051	4027,444	,169	3,522	,002
	posl	-24849,1	9385,536	-,072	-2,648	,014
4	(Constant)	681522,6	517022,2		1,318	,201
	im	,625	,029	,887	21,254	,000
	bank	15748,279	4155,436	,188	3,790	,001
	posl	-20944,4	9746,287	-,061	-2,149	,043
	kk	-655360	511584,7	-,026	-1,281	,214
5	(Constant)	722325,9	521294,1		1,386	,180
	im	,610	,034	,866	17,885	,000
	bank	14396,919	4436,778	,172	3,245	,004
	posl	-19630,8	9898,093	-,057	-1,983	,061
	kk	-615795	515733,8	-,024	-1,194	,246
	dpp	1,497	1,667	,035	,898	,379
6	(Constant)	-340157	2255957		-,151	,882
	im	,614	,036	,871	17,200	,000
	bank	14720,628	4568,985	,175	3,222	,004
	posl	-18512,3	10344,281	-,054	-1,790	,089
	kk	-734429	579632,0	-,029	-1,267	,220
	dpp	1,308	1,742	,030	,751	,462
	kam	292921,2	604477,7	,008	,485	,633
7	(Constant)	1727293	6045812		,286	,778
	im	,611	,037	,868	16,469	,000
	bank	15628,847	5276,790	,186	2,962	,008
	posl	-18249,8	10598,788	-,053	-1,722	,101
	kk	-835720	652760,5	-,033	-1,280	,216
	dpp	1,099	1,868	,026	,588	,563
	kam	389535,7	670880,5	,011	,581	,568
	dug	-2681125	7247504	-,006	-,370	,716

a. Dependent Variable: dep1

Regression 2

Table 4: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,997 ^a	,994	,993	1481983,158
2	,998 ^b	,995	,995	1328884,575
3	,998 ^c	,997	,996	1107860,208
4	,999 ^d	,997	,997	1017676,498
5	,999 ^e	,998	,997	1004032,868
6	,999 ^f	,998	,997	1028814,062
7	,999 ^g	,998	,997	1055507,215

a. Predictors: (Constant), ik

b. Predictors: (Constant), ik, bank

c. Predictors: (Constant), ik, bank, posl

d. Predictors: (Constant), ik, bank, posl, kk

e. Predictors: (Constant), ik, bank, posl, kk, dpp

f. Predictors: (Constant), ik, bank, posl, kk, dpp, kam

g. Predictors: (Constant), ik, bank, posl, kk, dpp, kam, dug

Table 5: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	845548004313 8030,000	1	84554800431 38030,000	3849,920	,000(a)
	Residual	549068519997 02,700	25	21962740799 88,110		
	Total	851038689513 7740,000	26			
2	Regression	846800447397 9960,000	2	42340022369 89982,000	2397,599	,000(b)
	Residual	423824211577 76,330	24	17659342149 07,347		
	Total	851038689513 7740,000	26			
3	Regression	848215774759 7060,000	3	28273859158 65688,000	2303,643	,000(c)
	Residual	282291475406 77,390	23	12273542408 99,017		
	Total	851038689513 7740,000	26			
4	Regression	848760225513 5970,000	4	21219005637 83993,000	2048,828	,000(d)
	Residual	227846400017 68,620	22	10356654546 25,846		
	Total	851038689513 7740,000	26			
5	Regression	848921717314 2020,000	5	16978434346 28405,000	1684,231	,000(e)
	Residual	211697219957 16,600	21	10080819997 96,029		
	Total	851038689513 7740,000	26			
6	Regression	848921772764 7520,000	6	14148696212 74588,000	1336,727	,000(f)
	Residual	211691674902 12,400	20	10584583745 10,620		
	Total	851038689513 7740,000	26			
7	Regression	848921908100 0020,000	7	12127455830 00004,000	1088,547	,000(g)
	Residual	211678141377 12,440	19	11140954809 32,234		
	Total	851038689513 7740,000	26			

Table 6: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	58182,435	329981,2		,176	,861
	ik	1,025	,017	,997	62,048	,000
2	(Constant)	-112358	302742,3		-,371	,714
	ik	,902	,049	,877	18,503	,000
	bank	10586,074	3975,055	,126	2,663	,014
3	(Constant)	411322,7	295773,9		1,391	,178
	ik	,907	,041	,881	22,304	,000
	bank	16843,628	3791,788	,201	4,442	,000
	posl	-30833,0	9079,725	-,089	-3,396	,002
4	(Constant)	1270622	462902,0		2,745	,012
	ik	,894	,038	,870	23,714	,000
	bank	19062,378	3615,049	,227	5,273	,000
	posl	-24502,0	8785,788	-,071	-2,789	,011
	kk	-1049917	457915,5	-,041	-2,293	,032
5	(Constant)	1302557	457392,5		2,848	,010
	ik	,868	,043	,844	20,367	,000
	bank	17231,779	3848,684	,205	4,477	,000
	posl	-22783,3	8773,725	-,066	-2,597	,017
	kk	-987751	454438,4	-,039	-2,174	,041
	dpp	1,851	1,463	,043	1,266	,219
6	(Constant)	1346715	1985377		,678	,505
	ik	,868	,045	,844	19,471	,000
	bank	17216,137	4002,454	,205	4,301	,000
	posl	-22830,0	9219,499	-,066	-2,476	,022
	kk	-982675	515772,5	-,039	-1,905	,071
	dpp	1,859	1,532	,043	1,213	,239
	kam	-12226,4	534172,1	,000	-,023	,982
7	(Constant)	1520928	5397561		,282	,781
	ik	,868	,047	,844	18,578	,000
	bank	17293,002	4661,055	,206	3,710	,001
	posl	-22805,8	9484,157	-,066	-2,405	,027
	kk	-991131	582132,6	-,039	-1,703	,105
	dpp	1,841	1,648	,043	1,117	,278
	kam	-4030,865	596347,6	,000	-,007	,995
	dug	-226338	6494007	,000	-,035	,973

a. Dependent Variable: dep1

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CHANGES IN PERCEIVING AND DEFINING ORGANIZATION DEVELOPMENT FROM MID 20TH TILL EARLY 21ST CENTURY

ABSTRACT

Organization development (OD) is an interdisciplinary field that includes insights from various scientific and professional disciplines, such as, organizational (industrial) psychology, human resource management, communication management, sociology, etc. as well as from business practice. Many scientists tried to reach a viable and holistic framework and definition of OD. Thus in the last fifty years various definitions of organization development arose as a result of the difference in the professional interest and field of researchers involved, as well as adjusting theory to the fast changing business environment.

The purpose of this paper is to show that the changing market conditions, human resource development and other factors relevant to business performance caused the supplementing and improvement of key elements of organization development, which subsequently influenced the changes in the perception of the term.

The paper begins by reviewing the field of organization development from its beginnings, by analyzing its roots, definitions, and assumptions on which it is based, including the environment by which it is surrounded, and then proceed with the determination of its present state of art.

Key words: *organization development, change management, HR management, education, organizational behavior*

JEL classification: *D21, L29, O30*

1. INTRODUCTION

Efforts to improve organizational performance have been present as long as the first establishment of organizations. However, based on the contemporary knowledge of

social and behavioral sciences, the term organization development (OD) came into wide use in literature only in the second half of the 20th century. The term was introduced as a specific way of improving company performance by relying primarily on people and their interaction.

Thus, the basic premise of OD is related to people. The starting point of organization development is the definition of the concept of organization through people i.e. an organization consists of at least two people working together to achieve one or more common goals. In this context, the opinion that an organization can become more efficient over time motivated scientists and practitioners to seek for different ways to accomplish such a goal outside the technical field of economics (i.e. implementing process efficiency improvement based on cost cuts, productivity increases, etc.). Accordingly, organization development has its roots in the sociological and psychological studies most of which were and still are closely related to the theories of change, crises management, organization behavior, behavioral economics, etc..

The beginning of OD was inspired by the changes that occurred during and after the Industrial Revolution (early 20th century), and was related to human resources. Efforts made in this period were oriented towards both improving working conditions, and increasing work productivity and effectiveness of the organization. Some of the developed methods of that time can be considered as the first steps in developing the idea of OD. One of these is the Hawthorne Studies (Waihrich et al., 1998), a research conducted by E. Mayo and associates after World War I, whose results showed that psychological and social factors greatly affect work productivity.

After World War II, there was a boom of creative energy, and many scientists, researchers and practitioners focused their attention on addressing the challenges and issues related to the functioning of industrial organizations. Some of them, such as K. Lewin, C. Agyris, A. Maslow, D. McGregor, E. Shein, R. Likert as well as others, taking into account the importance of science for the development of society, promoted the value of learning from experience and the importance of linking theory with practice, which path the way for exploring principles on which organizations grow, behave and develop.

Most of the earlier scholars dealing with organization development were psychologists. Therefore, the development of OD was significantly influenced by prominent scientists from that field such as S. Freud, C. Jung, C. Rogers, B.F. Skinner, etc. Their impact is still present in the theories on the group dynamics, open interviews, etc. However, other disciplines, such as economic theory, quality management, sociology, anthropology, etc. also contributed to the development of OD theory. Nowadays, organization development uses knowledge from a broad spectra of different theories and scientific disciplines from behavioral economics through networks towards the systems theory, and many other not mentioned here (McLean, 2006:24).

2. ORIGIN AND TECHNIQUES OF ORGANIZATION DEVELOPMENT

The purpose of defining and analyzing organization development, as a notion and theory, was a practical one: to improve the functioning of the system (in early economic theory this term implied the *organization*). Among many, three most relevant techniques have been singled out as they are believed to be the forerunners of OD: sensitivity training (laboratory training, T-group), sociotechnical systems and survey feedback (Gallos, 2006:1).

The first known studies on organization development are the Lewin's experiments on managing change. In 1946, quite by accident, Kurt Lewin and his group at MIT, while developing leadership skills of local governments and increasing racial tolerance in New Britain, Connecticut, developed a technique that was later given the name sensitivity training, lab training or T-group. This is considered to be one of the first forerunners of today's OD (Mirvis, 2006:61). Specifically, Lewin and his associates tried to raise sensitivity to racial issues of the participants through specially designed workshops which included lectures, role-play and group discussions. However, a few participants attended, up to then closed, subsequent evaluation of previous workshops and researchers' discussion about the noticeable behavior of workshop participants. It was discovered that the researcher perceptions are quite different than those of the participants and that valuable information about their behavior was only later obtained through the three-way communication. Moreover, the experiments proved that feedback information provided by the researchers analyzing their behavior were of more use in upgrading the participants' knowledge and awareness than the lectures or thematic group discussions. The participants were becoming more sensitive to their own behavior, especially the way they were perceived by others and the way their behavior impacted others. In this way, sensitivity training, T-groups, and laboratory training became synonyms for the same process or technique. The training consisted of a range of discussions organized in small groups in which the primary and most important source of information from which to learn was actually the behavior of the participants itself. Participants mutually received feedback on their behavior within the group which become the source of new knowledge on their functioning and which inevitably lead to personal growth. In addition, the participants gain knowledge on group behavior and relationships within. Consequently, T-groups became a change mechanism, which is one of the key OD features. Although in this case we talk of individual changes, in the 1950s the same methods began to be used in industrial psychology in order to influence i.e. incite changes within the organization making thus T-groups one of the earliest OD interventions. According to Lewin, a managed change process in the company that included a consultant and a company with a problem consisted of three steps: planning, acting and measuring results (Burnes, 1999:127-140). This is considered to be the forerunner of action research, one of the basic elements of organization development. Initially, the main objectives to be achieved by this method included encouraging teamwork and cooperation as well as the reorganization of the organizational structure in such a way to enable and facilitate decision-making at lower hierarchical levels, i.e. at the source of information. Today similar techniques are often used in the corporate world, usually under the modern names like team building, etc.

At about the same time when T-groups began to develop in the US, in the UK Eric Trist and Ken Bamforth at Tavistock Institute independently developed the so-called sociotechnical systems (Burke, 1987:7). The need for intervention arose as a result of the significant technological changes that consequently affected the patterns of work, responsibility and compensation systems. Researchers at Tavistock Institute contributed to the development of OD with their conclusions that organization is an umbrella system with the social and technological systems as its subsystems. Moreover, they concluded that although OD is primarily concerned with the social subsystem of the organization, it is necessary to take into account both subsystems and their mutual interaction while carrying out changes in the organization.

Survey feedback is considered to be the third forerunner of OD. The novelty in relation to traditional research is that, instead of the researcher's interpretation and presentation of results, gained feedback gives the possibility of recipients' immediate reaction, i.e. participation in the design and implementation of change. One of the first such studies was carried out by Likert and Mann in the late 1940s (Burke, 1987:7). The method involves two steps: the first step consists of designing and conducting research and collecting data which is done usually through questionnaires aimed at determining the perceptions and attitudes of employees on a number of factors mainly related to managing organizations. The second step includes reporting on achieved results which are distributed to all study participants, starting systematically with the highest organizational instances and descending vertically within the (functional) organizational units. The reporting is then followed by group discussions on the meaning and implications of the collected data, first among the top management and their direct subordinates, and then, by the same descending principle, at lower levels. At the end, each included group, after analyzing and discussing the results for the organization as a whole as well as for the group itself, develops action plans to improve its efficiency and contribute to overall development of the system.

3. DEFINING ORGANIZATION DEVELOPMENT

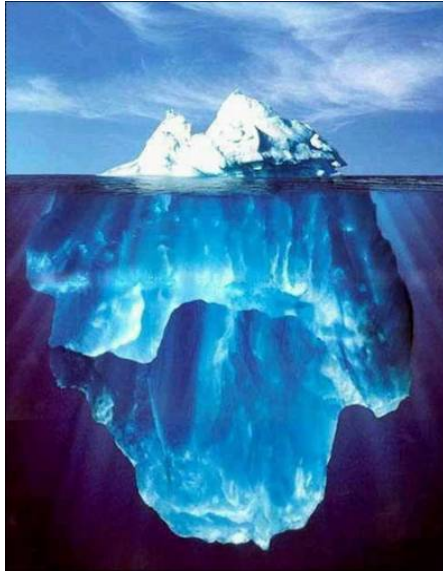
3.1. Early OD Definitions

One of the earliest generally accepted definition (and perhaps the most commonly cited) was offered by R. Beckhard in 1969. According to Beckhard, organization development is a planned set of activities implemented across the entire company, on the top-down principle, and is aimed at increasing company's effectiveness and health. Operationally, it is implemented through planned interventions into processes, and is founded on the notions of behavioral sciences (Beckhard, 1969:9).

Popularization of the concept and the term can be seen in fact that lots of researchers offered their definitions and concept designs that same year. Bennis (1969) defines organization development as a complex strategy intended to change the beliefs, attitudes, values and organizational structure of organizations so that they can adapt better to new technologies, markets and challenges. Bennis's definition sets OD in a reactive, rather than the Beckhard's proactive approach towards change. By defining OD through attitudes, beliefs, values and structure, Bennis introduced yet another

concept, the organizational culture, which is crucial in understanding OD in modern theories. Later on, this notion was upgraded by Edgar Schein, in the elaboration of his idea of the Cultural Iceberg (Schein, 1980).

Figure 1: Schein's Cultural Iceberg



Behavior, norms

Visible organizational structure and processes (easy to see, hard to explain)

Beliefs, values

Strategies, goals, philosophy (acknowledged harmonization)

Assumptions

Unconscious beliefs, attitudes, thoughts and feelings (ultimate source of values and actions)

Source: Schein, Organizational Psychology, 1980

According to French, OD is a comprehensive effort to improve the possibilities for solving problems within the organization and developing its ability to cope with changes in its external environment with the help of internal or external advisors, experts in behavioral sciences (the change agent) (French, 1969:23-24).

Through their managerial grid, Blake and Mouton, see OD as the development of an entire organization or its self-sufficient parts, from top to bottom and horizontally through the organization which must encompass individuals, teams, and other organizational units as well as management, and as an academic discipline, business logic and behavioral system (Blake et al., 1969).

Lippit defines OD as strengthening those human processes in the organization which contribute to the functioning of the system aimed at achieving its goals. The processes of initiating, creating and confronting necessary changes enable the organization to become and remain sustainable, adaptable to new conditions, able to solve problems, and capable of learning from experience and moving towards greater organizational maturity (Lippit, 1969).

French and Bell (1972) define OD as a long-range effort in improving the organization's ability to become stronger, more resourceful, and able to learn and solve problems. Later on they added that this should be done through a constant and

collaborative management of the organizational culture, led and supported by top management aided by advisors and could be founded on the knowledge and technologies of applied behavioral sciences and action research (French et al., 2005).

All early definitions of OD were focused only on the internal components of the company's business success. Some of them went as far as to exclusively emphasize the human component of the organization. Thus, according to McLagan (1989), OD is focused on ensuring healthy inter and intra group relationships and on aiding groups to initiate and implement change i.e. the emphasis of OD lies on the relationships and processes between individuals and between individuals and groups (McLagan, 1989). OD's primary aim is to influence the relationship of individuals and groups in a way that this influence has an effect on the organization as a system.

3.2. Contemporary OD concepts

Starting from the 1960's, when the concept of OD began to evolve in literature, practice and theories based on practice have evolved as a response to rapid and dramatic changes in the organizations and labor relations, both in local and global business environments. This has led to significant changes in defining and interpreting OD.

According to Dyer, OD is a process where actions are taken in order to release the creative and productive force in people and simultaneously achieve certain legitimate organizational goals such as profit, competitiveness and sustainability (Dyer, 1997: 29-34).

Another contemporary definition (Cummings & Worley) describes organization development as the application of the knowledge of sociological sciences in the planned development and reinforcement of strategies, structures and processes across the entire company (system) to enhance organizational effectiveness. The same authors, almost ten years later, due to the inability to define the precise meaning and extent of the term, modify their initial definition of organization development and define it as a process that by means of social and behavioral sciences, increases the capability and capacity of the organization in order to cope with change and facilitate the achievements of its goals in the long run (Cummings, 2005).

According to McLean (2006), OD is any process or activity within the organizational framework, based on behavioral sciences, that, either in its beginning or after some time, has the power to develop and increase knowledge, expertise, productivity, satisfaction, income, interrelation or some other outcome, for personal or group gain or for the benefit of the organization, community, nation, region, or, finally, the entire human race. This is a very broad concept which by far encompasses boundaries of the firm in accordance with modern network and/or open system theories.

The concept keeps changing, but the primary subject of its application remains the same - people (human resources, personnel). Personal and professional development is closely connected to the acquisition of new knowledge, skills and abilities that allow an individual to take on more complex, new jobs and positions and prepares him/her for the future and requirements still to come (Marušić, 2006). To conclude, OD is about

managing human resources to absorb change and teach them how to interact more efficiently; it is about putting people and knowledge in the first place with the intention to improve business results.

In contemporary definitions, apart from the human component, *new* indicators of the healthy functioning of the organization, as a complex organism (such as internal processes, financial indicators etc.), have emerged.

Many of today's definitions cautiously stress similar elements and features of organization development. Today's OD, contrary to the initial ideas, is based on the application of behavioral science within the theory of open systems. Moreover, even though it still has a largely humanistic orientation, the social component is no longer its only determinant. It is a comprehensive process of planned changes aimed to improve the overall organizational effectiveness through an increased harmony among key organizational dimensions such as the external environment, mission, strategy, leadership, culture, structure, information and compensation system and labor policies and procedures (Bradford, Burke, 2005:12). Finally, organization development is not just any action that improves the company's efficiency, but a specific process of change designed to yield specific results.

The fundamental idea of organizational development has not changed significantly over the years, but the methods, techniques and interventions to achieve it have been altered and upgraded. A typical OD process begins by identifying and analyzing the problems and ends in self-analysis, opening thus up a new round of the process.

In the first phase, the research starts; data is gathered and the system is analyzed. In the following phase the process changes are planned and people are trained, rendering a smooth introduction of change. The next phase is the realization of changes by the implementation of interventions; interventions are intentional and led, budgets and deadlines are set. Finally, through the process of OD, new realities are introduced or invented, incorporated in day-to-day activities in order to raise the level of efficacy and competitive capability of the people and the system as a whole.

Theorists report on a wide range of activities included in and pertaining to organization development. Among the ones agreed on by most of them are: action research, organizational diagnosis at different levels, feedback mechanisms, and the design of interventions at the different process, techno-structure, human resources and strategic levels. Although there is no clear definition of what organization development includes and covers, it should be emphasized that it is applicable in practice.

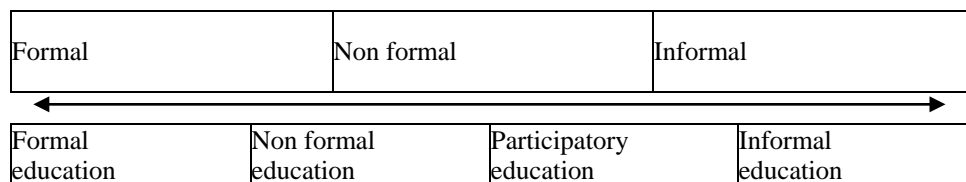
4. IMPORTANCE OF EDUCATION IN ORGANIZATION DEVELOPMENT

As already pointed out, human resources (HR) are the fundamental pillar of OD. Modern companies have been allocating their resources, more and more, into education and continuous training of employees. Management is increasingly becoming aware of the fact that continuous education and training of employees is one of the most effective ways of achieving competitive advantages. This is a result of the vast and

rapid changes in the external and internal environment that have put knowledge, constant innovation and learning in the forefront of economic development. This is true both for the company and for the society as a whole. Therefore, it can be inferred that OD depends on proper HR management, especially related to personnel education in the broader sense, and organizational learning. Thus, education is extremely important for organization development.

Contemporary forms of education, such as lifelong learning, include acquiring and upgrading all types of skills, interests, competencies and qualifications. Promoting and developing competencies and skills enables the adjustment to knowledge society and active participation in all spheres of social and economic life thus changing and impacting one's own future. In the context of lifelong learning all forms of education are appreciated: *formal education* (a faculty course), *non formal education* (training of skills needed at the workplace), and *informal learning* (intergenerational learning e.g. exchange of knowledge within the family or among friends).

Figure 2: Education and learning continuum



Source: Rogers, A.: *Non Formal Education: Flexible Schooling or Participatory Education?*, Springer Science, SAD, 2005.

Formal education is an activity that is carried out according to preset formally certified programs in order to acquire professional knowledge, skills and competencies. Upon completion of such a program participants receive an official certificate. *Non formal education* includes organized learning processes such as workshops or trainings aimed at developing social activities and leading to personal development. This type of education is carried out at educational institutions for adults, in companies, associations, unions, political parties, sport associations, different centers etc. and is conducted independently from the official educational system. Usually it does not lead to the issuance of official documents. *Informal education* includes activities leading to acquiring opinions, positive values, skills and knowledge by interacting with other people and acquiring other influences and sources from their environment while performing daily activities. These new experiences occur naturally in everyday life, and, as opposed to formal and non-formal education, are not necessarily intentional.

Formal, non-formal and informal forms of education are complementary and constitute the framework of lifelong education. Figure 2 shows the continuum of all forms of education in lifelong education.

Rogers (2005) emphasizes the importance of less formal forms of education and their relation with formal education: the formal system acknowledges and accepts non formal teaching methods, and the openness of non formal forms enhances the

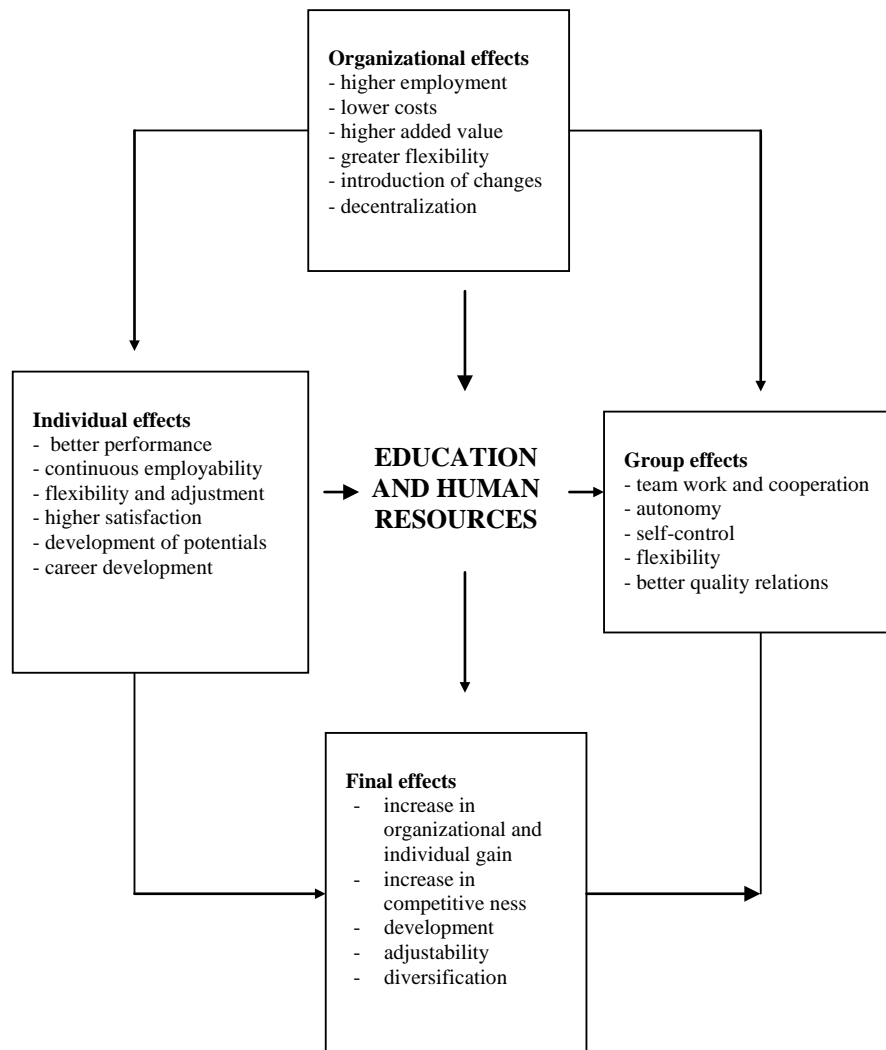
development of participatory and informal education. Within participatory education the responsibility is shared among both teachers and students involved in the education program and it is believed that modern education is impossible without this two-way teacher student relationship. In informal forms of education this responsibility is on the student him/herself. Non formal and informal education takes place independently of the official education system. Non formal and informal education play a role in creating and promoting effective participation of every individual in addressing and dealing with various social, professional, family and individual problems through the acquisition and use of knowledge.

As competition in almost every field of economy sharpened, physical boundaries between states and firms became irrelevant and doing business became global, HR became the source of distinctive competitive advantage of business entities. As a result formal education became insufficient to meet the ever rising needs of the business sector demands, and consequently, the labor market. Therefore, while the formal education niche should be constantly updated, a more and more important role is played by the non formal and informal education segment which is continuously being developed and upgraded in accordance with the needs on the market (Karaman Aksentijević et al., 2012). Thus, all forms of education become important in the overall education as the mean of HR improvement, paving the way for the development of the concept of lifelong education, and integrating it as an integral part into the concept of organization development.

Capability of rapid acquisition of competencies and skills is becoming increasingly important. Everyday work requires coping with ample knowledge and interests, knowledge of foreign languages and the active use of computer applications. Designing education and training in organizations is a complex activity developed and conducted as a part of human resource management (Marušić, 2006). Education signifies broadening of notions, knowledge, skills and abilities of the person trained for certain tasks, decision-making and/or action-taking in different situations. It qualifies the person to perform new tasks and represents the basis for further development.

Training and development of employees have numerous effects on the entire organization as well as on its distinctive levels: they increase the knowledge of employees understanding of competitors, cultures, etc. which is of crucial importance for the success on the domestic and international markets; they provide employees with the fundamental knowledge and skills necessary to work with new technologies; they help employees understand how to successfully work in teams and contribute to the quality of products and services; they ensure an organizational culture that emphasizes innovation, creativity and learning, and they nurture a better understanding among employees and their collaboration. Not only does educating human resources have direct effects on the individuals, but also it has an effect on the entire organization as well. The effects of education can be grouped into four categories: individual effects (better performance, continuous employability, career development, etc.), group effects (team work and cooperation, better quality relations, etc.), organizational effects (higher employment, lower costs, greater flexibility, etc.), and final effects (increase of organizational and individual gain, development, etc.) (Figure 3).

Figure 3: Individual, organizational, group and final effects of the education process on the company



Source: Bahtijarević, Šiber, F.: Menadžment ljudskih potencijala, (HR Management) Golden marketing, Zagreb, 1999, p. 725

Therefore, it can be concluded that investment in education is becoming a key indicator of the understanding of what is happening in the contemporary business and competitive world. Thus, in an economy where the only uncertainty is certain, knowledge is the stable source of constant competitive advantage. Knowledge is the capital and the leverage of development (Bahtijarevic Šiber, 1999:717).

In Croatia, mostly due to limited household resources, non formal forms of education are usually carried out on the initiative of the companies. In more developed countries,

individuals are increasingly recognizing the importance of investing in oneself and are increasingly focusing on the development of their careers. They believe that the development of their career does not depend only on their employer but also on their effort to become more competitive on the labour market.

5. DISCUSSION

All definitions of organization development are founded on changes in human behavior within organizations. Those changes are brought about by the notions from humanities and social sciences which consequently lead to the modification of business processes. Moreover, the improvement in processes is based on carefully thought out and planned interventions which ought to result in increased organizational effectiveness.

Earlier OD theories were focused on implementing human ideals at the workplace. Emphasized values included personal development, interpersonal relationships, participation, commitment, satisfaction, and democracy at the workplace (French, et al., 1999).

Through time, the focus has shifted from the workplace to the work environment. Contemporary OD is focused on aligning the organization with the wider environment in which it operates, in order to help it achieve strategic goals (Church, et al, 1994:5-50).

For example, Beckhard's (1969) definition is a reflection of the time in which it was introduced and, as such it is based on the belief that changes come from the inside of the organization and that they can be planned. A planned introduction of changes is possible in a stable environment and is characteristic of closed market systems. The companies operating in such conditions face relatively few unforeseen threats in the environment which require a prompt response, or which could endanger or even stop the implementation of changes, and thus neutralize OD efforts. More recent definitions of OD often do not share Beckhard's attitude towards change management which was based on the meticulous planning of changes as they are often unpredictable. Yet, in Beckhard's (1969) definition, there are many elements that are still valid and accepted today, including the focus on organizational effectiveness, the use of notions from behavioral sciences, and the inclusion of planned intervention in the functioning of an organization.

Furthermore, recent definitions criticize the older belief that changes are almost exclusively conducted through top management since many changes in today's organizations are implemented at different levels. This is especially visible because of the trend of decreased vertical complexity of organizational structure of enterprises and the increased decentralization of decision making (Anderson, 2009:3).

Moreover, earlier approaches paid greater attention to individual and group development, and although they used the term *entire organization*, the types of changes that were encouraged within the organization were mainly focused on the groups (e.g. team building) or smaller organizational units. There are many reasons why traditional

views on OD become inadequate in the modern business environment. Even though Lawrence and Lorsch introduced the notion of contingency theory in organizational theory and practice as early as in the late sixties, to stress the fact that different environments place different demands on the companies (Lawrence, et al., 1967:1-30), the prevailing belief at the time of OD's development was that all organizations are largely similar, and are thus similarly managed - a belief which was later on vehemently disputed (Gallos, 2006).

As the organizational environment changed so did the approaches to OD. In the 1980s, as image of global business environment started to change rapidly, due to the comprehensive, fast pacing, unpredictable and frequent changes, less and less attention was given to the individual and group approach, unless the consequences of change impacted a context of entire organizational framework and its alignment with the wider environment. Later on, the term *transformation of the organization* came into common use for such processes of radical changes within the organization, which include a significant departure from the organization's current business strategy.

Nowadays, changes that are initiated and implemented within the framework of OD are future oriented, have a clear aim and purpose, based on information and experience and oriented towards value creation; moreover, they are action-oriented, founded on theoretical notions and focused on learning (Bazigos, Burke, 1997; Church, Burke, Van Eynde, 1994; French, Bell, 1999; Worren, Ruddle, Moore, 1999; Carter, Giber, Goldsmith, 2001).

In the era of growing customer expectations, rapid commercialization of new technologies, high investor demands etc., the fundamental interest of organization development management becomes the identification, development and management of changes and the assessment of their impact on employees and other stakeholders, all with the aim of creating a successful organization .

The basic goal of organization development has not undergone major changes; however, it changed in scope. Thus, unlike the initially predominant internal orientation, OD today, encompasses efforts whose basic purpose is to develop organization's abilities to manage both its internal and external functioning and relations. This includes improving and developing interpersonal and group relations, ability to cope with various organizational problems, more efficient decision-making, appropriate leadership style, effective communication, ability to resolve destructive and conflict situations and achieving a higher level of trust and cooperation within and between organizations. These goals are the result of the belief that, in a motivating environment, a person as an individual but also as a group or entire organization is able to achieve a higher level of (personal or organizational) growth and greater effectiveness leading to better overall (business) results. The foundation of this development lies in education.

In line with the above said, we can conclude that organization development is founded on continuous questioning of organizational performance, causes and effects in its functioning, experimental testing of hypothesis and finally the analysis of results on which to base further action. Its goal has remained unaltered since its beginning: to

improve the effectiveness of the organization by leaning on people. In the 21st century, this is achieved by combining social and psychological skills such as training, leadership development, conflict management, but contrary to the past, alongside with objective determinants of technological processes (i.e. determining and analysis of strategies and their implementation and monitoring by introducing, for example, the balanced scorecard, key financial indicators, information systems, quality management like TQM, Six Sigma, etc).

6. CONCLUSION

A typical organization development process begins by identifying the problem, determining possible actions, change implementation through interventions, measuring results, documenting changes and archiving lessons learned with the purpose of accumulating knowledge. The cycle ends with self-analysis which often opens up a new round of the process therefore making OD continuous activity within an organization.

Etymologically, the term organization development developed as a parallel term for personal development. Thus it is logical that, parallel to the growth in the level of individual awareness of his/her capabilities and on business opportunities, possibilities of exploiting resources, techniques in motivating and psychological manipulation of human resources, and other achievements of modern business and scientific world, the notion on OD has significantly changed both in scope and meaning.

Conditions in the business environment changed rapidly in the last 50 years. Contrary to the determinacy of the system in which the concept of organization development was first introduced in the mid 20th century, at the turn of the century, the global business situation changed severely causing adjustment of the theories and terms that define it. Moreover, different market and business environments in which the companies operate caused different internal structure (size, organizational structure, technology, the ratio of direct and indirect labor, vertical and horizontal complexity of the organization, etc.) and put more emphasis on external relations. Thus, the term organizational behavior differs significantly in the way it is perceived in the present conditions of open market, business system networking and free movement of resources.

Consequently, the methods and scope of OD have been adjusted and moderated to meet the changes in the clients' needs and demands, the changes in social assumptions, beliefs and norms, the advances in theory and the growing complexity of business, and to the changes in the demands and expectations of employers, owners, customers and other stakeholders. As a result, starting from the 1960s till the end of the first decade of the 21st century, OD had several major turning points.

Not so long ago, only half a century away, the dominant opinion was that all organizations can be managed in the same way with the generic management skills and instruments. But organizations are unique systems with distinctive internal characteristics and external environments. The external context, or in other words, the business environment in which the organization operates, places different requirements

upon the organization and it is therefore logical to conclude that there is no one best way of organizing companies, nor universal criteria for achieving effectiveness. Consequently, based on the historical research on OD it is evident that its definition depends on the context in which the organizations operate, i.e. on the identification of the key factors within and outside the organization.

Finally, organization behavior lies on people. Thus, companies are allocating more and more of their resources into education and continuous training of employees. Management is increasingly becoming aware of the fact that continuous education and training through formal, non formal and informal education is one of the most effective ways of managing organizational development and, consequently, achieving competitive advantages.

To conclude, most definitions of organization development have in common the emphasis on changes founded on a systematic implementation of notions from humanities and social sciences, and the improvement of processes through carefully thought out and planned interventions with the final result being increased organizational effectiveness. The traditional approach has, in time, become both too broad (e.g. encompassing the discipline under the name of global welfare, but also many others such as cultural change, talent management, leadership development, change management, etc.) and too narrow (e.g. neglecting the process features and power relations, and hard data such as financial ratios). Contemporary OD, with the aim to improve the organization's activities, has to incorporate sociological, psychological factors but cannot neglect relevance of technological and financial data, procedures and methods in organization decision making. Thus, the term OD has become appropriate for a broad set of tools, methods and techniques whose main purpose is improving the management and analysis of complex systems.

Even though here is no universally accepted definition that would suit the evolution of the term of OD, it can be concluded that some of the key features of contemporary OD management are oriented towards developing (positive) changes based on information, value creation, experience and theoretical notions and are aimed at increasing the knowledge within the system.

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SESSION III

REGULATORY ENVIRONMENT OF THE EU; EU AND NATIONAL PERSPECTIVE

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PERSPECTIVES ON PUBLIC PROCUREMENT MARKET IN EUROPEAN UNION

ABSTRACT

Since discriminatory procurement which favors domestic suppliers may constitute a barrier to trade and international competition, the opening up of public markets to facilitate free trade on the basis of comparative advantage has become a target of regional trade agreements. The creation of a Single European Market allows to realize the idea of free movement of goods and services in order to increase transnational competition in public procurements. The idea of integrated market is not only a mean to increase trade exchange in the community, but also to stimulate innovations in Europe. Polish accession to European Union in 2004 opened new perspectives to both national enterprises abroad and foreign contractors on domestic market. The objective of the article was to verify how companies from different EU countries perceive the perspectives offered by integrated market for public contracts. In spite of the fact that Poland has adjusted its legal system to EU directives the companies still consider it too formalized and unfriendly for suppliers. Unclear formal requirements, contract terms hard to accept and problems with communication remain obstacles for cross-border procurements. Moreover, companies neither considered EU membership as a factor for economic expansion nor for increasing innovations.

Key words: *public procurements, public contract, single market, free trade, liberalization of trade, tender*

JEL classification: *F15, F59, H50, H57*

1. INTRODUCTION

Innovations and the quest to become more and more competitive as the economy has become a major factor for political and legal decisions which are made nowadays by the governments. European Union can be perceived not only as an organization gathering countries from the region and imposing own – superior in a way - decisions, but also as a tool founded by them in order to realize their common goals. One of them, a crucial element of EU is certainly the single market, embodiment of economic integration. The idea is to guarantee the free movement of goods, services, labor and capital so that a well-functioning market amongst members of states is created.

The market embraces not only the private sector activities, but also public contracts. Since a state is a specific and fragile contractor that is exposed to all kinds of corrupt practices menaces, it is supposed to order any kind of goods in accordance with public procurements regulations that constitute formalized procedures of purchase (Auriol, 2006). However, there is still a strong temptation to create a national procurement system that would be home biased, allowing the authorities to promote internal exchange over foreign. Since discriminatory procurement which favors domestic suppliers may constitute a barrier to trade and international competition, the opening up of public markets to facilitate free trade on the basis of comparative advantage has become a target of regional trade agreements (Gordon et al., 1998; Schnitzer, 2010). Public procurements agreements elaborated under the auspices of World Trade Organization during the Uruguay round of negotiations contribute to liberalization of international trade, liquidation of discrimination of foreign contractors and transparency of key elements of proceedings. Likewise, the creation of a Single European Market allows to realize the idea of free movement of goods and services in order to increase transnational competition in public procurements. EU regulation of public procurements is the extension of the single market logic to the public sector contracts (Cox, 2003).

Promotion of effective cross-border competition among suppliers is supposed to maximize value for money in the public sector. With regard to public procurement, this can be best reached on the basis of legally binding international agreements on public procurement, which have as their purpose the dismantlement of trade barriers between national procurement markets (Schnitzer, 2010; Madras et. Al, 2008). Detailed EU rules cover large value procurement to attract interest from nonlocal suppliers (Uttley and Hartley, 1994). The idea of single market is though not only a mean to increase trade exchange inside the Community, but also to stimulate innovations in Europe in order to become more competitive against United States and other technologically advanced economies (Kattel and Lember, 2010). Polish accession to European Union in 2004 opened new perspectives to both national enterprises abroad and foreign contractors on domestic market. Polish companies need to contest with some more innovative companies from other EU countries, and improve own quality of products or technology which may become to be or not to be for them. It is noteworthy that Poland and other newly accepted to EU Community countries entered not only the single market zone, but also got into the scope of GPA agreement. Although legal change was indispensable, the question of its practical realization remains.

It seems worth investigating whether public procurements are no longer home biased despite existing legal framework, especially that many studies question the compliance of national rules with EU procurement directives (Gelderman et al., 2010). Furthermore, it is crucial to take into consideration public procurements law impact on companies decisions. The objective of the article was to verify how business practice responds to theoretical framework, in other words, to analyze how companies from different EU countries perceive the perspectives offered by single market for public contracts. Is the existence of legally integrated market an incentive to export products to new countries or to stimulate technical advancement in the company, on the whole, is it really working in the way it was meant to? In order to put some light on those issues, a few selected companies with great experience in innovations were questioned

about their experience with public procurement in 3 groups of countries: EU15, Poland and EU12 other “new Member” countries. The survey considered such matters as comparability of proceedings in different member countries or the influence of single market on company’s innovations. Companies experiences from public procurement in “old” and “new” EU countries have been compared. The results of the survey were analyzed in the perspective of statistical data on European public procurement in years 2010-2011.

2. EU PUBLIC PROCUREMENTS SINGLE MARKET REGULATION

Public procurements term stands for the acquisition of goods, services and construction works by governments and public sector organizations (Uyarra and Flanagan, 2010). In a broader sense it is also defined as the designated legal authority to advise, plan, obtain, deliver, and evaluate a government’s expenditures on goods and services that are used to fulfill stated objectives, obligations, and activities in pursuant of desired policy outcomes (Prier and McCue, 2009). It is therefore recognized as an important policy tool that can help to achieve outcomes in society that are consistent with broader policy goals (Brammer and Walker, 2011; Nijaki and Worrel, 2012; Murray, 2009; Kattel and Lember, 2010; Arrowsmith, 2010; Snider and Rendon, 2008). In terms of the single market it is expected to stimulate public sector to source from producers from all over EU. The creation of borderless procurements is supposed to decrease the importance of physical location of suppliers’ operating center in order to concentrate on price and quality issues (Gelderman et al., 2010). Competitive tendering is considered a tool to guarantee positive effects in terms of cost and price reduction and improved quality (Cox, 2008; Hansson and Holmgren, 2011; Schnitzer, 2010). Therefore, public and academic interest for public sector management has intensified during the last decade in order to learn how the public sector can be more effective (Stentoft Arlbjörn and Freytag, 2012).

Moreover, creating high technical requirements for the subject of contract in the procurement procedure that either does not exist at all or has not been yet introduced to the market can stimulate innovations (Laffont and Tirole, 1996; Rolfstam *et. al.*, 2011; Arrowsmith, 2010). A major advantage of public procurement in innovation policy is that the government specifies a desired output and leaves it to the creativity of private businesses to achieve this result with the most effective and efficient technologies (Aschhoff and Sofka, 2009). Governments gain the opportunity to receive better supply or construction work for less money and companies are rewarded for innovations and mobility (Uttley and Hartley, 1994). Nevertheless, realization of that idea meets a lot of obstacles, especially since public contracts have been traditionally and nationally protected. The “buy national” habit which aims at favoring domestic suppliers is not easy to quit.

The problem of public procurements hindering the idea of competition on the single market has been recognized and first treated in 1970s. Since then on, European Union through number of directives tries to impose the common scope of procedures on the Member States (Uttley and Hartley, 1994). Although, procurement by public authorities is not a subject to the EC Treaty itself, it does establish a number of

fundamental principles that are of general application in the European Union. The most relevant in terms of public procurement are the prohibition against discrimination on grounds of nationality, the free movement of goods, the freedom of establishment and the freedom to provide services. Also some general principles of law, which have emerged from the case law of the European Court of Justice, are applied in the field of public procurement. They are equality of treatment, legal certainty, transparency, mutual recognition and proportionality. Finally, to underpin the Treaty principles series of procurement directives have been adopted by the Community. In 2004 these were consolidated in two new directives, one for the public sector and one for the utilities sector (Dorn et al., 2008). Directive 2004/18/EC provides the EU procurement provisions applicable to public sector procurement. According to the norms embodied by this act, public sector procurement must follow transparent, open procedures that ensure fair conditions of competition for suppliers (OECD, 2011). The awarding of contracts in an open and transparent competition free of discrimination procedure, is required and thus the publication of notices and contracts information are compulsory. It is also worth mentioning, that Community law is interpreted according to the pattern of competition in cases of doubt (Cox, 2008).

The first directives on public sector works and supply contracts are considered to have been largely ignored in practice. The scope of regulations was widened with the 2004/18/EC Directive elaborated by the Council and Parliament in a co-decision. It extended the regime to services and utilities sector (Gelderman et al., 2010). The rules established by directives allow several kinds of procedures, such as: open, restricted, negotiated and competitive dialogue. They require universal access to the procurement, open to public selection of the bidders and the award of the contract. Publication of notice, changes to notice and the award of the contract in the official EU journal are compulsory. An entity that fails to follow these rules becomes subject to legal challenges. The article is focused on the open procedure, since its most commonly used alleged procedure, the normal way to proceed the purchase (Carayannis et. al., 2005).

The compliance with European directives remains a questioned issue. The reports elaborated in the 1990s as well as recent studies report ineffectiveness of their functioning in the Member States. Since no wider data base on European Union cross-country is accessible and the collection of quantitative data rises problems there are not enough empirical evidence on how and why the procurement single market works. The other problem is that the norms expressed in the directives are open enough to allow the adoption of different specific rules to national legal systems. The optimal rule depends on a country's characteristics (Auriol, 2006; Commission, 2011a). Because of that, the details of procedure may vary in every country, even if formally the directive had been implemented.

Although the compliance with existing rules tend to be questioned, European Commission extends the horizon of the expected effectiveness of the procurement directives. Their influence in specific economic areas and certain positive consequences also in the social and environmental issues are expected through sustainable procurement (Brammer and Walker, 2011; Preuss, 2009; Nijaki and Worrel, 2012; Arrowsmith, 2010). The green paper on the modernization of EU public procurement policy towards a more efficient European Procurement Market on public

procurements published in 2011 sets the goals towards green procurements, social procurements and stimulation of SMEs. Public procurements are considered to play a key role in Europe 2020 strategy for smart, sustainable and inclusive growth compatible with a vision of Europe's competitive social market economy that rests on three interlocking and mutually reinforcing priorities: to develop an economy based on knowledge and innovation, to promote a low-carbon, resource-efficient and competitive economy and to foster a high-employment economy delivering social and territorial cohesion (Commission, 2011d). The practical examination of the realization of those targets in 2020s will show to what extent the declarations meet with the economic reality.

3. IMPLEMENTATION OF PROCUREMENT DIRECTIVES IN POLAND

European integration influences not only legal systems of countries inside the community, but also of the countries that apply for the membership. Poland as well as other Central- Eastern Europe and Balkan countries that had chosen to integrate with EU15 after the transformation had to enter in number of agreements concerning trade, including public procurements (Madras, 2010; Mardas and Varsakelis, 2000). EU procurement directives had to be implemented into their legal systems. Polish procurement law has been evolving in order to meet those requirements (Engelbrekt, 2011). The Public Procurement Act of 1994 has been replaced in 2004 by a new regulation, that was supposed to adapt to EU system and decrease formality of national procedure. The idea underlying the act was also to create more balance between the purchaser and suppliers through strengthening their position and assuring grounds for appeal. The 2004 Public Procurement Act as well as executive regulations to this Act have been amended several times.

According to the Act, technical specifications cannot discriminate any contractor by indicating a supplier through trademarks or specific details of specification that would point one company, unless there is an objective reason for that. However, the good that is procured must be explicitly and clearly defined in the tender documentation, i.e. in the task description and the requirement specification (Cox 2005). Those requirements embody the non-discrimination rule imposed by EU directives. Once the product that a company offers meets the requirements of procedure, the company has to prove its own capacity to perform the public contract. Although Polish regulations in this matter are in compliance with EU directive, they remain specific for the system. EU allows to choose whether certain circumstances should be proved by official documents issued by authorities or by statement under oath. That raises an issue of formality of a procedure. A company that in fact fulfills the requirements in European Union may have to get different documents while bidding in different countries. Polish legislator chose to create rather formal system. Companies have to submit *inter alia* official documents of evidence of absence of conviction for natural persons, evidence of absence of conviction for legal persons, evidence of compliance with fiscal obligations, evidence of compliance with social security obligations, proof of the tenderer's identity¹. The companies from abroad are allowed to submit a statement under oath

¹ Optional below EU thresholds, mandatory above EU thresholds.

only when equivalent to required certification is not issued in their country of their registered office (KIO, 2011a; KIO, 2011b). That creates another problem of conformity of institutions, records held by them and equivalence of documents in general (KIO, 2011b). Not only a foreign company may have difficulties to resolve what kinds of documents it needs to submit, but in case it decided wrong, also the procedure of documents complement is rather restricted.

Therein lies the dilemma of the EU procurement system. Although the general idea of the system is common, the scope and margin left for national system regulations allows a lot of differences that may result in home biased procedures, even if no direct favoritism is intended. The procedure does not need to be home biased on purpose to make the participation in the procedure for foreign companies much harder than for national ones. The peculiarity of the tax or social security system, changes in national commercial law, the scope of information gathered in different records are not easy to resolve. If a country, like Poland, gives a priority for documents issued by public institution, the doubts concerning their equivalence between states remain. Unless a solution of statement under oath is a main procedure, like in most Western European countries, there exists an important obstacle to participate in tenders.

Despite the formality, Polish institutional purchasers are obliged to use the electronic European system for public procurements to enhance competition among entrepreneurs from all over the Community. Polish authorities are rather scrupulous to realize this obligation, especially when the financing comes from European Union funds and the supervision over public expenses are under special surveillance. Websites for public procurements created under the auspices of EU, Tenders Electronic Daily and e-Certis, help to promote cross-border procurements, but in a limited way. E-Certis system shows what kind of documents are normally accepted in Poland and in other countries, but it is only with regard to national companies (information on national official documents required). Furthermore, the system shows what kind of documents can be demanded and how often statistically it happens. Such an information has a restricted importance while bidding for a certain procedure. TED database more commonly used, allows to search for notices and shows the requirements for every procedure. However, usually the detailed information here is available only in national languages.

3. PUBLIC PROCUREMENT MARKET 2010-2011 IN EU AND IN POLAND

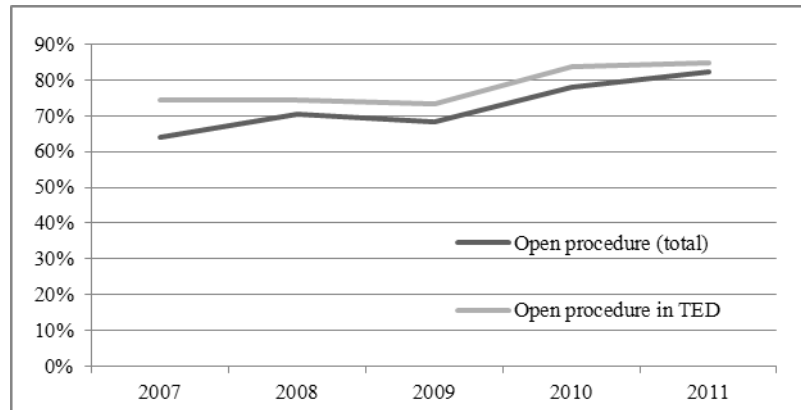
In ordinary times public procurement in OECD member countries accounts for 16% of GDP on average (OECD, 2012). According to detailed data concerning tenders that were published in Official Journal of EU, their estimated value for EU was over 447 billion Euros in 2010 (Commission, 2011b). The value of calls for tender published in the Official Journal as a percentage of total expenditure on public works, goods and services amounted for 18% in EU and 42% in Poland, whereas the value of calls for tender published in the Official Journal as a percentage of GDP was respectively 3,6% for EU and 8,7% for Poland (Commission 2011b). Hence, in comparison with Western and Southern European countries, Poland and other Central, Eastern and Balkan European countries represent rather higher value of public procurement which is openly advertised through TED.

Public procurement legislation pursue to increase the share of international exchange and cross-border competitiveness on that market. However, import penetration on public markets, according to 2010s statistics, was around 7% (in the private sector around 19%), so purchase made by authorities remains domestically oriented in practice. Empirical analysis conducted by DG Internal Market and Services showed that the economies of large countries exhibit lower import penetration than the economies of small countries (Commission 2011c). According to the data displayed by the Commission for 2006-09, direct cross-border procurement accounted for 1.6% of awards or roughly 3.5% of the total value of contract awards published in TED, while contracts concluded indirectly through affiliated company subsidiaries accounted for 11.4% of awards published in TED and 13.4% by their value during 2006-09 (Commission 2011a). An interesting comparison between EU15 and EU12 showed that the share of direct cross-border procurement in the new Member States is 0.6 percentage points higher than in EU15. However, the share of indirect cross-border procurement through affiliates is 9.2 percentage points higher in the old Member States (Commission 2011c). It is however important to say that small import penetration may be explained by the structure of public expenditures, where public administration, education, health and social services make up most of it (Commission 2011a). The report by DG Internal Market and Services shows that the difference between the public and private sectors is largely due to differences in the kinds of goods, services and works procured. If the public sector were to purchase the same proportion of each product as the private sector, import penetration in the public sector would increase to comparable level (Commission 2011c).

In 2011, nearly 400.000 notices has been published in the Official Journal of EU, 2% less than in preceding 2010. Almost 90% of them concerned the call for tender and contract awards. Most of the 172.620 procedures were open (99,12%). Old European Union member countries predominated over newly accepted and 76% of the notices were launched by EU15. It is worth saying that over a half notices from EU12 were Polish and the total of 21.287 notices meant that Polish tenders were 12% of all tenders published.

The market of public contacts in Poland was estimated on 144 billion PLN, approximately 9,5% GDP (UZF, 2012b). Most of the tenders considered supplies (53%), than services (41%) and construction (6%). What can be noted as a movement towards more compliance with European directives is the growing number of Polish tenders in the open procedure (Figure 1).

Figure 1: Share of open procedure in public procurements in Poland 2007-2011



Source: own elaboration on UZP 2012a data,
http://www.uzp.gov.pl/cmsws/page/?F;288;sprawozdania_roczne_uzp_z_funkcjonowania_systemu_zamowien_publicznych.html

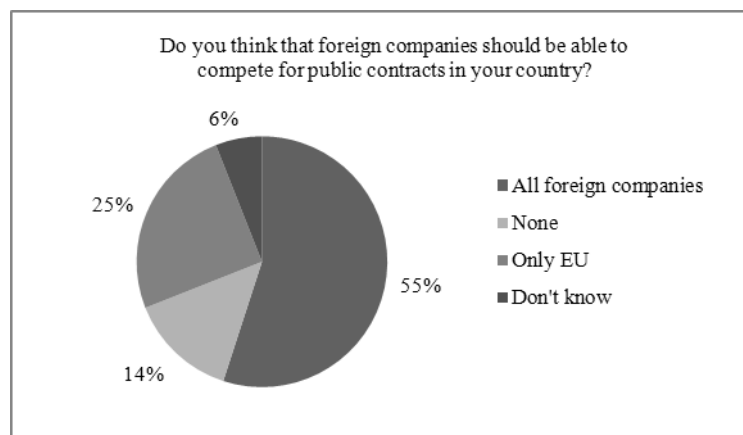
The total of 24.729 contracts were concluded and published in TED in Poland in 2011. Most of them in the open procedure (85%). As shown in Figure 1, public procurements published in TED (above EU threshold) are slightly more often in open procedure than the national tenders. The contracts of estimated value above EU threshold, on which the article concentrates on, are usually time consuming. It is estimated that the time to complete the procedure is about 81 days (31 days in the national procedure). When comparing the number of tenders submitted to a procedure in construction, supply and services, usually the biggest competition is in construction (average in 2009-2012 over 5) than in services (average in 2009-2012 around 3) and supply (average in 2009-2012 2,3) (UZP, 2012b).

What is worth noting, 2,51% of contracts in 2011 was awarded to foreign contractors (UK - 25%, Germany - 23%, Czech and Switzerland - 8%, Spain - 5%, Netherlands and Italy - 4%). This number however not impressive and rather pessimistic in the context of philosophy of single market is still less depressing than the 50 contracts that were won by Polish contractors abroad (in 2010 – 38, in 2009 – 57, in 2008 – 52, in 2007 – 54). It shows clearly that there is still discrepancy between the rhetoric and the practice of borderless public contracts market. Also the data collected since the beginning of 2012 until the end of June shows similar pattern. In this period 307 contracts were awarded to external companies and 27 companies from Poland succeeded on other European markets. Most of the supplies outsourced by Polish authorities from abroad were in the high technology sectors or related to intellectual property rights, whereas Polish companies were most often offering transportation means. The value of foreign companies contracts was about 12,3 billion PLN in 2011 and Polish companies have received contracts for 168 million Euros.

In order to complete the statistical context for the study, the Eurobarometer study on corruption in EU allowed to draw some general conclusions on public perception of procurement policy in Community. According to their outcomes, only 14% of people

would rather have none foreign companies on their domestic public contracts market. More than a half agreed that suppliers from all foreign countries should have an access to tenders and one forth that it should be reserved for the EU companies. It shows rather open attitude to cross-border bidding and seems a good sign for new international agreements and further opening of the markets (Figure 2).

Figure 2: Support for cross-border procurements in Europe



Source: Impact and Effectiveness of EU Public Procurement Legislation 2011.

The public has also been addressed with a question concerning the problem with corruption in public procurements. According to the data, almost 70% of questioned agreed that common EU-wide rules for public authorities on procurements helps to combat favoritism and corruption. That shows some serious support for the system itself. It is interesting especially while some researchers claim that EU directives are useful in the development of the European Single Market rather than in reducing fraud risks (Dorne et al., 2008). The studies on the conditions and possibility of corruption in public contracts proceedings are an important part of procurement literature (Buchner et al., 2008; Auriol, 2006). Some data shows that not only lack of knowledge or complexity of procedures may be a reason for deviation from procurement rules but also an intention to favor local companies (Hansson and Holmgren, 2011). In that context it is important to realize that establishing rules may not be sufficient to avoid home biased procurements if a certain entity has an intention to favor one contractor over another for nationality reasons.

4. COMPANIES PERCEPTION OF SINGLE PROCUREMENT MARKET

The analysis of existing rules on the European and national level and the study of procurement statistics give general idea of the functioning of procurement single market. However, that image should be supported by the actual observations and evaluations of companies that operate on it to verify whether the adapted norms are

used in practice and if that allows realization of the goals undermining the normative system of EU public procurement.

In order to gather the information from the participants of the system a questionnaire has been prepared. The study concerned three groups of countries: EU15 – the old EU countries, EU12 – new EU countries accepted after 2004 and Poland. Poland has been extracted because it represents a half of the share of the procurements published in TED by EU12 and also it served as a reference for the objectives of the study. The companies were asked questions concerning three general issues:

- Does membership in EU influence foreign company's decision to bid for public procurements?
- What are the main constraints on different markets?
- Are common rules in EU procurements an incentive to innovate?

Companies were also asked to express their general remarks about the public procurement system and to comment on any detailed issued if desired.

Companies have been chosen according to sector and experience criteria. Six companies from Germany, Finland, Austria, Switzerland and Poland operating in the technology & equipment and research & development sectors with an experience in at least two of the studied markets had been selected. For the purposes of the article, the emphasis had been put on the suppliers of advanced technology and equipment since this sector is considered not as fragile for a state and rather international (Mardas and Varsakelis, 2000). It was done due to three main reasons. First, companies that produce technologically advanced equipment tend to have experience on several markets and thus are capable to compare different legal systems and procurement procedures. Second, those companies are strongly involved with innovations which can give an important information about the incentives to innovate that raise from the idea of single market. Lastly, the author has professional experience with public procurements contracts concerning this kind of supplies. It is also worth stating that the investigation was kept anonymous on request of the companies involved.

In general, the suppliers agreed that they do not concern membership in EU as an important factor for a decision whether to submit tender on public market in a country. Moreover, they claimed that their expansion on markets of EU12 countries had nothing to do with their accession to the Community. None of the included companies stated separate opinion on that matter. One possible explanation for that could be that they do not realize the importance of EU rules and their scope of application. However, more probable is that since EU regulations allow national specifics in procurement law, a company still has to adapt to national rules and procedures, not important if from EU or from outside.

Despite the fact that companies do not appreciate membership in EU as sales expansion incentive, they do recognize serious competition in the studied branch of operation on all 3 markets especially from companies from EU15 countries. Asked whether entrepreneurs from "new" EU countries are serious competition for the company, none of questioned has answered "yes", including Polish companies. Only one company has answered that there is a competition, but less important than in "old" EU countries. It

shows that although companies may not consider local competition in EU12 as a threat, but they still think that the overall competition in the branch makes it difficult to submit offer. That also confirms the presence of entrepreneurs from different countries on all EU public markets in the sector.

Companies do not disagree that public procurements are very formalized, however while half of them considers that necessary, the other half would rather say it is not necessary and only makes it harder to participate in tender. Most of the companies state that EU regulations do not facilitate submissions of offers in any country. However one company, with a lot of experience on EU12 (25 contracts in 2010-2012) and EU15 (15 contracts in 2010-2012) experience has answered that EU directives help on those markets but do not help on Polish market (8 contracts in Poland in 2010-2012). The second exception was a Polish company that agreed it was easier to submit offers abroad because of the existence of EU regulations. This may show, that the evolution of rules may be more visible for a company originating from very strict legal system. Most companies do not recognize the influence of the EU regulation, because local systems remain very specific with local customs and order. Since Polish system is considered especially formalized, even for a Polish company, other systems may appear less formalized and more supplier friendly. The formality of Polish procurement system is often considered to unnecessarily extend the procedure and complicate the award of contract. Formal and exogenous institutions of public procurement law may hence be potentially discouraging for the suppliers from foreign innovative companies (Rolfstam et al., 2011).

The study allows to state that one of the main constraints for suppliers to compete abroad remains language. It considers both the language of communication used by authorities and the required language of an offer. One of the surveyed found it strange to be forced to do international business transaction in Polish and the time to prepare an offer in foreign language too short. It is noteworthy that problems with communication may occur not only on the international level, but are generally a problem of public procurement due to the formality and obligatory written form and may also concern the national level (Cabras, 2011). Existence of communication and language difficulties in procurements are also confirmed by a wider study conducted by European Commission on a broad group of different kind of companies, where lack of experience and language barriers were surveyed the most relevant obstacles for cross-border procurement between Member States (Commission 2011c). A tool desired to ease the European flow of information in procurements is the electronic service for notices in European Official Journal. All companies investigated in the research confirmed to use the <http://TED.europa.eu> website in order to find suitable public contracts to bid for. This utility is most commonly recognized as an EU help for integration of public procurements.

According to companies opinion there are no difficulties while collecting official documents concerning personal capacity to participate in procurements in EU15. That is probably due to the fact, upraised by one of them, that in most cases a self-declaration is sufficient to prove capacity to perform. At the same time, difficulties on Polish and EU12 have been recognized by all entrepreneurs. They concern first, unclear conditions for submission of criminal records for operating members of managing

bodies, and second, other personal requirements, such as proving no arrears with social security and taxes. Polish procurement regulations had been severely criticized, especially the lack of possibility to complete the documents issued after the date of opening the offers and the possibility to lose warranty because of that. Moreover, very strict rules of communication with public contractor leading to unnecessary formality were mentioned as an obstacle to participate in the procedure. Even more disturbing, companies signaled that the problem of Polish procurement system is the existence of diversified interpretation of the rules by the administration institutions. That certainly creates unsecure conditions for the entrepreneurs and buying institutions and definitely is not an incentive to bid on Polish market.

The main constraints for submitting an offer in the old EU public markets mentioned by a few companies were national language of procedure and contract terms hard to accept (high penalty, short delivery time), however most of companies did not find any difficulty concerning those countries. On the public markets of new Member States, including Polish, the difficulties were recognized by all questioned companies. Companies are discouraged by changing exchange rates, formality of procedure and high guarantee. The most severe opinions concerned Polish market. Beside the already mentioned difficulties, also contract terms hard to accept (warranty, delivery time, no possibility to negotiate terms) were an important obstacle found by entrepreneurs. One of the companies has complained about the Polish market also because of the: “attempts to burden the supplier with the whole contractual responsibility” and “lack of possibility to freely contact the authority while preparing an offer”. It was very clear that companies have worse experiences from Polish market than from other EU12 countries, which supports the thesis, that Polish public procurement remains highly formalized and not-supplier-friendly.

Asked directly if they need to increase innovations in order to gain possibility to offer equipment in procurements, companies denied it. That may seem quite surprising, since it is one of the fundamental assigned function of procurements. Orders made by public universities and research facilities (especially in the studied sector of technology and equipment) are typically large and reliable, which should in practice create a beneficial promise for a company to enter into such a contract and thus it should try to offer the most innovative product to gain it (Aschhoff and Sofka, 2009). However, there are some possible explications for such a situation. First, that the companies create innovations on the demand of private markets, where negotiations are regular custom in sales, and afterwards they do not feel the need for more improvements to fulfill the needs of public sector. Also, it is probable that people answering questions from the sales departments did not realize company's politics in this matter. It is worth to underline that since informal negotiations by authorities in an open procedure are forbidden, in practice specifications are based on what is already available on the market. Researchers may not be aware of technical possibilities of equipment - they use equipment, not construct it, so while they are not allowed to negotiate, they order what they know, leaving no place for innovation. In consequence, universities are limited in their choice of equipment by the strict rules of public procurements. Companies on the other hand have less incentive to innovate for that market. Those findings may be an argument to rethink an obligation for research facilities to use procurement procedures while purchasing technologically advanced equipment for research purposes.

Companies were asked also about the quality/price element of procurements. In some previous research in the UK, the author has found that despite the whole idea of procurements as a mean of improving the price quality ratio, the companies complain that most tenders are focused on lowest price (Cabras, 2011). The present research confirmed those findings. All questioned companies claimed that in EU12 and Poland the most common criteria for selection of an offer is lowest price or lowest price accounted for more than 50% of wage for the award. Only in EU12 criteria stated in specification tend to be more than 50% in old EU. What is important, asked about their preferences, all the companies agreed that they prefer when technical criteria influence the award. While companies prefer that the technical criteria influence who wins a tender, authorities prefer lowest price. Although the institutional framework for increasing technological advancement exist, the ease of procedure remains a strong motivation for institutions. Since technical criteria have limited meaning, it is also easier to explain, why procurements do not influence innovations.

5. CONCLUSIONS

Single market regulations of public procurements is supposed to create incentives for companies to sell their goods and offer their services for public entities abroad. The idea is to stimulate cross-border competitiveness and facilitate trade. It is especially important in the area of innovative equipment and technology offered for research facilities, institutes and universities, to spread high standards of science all over Europe. That is why in this article, the companies that specialize in technology&equipment sector have been chosen for investigation. Their opinions and perception of the single market should be an important indicator of implemented procurements solutions.

The results of the research depict that the EU procurement directives impact on facilitating cross-border bidding in the opinion of entrepreneurs is limited, especially on Polish market. Despite the fact that in general, directives have been formally implemented to the legal system of procurements institutions in Poland, the public market is reputed as hostile for entrepreneurs from abroad. Some difficulties such as language, exchange rates, contract terms are commonly recognized in all public markets. However Polish procurements system is recognized as more complicated than EU15 systems and other EU12. Entrepreneurs find it difficult to bid on Polish market due to formal criteria, like proving personal capacity to participate in procedure, that they found complicated, formality of communication and terms of contracts difficult to accept.

What was quite surprising, companies generally do not notice the influence of directives on national procurements systems. That of course does not mean that the directives are not implemented, however that means that the changes are not advertised sufficiently or their relevance for the business practice is limited. None of the companies considered membership in EU as an important factor for extending sales market, most of them do not think that Polish legal system has adopted European procurement rules. Despite the fact that Polish notices account for a comparably large share of European notices and that more foreign companies acquire public contracts in

Poland than Polish suppliers abroad, the market is considered hostile and too formalized. Polish public market would probably be better perceived if some changes, like reduction of formal documents required, obligatory English language in proceedings and allowing less formal communication would be carried out. That, however, is not easy to pursue since formality is one of a tools to fight corruption and allowing English could impose considerably high costs. The experiences of companies from different legal systems inside the Community may though serve as an reference for countries applying for EU membership in order to choose own way to adapt to procurement directives and decide on a level of formality of the procedures.

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TRANSPARENCY IN CROATIAN CORPORATE GOVERNANCE: A LEGAL PERSPECTIVE

ABSTRACT

By endorsing the Companies Act in 1993 and its changes and supplements in 2003, 2007, 2008 and 2009, the Republic of Croatia has started the process of harmonizing its national legislation with the regulatory environment of the European Union and the international principles of corporate governance. The Companies Act was modeled after the modern legislation of Central Europe, German corporate governance codes in particular, and as such represented a departure from the Croatian socialist heritage. Changes and supplements of the Companies Act that followed, as well as the adoption of many new acts, brought Croatian legislation to a level that meets the requirements of the contemporary economy of Croatia as the future member of the European Union. In this report we emphasize the most important modifications made to the Croatian national legislation in order to provide an adequate disclosure of management as well as the organizational structure of public joint stock companies, underlying the introduction of Disclosure and Transparency principles as powerful tools for providing a better insight into the work of public joint stock companies and their governing bodies. Harmonization of Croatian national legislation with the regulatory environment of the EU will serve the purpose of better corporate governance practice and support Croatia's entrance into the club of developed economies of Europe.

Key words: corporate governance, Republic of Croatia, transparency and disclosure, corporate governance code

JEL classification: K20, K22

1. INTRODUCTION

Corporate governance can be defined as a system of supervisory mechanisms by which all suppliers of crucial inputs should ensure the returns on their investments in the corporation, without affecting its long-term survival and prosperity (Tipurić et al., 2008). It is a key element in improving economic efficiency and growth as well as enhancing investor confidence (OECD Principles, 2004). Harmonization of the rules relating to company law and corporate governance, as well as to accounting and auditing, is essential for creating a Single Market for Financial Services and products.

Therefore, corporate governance has become a dominant issue in developed market economies in recent years. Equally, it has become an important topic in transition economies. Current problems of corporate governance include better disclosure by an annual corporate governance statement, helping shareholders to exercise their rights, independent directors and committee work, director's remuneration, responsibility of board members to investors for financial statements, voting policy disclosure by institutional investors, choice between the one-tier and the two-tier system (board), and generally more shareholder democracy.

The authority in the public joint stock company lays in the hands of its organs, and not its shareholders. Shareholders may or may not be members of that organs, so the only way they can actually exercise their management rights is through their participation in the general assembly. One shareholder, or a small number of them, that have insufficient number of shares have practically no influence when it comes to regulation of the relations inside the company. In order to prevent fraud and abuse of some shareholders, especially when the company has a large number of shareholders, Croatian Companies Act contains provisions that are mostly of coercive nature, leaving the company with very little autonomy, especially when it comes to organization, competence and organ activities. If the company was left with the greater autonomy then the majority shareholders could arrange the relations inside the company in a way that protects only their interests, which could damage other shareholders, or even leave them without any influence in the company (Barbić, 2010). The main reason for the emphasis on disclosure standards and transparency is that disclosure and transparency are the twin cornerstones to protecting shareholders rights.

Good governance in the public joint stock company is not only important to its shareholders, but also to a large number of stakeholders such as its employees, creditors, suppliers as well to the whole society in which the company operates. There is also the interest of potential buyers of the securities to obtain the necessary information about the issuer in order to decide whether to invest in that company. When it comes to issuers whose securities are admitted to trading on the regulated market, that interest is even wider, because the prices of one issuer's securities can indirectly affect the prices of other issuers securities.

All these different interest groups have the right to access information regarding the company. Therefore, Croatian Companies Act has implemented the rule on the availability of information on the status and operations of the company, which is particularly expressed in the European company law (Barbić, 2008).

2. SUPRANATIONAL REGULATION OF THE DISCLOSURE AND TRANSPARENCY PRINCIPLES OF CORPORATE GOVERNANCE

2.1. OECD Principles of Corporate Governance

The legal framework is a postulate of good and functional system of corporate governance. In order to evaluate and improve the legal, institutional and regulatory framework of corporate governance, on 27-28 April 1998, Organization for Economic

Cooperation and Development (OECD) adopted „Principles of Corporate Governance“. The Principles were revised in 2003 in accordance with the latest development and experiences of OECD countries, including consultation of interested parties, such as the business sector, investors, professional groups, trade unions and civil society organizations. The new Principles were agreed by OECD governments in April 2004. They represent a set of rules focusing on publicly traded companies, both financial and non-financial, in order to accomplish "best practice" in corporate governance. They also provide practical suggestions for stock exchanges, investors, corporations and other parties that have a role in the process of developing good corporate governance. Furthermore, the Principles represent common elements of OECD and non-OECD countries that underlie good corporate governance. They are principles-based and non-prescriptive so that they retain their relevance in varying legal, economic and social contexts. Their purpose is to serve as a reference point in order to develop legal and regulatory frameworks for corporate governance. Governments and market participant decide freely how to implement these Principles in developing their own frameworks for corporate governance. The OECD Principles cover six key areas of corporate governance - ensuring the basis for an effective corporate governance framework; the rights of shareholders and key ownership functions; the equitable treatment of shareholders; the role of stakeholders; disclosure and transparency; the responsibilities of the board.

Disclosure and transparency represents powerful tool for providing a better insight into the work of public joint stock companies and their governing bodies. Shareholders and potential investors require access to regular, reliable and comparable information in sufficient detail for them to assess the stewardship of management and make informed decisions about the valuation, ownership and voting shares. Disclosure also helps improve public understanding of the structure and activities of enterprises, corporate policies and performance with respect to environmental and ethical standards and company's relationships with the communities in which they operate (OECD Principles, 2004). The OECD Principles are defining this area of corporate governance as follows:

V. Disclosure and Transparency

The corporate governance framework should ensure that timely and accurate disclosure is made on all material matter regarding the corporation, including the financial situation, performance, ownership, and governance of the company.

Explanatory annotations for this specific area indicate the range of policy measures which have proved useful in achieving it:

A. Disclosure should include, but not be limited to, material information on:

1. The financial and operating results of the company.
2. Company objectives.
3. Major share ownership and voting rights.
4. Remuneration policy for members of the board and key executives, and information about board members, including their qualifications, the selection

process, other company directorships and whether they are regarded as independent by the board.

5. Related party transactions.
6. Foreseeable risk factors.
7. Issues regarding employees and other stakeholders.
8. Governance structures and policies, in particular, the content of any corporate governance code or policy and the process by which it is implemented.

B. Information should be prepared and disclosed in accordance with high quality standards of accounting and financial and non-financial disclosure.

C. An annual audit should be conducted by an independent, competent and qualified, auditor in order to provide an external and objective assurance to the board and shareholders that the financial statements fairly represent the financial position and performance of the company in all material respects.

D. External auditors should be accountable to the shareholders and owe a duty to the company to exercise due professional care in the conduct of the audit.

E. Channels for disseminating information should provide for equal, timely and cost-efficient access to relevant information by users.

F. The corporate governance framework should be complemented by an effective approach that addresses and promotes the provision of analysis or advice by analysts, brokers, rating agencies and others, that is relevant to decisions by investors, free from material conflicts of interest that might compromise the integrity of their analysis or advice (OECD Principles, 2004).

The Principles has been criticized in next key respects: (1) they focus on compliance with national legislation, disregarding the fact that in many countries international standards (e.g. on minimum wages or environmental protection) are not implemented, (2) disclosure of information is restricted to information ‘that may materially affect the performance of the company; stakeholders will be interested in information on a company’s activities that affect them, but which does not affect the company’s financial performance, (3) they do not explicitly encourage companies to disclose information on how well they have performed in relation to their own policies and standards, (4) they do not explicitly apply to the operations of OECD companies outside OECD countries (Rob Lake, 1999).

2.2. The EU approach

On 21 May 2003, the European Commission adopted Acton Plan titled “Modernizing Company Law and Enhancing Corporate Governance in the European Union – A Plan to Move Forward”, announcing measures to modernize company law and enhance corporate governance in the Community. As a short-term priority, the Community was to confirm the collective responsibility of board members, increase transparency with related parties and off-balance-sheet arrangements and improve disclosure about corporate governance practices applied in a company (Directive 2006/46/EC, 2006).

The Action Plan's initial objectives were: (1) Introduction of an Annual Corporate Governance Statement; (2) Development of a legislative framework aiming to helping shareholders to exercise various rights; (3) Adoption of a Recommendation aimed at promoting the role of (independent) non-executive or supervisory directors; (4) Adoption of a Recommendation on Directors' Remuneration; (5) Creation of a European Corporate Governance Forum to help encourage coordination and convergence of national codes and of the way they are enforced and monitored (International Finance Corporation, The EU Approach to Corporate Governance, 2008).

In order to fulfill these objectives, European Parliament and Council have adopted several directives within the time period of 2004 to 2006. Transparency has been significantly improved since 2002 for listed companies due to the adoption of the so-called „Transparency Directive“ of 2004 (Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004 on the harmonization of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC).

This Directive aims to upgrade transparency requirements for security issuers and investors acquiring or disposing of major holdings in issuers whose shares are admitted to trading on a regulated market. The disclosure of accurate, comprehensive and timely information about security issuers builds sustained investor confidence and allows an informed assessment of their business performance and assets. This enhances both investor protection and market efficiency (Directive 2004/109/EC, 2004).

Rules of financial reporting emphasize accurateness and aim for giving a full picture of the financial status of the company. Article 4 and article 5 of „Transparency Directive“ of 2004, states that:

Article 4

Annual financial reports

- 1. The issuer shall make public its annual financial report at the latest four months after the end of each financial year and shall ensure that it remains publicly available for at least five years.*
- 2. The annual financial report shall comprise:*
 - (a) the audited financial statements;*
 - (b) the management report; and*
 - (c) statements made by the persons responsible within the issuer, whose names and functions shall be clearly indicated, to the effect that, to the best of their knowledge, the financial statements prepared in accordance with the applicable set of accounting standards give a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer and the undertakings included in the consolidation taken as a whole and that the management report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a*

whole, together with a description of the principal risks and uncertainties that they face.

Article 5

Half-yearly financial reports

- 1. The issuer of shares or debt securities shall make public a half-yearly financial report covering the first six months of the financial year as soon as possible after the end of the relevant period, but at the latest two months thereafter. The issuer shall ensure that the half-yearly financial report remains available to the public for at least five years.*
- 2. The half-yearly financial report shall comprise:*
 - (a) the condensed set of financial statements;*
 - (b) an interim management report; and*
 - (c) statements made by the persons responsible within the issuer, whose names and functions shall be clearly indicated, to the effect that, to the best of their knowledge, the condensed set of financial statements which has been prepared in accordance with the applicable set of accounting standards gives a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer, or the undertakings included in the consolidation as a whole as required under paragraph 3, and that the interim management report includes a fair review of the information required under paragraph 4.*

Of special interest is the corporate governance statement required by so-called „Directive on Company Law, Accounting and Auditing Rules“ of 2006 (Directive 2006/46/EC of the European Parliament and of the Council of 14 June 2006 amending Council Directives 78/660/EEC on the annual accounts of certain types of companies, 83/349/EEC on consolidated accounts, 86/635/EEC on the annual accounts and consolidated accounts of banks and other financial institutions and 91/674/EEC on the annual accounts and consolidated accounts of insurance undertakings).

Article 46a of Directive 78/660/EEC on the annual accounts of certain types of companies, as amended, states that:

- 1. A company whose securities are admitted to trading on a regulated market within the meaning of Article 4(1), point (14) of Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments [11] shall include a corporate governance statement in its annual report. That statement shall be included as a specific section of the annual report and shall contain at least the following information:*
 - (a) a reference to:*
 - (i) the corporate governance code to which the company is subject, and/or*
 - (ii) the corporate governance code which the company may have voluntarily decided to apply, and/or*
 - (iii) all relevant information about the corporate governance practices applied beyond the requirements under national law.*

Where points (i) and (ii) apply, the company shall also indicate where the relevant texts are publicly available; where point (iii) applies, the company shall make its corporate governance practices publicly available;

- (b) to the extent to which a company, in accordance with national law, departs from a corporate governance code referred to under points (a)(i) or (ii), an explanation by the company as to which parts of the corporate governance code it departs from and the reasons for doing so. Where the company has decided not to apply any provisions of a corporate governance code referred to under points (a)(i) or (ii), it shall explain its reasons for doing so;*
- (c) a description of the main features of the company's internal control and risk management systems in relation to the financial reporting process;*
- (d) the information required by Article 10(1), points (c), (d), (f), (h) and (i) of Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004 on takeover bids [12], where the company is subject to that Directive;*
- (e) unless the information is already fully provided for in national laws or regulations, the operation of the shareholder meeting and its key powers, and a description of shareholders' rights and how they can be exercised;*
- (f) the composition and operation of the administrative, management and supervisory bodies and their committees.*

Transparency of companies' corporate governance is probably best served if companies are required briefly to describe the key elements of their corporate governance structure and practices, whether they arise from mandatory law, default provisions, articles of association or whether they are based on particular codes (Action Plan on Modernizing Company Law, 2003). It is useful to require companies to make reference to a code of corporate governance that has been followed, including an indication where and why the code has not been complied with ("comply or explain"- principle).

The objective of a corporate governance statement is to provide shareholders with easily accessible key information about the corporate governance practices actually applied, including a description of the main features of any existing risk management systems and internal controls in relation to the financial reporting process as well as information concerning the group's risk management system and internal control system. Likewise, the objective of corporate governance statements is to provide key information in an investor-friendly manner.

3. LEGAL FRAMEWOORK OF CORPORATE GOVERNACE IN CROATIA

3.1. Historical survey on the development of Croatian company law

Law is not a static category. It is marked by constant changes that accompany historical evolution of every country. Some countries have a firm and efficient legal system that

is able to implement those changes without losing its continuity. Legal systems of the other countries that have gone through radical political changes lack that continuity since every new political system that comes to power tries to break up with former legal traditions and create a new legal system. That new legal system has to comply with further political changes and is therefore subjected to constant reforms that result in inconsistency and cause inefficiency and legal uncertainty. Croatian company law in general and legislative regulation of corporate governance in public joint stock companies in particular, have gone through a special path of evolution.

Particularity of Croatian company law emerges from the fact that it was not developed from the preexisting legal solutions of SFR Yugoslavia. It was newly developed using legal systems of developed European countries, specifically that of Germany, as a model. It was a kind of a legal revolution underwent in order to separate new independent Croatia from old Croatia, a former member of SFR Yugoslavia. It was also a necessity since old legal system was not equipped with effective solutions that meet the needs of a new emerging market economy.

First act that regulated company law in Croatia was Act on Enterprises (“Zakon o poduzećima”) that was adopted in 1988, as one of the last legal documents of former SFR Yugoslavia. Act on Enterprises was taken into the Croatian legislation in 1991 as a temporary solution so that company law wasn’t left without any legal regulation until new legal solutions were adopted. Act on Enterprises reintroduced some types of companies after almost four decades long void of practically no types of companies that were known in other European countries, due to specific legal solutions unique to SFR Yugoslavia. The Act formally introduced some types companies that were normed so insufficiently that only the formation of companies was legally regulated, leaving all other matters in the hands of its members which gave them almost full autonomy when it comes to internal organization and operation of the company.

As a transition country that endorsed a market economy Croatia was in a need of a suitable legal framework that regulated company law in order to safeguard entrepreneurship and achieve competitiveness in global economy. Croatia started the process of passing many regulations modeled after the developed European countries.

First phase in the creation of company law in Croatia began with the adoption of Companies Act (“Zakon o trgovačkim društvima”) in 1993, application of which has started on January 1, 1995. By then accompanying basic regulations such as: Court Registry Act with Rules on Registration in Court Register (“Zakon o sudskom registru s Pravilnikom o upisu u sudski registar”), Public Notary Act (“Zakon o javnom bilježništvu”), Auditing Act (“Zakon o reviziji”) etc., were passed in order to ease the implementation of the Companies Act (Barbić, 2007). Although in the time of the adoption of the Companies Act, Croatia was still not on the path towards European Union, a legal system that was going to be used as a role model in the creation of the Croatian company law needed to be one of the member states of the European Union in order to enhance much wanted foreign investments and facilitate the trade with the member states of the European Union. After careful consideration, it was decided that the legal system of Germany would be used as a model. Reasons for this decision were twofold.

Firstly, Germany is one of the leading member states of the European Union and German legal system belongs to those in which the company law is most thoroughly regulated. It provides modern solutions for the management of the companies, the protection of company members and creditors. Creating Company law regulations that are based on the German legal experience meant accepting widely adopted standards for the legal regulation of the relations that occur in the field of company law and enabled the use of the experiences contained in the rich German jurisprudence (Barbić, 2007).

Secondly, Croatia had already in the past had some contact with the German company law. Up until 1948 and the adoption of the Basic Act on Private Commercial Stores that virtually abolished company law, throughout the Croatian territory different legal solutions, all of which were modeled after a German company law, were in force.

Forming Companies Act after the German company law is a proof of Croatian desire to return to European legal and economic environment after almost a century long absence. Since the German company law was developed in the accordance with the *acquis communautaire*, it allowed later easier adjustments of the Croatian company law to new developments that have occurred in the company law of the member states of the European union, and facilitated the harmonization of Croatian national legislation with the regulatory environment of the European Union.

Second phase in the creation of the Croatian company law has started after Croatia commenced taking serious steps towards the membership in the European Union. This has led to the rapid adoption of a large number of acts in order to comply with the EU requests and to harmonize Croatian national legislation with the European *acquis communautaire*. It was decided that every new act that was to be adopted had to be in compliance with the EU guidelines. This meant that Companies Act no longer fully met the new requirements. First amendments to the Companies Act were adopted in 2003, application of which has started on January 1, 2004. Later amendments followed in 2007, 2008 and 2009 (Barbić, 2007).

3.3. Principles of transparency and disclosure in the national legislation – harmonization with the regulatory environment of the EU

The legal basis for harmonization of company law is contained in the provisions of primary legislation of the European Union (article 50 of Treaty on the Functioning of the European Union). These provisions gave power to the European institutions so they can harmonize the regulations of the Member States.

Harmonization of European company law is also carried by the instruments of secondary legislation, in particularly regulations and directives. Fully harmonized European national rights, is not the purpose of the directive. The purpose is that national rights converge to each other as necessary to achieve the objectives of European integration. National legislation must be adapted to the extent that is necessary to achieve the purposes of the directive. This does not mean that each Member state has the same norms.

The changes of the Croatian national legislation concerning implementation of the principles of transparency and disclosure that are contained in the aforementioned EU directives, will be briefly indicated in the following text.

Directive 2006/46/EC of the European Parliament and of the Council of 14 June 2006 amending Council Directives 78/660/EEC on the annual accounts of certain types of companies, 83/349/EEC on consolidated accounts, 86/635/EEC on the annual accounts and consolidated accounts of banks and other financial institutions and 91/674/EEC on the annual accounts and consolidated accounts of insurance undertakings (so-called „Directive on Company Law, Accounting and Auditing Rules“ of 2006) was implemented in Croatian national legislation firstly with the amendments to the Companies Act and secondly with the adoption of Accounting Act (“Zakon o računovodstvu”) in 2007.

In the amended Directive 78/660/EEC the Section 10A named “Duty and liability for drawing up and publishing the annual accounts and the annual report“ was inserted. Its Article 50b stipulates as follows:

Member states shall ensure that the members of the administrative, management and supervisory bodies of the company have collectively the duty to ensure that the annual accounts, the annual report and, when provided separately, the corporate governance statement to be provided pursuant to article 46a are drawn up and published in accordance with the requirements of this directive and, where applicable, in accordance with the international accounting standards adopted in accordance with Regulation (EC) No 1606/2002. Such bodies shall act within the competences assigned to them by national law.

Companies Act regulates in accordance with the quoted directive the obligation of the management bodies to annually submit to the general assembly an annual report as well as the consolidated annual report. This obligation is stipulated in the article 250.a and 250.b of the Companies Act. Prior to the amendments of the Companies Act in 2007, this obligation was insufficiently regulated, so it became a bare formality for the management bodies and provided little disclosure to the position of the company. After the amendments of the Companies Act and the adoption of the Accounting Act, both in 2007, the obligation to provide and to publish annual reports as well as the annual accounts was given and adequate legal framework, which increased transparency and disclosure in the public joint stock company.

The companies Act in detail prescribes the obligation of the management to submit once each year a report on the position of the company. The content of this report is regulated by the article 250.a of the Companies Act, and it includes at least a fair review of the development of the company’s business and of its position, providing the description of the main risks and uncertainties to which the Company is exposed to. It needs to be a balanced presentation and a complete analysis of the development and the results of the operations and the position of the company in accordance with the extent and the complexity of its operations. This report must be made publicly available. It is publicized each year on the Financial’s Agency (“Financijska agencija – FINA”) web page, starting from April 1, 2009 (for the 2008 annual report). Prescribing the content

of the report by the provisions of the Companies Act and making it publicly available enabled both shareholders and stakeholders to gain sufficient information about the real position of the company.

Despite all the efforts of the legislator to determine the operations of the public joint stock company's governing bodies with mandatory norms of the Companies Act, it was realized that since many different factors and interests operate within and outside the company, some form of autonomic regulation was needed. In the last decade of the twentieth century it became evident that the legislation alone cannot predict and protect all interests related to a joint stock company and that a new mechanism of regulatory support is needed. For this purpose many European countries, including Croatia, began with the adoption of the Corporate Governance Codes. This Code sets out standards of best corporate governance practice, with recommendation of suitable measures in order to prevent the danger of abusing the power in the company, to recommend governing bodies a structure of work, using auxiliary body made of experts most of whom are independent and to provide shareholders with easily accessible key information about the corporate governance practice actually applied (Barbić, 2010). Codes are being adopted on national basis.

Amendments of Companies Act from 2003, stated in its article 272.a named "Application of the corporate governance code - Statement on the application of the Code", that the management and the supervisory board of the company whose securities are admitted to trading on a regulated market need each to year make a statement, that they had acted in accordance with the recommendations published in the Corporate Governance Code, that they will continue to act accordingly, indicate on which of the recommendations they didn't act on, or don't want to act on. This statement needed to be permanently available to shareholders.

With the amendments of the Companies Act of October 10 2007, which were adopted in order to harmonize Croatian national legislation with EU regulations, the prior quoted article 46a of an amended Directive 78/660/EEC was implemented in the article 272.p of the Companies Act named "Application of the corporate governance code - Statement on the application of the corporate governance code". Previously mentioned article 250a of the Companies Act stipulates this Statement must be an integral part of the annual report of the company whose securities are admitted to trading on a regulated market.

The first Corporate Governance Code in the Republic of Croatia was adopted in 2007 by the Croatian Financial Services Supervisory Agency ("Hrvatska agencija za nadzor financijskih usluga") and Zagreb Stock Exchange ("Zagrebačka burza") and it was revised in 2010. Its goal is to establish high standards of corporate governance and transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market. Its basic principles are transparency (publicity) of information, clearly detailed procedures, avoiding conflicts of interest, effective internal control and equal treatment of all shareholders (Barbić, 2010). The Code is made in accordance with OECD guidelines, using experiences of the codes in other countries. Characteristic of all codes, including Croatian, is comply-or-explain-principle. Because the Code is not a strictly binding legislative act, it is left to the

company to decide whether to apply the Code and to what extent. If the company doesn't accept the recommendations given by the code, the explanation needs to be given.

The Code of Croatian Financial Services Supervisory Agency and Zagreb Stock Exchange is divided in five chapters: introductory provisions; corporate governance bodies; audit and internal control mechanisms; business transparency and disclosures; and application of the code. The constituent part of the Code is annual questionnaire consisting of 68 questions. Some joint stock companies adopted their own codes modeled after this one, such as "Podravka" d.d. Koprivnica, "Kraš" d.d. Zagreb, "Atlantic Grupa" d.d. Zagreb, "Adris grupa" d.d. Rovinj, "Vaba banka" d.d. Varaždin, "Đuro Đaković Holding" d.d. Slavonski Brod.

Further, article 4 and article 5 of so-called „Transparency Directive“ of 2004 (Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004 on the harmonization of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC), were implemented in the Capital Market Act ("Zakon o tržištu kapitala") of July 18, 2008. Thus above quoted article 4 of the Directive was implemented in the articles 403, 404, 405 and 406 of the Capital Market Act, and above quoted article 5 of the Directive was likewise implemented in the articles 407, 408 i 409 of the Capital Market Act. The Capital Market Act stipulates the obligation of the issuers whose securities are admitted to trading on a regulated market to regularly produce Annual, Half-yearly, Quarterly financial reports and management statements, that are to be made public in a manner prescribed by the Capital Market Act.

4. CONCLUSION

Many changes which have been made in the Croatian legislation in the last decade, are the result of harmonization with the *acquis communautaire* and the need for modernization. As it was previously described, when it comes to the field of company law, many new acts were adopted in order to reach this goal, so that Croatian company law legislation now gives adequate instruments for Croatian companies to participate equally in the European market.

Harmonization of Croatian national legislation with the regulatory environment of the EU has brought Croatian legislation to a level that meets the requirements of the contemporary economy of Croatia as the future member of the European Union and will in future serve the purpose of increased transparency and disclosure in corporate governance and support Croatia's entrance into the club of developed economies of Europe.

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THE LEGAL BASIS OF TRADE AND COOPERATION BETWEEN EEC AND YUGOSLAVIA – ‘PRE-HISTORY’ OF BOSNIA AND HERZEGOVINA ACCESSION TO THE EUROPEAN UNION

ABSTRACT

The paper analyses trade and institutional relations and cooperation that were established between the EEC and Yugoslavia since the early 1970s until the breakup of Yugoslavia. During the 1970s Yugoslavia and the EEC had concluded several trade agreements aimed to promote economic cooperation and liberalization of trade. Despite these agreements, the 1970s world-wide recession had a negative impact on trade relations, especially on the Yugoslav trade and balance of payments deficit. The Yugoslav policy from mid 1970s was therefore focused on the restoration of equilibrium in the EEC-Yugoslav trade relations. After difficult negotiations Yugoslavia and the EEC concluded in 1980 the Cooperation Agreement which marks a turning-point in Yugoslav-EEC relations as it strengthened, deepening and diversifying their cooperation. The Cooperation Agreement was concluded for an unlimited period; however it was suspended in 1991 after the breakup of Yugoslavia and escalation of the war.

Key words: *Yugoslavia, European Economic Community (EEC), trade and institutional relations, trade agreements, the Cooperation Agreement*

JEL classification: *F1, F15*

1. INTRODUCTION

There are very few studies about Yugoslavia's relations with the European Community (EC). This is surprising since Yugoslavia due to its geostrategic position in the Cold War conflict and policy of Non-Alignment was perhaps one of the most diligently and exhaustively studied countries of Central and Eastern Europe (Cold and Post-Cold War scholars have studied the political and social system, economy, international position, the dissolution of the country etc.). However, Yugoslavia's relations with the EC

occupied the attention of (Yugoslav) political scientists and economists only for a short period in the late 1980s, due to the increasing internal pressures for reformulation of Yugoslav policy toward West European integration. When the collapse of communist regimes in Eastern Europe in 1989 had finally opened the Yugoslav pro-European perspective, the internal factors of Yugoslav cohesion had gone because of the growing conflict over economic, national and ideological differences. With the disintegration of Yugoslavia in 1991 this issue had lost its importance and the main attention had been focused on the international, political, economic, legal and other aspects of Yugoslav dissolution.

This paper analyse the relations of Yugoslavia and the European Economic Community (EEC) based on trade agreements and the Cooperation Agreement which was signed on 2 April 1980.¹ The Agreement was not only a continuation of close cooperation between two partners which has developed since the early 1970s, but it marks a turning-point in EEC-Yugoslav relations as it strengthened, deepening and diversifying their cooperation links. The aim of our study is to determine the circumstances that had led to the conclusion of the Agreement and the legal foundation and framework on which the EEC had developed its relations with Yugoslavia. Furthermore, the effects of these agreements as well as subsequent protocols to the Cooperation Agreement which were a consequence of the Mediterranean enlargement of the European Community in 1980-ies are examined as well.

Although our paper relates to the history of Yugoslavia's relations with the EEC, it is relevant to a clearer understanding of contemporary political processes in the region and Bosnia and Herzegovina accession to European Union (EU), as it not only gives insight into a pre-history of the former Yugoslav republics relations with the EU, yet it also shows that already in the 1970s and in 1980s these countries as a part of the Yugoslav federation had developed close institutional relations with the EEC as a consequence of their strong economic and trade connections with the EEC member countries.

2. ECONOMIC AND TRADE RELATIONS

The EEC member states were traditional trading partner of Yugoslavia (Italy and Germany were the chief trading partners of Yugoslavia). The geographical position of Yugoslavia, complementarity of the economies and the long-standing commercial relationships has played an important role in the development of trading relations. In addition, the economic potential and the place and importance of the EEC in international trading system had influence on Yugoslav foreign trade orientation on the Community market from 1960s onwards. The economic importance of the EEC for Yugoslavia became even more prominent with further enlargements of the European Community, starting in 1973 with the entry of the United Kingdom, Ireland and Denmark and then in 1980's with the Mediterranean enlargement of the Community.

¹Cooperation Agreement between the European Economic Community and the Socialist Federal Republic of Yugoslavia, OJ L 41, 14.2.1983, p. 2

A key role in defining Yugoslav policy toward the EEC had the economic reform of 1965. The need for the 1965 reform was brought by the inefficient economy and a substantial and increasing trade deficit.² The reform aimed to strengthen the Self-management system and to create a more productive, market oriented economy (this economic policy was advocated by the liberal fraction of the Communist Party and a number of economists)³. This transition to 'market socialism' was interdependent with Yugoslavia's integration in the world economy, what actually meant the liberalization of foreign trade.⁴ The new economic policy was completely different from the previous Yugoslavia's economic strategy, which was based on the autonomous and autarkic economic development, in other words on a model in which foreign trade was of secondary importance.⁵

Hence, in 1960s the question of relations with regional economic blocs has become of major importance for Belgrade, especially as they had an increasing role and importance in international trade relations. All the evidence goes to support the idea that already in the early 1960s the Yugoslav policy-makers recognized the importance of regional economic blocs, especially the EEC, for the Yugoslav economy. Until then, the Western European integration process did not provoke reaction of the Yugoslavian authorities. It seems that the economic effects of this process were not recognized in the 1950s, although there were some voices that warned about the 'dangers' of the Common Market.⁶ Additional incentive to a new Belgrade policy toward the EEC was unfulfilled expectation that Yugoslavia exports to developing countries would balance the trade deficit.⁷

There were several reasons why the issue of regulation of trade relations with the EEC for Yugoslavia was of particular importance. In the 1960-1970 decade the Yugoslav volume of trade mostly increased with EEC member countries.⁸ Nonetheless, the Yugoslav endemic trade deficit which was the major problem in Yugoslav-EEC trade relations remained.⁹ On the contrary, trade with COMECON countries and the developing countries, that is, with the other two major groups of states was more or less balanced. The problem was essentially structural; Yugoslavia, as a medium developed country, imported from developed EEC countries industrial goods, mostly expensive capital equipment. On the other hand Yugoslav major export products to the EEC were

²Margold Stella, „Yugoslavia's New Economic Reforms“, *American Journal of Economics and Sociology*, Vol. 26, No. 1 (1967), pp. 65-77.

³Vojnić Dragomir, „Reforma i tranzicija. Kritički osvrt na događaje u prijelomnim vremenskim razdobljima“, *Ekonomski pregled*, 57 (5-6) (2006.), p. 395.

⁴Fabinc Ivo, „Ekonomski odnosi Jugoslavije sa inostranstvom u uslovima sprovođenja privredne reforme“, *Međunarodni problemi*, XIX/2 (1967.), pp. 9-28.

⁵Fabinc, p. 10.

⁶Vidušin Zvonimir, *Nastanak Europskih zajednica i stav Jugoslavije prema njima od 1951. do 1957. godine* (magistarski rad), Zadar, 2007., pp. 136-137.

⁷Fabinc, pp. 12-13.

⁸Alendar, Branislava. "Possibilities of non-member states economic cooperation with regional economic integrations – the case of Yugoslavia", *Međunarodni problemi*, br. 4 (1988), p. 550. Export-import with EEC and other countries in: *Jugoslavija 1918-1988, statistički godišnjak*, Beograd, 1989. pp. 300-305.

⁹*Samoupravni društveno-ekonomski razvoj Jugoslavije 1947-1977*, Statistički prikaz Saveznog zavoda za statistiku, Beograd, 1978, p. 204.

agricultural goods (meat, maize, wine etc.) and raw materials.¹⁰ It should be noted that the import and export structure with the countries of the EEC was a reflection of the needs and possibilities of the Yugoslav economy.

Solution to the problem of continuous high trade deficit with the EEC a Yugoslav government has seen primarily on one hand in an increase in exports and the change of its structure and on the other hand in increase of the receipts from invisible transactions (remittances from the Yugoslav large migrant labour force in the EEC countries and tourist trade incomes).¹¹ Therefore, it is not surprising that the process of the creation of the Common Agricultural Policy (CAP) since 1962 and the Customs Union since 1959 (both of these processes were largely completed by 1968) has caused concern in the Yugoslav economic and political circles about the future of Yugoslav exports to the EEC. During the 1960s numerous Yugoslav economists pointed at the problem of such an unsatisfactory agricultural protectionist policy of the EEC. However, according to some authors, *'in the first decade of the existence of the EEC there was still a deficit in a line of agricultural and alimentary products until the enlargement of the EEC, so that Yugoslavia was not faced with a strong protectionist policy'*.¹² Besides, since Yugoslavia insisted on development of industry, the impact of agriculture in the foreign trade exchange has decreased.

The Yugoslav authorities were also concerned that other Yugoslav export products face the prospect of further discrimination when the EEC set a Common External Tariff in 1968. Yugoslavia's interest to seek trade agreement with the EEC was furthermore reinforced by the stagnation, rising unemployment and other economic difficulties which followed in the period immediately after the introduction of reform. These problems were aggravated by further increase in the trade deficit with the EEC which was a direct consequence of Yugoslavia's new policy of trade liberalization while the EEC at the same time raised its external tariffs.¹³

The above mentioned circumstances have prompted the Yugoslav government to initiate negotiations with the EEC with the view to settling the main problems of its trade with the Community. The Yugoslav government made the first official contact with the EEC in 1962. In 1965 exploratory technical talks were conducted between the two sides. Only after the Soviet invasion of Czechoslovakia in 1968 proper negotiations about trade agreement began which was signed in Brussels on March 19, 1970.¹⁴ The same year diplomatic relations were established and the Permanent Mission of Yugoslavia to the EEC in Brussels was opened.¹⁵ The provisions of the

¹⁰Aleksić Milan, «Tendencije u razvoju spoljne trgovine Jugoslavije», *Međunarodni problemi*, XVII/2 (1965), pp. 43-19.; Statistički godišnjak Jugoslavije 1972., Savezni zavod za statistiku, Beograd, 1972,

¹¹Tome Granfila: «Jugoslavija i EEZ», *Međunarodna politika*, XXI/480 (1970), p. 2.

¹²Kovačević E., „Spoljno trgovinska saradnja Jugoslavije sa EEZ“, *Međunarodna politika*, 2-3, 1987, Zagreb, (176-188), p. 179.

¹³Rajković, B. „Spolnotrgovinski odnosi Jugoslavije i EEZ“, *Međunarodna politika*, god. XIX, br. 430 (1968), pp. 24-26; Mihailović, S. „Jugoslavija i EEZ. U susret pregovorima“, *Međunarodna politika*, god. XIX, br. 442 (1968), pp. 21-22.; Artisien Patrick F.R., Holt Stephen. “Yugoslavia and the EEC in the 1970s”, *Journal of Common Market Studies*, Vol. XVIII, No. 4 (1980), p. 356.

¹⁴Yugoslavia and the European Community; Information: external relations, Commission of the European Communities, 36/73, p. 5.

¹⁵Vukadinović Radovan, «Evropski izazovi i jugoslavenske opcije», *Politička misao*, XXVII/1 (1990), p. 89.

Agreement superseded those contained in the bilateral agreements between Yugoslavia and the EEC member states, if these were identical or incompatible with the Community agreement.¹⁶

3. THE INSTITUTIONAL FRAMEWORK OF COOPERATION UNTIL 1980

Until 1980 Yugoslavia and the EEC have signed several trade agreements: the non-preferential Trade agreement in 1970 (covered a period of three years) which was succeeded by a five year Trade Agreement in 1973 (it was in force up to 1978),¹⁷ Agreement on trade in cotton textiles in 1973 (covered a period of one year),¹⁸ Agreement on trade in textile in 1976 (covered a period until 1978) and in 1977 (covered a period from 1978 until 1981).¹⁹ These agreements agreed the trade and customs regimes on the principle of liberalization of imports from Yugoslavia (based on the EEC current global list of liberalization), while special import regime was introduced for the textile products by the EEC.²⁰

The trade agreements between the EEC and Yugoslavia were negotiated within the EEC Global Mediterranean policy (PMG), agreed at the 1972 Paris summit. There were two basic types of agreements, cooperation agreements under Article 238 and trade agreements under Article 113 of the Treaty establishing European Economic Community.²¹ Beside trade preferences the cooperation agreements were defining other aspects of bilateral relationship such as aid through financial protocols. The cooperation agreements also envisaged the institutional framework for their implementation, the Cooperation Council and the Special Committee for Cooperation. This was however not a peculiarity of cooperation agreements as trade agreements in some cases also envisaged an institutional framework for their implementation by establishing the mixed committees. Thus, for instance the EEC-Yugoslav trade agreements also envisaged the Joint Committee which has held regular annual meetings, sometimes at ministerial level (the first meeting at the ministerial level was held in 1975).²² The Joint Committee discussed various issues related to the implementation of the trade agreements and the further development of trade relations

¹⁶Brkić Luka, *Jugoslavija i Europska zajednica* (doktorska disertacija), Zagreb, 1991., pp. 276, 280. See also: Commission of the European Communities; Information External Relations 36/73: Yugoslavia and the European Community, Brussels, p. 6.

¹⁷Trade Agreement between the European Economic Community and the Socialist Federal Republic of Yugoslavia, OJ L 224, 13.8.1973, p. 2.

¹⁸Agreement between the European Economic Community and the Socialist Federal Republic of Yugoslavia on trade in cotton textiles, OJ L 182, 5.7.1973, p. 2.

¹⁹Yugoslavia and the European Community; Information: external relations, Commission of the European Communities, 171/78, p. 10.

²⁰Brkić, pp. 276-280, 287-288.

²¹Mijatović Slobodan, „Forme regulisanja odnosa EEZ i trećih zemalja“, *Međunarodna politika*, XXVII/640 (1976.), pp. 28-29.

²²Yugoslavia and the European Community; Information: external relations, Commission of the European Communities, 20/79, pp. 3.

(Joint Committee could have also established specialized subcommittees on specific issues, such as long-term cooperation in the field of industry and agriculture).²³

Trade agreements under Article 113 could be concluded as preferential or non-preferential agreements. They were an instrument of the EEC Common Trade Policy which came into force on 1 January 1970, so the 1970 EEC-Yugoslav Trade agreement was actually the first agreement that the EEC has signed within the Common Trade Policy.²⁴ The non-preferential trade agreements were based on the most-favoured-nation treatment and they dealt with specific problems in trade relations between the EEC and specific country. It should be pointed that the EEC negotiated with the Mediterranean and EFTA countries preferential trade agreements, while the non-preferential agreements were signed with Iran in 1963, Lebanon in 1965 and Yugoslavia in 1970 and 1973.²⁵ In Yugoslav case such agreement was negotiated on Yugoslav government insistence as Belgrade considered that the discriminatory nature of preferential agreements would discredit its policy of Non-Alignment in Third World countries.²⁶

The significant effect on the EEC-Yugoslav trade had the application of the EEC decision on preferential tariff exemptions on imports from developing countries under the Generalized System of Preferences (GSP). The Community Generalized System of Preferences became effective from 1 July 1971. The GSP provided the exemption from customs duties on imports of industrial products from developing countries, except for so-called sensitive products (such as textiles, leather products etc.), while the customs regime for imports of agricultural products were much more restrictive. Yugoslavia as one of the most developed country among the beneficiaries of the GSP had derived most benefit from this scheme.²⁷

Hence, the Yugoslav relationship with the EEC was specific since on the one hand Yugoslavia was a beneficiary of the Generalized System of Preferences, and on the other hand its relations with the EEC were arranged by trade agreements. In spite of the concessions that were granted to Yugoslavia the problem of structural imbalances and high trade deficit further worsened in the 1970s. Several factors contributed to such development; first, as it was already mentioned, in the 1960's the EEC agricultural protectionism did not come fully into effect due to the presence of deficits in most Community markets for food products. However, by early 1970s the situation changed and agricultural protectionism increasingly affected the Yugoslav exports to the Community market. In 1974 as the result of the surpluses on the markets the EEC applied safeguard clause (embargo) to the beef and veal sectors (until 1977) which affected the Yugoslav export of baby beef, a product which had a dominant share in

²³Trade Agreement between the European Economic Community and the Socialist Federal Republic of Yugoslavia, OJ L 224, Articles 6-7; see also: Commission of the European Communities: Information Memo, P-14: Non Preferential Trade Agreement with Yugoslavia, Brussellse, March 1970, p. 2.

²⁴Commission of the European Communities: Information Memo, P-14: Non Preferential Trade Agreement with Yugoslavia, Brussellse, March 1970, p. 1.

²⁵Mijatović, p. 30.

²⁶Borisa Šnuderla: „Razvoj ekonomskih odnosa Jugoslavije i EEZ“, *Međunarodna politika*, XXIV/546 (1973.), pp. 5-6.

²⁷Yugoslavia and the European Community; Information: external relations, Commission of the European Communities, 20/79, p. 4; See also: Brkić, pp. 281-282.

Yugoslavia's agricultural exports to the Community market. In addition, the first EEC enlargement further curtailed Yugoslav agricultural exports as the Great Britain was a significant Yugoslav export market.²⁸

The 1970s world-wide recession had even greater negative impact on trade relations between the two partners. The turning point in EEC-Yugoslav relations was the 1973 oil crisis. Thereon the EEC-Yugoslav trade relations were continuously declining as the Community introduced protectionist measures to protect its markets.²⁹ At the same time revenues from invisible transactions decreased due to rising unemployment in Western European countries. The decline in these revenues further revived the question of balancing the trade and payments deficit with the Community as Yugoslavia could no longer moderate high imbalance in visible trade.³⁰ Although the above factors have made it more difficult to export products to the Common Market, it has to be emphasized that the Yugoslav main long-term problem was the inability to integrate free-market mechanism with the socialist foundations of the society.³¹ This problem together with other problems that had become evident during the 1970s, such as low productivity, declining competitiveness, increasing borrowing and excessive spending, caused a severe economic crisis in the 1980s.

The difficult economic situation and unfavourable trade relations impelled the Yugoslav side to re-start negotiations with the Community about a new cooperation framework which would aim at improving economic and financial relations and especially to resolve the causes of imbalance in trade relations. Thus the Yugoslav policy from mid 1970's was focused on the restoration of equilibrium in EEC-Yugoslav trade relations.³² According to some authors the Community was also interested to find a solution to the Yugoslav problems because of rising concern that due to the high trade deficit with the EEC Yugoslavia might divert its trade to COMECON countries.³³

In order to achieve their goals the EEC and Yugoslavia intensified diplomatic contacts from the mid 1970's.³⁴ The Joint Declaration of Belgrade from 2nd December 1976 was regarded as an important step in defining future EEC-Yugoslav relations which were negotiated from 1978 until 1980. In December 1980 the Permanent Delegation of the European Commission was opened in Belgrade. Diplomatic mission of the Community was responsible to conduct official relations between the Commission and Yugoslavia (Head of Delegation was the official representative of the Commission to the Yugoslav government).

²⁸Yugoslavia and the European Community; Information: external relations, Commission of the European Communities, 171/78, p. 6. See also: Vlajić Vojislav, «Zasedanje Mešovite komisije Jugoslavije i EEZ», *Međunarodna politika*, XXIII/529 (1972), p. 26.

²⁹Franeš Božidar, «Jugoslavija i regionalna saradnja razvijenih zemalja – odnosi sa Evropskom ekonomskom zajednicom (EEZ)», *Međunarodna politika*, XXVII/637 (1976.), p. 22.

³⁰Kovačević Gordana, «Spoljnotrgovinska saradnja Jugoslavije sa EEZ», *Međunarodni problemi*, 2-3 (1987.), str. 179-184.; See also: Artisien Patrick F.R., Holt Stephen, pp. 358-363.

³¹Batović Ante, «The Balkans in Turmoil – Croatian Spring and the Yugoslav Position between the Cold War Blocks», LSE Cold War Studies Programme 2009, p. 4.

³²Čačanović, Nikola (foreign policy adviser of the SIV president): «Široke mogućnosti svestrane saradnje. Posjeta Džemala Bijedića Francuskoj, Belgiji i Luksemburgu», *Međunarodni problemi*, god. XXVII, br. 623 (1976), p. 13.

³³Brkić, p. 285.

³⁴Franeš, pp. 23-24.

4. THE COOPERATION AGREEMENT

The Cooperation Agreement was signed on 2 April 1980 and entered into force on 1 April 1983 (the Interim Trade Agreement and Financial Protocol were signed on May 6, 1980). The conclusion of the agreement was accelerated by the Soviet intervention in Afghanistan (in December 1979 both sides agreed to accelerate the negotiations).³⁵ Beside the Cooperation Agreement with the EEC Yugoslavia for the first time concluded an agreement with the European Coal and Steel Community (ECSC) similar to the Cooperation Agreement. Yugoslav products under this agreement enjoyed free treatment on the Community Market, except 7 products for which there were established tariff maximums.

The Cooperation Agreement was *sui generis* agreement concluded for an unlimited period (article 60). The Agreement falls within the group of so-called mixed agreement, because it had to be signed and ratified from the EEC and the Member States.³⁶ The Community has concluded this Agreement under Article 238 Treaty of Rome. The Agreement went considerably further in a number of sectors of cooperation than the other Mediterranean agreements. In addition the Agreement gave to Yugoslavia more benefits without obligation of reciprocity than to any other Mediterranean country.³⁷

The agreement was based on the principles of the Belgrade Joint Declaration, which represents a charter about relationships between the EC and Yugoslavia. The Joint Declaration of Belgrade from 2nd December 1976 expressed the readiness of both sides to deepen and diversify their cooperation on the basis of equality and of Yugoslavia's special position as a non-aligned, Mediterranean country and the member of the Group of 77. Yugoslavia emphasizing its status as a non-aligned country requested from the EEC to define their relations in *sui generis* agreement.³⁸ Belgrade Declaration principles were stated in the preamble to the Agreement. The preamble highlights the intention of both sides *to strengthen, consolidate and diversify their relations and the interdependence and complementarity of their economies, with a view to more harmonious development of their economic links*. Furthermore the preamble expresses their desire *to contribute to the development of economic cooperation between countries having different levels of economic development, in the framework of the efforts of the international community to attain a more just and more balanced economic order*.

Thus, in the preamble of the Agreement the Community had taken into account the Yugoslav views about the objectives of future cooperation. This was once more

³⁵Tomašević Žarko, «Sporazum o ekonomskoj saradnji Jugoslavije i Evropske ekonomske zajednice», *Međunarodna politika*, XXXI/719 (1980), pp. 7-8.

³⁶Craig Paul, Gráinne de Búrca, *EU Law: Text, Cases and Materials*, Oxford: Oxford University Press, 2008, p. 334. See Opinion of Advocate General Jacobs regarding the nature of the Cooperation Agreement between Yugoslavia and the EEC: Case C-162/96, Opinion of Advocate General Jacobs delivered on 4 December 1997. *Racke GmbH & Co v. Hauptzollamt Mainz*.

<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:61996CC0162:EN:HTML>

³⁷Yugoslavia and the European Community; Information: external relations, Commission of the European Communities, 20/79, p. 6. See also: Samardžija, p. 160; Brkić, p. 291; Samardžija, p. 100.

³⁸Yugoslavia and the European Community; Information: external relations, Commission of the European Communities, 171/78, p. 2.

acknowledged in Article 1 which states that the object of the Agreement is to promote overall cooperation between the Contracting Parties with a view to contributing to the economic and social development of Yugoslavia. The Agreement has been divided into 5 sections: Title I dealt with economic, technical and financial cooperation, Title II with trade, Title III with provisions relating to the Free Zone established by the agreements signed at Osimo, and Title IV with cooperation in the field of labour. Title V consisted of general and final provisions. The integral part of the Agreement were Protocols 1, 2 and 3, Annexes A, B and C and the declarations and exchanges of letters between the two sides which appeared in the Final Act (Article 59).

4.1. Economic, technical and financial cooperation

Yugoslavia has already in the 1970s established cooperation with the EEC in the field of economic, technical and financial cooperation. Since 1971 Yugoslavia took part in the European 'Scientific and Technical Cooperation' (COST) in the sector of telecommunications, metallurgy, and environmental protection etc. Yugoslavia also signed a separate agreement on the establishment of meteorological centre on the territory of Great Britain. By 1980 four Yugoslav research proposals in the field of food technology have been granted a financial support. Following the signing of the Belgrade Declaration Yugoslavia and the EEC have also established a financial cooperation. Already in 1977 and 1978 the European Investment Bank (EIB) approved two loans to Yugoslavia for investment projects totalling 50 ECU millions.

Since the end of 1960-ies Yugoslavia and the EEC have established close economic cooperation, particularly with regard to industrial cooperation, joint ventures and technology transfer under joint venture agreements.³⁹ Namely in 1968 Yugoslav authorities, in order to encourage exports what was in line with the objectives of 1965 economic reform, allowed the conclusion of joint ventures agreements with foreign companies. These agreements envisaged joint venture of Yugoslav and foreign enterprises through the establishment of a new company. The Western partner invested equipment, licenses and know-how while Yugoslav company provided the enterprise with raw material and labour.⁴⁰ This kind of economic cooperation was fostered by the 'evolutive' clause introduced in 1973 Trade Agreement which states in Article 7 that the Contracting Parties may develop economic cooperation as an adjunct to trade in fields of mutual interest to both parties and in the light of developments in the economic policies of the Community.⁴¹

The Cooperation Agreement in many details regulated the new opportunities for cooperation in the economic, technical and financial sector. Article 2 defined as the main aim of cooperation the development of Yugoslavia and the strengthening of economic links between Yugoslavia and the Community on as broad a basis as possible. Article 3 additionally emphasized that the objective and priorities of Yugoslavia's development plans and programmes will be taken into account. Articles

³⁹Goldštajn Aleksander, «The Relationship of Yugoslavia and the EEC», *Common Market Law Review*, Vol. 18, No. 4 (1981), p. 138.

⁴⁰V. Krulja: «Pravni režimi investiranja stranog privatnog kapitala s posebnim osvrtom na jugoslavenski pravni sistem», *Međunarodni problemi*, XVIII/4 (1966), pp. 99-112.

⁴¹See more in Brkić, pp. 284-285.

5-12 regulated the field of industrial, energy, scientific and technical, agricultural, transport, tourism and financial cooperation, as well as cooperation in the field of fisheries policies.

The purpose of cooperation in the field of industrial cooperation was contribution to the development of Yugoslav production and economic infrastructure in order to diversify the structure of its economy (Article 5). The Agreement referred to following modalities of this cooperation: market surveys and trade promotions both on the domestic and the markets of third countries, transfer and development of technology and its development in Yugoslavia, the protection of patents and industrial property rights, the encouragement of long-term cooperation between the economic agents of the two Parties, the removal of non-tariff and non-quota barriers on both sides etc. Furthermore, as one way of improving their cooperation, organization of a special conferences in order to establish business contacts between businessmen was envisaged (so e.g. the business conference were organized to promote economic cooperation on 7-11 March 1983 and on 7-9 June 1984). The Agreement in paragraph 2 of Article 5 had foreseen opening of the Business Cooperation Centre that would provide support for Yugoslav companies. Article 5, paragraph 4 defined the framework of cooperation in the energy sector, one of the areas in which significant cooperation was achieved during the 1980s, particularly with regard to energy planning and energy saving.

Article 6 of the Agreement provided for two possible frameworks for cooperation in field of science and technology. In paragraph 1 of Article 6 further development and strengthening of cooperation under the programme of European cooperation in the field of scientific and technical research (COST) was envisaged. Additionally, the two sides in paragraph 2 of Article 6 expressed willingness to consider cooperation in certain scientific and technical areas where the Community has conducted research programs. During the 1980s, cooperation in this area was through joint research projects, scholarships and financing of Yugoslav projects by the Community quite successful.

Cooperation in agriculture was regulated in Article 7. The main objectives of this cooperation were to encourage scientific and technological cooperation and investment projects of mutual interest in complementary areas. Paragraphs 2 defined the exchange of information on agricultural policies, study of practical schemes for cooperation and the improvement and broadening of contacts between economic agents as the modalities of achieving these objectives. Article 11 opened the perspective of cooperation in the field of fishery through the exchange of information regarding the development of fishery policies and the implementation of projects of mutual interest with the aim to strengthen cooperation in this sector.

The geographical position of Yugoslavia played a significant role in defining the cooperation in the transport field. The Community has had a great interest in the development of Yugoslav transport infrastructure since Yugoslavia connected Greece, Turkey and finally the Middle East area with the EEC. Cooperative framework in the field of transport was defined in Article 8 which in paragraph 1 provided for joint examination of the areas in which Yugoslav internal transport services might be improved and developed. Moreover, the implementation of specific schemes which were in the mutual interest was envisaged. As well as this, the modernization and

development of infrastructure to the mutual benefit was another important aim of cooperation (paragraph 2). Finally, the Agreement provided for the exchange of information and views on the development of their respective transport policies and strengthening of cooperation between the Adriatic ports. Given the special interest that the Community had, in 1988 negotiations on separate transport agreement were opened. The Agreement was initialled on 25 March 1991.

As one of the specific aspects of cooperation the Agreement in Article 9 mentions tourism. In this area, the Community and Yugoslavia have committed themselves to exchange information and to participate in joint studies on possible ways of developing tourism. The promotion of contacts between professional organizations and relevant institutions with a view to increase tourist traffic was also envisaged. Both sides have committed in order to improve the quality and circumstances of life, the environment and living conditions and cooperation on ecological problems to exchange information on policy development and promotion of the joint implementation of specific priority schemes (Article 10).

Finally, Article 12 determined the framework of financial cooperation between the Community and Yugoslavia. Yugoslavia and the Community obliged to exchange information and to undertake joint analysis of medium-term economic policies, balance-of-payments trends and policies that determine these trends, as well as trends in European capital markets with the aim of improving economic activities. Main intention of the cooperation was to direct capital flows for financing investment projects of mutual interest. In addition, the Community committed to participate in the financing of capital projects of mutual interest in accordance with the objectives of the Agreement (paragraph 2, Article 12).

At the beginning of this chapter it was mentioned that the First Financial Protocol, totalling 200 ECU millions, was signed on 6th May 1980 (it entered into force on 1 June 1980). This loan was implemented by the European Investment Bank (EIB) for a period of five years (the amount of the loan was divided into annual tranches). The loan was used to finance three projects; further electrification of Yugoslavia, construction of section of Trans Yugoslav highway 'Bratstvo i jedinstvo' and modernization of the railway network. Additionally, the EIB in 1984 approved another loan to finance highway construction (60 ECU millions). In 1987 Second Financial Protocol which provided new loans totalling 550 ECU millions until 1991 was signed. The main priority of this protocol continued to be the construction of transport infrastructure.

The last, Third Financial Protocol was signed on 24 June 1991, on the eve of the dissolution of Yugoslavia as part of the EEC's efforts to prevent the dissolution of Yugoslavia. This protocol has also been concluded for five years, and it was the largest financial protocol that the EEC has signed with a non-Member State. The protocol totalled 807 ECU millions of which 730 ECU millions was provided as a loan by the EIB and the 77 ECU millions were awarded as a grant from the Community budget.⁴²

⁴²Obadić Ivan, «Nastupilo je vrijeme Europe – Europska zajednica, jugoslavenska kriza i priznanje neovisnosti i samostalnosti republika Hrvatske i Slovenije», u: *Nastanak suvremene države Hrvatske i dvadeseta obljetnica njezina utemeljenja* (gl. ur. Davorin Rudolf), Zagreb: HAZU, 2012, pp. 153-186.

4.2. Trade

The object of the Agreement in the field of trade under Article 14 was a promotion of trade between two sides taking into account different levels of development and the need to ensure a better balance in their trade, with a view to improving the conditions of access for Yugoslav products to the Community market. It should be also emphasized that Yugoslavia remained a beneficiary of the General System of Preferences, so that *de facto* it had a choice between two parallel regimes (for products for which the Cooperation Agreement had established a special import regime could only be applied the provisions of the Agreement).⁴³

Terms of trade cooperation were separately defined for industrial and agricultural products. While Yugoslavia granted to the Community treatment no less favourable than most-favoured-nation treatment (Article 27), the Community granted to Yugoslavia a much broader trade concessions; the export of industrial products was free of quantitative restrictions and measures having equivalent effect, and of custom duties and charges having equivalent effect (Articles 15).

However, certain products which Community considered to be sensitive were exempted from this provision. Also, the Cooperation Agreement did not regulated the export of Yugoslav textile products as this was covered by the Agreement concerning trade in textiles which was concluded in the framework of the Arrangement regarding international trade in textiles (Article 17). Additional Protocol on cooperation related to trade in textile products for the period from 1983 to 1986 was initialled on 26 September 1982.

The customs duties on imports of the Yugoslav agricultural products on the Community market were defined in Articles 21-24. Yet, the Community retained the right to modify the Agreement arrangements in case if this would be required because of the modification of its Common Agricultural Policy. Still, in such cases the Community had to take appropriate account of the interests of Yugoslavia (Article 25).

The Agreement envisaged as well the so-called industrialization clause that entitled Yugoslavia to introduce customs protection if it would be necessary for its industrialization and development (Article 29).⁴⁴ However prior to application of this clause Yugoslavia had to inform the Community of the measures in question and the Cooperation Council had the right to examine them periodically (paragraphs 2 and 3, Article 29).

The framework of trade cooperation between Yugoslavia and the EEC has envisaged three additional exceptions; (1) Yugoslav products could not have enjoyed more favourable treatment when imported into the Community than that applied by the Member States among themselves (Article 26); (2) the Agreement did not affect the application of the specific arrangements governing the movement of goods laid down in previously concluded frontier agreements between Member States and Yugoslavia

⁴³Brkić, p. 294.

⁴⁴Brkić, p. 293.

(Article 28); (3) Article 42 ensured exceptions to products which come within the scope of the Agreements signed at Osimo.

Finally, the Agreement provided for both Parties a right to introduce certain prohibitions, restrictions, and safeguard measures if there were justified reasons for such measures. Article 34 stated that they had the right to introduce prohibitions or restrictions on imports, exports or goods in transit justified on grounds of public morality, public policy or public security; the protection of health and life of humans etc. However, such measures could not constitute a means of arbitrary discrimination or a disguised restriction on trade (Article 34). Articles 35 regulated the right of parties to take appropriate measures in case if they found that dumping is taking place or against subsidies (e.g. the Community on 4 March 1983 for the first time introduced the anti-dumping measure on import of a Yugoslav product). Additionally the parties had the right to introduce the safeguard measures if serious disturbances would arise in economy (Article 36). Finally, they also had the right to introduce the safeguard measures if they had serious difficulties as regards its balance of payments (Article 40). The Agreement also provided for special consultations within the Cooperation Council in the event of sudden and very substantial worsening of the trade imbalance (Article 39).

4.3. Cooperation in the field of labour

The labour migration from Yugoslavia to the Community was a very important aspect of their relations. The EEC countries represented the most frequent destinations for Yugoslav workforce since the beginning of its mass migration from the 1960s onwards. In the mid-1970s there has been certain stagnation in the number of Yugoslav workers employed in the EEC due to the world economic crisis⁴⁵. During the 1980s, the number of Yugoslav workers working abroad has been relatively stable; of the just over one million workers in Europe, about 730,000 lived in the EEC.⁴⁶

The Agreement in Title IV (Articles 44-47) regulated those issues related to the social services that fall within the competence of the Community.⁴⁷ Article 44 prohibited to both Parties discrimination against workers based on nationality, as regards working conditions or remuneration in relation to its own nationals. The following article regulated the workers' rights in the field of social security, insurance, pensions, medical care, family allowances for members of their families who are resident in the Community and transfer of pensions or annuities in respect of old age, death, industrial accident etc. (Yugoslavia had the same commitment to the workers coming from the Member States). The Agreement in Article 47 envisaged one exemption in respect of these provisions; if some of those rights and obligation were more favourably regulated by bilateral agreements between the Member States and Yugoslavia, than the respective bilateral agreement would have applied. The competences of the Cooperation Council

⁴⁵ In 1971. it was 671 908 workers abroad. See Jugoslavija 1918-1988, statistički godišnjak, Savezni zavod za

statistiku, 1989., pp. 341.

⁴⁶ Vajs Edita, „Spoljne migracije jugoslavenskih radnika i odnosi sa EEZ“, *Međunarodni problemi*, 2-3 (1987), p. 323.

⁴⁷ Brkić, p. 304.

and its role in the implementation of the Agreement through the adoption of appropriate regulations were determined in Article 46.

4.4. The Cooperation Council

The Cooperation Council is mentioned a couple of times in the Agreement as a body that share information and coordinate policies between two sides, and make appropriate decisions, regulations, recommendations or opinions. The last Title of the Agreement regulated the way in which the Council had operated (Title V, General and final provisions, Articles 48-52). The Council was established for the purpose of attaining the objectives set out in the Agreement (paragraph 1, Article 48). In order to achieve this aim the Council could have formulated any resolutions, recommendations or opinions which it considered desirable for the attainment of the common objectives (paragraph 2, Article 48). The Council decisions were binding for the Parties.

The Cooperation Council was composed of representatives of the Community and its Member States, on the one hand, and of representatives of Yugoslavia, on the other hand (paragraph 1, Article 49). The Council acted according to the mutual agreement between the EEC and Yugoslavia (paragraph 2, Article 49). The President of the Council was alternately a representative of the Community and Yugoslavia, in accordance to the rules of procedure (paragraph 1, Article 50). The Council meetings had to be called once a year by its President. A meeting may have been also convened at the request of either Party (paragraph 2, Article 50).

The Cooperation Council was assisted by a Cooperation Committee. Besides, the Council could have also set up any other committee whose composition, duties and way of functioning was determined in the rules of procedure (Article 51). These specialized committees have discussed cooperation in a range of different areas such as science and technology, agricultural research, statistics, etc.

4.5. Settlement of disputes

The mechanism for settlement of disputes between the Contracting Parties regarding the implementation of the Agreement was established in Article 56. It is important to notice that the previous article (Article 55) emphasized the obligations of each Party to take any general or specific measures required for the implementation of the Agreement (paragraph 1). In case if either Party considered that the other Party had failed to fulfil an obligation under the Agreement, it was entitled to take appropriate measures (the priority should have been given to those measures which least would disturb the functioning of the Agreement). Before taking this measure, however, the concerned Party was obliged to present to the Council all relevant information required for a thorough examination of the situation.

The Agreement determined the Cooperation Council as a body for resolving disputes between the parties. In case if the Council failed to resolve the dispute at its next meeting, either Party may notify the other of the appointment of an arbitrator. The other Party then had a period of two months for the appointment of second arbitrator, while the Council would have to appoint the third arbitrator. Each Party had to take

measures required for the implementation of the arbitrator's decision which was brought by a majority vote.

4.6. The Cooperation Agreement and enlargement of the European Community

In 1980s the European Community entered into a new phase of its enlargement. The second enlargement relates to the Greece entry in the Community in 1981 and the third to the entry of Spain and Portugal in 1986. Mediterranean enlargements had a direct political and economic impact on the position of Yugoslavia.⁴⁸ Given that at the time of the conclusion of the Cooperation Agreement the Community had led negotiations with Greece, Spain and Portugal's about their membership in the EC, the Agreement in Article 54 provided for a mechanism of consultations within the Cooperation Council if the EEC concluded an association or cooperation agreement, or in the event of a third State entry to the Community. In the event of new association or cooperation agreement the consultations could be held only under the condition that the newly created situation had a direct and specific impact on the functioning of the Agreement.

Soon after Greece's entry into the EEC on 1 January 1981, in September of the same year, the EEC and Yugoslavia opened official negotiations on the adjustment of the Cooperation Agreement due to the altered circumstances. Additional protocol concerning the entry of Greece into the Community was initialled on 5 January, and signed on 1 April 1982. The same occurred after the entry of Spain and Portugal into the EEC.

5. TERMINATION OF THE COOPERATION AGREEMENT AND RELATIONS WITH THE FORMER YUGOSLAV REPUBLICS IN THE TRANSITIONAL PERIOD

The Cooperation Agreement according to Article 60 was concluded for an unlimited period. However the same article anticipated that either contracting party may denounce the Agreement. Six months after the date of such notification the Agreement would cease to apply. After the violent breakup of Yugoslavia in 1991 the EEC adopted Decision 91/602/EEC on 25 November 1991 denouncing the Cooperation Agreement.

The decision to terminate the Agreement was made only after the failure of the Community and its Member States to play an active role in putting an end to the conflict. Prior to this decision the Community had adopted Decision (91/586/ECSC, EEC) on 11 November 1991 suspending the application of the Agreements between Yugoslavia and the European Community.⁴⁹ The preamble of the Suspension Decision states that *'the pursuit of hostilities and their consequences on economic and trade*

⁴⁸Lopandić Duško, „Evropska ekonomska zajednica, Sredozemne zemlje i položaj Jugoslavije“, *Međunarodni problemi*, 3 (1984), pp. 238-259.

⁴⁹Council Decision of the Council and the representatives of the governments of the member states, meeting within the Council of 11 November 1991, suspending the application of the Agreements between the European Community, its Member States and the Socialist Federal Republic of Yugoslavia 91/586/ECSC, EEC, OJ L 315/47.

relations, both between the Republics of Yugoslavia and with the Community, constitute a radical change in the conditions under which the Cooperation Agreement between the European Economic Community and the Socialist Federal Republic of Yugoslavia and its Protocols, as well as the Agreement concerning the European Coal and Steel Community, were concluded'. The preamble further states that this 'call into question the application of such Agreements and Protocols'. The preamble to the Suspension Decision further refers to the appeal launched by the European Community and its Member States on 6 October 1991, calling for compliance with the cease-fire agreement reached in The Hague on 4 October 1991; and to the declaration of 6 October 1991 which announced the decision to terminate the Agreements between the Community and Yugoslavia if the agreements reached on 4 October 1991 between the parties to the conflict were not observed.⁵⁰ The Suspension Decision determined the immediate suspension of the Agreements (the decision was published in the Official Journal on 15 November 1991).

The Council also adopted on 11 November 1991 Regulation (EEC) No 3300/91 suspending the trade concessions provided for by the Cooperation Agreement;⁵¹ Regulation (EEC) No 3301/91 on the arrangements for imports of certain textile products originating in Yugoslavia;⁵² and Regulation (EEC) No 3302/91 on withdrawing Yugoslavia from the list of beneficiaries of the Community generalized tariff preferences scheme for 1991.⁵³ Furthermore, the representatives of the governments of the member states, meeting within the Council, adopted Decision 91/587/ECSC to denounce the Agreement between the Member States of the European Coal and Steel Community and Yugoslavia;⁵⁴ Decision 91/588/ECSC to suspend the trade concessions provided for by the Agreement between the Member States of the European Coal and Steel Community and Yugoslavia;⁵⁵ and Decision 91/589/ECSC to withdraw Yugoslavia from the list of beneficiaries of the Community generalized tariff preferences scheme for 1991.⁵⁶ Regulations and decisions came into force on the date of its publication in Official Journal.

Finally, the European Community adopted Decision 91/602/EEC on 25 November 1991 which denounced the Cooperation Agreement and all related protocols and

⁵⁰Case C-162/96, Opinion of Advocate General Jacobs, pp. 3-4.

⁵¹Council Regulation (EEC) No 3300/91 of 11 November 1991 suspending the trade concessions provided for by the Cooperation Agreement between the Member States of the European Economic Community and the Socialist Federal Republic of Yugoslavia, OJ L 315/1.

⁵²Council Regulation (EEC) No 3301/91 of 11 November 1991 on the arrangements for imports of certain textile products originating in Yugoslavia, OJ L 315/3.

⁵³Council Regulation (EEC) No 3302/91 of 11 November 1991 withdrawing Yugoslavia from the list of beneficiaries of the Community generalized tariff preferences scheme for 1991, OJ L 315/46.

⁵⁴Decision of the representatives of the governments of the member states, meeting within the Council of 11 November 1991 denouncing the Agreement between the Member States of the European Coal and Steel Community and the Socialist Federal Republic of Yugoslavia 91/587/ECSC, OJ L 315/48.

⁵⁵Decision of the representatives of the governments of the member states, meeting within the Council of 11 November 1991 suspending the trade concessions provided for by the Agreement between the Member States of the European Coal and Steel Community and the Socialist Federal Republic of Yugoslavia 91/588/ECSC, OJ L 315/49.

⁵⁶Decision of the representatives of the governments of the member states, meeting within the Council of 11 November 1991 withdrawing Yugoslavia from the list of beneficiaries of the Community generalized tariff preferences scheme for 1991 91/589/ECSC, OJ L 315/50.

instruments (Decision came into force on the day of its publication in Official Journal on 27 November 1991).⁵⁷ Following the termination of the Cooperation Agreement the European Community, afterward the European Union, regulated their relations with the former Yugoslav republics in the 1990s with a number of regulations that have re-established trade privileges which they enjoyed under the Cooperation Agreement (the Community has already on 2 December 1991 re-established trade preferences for the Republic of Slovenia, Croatia, Bosnia and Herzegovina and Macedonia).⁵⁸ However, against Serbia and Montenegro economic sanctions were imposed.⁵⁹

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⁵⁸Council Regulation (EEC) No 3567/91 of 2 December 1991 concerning the arrangements applicable to the import of products originating in the Republics of Bosnia and Herzegovina, Croatia, Macedonia and Slovenia, OJ L 342/1.

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SESSION IV

**COMPETITIVENESS AND
CHALLENGES OF THE
ENLARGED EU**

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IMPACT OF COMMERCIAL BANKS ON COMPANY DECISIONS – THE CASE OF SLAVONSKA BANKA

ABSTRACT

HAAB Klagenfurt took over and later merged Slavenska banka with its other daughter bank in the Republic of Croatia in 2009. The authors analyze the cooperation between the bank and companies and the relations deriving from the following issues: a) purchase of nonexistent claims, b) representation of the bank in its process against the State Agency for Deposit Insurance and Bank Rehabilitation (DAB) and c) the bank's role in the company's financial recovery by issuing unauthorized bill discounts. With the consent of the Hypo Alpe Adria Bank Inc. Zagreb, Slavenska banka sold CARESOS d.o.o the (non) existing claims in the case of Glumina banka in bankruptcy. Moreover, CARESOS d.o.o signed an agreement of representation with HAAB Klagenfurt in its plea against DAB Croatia, regarding the agreement on share purchase of Slavenska banka in July 1998, and even though it won the plea it failed to perform its contractual obligations in terms of agreed commission towards the company. Finally HAAB, together with CARESOS and others participated in the TAJ PAN recovery project in which it issued unauthorized discount bills causing damages to all companies involved and failure of the project realization.

Key words: *Hypo Alpe Adria Group, State Agency for Deposit Insurance and Bank Rehabilitation, Slavenska banka, bank bills, stocks, company*

JEL classification: *G21*

1. INTRODUCTION

The entry of foreign banks increases competition on the domestic banking market and decreases the profitability and efficiency of domestic banks. That process forces domestic banks to restructure in order to change the efficiency and quality of products and services they offer. Long-term loans dominate among other segments of market competition. For the population, mortgage loans are the most important segment of the banking market which is influenced by pressures of foreign banks.

The formation of new marketplaces leads to an increase in trade and results in a GDP growth and reduction of inflation. The growth of economic efficiency is connected to the increase of liquidity of the financial assets which attracts foreign capital.

The circumstances in which developing countries find themselves in – undeveloped legislation, leverage of financial intermediaries, limited activities of financial institutions and an unstable political situation, condition and limit the positive effect of a capital market. In these countries the stability of the banking sector is the base of the entire stability of the economy. Unfavourable circumstances result in a low turnover and a small capital market. The globalisation of financial markets leads to the formation of financial conglomerates and broker alliances. Small marketplaces and financial institutions have to adjust to the changes.

The globalisation of the financial market started with the fall of the Berlin Wall. An increased linkage of the marketplaces leads to a sensitivity to information and the validation of their source. Changes in the financial environment are also followed by negative trends such as money laundering, illegal financial activities, insider information and tax evasion. In order to avoid the negative sides, it is necessary to introduce an effective monitoring and control system, based on highly developed information technologies. To overcome the crisis, financial markets need to increase their own transparency and strengthen the role of foreign exchange reserves. Functions of the financial market are:

- Allocation of resources;
- Ensure an uninterrupted flow of payment;
- Pooling resources;
- Risk management;
- Informing.

Most of the Middle and East European markets are small and as such not competitive on the European market. They have to open their market of goods, services and capital and ensure their free movement, which will make them more involved in the world economic flows. West-European markets are already mature and have a high level of concentration; the growth on the domestic market is not promising, which makes the expansion to other countries a necessity. The geographical diversification assures the total stability of the bank since it balances the revenue streams and the dynamics of making profit of an international institution. Besides the expansion to developing countries, the investment trend is also present on the territory of the USA, which reports higher growth rates due to better demographic perspectives in the future.

Foreign-owned banks and the stability of the economic sector are connected. As already stated, the primary goal of the entrance of foreign banks to markets of other countries is new business opportunities and an expansion process. The banks estimate the level of the macro-economic and political stability, the liberalness of the economic politics, the perspective of the country in the near future and the current clients and existing base of future clients in the host country.

The expected benefits from the entry of foreign banks to new markets are:

- Introduction of new banking technologies and financial innovations;
- Possibility of achieving economies of scale;

- Improvement of the competitive position;
- Development of the financial market;
- Improvement of the infrastructure of the financial system;
- Increase of foreign direct investments.

The main disadvantages of the entry of foreign banks to new markets are:

- Fear and distrust towards foreign control;
- The need to protect banking as a young and special activity arises, due to its key role in the economy;
- Difference of goals of foreign and domestic banks;
- Difference in regulations.

Foreign banks have an advantage over domestic banks:

- Lower costs and sources of financing;
- More favourable interest rates on loans;
- Competitive threats to domestic banks;
- Reputation – the most important advantage;
- Better selection and quality of financial innovations;
- Better risk management.

The main advantage of domestic banks is familiarity with the clients and closer relationships with them.

Taking into consideration all the mentioned impacts and business methods of European banks in developing countries, the goal of this work is to determine the way in which European banks exploit the lacks of legislation in these countries and act on their own behalf and not on behalf of the client, despite proclaimed principals.

2. HYPO GROUP – CHARACTERISTICS AND METHODS OF BUSINESS

The Hypo Alpe Adria was founded in 1896 in Klagenfurt, where its headquarters is still situated today. In the period until 2007, the bank was faced with an increase in risk and great unrest and followed by the financial crisis, with complete nationalisation as the only solution, carried out by Austria in 2009. Parallel with the nationalisation process, a new manager team was appointed in 2010, with the task to implement the new restructuring policy. The complete strategy of the bank is based on four pillars: banking organisations of Austria, Italy and South-East Europe as well as future non-strategic business units.

The Hypo Alpe Adria Group operates across borders in eight countries: Austria, Italy, Croatia, Bosnia and Herzegovina, Montenegro, Serbia, Liechtenstein, Germany, with a branch in Brussels. The Group does not want to achieve global character, but it has limited its operations to the Alps-Adria region, which is a grateful base for doing business and further development with its 62 million citizens. The basic goal of the group is to encourage the prosperity of the Alps-Adria region and its population by developing the local economy. The greatest strengths of the group are an international

thinking and cross-border operating, encouraging joint economic and social interests, with special attention dedicated to regional problems and needs.

The business philosophy of the Hypo Group, demonstrated to the partners and clients in 2000 under the name “The concept Alps-Adria as a business philosophy”, is: “Changes in the value system and demands in accordance with the Zeitgeist put banks in front of special challenges. Banking has not been managing customer’s money and providing loans in a long time. In the social environment of modern Europe we have assigned ourselves the task to oppose the “rigidity” of money with something human. Partnership, trust, security and mutual interest in the national and international operations are paradigms surpassing the limits of a particular cultural circle, and they correspond to our own perceptions of our group.”

The Hypo Group is oriented towards three strategic fields: banking, leasing and consulting services. The principal activity of the Hypo Group is banking, which includes: payments, financing, documentary credits, savings, investment products and services of investment banking. The group's cross-border network is important for the clients dealing with import and export, enabling for them fast cross-border payments and financing of exports with as little bureaucracy as possible. The segment of private clients emphasizes the financing of buying a living space, innovative savings and investment products adjusted to the individual.

The group’s goal is for the banking services in all the countries of the region to be at the highest level. The precondition for accomplishing the set goal is improving the networking of the IT system and the operational processes by introducing a unique system in the entire group, while keeping the regional needs and specificities. The electronic business is based on three pillars: information, services and transactions. In the context of the mentioned, the Internet is used to expand the offer of services and as an additional sales channel. E-business has been improved by introducing online payments, online trade in securities and by expanding the electronic traffic for business clients.

In the field of leasing, the group is dominant in the entire macro region using the know-how approach, researching local markets and their legal and tax specificities. Know-how is used synergistically when entering new markets, which enables new companies to make profit already after a short period. The leasing segment is oriented towards motor vehicles, real estate, movables, ships and special cross-border leasing. In the real estate leasing, besides business clients, the financing of the public sector (government buildings, kindergartens, schools or multi-purpose buildings) has an increasingly more important role. The needs of the clients are satisfied by different models such as leasing with full amortisation, leasing with residual value, leasing with bail and cross border leasing.

Consulting services are present in seven daughter companies and 57 employees. The Group Consultants is oriented towards the foundation of project companies, initiation of strategic shares of the company, realisation of projects connected to real estate and intermediation of experts from all fields of the economy. The group has expanded its

activities to tourism by intensively cooperating with two tourist operators, in which it has taken over some shares.

The group has started the European Commercial Paper Programme worth 2 billion € in order to reach new investors, funds on the money market and central banks with the goal to continuously improve its own rating. The programme is highly respected in Europe and the world and is an additional, flexible source of refinancing.

An effective management of the bank is based on the creation of a unique organisational structure, a unique rating and management information system. Unique rating modules have been established in the sectors of the bank which are applicable in the entire company and adjusted to the Basel II system, which tends towards application of the IRB methods. The bank enters risky business when they promise diversification which makes sense and makes a profit. In other cases, risks are avoided. Risk management is performed in two units:

- Risk controlling, which determines the standards for risk measurement and reporting in the whole group;
- Group market support, which introduces a unique loan approval process, participates in the coordination of decentralised shares which are following markets in daughter companies, estimates the loan risks on an individual level and the means for their insurance.

A large emphasise within the group is put on the improvement of communication by introducing mutual communication meetings of marketing executives from all countries or motivation events for managers. These steps contribute to the strengthening of joint collaboration with the goal to meet goals and fulfil tasks. The group is also characterised by social orientation, particularly evident through the involvement and support of sports and cultural events in the region (Ski World Cup, basketball Goodyear league, Croatian ski team).

3. THE MERGER OF THE SLAVONSKA BANKA

The merger of the Slavenska banka to the Hypo Alpe Adria group was completed in 2009, when the process became legally valid. The project lasted for 17 months, with 250 workers from both banks working on it. With the capital merger of these two banks an even stronger bank appeared, with the goal to position itself among the three largest banks in Croatia.

The Hypo group became a shareholder of the Slavenska banka in 1999, when together with the European Bank for Reconstruction and Development it purchased a package of 35% of the State Agency for Bank Rehabilitation. Within a couple of years the Hypo group bought shares from the European Bank for Reconstruction and Development and other shareholders and became the sole owner. The biggest problem in the merger process was the technical merger, i.e. it was necessary to improve the IT system of the Hypo bank, implement parts of the future system into the Slavenska banka and transfer data. After the merger, the Hypo group had 69 branches in Croatia, 153 ATM machines, 350 000 active clients, a balance sheet of 39 billion KN and 1891

employees. The entire merger process had also its negative side – 200 employees lost their jobs, 150 from the Slavonska banka and 50 from the Hypo bank.

By joining the Hypo group, the position of the Slavonska banka in Croatia was strengthened and made it one of the leading financial institutions. The goal of the unique business strategy and branches throughout Croatia was to increase flexibility and effectiveness, achieve synergetic effects and to expand the offer of products and services. The next regional approach of the Hypo group, the headquarters in Osijek became an important regional centre. Benefits from the merger of the Slavonska banka to the Hypo group were evident in the increase of business security and additional ensuring of client's savings. By entering into the structure of the modern monetary system, all benefits of modern banking became available to the citizens of Slavonija and Baranja. The merger of the bank also brought along changes important for the clients:

- IBAN (international bank account used for payments within the EU) changed, since the bank account number is its constituent part;
- the SWIFT number used for payments by foreign transfer was no longer being used and was replaced with the SWIFT number of the Hypo Alpe Adria bank d.d. Zagreb
- all relevant institutions and banks were informed about the change of the number;
- multicurrency accounts are introduced – one checking/giro account can be used for all currencies
- the numbers of checking and giro accounts did not change, and the cheques issued by the Slavonska banka are still valid.

4. IMPACT OF COMMERCIAL BANKS ON DECISION MAKING – THE CASE OF THE SLAVONSKA BANKA

This chapter includes the analysis of three cases: Contract on the sale of claims, agreement on representation and business relationship with the company Taj Pan

4.1. Contract on the sale of claims (factoring)

A Factoring contract is a contract which commits the client to the factor (the bank) to cede all short-term claims from the contract on the delivery of goods and providing services before their maturity (global cession), and the factor commits itself, with compensation, to accept the offered jobs if the financial solvency of the client's debtors satisfies him, with notification or without notification of the debtor about that transfer. The risk of the collection of claims is carried either by the client or the factor. The factor also takes over the management of the client's claims, such as research of the financial solvency of the debtor, bookkeeping, admonition, debt collection etc.

The Slavonska banka d.d. (seller) and CARESOS d.o.o. (buyer) signed a Contract on the sales of claims on 17th August 2000, which the seller had towards the GLUMINA BANKA d.d. – in bankruptcy. The Contracting parties agree that the Slavonska banka d.d. Osijek has claims towards the Glumina banka d.d. Zagreb – in bankruptcy in the amount of 33.098.564, 87 HRK.

Table 1. shows the contractual claims.

Table 1: Claims of the Slavonska banka towards the Glumina banka in bankruptcy

No.	Description	Amount (HRK)
1.	Based on Loan Agreement no. 98120 from 20 th May 1998, and Annex no. 1 of that Agreement from 20 th May 1998 on the amount of 3.000.000,00 KN with 12% interest	3.340.236,71
2.	Claims of the Slavonska banka d.d. Osijek based on the account reduced by the claims of the Slavonska banka d.d. Osijek towards the Glumina banka d.d. Zagreb (offset)	155.070,89
3.	Based on guarantee no. 293/97 from 05 th June 1997 and prolongation of the guarantee from 16 th July 1998.	3.286.262,02
5.	Based on guarantee number 059181541-1006 from 28 th May 1998 the amount of 2.500.000,00 CHF, i.e. with the relevant interests and costs	11.805.287,50
6.	Based on guarantee number 059181541-1005 from 28 th May 1998 the amount of 3.000.000,00 CHF, i.e. with the relevant interests and costs	14.166.345,00
7.	Based on counter guarantee number 16/97 from 27 th June 1997	345.362,75
	Total:	33.098.564,87

After the conducted financial expert evaluation, most of the claims were declared unfounded, mostly because of a lack of the needed documentation. Only the claim in the amount of 3.838.625, 34 HRK was acknowledged. It is evident from the documentation in the case that the Slavonska banka d.d. continues to conduct the process based on this claim on its own and that it commenced a bankruptcy proceeding against the debtor Staklo d.o.o. It is also evident that the stated claim does not exist since the Slavonska banka d.d. approved the new long-term loan to its debtor Staklo d.o.o. before the sale of the claim, which completely closed the stated claim. All this was not done in the stated example.

Articles 171. and 172. of the Law on credit institutions:

Article 171.

1. A credit institution is obliged to keep business books, other business documentation and records, value assets and liabilities and to draft and publish annual financial reports and annual reports in accordance with the applicable regulations and professional standards. According to the Record on the control of a part of the business activity of the Slavonska banka d.d. carried out by the HNB, there are no recorded doubtful claims.
2. The credit institution is obliged to keep the business books and other business documentation and records so that it can at any time verify if the credit institution is operating in accordance with the applicable regulations and professional standards.

Article 172.

1. The credit institution is obliged to compile, control and keep accounting documents in accordance with the applicable regulations and professional standards.
2. Exempt from paragraph 1. of this Article, the credit institution must keep for at least eleven years:
 - Documents relating to the opening and closing and recording changes of state on the accounts of payments and deposit
 - documents on other changes not included in point 1 of this paragraph, and which were the base for entering data into the business books of the credit institution and
 - Contracts and other documents on the foundation of the business relationship. There are no guarantees or other documentation which is subject of the Contract on the sale of claims.
3. The deadlines from paragraph 2 of this Article is the period after the end of the year in which the business change occurred, i.e. in which the accounting documents were compiled. If the documents refer to long-term businesses, they have to be kept during the entire period of the duration of the business relationship.

The financial feasibility of this Contract for the company CARESOS d.o.o. is doubtful. The company CARESOS d.o.o., according to the signed Contract on the sales of claims, pays 100% of the estimated value of the claim, for which it is questionable if it will be collected at all. The possible profit from the bought claim is the collected default interest, which is from a financial standpoint very risky considering the risk exposure. Since claims are settled from the bankruptcy estate by payment priority, the question is if after settling all creditors and default interest payments to the previous payment priorities Caresos will be left with enough for the claim which it bought and for the default interest payment. Therefore, there is no economic feasibility which could lead to signing the stated Contract on the sale of claims since the payment of claims itself is questionable, and can therefore not be expressed through financial feasibility.

4.2. Agency Contract

An Agency contract is a contract where the agent agrees to constantly take care that third persons sign contracts with his client and in that sense intermediates between them and the client, and after getting the authority to conclude contracts with third persons in the name and on the account of the client. The client is obliged to pay the agent a certain compensation for every concluded contract.

The agent acquires the right to compensation when the contract is realised, but it is also allowed to agree differently. The Croatian law has accepted the modern notion of representation which does not only consist of concluding contracts for others and for others' accounts, but also of doing a series of factual and legal actions and in that way protect the client's interests more comprehensively. An Agency contract by itself does not authorize an agent to conclude business deals with third persons. Namely, the Agency contract generally includes two legal relationships: relationship between the agent and the client (principal) where the agent's obligations can be very broad

(internal relations order), and the relationship between the agent and the third persons (external relationship authorization).

The Agency contract was concluded on 23rd June 2003 between the company Caresos d.o.o., Vladimir Penazić (lawyer from Dubrovnik), Damir Kramarić (lawyer from Zagreb) as the agent and the Hypo Alpe Adria Bank from Klagenfurt as the client. The Agency contract determines how the client and the State Agency for Deposit Insurance and Bank Rehabilitation (DAB) concluded a Contract on the purchase of shares from the Slavenska banka d.d. Osijek in 1998, to which the English law applies. The purpose of the Agency Contract is to repeal all prior agreements with the agent (Framework agreement from 27th January 2002 and Basic agreement from 11th February 2002), in that only the subject Agency contract will be applied to the past and future legal relationship between the client and the agent.

The Contract defines the obligations of the agent:

- provide services defined by the Contract;
- harmonize consulting services with the client and forward all important information;
- the client will make sure that the agent receives all the needed information within the deadline acceptable for the client.

The stated contract becomes invalid by termination the procedure with regard to the DAB and a possible payment of fees to the agent according to the conditions defined in Article 8 of the Contract. The fee is paid if the agent informs the client of positive prospects for success in a possible procedure. A successful result includes:

- recognition of compensation to the client by the DAB in the amount of 5 million €
- or making relevant material counter values available for the client.

In the case of success, the agent is entitled to compensation in the amount of 15% from the total awarded compensation for damages. The Contract between the lawyer (Vladimir Penazić and Damir Kramarić) was signed on 18th September 2003 and it regulates the relations between the agents from the Agency contract. The Contract determines the mutual relations concerning the right to the payment of fees in the case of success in the process against DAB. The Contract determines the right of the company Caresos d.o.o to a fee in the amount of 5% in the case of success in the procedure against the DAB. With this contract, Caresos assigns the lawyers the right for the payment of ½ of the fee from the HYPO ALPE-ADRIA BANK AG from the previous paragraph, in that it gives every lawyer the right to the payment of ¼ of the subject fee from the HYPO ALPE-ADRIA BANK AG, so that after this Caresos has a total right for payment of fees in the amount of 2,5% of the awarded amount of compensation or of the amount for which a compromise is reached between the HYPO ALPE-ADRIA BANK AG and the DAB. Each of the Lawyers has a right to the payment of the fee from the HYPO ALPE-ADRIA BANK AG in the amount of 6,25% of the awarded amount of compensations or of the amount for which a compromise is reached between the HYPO ALPE-ADRIA BANK AG and the DAB.

The Agent has properly performed all his obligations concerning the Agency Contract and previous contracts. The agent has also fulfilled his obligations to the Lawyers,

about which they informed Caresos d.o.o. in writing. The economic feasibility of the subject claim of the agent to the client exists and arises from the resolution LCIA, where an amount of 30.671.000, 00 € with the attributable interests was awarded in favour of the client.

The amount of the claim of the agent is 2,5 % of the awarded amount, which amounts to 7.448.765, 67 KN (1.026.458,87 €), from which 5.564.302,15 KN (766.775,00 €) is the principal amount, and the amount of 1.884.463,52 KN (259.683,87 €) is awarded interests. The amount of the statutory default interests calculated for the period from 01st November 2008 – 31st December 2011 to the principal amount of 7.448.765, 67 KN (1.026.458,87 €) is 3.935.397, 18 KN (542.307,75 €). The total claim from the agent which contains the above stated amounts is 11.384.162, 85 KN (1.568.766, 62 €).

4.2. Reconstruction and recovery

In 2001 and 2002, as member of the company Taj Pan from Pula, Caresos d.o.o. participated in the project Supermarkets on the Istria territory. Other members of the company Taj Pan d.o.o. Pula were also included in the project, as well as the holders and coordinators Hypo Alpe-Adria Bank AG, Klagenfurt, Hypo Alpe-Adria Bank d.d. Zagreb and Hypo Alpe Adria Bank d.d. Mostar. The market value of 81% of the share in the company Taj Pan d.o.o. Pula amounted to 828.289, 80 EUR in 2003. The stated market value arises from the contract (article 3.) with which the shareholder transferred the business share which represents 30% of the principal capital of the company for the amount of 306.774, 00 EUR. According to the stated, 1% of the principal capital had a market value of 10.225, 80 EUR.

The share valuation by an expert is based on the standard: Croatian standard of financial reporting and financial assets. This standard determines the business share just as any contract which proves the share in the capital. The plaintiff has acquired a business share, which is evident from the Contract on the termination of contract on the transfer of business shares and the Contract on the transfer of business share in the company TAJ PAN d.o.o., signed on 24th March 2003. The costs for acquiring a business share represent the contractual price of 306.774,00 EUR for the transfer of the business share between the transferor and the other acquirer CARESOS d.o.o. (Article 3), and not the compensation of 613.548, 00 EUR which was the price of the transfer of the business share from the transferor to the first acquirer TETRIS-COMERCE d.o.o. (Article 1). This kind of asset is evaluated according to the cost of acquisition, which is in this case a compensation of 306.774, 00 EUR for the transfer of the business share between the transferor and the other acquirer CARESOS d.o.o. (Article 3).

The HYPO group has entrusted an amount of 120 million KN and a larger number of companies on the territory of Croatia (including Taj Pan d.o.o. Pula) by buying bills (discount) from these companies, without a prior check of the financial situation, the credit status and the stipulated important conditions. The Hypo group, regarding the circumstances from 2003, called the plaintiff to get involved in the operations of the company Taj Pan d.o.o. Pula for a successful realisation of the mutual Project Taj Pan, by paying out individual shareholders and as stockholder to take over the management and control over the company. The company Caresos d.o.o. did all the mentioned. The

basic goal was the recovery of the Project Taj Pan and entering a business relationship with a strategic partner, together with the rest of the Hypo group members.

As a business partner to Hypo Group, Caresos entered into the state Project as agent, and the defendant left it as the project leader and guarantor of all processes going on within the Project. This is why on 28th April 2004, by invitation of the defendant, under his coordination and on his premises at the address of the defendant's seat Koturaška 47, Zagreb, a meeting was held where the Caresos plaintiff participated by invitation of the Hypo Group. An agreement was reached at that meeting and the conditions of the project Taj Pan were defined. At the mentioned meeting, the defendant instructed the plaintiff to transfer the business share in the company Taj Pan d.o.o. which comprises 81% of the principal capital of the company for the amount of 1 KN. At the moment of agreement about the Project Taj Pan, the plaintiff was in the position of the agent of the Hypo Alpe-Adria-Bank AG Klagenfurt, and the defendant contracted, led and instructed in his role as the project leader of the Hypo group for Croatia. On 28th April 2004, the defendant committed himself as a bank within the Hypo group to carry out all the points of the mutual agreement. As daughter company, the defendant concluded the contract and defined the rights and obligations in favour of and at the expense of third persons, in accordance with the order from the Hypo Alpe-Adria-Bank AG, Klagenfurt. As an important element of the realisation of the Project, the defender committed himself to pay the compensation so that the plaintiff's creditors are settled.

The defendant HYPO ALPE-ADRIA BANK d.d., ZAGREB did not fulfil its obligations in accordance with the signed Protocol from 28th April 2004. Simultaneously, the plaintiff fulfilled all the commitments in accordance with the signed Protocol. The value of the business share CARESOS d.o.o had in the company TAJ PAN d.o.o. in the moment of transfer of the business share was 6.145.910, 32 KN.

The processed segments show the bank's activities outside the scope of classic banking, which is best proved by the statement of the Hypo Group Alpe Adria d.d. Mostar management from 2005: "As in previous years, in accordance with the features of the Hypo Group, the Bank did not only deal with classic banking but also with special projects where it combines its network of experts, partners and financial force throughout the entire Alps-Adriatic region and connects them in specific successful projects adjusted to the needs in Bosnia and Herzegovina. The most important projects were in the field of tourism, construction and company restructuring and management."

6. CONCLUSION

Most of the markets of Middle and East Europe are small and as such not competitive on the European market. They have to open their market of goods, services and capital and ensure their free movement, which will make them more involved in the world economic flows. West-European markets are already mature and have a high level of concentration; the growth on the domestic market is not promising, which makes the expansion to other countries a necessity. The primary goal of the entry of foreign banks to markets of other countries is new business opportunities and an expansion process. The banks estimate the level of the macro-economic and political stability, the

liberalness of the economic politics, the perspective of the country in the near future and the current clients and existing base of future clients in the host country.

The Hypo Alpe Adria Group was established in 1896 in Austria. The group likes to particularly emphasize its international character, with a special orientation towards regional problems. As its primary goal the group presents encouragement of development and prosperity of the Alps Adriatic region. The basic determinant of the business activity is the use of the know-how approach. The bank's business activity is based on 4 pillars - banking organisations of Austria, Italy and South-East Europe as well as future non-strategic business units. In the period until 2007, the bank was faced with an increase in risk and the financial crisis, with complete nationalisation as the only solution, carried out by the Republic of Austria in 2009.

The merger of the Slavenska banka to the Hypo Alpe Adria group was completed in 2009. The merger process lasted for a couple of years, primarily due to the changes in the organisational and ownership structure of the parent bank and due to the changes of the business strategy. A negative consequence of the merger was the lay-off of 200 workers.

The business method and way of thinking of the Hypo Group in the period 2000 – 2008 is best demonstrated by the statement of the Hypo Alpe Adria Group CEO from the annual report for 2003: "We are confident that our approach to the development of business activities connects economies in those regions, gives important impulses and encourages cross-border activities. The Hypo-Alpe-Adria Group consists of flexible and adjustable business units led by responsible members of the board and directors. Those units act close to markets and in the spirit of the entire conception, i.e. the strategy Alps-Adria. We walk on our own, but overcome obstacles united" – that is our slogan."

The three cases handled in this work show the real effects of the use of the know-how approach, which the Group used in the Alps-Adria region. The impact of the bank on companies' decisions resulted in the failure of the project and generally in damages of major proportions, which is evident from the handled cases.

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HYPO ALPE ADRIA GROUP – GUIDELINES AND METHODS OF BUSINESS – THE CASE OF ARGENTUM d.o.o.

ABSTRACT

Hypo Group has been operating in eight countries of the Alps- Adriatic region, with a basic goal to encourage prosperity of the region by strengthening local economies. In 2006 it signed a Loan Agreement with Argentum d.o.o. company from Mostar, Bosnia and Herzegovina. Within this process, at the bank's request, the ownership structure changed in a way that the founder transferred 33% of stock without compensation to the bank's affiliated company. With a time distance and the analysis of general business conditions, this process included a range of activities evading the Austrian and B&H legal solutions and norms of business. Therefore, within the framework of this paper, the authors try to establish the level of the (non)execution of obligations in financing the joint project, (un)timely remittance of approved loan funds, (un)reasonable costs of loan and interests on loan, (im) possibility of the project realisation, (non)payment of agreed loan obligation, (non)compliance with the monitoring contract. On the contrary, it led to (non)reasonable hypothecation of real estate in the local company's portfolio which prevented further independent development of the project. Due to the large number of risky transactions made in the first decade of this century, today, the EU banks must act within the guidelines of Basel III, introduced in the year 2008.

Key words: *Hypo Group, EU, single market, credit operations, Argentum d.o.o., Basel III program, management*

JEL classification: *G2*

1. INTRODUCTION

The entry of foreign banks increases the competition on the domestic bank market and decreases the profitability and efficiency of domestic banks. This process forces domestic banks to restructuring in order to change the efficiency and quality of the products and services they offer. Long-term loans dominate among the other segments

of market competition. For the population, mortgage loans are the most important segment of bank markets influenced by the pressure of foreign banks.

The formation of new stock markets leads to an increase of trade and results in an increase of the GDP and decline of inflation. The growth of economic efficiency is connected to the rise of liquidity of the financial assets which attracts foreign capital.

The circumstances the developing countries are in - undeveloped legislation, leverage of financial intermediaries, limited activity of financial institutions and instable political situation, condition and limit the positive effects of the capital market. In these countries, the stability of the banking sector represents the base of the entire stability of the economy. Adverse circumstances result in a low turnover and a small capital market. The globalization of financial markets leads to the formation of financial conglomerates and broker alliances. Small stock markets and financial institutions have to adjust to the changes.

The globalization of the financial market started with the fall of the Berlin wall. An increasing linkage of stock markets results in a sensitivity to information and the authentication of their origin. Changes in a financial surrounding are also followed by negative trends, such as money laundering, illegal financial activities, insider information and tax evasion. In order to avoid negative sides, it is necessary to introduce an effective monitoring and control system based on highly developed IT-technologies. Financial markets have to increase their own transparency and strengthen the role of foreign exchange reserves, in order to overcome the crisis.

The functions of a financial market are: allocation of resources, ensuring an undisturbed payment, pooling resources, risk management and informing. Most of the Middle and East Europe markets are small, and are as such noncompetitive on the European market. Therefore, they have to open their goods, services and capital market in order to insure their free movement, which will make them more involved in the global economic flows.

West-European markets are already mature and note a high degree of concentration, and since the growth on the domestic market is not promising, expansion to other countries is necessary. The geographical diversification insures the overall stability of a bank, since it balances the revenue streams and the dynamics of generating a profit of an international institution. Besides the expansion to developing countries, the trend of investing in the USA area has also been present, for which it was assumed that it promises higher growth rates due to the better demographical perspectives in the future.

Banks in foreign ownership and the stability of the economic sector are connected. As already mentioned, the primary goal of the entry of foreign banks to the markets of other countries are new business opportunities and the expansion process. The banks estimate the level of macro-economic and political stability, the liberalness of the economic policy, the perspective of the country in the near future, as well as the current clients and the existing base of future clients in the host country.

The expected benefits of the entry of foreign banks into new markets are: introduction of new bank technologies and financial innovations, possibility of reaching economies

of scope, improvement of a competitive position, development of a financial market, improvement of the financial system infrastructure and an increase of foreign direct investments.

The main disadvantages of the entry of foreign banks into new markets are: fear and distrust towards foreign control, the need to protect banking as a young and special activity arises due to its key role in the economy, difference of goals of foreign and domestic banks and differences in regulations.

Foreign banks have an advantage compared to domestic banks; lower costs of funding sources, more favorable interest rates on loans, competitive threats to domestic banks, reputation – and the most important advantage, a better range and quality of financial innovations, as well as better risk management. The main advantage of domestic banks is a familiarity with the clients and a closer relationship with them.

Taking into consideration all of the mentioned impacts and business methods of European banks in developing countries, the goal of this work is to determine the way in which European banks exploit the disadvantages of the legislation in the mentioned countries and act on their own behalf, and not on behalf of the client, despite their proclaimed principles.

2. HYPO GROUP – CHARACTERISTICS AND BUSINESS METHODS

The beginnings of the Hypo Alpe Adria Group under different names date back to 1896, when the bank was founded in Klagenfurt, where its headquarters is still situated today. In the period before 2006, the bank was faced with a large increase of the portfolio and at the beginning of 2006 with big risks and turmoil. Followed by the world financial crisis, this led to the only solution, a complete nationalization of the bank, carried out by the Republic of Austria in December of 2009. At the start of 2010, simultaneously with the nationalization process, a new manager team was appointed with the task to implement the new restructuring policy. Before the restructuring, the entire strategy of the bank was based on four pillars: the bank organizations of Austria, Italy and Southeast Europe and the future non-strategic business units.

The Hypo Alpe Adria Group has operated in many countries: Austria, Italy, Croatia, BIH, Montenegro, Serbia, Liechtenstein, Germany, with a subsidiary also present in Brussels. The bank, or the Hypo Group as it was called, did not want to reach a global character within the framework of its strategy, but limited its business activities to the Alps and Adriatic region, which, with its 62 million people, is a great basis for business activities and further progress. The basic goal of the group was to encourage the prosperity of the Alps and Adriatic region and its population by developing the local economy. The management emphasized a supra-regional thinking and cross-border activity, stimulation of mutual economic and social interests as the greatest strengths of the group, while always dedicating attention to regional problems and needs.

The business philosophy of the Hypo group, presented to the partners and clients in 2000 entitled “Conception of Alps Adriatic as a business philosophy”, is: “*The changes*

in the value system and the demands in accordance with the spirit of the time and the banks are creating special challenges. Banking has not been only management of the clients' money and providing loans in a long time. In the social environment of modern Europe we have set ourselves the task to oppose the "rigidity" of money with something human. Partnership, trust, security and mutual benefit in the national and international business activities are the paradigms which surpass the boundaries of a specific cultural circle, and answer to our own perception of our group."

The Hypo Group is oriented towards three strategic fields: banking, leasing and consulting. The basic activity of the Hypo Group is banking, which encompasses: payments, financing, documentary business, savings, investment products and services of investment banking. The cross-border network of the group is important for the clients dealing with import and export, since it ensures quick cross-border payment and export financing with as little bureaucracy as possible.

The segment of private clients emphasizes the financing of purchase of residential space, innovative savings and investment products adapted to the individual.

The Hypo Group has set the goal for the banking services in all countries of the region to be at the highest level. The prerequisite to accomplish the set goal is an improvement in cross-linking the IT system and the operational processes by introducing a unique system in the whole group, while keeping regional needs and specificities. The electronic commerce of the group relies on three pillars: information, services and transactions. Within the context of the above, the Internet is used to expand the offer of services and as an additional sales channel. E-commerce has been improved by introducing online payments, online securities trade and by expanding the electronic traffic for business clients.

In the area of leasing, the group is dominant in the entire macro-area, using the know-how approach, researching the local markets and their legal and tax specificities. Know-how is used synergistically when entering into a new market, which makes it possible for new companies to operate with profit already after a short period of time. The leasing segment is oriented towards motor vehicles, real estate, movables, ships and special cross-border leasing. In the leasing of real estate, besides the business clients, the financing of the public sector (government buildings, kindergartens, schools or multipurpose buildings) has an increasingly significant role. The clients' needs are satisfied by different models such as leasing with full amortization, leasing with residual value, leasing with deposit and Cross border leasing.

Consulting services has been present with seven daughter companies and 57 employees. The Consultants group is oriented towards the foundation of project companies, initiating strategic company shares, realization of projects connected to real estate and mediation of experts from all fields of the economic life. The group has expanded its activity further to the tourist sector, through intensive collaboration with two tourist operators, where it has overtaken some shares.

The management of the bank has emphasized that an effective management of the bank is based on the establishment of a unique organizational structure, a unique rating and a

management reporting system. Unique rating modules, applicable in the entire company and adjusted to the Basel II system, which aspires to the implementation of the IRB method, have been established in the bank's sectors. Furthermore, the bank is believed to enter into risky business activities when they promise diversification which makes sense and brings profit. In other cases, risks are avoided.

Risk assessment is exerted in two units: a) Risk controlling, which determines the standards for risk measurement and reporting in the entire group and b) Group market support, which introduces a unique process of loan approval, participates in the coordination of decentralized shares which follow the markets in the daughter companies, assesses the credit risks on an individual level and the funds for their insurance.

Great emphasis within the group is placed on the improvement of communication by introducing mutual communication meetings of the marketing managers from all countries or motivational events for managers. These steps contribute to the strengthening of mutual collaboration for the purpose of fulfilling goals and tasks. The group is also characterized by social orientation, especially visible through their engagement and support of sport and cultural events in the region (World Ski Cup, basketball Goodyear league, Croatian Ski representation).

3. BUSINESS ACTIVITIES OF THE HYPO BANK IN COUNTRIES OUTSIDE OF EUROPE – ARGENTUM CASE

An agreement between the Hypo Group and the company Hermes d.o.o. Ljubupki reached in September 2005, at a meeting in HAAB d.d. Mostar, defined the method and start of the realization of a joint project in Mostar, which involved the construction of a business and residential zone at the location Rudnik, with an area of 19.304 m². The reached agreement implied the foundation of the economic company Argentum d.o.o. Mostar, which would be entrusted with the realization of the project. According to the reached agreement, the founder of the company is a physical person, and after the foundation, based on the Contract on the sale of business shares signed in December 2005, the founder accesses the company as a founder and the economic company Hypo Alpe Adria Consultants BIH d.o.o.o Sarajevo. After the entry into the court registry, the shares of the members of the company Argentum d.o.o. Mostar amount to: a) physical person 67% of share capital and b) – Hypo Alpe Adria Consultants BIH d.o.o. Sarajevo 33% of share capital.

Best to prove this kind of activity of the Hypo Group outside the area of classic banking is the statement of the board of the Hypo Alpe Adria Bank d.d. Mostar from 2005, which states: *“Just as in previous years and in accordance with the characteristics of the Hypo Group, the Bank has not only been engaged in classic banking activities but also in special projects where it combines its network of experts, partners and financial forces in the whole Alps-Adriatic region and combines them into specific successful projects, adjusted to the needs in Bosnia and Herzegovina.*

These projects have been most significant in the field of tourism, construction and the restructuring and management of companies.”

With the goal to realize the construction project of the residential and business zone, a Contract on the sale of real estate was signed in December 2005 between HERMES d.o.o. (seller) and ARGENTUM d.o.o. Mostar (buyer). The real and registered owner of the subject of sale is Hermes d.o.o. Ljubuški. The contract defined the purchase price of the real estate. The buyer committed himself to pay the purchase price on the transfer account of the seller, and the purchase of the real estate was exclusively intended for the needs of constructing the residential and commercial zone, in accordance with the project documentation in the Business plan of ARGENTUM d.o.o. entitled “Construction project of the commercial zone at the location Rudnik Mostar”. The project included the construction of 30 residential buildings, 11.000 m² business, service and commercial office space at the ground floor of the residential object, and 14.200 m² of parking facilities.

In accordance with the agreements and the fact that in December 2005 the company Argentum d.o.o. became member of the Hypo Group, the preparation of the project documentation for the grant of a loan was initiated at HAAB International Klagenfurt, with the purpose to pay off the purchase price for the real estate bought from the company Hermes d.o.o. Ljubuški. A Contract on the credit activities with foreign countries was signed on 17th February 2006 between: Hypo Alpe Adria Bank International (BANK), Argentum d.o.o. (credit user) and HERMES d.o.o. (lien debtor). The contract organizes the credit transaction between 3 sides, the insurance of the return of the credit transaction, the method of the repayment of the loan, and other provisions from the contractual relationship. The contract defines how the Bank grants the credit user a long-term loan in the amount of 4.100.000, 00 EUR, and the credit user commits himself to use the funds in their entirety for the purchase of construction land in Mostar. The user is also granted a grace period until the 31st December 2006. After the expiry of the grace period, the user is granted an additional grace period until 31st December 2009 (estimated time of the project completion and construction of the business and residential zone), during which he is obliged to duly pay the bank interests. As already mentioned, the Loan contract with HAAB Int Klagenfurt was intended for the purchase of construction land; and for the realization of the construction of the residential and business zone, a loan application was submitted to HAAB d.d. Mostar, as another member of the Hypo Group. Furthermore, the company Argentum d.o.o Mostar signed a Monitoring Contract with a member of the Hypo Group, with the goal to monitor the entire process of the project.

The contract relationship states that the basic reason for a termination of the Contract by the credit user is the situation when the Bank does not make the approved funds available to the Credit user within the contract period or at all, or if it does not pay the funds to the account of the Credit user, which is what happened in this case. Namely, even though the company demanded a remittance of the granted funds to the intended account (Annex 1.) in accordance with the loan contract, the bank acted contrary and transferred the funds to the account/accounts of another company (table 1.), in which it also had the role of a co-owner and had instruments of control.

Table 1: Realization of the approved loan (recapitulation of the payment)

Date	EUR	DESCRIPTION	Paid	Bank
20.03.06	1.165.068,61	1.trans	AURO d.o.o.	HB INT
20.03.06	26.348,00	2. trans	AURO d.o.o.	HL Sarajevo
20.03.06	460.000,00	3. trans	AURO d.o.o.	HAAB Mostar
12.04.06	250.000,00	4. trans	AURO d.o.o.	HAAB Mostar
28.04.06	950.000,00	5. trans	AURO d.o.o.	HAAB Mostar
19.05.06	120.900,00	6. trans -1 st part	AURO d.o.o.	HAAB Mostar
19.05.06	102.503,06	6. trans – 2 nd part	AURO d.o.o.	HB Int.
27.06.06	820.000,00	7. trans	AURO d.o.o.	HAAB Mostar
27.06.06	95.041,03	8. trans	AURO d.o.o.	HB Int.
	3.989.860,70			
21.07.06	32.152,00	9. trans -1 st part	ARGENTUM	HAAB Mostar
13.12.06	45.000,00	9. trans -2 nd part	ARGENTUM	HAAB Mostar
	77.152,00			
TOTAL:	4.067.012,70			

The stated data clearly shows a violation of the provisions of the Contract on credit transactions with foreign countries by the Hypo Alpe Adria International AG Klagenfurt. Namely, the bank paid 8 trans (3.989.860, 00 EUR) to the account of the company AURO d.o.o. Ljubuški (ownership affiliated with the Hypo Group), and only 9 trans (77.152, 00 EUR) in two installments were paid to the account of the company Argentum d.o.o. Mostar.

Annex 2. shows how the bank allegedly sends the company Argentum d.o.o. an official certificate on three transactions paid to the account of another economic company AURO d.o.o., without stating the exact name of the director of the company or the responsible person who the Loan contract was signed by. Furthermore, it is important to state for this case that the mentioned company Auro d.o.o. is not in any form mentioned in the contractual relationship and no contract or annex to the contract has been signed with it which could show its involvement in the realization of the project.

Since the Bank violated the obligations, the buyer of the real estate (Argentum d.o.o.) was not able to pay the liabilities according to the Contract to the seller of the real estate Hermes d.o.o. from the funds of the approved loan, making Argentum indebted for the entire contractual amount. This makes it impossible for the buyer of the real estate to fulfill its obligations towards the seller of the real estate, even though the entire loan was intended for the purchase of construction land in Mostar. This whole situation results in damages for Argentum d.o.o.: a) impossibility to fulfill its obligations to the seller from the funds of the approved loan, b) damages based on actions undertaken by the company with the goal to realize the joint project, c) stoppage of the realization of the project. The total damages for the economic society Argentum d.o.o. are shown in Table 2.

Table 2: Total damages for Argentum d.o.o.

No.	Description of the damage	Amount (EUR)	Amount (BAM)
1.	Unused loan amount	4.022.878,00	7.868.065,48
2.	Default interest on the unused loan amount	2.462.454,59	4.816.142,56
3.	Default interest on the used loan amount	6.131,81	11.992,78
4.	Costs of ownership transfer		40.000,00
5.	Costs of financing the loan	24.525,62	47.967,95
6.	Costs for the designing service		263.200,00
7.	Costs for designing and monitoring	92.722,78	181.350,00
8.	Costs for the preparation of the land	181.530,03	355.041,87
9.	Damage for the loss of income	9.885.870,00	19.335.081,12
			32.918.841,76

Since the buyer Argentum d.o.o. Mostar did not fulfill its obligations to the seller Hermes d.o.o., it has the right to charge the contractual prices for the real estate and the default interests.

The business activity described in this work clearly shows the level of the bank's (non)transparency in fulfilling its obligations from the Loan contract as well as a) failure to fulfill the obligations of financing the joint project, b) untimely transfer of funds of the approved loan, c) unjustified loan costs and interests on loans.

This example from real life indicates a completely different conclusion, and it is evident that the basic orientation of the bank is its own profit and benefit without any care for its partners. The emphasis is on partners because in this case it is not about the bank-client relationship but about the bank-partner relationship through the participation in a joint project, which is also presented as the basic philosophy of the bank – “...*Partnership, trust, security and mutual benefit in national and international business activities are the paradigms which overcome boundaries of a specific cultural circle and answer to our own image of our concern.*”

4. WAYS OF REGULATING THE BUSINESS ACTIVITY OF EUROPEAN BANKS – FROM BASEL I TO BASEL III

The Basel I program was published in 1988 and has been applied since 1992. The main goal of the program was to insure the stability of the financial system by its adequate capitalization with regard to the risks it is exposed to (capital as risk absorbent). Capital requirements include: credit risk and market risks. The minimal capital adequacy ratio is 8% and it is calculated with the formula: capital/weighted assets \geq 8%. The weighted factor or weightings consist of: a) country – 0%, in some cases 20 – 50%, b) banks – 20-50%, c) loans to companies – 100%, d) loans to citizens (secured by residential real estate) – 50%.

The program Basel II has been applied in the EU countries since 2008. Basel II brings some changes: a) capital requirements for the operational risk, b) allowed advanced

ways of calculating capital requirements on the side of credit risk, based on internal rating systems (internal rating based - IRB) developed and used by the banks, c) the minimal capital adequacy ratio is 8%, d) strict monitoring processes, e) obligations of public disclosure of prudential information for credit institutions.

Capital requirements include: credit risks, market risks and operational risks. Basel II has brought benefits to the Balkan countries by strengthening the internal functions of risk management and development of advanced methodologies for risk measurement (internal rating system). Its effects at the macro-level from the aspect of financial stability remain questionable due to the financial crisis which started in 2008 and showed some of its weaknesses.

The financial crisis which started in 2008 resulted in the regulatory program Basel III. The Basel III program was introduced in 2010 and it is the greatest change of the global banking system in the last decades. The program was introduced by the Governors of national central banks and the chief supervisors of the 27 member states. Among other provisions, the program obliges banks to hold 7% of risky assets, which is more than a threefold increase compared to the then valid regulation of 2%. With this regulation, banks will have to collect a few hundred billion Euros of fresh capital in the next decade. Being aware that the adjustment to the new system is a hard process, the regulators have given the banks a transition period for accepting the new rules. This period should last until 2019. The regulators feel that the new rules will force banks to focus on less risky strategies and secure enough of reserves in order for them to be able to deal with financial shocks without help, including the money of tax payers. The program should contribute to global long-term financial stability and growth.

On the other hand, the banks think that the rules will decrease the amount of money for crediting companies, which will delay the economic growth of Europe. According to the rules of the program, the banks have to keep capital in the amount of at least 4, 5% of assets (known under the title Tier 1) and create a separated system, the so called tampon zone of capital protection which amounts to 2,5% of assets, which increases the total amount of reserves to 7%. If they reduce the tampon zone, the banks are faced with limitations to the payment of bonuses and dividends. The protection system slows down borrowing money in situations when the credit market shows signs of danger of excessive borrowing.

The needs to harmonize with Basel III demand a large amount of fresh capital. The largest banks of the world will have to increase their capital for 556 billion dollars or they will have to write off around 5, 5 billion dollars of property until 2018 in order to adjust to the capital standards. The mentioned banks should increase their own capital as compared to the end of 2002 by 23%, which is the triple amount of their total annual profit.

The demands of Basel III and the needs for additional capital are calculated as the ratio of capital and risk-weighted assets. The banks can fulfill the set requirements in three ways: by profit retention, recapitalization or by decreasing the assets. The banks mostly use a combination of all three possibilities. The biggest problem for European banks is the imprecise definition of capital. If the large banks decide to fulfill the capital

requirements by issuing new shares, they will decrease the return on the invested capital. In the past seven years, the average return was 10,8%, and with recapitalization it would drop to 8,5%. One way for the banks to maintain the level of return in medium term on the invested capital, despite the stricter capital requirements, is by riskier activities, which are not completely included in the measures of the Basel III program.

Basel III emphasizes a high quality capital, i.e. capital with higher ability to absorb risks. The capital requirements are further calculated for: credit risk, market risk, operational risk. The minimal capital adequacy ratio remains 8%, but additional capital requirements are introduced: an additional protective layer of the capital, a countercyclical capital layer, and additional capital requirements for the systemic risk.

The liquidity risk management consists of the insurance of short-term liquidity and insurance of the structural liquidity. Other elements of the Basel III system are remuneration policies (wages and bonuses), leverage ratio and bonus agencies. Relevant researches and studies point out the lack of regular basic capital (CET 1.)

- BCBS (263 banks from 23 countries) – will be missing 602 billion Euros of capital until 2019;
- CEBS (246 banks from 21 countries) – will be missing 291 billion Euros of capital until 2019.

Basel III defines the minimal liquidity management standards through 2 indicators:

- Liquidity coverage ratio (LCR) – short-term liquidity management standard highly liquid assets/net outflows within 30 days ≥ 1
- Net stable funding ratio (NFSR) – structure management standard, i.e. long-term liquidity

Available stable sources/needed stable sources ≥ 1

The available stable sources (capital, long-term taken loans, and stable deposits) have to be larger than the needed stable sources, which are estimated based on the maturity and quality of the given loans. A situation where the bank finances itself through short-term instable sources but grants long-term loans is not allowed. A lack of short-term and long-term liquidity is present at the global level. The banking system of the Republic of Croatia will not be faced with problems of fulfilling new regulation standards of liquidity management. This is the result of high statutory reserves (14%) and other measures and liquidity limitations imposed by the Croatian National Bank (minimal liquidity coefficient, coverage of liabilities in currency with liquid funds in the currency in the amount of 17%).

Macroeconomic effects of the implementation of the Basel III program can be reduced to: changes in interest rates, changes in GDP and changes in the employment. The Euro zone is a region which needs to adjust the most due to its high dependence on the banking sector.

5. CONCLUSION

Most of the Middle and East European markets are small and as such uncompetitive on the European market. They have to open their markets of goods, services and capital and insure their free movement, which will make them more involved in the world economic flows. West-European markets are already mature and have a high degree of concentration, the growth on the domestic market is not promising and the expansion to other countries seems a necessity.

The primary goal of the entry of foreign banks on the market of other countries is new business opportunities and an expansion process. The banks estimate the level of macro economical and political stability, the liberalness of the economic policy, the perspective of the country in the near future and the current clients and existing base of future clients in the host country.

The Hypo Alpe Adria Group was founded in 1896 in Austria. The Group is especially fond of highlighting its international character, with a special focus on regional problems. The Group represents as its basic goal the encouragement of development and prosperity of the Alps-Adriatic region. The basic determinant of the business activity is the use of the know-how approach. The business activity of the bank is based on 4 pillars – banking organizations in Italy, Austria and South and East Europe, as well as future non-strategic business units. In the period until 2006, the Group was faced with a growth in risk and the financial crisis, and the only solution was a complete nationalization, which was carried out by the Republic of Austria in 2009.

The working method and way of thinking of the Hypo Group in the period between 2000 – 2008 is best represented by the statement of the CEO of the Hypo Alpe Adria Group from the annual report for the year 2003: *“We are confident that our approach to the development of the business activity connects the economies in those regions, gives important impulses and encourages cross-border activities. The Hypo-Alpe-Adria-Group consists of flexible and adjustable business units, led by reliable board members and directors. These units act in the direct vicinity to the markets, but also in the spirit of the whole conception, i.e. the strategy of the Alps-Adriatic region “We set foot by ourselves but overcome obstacles united” – that is our slogan.”*

Even though the slogan of the Group is “We set foot by ourselves but overcome obstacles united”, the facts stated in this work indicate a completely different conclusion: the basic focus of the bank is its own profit and benefit, without any care for their own clients.

The “Argentum” case is only one example which shows the business method of European banks in the period 2000 – 2009. Such a way of doing business, together with the other factors, has led to the existing financial crisis. In order to prevent such cases from happening in the future, the European Commission formed a new regulatory framework for European banks – Basel III.

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ANNEX 1: Request for remittance of funds

**HYPO ALPE ADRIA BANK INTER AG
ALPEN ADRIA PLATZ 1
9020, KLAGENFURT
REPUBLIKA AUSTRIJA
n/p gosp. Vjeko Budimir**

PREDMET: Zahtjev za plasmanom sredstava prema ugovoru o kreditu

Poštovani,

Obraćamo Vam se ovim zahtjevom za plasmanom sredstava temeljem ugovora o kreditnom poslovanju s inozemstvom broj BiH/1289 između Hypo Alpe Adria Bank International AG, Klagenfurt i ARGENTUM d.o.o., Mostar, Kardinala Stepinca bb.

Kako je definirano u ugovoru, kredit u visini EUR 4.100.000,- se doznajuje na transakcijski račun korisnika kredita koji se vodi kod Hypo Alpe Adria Bank d.d. Mostar.

Broj deviznog transakcijskog računa korisnika kredita je slijedeći:
7100-978-4227472150005
HYPO ALPE ADRIA BANK MOSTAR
SWIFT KLHBBA 22

Mostar, 15.03.2006.

ZA ARGENTUM d.o.o.

ARGENTUM d.o.o.
Draženka Ivanković
Draženka Ivanković dipl.oec.

ANNEX 2: Three transactions paid to the account of the company AURO d.o.o.

Einschreiben

ARGENTUM d.o.o.

n/r gosp. Željko Ivanković dipl.inž.

Ul.Kardinala Stepinca bb

BiH-88000 Mostar

GMS/vr/klm	Tel. 2428	Fax. 3202	Datum 22.03.2006
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Financiranje iznosa br. BiH/1289

EUR 4.100.000,-- račun br. 202.414-4

1.-3. tranša

Štovani gospodine Ivanković,
sa valutom 20.03.2006. doznacili smo iznos odobrenog kredita:

EUR	1.165.068,61 ✓	iznos kredita – 1. tranša (Auro d.o.o. – HB INT AG)
EUR	26.348,--	iznos kredita – 2. tranša (Auro d.o.o. – Hypo Leasing Sarajevo)
EUR	460.000,--	iznos kredita – 3. tranša (Auro d.o.o. – HAAB d.d. Mostar)

0,50 % jednokratni troškovi obrade: EUR 20.500,--

0,10 % troškovi doznake: EUR 65,87 (2.tranša) i EUR 1.150,-- (3.tranša).

U skladu sa Ugovorom o kreditu broj BiH/1289, sa valutom 01.04.2006. očekujemo uplatu kamate u iznosu od:

EUR	2.809,75	kamate: 20.03.2006. - 31.03.2006. <u>1.-3. tranša</u>
EUR	-,-	troškovi vođenja konta
EUR	2.809,75	ukupno

na Vaš konto broj 202.414-4 kod naše banke. Kao osnovu za plaćanje molimo navedite: »ZINSAHLUNG KREDITVERTRAG NR. BiH/12895, - IBAN NR. AT17 5220 0000 0202 4144, BIC:KLHBAT22«.

Unaprijed se zahvaljujemo i srdačno Vaš pozdravljamo

HYPO ALPEN-ADRIA-BANK INTERNATIONAL AG

FAX: 00387 36 322 424

Ivo Šperanda

University of Dubrovnik, Department of Economics and Business Economics,
Dubrovnik, Croatia

IMPACT OF RISK ON BUSINESS OPERATIONS AND ECONOMIC INTEGRATIONS

ABSTRACT

The development of integration caused the rise of world trade and production, as well as the rise of competition and business risks. Of course in such conditions, the needs for different methods and strategies of risk protection developed as well. One of these strategies can be found on futures markets: first of all hedging.

In both cases, whether measured by coefficient of variability or standard deviation, the business is risky. Since situation on world markets is more or less similar when talking about risks, the necessity of protection offered by futures markets is evident. The basic logic of futures markets correlation is that economic integration increases the risk degree, such a risk demands for protection instruments and one of them can be found on futures markets. That way, futures markets grow and intensify integration processes which increase the risk degree again..... and so on in circle.

This paper considers influence of hedging regarded as a technique for protecting companies against unforeseeable events which might seriously influence company's business, primarily its financial stability and its business results. The necessity of detailed business analysis in a given time frame of each particular company is demonstrated.

Such an analysis determines the degree of sensitivity of cash flow, i.e. of financial results to cardinal exogenous variable change and defines an adequate econometric model and an indicator of hedging necessity. Econometric model and appropriate indicator (Z) indicate the direction of protection (meaning: what and against what to protect) and it provides an optimal hedging strategy. The indicator of the degree of hedging necessity, so called (Z) indicator, has been introduced and detailed explained. Finally, the World is facing one of the crises, neither first nor last, occurred by implosion on real estate and financial market which then spread on other markets and entire economically integrated world. Neither ending nor final intensity can be predicted, uncertainty is getting bigger, and risks as well.

Key words: risk; futures market; hedging; integration; hedging; competitiveness

JEL classification: F37; G32; C52; E30

1. FUTURES MARKETS

Futures markets grew up as producers and other users of certain commodities tried to avoid the instability of commodity rates. Simple examples of such techniques could have been seen on the cotton Exchange in Liverpool in the late 18th century: buyers and sellers would agree on price, quantity and possible delivery date of the commodities while the latter was still at sea. With an assumption that particular ship entered the harbor till the delivery date and that the cargo was of a suitable quality and quantity, the agreement would be performed by payment and take-over of commodities. (Foley, 1993: 147-148)

Future trading achieved a complete recognition in the middle of the 19th century when the Chicago Board of Trade (CBOT) was founded; after the golden standard and system of fixed exchange rate in 1971, futures trading started to develop unstoppably. Futures business activities are contracts, i.e. legally binding agreements for sale and purchase, concluded on the floor. Futures dealings are very popular on international exchanges.

Futures are however mostly traded on *Over The Counter Markets* (OTC) between financial institutions or between financial institutions and their clients. One of the parties in that contract takes the second position and accepts the purchase of commodities for a specific date in the future and at futures price. Other party in futures business takes a short position and accepts to sell certain assets (financial or material) on the same date at futures price. Futures price is a statement of value of delivery of high grade commodity on certain place at specific period of time. (Lazibat & Kolaković, 2004a:214) All three attributes (quality, place and time) are determined within futures contract. The only competitive element is the price agreed upon on the floor. Commodities delivered in different period of time will probably also have a different price. So, the main function of futures markets is not to buy or sell physical commodities but to form futures prices which are actually the spot prices on the delivery or on due day.

That is why futures markets are called in jargon “market forecasters”. Considering mutual integration of most world exchanges, transparency and information flow, the prices actually perform the function of world markets integration. Futures prices differ according to delivery months, i.e. the futures price increases if the delivery month gets further. The simple reason is the costs of storage of commodities. The most important characteristic of futures price and current cash price is that they both move in the same direction.

Prices for futures business, as well as for all other sorts of fair trading are determined by buyers and sellers, i.e. supply and demand for commodities and services. The prices are determined according to customer's willingness to pay for certain product. On Croatian financial market there is almost none futures nor options trading since the market is not developed enough and is at its beginnings (small solvency, small number of participants, small capitalization) so that domestic traders, who will be discussed later, can apply the strategies only on international futures markets. Nowadays, oil is daily traded three times more than produced. (Šimović, 2003)The reason of such an

increase of trade volume can be found in introduction of financial derivatives such as futures and options used mainly for negotiation on price movement. In another words, stock exchanges have become huge “betting places” where participants bet on price increase and reduction. The most important function of futures markets is speculation while the second one is hedging, i.e. protection against the risk of change.

2. STRATEGIES OF TRADING ON FUTURES MARKETS

Strategies of trading on futures markets can be divided into: (Lazibat, 2007:24)

- speculations (one-sided and range)
- arbitrage
- hedging
- trading options on futures

2.1. One-sided Speculations

One-sided speculation means taking so called long or short position on futures market. To take a long position on futures market in jargon means to buy a futures contract. Speculators who buy the futures contract expect the rise of futures prices. They are known as “bulls”. If futures prices increase, they will close their starting long position at higher price and thus make profit.

To take a short position on futures market means to sell futures contract. Speculators who take short position expect the drop of futures prices as it is the only way to make profit, considering the fact that they close their short position at lower futures price. They are known as “bears”. With one-sided speculation the profit is gained only if price movement is correctly foreseen. If the movement is not correctly foreseen, they lose.

2.2. Range Speculations or Spread

Spread belongs to less risky trading strategies. At the same time two or more opposite futures options of the same commodity are taken on different futures markets and in different delivery or arrival months. Thus, if we lose on one field we will make profit on the other one. It is crucial to realize profit in order for our business to have sense.

2.3. Arbitrage

Arbitrage stands for strategy of simultaneous purchase or sales of contracts on different markets. It offers the possibility to realize safe profit without risky investment. It appears when the difference of futures prices between two months of delivery is big enough to cover for all commodities’ expenses and when futures positions previously taken are closed by physical delivery of commodities, and not by clearance.

2.4. Hedging

Nowadays nothing is safe in material and financial world. As governments change there are collapses of financial and real systems of certain countries and natural disasters; all those political and social changes affect the prices of different instruments and commodities on worldwide markets.

One of very efficient and widely applicable instruments of insurance against such and similar changes is hedging. It is developed by modern traders and managers who had to solve the problems of big losses. Global trading, liberalizations of almost all world economies and large scale of possibilities to trade on futures markets have introduced both hedging and increase of competitive positions of almost all globally big companies.

Hedging involves two steps: initial position which represents purchase or sales of futures (depending on the need) and offsetting that initial position with identical contract of opposite sign. Hedging is a process of protection against change in value or against the risk of price instability of certain assets i.e. objects of trading. (<http://www.forexcroatia.hr/prezent/FinancijskeIzvedenice.ppt>.)

Traders who use hedging are called the hedgers. They use futures market to protect against the risk of price instability in order to prevent the loss, and not primarily to speculate i.e. to realize profit.

Hedgers are individuals or companies who own or intend to own physical (prompt) commodities but fear that commodity price might change before they buy it or sell it. Hedging functions the same way on the financial markets. In case the prices do not move as hedgers wish, the loss of his futures position will more or less be compensated by the profit realized on spot market. Hedging functions only because futures prices alteration automatically causes spot prices alteration.

Trader who trades on futures market uses hedging in a way that he takes a position on futures market which is by size the same (apart from unbalanced hedging), and by movement opposite from the position he has on spot market. Thus a loss on one market is compensated by profit on another one. There is an expression which says that investor, by using hedging as protection against risk, is actually “protected” against profit as well. We could say it is true, but traders who use hedging most often are not speculators wishing to earn by risking, but real producers who own or wish to own commodities and wish to earn by buying and selling them. They use hedging only as a means of price insurance for that buying and selling.

The best assumption for introducing hedging into trade system on futures markets is convergence of spot and futures price. Thus, on the day of delivery, spot price is equal to futures price and vice versa. Having all this in mind there are three sorts of hedging mostly used in practice:

- Long hedging – enables companies which are planning the purchase of certain commodity in future to fix purchase price,
- Short hedging – aims at insuring selling price,

- Cross hedging - trade strategy which establishes hedge relationship of spot and futures price of two different commodities. Dynamics of one commodity follows the dynamics of price movement of another commodity.

When size or position of the contract which trader takes on spot market is not the same as on futures market, we are talking about unbalanced hedging which completely eliminates the risk. That is why this sort of hedging is not considered as real one and is found in speculative business.

2.4.1. Short Hedging

Short hedging as risk protection instrument is used by those who cultivate, store or distribute real commodities. This hedging covers the risk of reduction of value of unsold commodities in case of price downfall. Firstly the producer concludes the transaction by which he sells that commodity on the futures market (until the prices have not fallen). He intends to compensate later with futures purchase (when prices have already fallen). With profit producer most often compensate for the loss arisen due to stored commodities or due to undeveloped agriculture economy. In case he made a mistake about price movement and prices start to rise instead of fall, the value of his supplies starts to grow. In contrary to that spot business, in this case, he loses on futures transaction and a result is again somewhere around zero. The rules of trading and hedging of commodity contracts function the same way as trading with the financial instruments.

2.4.2. Long Hedging

In the modern world of trade, exporter will integrate spot and futures business instead of using traditional way of doing business. By using the long hedging strategy, exporter will buy a futures contract with subsequent falling due and which is determined on certain quantity of commodities. When the deadline has expired, exporter closes the position on futures market with a contra-operation, buys necessary quantity on spot market and delivers it at an (agreed-upon) strike price. With this combination of spot and futures market, exporter protected himself against loss, and probably against profit as well. Information on which market he did positively and on which negatively is not important to him. Exporter accomplished his plan to completely protect himself against risk of price change on spot market.

2.4.3. Cross Hedging

Cross hedge can be a strategy starting with long or short position. The point of entire strategy which makes cross hedge different from other types of hedging is in fact that futures position is taken in commodities which are not traded on futures markets. The futures position however follows the dynamics of commodities which are listed on exchange. (E.g. fishmeal is not traded on exchange and soya flour is).

Some, by using hedging, do not protect themselves from all existing risks but the most important ones. Hedging considerably reduces risk of price change, while traders daily search and find other instruments for other risks protection.

2.5. Options

Options are also derivative instruments, i.e. option value and other option trading characteristics are related to assets on which the option is based. (CBO Options Institute, 1999:19) Trading options on futures is the most sophisticated forms of trading developed in 1980s on USA stock exchanges. Today, options on all futures are traded on all futures markets.

Options are everywhere, hidden in commercial contracts and sale and purchase transactions which at first sight have nothing to do with the finance world. Options represent the second big group of finance derivatives, i.e. derivative securities. (<http://www.investopedia.com/university/options>; 4.2.2008) In broad financial practice it is believed that every contract which gives right to one of contracted party to buy or sell is called an option. However, this perception does not always have to be correct as options do not own all elements of a classic contract. Options are characteristic to have a legal right but no obligation of performing stock-exchange transactions. So, options are specific type of financial derivatives which reflect certain “contingent” rights because payments depend on probability of playing certain roles in future. On the occasion of options transmission, relationships are regulated by specific agreement – option agreement by which option buyer / owner is given right to buy or sell certain assets at fixed price within certain period of time.

Options are based on the following assets: foreign currencies, bonds, stock products, futures contracts etc. The price paid for option is called premium. The price in the contract is called exercise or strike price.

3. GLOBALIZATION OF WORLD ECONOMY

Globalization, obstacle elimination, irrelevance of national borders, strategic orientation on national competitive advantages and equality of participants are the main features of modern international trade. Proximity, enterprise abilities and geographical dispersion of business activities are some of the aspects which mark modern dominating world companies on international markets. Knowledge and intellectual capital make decisive resources of business. Spread of information and communication technology is a phenomenon of modern business activities. All these trends led to the huge increase of international exchange.

Globalization is a process by which obstacles in international economy exchange become irrelevant and by which economic integration between the countries is increased. Process of globalization started after the Second World War. It basically changed the world economy affecting the international market and production processes. Basic characteristics of globalization are erasing geographical borders and distancing from economy systems in which national markets were separate entities mutually isolated because of trade barriers, distance barriers, time difference, culture and constitutional order. Globalization leads to creation of global market and global products, reinforcement of interconnection of national and regional economies. The result is interchange and a creation of one entirely new – global culture. Multinational

companies such as Coca-Cola, McDonald's, IBM, Sony etc. are leaders of this process. By offering unique products worldwide, they help the creation of global market. However, companies do not have to be as large as those multinational corporations to benefit from globalization of the market. It is important to emphasize however that national markets will not completely disappear or melt in global market. Thus, it is of utmost importance to recognize the differences in consumers' taste and preferences between certain national markets. Those differences stipulate different business and marketing strategies used for those markets, as well as products with specific characteristics adjusted to local conditions. Abolition of trade barriers made market and production globalization theoretically possible. Technological progress turned it into reality. In fact, globalization results from technological progress especially on information and communication technology field.

4. RISK AND UNCERTAINTY

Nowadays business decisions are brought in conditions of uncertainty and high risk grade. As these two terms are often mixed up, it is necessary to emphasize that risk is a condition where possible decision outcomes are familiar and whose probability can be evaluated. On the other hand, uncertainty is a case, i.e. condition where the result of certain decision is completely unpredictable and whose probability is completely unknown. So, uncertainty is more subjective phenomenon, while risk is objective phenomenon and contains relevant knowledge on alternatives.

Risk can be measured, i.e. quantified by the standard deviation (standard measure of dispersion), i.e. by deviation of expectation value (middle value). Hence, we are talking about a measure of variability.

$$\sigma_{\hat{y}} = \sqrt{\frac{\sum_{i=1}^n (y_i - \hat{y}_i)^2}{n}} \quad (1)$$

δ = standard deviation
 Y = original information
 n = frequency

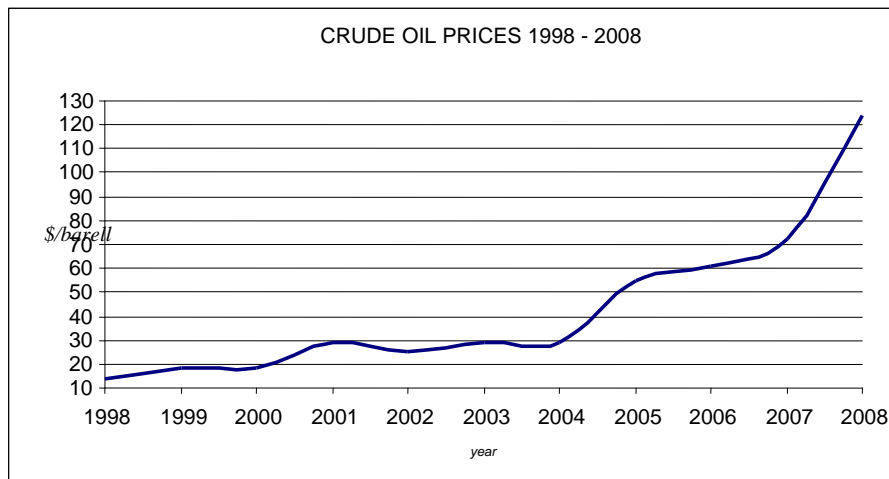
From the standard deviation definition it can be concluded that it measures dispersion from expectation (middle) value, meaning that the risk is lower when the standard deviation is lower and vice versa.

For comparison of risk degrees, coefficient of variability can be useful as a relative measure (V)

$$V_{\hat{y}} = \frac{\sigma_{\hat{y}}}{\bar{y}} \cdot 100 \quad (2)$$

which sets standard deviation and expected value in ration and actually represents true measure of the risk (Lind & Associates, 2000). For illustration we could take an example of oil price movement on world markets.

Figure1: Crude oil prices for the period 1998-2008

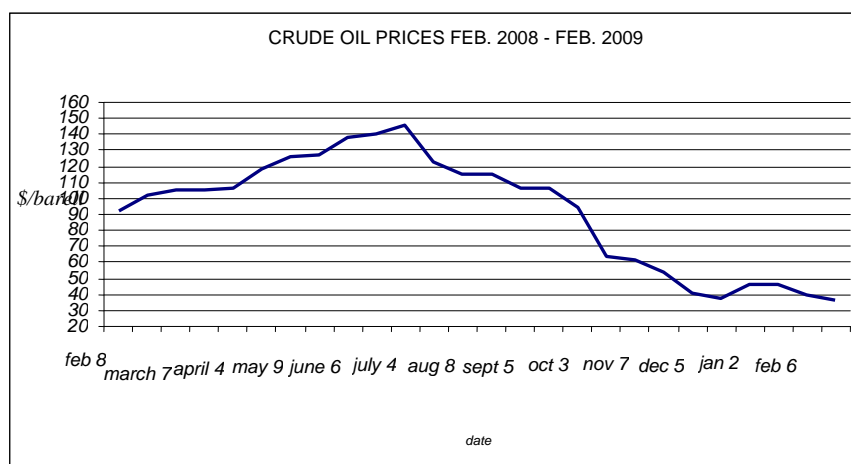


Source: Sekulić, 2007/08

Note: Standard Deviation = 29, 72 \$/barrel, Arithmetic Mean= 43, 09 \$/barrel, Coefficient of Variability = 68, 97%

Considering that standard deviation is around 69 % from expectation value, we can conclude that in this case the risk of price changes is rather big. In order to be able to compare the risk grades we will take an example of oil price movements on world market, but this time in shorter period of time (12 months).

Figure 2: Crude oil prices for the period: Feb. 2008-Feb. 2009



Source: <http://www.nyse.tv/crude-oil-price-history.htm>, 11.3.2009

Note: Standard Deviation = 47, 29 \$/barrel, Arithmetic Mean = 92, 10 \$/barrel, Coefficient of Variability = 51, 35%

If we look at these two examples, or if we look at a real picture, we may conclude that, regardless to absolute amount of standard deviation, long-term oil business is more risky than short-term one

5. INFLUENCE OF HEDGING ON BUSINESS

There are numerous ways to more or less manage the risk exposures in a company: classic insurance, swap businesses, diversification of business and investment portfolio, futures contracts and forward contracts. This paper intends to demonstrate the possibilities of econometric modeling, i.e. measuring hedging necessity and its impact in companies. It is important to mention that there is no, nor can there be, a unique and general hedging model and law for all companies. Every company, taking into account its own specificities creates its own hedging strategy and pursuantly its own model which pay respect to type of business, market share, market position and similar.

5.1. Assessment of Model Parameters

The term assessment of parameters of linear regression denotes calculation of value of parameter in a way that given direction represents approximation or relationship of phenomena in question. In order to assess the parameters of regression model, one should firstly define the desirable model and its elements and assumptions. Simple linear regression should be used to build a model which shows impact and necessity of hedging on forward markets for protection against sudden and unpredictable price movements on global market. Data of the Atlantska plovidba Ltd¹ from Dubrovnik, a respectable and successful company whose main activity is maritime transport, but also deals with tourism (hotel industry and charter air transport²) are taken for the entry data. The company obviously operates on international market and is thus exposed to currency risk, mostly to the risk related to the movements of the U.S. dollar as the most part of company's income is realized in that currency. On the other hand, we can witness a high degree of dollar volatility which endangers the business success of the shipping company.

EBIT (Earnings Before Interest & Tax), representing business success of a company and its earning potential is taken here as a measure of business success. Upon grounds as previous described the quartile EBIT information of Atlantska plovidba, in the period from 1998 to 2008 and appropriate averages of the U.S. dollar movements in relation to Kuna are taken for the model purposes. Basic assumption is that changes in exchange rate significantly affect the size of realized EBIT. For this model purposes, other influences on EBIT are neglected in order to be able to observe and measure only the effects of changes in exchange rate. Thus, the exchange rate is marked as independent variable (X) and the measure of EBIT as dependent one (Y). Given data

¹ By courtesy of the authorized in Atlantska plovidba Ltd – Dubrovnik, the author got plenty of valuable information and the approval for their publishing.

² Atlantska plovidba Ltd. no longer owns a company for air transport since October 2011.

point out two things: firstly, changes in exchange rate affect the realized EBIT and therefore the financial business results, and secondly the business results are better if the dollar exchange rate is lower, which could have been concluded from the nature of the business activities of the observed company. By using statistic package within Microsoft Office the results are as follow:

- Correlation coefficient (r) = -0,665
- Coefficient of determination (R^2) = 0,443

Thus, the exponential regression model expression is:

$$y = \alpha \cdot x^\beta \quad (3)$$

Where:

Y=values of EBIT

x= USD/KN exchange rate

α = parameter

β = parameter

Value of parameters is expressed as follows:

$$\alpha = 35346774650$$

$$\beta = -4,02828627$$

This individual model is used to determine the value of base parameters R^2 and β which demonstrate strength and quality of protection, i.e. hedging. Mathematical form of parameters is: β is both exponent in model function and coefficient of elasticity³, i.e. $E_{y,x} = \beta$. Mathematically, β is expressed as:

$$y = \alpha \cdot x^\beta / \log \quad (4)$$

$$\log y = \log \alpha + \beta \cdot \log x$$

$$-\beta \cdot \log x = -\log y + \log \alpha$$

$$\beta \cdot \log x = \log y - \log \alpha$$

$$\beta = \frac{\log y - \log \alpha}{\log x} \quad (5)$$

R^2 is in fact the squared coefficient of correlation, i.e. ratio of the sum of the square of deviation explained by regression and sum of squared of total deviations⁴, or in mathematical formula:

³ Proof can be found by looking at: Martić Lj.: "Matematičke metode za ekonomske analize (I)"- Udžbenici Sveučilišta u Zagrebu, NN,1987. p.100.

⁴ See, for an example: Kmenta J.: "Počela ekonometrije" (II izdanje)-Mate d.o.o., Zagreb, 1997.pp.240-242.

$$R^2 = \frac{\sum_{i=1}^n (\hat{y}_i - \bar{y})^2}{\sum_{i=1}^n (y_i - \bar{y})^2}, 0 \leq R^2 \leq 1 \quad (6)$$

6. INDICATOR OF THE DEGREE OF HEDGING NECESSITY |Z|

Previous example showed the meaning of coefficient of determination and coefficient of elasticity. Both indicators demonstrate the relationship between the observed variables and the way and to which extent the independent variable affects the dependent one. Product of those two coefficients demonstrates how important it is to protect (to hedge) the dependent variable against the changes in independent variable, in this concrete case to protect the EBIT against changes in exchange rate. Consequently, the basic relation for the |Z| indicator is as follows:

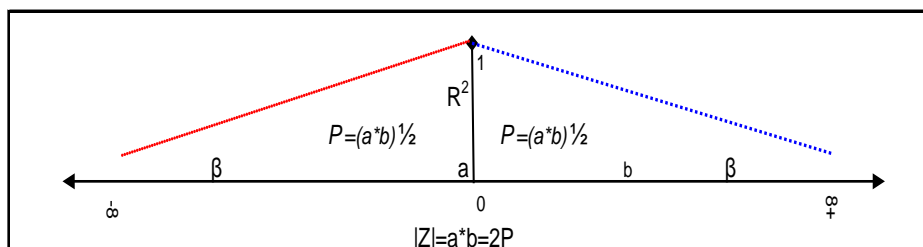
$$|Z| = R^2 \times \beta \quad (7)$$

The meaning of symbols in the above relation is: |Z| relates to the degree of hedging necessity; R^2 is the coefficient of determination or the ratio of explained and total deviations; β is coefficient of elasticity. Detailed mathematical explanation of the above relation, by using the relations number 5 and 6 is:

$$\frac{\sum_{i=1}^n (\hat{y}_i - \bar{y})^2}{\sum_{i=1}^n (y_i - \bar{y})^2} \cdot \frac{(\log y - \log \alpha)}{\log x} = |Z| \quad (8)$$

Indicator |Z| is synthetic absolute indicator representing the product of quotient of sum of squares of deviations of estimated values in relation to arithmetic mean and sum of squares of deviation of original results in relation to arithmetic mean of regression model and coefficient of elasticity of homogeneous function, as it is obvious that Y increases / decreases when X increases / decreases, even more intensively when β is bigger. Coefficient of elasticity value, i.e. β , can become any real number, and coefficient of determination ranges from 0 to 1. Graphic illustration of that relationship would be as in figure 3.

Figure 3: The relationship of coefficient of elasticity and coefficient of determination



Source: author's paper

So, the value of the indicator IZI is equal to double value of surface (P) of right-angled triangle closed by sides a (R^2) and b (β) which is correct, as it is an absolute indicator. R^2 is evidently a “corrective” factor, ranging from 0 to 1, it “corrects” the value β . So, coefficient of elasticity is “corrected” by the degree of model reliability.

The bigger absolute amount IZI is, the necessity of hedging is bigger as well, because this indicator shows how strongly the dependent variable reacts to the change of independent one and how important the changes of independent variable are to the changes of the dependent one. The notation β is taken in this relation because it is expressed like: $E_{y,x} = \beta$ as already stated. The importance of usage of indicator IZI can be shown by the following examples. The values of model indicators of determination R^2 and coefficient of elasticity $E_{y,x}$ are:

- $R^2 = 0,561$
- $E_{y,x} = -4,0283$

Here are the obtained values in a case when data of some other company⁵ of similar branch like Atlantska plovidba are introduced into the general form of the model

$$y = \alpha \cdot x^\beta \quad (9)$$

Table 1: Values of changes in exchange rate and EBIT

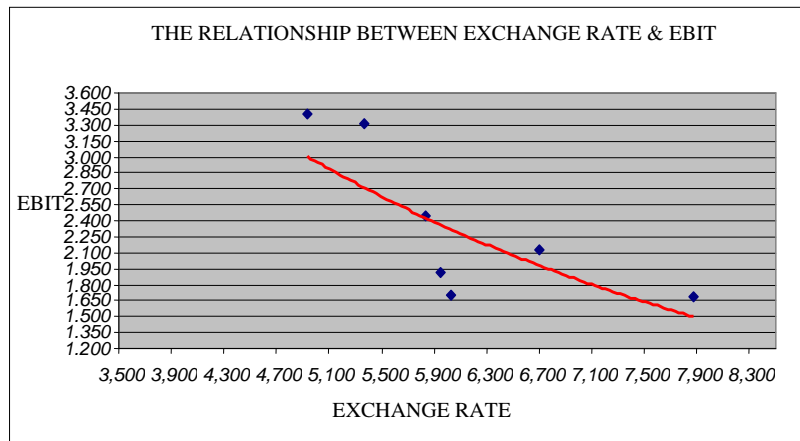
n	year	Exchange rate HRK/USD\$	EBIT (000)
1	2002	7,872	1.680
2	2003	6,704	2.125
3	2004	6,031	1.705
4	2005	5,950	1.908
5	2006	5,839	2.450
6	2007	5,366	3.313
7	2008	4,934	3.402

Source: paper's author

⁵ In this particular case the author did not get the company's approval to publish its name along the data

General form of the model illustrates the relationship of the observed sizes, in this case the change in dollar exchange rate in relation to kuna and the movement of EBIT.

Figure 4: The relationship of value of exchange rate and EBIT



Source: paper's author

Values of estimated parameters:

- $R^2 = 0,716$
- $E_{y,x} = -1,9209$

The necessity and impact of hedging cannot be determined only based upon the calculated parameters R^2 ; $E_{y,x}$, i.e. β , because in the first case β is bigger and R^2 smaller, and in the other case it is opposite. That is why IZI indicates to the level of hedging necessity of EBIT which is in the example I (Tab. 2) significantly bigger, obviously by being strongly influenced by the coefficient of elasticity which is double its size.

Table 2: Values of parameters of IZI indicator

Example	R^2	β	$ Z $
I	0,561	-4,0283	2,260
II	0,716	-1,9209	1,375

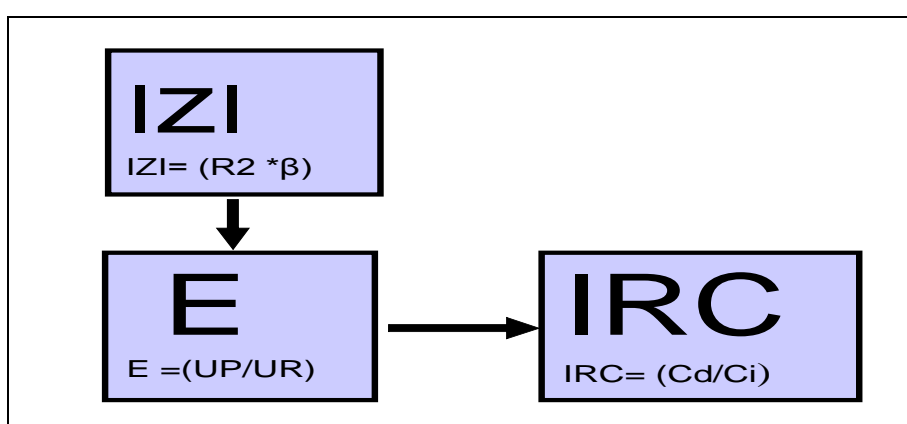
Source: author's paper

IZI regarded as an indicator of hedging necessity, being the weighted composite indicator in which the coefficient of elasticity is weighted by the coefficient of determination size, is not very worthy unless it is followed by the measure of protection of "threatened" or risky item, or in other words unless it is followed by hedging.

6.1. Relationship between Hedging and Competitiveness

As already stated numerous times, each company needs to calculate adequate parameters of model and accordingly build a calculation of indicator IZI. Which variables will be taken into consideration depends on many factors such as: company's size, business branch, market situation, development policy, fiscal policy, macroeconomic movements etc. Anyway, the relationship between hedging and export competitiveness is demonstrated in the following diagram (Figure 5).

Figure 5: The relationship between hedging and export (price) competitiveness

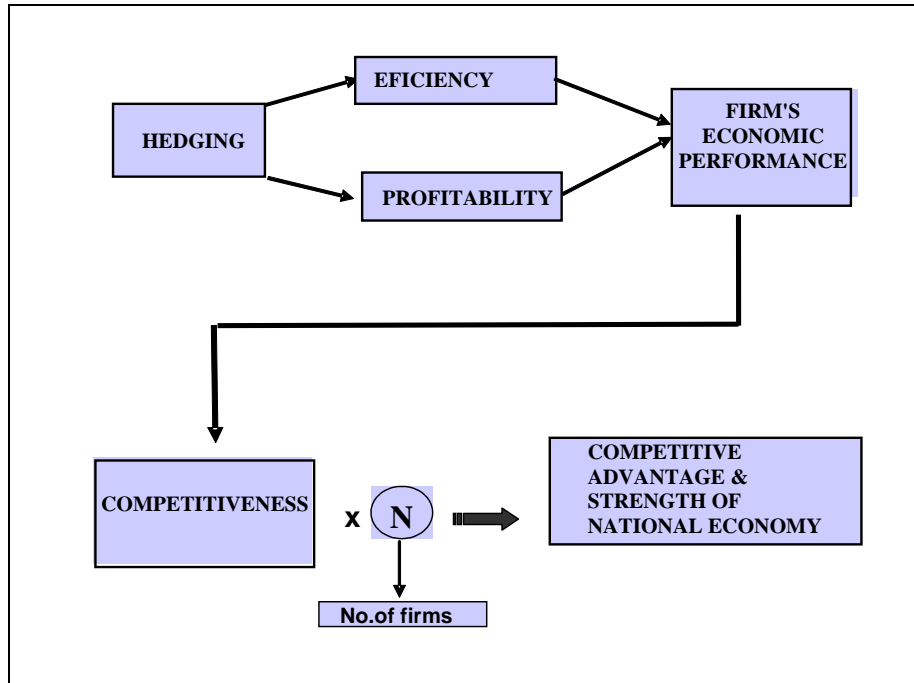


Source: paper's author

Impact of hedging activities is here demonstrated through the indicator IZI whose value points to the degree of hedging efficiency directly affecting the business costs reduction and increased degree of economics (E), all together resulting in price competitiveness growth (IRC) because the prices of domestic production (Cd) are decreased in relation to the prices of international production (Ci). On the basis of Paul Krugman (Krugman, 1994) thesis⁶ about non-existence of competition between national economies, but only among companies in international sphere, it can logically be concluded that the country (national economy) having more successful companies is more competitive. Therefore, this is the right way to observe and measure the competitiveness among countries which is illustrated in the figure number 6.

⁶ Paper entitled: "Competitiveness - A Dangerous Obsession" which contains the mentioned thesis is available at: <http://www.pkarchive.org/global/pop.html>

Figure 6: The relationship between hedging and national competitive advantage



Source: paper's author

This scheme illustrates the following: hedging positively affects the cost-effectiveness and profitability of a company which enforces economic power of the company and therefore its competitiveness as well. As the competitiveness of a company is multiplied by bigger number of companies, the entire strength and competitiveness of national company grows.

Previous calculation and explained model indisputably demonstrated importance of hedging and its impact on strength and financial stability and competitiveness of each company, therefore of national economy as well.

Moreover, the notion of competition is currently in the focus of global reflections in modern, open and integrated global economy. Traditionally, international competition was explained through theories of international exchange originated from Adam Smith and his thesis on competition from the 18th century. However, modern global economy is far too complicated and cannot be explained through traditional theories which based the development and competition of one nation on comparative advantages such as cheap labor force, natural resources, adequate climate and similar. Modern theories allege that national wealth is not inherited but is the result of strategic selection, and that the foundation of economic development of each country is based on knowledge, infrastructure, technology and innovations. When talking about foundations of

economic development, notions such as infrastructure, technology and innovations must be regarded in their broadest sense, and not in the technological sense.

7. CONCLUSION

The aim of this paper is to emphasise and at the same time to show a sort of relationship among three important issues: risk, business operations and integration in the modern economy.

It is quite clear that development of integration, which has enormously increased for the past three decades, as well as the rise of competition, caused the rise of world trade, production and as a direct consequence: the business risk.

The reason is rather logical: strengthening economic integration increases the risk degree; the increased risk degree demands for protection strategies in order to keep or to prove the competitiveness (one of which is on futures market) which develop and cause stronger integrations processes which then again cause higher risk degree – and so on in circle. This paper demonstrates the necessity of detailed business analysis in a given time frame of each company. Such an analysis determines the degree of sensitivity of cash flow, i.e. of financial results to cardinal exogenous variable change and defines an adequate econometric model and an indicator of hedging necessity. Econometric model and appropriate indicators $|Z|$ indicate the direction of protection (meaning: what and against what to protect) and it provides an optimal hedging strategy. Theoretically, regression model and indicator $|Z|$ represent a benefit to sophisticated techniques of business analysis in modern business.

This is to confirm the thesis that using hedging in regular business of modern companies contributes to better business and insurance of cash flows which grant normal business, development and higher degree of competitiveness what enables easier and much more reliable way to the companies and whole national economy to integrate to the contemporary and presently unavoidable global economic and social processes.

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CONTRIBUTION OF URBAN DEVELOPMENT TO ECONOMIC GROWTH IN THE MIDDLE AND EAST EUROPEAN REGION

ABSTRACT

Economic growth is sustainable when it is accompanied by measures designed to reduce poverty, social exclusion and environmental problems. The issue of sustainable growth character is particularly important in cities which are most exposed to the problems of social exclusion, environmental pollution and spatial spreading. Cities have also recorded significant differences in the economic and social aspect. There are spatial inequalities (between neighborhoods) or social inequalities (between different groups). Currently, differences include both dimensions. Quality of urban space can also be an attraction factor (URBACT 2007).

Urban and metropolitan areas function as drivers of national and regional competitiveness. Consequently, it is important to ensure growth of strong urban areas and through investments in transportation infrastructure to revive their connections with neighboring areas and remote rural areas. Strong urban centers have a major role in the transfer of expertise, eliciting growth and stimulation of competitiveness. Europe is characterized by a polycentric structure of small, medium and large cities. Many of them form metropolitan areas, while many others constitute only urban centers in the region. Effective management of major urban systems (public transport, energy management, waste management) is necessary if one wants to follow the strategy of sustainable development of urban and metropolitan areas. Balanced spatial development requires careful planning and improvement of connections of urban and rural areas.

For effective urban policy it is crucial to develop and implement models of metropolitan and urban management. With regard to the holistic and multicultural approach that is necessary for effective urban policy there must be engaged all relevant levels of government. Authorities responsible for different spatial levels (regions, departments or districts, cities) should cooperate in an organized manner, if possible on the basis of agreed planning tools. Balanced territorial development, sustainable spatial equilibrium, satisfying connections between urban and peri-urban and rural areas cannot be achieved without joint management and planning effort (URBACT 2007). Towns of the countries in the region of Central and Eastern Europe will at some point join the already existing networks and working groups with great enthusiasm and a desire to adopt ideas, practical solutions and tools in order to try to solve the problems they face in terms of urban development. From their current participation in the project of URBACT 2002-2006 and analysis of the situation in European cities of the new member states, several common topics (among others) have

been especially interesting (URBACT 2007): reconstruction of residential areas, common property management, coping with the decline in population, public transport and transport infrastructure, local economic development (especially in cities that are still depending on traditional industries in decline, high expectations in terms of measures of financing such as public-private partnerships), restoration of abandoned industrial areas, putting of abandoned areas that were used for military purposes in the re-use, urban environment (particularly waste management, waste water treatment), an integrative approach to urban development.

Key words: urban development, economic growth, Central and Eastern Europe

JEL classification: O1

1. INTRODUCTION

In most EU countries, the production of wealth, knowledge and innovation is concentrated in urban areas. Almost the entire GDP of some economies is produced in urban areas. Large urban areas are the main contributors to GDP in the EU, more than 25% of the EU's GDP is generated in the largest cities (or "European metropolitan growth areas"); another quarter in the cities of transnational and/or national significance, and around 30 % in cities of regional or local significance (URBACT 2007).

Relative economic indicators point to considerable differences in the economic development of urban areas. Indicators of the economic performance of EU cities from 2001 show the split between the West and the East. Residents of northwestern Europe have the highest purchasing power (with London, Paris, Amsterdam, Brussels, Hamburg and the Nordic capitals that stand out), while the purchasing power of urban residents of the newcomer states is about half the EU25 average (Urban Audit 2008). However, it is important to emphasize that between 1996 and 2001 the purchasing power increased more in the peripheral European cities than in its developed cities: Estonian, Swedish and Polish cities have the highest rates of growth; Greek and Spanish cities show a substantial increase in standards of living. Meanwhile, GDP growth is particularly low in German, Austrian and Italian cities. Of course, the current debt crisis in the peripheral countries could reverse the above processes (Urban Audit 2008).

2. ECONOMIC TRENDS IN EUROPEAN CITIES: GROWTH AND COMPETITION

Economic indicators of cities cannot be viewed only by GDP in order to depict the achievements of cities in terms of employment, labor productivity, education levels, etc. In the study "The State of European Cities" there was combined a set of indicators¹ to assess the contribution of European cities to the Lisbon program (URBACT 2007). The "Lisbon benchmark" shows that the most developed cities are concentrated in northern Europe. All the cities in Estonia, Denmark and Sweden stand out in the strongest group. Cities in eastern Scotland, as well as some major cities in central

Europe (Budapest, Munich, Prague) are also highly-rated. On the other hand, the weakest cities are located in Poland, Romania and Bulgaria, while Greek and many Spanish cities have poor indicators. The situation in most cities in the UK is even worse. At the same time, the strongest and the weakest cities are located in the same countries, as is the case in Italy, the United Kingdom and Belgium (Urban Audit 2008). When contribution of the cities to the European growth is to be presented, it is possible to single out several factors. National context (national rates of growth) has impact on economic indicators of the cities, but does not explain all of them. Specialization of local economy (part of service sector vs. traditional processing / industrial sector) is another important element that should be taken into account, although indicators in the urban audit in some way cause the usual view according to which the cities with a higher rate of employment in the service sector tend to have better indicators than those where the economy is dominated by the primary and secondary sectors (Urban Audit 2008).

It seems that economic indicators are related to the size of a city. Big cities tend to be strong drivers of economy (GDP growth rates of London, Warsaw and Paris are 3 to 4 times higher than the national ones). However, although the small and medium-sized cities (100.000 to 200.000 inhabitants) have GDP growth rates lower than their national average, they show good growth rates and are important contributors to the European economy (Urban Audit 2008).

In addition to these factors, economic indicators of cities are based on their ability to generate innovations, talents and entrepreneurship and to ensure good connection. In today's Europe - and beyond - urban competitiveness can be defined as the ability of cities to work on these different dimensions.

On the basis of these several factors (size, economic structure, economic indicators, main drivers of competitiveness) a recent analysis of the Urban Audit indicators established a "typology of urban competitiveness". It identifies three main types of cities: international hubs (hubs of knowledge, newly arisen major cities such as large cities of the new member states, specialized in transport), large specialized cities (hubs of national services, the poles of transformation, the market gates, modern industrial centers, research centers, visitor centers), regional strongholds (de-industrialized cities, regional commercial centers, centers of regional public services, satellite towns) (Urban Audit 2008).

Such a typology, established as a tool for understanding the dynamics of urban economy, and not as a rigid picture of reality, offers an inner view of the local combination of resources and strategies that enable better competitiveness of cities. Furthermore, it allows identification of potential opportunities by means of which the cities can improve their economic indicators. Last but not least, it emphasizes that even competitive cities face challenges. International hubs, attractive to migrants, either national or international, are faced with housing problems, with little available space and rising rental rates, making it difficult for people to find an affordable place to live in. High level of availability often goes hand in hand with increased traffic, air pollution and noise (the impact of increase in air traffic), etc.

Established centers typically have a high level of unemployment dynamics and social exclusion, while in the new major cities of the new member states the question is raised as to whether their economic indicators can be self-sustaining. Will they last also when the national economies will have to acquire the European average? Etc. Whether they need to improve their economic indicators or show good positioning in the European - and sometimes in the international economic competition, cities have to face certain challenges in order for the urban development to be sustainable (URBACT 2007).

2.1. European cities and employment: the urban paradox

The issue of unemployment is highly ranked on the priority list of the most of the member states, but in most European cities, the problem is even more evident. Urban Audit highlights the paradox of cities with concentrated opportunities for work, while the unemployment rates are higher than the national average. The data show that compared with national averages, it is less likely for urban residents to be employed. In most countries, employment rates are above the national average in only one or two cities. Unemployment rates for European cities are higher than the national average – that is the case in more than two thirds of the cities from the Urban Audit (Urban Audit 2008).

With regard to employment, the cities themselves experience major changes within their territories: groups of inhabitants most seriously affected by unemployment are often concentrated in particular neighborhoods. Urban Audit indicators (Urban Audit 2008) show that this is not typical of larger cities only, but occurs also in medium-sized towns. In cities with overall unemployment rate higher than 10%, unemployment in unfavorable neighborhoods is often two times higher than the entire city average. The causes of these phenomena are numerous and complex. However, there can be distinguished two groups of factors that cities can have an impact on: on the one hand, the number of available jobs and the nature of these jobs (from which the local population should benefit); and on the other hand, access to the labor market, especially for certain groups of inhabitants that have particularly high level of urban unemployment such as young people and/or immigrants and/or women (URBACT 2007).

3. SWOT ANALYSIS

Analysis of strengths, weaknesses, opportunities and threats (Figure 1) is made within the ex-ante evaluation of the future URBACT II Program (SWOT analysis was made on the basis of the initial draft submitted to the Monitoring Committee on November 17, 2006). It is focused on four European priorities: competitiveness, innovations of enterprises and knowledge based on economy, creation of jobs, social cohesion. Three problems previously mentioned were highlighted as particularly important challenges for the URBACT II:

1. Urban Paradox or situation in which cities have both the highest number of job opportunities and the highest level of unemployment. Ex-ante evaluation emphasizes the need to focus on moves which would ensure that residents -

especially those in less favorable neighborhoods - extract the maximum advantage from the economic vitality of their cities.

2. The gap between the cities in the hard core of Europe and those in the peripheral member states where the peripheral and new member states are faced with a "heavy burden of urban problems associated particularly with the quality of housing and access to services of general interest as well as health care".
3. The main role of urban areas in the promotion of innovations and growth, resulting in a concentration of highly educated people, capital and mutual synergic effect of various economic sectors.

Figure 1: SWOT analysis

STRENGTHS	WEAKNESSES
strengthening the core functions of urban centers	housing
rapid spread of information	migration of a large number of people moving from the new member states to the core cities of Europe
development of small and medium enterprises	
increased role of urban networks connecting cities and similar functions	
revived networking logic among the cities themselves	
OPPORTUNITIES	THREATS
development of the role of urban areas in the context of economic globalization	poverty, unemployment, delinquency
	crime, feelings of insecurity
increased competition of the cities at national and European level	increased social exclusion and spatial split
	spreading of the economic gap between rich and poor urban areas
introduction of ICTs through leading industries; increased demand for access to ICTs	polarization of cities around two population groups – the educated and the excluded
	unequal urban development
	slowing down the economic development of cities
	problems regarding integration of foreigner communities

Growth and employment. The European Council adopted in March 2000 the new strategic goal for the European Union in order to strengthen employment, economic reforms and social cohesion as part of a knowledge-based economy. "The Lisbon strategy for growth and jobs" has set three main priorities:

- Improving the attractiveness of EU member states, as well as of their regions and cities by improving accessibility, ensuring adequate quality and level of services and preserving environmental potential;
- Stimulation of innovations, entrepreneurship and development of the knowledge economy by exploiting the research and innovation possibilities, including new information and communication technologies;
- Creation of more and better jobs by attracting more people into employment and entrepreneurship, increasing adaptability of workers and enterprises and higher investments in human capital.

Cities as the driving force of growth and employment. Cities and metropolitan areas searching for sustainable solutions to the problems they are facing (expansion of cities, demographic changes ...) are today being recognized as key protagonists in the implementation of the Lisbon objectives. Priorities that member states have defined in the set objectives require that European cities devote special attention to certain aspects of urban development (URBACT 2007).

Innovations and creation of incentives for development of the knowledge economy. Much of Europe's resources (human, material and financial) for investment, economic activities, research and development, learning and professional training are concentrated in cities and metropolitan areas. These environments may be favorable for the development of high value-added activities, associated with innovations in industry and new technologies. In order to activate this potential, cities can act in two areas: opening new businesses and development of their innovativeness, which will help develop the knowledge economy (URBACT 2007).

Opening a new business. In the last twenty years European cities have shown that they can play a key role in the creation of new economic activities and enterprises in Europe. They can encourage opening and development of enterprises by creation of services that will combine financial support (access to bank loans, guarantee instruments, microcrediting systems, etc.) with other forms of non-financial support (counseling, providing well-equipped premises at affordable prices, training and professional development of management, market information, economic and population trends data, etc.). Having insight into the conditions, resources and constraints at local levels (data on which must be updated regularly), cities are able to improve the synergy between the authors of a project, the holders of the financial interest, administrative services and institutions that are competent authorities of education and professional training.

Their role is particularly important in creation and further support of small and medium sized (SME) as well as micro entrepreneurship that deserve special attention because they create a large numbers of jobs. Such companies may be promoters of social equality and increase the availability of accessible services, particularly in poorer neighborhoods. However, there are numerous and hardly surmountable obstacles in creating new businesses in such an environment – from difficulties in accessing funding sources and identification of potential markets to the lack of confidence among potential authors of projects. These problems should be coped with through support services (both financial and non-financial), and these should be flexible and adapted to

the local context and particular characteristics of the relevant population groups (immigrants and their descendants, youth, women). In poorer neighborhoods it is extremely important that the implementation of such services be accompanied by projects that provide assistance to the poor in order to ensure that these services become available to target groups and to encourage them to use the offered services.

As is the case with projects designed to facilitate access to employment, projects that contribute to the creation of new jobs are to be performed as part of an integrated approach to the revival of poorer districts as well as urban development in general. Some countries have developed national policies that define the boundaries of those areas which meet the conditions for the application of measures for promotion of economic activities based on multiple partnerships, tax exemptions, public contracts, combined with special social clauses etc. ("zones of possibility" in the Netherlands, "urban zones" in France, "business improvement areas" in the UK). In all these cases, the economic development at the local level can only benefit from close cooperation of various levels of authorities, from the local up to the community level, including the regional and national levels. Furthermore, this cooperation must necessarily be a part of the local partnership involving universities, business structures and public administration (URBACT 2007).

3.1. Knowledge-based economy and innovation

Within the Lisbon program, member states have placed innovations and knowledge at the very center of the European strategy for development and employment. Cities can contribute to this strategy and benefit from it in terms of sustainable urban development, paying considerable attention to those sectors where the added value is largely based on ideas, innovations, knowledge, new information technologies and communication.

In addition to measures aimed at promoting new businesses, it is necessary to develop projects that provide qualified workforce for these activities. European cities have the ability to attract, train and retrain skilled labor force in industries that are associated with new technologies, knowledge, information and creativity. Cities can initiate or participate in partnerships that unite companies, providers of investment capital, institutions involved in education and professional training, higher education and research, and other institutions in order to promote innovations and entrepreneurship. Such synergy can be created within high-level academic centers, projects to support the establishment of smaller enterprises, technology parks etc. These projects have to be incorporated in the planned development strategies at the regional level, thus to encourage partnerships between regional and local authorities.

Finally, access to information and communication technology is today recognized as a significant factor in the development of knowledge-based economy. Cities must provide an efficient, easily accessible infrastructure that would meet the needs of businesses, governments and public services. Their duty would also be to ensure that each population group is provided with access to new information and communication technologies by developing access points in a community. These access points should be available to all, providing support and training systems, particularly in poorer neighborhoods (URBACT 2007).

3.2. Objectives of the URBACT II program

The main objective of the URBACT II program is to make it easier for the cities to achieve the strategic objectives from Lisbon and Gothenburg, allowing them to exchange experiences in key areas of urban policy. Taking into consideration the main task, one can formulate the following general goal - to improve the efficiency of sustainable integrated urban development policies with intention to implement the Lisbon Strategy.

The URBACT II program will connect the protagonists at the local and regional level in order to exchange experiences and knowledge in a wide range of topics related to urban policy and focusing on achieving the main goal, improving the efficiency and impact of that policy at the urban level. The program will include a strong element of capitalization and expansion (or transfer) with the intention of establishing action plans that could become included in those major programs and transfer the results as wide and efficient as possible.

The overall objective can be divided into several specific objectives of the URBACT II program. Analysis of the operational program highlighted some of the major challenges that cities today are facing. They include the issues of accessibility, access to services, innovation, entrepreneurship, knowledge economy, support for small and medium enterprises, increase in better jobs, social cohesion, equal opportunities, cities safety, governance, participation of citizens and integrative approach to urban development. Most cities in the European Union implement policies aimed at answering these challenges, but these policies vary considerably between member countries, hence there is a need for exchange of experiences and learning from examples of good practice in these areas.

Based on the results and analyses presented in this chapter, as well as the experiences of the program URBACT 2002-2006, it seems appropriate to create a new program for the two main topics that would include three main types of jobs. Reviewing the data associated with the main socio-economic trends in European cities with regard to the issues raised in the SWOT analysis and the priorities outlined in the Lisbon Strategy in the field of urban policies, there are two main themes around which the Program activity can be developed (see Chapter 4):

- cities as initiators of innovations, entrepreneurship and new job openings (issues related to the promotion of entrepreneurship, knowledge economy, employment and social capital)
- attractive and cohesive cities, capable of creating social cohesion (issues related to integrative development of poor and underdeveloped areas, social integration, environment protection issues, urban strategy and governance)

These topics are being considered in the context of learning activities and exchange arising from the projects of URBACT 2002-2006, i.e. thematic networks and working groups (URBACT 2007).

3.3. Priorities of URBACT II

Operational Program presents two thematic priority axes: Priority Axis 1 - cities, drivers of growth and jobs, and Priority Axis 2 - attractive and cohesive cities (plus Priority 3 - technical support). The selection of these priority axes results from experiences of the URBACT 2002-2006 program, reflecting also the Regions for Economic Change document.

Priority axis 1 – cities, drivers of growth and jobs - the main sub-themes to consider include:

- promoting entrepreneurship (including financial instruments)
- improving innovativeness and knowledge economy
- employment and human capital (employment opportunities, qualification, access to the labor market, education and training system, target groups: older workers).

Priority axis 2 – attractive and cohesive cities – the main sub-themes include:

- integrated development of poor and underdeveloped areas - unused former industrial areas, city cores, poor and neglected areas at the periphery of cities
- social integration: housing issues, immigration management, young people, health care, safety, information and communication technology, culture
- environment protection issues: waste, improvement of environment supervision, improvement of air quality, water quality and supply, renewable energy sources, integrated transport policy, shift towards a society that recycles everything etc.
- management and planning in urban areas: urban planning, authorities at multiple levels, participation of citizens, territorial management (horizontal and vertical).

The topics listed in priority axes cover the most important areas of policy on integrated sustainable urban development and challenges now faced by the European cities. They can also be extended by additional topics if needed. It is obvious that among these priorities there should be established many connections in order to enable an integrated approach to sustainable urban development, and in addition there are many ambiguous issues that should be considered for all possible URBACT activities. Among these topics are: equal opportunities, gender issues, environmental sustainability and integrated approach; internetworking can also be included.

Priority axis 3 – technical support

Table 1 shows financial resources (in percentages) that should be allocated to each priority.

Table 1: Distribution of budget funds according to priorities

Priority	Budget share
Priority axis 1 – Cities, drivers of growth and employment	44%
Priority axis 2 – Attractive and cohesive cities	50%
Priority axis 3 – Technical support	6%
Total	100%

Source: URBACT II (2007, p. 48)

Priority axis 1: cities, drivers of growth and employment. This priority axis consists of stimulating entrepreneurship, promoting innovations and human capital, increasing employment and the knowledge economy.

Stimulation of entrepreneurship (including financial instruments). Stimulating entrepreneurship is a major challenge in the cities and is therefore extremely important for opening of new jobs and economic growth. In most cities that stimulate entrepreneurship this is generally regarded as the duty of the city administration, but the activities and achievements in stimulating entrepreneurship are often limited due to a number of interrelated factors, such as an increasing shortage of financial resources that the cities dispose of and lack of strategies and supporting tools for stimulating entrepreneurship within a broader economic policy. Meanwhile cities often do not have the ability to exercise significant influence, because they did not realize the need to comply with other protagonists, especially the private sector, nor to be acquainted with the markets which are characterized by certain specific requirements.

URBACT 2002-2006 and the Communication COM (2006) no. 385 determined a number of good practice examples, as well as tools that can help stimulating entrepreneurship through various thematic networks and working groups. Nevertheless, it obviously needs to be done more. There have been identified the following priorities for the future:

Improving access to financial resources, but also to non-financial support, such as mentoring, marketing, training, information services and innovative processes for small and medium-sized enterprises (since they make more than 95% of all the companies in the European Union).

Further implementation of public-private partnerships and strategic partnership agreements to ensure an integrated approach (it is very well documented that the economic development is sustainable only if accompanied by policies to reduce poverty, social exclusion and environmental problems)

- further development of social economy by the cities, with a special focus on poorer neighborhoods that are already suffering from high unemployment levels and losses
- intensified measures for regulation of informal economy (and given great impact they have on economic development, especially in the Mediterranean countries)
- transformation of universities into 'Triple Helix' Catalyst' (local governments, university, industry)

Promoting innovations and knowledge economy. Within the Lisbon Agenda, member states have placed innovations and knowledge at the very center of the European strategy for growth and creation of work. Cities are in a position to contribute to this strategy and to benefit from it in terms of sustainable urban development, giving importance to those sectors where added value is highly associated with ideas, innovations, knowledge and new information and communication technologies. Hence the next steps and future prospects:

- projects implemented under URBACT 2002-2006 and the Communication COM (2006) no. 385 point to the essential need of the cities for continued support

through specific development of strategic policies at the city level, in line with the new information and communication technologies (NICT)

- development and adjustment of technology infrastructure in a constantly changing environment
- improving access to new information and communication technologies for all citizens, and especially for groups in a less favorable position suffering from the effects of digital separation (citizens, small and medium-sized enterprises, etc.)
- developing links between jobs and NICTs: retraining of workers in the cities, setting up a program for continuous training
- setting high quality standards associated with the knowledge economy in order to create new jobs, attract qualified professionals and avoid splitting of resources
- development of partnerships (between cities, between cities and private companies, cities and universities, etc.) in order to promote innovativeness and entrepreneurial spirit
- development of inter-urban exchange of employees working in the areas of innovations, knowledge and NICTs.
-

Employment and human capital. In almost all of Europe primary responsibility for interventions in the labor market, with the goal of reducing unemployment, is assumed by national and/or regional governments. However, despite the strong involvement of national policies, the problems in the labor market have dangerously worsened in many parts of most of the European cities. Urban audit reports that cities with high average levels of unemployment tended to have neighborhoods with rates at least twice as high, sometimes reaching up to 60%. However, in many parts of Europe, cities are still trying to become a legitimate partner in the fight for a job.

The Lisbon Agenda and the European Employment Strategy (EES) put more emphasis on the reduced set of economic priorities that, at first glance, might seem out of reach for local participants. Actually from the European Employment Strategy there has been removed the guideline which is explicitly related to the development of local employment.

Projects financed by URBACT 2002-2006 and the Communication COM (2006) no. 385, bring some ideas for future priorities related to employment and human capital and finding employment, and these include:

- developing a strategic approach to the actions that are based on human needs
- identifying and aiming at the main barriers which hinder people while entering the labor market
- working on an integrated way to the labor market with a focus on specific target groups
- supporting the transition from the formal to the informal economy
- supporting the transition from the system depending on benefits to the labor market
- providing a second chance to those who were bypassed by the system of formal education
- connecting local schools, training system and employers
- use of new technologies aimed at increasing the access to educational sources and developing lifelong learning strategies

- providing young people with more entrepreneurial models
- assistance in bridging the gaps for employers
- maximum utilization of local authorities' spending capacities to ensure jobs for local population
- ensuring that the processes of local employment and training conducted by public authorities create employment opportunities for groups and areas with less favorable conditions
- combining public and private resources to create jobs in the social economy

Priority axis 2: attractive and cohesive cities. This priority deals with four topics: integrated development of underdeveloped areas, social integration, environmental issues and management, i.e. urban planning.

Integrated development of underdeveloped areas. Urban Audit shows that almost all cities with an unemployment rate of 10 percent or more, have certain areas where these rates are at least twice as high as the city average. In some cases, unemployment rates are reaching 60 percent (Urban Audit 2008). Within those underdeveloped areas there is high unemployment accompanied by multiple losses associated with poor housing conditions, bad environment, poor health, poor education, few job opportunities and high rates of violence. Success of the "Urban Communities Initiative" is not small thanks to the integrated approach. URBACT is aimed at social and economic connection, it removes barriers to employment and investment and, at the same time, it promotes social and environmental objectives. This process is also supported by a wide range of partners with different skills and their mobilization. Projects financed under URBACT 2002-2006 and the Communication COM (2006) no. 385 have resulted in ideas for future priorities in the integrated development of underdeveloped areas, and these are:

- development of long-term, consistent plans for all the various factors promoting sustainable growth and jobs in urban areas
- urban renewal
- mobilization of key partners - the private sector, community and non-governmental organizations as well as local, regional and national governments
- support for micro and small enterprises; small scale loans and microcredits
- renewal of neglected areas and renovation of public areas

Social integration. The battle against social exclusion is a key challenge. Social exclusion has a number of consequences on: local business running (fewer consumers), environment (less safety, vandalism), the inhabitants (lack of 'positive thinking', creativity and optimism at work) and the potential for growth of the city (which is becoming less attractive). There should be developed and implemented integrated strategies covering all the issues (education, housing, battle against exclusion, employment and sport). Projects financed by URBACT 2002-2006 and the Communication COM (2006) no. 385 bring some ideas for future priorities related to social integration, and these are:

- housing
- immigration management and facilitation
- young people and children

- gender equality
- improvement of social services (healthcare services)
- increased public safety
- social exclusion and spatial exclusion

Environmental problems. Some cities are facing problems such as growing population, rising costs of residential properties, lack of available land, traffic congestion and overexpansion of public services; for others the problems are depopulation, deserted areas, lack of jobs or low quality of life. In many cities the key challenges are suburbanization and 'urban extension' - where the area around the city attracts residents and developments away from the city itself, leading to opposite problems and new needs, such as depopulation of cities, but also overcrowded suburbs and surrounding rural areas. Projects financed by URBACT 2002-2006 and the Communication COM (2006) no. 385 bring some ideas for future priorities related to environmental issues, such as:

- transport, accessibility and mobility
- access to services and comfort
- natural and physical environment (waste, improvement of air quality, water quality and supply, renewable energy, transition to a recycling society, improvement of environment supervision..)
- cultural sector.

Management and urban planning. Urban development is a complex and lengthy process. It includes people who live and work there, important public and private institutions, legal and planning framework and the physical and natural environment. Cities need a long-term vision to maximize the numerous critical factors of success referred to in this document, including access and mobility, access to service resources, natural and physical environment, culture, small and medium-sized enterprises, innovations, employment opportunity, social involvement and public safety. Territorial management is likely to have an increasing role in dealing with both the internal problems (economic development, social connection, environment, etc.) and the external ones. Member states should then be encouraged to delegate the management of some operational program projects. Some of the URBACT networks have in this respect emphasized the need for collaboration between local, regional and broader levels. More specifically, joint work at different levels of local communities should be made easier. Eco-Fin-Net pointed out that the common elements between local and regional levels were a prerequisite for effective and efficient financial support to small and medium-sized enterprises.

Local level, like national or European level, goes through a crisis marked by a sense of lack of legitimacy and government representation. That is the reason why all the shareholders are invited to participate in local decision-making.

Within the URBACT 2002-2006 program, networks have focused on the question of participation. *Partecipando* and *Citiz@move* have been working on the creation of joint principles and criteria of success for participation projects. The objective of the Young Citizens Project was to explore how to better involve young people in creation of local policy, where young people had to evaluate the local policy that concerned them.

URBACT 2002-2006 and the Communication COM (2006) no. 385 have recognized numerous good practical examples and tools that can help promote management and urban planning. Projects have primarily recognized the need of the cities to continue strengthening research and realization of actions in a number of areas, primarily:

- solving the territorial governance problems when the area in question includes both urban and rural dimensions
- coordination of land use policy and investments of the Structural and Cohesion Fund between urban areas, rural areas, the region and national levels in order to solve urban 'extension'; initiatives for urban areas and city centers to become attractive places to live in
- increasing networking of cities towards cluster networks in order to reach critical size and to decide on joint strategies.

Among participants of further participation projects, the following groups can be regarded as the privileged target population:

- resident groups have specific skills and knowledge of the local context and participants
- women are also target population for partnerships because they are at the same time both over-represented in urban activities and underrepresented at decision-making positions
- young people are also crucial in effective management and their participation was defined as a priority by the European Union.
-

Priority axis 3: technical support. The role of technical support will consist of contribution in preparation activities, management, monitoring, evaluation and control of the Program activities in accordance with Article 46 of the (EC) Regulation 1083/06. The amount which the European Regional Development Fund (ERDF) allocated for this priority is 3.19 million Euros (which equals 6% of the total ERDF amount for the Program). The amount of the national contribution is 2.13 million Euros, out of which 10.2 million national contributions of France and 0.03% in ex-ante contributions.

Technical support covers activities related to the administration of the Program under Article 46 of the (EC) Regulation 1083/06, and especially on the initiative of a member state, the funds can finance the preparation, management, monitoring, evaluation, information and control activities of operational programs together with activities to strengthen the administrative capacity for implementing the funds etc. (URBACT 2007).

4. CONCLUSION

This paper tried to break down the basic problems faced by the cities in the European Union, and several important responses in terms of policy, which arise from the URBACT 2002-2006 and 2007-2013. Attention is paid to the contribution of urban growth, cohesion policy, demographic and economic trends and finally to the employment paradox in European cities.

Social involvement is mentioned in a special context, and is of particular importance for the hypothesis of this paper, for the reason that the funds of the European Union for forming of some projects have emerged from the context of social exclusion.

Furthermore there have been presented the most important responses of the URBACT II to the indicated problems, and there were analyzed driving forces of growth and employment, the policy of increasing the number of jobs, the problem of infrastructure to support the attractiveness and cohesiveness of cities as well as social cohesion and its role for life in the city and environment of sensitive groups. There were also presented priorities of the URBACT II that are based on recognized answers of the URBACT II to the identified problems of the EU cities.

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SESSION 5

BOSNIA & HERZEGOVINA; EU INTEGRATION PERSPECTIVE, TRADE AND COOPERATION

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REFLECTION OF THE EU ENERGY AND CLIMATE-CHANGE POLICY AT THE BOSNIA & HERZEGOVINA ACCESSION TO THE EUROPEAN UNION

ABSTRACT

Climate change is one of the biggest challenges in the coming years to face humanity. Risks and uncertainties for the whole planet and for future generations are enormous and must take urgent action. The European Union has for decades dedicated to the fight against climate change, both internally and internationally. The central location makes the realization of EU that energy and climate-change policy should go hand in hand. With the crisis of climate change, the EU has triggered the action and because of concerns about high energy prices and Europe's dependence on a few external suppliers of energy. As part of its energy and climate-change policy the EU is taking numerous measures to curb greenhouse gas emissions in all sectors. In this task, the EU is trying to achieve the following objectives: consuming less-polluting energy more efficiently, creating cleaner and more balanced transportation options, making environmentally responsible companies view without compromising their competitiveness, ensuring environmentally friendly land-use planning and agriculture and creating conditions conducive to research and innovation. The benefits of these tasks are not only environmental, but also economic. At the moment, the EU is lagging behind at only 9 % energy savings. Missing the target at this level will cost member states at least € 34 billion by 2020, and the opportunity to create more than 400.000 "green" jobs. This shortfall in energy savings will also mean continued to capital outflows from the EU economy through energy imports. The EU's energy import costs soared last year at 400 billion euros. After outlining the history and present main features of the EU energy and climate-change policy, the paper explores the impact that this policy has to fulfill the conditions of the accession of Bosnia and Herzegovina to EU. The work on the other hand emphasize the potential energy, environmental and economic benefits that would be on its way to EU accession and could have Bosnia and Herzegovina conformed to the common energy and climate-change policy. In this regard cite the latest example of promising proposals for the regulation of Cohesion policy in the period 2014-2020. According to the proposal, even the of the next € 1 trillion budget go to the regional development of EU. Also, Europe's "less developed" regions will be required to invest at least six percent of their regional development funding for "low-carbon" measures to combat climate change. For the period 2014-2020, this amounts to an estimated € 7.4 billion. Through regional measures and/or through funds intended for non EU countries, the B & H may be conceiving and implementing their own energy and climate-change policy to ensure the importance of cash flow. The aims of this work consists in contributing to the B&H's sustainable use

of natural resources, development of “green” economic growth and meets the EU Environmental Acquis.

Key words: *EU energy policy, climate changes, B&H accession to the EU*

JEL classification: *F15*

1. INTRODUCTORY REMARKS

This paper examines the relationship between the EU energy and climate-change policy as part of its economic policy and the Bosnia and Herzegovina accession to the EU, ie political, economic, energy and environmental benefits taht in the way of joining the EU may have Bosnia and Herzegovina if quickly and thoroughly adopted the objectives and criteria of the common energy policies and incorporate them into the national energy and general economic policy. Through researc attempts to prove the thesis according to which the takeover targets, tasks and measures of common energy policy of the EU is not only necessary to improve the status of Bosnia and Herzegovina and progress in the negotiations on joining the Eu, but also stands for optimal basis for the simultaneous strong economic, technological and wider societal development and protection of the environment and putting it into a development function by enhancing sectors such as agriculture and tourism. After the introduction, the second part of this stuy examines the foundations and objectives of energy policy as part of the overall objectives of EU economic policy. Because of the central role of energy in economic development, external dependancy and ongoing crisis in energy supply, rising energy prices, the concentration of ownership in a few hands of energy and pollution due to growing consumption of fossil fuels the energy policy is at the centar of EU policy-making and economic planning. The paper also analyzes the energy sector commitments and measures that Bosnia and Herzegovina as a potential candidate is required to take and implement the agreements signed under the Stabilisation and Association Agreement (SAA), the Energy Community Treaty (ECT), the Treaty establishing Energy community of South East Europe (ECSEE) etc. In the third part of the paper gives an overview of energy indicators for Bosnia and Herzegovina, and analyze its energy balance and emphasize its overly high energy resorces, particularly hydropower and the potential for energy production from renewable sources. Exposing also facts about the large and iefficient consumption of elektricity, energy losses in the distribution and poor financial perfomance of energy companies. Explains also the structure and the fact that the essential high prices paid by households for energy, and the reasons why the low market price of energy repels potential investors. The fourth part describes the extent, causes and consequences of today's negative impact of the energy sector in Bosnia and Herzegovina on the quality of the natural environment as well as opportunities to reduce the negative impact on the environment by increasing energy efficiency and investment in renewable energy. In this section of the article also notes that the rationalization of consumption and «green» energy has enormous economic, technological, environmental and many other development potentials, which are sadly still ignored and disparaged in Bosnia and Herzegovina. In all parts of the article mentioned and briefly explain the most difficult obstacles that stand in the way

of acceptance and realization of objectives and obligations from the EU energy and climate-change policy and interfere with the restructuring of the energy sector in Bosnia and Herzegovina. In the fifth and final part of article are listed and explains the political, economic, ecological, technological, educational and other benefits that can be achieved when Bosnia and Herzegovina modernize its energy sector and adapt it to meet the requirements and objectives set by the EU in the framework of a common energy policy. It is emphasized that the rapid advancement of the accession negotiations, the economic recovery and future sustainable development in Bosnia and Herzegovina is of utmost importance successful adaptation of its energy and environmental policy and the structure of the energy sector to European requirements. Adjustment can be faster and easier to implement because of the energy sector in Bosnia and Herzegovina is a net exporter. This conclusion is supported by the results of analysis of today's political and economic crisis in EU, EU energy and environmental needs and demands and enormous financial resources that the EU intends to allocate for the realization of the objectives of the energy-climate policy. In this section outlines and explains regional development potentials related to the energy sector and energy potential of Bosnia and Herzegovina and neighboring countries, and their realization that a number of reasons the EU generously supported.

2. EU ENERGY AND CLIMATE-CHANGE POLICY AND THE APPERTAINING LIABILITIES OF BOSNIA AND HERZEGOVINA

For quite a long time, the EU has been a driving power in the international relations and negotiations that have, among other things, lead to signing of the 1992 UN Framework Convention on Climate Change (UNFCCC) and the 1997 Kyoto Protocol. The latter requires from 15 EU Member States (there were 15 Member States in the EU at that time) to decrease their aggregate emissions to 8 % below the 1990 level until 2012. Emission monitoring and relating projections prove that the EU-15 has probably accomplished this goal. Nevertheless, the climate change threat, the growing dependence on energy import and the fact that most raw material reserves (carbon-hydroxide) are in the hands of few players as well as the subsequent rise of energy supply costs have forced the EU to invest great efforts into shaping of a common energy policy. As a response to the above challenges and issues, the European Council presented an Action Plan for Energy Policy for Europe for the Period 2007-2009 at the meeting of March 2007. The main goal of the Action Plan refers to an urgent and efficient remedy for climate change-related challenges. What was also put forward is achievement of the strategic goal of limitation of the rise of the mean global temperature to 2°C above the pre-industrial revolution level. Beside the 2005 Green Paper on Energy Efficiency and the 2006 Green Paper on Energy, the Action Plan promotes an integrated approach to the climate and energy policy since it had been concluded that a rise in the energy efficiency and exploitation of renewable energy resources will contribute to i) safe energy supply accompanied with a decline in the previously anticipated consumption levels, ii) stable prices of energy resources through their higher availability and lower consumption and iii) decrease of greenhouse gas emissions and combat against climate change. In this sense, the Action Plan sets a number of specific and binding goals: i) increase the energy efficiency aimed at lowering the total consumption of primary energy by 20 % to the year 2020, ii) raise

the share of renewable energy resources to 20 % in the total energy consumption until the year 2020, iii) reach at least a 10 % share of bio-fuel in the total consumption of gasoline and diesel fuels used for transport in the EU until the year 2020, iv) complete the establishment of an internal power and gas supply market, v) develop technologies ensuring low carbon percentages. The Action Plan has developed a European Emissions Trading System of Carbon Dioxide (EUETS) as a special instrument focused on decreasing greenhouse gas emissions. It is a system that allows trade with permits for CO₂ emission and its purpose is to gradually decrease permitted emissions and thus bring to a total fall of harmful emissions. The above goals shall be involved into national goals, taking account of the countries' starting positions and capacities. Every state sets its national goals by itself, but under the condition that it respects the goals defined in the Action Plan. (Kandžija-Cvečić, 2010, 849-865)

Due to a fair number of signed international treaties, Bosnia and Herzegovina is bound to accept numerous liabilities with respect to structural and regulatory reforms and developmental policies in the energy sector. Although those treaties imply acceptance of many liabilities, fulfilment of which is neither an easy nor a short-term job, the treaties could be seen as an excellent ground for economic growth and social development based on energy sector development and simultaneous environmental protection as well as on exploitation of the environment for economic purposes in the sectors (e.g. agriculture and tourism) for which a well-preserved environment is a *conditio sine qua non*. The Energy Community Treaty (ECT, ratified in 2000) concluded with the EU represents the most important mechanism for realization of energy-related EU goals and policies in Bosnia and Herzegovina and the whole region. The energy community foresees establishment of a free energy market, promotion of investment into the energy sector and providing the energy sector in transition countries with necessary assistance. The ECT caters for a legal framework for energy transit and technical standards which are needed for reduction of the pollution coming from inland plants. Being a party to the ECT is a prerequisite for purposeful investment into the energy infrastructure and an increase of the technological level in production and energy consumption.

The ECT has enabled virtual integration of Bosnia and Herzegovina in the EU in the context of energy and this field now comprises 34 states – EU-34 (CPU, 2011, 14). As much as 20 billion EUR is to be spent on stable energy supply in EU-34 and diversification of ways of energy supply in the next 20 year, which, considering the energy sector balance in Bosnia and Herzegovina and its geographical position, means a great commercial, technological and economic opportunity. Unfortunately, it seems that the European Commission deems that Bosnia and Herzegovina has not appropriately applied the EU energy regulations yet. The latter has though signed and ratified the Treaty on the Energy Community of South East Europe (ECSEE, 2005). This Treaty is considered to be a common regulatory framework for energy markets in the EU and south east European countries. It stipulates that signatory states are obliged to prepare databases on energy consumption, implement tariff liberalization policies, draw up plans for subsidizing the poor, modernize their legislation, lay down efficient strategies for investment into the gas supply sector, adapt the gas supply systems to the population needs and define regulations for consumer protection. The Stabilization and Accession Agreement (SAA, signed in 2008) requires adoption of European energy-

related directives and standards and cooperation based on the ECSEE. Various liabilities arising from adopted and signed treaties and agreements do not entail only harmonization of Bosnian regulations with the common EU energy policy but also meeting the requirements and standards derived from the *acquis communautaire*. (Kandžija-Cvečić, 2010, 227-230)

The fundamental liabilities and challenges stipulated by the above-mentioned and other treaties and agreements can be, in the context of Bosnia and Herzegovina, reduced to development of institutional capacities which might efficiently shape and implement the national energy policy within the framework of the common EU energy policy and their goals, to regulation of the national and regional energy market pursuant to EU directives, strengthening of energy safety, particularly through investment into renewable energy resources, improvement of energy efficiency due to environmental concerns and decrease of energy poverty, and to design of an adequate social policy as a response to the transition to competitive energy prices.

3. ENERGY INDICATORS OF BOSNIA AND HERZEGOVINA

As far as economic and social development is concerned, a positive energy balance is a matter of vital importance in any country. Accordingly, an adequate energy policy can ensure industrial advancement which then boosts economic growth and raise the living standard. In terms of Bosnia and Herzegovina, it is energy potentials and the energy sector that possess huge potentials for development. From the viewpoint of hydropotential, Bosnia and Herzegovina is ranked eight in Europe, but estimates suggest that only one third of those potentials are being exploited. With respect to potentials for energy production based on renewable energy resources (wind, sun, biomasses, geothermal resources), Bosnia and Herzegovina is the richest country in south-east Europe. These 'green' potentials exceed the European average by about 30 %. The reserves of coal, lignite and peat in Bosnia and Herzegovina exceed six billion tons (Šehović, 2007, 8-10). Regarding oil and gas, Bosnia and Herzegovina is forced to import them despite certain capacities for oil processing, so the country is in this context almost totally dependent on Serbia, Croatia, Hungary and Montenegro.

Due to huge potentials for production and distribution of energy, Bosnia and Herzegovina already today exports four TWh of electricity a year. At the moment, the country is about to launch new power production capacities with the total power of 1,500 MW. Driven by the mixture of lignite and brown coal, the Tuzla 7 power plant is going to generate power of 450 MW. Based on the turnkey principle, the Chinese are building the Stanare power plant near Dobož with the total value of 650 million EUR. The power plant will use coal and its capacity will amount to 300 MW. The power plants of Zenica and Kakanj IV will be driven by gas supplied from Hungary. Their production capacity totals 350 and 450 MW, respectively. The Federation of Bosnia and Herzegovina has been approved of the Vranduk project which is part of a larger plan intended for construction of 15 smaller hydroelectric power plants on the Neretva river. There is no reason why Bosnia and Herzegovina should not become an even bigger importer of electricity due to its great potentials and a relatively good

geographical position: energy will also be needed by the richest western European countries such as Germany which intends to close down its eight nuclear power plants. On the other hand, Bosnia and Herzegovina spent a total of 12,266 GWh of electricity in 2010. This is a large number considering the fact that the population of Bosnia and Herzegovina is only 3.3 million (Morvaj et al., 2011, 8). This figure is not only big but it also suggests inefficiency since the same amount of consumed energy in an average EU Member State implies four times larger national income than that of Bosnia and Herzegovina. Data on energy consumption per capita entail a low living standard since the electricity consumption per capita in Bosnia and Herzegovina amounts to about 2,320 kWh while the average consumption per capita in the EU totals 6,145 kWh (CPU, 2011, 6).

As much as 40 % of the total generated energy is lost through the transmission. Due to great losses in transmission and inefficient energy consumption by households and the public sector, the energy sector accumulates major losses. Above all, the fact that the energy is utilized four times less efficient than in the EU doubles the pollution per unit of generated energy. Disproportionally high exploitation of lignite accounts for these figures. More precisely, between 45 and 55 % of the total generated energy is derived from lignite, coal of the lowest quality. It must be noted that 1 GWh of electricity generated through lignite produces about 1,000 t of greenhouse gas CO₂!

Due to the low productivity of the workforce and utilization of obsolete equipment, the lignite mines has been facing losses. The losses are covered by state subsidies granted to the industry of lignite exploitation and to heating plants that are loss makers as well. Bosnian citizens are the ones who pay for this in the end. The households pay the disguised price of energy which is virtually higher than the corresponding price in the EU despite the fact that the bills do not reflect such a high price. However, Bosnian citizens pay the real price of energy through state subsidies and useless investments in the whole production cycle, distribution and consumption of energy and thus they are short of funds needed for nutrition, education, health insurance and investment into more efficient appliances and the energy efficiency of their homes. It has a negative effect on the development of agriculture, technological sectors of industry, tourism and other branches of industry. The country is falling behind in the technological and ecological sense and enters into a new cycle of poverty (CPU, 2011, 3). Moreover, the seemingly low price of energy for consumers discourages investors from investing into renewable energy resources and hence Bosnia and Herzegovina is lagging behind other European countries with respect to the goal of increasing the share of renewable energy resources (CPU, 2011, 8).

Households participate in the structure of the total energy consumption with 52 %, industry and transport with 20 %, services with 6 % and agriculture with 2 % (CPU, 2010, 5). To sum up, buildings, this includes housing and facilities in which public and commercial services are provided, spend more than 50 % of the total generated energy (such consumption is in developed countries reduced to 40 % of the total energy consumption) and should be defined as a target area which could achieve good results in energy savings, i.e. raising energy efficiency. A rise in energy efficiency implies a rise in national income and total demand but also a fall in the consumption of the public sector (municipalities, towns, cantons). Raising energy efficiency could bring to

redistribution of saved budget funds to other fields of high priority such as economy and social welfare. Of course, measures for achieving a higher level of energy efficiency should be undertaken in agriculture too where reduction of energy supply costs aimed at a competitiveness increase is neither paid due attention nor happening. The results of this short energy analysis suggest that the future, hopefully efficient common energy policy of Bosnia and Herzegovina should decrease the great exploitation of lignite, raise the energy efficiency, lower the subsidizing of loss-making power plants and initiate fulfilment of the liabilities assumed through the ECT, ECSEE and SAA (CPU, 2011, 6). These liabilities involve preparation of a comprehensive energy strategy by the state, preparation of plans for investment into renewable energy resources and transparent tendering procedures. In fact, Bosnia and Herzegovina needs to restructure its energy production in favour of renewable energy resources (the energy generated by hydroelectric power plants is still to be discussed), reinforce local capacities for energy production and rationalize energy consumption in order to maintain or even lift the level of electricity export, develop new 'green' technologies, establish small and innovative companies, achieve economic growth and a higher employment rate based on new workplaces in the energy sector and preserve the environment as a prerequisite for development of other sectors such as organic agriculture and various forms of tourism.

4. INFLUENCE OF THE ENERGY SECTOR OF BOSNIA AND HERZEGOVINA ON THE ENVIRONMENT AND ITS PROTECTION

Due to extremely high exploitation of lignite, it comes to great environmental pollution through soil acidification, air pollution (smog) and participation in climate change. Soil pollution leads to water pollution, a slowdown of the agricultural development and a decline of the comparative advantages in the possibilities for sustainable and tourism development in rural areas. Vast damage is done to human health too. In general, the energy production in Bosnia and Herzegovina generates two times bigger pollution than this type of production in the EU does. The pollution indicator is called carbon intensity produced to GDP (CO₂/GDP) and this figure amounts to 0.62 in Bosnia in Herzegovina while the referring value in the EU is 0.33. (CPU, 2011, 7). The results of 2007 international research show that the emissions of greenhouse gases (CO₂ and SO₂) have been tripled since 1995.

The greatest share of the emission refers to the energy sector – 52 %, construction and agriculture can be blamed for 16 % of the emission, transport participates in the emission with 14 %, industry with 13 % and households with 5 %. Coal is the leading source of emission (75 %), petroleum products follow it with 21 % and gas with 4 % (CPU, 2010, 14). Therefore, it is vital for Bosnia and Herzegovina to adopt and implement the EU Directive on Large Combustion Plants until 2017. The Directive relates to large greenhouse gas emitters, including lignite power plants. Hindering advancement in environmental protection encompasses the fact that signed and/or ratified international treaties (e.g. UN Framework Convention on Climate Change - UNFCCC, Kyoto Protocol, Protocol on Further Reduction of Sulphur Emissions, Convention on Long-Range Transboundary Air Pollution - CLRTAP) are either not being implemented at all or maybe just to a minimum extent. Such a status is facilitated

by the complexity, fragmentation, incompetence and unaccountability of the authorities and local government, state government and management of companies from the energy sector.

Energy efficiency and its preservation certainly represent one of the ways of taking care of environmental protection. Enhancement of energy consumption efficiency is in the economic sense the most efficient mechanism for simultaneous accomplishment of the desired goals of safe energy supply for future generations and mitigation of negative effects on the environment. A fall in energy supply costs first enable raising energy efficiency and then strengthening of the competitiveness of national economy and a GNP growth. This is of particular importance for Bosnia and Herzegovina since the great losses during the energy distribution the country has large losses in energy use. It is estimated that at least 30 % of the heating energy wasted due to poor insulation of residential buildings, private homes and poor quality of combustion devices. (CPU, 2011, 7)

Investment into renewable energy resources also contributes to preservation of the environment and facilitates its restoration into the former, better condition. The world is facing a revolution regarding investment into renewable energy resources and the total investment on the global level already exceeds 250 billion dollars. It represents a 500 % rise with respect to the year 2004. Investment into renewable energy resources is of special interest for the EU since it has been concluded that it cannot reach the economic growth of some other countries in the world but it possesses certain technological advantages over them considering the so-called green economy. While developing its green economy, the EU has an opportunity to achieve defined ecological goals of its energy sector. Concerning a relatively low level of the environmental pollution in south-eastern European countries, their inclusion into the development and application of the technology of renewable energy resources is deemed a great opportunity for their economic and technological development. Energy and general environmental policy are oriented towards green economy which is expected to stimulate the economic growth, poverty reduction and environmental protection. This is particularly important in Bosnia and Herzegovina. Unfortunately, the reality shows a completely different picture. Even though it is well-known that Bosnia and Herzegovina is the eighth country in Europe judging by hydropotential and that only 37 % of this type of energy resources has been exploited as well as that it possesses extraordinary potentials (it exceeds the European average by 30 %) for production of energy from renewable resources (wind, sun, biomasses, geothermal sources), there are no significant investment into exploitation of renewable energy resources. Existing energy plans simply do not take into account that the wind energy potential estimated at 600 MW and solar energy at 67.2 PWh, nor the large potential of biomass of the rich forest resources. There are relevant adequate and updated data neither on biomass exploitation nor on assessment of the required level of investment, which is necessary to make these energy resources lucrative for potential investors. Although there will be a tax for renewable energy in both entities to collect some funds it will not be sufficient for any serious investment in the exploitation of solar, wind or biomass. Therefore, once again stressed the importance of making a serious energy strategy that would include a plan for the exploitation of renewable energy sources. To make the situation even more remote from the European guidelines, indications of main future

investments pertain to establishment of new coalmines and construction of thermal power plants, which is contrary to the liabilities assumed in the EU Directive on Large Combustion Plants and other conventions relating to environmental protection. Although the hydropotential of Bosnia and Herzegovina is enormous, construction of large hydroelectric power plants may jeopardize the environment. This country permanently neglects contemporary benchmarks of country sustainable development while according to the UNDP human development index, Bosnia and Herzegovina takes the last place among neighbouring countries. Instead of utilizing renewable energy resources for rural development (the core of poverty), technological development (respecting «green» technology and environmental protection standards) and for combating air, soil and housing facility pollution, analysis of documents on the development of the energy sector of Bosnia and Herzegovina reveals conceptual, technological and developmental underdevelopment. This issue is dealt with by companies from the energy sector, non-governmental organizations and associations only to a minimum extent, which suggests that there is a lack of competence, knowledge, interest and opportunity for their public involvement.

5. CONCLUDING REMARKS: ECONOMIC, POLITICAL, ENERGY AND ENVIRONMENTAL BENEFITS FROM THE ACCEPTANCE OF OBJECTIVES AND LIABILITIES STIPULATED BY THE EU ENERGY AND CLIMATE-CHANGE POLICY

Along with Macedonia, Albania, Montenegro and Serbia, Bosnia and Herzegovina is also a potential candidate for accession to the European Union. As such, Bosnia and Herzegovina can use funds provided by the IPA programme which replaced the earlier instruments for pre-accession assistance (PHARE, ISPA, SAPARD and CARDS) in 2007. The main purpose of IPA funds refers to providing candidate (Croatia, Turkey) and potential candidate countries with assistance in meeting EU standards and respecting common rights as well as preparing these countries for future efficient utilization of the Structural Funds, Cohesion Fund and the Agricultural Fund for Rural Development. The IPA programme covers the period from 2007 to 2013. It provides candidate and potential candidate countries with support to meet the accession, political, economic and acquis criteria for membership in the EU through development of administrative and judicial capacities. The total IPA funds intended for the above beneficiary countries totals 11.468 billion EUR and are divided into five components: transition assistance and institution building, regional/cross-border cooperation, regional development, human resource development and rural development. Being a potential candidate country, Bosnia and Herzegovina can apply for the funds in the first two categories. As far as the transition assistance and institution building component is concerned, Bosnia and Herzegovina may opt for funds needed for activities related to strengthening of democratic institutions and rule of law, public administration reforms, economic reforms, promotion and protection of human and minority rights, civil society building and reconciliation and building of trust. Concerning the regional and cross-border cooperation component, IPA funds can be withdrawn by bordering regions of two neighbouring beneficiary countries and for projects prepared through cooperation between an EU Member State and a beneficiary country. The total IPA funds available to Bosnia and Herzegovina in the period from 2007 to 2013 amount to

660 million EUR and pertain to the first two IPA components. These funds can be used for development of the internal market and the judicial system, freedoms and safety, sector policies, decrease of the unemployment rate, reforms of the education and healthcare system, building of infrastructure and establishment of small and medium-sized companies, agriculture, environmental protection, the energy sector and transport. It is worth mentioning that Bosnia and Herzegovina has had the right to participate in most EU programmes since 2004. The following programmes have been shaped on behalf of Bosnia and Herzegovina and other potential candidate countries: Competitiveness and Innovativeness Framework Programme, Europe for Citizens, Daphne, FP7; Candidate countries can apply for funds available within the following programmes: Interreg, Life+, Marco Polo II, Media, Progress, Young People in Action etc. Furthermore, Bosnia and Herzegovina is still a country in the focus of attention of the European Initiative for Democracy and Human Rights and can also benefit from the LIFE programme and from the 6th and 7th Framework Programme for Research and Development. Unfortunately, Bosnia and Herzegovina as a potential beneficiary of instruments for pre-accession assistance does not show great interest at all for all these funds due to poor development of the absorption capacities. This can be deducted from the datum that only 10 % of the approved funds have been withdrawn and from the fact that all the other countries involved with EU pre-accession projects have used more funds than Bosnia and Herzegovina has. Efficiently withdraw money from the IPA funds for Bosnia and Herzegovina has capital importance if it wants to survive financially and to start any stronger development.

This gloomy economic picture is enhanced by the effects of the economic crisis due to which this country, along with other south-east European countries or the European 'super-periphery', is facing severe problems regarding economic growth, indebtedness and the banking system. Although south-east European countries are either candidates or potential candidate countries for membership in the EU, they have already been strongly economically integrated therein via high euroization. It is really a pity that since the outbreak of the European crisis, Bosnia and Herzegovina and other countries in the region have been suffering from more severe consequences than countries of the EU 'centre' and 'periphery' have.

The unemployment rate in Bosnia and Herzegovina amounts to 28 % while this rate is even higher in young people and exceeds 50 %. Moreover, the GDP will further go down in this year. The Bosnian currency is formally attached to the euro and for the sake of increasing competitiveness and national product, depreciation is not an option and the only thing that can be done is internal devaluation as a way of increasing international competitiveness. Naturally, it deepens the countries' recession whereat Bosnia and Herzegovina as a potential candidate country cannot be written off any part of the debt nor it can use EU recovery funds nor other forms of assistance available to Member States during the crisis period. Besides, a lower amount of funds available to countries waiting for accession to the EU due to the outflow of funds intended for providing Member States affected by the crisis with assistance is not something that can help in this view too.

What can Bosnia and Herzegovina do for its own economic recovery and future economic growth in unfavourable circumstances? It is almost needless to say that

Bosnia and Herzegovina should become a candidate country in a year or two, meaning as soon as possible, since the funds available to candidate countries are much higher than those available to the former country at the moment. Under certain circumstances, Bosnia and Herzegovina might withdraw up to five billion EUR of IPA funds. However, the European Commission requires from the country to apply the principle of one vote, i.e. to appear before EU bodies unanimously and in a harmonized manner. Moreover, the public administration capacities should be drastically enhanced and the government should concentrate on relevant and long-term projects and building of professional teams which can prepare and implement those projects. Although today's Europe is affected by the tendency of reducing energy consumption, utilization of renewable energy resources, reinforcement of safety in energy supply, decreasing the dependence on energy import and combating climate change, it seems that Bosnia and Herzegovina should, on its way to the EU, primarily focus on the common energy and climate-change policy and actively try to accomplish its goals. Despite the fact that a failure to harmonize its policy with the EU energy and climate-change policy will certainly prevent improvement of the accession status of Bosnia and Herzegovina, the latter policy must be experienced as one of the rare chances of this country, if not the only one, for economic and financial recovery, strong economic growth, improvement of the population health status, maintaining social-national peace and general sustainable development. This conclusion is drawn from the fact that being a party to the Energy Community Treaty, Bosnia and Herzegovina has already integrated into the EU in the sphere of the energy sector, which means that it can expect significant funds out of the foreseen amount of 20 billion EUR intended for ensuring safety and diversification of energy supply within EU-34. Furthermore, after meeting the accepted liabilities, Bosnia and Herzegovina can hope for inflow of funds available to poorly-developed European regions as to enable them to implement measures for reduction of emissions of greenhouse gases until the year 2020. An estimate of these funds for the period 2014-2020 mentions 7.4 billion EUR. Regardless of EU funds, which is important in the times when economic growth cannot be based on foreign loans any more, the Bosnian energy sector has a good opportunity to, due to its natural and geographical potentials, attract foreign investors since the EU has an intention to reduce energy import (400 billion EUR) and raise the energy supply safety to a great extent. The EU could probably create huge funds for large and lucrative projects and investment into the already export-based energy sector of Bosnia and Herzegovina, particularly if infrastructural projects could result in establishment and deepening of regional cooperation (e.g. Bosnia and Herzegovina, Croatia, Serbia and Montenegro). Large regional energy-related projects could encourage economic growth, investment into research and development and advancement in other fields of regional cooperation in all of these countries. Such projects might also bring to consolidation and utilization of inland capital and establishment of consortiums, which then implies a lower level of dependence on foreign loans. They could have a positive effect on the development of entrepreneurship and small and medium-sized companies, technological parks, establishment of clusters, adjustment of secondary and higher education to the needs of the economy, rural and regional development, environmental protection and on industries dependent on the status of the environment (agriculture, tourism).

Regional connections about energy as a strategic sector for a number of countries in the Western Balkan region could contribute to increasing the multiplying effect of

investment, which in case of individual and open economies can be spared. Namely, in open economies should not be a significant positive effect of investment to gross domestic product because during realization of investments often do not participate only domestic companies but to a larger or lesser number of foreign manufacturing companies. In this case, of course, investments contribute to increased employment and domestic product in other countries. In the case of regional associations around the turn of investment in the energy sector, not only that a large share of financial assets can be local or regional origin, but also a number of companies from the countries of the region may be involved in the activities of engineering, construction, manufacturing equipment, assembly equipment, etc. Regional energy projects do not have to be directed only towards large-scale investment projects, but also to something smaller and more diversified investment in energy efficiency (rationalization of production, distribution and consumption), renewable energy sources and to strengthen local/regional capacity in the production of “green” energy. Prerequisites in Bosnia and Herzegovina must be fulfilled in order to attract any investors are: liberalization of energy markets and the elimination of subsidies, closing unprofitable plants and mines and the fulfillment of obligations in accordance with EU directives for energy-environmental sector and obligations under signed international agreements and treaties. Restructuring of energy production through modernization and transition to renewable and cleaner energy sources would reduce the negative impact of the energy sector on the environment, while it is not necessary to lessen the security of supply and export potential and the results of the energy sector. A different kind of energy policy that successfully raises energy efficiency, especially in buildings, increases the production of electricity from renewable sources and reducing environmental pollution can wake up at the same time the development of many other sectors of the economy and raise the economic standard and health of the population. Unfortunately, this development of the energy sector in Bosnia and Herzegovina as probably the most important instrument of simultaneous rapid accession to the EU, starting strong growth and efficient environmental protection strongly oppose the tendency of the energy sector to outdated paradigms of development and atmosphere of deep economic crisis that hinders progress in market and social reforms and stronger involvement of regional and European investors.

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AN APPROACH TO CULTURAL TOURISM DEVELOPMENT IN SARAJEVO (BOSNIA AND HERZEGOVINA)

ABSTRACT

This paper analyzes the current situation in tourism industry in Bosnia and Herzegovina and the current challenges and obstacles particularly with a focus on the development of cultural tourism in Sarajevo. Tourism industry in Sarajevo is facing with several obstacles and constraints which hamper the process of the development of cultural tourism. The tourism market in Bosnia and Herzegovina is unregulated; there is a need of an institution that would regulate, manage and promote the country as a tourist destination. Some of the problems of tourism industry and also of cultural tourism are the legislation and unharmonized and disordered framework of the tourism policy. This paper indicates some recommendations, which could be used to overcome those obstacles and constraints such as that certain authorities who are responsible for tourism have to create an appropriate framework for development of cultural tourism. Also certain measures could be taken such as; the harmonization of laws in tourism at the state level, to establish a ministry or tourism board on the state level, which would regulate tourism industry in order to establish the fairly and healthy business environment of the tourism sector. Furthermore, the authorities must also find the solution to support the projects that would enhance the cultural tourism products. The educational institutions have to produce the qualified staff for tourism industry, which can manage tourism facilities in the best way, and in order to benefit of presence potentials in Bosnia and Herzegovina. Sarajevo, as a destination of cultural tourism with this qualified staff could be able to properly react on the challenges and obstacles which are present currently. Finally, all stakeholders within cultural tourism should cooperate in the greater measure among themselves in order to overcome the current obstacles and challenges. The problems can be solved through a close co-operation of commercial and public organizations positioned in the tourism sector.

Key words: cultural tourism, Sarajevo, destination development, cultural tourism development

JEL Classification: F15

1. INTRODUCTION

Tourism is a global industry involving millions of people in international as well as domestic travel each year. According to UNWTO, by 2030 arrivals are expected to reach 1.8 billion, meaning that in two decades' time, 5 million people every day will be crossing international borders for leisure, culture, business or other purposes. Tourism is treated as the industry that serves experiences of modernity and leisure activities. In addition, tourism activity is regarded as a form of cultural capital that expresses 'being modern' for individuals in contemporary life; an indicator or a marker that defines countries as modern/developed and pre-modern/underdeveloped (Williams and Shaw, 2004).

Cultural tourism today is one of the largest and fastest-growing global tourism markets. Culture is increasingly being used in order to promote destinations and improve their competitiveness and attractiveness. Cultural attractions have become a crucial component in constituting the attractiveness of tourism destinations (Hughes, 1987; Prentice, 2001; Richards, 1996). Many destinations are now actively developing their tangible and intangible cultural resources as a means of developing comparative opportunities in an increasingly competitive tourism industry. According to the World Tourism Organization, cultural tourism is growing globally at a rate of 15 % per year, and at the same time 37 % of all trips nowadays contain a cultural component (WTO, 2009).

Bosnia and Herzegovina's tourism potential is primarily depends on culture tourism (Küçükiremitci, 2010). Sarajevo is a city which has a unique cultural and historical heritage, not only in the region, but also in Europe. The rich cultural and historical heritage that has been accumulated in Sarajevo, through a rich and long history reflects in its diversity of the architecture, tradition and people. The sacred objects of the four largest religions; Islam, Catholicism, Orthodoxy and Judaism also indicate that Sarajevo as the capital of Bosnia and Herzegovina has a lot of potential for the development of cultural tourism.

Sarajevo's architecture is distinctive in both its Ottoman and Austria-Hungarian periods and its cuisine and hospitality traditions are the great opportunities for cultural tourism development (Rosenbaum, 2006). Besides Istanbul, Dubrovnik, and Athena, Sarajevo is one of the recognized and the most popular destinations in the Balkan from the beginning of modern tourism until nowadays. Sarajevo is the first city in the South East Europe which has a long history of tourism taking into consideration that six modern hotels were operated in Sarajevo in the late nineteenth century (Bibanovic, 2006). In that time the pioneers of today cultural tourists have visited Sarajevo with organized tour packages from Austria.

The research made by Mulahasanovic Jasmin, ("An Approach to Cultural Tourism Development in Bosnia and Herzegovina", 13/12/2011) in Bosnia and Herzegovina and especially in Sarajevo showed that the numerous resources for the development of cultural tourism exist, but currently these resources and the potentials of cultural tourism have not sufficiently utilized, although the number of tourist arrivals has constantly increased in the last decade. Tourism industry as well as cultural tourism in

Bosnia and Herzegovina, which are still in the process of development are facing with a lot of problems and obstacles. Those problems are products of the current socio-political and economical situation in Bosnia and Herzegovina generally.

This paper analyzes the current situation in tourism industry in Bosnia and Herzegovina and the current challenges and obstacles particularly with a focus on the development of cultural tourism in Sarajevo. Therefore the strengths, weaknesses, opportunities and threats of cultural tourism development are summarized in the SWOT analysis.

2. SWOT ANALYSIS OF CULTURAL TOURISM DEVELOPMENT IN SARAJEVO (BOSNIA AND HERZEGOVINA)

An overall SWOT analysis has been prepared for the destination Bosnia and Herzegovina. The objective of this analysis is to identify key strengths to build upon in the strategies developed for the cultural tourism development plan, weaknesses that must be addressed, the range of opportunities to consider and some threats which must also be taken into account.

Figure 1: SWOT analysis of cultural tourism development

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> •Increasing tendency of tourist arrivals to the country by years •Richness of cultural and historical heritage •Enhanced quality of cultural events •Enhanced tourism promotion •Uniqueness of Bosnia and Herzegovina in Europe because of the Ottoman Empire and Austro-Hungarian Empire influences •Creation of the first cultural itineraries in the past •A brand like Sarajevo Film Festival, which is a leading festival in the region •A low-cost cultural destination in Europe •Presence of cultural events year-long •Touristic image of the country because of its host duty of 1984 Winter Olympics. 	<ul style="list-style-type: none"> •Shortage of qualified employees in all sectors of the tourism industry •Inadequate infrastructure •Various tourism administrative units, which are often in conflict or turf-protected •Unregulated legislation •Current barriers in administrative boundaries, which are inappropriate for all tourist activities •Lack of appropriate categorization of the tourism industry •Presence of the most expensive airport taxes in Europe •Absence of subsidies for cultural tourism development •Inactivity of authorities which are responsible for cultural tourism •Inadequate offer and absence of cultural tour packages.
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> • Increase in interest among Europeans for Bosnia and Herzegovina and Sarajevo • Utilizing IPA Funds for creation of cultural tourism programs and packages • Establishment of a Ministry of Tourism at the state level • Development of infrastructure • New cultural and tourism institutions • Improvement of cooperation between the stakeholders of the industry 	<ul style="list-style-type: none"> • Political and economic instability • Neighbor countries, which are competitors for cultural tourism • Inactivity of tourism inspection • Non-harmonized tourism policy • Inappropriate promotion and idleness of the tourist associations • Tour guides from other countries, who are going to work in Bosnia and Herzegovina.

3. SARAJEVO (BOSNIA AND HERZEGOVINA) AS A CULTURAL TOURISM DESTINATION

Cultural tourism today has emerged as a leading growth sector in the tourism industry and these cultural tourists will inject more revenue per trip in the host community than other types of tourists. To maximize the revenue potential offered by the cultural tourism industry, it is necessary to give more technical attention to managerial guides on their components. It could be reached by better fit of tourism development or planning along with a better understanding of nature of culture and cultural tourism (Sung-Chae, 2011).

Government is the only body that has the authority to legislate and determine policy for tourism and is therefore able to coordinate the sector at national, regional and local level (Cooper, 2012). The absence of the Ministry of Tourism at state level or a tourist board which will regulate tourism industry and harmonize tourism policy is one of the crucial issues in tourism industry, which indirectly has implications also on cultural tourism development. In Bosnia and Herzegovina one of the problems of tourism industry and cultural tourism is the legislation. The unregulated tourism laws on the state level and different laws on the entity and cantonal levels concerning cultural tourism is one of the obstacles which hamper the development of cultural tourism in the country. Although that there are some efforts of the foreign development agencies in the last decades, those issues have not resolved yet, particularly due to lack of the political willingness. In the planning process for the development of cultural tourism in Bosnia and Herzegovina, as a developing country, consideration should be given also to the geo-political landscape of the country.

The tour guides are one of the key front-line players in the tourism industry and the essential interface between the host destination and its visitors. They are responsible for the overall impression and satisfaction with the tour services offered by a destination. Tourism in Sarajevo and Bosnia and Herzegovina is a disorganized industry, which consequently is reflected on cultural tourism development. One of the obstacles for cultural tourism is an inactivity of the inspection, which indirectly allow foreign travel agencies to operate in Sarajevo without any cooperation with local travel agencies. The foreign travel agencies and tour operators lead tourists throughout city and their tour guides explain about its cultural and historical heritage without consequences. The authorities who are responsible for the tourism industry do not care about it and do not take any action. For a system of formal licensing to work, the acceptance and support of the government and industry is necessary. Any effective monitoring system must have legally enforceable penalties (Ap&Wong, 2001).

The inadequate offer or even more absence of the cultural tour packages of the local travel agencies is another disadvantage of cultural tourism in Sarajevo. The report of Rosenbaum indicated that Sarajevo is not appropriately packaged and connected for worldwide distribution and as a result isolated from the marketplace (Rosenbaum, 2006). One of the problems in marketing cultural tourism packages is that Bosnia and Herzegovina has the most expensive airport taxes in Europe.

Culture is the centre of the development paradox in Bosnia and Herzegovina: it represents both a major challenge for development, and a key part of the solution. The major donors in terms of the development of cultural tourism in Bosnia and Herzegovina are the European Union (EU) and the United States Agency for International Development (USAID), while a number of governments and national development agencies are involved in cultural tourism related projects such as the restoration of heritage sites (UNDP BIH, 2008). One of those projects is initialized by the Mozaik Foundation, but also in this developing process the financial resources are insufficient. Funds created by the state for the development and promotion of cultural tourism are insufficient due to lack of financial resources in the country. Thus in Bosnia and Herzegovina, too, it is government's role to alleviate the negative consequences of tourism and to ensure that the sector is regulated and planned

effectively. The state, the entity governance, or cantonal authorities should try to find financial resources in order to develop infrastructure which will certainly be worthwhile.

Tourism industry and cultural tourism generally are facing with insufficiently number of qualified tourism staff, as a result of the absence of the educational tourism programs at the university level in the past. There is a lack of high qualified personnel in the tourism industry that could enhance the development of cultural tourism in Sarajevo. However, some universities recently provide programs for tourism and leisure management. Bosnia and Herzegovina has to educate qualified staff for tourism industry in order to benefit from cultural tourism, too.

The absence of involvement of educational institutions in creating policy for tourism is another weakness of the country. However within the Strategy of Tourism of Federation of Bosnia and Herzegovina for the period of 2008-2018, cultural tourism has utmost importance (Inzinjer, 2008). According to this strategy the development of cultural tourism has become a highly important position and is ahead of all other types of tourism, because of its attractiveness and competitiveness. The cultural tourism development of the municipalities Centar Sarajevo and Stari Grad has a very important place within these strategies. All the resources of the regions that exist in those municipalities for the development of cultural tourism are taken into consideration. It is also valuable to mention that the most cultural heritage resources in Bosnia and Herzegovina are identified mainly in those both municipalities Stari Grad Sarajevo (289 cultural objects) and Centar Sarajevo (209 cultural objects) (Inzinjer, 2008).

Another observation related to tourism is the missing cooperation among the cultural institutions, tourism industry and public sector. However, there are some efforts made by foreign development agencies and non-governmental organizations, such as the Mozaik Foundation, which aims to develop cultural tourism, not only in Sarajevo, but also in entire Bosnia and Herzegovina using available the IPA Funds of the European Union which are intended for the development of the communities of the Balkan region. The project of the same foundation "Crossroads to stay" in Sarajevo, which is currently in the process of developing, aims to create cultural tourist itineraries to Sarajevo, to educate tour guides and to improve the cooperation among cultural institutions, tourism industry and the public sector.

4. CONCLUSION

This study showed that in Bosnia and Herzegovina and especially in Sarajevo the numerous resources for the development of cultural tourism exist, but currently these resources have not properly utilized, although the number of the tourist arrivals has constantly increased in the last decade.

Bosnia and Herzegovina absolutely has a lot of opportunities and can be a hit destination of the Balkan region, due to its charm, its multi-ethnicity, its multiculturalism, and its cultural and historical heritage. A large number of tourists,

compared to other cities in Bosnia and Herzegovina visit Sarajevo. The city can be in the long run a tourist destination for the overseas travelers because of its own brand name, tradition, heritage, nature and culture.

The authorities, who are responsible for tourism, have to create an appropriate framework for development of cultural tourism. Certain measures such as; the harmonization of laws in tourism at the state level and the establishment of a ministry or tourism board, which would regulate tourism industry should be taken into account. The authorities should also seek to find a solution to stimulate the specific projects that would enhance the cultural tourism product and the improvement of infrastructure. All stakeholders within cultural tourism should try to improve the cooperation among themselves and with the foreign tourism stakeholders such as the leading tour operators and the airline companies. This could be one of the key solutions to overcome the current obstacles and the challenges in cultural tourism development.

The research study indicates that the tourism strategies in Bosnia and Herzegovina are not harmonized yet. It is observed that there is also a lack of the cooperation among cultural institutions, tourism industry and public sector. However the cultural tourism in the country has an important position within the tourism strategies, taking into consideration the plan of the development of tourism and the importance scale of all types of tourism activities.

One of the opportunities for cultural tourism development in Bosnia and Herzegovina are the IPA EU funds. Some efforts are made by the foreign development agencies and non-governmental organizations, such as the Mozaik Foundation, which tends to develop cultural tourism, not only in Sarajevo, but also in the entire Bosnia and Herzegovina using available the IPA Funds of the European Union which is aimed for the development of the communities of the Balkan region. This indicates that some good examples of cultural tourism development exist in Sarajevo, as is the project of the same Foundation "Crossroads to stay" in Sarajevo, which tends to create cultural tourist itineraries in Sarajevo.

The educational institutions have to produce the qualified staff for tourism industry, who can manage tourism facilities in the best way, in order to benefit of present potentials in Bosnia and Herzegovina.

All stakeholders within cultural tourism should cooperate in the greater measure among themselves in order to overcome the current obstacles and challenges which are present and try to enhance the cultural tourism product of the country. The best example of a good cooperation among public sector and other stakeholders of the tourism industry is the project —Bosnian Kingdom Trial, which can be a good example for the further cultural tourism projects in Bosnia and Herzegovina. Also the stakeholders should try to establish partnerships with the leading tour operators, taking into consideration that Sarajevo is not available as a tourist destination in any offer of those tour operators yet.

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EU SUGAR MARKET LIBERALISATION AND ITS IMPACT ON SUGAR INDUSTRY IN CROATIA AND BOSNIA & HERZEGOVINA

ABSTRACT

This paper includes an analysis of the process of management over the liberalization of the sugar market in the European Union with specific insights on the internal and world market of sugar as well as the impact on the sugar industry in Croatia and Bosnia and Herzegovina. The world sugar market has been briefly historically reviewed, as well as the aspect of supply and demand and price aspect while the current state of the sector within the European Union is as well briefly reviewed. The sugar market in the European Union departs from the mechanisms of protection of extremely closed internal market and preferential import in the European Union to the understanding of the necessity of the sugar market reform with far-reaching effects on the decrease of sugar production as well as the sugar-beet fields and decrease of sugar export from the European Union. The 2006 reform introduced a lot of changes in the sugar sector, thus changing an overall view of the sugar market and industry in the European Union. This paper depicts current states of Croatia and Bosnia and Herzegovina sugar sectors and assesses the effects of before mentioned changes on the Croatia and Bosnia and Herzegovina sugar industries.

Key words: sugar, liberalization, EU, Croatia, Bosnia and Herzegovina, impact

JEL classification: F, F15

1. INTRODUCTION

Multilateral trade liberalisation of goods under the GATT, and within a number of negotiation rounds, brought a gradual lowering of tariffs which are now at a level that does not pose a significant barrier to trade. However, from the negotiations on lowering tariffs, some products and industries have been regularly omitted. The most important branch traditionally excluded from the negotiations on the trade liberalisation is agriculture, where the protection of the sugar market occupies a very important place.

The reasons for this are found in the doctrine of self-sufficiency that has resulted in a strong sugar production subsidies in developed countries, notably in the European Union, United States and Japan. Sugar production has been most protected by European Union, from which it derives its greatest contribution to the disruption of relations on the world sugar market. Regulation of the sugar market has been one of the most stable segments of the EU agricultural policy, which has been in force since 21st of December of 1967 till 30th of June 2006. The EU Commission considered this its success, although it is primarily the success of the sugar industry lobby that had the benefits from this policy. With the establishment of the WTO, the nations principally agreed on transformation of the entire world trade in the direction of liberalisation and total abolition of all measures that cause disturbances to the particular markets without any exceptions. The European Union had its agricultural policy changed from the market-price support to immediate aids, which is in accordance with the agreement under the Uruguay Round of WTO negotiations. Under the influence of various interest groups associated with the sugar industry, the regulation of the sugar market has remained virtually untouched. With the resumed negotiations it became increasingly evident that a change in the arrangement of the sugar market is needed in the European Union. This resulted in significant changes of the relations on the EU sugar market, especially after the reform of 2006, which were not focused only on European sugar industry, but also on the sugar industries of countries which have signed preferential trade agreements in this segment with the EU. The process of accession of Croatia and surrounding countries in the future, countries like Bosnia & Herzegovina, takes place at a time of fundamental change on the sugar market in the EU. It is absolutely imperative for Croatia and Bosnia and Herzegovina to carefully monitor this process in a timely manner and manage the process of adaptation.

2. WORLD SUGAR MARKET

2.1. Brief History of Sugar Marketing

From the 19th century onwards, sugar beet and sugar cane, and on that basis the sugar production, strongly contributed to the economic development of many countries. Migration of sugar cane planting and sugar processing skills flowed very slowly toward the west. In support of this statement is a fact of 2000 year difference between the start of production of sugar from sugar cane in India and the emergence of mass production in the Atlantic Islands near the coast of Africa shortly before the discovery of America. The first recorded shipment from Madiera¹ to England dates from 1456. Until the sixteenth century, sugar was considered as medicine or luxury among the Europeans and was available only to the rich. Even the production of Madiera was not enough to change this situation around. Honey remained the main sweetener in Europe.

During the colonial period the production of sugar cane and sugar begins immediately after the discovery of America when Columbus brings, on his second voyage, sugar cane to Caribbean islands that are now considered a part of the Dominican Republic. However, the first major step in the production of sugar in the commercial sense was

¹ Portuguese archipelago just 400 km north of Tenerife in the Atlantic Ocean

made by the Portuguese in Brasil. Sugar production was developed in Cuba, Puerto Rico, Mexico, Peru, Philippines and other Spanish colonial possessions. Sugar was also produced in major British, French, Danish and Dutch colonies. Technology of sugar production from sugar beet was successfully developed during Napoleon Bonaparte. Series of factories were established in Germany, and especially France. Tariffs on sugar, which were collected from colonies and other countries, have been an important source of income for most European governments before the development of industrial sugar production from sugar beet in Europe. Production of sugar from sugar beet quickly began to spread from France and Germany to other continental countries such as Italy, the Netherlands, Austria and Russia. The development of technologies in the 19th century in many ways had a stronger and longer – lasting impact on the world sugar trade than any development of the industry prior to that development. Until 1866, the world production of sugar from beet production reached 5.965 million tonnes (Mitchell, 2004).

During the 1863, France has initiated several conferences with the participation of sugar producing countries, including the United Kingdom. The intent of the convention in Brussels was to equalize the competition between exporters of sugar from various countries, and to promote the consumption of sugar. To achieve this, all signatories of the Brussels Convention decided to abandon all direct and indirect benefits given to their exporters and to limit subsequent tax from the day forward. The Brussels Convention is generally considered the first effective international agreement that regulates trade in sugar. Numerous attempts, some even very successful, were built on this conventions foundations.

Europe was the largest producer of sugar before the outbreak of war in Europe in August 1914. In the period from 1909 to 1913, Europe produced about 42% of total world production. Almost all european sugar production took place on the continent, and was based on sugar beet, about 99,8%, while the rest was accounted for on the production of sugar from sugar cane in Spain. Most of the European sugar production industry was destroyed during World War I. The first international agreement on sugar was signed in March of 1931 by representatives of organized industrial sugar production in 9 countries: Cuba, Java, Germany, Poland, Hungary, Belgium, Czechoslovakia, Yugoslavia and Peru. The agreement specified annual export quotes for 5 years for each signatory country, exempt specific quotes of Cuban exports to United States. In September of 1939 the majority of European countries were better prepared for war conditions than was the case during World War I. In every country where the consumption and production of sugar was of great importance for the international community, governments were very carefully controlling production and trade of sugar.

After World War II., world sugar stocks were on the receiving end. Only in 1948, the world sugar production backed to the 1939 level. After 1947 virtually all countries that produced, imported or exported sugar in significant quantities accepted a complex system of sugar industry regulations. Control systems vary from country to country, but all of these systems inherently made sugar production more expensive and thus made sugar costs much higher for the end users, compared to the situation when they were traded on the open market.

Sugar production has grown continuously since its beginnings. However, this growth has become much faster and to the benefit of Europeans after the discovery of America. Comprehensive statistical data, however, could not be drawn up until the early 20th century. It is believed that sugar production in 1900/1901 amounted to 13 million tonnes. Until 1939 and the outbreak of WWII, that figure was around 35 million tonnes. At the end of 1948 the production fell to 28 million tonnes. Over a period of 27 years from 1948 to 1975, the worlds sugar production has increased by as much as 175% and reached 88 million tonnes (Ballinger, 1978). Sugar production increased as the world population increased, and today it estimates at around 170 million tonnes.

2.2. International Sugar Market

The international sugar market has several characteristics that distinguish it from other markets of goods. One of these features is the fact that the production of sugar is spread around the world and covers a diverse range of climatic conditions. According to FAO, there are more than 120 sugar-producing countries of the world, where more than 50 countries produces sugar from sugar beets, and more than 100 produces from sugar cane, including countries that produce sugar from both, like the U.S., China and Japan. Another characteristic of the sugar production is its manufacturing process, or joint venture of sugar beet growers and processors that process sugar beet (or cane) into sugar. Refunds from processing sugar, at the price of raw, unrefined sugar including by-products, must be sufficient to cover all the costs of planting, growing and processing and to provide respective entities of the sugar industry to remain in the market for a prolonged period of time. If the variable cost of processors fail to cover the available refund, or income, sugar factories will close its doors in the absence of other suitable processing plants, implying a large, and often irreversible, reduction in yield of sugar beet or cane in areas that gravitate to this same factories (OECD, 2007).

World sugar production has evolved significantly, driven by rising consumption of sugar. Sugar production has grown about 17% from 2001/2002 by 2009/2010 marketing year (2,1% per year). This growth can be attributed to the development of sugar production from sugar cane. Sugar production from sugar beet remained unchanged and stable until the 2006, after which it shows a decreasing trend. Despite the general trend of growth, world production shows significant annual fluctuations mainly due to the production cycle in India due to changing climatic conditions (OECD/FAO, 2011). The largest producers are Brazil, India and China. Furthermore, the production of sugar cane is five times greater than the production of sugar beets and the proportion of sugar produced from sugar beet dropped from 36% in 1993/1994 marketing year to 22% in 2009/2010 marketing year. The European Union is a leading manufacturer of sugar from sugar beet, reaching 71% of world production in 2009/2010 marketing year, while at the same time produces very little sugar cane (European Commission, 2011). Next table shows world sugar balance in thousands of tonnes for the period from 2001/2002 to 2010/2011 marketing year.

Table 1: World Sugar Balance (in 000 tonnes, raw sugar equivalent)

	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
Production	137 174	148 473	142 276	140 320	150 404	166 297	166 277	150 643	157 994	166 958
Consumption	135 500	141 853	143 745	147 702	153 425	156 857	159 654	160 978	162 619	166 179
Surplus/deficit	1 674	6 620	-1 469	-7 382	-3 021	9 440	6 623	-10 335	-4 625	779
Import demand	43 363	45 178	45 231	47 994	48 692	48 897	48 295	48 144	53 776	50 422
Export availability	43 876	45 198	45 136	48 465	49 20	48 810	48 517	47 877	54 236	51 287
End Stock	61 913	68 513	67 139	59 286	55 424	64 951	71 352	61 284	56 199	56 159
Ratio stock/consumption	0.46	0.48	0.47	0.40	0.36	0.41	0.45	0.38	0.35	0.34

Source: International Sugar Organisation

World sugar consumption has grown steadily over the past 10 years, at 2.8% per year (23% of the total during the decade). It can be concluded that the increase in consumption is larger than the growth of production. There are three key factors that affect the growth of sugar consumption in the world: population growth, income growth and prices (ISO, 2010). However, the rate of consumption growth vary by geographic region. Asia and Oceania are the largest consumers of sugar, accounting for 39% of world consumption in 2009/2010 marketing year. Not taking into account the consumption of other sweeteners, the European Union is the second largest consumer of sugar in the world, with an average of 19 million tonnes per year, which makes up 12% of world consumption (European Commision, 2011).

Although the leading countries in the production of sugar are also major consumers of sugar, sugar is a commodity that is very widely traded. World export had a growing trend from 2001/2002 marketing year amounting up to 43-52 milion tonnes, representing one third of the world's sugar production. Largest exporter of sugar is Brazil (in 2009/2010 marketing year), representing 50% of world sugar exports. Followed by Thailand and Australia with 11% and 8% of the total sugar exports. The European Union was the world's second largest exporter of sugar, with an average of 6.2 million tonnes between 2003/2004 till 2005/2006 marketing year. From 2006/2007 marketing year, sugar exports from the European Union fell to 1 million tonnes in 2009/2010 marketing year, representing 2% of world exports (European Commission, 2011). The main reason for this sequence is the reform of the European Common Market Organisation for sugar.

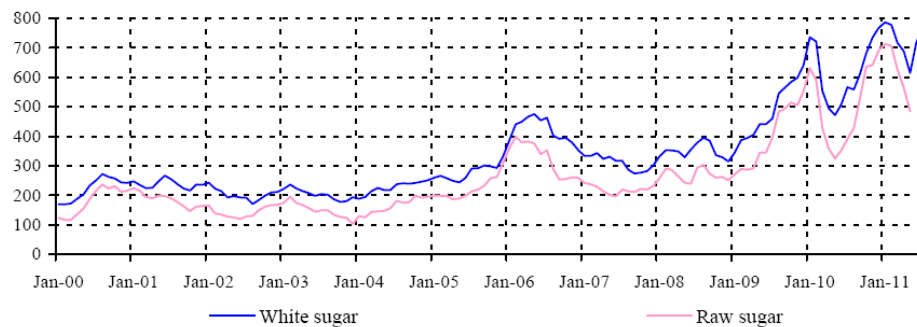
World imports of sugar have a very different characteristic than world exports of sugar. World sugar export is concentrated among a certain number of countries, while world sugar import is widely dispersed over a larger group of countries. Nevertheless, Russia and the European Union were major importers during the decade, with the latter changing its status from net exporter to net importer of sugar, mainly because of the changes in the internal sugar policy. Other major importing countries were United States, Indonesia, China, Algeria, UAE, Japan and Canada (USDA, 2012).

Fluctuations in world sugar production result in surplus or deficit of sugar to cover existing stocks of sugar. Deficit existed in the years of 2003/2004 till 2005/2006 marketing year and in 2008/2009 till 2009/2010 marketing year (European Commission, 2011). Such variations in stocks have influence on the world price of sugar.

Sugar prices show volatility, and this is the fact for various reasons: low price elasticity of demand and yield fluctuation of sugar combined with the fact that sugar producers have to make their sugar beet planting and processing decisions in advance (European Commission, 2011). In addition, macroeconomic factors such as changes in oil prices on the market recently have affected the demand for sugar since it became the raw material for the production of bio-ethanol. Between the 2000 and the end of 2005, raw sugar was exchanging in the international market at a price range of 104-309 USD per tonne, and white sugar in the range of 169-332 USD per tonne. Since 2005, prices have witnessed an increasing trend with very high price peaks in January of 2006 and 2011

The declining stocks and the new demand for sugar for the production of bio-ethanol are the main reasons for this specific context (European Commission, 2009, 2011).

Figure 1 World Price of Raw and White Sugar (USD/t)



Source: European Commission, Evaluation Of CAP Measures Applied to Sugar Sector

Therefore, the reform of the CMO was implemented in this specific context of significant price fluctuations and unique high levels of world sugar prices. The chart also shows a significant correlation between raw and white sugar, white sugar price was constantly slightly higher than the price of raw sugar.

3. EU SUGAR MARKET LIBERALISATION

The Sugar CMO in the European Union underwent several reforms in 1992, 1999, 2003, 2004-2006 (Bureau et.al, 2008) Before 2006, the Sugar CMO mainly intended to ensure a fair income to Community growers and to ensure self supply of the Community market. These objectives were achieved by means of strong protection of the Community market using high custom duties. The sugar producers in turn committed themselves to produce at a level close to the Community needs. The Community production was strictly restrained by quotas due to this arrangement. An intervention system protected the price from market disruption. The cost of exporting quota sugar, difference between the world market and community prices, was financed by export refunds through levies on sugar manufacturers. Out-of-quota production had to be exported at the world market but without benefiting from export refunds, otherwise it was either submitted to high levies or considered as quota production of the next marketing year. This policy resulted in a higher price level in the Community market that had to be endured by the EU consumers. This high price level provided certain funds to the growers and the manufacturers to finance the budgetary expenditure of the Common Market Organisation for sugar (European Commission, 2011, OECD, 2007).

The organisation of the EU internal sugar market endured from its beginnings in 1968 until the 2006 reform more or less untouched. There are various reasons why the European Union proposed the reform, both internal and external (European Commission, 2011). First reason was to ensure much greater coherence between the

sugar policy in the EU and the new framework of the Common Agricultural Policy reforms from the 2003. Reforms from the 2003 introduced a mechanism to compensate farmers for losses of income due to other reform measures. This reform provided the means to move support from the main EU commodities directly to farmers via direct payments. Single Payment Scheme was implemented for payments independent of the level of farmer's production, but, unfortunately, sugar was left as the only major commodity unreformed. The second most important reason for the reform was the import concessions granted to the Least Developed Countries (LDC) in 2001 through the Everything but Arms initiative (EBA). These agreements opened the European Union market to the LDCs import with no duties whatsoever. EU policymakers feared that, given the high levels of sugar price in the European Union, these agreements will generate substantial import flows. EU feared that developments like these would probably cause imbalance and severe disruption on the EU sugar CMO. One of the measures of the 2006 reform was the reduction of the internal support price by 36%, so there would be fewer EBA imports, thus allowing EU producers to be more competitive. Lastly, within the framework of the World Trade Organisation, EU export subsidy commitments resulting from the Uruguay Round of trade liberalisation negotiations in 2005 and the outcome of the legal actions against the EU sugar regime as well as the on-going negotiations under the Doha Development Agenda are considered main external pressures on the European union to propose, implement and execute the reform of the EU sugar Common Market Organisation.

Given the beforementioned reasons that inevitably led to the 2006 Reform, the EU policymakers had to set certain objectives of the future reform (European Commission, 2011). It was necessary to bring Community production of sugar and sugar trading in line with the international requirements. The requirements were mainly consisting out of requests to reduce EU subsidized exports. The stabilisation of the market in this new international context was needed, through decrease in the EU domestic price, that eventually leads to fewer imports of sugar and reduction of the EU production. One of the objectives was to restructure the sugar industry in the EU, both agricultural and industrial, in order to provide better conditions for EU sugar CMO participants to become more competitive in the future. Supply at reasonable prices, that are in correlation with the traditionally lower world prices of sugar, were also one of the objectives of the reform. Another objective of the reform was to ensure fair standard of living for the agricultural communities within the sugar sector, as well as to avoid potential negative social and environmental impacts of the reform.

These objectives had to be achieved by means of market management tools revision, deep restructuring scheme and the compensation of the effects of the reform on the farm income with a decoupled payment (European Commission, 2011).

The implementation of the reform had its difficulties. The reform itself was implemented in two steps; first, the transition period was set between 2006 and 2010. In this transition period the sugar reference prices were modified to a decrease of 36%. After the modification of the reference prices, what followed was the consolidation period in which most measures regulating the EU sugar market organisation were established until marketing year 2014/2015. These measures, essential to the proposed reform, included phasing-out of the sugar intervention, merging A and B quotas and

eliminating over-quota sugar exports, elimination of re-exports of sugar imported under preferential terms, institution of storage and carry-over schemes, provision of compensatory funds to assist developing countries, with high costs of production, with diversification or reconversion aid for loss of sugar export revenue, and also an increase in the EU isoglucose quota (USDA, 2012). In the first years after the start of implementation of the reform, there has been much less quota renunciation than predicted. Because of this, the scheme was modified to provide EU sugar CMO participants with better conditions in which they would be willing to renounce quota and reach the production reduction target of 6 million tonnes.

The reform had various impacts. The coherence with the CAP Reform of 2003 principle had improved, but some of the coupled elements existing in the sugar sector remained (quotas and reference price). Coherence with the Lisbon Strategy (focused on growth and jobs) has been a little harder to assess. One of the consequences of the reform is a reduction in production. Many of the beet manufacturing factories close its doors down resulting in lay-offs, while at the same time the restructuring scheme resulted in improving competitiveness of the sector, thus ensuring growth and jobs in the future.

In the sugar beet sector, the reform resulted in lower volumes of sugar beet produced, precisely 19% lower than that of 2003-2005. Annual improvement in yields accelerated as well as the concentration of production in larger farms. Also, number of farms closing its doors down doubled after the reform (significant drop in beet quantities occurred mainly in Italy and Spain). These developments were the direct consequence of the quota reduction and limitations on export due to the WTO panel ruling.

In the sugar production sector, quota renunciation reached the initially established target (renunciation reached 5.8 million tonnes). Almost all of the sugar producing companies participated in the restructuring scheme, quotas were largely reduced and five Member countries production of sugar beet stopped. Out-of-quota production of sugar decreased as well as the out-of-quota sugar exports. The renunciation of quotas affected the number of factories. In marketing year 2009/2010 the recorded number of factories was 106, while the previous number of factories was 179. The reform greatly contributed to a decrease in in-quota prices as a result of the fall in the reference price. Nevertheless, since late 2009, the EU price has remained well above the reference price due to the very high world sugar prices.

The refinery sector benefited from the strongly protected system and the Sugar Protocol ACP-India before the reform. The new framework of the reform and the replacement of previous trade arrangements with EPA-EBA agreements had improved and enhanced competition between EU sugar beet and sugar cane imports from other countries. The restructuring scheme helped the refineries to prepare for this new context in which they would have to operate. After the removal of the strong protection as part of the reform, these developments consequently led to an increase in the number of refiner companies. There was 7 companies before the reform and 11 after the implementation, with 6 refiners being new full-time refiners. In order to adapt to the new context in which sugar imports were expected to greatly increase, the

beforementioned refiners had to enhance their production capacity. They successfully achieved it and an increase has been recorded of 58% (European Commission, 2011).

EU supplies reached a very low volume of 1.4 million tonnes in 2010. There were several factors affecting this drop (European Commission, 2011): higher sugar prices that made EU internal market less attractive for raw sugar imports, reference price for sugar imports from BPA-EBA countries was reduced and the fact that the Sugar Protocol was removed, making ACP countries free to decide where they want to sell their sugar.

One of the main objectives of the reform was to ensure sustainable market balance in the European Union. The EU expected an oversupply of sugar after the implementation of the reform measures, but due to high world sugar market prices the oversupply did not occur. In fact, the EU faced a deficit in sugar supplies by the end of marketing year 2010./2011., and so additional measures had to be implemented to ease the situation. Regarding trade on the internal EU market, due to the reform and export limitations the EU became a net importer of sugar, thus the intra-EU trade increased significantly.

Although there has been a negative social impact (job losses due to closure of farms and factories) of the reform, in the long run the competitiveness of the sector will generate new jobs and growth. The overall conclusion of the 2006 Sugar CMO Reform is it was quite efficient, nevertheless, the current CMO needs to be carefully controlled, monitored and, when needed, intervened by authorities.

The European Commission legislative proposal regarding CAP reform after 2013 does not include a proposal to continue nor extent the sugar production quota regime. An intense debate is present among EU sugar producers and EU sugar consumers. EU sugar producers strongly oppose the Commission's proposal and support the extension of the quota regime, while EU sugar consumers support the European Commission proposal. The European Committee of Sugar Manufacturers² accepts that sugar production quotas will eventually have to be abolished in the long term, but is strongly opposed to the Commission's proposal to abolish the quotas in the marketing year 2014/2015 CEFS seek additional 5 years to enable the European sugar industry to continue the improvement process in competitiveness and to capitalise on long term infrastructure investments. The Committee points out that there is no gain from a liberalised sugar market yet (due to the increased volatility of the EU sugar market) and the stability of the EU strictly regulated market is highlighted. The beet growers in the European union share common concerns with the manufacturers, mainly because of the likely disruption of supply in the EU market due to likely increased volatility. The ACP and LDC suppliers of sugar oppose the proposal as well. ASSUC³ argues that the current system provides reliable conditions for the effective implementation of trade preferences under the Everything But Arms (EBA) initiative, the European Partnership Agreements (EPA) and Free Trade Agreements and is also opposing the beforementioned proposal. On the other side, European Sugar Users Association is supporting the proposal saying that the current regime is not covering all the EU needs

² CEFS

³ European Association of Sugar Traders

for sugar, thus small food processors have a difficulty sourcing sugar for their activities. Abolishment of quotas, in their opinion, would in the long term provide safer surroundings for their members. There are opposing views of the possible future developments of the Sugar CMO in the EU, which will establish its winners and losers, and giving there are more opponents to the proposal than supporters it is evident that the benefits which can be extracted from the current managed sugar market by producers and processors are clearly still very attractive even after the 2006 sugar reform.

4. CROATIA AND BOSNIA AND HERZEGOVINA SUGAR INDUSTRIES

The EU's former trade arrangements with Croatia, the former Yugoslav Republic of Macedonia, Bosnia and Herzegovina, Albania and Serbia and Montenegro (Western Balkans) to grant unlimited duty-free access of sugar to the EU market has led to a significant increase in EU sugar imports. Imports have risen from virtually zero in 1999 to over 270.000 tonnes in 2003 (European Commission, 2004). These developments raised questions about the economic sustainability of such trade flows. This is why the Commission proposed to introduce tariff rate quotas per country for imports from the Western Balkans. The quotas were set at levels that respect the trade flows and have since had a major influence on the sugar industries in West Balkans countries. The proposal was established to enable the Western Balkans' sugar sector to perform successfully under more realistic and economically sustainable conditions being that before mentioned countries were consistent with their long-term orientation towards the EU.

4.1. Croatia

The history of sugar in Croatia is closely associated with the beginnings of sugar production in Europe, and Croatia has a long tradition of growing sugar beet and processing of sugar beets into the finished product - sugar. The first recorded raw sugar refinery was recorded in Rijeka in 1750 and has supplied almost all of the Habsburg Monarchy. In 1836 the first sugar refinery was started that processed its own raw materials into sugar in Croatia. In the year 1905 in Osijek, the first Croatian-Slavonian Stock Company for the sugar industry was established, and now Virovitica works with processing capacity of 4,000 tons of sugar beet per day. Sugar factory in Zupanja was built in 1947 with Czech technology and a capacity of 1,350 tonnes of sugar beet per day. Reconstructions of the company in the second half of the 20th century led to the present capacity of Sladorana Zupanja Inc. of 5,000 tons of sugar beet per day. It can be concluded that the production of sugar beet and its processing into sugar in Croatia has a long tradition, and endeavors to survive in the market and the adoption of modern technologies indicate that Croatia had continually invested in the modernization of production of sugar beet and sugar processing. To study implications of sugar market liberalization in the European Union and effects on the Republic of Croatia; the use of data on exports of sugar to the European Union from Croatia and sugar imports from the European Union to Croatia is essential for the period from 2003 until 2008.

Table 2: Exports of Sugar from Croatia to EU

	2003	2004	2005	2006	2007	2008
In 000 EUR	108.604	31.813	110.528	144.404	136.920	98.943
In tonnes	162.149	48.028	187.890	238.646	227.077	176.701
EUR / tonne	670	662	588	605	603	560

Source: own compilation based on data provided by Ministry of Agriculture of Republic of Croatia

Croatia is a signatory of the Stabilisation and Association Agreement, which means that it can export to the European Union by internal reference prices of the European Union. This Agreement allows exporting activities at very affordable prices ranging from 670 euros per tonne in 2003 to 560 euros per tonne in the last observed year of 2008. Also, according to the Stabilisation and Association Agreement, which was signed between Croatia and the EU, the EU gave Croatia a tariff rate quota of 180.000 tonnes which can be exported to member countries of the European Union. Table 2 and 3 indicate the relationship between the movements of sugar exports to the EU and imports from it.

Table 3: Imports from EU to Croatia

	2003	2004	2005	2006	2007	2008
In 000 EUR	22.663	22.295	58.475	114.919	4.240	706
In tonnes	106.876	104.957	257.055	349.506	11.845	356
EUR / tonne	212	212	227	329	358	1983

Source: own compilation based on data provided by Ministry of Agriculture of Republic of Croatia

In the years of the implementation of market reforms in the EU sugar market, sugar imports from the European Union is in rapid decline to near extinction. Exports from the middle of the observed period are also slightly decreased, and in the last observed year exports are just under Croatian quota.

4.1.1. The Impact of the Sugar Industry on Employment

The European Union, with allowing preferential sugar exports to Croatia on its internal market, enabled the development of this sector in Croatia. Sugar factories that had prepared and stable management, and thus the efficiency and competitiveness of sugar production, used this status to increase production and employment. On the other hand, the turbulent processes of privatization in Croatia did not pass the sugar mills. With the European market opening, Croatian sugar businesses should have used it to complete the privatisation process more smoothly, and either keep or increase the number of employees. Today, Croatian sugar factories employ about 950 full-time employees, and at the time of the sugar beet processing campaign, which lasts about 90 to 100 days, the number of employees increases to over 1500 employees, so it can be stated that the

opening of the EU market to imports of sugar from Croatia, had positive impacts on employment.

4.1.2. The Impact of the Sugar Industry on Economic Growth

Sugar industry with its activities of modernization affects growth of investment activities, and on the other hand, by increasing sugar outputs, increases total economic activity and by increasing the demand for sugar beet it stimulates the growth and strengthening of agricultural sector. At a time when many processing plants in the transition process close its doors, the sugar industry has survived, and with the opening of the EU market got a new stronger momentum. These developments were reflected in the growth of exports boosted with the difference between export and import prices.

Export increased from 162.149 tonnes in 2003 to a maximum of 238.646 tonnes in 2006, in the coming years export fell to 227.077 tonnes in 2007 and 176.701 tonnes in the last year observed. At the same time imports were higher than exports in 2004, 2005, in 2006 was even as much as 110.860 tonnes higher than exports. With the beginning of the reform or liberalization of the sugar market in the European Union, with reduced and elimination of export subsidies and reduced production, import drastically drops to 11.845 tonnes in 2007 and to only 356 tonnes in 2008.

It is interesting to point out that larger quantities are imported in three of the six years observed. In those years exported quantities should have been easily sold on the domestic market, but a positive difference between export and import prices motivated exporters to export domestic production, while domestic demand was settled by importing. Although imports from the European Union in the last two given years were almost nonsignificant, exports kept within the approved export quota of 180,000 tonnes.

In all observed years there had been a positive balance of export proceeds in regard to expenditures on imported sugar measured by financial indicators, this was possible because of differences between export and import prices, of course, in favor of exporting sugar. This difference varied from year to year, decreasing from 458 EUR per tonne in 2003, to 245 per tonne in 2007.

It is safe to say that the inclusion of Croatian sugar sector in the "tectonic" changes in the sugar sector in the European Union had a positive impact on economic growth through stabilization and increasing production as well as very active trading activity.

4.1.3. Impact of Sugar Industry on the Croatian Rural Development

Stability and development of the sugar industry has positively affected the Croatian Rural Development. The continuously growing demand for sugar beets, in addition to stability, has enabled constant development and modernization of production in terms of economic stability of rural economies that have dealt with the growing of sugar beet. Table 4 shows the production of sugar beet and sugar beet cultivated land.

Table 4: Planted Areas and Quantity of Sugar Beet

	2003	2004	2005	2006	2007	2008
In 000 tonnes	22.663	22.295	58.475	114.919	4.240	706
acres	106.876	104.957	257.055	349.506	11.845	356

Source: own compilation based on data provided by Croatian Bureau of Statistics

Sugar beet production and sown area show an increase since 2004 up until 2007, while in the last two years both indicators are in the decline. Thus, the area planted with sugar beets in 2009 was 23,066 acres and production was estimated to 1.217 million tonnes. In the area of sugar beet production similar processes are in place as in the European Union. Consolidation of production and a reduction in sown area and production of sugar beet as a result of the reform of sugar regime in the European Union are a direct effects on Croatian sugar industry. Thus, the number of support users for sugar beet decreased from about 1000 users and dropped to 800 users in the last two years. This means that the process of specialization of farms is ongoing and those that can not follow the trends of modern technology and economies of scale, are pushed out of the sugar sector. On the other hand, those who remain are becoming more efficient and more competitive, and that means more prepared for the challenges that will come with Croatian accession to the European Union.

4.1.4. The Impact of the Sugar Industry on Macroeconomic Stability of Croatia

The impact of the sugar industry on macroeconomic stability of Croatia stems from the fact that this sector is export-oriented, with exports being one of the generators of growth. The sugar sector in Croatia generates economic growth, increase in the employment and increase in the gross domestic product, so it is safe to say that macroeconomic contribution of sugar beet and sugar production in Croatia is evident. Table 5 shows a net positive contribution of the sugar trading on country's balance of payments and macroeconomic stability.

Table 5: The difference of export and import prices of sugar, income and quantitative difference between imports and exports of sugar

	2003	2004	2005	2006	2007	2008
Diff. EUR / tonne	458	450	361	276	245	-1423
In 000 EUR	85.941	9.518	52.053	29.485	132.680	98.237
In tonnes	55.273	-56.929	-69.165	-110.860	215.232	176.345

Source: own compilation based on data provided by Ministry of Agriculture of Republic of Croatia

Data on exports of sugar to the EU and sugar imports from the European Union shows that in the six years observed there was a positive impact of the sugar sector in the country's balance of payments. Thus the surplus ranged from a minimum of 9.518 million EUR in 2004 up to EUR 132.68 million in 2007.

4.1.5. Recent developments

In 2011, Republic of Croatia completed the accession negotiations with the European Union. On July 1st, 2013 Croatia will formally become a member country of the EU. In the negotiations related to sugar production quotas, the quota granted to Croatia is 193.000 tonnes. Adaptation to EU legislation in this area has resulted in enacting new legislation and thus the Croatian government completed and adjusted institutional framework of sugar beet and sugar production (Andabak et.al, 2012). The granted sugar production quota will definitely set the framework of Croatian sugar sector development in the future, at least until the marketing year 2014/2015 or later, given the outcome of the current debate on the abolishment of sugar production quota within the EU sugar CMO participants. With the possible abolishment of production quotas, Croatia would definitely benefit from nonlimited production of sugar, given the fact that has already improved its sugar sector during the past decade.

4.2. Bosnia and Herzegovina

In former Yugoslavia, Bosnia and Herzegovina produced very small quantities of sugar beet (161.129 tons in 1991 (FAO, 2012)) and had a sugar refinery for processing in Bijeljina (capacity of approximately 300.000 tonnes per year). Today, Bosnia and Herzegovina plants and produces little sugar of any significance and imports mostly refined sugar. The refinery in Bijeljina employed over 500 workers and during the seasonal harvest even more. Low prices of sugar imports and the high cost of transport of sugar beet drastically reduced competitiveness of the only refinery in Bosnia and the production stopped in 1993, during the first years of the war. Despite the fact that the refinery was not greatly damaged during the war, the production was not restarted for the next 17 years. Refinery in Bijeljina during those years was owned by the state. There were some attempts to privatize the refinery, but the public tender in 2006 did not result as a success as there were no interested parties. In the mid 2007, bankruptcy proceedings were open, during which several food companies from Austria, Slovenia, Serbia and Hungary expressed their interest to take over and restart the production. Finally, in the late 2009, government decided that a certain export-import company from Banja Luka will become a strategic partner of the refinery. The company purchased the debt and started the production in Bijeljina. By the end of 2010, the refinery from Bijeljina hired 220 employees, strategic partners invested around 10 million KM and officials opened the refinery for work. Approximately one year after, assets of the refinery were blocked by the government with suspicions of money laundering. The future of the refinery is still uncertain. There is only one more refinery in Bosnia and Herzegovina left, the one in Brčko. The sugar refinery in Brčko was established in 2008 as a joint venture of two European companies. Refinery with the capacity of 150,000 tonnes of sugar per year successfully enters its second year of operations and the quantity produced represents a significant amount of sugar for the Bosnia and Herzegovina and the Western Balkans. Nevertheless, the process of change in the state food industry is relatively slow and it is without a strategic plan despite the recent efforts. The hardships of privatization did not avoid Bosnia and Herzegovina as well. However, there is no officially registered sugar beet production in B&H, so most of the state needs have to be satisfied by imports of sugar (Božić, 2011)

As mentioned, sugar and sugar beet production in Bosnia and Herzegovina is almost nonexistent. Sugar and sugar beet production is scattered among few local farmers that grow the crop on very small areas, areas that do not exceed 20 acres per farmer (Anonymous, 2011). Most of the production was encouraged by establishment of the two refineries, but with only one left operating functionally (in Brčko) there is little or no hope for further developments regarding this matter.

It is very difficult to monitor sugar consumption in B&H due to the disorganized official statistics. Most of the data are estimates. Also, there is the possibility of not reporting the actual level of consumption due to tax evasion. Administrative difficulties are the main reason why it is so difficult to estimate sugar consumption in B&H (households and processors) as well as to assess stocks of sugar that can be used for illegal trade. Household consumption is estimated to 26.3 per capita in the period between 2000 and 2004, such average consumption is low compared with EU consumption per capita for the same period (31.8 kg *per capita*). Domestic consumption is assumed to be higher than consumption in the manufacturing industry. Moreover, it is assumed that industrial consumption will not grow in the near future. The growth rate of the use of sugar for industrial purposes will certainly follow the rate of economic developments (CEEC Agri Policy, 2005).

All of the sugar needs of Bosnia and Herzegovina have to be met by imports of sugar from other countries as B&H has no sugar production. Croatia is traditionally Bosnia and Herzegovina's trading partner because of the vicinity. One third of the sugar is imported from Croatia annually. Another third comes from Hungary, Austria and United Kingdom combined while the last third of sugar imports comes from all other countries. The next table shows EU27 exports to Bosnia and Herzegovina.

Table 6: Import from EU to Bosnia and Herzegovina

Cane/Beet Sugar	2003	2004	2005	2006	2007	2008
In 000 EUR	26.818	13.291	23.732	22.971	1.757	238
In tonnes	117.791	67.169	108.401	70.599	4.838	192
EUR / tonne	228	198	219	325	363	1.238
Other Sugars	2003	2004	2005	2006	2007	2008
In 000 EUR	4.105	3.873	4.619	2.454	2.946	4.073
In tonnes	19.708	17.056	20.025	10.386	11.908	13.287
EUR / tonne	208	227	231	236	247	307

Source: own compilation based on data provided by Ministry of Agriculture of Republic of Croatia

The volumes of import from the European Union is corresponding to the need of Bosnia and Herzegovina's need for sugar. Most of the sugar imported is refined sugar bearing in mind that there is only one functioning refinery in Brčko and the future of

refinery in Bijeljina is uncertain. The differences in volume are presumably because of the crop yields due to climate conditions.

The decline in the import from the European Union in the last two observed years is presumably because of the reforms in the EU and Bosnia and Herzegovina is looking elsewhere for their sugar. Bosnia and Herzegovina is also an importer into the European Union. Next table represents EU27 imports from Bosnia and Herzegovina.

Table 7: Export from Bosnia and Herzegovina to European Union

Cane/Beet Sugar	2003	2004	2005	2006	2007	2008
In 000 EUR	270	23	26	45	36	65
In tonnes	396	36	24	40	28	96
EUR / tonne	684	623	1.070	1.124	1.273	680
Other Sugars	2003	2004	2005	2006	2007	2008
In 000 EUR	5.791	7.328	11.045	5.743	6.986	7.504
In tonnes	20.110	16.405	19.681	9.800	11.897	12.808
EUR / tonne	288	447	561	586	587	586

Source: own compilation based on data provided by Ministry of Agriculture of Republic of Croatia

Basically, all exports from Bosnia and Herzegovina are re-exports. Bosnia and Herzegovina re-exports small quantities of sugar. The difference between 2006 and 2005 is mainly because EU introduced a quota of 12.000 tonnes for imports from B&H from July 1st, 2005. Since the beginning of 2000s, around 90% of the Bosnia and Herzegovina's re-exports went to Italy and the re-export kept increasing and increasing. The European Union, given the fact that Bosnia and Herzegovina is not a sugar producing country, introduced the quota mainly because most of the sugar imported from Austria (EU) went to Italy (EU). However, the situation is much more complex regarding Bosnia and Herzegovina. State borders are not fully controlled, and that is the main reason why the non-registered, non-traceable (black) sugar import from neighbouring countries (Croatia and Serbia and Montenegro) is occurring. This non-registered low priced sugar then is re-exported to EU market. The sugar merchants are able to earn extra profit selling this sugar at very high EU prices which is misuse of EU funds. Therefore EU Commission has been forced to define B&H exports quota at 12.000 tonnes (CEEC Agri Policy, 2005, Arcotrass, 2006)

The government of Bosnia and Herzegovina still tries to create the necessary mechanisms for the registration and control of money, people, goods and services that flow on the border crossings. This institutional failure provides significant economic benefits for a small group of individuals and allows the misuse of EU support and aid. The biggest challenge for B&H to achieve good and reliable monitoring system of sugar use, is to meet the requirements of the European Sugar Common Market Organization (CEEC Agri Policy, 2005). Export and import of sugar is not fully recorded in the official statistics. At the national level there is no coordination between agencies of the two Entities. This is another institutional failure that prevents reliable

monitoring and provides a chance to misuse the budget. Therefore, establishment of regulation systems is one of the top priorities of Bosnia and Herzegovina.

5. CONCLUSIONS

The reform of the sugar regime in 2006 introduced a lot of changes, production has declined significantly and the European Union has become a major net importer of sugar, changing its position as one of the largest net exporter of sugar in the world. Much sugarbeet processing capacity was reduced and completely eliminated in certain member states. Although remaining trade restrictions unaffected by the reform provide protection to EU sugar producers, internal EU prices could not attract preferential imports to meet demand when world sugar prices became high. Stable set of domestic prices favored by the users of sugar from the European Union, now does not seem compatible with the increased reliance on imports into the European Union. Looking ahead, the value of the Euro, and increased demand from new emerging markets, is likely to have a powerful effect on the sugar market in the EU. Policy makers in the European Union should not ignore this very crucial factors.

With the upcoming reform of the Common Agricultural Policy in 2014, given the fact that the budgetary restrictions during the period from 2014 to 2020 will limit certain payments within the EU, it is not yet clear what can be reformed and to what degree. The proposed abandonment of production quotas in the sugar sector is clearly an indication that the EU is trying to be more competitive in the global market. Nevertheless, the European Union has a long way yet to become a stable and sustainable market, due to the sugar shortages and increasing volatility of prices in the last few years.

Major sugar producers who have invested in countries that have a signed preferential agreement with the European Union could be able to secure sufficient quantities of sugar to the EU internal market in the future. The role of Brazil and WTO should also be taken seriously and carefully monitored because of the importance they carry regarding the world sugar market. EBA countries ability to provide sufficient quantities of sugar at a lower price of the European Union could also be expanded as the seven biggest European sugar producers continue its expansion in the EBA countries and reduce costs with new factories that produce refined sugar. The reform of the sugar regime along these lines will thus be compatible with the announcement of the European Commission's budget restrictions and envisionment of a more competitive sector, in accordance with current and future WTO rules. Another aspect that could affect the EU sugar market in the long term is the accession of Croatia and Serbia. Although neither of the countries is a major manufacturers of sugar beet - Serbia with about 3 million tons and Croatia, with about 2 million tons - they are both net importers of sugar. However, during the past decade loans have been granted to these countries in order to improve their sugar infrastructure so they could become much more efficient producers who may contribute to greater self-sufficiency in the European Union regarding sugar.

Positive shifts in the Croatian sugar sector started with the change of EU policy toward the sugar imports from Croatia, but also with the privatisation of the sugar sector in the country backed with the previously mentioned loans. The agreement signed between the EU and Republic of Croatia has single handedly changed the Croatian sugar sector. Improvements were noted in production, rural development, employment and trading activities. The basic goal of the Croatian sugar industry is to continue improving sugar production and mostly technologies used, thus reducing overall costs of the sugar manufacturing process. Croatia is accessing the European Union in July of 2013., the reform of the sugar sector in Croatia and the implementation of the European legislation is practically finished, so it is essential for Croatia to embrace all the possibilities of the opening EU market including all the threats from countries such as France and Germany that have a highly developed agriculture. It is important to state that the future development of Croatian sugar industry will be, for the time being, greatly confined with the granted sugar production quota of 193.000 tonnes of sugar annually. With the possible abolishment of sugar production quotas in the near future, and the constantly improving competitiveness of the Croatian sugar sector, possibilities are presented in the form of increased production to satisfy world sugar market needs, the use of sugar beet as a material for the production of alternative products like bio-fuels is another possibility.

Bosnia and Herzegovina must yet define its strategy regarding sugar. There is no significant sugar production, and with only one functioning sugar refinery, most of the activities regarding sugar are still based on trade. Nevertheless, Bosnia and Herzegovina has a strong potential for the development of sugar industry, mostly in the processing and refinery sector. On its way toward the European Union, it is essential for Bosnia and Herzegovina to establish a strategy with clearly defined objectives regarding this matter. Efforts must be invested from leaderships of both Entities in Bosnia and Herzegovina in order to prepare for the EU sugar CMO. Only with the determination of policy regarding sugar, Bosnia and Herzegovina has a chance in gaining all the positive effects of such changes.

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COMPARATIVE ANALYSIS OF PERFORMANCE OF LEASING COMPANIES IN B&H, AUSTRIA AND SOME EUROPEAN AND WORLD COUNTRIES

ABSTRACT

The goal of the paper is to analyze the financial and leasing sector in B-H and East and Southeast Europe countries. These markets' characteristic is that leasing as an industry is fairly new and that it has been registering growth every year. As opposed to the saturated „old leasing markets“, leasing companies in these markets operate with somewhat higher risk, though with considerably higher margins compared to leasing companies in Europe and the USA. Indicators of the leasing market development can include the percentage of new clients, and market share.

BH financial markets have certain specifics, which are due to the recently ended war, destroyed economy, insufficient production, high unemployment rate, high trade deficit, etc. The characteristic picture of economically shattered system affected the development of financial services. In the lending market, BH leasing companies play a significant role, and one of the basic reasons for their large share in the entire financial market is the fact that a great number of entities need this type of financing. The paper will use primary and secondary research. Scientific analysis will be used to study BH financial markets

Key words: Financial sector, leasing sector, clients

JEL classification: G2

1. INTRODUCTION

Viewed globally, financial markets across the world have the same function and significance. However, financial markets in BH have certain specifics, which have resulted from the recently finished war in BH, destroyed economy, insufficient production, high unemployment, high trade deficit, etc.

Financial institutions involved in transactions with financial resources allow gathering of a high volume of supply and demand for financial resources. “Therefore, the term ‘financial market’ typically implies an institutionalized space where supply and demand for financial resources come face to face and where, in line with the relationship between supply and demand, price of financial instruments is formed. The basic value that affects the financial instrument price formation is the interest rate” (Group of authors, 1997:65).

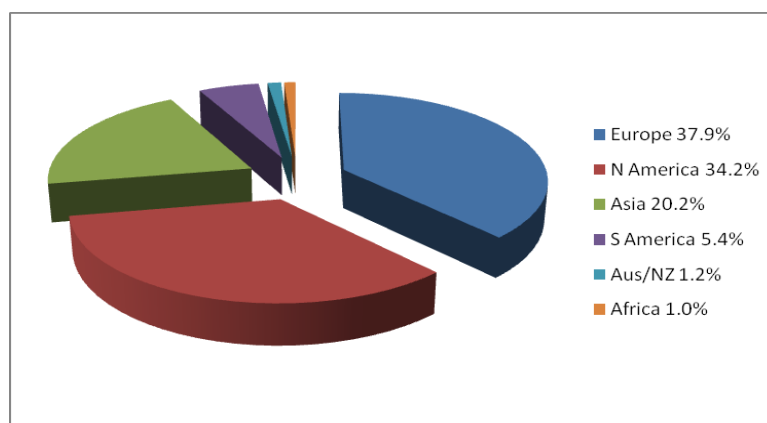
The most significant group in the financial market of Bosnia and Herzegovina is played by commercial banks involved in economy financing. Leasing is a comparatively new way of financing in Bosnia and Herzegovina. Leasing companies in BH experienced the greatest expansion in the period from 2006 to 2008. The year of 2011 was marked by a crisis in the Eurozone, particularly in Greece, as well as by instability in the Middle East and war in Libya. According to the IMF, the global economic growth was at the 5% level (Annual report CB BH 2011:9).

2. LEASING MARKET IN THE WORLD

In 2009, Europe maintained the leading position in the world leasing market, with a total of \$211.5 billion closed new leasing agreements, which amounts to 37.9% of the world leasing market. North America ranked second, with \$190.8 billion closed, or 34.2% of the world leasing market. It is followed by Asia, with \$112.7 billion closed or 20.2% world leasing market, and then South America, Australia and New Zealand, and Africa.

It is particularly important to note the example of the People’s Republic of China, where the leasing market in 2009 achieved the 86.7% growth with \$41.01 billion sold. Such an expansion of leasing market moved China from eighth to fourth position on the world ladder.

Figure 1: Volume by region 2009.

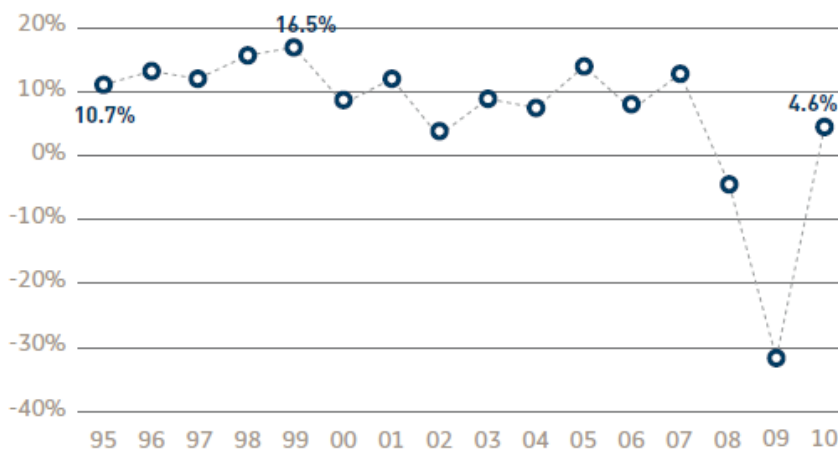


Source: White Clark Global Leasing Report (2011).

2.1. Leasing markets in Europe

Data cited in this section of the paper refer to countries that are members of the Leaseurope¹ association, which represents cca 93% overall European leasing market. According to the Leaseurope association report for 2010, a total of 224 billion Euro worth of leasing agreements were signed, which is a 4.6% increase compared to 2009. The largest leasing market in Europe in 2010 was Germany, with signed agreements for 43.8 billion Euros; it is followed by France with 36.4 billion Euros and Great Britain with 34.9 billion Euros. Spain, Poland, Estonia and Sweden achieved a two-digit growth. In 2010, leasing market achieved a growth of 18.8%.

Figure 2: Total new leasing volumes (annual growth rates)

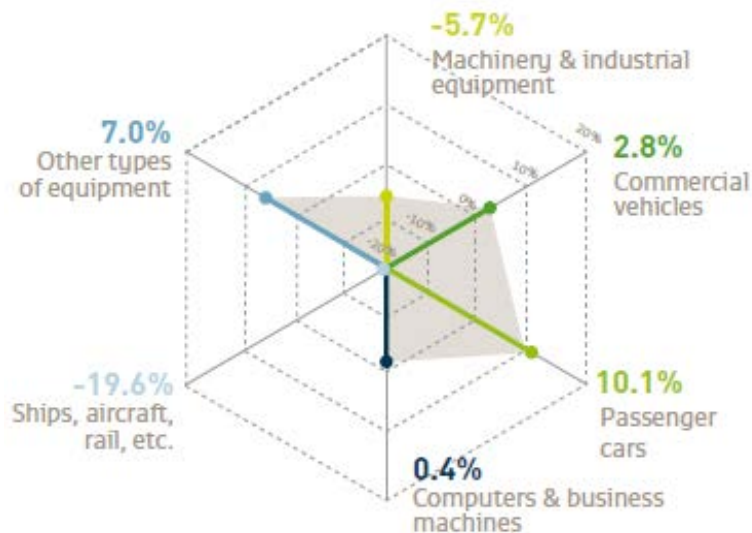


Source: Leaseurope Annual Report (2010)

The following graph shows rates of leasing market growth per objects of financing in 2010.

¹ The Leaseurope association has 46 members in 34 European countries. In 2010, the association represented over 1300 leasing companies and over 700 companies involved in short-term rentals.

Figure 3: Growth rates for new equipment leasing volumes per asset type in 2010



Source: Leaseurope Annual Report (2010)

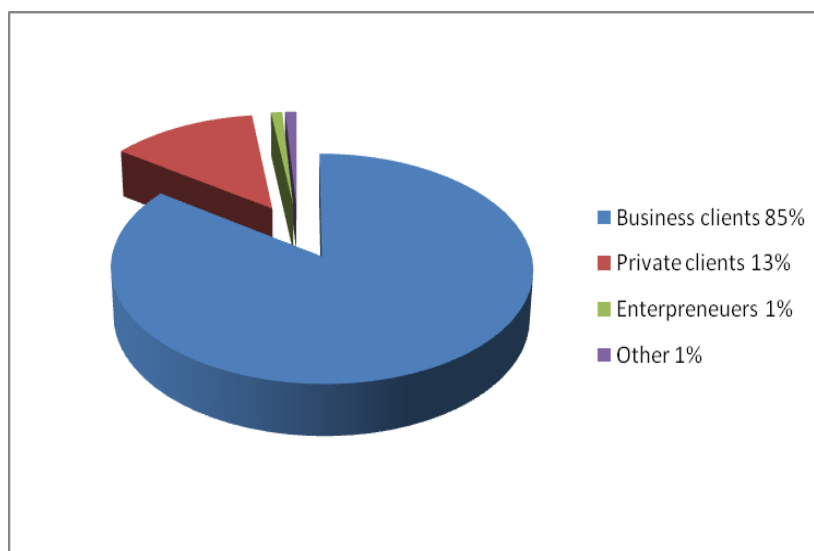
The greatest growth in 2010 was experienced by the passenger car market – 10.1%, while the commercial vehicle market experienced a 2.8% growth. According to Leaseurope, European leasing companies financed cca 5.8 million passenger cars in 2010. The real estate market achieved growth of 15.3% compared to 2009, although the number of approved contracts decreased by 7%.

2.2. Leasing market in Bosnia and Herzegovina

There are seven leasing companies operating in the market of Bosnia and Herzegovina. The association of leasing companies was founded in 2005 in order to improve their business. Since 2008, leasing companies' operations are supervised by the Banking Agency. In the financial sector balance sheet supervised by the Agency, the share of the leasing sector is 5% of the total balance sum, while the banking sector has 92% share and the microcredit sector – 3% share (Information about the leasing sector in B-H, 2011).

The value of approved contracts in 2010 reached the amount of 118.2 euros, which is a 21.2% growth compared to the previous year. A total of 6426 new leasing contracts were signed, which is 13.6% more than in the previous year.

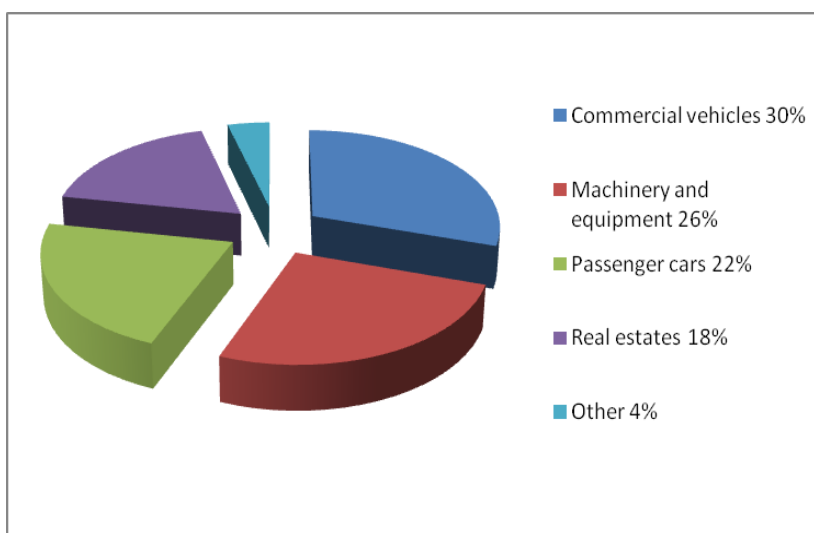
Graph 4: Financial leasing structure per leasing user on 31.12.2011



Source: Informacija o sektoru lizinga u FBiH 31.12.2011., Agencija za bankarstvo FBiH

We can see that business clients are the most numerous in the structure, followed by private clients and entrepreneurs.

Graph 5: Financial leasing structure per asset type on 31.12.2011

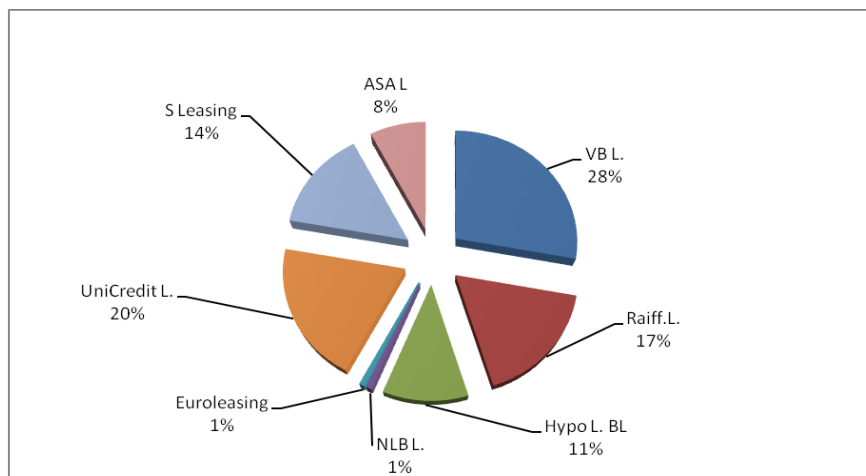


Source: Informacija o sektoru lizinga u FBiH 31.12.2011. Agencija za bankarstvo FBiH

The market structure per asset type reveals that commercial vehicles are the most represented type, followed by machinery and equipment, passenger cars ranks only third, while real estate ranks fourth.

When viewing the leasing market structure in Bosnia and Herzegovina, it can be observed that vehicle market is the most developed and has a 76% share in the overall leasing market. It is followed by the equipment market and real estate market. The total average nominal interest rate for contracts on financial leasing in 2011 was 7.61%, and the effective interest rate was 10.13% at the annual level (Information about leasing sector in B-H, 2011).

Graph 6: Leasing market in Bosnia and Herzegovina – total with real estate



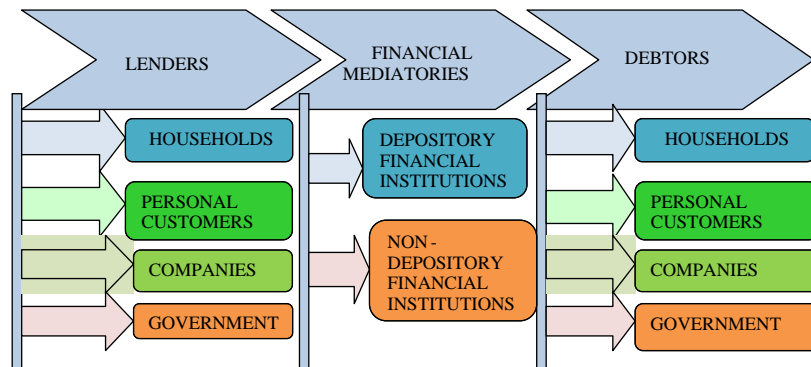
Source: Polugodišnji izvještaj Udruženja Leasing društava BiH (2012.)

The graph shows leasing companies' respective market shares in the first half of 2012. Market shares per financial volume are distributed between three leading leasing companies: VB Leasing, UniCredit Leasing and Raiffeisen Leasing.

3. SPECIFICS OF B&H FINANCIAL MARKET

The figure 1 reveals that lenders and debtors belong to the same group, but differ by their respective status from the financial aspect. Lenders have a surplus of financial resources, while debtors have a deficit of financial resources. Due to a large number of lenders and debtors and the impossibility of their direct communication, a need arose for financial mediators, who collect financial resources surpluses and sell them to those who need them.

Figure 1: Financial mediation process



Source: Vujić S. Own creation

Financial markets can be classified in different ways (Miller and Vanhooose, 1997:109).

The primary market is one where the first issue of a security is sold and bought. Secondary markets are those where the previously issued securities are sold and bought. The market where long-term securities (i.e. those that mature in a year or more) are traded is called the capital market. The market where short-term securities (i.e. those that mature in less than a year) are traded is called the money market.

In BH, we cannot speak of a developed financial market. Consequences of war, as well as limited sovereignty of BH, particularly in the area of monetary and credit policy slow down the financial market development. The greatest progress has been registered in the money market, which developed as a result of local banks privatization and foreign banks' entry into BH.

Financial mediators connect supply and demand for financial resources. The two basic groups of financial mediators include depository financial institutions, i.e. commercial banks and saving and lending institutions with non-depository financial investments, i.e. insurance companies, pension funds, investment funds and financial enterprises (microcredit organizations).

The development of financial mediators is accompanied by the development of financial market. Since the BH financial market is not developed enough, it resulted in the lack of significant development of financial mediators. An exception to this are commercial banks. The development of saving and lending institutions in BH is still in the discussion stage, which is a result of a low rating of these institutions in the West due to big abuses and bankruptcies, which harmed the end small depositors into saving and lending institutions.

Insurance companies experienced somewhat higher development, while pension funds and investment funds do not appear in the financial market or are not sufficiently active. After the war, microcredit organizations developed in BH under the World Bank

supervision. They operate according to non-profit principle, but can have surplus of revenues over expenses. They have found a “market niche”, i.e. users that banks are not interested in. These include the poor and unemployed, who cannot get bank loans. This BH population makes extensive use of these forms of loans, since they are granted relatively easily and fast, and the guarantee of paying back is resolved without a mortgage. A large number of users have used these microloans to solve their self-employment through starting a small business, and thus decreased poverty and unemployment. The basic drawback of these loans is a high interest rate at an annual level (from 20% to 30%).

Both the implementation of exports and starting production and creation of new jobs require far greater involvement than is now the case in BH. One of the most important roles in this respect should be played by financial institutions and financial market. “Offering different forms of financial support, or financial monitoring of foreign-trade transactions raises the level of exporters’ competitiveness, allows them to retain the existing and enter promising markets. In certain cases (capital equipment exports, construction works, etc.), high-quality financial monitoring is the only way to ensure the completion of work” (Backovic, 2003:257).

Institutional framework of the banking sector is not unique at the BH level, and this area reveals political differences in BH organization. “Banking sector in BH” is regulated by Entity laws on banks, which are to a great extent harmonized, and by laws on banking agencies, which define their goals, independence, competences and liability, by Law on deposit assurance (at the state level), and Law on Central Bank of BH (CB BH), which assigns, to the Central Bank of BH the coordinating role in bank supervision. The legal framework for banking was successfully developed over the past years, and has created the environment for efficient banks’ functioning, with appropriate supervision and high-quality depositors’ protection.

In April 2011, Law on changes and amendments to Law on Banking Agency of RS came into force. It established, within the Agency, an ombudsman for banking system as an independent organizational unit, aimed at more efficient promotion of the protection of rights and interests of natural persons – financial service users.

The establishment of Central Credit Registry (CRK) within CB BH provided an additional contribution to strengthening the stability of financial, and particularly banking sector. During 2011, the project of Credit Registry improvement was completed, and data on natural and legal persons’ debt are updated on a daily basis. In this way, risk of granting new loans is decreased. All commercial banks, microcredit organizations and leasing companies are bound to submit data on a daily basis.

By the end of 2011, a total of 29 commercial banks were operating in BH, including:

- 28 banks that are private or mostly private-owned, 19 out of which being predominantly foreign owned
- one banks owned by the state.

Commercial banks’ interest rates register a permanent decrease, though very slowly. According to the Central Bank of BH report for 2011, the average interest rate on

short-term loans decreased compared to previous years and amounted to 7.18% for private enterprises, and 9.71% for individuals. Similar trends were also registered by average interest rates on long-term loans to private enterprises, which amount to 7.48%, and to individuals – 8.44%. On the other hand, average interest rates on deposits at sight ranged from 0.02 to 0.22.

The span between active and passive interest rates provides commercial banks with a good starting basis for profitable business.

The underdevelopment of insurance market in BH is due to the war and insufficient economic activity. The total premium achieved in 2011 amounted to 356.7 million KM in FB-H, including 286.9 million KM or 80.4% for non-life and 69.7 million KM or 19.6% for life insurance; and 153.5 million KM in RS, or 137.7 million KM or 89.7% for non-life and 15.7 million KM or 10.3% for life insurance (Annual report CB B-H, 2011).

4. CONCLUSION

The development of BH financial market is directly dependent on the current conditions in BH, which is still suffering war consequences and is undergoing transition, with the limited monetary and credit sovereignty and is directly controlled by IMF and World Bank, as determined and adopted by the Dayton Peace Accord.

In 2011, BH leasing market gradually recovered from recession and achieved a cca 20% growth compared to 2010, which is the second successive year of growth. Such a trend is expected to continue in the forthcoming years as well. In 2011, European leasing market registered a cca 5% growth compared to 2010, although there is a significant difference between growth rates of individual countries.

In order to remove all negative phenomena present in the financial market of Bosnia and Herzegovina, the privatization itself is not enough. It is necessary to pass clear and accurate laws on strict control and supervision over banks' operations. Regulation of banks' business is based on their significance for a state. Bank owners cannot have a free hand in leading business policy solely based on investors and owners' interests. Regulation of BH banks' operations is based on the public interest theory, whereby the interest of society as a whole is above the bank owners' interest. Despite broad rights of banking agencies in BH, bank management has a lot of space at their disposal to create and implement their own business policy. The same applies to leasing companies, microcredit organizations and insurance companies.

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POSSIBILITIES FOR INCREASING RAW MILK PRODUCTION PRESENTED THROUGH A MODEL

ABSTRACT

The goal of the paper is to use a model to present the possibility of increasing the raw milk production in B-H. The model will forecast the time period in which points of import and export will be equal, i.e. in which the trade balance between long-life milk imports and exports will be 0.

The analysis of the production of milk and dairy products in B-H compared to the EU countries shows that milk buying from producers averages 30%, while in the EU it has ranged about 91% over the last five years. Poor organization of raw milk buy-up in B-H, underdeveloped system of incentives and protection of local producers result in high milk imports.

Increase in raw milk production also leads to creating new jobs on farms and in producing companies, decrease in unemployment, production increase, exports increase, while the state becomes more competitive in the European milk and dairy product market.

The paper will research the role and participation of state as a stimulating force in increasing milk production and growth of dairy industry in B-H. The research will be focused on the current trends in long-life milk imports and exports in B-H.

Key words: *PEST analysis, exports, imports, dairy products sector,*

JEL classification: *F1, Q1*

1. INTRODUCTION

Agricultural policy of milk and dairy products production in BH has an underdeveloped system of incentives and local producers' protection compared to the EU countries. The insufficient quantity of raw milk produced in BH is a problem faced by all the producers involved in milk and dairy product processing in BH. State

intervention is far from the standards that are imposed by the EU and implemented in order to protect local producers, and that we will have to fulfill before we enter the EU.

Some of the deficiencies include:

- non-existence of a strategic development document, which would serve as a basis for setting goals and standards of long and short term development,
- policy of allocating budgetary resources, which are mainly focused on price support, rather than on production development,
- system of forming buying-in prices per fat content is outdated, etc.

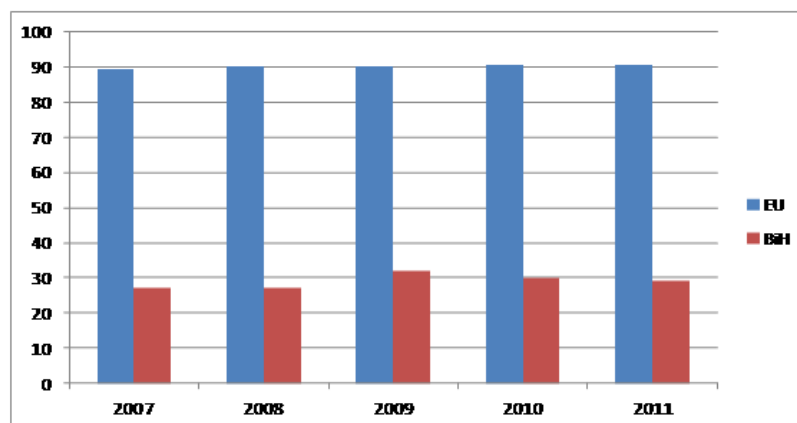
All these have resulted in the conditions where 39 dairies that operate in Bosnia and Herzegovina work with decreased capacity. The current production can hardly satisfy the local market, while exports are minimal.

2. ANALYSIS OF RAW MILK PRODUCTION IN B&H AND MODEL OF INCREASING RAW MILK PRODUCTION

According to the available data, milk is bought from 21,774 producers and a total of 225,646,000 liters of milk is bought in a year (as was bought in 2011).¹

Milk buying out of the overall production in Bosnia and Herzegovina ranges around 30% on average, while in the EU milk buying amounted to 91% on average over the last five years. These data point to poor organization of raw milk buying in BH.

Figure 1: Milk buying in the EU and BH in percentage of overall production 2007-2011



Source: Milk management committee statistics EU, Milkprocessing Sarajevo

¹ Own research 2012: Milkprocessing BiH

Last year, BH dairies imported 12.5 million liters of raw milk from surrounding countries. Reasons for such huge imports could be sought in the insufficient quantity of high-quality raw milk bought from local producers, and in poor organization of buying raw milk. Milk is bought only from contracted farms, which meet the set requirements and bacteriological standards. Most milk producers have facilities that are outdated, or do not meet basic requirements, they do not have enough fodder of their own, etc.²

2.1. Model of increasing raw milk production

Milk buying in BH was at its peak in 2009; ever since, it has constantly stagnated by 2-3%.

The following table shows the number of farms which raw milk is bought from and bought milk quantities at the BH level. Based on these data, we will present a model for increasing raw milk production. The model will reveal how the raw milk production can be increased by 10%. Farms are grouped by size, the most numerous being small farms with up to 5 cows. They are followed by the group with 5-10 cows, with 2,445 registered farms of this size, etc.

In this model, the role and participation of state as a stimulating force in milk production and milk industry rise in BH is essential. The research will use the frequency distribution analysis for calculation. The analysis of frequency distribution is a result of organizing statistical material, whereby we obtain statistical indicators that are quantitative and that are an expression of a certain feature of the entire set or its parts.³

Figure 2: Registered farms involved in raw milk production

Farm size	Number of farms	Total number of heads	Production estimate liters of milk/cow	Total estimate of milk production in 000	Share in % No. of cows	Share in % milk
Up to 5 cows	18.360	30.306	3.052	92.179	50,6	43,2
5–10 cows	2.445	12.225	3.500	42.787	20,4	20,0
10–20 cows	683	7.531	4.000	30.057	12,5	14,0
20–200 cows	252	5.514	4.500	24.948	9,3	11,6
Total	21.740	55.588		189.966	92,8	88,8

Data source: Milkprocessing BiH

Since the utilized BH dairies' capacity in 2011 amounted to 58% (the figure primarily refers to production facilities owned by BH dairies), there is a lot of space for production improvement. It is necessary to increase the raw milk production, i.e. improve the raw milk production.

² Own research 2012: Milkprocessing BiH

³ Lučić, B: „Statistika“, Ekonomski fakultet u Sarajevu, Sarajevo, 1996, p.53

The most interesting group for the model is that with 5-10 cows, and we will focus on it. The goal is to improve the group, by means of state incentives, so that it could be shifted to the group with 10-20 cows. Based on a formula, we will calculate how much the state should invest in order to improve the raw milk production:

$$F = \frac{L_2 - L_1}{2} \cdot fi \cdot p \quad (1)$$

where:

- F Amount of money needed for advancing farms with 5-10 cows and shift them to the group of farms with 10-20 cows,
- L_2 maximum interval value
- L_1 minimum interval value,
- fi the number of farms,
- p cow price in the market.

$$F = \frac{10 - 5}{2} \cdot 2.445 \cdot 1.000$$

$$F = 6.112.500 \text{ KM}$$

We conclude that 6,112 cows are necessary, which in turn requires 6,112,500 KM.

For the state to invest, it is necessary to ensure return of these assets in the forthcoming period. Further in the paper, we will show the rationale to the invested resources.

The minimum daily milk production per head of cattle is 10.8 liters of raw milk. If we take the average of 300 days, which is how long a cow produces milk in a year, we obtain the data that annual milk production per head is 3,240 liters of raw milk minimum.

Based on the incentive, milk production would rise to 19,802,880 liters of raw milk (6,112 cows producing 3,240 liters each), which is almost 9% of overall production in 2011. If we go back to the data presented earlier in the text, where imports from surrounding countries amount to 12.5 million liters of raw milk, it can be seen that there is demand for this quantity of raw milk in the local market.

2.2. Rationale and return on invested resources

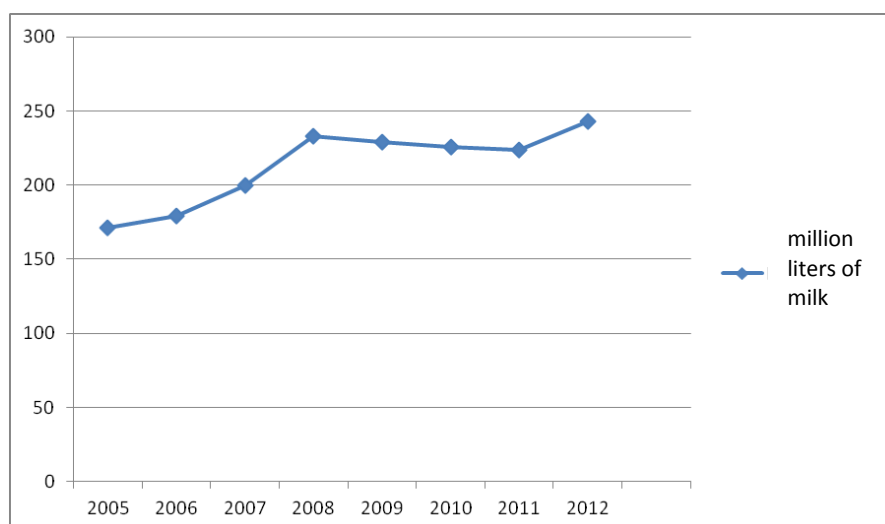
The buying-in price of raw milk is 50 fenings per liter on average. If a producer sets aside 5 fenings from each liter of raw milk in a year, for heads that the state invested in at an annual level, resources in the amount of 990,144 KM are obtained (0.05 for each of 19,802,880 liters), or 162 KM for an invested head for the whole year. Due to raw milk buying, producers increase their long-life milk production by 19,802,880 liters a year. They sell milk to end users (local and international) at an average price of 1.40

KM, which adds up to a total of 27,724,032 KM, VAT being 4,713,085 KM. For simplicity reasons, the model did not take into account other dairy products produced from raw milk.

The state receives 4,713,085 KM a year from VAT on the sold milk which, together with 990,144 KM (farmers' return of 5 fenings per liter of sold raw milk) amounts to a total of 5,703,229 KM.

The model reveals that the state benefits from incentives to milk producers, since 95% resources are returned through VAT in the first year, while the production is improved in a long term. The increase in raw milk production opens new jobs on farms and in production companies and thus decreases unemployment. Production increase also raises exports, and the state becomes more competitive in the European milk and dairy product market.

Figure 3: Milk processing in B&H dairies in the period 2005-2011 in million liters



Source: Milkprocessing Sarajevo – Note: production in 2012 is a projection, i.e. a graphic representation of the way production would develop if the model is used –

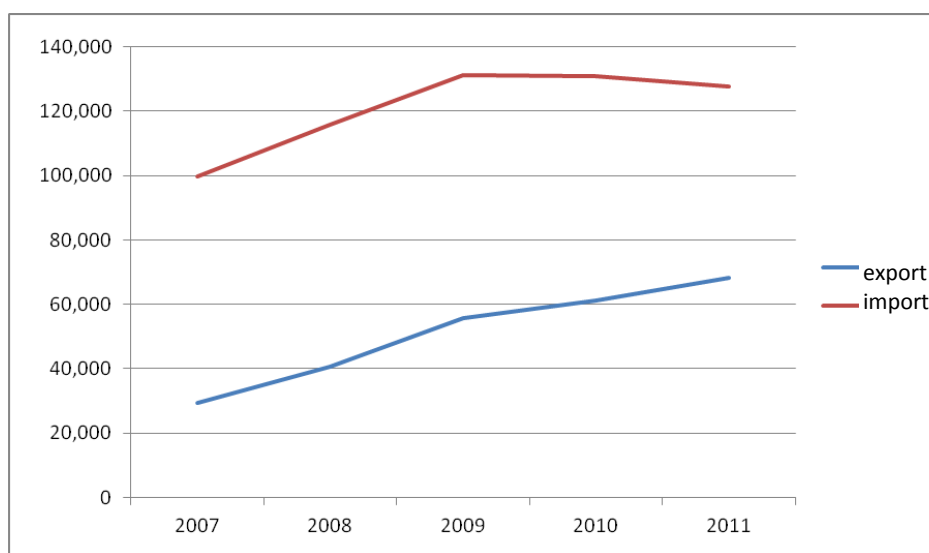
Based on the figure 3, we can conclude that state intervention and use of the model open possibilities for production growth. Naturally, it proves the justification of state intervention into the incentives for raw milk production.

3. EXPORTS OF LONG-LIFE MILK

Recently, exports of milk and dairy products have been registering growth ranging between 5% and 10%. The presented model increases the raw milk production, and allows for further growth of long-life milk production and exports. Regardless of the export growth trend, exports were still lagging behind imports. By the end of 2011, a

deficit of cca 55 million liters of long-life milk was registered. Data on long-life milk imports and exports are presented in the following graph.

Figure 4: Milk exports and imports in 000 liters



Data source: Milkprocessing Sarajevo

Based on the model, we can also forecast the time period in which the point of exports and imports will be the same, i.e. when trade balance of long-life milk exports and imports will amount to 0.

We will obtain results using the trend method. If we have established that a phenomenon development is approximately rectilinear, the general form of the function that corresponds to this development has the following shape

$$Y_t = a + bx$$

Y_t value of the trend function for each given year X_i ,
 a, b function parameters.⁴

The constant growth of long-life milk exports is linear, and we will forecast milk exports in 2012 using the linear trend.

⁴ B: „Statistika“, Ekonomski fakultet u Sarajevu, Sarajevo, 1996, p.402

Figure 5: Milk exports

Year	Exported milk quantity in 000 liters (Y _i)	X _i	X _i Y _i	X _i ²
2007	29.237	0	0	0
2008	40.701	1	40.701	1
2009	55.647	2	111.294	4
2010	61.084	3	184.941	9
2011	68.135	4	272.540	16
Total	254.804	10	610.106	30

Data source: Milkprocessing Sarajevo

The obtained data, as well as the graph reveal that the trend is linear. The linear trend function is:

$$Y_t = a + bx_i$$

In order to determine what exports can be expected in 2014, we should calculate parameters *a* and *b*. In order to calculate parameters *a* and *b*, we will use the system of equations:

$$b = \frac{n \sum x_i y_i - \sum x_i \sum y_i}{n \sum x_i^2 - (\sum x_i)^2}$$

$$a = \bar{y} - b_x$$

$$b = 10,0498$$

$$a = 30,8612$$

Thus, we have determined parameters *a* and *b*, and we can deduce that our linear function will read:

$$y_t = 30,8612 + 10,0498x_i$$

In this case, for 2012 X_i will amount to 7, and we have:

$$\begin{aligned} y_{14} &= a + bxi \\ y_{14} &= 30,8612 + 10,0498x7, \\ y_{14} &= 101,209 \end{aligned}$$

The expected exports in 2012 and 2013 amount to:

$$\begin{aligned} y_{13} &= 30,86 + 10,0498x6, \\ y_{13} &= 91,158 \\ y_{12} &= 30,86 + 10,0498x5, \\ y_{12} &= 81,109 \end{aligned}$$

The obtained data reveal that in 2012 we can expect export growth up to 101,209 million liters of milk.

Thus, we have studied and presented export trends up to 2012, and we will do the same with imports, which were variable over the last five years. Based on the diagram, we have observed that milk imports to BH reveal irregular developments, which best correspond to a parabolic trend⁵. In this case, we take the trend function that reads:

$$Y_t = a + bx + cx^2$$

Parameters a, b and c can be calculated using the following formulas:

$$a = \bar{y} - \frac{c}{n} \sum x_i^2$$

$$b = \frac{\sum x_i y_i}{\sum x_i^2}$$

$$c = \frac{n \sum x_i^2 y_i - \sum y_i \sum x_i^2}{n \sum x_i^4 - (\sum x_i^2)^2}$$

The data taken from Milkprocessing Sarajevo will be used in the analysis in order to present in which year exports and imports will become equal. According to the research and data we have, long-life milk imports into BH developed irregularly, with a decrease registered over the last two years. Using the curved trend, we will calculate curved trend parameters and calculate what imports can be expected in 2012.

Figure 6: Milk imports

Year	Development of milk imports in 000 liters Y_i	X_i	$X_i Y_i$	X_i^2	$X_i^2 Y_i$	X_i
2007	99,679	-2	-199,358	4	398,716	16
2008	151,661	-1	-115,661	1	115,661	1
2009	131,099	0	0	0	0	0
2010	130,783	1	130,783	1	130,783	1
2011	127,714	2	255,428	4	510,856	16
Total	604,936	0	71,192	10	1156,016	34

Source: Milkprocessing Sarajevo.

Thus, using the above presented formulae, we will see that $a = 128,6809$; $b = 7,1192$; $c = -3,84685$, and the function thus reads:

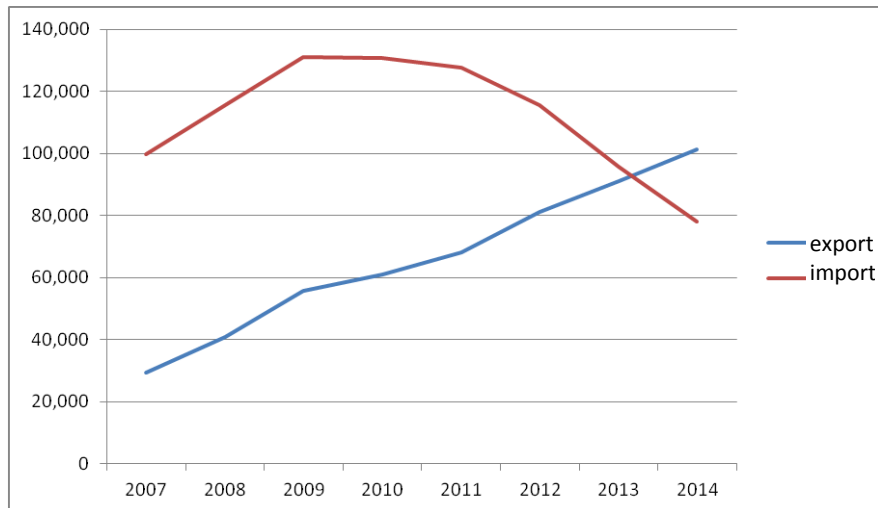
$$y_t = 128,6809 + 7,1192x_i - 3,84685x_i^2, \text{ and thus:}$$

$$y_{2012} = 115,416 \text{ million liters of milk,}$$

⁵ If a set of points (X_i and Y_{ii}) in a coordinate plane shows a tendency for curved distribution, the function trend typically assumes a second-order parabola $Y_i = a + bx_i + cx_i^2$, whose coefficients a, b and c are determined by the least square method, based on which we can obtain a system of normal equations by means of which we calculate unknown parameters a, b and c.

$y_{2013} = 95,608$ million liters of milk,
 $y_{2014} = 78,105$ million liters of milk.

Figure 7: Forecast of milk import and export trends by 2014



Source: Own calculation

Imports and export become equal late in 2013. These trends are a result of developments and positive export trends over recent years. The development of raw milk production in BH creates a possibility for a constant export increase. The data that certainly support this claim include the fact that utilization of BH dairies' production capacity amounts to 54%, which certainly presents a great opportunity for advance in this production segment.

4. CONCLUSION

In order to improve the production of milk and dairy products in BH it is necessary to increase the raw milk production, which would create pre-requisites for increasing the existing dairies' capacity and increase the industry exports and development.

We can conclude that both raw and long-life milk production in BH certainly have growth potential. It is necessary to increase the raw milk production, in order to increase the long-life milk production and create surplus for exports. Using a model for increasing the raw milk production, we have shown that the raw milk production would be increased by 10%. Export would grow over the forthcoming period, which would result in the increased demand for raw milk. It is necessary to stimulate local production of raw milk, which would result in greater production and avoidance of raw milk imports to BH.

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POTENTIAL OF USE OF SOCIAL NETWORKING SITES IN TOURISM INDUSTRY IN BOSNIA & HERZEGOVINA IN COMPARISON TO EU

ABSTRACT

Social networking has taken contemporary business experiences to a new level that cannot be compared with anything that happened so far. Tourism industry and travel booking activities have significantly benefited from such development. Potential travelers can communicate with tourist agencies and operators through social networking sites as well as with tourists who already have visited desired destination or used services from some operator. This means that tourists can get information directly from actors in tourist activities in order to make travel decision. Social networking has become large resources from which tourists can make decisions. On the other hand, social networking sites allow tourist operators and other players in tourism industry to reach directly their consumers, both existing and potential. It is apparent that social networking sites provide great opportunity to tourism industry to improve its' social networking communication with consumers. Social networking advertising is a great asset to tourism industry where information can be easily targeted at a wide range of users worldwide. In this paper it will be given analyses of use of social networking by consumers in Bosnia and Herzegovina and potential of Social networking communication that can be exploited by tourist industry.

Key words: *tourism industry, consumers, social networking sites, SNS communication*

JEL classifications: *L8*

1. OVERVIEW OF SOCIAL NETWORKING DEVELOPMENT

Social networks were created on Internet as early as in beginning of 90-is of last century. In year 1994 was created one of the first services of social networking named Geocities. Users of this site were able to create own web sites and upload big variety of digital material. Mutual interaction between users was limited only on use of e-mail service. Year 1995 brought to the light a social networking service named theglobe.com which allowed to users to work with personalized content, as well as direct interaction with those who had similar interests. Same year was created a social network called Classmates.com which allowed to users to create own profiles and to

add other users in personal contacts. In 1997 was started a service AOL Instant Messenger which allowed exchange of messages in real time. Last decade was marked by appearance of social networks which allowed work with personal profiles, personal contacts and interaction between users of similar interests. These features were direct causes for rapid growth of such networks. In 2002 was created a social network Friendster which increased up to three million users in first three months of existence. Following year was created the most popular network of that time, namely Myspace, and 2004 was created a leader in this area, Facebook, and in 2006 were created Twiter and Windows live.

Table 1: Overview of most popular social networks¹

1999	2000	2003	2004	2005	2006	2011
Sina Weibo	Habbo	LinkedIn	Facebook	Bebo	Badoo	Google+
Tencent QQ		Skype	Orkut	Netease	Twitter	
			Tencent Weibo	Qzone	Vkontakte	
					Windows Live	

Growth of usage of social networks has been very intensive in last 10 years. There are over 5.5 billion user accounts created on variety of social networks. This means that there are 2.43 accounts created per Internet user. It can be noticed that social networks have become significant factor of integration of Internet users. In following table it is given an overview of world's largest social networks.

Table 2: Overview of 15 biggest social networks users

No	Social network	Number of active users
1	Facebook	1.000,000,000
2	Tencent QQ	674,000,000
4	Twitter	555,000,000
3	Qzone	500,000,000
5	Netease	360,000,000
6	Windows Live	330,000,000
7	Sina Weibo	250,000,000
8	Tencent Weibo	233,000,000
9	Habbo	203,000,000
10	LinkedIn	150,000,000
11	Skype	145,000,000
12	Vkontakte	135,000,000
13	Badoo	121,000,000
14	Orkut	120,000,000
15	Bebo	117,000,000
Total:		4.893.000.000

¹ Artdriver, <http://www.artdriver.com/top-social-networking-sites-timeline/>, 2011.

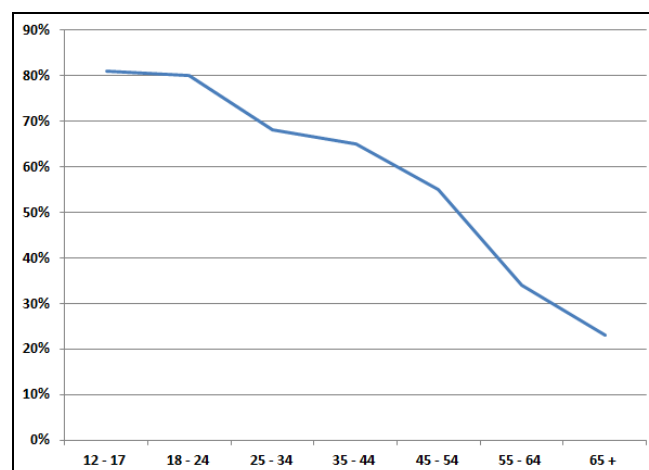
From Table 2 it can be noticed that on 15 largest social networks there have been created nearly 4.9 billion user accounts. This is a huge communication potential that has already been recognized and exploited by business community. Today social networking is the fastest-growing active social media behavior online, increasing from 36% of global Internet users to 59% managing their profile on a monthly basis by the end of 2011². Business significance of social networks can be analyzed in terms of new type of consumers that have emerged from such digital environment. Different authors point out the following social network groups³:

Digital natives are users of 12-30 years old whom adopt the new technologies in a very natural way. They have been born in this new age of Knowledge and Information society; as consequence it is something natural, they have or are growing up with this technology era. They are the “native speakers” of the Internet language. They use instant messaging, mobile phones, blogs, geo-localization and different social applications where they can share contents

Digital Immigrants are users of 30-50 years old. They are on the peak of their professional career; therefore they do not have enough time to be up to date with the technological advances. However, they have to do it if they want to compete with younger generations. They have to do a big effort in order to adapt themselves to the new technologies and Internet applications.

Digital wise people are users of 50 onwards who despite of the fact that their learning curve is high, they have time to investigate and learn in order to be up to date.

Chart 1: Social Networks Usage by Age in 2012⁴



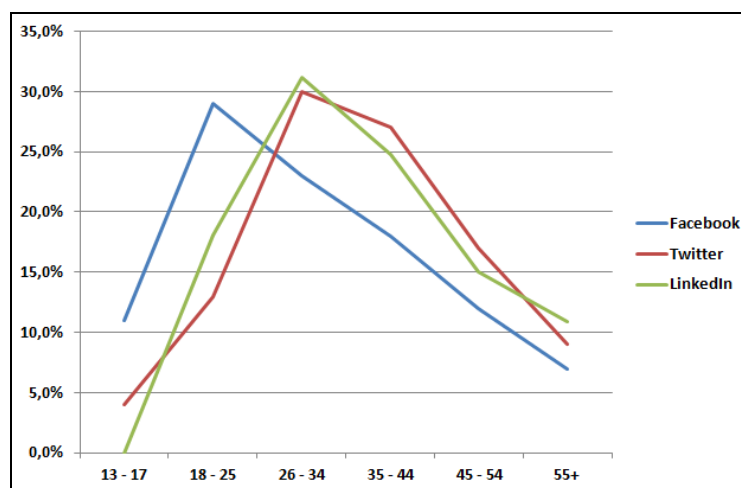
² Agentmedia, <http://www.agentmedia.co.uk/social-media/100-more-social-media-statistics-for-2012/>

³ Irene Lucena Rodríguez, Social Media in Tourism Behavior, Bournemouth University, Université de Savoie, 2009, p. 19

⁴ Socialnomics <http://www.socialnomics.net/2012/06/06/10-new-2012-social-media-stats-wow/>, 2012

From Chart 1 it can be noticed that the biggest density (nearly 80%) of social networks users is within group of digital natives. Although they are digitally very sophisticated group, they aren't rather significant in business terms because this is a group with small buying power. In terms of business importance, the most significant group of social networks users is digital immigrants. Density of social networks users within this Internet users group is around 60%. Also, they are on the peak of their professional career and they are a group with a great buying power. This means that advertizing within this group would be highly profitable for different businesses. The third group of digital wise people has density of around 45%, and they are still an interesting group. This is because they are mostly retired people that still have buying power and advertizing to this group can have positive financial effects. Last two groups make up 65% of the social networking population.

Chart 2: Social Networks Usage by Age in 2012 - 2⁵



Another look on social networking demographic, which presents usage of three big networks of different type, illustrated in Chart 2, gives similar results as previous chart. It is noticeable that still dominant groups are digital natives and digital immigrants, while the group of wise people is still significantly presented. Both examples show justification of usage of social networks in business purposes.

2. SOCIAL MEDIA AND TOURISM

The internet has now clearly established itself as the world's favorite place to book travel. There is little statistical difference here between Europeans, Americans and Asians, the World Travel Monitor showed⁶.

⁵ Blogherald, <http://www.blogherald.com/2012/06/07/social-networks-broken-down-by-demographic-infographic/>

⁶ ITB World Travel Trends Report, 2011, p.7

Regarding a use of social networking in tourism industry, there has to be noticed that tourism industry is a service industry which means that there has to be very intensive interaction between services providers and consumers. Because of a need for interaction with clients, tourism industry is one of the business sectors with a very close relationship with the new information and communication technologies. This means that mechanisms of online sharing of information can facilitate tourist industry to make closer relation to potential and current clients⁷. Probably, the most important feature of the new tourists is that they are growing up with computers as 'digital natives' who use Internet, mobile technology and social media.

User generated content and mutual interaction between users are important features of social networks. Tourist operators are dealing with a new consumer, which can easily access information and easily share own views, comments and suggestions in an informal and collaborative way, increasing the value and influence power as determinants of choice for other consumers⁸. Changes which have arrived with growth of social networks are pushing marketing to shift from a business-to-consumer to a peer-to-peer model for the sharing of information. This digital mouth-to-mouth marketing is becoming an important feature in terms of approaching a consumer. As a consequence, tourist organizations have to implement strategies and tools (websites or portals) based on user generated contents. This can be done by creating brand new portals or to incorporate these new technologies in existing portals.

Customer communities are becoming a major factor in marketing of tourist organizations. Process of building up customer communities needs to be understood. According to some researches there is rather close relation between customer interaction and creation of customer communities. As a first step, customer interaction allows remote experiences of products and services. Further on, customers are allowed to make a dynamic customization of their needs and to share their experience with others. Finally, this intensive sharing process causes that customers are becoming closer to each other by increasing mutual trust, and as a result there are customer communities that have been built⁹.

Increasingly the choices of tourists are being based on discussion forums where specific questions about the destination can be formulated and exchanged between users. In these forums tourists are interested in many aspects about the destination such as transportation, restaurants, prices, as the destination is a single product that the tourist is experiencing.

It can be noticed that rather big population of travelers are expected to search and share digital content on line. At the information and planning stages, consumers are likely to visit a variety of sites which will invariably include any one or more of the following¹⁰:

⁷ Buhalis D., Strategic use of information technology in the tourism industry, *Tourism Management*, 1998, p. 409-421

⁸ Miguéns J., Baggio R., Costa C., Social media and Tourism Destinations: TripAdvisor Case Study, IASK ATR2008 (Advances in Tourism Research 2008), Aveiro, Portugal, p. 2

⁹ Burn J., Marshall P., Barnett M., *e-Business Strategies for Virtual Organizations*, Butterworth-Heinemann, Oxford, 2002, p. 232

¹⁰ Tourism and Travel Distribution in a Changed World, Irish Tourist Industry Confederation, 2010, p. 7

- General search query websites (search engines)
- Destination marketing websites
- Travel community websites
- Meta-search sites
- Links identified within social media websites (social networks).

As many tourists start their search on the internet, social media can make it easier to communicate with guests; to learn from comments and improve service; to spread campaigns through viral marketing and to guide visitors from one highlight to another¹¹. Search for tourist destination starts with reading of wikis and blogs, than getting involved in review sites, after that to connect with locals on social networks and finally to use geo-location applications for eventual online insight in destination.

Some researches show that leading social network in tourist industry is Facebook which is used as first choice by 58% of travelers. It is followed by You Tube 15.4%, LinkedIn 8%. Twitter 7.4%, My Space 6.3%, etc¹².

3. FINDINGS ON USE OF SOCIAL MEDIA BY TOURIST CONSUMERS IN BOSNIA AND HERZEGOVINA

The methods of research undertaken for the project were secondary data review and questionnaire for tourist consumers. Questionnaire was undertaken with 574 Internet users in Bosnia and Herzegovina in order to determine characteristics of digital touristic environment in regard to readiness of travelers to visit websites or social networking links and make their travel decision. In order to do so, tourists can make one or more of the following activities: visit search engines, visit online travel agents, visit travel community websites or social networks visit websites.

Main characteristic of business potential of overall digital environment in Bosnia and Herzegovina is 1,955,000 users of Internet, which gives 42.3% population penetration¹³. Number of Internet users in EU is 359,530,110, which means that penetration of Internet users in EU is 71.5%. There can be noticed a huge difference in density of Internet users, and that digital environment in Bosnia and Herzegovina is still rather underdeveloped in comparison to EU. Closest EU member states to Bosnia and Herzegovina are Romania with 39.2% and Greece with 46% in terms of Internet penetration¹⁴.

Penetration of social networking within online population in Bosnia and Herzegovina is 80%. Dominant social network is Facebook with 1,313,000 users which give online penetration of 67% and population penetration of 28.4%¹⁵. An average penetration of

¹¹ Vleva, <http://en.vleva.eu/socialmedia>, 2012

¹² UF Tourism Crises Management Institute, University of Florida

¹³ Internet World Stats, <http://www.internetworldstats.com/stats4.htm>

¹⁴ Internet World Stats, <http://www.internetworldstats.com/stats9.htm>

¹⁵ Socialbakers, <http://www.socialbakers.com/facebook-statistics/bosnia-and-herzegovina/last-3-months>

social networking in EU is 84.4%¹⁶ among Internet users and Facebook online penetration is 47.65% and 34.07% population penetration¹⁷, and estimated 65%¹⁸ of social network users use social networks for travel related purposes. The gap of social networking usage in Bosnia and Herzegovina and EU is not as big as it is the case with overall Internet usage. Europe is the largest continent on Facebook with 232 million users; North America has 222 million; Asia 219 million users¹⁹. Facebook is the leading social networking site in 15 of the 18 European markets²⁰, where groups of digital immigrants and digital wise people are presented enough, and researching the potential of this network in tourist industry can give majority of significant information to the marketers.

The questionnaire for tourist consumers included the following questions:

- Do you use Internet search engines to find touristic information?
- Do you visit online travel agents to find touristic information?
- Do you visit travel community websites to find touristic information?
- Do you search for touristic destination on social networks websites

Results of field research of Internet users in Bosnia and Herzegovina in regard to their readiness to visit websites or social networking and to make travel decision are as following:

Table 3: Use of general search query websites (search engines)

Very often	43,90%
Ocasionaly	45,12%
Never	10,98%

From Table 3 it can be noticed that only 43.90% of touristic clients use general search query websites on regular bases in order to be updated with touristic information. At the same time 45.12% of respondents use general search query websites occasionally, mainly before the travel, in order to make travel decision. This gives total of 89.02% of respondents who use search engines in order to get touristic information.

Table 4: Visit online travel agents

Very often	19,01%
Ocasionaly	48,06%
Never	32,93%

¹⁶ Comscoredatamine, <http://www.comscoredatamine.com/2011/03/facebook-is-nr-1-social-network-in-15-of-18-european-markets/>

¹⁷ Internet World Stats, <http://www.internetworldstats.com/stats9.htm>

¹⁸ New Media Trend Watch, <http://www.newmediatrendwatch.com/>

¹⁹ Vincos, <http://vincos.it/world-map-of-social-networks/>

²⁰ Comscoredatamine, <http://www.comscoredatamine.com/2011/03/facebook-is-nr-1-social-network-in-15-of-18-european-markets/>

Similarly to the pervious findings only 19% of respondents visit online travel agents on regular bases in order to make travel decision, illustrated in Table 4, while half of them do that occasionally, mainly before travel as well, which means that 67.07% of respondents visit online travel agents in order to get touristic information.

Table 5: Visit travel community websites

Very often	17,07%
Occasionally	51,22%
Never	31,71%

Findings illustrated in Table 5 show that 17% of respondents use travel community websites in order to make travel decision, while more than half of them do it occasionally, before the travel. It can be noticed that 68.29% of respondents visit travel community web sites in order to get touristic information.

Table 6: Search for touristic destination on social networks websites

Very often	18,29%
Occasionally	36,59%
Never	45,12%

Finally, when it comes to use of social networks websites as a source of information of touristic destination, it can be noticed that social networks are less used than previous sources. 18% of respondents us social networks on regular bases, illustrated in Table 6, while only 36% of them use social networks occasionally, before the travel. It means that 54.88% of respondents search touristic information on social networks websites, and that social networks are the least used source in comparison to other sources which are considered in this research.

Table 7: Comparison of findings

Use of search engines	Visit online travel agents	Visit travel community websites	Search on social networks websites
89.02%	67.07%	68.29%	54.88%

Looking at the comparison of findings, Table 7, it can be noticed that most used channel for searching after touristic information is use of search engines, while search on social networks is the least used channel.

Potential of use of a certain digital environment in business purposes can be calculated according to variety of indicators, such as geographic coverage, communication channel, frequency of use of communication channel, etc. Therefore, it can be considered one or more following environments, regarding tourist industry:

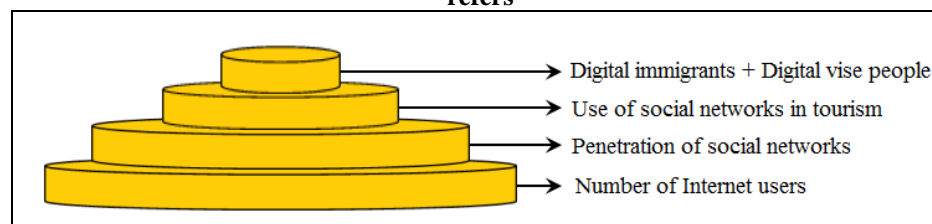
- Overall digital market in tourist industry
- Overall social networking market in tourist industry
- Usable social networking market in tourist industry.

Values of mentioned environments in tourism industry have to be calculated regarding the part GDP per capita expenditure in tourism, as following:

- Overall digital market in tourist industry
 - o total number of Internet users \times part of GDP per capita expenditure in tourism
- Overall social networking market in tourist industry
 - o total number of social networks users \times part of GDP per capita expenditure in tourism
- Usable social networking market in tourist industry
 - o number of social network users who search on social networks for tourist purposes \times percentage of (digital immigrants plus digital vise people) \times part of GDP per capita expenditure in tourism

Usable social networking market in tourist industry refers to the part of Internet users who use social networks to search for tourist information. Therefore this indicator is important to be calculated. In order to calculate it there has to be known following indicators: number of Internet users, penetration of social networking (%), penetration of social networks as a source of information of touristic information (%), part of GDP per capita expenditure in tourism (%) and number of digital immigrants plus digital vise people (%). Figure 1 illustrates how usable population can be formed.

Figure 1: Usable population for social networking market in tourist industry refers



Sources in to the World Bank that an average GDP per capita in EU is on level of 26,149.00 € while average GDP per capita in Bosnia and Herzegovina is 3,710 €²¹. Annual touristic expenditure of citizens of Bosnia and Herzegovina is on level of 355²² million € which is 2.36% of GDP. Using these data consumers reachable SN market in tourist industry can be calculated as following:

- USNM Usable social networking market in tourist industry
 SNT Number of SN users who search on SN-s for tourist purposes
 IU Number of Internet users
 PSN Penetration of social networking (%)
 SNTI Penetration of social networks as a source of information of touristic information (%)

$$SNT = IU \times PSN \times SNTI$$

²¹ World Bank, <http://data.worldbank.org/indicator/NY.GDP.PCAP.CD>, 2012

²² World Bank, <http://data.worldbank.org/indicator/ST.INT.XPND.CD>, estimated International tourism expenditures of B&H citizens id 250 mil. \$, which is 195 mil. € and total expenditure is 355 mil. €. This gives total of 2.37% of GDP.

GDPT part GDP per capita expenditure in tourism (%)
 DP digital immigrants plus digital wise people (%)

$$\begin{aligned} \text{USNM}_{\text{B\&H}} &= \text{SNT} \times \text{GDPT} \times \text{DP} = \\ &= \text{IU} \times \text{PSN} \times \text{SNTI} \times \text{GDPT} \times \text{DP} = \\ &= (1,955,277 \times 80 \% \times 54.88\%) \times (3.710 \times 2.36\%) \times 65\% = \mathbf{48,855,296 \text{ €}} \end{aligned}$$

Annual touristic expenditure of citizens of EU is on level of 312.76²³ billions € which, according to 502,120,829²⁴ millions of EU citizens, gives the figure of 2.37% of GDP. According to these figures the usable social networking market in tourist industry in EU can be calculated as following:

$$\begin{aligned} \text{USNM}_{\text{EU}} &= (359,530,110 \times 84.40\% \times 65\%) \times (26,149 \times 3.27\%) \times 65\% = \\ &= \mathbf{74.563.165.454 \text{ €}} \end{aligned}$$

Usable social networking market in tourist industry in Bosnia and Herzegovina represents only 0,066% of the same figure in EU. At the same time number of Internet users represent 0,544% of Internet users in EU. It is noticeable that financial indicators have greater impact in usable social networking market in tourist industry than number of Internet users.

4. CONCLUDING REMARKS

Development of social media networks has been very intensive in past decade and it has already made a tectonic impact on society as well as on contemporary business. Over 4.5 billion created personal profiles on 15 biggest social networks is a communication power that has not been seen so far. There have been derived three groups of social network users, namely Digital natives, Digital Immigrants and Digital wise people, which describe different type of belonging and usage of social networks. Having defined such groups it gives researches opportunity to understand different types of business significance social network users.

Social networking in tourism industry has established itself as an important communication channel due to its interactive nature. Tourism industry is a service industry which means that there has to be very intensive interaction between services provides and consumers. Research of activities of Internet users in terms of obtaining touristic information can be considered through several activities such as: general search query websites, destination marketing websites, travel community websites or links identified within social media websites (social networks). It can be noticed that

²³ Eurostat,

http://www.google.ba/url?sa=t&rct=j&q=&source=web&cd=1&cad=rja&ved=0CB8QFjAA&url=http%3A%2F%2Fec.europa.eu%2Fstatistics_explained%2Fimages%2F%2Fe5%2Ffigures_and_tables_SE_FR_1206.xls&ei=d0BtUIqHBYSHswbUv4HYAg&usq=AFQjCNGktA10xQi5_9Y4W6xbur5YbYbYR A

²⁴ Eurostat,

<http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tps00001>

research of social networks can provide plenty answers regarding business value of its touristic potential.

Use of social networks websites in Bosnia and Herzegovina as a source of information about is not as frequent as other means of Internet communication. As a consequence the Influence of social networks on decision making process in tourism is less than general search query websites usage, visit of destination marketing websites or travel community websites. There is a huge room for potential development of social networks in tourism industry and it can be expected in near future that social networks to become main digital communication channel between touristic service providers and consumers.

Looking at the figures of business potential of social networks it can be concluded that there is already huge potential within EU. Usable social networking market in tourist industry represents the part of market that can be exploited by social networking communication channel. In this paper it has been given a method for calculating it. This method can be applied on any region, and even on any digital communication channel, in order to calculate the business usable value of a certain population in a certain digital environment.

Usable social networking market in tourist industry is near 75 billion € in EU. In Bosnia and Herzegovina usage of social networks is lacking in comparison to EU member states as same as it is case with overall Internet usage. Such digital environment provides potential of usable social networking market in tourist industry worth only around 49 million €. There is a huge room for improvement, but the first factor for the future growth is growth of GDP and wealth in B&H society. Positive result of this research is knowledge about methodology to calculate and size of social networking potential within tourism industry and how it can be measured and exploited.

In which extent the consumers' reachable SN market in tourist industry would be exploited depends on marketing penetration of touristic professionals into social networks and their skills to convert consumer's interaction into the money. This is a topic for future research and consideration in order to determine real power of social networking in tourism.

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FRANCHISING – AN OPPORTUNITY FOR SMALL BUSINESSES IN BOSNIA AND HERZEGOVINA

ABSTRACT

Present author considers the concept of franchise a great opportunity for small businesses in B&H, and seeks to identify good and bad sides of a larger franchise penetration in the B&H market. Economic development and its adjustment to conditions prevalent in the EU market is one of preconditions for bringing B&H closer to the EU. Franchising can be one of the ways to allow this to take place as quickly as possible. The author also believes that in the situation of bad market environment as is the case with B&H, and given the inexperience with the organization's own entrepreneurial ventures, franchising is the best solution. It would be to most advantageous to B&H to learn from foreign companies which have developed in other, more competitive markets. Using franchise which is a prerequisite of success, many small enterprises in B&H would learn much about its works in successful foreign companies and would likely become leaders in the development of "real" market economy.

Key words: franchising, small businesses in Bosnia and Herzegovina

JEL classification: L10

1. INTRODUCTION

Franchising as a specific type of business format is experiencing an expansion of global dimensions. According to some statistics, more than 45% of world trading is conducted through some kind of franchise, with the tendency towards further growth. Taking this fact into account, two questions arise: What is the secret of franchising as a type of business? What reasons can be identified as contributors to the rise of franchising at the global level? Answers are to be sought within dramatic changes in the macro-environment in the last 20-30 years. The mega-trends of informatization of society, globalization of economic activeness, as well as exceptionally strong competition across industries and activities, have placed small businesses in an unenviable position. In order to be successful, small business entrepreneurs must be exceptionally creative from the very beginning of their venture which is a distinction of the few. At the same time, creativity today is still a relative term. Entrepreneurs are in a continual race after

consumers and their needs. They also have to take into account that all they consider from the very onset as own idea and departure from competition, there always exists the danger of the same being already placed on the market by someone else.

There are indeed known cases of exceptionally creative people who managed to develop a successful business based on own original idea. Mark Zuckerberg¹ with Facebook as a social network is a case in point. Such success stories however are small in number. Most small business entrepreneurs are in a different situation, where despite their desire they are in reality constrained by a rather small number of ideas which can be turned into a successful business ownership.

In this "no idea" situation franchising seems to be a very good alternative. This proven business format is a good starting point for different types of small businesses that have for years been built by someone else and have been successful in business practice. All the small entrepreneurs is required to do, it to estimate what kind of franchise gives him/her the greatest chance at the local market. This is much easier to research and implement in practice than trying to build own competitiveness on the basis of an 'idea'. The research conducted by International Franchise Association showed that 89% of the franchisees felt they made the right decision about franchise, and 63% said they would have made the same choice again.

The market of the state of Bosnia and Herzegovina is specific in many ways. It has a unique (and dysfunctional) political order unlike any other in the world. The legacy of the last war and divisions based on nationality are still strongly represented in all pores of society. The pre-war economy, based in greatest part on big business systems and heavy industry, had been almost entirely destroyed. This destruction however is only partially a consequence of actual warfare; it is also due to a badly conducted privatization and transition after the war. Thus, one can observe a great number of macroeconomists and economic experts for Bosnia & Herzegovina in the media, recommending economic development on the basis and construct of small and middle sized businesses.

This is where certain problems arise. While in theory attempts at all levels of government are being made to promote the need for development of small and middle businesses, this looks somewhat different in practice. Majority of entrepreneurs who decide to embark on this type of venture face a multitude of problems: unregulated market environment, slow and ineffective administration, non-passing or even non-existence of regulatory frameworks for unhindered development of business, omission of any support and subventions, high degree of different fiscal and other burdens, disharmony between regional rules. These are the reasons which discourage the majority of entrepreneurs, right from the beginning. What's more, a great number of entrepreneurs do not possess a good quality education and the knowledge to come-up with, organize and lead a given type of business.

¹ Facebook's Mark Zuckerberg founded 2004 years while still a student at Harvard. Conceived as an interactive network, Facebook was then devoted exclusively to students of universities in order to more easily communicate and exchange information.

In the situation where on one hand we have a bad market environment and on the other a lack of experience around organization of own business venture, franchising is the best solution for small businesses. Why not take advantage of knowledge and business formats of those foreign companies which have developed these in other, more competitive markets? Legal copying of successful foreign businesses in the domestic market would be a much easier way for many small enterprises compared to the unpredictability of relying on own business model. Furthermore, with a consistent application of franchising as a pre-requisite for success, many small enterprises in B&H would learn a lot from successful foreign companies and in this way become leaders in growth of 'real' market economy.

The global economic crisis as a reality for the last two years did not circumvent Bosnia and Herzegovina. Small enterprises under such conditions are more vulnerable. Through the talks with some entrepreneurs in B&H, the author observed a desire of many to overcome current difficulties. They are searching for ways to survive in the market, but at the same time admit they do not know how and what to do. The crisis also carries with it the already mentioned 'lack of ideas' and majority of interviewed entrepreneurs indicated a preference of being under the wings of big and successful – especially foreign – companies. Perhaps precisely for these reasons the economic crisis will be a deciding factor in franchising taking a larger share in B&H market.

2. BASIC FRANCHISE FEATURES

Each entrepreneur wanting to start own business has three available options to choose from:

1. Buying one of existing enterprises;
2. Setting up own business and
3. Franchise arrangement.

The first two options carry a higher risk and require substantial financial resources compared to the franchise option. In addition, they require innovation, specific entrepreneurial knowledge, organizational skills and development of own marketing strategies. Franchising has been invented precisely as an alternative to all of these requirements. It is a concept that allows many to become entrepreneurs who previously possessed no special talent or exhibited entrepreneurial spirit. Apart from the advantage of an easier way to run own business, franchising also represents one of the growth strategies² for companies based on the application of the concept of 'own business reproduction'.

Franchising is a specific sales channel within which the franchisor sets the marketing program, while franchisees operate under franchisor³ name or brand. The first franchising university professor Vaughn⁴ described it in following manner: "Franchising is now commonly known as a form of marketing or distribution channel.

² There are 5 basic types of growth strategies of companies: a generic or organic growth, diversification, mergers and acquisitions, joint venture operations and licenses and franchises

³ Grabovac, N., Sales and Sales Management, ACA System, Sarajevo, 2005, p. 259

⁴ Vaughn, C., Franchising, Lexington Books, Lexington, Massachusetts, 1979., p. 1-2.

The franchisor usually gives to an individual or small company right or privilege to operate in the prescribed manner in specific places for a certain period of time. The privilege may be varied. May be entitled to sell the franchisor's products, using its methods, symbols, trademarks or franchise can contain all the above rights“.

Franchising occurs when a given company (the franchisor) renders a licence of own trade name (brand) and own business format to a particular person or group (the franchisee) who in turn agrees to act in accordance with the terms of contract (franchise agreement). The franchisor provides the franchisee with support; in some cases franchisor has some control over the way the franchisee conducts business. Franchisee is required to pay an initial fee (franchise fee) as well as a business charges fee (royalty) for the usage of the trademark and business methods⁵ acquired.

While not a detailed description, following characteristics or rather advantages of franchising can be listed:

1. Proven business model that reduces risk and possibility of mistakes allowing for greater chances of business success. A model consisting of permission given by one party (franchisor) to another (franchisee) for usage of name, idea, technological process, equipment, goodwill and know-how relating to these elements;
2. Allows for a relatively quick entry into the realm of entrepreneurship;
3. Franchisees' inadequate knowledge, experience and reliance on extensive experience of the franchisor, can be compensated for by training received by the franchisees and their employees;
4. A product or service of 'proven' standardized quality, with an adequate marketing training program and strategy;
5. A smaller initial capital for business commencement compared to capital level needed for own enterprise, despite the conceptual requirement for continual compensation to the franchisor from franchisee for obtaining of rights and services franchisor will continue to provide;
6. Centralized purchasing;
7. Permanent management assistance; and
8. Standardized equipment, business technology, etc.

All of these reasons have contributed to a rapid rise of franchising on a global level. Using resources and technology of others on the local market assures entrepreneurs a greater degree of long-term business success.

Table 1 Shows data gained from research conducted by American Chamber of Commerce, focusing on comparison of degree of success of entrepreneurs entering business of own initiative and those who bought a franchise. The findings confirm the above listed advantages of franchising.

⁵ <http://hr.wikipedia.org/wiki/Franšiza>

Table 1: Comparison of the success rate of franchisee and independent enterprise

	Franchisee	Independent enterprise
After one year of business	97%	62%
After five year of business	92%	23%
After ten year of business	90%	18%

Source: American Chamber of Commerce, downloaded from the Center for the franchise “Osijek”

Although fast food chains are synonyms for a franchise on global level, of which McDonalds is the most famous, it should be emphasized that any type of work activity or business can be developed through the concept of franchising. Irrespective of product or service offered, the right time for a franchise business commencement is when following conditions are met:

- When there is a visible jump away from the competition in the same branch;
- When there is a great demand for products / services;
- When there is a continual confirmation of quality of products/services by the clients; and
- When certain distinguishing characteristics are apparent.

Despite its advantages, franchising like any other concept also suffers from certain limitations and drawbacks as listed below:

- Reduced independence of the franchisee and strong dependence on the franchisor as having a somewhat stifling effect on entrepreneurial spirit;
- Lower profit margin for the franchisee;
- Inability to express own identity through work;
- Inflexibility of the franchise system business;
- Taking over the long-term business obligations;
- Difficult termination of contracts, conflicts and disputes between the franchisee and franchisor,
- Lack of knowledge about the concept of franchising (this is especially apparent in the market of Bosnia and Herzegovina),
- The success of the franchisor does not guarantee the success of the franchisee; and
- Problems relating to control of operations, etc.

3. CURRENT SITUATION OF SMALL AND MEDIUM-SIZED COMPANIES IN B&H

The European Commission defines small and medium enterprises (SMEs⁶) as those numbering less than 500 employees; enterprises with an annual turnover of less than 38.000.000 Euros; and enterprises whose percentage of ownership by other companies is not greater than 33%. Judging by this set of criteria and taking into account the size of its enterprises and economy, it can be concluded that almost all enterprises in Bosnia & Herzegovina belong to the small and medium group. This can be confirmed even

⁶ EU Small and Medium Enterprise Charter, EC, 2000.

when judging solely by the criteria of the number of employees. The International Financial Cooperation (IFC) defines, small enterprises as those not exceeding 50 employees; medium as those ranging between 50 and 200 employees; and big enterprises as those numbering above 200 employees.

According to the report by the Center for Policy and Management⁷ from September 2010, the number of enterprises in B&H ranges between 26 000 and 29 000. From this number, 97% can be classified as either micro, small or medium enterprises. These companies are the backbone of the B&H economy as they generate over 60% of the gross domestic product, and most new jobs⁸. 80% of new jobs in the European Union also emerge in the SME sector⁹.

Statistics show that on every one thousand of B&H inhabitants approximately 8 small and middle enterprises are registered; compared to EU where on the same number of inhabitants 70 enterprises are registered. These statistics indicate that Bosnia and Herzegovina is almost at the very bottom in terms of development of entrepreneurship, with only some Former Soviet Union states, such as Georgia and Kyrgyzstan numbering less SMEs¹⁰.

The lack of significant progress in the field of SME development in Bosnia & Herzegovina, among other things, is to be found in following reasons:

1. Lack of necessary legal and institutional framework at the state level¹¹, which should contain the law on SME, strategy on SME development and formation of agencies and funds for SMEs.
2. Poor tax policy and administrative procedures (in 2010 each B&H company had paid 4 times more the number of payments to administration - an average of 51 time - compared to the average 12.8 times as recorded in OECD countries. A similar relationship is observed with the number of working hours that businesses spend on tax administration: the B&H average spent 422 hours versus 194 hours in OECD countries.
3. Low liquidity and lengthy process of debt collection (according to the Doing Business survey, B&H is ranked as the 124th economy in the world, which is a further decline compared to year 2006 when it was ranked as 119th). The collection process is burdened mostly by a large number of procedures, their length and high costs.
4. SME Development incentives are mainly focused on entities (The Federation and RS) with each having own SME strategy and activities instead of acting synchronously. At the entity level some progress had been made with RS

⁷ Center for Policy and Management, Report on policies to encourage small and medium-sized enterprises, September 2010, pp. 3

⁸ Enterprise Policy Performance Assessment Bosnia and Herzegovina, OECD, 2005

⁹ EU Small and Medium Enterprise Charter, EC, 2000.

¹⁰ Statement by Alexander Dodik, the president of the Center of entrepreneurial initiatives, taken from the newspaper "Večernji list", number 16 997 of 05.04.2011, p.5.

¹¹ In 2009 adopted the "Strategy of development of the SME sector in BiH 2009-2011" at the state level where they are not defined by the Agency and the Fund for SMEs. Strategy itself contains a number of measures but no concrete action plans for implementation. Thus, for example, from 34 of the planned activities only a sixth of them were realized in 2010

establishing an SME support agency. The Federation entity still lacks such an agency as does the Federal State of Bosnia & Herzegovina.

5. There is no legal obligation for a two-way vertical coordination between the B&H state and lower levels. Obligation for co-ordination in the entity of Federation does not exist either; there is no requirement for a co-ordination with the cantons or lower levels (councils).
6. Apart from the private sector, entity based development banks have significant financial resources at their disposal, against whom it is often complained that the credit approvals are based more on political rather than economic criteria.
7. In its survey of business environment for enterprise development the World Bank also mentions the problem of corruption as being present at all levels¹².

Available data point to particularly worrisome trends for the formation of the so-called 'start-up companies'. According to the Register of Enterprises in FB&H of the Federal Bureau of Statistics, the number of newly opened enterprises for the 2005-2009 period had experienced an average annual decrease of 5-7%. With the emergence of global economic crisis, this number had even decreased to as much as 15%, solely for the year 2009. There is not much improvement in the business environment for start-up companies¹³; negative trends are present in this area also. As an example, the number of days required for processing of registration of an enterprise in the last two years had increased.

3.1. The activities of the B&H state stimulating the development of SMEs

Most European countries including the European Union itself, have for long time been aware of the significance of SMEs as a key factor for economic development and innovation and hence they are actively working on coming-up with best modalities and incentives for their development. Various governments are trying to resolve the issue of SME development in different ways, concentrating on two key concerns: funding and decision making/business consulting.

The countries of Former Yugoslavia much like other countries of Southeast Europe are lagging behind in creation of high-quality institutional framework which would enable a faster development of SMEs. Slovenia had been the most successful country in the region, having formed the Ministry of Small Business back in 1991. This ministry had been responsible for building of local business centres and local guarantee funds which in turn helped Slovenia achieve best results in the sector, compared to all other countries of transition.

The responsibility for creation of a more favorable institutional framework for development of SMEs in B&H, formally rests with the Ministry of Foreign Trade & Economic Relations – Department for Small and Medium Enterprises. This ministry

¹² „Business Environment and Enterprise Performance Survey“, World Bank/EBRD, 2008

¹³ According to a survey of business environment, "Doing Business in Bosnia and Herzegovina 2010" conducted by the World Bank, B&H is on the 160-point total of 180 countries in terms of the onset of business and company registration. That small country that can be competitive is an example of Macedonia which is in the same survey ranked the high 6-that place.

together with other state institutions however, had made little progress towards creation of a more favourable business environment as listed below:

- In 2007, a framework law for registration of businesses had been adopted, but not widely used in practice; regulations on bankruptcy initiation have been changed; and Export Promotion Agency within the Chamber of Commerce for Foreign Trade was formed.
- In 2008, in the RS entity, a so-called 'guillotining of regulations' had been conducted; regulations for attainment of building permits had been simplified.
- In 2009, the Council of Ministers adopted a SMEs national strategy for the 2009-2011 timeframe. This strategy is however, more declarative in character, without concrete action plans and slow to implement in practice.

According to the OECD 2009 (SME Policy Index) report, which critically reflects on the business start-ups field, Bosnia & Herzegovina is the only country in the Western Balkans which did not implement a reform in this area with the 2007 level of accomplishment remaining unchanged in 2009¹⁴.

Apart from the state of Bosnia & Herzegovina, certain European Union institutions are also involved in work to strengthen the development of SMEs through following projects:

1. The project of "Support for strengthening of EU institutional capacity building of regional and local economic development and development of small and medium enterprises (EURELSMED)". Funded by the European Union in the amount of 2.4 million for three years, the project commenced in September 2009 and offers a wide range of support, consulting and training for regional and local development agencies from entire country.
2. The project "Benchmarking system for small and medium-sized enterprises" involves the input of SoftConsulting company which selects a consultant who will be licensed to provide benchmarking services. The Association of Management Consultants in Bosnia and Herzegovina (LESPnet) commenced implementation of this project. The project is also supported by the Norwegian Ministry of Foreign Affairs and implemented in cooperation with the German Fraunhofer Institute from Berlin. The project will enable domestic small and medium-sized enterprises (MPS) with a comparison of business performance at the international level, involving approximately 20 000 SMEs from 20 different countries, as well as evaluation of competitiveness of the B&H SME sector. The official commissioning of the benchmarking system for the MSP is expected to commence in early May 2011.

3.2. Changes in the global environment

Today, the world's small and medium-sized businesses are faced with many phenomena of globalization and diversification of activities by large companies. A good example is that of the British supermarket chain Tesco. Recognizing the revenue opportunities in various business areas, Tesco supermarkets are now offering a whole

¹⁴ "SME Policy Index 2009 - Progress in the Implementation of the European Charter for Small Enterprises in the Western Balkans", OECD, 2009

range of products from fuel, credit loans, automobiles, telecommunications services, hairdressing and cosmetic services, medicine, CD issuing services, and even intervene in real estate. This concept of diversification, named by Tesco as "retailing services", brings the company massive 3.6 billion pounds of revenue and 0.5 billion pounds of profit. Croatian company "Konzum" is trying to implement a similar concept. It is already able to offer utilities' payment services, and it had announced opening of gas stations and telecommunication services (K-Mobile) among other things. It would not be unrealistic to expect an emergence of a 'future store' phenomenon which would offer all services in one location, such as: real estate, automobiles, banking services, insurance, telecommunications, health services, pharmaceuticals, trade services, and the like¹⁵. Such concepts of diversification are difficult to compete against and SMEs are likely to be hit the hardest by such phenomena.

Despite such phenomena being quite discouraging to new entrepreneurs, more people are still inclined towards the choice of own businesses start up. Research conducted by "My job" portal in Croatia, revealed that as many as 78% of the respondents would like to start their own business. The statement made by Bill Gates supports this positive attitude claiming that the present climate is fantastic for business commencements with the expectation of business changing in the next 10 years more than it had in the last 50 years. It is expected that in 2011 following business opportunities will be particularly attractive:

1. Creation of mobile applications and cloud computing solutions,
2. All services intended for older people,
3. Additional education for children,
4. Services directed at "improved home living" (repairs, interior design, etc) and the time saving industry
5. Various forms of therapy,
6. Ecological agriculture,
7. Health food delivery,
8. Health and wellness tourism,
9. "Green Consultant",
10. "Second hand" shops¹⁶.

From above expositions, it can be concluded that franchising is the most suitable model for small and medium enterprises. It would be unrealistic to expect larger firms accepting someone else's concept of operations and strictly complying with it; especially when it comes to successful companies. On the other hand, small businesses in terms of their basic characteristics¹⁷ are an ideal "target" for further development and expansion of franchising in a given country. After their foundation, small and medium enterprises are mainly challenged by the problem of assurance of resources such as

¹⁵ The article, "The Future of Trade - In the supermarket bread, milk, petrol, car, money, new", journal Leader - Business Weekly, No. 290 of 22:04:11, Zagreb, by 16-17

¹⁶ The article "100.000kn - How a small investment to enter into a new business ", Journal of the Leader - Business Weekly, No. 290 of 22:04:11, Zagreb, by 26-30

¹⁷ The main characteristics of small businesses are independently owned and private management, the owners provide most of the capital, decision-making is usually the owner who works full time in the company, the company occupies a very small portion of the market, sometimes working as part-time enterprise, has a low level of profits and limited range of products and services, often located in the space of the owner or his home, geographically limited, often comes to the family business, there are only in the private sector, etc.

money, people and ideas. Once they commence work they are faced with challenges of innovation, which are tied directly to their competitiveness. Precisely due to the need for development of own competitiveness, franchising should be particularly interesting to countries in transition, as a way of identifying development programs for new entrepreneurs and their easier, faster and more secure promotion in the market. The franchising system of business should become a general trend in the development of small and medium enterprises¹⁸.

3.3. Restrictions to greater penetration of franchising into the market of Bosnia and Herzegovina

It can be safely concluded that franchising in Bosnia and Herzegovina is only at its beginning, and reasons for this are listed below:

1. Insufficient knowledge of the concept of franchising by B&H entrepreneurs is for the present author one of the most important reasons.
2. Lack of adequate organizations and associations which would develop and promote the idea of franchising in B&H.
3. Lack of regulations or laws at any governmental level (municipalities, cantons, entities and federal state) which would at least partially regulate the franchise.
4. Governmental authorities at all levels do not see franchising as an opportunity for the development of SMEs and fail to devote it enough attention.
5. Poor institutional protection and abuse of trademarks, logos and technologies of work in their entirety. These are highly placed in franchising as intellectual property.
6. Weak interest of foreign franchisors for the market of Bosnia and Herzegovina due to unstable political situation and a relatively poor business environment.
7. Although stable, financial institutions in B&H have not recognized franchising as a potential area for loan placements.

Ignorance of the concept of franchising by a large number of entrepreneurs is certainly one of the main reasons due to which this type of business is not enjoying a significant success in the market of Bosnia and Herzegovina. The concept of franchising is mainly recognized in fast food, clothing and footwear chain stores. Rarely will an SME entrepreneur in B&H be able to indicate: What the key advantages of franchising in relation to their own entrepreneurial undertaking are? All of these are notions requiring change through systematic and continuous education.

But who should be the promoter and initiator of education on franchising? Given the current business environment in B&H this should be the task of government institutions which are formed for the purpose of SME sector development. These institutions should focus and work towards achieving two aims. The first aim should be raising the bar on the level of knowledge on franchising through various independently conducted trainings and seminars. Second aim should be the encouragement of formation of various associations and organizations involved in franchising. At the present in B&H there is neither a local government nor a non-governmental association which deals with this issue, compared to the more developed countries of the world and

¹⁸ www.eff-franchise.com

even the countries in closer proximity¹⁹ where such organizations are active for ten or more years.

In terms of countries nearby, the Croatian Association for Franchising was formed as far back as 2001. In the same year ProMaturo d.o.o.²⁰ Zagreb was also formed. The latter organization was designed as an entrepreneurial center to be dealing primarily with concerns relating to franchising. Yet further relevant organization was formed in 2003 - The Center for Franchise Osijek²¹. All of these organizations have to be credited as having largely contributed to existence of 125 brands in Croatia, offered through franchising option 26% of which are domestic. The areas marked with the highest interest for franchising are fashion brands, wellness centers and the automotive industry.

Similar organizations also exist in Serbia, although compared to Croatia they have been formed relatively late. In 2007 the center for franchising was formed under the auspices of the Serbian Chamber of Commerce. In 2009 Serbian Association for Development of Franchising had also been formed. It is estimated that there are about 10,000 people employed in different types of franchises in Serbia.

Unlike the surrounding environment, **B&H has almost no domestic institutions or organizations dealing with franchising.** Education of domestic entrepreneurs is generally conducted by the mentioned regional organizations. Franadria d.o.o.²² from Slovenia, which opened its representative office in Brčko is one of the organizations worth singling out. In terms of promotion of the concept of franchising in B&H, this had mainly been done by Economic d.o.o.²³ Vitez which built the country's franchise center in 2008. The idea for this center came about after recognition of the value of the franchising concept, which led to a common initiative between Economic d.o.o. and the Economic Institute in Sarajevo towards this end. The center was envisioned to act as an intermediary between a donor and recipient, both foreign and domestic. Apart from mediation and promotion the center would also act as an advisor and educator to all potential franchisees. The Economic d.o.o. company also started developing own network of franchise stores across the country.

State institutions and authorities do not recognize franchising as a business opportunity. It is rather viewed as a foreign concept that ultimately "extracts money and takes it overseas." Due to such views **there is still no attempt to create appropriate institutional framework and adequate legislation or regulations.** Again, countries from the region have already taken first steps in the right direction. In Croatia, the Law on trade is embedded in the franchise agreement itself and as of 2007 Serbia, had inserted the rules for the regulation of franchising in its Civil Code.

¹⁹ The first franchising international association was founded in 1960 in the United States. In 1972 European Franchise Association, gathering 17 national franchise associations was also formed.

²⁰ www.promaturo.com

²¹ www.fransiza.hr

²² www.franadria.si

²³ www.economic.ba and www.fcbih.com

Poor legal protection of intellectual property and the inefficiency of the courts are some of the reasons for foreign donors not being inclined to choose to invest in own network developments in the market of Bosnia and Herzegovina. Franchising is a specific concept in which own operating system, name, trademark, brand and indirectly own image are conceded. Entering the market in which intellectual property is poorly protected; the franchisor is faced with the possibility of abuse and damage to one's reputation. While the B&H market did make some progress, this is still not a sufficient guarantee for the franchising segment. The case of McDonalds is a good illustration of this inadequacy. This world renowned synonym for the concept of franchising had still not decided to open its franchise in B&H, although it had established its presence in the region for several years.

The banking sector in B&H is stable and is one of the best sectors of B&H. In the last two years, under the influence of the global economic crisis, it decreased its running credits and thus also its profits. In such a situation, banks and similar financial institutions are looking for a way to place additional loans on the market. Instead of risking the new entrepreneurial ventures where in the first two years of work more than half are obliterated, it would be more prudent to divert some of their resources towards lending and capital support for potential franchisees. This is also supported by the fact that most franchises in the world designed for the SME segment do not require large capital investments. Example of McDonalds is again useful as an illustration. To open a McDonald's restaurant it is estimated that an initial capital investment ranging between USD 408,000 and USD 647,000 would be required. Many other franchises are much cheaper. A proven business concept such as a franchise carries with it less risk in lending to recipients of their own ideas, even though one cannot be 100% sure or guarantee success. Consequently, banks in B&H should pay a greater attention to the franchise as an opportunity for SME development in B&H.

4. PROPOSED MEASURES FOR STRENGTHENING FRANCHISING IN B&H

Judging by above expositions it is obvious that franchise as a business concept has both its good and bad sides. Given the present economic and political environment in B&H, the author believes that promotion and development of franchising would be one of the driving forces for the development of the SME sector. The author further believes that the State of B&H had managed to put the phase of "wild capitalism" behind; the phase which allowed the operation of small enterprises to anyone. Strengthening of domestic and lately also overseas competition, reduces the number of activities which guarantee entrepreneurial success if designed without a systematic approach in terms of both organization and marketing.

The penetration of regional, European and even global companies has already begun. Due to bad experiences from the first "wild" phase, B&H consumers trust foreign companies more rather than they trust domestic ones. Given this balance of power, it seems rather logical to allow for foreign companies' franchising into domestic businesses, particularly in the SME sector. For this transfer to take place, B&H should do several things:

1. Conduct an analysis of the significance of the franchise and its effects on the development of SMEs - in this context the benefits of the franchising compared to other business formats should be clearly identified. Special attention should be paid to the benefits to the potential entrepreneur in terms of both risk and organization of own business.
2. Identify economic activities for whose benefit franchising would be one of the best alternatives. Medium and long-term development strategy of such activities should not ignore franchising as an alternative.
3. Work on the creation of better institutional and business framework. This framework should include among other things, the lawful regulation of agreement on franchising, more precisely defined legal protection for both the providers and recipients of the franchise, as well as improvements in the area of protection of intellectual property.
4. Apart from legal, the state should also simplify and accelerate administrative procedures concerning the formation and operation of franchisee. Given that behind the franchise stands company-franchisor which had established itself in its field, the process itself should be much simpler.
5. All institutions engaged in the development of the SME sector should as one of its ongoing tasks have education and promotion of franchising opportunities to interested entrepreneurs. Agencies for development should connect potential recipients with appropriate providers.
6. Apart from potential recipients, promotion should also be directed to successful providers, especially those from overseas. Franchisors also bring with them appropriate capital investment (in equipment, distribution of goods, marketing and promotion), which can be tentatively considered as foreign investment in B&H.
7. Formation of associations or institutions for franchising should be approached at the state level, in similar fashion as associations or organizations that exist in the EU and neighboring countries. This association should become as soon as possible a full member of the European franchising associations. Through its activities, the association should have an adequate base of potential donors and recipients of the franchise where it would directly face the supply and demand for the franchise.
8. Promote education and training of personnel in the field of franchising; these are currently in shortage in B&H.
9. Allow for different types of incentives, subsidies and tax exemptions, particularly in the first years of work, for all potential franchisees. Compared to traditional enterprise, franchise carries a relatively small failure percentage.
10. Encourage the banking sector towards development of special credit arrangements for the franchisees because of lower business risk and failure.

5. CONCLUSION

Currently, the state of Bosnia and Herzegovina has not clear vision how to initiate the development of small and medium enterprises. On the other hand, this sector generates the majority of GDP and employing the largest number of workers. In this situation it is necessary to create an appropriate institutional framework and business environment to attract potential foreign franchisor. Apart from the development of franchise business methods, they can serve as sources of knowledge on how to organize and successfully

manage different types of entrepreneurial ventures. Entrepreneurs from B&H who accept the franchise increase the chances of the economy of B&H to adopt the manner of functioning of enterprises in most countries in Europe. This should be the ultimate goal for the state of B&H and the franchise is definitely one of best ways to achieve it.

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SESSION VI

CASE STUDIES ON SPECIFICS OF NATIONAL ECONOMIC POLICIES RELATED TO ECONOMIC INTEGRATION

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THE ADOPTION EFFECTS OF ELECTRICITY SECTOR ON CROATIAN ECONOMY

ABSTRACT

In times of recession, the revival of economy could be possible by encouraging investment and competitiveness of productive sectors, especially the electricity sector, which is one of the national priorities of Croatia. Croatia clearly sees its future within EU and thus becomes part of European energy policy. It is initially expected for EU electricity market to cause positive results on Croatian electricity sector like opening the market, influencing on competitiveness between firms, enhancing security of electrical supply, enabling the selection of suppliers and increasing efficiency and reducing costs. Croatia should follow the scenario of positive and negative effects of liberalization based on the experience of EU Member states in order to strengthen the competitiveness of the Croatian electricity sector. Furthermore, investment in electricity supply brings rapid recovery and brings economic growth. If Croatian economy wants to achieve mentioned scopes, it has to react promptly and efficiently. The aim of this research is to analyze current and future position of Croatia in the European electricity sector along with the circumstances. The methodology of this research is based on the application of SWOT analysis. Considering these results, the authors are predicting possible positive and negative adoption impacts of electricity sector on Croatian economy. The main results of the research indicate large and positive impacts of Croatian electricity sector adoption. It is obvious that negative effects exist but they are much weaker than mentioned positive results. Analysis is concluded with recommendations and proposals in order to reach a higher level of competitiveness. The main conclusion of this research is that there is a need to establish prerequisites and to define measures for better adjustment in the Croatian electricity sector. This would take the competitiveness of Croatian economy on much higher level. If Croatia focuses on positive effects and simultaneously invest efforts in reducing negative impacts of liberalization, it should definitely enhance its competitiveness and competitiveness of Croatian economy.

Key words: *electricity sector, liberalization of markets, competition, expected impacts, Croatian economy*

JEL classification: *Q40, Q41, Q47*

1. INTRODUCTION

While the Republic of Croatia is becoming an ever more significant integral part of the process of accession to the European Union, it is noticeable that competitiveness of the electric energy sector of the Republic of Croatia becomes an ever more popular topic. During recession, economic developments are possible only by stimulation of investments and competitiveness of industries, especially of the electric energy sector, which has become a national priority for the Republic of Croatia. Energetics in Croatia took on a position of initiator of a new development and investment cycle with investments in new production capacities. Croatia sees its perspective in the European Union, by which it becomes a participant in energy policies through adjustment processes and successfully completed synchronisation of Croatian and European energy legislation.

The EU and Croatia are facing key energy challenges (energy security, competitiveness and sustainable development), in order to achieve a fully balanced and integrated electricity market. Also, the basic role of a competitive market is security of supply and forming of market prices of electric energy.

The research problem is based on the fact that economic development of each country is connected with electric energy consumption. Croatian needs for electric energy linearly grow at the annual rate of 3%, while, at the same time, new production is not ensured. This results in the fact that electric energy production in Croatia fulfills only 70% of its needs, and therefore partly depends on the import of more expensive electric energy.

Inadequate development of the electric energy sector and formal legal adjustment in the conditions of globalisation and regionalisation cause reduction of competitive advantages of the Croatian electric energy sector. This is the reason why the above-mentioned problems should be consistently analysed, diagnosed and adequately solved, because they imply negative impacts on the Croatian economy.

If Croatia will follow the scenario of positive and negative effects of liberalisation based on current experiences of the EU Member States, it will be possible to strengthen competitiveness of the Croatian electric energy sector, which has positive effects on competitive advantages of the Croatian economy. Successful adjustment of the electric energy sector and the necessity for investments in the electric energy sector, as a factor of strengthening security and competitiveness on the liberalised electric energy market, has a positive effect on creation of competitive advantages of the Croatian economy.

2. THEORETICAL DETERMINANTS OF DEVELOPMENT AND CHARACTERISTICS OF EUROPEAN AND CROATIAN ELECTRIC ENERGY SECTOR

Energy is the key factor of economic development and standard of living, and it is necessary for successful functioning of industrial economies. Energy as such, i.e. the energy sector, will always have the crucial role in the economy. Supply of energy is a

precondition for economic development and standard of the population; therefore, development of energetics is inseparably linked to economy, and it has an influence on its creation.

2.1. Development of European Electric Energy Sector

Energetics has a strategic influence on economy and the standard of living; therefore, energetic sector development has to be designed in the way which will assist the realisation of the main objectives of a country's economic policy. Each EU country is in a specific situation in terms of its energy sources and needs for energy, but they are all interested in maintaining balance between obtaining energy sources and consuming energy (Udovičić, 2004).

Energy sector development is a result of European economic development and institutional development of the EU, initiated by the signing of the Treaty of Paris in 1951 and the Treaty of Rome from 1957. From that time, until this day, energy remained one of the key strategic and security issues in Europe. In order to ensure quality functioning of the single commodity market and energy market services, and to guarantee regular supply of relatively cheap and safe energy sources to the EU countries. Adoption of the European Energy Charter in 1991 established the rules of co-operation between European countries in the common complementary interest.

The EU has conducted a visible year-long initiative for establishing an internal energy market in the field of electric energy and natural gas. The base is in the Treaty establishing the European Economic Community (EEC), and the basic preconditions and requirements for electric energy and natural gas sector are covered in directives and some accompanying documents. The painstaking process of gradual liberalisation of the electric energy market may be reviewed through three basic stages which correspond to introduction of the same number of packages of European regulations.

In the energy sector, as well as other economic sectors, market and competition are a strong stimulation for increasing efficiency and reduction of costs. A common point of view and plan of developed countries, which derives from the minimum of common obligations to the energy market in the European Union, is opening of the market, introduction of competition, supply security, enabling choosing suppliers, increasing efficiency, and reduction of costs.

The problems are increased dependence on energy import and limited success in realisation of diversification, high and fluctuating energy prices, growing demand, security risks connected with transport routes, climate changes, the need for liberalisation of the energy market, limited coordination of energy policy factors which makes investments in energy infrastructure more difficult, and difficulties on the oil and gas market which the EU is facing, have led to the necessity to create a common European energy strategy.

The European Commission has been dealing with the energy sector issue since 1996 and has therefore published the Green Book on energy, in which the subject of analysis is the European strategy for security and electric energy supply. In the document,

emphasis is placed on upcoming challenges and elaboration of European dependence on imported energy along with threats caused by climate changes. This documents represents a base for the EU Member States for further forming of the EU energy policy and it contains a series of solutions for achieving sustainable, competitive, and secure energy supply in the EU.

Because of especially significant impacts of energetics on the economy and society as a whole, and the standard of living of each individual, energy policy development must be designed in such a way to help in the realisation of the main goals of general economic policy. (Udovičić, 2004:16).

Energy policy may be defined as a set of principles, objectives, tasks, and measures undertaken with the purpose to achieve economic development, along with sufficient quantities of constantly available energy with as low prices as possible. Energy policy for Europe was established in 2006 by a decision made by heads of governments of the EU Member States, and it strives to achieve three objectives:

- Greater supply security,
- Ensuring competitiveness of European economies and energy availability,
- Promotion of sustainable environment and fight against climate changes.

Energy policy development guidelines are defined in the Green Paper for Secure, Competitive and Sustainable Energy from 2006 (the European Commission, 2011), and adopted by the Council of Europe by conclusions from March of 2007. This is when a two-year action plan was also adopted (2007-2009) for creating a common energy policy, supplemented with new energy measures for the period until 2014.

The action plan for the period from 2007 to 2009 initiated a common European energy policy, which resulted in adopting an energy and climate package which turned into the EU „20-20-20“ objectives (the European Commission, 2011), and liberalisation of the energy market. The European Union agrees on the key energy objectives and the political programme of their realisation by reducing the greenhouse gas emissions by 20%, increasing the share of renewable energy sources in the energy consumption to 20%, and by improving energy efficiency by 20% until 2020.

Unlike the first plan, which predominantly referred to sustainability and the internal market, the latest action plan for the period from 2010 to 2014 primarily refers to security issues of supply and development of technology. Likewise, by adopting this climate-energy package, the EU was the first larger economy in the world which adopted a precise and obligatory work programme with the goal to prevent climate changes.

Energy security is a common issue for the EU Member States. Taking into consideration national objectives, integration of energy markets and infrastructures, great dependency on the import of energy sources remains an inevitable problem. The EU must improve current policies and do more intensive work on ensuring responsibility, security, and solidarity among the Member States. In this context, the EU, Bulgaria, Romania and South-East European countries founded a common Energy Community with the objective to adopt and implement unique regulations on the

energy market in the 34 Member States of the Community. For the EU, this means greater security of energy transport to the customers, and benefits for other countries reflects in increased competitiveness on the single market and implementation of common rules.

Energy independence is also connected with development of the EU countries, including successful co-operation with Norway, a member of the European Economic Community, which is of special importance for energy security in the EU. The international framework of the EU, which intertwines through the Energy Community, develops integration of the energy market with South-East Europe. European energy market used to be characterised by existence of national economies of gas, oil, and electric energy, the functioning of which was greatly monopolised. The single market provided competitiveness of a great number of suppliers and led to disappearance of isolated markets within the countries, which also increased efficiency of using available energy sources.

2.2. Legal and Economic Grounds for Development of Croatian Electric Energy Sector

Electric energy in Croatia is produced in power plants, hydro-electric power plants or thermo-electric power plants, or it is imported from the European market and transferred by the transferring system to distribution areas, from where it is distributed through the distribution network to electric energy consumers.

The electric energy system consists of production, transfer, distribution and consumption of electric energy. The basic task of the electric energy system is reliable and quality energy supply. Production, transfer, distribution, and consumption of electric energy contain a series of characteristics and features which distinctly single out electroenergetics from other branches of energetics, i.e. other similar economic branches. Taking into consideration pending formalisation of the EU membership, especially for the sake of its interests, the Republic of Croatia should follow basic energy objectives, elaborate them and implement them in accordance with its own specific characteristics.

Competitiveness of the energy system is a precondition for economic competitiveness, acceptable prices for consumers, and a guarantee for attracting (domestic and foreign) investments in the Croatian energy sector. Development of the energy market is a mechanism for increasing competitiveness of the energy system, and inclusion of Croatian energy entities on the regional market is a guarantee for development and improvement of market mechanisms and business efficiency. In this regard, the proposal is to change the current paradigm of treating energetics as an exclusively infrastructural branch, and adopt the approach that energetics is an entrepreneur industry which should be one of the foundations of economic growth and development.

Energy development sustainability implies a balanced relationship between economic development, security of supply and the environment, i.e. development of such energy structure and infrastructure which will enable security of energy supply, fulfilling

obligations regarding limitation of greenhouse gas emissions, and establishing harmony between economic development and environmental protection.

Accession to the EU will lead to significant changes in Croatian energetics. Domestic laws in the field of energetics and control of greenhouse gas emissions are mostly synchronised with the EU directives, and in the following period, implementation, i.e. reaching the set goals is expected. Regarding the impact of the energy industry on the environment, this should definitely imply a step forward for Croatia. It is a general opinion that fulfilling these requirements will not only benefit the environment, but that it can also have a positive impact on economy and general social development.

Croatia has scarce resources of fossil fuels and relatively large unused resources for increasing energy efficiency and using renewable energy sources. Energy dependence on import is close to 60 per cent and it keeps growing, which increases the already substantial Croatian foreign debt. By using the potential of these resources until 2020, Croatia could almost completely eliminate the import of fossil fuels, reduce the foreign debt and harmful impact of energetics on the environment, climate and health, and increase domestic employment.

Regarding the goals of the Republic of Croatia until 2020 and implementation of the new Directive 2009/28/EC by the European Parliament and the Council on promoting the use of energy derived from renewable energy sources, by which Directives 2001/77/EC and 2003/30/EC are amended and afterwards repealed, some provisions of the 2009/28/EC Directive are included in the Action Plan for renewable energy sources. It determines the long-term perspective until 2020 with the estimation for 2030 and plan of activities for development of infrastructure of renewable energy sources in Croatia, in accordance with the package of implementation measures for EU objectives on climate changes and renewable energy sources for 2020.

By the Regulation amending the Regulation on the minimum share of electricity produced from renewable energy sources and cogeneration whose production is stimulated (*The Official Gazette* 8/2011), it is planned that by 31/12/2020, the minimum share of electricity produced from the plants which use renewable energy sources whose production is stimulated, will amount 13,6 % in the total direct electric energy consumption.

All electric energy produced by privileged electric energy producers from the plants which use renewable energy sources and cogeneration, and whose production is stimulated, will be bought by the market operator, i.e. taken over by each individual supplier in the manner and under the terms prescribed by the aforementioned regulation.

In accordance with the Directive 2006/32/EC on energy efficiency in direct energy consumption and energy services, Croatia is obligated to enforce energy efficiency measures for achieving the goal of 9% reduction in energy consumption by 2016, in relation to the average from 2003 to 2005. The basic precondition for implementation of energy efficiency measures is establishment of a market which, in the long run, guarantees realistic prices of electric energy and gas.

In the conditions of discriminating market and long-term insecurity, quality of energy services cannot be satisfactory and consumers have no interest in implementing the measures. Realistic energy prices formed in accordance with the market are one of the most important objectives of the Third Package of energy legislation.

The Directive 2009/72/EC stipulates that the Member States can invite to tender for energy efficiency and consumption management projects. It is stipulated by the Article 3 of the Directive that energetic entities should optimise energy use, for example through an energy service for energy management, development of innovative formulas for prices, or by introducing intelligent measuring devices and networks. It is considered that one of the problems of Croatian climate and energy policy is that the necessity to reduce greenhouse gases, stimulate energy efficiency and renewable energy sources, is mostly perceived by those who can really influence the domestic energy sector, as a heavy and potentially ruinous burden for Croatian economy, and its numerous potential benefits for economy, employment, and social welfare are neglected.

For this reason, there is a realistic danger that Croatian energy and climate policy will in the following years be reduced to reluctant fulfilling of the minimum criteria set before Croatia by the EU, which could eliminate the benefits which would occur if development of renewable energy sources and energy efficiency were approached as a topic of genuine national interest.

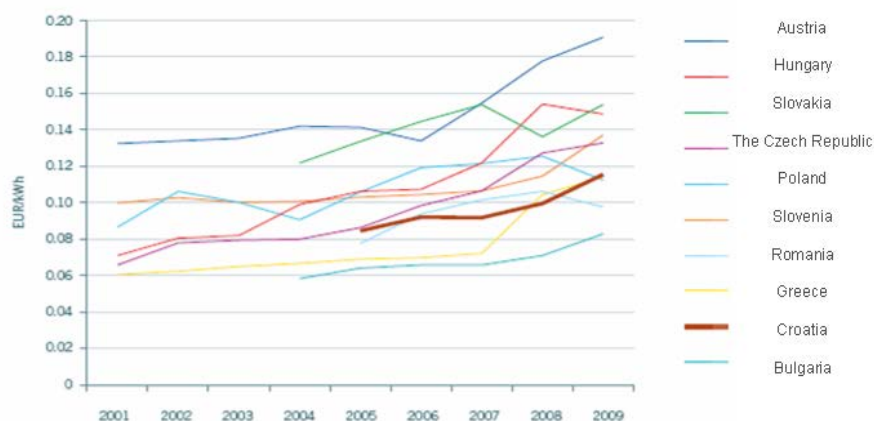
3. ECONOMIC ASPECTS OF EUROPEAN AND CROATIAN ELECTRICITY SECTOR

In the process of synchronising Croatian energy legislation and electricity sector, it is very useful to have information on how this process unfolds in the Member States of the European Union since 2000, the European Union conducts systematic monitoring of implementation of certain directives related to opening and liberalisation of electric energy market. Estimation of effectiveness of previous directives regarding liberalisation, energy prices and supply security is very difficult because of the presence of other important factors. Namely, the level and stability of energy prices are under great influence of the economic crisis, i.e. reduced energy consumption. Also, prices are subject to government control in many countries.

Thus, it may be concluded that the level and stability of prices are predominantly the consequence of current market trends caused by the current economic situation, and not by successful liberalisation of the energy market. This indicates that opening of the market and true liberalisation did not catch the right momentum. Very similar logic also applies regarding the security of energy supply. It is a general conclusion that security of electric energy supply is adequate, and that the consumption-production ratio is satisfactory, primarily because of temporarily reduced consumption.

Figure 1 shows the growth trend of total prices of electric energy (including network use fees) in the EU countries, for customers in the category of households from 2001 to 2009.

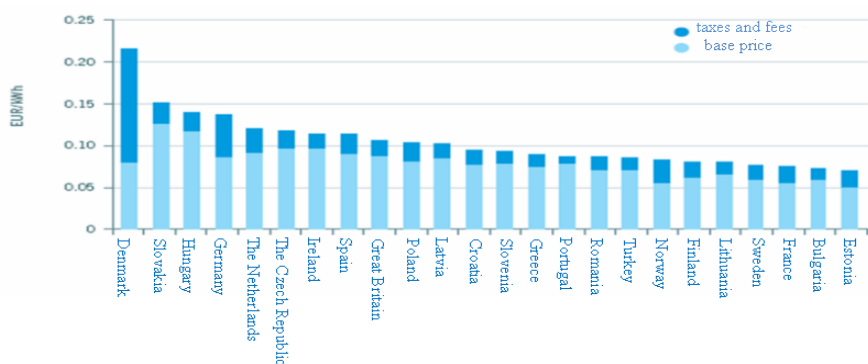
Figure 1: Changes in Total Prices of Electric Energy in the Countries of the Region for Customers in the Category of Households, including Taxes and Fees



Source: Eurostat, (27/10/2011)

Figure 1 shows that all countries of the region, including Croatia, indicate a mild growth of prices, which is contrary to the basic goal of liberalisation. The intention is that countries with higher price than the EU average reduce their electric energy prices, but it is obvious that the opposite reaction occurs, especially in the Central and East European countries, whose price was significantly lower than the EU average (Figure 2).

Figure 2: Total Price of Electric Energy for Entrepreneurs in the EU and the Republic of Croatia (2009)



Source: Eurostat, (27/10/2011)

Chart 2 shows the range of prices of electric energy in the EU for entrepreneurs, including taxes and fees for 2009, from which the conclusion is derived that Croatia is close to the EU average.

Based on the estimation of the cost-benefit relationship from liberalisation of the electric energy market, it is concluded that liberalisation has not yet achieved the main goal for which it was initiated, which is reduction of electric energy prices. The goal to equalise the prices has not been achieved, because there is still a great difference in electric energy prices from monopoly to a competitive price. The following was expected from liberalisation of the electric energy market: reduction of electric energy prices, rise of the service level, reduction of price difference among countries, the possibility of choosing suppliers for each customer, and increasing efficiency of the sector through reduced need for building and maintaining spare capacities.

Currently, the question may be posed to which extent have the above-mentioned objectives of market liberalisation been achieved and how achievable they really are, how effective is the shift of organisation structure of the industry from monopoly to competitive, i.e. whether market liberalisation meets the expectations. Positive shifts have been made on raising service quality level, increase of sector efficiency through reduction of the necessity to build and maintain spare capacities, and in formal opening of the market. Therefore, it may be concluded that the main goals of EU electric energy market liberalisation have not been fully achieved.

4. IMPACTS OF ADJUSTMENT OF THE ELECTRIC ENERGY SECTOR TO THE ECONOMY OF THE REPUBLIC OF CROATIA

Small economies such as Croatian have the possibility to fit in globalisation conditions very well and to ensure permanent economic growth and development provided that they fulfill certain preconditions. Primarily, careful monitoring of global economic processes is obligatory, their recognition and adapting to the identified future market and technological changes. This, at the same time, implies creating a favourable environment for opening of new jobs, inclusion in the fast transfer of new technologies and development in general.

Croatia can achieve benefits from globalisation processes under the condition that it enters them carefully and with its own development strategy, in which prolongation and waiting may prove ruinous. In accordance with the experiences of others, an estimation can be made that Croatian macroeconomic indicators will be more favourable after the accession, and that benefits of the accession are greater than in the case of remaining outside of the EU. Experiences of the countries from the last two waves of enlargement of the European Union indicate growth of direct investments, and by accessing the EU, Croatia could also become more attractive to investors. When Croatia accesses the EU, its obligation is to follow its energy strategy, which includes fulfillment of all the required criteria and rules for the electric energy sector, with necessary restructuring and possible privatisation of electric energy companies. Croatia has a dual role, because it has to enable adjustment and opening of the electric energy market and, on the other hand, it presents itself as a 100% owner of largest electric

energy companies in the Republic of Croatia which should adapt well to that same market, especially in the sector of production and supply.

The Republic of Croatia has the potential for growth and achieving a more important position in European electroenergetics, in the process of which investments in new technologies are significant, as well as further research of the use of non-conventional energy sources. This could initiate a recovery of the electricity sector, but also the entire economy, in which it is important to successfully adapt and establish a favourable legislation framework and to attract new investors by stimulating business environment. If the idea is to ensure sufficient electric energy for economic growth and further development, Croatia must speed up electro-energetic projects in which it is necessary to stimulate the contribution of domestic industry and entrepreneurs (Dekanić, 2011). The state of the economy may be presented in the best and the simplest manner by the level of electric energy consumption, because developed and richer economies spend more.

In comparison with the EU-27, Croatian economy can be presented by a few main indicators, and by this economic identification card, the final process of accession to the European Union is initiated:

- Croatian population makes a little less than 1% of the EU population,
- GDP per capita is somewhat smaller than half of the average in the EU,
- Employment level in Croatia amounts 57%, and in the EU almost two thirds,
- Export/import ratio amounts 50% in Croatia, and a little more than 90% in the EU.

Taking into consideration relatively small population and small economy, it is unlikely that Croatian accession to the European Union will have a significant effect on economies of the 27 EU Member States, EU institutions and policies, and the EU budget. Croatia has 4,4 million inhabitants, which is less than one per cent of the EU population. The Croatian GDP amounts 60-70% of the EU average. Croatian trade makes less than one per cent of the EU trade with the third countries, and only 0,1% of the world trade. Only a few sectors, such as energetics, tourism and industry, could have a tangible impact on Croatia and the neighbouring Member States. On the other hand, it is natural to expect that economic impact of the 27 Member States on Croatia will be greater than the impact of Croatia on the EU.

Croatia has the potential of an efficient market economy and should be competent to handle competition pressures and market forces within the EU, provided that it decisively implements its comprehensive programme of reforms in order to reduce structural weaknesses. This means that Croatia has made significant progress in the process of adjustment to the electric energy sector rules of the single market, but that it takes more hard work to use its possibilities. It is anticipated that the expected effects of adjustment of the electric energy sector on Croatian economy will predominantly be positive.

Adjustment of the electric energy sector and entrance on the single EU market provides great possibilities for increasing competitiveness of the Croatian economy, which is currently on a high level of integration. It is likely that it will not come to a greater disruptive short-term effect; however, opportunities will be used only by those who

prepare themselves timely and in a quality manner. Furthermore, benefits of a single electric energy market exceed the risks if integration is perceived as a process, and not a one-time event. Open space for business and business rules is created in Europe. Whoever is stronger, faster and more efficient, will take more of this space and benefit more from the EU. Croatia has reached a consensus regarding the optimal scenario of future electric energy development because of the potential influence of the electric energy sector on increase in competitiveness of the Croatian economy. Building of new electric energy plants will reduce dependence on import and increase competitiveness of domestic industry of large and small enterprises alike, as well as degree of the country's attraction for foreign investors.

The expected cost-benefit ratio in individual sectors is directly related to the level of preparation of economic entities for the competition on the single EU market. Therefore, because small and medium-sized enterprises have prepared for survival in the competitive environment, it is estimated that accession to the EU will have a favourable effect on their business activities, by which also on total employment and the GDP (Švaljek, 2007).

Therefore, it may be concluded that economic benefits exceed economic costs of adjusting the EES to the Republic of Croatia, as well as that it will have a positive impact on prosperity of Croatian citizens and success of the Croatian economy. Except for inevitable goals, which are directly derived from the preambles of European directives, it is also necessary to identify specific Croatian goals in the framework of existence of such goals:

- greater security of electric energy supply reduces great dependence on import of electric energy supply,
- competitiveness of the electric energy system develops electric energy market, openness of the country, distribution of risk in investing, development, and technological progress, and stimulates higher participation of domestic production and services in building and exploitation of electric energy facilities,
- electric energy sector of the Republic of Croatia is open, founded on market principles and fits in the internal market of the EU,
- electric energy sector is an infrastructural, but also an entrepreneurial activity which stimulates economic growth and employment,
- sustainability of energy development stimulates energy efficiency, energy saving, stimulation of renewable energy sources and technological solutions with reduced emission of greenhouse gases.

Defining of expected impacts of the adjustment of the EES on competitiveness of the Croatian economy is based on the SWOT analysis of the impact of adjustment of the EES, which includes strengths, weaknesses, opportunities and threats which Croatian economy might face. The SWOT analysis is presented below (Table 1).

Table 1: SWOT Analysis of the Impact of Adjustment of the EES on the Croatian Economy

Internal Factors	STRENGTHS (S)	WEAKNESSES (W)
	<ul style="list-style-type: none"> Well-built electric energy network Domestic knowledge and human resources Tradition and market reputation Potentials for using renewable energy sources (water resources) Favourable geographic location Harmonisation of laws with EU regulations 	<ul style="list-style-type: none"> Limited financing of development Insufficient investments in new production capacities Electric energy dependence on import Lack of healthy competition Low adjustment to market demands Outdated technologies and low efficiency
External Factors	OPPORTUNITIES (O)	THREATS (T)
	<ul style="list-style-type: none"> Stimulation of foreign investments Energy security Market integration and competitiveness Technological development and employment Quality restructuring Structural funds and incentives Energy efficiency Openness for export and EU trends 	<ul style="list-style-type: none"> Presence of more competition Eventual loss of the market share Possible privatisation of majority stakes Poor perception of the public More strict environmental protection requirements and additional taxing Economic costs of the adjustment

Source: Authors' analysis

Based on the above-mentioned facts and the conducted analysis, it is fair to expect predominantly positive and, to a minor extent, negative effects which could influence competitive advantage of Croatian economy, specified below in more detail.

Transparency and legal security are standards for attracting investments and economic progress throughout the EU. In accordance with the Energy Development Strategy of the Republic of Croatia, energetics is defined as an entrepreneurial industry, open for private, especially foreign investments which will in the future be an important driver of economic growth and development of the Republic of Croatia, and, accordingly, it is also necessary to create conditions for such positive contribution of electroenergetics for the Croatian economy.

For investments in the electric energy sector, as a special kind of investment, stimulating conditions are created by a combination of favourable general economic and specific conditions, which are derived from importance of electric energy for economy and the population. Favourable economic conditions imply macroeconomic stability, efficient public administration, competitive level of tax load, legal security, adequate human resources, protection of market competition, existence of financial incentives for investments, etc.

Security and quality of supply imply building of more capacities for production and transformation of electric energy, more supply routes, transferring capacities, etc. in comparison with the current state. Building of new production facilities and the corresponding network is also a national priority which contributes the most to increasing electric energy supply security, taking into consideration reduction of dependence on import. Electroenergetics may be a chance for economic development, but it should not be perceived as a short-term chance, because in electroenergetics, it takes a certain amount of time to achieve visible effect. The space for building are power plants, renewable sources, cogeneration, distribution, and electric energy supply. Electroenergetic independence contributes to reduction of demand for electric energy, and this opens a space for reduction of prices, which has a positive effect on creation of new added values which can be competitive in terms of export.

One of the main effects of liberalisation is placing energy prices on market grounds, wherever possible. This facilitates commercialisation of business, which initiates development and enhances market competitiveness. Increase in competitiveness increases stability of prices and prevents possible greater oscillations. All of this inevitably leads to GDP growth, as one of the significant macroeconomic indicators. The price of electric energy directly and indirectly defines the level of the standard of living: directly by electric energy consumption in households, and indirectly by the price of all products and services (Tominov, 2008).

Research and development, through further investments in the electric energy sector and regional co-operation, may contribute to the recovery of regional electric energy sector and strengthening of its competitiveness. Croatia is a small country which will access the European Union relatively late. Therefore, it is necessary to show innovativeness, creativity and synergy in all fields, including the electroenergetic sector. Investments in new products and technologies are the key recipe for success. Since current investments are investments in the future, and necessary as such, if HEP, i.e. Croatia, wants to gain the reputation of a strategically significant country in South-East Europe.

Generating new employment may be realised by increased inclusion of domestic contractors in investment activities which would be stimulated by a certain variant of harmonisation. It depends on the level of market openness. By establishing a competitive market, market activity will also increase, i.e. new electric energy entities will emerge, which will try to offer the same service for a competitive price. Also, existence of economic interest for building of new facilities will generate new employment.

Generation of new employment depends on the possibility to stimulate economic activity. On one hand, building of new production capacities will surely stimulate inclusion of domestic industry in the building process (more employment), while, on the other hand, forming of market prices will potentially reduce electric energy prices for the industry, which could have a positive effect in the sector of entrepreneurship.

Restructuring of the electroenergetic sector is a preparation for successful privatisation and for successful business activities on the open liberalised electric energy market,

and it is therefore obvious that it is general interest to ensure competitiveness of electric energy entities. Privatisation in the electroenergetic system, especially of production capacities, can be necessary and justified if it develops competitive relations and if it stimulates private capital investments through the financial market and other market institutions, and if it contributes to efficiency, productivity, and business development in the long run. Croatia wants to be a part of Europe and it has accepted and started restructuring and liberalisation of the electric energy market, so this process will be most easily realised with the least failures, if the model is that of France (French EDF), which was and still is the best in Europe. Privatisation of electric energy companies is a strategic and a security issue of every country. The EDF is a national vertically integrated electric energy company in the 85% ownership of the state. The similarity between HEP and EDF is reflected in the fact that they are national companies with a predominant share in electroenergetics.

Croatia's accession to the European Union, by this also opening of structural funds and new greenfield investments in the EES, will be some of the basic highlights which will mark the following period of development of the Croatian economy. By using funds from EU instruments and other international sources, the necessary development projects will be realised, savings will be achieved in using budget funds, net inflow of foreign funds will be realised, new employment enabled, necessary knowledge acquired, and absorptive capacity for the possibility of use of far greater funds upon accession to the EU will be strengthened.

Improvement of energy efficiency increases economic efficiency and decreases negative impact of industry and electric energy consumption on the environment. National economy had two times lower energy efficiency in relation to the EU average. Therefore, exposure to energy strikes greatly depends on companies themselves, so it is expected that employers will enforce additional energy savings and more restructurings. In the European Union and its connections with the third countries, great international energy projects are launched. Electroenergetic entities in the Republic of Croatia are exclusively directed to national business activities and they missed the opportunity to participate in such international projects and business activities (exceptions are very rare). Opportunities are created for Croatian electric energy entities for inclusion in large international projects for profit reasons and greater supply security.

Openness and the ability to adapt the electroenergetic sector and legislation makes room for future changes in European electroenergetics, but also the ability to integrate in the expected technological and civilisation trends of the community.

5. CONCLUSION

Today's economies function in the circumstances caused by inevitable consequences of recession. The effects of recession move from one economic sector to others, including economy drivers, which also include the electroenergetic sector. The European Union and Croatia were facing different barriers in free market functioning of their electric energy sectors. Croatia is going through a period of opening the energy market and

learning the rules of its functioning as an important part of this process. Presence of competition on the market opens the possibility for achieving more favourable prices and conditions of energy delivery. Countries which have already liberalised the electric energy sector have positive experiences which can also be used in the process of liberalisation of Croatian electric energy sector.

While adjusting to EU membership requirements, except for the formal harmonisation, it is necessary to really harmonise with the EU regulations. In the framework of European integration processes, the Republic of Croatia harmonised the entire concept of reform of the energy sector through legal and institutional framework with the requirements of the European Union; of course, in the framework of a specific national solution.

It is evident how positive effects of adjustment of the electric energy sector contribute to increased investments, building of new production capacities and creating market prices of electric energy to the positioning of the Croatian economy as competitive in terms of export. However, it is important to point out existence of minimum expected negative effects like slow implementation of the energy development strategy. Parallel to this, free market of electric energy has led to decreasing the prices of electric energy in West European countries, while the prices increased in transition countries, mostly because of the social policy of electric energy price regulation.

It should be added that healthy and sustainable competitiveness should not only be based on incentives. Incentives should stimulate potential projects and companies, and they should by no means determine all development of the Croatian economy. Furthermore, the influence of privatisation is possible on the existing electric energy entities and sales of parts of the HEP, in the process of which there is a danger of a hostile takeover only of profitable parts of the company, while the unprofitable would still have to be funded by Croatian taxpayers.

Croatia is obligated to continue harmonisation of its legislation with the energy regulations of the EU; if it fails to do so, sanctions will follow by which, for example, Germany was punished because it did not single out its national transfer of electric energy in time. However, this does not mean that activities should be done in a rash manner, because 23 out of 27 EU countries are still not fully harmonised with the Directives of the European Commission. The role of additional taxing of the electric energy sector should not be ignored, which could minimally increase the price of electric energy for reasons of efficiency and environmental protection.

Therefore, negative effects of adjustment of electric energy sector are negligible in relation to crucial positive effects. If Croatia uses the positive and reduces the negative effects of the EES liberalisation based on current experiences of the EU Member States, it is justified to expect strengthening of competitiveness of the Croatian economy.

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ESTABLISHING PARTNERSHIP WITH CLIENTS-IMPACT ON COMPANY BUSINESS

ABSTRACT

The existence of a large number of companies in specific market sectors, whether on local or international market, have produced increasing demands, desires and needs of costumers, who are in position to choose. Bargaining power of costumers is rapidly increasing in the sales process, because of the large number of companies whose products or services can meet their needs. In this competition companies can find it difficult to differentiate through the product, price, promotion or distribution. There is increased need for differentiation by managing relationship with company's clients. Building partnership with clients contain an invisible component of the brand, as the ultimate goal of business processes of companies. Among many incentives that clients are exposed to, competitive advantage can be achieved and maintained in long term, only if there is a strong connection with clients, who will not only be loyal to the company, but also attracting new clients.

Perceived value and quality of the product or service depends on the manner in which companies communicate with them, initiating positive associations and linking them to the attitudes and values promoted by the company. In order to achieve this aim successfully, companies must treat their clients as their capital, so called relational capital and to direct their activities and resources towards satisfaction of clients needs. All other stakeholders (owners, employees, society, business partners) can be satisfied only if the client is satisfied, as he is the verifier of undertaken business activity. Clients can recognize when they are in focus of the company's activities, and when they are means of achieving company's objectives. They want to be informed; encouraged to act; linked to the company and provided with the emotional value of products or services they use. In proccess of developing new products and services clients seek to be active participants, giving suggestions and asking questions about the product. One of the ways to get valuable information for business improvement and quality of delivered services is clients satisfaction survey. This way the company receive valuable information whether their efforts are verified by the user, or should be improved. In addition to achieving better effect of business, companies can improve operations and efficiency and concentrate on key processes, primarily linked to the activities that produce value.

Key words: client satisfaction, relational capital, brand, business improvement

JEL classification: M14, M21

1. INTRODUCTION

In the process of creating both tangible and intangible values, clients are the starting point for the company to define its mission, vision, goals, values and strategies. Companies direct all of their activities towards satisfaction of clients' needs. Growth, development and existence of the company depend on the clients' verification of these activities. The client can be defined as company's equity, whose needs must be satisfied so that company can maintain business activities and develop. Expected outcome of all undertaken efforts is establishment of partnership with clients, who are supporting company's activities by using their products and services, reintegrating from client into salesmen or promoters of the company.

When building a desirable image of the company, it is necessary to communicate with clients and other target groups in the domain of relational capital. This communication is interactive and can be successfully realized through carefully guided process, analysis, implementation and control. Establishing partnership with clients is a powerful tool for clients' retention in situation when there are many competitors, as well as in times of crisis or recession, when continuous cooperation survives with the help of mutual understanding.

2. RELATIONSHIPS WITH CLIENTS

Relationships with clients are established from the standpoint of the company and from the standpoint of the clients. The companies are aimed to attract clients, retain them and integrate into seller. Clients are aimed to: satisfy their needs; believe the companies and their products and services; give their opinions and suggestions and to become familiar with the experiences of other clients. The entire process of building relationships with clients is intertwined with constant communication, allowing expansion of company activities and achieving clients' satisfaction. Measuring clients' satisfaction can be done by:

- Objective procedures: by the size of sales, market share, redemption
- Subjective process through analysis of attitudes, complaints, problems and expectations

Objective procedures are important from the standpoint of the company in order to achieve the set objectives and to measure efficiency. Quantitative indicators can be satisfactory in a short time period, but without taking into account the subjective process that involves clients into analysis, indicating the effectiveness of operations, in the long term can lead to the fall of quantitative indicators. This especially happens in industries which are attractive at a certain moment. There is constant entry of new competitors into the market, making products and services more accessible to clients. In this situation differentiation is best achieved by building partnership with clients.

In industries where there are no repeated purchases, building partnership with clients has the biggest role in the process of use of the service. Transfer of positive experiences of the clients to potential new clients is crucial. In these situations, the most prominent need of the company is to satisfy the needs of clients and to examine the level of their

satisfaction. Client's satisfaction survey is used not only in order to improve business, but also for promotional purposes.

After completion of using the products or services, the existing clients become loyal in the context of promoting the company, if provided service met their expectations. Client's satisfaction survey is just one of the tools when building partnership and is the result of all previous communications activities in the process of interaction between companies and clients. Creating a consistent brand experience across all channels of interaction with clients is the basis for creating the perception of the company, on which business success is, based (Srća, 2005:15).

Client becomes partner of company once he is on the scale of satisfying the needs of a higher level. Until then he is just a temporary consumer of the products or services. Being satisfied with products or services, does not automatically integrate client to into the seller or promoter.

2.1. Types of communication activities of the company

Communication activities that generate relationships with clients are:

- Public Relations
- Advertising
- Sales Promotion
- Personal Sales
- Direct marketing
- Online Marketing

Forms and proportions of communication with the target groups depend on the specifics of the industry. Advertising informs about the product, but also transforms the information about the product, creating an image that in some cases exceeds the actual facts on the product (Brkic, 2003:309). In the case of public relations, it's about promoting the company, which seeks to create a positive perception. As an integral part of the public relations company is creating a positive image through the publicity as an unpaid form of stimulating clients. This kind of communication is considered as more credible than the one created by the company.

In creating long-term relationships with clients in the context of relational capital, the best form of interactive communication is direct communication. For successful direct communication employees need to have developed communication skills; negotiation skills; problem solving skills; presentation skills; morals; values, and knowledge of products and services. When interacting with the client through direct communication human capital and its characteristics play a central role. In this case employees actively affect the perception of the company by the consumer and create the company's image.

In addition to these forms of communication, an increasing role plays clients' satisfaction surveys, which give feedback not only about services, but also about all elements of the company. It makes a significant contribution to the advancement of business, and therefore sales. The process of communication with clients after a sale is just as important as the product or service. Relations between the client and the

company are subject to occasional dissatisfaction on the client side, and every company should allow clients to express their opinion. This way of communicating to the client indicates that client is respected by the company and allows the company to obtain information about the areas of working that could be improved.

Regardless of established client's relationships systems, a number of clients leave the company, though the reason does not have to be dissatisfaction, but favourable conditions of use of the product or service from competitors. However, if the company does not investigate and do not conduct an analysis of customer satisfaction, there is no feedback on possible causes of dissatisfaction and inputs for improvement. If company reacts in the short term, lost customer can be returned. Communication effects, the company's image and reputation are result of communication efforts that need to reach its economic effects.

2.2. The importance of building partnership with clients

Building partnership is important in all business conditions, but in a situation where there is large number of competitors, or when the market is in crisis, creativity in relationships is a determining factor for the stability of the business. Turbulence in the market companies overcome in different ways. Reduced amount of investments does not necessarily mean reduction in the intensity of communication. Intensification of the role of marketing and PR departments can help in achieving an acceptable level of selling, showing to clients that the company has a clear plan of action in the new situation.

Internet PR can play a big role in relationships with clients, as well as the publication of completed customer satisfaction surveys, in the case of positive results. Clients need to be constantly informed about presence of the company in the market otherwise their position may be occupied by competitors. The market is constantly evolving; consumers are changing and companies need periodically redesign their communication. Clients, as well as companies, want to maximize their investments. Precisely defined activities should be of interest to the target groups, not to the population as a whole.

Communication with the target groups can be realised through channels of communication such as:

- Internet
- Direct marketing
- PR
- Promotion at the places of interest

Clients have the opportunity to migrate quickly and easily, therefore communication with them need to be renewed and reviewed. It is necessary to identify the most important elements that clients recognize as the image of the company, so they can identify themselves with it.

3. BUILDING PARTNERSHIP IN HIGHER EDUCATION INSTITUTIONS IN BOSNIA AND HERZEGOVINA

According to records of the Agency for the development of higher education and quality assurance, there are 43 institutions providing service of higher education in Bosnia and Herzegovina. Committee of experts to evaluate and review the quality of study and make recommendations on accreditation have been formed for six higher education institution until September 2012, so there is no higher education institution which actually completed accreditation process. Accreditation becomes a common interest for both higher education institutions and students.

According to the Framework Law on Higher Education in BiH, Article 2. higher education is defined as the activity of special interest for Bosnia and Herzegovina (BiH Official Gazette 59/07). By signing Bologna declaration in year 2003, Bosnia and Herzegovina has opened the way for the European higher education.

In this moment higher education institutions can not count on major attract of students from Europe, because of unresolved issues in the internal market. The issue of accreditation of higher education institutions is one of the important issues that need to be addressed, because it confirms that higher education institutions in Bosnia and Herzegovina work according to established criteria for accreditation (Decision on the criteria for accreditation of higher education institutions in Bosnia and Herzegovina, Official Gazette of BiH, 75 / 10), and according to norms that establish minimum standards in the field of higher education in Bosnia and Herzegovina (Decision on norms setting minimum standards in the field of higher education in Bosnia and Herzegovina, BiH Official Gazette, 100/11).

3.1. The role of accreditation in process of building partnership

Higher education institutions build partnership with:

- Prospective students
- Existing students
- Graduates
- The ministries and Agency for the development of higher education
- Other higher education institutions in the domestic and international level
- Media representatives
- Institutions, industry
- The employees of higher education institutions

Higher education institutions can successfully communicate with all target groups if they meet and fulfil the criteria for accreditation. By accreditation, higher education institutions receive a certificate of quality in the provision of integrated education services, related to the quality of all the resources and activities:

- Strategy of higher education institutions
- A system of internal quality assurance
- Procedures for ensuring the quality of academic programs
- Procedures for Assessment

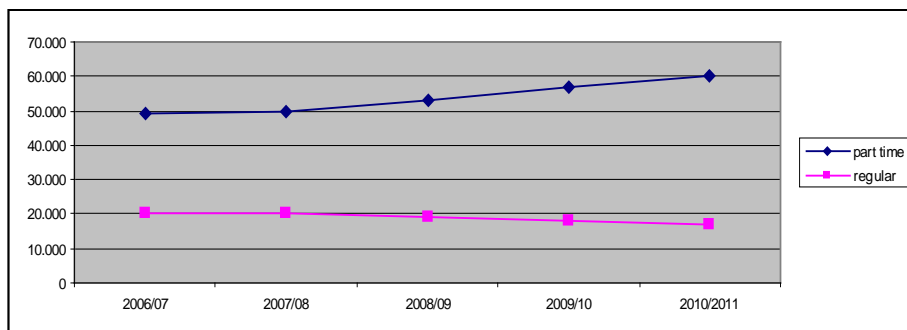
- Human resources (teaching and non-teaching)
- Physical resources
- Information systems
- Presentation of information to the public
- International cooperation.

All target groups of communication are directed towards students, so they are in the focus of all of the activities and communications. Existence of a large number of higher education institutions in Bosnia and Herzegovina gives students the ability to choose. Building partnership with students is based on all elements of the education process that does not end with graduation. In that way students are becoming partners in a long term.

Significant number of students who enrol each year to higher education institutions in Bosnia and Herzegovina highlights the importance of giving them not only quality, but also cooperation after they leave institution.

According to the Federal Bureau of Statistics, the trend of student enrolment in the Federation in the period from 2006/2007 to 2010/2011 is stable and does not indicate a downward trend in the total number of students enrolled. Data from Republic Institute of Statistics of the Republic of Srpska indicates a trend of increase in the number of students enrolled for a specified period.

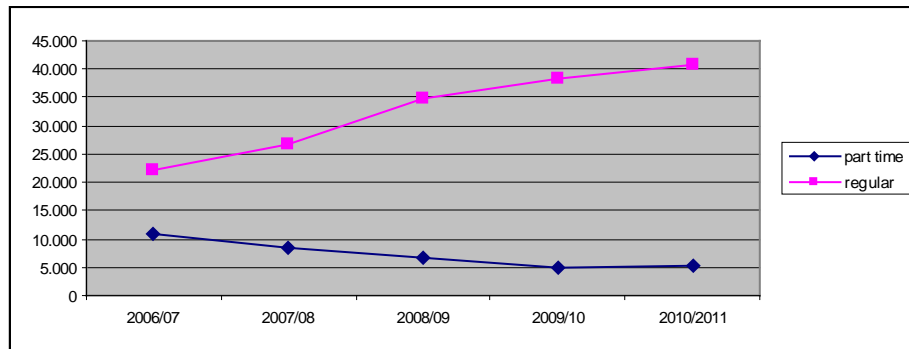
Figure 1: Number of students enrolled in the Federation for the period 2006-2011



Source: Federal Bureau of Statistics (<http://www.fzs.ba>)

In Federation, number of part-time students is rising during specified period and regular students have a slight downward trend. In the Republic of Srpska situation is reversed, there has been a substantial increase in the number of enrolled regular students and downward trend of part-time students. The total number of students has an upward trend throughout the period in Republic of Srpska and stabile trend in Federation.

Figure 2: Number of students enrolled in Republic of Srpska for the period 2006-2011



Source: Republic Institute of Statistic Republic of Srpska (<http://www.rzs.rs.ba>)

Once the accreditation process is completed, students will firstly decide to study at accredited institutions of higher education, and the further stage of selection will be on those higher education institutions whose regular students achieve results in student competitions during the education and come to employment in short time of period working in well-known companies, or whose part-time students gained promotion in the workplace.

Students who become entrepreneurs are also one of the indicators of the quality of study. It provides the basis and opportunity for cooperation through scientific research and implementation of innovation in the economy and society in whole. Accreditation, in addition to quality assurance, provides the basis for shifting relationships based on study conditions to the effects of studying.

3.2. Role of satisfaction surveys of existing students in process of building partnership

Through the satisfaction surveys higher education institutions are addressing and communicating to the existing students and potential new students. Survey conducted by the Centre for Quality at University "Vitez" Travnik gave following results for one of the Faculties:

Figure 3: Familiarity with Faculty

SOURCES TO OBTAIN INFORMATION	%
1.1. Friends	31,65
1.2. Existing students	24,68
1.3. Internet	17,17
1.4. TV	4,71
1.5. Radio	3,37
1.6. Newspapers	5,05
1.7. Magazines	0,67
1.8. Brochure	7,74
1.9. Promotion	5,05

Source: Centre for Quality, University "Vitez", www.unvi.edu.ba

These results indicate that students generally receive information from friends and existing students, what makes students as the best promoters of any higher education institution. Building partnership with them is factor that most affects the attraction of new students. The Internet as a source of information also plays an important role in gathering information about Faculties.

Figure 4: Factors considered when choosing Faculty

FACTORS	AVERAGE GRADE
1.1. Reputation of the institution	4,49
1.2. Respected professors	4,74
1.3. Good organization of study	4,61
1.4. Good website	4,51
1.5. Possibility of part-time studying	3,97
1.6. High assessment criteria	3,32
1.7. Low assessment criteria	3,76
1.8. Physical facilities and equipment in classrooms	4,17
1.9. Student exchanges with universities	3,47
1.10. Diplomas	4,38
1.11. Applied Bologna study	4,55
1.12. Quality curriculum and syllabus	4,70

Source: Centre for Quality, University "Vitez" www.unvi.edu.ba

The results show that highest ranked factors influencing the choice of the Faculty are:

- Respected Professors
- High quality curriculum
- Good organization of study
- Applied Bologna study

Given that these are the factors that need to meet criteria for accreditation, after completing process of accreditation, all higher education institutions will have the same starting position in attracting new students. The deciding factor will be the reputation

of the institution in a broader context, which is related to the effects of study for students and companies they work for.

Figure 5: Satisfaction with study

ELEMENTS	AVERAGE GRADE
1.1. Selection of subjects	2,68
1.2. Access to professors	4,50
1.3. Form of teaching (slides, the interactions, case studies)	4,30
1.4. Literature	3,80
1.5. Administration	4,20
1.6. Teaching staff	4,41
1.7. Field trips, entertainment events	3,20
1.8. Extracurricular activities	3,19
1.9. Sports teams	2,90
1.10. Management	4,65
1.11. Competitions of students	3,11
1.12. Organisation of practice	3,58
1.13. Facilities	4,37

Source: Centre for Quality, University "Vitez" www.unvi.edu.ba

Students' satisfaction with the quality of faculty is indicating the possibility of improvements in terms of selection of subjects, organization of practices and competitions of students, as some of the elements directed to satisfy the needs of students for achievements during the study. Improvements are also possible in the area of forming sports teams, organizing excursions and entertainment events, as well as extra-curricular activities in order to satisfy the social needs of students.

3.3. Building partnership with graduated students

Cooperation between higher education institutions which are building a recognizable image does not stop when students graduate. Through the Alumni association, higher education institutions follow the development of their careers, organize events such as conferences and round tables and make examination of employers' opinion on the progress of former students in their career, as well as the need for further improvement through lifelong learning. In this way higher education institutions keep links with industry.

Formal existence of the Alumni associations can be found on websites of higher education institutions, but the specific activities of associations can be found on very few websites. The same case is with Lifelong learning Centres. These activities of higher education institutions are still not developed, although it may be one of the benefits in process of creating their corporate image.

3.4. Meeting the needs of students in process of building partnership

The need for knowledge of the individual does not have to be satisfied by formal education and verification of knowledge through teaching process and the final work which leads to a degree. When an individual decides to study at the undergraduate or graduate level, he is guided by the level of needs that he wants to satisfy with verified or acquired knowledge. Knowledge by itself in this context is not the need, but an instrument of satisfying needs. In the communication between students and higher education institutions, there are different levels of satisfying the needs of students.

Table 1: Interaction of students' needs and relationships with higher education institutions

Students' needs	Activity of higher education institution	Communication	Level of students' loyalty
Level 5 Career development and Training (after graduation)	Alumni, Lifelong learning, Scientific research	Direct communication, Internet PR	Partnership, Promoter of the institution
Level 4 Status and recognition (studying, graduation)	The teaching process according to the standards of quality & innovation in teaching	Direct communication, Internet PR, Web page	Loyalty till completion of study and promoter during the study
Level 3 Social needs (during the study)	Students' competitions, extracurricular activities, student's exchange, int. cooperation	Direct communication, Internet PR, Web page	Conditional loyalty - promoter during the study, the possibility of migration
Level 2 Security (making choice of Faculty)	Accreditation	Public relations, web site	Conditional loyalty- confidence in the quality of study, but possibility to choose other institution, possibility of migration during the study (to conduct satisfaction surveys)
Level 1 The need for self-employment, employment, job retention (decision to study)	Application for admission on the study, students' guides, promotion	Advertising, Internet PR, website	Passive loyalty- exploring conditions of study, the recommendations of existing and graduated students

Source: authors

At the first level of satisfying their needs, prospective students are taking into account the information from the existing students and the graduates. In order to avoid transfer of information based only,, from mouth to mouth,, it is important for higher education institutions to conduct periodic satisfaction surveys of existing students and to published the results on their websites.

In the fifth phase of satisfying the needs of students, communication with prospective students is maintained by monitoring the effects of study of graduates. Prospective students, who have information about the quality of study and the effects of studies, are opting for higher education institutions which are presenting it through their Web sites and other media.

Monitoring and meeting the needs of students during and after the study, higher education institutions connect prospective, existing and graduate students, building with them long term partnership. Presentation of information through the official websites can be combined with presentation through social networks and other media.

4. CONCLUSION

Corporate communications between companies and their clients (consumers) are going on a daily basis, regardless of the effects caused by this communication. This means that company need to create and implement such forms and methods of communication that will be in function of building partnership. Successful companies are those that recognize the importance and impact of corporate communications in creating partnerships with clients, meeting their needs at all levels.

What the survey found is that in building partnerships with the students higher education institutions need to be guided by their needs during and after the study, and through the corresponding set of activities to continuously communicate and inform the target group. Accredited study confirms the quality which eliminates the difference of actual students' expectations and the actual service provided. In this way the partnership can be maintained and retained during the study, and for long-term partnership higher education institutions should activate the Alumni association, Centre for Lifelong Learning and innovate teaching processes.

Students' satisfaction surveys are giving indicators on elements that need to be improved or maintained at the same level of quality. It also provides information about the best ways to communicate with them. Information presented to existing, prospective and graduates about quality and effects of study provide good foundation for building long-term partnership with them. Information without activity and its effect can not produce the desired response of target groups. Activities carried out with effects but without appropriate communication with the target groups lead to situation that results remain known only to a restricted group of users.

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CHALLENGES OF ABANDONING THE CEFTA-AGREEMENT AND ENTERING THE EU: THE CASE OF CROATIA

ABSTRACT

Although it is generally expected, based on both theoretical and empirical literature, that benefits of economic integration outweigh costs, this paper takes a critical position towards potential net-benefits of Croatian membership in the EU in the short run. Investigation of Croatian trade flows reveals the large importance of the two trading blocs – the EU and CEFTA. The analysis demonstrates that the CEFTA-membership has been advantageous for Croatia and a formal investigation of revealed comparative advantages across 23 industries indicates that despite a relatively large number of industries in which Croatia realizes comparative advantages with the EU, it achieves significantly higher values of the RCA-index with CEFTA. In addition, our findings suggest that Croatian comparative advantages lie mostly in the low- and medium-low-technology goods with CEFTA, while in respect to the EU this pattern is somewhat unclear indicating both low- and medium-high technology industries. The paper concludes with a concern that the impact of a changing tariff structure on comparative advantages may be going against sectors in which Croatia achieves a stronger competitive position, especially on the CEFTA-market, possibly resulting in costly adjustments and unfavourable reallocation of resources.

Key words: customs union, revealed comparative advantage, EU-membership, CEFTA, Croatia

JEL classification: F11, F13, F15

1. INTRODUCTION

The development of economic integration in Europe which began in the middle of the last century has gone through an intensive process of deepening and widening, thus increasing its membership from the initial six to the present 27 countries, with Croatia being the next prospective member in July 2013. Meanwhile, economic integration in Europe has realized an unprecedented development, which included creation of customs union and single market, followed by common market and, quite recently, economic and monetary union. However, this does not make the process of unification in Europe finished, due to the foreseen political integration and 'communitization' of

national fiscal policies, as well as the prospects of further enlargement, mostly referring to the countries of South East Europe¹. Croatian accession with the EU is expected to foster further economic adjustment which should, hopefully finish with positive net-effects in the long run, making Croatia a steadily growing and internationally competitive economy. More specifically, entering the European customs union and adopting the common external tariff will require abandoning all the free trade agreements which Croatia concluded with non-member countries of the EU, including CEFTA². This will cause changes in the structure of tariff protection with, expectedly immediate effects upon trade flows and, consequently economic and possibly even market structures (Badinger and Breuss, 2004). Practically, this means further elimination of the remaining tariffs and non-tariff barriers with the EU, and eventually loss of preferential treatment of Croatian commodities on the CEFTA-market, due to the European trade policy which favours less developed countries through a model of asymmetric trade liberalization (Baldwin and Wyplosz, 2009; Kandžija and Cvečić, 2011). Hence, there arises a serious question whether Croatia will be able to compensate weakening of its competitive position on the (less developed) CEFTA-market for a better access to sophisticated EU-market. While not questioning the expected long-term benefits of EU-accession for Croatian economy in general, there are still uncertainties as to short-to-medium term costs of economic restructuring following changes in trade flows. By hypothesizing that Croatia currently achieves better competitive position on the CEFTA-market, than that on the EU-market, the purpose of the paper is to find out Croatian comparative advantages *vis-à-vis* these two trade blocks in order to give an *ex ante* assessment of the expected pressure on the existing trade flows and consequently economic restructuring in the short-to-medium term. In order to achieve this, the analysis of comparative advantage will be carried out, with special reference to the realized level of technological intensity of traded goods. This topic becomes even more relevant with the global economic slowdown strongly hitting Croatian economy which is additionally burdened with severe structural problems and decreasing inflows of foreign capital (including the FDI) as an important source of financing economic growth.

The paper is structured as follows. After presentation of the problem to be investigated and the aim of the paper in the introductory chapter, the second chapter gives the main theoretical and empirical contributions to proper understanding of trade integration effects and the sources of specialization. Third chapter includes detailed presentation of the main problems in Croatian foreign trade with special emphases on the importance of EU and CEFTA as Croatian export markets. Following analysis of Croatian comparative advantages by individual countries and country groups, and with reference to the technology intensity of industries in the fourth chapter, the fifth chapter concludes.

¹ At present, there are five candidate countries for the EU – Macedonia, Montenegro, Serbia, Turkey and Island, and three countries with the potential candidate status – Albania, Bosnia and Herzegovina and Kosovo.

² During the 1990s CEFTA included Poland, the Czech Republic, Slovakia, Slovenia, Bulgaria and Romania, while present members are: Albania, Bosnia and Herzegovina, Kosovo, Macedonia, Moldova, Montenegro, Serbia and Croatia.

2. THEORETICAL ASPECTS OF THE MAIN TRADE INTEGRATION EFFECTS

Theoretical analysis of trade integration takes into account the prevalent market structure, and is based on different assumptions regarding returns to scale (Baldwin and Venables, 1995; Sapir, 1992). Under perfect competition and constant returns to scale the main static effects of trade integration can be summarized as: trade volume effect, trade cost effect and, finally terms of trade effect. The immediate impact of trade block creation is usually reduction in trade costs as a result of trade barriers elimination, whereas improvements in terms of trade refer to the advantages arising from the presence on international market and is particularly relevant for large economies (Casella, 1996; Badinger and Breuss, 2005). Yet, the most well known effects of trade liberalization are called trade creation and trade diversion and have been extensively dealt with within the customs union theory³ (Viner, 1950). Anyhow, the question of costs and benefits of trade liberalization, even in the short-to-medium term, is a difficult one due to several methodological and analytical problems upon which the integration effects ultimately depend (Kowalczyk, 1992). Here belong e.g. temporal dimension of the analysis (*ex ante* vs. *ex post*), as well as the analytical framework (welfare analysis) which deals with overall net-effect, thus making it difficult to conclude on the individual effect for a country which might be: a) present member of the integration, b) accession country, or c) 'third party' remaining outside the integration (Papazoglou et al.; 2006; Breuss, 2005; Egger and Pfaffermayr, 2002; Markheim, 1994). Finally, ultimate effects of a static analysis on trade pattern depend upon variety of specific economic conditions which an individual country may face⁴. However, inferences on the intensity of structural adjustment are silent about the character of the restructuring process, i.e. the allocation of resources (within, or between sectors), which can considerably influence structural adjustment costs and net-effects of the integration.

The phenomenon of economic restructuring and change in the specialization pattern can be approached from the point of view of different trade theories. The importance of the relationship between export specialization, on one hand, and the pattern of national industrial specialization, on the other, arises from the fact that increasing specialization, according to the principle of comparative advantage, can improve the national economy's production level, as well as the pace of economic growth in the long run (Brühlhart, 1998). It is generally considered that economic integration leads to increasing specialization in a way that participating countries are becoming more divergent in terms of economic structure, thus opening up more opportunities for

³ Trade creation means development of new trade flows and indicates an increase in trade with other members of the integration, thus replacing the flow of goods previously originating from domestic production. Trade diversion, however occurs when cheaper imports from a non-member country is being replaced by higher cost imports from a member country, which preserved its competitive position thanks to discriminatory trade liberalization.

⁴ Trade integration with large markets usually offers more opportunities for specialization and stronger effects of economic restructuring. Stronger restructuring is expected between countries with more different production costs, or efficiency levels, as well as in case of relatively high external tariffs. Weaker structural adjustment appears in case of lower tariffs prior to integration and mutually complementary economic structures of the integrating parties. Additionally, relatively high share of industries with large economies of scale can contribute to smaller structural adjustment costs (Niebuhr and Stiller, 2002; Nilsson, 2000).

mutually advantageous trade (Krugman, 1991; Amiti, 1999). The underlying concept to this approach is that of the relationship between international trade and economic growth, or the realized level of economic development and the degree of specialization⁵.

Classical trade theories assume exogenously given comparative advantage. As such they hypothesize that non-discriminatory trade liberalization will bring about positive net-effects on total welfare through allocation of resources according to the principle of comparative advantage. The resulting restructuring process will be of an inter-industry type with the new specialization pattern implying reallocation of resources between industries and with higher adjustment costs (Falcioğlu and Akgüngör, 2008). The resulting trade pattern is also of an inter-industry type and, hence the most intensive trade is expected to materialize between countries with different comparative advantages, i.e. developed countries (high production efficiency, availability of physical and human capital) and less developed ones with cheap labour force and lower production efficiency.

Assuming imperfect competition, increasing returns to scale and product differentiation, new trade theory argues that the pattern of specialization primarily depends on the interaction between economies of scale and transport costs. While economies of scale give impulse to (spatial) concentration of economic activities and reduction in unit costs, the costs of transport act in the opposite direction and encourage location of economic activities across a wider area. This can determine the specialization pattern and even physical location of economic activities (for further details see: Venables and Limão, 2002; Brülhart, 1998 and Venables 1996).

Hence, economic integration and trade liberalization open up the opportunities for further increase in the scale of production (Junius, 1997). Consequently, this will lead to reallocation of resources within sectors and, correspondingly, economic restructuring of an intra-industry type. Such allocation guarantees lower short-term costs of structural adjustments, and contributes to the welfare net-benefits of economic integration, especially for big economies with abundant supply of production factors and a big domestic market.

3. GENERAL TRENDS IN CROATIAN TRADE FLOWS

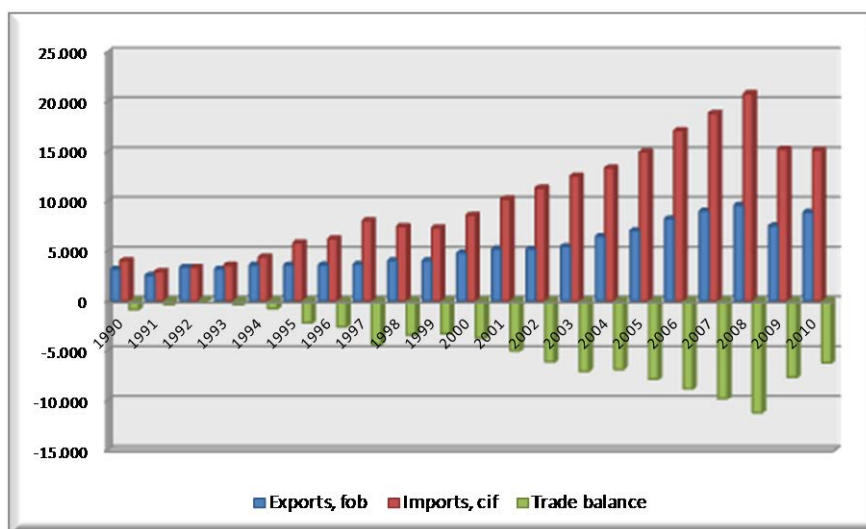
The recent global economic and financial crisis has produced a big blow to the world economy resulting in dire economic consequences for a number of countries, including both developing and advanced ones. The crisis has had a strong negative impact on GDP growth resulting in strong contraction of world trade flows (see: UNCTAD, 2009; UNCTAD, 2010a; UNCTAD, 2010b). Croatian GDP, as well as foreign trade, were no exception to these general trends, as Croatian economy is still going through a strong

⁵ The relationship between development level and degree of specialization is not always proportional, as Imbs and Wacziarg (2003) show that up to a certain level of development, country realizes a lower level of specialization (in a wide array of economic activities), due to increasing standard of living, consumption opportunities, and eventually lower level of trade liberalization. Beyond a certain income threshold and with growing economies of scale, a narrow specialization (in a smaller number of economic activities) can occur.

contraction which started in 2009 with an annual fall in GDP of -6% (2010: -1,2%, 2011: 0%, first two quarters of 2011: -1,3% and -2,1%, respectively). Meanwhile, Croatian exports and imports shrank by 21,4% and 27%, respectively, in 2009. Following that exports recovered and reached its pre-crisis level of 9,58 billion EUR at the end of 2011. Currently, Croatian economy is going through the process of restructuring, although a slow one, which will hopefully bring the above mentioned negative developments to an end soon. In light of this, foreign trade can offer opportunities for successful restructuring and sustainable economic growth in the long run.

However, Figure 1 illustrates one of the most acute problems of Croatian economy today. Over a period of 20 years Croatia has been facing a large and increasing trade deficit which became a persistent structural feature of the economy⁶. As a small open economy Croatia is expected to have a high level of trade integration. In 2010 Croatian exports of goods stood at only 19,8% of GDP, while that of the new EU member countries (EU10) reached 47,1%, and that of the EU27 stood at 30,4%. Meanwhile, Croatian imports reached 32,8% of GDP, compared to 48,9% for the EU10 and 30,9% for the EU27. The evident trade deficit looks better when we take into consideration Croatian trade in services. Here Croatia scores 18,5% of GDP in exports, whereas on the side of imports the figure amounts to 5,7% of GDP. In comparison with the EU10 (exports: 9,3%, imports: 7,8%) and the EU27 (exports: 9,4%, imports: 8,4%), Croatia seems to fare much better.

Figure 1: Croatian foreign trade (million of EUR)

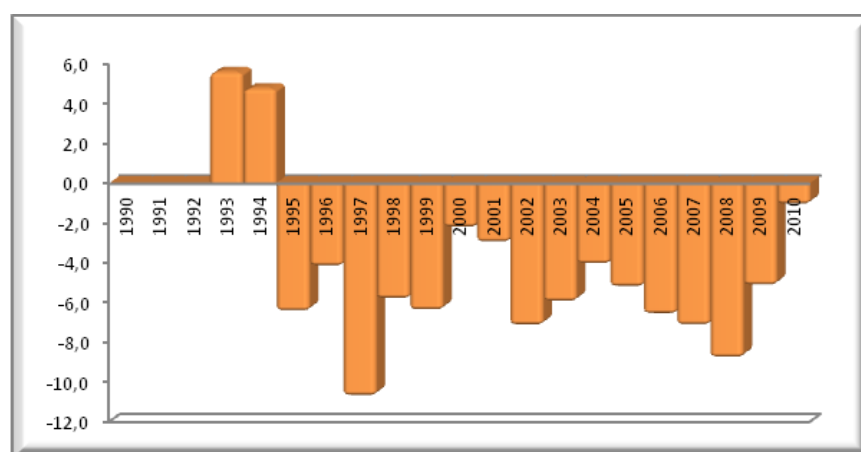


Source: Vienna Institute for International Economic Studies (2011)

⁶ This especially refers to the period 2000-2008 when the average growth rate of exports was 10,2%, while that of imports reached 12,3%. During the period under observation (1990-2010) the average growth rate of imports was almost twice as high as that of exports (6,1% versus 3,3%).

However, even when Croatian surplus in services is accounted for, the overall external balance is still negative (app. 5% of GDP), (Figure 2). Given that, sustainability concerns come to mind whether Croatia will be able to sustain these negative developments resulting in a fast build-up of external debt which stood at 101% of GDP in 2010⁷. These figures raise concerns regarding external vulnerability of Croatian economy, especially in case of sudden capital flow reversals (as shown in: Calvo, 1998) and in light of the most recent findings which prove negative and statistically significant link between external debt and growth, with the threshold level of external debt of app. 85-90% of GDP (Reinhart and Rogoff, 2010; Clemens et al., 2003; Patillo et al., 2002)⁸.

Figure 2: Croatian current account balance (percent of GDP)



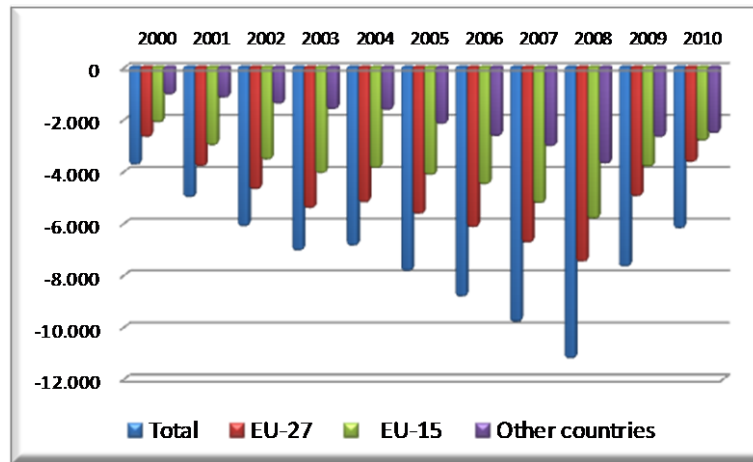
Source: Vienna Institute for International Economic Studies (2011)

It is also worth noting that the EU is the most important trade partner for Croatia, as it realizes app. 60% of exports and 60% of imports on the single European market. Figure 3 demonstrates, however that trade integration with the EU is burdened with mounting trade deficit, which largely contributes to Croatian overall negative balance of trade.

⁷ In 1995 Croatian external debt amounted to a modest 17,4% of GDP. For comparison, the average value of this indicator for the EU10 is 99,2%, while for the SEE it is even lower and reaches 56,7% of GDP (2010). The lowest external indebtedness in the Region has Bosnia and Herzegovina (25,7%), while Croatia ranks first on the list.

⁸ Since the emerging market crises of the 1990s, many studies have shown that rising vulnerabilities (including large external deficits and debt), and financing risks were highly correlated (Kaminsky et al., 1998). Sorsa et al. (2007) warn that external vulnerabilities in South East Europe are high, both from a historical perspective and in comparison with other countries.

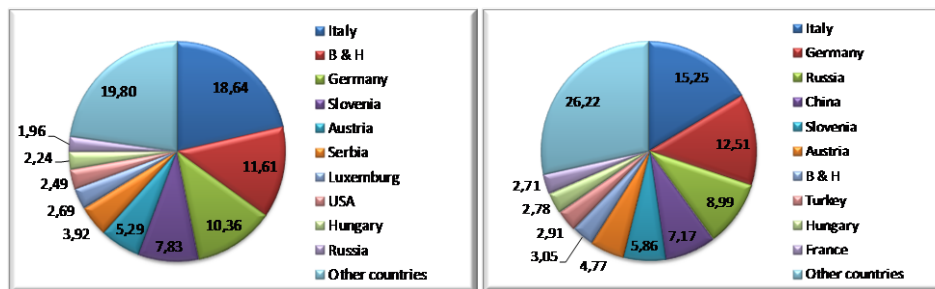
Figure 3: Geographical structure of trade balances (million of EUR)



Source: Vienna Institute for International Economic Studies (2011)

Individually, among the EU-members Croatia trades mostly with Italy (18,6% of exports and 15,3% of imports), followed by Germany, Slovenia and Austria. Besides the EU-countries Bosnia and Herzegovina seems to be of particular importance, since Croatia realizes almost 12% of its total exports on this neighbouring market what makes Bosnia and Herzegovina the second largest export market for Croatian commodities. Serbia is the sixth largest Croatian export partner making, together with Bosnia and Herzegovina, the most important export market for Croatia within the CEFTA (Figure 4).

Figure 4: Croatian exports and imports by countries, 2010

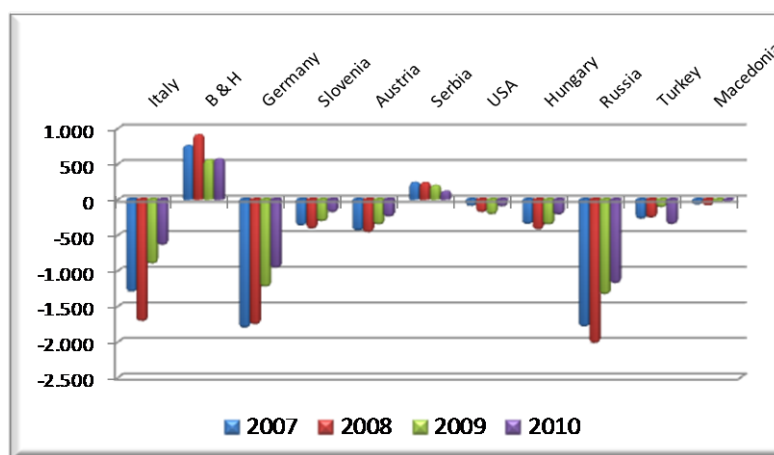


Source: Vienna Institute for International Economic Studies (2011)

Figure 5 pinpoints the geographical structure of Croatian trade deficit over the period 2007-2010. Most of the deficit is generated with the EU, here primarily with Italy and Germany, but also with Slovenia, Austria and Hungary, significant deficit is also generated with Russia. In 2007 and 2008 a widening of trade deficit can be observed,

while over the period 2009-2010 the global economic crisis has led to reduction of the overall trade deficit.

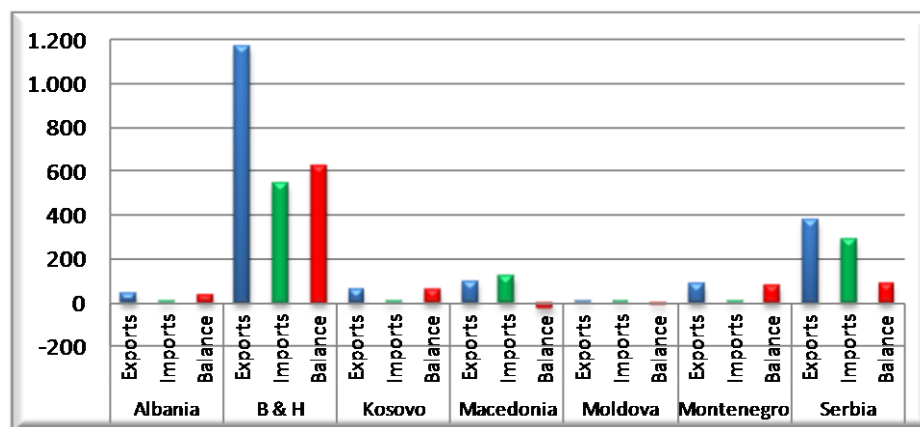
Figure 5: Trade balances by individual countries (million of EUR)



Source: Vienna Institute for International Economic Studies (2011)

A focus on individual CEFTA-countries reveals that Croatia generated a small negative balance only in trade with Macedonia and Moldova, while with all other member countries Croatian trade was in surplus, particularly with Bosnia and Herzegovina and Serbia, as already presented above (Figure 6). In summary, geographical composition of Croatian trade flows reveals several points worth emphasising. The EU-countries are the main trading partners for Croatia. Unfortunately, it is also with these countries that Croatia has been generating the largest trade deficits which in a historical perspective seem to send a very sobering warning. For two decades now Croatia has been widening trade deficit with the EU and is very unlikely to revert these trends any time soon. Similarly, with the rest of the world (apart from the EU) Croatia has been also generating a trade deficit and this again raises concerns about sustainability of the Croatian external position. Finally, Croatia has been generating a trade surplus with the CEFTA-members, which is a worthwhile development given the negative trends observed in other markets.

Figure 6: Croatian trade with CEFTA-member countries (million of EUR), 2011



Source: Croatian Bureau of Statistics (2012)

Investigation of product structure of Croatian trade flows shows that manufacturing accounts for 90,6% of total exports and 81% of imports. Given the huge importance of manufacturing we next investigate industries within the manufacturing sector which appear to be most important in Croatian trade flows, as well as their geographical structure. Table A1 (Annex) reveals that Croatia achieves a large trade deficit with the world in manufacturing, while it has positive balance with CEFTA. A deeper look into manufacturing (by industries) shows that exactly in those industries in which Croatia achieves negative trade balance in total trade, it realizes trade surplus with CEFTA. Such situation can be observed in trade in food products (C10), but the same pattern is observable in a relatively wide array of industries (e.g. C15, C15, C19-C21, C26, C29 and C32) some of which are strong net-exporters. Concerning the CEFTA-market, additional attention should be dedicated to the 'surplus industries' classified as C10 (food), C11 (beverages) and C12 (tobacco) which will probably be affected by tariff changes following Croatian accession with the EU. The tariffs on these Croatian products are expected to be raised within CEFTA and in consequence probably endanger these positive developments⁹.

⁹ Agricultural and food products are expected to be strongly affected by import tariffs from CEFTA, i.e. Bosnia and Herzegovina and Serbia in particular. It has been estimated that tariffs on these products in Bosnia and Herzegovina will on average increase from zero to 7,7%, while in Serbia tariffs are expected to increase from 4,5% to 13,2% on average. Tobacco products will be particularly affected, since their exports to Serbia will be subject to a tariff rate of 57,6% (currently 10%), while in case of Bosnia and Herzegovina this rate will go up to 14,5%. It has been estimated that two thirds of Croatian exports to Bosnia and Herzegovina will be free upon Croatian accession to the EU what leaves around 100 million euro of Croatian exports to this market to be subjected to customs duties. Concerning other CEFTA members (e.g. Kosovo and Moldova), Croatian manufacturing goods will lose their preferential status due to an increase in tariffs up to 10% (CNB, 2012).

4. CROATIAN COMPARATIVE ADVANTAGES WITH THE EU & CEFTA

In light of Croatian accession with the EU and adoption of common external trade policy, the aim of the forthcoming analysis is to show relative strengths of Croatian manufacturing by indicating national competitiveness of individual industries towards selected trade partners. Analysis includes export flows of 23 industries of Croatian manufacturing (two-digit level of NACE Rev. 2), realized in 2011 on the EU- and CEFTA-market, classified by technological intensity of traded goods, since the realized level of technological development is considered to be the most reliable source of international competitiveness nowadays (Hutschenreiter and Peneder, 1997). Methodology of ‘revealed’ comparative advantage takes into account these aspects and is, therefore most commonly used in *ex ante* analyses of the effects of trade liberalization on domestic economic structure, as determined by existing comparative advantages (Balassa, 1965). The forthcoming analysis uses the index of ‘revealed’ comparative advantage (RCA) in the following form:

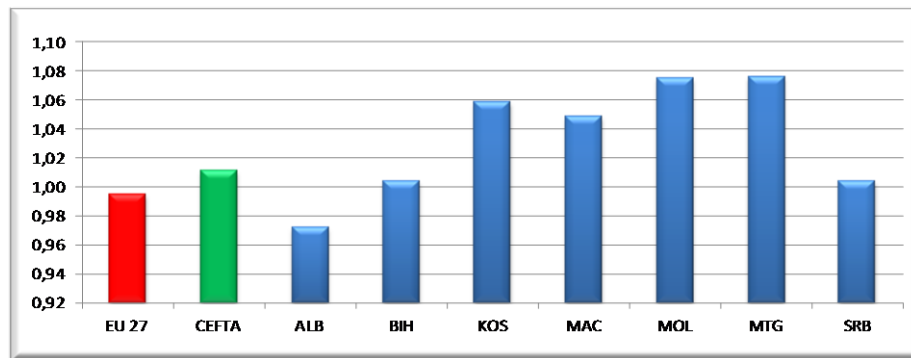
$$RCA = \frac{\frac{EX_{ij}}{\sum_{i=1}^n EX_{ij}}}{\frac{\sum_{j=1}^m EX_{ij}}{\sum_{i=1}^n \sum_{j=1}^m EX_{ij}}} \quad (1)$$

in which EX_{ij} represents Croatian exports of an industry ‘*i*’ to a specific country, or country group ‘*j*’, thus giving a practical interpretation of the expression (1) as a ratio of share of exports of an industry to a specific country, to a share of total Croatian exports of the observed industry in total national (Croatian) exports. This index can range in value from zero upwards, with zero meaning lack of comparative advantage (comparative disadvantage). As the share of the analyzed industry in total exports to a specific market grows, the value of the revealed comparative advantage index also grows, thus indicating the presence of stronger comparative advantage. Such a formulation of the index (1) makes possible its easy use at different levels of data aggregation, or units of observation, including different export markets on which the analysis focuses.

The data presented in Figure 7 show that Croatia realizes a relatively low level of the RCA-index in manufacturing with the EU (0,99) and just a slightly higher value in trade with CEFTA (1,01)¹⁰. Among the CEFTA-members these differences are slightly stronger and vary between 0,97 (Albania) and 1,08 (Montenegro) with the index value of app. 1,0 with two most important Croatian export markets –Bosnia and Herzegovina and Serbia. Yet, more pronounced differences in revealed comparative advantage can be found among different industries, not only between countries, but also within the same country, or country group.

¹⁰ According to the original interpretation of Balassa, it can be said that the share of manufacturing goods in Croatian exports with CEFTA is just 1,1% higher than that of Croatian total trade to all countries, whereas in case of EU this share is 0,53% lower.

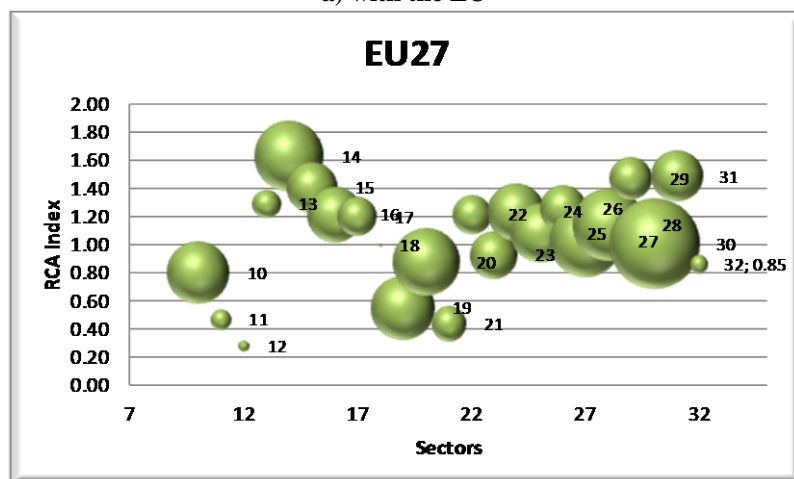
Figure 7: Croatian revealed comparative advantage by export markets, 2011



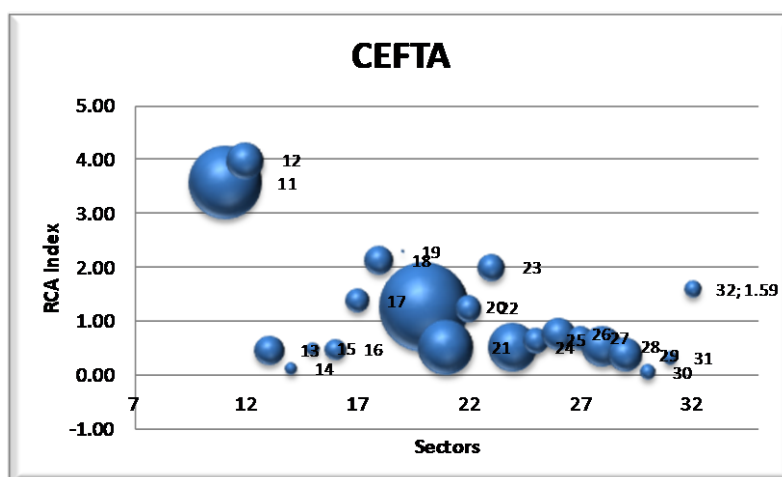
Source: Croatian Bureau of Statistics (2012), authors' calculations

A more detailed analysis of comparative advantages reveals significant differences both by industries and targeted export markets. However, an overall insight into the data shows that Croatia achieves comparative advantages in exports of non-metallic mineral products with all the analyzed countries, except the EU; the same situation is with trade in food products, beverages and tobacco products. Significant comparative advantage is further realized with products of chemical industry, products made of rubber and plastic and electronic and optical products, including computers (Annex: Table A2). However, despite a relatively large number of industries in which Croatia realizes comparative advantages in trade with the EU, it achieves significantly higher values of the RCA-index with CEFTA-countries individually (though over a smaller number of industries) what indicates relative importance of CEFTA-market for Croatian exports. The largest individual values of the comparative advantage index are realized with Moldova (C32-other manufacturing: 17,26 and C26-manufacture of computer, electronic and optical products: 13,77), while to other industries with strong comparative advantage belong food, tobacco and beverages. Another important aspect of Croatian exports is technological intensity of traded goods which can be followed in Figure 8. It shows that by individual industries Croatia generally achieves weaker comparative advantages with the EU, compared to CEFTA. However, from the figure it becomes clear that both by the value of the RCA-indices and trade volume (depicted by 'bubbles'), Croatian trade with the EU is much more balanced, than with CEFTA.

Figure 8: Croatian revealed comparative advantage by industries*, 2011
a) with the EU



b) with CEFTA



Source: Croatian Bureau of Statistics (2012), authors' calculations

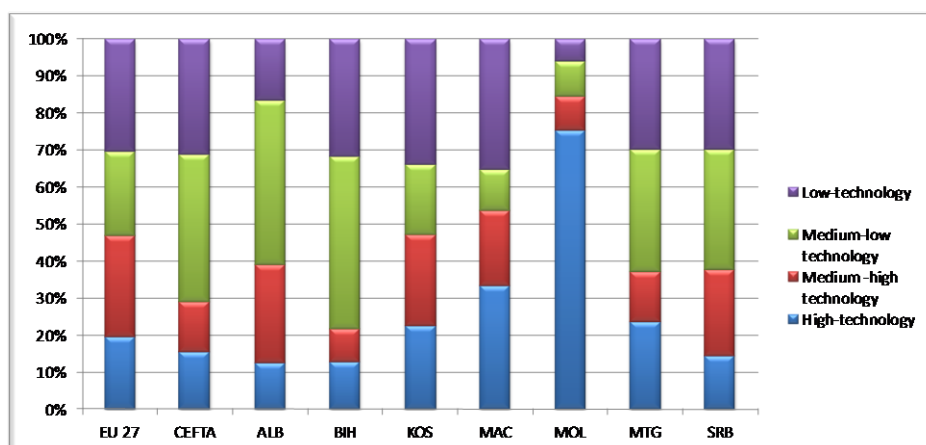
Note: *The numbers in the charts (10-32) correspond to the codes of the manufacturing industries C10-C32

While technological pattern of exports to the EU is somewhat mixed, trade with CEFTA shows much clearer pattern according to technology classification¹¹ (Figure 9). Croatian exports to the Single market achieve relatively strong competitiveness (and

¹¹ Technological aggregation of manufacturing goods, based on the NACE Rev. 2, and according to the Eurostat, differentiates among high-technology (C21, C26), medium-high-technology (C20, C27-C30), medium-low-technology (C19, C22-C25, C33) and low-technology (C10-C18, C31-C32) manufacturing industries (Eurostat, 2009).

also high value of exports) with medium-high-technology goods like motor vehicles and related equipment (C29), machinery and equipment (C28), and other transport equipment (C30). Meanwhile, strong competitiveness is also realized in low-technology sectors to which belong production of clothes, leather, textiles, wood and related products, as well as basic metal production. The weakest comparative advantage with the EU (*de facto* comparative disadvantage) is realized with 'typical' Croatian export goods like tobacco products, beverages, food products and refined petroleum products which together make almost 20% of Croatian exports to the Single market. On the CEFTA-market Croatia realizes strong competitiveness with medium-low and low-technology products, as the index of relative comparative advantage for goods of higher technological intensity falls below 0,8 (whereas the average RCA-index for CEFTA in manufacturing goods amounts to 1,01). Technologically advanced goods which are strongly underrepresented in Croatian exports to CEFTA are electronic and optical products, pharmaceuticals, but also electrical equipment, machinery and equipment, motor vehicles and other transport equipment.

Figure 9: Croatian revealed comparative advantage by technology classes, 2011



Source: Croatian Bureau of Statistics (2012), authors' calculations

Data on exports to CEFTA-member countries provide additional insights into Croatian relative competitiveness. In trade with Albania there dominate exports of medium low-technology goods (non-metallic mineral products; coke and refined petroleum products), but also those of medium-high-technology level (electrical equipment; chemicals). These product groups realize an RCA-index in the range of 1,3-3,1 what is well above the average value of 0,97. The bottom of the list with weak comparative advantages occupy high-technology goods (C21; C26), whereas goods produced with low technology realize an index value of less than 0,1.

Bosnia and Herzegovina and Montenegro show similar pattern of Croatian comparative advantage. On these two export markets comparative advantages are mostly leaned towards low- and medium-low-technology goods (with the only exception of high technology manufacturing of computer, electronic and optical products in case of

Montenegro), since RCA-index of these products is above average for total manufacturing and reaches value of almost 5,0 on top positions (tobacco and beverages with Bosnia and Herzegovina and non-metallic mineral products with Montenegro). The list of industries with low values of RCA-index (below 0,3) is rather extensive in both cases / for both countries and includes low-, as well as high-technology sectors. Exports to Kosovo shows, however, more balanced structure of comparative advantage across individual industries with the above average comparative advantages also in technologically intensive sectors (C26; C27; C20 and C29), (Annex: Table A2). Anyhow, the strongest comparative advantage (index value higher than 3,0) is achieved with low value added products like tobacco products, beverages and products of food industry.

Regarding technological structure of exports, Croatia realizes even better structure of comparative advantages with Macedonia and Moldova where high- and medium-high-technology industries dominate. All of them realize the above average values of the RCA-index whereas exports to Moldova show more favourable technological structure. To these product groups belong electronic and optical products, products of pharmaceutical industry, but also those of chemical industry, followed by machinery and equipment and electric equipment (in case with Macedonia). With Serbia, as a trade partner of increasing importance, Croatia achieves above average comparative advantages almost exclusively with low-technology products like printing products, paper, tobacco and other non-metallic mineral products (with the medium-level technology products of chemical industry as the only exception). On the opposite site of the list (with the lowest values of the comparative advantage index) we can find products which belong to the higher technology level like pharmaceuticals, motor vehicles and other transport equipment all of which are considered to be of high value added.

5. CONCLUDING REMARKS

This paper makes a contribution to the empirical literature on the effects of Croatian accession to the EU. More specifically, it first establishes that from the theoretical perspective and with reference to the results of numerous empirical studies net-benefits of economic integration are expected to prevail in the long run and contribute to the general welfare. However, in the short-to-medium term it is also possible that adjustment in trade flows and related economic restructuring cause significant costs, making the process of integration more painful than initially expected. The empirical analysis of Croatian trade has confirmed negative trends in external relations. Two decades of large and widening trade deficit, raising even sustainability concerns regarding Croatian external position, seem to suggest that this imbalance has become a structural feature of the economy. Although the analysis confirmed big importance of the EU-market for Croatian exports, it also indicated the presence of mounting trade deficit, thus pointing at the issue of Croatian competitiveness on foreign markets. Given these unfavourable development it comes as a pleasant surprise that Croatia achieves trade surplus with CEFTA-countries which together account for one fifth of total Croatian exports. By investigating revealed comparative advantages within Croatian manufacturing (23 industries) *vis-à-vis* the EU and CEFTA, and accounting

for technological intensity of trade flows it has been found out that despite a relatively large number of industries in which Croatia realizes comparative advantages in trade with the EU, it achieves significantly higher values of the RCA-index with the CEFTA-countries individually what additionally emphasizes the importance of the CEFTA-market for Croatian exporting sector. Analysis of revealed comparative advantages by technology classification of industrial goods shows that Croatia realizes stronger comparative advantages in trade with the CEFTA, yet over just a few low-technology industries, while the export structure to the EU-market shows more balanced indicators. This refers to lower values of the RCA-indicators spread across greater number of industries which achieve similar shares in Croatian exports to the Single market. More specifically, Croatian comparative advantage with CEFTA lies mostly with low technology industries, or more specifically low- and medium-low technology goods, with the only exception of Moldova where dominate strong comparative advantages in just a few high-technology sectors. In exports to the EU-market, comparative advantages mostly lie in the low- and medium-high technology goods.

As a full EU member as of 1st July 2013 Croatia will adopt common EU trade policy, and at the same time abandon all trade agreements it previously signed, the most important of which is one with CEFTA. This will result in a changed tariff structure, both *vis-à-vis* the EU- and CEFTA-market and consequently affect Croatian trade flows. A few protective measures against imports from the EU will be abolished (primarily in the group of low-technology products) which may increase competitive pressures on domestic industry. With respect to the CEFTA-market, Croatian export goods will lose some of its preferential treatment (in particular those in which Croatia was shown to achieve stronger comparative advantages). Although the effects on overall trade volumes are not expected to be significant, the changes in tariff structure imply that Croatian exports may lose some of its competitive edge on the CEFTA-market, thus to a certain extent endangering positive developments (trade surplus) Croatia has been achieving so far. In addition, EU products will make additional competitive pressures on the domestic production on Croatian market. While not expected to be large, these effects are not to be ignored and probably will result in adjustment of Croatian trade flows in the short-to-medium term. Of more concern should be the impact of a changing tariff structure on comparative advantages going against sectors where Croatia was achieving a stronger competitive position, especially with CEFTA, with the possibility of long-term adjustment and reallocation of resources.

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Annex: Table A1: Croatian exports and imports in manufacturing (NACE Rev. 2), (million of EUR), 2011

	CEFTA			World		
	Exports	Imports	Balance	Exports	Imports	Balance
C MANUFACTURING	1.684,44	836,36	848,08	8.683,93	1.3193,42	-4.509,49
C10 Manufacture of food products	297,08	141,29	155,79	673,05	1.256,80	-583,75
C11 Manufacture of beverages	76,32	25,53	50,79	111,82	103,58	8,25
C12 Manufacture of tobacco products	47,24	1,77	45,47	61,90	43,32	18,58
C13 Manufacture of textiles	7,46	9,60	-2,15	85,32	342,12	-256,81
C14 Manufacture of wearing apparel	8,20	15,64	-7,43	408,59	489,99	-81,41
C15 Manufacture of leather and related products	23,81	10,46	13,35	255,44	261,80	-6,36
C16 Manufacture of wood and of products of wood and cork, except furniture	31,61	27,54	4,07	351,66	178,61	173,05
C17 Manufacture of paper and paper products	44,90	40,60	4,29	171,07	407,60	-236,53
C18 Printing and reproduction of recorded media	0,49	0,15	0,34	1,20	3,04	-1,83
C19 Manufacture of coke and refined petroleum products	446,67	36,82	409,84	1.019,47	1.095,84	-76,37
C20 Manufacture of chemicals and chemical products	166,83	34,24	132,59	690,06	1.410,68	-720,62
C21 Manufacture of pharmaceutical products and pharmaceutical preparations	37,45	9,43	28,02	379,79	657,31	-277,52
C22 Manufacture of rubber and plastic products	38,89	41,75	-2,87	164,33	643,28	-478,95
C23 Manufacture of other non-metallic mineral products	127,52	28,41	99,11	334,71	315,40	19,31
C24 Manufacture of basic metals	35,19	258,65	-223,45	361,49	1.034,31	-672,82
C25 Manufacture of fabricated metal products, except machinery and equipment	57,00	57,75	-0,75	461,93	570,41	-108,47
C26 Manufacture of computer, electronic and optical products	33,05	2,46	30,58	229,16	857,94	-628,78
C27 Manufacture of electrical equipment	90,27	27,52	62,75	694,54	670,01	24,53
C28 Manufacture of machinery and equipment, n.e.c.	63,81	21,99	41,81	641,71	1,26	640,45
C29 Manufacture of motor vehicles, trailers and semi-trailers	11,90	2,96	8,94	167,87	793,79	-625,92
C30 Manufacture of other transport equipment	9,56	2,96	6,60	1.131,97	280,31	851,66
C31 Manufacture of furniture	14,39	36,02	-21,63	238,14	228,52	9,62
C32 Other manufacturing	14,82	2,82	12,00	48,70	285,21	-236,50

Source: Croatian Bureau of Statistics (2012), authors' calculations

Annex: Table A2: Croatian revealed comparative advantages by industries and technology classes of goods, 2011

RCA-index by manufacturing industries	TI*	EU 27	CEFTA	ALB	BIH	KOS	MAC	MOL	MTG	SRB
C MANUFACTURING	-	0,9947	1,0111	0,9724	1,0044	1,0587	1,0485	1,0749	1,0765	1,0038
C10 Manufacture of food products	LT	0,7964	2,3009	1,3663	2,3734	3,0622	3,6276	0,1277	3,1023	1,5392
C11 Manufacture of beverages	LT	0,4636	3,5577	2,3572	4,3921	3,2726	2,6649	0,0408	2,8917	1,5286
C12 Manufacture of tobacco products	LT	0,2724	3,9779	0,0000	4,5825	5,4537	2,8650	0,0000	1,5031	3,1607
C13 Manufacture of textiles	LT	1,2838	0,4555	0,0537	0,3670	0,3370	0,5101	1,8558	0,7549	0,7095
C14 Manufacture of wearing apparel	LT	1,6248	0,1046	0,0057	0,1034	0,0227	0,0982	0,0000	0,1153	0,1332
C15 Manufacture of leather and related products	LT	1,4039	0,4859	0,0013	0,5627	0,0503	0,1007	0,0000	0,2040	0,5393
C16 Manufacture of wood and of products of wood and cork, except furniture	LT	1,2092	0,4685	0,0827	0,3999	1,3166	0,5678	0,1276	0,4402	0,5669
C17 Manufacture of paper and paper products	LT	1,1925	1,3680	0,5717	0,8039	0,2491	2,4968	0,0000	0,4290	3,3454
C18 Printing and reproduction of recorded media	LT	0,9919	2,1192	1,6209	1,2791	0,0000	0,0000	0,0000	0,1226	6,1714
C19 Manufacture of coke and refined petroleum products	MLT	0,5474	2,2839	2,2959	3,1243	0,4957	0,1348	0,0000	1,4706	0,7007
C20 Manufacture of chemicals and chemical products	MHT	0,8729	1,2603	1,4761	0,9084	1,4907	2,1663	1,1872	0,9127	2,1461
C21 Manufacture of pharmaceutical products and pharmaceutical preparations	HT	0,4311	0,5140	0,4478	0,4731	0,7219	1,3348	1,6869	0,5457	0,3920
C22 Manufacture of rubber and plastic products	MLT	1,2090	1,2335	0,7784	0,9741	2,0686	0,6869	0,3744	1,0966	2,1316
C23 Manufacture of other non-metallic mineral products	MLT	0,9222	1,9860	3,0715	1,6283	1,4061	1,6744	5,2943	4,3657	2,5985
C24 Manufacture of basic metals	MLT	1,2291	0,5075	0,1011	0,3482	0,1827	0,3604	0,0000	0,2271	1,2113
C25 Manufacture of fabricated metal products, except machinery and equipment	MLT	1,0779	0,6432	0,2703	0,5457	0,9793	0,5271	0,0014	0,5578	0,9864
C26 Manufacture of computer, electronic and optical products	HT	1,2519	0,7518	0,4185	0,5349	1,2830	1,8315	13,771	1,9175	0,7753
C27 Manufacture of electrical equipment	MHT	1,0214	0,6775	2,2785	0,3606	2,7217	1,3853	0,0083	0,6513	0,9706
C28 Manufacture of machinery and equipment, n.e.c.	MHT	1,1347	0,5183	0,7360	0,3467	0,4176	0,5008	2,3834	0,8904	0,9581
C29 Manufacture of motor vehicles, trailers and semi-trailers	MHT	1,4615	0,3697	0,2212	0,2964	1,0965	0,6542	0,3604	0,2868	0,4397
C30 Manufacture of other transport equipment	MHT	1,0012	0,0440	0,0000	0,0201	0,0279	0,2005	0,0815	0,2664	0,0354
C31 Manufacture of furniture	LT	1,4805	0,3151	0,0578	0,2174	0,1094	0,3891	0,2598	0,8092	0,5529
C32 Other manufacturing	LT	0,8549	1,5859	1,5797	1,1983	0,8596	2,7274	17,263	2,6441	2,3150

RCA-index by technology classes of goods		EU 27	CEFTA	ALB	BIH	KOS	MAC	MOL	MTG	SRB
High-technology	HT	0,7400	0,6035	0,4368	0,4964	0,9331	1,5217	6,2347	1,0619	0,5362
Medium-high technology	MHT	1,0278	0,5366	0,9352	0,3525	1,0230	0,9366	0,7538	0,6023	0,8670
Medium-low technology	MLT	0,8573	1,5698	1,5619	1,8225	0,7832	0,5058	0,7832	1,4861	1,2075
Low-technology	LT	1,1473	1,2265	0,5858	1,2379	1,4080	1,6114	0,4971	1,3369	1,1129

Note: * Technological intensity: HT – high technology, MHT – medium-high technology, MLT – medium-low technology, LT – low-technology.

Source: Croatian Bureau of Statistics (2012), authors' calculations

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GOVERNMENT ACCOUNTING, FISCAL RULES AND PUBLIC INVESTMENTS

ABSTRACT

Economic and financial crises has intensified search for tools necessary for attaining fiscal and macroeconomic stability. Fiscal rules have been widely debated tool for coping with potentially reckless government behaviour. However, there is no unison agreement on the validity of their usage. Particularly heavy criticism was directed towards EU fiscal rules under the framework of Maastricht treaties and Stability and Growth Pact. It was argued that these rules substantially curbed growth of capital accumulation, and thus, economic growth in EU countries.

However, new economic crisis and sudden growth of industrial countries' debt have reinforced discussions on the needs of more strict government spending constraints and more attention is devoted to negative effects of public debt accumulation. One of the problems is that fiscal rules were not obeyed and sanctions were not exercised on the expense of countries that broke the limits. It became obvious that new fiscal rules are necessary. In addition, there is a lack of thorough research on the effects of government accounting rules build in general framework of fiscal rules.

This paper critically analysis fiscal rules applied in practice and provides a normative perspective and answer on question what kind of fiscal rules do we need. The first part of the paper, after introduction, presents a theoretical overview of interconnection of government accounting, fiscal rules and public investment. Second part provides more thorough reflections on the potential effects of government accounting. Third part of the paper, before conclusion, offers some proposals on the construction of better system of general accounting as support for more appropriate fiscal rules.

Key words: *fiscal rules, government accounting, fiscal performance, public investments, economic growth,*

JEL classification: *O23, O4*

1. INTRODUCTION

Economic and financial crises has intensified search for tools necessary for attaining fiscal and macroeconomic stability. Fiscal rules have been widely debated tool for coping with potentially reckless government behaviour. However, there is no unison agreement on the validity of their usage. Particularly heavy criticism was directed towards EU fiscal rules under the framework of Maastricht treaty's and Stability and Growth Pact. It was argued that these rules substantially curbed growth of capital accumulation, and thus, economic growth in EU countries.

However, new economic crisis and sudden growth of industrial countries' debt have reinforced discussions on the needs of more strict government spending constraints and more attention is devoted to negative effects of public debt accumulation. Fiscal rules are important issue for at least two reasons. First one relates to the fact that fiscal rules limited potential of fiscal policy of EU member countries to smooth out shock of economic crisis that demanded fiscal (and monetary) stimulus in order to minimize negative economic and social effects. The threat is that government fiscal deficit was too excessive and might jeopardize future economic prospects of the countries. In this regard, many countries completely ignored previously determined fiscal rules. Second reason is that even before the crisis there was an underlying tendency of increase of government expenditures primarily in the field of pension and health care systems and decrease of government revenues due to tax competition and unfavourable demographic trends. Therefore, fiscal rules are safeguard to overexpansion of government both in good and bad times.

The most important part of devising the fiscal rules is to answer the question, why do we need these rules at all? Deficit financing should be used in case of fiscal crisis, but the practice clearly shows that this was not the only reason. There are couple of often cited reasons for introducing the fiscal rules. These are the deficit bias which comes from the fact of government short-sightedness and the "common pool problem". The short-sightedness refers to the usual election oriented politicians which ignore the long-term societal goals. Common-pool problem refers to the fact that the budget effects are not spread equally across the interest groups of the society. Supranational rules serve as a safeguard against reckless fiscal behaviour of the member country which could jeopardize the monetary union.

This paper critically analysis fiscal rules applied in practice and provides a normative perspective and answer on question what kind of fiscal rules do we need. The first part of the paper, after introduction, presents a theoretical overview of fiscal rules and their effects on economic and fiscal performance. Second part provides comparative approach that reflects on the relationship of debt, deficit, economic growth and monetary implications that define fiscal effects on growth. Third part of the paper, before conclusion, offers some proposals on the construction of optimal fiscal rules.

2. GOVERNMENT ACCOUNTING, FISCAL RULES AND PUBLIC INVESTMENTS

Institutional framework for Europe's monetary union is provided within the Maastricht Treaty. Provisions set up by the Maastricht Treaty regulate framework for inflation, exchange rate, interest rate and goals of fiscal consolidations within the area of the EU. Constraints were imposed on share of the total public debt and budget deficit in GDP of the EU economies. Respective limits are 60% for public debt and 3% for budget deficit.

The most important reason or justification for introducing the convergence criteria is the goal for preserving the stability of the common EU market. Fiscal policy of the EU members that is not subjected to constraints could lead to excessive public debt and rising the interest rates and undermining the stability of EU monetary system. Some of the member countries could expect bail-out procedure by the European Central Bank.

The one post-Maastricht element, finalized at the June 1997 meeting of the European Council in Amsterdam, is the Pact for Stability and Growth. Rationales for SGP were to prevent inflationary debt bailouts, to neutralize inflationary pressure more generally, to offset political bias towards excessive deficits, to internalize international interest rate spillovers, to encourage policy co-ordination. The Stability and Growth Pact (SGP) is increasingly held responsible for the inability of the euro area economy to sustain demand and maintain growth. Problems in implementation of fiscal rules started very soon, Portugal and Germany exceeded deficit limits already in 2001 and 2002 respectively. The "excessive deficit" procedure – the process initiated by European Commission for these countries but sanctions were never exercised. Nowadays almost all of the EU members have breached the limits and rules were not applied in any of the cases. It is somewhat ironical that German taxpayers oppose fiercely towards ideas about the bail-out of the Greece debts when Germany was one of the first countries that did not respect the rules set up within the EU.

One of the heaviest criticisms of fiscal rules was directed towards their impact on growth. The empirical evidence of the possibility that a declining share of public investment in GDP could have adverse consequences for economic growth over the long term is inconclusive. There are a number of reasons why the many studies on this topic, do not yield clear-cut conclusions. First, it is difficult to control for all the factors, in addition to public investment, that affect growth over the longer term. Second, a sizable portion of public investment is directed to supporting broad functions of government, including redistribution and provision of social services, maintaining law and order, and administration, which do not directly boost productive potential. And third, the lumpy nature of much infrastructure investment implies that the full impact of investment on roads, telecommunications, and other infrastructure on growth can only be realized with considerable lags, once effective networks have been established.

There is, however, evidence that public investment has fallen because of fiscal adjustment, and on this count there are reasons to be concerned. There is cause for worry either if cuts in public investment are not reversed, and thus fiscal adjustment

contributes to declining public investment ratios, or if cuts are reversed and there is substantial volatility in public investment instead (which can reduce the efficiency of both public and private investment). For OECD countries, Roubini and Sachs (1989) observe that public investment is often quickly and drastically cut during periods of restrictive fiscal policy. More specifically for the euro area, it has been claimed that the SGP deficit limits have contributed to the recent decline in public investment in Europe.

It has to be noted that even a fraction of a percentage point of the growth rate can become important when allowed to accumulate over time. Some simulations suggest that, after accumulation over the last two decades, levels of real output would have ended 5% lower in France and the U.K., and 9% lower in Italy (Eichengreen and Wyplosz, 1998). There is no proof yet that any of the EU economies in phase of the consolidation process succeeded to increase the rate of growth and volume of the fixed capital. Research conducted on the economies of the OECD have showed that decrease of gross GDP for 1% automatically lead to deficit increase of 0,6% (see, Levit, and Lord, 2000) . The danger is that the SGP will divert effort from fundamental reforms needed for step up the pace of the economic growth. Fiscal rules in connection with the provisions of SGP by no means are not capable to provide radical swerve in European economic growth. In such circumstances the SGP could become even more binding, and have additional negative impacts on increasing the volatility of output, further depressing growth. This could open the mechanism of some kind of vicious circle and keep the EU member states trapped at the low-level equilibrium of economic activities.

Of the various reasons why a monetary union may wish to impose fiscal rules upon its members, the Pact only deals with one: the possibility that governments might be tempted to run larger budget deficits once the exchange rate and interest rates no longer respond to the fiscal actions of a single country. But there are important issues the SGP does not address. In particular, the SGP puts no pressure on EMU members to reduce current government spending, so as to lower tax rates and make room for higher public investment. From the viewpoint of the Pact it is indifferent whether a country meets it by rising spending and taxes, or by lowering both.

By imposing that the budget deficit, including interest, is balanced over the cycle, the SGP eventually drives the ratio of debt to GDP to zero. There are good arguments for preventing the public debt from disappearing: for instance, public debt can be an instrument for carrying out transfers between generations, or it may be issued to finance public investment projects with a large enough social rate of return.

Regarding the issue of fiscal rules design and their potential impact, there are five criteria necessary for setting up the appropriate fiscal rules (Sutherland, Price, Joumard, 2006, p. 7):

- long-term fiscal sustainability;
- short-term economic stability;
- aggregate efficiency - in the sense of equalizing marginal benefits from public spending to limit the damages caused by taxation;
- allocative efficiency of public spending, which is manifested in matching quantity and quality of public services with local preferences;

- possibility to maintain the redistributive elements within the system, it should not come into question - the minimum standards should remain the same.

Recent research confirms superiority of cyclically adjusted balance rules in dealing with output shocks but this requires caution (Cottarelli, 2009). They suggest that in period of large consolidation needs and unusual uncertainty, rapid return to fiscal targets or implementation of a new rule might be dangerous. Better way is to go ahead with the parametric approach with medium-term goals. Table 1 presents properties of different types of fiscal rules in regards to debt sustainability, economic stabilization and government size. According to the IMF in early 2009, there were 80 countries with national or(and) supranational fiscal rules: 21 advanced, 33 emerging countries, and 26 low-income countries. In contrast, in 1990, only seven countries had fiscal rules (Cottarelli, 2009).

Table 1: Properties of Different Types of Fiscal Rules

Type of fiscal rule	Objectives		
	Debt sustainability	Economic stabilization	Government size
Overall balance	++	-	0
Primary balance	+	-	0
Cyclically adjusted balance	++	++	0
Balanced budget over the cycle	++	+++	0
Public debt-to-GDP ratio	+++	-	-
Expenditure	+	++	++
Revenue			
Revenue ceilings	-	-	++
Revenue floors	+	+	-
Limits on revenue windfalls	+	++	++

Source: Cottarelli (2009), p.6

Note: Positive signs (+) indicate stronger property, negative signs (-) indicate weaker property, zeros (0) indicate neutral property with regard to objective

All of these stated modules of fiscal rules are not satisfactory enough to provide fiscal policy with a tool that enables anti-cyclical fiscal policy and safeguards it from the potential fiscal instability and excessive costs for the taxpayers. Fiscal rules have to be designed jointly with the monetary policy instruments. The goal is to provide the government with zero-interest rate funds either from the central bank or from stabilization fund created previously from the phase of economic growth.

It is also important to note that over time, countries have introduced a number of different fiscal rules which often refer to different sub-national levels (or supranational levels). This is not a good development due to the fact that such practice makes overall effects of these rules more complex. Much more sensible policy would be to determine general fiscal rules that start with supranational level and then go through the general government composition to the lowest level. This would be a sort of coordinated fiscal

rule that would enable sharing of the deficit financing in the times of crisis but also a tax burden in good times. In addition, in recent years regulation on fiscal rules shows clear objective of reducing the government size (Cotarelli, 2009, p. 9).

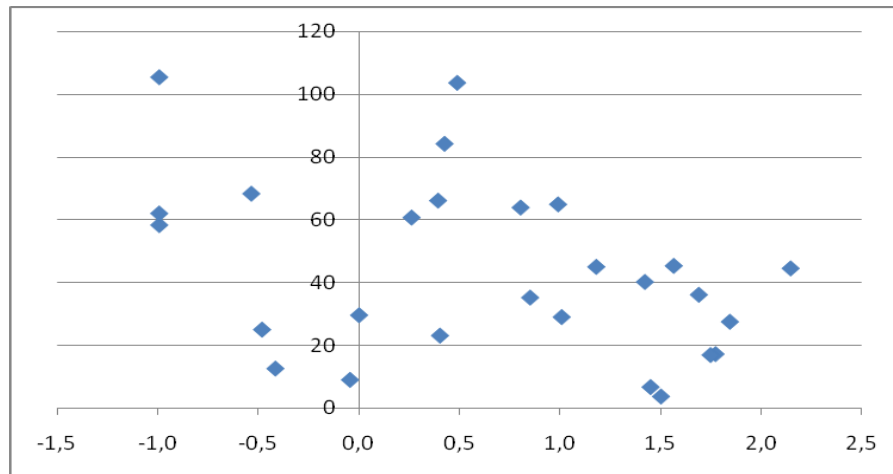
One negative side which was proved by the empirics is that rules without political support are often unlikely to be sustained. Rules often have pro-cyclical effect because they restrain discretionary policies. They can have negative impact on the composition of government spending which can lower the growth rate of the economy in medium and long term perspective. There are often cuts in capital spending with high rates of social return (Blanchard and Giavazzi, 2004). Finally, rules can encourage “creative accounting” and off-budget operations (such as some forms of public-private partnerships).

It has to be noted that fiscal rules have also been identified as a success factor for fiscal consolidation. In OECD countries, the size of fiscal consolidations was significantly larger when national or supranational fiscal rules were present (Guichard et al., 2007). For EU countries, empirical analysis indicates that stronger and wider fiscal rules, measured by a fiscal rules index, were associated with a greater likelihood for successful fiscal consolidation (European Commission, 2007). Econometric evidence on whether national fiscal rules have contributed to triggering fiscal consolidations (successful or unsuccessful) in EU countries is not clear-cut, however. When estimating the probability of a fiscal retrenchment occurring, the fiscal rules index is found to be only weakly significant (Larch and Turrini, 2008). In the next part of the paper some empirical relationships will be presented in order to support thesis of inadequacy of current fiscal rules.

One of the problems regarding the fiscal rules design is that its effects depend on numerous factors such as the general government coverage, government accounting, potential for the creative accounting, quality of budget reporting, auditing and many others. Besides the fiscal rules concept, there are at least two more approaches that can be combined with the fiscal rules as well. Firstly this is regulatory and institutional framework that enables fiscal transparency. Second is setting up an independent fiscal agency that can cover a wide range of activities in regards to fiscal stability. Of course, this range of activities depends on the level of autonomy and power given by the government. Very often, all these packages together with fiscal rules come in the form of fiscal responsibility law which becomes increasingly popular.

At this point it is useful to determine whether the quality of fiscal rules lead to more fiscal sustainability in the member countries. Figures 6 and 7 compare fiscal rules index derived by the European Commission and ratio of general government debt and deficit.

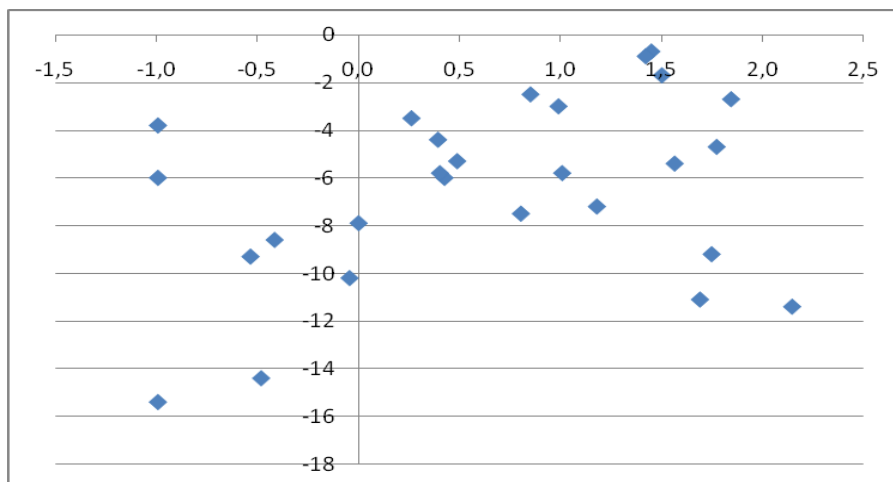
Figure 6: Fiscal rules index and general government debt (in percentage of GDP)



Source: European Commission (fiscal rules database) and Eurostat

It can be observed that there is no obvious pattern of relationship in both figures. From there we cannot conclude that fiscal rules reduced the overall indebtedness of the member countries. It seems that the main driver of debt and deficit is in the growth rate of economy and governments appetite for fiscal spending.

Figure 7: Fiscal rules index and government deficit (in percentage of GDP)



Source: European Commission (fiscal rules database) and Eurostat

3. GOVERNMENT ACCOUNTING AND FINANCIAL REPORTING

A contemporary literature, as globally acknowledged trends in development of government accounting, stresses the efforts towards implementation of accrual concept within the national systems of government accounting; setting the connections between inputs, goals and purpose of government agencies activities and results; and matching of goals of accountancy and financial reporting with the budget. These trends make fundamentals of implementation of the reforms of government accounting within the concept called „new public management“. Basic advantages of the implementation of the accrual principle mainly come from its comprehensiveness. This is particularly valid compared to other concepts i.e. cash principle. As it is well known, the application of accrual principle does not contain items of non-monetary assets and obligations in financial reports which present its main shortcoming. The lack of presentation of obligations in financial reports, regardless of the fact if they are generated on the basis of public debt or other grounds, does not present the consequences of current business decisions or their long-term impact. Implicitly, accrual concept as well does not provide comprehensive and actual information on total costs of government activities. On the other hand the key advantage of application of accrual principle is possibility of monitoring and management of total assets, debts and public expenditures. Consequently, the application of this concept increases transparency, comprehensiveness and reliability of accounting information and allows possibility for application of indicators for evaluation of success and effectiveness of activities of government units¹. This also enables evaluation of performance and raising the level of responsibility of public management (Evans, 1995, Diamond, 2002).

Responsibility of managing property entails efficient acquisition, usage, protection, maintenance and management of property in accordance to the goals or reporting unit and within its authority. Certain assets of government units very often do not reflect future economic benefit in sense of transformation of this property to money or money equivalents. They actually show the potential of service delivery, i.e. execution of fundamental functions of government units. It is very difficult to acknowledge some types of properties as possibility of realisation future economic benefits or possibility of utilisation of future service sin public sector is very difficult to determine in general. For the property which is bought or constructed, the costs of acquisition consists of price, dependent costs of acquisition, import duty and taxes, and of other direct costs which occurred in other to make property functional and on the place. However, in the public sector, if the purchasing price is not known or the level of price is not significantly changed, the value of property has to be evaluated by using the procedures defined by the government accounting standards².

The information about the structure, maturity and values of obligations are necessary precondition for management decisions. This refers both for strategically and operational decisions. Financing of government activities and provision of optimal and

¹ According to the research of accounting agencies int he country that use national accounting standards which are harmonized with IPSAS (Australia, Canada, New Zeland, Great Britain and United States of America), definition and evaluation of financial position of country is evaluated through indicators: sustasinability, flexibility (elasticity) and sensitivity.

² cf. IPSAS 17, "Property, Plant and Equipment", točke 38. - 65.

adequate financial resources together with economising with debt becomes increasingly complex and developing area of management. Obligations can be analysed from the money time preference perspective, alternatives of different choices and sources of their payments, their restructuring, conversion and reprogramming etc. The lack of presentation of obligations within financial reports significantly decreases credibility of financial position evaluation of the reporting unit. Besides „obligation management has a major impact on monetary policy, interest rate and inflationary pressures, and effect on the issue of intergenerational capital“ (Diamond, 2002). The obligations carried through by previous generations remain burden to the future ones. Considering the periodicity of the governance, multiplication of obligations in political purposes without real financial background, and their cover up and transition to the next government can become very dangerous macroeconomic problem. The consequences of such behaviour can cause chain reactions of illiquidity and insolvency in the economy. Usually, for the purposes of management and reporting, obligations are primarily grouped by the criteria of liquidity, i.e. time of their maturity. Very often a functional classification of obligations is used.

The assumption of efficient activity of management is development of appropriate models of management accounting and cost accounting in particular. This is valid both for private and public sector. It is necessary to direct development of management accounting towards areas that cover past events (definition of costs monitored in organisation, methods of calculation and distributions of costs to places and main items, monitoring of cost dynamics and their evaluation, analysis of break-even point etc.), but future events as well, such as planning and control. Due to number of specificities and differences in public sector compared to the private sector it is necessary to explore mechanisms of implementation of cost accounting in the budgetary system of government unit³.

Nevertheless, determination of costs is key element in all cases when government determines prices for their goods and services. This happens in all cases of mutual exchange of deliveries of government units. This is valid even then when certain, free of charge services of certain agencies are covered from the budget, on the principle of „cost reimbursement“.

Cost accounting enables measurement of efficiency of public sector activities. Correlating costs with quantity and quality of services delivered we can obtain cost efficiency of certain activity. If the price of service, expressed as costs of all inputs for its delivery, confronts with the quantity of services delivered we obtained costs per unit of different outputs as a ratio of price and service delivery. In certain cases these indicators can be compared with the same or similar ones in the private sector or between more budgetary units.

³ IFAC has published a special study on the possibilities and perspectives of cost accounting implementation in the public sector "Perspectives on Cost Accounting for Governments" with the goal of stimulating implementation of certain models of cost accounting to the government sector accounting.

3.1. Creative accounting

Relevancy and credibility of accounting information in presenting activities and degree of fulfilment of goals are affected by different accounting manipulations. These manipulations present the accounting situation differently from the reality in specific reporting period. Basically, the accounting manipulations are made by deliberate „distorting“, covering up or unclear presentation of documents related to government activities or time lag (anticipation or postponement) in financial reporting. The accounting system is the most comprehensive basis for preparation of information for the needs of internal and external users. Due to that fact, unreliable and incomplete accounting information can have serious consequences. Due to problems in recent history, with established practices of „creative accounting“ shaken by international financial markets, respectable accounting organisations and auditing companies, have undertaken wide international inventive of restoring credibility of accounting. The key question here is in preventing of use of accountancy in purposes of manipulations and frauds⁴.

Regardless of the sector of economy, by its nature, accounting manipulations always result with certain distance from the standards of quality of accounting information presented in financial reports. However, relative to private sector, accounting manipulations in public sector have to be observed in the context of their non-profit character and different terms and goals of their activity compared with the private sector.

Government accounting is mostly, due to traditionally high degree of normativism and lack of profit as a business goal, „saved“ from experimenting with non-exact criteria of valuation of elements of financial reporting. However, government accounting has to produce complete and reliable information on all segments of public spending.

3.2. Different basis of reporting on budget and financial accounting execution

The area subjective to accounting manipulations in the public sector has to be considered primarily within the context of goals of financial reporting and needs of accounting information users. In this case one has to have in mind the dual character of government accounting that very often results with existence of dual reporting system. „Budget accounting“ exclusively enables data and information on the budget execution (revenues and expenditures) for the fiscal (budget) year. In addition, from the regulatory system it depends which additional information on the effects of that execution on resources and debts are presented. The government accounting as a economic entity demands comprehensive reporting system, which, together with revenues and expenditures, presents changes of financial position as well.

This dual role of government accounting implies that goals and conceptual framework of financial reporting of the government subject are not necessarily the same and completely equal with the purpose and goals of budget reporting. Significantly

⁴ The leading role in this process is in the hands of International Federation of Accountants (IFAC), see "Rebuilding Public Confidence in Financial Reporting", IFAC, NY, USA, 2003. The review of relevant sources on this topic can be found in Stolowy,H./Breton, G.:»A Framework for the Classification of Accounts Manipulations«, EAA 2000.

different qualitative and quantitative features of accounting information on the same transactions, prepared by usage of different accounting basis provide great possibilities for manipulation. Therefore, the area of comparability and interconnection of reports by application of different accounting basis is subjected to international standardisation. The goal and purpose of IPSAS 1 (Presentation of financial statements) is to prescribe the content of financial reports in order to assure comparability of financial reports with financial reports of other units and comparability of financial reports in different periods. In order to accomplish this goal, the standard sets up general principles of financial report presentations, guidelines for their structure and minimal demands for the content of financial reports constructed according to the accrual principle. The goals (purpose) of construction and presentation of financial reports „is to provide information about financial position, success and monetary flow of unit which is useful to wide circle of users in decision-making process on the resource allocation“ (IFAC, 2007).

Except these mentioned goals of financial reporting the goals specific for budget reporting have to be addressed – provision of information on matching of budgetary expenditures with the regulatory framework and limits set up through the budget. In this case the issue of compatibility of accounting and reporting statements and borders between them becomes relevant. Such dilemmas and open issues IFAC – IPSASB lead to publishing of IPSAS 24 – Presentation of Budget Information in Financial Statements where the views, opinions and suggestions related to presentation of budgetary information in financial reports are presented.

IPSAS 24 demands that financial reports of budgetary users include:

- Comparison of current (realized) revenues and spending (budget execution) with the planned resources (original or from the rebalanced budget) on the same basis on which the budget has been adopted, and in the case when different basis is applied on financial reports;
- Explanations on significant differences between planned and realised budgetary items;
- Matching the realised revenues and expenditures presented on the basis on which the budget has been adopted, with realised items presented in financial reports when the budgetary and accounting basis are different.

Information about planning and execution of the budget are of interest for public management and wider community (citizens – taxpayers), and in that sense there is additional obligation of the accommodation of such information to the budget users needs. The lack of such adjustment, in certain manner, can be considered as accounting manipulation.

4. REGULATORY FRAMEWORK OF ACCOUNTING RULES IN PERSPECTIVE

The system of budget accounting is featured by high level of normativism which subjects all entities of general government to have unified and uniformed procedures of accounting. In that way by the regulations on budgetary accounting the procedures on

bookkeeping, bookkeeping statement and data processing, the content of budgetary plan, recording of revenues and expenditures, evaluation of balance positions, revalorisation, financial reporting and other areas related with the budgetary accounting.

Implementation of regulations thus determines unique budgetary procedures and introduces uniformity of data processing. Such approach means that the possibility of application of different accounting policies in recording of financial elements of financial reports is eliminated. Due to this, the space for legal accounting manipulations is almost entirely eliminated. However, the fact that the regulation cannot cover all possible business activities and financial transactions and cannot prescribe unified accounting procedures and methods of measurement and evaluation – there is certain space for accounting manipulations that can be conditionally regarded as legal.

Therefore, it can be determined that on one hand the legal framework has primarily the purpose to determine the rules and procedures and prevent manipulations with accounting information. On the other hand, if there is a lack of comprehensiveness and clarity there are possibilities for different interpretation and procedures which can lead to manipulations with accounting information.

Despite of the application of more complex accounting concepts (accrual) and IPSAS we can list accounting procedures which can have significant effect on the reality of presentation of elements of financial reporting (debt and deficit):

- time arrears of revenues (recording of unpaid revenues – anticipation of future revenues);
- recording of claims and other property that cannot be paid or the real value of these items is reduced (there is no test on the reduction of property);
- unreal valuation (overestimation/underestimation of value) of long-term property;
- time arrears of expenditures (postponement of recording of liabilities);
- the lack of recording of expenditures and debts (interests, exchange rate differences, contractual obligations...);
- treatment of out-balance statements: recording of indirect indebtedness, guarantees, public-private partnerships, long-term contracts on the operative lease etc.;
- the lack of comprehensive consolidation by the principle of economic unity;
- the lack of revalorisation procedures;
- recording of changes in the value and quantity of property and liabilities directly to the burden in benefit/cost of capital, past the account of revenues and costs etc.

5. CONCLUSION

The paper deals with the interconnection of fiscal rules and government accounting in the light of their effects on the level of public investment and economic growth. The lack of application of accounting standards and usage of different accounting concepts leave space for different types of accounting manipulations i.e. creative accounting. Such practices can jeopardise government efforts towards fiscal accounting and can

pose serious problems for macroeconomic stability of the country. Even though the international accounting authorities improve and develop accounting standards which deal with possible undesirable accounting practices there is still much space for improvement. This paper identified some of the problems that have to be covered by future regulatory framework.

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NEW INSTITUTIONAL CHALLENGES TO DEVELOPMENT OF THE SWEDISH WELFARE STATE

ABSTRACT

Sweden is an example of highly developed and internationally competitive economy with high degree of equality, which, for many years has been able to generously fund one of the most developed welfare states. Unique institutional infrastructure known as social corporatism or "Swedish model" - significantly contributed to the development of a range of social and industrial relations especially in Sweden, reconciling and catalysing a compromise between conflicting interests of social partners, and developing a completely distinctive political concept of Swedish social democracy. But the economic crisis and social changes that started in the seventies of the twentieth century, and intensified during the current global financial crisis hit the Swedish society and economy, jeopardizing the stability of its previous achievements and emphasizing certain hidden disadvantages. Considering the consequences of the current global financial crisis on the Swedish economy, we find it rather resistant, because of relatively high degree of independence of monetary policy outside of the EMU, and the stability of financial sector, which largely did not succumb to neo-liberal demands for deregulation, nor is left at the mercy of foreign investors / owners. Also, the lessons from the crisis during 1990s have left their mark on the behavior of regulators and capital market participants, which did not allow repetition of uncontrolled expansion of market volume and prices. Valuable experience from the past in Swedish case offers possible strategies to prevent further deepening of the current global crisis and possible way out of the recession.

Key words: *economic growth, welfare state, financial crisis, Sweden*

JEL classification: *O11, H12*

1. INTRODUCTION

During last 150 years, and especially a century period since the 1870s to the 1970s, Swedish economy enjoyed the most successful period of industrialization and growth of productivity in which it has made the transition from predominantly agricultural to

predominantly industrial mode of production. Sweden has managed to harmoniously reconcile the coexistence of a healthy market, export-oriented, economy dominated by private ownership of means of production and a successful model of egalitarian welfare state. In the mid nineteenth century, Swedish GDP *per capita* was at the world average, positioning Sweden among relatively poor European countries. However, in the period from the 1870s to the 1970s that fact has been drastically changed. Sweden exceeded three times the world average and is nowadays highly ranked among the most developed and richest countries in Europe (Madison, 2006). At the beginning of that period Sweden and neighbouring Norway and Finland, due to the relatively poor and undeveloped industrial technology, were relatively disadvantaged in comparison with the dominant economic powers of Europe at that time (Belgium, France, Germany, Great Britain) which have already started the industrial revolution. Strategy of economic development at that early stage in Sweden can be regarded as a kind of catching up strategy, which sought to take over and successfully apply recent technological and organizational achievements of developed countries, both in agriculture and in the developing industrial sector. Strong export orientation has also been a significant feature of the Swedish economy, which, because of the relatively small internal market, was the only way to maintain high productivity and profitability of the domestic economy and higher living standards. Also, Sweden has a highly developed public sector which has experienced its greatest expansion in the period after the Second World War, and is the foundation of the Swedish welfare state model. In it all citizens have equal rights in using services, according to their needs, and it is financed from the state budget, with highly redistributive role. One of the essential features of modern Swedish economy is the fact that almost 9/10 of the new value added comes from the private sector, while public sector decides on spending half of it.

2. HISTORY OF ECONOMIC DEVELOPMENT SINCE 1945

The period since the end of World War II until the end of the 1970s in Europe is considered the major period of economic development in which they have achieved relatively high growth rates, and made the foundations of today's industrial structure. The dominant economic doctrine of that time certainly was Keynesianism, while the production structure dominated by concentrated industrial mass production of so-called "Fordism". During this period Sweden also achieved high growth rates, which do not depart significantly from those obtained in the previous period, in which it positioned itself as a leader of developed European countries with 25% higher BDP *per capita* than Switzerland. (Stein, 1991). That period was marked by consolidation and expansion of previously (late nineteenth and the beginning of the twentieth century) developed domestic industry, which was based on the development and application of electric motor and internal combustion engine, as well as traditional sectors such as shipbuilding, mechanical engineering, automotive, metal and paper industries. In the social field a distinctive model of the Swedish welfare state that aims to maintain high growth rates achieved in previous periods, while helping to build a fairly egalitarian society with high levels of social security was developed. The Swedish model is characterized by a compromise reached through the negotiation of employers, trade unions and government on important economic and social issues and the expansion of the public sector, especially in the sphere of social security, education and health care.

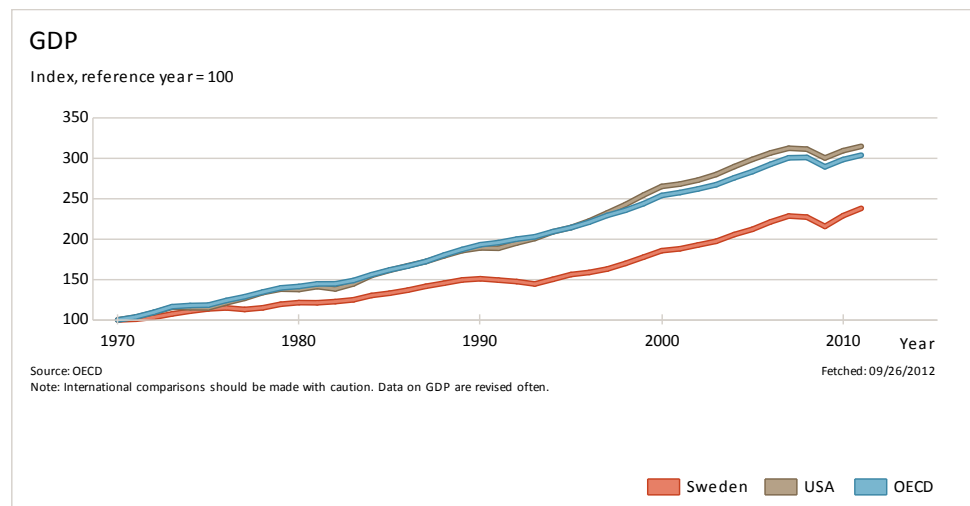
Having acquired political power and legitimacy that was confirmed in multi-party parliamentary elections, and having been included in the process of collective bargaining with employers under the auspices of the government, the labor movement has gained the power of deciding on the division of value added, while the employers participating in the negotiations with the unions managed to provide favorable conditions for further expansion of business activities and profits without the destructive action of industrial and social unrest. The solidarity wage policy, which is one of the major achievements of the Swedish model expresses the demand for equal pay for equal work, both in individual sectors and at the level of national economy, regardless of the profitability of individual companies, as well as the requirement to reduce differences in wages by increasing the level of minimum wages, which sought to achieve the rationalization of production, and ultimately the elimination of unfit and unproductive businesses and industries, while the surplus labor force was deployed in the profitable industries, especially in export sectors that are becoming increasingly important drivers of economic growth, with government investment in infrastructure and housing construction. As a result of that policy, successful companies began to realize greater profits. Because of high taxes dividend is not worth paying to shareholders but is mostly reinvested, which further encouraged the growth (without borrowing) of those profitable companies, but had a negative effect on the mobility of capital to other firms and sectors, and the financial markets, particularly securities markets (Henrekson et al., 1996)

During the late 1970s and early 1980s the first signs of economic crisis began to appear, particularly in steel production, shipbuilding, and paper industry, due to changes in consumer preferences, foreign competition and falling behind in technical progress and technological development that has engulfed electronics industry, as well as some radical changes in international economic relations. During that period international financial system from Bretton Woods was finally abandoned. Oil crisis that has shaken the global economy from 1973 to 1974 and in 1979 and the impact on the reduction of trade affected Sweden, as an example of a relatively open and highly export-oriented economy with a small domestic market. Greater mobility of capital created a risk of uncontrolled outflows to countries and regions with lower production costs, which added additional pressure on the Swedish export, as well as constantly strengthening international competitiveness of regions and other parts of the world in the traditional Swedish export sectors, and relatively high production costs arising from high labor costs and tax burden. Government subsidies to vulnerable sectors such as shipbuilding and steel works continued in that period because of their short-term survival and preservation of the existing level of employment, but they also maintained the existing structural problems that will emerge as a source of inflationary pressures and unemployment in the future. Periodic devaluation of the Swedish crown in the 1970s and 1980s contributed to short-term increase in export competitiveness of the automotive, electronic and chemical industries, but also gave additional impetus to long-term inflationary pressures (Henrekson et al., 1996).

Significant restructuring of Swedish industry and overall economic policy changes and reforms of Swedish welfare state model started in the late 1980s and early 1990s. Changed business circumstances in the domestic and international market were

reflected in the performance of the Swedish GDP that dropped from the third to seventeenth place on the world scale. (See Figure 1)

Figure 1: GDP of Sweden, USA and OECD Countries 1970-2011



Source: Ekonomifakta, 26.09.2012. <<http://www.ekonomifakta.se/en/Moduler/Diagram/Ekonomi/Tillvaxt/GDP/?backdrop=emf&print=y&from51=&to51=&columns51=,1,2,3>>

3. THE CRISIS OF THE SWEDISH MODEL?

Certain disadvantages of the Swedish model for long term development and growth began to show after external shocks during 1970s, especially the oil crisis that caused a crisis on the supply side, and growing production costs, inflationary pressures, and declining international trade, that reflected negatively on the demand for Swedish exports, which led to rising unemployment creating additional pressures on public expenditure and the growing budget deficit. The problem was in application of Keynesian methodology that was useful in the large economies, stimulating domestic demand and consumption, but has proven much more difficult for relatively small, open economy, in which most of the market does not coincide with national boundaries. The crisis has opened the problem and sort of trade-off between equality and efficiency, which stems from the relatively small differences in wages and high tax burdens that discourage additional work. Also, due to the implementation of economic policy measures in the fiscal sphere and the wage policy, there was an even stronger capital concentration in the national economy (eg. the group of companies controlled by the Wallenberg family had, in the mid 1990s, the control block of shares in approximately 40% of companies listed in the Stockholm stock exchange quotation (Landes, 2006: 298)). The main post World War II development model of Swedish economy created by trade union economists, Gösta Rehn and Rudolf Meidner. „The Rehn-Meidner model represents a unique third way between keynesianism and monetarism in its approach to combine full employment and growth with price stability

and equity through the use of extensive selective employment programs, a tight fiscal policy and a wage policy of solidarity“ (Erixon, 2000: 1). It seems that large, export-oriented and internationally competitive enterprises which in their products and services incorporate a large proportion of value added, have particularly benefited from the Rehn-Meidner plan, but caused some problems for local employment and investment activity because repatriation and reinvestment of profits realized abroad was greatly diminished. That problem was addressed by establishing a national mandatory pension fund, assets of which would be used to implement Keynesian policies to encourage investment and demand, and the establishment of the so-called Meidner "Occupational funds" (Loentagarfonder). According to the original idea of 1983, their purpose was to carry out and facilitate the change in ownership structure of most of the profitable domestic companies (by investing about 20% of the profit before tax) that had at least 50, or 100 employees and achieved "excess profits". These funds would be administered by the trade unions to strengthen the impact of the workers - shareholders themselves. After accumulating 20% ownership in each company, the administration would move to the central trade union federation, which would reduce the concentration of ownership in the national economy and strengthen the position of the workers in ownership structure and decision making, which should lead to further democratization of economic relations (Esping-Andersen, 1985; Martin, 1984, Arestis, 1986). In the background of this model was obvious intention of gradual takeover of the means of production by organized labor during a longer period of time and in nonviolent / non-revolutionary way (Esping-Andersen, 1985). Due to fierce opposition from employers who have timely noticed potential threat to their dominant economic position, this idea stayed dormant in its original form, without achieving its primary goal. In the sphere of implementation of active labor market policies, the state provided financial transfers in the event of unemployment, and the inclusion of redundant and unemployed in the educational process. Unfortunately, the State also turned to more job creation in the public sector.

Already in the late 1970s, SAP began to consider the necessity of decentralization of public sector that would lead to a lower degree of uniformity of services provided by the public sector, which would allow for direct participation of users (Permfors, 1991). This approach to the issue of public sector reform also indicates the spread of postmodern preference in the Swedish public, striving for direct forms of participation of the public sector service users and is a very challenging for highly bureaucratized, hierarchical and centralized structure of the Swedish welfare state. Also, problems during early 1980s, especially in the fiscal area in 1982, further boosted SAP's newly elected government to hasten the adoption and implementation plan for restructuring the public sector. "Although the participation of a primary and a secondary set of economic efficiency values that are accounted for based on decentralization in the late seventies and early eighties, their order is reversed from the mid-eighties" (Permfors, 1991).

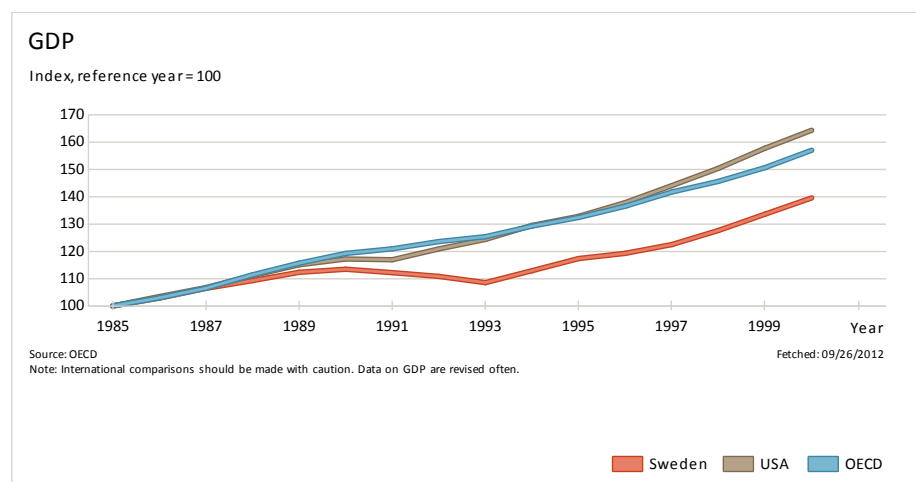
In the sphere of monetary policy another 16% devaluation of the Swedish crown followed, after the previous four, implemented by the previous government, which sought to increase the price competitiveness of Swedish exports. This marked the beginning of implementation of the "middle way" policy between restrictive monetarism and expansive keynesianism, which resulted in restrictions on the domestic

market (reduction of personal and public spending due to falling real wages and an increase in interest rates), and the expansion of exports due to lower prices of domestic products and services, increasing corporate profits of exporters. In the 1985 financial markets were further deregulated, and in 1989 deregulation of the foreign exchange market followed, that caused credit expansion and encouraged the flourishing of real estate market and the securities market to which all major export-oriented companies actively participated by investing part of their growing profits. This trend continued until the beginning of the crisis in the first half of 1990s.

3.1. The crisis of 1990s

The economic crisis of 1990s marked the end of Sweden's policy of full employment, which was one of the foundations of social democratic politics and social values which they advocated for, as opposed to neo-liberal, monetarist stance that full employment is not an end in itself, but the relationship of unemployment (changes in supply and demand in the labor market) and inflation. The unemployment rate rose from 3% in 1989, to 12% in 1993 (Pierson, 1996). Decrease in employment occurred due to layoffs in the public sector where it was motivated by reduced range of its services, and the private sector caused by substantial decline in the competitiveness of Swedish exports could no longer count on government intervention and periodical devaluations. Also, after the collapse of collective bargaining process, there were no other viable way of limiting trade unions' demands for higher wages - an additional upward pressure on production costs. In the period since 1990 to 1993 Swedish GDP declined by 5%, while industrial production fell by 13%. (See Figure 2)

Figure 2: GDP of Sweden, USA and OECD Countries 1985-2000



Source: Ekonomifakta, 26.09.2012. <<http://www.ekonomifakta.se/en/Moduler/Diagram/Ekonomi/Tillvaxt/GDP/?backdrop=emf&print=y&from51=1985&to51=2000&columns51=,1,2,3,>>>.

Precipitous decline in industrial production with loss of 200 000 jobs over the same period was between 17% and 18% which is comparable with that during The Great

Depression six decades before, when, as in the early nineties share of manufacturing sector in GDP was about 19% (The Economist, 1994). At the same time the government had problem with demands for increased funding by the army of unemployed and constantly falling tax revenues, and reduced tax base. In 1993 the state expenditures amounted to 73% of GDP (Pierson, 1996).

- The main causes of the crisis (Bäckström, 1997) can be found in cumulative impact of several main factors:
- Relatively weak economic growth since the beginning of the 1970s coupled with the collapse of the Bretton Woods system made macroeconomic conditions rather unstable;
- Credit market deregulation in 1985 marked the beginning of more expansive monetary policy with higher inflation expectations, while still remaining exchange controls restrained investment in foreign assets, and tax system¹ favoured borrowing (OECD, 1998);
- Real economic demand increased, and private saving turned negative;
- Overheating of the Swedish economy was accompanied by rising inflation, and significant current account deficits. Capital outflows ensued since removing the exchange controls in the late 1980s;
- Competitiveness of exports weakened due to overvalued domestic currency, so fixed exchange rate policy was under strong pressure.

„In the course of only five years the GDP ratio for private sector debt moved up from 85 to 135 per cent. The credit boom coincided with rising share and real estate prices. During the second half of the 1980s real aggregate asset prices increased by total of over 125 per cent. A speculative bubble has been generated.“ (Bäckström, 1997: 2) Swedish economy became more vulnerable to external shocks, by being in the position of entering both banking and currency crisis. The rate of inflation started to decline in the 1990, and inflation expectations followed that course in 1991. Major tax reform introduced at that time favoured savings and destimulated borrowing. Long years of artificially low interest rates resulted in overinvestment, so households and business sector finally changed their behaviour by reducing consumption and increasing savings. The crisis was inevitable. „Asset prices began to fall and economic activity turned downwards.“ (Bäckström, 1997: 2-3).

The outbreak of currency crises in 1992 have affected many European countries (Finland, Ireland, Italy, Spain, Portugal, Great Britain, etc.), and they devalued national currencies. Swedish central bank first raised the marginal rate from 16% to 500%, while at the same time government expenditure on social policies were further reduced,

¹ Tax reform of 1991 that was conducted according to the principles of supply side economics has led to a significant drop in revenues and increased profits of large economic entities (tax rate was reduced from 52 to 30%) and the wealthiest strata of the population by eliminating the former dominant system of progressive taxation. On the other hand, giving absolute priority to combating inflation, which at that time in Sweden was not particularly alarming, through restrictive monetary and fiscal policy, pushed the economy closer to depression. The resulting budget deficit has served the ruling party as an excuse to further reduce different social security benefits which are derived from the earlier model of the Swedish welfare state, the sustaining of which would mean further expenditure beyond the current capabilities of the national economy. According to OECD data in 1989 Sweden had the largest surplus among all Member States, which until 1993 were transformed into one of the largest deficits.

in order to defend fixed exchange rate regime. Aggregate demand fell even further, as well as employment rate. „The rapid increase in real interest rates undermined the financial system, triggering a banking crisis. In September 1992, the government intervened to prevent a major financial collapse by announcing a blanket guarantee for the liabilities of the banking system. A bank support authority was set up a few months later, and two banks, Nordbanken and Gotabanken, ended up under government control. Domestic developments—a growing financial crisis, falling industrial output and rising unemployment—undermined the credibility of the pegged krona rate. The authorities were trapped in a situation where external conditions (the currency crisis) required contractionary measures, while domestic considerations (the banking crisis) demanded an expansionary policy. The more the Riksbank tried to defend the pegged krona rate by raising interest rates, the deeper the domestic crisis became.“ (Jonung, 2009: 9) Finally, the monetary policy yielded to pressures from exporters and re-introduced free-floating exchange rate of Swedish crown that first day, November 19th, 1992 fell by 25%, which may indicate its overvaluation in the previous period in which it entered into a fixed exchange rate regime.

3.2. Resolution of the Crisis

For timely and successful resolution of the crisis government intervention was necessary to preserve financial system and to maintain stability of national economy. The most important measures were:

- Political consensus about the necessity and the main principles of government intervention – following long Swedish tradition of consensual cooperation across the party lines, especially in such a systemic crisis in which seven largest banks, with market share of 90% suffered heavy losses to the equivalent of 12% of annual GDP and total non performing loans much larger than total equity capital of the entire banking sector (Bäckström, 1997);
- Blanket guarantee for all bank liabilities – was announced jointly by the Government and Opposition in September 1992, and formally approved by Parliament in December without any specific restrictions regarding the total costs and specific policy measures that will be undertaken, necessitating further close cooperation across the party lines. It provided necessary protection from losses for all creditors except share-holders that have to provide additional capital and/or suffer losses of their ownership during recapitalization, thus restoring the trust and the sense of fair play in the national banking system;
- Adequate institutional framework – was composed of certain existing (Central Bank, Ministry of Finance, Financial Supervisory Authority) and ad hoc created institutions (Bank Support Authority - Bankstödsnämnd), all working together and cooperating with other parts of Government. At the beginning of that intervention the dominant role was given to the Central bank to decide how much liquidity is necessary to keep banks solvent, without any limitations regarding the quantity or collateral. After that „Banks applying for support had their assets valued by the Bank Support Authority, using uniform criteria. The banks were then divided into categories, depending on whether they were judged to have only temporary problems as opposed to no prospect of becoming viable.“ (Bäckström, 1997: 5);
- Full transparency of the whole process – was essential part of restoring the confidence in the national banking system. „From the very start, the

Bankstödsnämnd sought to obtain a clear picture of the financial problems facing the financial institutions through due diligence. Even before it began its work, and in its early stages, it tried to draw—whenever appropriate—on the available expertise for dealing with ailing banks by consulting and using external experts, many of whom were recruited from abroad. Banks that turned to the *Bankstödsnämnd* with requests for support were obliged to give full disclosure of all their financial positions, opening their books completely to scrutiny. This requirement facilitated the resolution policy, as well as making it acceptable in the eyes of the public.“ (Jonung, 2009: 14) That strategy reduced possible conflicts of interests and made possible to swiftly adjust value of assets and liquidate bad debts.

- Adequate macro-economic policy – gave much needed support for resolution of the crisis. Introduction of a flexible exchange rate policy, and lowering of interest rates were the main features in the sphere of monetary policy. „In the early stages of the crisis, monetary policy was directed to maintain the fixed exchange rate. This line had broad support among the general public as well as in the political system. The aim was to establish a low inflation policy once and for all. But in spite of major efforts, both political and economic, the international currency unrest in November 1992 meant that the fixed exchange rate had to be abandoned. It was replaced by a flexible exchange rate and an explicit inflation target. This resulted in a considerable depreciation of Sweden’s currency, but during 1993, the continued fall in international bond rates meant that Swedish interest rates also moved down to levels that were comparatively low. Together with the Riksbank’s reduction of its instrument rate, this gave the monetary conditions a stimulatory turn. It also helped to stabilize both the economy and the banking system. Lower market rates eased the fall in asset prices, lightened the burden of servicing private sector debt, and mitigated the negative impact on the financial system.“ (Bäckström, 1997: 3) Also, „Fiscal policies were supportive too. The government allowed huge deficits to develop during the crisis, mainly as a result of the workings of automatic stabilizers. The bank support policy contributed to the rise in the deficit. Viewed in an international context, the Swedish budget deficit grew exceptionally rapidly.“ ... „The best estimate available, at least so far, suggests that the fiscal outlays for supporting the banking sector were recovered.“ (Jonung, 2009: 15-16).

4. CONCLUSION

Sweden is an example of highly developed and internationally competitive economy that has reached a high degree of income and gender equality, which, for many years, has been able to generously fund one of the most developed welfare states in the world. Unique institutional infrastructure known as - social corporatism or "Swedish model" composed of social - democratic political ideology and corporatistic relations between labour and capital, under arbitrage and supervision of the state- to a large extent contributed to the development of a range of social and industrial relations in Sweden, catalysing a compromise between the conflicting interests of labor (the distribution of equity, equality, participation in decision making), capital (profit maximization, competitiveness) and state (social dialogue and peace), by developing a very distinctive political concept of Swedish social democracy. However, before the largest expansion

of the public sector, public expenditure and the welfare state, in the late sixties and early seventies of the last century, public spending was about 30% of GDP. It is important to note that Sweden first accumulated wealth and built its export-oriented economy, rising to third place in the world at the height of GDP per capita, and only afterwards started with upgrading and expanding scope of the welfare state. The economic crisis and social changes that started in the 1970s and intensified during the 1990s, affected Swedish society and economy in disturbing way, compromising its former stability, and emphasizing its not so many obvious disadvantages of the "Swedish model" whose institutions are created and adapted to function in different economic and social environment. However, the trend of slowing down during the late seventies and eighties of last century, as well as during recent financial turmoils does not necessarily represent the end of a successful, nearly two centuries old, period of growth and development in Sweden. It was a period which was used to carry out necessary structural and institutional reforms, which, with a certain time gap, created the preconditions for achieving high growth rates during the last decades of the twentieth century and the early years of the new millennium. Sweden again proved what it showed at the beginning of industrialization and its modern economic growth when it opened its economy to the world that enabled transformation (then in agriculture, metallurgy and forestry) and adjustment of industrial structure and human capital to new circumstances and market conditions, and laid the foundations of long-term growth of the Swedish economy.

Successful resolution of the crisis in Sweden emphasizes the importance of several factors that greatly contributed to that favourable outcome;

- It is important to react swiftly to curb further destruction of capital and to restore macroeconomic stability and prevent banking system to implode: „Automatic stabilizers in the government budget and stimulatory monetary conditions can help to mitigate the economy’s depressive tendencies but they also entail risks. Economic policy has to strike a fine balance so that inflation expectations do not rise, the exchange rate weakens, and interest rates move up, which could do more harm than good. In this respect a small, open economy has less freedom of action than a larger economy.“ (Bäckström, 1997: 7),
- It is easier to intervene in the economic relations if you have accumulated resources during the „good“ part of economic cycle, so you do not depend on any external capital sources,
- Broad political consensus and full transparency about scope of crisis and measures of intervention is very important in restoring confidence and cooperation of general public and business community at home and abroad,
- Monetary policy can be used rather aggressively to provide and maintain liquidity in the banking system, and flexible exchange rate is important.
- If government bail-out of banking sector is necessary, bankers and shareholders should be made responsible for their actions and suffer appropriate losses, to gain approval of spending public funds and to prevent future hazardous behaviour.

Again, the importance of strategically planned and well measured intervention of the State was proven to be essential in swift and effective dealing with the crisis and restructuring of national economy, as it was in the beginning of its modern economic growth in building, developing and maintaining optimal physical (roads, railways,

ports) and institutional (legislative, public administration, judiciary, science, education, social security) infrastructure.

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NON-PARAMETRIC APPROACH IN EFFICIENCY ANALYSIS OF LOCAL E- GOVERNMENT IN CROATIA

ABSTRACT

The complexity of today's business environment, the requirements imposed by EU standards in the field of information and communications technology (ICT), and the imperative of business success, requires from local governments continued analysis of relevant indicators of business performance. In such circumstances, the business performance is hard to evaluate by means of traditional approaches. In this paper we discuss additional assessment techniques applicable in comparing local government efficiency. The city authorities have become aware that due to the complexity of e-government they can profit from benchmarking in the digitalization process. Data envelopment analysis, as a non-parametric method, that examines the relative efficiency of homogenous units, fits well into the analysis of the efficiency of e-Government and the need for benchlearning. By applying the data envelopment analysis (DEA) the efficiency of local e-Government in the Republic of Croatia was evaluated by taking into account all five foundations of electronic business. The basic DEA models determined the levels of e-business efficiency for 41 city administrations. They also established the projections of inefficient units on the efficiency frontier and the sources and amounts of inefficiency. The results show that data envelopment analysis can be a very useful tool at the strategic and operational level decision-making at local government level. The paper also presents benefits and possibilities of the application of DEA and the limitations of the basic models. Disadvantages of the two basic models (BCC and CCR model) are eliminated by using the DEA model for superefficiency and the Analytic Hierarchy Process (AHP) for ranking efficient estimated decision making units (DMUs).

Key words: efficiency, e-Government, data envelopment analysis (DEA), AHP, benchlearning.

JEL classification: C14, C67, L86

1. INTRODUCTION

E-Government is a term used to denote the information technology in government that helps to increase the convenience and accessibility of government services and information to citizens. Electronic government today represents a necessity for those countries that are aiming for better governance (Gupta and Debashis, 2003). A growing interest has been seen in the recent years in the implementation of e-Government, aimed at restructuring and improving public services using information technologies. This continuous and rapid development of Internet technology, in addition to the growth in its users and the requirements of legal entities and citizens to increase the efficiency of public administration, has led to the development of electronic government. In order to achieve the above requirements it is necessary to conduct an organizational restructuring of the government, define the legal framework, ensure adequate ICT infrastructure, and educate users. Electronic government represents a combination of intensive uses of ICT that provide citizens with an improved access to information regarding public administrations and to provide an superb service quality in transparent, decentralized, interconnected, efficient and effective network structure (Spremić et. al. 2010).

According to another author (West, 2005), electronic government represents the organizational structure of government bodies that integrates flows and interdependencies between government bodies, companies, consumers and public institutions with the help of ICT. Government bodies in Croatia include ministries, central government offices, county government offices etc. E-government involves the integration and digitalization of business processes in public administration in order to provide a full range of services to the end user. The expected benefits of implementing such a system is the availability of services 24 hours a day, lower cost of services, improved efficiency of services, increasing productivity, etc. The main aim in today's e-government is to reach the citizen-centric level of the maturity stage in the development cycle (Layne and Lee: 2001).

The Government of the Republic of Croatia, in its aspiration to join EU, is trying to establish good foundations and frameworks in e-Government services at state level, but has, in this attempt, forgot to do the same care for local city governments. The Benchlearning Community at ePractice.eu is a pioneering initiative endorsed by the European Commission with the aim of providing guidance to all the European e-Government practitioners interested in deepening and sharing their knowledge on impact measurement methodologies and techniques. According to the Local e-Government Bench-learning Survey, Croatia is not the only country that neglects local e-Practice. DEA, as a method that examines the relative efficiency of homogenous units, fits well into the analysis of the efficiency of e-government and that need for benchmarking.

E-Government services are very complex structures and therefore it is hard to discover which city government is efficient and which not, and to establish crucial factors to take into the DEA analysis. The efficiency is analyzed through five main aspects: ICT, human potentials, information security, information and documentation baselines and availability of e-service.

The aim of this paper is to investigate the efficiency of e-Government structure in 41 city governments in the Republic of Croatia with the help of DEA and AHP. The research of e-Government efficiency is done in two stages. First by using DEA, decision making units (city governments) are divided in two groups: efficient and inefficient. Then, the efficient units are ranked with the help of DEA super-efficiency model and AHP because the two basic models (BCC and CCR) have no possibilities of ranking efficient decision making units (DMUs).

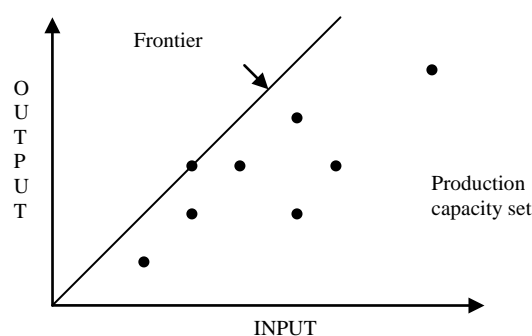
2. RESEARCH METHODOLOGY

Data envelopment analysis (DEA) is a non-parametric methodology for evaluating the performance of a set of homogenous entities called decision making units (DMUs) with multiple outputs and inputs. That does not require a fundamental assumption of a functional form. DEA constructs its own functional form, given the set of inputs and outputs of different DMUs. The two basic DEA models are the CCR (Charnes-Cooper-Rhodes) model and the BCC (Banker-Cooper-Charnes) model. DEA models can be distinguished according to orientation. They can be input- oriented or output- oriented, for example, either by minimizing inputs for a given level of output or maximizing output for a given level of input. The input-oriented BCC DEA model was used within this research. After the units were separated into efficient and inefficient, we used the super-efficiency DEA model and the AHP method for ranking DMUs evaluated as efficient.

2.1. CCR and BCC model in DEA

CCR model is based on the assumption of constant returns to scale. The marginal efficiency is graphically shown in Figure 1.

Figure 1: Efficiency frontier in the CCR model



Source: Cooper et. al 2006.

The basic idea of the model is to form virtual output and input for every DMU by using the outputs weight (u_r) ($r = 1, 2, \dots, s$) and inputs weight (v_i) ($i = 1, \dots, m$). The goal is to determine the weights which maximize their ratio.

The problem is modeled in the following way (Cooper, Seiford and Tone, 2006: 23):

$$\begin{aligned}
 (FP_o) \quad & \max_{u,v} \theta = \frac{u_1 y_{1o} + u_2 y_{2o} + \dots + u_s y_{so}}{v_1 x_{1o} + v_2 x_{2o} + \dots + v_m x_{mo}} \\
 \text{subject to} \quad & \frac{u_1 y_{1j} + u_2 y_{2j} + \dots + u_s y_{sj}}{v_1 x_{1j} + v_2 x_{2j} + \dots + v_m x_{mj}} \leq 1 \quad \text{for } j = 1, \dots, n \\
 & u_1, u_2, \dots, u_s \geq 0 \\
 & v_1, v_2, \dots, v_m \geq 0
 \end{aligned}$$

Constraints make sure that the ratio of "virtual output" against "virtual input" does not exceed 1 for each DMU. The goal is to gain value for weights (v_i) and (u_r) which maximize the ratio of DMU_o , i.e. the decision making unit that has been assessed. With the help of set constraints, the optimal value that can be obtained for θ^* is at most 1.

Definition (CCR- efficiency)

1. DMU_o is CCR efficient if $\theta^* = 1$ and if there is at least one optimal solution (v^*, u^*) for which the following applies: $v^* > 0, u^* > 0$.
2. In contrary, DMU_o is CCR-inefficient.

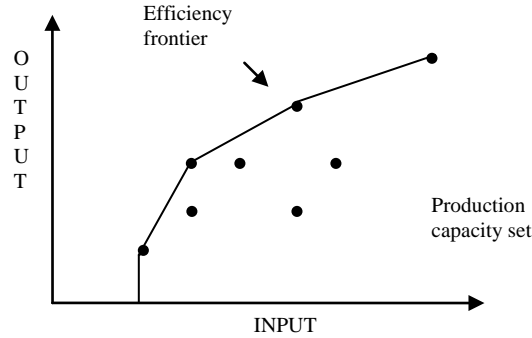
Subset E_o of set $E'_o = \left\{ j : \sum_{r=1}^s u_r^* y_{rj} = \sum_{i=1}^m v_i^* x_{ij} \right\}$ which consists of CCR efficient

solutions of DMU are called a reference set or peer group. The set obtained by merging elements from E_o is called the efficiency frontier.

In the previous subsection, the basic settings of the CCR model were discussed, based on the assumption of constant returns to scale. Generally speaking, the assumption says that the set of manufacturing capabilities is marked by the following features: If (x, y) is an admissible (possible) point, then (tx, ty) is also admissible for every positive t . This assumption can be changed in order to allow different settings for the different set of manufacturing capabilities. In contrast to CCR model, BCC model is often used for variable returns to scale problems. BCC model has a productivity frontier that is spreading along the convex hull formed from the existing DMU. The frontiers have piecewise linear and concave features, as is shown in the Figure 2, which leads to the concept of yields (variable yields) characterized with:

- increasing yields in the first segment of the curve
- decreasing returns in the second segment and
- constant yields at the point of transition between from the first into the second segment.

Figure 2: Efficiency frontier in BCC model



Source: Cooper, W., Seiford, L., Tone K.: Introduction to Data Envelopment Analysis and Its Uses, Springer, 2006.

The CCR and the BCC model differ only in that BCC also includes the convexity constraints $\sum_{j=1}^n \lambda_j = 1$, $\lambda_j \geq 0, \forall j$ within the constraints, while CCR does not.

The definition of BCC-efficiency is as follows (Cooper, Seiford, Tone, 2006):

If the optimal solution $(\theta_B^*, \lambda^*, s^{-*}, s^{+*})$ of the BCC model satisfies $\theta_B^* = 1$ and there are no additional variables ($s^{-*} = 0, s^{+*} = 0$), then the DMU is considered BCC efficient, otherwise it is considered to be BCC inefficient.

2.2. Super-efficiency in DEA

As previously stated, all efficient DMUs according to the data envelopment analysis are ranked equally in term of performance. The standard DEA models have a large number of applications and modification. One of the most important extensions of DEA model has been formulation of super-efficiency models used for ranking DMUs of unity score. The best known super efficiency model is one established by Anderson and Petersen in 1993. This model involves executing the standard DEA models (constant return to scale and variable return to scale) under the assumption that evaluated DMU must be excluded from the reference set. This allows a DMU to be located above the efficient frontier and therefore to be super-efficient among the efficient DMUs. For described reasons, the super-efficiency score for efficient DMUs can take any value greater than or equal to 1. It should be noted that the scores for inefficient DMUs stay unchanged (they hold values from basic analysis)

The super efficiency model is given with (Petersen and Anderson, 1993);

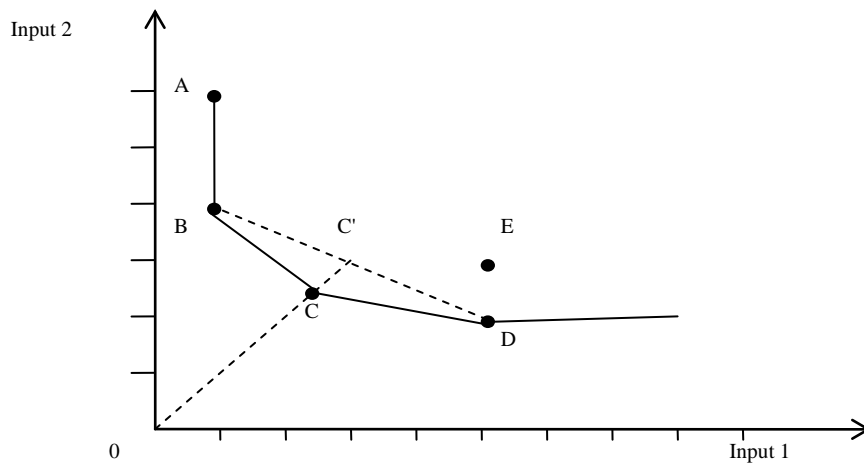
$$\min E_j - \delta e' s^- - -\delta e' s^+$$

$$\begin{aligned} \text{Subject to } E_j X_j &= \sum_{\substack{k=1 \\ k \neq j}}^n z_k X_k + s^- \\ Y_j &= \sum_{\substack{k=1 \\ k \neq j}}^n z_k Y_k + s^+ \\ z, s^+, s^- &\geq 0 \end{aligned}$$

where X_j represents the m-dimensional vector of input, Y_j the s-dimensional output vector, Z is vector of intensity where z_k represents intensity of the k-unit, δ is non-Archimedean infinitesimal, and e' is the unity vector of appropriate dimension.

Consequences of excluding unit take for evaluation from the reference set is very easily understandable within the frame of the example in the Figure 3. The example has five units marked with the letters A to E. Each of the five units produces one output using two inputs. The unit isoquant stretched for the given DMUs is presented in figure below.

Figure 3: Evaluating super-efficiency of DMU C



Source: Anderson, and Petersen, 1993, pp.1261-1264.

In the graph, the unity isoquant is stretched with $\langle BCD \rangle$ in which the efficient subset is represented by segments BC and CD.

If we consider evaluation of unit A, we can say that A is obviously inefficient, with a deficit (which is 4 units) for input 2 as compared to the same input to the unit B. The elimination of inefficient observations will not affect the spreading set of referent units.

It can be concluded that super efficiency model and BCC model have the same reference for point B so as index of efficiency.

If we consider the evaluation of unit C, we can say that according to the BCC model it has index of efficiency equal to 1. The elimination of unit C from the reference set implies that the unit C will be compared to others in terms of the input possibility set stretched from the remaining elements from the set of observations (A, B, D, E) with the minimal distance from C. The reference point thus becomes $C'(6.0, 6.0)$ and unit C has assigned efficiency index 1.2 instead of 1. This solution has the same interpretation as standard Farrell's measure.

The index of efficiency for the inefficient unit E in the new model will not change. The defined index of efficiency in the new model leads to the following ranking of units A – E: $B > D > C > A > E$.

2.3. Analytical Hierarchy Process

The Analytical Hierarchy Process (AHP) essentially represents the formalization of the intuitive understanding of a complex problem using a hierarchical structure.

Each multi-criteria problem contains a multiple different (often conflicting) criteria that can be of different importance for the decision maker. In the alternative ranking method it is necessary to have information on the relative importance of each criterion and each attribute in relation to the set criteria. In assigning weights to criteria, the weights must be normalized. It means if by w_j ($j = 1, \dots, n$) we denote weight of j -th criteria than :

$0 \leq w_j \leq 1$ and $\sum_{j=1}^n w_j = 1$ stands, wherein the expression $w_s > w_k$ means that the s -th

criterion is more important than k -th and equation $w_s = w_k$ suggests their equal importance.

One of the most commonly used methods of multiple criteria decision making is the Analytic Hierarchy Process (AHP), whose ranking of alternatives is based on the method of eigenvectors (Babić, 2011; Saaty, 2006). The decision maker, using the AHP according to comparisons in pairs, must give the estimation of the relative importance of the two criteria for all possible pairs. The number of evaluations required

from the decision maker is equal to: $\binom{n}{2} = \frac{n \cdot (n-1)}{2}$.

Functioning of the AHP method can be explained in four main steps (Saaty, 2006):

1. The structure of the hierarchy is established in a way that the goal is positioned at the top, the criteria and subcriteria at lower levels and the alternatives at the bottom of the model.
2. Relative importance is determined for each level according to the Saaty's scale on the basis of priority.

Let's assume that n is the number of criteria (or alternatives), which weights (priorities) are given by w_i and have to be determined on the basis of estimated values of their

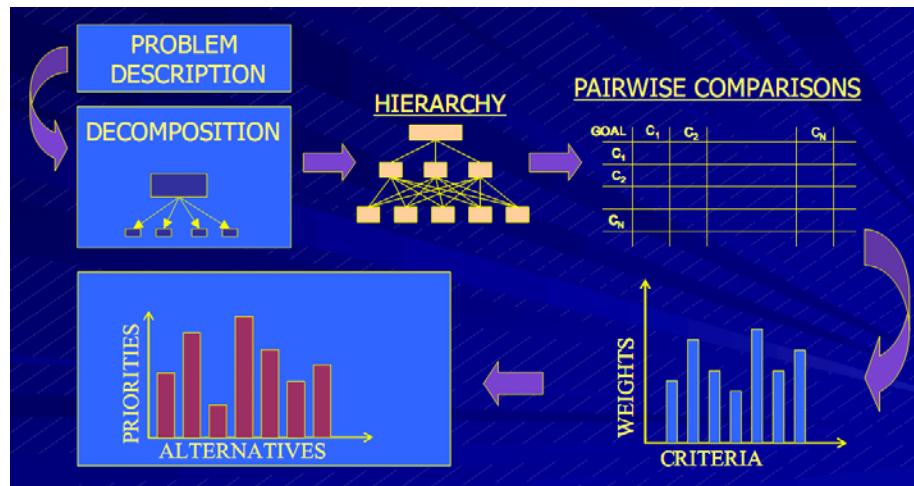
ratios $a_{ij} = w_i/w_j$. These ratios form the $n \times n$ matrix $A = [a_{ij}]$ where $a_{ij} = \frac{w_i}{w_j}$. The

matrix A has specific properties as all of its rows are proportional to the first row, all elements are positive and $a_{ij} = 1/a_{ji}$ holds. In case of consistent estimates, (i.e. where $a_{ij} = a_{ik} a_{kj}$), the matrix A satisfies the equation $Aw = nw$. Therefore, only one of all its eigenvalues differs from zero and it is equal to n . If the matrix A contains inconsistent estimates, which often happens in real situations, the vector of weights w can be obtained by solving the equation $A - \lambda_{\max} I w = 0$ under the condition $\sum w_i = 1$, where λ_{\max} is the biggest eigenvalue of the matrix A . Since $\lambda_{\max} \geq n$, the difference $\lambda_{\max} - n$ is used as the measure of the consistency of estimates. Using the consistency $CI = (\lambda_{\max} - n)/(n-1)$ we calculate the consistency $CR = CI/RI$, where RI is random index i.e. consistency index of matrix of order n , randomly generated pair-wise comparisons. If the value of consistency index is $CR \leq 0.1$, then estimates of relative importance criteria and prioritizing alternatives are considered acceptable.

3. Calculation of relative significance (weights) of element in the hierarchy structure is established on the basis of pair-wise comparisons. Calculations of relative priorities for each DMU are made and these results are synthesized into an overall priority list of alternatives. In cases when the inconsistency level is high ($CR > 0.1$), the decision maker is allowed to reconsider the preferences to test the results.
4. Sensitivity analysis is the last step of the AHP procedure. It is used to determine the sensitivity of the alternatives to changes in the objective's priorities

Graphical representation of the four steps is given in the figure below.

Figure 4: Graphical representation of AHP



Source: http://projectapps.vtt.fi/Connect/_Rainbow/Documents/connect/2%5Eday_3%20session_Zografos.pdf

3. RESULTS OF E- GOVERNMENT ANALYSIS USING SUPEREFFICIENCY DEA MODEL AND AHP

The first and crucial step in DEA is the selection of relevant inputs and outputs that reflect the analyst's interest. One of the basic and very important features of DEA methodology is that measurement units of the different inputs and outputs do not need to be congruent (Šegota, 2008). This research was based on the survey's data on 41 city administrations whose relative efficiency is examined on the basis of eight selected inputs and three outputs.

3.1. Inputs-outputs and criteria selection

Selection of relevant inputs and outputs is the one of the most important and the most difficult steps in the analysis, and it reflects the interest of analysts and managers, and justifies the purpose of conducting the analysis. "Inputs and outputs should be chosen in way that inputs include all relevant resources and outputs of all relevant activities or outcomes for a specific analysis of efficiency" (Jacobs, Smith and Street, 2006: 113). Inputs and outputs for the problem of e-Government relative efficiency evaluation were chosen from the basic principles which represent the foundations of the electronic administration. With the help of IT experts and the nature of analytical hierarchy process, 8 inputs and 3 outputs were selected and showed, in hierarchy on the figure below. It is also important to say that selected inputs and outputs, according to DEA, are positively correlated and that the number of DMU is 3 times larger than sum of input and output. Selected inputs and outputs are (Jardas Antić and Šegota, 2012.);

SELECTED INPUTS

- I_1 ICT infrastructure grade
- I_2 level of investment in human resources
- I_3 information security (a very important input because when is corrupted the entire ICT system is in danger of stopping all business processes what may cause nonrefundable damage)
- I_4 number of servers (refers to the complexity of the system)
- I_5 number of employees
- I_6 access speed (measures how quickly one can access the needed content on the Internet)
- I_7 number of computers (connected with the complexity of the system)
- I_8 application and documentation coverage (measures existence and number of tightly specialized applications)

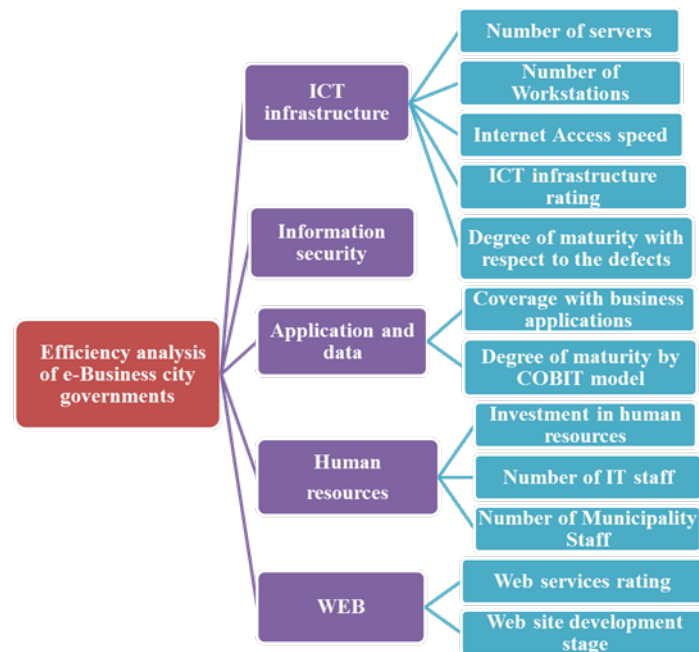
SELECTED OUTPUTS

- O_1 classification given the reliability of the systems (classification according to the number of failures)
- O_2 degree of maturity of the management system (graded according to the COBIT model)
- O_3 degree of development of web services (Lane and Lee, 2001).

The selected inputs and outputs were obtained by the help of AHP and an IT expert who helped to make the hierarchy with crucial criteria according to his expert

knowledge. Every weight to each criterion in latter AHP analysis was given in consultation with the IT expert.

Figure 5:AHP hierarchy for local e- Government efficiency ranking



Source: Made by the authors

3.2. Model selection and the results of the analyses

It is unreliable to rely on only one particular model because it is hard to identify the characteristics of the production frontier. This is the reason for using the basic CCR model as well as the BCC model to derive a performance measure for each city government unit to obtain the relative efficiency results. Table 1 summarizes the results of the two basic models. Due to the significant differences between the results obtained by the CCR (18 efficient units) and BCC model (24 efficient units) we concluded that the variable returns-to-scale characterization (BCC type of model) is more appropriate than the constant returns-to-scale characterization (CCR) (Jardas Antić and Šegota, 2012).

Table 1: Summary results of the CCR and BCC input-oriented model

	CCR	BCC
Number of DMU which entered the analysis	41	41
Number of relatively efficient	18	24
Relatively efficient in percentage	44%	58.5%
Average relative efficiency	0,834569	0,924523
Maximum value	1	1
Minimum value	0,49787	0,502475
Number of DMUs that have relative efficiency below average	16	12

Source: Made by the authors

According to the presented scores in Table 1, the average efficiency equals to 0.924523 in the BCC input oriented model and it grades 58.5% relatively efficient units, while the lowest relative efficiency level ranges city amounts 0.502475. The same interpretation can be read for the CRR model. Because of the difference of 6 estimated relative efficient units, we concluded that our problem has variable returns-to-scale characterization. The following table gives the ranking of the 17 inefficient city governments (DMUs)

Table 2: Ranked inefficient units according to the relative efficiency considering the BCC model

Rank	DMU	Result
25	g9	1
26	g31	0,997151
27	g16	0,966788
28	g21	0,960532
29	g1	0,859597
30	g36	0,852627
31	g26	0,847959
32	g28	0,836971
33	g22	0,828066
34	g37	0,823231
35	g24	0,786363
36	g39	0,781961
37	g38	0,759159
38	g15	0,756916
39	g41	0,75678
40	g3	0,588884
41	g7	0,502475

Source: Made by the authors

The first 24 DMUs are rated as relative efficient and their efficient score equals 1, and therefore could not be ranked or compared. The efficient units are g40 g35, g2, g34, g4, g5, g6, g33, g8, g10, g11, g12, g13, g14, g32, g30, g17, g18, g19, g20, g27, g23, g25. One of the inefficient units is unit g9, whose efficiency score is 1, but according to the slack variables it is considered to be weak efficient, because one of the conditions of efficiency is that all additional variables have to be equal zero (see table 3).

Table 3: Additional (slack) variables for DMU g9

		I ₁	I ₂	I ₃	I ₄	I ₅	I ₆	I ₇	I ₈
DMU	Rank	S-(1)	S-(2)	S-(3)	S-(4)	S-(5)	S-(6)	S-(7)	S-(8)
g9	1	8	0	2	0,3333	13,333	6,6667	11,333	0

Source: Made by the author

The main value of DEA lies in fact that it gives us calculations of projections for every inefficient DMU (in our case city governments) which can be used by the management as a potential improvement for every such city government. One such table is given for the city government g31.

Table 4: Possible improvements for the city administration unit g31

DMU INPUTS	Score Data	Projection	Difference	%
g31	0,997151			
ICT infrastructure grade	21	13,5641	-7,4359	-35,41%
Investments in human potentials	3	2,153846	-0,84615	-28,21%
Security	4	3,820513	-0,17949	-4,49%
Servers	2	1,974359	-2,56E-02	-1,28%
No. of employees	18	17,94872	-5,13E-02	-0,28%
Access speed	15	9,615385	-5,38462	-35,90%
Number of computers	18	17,94872	-5,13E-02	-0,28%
Aplication coverage	7	5,025641	-1,97436	-28,21%

Source: Made by the authors

The first column in Table 4 shows input variables which were taken into analysis, the second column displays real input values for unit g31 that was assesses as relatively inefficient, while the third column displays values which this unit should achieve in order to become relatively efficient. The data in fourth column represents the difference between real and projected values that are shown in the previous two columns, while the same difference is shown in percentage in the last column.

Taking into consideration DMU g31 and projections calculated with the help of DEA-Solver Pro5.0 software package, it can be noted that this unit could achieve efficiency without decreasing its number of employees, number of computers, and the number of

servers, whereas the coverage with specialized applications should be decreased by 2 programs (28.21% in percentage) and investment in human resources should decrease for 28.21%. It is evident that unit g31 must do minor efforts to achieve efficiency frontier.

The question is how to compare relatively efficient units of city governments. For ranking 24 relative efficient units, we have used the AHP and the super-efficiency DEA model to see how many the results will differ. These results are given in the table to follow.

Table 5: Results of ranking relatively efficient units using AHP and DEA super-efficiency method

DEA superefficiency model			AHP ranking method		
Rank	DMU	Result	Rank	alternative	Value of total priority
1	g27	20,8	1	g25	0.090
2	g17	2,399013	2	g40	0.086
3	g40	2,245156	3	g30	0.061
4	g20	2	4	g11	0.053
5	g25	1,711621	5	g34	0.051
6	g4	1,5	6	g33	0.049
6	g10	1,5	6	g6	0.042
8	g35	1,49999	8	g8	0.042
9	g30	1,453247	9	g23	0.039
10	g6	1,294118	10	g12	0.038
11	g33	1,288823	11	g13	0.038
12	g8	1,249991	12	g19	0.037
13	g12	1,225561	13	g20	0.036
14	g13	1,206122	14	g4	0.035
15	g18	1,173333	15	g18	0.035
16	g34	1,064516	16	g29	0.035
17	g29	1,037815	17	g17	0.033
18	g11	1,007692	18	g27	0.033
19	g14	1	19	g35	0.032
19	g19	1	20	g5	0.029
19	g32	1	21	g14	0.029
19	g2	1	22	g10	0.028
19	g23	1	23	g32	0.026
19	g5	1	24	g2	0.023

Source: Made by the authors

If we compare the AHP and the DEA super-efficiency results, we can see, that in both analyses the city governments g25 and g40 are ranked among the top five. This was to

be expected as they are the two city administrations of the two biggest cities in Croatia. It is also very significant that 4 DMUs g5, g2, g32 and g14 have not improved their performance using the super-efficiency and are ranked among the last six in both. Such a bad efficiency score can be explained by the management which has no ear for the importance of implementing and investing in new technologies.

We can conclude that the differences in the analyses occurred because of subjectivity of the AHP method, but despite this they are very similar and proving that selected inputs and outputs are properly selected. It is also important to note that the sensitivity analysis showed that the AHP results are robust and coefficient of consistency is less than 0.1. Namely the AHP sensitivity analysis of 41 city government showed that, except in extreme situations such as those where the selected criteria weights are significantly modified, the order will not distort the resulting alternative to the given goal. Only in cases when the weights of one of the five main criteria significantly modified, cause a change in the order of city governments ranking. At the end, it should be pointed out that every relative efficient unit taken into the superefficient analysis also has possibilities of potential improvements in the form of projections. Projections have a very practical purpose and can be used for improving performance during the decision making process of the city administration management.

4. CONCLUSION

DEA has been proven as a valid performance evaluation method in cases when considered homogenous decision making units have multiple inputs and outputs and when they work in similar conditions. The value of this paper is in providing the identification of best performers within the peer group and enabling managers to establish position through benchmarking and to improve governance with the help of projections. Contribution is also given by combining two methods, as an upgrade of the basic BCC method, which gives possibilities to distinguish relative efficient units between themselves. It is also important that both methods enable us to incorporate a lot of qualitative factors and data that are given in different measurement units within analyses. The analyses have also proven that efficient units have reached similar ranking in both upgrade methods. This can also be an argument in favor of the properly selected inputs and outputs in the basic analysis.

The degree of the development of e-Government in city administration in Croatia is variegated. There is a great disparity between the 10 largest cities and others. Cities are often just in the phase of digitalization of business processes and there is no catalog information, clear debts and responsibilities in processing them. Moreover, information security is either neglected or poorly implemented that it actually causes negative effects and increases the risk of abuse. The state also lags behind in developing a regulatory framework ensuring the development and operation of e-Government. Laws are rapidly passed due to the harmonization with the EU legislative framework; however, these same laws are often mutually incompatible. When compared to the development of e-Government in the most developed countries, the Republic of Croatia is only in the initial stage of development decades away from the best practices in the EU.

Further researches should focus on improving the analysis by using categorical variables (Šegota, 2008) or by involving dynamic components into the analysis through window analysis which would allow forming a trend of the relative efficiency of e-Business for each city government. Furthermore, there is a possibility for theoretical improvement because. It is possible to try combining the DEA and the analytical hierarchy process in a way to determine the local criteria and alternative weights in the analytical hierarchy process with the help of professionals, and then to generate global weights for each criterion, which would be used as an input or output in DEA in order to set weight constraints.

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LOBBYING IN THE EU: THE CROATIAN SUGAR INDUSTRY CASE

ABSTRACT

Lobbying is a vital and permanent process of every open society and is recognized in every modern country with open market economy. Therefore it is only natural that lobbying has great significance in Bruxelles. According to some estimations the number of professional lobbyists has long passed 10,000. They represent the interest of big business and industries. Some industries are more prone to lobbying than other. Sugar industry has particular strong lobbyist, not only in EU but also in USA.

Sugar industry in EU is regulated under Common Agricultural Policy (CAP) since its beginnings under Single Common market organisation. Croatia as a future member country needs to adapt itself to the EU rules and has done so since beginning of negotiations with EU, where lobbying had great importance, not only in sugar sector but in general. Specifically lobbying for before mentioned sector began in Bruxelles began in 2005. Croatian sugar firms, because of the reform of EU sugar industry, under Stabilisation and Association Agreement faced quota for exporting to EU and the case study in this paper will present results of lobbying activity of firms in Croatia sugar industry.

Key words: EU, lobbying, Croatian sugar industry

JEL classification: L5, O13

1. INTRODUCTION – SUGAR INDUSTRY SECTOR IN EU

Sugar sector is one of the particularly sensitive area of the Common Agricultural Policy of EU. Created in 1967, the European sugar regime has had various phases. At the beginning of the sixties, Common market organization for sugar was created by professionals from the sugar industry and Commission.

The created system was attacked in 1975 because of the high prices that led to increased production and rising export costs. Professionals have tried to preserve the

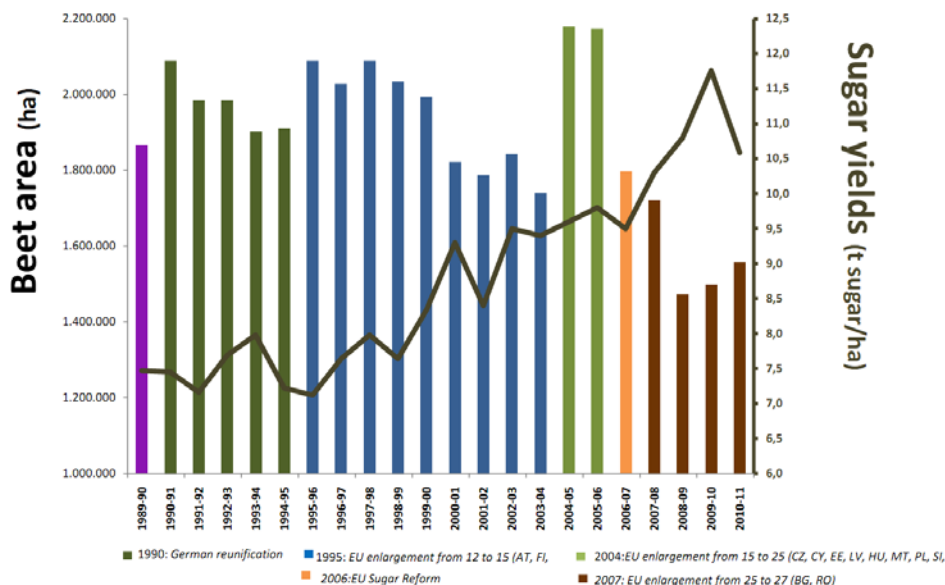
system with defensive lobbying, that is, by defending already earned privileges and trying to stop any change in Commission politics regarding sugar sector. In the period between 1980 and 1995 they predicted the necessary reforms in the sector in order to keep the sector in balance. It was agreed to encourage export and to lower the prices. It could be argued that this was return to proactive strategy used in the beginning of organized sugar sector in EU.

The period from 1996 to 2005 was marked by repeating of the history. Manufacturers were making extra profits and refused any concessions and despite the growing opposition sector has adopted a defensive strategy. The result was the dissolution of the sugar regime and the fall in prices of 36% (European Commission, 2005).

Subsidies and guaranteed prices on the supranational level in sugar industry led to huge surpluses, but regardless of overproduction and an oversupply relative to demand, high prices dominated the market. Joined efforts and mutual interests of CAP and WTO, that designed and undertook reforms, forced producers to change their production policy and helped in stabilization of the market.

The main goal of the reform was to reduce the production of sugar in the EU from 21 million tons to 13.5 million tons. The key part of the reform was lowering guaranteed sugar price by 36% (from 631.9 to EUR 404.4 euros per tonne) within 2009 and 2010; and also to create incentives to nonefficient producers to leave the market.

Chart 1: Evolution of the number of beet sugar factories and industry employment in the EU



Source: CEFS Statistics, 2011

Table 1: Reform envisaged prices of sugar from 2006 to 2010

		2006/07	2007/08	2008/09	2009/10	From 2010/11 onward
Referent price for final consumers	(EUR/t)	631.90	631.90	541.50	404.40	404.40
Cumulative price lowering for consumers	%	0%	0%	14.3%	36%	36%
Cumulative price lowering for producers	(EUR/t)	20%	27.5%	35%	36%	36%
Guaranteed minimal price of sugar beet	(EUR/t)	32.86	29.78	27.83	26.29	26.29

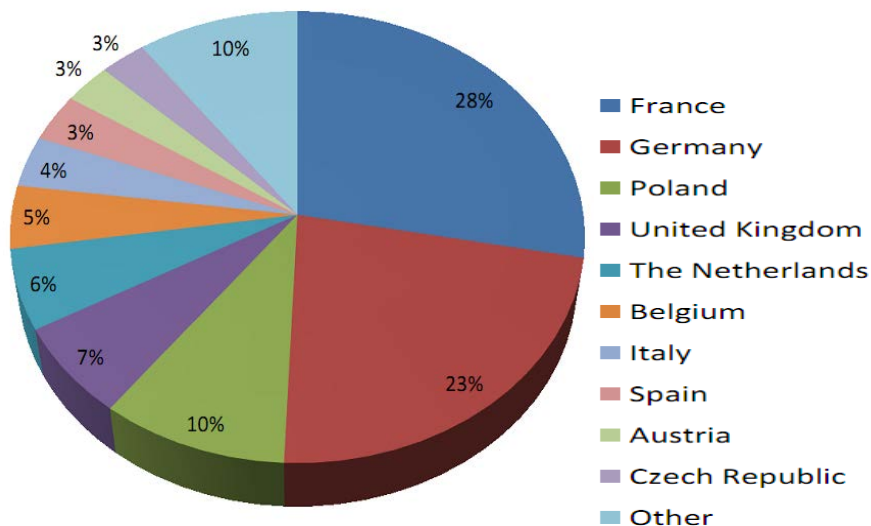
Source: The European sugar sector – A long term competitive future, 2006

During the Reform, the European Union with fees encouraged Member states to leave the sugar sector in order to reduce production, with the final goal of eliminating nonefficient producers (Table 1). That ultimately reduced sugar production in the EU – supply adjusted (decreased) to demand and a large number of EU producers ceased production because of it (Chart 1). Production quotas have been reduced by 5.8 million tons, which was very close to the target of 6 million tons. In the period after the reforms the EU produced 13.5 million tons of sugar, and consumption was around 16.5 million tons.

The Reform has led to a decline in the price of sugar, but not within predicted frames (the price has managed to maintain a higher level than anticipated which was positive for producers). Price on the world market in 2011 was about 550 euros per tonne (OECD, 2011).

In the period before the Reform the sugar was produced in all Member States of EU (excluding Cyprus, Estonia, Luxembourg and Malta). Following the reforms, five member countries fully ceased production (Bulgaria, Ireland, Latvia, Portugal, Slovenia) and now production exists in 18 EU-27. France, Germany, Poland and the UK are the largest producers and accounted for half of the sugar production in the EU, followed by the Netherlands, Belgium and Italy (Chart 2).

Chart 2: EU sugar production per country



Source: CEFS Statistics, 2011

2. POSITION OF CROATIA SUGAR INDUSTRY

For Croatian producers and exporters of sugar to the EU, the Reform meant a major milestone because under Stabilisation and Association Agreement (SAA), the Croatia producers were allowed unlimited duty free export of sugar to the EU, with condition that the sugar was produced from sugar beets grown in Croatia. The Reform changed that condition. The intention of the EU was to introduce quotas at the level of the average "representative historical period", which meant that the Commission has not adopted quotas based on the best export year, but the average exports in particular (three-year) period. In the process of deciding on the allocation of export quotas great influence had those countries that were the largest sugar producers (France, Germany, Poland, Great Britain, Belgium and Italy). Their interest was to limit supply of sugar and to limit imports to the EU in order to maintain satisfactory market price that would guarantee profitability for their producers. That politics was grounded in fact that from the last couple of years of the first decade of 21st century the world supply of sugar is at a steady decline, mainly due to adverse weather conditions, while at the same time the global consumption is increasing.

However, for the understanding of the current state (2011) in the Croatia sugar industry, it is necessary to look back to the period since from 1991 to 2002. This period captures a number of unfavorable factors that are reflected in the subsequent development of Croatian sugar industry. Due to the War of Independence, extremely high interest rates, (forced) disintegration of large conglomerates and undefined land policy, sugar yield fell from 8 tons per hectare in 1990 to 4.3 tons per hectare in 2002.

Sugar industry is highly capital intensive, that means that is necessary continual and substantial investment in production, which was prevented because of the before mentioned situation in the country (not only War but also: unsuccessful privatization processes, weak tracking of the global trends in the sector - minimal or no investment in manufacturing processes; technological capacity).

In general, the poor financial condition of sugar factories has led to their unpreparedness and impossibility for optimal reaction to the effects of Croatia's signing SAA with the EU. They were unprepared and uncompetitive for the demanding EU market. Here is necessary to note a illogical assumption that Commission has made in determining export quotas - the calculation was based on an average Croatian sugar production capacity in the period before 2005. At that time, the planned quotas in Brussels for Croatia was reduced to only 80.000 tons, which could yield drastic consequences for Croatia's sugar industry and would destroy sugar factory. That was much lower level of possible production capacity in comparison to the one after 2005, which is characteristic for intensive investment in factories. The factories indebted (mainly from foreign financial institutions) and provided very substantial investments in existing capacity and significantly improve (in the technological and procedural sense) industrial production and the cultivation of sugar beets (Franić i Kumrić, 2006).

Unfortunately, each of the three sugar producers (Viro Inc., Sladorana Inc., Kandit Prime Inc.) worked independently and without joint concept development (that was illogical due to the fact that their production is insignificant in respect to the EU producers). Great advantage over others recorded Viro group, that managed to follow global trends in production and business operations while investing in modern equipment. They adopted international quality standards (at the level of German and French manufacturers) and EU environmental standards, which are necessary prerequisites for joining the EU market.

3. LOBBYING OF CROATIA SUGAR INDUSTRY

Shortly after the announcement of the reform of the sugar sector in 2005, a joint initiative of Croatian sugar producers was launched in the struggle for the realization of large duty-free export quotas for exports to the EU market. In addition to agreement between all three sugar producers, they also jointly used a lobbying company in Brussels (Fleishman-Hillard), which has provided timely and useful information and contacts. The transition period from 2005 to 2006 is recorded as a successful case of lobbying for the interest of Croatian agriculture at the EU institutions.

During the negotiations with the European bureaucracy, about the designation and the introduction of export quotas to the EU market, a key factor of success was an effective internal and external communication: external - in order to achieve optimal communication between European institutions and members of the negotiating team through conferences, meetings, information and involvement of stakeholders through the media, and internal - cooperation with management. So, during the whole process of negotiations with the European Commission, the national team, which consisted of a lobbying and consulting firm, association of Croatian exporters and representatives of

the government (Ministry of Agriculture), held consultations with the management of three sugar refineries.

The goals and expectations of the Croatian negotiators were to achieve quota of 240,000 tons annually. Although highly anticipated quota is not approved, with solid and well-argued positions, the negotiators were able to carve out a quota of 180,000 tonnes for the Croatian sugar industry (quota is calculated based on the average of the largest sugar exports in recent years – that, by the experts analysis keeps alive industry, but it doesn't allow much further development and limits investment possibilities) and more importantly, the abolition of quota "C" (the imports of subsidized sugar in Croatia).

One should take into account the fact that the quota for Croatia in the early stages of negotiations was decided by the Commission at only 80,000 tons, so the ultimate compromise and agreement was considered success.

It is worth noting that the first stage of preparation (collecting documents, analysis of the situation and lobbying) began in May 2005 and the deal was reached in early March 2006, therefore, even a year and a half before the debate in the Croatian Parliament on changes to the protocol SAA and the introduction of quotas. For sure, if the lobbying began just before parliamentary debate in December 2006 would be too late.

The case of Croatian producers and exporters of sugar is a classic example of how the Brussels works. There, the lobbyists have become an arm of managers from various industrial sectors in Member states. For large companies, lobbying is an investment that returns very quickly and multiple; and has direct influence on the regulations that explicitly determine the operating conditions of companies. It is necessary to mention that the lobbyists services are extremely expensive (on average from 50 to 200 thousand euros per month).

The amount of money which the Croatian sugar producers paid to Fleishman-Hillard for lobbying services is not available (confidential). It can be assumed, but it is not possible to accurately determine the cost effectiveness of investment. However, what is apparent by monitoring financial performance since the implementation of Reform and the determination of duty-free export quotas, there are positive developments in the business. In addition to creating value added, benefits of opening the EU market were reflected in the context of the entire business - restructuring facilities (modernization and expansion in order to meet international standards of quality and retention of export certificates for the EU market), the timely introduction and adaptation of business conditions in the European market (legislation, policies, agricultural, trade, competition - guided thesis according to which the adjustment costs "today" are much smaller than "tomorrow") and job creation (Table 2).

Table 2: Estimation of lobbying services cost for Croatia sugar companies

Time period		Monthly expenses for lobbying (estimation)
2005	June	150.000 EUR
	July	150.000 EUR
	August	150.000 EUR
	September	150.000 EUR
	October	150.000 EUR
	November	150.000 EUR
	December	150.000 EUR
2006	January	150.000 EUR
	February	150.000 EUR
	March	150.000 EUR
Total cost(estimation in EUR)		1.500.000 EUR
Total lobbying costs (cca.1EUR=7.45HRK; estimation)		11.175.000HRK
Lobbying costs for one sugar company (estimation)		3.725.000 HRK
Lobbying costs for Viro Group (Estimation)		7.450.000 HRK

Source: Estimation of authors

Sales price of sugar which Croatian manufacturers can achieve when exporting to the EU market is around 15% higher than in Croatia. Since it is only possible to export sugar produced from sugar beet and that the export is capped at 180.000 tonnes (60 tons per sugar refinery), all three sugar companies export almost whole sugar production (mainly to Italy and Germany). Only a small portion remains for the domestic market, while demand in the rest of the country is covered by processing raw sugar from the imported sugar cane.

4. EFFECTS OF LOBBYING FOR THE SUGAR SECTOR IN CROATIA

Reform of the EU sugar ended with the October 2009, with the result that the production quota was reduced to 13.3 million tons. With the approximate consumption of about 16.5 million tonnes, the EU market recorded a deficit of around 3.2 million tons and thus the EU became an importer of sugar (raw sugar is imported mainly from underdeveloped countries in Africa, the Caribbean and the Pacific; DFID, 2012). Herein lies the opportunity and interest for Croatian sugar industry that emphasizes maximum development capacity, since it provides exceptional opportunities and possibilities for development on the EU market. In support of the above is the surrounding deficit markets (Italy, Hungary, Romania, Slovenia and Bulgaria recorded nearly 1.5 million tons shortage of supply), enhanced by proximity to sea ports, because the water-transport significantly reduces the cost of logistics chain.

Analysis of the overall business of sugar companies, is based mainly on the consolidated financial statements VIRO group that consists of two leading joint sugar companies (Viro Inc. which is parent company and Sladorana Inc. which is subsidiary). These two sugar refineries from 2010 (after the merger in 2009 and through the 2010, by which time the company Viro acquired shares of 59 percent of the total equity of the subsidiary Sladorana Inc.) are issuing consolidated financial statements. The main activity of both companies is the production of sugar, while Sladorana Inc. is also engaged in the production of alcohol.

Table 3 contains major financial indicators for Viro Group from 2007 to 2011, from which is obvious to see the processes in the Group, from investment in business in 2008 and 2009 (see indicators like return on equity and operative margins) but also the improvement of indicators as a result of investment and stabilisation in business surrounding in 2010 and 2011.

Table 3: Key financial indicators of profitability of Viro Inc.

INDICATOR	2006.	2007.	2008.	2009	2010	2011	INDEX 2011/10
1	2	3	4	5	6	7	7 (6/5)
TOTAL REVENUE	639.400.477	746.132.181	819.326.478	579.361.213	728.854.540	877.302.430	120
OPERATIVE REVENUE	626.755.417	730.863.980	787.922.928	534.898.227	717.047.754	872.654.570	122
EBITDA	119.238.885	111.158.227	32.374.014	61.597.053	78.676.230	170.570.490	217
EBIT	109.137.158	95.289.987	12.331.782	35.220.540	48.945.237	136.258.115	278
EBT	101.814.759	91.520.718	2.352.083	3.502.326	39.139.687	122.560.221	313
INCOME TAX	0	0	0	0	0		0
NET EARNINGS	101.814.759	91.520.718	2.352.083	3.502.326	39.139.687	122.560.221	313
EBITDA MARGIN	19,02%	15,21%	4,11%	11,58%	10,97%	19,55%	178
GROSS OPERATIVE MARGIN	17,25%	13,04%	1,57%	6,58%	6,83%	15,61%	229
NET OPERATIVE MARGIN	15,92%	12,27%	0,29%	0,60%	5,37%	13,97%	260
ROA	15,94%	9,73%	0,19%	0,35%	4,03%	11,93	296
ROE	25,12%	18,67%	0,57%	0,76%	8,04%	23,02%	286

Source: according to financial statements of Viro Inc. (from 2007 to 2011)

4.1. Effects on business planning

Negotiations and successful lobbying at the European Commission in determining the duty-free export quotas to EU countries directly affect the determination of production quotas, are therefore a key factor in the survival of Croatian sugar and with them closely related farms (sugar beet growers). Sugar mills aim is to ensure sustainable production of sugar beets, which will enable the production of quality sugar at a competitive price. Depending upon the export opportunity, strategic corporate development goals and long-term plans for product placement on potential markets (more than 90 percent of sugar extracted from sugar beet is placed on the demanding market of EU-27) are set.

Allowed duty-free quota of 180.000 tons of potential annual sugar exports to the EU temporary guarantees survival for Croatian producers of sugar but it limits their option for investment.

Due to higher export quotas and contact with strategic partners, access to retailers in EU is eased, which ensures the independence of the sugar mills from the domestic market. In this way, as exporters, sugar companies are not dependent on a relatively small market like Croatian, that is characterised by insolvency, illiquidity, saturation, and the impact of a number of other market factors that are in very short term projected to all participants in the domestic market making it very susceptible to exogenous shocks..

Positive impact on the domestic sugar industry is that it encourages manufacturers to export to EU market, but also causes need for continuous monitoring of trends in the EU sugar industry. Given the relatively small production which Croatian companies have, it is important to keep up with competitors (availability of new technologies, market information, legislation, political and economic climate, the EU requirements regarding the timely adjustment of the sugar industry to the final date of Croatian accession to the EU, affordable sources of funding, incentive measures, etc.), which is achieved through a partnership relationship with the manufacturers, their umbrella organizations and consulting firms in the EU. Active participation and continuous monitoring of trends within the industry, as well as developments in the open market (continuous training and information), reducing the gap in the way of doing business and reducing the likelihood that the companies will experience shock when Croatia becomes EU member (problem of under-educated professionals, lack of language skills, technological unpreparedness, lack of knowledge of the processes of EU).

Sugar producer is still in the phase of adaptation to new business conditions that brought the Reform of the sugar industry in the EU (drop in price of sugar from sugar beet, beet planted area reduction and the closing of factories), as well as aggravating circumstances that caused the global economic crisis ("domino effect" of insolvency, and then insolvency among companies, lack of credit facilities for the initiation and maintenance of production, investment in new technologies, etc.).

The final analysis leads to the conclusion that the efforts undertaken and the financial expenses on lobbying in order to increase duty-free export quota for the EU market are

justified. Regardless of the aggravating circumstances presented, the fall in prices of sugar and imposed operating conditions where it was necessary to meet (which required relatively large, ongoing investments in upgrading equipment to increase production efficiency and product quality to meet international quality standards and maintain export certificates and production capacity to reach the break even point), the EU market has an advantage because it shows stability in all commercial elements which means less risks for doing business.

It should be noted that in the coming period, that will be marked by restructuring of the European sugar industry, the Croatia sugar industry should/must monitor the must monitor all developments and trends that are appearing on the market in a timely manner and make any necessary adjustments in order to achieve competitiveness (in terms of meeting the standards of final product) compared to other European producers and to be able to meet the Croatian accession to the EU (which will mean leaving the CEFTA and the loss of the market of 25 million potential consumers).

4.2. Total effect on business of company

The ultimate goal of sugar producers is reached. Result of lobbying (duty-free quota of 180.000 tons, which ensures the survival of the sugar industry) reflected the positive trend in business. Orientation of doing business in the EU market helps when observing a complete picture of business as seen through increased business agility, a better understanding of the EU process and the opportunities it provides timely information about the work of the institutions, umbrella organizations and competitors (opening and timely adjustment to the conditions on the EU market reduces the risk of decline in exports, which is expected after exiting the CEFTA).

Increase in revenue as a result of higher selling prices (10-15%) in the EU market is also noted, but as well as the cost increase because of the increased production.

Substantial effect is seen in harmonized production processes in order to satisfy international standards of quality and environmental standards; investments in modernizing the plants to increase production capacity, in order to maximize profit, while at the same time reducing the cost per unit of product - higher quality and greater production capacity reduced costs and increase competitiveness.

Secured quota and by that, secured future production help create new jobs, raised environmental awareness, increased financial donations to the community (social responsibility). The idea of sustainable development is becoming accepted and implemented as a basic guideline development strategy,

Also important effects to point out is the possibility of permanent monitoring of EU legislation in the area of interest (production, export duty-free quotas, incentives for beet growers, co-investments) and the positive effects of participation in the work of professional and advocacy organizations and meetings with officials from the European institutions, through which it is possible to anticipate future trends in agricultural sector.

5. CONCLUSION

Sugar sector in EU is one of the most protected sector and in the order of keeping Croatia sugar industry alive, lobbying proved to be a necessity. Because of the possibility of influencing on operating conditions while at the same time increasing education and information of Croatian businessmen, lobbying becomes an essential component of strengthening export strategy.

Examples from Croatian sugar producers shows the positive effects of successfully lobbying process. With compromise agreement, acceptable decision was reached for duty-free export quota of 180.000 tons, which ensured the survival of the sugar industry. The significant advantage of the EU market for Croatian firms is the fact that they can achieve 10 to 15% higher selling prices of sugar than in the domestic market; a direct result of higher selling prices is reflected in the growth of sales revenue. Better terms of sales and payment to EU reduce business risk factor, and the ability to monitor the current European legislation in the area of interest (production levels, duty-free quotas, tariffs) also had a positive impact on the business planning. Strategic monitoring of individual chapters, and staff training on business conditions (language skills, international connections, the work of institutions, legislation, culture and written and unwritten rules of business) are key factors to enter the EU market or for inclusion in a future international projects. Timely information opens the possibility of proactive action on key future directions for the development of existing or starting new economic activities and involves the transition from the defensive phase of proactive action by all key EU institutions and how they shape business environment.

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SESSION VII

LA THÉORIE ET LA PRATIQUE DE L'INTÉGRATION ÉCONOMIQUE

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L'IMPACT DE L'AIDE FINANCIÈRE DE L'UE SUR LE DÉVELOPPEMENT RURAL DE LA CROATIE

RESUME

La durabilité et l'approche du degré de développement des zones rurales et urbaines sont devenues une priorité absolue pour l'UE, où les zones rurales couvrent 91% du territoire et occupent 51% de la population. En Croatie, les régions rurales couvrent environ 86,7% du territoire et 42% de la population. La principale caractéristique des zones rurales de l'UE est un faible niveau d'éducation et l'emploi des femmes, et le secteur des services sous-développé. Les zones rurales sont les sites de Croatie chômage élevé et les niveaux de revenu des agriculteurs en dessous de la moyenne nationale.

Etats membres de l'UE sont axés sur la garantie d'un niveau stable de revenus pour les agriculteurs et leurs expériences et de méthodes doivent être appliquées dans les zones rurales de la Croatie. En Croatie, il est nécessaire d'assurer et d'accélérer la croissance et le développement des zones rurales en utilisant des programmes de préadhésion et autres formes d'assistance. Cette orientation se traduira par la convergence avec d'autres régions industrialisées.

Mots clef : l'aide financière, l'UE, le développement rural, la convergence en Croatie

JEL classification :

1. INTRODUCTION

L'objectif fondamental de la recherche menée dans cet article est d'analyser tous les aspects de l'aide financière de l'élaboration du croate. Un accent particulier devrait être mis sur le développement des zones rurales, comme un facteur crucial dans l'intégration de la Croatie dans l'UE.

Les moyens des programmes de préadhésion, et devrait servir de catalyseur pour encourager les réformes dans les pays de l'élargissement et de soutenir le pays sur la voie de l'intégration européenne. Aides de l'UE aura un impact direct sur la vie quotidienne des citoyens en contribuant à l'amélioration de l'état de droit, la gouvernance, les conditions sociales et les perspectives économiques dans un contexte de crise économique massive qui a touché toutes les régions d'Europe.

2. POLITIQUE EUROPEEN DU DEVELOPPEMENT RURALE

Les zones rurales représentent 92% du territoire de l'Union, et ils sont au nombre d'environ 52% de la population, d'où l'importance du développement rural dans l'UE. L'importance du développement rural dans les États membres varie, mais la plupart du temps, ils forment la plus grande partie du territoire, sauf en Belgique, aux Pays-Bas et Malte, où la population majoritaire est urbaine. Les zones rurales dominent les nouveaux États membres, l'Irlande et l'Autriche, et en partie dans les pays scandinaves. Caractéristiques des zones rurales ont une plus petite part des gens instruits, la baisse des revenus par habitant que la moyenne, les services les moins développés et la baisse des taux d'activité des femmes. Milieu rural nécessitent des défis particuliers en termes de croissance économique, l'emploi et la durabilité de l'Union espace.

Les principes de base de la politique de l'UE en milieu rural sont les suivants:

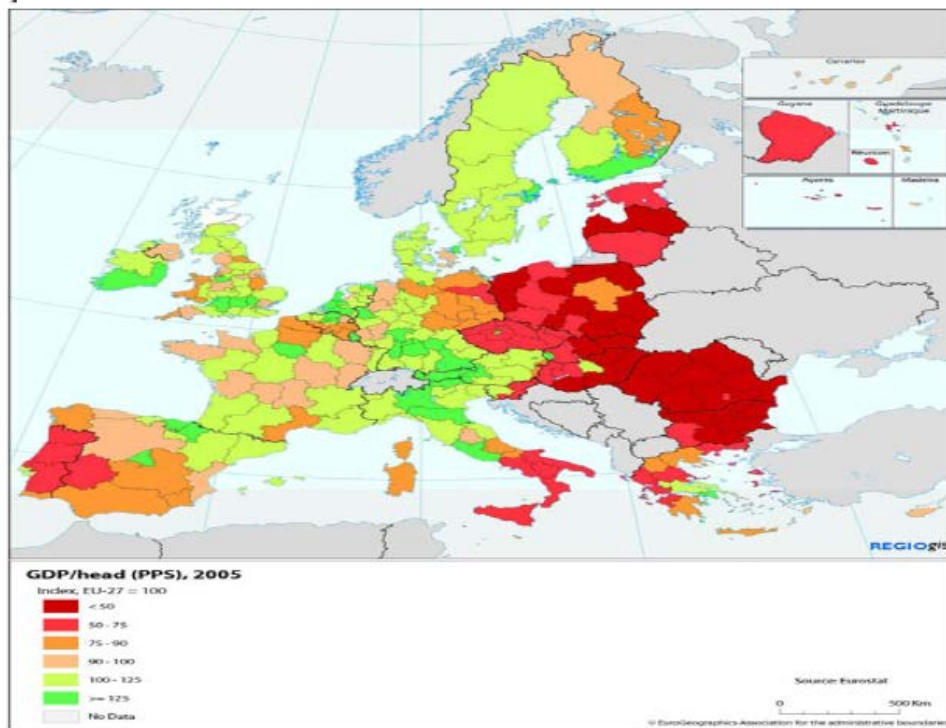
- La subsidiarité et le partenariat - est atteint grâce à la décentralisation des modalités de programmation et de consultations aux niveaux régional et local;
- La multifonctionnalité, qui récompense les agriculteurs pour un certain nombre de services offerts tout en comblant les attentes des consommateurs et la société en général, y compris la préservation du patrimoine rural.
- Une approche multi-sectorielle, qui vise à développer l'économie rurale en créant de nouvelles sources de revenus et d'emplois;
- L'efficacité et la flexibilité, qui sera atteint à travers la mise en œuvre de programmes intégrés stratégiques, qui sont basés sur une série de mesures pour répondre aux besoins des différents États membres.

Les objectifs de la politique de développement rural en tenant compte de la spécificité de l'agriculture, qui découle de sa structure économique et les différences structurelles et naturelles entre les différentes zones rurales de l'Union. L'objectif principal de la politique de développement rural est de développer un cadre cohérent et durable et responsable pour préserver l'avenir des zones rurales. Les pays sont responsables de fournir une assistance technique aux agriculteurs à devenir plus conscients de leurs options et les défis futurs à relever.

Les domaines cibles de développement rural sont l'amélioration de la compétitivité de l'agriculture et de la sylviculture, de l'environnement et du paysage, d'améliorer la qualité de vie et la diversification de l'économie dans les zones rurales. L'Union européenne se caractérise par de fortes disparités régionales mesurées par le taux de croissance, le développement et le PIB.

Figure 1 montre les différences dans le PIB sur la base de l'UE

Figure 1 : Les différences dans le PIB sur la base de l'UE



Source : <http://rural-europa.aeidl.be>

L'Union européenne dans son ensemble, y compris les pays de la région, a été touchée par une crise économique importante. L'estimation officielle de la croissance du PIB au niveau européen de l'année précédente était de 1,5%. Des données récentes montrent une croissance nulle en 2011. C'est à dire PIB en termes réels a été de 0,04% par rapport en 2010.

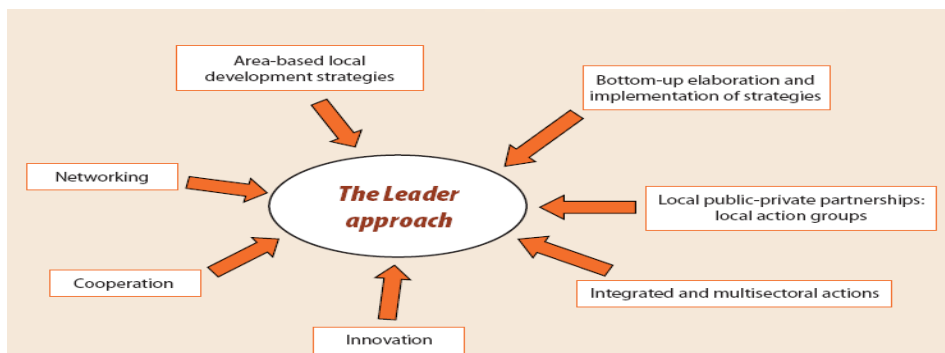
Le PIB le plus élevé en Europe (mesuré en Parité de Pouvoir d'Achat) dispose Luxembourg d'un PIB 2,5 fois plus élevé que la moyenne de l'UE 27. Deuxième position a été prise par les Pays-Bas, avec un PIB par habitant qui a dépassé la moyenne européenne de plus de 30%. Suivie par l'Irlande, l'Autriche et le Danemark, avec plus élevée que la moyenne de l'UE dans la gamme de 20 à 30% du PIB. Dans le groupe des pays ayant un PIB qui dépasse la moyenne européenne de l'ordre de 10 à 20% sont la Suède, l'Allemagne, la Belgique, la Finlande et le Royaume-Uni. Avec un PIB inférieur à la moyenne dans la plage de 10 à 30% sont la Slovénie (88% de la moyenne européenne), République tchèque (82%), au Portugal (80%), à Malte (79%) et en Slovaquie (73%). Parmi les membres de l'UE, le plus bas niveau du PIB a la Bulgarie, qui est de 41% de la moyenne européenne.

3. LEADER PROGRAM

En lançant l'initiative LEADER en 1991, ça été tirée par la participation active des communautés rurales locales dans le développement de l'économie locale. L'expérience de LEADER I et II ont montré la pertinence des stratégies de développement territorial pour atteindre l'objectif la restauration des zones rurales vitalité, stimule les activités de création et d'entretien et d'accroître l'attractivité. Programme LEADER + a été initialement financé par le Département d'orientation du FEOGA, et ses objectifs sont de promouvoir la mise en œuvre d'un programme élargi de haute qualité stratégies intégrées de développement durable des zones rurales. LEADER + est également un outil pour aider à la cohésion économique et sociale. Le programme est applicable à toutes les zones rurales de l'Union, et les avantages de ce programme sont liés à un thème spécifique de développement d'intérêt local et européen, comme l'utilisation des technologies de l'information dans le pays, l'emploi des femmes et des jeunes. Les stratégies de développement doivent faire la preuve de la signification et de la connexion à la zone à laquelle il se rapporte, la durabilité économique et environnementale, la transférabilité des méthodes, mise au point et la spécificité et l'originalité.

Les caractéristiques de performance spécifiées par programme LEADER montre Figure 2.

Figure 2: Les caractéristiques de performance spécifiées par programme LEADER



4. PROGRAMMES EUROPEENS POUR L'ADHESION

Parmi les plus importantes programmes de préadhésion étaient ISPA, PHARE, SAPARD. Ces programmes étaient remplacés en 2007 par l'IPA.

Le programme Phare a été lancé en 1989. Le règlement du Conseil (CEE) no. 3906./89 comme un programme pour aider la Pologne et la Hongrie, puis pour d'autres pays en transition d'Europe centrale et orientale, afin de promouvoir la démocratie multipartite et l'économie après la sortie du système communiste. Le programme Phare est de 1997. a été complètement concentré sur les priorités de pré-adhésion et est devenu le

principal instrument financier et technique pour la stratégie de pré-adhésion pour les pays candidats.

L'objectif principal du programme PHARE est de préparer les pays candidats à l'adhésion à l'UE, qui leur permettent de faire la pleine application de l'acquis communautaire et de l'utilisation des fonds structurels et de cohésion après l'adhésion.

Un accent particulier a été mis sur deux segments:

1. Etablissement de l'institution, qui fournit 30% des programmes PHARE pour chaque pays.
2. Projets institutionnels qui ont fourni 70% des programmes PHARE pour chaque pays.

Programme IPA fonctionnant sous la directive du Conseil br.1267/1999. et sa valeur financière pour la période de sept ans (du 2000 au 2006) ont totalisé 1,04 trillions. La tâche principale de ce programme est d'aider les pays candidats à se préparer à l'adhésion, et est destiné à financer des projets d'infrastructure dans les domaines des transports et de l'environnement.

Les principaux objectifs:

1. Acquérir de l'expérience et des connaissances des politiques de l'UE et des processus complexes à l'aide programmes d'adhésion.
2. Aider à atteindre les normes européennes en matière de protection de l'environnement.
3. Connexion avec les réseaux transeuropéens de transport.

Le programme SAPARD a été lancé en 1999. Le règlement du Conseil (CE) n° 1268/1999 comme un programme de soutien au développement rural et l'agriculture, et à préparer les pays candidats à l'usage des fonds agricoles et de la pêche après avoir obtenu le statut d'un État membre de l'Union européenne. Cela dit SAPARD est orientée vers la formation juridique, institutionnelle et administrative. SAPARD diffère d'autres programmes, c'est que les promoteurs de projets SAPARD peuvent être par le secteur privé. SAPARD débourse les fonds à des clients solvables, en mettant l'accent sur des projets axés sur des domaines: l'adaptation des structures agricoles, des aliments, de qualité, entrée sur le marché et le développement des zones rurales. La gestion du programme SAPARD est du système de contrôle ex-post décentralisée où la responsabilité de la gestion financière des fonds transférés aux autorités nationales, tandis que la Commission européenne prévoit les procédures de contrôle de soumission et d'adjudication, et des retours financiers pour l'utilisateur final, si la procédure est correctement exécutée. L'Union européenne peut financer jusqu'à 75% de la valeur totale du projet. Le financement des projets d'investissement qui apporteront certain bénéfice de 50% des fonds sont financés par des subventions publiques, dont la part de l'Union européenne pour financer 75% et les 25% restants sont financés par le budget national.

Ces programmes ont été mis en œuvre dans la République de Croatie.

Figure 3 Illustre l'application de du programme de la préadhésion quelques Croatie.

Figure 3 : Application du programme de préadhésion par la Croatie

Programmes in Croatia	Budget	% of budget contracted	% of budget paid [*]
CARDS	260	97%	92%
Phare	147	86%	78%
ISPA	59	96%	63%
Sapard	25	62%	48%
IPA I 2007	45	90%	57%
IPA I 2008	42	27%	20%
IPA I 2009	42	11%	11%
IPA II 2007–09	8	64%	36%
IPA III 2007–09 (of which)	143	29%	7%
– Operational programme (OP) transport	54	20%	4%
– OP environment	54	25%	2%
– OP regional competitiveness	35	48%	20%
IPA IV 2007–09 — OP human resources development	38	71%	9%
IPA V 2007–09 (IPARD) — Measures 101 and 103	51	12%	0%
Total	860	68%	55%

Note: ^{*}Excluding advance payments of 30 % for Components III, IV, V.

Source: EU delegation to Croatia

La mise en œuvre des premiers projets dans la République de Croatie financé au titre de PHARE a débuté en 2005, après avoir mis en place les institutions nécessaires à la mise en œuvre - Unité centrale de financement et contractants au ministère des Finances et de l'unité de gestion du projet au niveau des utilisateurs finaux. Croatie, sur la base de l'accréditation, a pris la gestion décentralisée du programme PHARE. La Croatie est dans le programme PHARE et en 2005 et 2006 a reçu 167 millions d'euros - 87 millions d'euros en 2005 et 80 millions d'euros pour 2006.

La Commission européenne a approuvé le financement national PHARE projet 2005 de 23 propositions pour un total de 71,5 millions de dollars en subventions pour lesquelles il est de 17,5. En 2006 l'accord a été signé sur le financement. Dans le cadre du programme Phare 2006, pour financer 19 propositions pour un montant de 61,06 millions d'euros de subvention, la convention de financement a été signée le 31 janvier 2007.

Le reste des fonds dans le cadre du PHARE 2005 (15,5 millions d'euros) et le programme PHARE 2006 (19 millions d'euros) ont été prévus pour le financement de la coopération transfrontalière entre le croate, le slovène et le hongrois (3 millions d'euros), l'Adriatique croate Radio-Canada et l'Italie, la participation dans les programmes multi-pays et horizontale, et le programme de l'énergie nucléaire et pour

TAIEX - un instrument d'assistance technique et d'échange d'informations. Des exemples de Phare 2005 présentée en Croatie comprennent: Natura 2000, l'appui aux Roms, l'établissement d'un système de gestion de la frontière, conformément à l'accord de Schengen, etc Certains de 2006 PHARE sont: pour l'application des droits de propriété intellectuelle en Croatie, bleu Système de surveillance des frontières et la mise en place du suivi et de gestion de la qualité air.

Fonds ISPA en Croatie le statut de candidat est devenu disponible pour se joindre à la somme de 60 millions d'euros pour la période 2005 à 2006 (25 millions d'euros en 2005, 35 millions d'euros en 2006). La condition de base pour l'utilisation des fonds pour développer la stratégie nationale IPA pour le transport et l'environnement qui définissent les priorités de chaque secteur, et les critères qui seront utilisés pour la sélection et l'évaluation des projets. Stratégie de l'UE doivent respecter la législation, en particulier la directive 1692/96 pour le secteur des transports et des directives relatives à la gestion des déchets, de l'eau et qualité de l'air dans le secteur de l'environnement.

Les projets ISPA sont les premiers projets de la République de Croatie, co-financé par l'Union européenne aux programmes de préadhésion. L'ISPA est la version croate programmée pour deux ans à la fois en raison de la répartition relativement faible pour les projets d'infrastructure, et l'apparition de pré-adhésion IPA que l'on ses composants, y compris les secteurs ISPA. Programmation et la préparation de projets en Croatie a commencé en 2004 et au cours de 2006 et l'un de ses premiers projets. Certains des projets ISPA en Croatie: Régional de Gestion des Déchets Bikarac (Šibenik), Programme pour l'eau et la réhabilitation des eaux usées et Sheffield ferroviaire Vinkovci-Tovarnik Etat-frontière, et des projets d'assistance technique visant ministères impliqués dans la mise en œuvre du Programme .

La Croatie est dans les programmes SAPARD 2006 où elle avait 25 millions d'euros dans le but d'améliorer le secteur agricole à travers la mise en œuvre de:

- Mesure 1 grâce à des investissements dans l'augmentation de la qualité des produits, de réduire nos coûts de production, accroître la compétitivité, la modernisation de la production, réduction de la pollution et de l'hygiène de l'environnement et atteindre les normes de l'UE.
- Mesure 2 grâce à la modernisation des usines de transformation des aliments - Produits agricoles, d'accroître la compétitivité du marché, l'amélioration de la gestion des déchets d'origine animale.
- Mesure 3 en améliorant les conditions de vie et de travail dans une zone rurale, la situation de l'exode rural et le développement des infrastructures de base pour la promotion des activités économiques et sociales.
- Mesure 4 à travers la mise à disposition d'experts, d'information et d'activités promotionnelles, des séminaires et d'autres activités liées à l'éducation.

IPA est l'instrument principal de l'aide de préadhésion aux pays candidats et candidats potentiels. Couvre la période 2007-2013 et a remplacé l'ancien ISPA, PHARE et SAPARD. IPA a été créé en 2007, par la décision du Conseil nr.1085/2006. La valeur financière de la période de sept ans s'élève à 11,468 milliards d'euros. Allocation de fonds aux pays bénéficiaires est contenue dans le cadre pluriannuel financier indicatif

adopté pour une période de trois ans. Le principal objectif de l'IPA est d'aider les pays candidats et pays candidats potentiels à l'harmonisation et la mise en œuvre de l'acquis communautaire et de se préparer à l'utilisation des fonds structurels.

IPA se compose de cinq éléments:

1. Renforcement des capacités et des institutions - l'assistance technique, de jumelage, les achats d'équipements et de travaux de construction.
2. La coopération transfrontalière coopération transfrontalière, le développement durable, la protection de l'environnement, le développement des marchés, l'amélioration de la coexistence des frontières extérieures de l'UE, le renforcement des capacités institutionnelles pour la mise en œuvre des programmes de l'UE.
3. Développement régional - projets d'infrastructure dans le domaine de la protection de l'environnement, la circulation, favoriser la compétitivité et le développement régional.
4. Développement des ressources humaines - des mesures visant à stimuler l'emploi, l'éducation, la formation et l'inclusion sociale.
5. Développement rural - IPARD - Améliorer l'efficacité du marché et la mise en œuvre des normes de l'UE, le développement de l'économie rurale et les travaux préparatoires pour la mise en œuvre des mesures agri - environnementales et les stratégies locales de développement rural.

La plupart des fonds canalisés pour aider à la transition (35%) et le renforcement des institutions et le développement régional (35%). Suivie par le développement rural (12%), le développement des ressources humaines (10%) et de la coopération transfrontalière (8%)

Grâce à ces composants soutient des projets de renforcement de la société civile, l'intégration des minorités ethniques, le dialogue et non publiques du secteur, la réforme de la fonction publique, le développement économique et le développement des réseaux de transport. Financement de projets fondés sur la coopération que la Commission européenne fournit 75% des fonds et le bénéficiaire du projet les 25%.

La République de Croatie a été bénéficiaire d'un programme IPA à partir de 2007 jusqu'à la date de son adhésion à l'UE. Afin de créer les conditions pour l'utilisation de celui-ci était nécessaire d'adopter un certain nombre de questions juridiques, stratégiques, mise en œuvre et les documents opérationnels avec des quantités définies établissent les priorités pour chaque volet de l'IAP, de définir les règles pour la mise en œuvre de l'organisation mise en œuvre de systèmes dans l'état. Règlement sont les documents les plus importants: partenariat pour l'adhésion, la Commission européenne stratégie d'expansion, le Programme national d'adhésion à l'UE, pluriannuel document indicatif de planification et le cadre stratégique pour le développement de la Croatie 2006 - 2013. La gestion et la mise en œuvre des projets IPA en Croatie compris les ministères, les organismes et les institutions publiques. Le programme est mis en œuvre selon un modèle décentralisé de gestion des fonds.

La Commission européenne a alloué pour la Croatie dans la période allant jusqu'à 2012. Le montant de 910,2 millions d'euros. Fonds d'attribution à Croatie au sein de l'IPA croître d'année en année et pour 2012 s'élèvent à 160,4 millions d'euros. Les

fonds sont destinés essentiellement à l'aide à la transition et renforcement des institutions et le développement régional.

Dans le cadre du plan pluriannuel indicatif pour la période 2011 - 2013, la Commission européenne prévoit d'investir 5,5 milliards d'euros pays bénéficiaire de la subvention IPA. La plupart des fonds destinés à la Turquie (2,58 milliards d'euros), la Serbie devrait obtenir 587 millions de dollars, montant prévu pour la Croatie de 430 millions d'euros.

Ces fonds devraient servir de catalyseur pour encourager les réformes dans les pays de l'élargissement et de soutenir le pays sur la voie de l'intégration européenne. Aide de l'UE auront également un impact direct sur la vie quotidienne des citoyens en contribuant à l'amélioration de l'état de droit, la gouvernance, les conditions sociales et les perspectives économiques dans un contexte de crise économique massive qui a touché toutes les régions d'Europe.

5. POLITIQUE AGRICOLE COMMUNE DE L'UNION EUROPÉENNE

La politique agricole commune est régie par les articles 38 à 44 du TFUE.

Les principaux objectifs de la PAC telle que définie à l'article 39 TFUE impliquent Augmentation de la productivité agricole, accroître les revenus des agriculteurs, stabiliser les marchés, les prix raisonnables et la sécurité de l'approvisionnement. Politique de développement outre une importance croissante à la durabilité de la croissance et de l'intégration des composantes du développement rural et de la réalisation de la production respectueuse de l'environnement.

Les principes de la PAC en 1958 ont été définis afin d'atteindre les objectifs du traité de Rome. La politique agricole commune a ouvert en 1962 et est basée sur trois principes fondamentaux:

- L'unicité du marché.
- Priorité des produits communautaires.
- La solidarité financière.

Quatrième principe est le principe de la parité et de la productivité, ce qui est espéré est le droit de jouir du même niveau de revenu des agriculteurs européens avec les employés dans d'autres secteurs. La productivité se réfère à la promotion de la production et réduire les coûts.

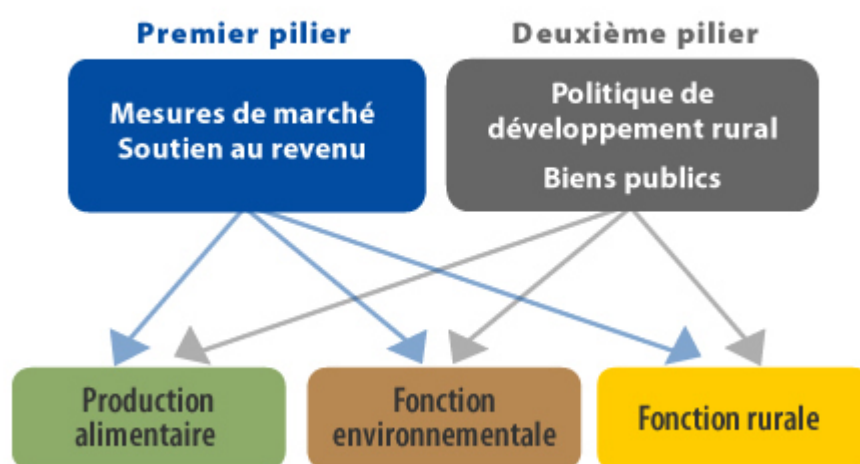
Le principe de l'unité du marché implique l'abolition des droits de douane et des subventions, et l'harmonisation des dispositions administratives, médicales et vétérinaires entre les pays membres. Les produits agricoles doivent circuler librement, sans discrimination quant à l'état d'origine est un prix unique pour l'ensemble du marché commun et, les règles de concurrence. Ce principe implique l'existence d'une politique commerciale commune. Depuis 1999, le prix commun est déterminé en Euros et avant qui ont été définis dans l'ECU.

La priorité de l'Union implique des produits agricoles de l'Union privilégiés par rapport aux produits importés (quelle que soit la hausse des prix), et la protection du marché intérieur contre les distorsions provoquées par l'importation incontrôlée de produits agricoles avec des prix bas, ainsi que des perturbations sur le marché mondial. Solidarnost financière implique PAC partage des coûts entre tous les États membres, indépendamment de leurs intérêts nationaux. Européen d'orientation et de garantie agricole a été fondé en 1962 dans le but d'assurer les dépenses de la PAC adéquate dans le budget commun. Le fonds a eu deux ministères (ministère de l'orientation et de l'Garantie) et remplacés par deux nouveaux fonds qui répondent aux mêmes objectifs depuis 2007 - le Fonds européen agricole de garantie et du Fonds européen agricole pour le développement rural.

L'unicité du marché augmenté par l'introduction de l'euro et de la réforme de la PAC en 1992. année, ce qui a permis l'accord du GATT et de la réforme de 1999 a affecté les principes de la PAC. Prix de soutien est complété par un système d'aides directes au revenu, qui comprend un système mixte qui a réduit le soutien des prix, mais reflétant les revenus des agriculteurs pratiquant le même niveau de subventions. L'abolition des nouveaux prix de soutien de la PAC dans le secteur agricole.

Figure 4 montre les piliers de la politique agricole commune

Figure 4: Les piliers de la politique agricole commune



Source: http://enrd.ec.europa.eu/policy-in-action/rural-development-policy-overview/introduction/fr/introduction_fr.cfm

Les politiques visant à marché agricole sont complétées par la politique de développement rural, qui est devenu le deuxième pilier de la PAC. Une économie performante doit être réalisée parallèlement à l'utilisation durable des ressources naturelles et une production de déchets, tout en préservant la biodiversité, la préservation des écosystèmes et en évitant la diversification. L'objectif d'une PAC est devenue aujourd'hui la réalisation du développement durable en encourageant une

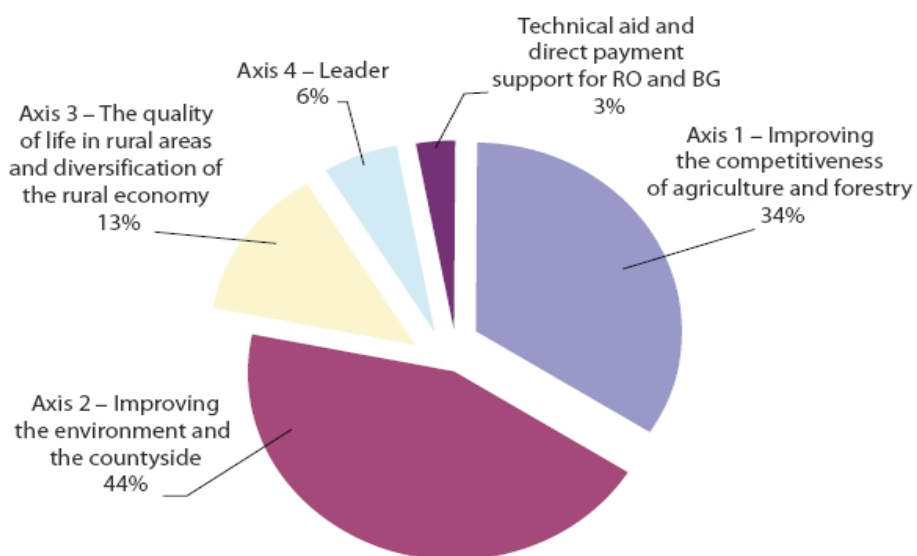
production saine et de haute qualité, des méthodes de production respectueuses de l'environnement et durable, y compris la production biologique, les matières premières renouvelables et la protection de la biodiversité.

En 2007, l'UE a mis en place un fonds spécial pour aider les communautés rurales - le Fonds européen agricole pour le développement rural (FEADER). Conformément à la réglementation régissant le fonds est constitué, l'UE a la responsabilité d'adopter des orientations stratégiques qui suivent et comme une stratégie nationale fondée sur sept ans du programme de développement rural. Programmation respecte les priorités supranational et national, mais il complète les autres politiques communes, en particulier les marchés agricoles et de la cohésion politique et de la pêche. De cette façon, le financement du développement rural durable s'aligne avec d'autres fonds de l'UE et les interventions de la BEI.

FEADER devrait contribuer à la réalisation des objectifs de la politique de développement régional: l'amélioration de la compétitivité de l'agriculture et de la sylviculture, de l'environnement et du paysage et améliorer la qualité de vie et la diversification de l'économie dans les zones rurales.

La figure 5 montre la répartition des fonds FEADER dans les perspectives financières 2007-2013

Figure 5 : Les dépenses des fonds FEADER 2007-2013



Source: EU Commission, Directorate General for Agriculture and Rural Development, en fonction du budget approuvé indicatif

La plupart des fonds sous FEADER pour la période 2007-2013 sont destinés à améliorer et à protéger l'environnement (44%), l'amélioration de la compétitivité de l'agriculture et de la pêche (34%), et l'amélioration de la qualité de vie dans les zones rurales et la diversification de l'économie rurale (13%).

6% des fonds sont destinés à la mise en œuvre du programme LEADER, et 3% de l'assistance technique et les paiements directs.

6. CONCLUSION

L'importance du développement rural dans l'UE provient de zones rurales et de la part de la population agricole et rural dans l'UE. Les caractéristiques fondamentales des zones rurales ont un niveau d'éducation de la population, plus le travail des femmes, et de son secteur des services sous-développé. Question rurale est mis avant des défis particuliers dans le domaine de l'assurance dans la croissance économique, le développement, l'emploi et la durabilité. L'objectif principal de la politique de développement rural est de développer un cadre cohérent et durable et responsable pour préserver l'avenir des zones rurales.

L'Union européenne se caractérise par de fortes disparités régionales mesurées par le taux de croissance, le développement et le PIB. PIB le plus élevé en Europe en parité de pouvoir d'achat à Luxembourg, la Bulgarie et la plus faible.

En démarrant LEADER en 1991, a été tirée par la participation active des communautés rurales locales dans le développement de l'économie locale. L'initiative a été adaptée pour restaurer la vitalité des zones rurales, les activités de création et d'entretien et d'augmenter l'attractivité.

République de Croatie profitait des fonds de pré-adhésion, qui étaient disponibles auprès des programmes PHARE, ISPA et SAPARD. Ces programmes étaient remplacés en 2007 par IPA.

La mise en œuvre des premiers projets dans la République de Croatie financé au titre de PHARE a débuté en 2005. Dans ce programme, la République de Croatie a obtenu 167 millions qui visent à des projets dont les plus importants sont pour l'application des droits de propriété intellectuelle en Croatie, bleu Système de surveillance des frontières et la mise en place de la surveillance et de la gestion de la qualité de l'air.

Concernant les fonds ISPA en Croatie, le statut de candidat est devenu disponible pour se joindre à la somme de 60 millions d'euros pour la même période de 2005-2006. Le plus important des projets ISPA en Croatie mis en œuvre: Régional de Gestion des Déchets Bakarac (Šibenik), Programme pour l'eau et la réhabilitation des eaux usées et Sheffield ferroviaire Vinkovci-Tovarnik Etat-frontière, et les projets d'assistance technique conçus ministères impliqués dans la mise en œuvre programmes.

La Croatie est sous le programme SAPARD en 2006 obtenu 25 millions d'euros avec l'objectif d'améliorer le secteur agricole à travers Mesure 1,2,3 et 4. La République de

Croatie est un bénéficiaire de fonds de l'IAP depuis 2007 jusqu'au moment de son adhésion à l'UE. Afin de créer les conditions pour l'utilisation de celui-ci était nécessaire d'adopter un certain nombre de questions juridiques, stratégiques, mise en œuvre et les documents opérationnels avec des quantités définies établissent les priorités pour chaque volet de l'IAP, de définir les règles pour la mise en œuvre de l'organisation mise en œuvre de systèmes dans l'état. La Commission européenne a alloué pour la Croatie dans la période allant jusqu'à 2012. Le montant de 910,2 millions d'euros, principalement destinés à la transition, le développement régional et le développement des institutions.

Aide de l'UE a un impact direct sur la vie quotidienne des citoyens en contribuant à l'amélioration de l'état de droit, la gouvernance, les conditions sociales et les perspectives économiques dans un contexte de crise économique massive qui a touché toutes les régions d'Europe.

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ECONOMIE EUROPEENNE ET LES PAYS DE BALKANS

RÉSUMÉ

Concept de l'organisation de la cohabitation sur le continent est une idée qui est la base de l'origine de l'actuelle Union européenne. Le 9 mai 1950 est considéré comme un début des intégrations des Etats européens quand Robert Schuman a fait une proposition pour création d'une organisation supranationale qui serait responsable pour la production de charbon et d'acier, et en 1957 sa proposition été réalisé, la Communauté européenne du charbon et de l'acier a été créé. La base de l'Union européenne a été conçue par le «Traité de Rome» instituant la Communauté économique européenne et la Communauté européenne de l'énergie atomique en 1957, qui ont été officiellement fusionnés dans la Communauté économique européenne en 1967, ensuite grâce à «L'Acte Unique européen» en 1986 l'intégration politique a été couronnée par le traité de Maastricht en 1992 quand «Traité sur l'Union européenne» a été adopté. En 1997 par «Le traité d'Amsterdam» certaines réformes ont été réalisées dans l'Union avec l'objectif de renforcer la coopération et de simplifier le système de l'Union européenne. Après la dissolution de la Fédération yougoslave et la formation de nouveaux Etats indépendants, les pays des Balkans occidentaux ont subi des transformations radicales au cours des deux dernières décennies. Après les années de guerre et d'instabilité qui ont suivi la chute du mur de Berlin est arrivée une période d'incertitude. Dans le même temps, chaque Etat a cherché à se donner une plus grande stabilité. Actuellement, ces pays s'emploient à obtenir leur intégration aux structures euro-atlantiques pour acquérir une stabilité et une prospérité permanentes. Ces dix dernières années, l'UE a exercé une influence déterminante dans les Balkans occidentaux. Cette région peut avoir devant elle un avenir stable à condition que l'on prenne les mesures appropriées et que l'on fasse les bons choix. En effet, la région n'est plus en guerre, la stabilité politique se renforce, tandis que les tensions ethniques, grâce principalement aux efforts de la communauté internationale, deviennent moins accentuées. La stabilisation économique était également en bonne voie jusqu'à ce que la crise financière mondiale vienne frapper cette région à son tour. Tous les pays de la région ont signé des accords de stabilisation et d'association (ASA) avec l'UE¹, et

¹ La situation se présente ainsi actuellement : Albanie : l'ASA est entré en vigueur le 1er avril 2009 ; Bosnie-Herzégovine : l'ASA a été signé le 16 juin 2008 ; Croatie : l'ASA est entré en vigueur le 1er février 2005;

presque tous ont présenté une demande d'adhésion à l'Union. Les citoyens des Balkans voient enfin s'ouvrir les frontières de l'UE à la faveur d'un programme de libéralisation des visas. Un pays des Balkans occidentaux est déjà membre de l'UE et trois autres sont membres de l'OTAN; plusieurs autres attendent à adhérer à l'UE, ou font tranquillement leurs premiers pas vers l'intégration euro-atlantique. Malgré ces progrès indéniables, il reste encore des difficultés à vaincre avant que les Balkans occidentaux puissent prétendre à une totale stabilité. Ce qui compte surtout, c'est de savoir tirer les leçons des échecs du passé récent. Aujourd'hui, en dépit de multiples efforts, les différends bilatéraux persistent et les tensions politiques et ethniques n'ont pas entièrement disparu, tandis que le crime organisé et la corruption ont toujours un degré inacceptable dans l'ensemble de la région. D'autre part, on sait que sans un ancrage européen fort, on risque de compromettre tous les efforts de la communauté internationale pour stabiliser la région. Et l'intégration européenne est la seule option qui puisse apporter aux Balkans occidentaux stabilité, paix et sécurité. Actuellement, les relations entre l'UE et les Balkans occidentaux ont pour le but principal le processus de stabilisation et d'association créé en 1999. L'objectif ciblé était d'aider ces pays à franchir l'étape de la transition vers une démocratie stable basée sur l'économie de marché en vue, à terme, de leur intégration pleine et entière dans l'UE.

Mots clef: l'intégration euro-atlantique, Balkans occidentaux

JEL classification: F15

1. INTRODUCTION

L'idée de l'Europe comme un territoire unique, culturelle et politique est apparu bien avant le XXe siècle. De nombreuses personnes ont la forme en manières différentes et avec des objectifs différents, mais elle a continué d'exister comme une utopie qui ne pouvait pas être utilisée à cause du système actuel en Europe. Comme des gouvernants, politique et économique, ont été les grandes puissances comme la France, l'Angleterre, l'Autriche-Hongrie, et l'idée d'une Europe unie ont été perdu en raison de conflits ou nationalisation, comme c'est le cas dans la politique expansionniste de Napoléon Bonaparte. La nécessité d'établir la paix intérieure en Europe a conduit à un renforcement de l'idée d'une Europe unie et l'émergence de la propagation organisée de cette idée, et même l'association du mouvement pour l'unification de l'Europe de différents pays. Mais, seulement avec la maturité de la conscience politique, on peut réaliser une attitude plus sérieuse vers la création d'une forme d'unification en Europe. Bien sûr, l'intégration des Etats européens est un processus qui est lent et difficile, et il continue de changer la taille et l'importance de chaque année.

Kosovo : pas d'ASA ; Macédoine : l'ASA est entré en vigueur le 1er avril 2004 ; Monténégro : l'ASA est entré en vigueur le 1er mai 2010 ; Serbie : l'ASA a été signé le 29 avril 2008.

2. HISTOIRE DE L'IDÉE DE L'UNIFICATION EUROPÉENNE

L'idée de l'unification européenne n'est pas récente et n'est pas liée pour la seconde moitié du XXe siècle. Beaucoup plus tôt il ya des raisons pour les différents concepts d'associer les pays occidentale d'Europe. Ces raisons ont été nature différente: la stratégie, intérêt, historique... Depuis le XVIe siècle, l'idée se pose dans le cadre de relier certains pays européens. Comme un premier représentant important et protagonistes de l'idée de création une communauté d'États de gardiens de la paix européenne était un duc français Maximilien de Sully. Il croyait que la fédération européenne devrait être composée des républiques chrétiennes dirigée par la France.

Le français d'orientation démocratique et un opposant de l'absolutisme de Louis XIV, Saint-Pierre est l'auteur de l'idée d'une communauté fédérale des États souverains. Sa contribution est reflétée dans son projet République Européen qui devrait former une alliance stable avec leurs autorités de l'Etat comme le Parlement fédéral ou le Congrès fédéral.

Charles Montesquieu et Jean-Jacques Rousseau ont contribué à développement de l'idée de l'unification européenne. Dans son essai intitulé Réflexions sur la monarchie universelle européenne, Montesquieu considère l'idée universelle de l'unification européenne. Dossier de Rousseau sur la fédération comme un outil qui combine les avantages des petites républiques avec les grands Etats, et se consacre à l'idée de création une sorte d'association fédérative européenne.

Au XVIIIe siècle, le philosophe allemand Emmanuel Kant dans ses écrits À une paix permanente dit que le concept d'Europe organisée avec pays républicain doit être fondé sur deux principes fondamentaux:

1. Constitution civile dans chaque Etat doit être républicaine
2. Le droit international doit être fondé sur un fédéralisme d'Etats libres.

Romancier français, représentant du romantisme et une active politicien de Victor Hugo a appuyé «l'idée de l'eupéisme» et l'idée d'unité européenne, qui, après seulement deux siècles reçu une adéquate formation socioculturel et véritable conviction politique. En le 1855 Victor Hugo a écrit: «Notre continent sera l'état d'une nation. Il n'y aura pas de frontières ou de douane, aucune restriction, ne sera qu'une libre circulation des biens et des personnes."

2.1. Concept de l'unité européenne après la première guerre mondiale

Années du XXe siècle, après la fin de la Seconde Guerre mondiale l'idée de l'unification européenne acquis une nouvelle dimension. Après la guerre, l'Europe a cherché manière à assurer la paix pendant une longue période, et ainsi est née l'idée de créer des organisations pour la paix dans le monde. Ainsi est fondée la Société des Nations en 1919 par Les Accords de Paris, et a été initié par U.S. Président Woodrow Wilson qui a reçu le Prix Nobel de la Paix. La mission principale de la Société a été de maintenir la paix, la sécurité collective et de l'indépendance de ses membres. Parce que la société n'avait pas d'instruments efficaces pour appliquer ses principes, son effet était plus moral que réel. Dans le même temps le mouvement paneuropéen était fondé, par

un comte autrichien Coudenhove-Kalergi, auteur de manifeste paneuropéen, qui a proposé la création d'un „Etats-Unis d'Europe" selon le modèle des États-Unis Américain. Après la publication de ce manifeste, Kalergi a organisé le Congrès paneuropéen à Vienne en 1926 où il a présenté ses idées pro-européennes, comme: l'égalité des États nationales, les garanties fiables de la frontière d'Etat, conclusion d'une alliance avec la Russie, la création d'une union douanière et la zone économique unique. Dans une réunion de l'Assemblée de la Société des Nations à Genève 5 Septembre en 1929, le ministre des Affaires étrangères français Aristide Briand et le ministre allemand Gustav Stresemann ont proposé la création de l'Union européenne. Il y avait beaucoup de problèmes pour lesquels cette idée n'a pas été réalisée, principalement économiques et politiques. La Seconde Guerre mondiale, le nationalisme et le socialisme arrêtent pendant un certain temps l'idée de l'unification des pays européens.

2.2. L'Europe après la Seconde Guerre mondiale

La guerre a vidé les relations institutionnelles qui existaient entre les pays, et retiré le petit nombre d'institutions et organisations internationales, la post-guerre humeur parmi les politiciens des pays concernés a été non seulement de rétablir ce qui existait, mais d'établir de nouvelles institutions et programmes. Grandes parties de l'Europe après la guerre était nécessaire reconstruction économique, le processus de reconstruction devrait inclure plusieurs pays. Il a fallu que l'Ouest renforce la sécurité, les intérêts politiques et économiques dans la période de paix qui suit, par rapport à la menace soviétique. Nouvelles institutions devraient être les mécanismes de défense, la coopération mutuelle et la prévention possible de nouveaux conflits. Le Premier ministre britannique Winston Churchill a proposé la création des États-Unis d'Europe en 1946, et à l'Université de Zurich, a déclaré: «La première étape dans le rétablissement de la famille européenne doit être une société entre la France et l'Allemagne. C'est une seule façon que la France prend de nouveau la direction morale de l'Europe. Il n'y a pas renaissance de l'Europe sans une spirituellement forte France et spirituellement forte Allemagne. Structure des États-Unis d'Europe réduira l'importance des forces matérielles si elle est solide et bien construit. Les petits États seraient valeur ainsi que les grandes, et la dignité se fondera sur les contributions conjointes».

2.3. Moderne étapes du développement

Plan de George C. Marshall. En 1947 «Plan Marshall» a été lancé avec l'idée de la réforme économique de l'Europe de l'Ouest et du Sud. Destruction dans certaines parties de l'Europe ont dépassé la capacité des institutions récemment créé, et il y avait un besoin de créer un programme spécial de reconstruction de l'Europe. L'institution qui devait contrôler l'utilisation du «Programme de reconstruction européenne», qui a été établi sur la base du «Plan Marshall» a été «l'Organisation pour la coopération économique» créé en avril 1948. Programme d'aide était finie après trois ans, mais l'Organisation pour la coopération économique a continué d'exister comme forum pour la promotion de la coopération économique et de échange libre entre les pays d'Europe occidentale jusqu'à changement de son nom à «l'Organisation pour la Coopération économique et du développement».

Création du Benelux. Belgique, Pays-Bas et Luxembourg ont réalisé que leurs économies sont étroitement liées et ont formé l'Union douanière du Benelux en 1948, avec l'intention de devenir l'union économique.

Création de l'Union occidentale. Grande-Bretagne, la France et les pays du Benelux ont signé un accord de défense à Bruxelles le 17 Mars 1948 qui prévoyait une coopération dans les domaines économique, social et culturel ainsi que la coopération pour la défense collective contre la menace soviétique. Cet accord a créé une entente de cinq ans connu sous le nom de l'Union de l'Europe occidentale qui a été un précurseur dans la formation de l'OTAN, créée en 1949.

Conférence de La Haye. Au Congrès de La Haye en 1948 on a demandé de convoquer le Parlement européen, composé de membres du Parlement dans certains pays européens. Le résultat était la création de première institution européenne, le Conseil de l'Europe à Strasbourg en 1949. Les objectifs du Conseil ont été la protection de l'héritage politique et culturelle fondée sur la liberté personnelle, les droits individuels, la primauté du droit, la démocratie et des valeurs culturelles européennes.

Plan de Schuman. Quand on a commencé à examiner la création du Conseil de l'Europe, Robert Schuman, ministre des Affaires étrangères français a dit que c'est inévitable de créer des institutions qui seraient chargées de la coopération des pays européens dans l'économie, armée, culture et politique. Il a présenté un plan ambitieux, appelé le «Plan Schuman», que tout les industries vitales du charbon et de l'acier de la France et la République fédérale d'Allemagne doivent s'unir dans une organisation ouverte à toutes les démocraties européennes. Robert Schuman et économiste française Jean Monet ont présenté leur plan pour établir la Communauté européenne du charbon et de l'acier.

Traités de Rome. L'étape suivante vers l'intégration de l'Europe était signature de «Traité de Rome» 25 Mars 1957 à Rome. Le contrat était signé par six pays Allemagne, France, Italie, Belgique, Pays-Bas et le Luxembourg. On a créé la Communauté économique européenne et Communauté européenne de l'énergie atomique. L'objectif général du contrat sur la création de CEEA est de contribuer à la formation et le développement de l'industrie nucléaire européenne à des fins pacifiques. La création de la CEE et le Marché commun avait deux objectifs. La première était de modifier les conditions du commerce et de production dans la Communauté. Deuxième raison était que la Communauté devrait contribuer à la structure fonctionnelle de l'Europe politique et les mesures constitutionnelles pour l'unification immédiate de l'Europe et constitution de mesures pour l'unification immédiate de l'Europe. Traité qui a créé la CEE était prévu de créer un marché commun, union douanière et les politiques communes.

De la Communauté économique européenne à l'Union européenne. La première décennie d'activités de la Communauté économique européenne est souvent désignée comme un grand succès. En 1959 ont déjà fait premières étapes vers la libéralisation du commerce, en 1962 a commencé à suivre une politique commune dans l'agriculture, et en 1968 est terminé le processus de formation d'une union douanière. Les autres pays européens ont commencé à réaliser le progrès économique de la Communauté. Grande-

Bretagne prend l'initiative de créer un espace européen de libre-échange (AELE Association). Ensemble avec l'Autriche, le Danemark, la Norvège, le Portugal, la Suède et la Suisse, Grande-Bretagne a signé la Convention de Stockholm le 4 Janvier 1960 et L'AELE était fondée.

Acte unique européen. L'économiste italien Altiero Spinelli a proposé un projet de «traité sur l'Union européenne». L'objectif était de réaliser ce projet, et les chefs d'État et de gouvernement de la Communauté se sont réunis à Luxembourg en Décembre 1985 d'adopté la «Acte unique européen». L'objectif principal que ce document souligne est la création de l'Union européenne.

La création de l'Union européenne. Une étape importante vers l'Union européenne et une forte coopération politique entre Etats membres est représentée par Conseil européen le 9, 10 et 11 Décembre 1991 à Maastricht. Dans une réunion à Maastricht le "Traité sur l'Union européenne" a été approuvé, et est ensuite signé le 7 Février 1992. Après la ratification par les 12 États membres de l'UE, le Traité est entré en vigueur le 1 Novembre 1993, quand la Communauté européenne devient l'Union européenne. Les termes fondamentaux de cet accord sont: la création de l'Union économique et monétaire jusqu'en 1999, une monnaie unique contrôlée par la banque centrale, développement d'une politique étrangère et la politique de défense, introduction de nationalité de l'Union et la définition des droits et obligations des citoyens des États membres, développement de la coopération forte en justice et affaires intérieures, rôle de l'Union en éducation et formation professionnelle, de l'industrie, la santé, la culture.

2.4. Principes et procédures relatifs à l'élargissement

En principe, chaque pays qui veut adhérer à l'UE doit remplir les critères fixés à Copenhague en 1993. Toutefois, les développements intervenus à l'UE depuis cette époque ont poussé certains Etats membres à plaider pour une application plus stricte des règles qu'à l'époque d'élargissement de 2004 et 2007. Officiellement, les critères de Copenhague sont toujours valables dans leur formulation initiale : *L'adhésion requiert de la part du pays candidat qu'il ait des institutions stables garantissant la démocratie, la primauté du droit, les droits de l'homme, le respect des minorités et leur protection, l'existence d'une économie de marché viable ainsi que la capacité de faire face à la pression concurrentielle et aux forces du marché à l'intérieur de l'Union. L'adhésion présuppose la capacité du pays candidat à en assumer les obligations, et notamment à souscrire aux objectifs de l'union politique, économique et monétaire.*

Ces conditions ont été à nouveau évoquées par le Conseil lorsqu'il a adopté en juin 2003 l'« Agenda de Thessalonique pour les Balkans occidentaux », qui déclarait clairement que « l'avenir des Balkans occidentaux est au sein de l'UE ». Cependant, les vagues d'élargissement de 2004 et 2007 et la lassitude liée à l'élargissement qui s'est emparée de certains Etats membres ainsi que le débat sur la réforme institutionnelle qui a débouché sur le Traité de Lisbonne ont suscité de sérieuses critiques sur la manière dont été utilisés les critères.

Se fondant sur l'expérience acquise avec l'élargissement à l'est, le Conseil européen, en confirmant les critères de Copenhague, a adopté une nouvelle approche qui

l'amenait à déclarer explicitement que les futures négociations d'adhésion devaient être considérées « comme un processus ouvert, dont l'issue ne peut être garantie à l'avance ». En outre, pour les nouveaux pays candidats, un cadre de négociation serait créé, qui permettrait d'avoir un aperçu des chapitres des négociations comportant des étapes clairement définies en guise de directives. Peu avant l'adhésion de la Roumanie et de la Bulgarie, le Conseil a adopté certaines améliorations concernant les négociations d'adhésion, en affirmant notamment l'intention de « s'abstenir de fixer d'éventuelles dates limites pour l'adhésion tant que les négociations ne seront pas sur le point d'aboutir. »

3. LES GRANDES ETAPES DE LA CONSTRUCTION ECONOMIQUE EUROPEENNE

Les origines de l'idée de l'unification européenne ont apparu premièrement dans la Grèce antique, après dans la période de la Renaissance et puis dans le 18. et 19. siècles. Mais, après les deux guerres mondiales ont émergé les mouvements pour l'établissement de différentes formes de coopération au niveau de l'Europe avec les objectifs principaux de faciliter la reconstruction de l'Europe et d'éviter de nouveaux conflits.

3.1. Le Conseil de l'Europe.

Après la Seconde Guerre mondiale la première organisation qui a été créée est le Conseil de l'Europe, en mai 1949. Cette organisation de coopération intergouvernementale, sans pouvoir politique ni économique, a été formée à l'origine par dix États (Belgique, Danemark, France, Irlande, Italie, Luxembourg, Pays-Bas, Norvège, Suède et Royaume-Uni). Ce Conseil a compris une assemblée consultative, formée de députés désignés par chaque parlement national, d'un comité des ministres des pays membres, et d'une Cour européenne des droits de l'homme. Le Conseil ne répondait pas aux ceux qui n'ont pas voulu une Europe unifiée, surtout aux niveaux politiques et économiques. Mais, après le refus de certains pays d'abandonner toute forme de souveraineté au profit d'institutions supranationales, certains gouvernements et hommes politiques ont adopté le plan de la coopération en Europe seulement dans certains domaines de l'économie ou dans certains secteurs.

3.2. La Communauté européenne du charbon et de l'acier (CECA)

Un des hommes qui ont été les précurseurs de cette approche pragmatique et sectorielle de l'intégration européenne, a été Jean Monnet, qui a aussi préparé le plan Schuman par lequel le gouvernement français a proposé en 1950 aux États d'Europe occidentale d'instaurer un marché commun de l'Europe. Cette proposition a été la base sur laquelle a été instituée la CECA.

CECA est instituée pour une durée de cinquante ans par le traité de Paris du 18 avril 1951 entre six pays: Allemagne, Belgique, Pays-Bas, Luxembourg, France et Italie. Ce traité a créé un marché unifié du charbon et de l'acier entre ces pays en supprimant les barrières tarifaires et non-tarifaires pour ces produits.

Ce marché est régulé par la Haute Autorité du charbon et de l'acier, composée de neuf personnalités indépendantes et dont le premier président sera Jean Monnet, avec le pouvoir de décision des pays signataires d'organiser la reconstruction et le redéploiement de l'industrie du charbon et de l'acier en Europe. La Haute Autorité est contrôlée par un organe exécutif: le Conseil des ministres, formé de représentants des gouvernements des pays membres. Une Assemblée de 78 députés désignés par les parlements nationaux assure le contrôle démocratique de la Haute Autorité et peut, par une motion de défiance, démettre son président.

L'action de la CECA bénéficiera de la période de reconstruction des pays ouest-européens et des effets positifs du libre-échange à l'intérieur d'un marché de grande dimension. Aussi, dans les années 1950 et 1960 à cause de libre-échange peu répandu à l'échelle mondiale, l'industrie européenne s'est beaucoup développée. Mais, à partir des années 1970, quand l'Europe entre dans une période de surproduction, et elle réduit ses capacités, la politique industrielle européenne dont les fondements ont été mis en place par la CECA, a réorienté. La Haute Autorité du charbon et de l'acier a contribué non seulement à l'harmonisation des conditions de la concurrence entre les producteurs européens, mais encore à l'orientation du marché par la coordination des investissements réalisés sans sa responsabilité. Le succès de la CECA, en particulier dans les années 1950, explique que ses institutions aient inspiré celles de la Communauté économique européenne (CEE).

3.3. Le traité de Rome et la réalisation de l'union douanière (1957-1969)

En juin 1955, les six ministres des Affaires étrangères de la CECA se réunissent à Messine (Sicile) pour désigner le successeur de Jean Monnet à la tête de la Haute Autorité et pour discuter de la création éventuelle d'une union douanière. Ils se mettent d'accord pour élargir le système de la CECA à de nouveaux domaines. Les conclusions de cette conférence seront présentées à la conférence de Venise en mai 1956. L'ensemble de ses travaux et discussions ont conduit à la signature des traités de la Communauté économique européenne (CEE) et de la Communauté européenne de l'énergie atomique (CEEa ou Euratom) en mars 1957 à Rome. Ces deux Communautés ont été ajoutées à la CECA avec laquelle elles ont certains organes communs.

Sur le plan politique, la création de la CEE a eu pour le but de créer une union plus étroite entre les peuples d'Europe. L'objectif dans le domaine économique a été de rapprocher les économies nationales au moyen de politiques communes et de mettre en œuvre les politiques en matière agricole (Politique agricole commune - PAC) et en matière commerciale et de concurrence. Le plan a été de créer une union douanière, protégée par un tarif extérieur commun qui va contribuer à la libre circulation des marchandises.

La CEE et l'Euratom possèdent quatre institutions principales: la Commission, le Conseil des ministres, une Assemblée parlementaire, et une Cour de justice.

1. La Commission est formée d'experts et de spécialistes recrutés pour leurs compétences parmi l'ensemble des pays membres. Elle formule des propositions qui sont soumises au vote du Conseil et elle prépare le budget.

2. Le Conseil des ministres est formé des chefs de gouvernements des pays membres. Sa présidence se change tous les six mois. Le Conseil fixe les orientations stratégiques de la Communauté et prend les décisions préparées par la Commission.
3. L'Assemblée parlementaire a un rôle consultatif - elle donne un avis sur la plupart des propositions que la Commission soumet au Conseil. Elle ne peut pas censurer le Conseil.
4. La Cour de justice a une double fonction. La première est d'assurer l'application du droit communautaire par les États membres et par les institutions communautaires. La deuxième fonction est d'assurer l'homogénéité de l'application du droit communautaire par les États membres.

Au cours des dix premières années d'existence de la CEE l'économie mondiale et, surtout, l'économie européenne, ont connu une forte expansion. Mais, le succès de la CEE sur le plan politique n'a pas été grand - le général De Gaulle, président de la France élu en 1958, est favorable à une "Europe des États".

En 1963, les négociations sur l'entrée éventuelle du Royaume-Uni sont suspendues à la demande de la France. Le Compromis de Luxembourg a ouvert la possibilité pour un État membre de s'opposer à une proposition s'il considère qu'elle menace gravement ses intérêts nationaux vitaux. Le général De Gaulle quitte le pouvoir en avril 1969. Il est remplacé par Georges Pompidou, qui se montre plus favorable à un renforcement de la construction économique européenne. Ce change dans la politique de la France se concrétise rapidement dans la création d'un budget européen autonome en 1969 et dans la relance des négociations pour l'élargissement de la Communauté à de nouveaux membres, dont le Royaume-Uni.

3.4. De l'union douanière au marché commun, puis au marché unique (1970-1989)

À partir des années 1970, les pouvoirs de l'Assemblée parlementaire (Parlement européen) se sont étendus, mais ces pouvoirs ne peuvent pas se comparer à ceux d'un Parlement national classique. Depuis 1971, la Communauté dispose d'un budget autonome, et le traité de Bruxelles de 1975 confère au Parlement le droit de rejeter ce budget. Depuis 1979, le Parlement européen est élu au suffrage universel direct, ce qui signifie que les parlementaires sont désignés par l'ensemble des citoyens de la Communauté. L'Acte unique européen a institué une procédure de coopération entre le Parlement et la Commission, qui développe un peu le rôle du Parlement dans l'élaboration du droit européen.

Le Conseil des ministres continue à fonctionner suivant les règles fixées par le traité de Rome. Il réunit à Bruxelles plusieurs dizaines de fois par an. Le Conseil des ministres a continué à exercer ses fonctions législatives qu'il partage avec le Parlement européen. Les questions qui ne sont pas résolues à l'intérieur du Conseil des ministres peuvent être soumises au Conseil européen. Celui-ci a été institué au sommet européen de Paris en 1974. Le premier Conseil a eu lieu officiellement à Dublin en mars 1975 et depuis lors il se tient à la fin de chaque présidence du Conseil des ministres. Il n'est pas un organe législatif, et l'application de ses décisions est laissée au Conseil des ministres et à la Commission. Le Conseil s'agit de réunions politiques au niveau des chefs d'État qui

fixent des orientations stratégiques en matière de politique étrangère, d'élargissement de la Communauté, de création du marché unique, par exemple.

L'union douanière s'est achevée en 1968. Le marché commun a été l'étape suivante de l'intégration, mais sauf la liberté d'échanges des biens, celles des services, de circulation des personnes et des capitaux n'ont pas été réalisés. La liberté de circulation des travailleurs a été réalisée en juillet 1968 et les échanges de services ont été partiellement libéralisés au cours des années 1970 et 1980. Au cours des années 1960 et 1970 les transferts financiers portant sur des opérations de long terme ont été libéralisés ainsi que les opérations sur titres financiers. Prenant en considération ces faits on peut dire qu'à la fin des années 1970, le marché commun est réalisé, sauf pour les opérations de crédits et de dépôts.

L'Acte unique européen a été adopté en décembre 1985 au Conseil européen de Luxembourg. L'Acte a été ratifié par les douze pays membres de la Communauté en février 1986. L'Acte comporte essentiellement deux volets: économique et institutionnel. Sur le plan économique, la réalisation d'un grand marché intérieur est planifiée pour l'année 1992. La coopération économique et monétaire est intégrée aux objectifs communautaires. Sur le plan institutionnel, la réforme concerne les procédures de vote au Conseil des ministres. Dans de nombreux domaines les décisions doivent désormais être prises à la majorité qualifiée, et non plus à l'unanimité, ce qui a été la plus importante disposition du traité.

Les grandes lignes du marché unique sont incluses dans l'Acte unique. Au Conseil européen de Milan en 1985, la Commission présente un livre blanc "pour l'achèvement du marché intérieur". Ce livre blanc propose 300 mesures qui, après accord du Conseil, seront appliquées sous forme de directives, de 1986 à 1989. Ces mesures peuvent être regroupées en trois thèmes principaux:

1. Les barrières non tarifaires doivent être supprimées. Il s'agit tout d'abord des formalités aux frontières, par exemple contrôles techniques et sanitaires.
2. Un autre obstacle à la libre concurrence provient de la réglementation des marchés publics, qui a pour effet, dans chaque pays membre, d'exclure les entreprises extérieures à ce pays. Comme l'ouverture de ces marchés va être lente, la privatisation de certains services dans beaucoup de pays membres entraînera un accroissement de la concurrence à l'échelle de la Communauté.
3. Les services financiers doivent être entièrement libéralisés à l'échelle de la Communauté. De fait, tous les contrôles des mouvements de capitaux seront abolis en 1990. En outre, la liberté d'établissement pour les banques de tous les pays de la Communauté sera établie.

Les gains attendus du marché unique proviennent aussi de la suppression des barrières aux échanges et des économies d'échelle réalisées par les entreprises. À la fin des années 1980, les responsables européens peuvent considérer que l'objectif qu'ils se sont fixé trente ans auparavant dans le traité de Rome est atteint.

3.5. Économie politique de l'unification européenne à l'aube du XXI siècle

Dans le domaine économique, l'idée qu'à un marché unique doit correspondre une monnaie unique a progressivement fait son chemin. Le Conseil européen de Madrid de juin 1989 adopte le principe de l'unification monétaire, dont la première phase est fixée au 1er juillet 1990.

Dans le domaine institutionnel et politique, la chute des régimes communistes en Europe centrale et orientale, puis la réunification allemande, seront des événements primordiaux. En avril 1990, le président François Mitterrand et le chancelier Helmut Kohl proposent un renforcement politique, qui, selon eux, va de pair avec le renforcement économique et monétaire de l'Europe. L'objectif est de rendre les institutions politiques européennes plus démocratiques, d'accroître l'efficacité du fonctionnement des institutions, et de poser les bases d'une coopération au niveau européen en matière de politique étrangère et de sécurité nationale.

Au sommet européen de juin 1990, malgré l'opposition de Margaret Thatcher, il est décidé d'organiser une conférence intergouvernementale (CIG) sur l'union politique européenne. CIG, en pratique, a mené ses réflexions à la fois sur l'union politique et sur l'union monétaire, et a abouti au Traité sur l'Union européenne (TUE), approuvé par le Conseil européen de Maastricht en décembre 1991, signé le 7 février 1992, et ratifié par les parlements ou par référendum dans les pays membres en 1992-1993.

La discussion du TUE au cours des Conseils européens de Rome et de Luxembourg a donné lieu à de difficiles négociations et tractations. Les Pays-Bas, qui présidaient le Conseil des ministres et le Conseil européen au cours de la seconde moitié de l'année 1991, ont proposé une option fédérale pour les institutions européennes, qui a été rejetée par une majorité de pays en septembre 1991. Cette majorité a opté pour "l'Union européenne", création audacieuse dans le domaine économique, mais qui ne faisait qu'aménager et étendre le champ d'intervention des structures politiques et décisionnelles existantes. Par ailleurs, le Royaume-Uni a obtenu de ne pas participer à l'Europe sociale et de ne pas entrer, tout au moins dans un premier temps, dans l'union monétaire.

3.6. Le traité sur l'Union européenne (Maastricht 1992)

L'article A de traité de Maastricht dit que ce traité "marque une nouvelle étape dans la création d'une union toujours plus étroite entre les peuples européens, et dans laquelle les décisions sont prises aussi près que possible des citoyens". Le traité se compose de sept titres, regroupés en trois piliers:

1. Le premier pilier, régit la Communauté européenne (nouveau nom de la CEE), la CECA et l'Euratom. Il contient aussi les articles qui concernent la monnaie unique, la citoyenneté dans l'Union et le pouvoir des institutions.
2. Le deuxième pilier couvre un domaine nouveau: la politique étrangère et de sécurité commune (PESC).
3. Le troisième pilier initie une coopération en matière de justice et d'affaires intérieures.

Le traité inclut l'ensemble des dispositions qui doivent conduire à l'union économique et monétaire (UEM), c'est-à-dire à la dernière étape de l'intégration. Par ailleurs, le traité reprend et précise les dispositions antérieures concernant la politique sociale européenne et y ajoute des dispositions relatives à l'éducation et à la formation professionnelle. Dans ce dernier domaine, l'Union appuie et complète les actions des États membres, notamment en favorisant la mobilité des étudiants à l'intérieur de l'Union et la reconnaissance mutuelle des diplômes. La nécessité de la cohésion économique et sociale est affirmée et précisée. L'objectif est de réduire l'écart entre les niveaux de développement des diverses régions européennes, y compris les régions rurales.

3.7. Le traité d'Amsterdam (1997)

Le traité d'Amsterdam est adopté par le Conseil le 2 octobre 1997 et signé le 20 octobre. Pour ce qui est de la politique étrangère et de défense, le traité fait la distinction entre "la stratégie commune", qui ne peut être décidée qu'à l'unanimité du Conseil, et les "actions et positions communes", qui peuvent être décidées à la majorité renforcée.

Une innovation dans ce traité concerne l'emploi et le chômage: le Conseil peut adopter des actions destinées à favoriser la coopération entre les États membres et à soutenir leur action dans le domaine de l'emploi. Pour cela, il prend des initiatives visant à développer les échanges d'informations et d'expériences entre pays membres. Par ailleurs, en matière de circulation des personnes, le traité prévoit que, dans les cinq ans qui suivent son entrée en vigueur, les mesures concernant la libre circulation des personnes étrangères à l'Union européenne, les contrôles aux frontières, l'immigration et le droit d'asile seront unifiées après consultation du Parlement et suivant un vote du Conseil. Enfin, le plus grave échec du traité concerne la composition et le fonctionnement des institutions, puisque, à défaut d'accord entre les quinze pays membres, le traité s'est borné à fixer une nouvelle échéance, correspondant à l'intégration des pays de l'Est européen.

4. ANALYSE DES DROITS DE VOTE ET DES PROCEDURES DE DECISION DANS LES INSTITUTIONS

La répartition des prérogatives et des pouvoirs entre les institutions de l'Union européenne et les institutions nationales repose sur le principe de subsidiarité. En fait, le principe de subsidiarité est lui-même fonction de l'analyse que chacun fait du fond de chaque question, et qui détermine le niveau d'intervention pertinent. Quelques illustrations de ce principe, dans le domaine économique, sont:

1. La question des "dimensions ou des effets des actions envisagées" concerne les économies d'échelle et les effets externes. La réalisation des économies d'échelle peut justifier la création d'un marché unifié en Europe, dont le caractère concurrentiel est assuré par des règles uniques définies et appliquées au niveau européen. En matière d'effets externes, les dispositions communautaires en faveur de l'environnement, par exemple, ne posent pas de difficultés théoriques majeures: la règle communautaire s'impose, dans la mesure où une protection contre la

pollution insuffisante dans un pays pourrait avoir des effets sur les pays partenaires.

2. Une autre question est la politique économique. Les pays dont l'orientation est libérale défendront la thèse que toute politique économique, monétaire ou budgétaire doit être rejetée à tous les niveaux de l'Union européenne. À l'opposé, les pays aux options plus keynésiennes plaideront en faveur d'une coordination des politiques économiques à l'échelle de l'Europe, pour éviter les incohérences et contradictions entre les politiques nationales.

Ces quelques exemples montrent que les différentes interprétations du principe de subsidiarité cachent en fait des oppositions fondamentales sur la nature et les objectifs mêmes de l'Union. Les procédures de vote et le pourcentage de votes nécessaire pour parvenir à une décision, notamment en matière législative, a depuis l'origine constitué l'un des enjeux essentiels de la Communauté, puis de l'Union européenne.

Les décisions du Parlement européen sont prises à la majorité absolue. La représentation parlementaire européenne fait une place relativement large, par rapport à leur population, aux petits pays comme le Luxembourg, le Danemark et la Finlande. Au Conseil, les petits pays sont également surreprésentés. Les décisions qui requièrent l'unanimité sont relativement nombreuses. Il s'agit des questions concernant la citoyenneté, l'immigration, les fonds structurels, les programmes de recherche-développement technologiques, et la politique d'environnement. La majorité simple, où un pays dispose d'un droit de vote, est utilisée dans un nombre restreint de domaines comme les procédures de travail internes au Conseil et la politique commerciale commune. L'essentiel des décisions repose donc sur la procédure de vote à la majorité qualifiée, qui suscite le plus de contestations. Les cinq pays les plus grands, qui représentent la majorité de la population de l'Union européenne (Allemagne, Espagne, France, Italie, Royaume-Uni), disposent de 55 % des droits de vote. Comme, depuis l'origine, les petits pays se voient attribuer un nombre de droits de vote proportionnellement plus élevé que leur population, chaque élargissement à des petits pays abaisse le poids relatif des grands. Au-delà des techniques de vote, ce sont les objectifs fondamentaux de l'Union qui sont en jeu, c'est-à-dire la volonté de se rapprocher ou non d'une Europe fédérale. Les quarante premières années de l'histoire de la construction européenne ont montré que cette progression se faisait par bonds, en fonctions des évolutions politiques et économiques intra-européennes, mais aussi extérieures à l'Europe.

4.1. La Serbie

Les élections législatives de 2008 ont confirmé la détermination de la Serbie à se tourner plus nettement vers l'Occident, en premier lieu parce que les conséquences de la guerre de 1999 paraissent s'éloigner. Les élections présidentielles (en janvier et février) comme les élections législatives tenues après la chute du gouvernement à la suite de la déclaration d'indépendance du Kosovo ont abouti à une victoire du parti Pour une Serbie européenne. Un gouvernement pro-occidental s'est donc mis au pouvoir et a fait de l'intégration européenne une priorité majeure. Malgré le soutien qu'ils apportent à l'intégration de la Serbie à l'UE, leur position sur l'avenir du Kosovo

n'est pas compatible avec le point de vue de la majorité des Etats membres. En effet, le gouvernement serbe a toujours du mal à accepter la nouvelle réalité.

4.2. Le processus d'adhésion à l'UE

Comme plusieurs autres Etats des Balkans occidentaux, la Serbie a obtenu la confirmation de son statut de candidat potentiel au Conseil européen de Thessalonique en 2003. Après quelques années de négociations, qui ont été paralysées de 2006 à 2007 du fait que la Serbie ne coopérait pas pleinement avec le TPIY, un Accord de stabilisation et d'association (ASA) a été signé le 29 avril 2008. Celui-ci a été complété par un accord intérimaire sur le commerce et la coopération commerciale. Ces documents contenaient un certain nombre de références à la nécessité d'une pleine coopération avec le TPIY. L'ASA devait être ratifié par les parlements nationaux des Etats membres de l'UE et sur l'insistance des Pays-Bas, la mise en œuvre de l'accord intérimaire a été subordonnée à une décision du Conseil confirmant la coopération sans réserve de la Serbie avec le TPIY. L'accord intérimaire sur le commerce et la coopération commerciale entre généralement en vigueur aussitôt après la signature de l'ASA. La coopération pleine et entière avec le TPIY est un critère particulièrement important pour les Pays-Bas, où la reconnaissance par la Serbie de son rôle d'agresseur pendant la guerre de 1992-1995 demeure une question très sensible pour de nombreux partis politiques. Les Pays-Bas s'en sont néanmoins remis, dans leur évaluation du degré de coopération de la Serbie avec le TPIY, aux rapports du procureur général du tribunal. Ce dernier, M. Brammertz, a précisé que « l'aspect le plus critique de la coopération de la Serbie est la nécessité d'appréhender les fugitifs ». Sur la base de cet avis, les Pays-Bas ont estimé qu'il était justifié de passer à de nouvelles étapes dans le processus d'intégration de la Serbie. Ce changement d'attitude a conduit à la décision du Conseil Affaires générales (le 7 décembre 2009) de procéder rapidement à la mise en œuvre de l'accord intérimaire, que la Serbie avait entre-temps commencé à appliquer de manière unilatérale. Cet accord, qui prévoit l'instauration d'une zone de libre-échange entre l'UE et la Serbie, est entré en vigueur le 1er février 2010.

Consciente de l'importance d'assumer le passé de manière acceptable pour les autres pays, le Parlement serbe a adopté, le 31 mars 2010, une résolution condamnant « les crimes commis à l'encontre de la population bosniaque à Srebrenica en juillet 1995 ». En outre, la résolution présentait « des condoléances et des excuses aux familles des victimes car tout n'avait pas été fait pour prévenir la tragédie ». Cette déclaration si attendue suivait un débat très vif à l'Assemblée nationale et ne fut adoptée qu'à une très faible majorité (seuls 127 députés sur un total de 250).

Un grand nombre de personnes ont souligné, en Serbie et en République Srpska, qu'il était inutile de s'intéresser uniquement aux crimes de guerre commis par la Serbie à Srebrenica en passant sous silence les crimes commis contre les Serbes par d'autres communautés. De fait, dès le lendemain de l'adoption de la résolution, le Président du Parlement serbe a annoncé qu'il travaillait à une déclaration condamnant les crimes perpétrés contre les Serbes dans l'ex-Yougoslavie.

4.3. Candidature officielle

Le 22 décembre 2009, à peine quelques semaines après la décision du Conseil de mettre en application l'accord intérimaire, le Président Tadic a présenté la candidature officielle de la Serbie à l'adhésion. Il a promis qu'elle ferait tout ce qui est en son pouvoir pour arrêter Mladic et Hadzic et précisé que la question de l'adhésion ne devait pas être liée à celle du Kosovo, étant donné que la Serbie entendait régler cette dernière par des moyens légaux. Dans le document de candidature même, la Serbie prévoit que son adhésion à l'UE « contribuera à la stabilité régionale et au renforcement de l'espace de paix et de sécurité en Europe ». L'acte de candidature à l'adhésion pleine et entière a été fortement soutenu par les citoyens serbes: selon un sondage publié en novembre par le quotidien *Blic*, 71% d'entre eux voteraient en faveur de l'adhésion à l'UE si un référendum était organisé à ce sujet.

La Serbie a adopté une attitude différente de celle des pays voisins vis-à-vis de l'intégration euro-atlantique. Dix ans après le bombardement de l'entier pays par l'OTAN durant la crise du Kosovo, la population serbe hésite toujours à soutenir l'entrée du pays dans l'Organisation. En revanche, l'aspiration à devenir membre de l'UE rencontre à peu près la même adhésion que dans les autres pays des Balkans. Si l'on ne tient pas compte de l'opinion publique, les relations entre le gouvernement serbe et l'Alliance se sont sensiblement améliorées au cours des dernières années.

Le 26 octobre 2010 la Serbie a transmis sa candidature au Conseil de ministres réuni à Luxembourg. Cet événement constitue pour la Serbie une nouvelle étape dans son chemin vers l'Union européenne. La candidature de la Serbie à l'adhésion à l'UE sera examinée conformément au consensus sur l'élargissement de 2006, qui prévoit un examen rigoureux selon les mérites individuels de chaque candidat et leur capacité effective à satisfaire aux conditions d'adhésion. Ces jours-ci Belgrade attend une réponse de la part de Commission européenne sur les progrès faits depuis le 26 octobre 2010 et une note positive/négative en ce qui concerne son statut de candidat.

5. CONCLUSION

L'Union européenne a commencé une «vie» par la coopération entre pays de même valeur, pour renforcer la confiance, l'échange, et leur puissance défensive de bloc soviétique. Précédent intégration institutionnelle a conduit à une expansion importante des politiques communes, et connexion les États membres. Bien que les formes antérieures ont compris la coopération isolée dans des domaines spécifiques, les prochaines étapes sont la création d'une zone économique commune qui est aujourd'hui fondée sur une union douanière, marché commun, et partiellement à la monnaie unique. Le processus d'intégration, l'introduction de l'euro et le développement progressif d'une politique étrangère et de sécurité, donnent à l'Union un statut politique et diplomatique qui correspond à sa puissance économique.

Les pays des Balkans occidentaux, les derniers à être les victimes de cette série de conflits violents et ravageurs qui ont éclaté en 1991, sont désormais sur la voie de la stabilisation et de la réconciliation. Mais c'est une route tortueuse, qui nécessite des

efforts des pays concernés et un engagement fort de l'UE et de la communauté internationale.

Dès sa réunion tenue à Feira, au Portugal, les 19 et 20 juin 2000, le Conseil européen avait désigné officiellement les pays des Balkans occidentaux comme des « candidats possibles à l'adhésion à l'UE ». Le Conseil européen de Thessalonique (2003) a défini ensuite la stratégie d'adhésion. Durant ces sept années, tous les Conseils ont confirmé la volonté de l'UE d'intégrer les Balkans occidentaux. Cet objectif a de nouveau été confirmé en décembre 2009 lorsque les gouvernements espagnol, belge et hongrois ont présenté les objectifs de leurs présidences respectives pour la période de 18 mois devant commencer en janvier 2010.

Elles ont déclaré que l'UE continuerait de renforcer les perspectives d'intégration européenne pour les pays des Balkans occidentaux par le processus de stabilisation et d'association et l'ordre du jour de Thessalonique tel que décidé en 2003 et contribuerait activement à la stabilité et la prospérité de la région en utilisant tous les instruments à sa disposition. La nouvelle Haute Représentante de l'UE pour les affaires étrangères et la politique de sécurité, Madame Ashton, a réaffirmé elle aussi cet objectif et la Conférence de l'UE sur les Balkans occidentaux tenue à Sarajevo le 2 juin 2010 a officiellement confirmé que l'intégration européenne de la région est une priorité de l'UE.

L'agenda de Thessalonique propose une palette d'initiatives visant à soutenir et améliorer le processus d'intégration européenne, y compris par l'intensification de la coopération interparlementaire, les partenariats, le jumelage de villes, l'échange et le détachement de fonctionnaires, l'assistance technique, la coopération en matière de politique étrangère et de sécurité, la participation à des programmes de l'UE et la collaboration dans le domaine de la lutte contre la criminalité organisée.

Des accords de stabilisation et d'association signés avec la Croatie, l'ex-République yougoslave de Macédoine et l'Albanie sont désormais en vigueur ; d'autres ont été signés avec le Monténégro, la Bosnie-Herzégovine et la Serbie et sont en cours de ratification. La signature d'un accord avec le Kosovo est considérée comme prématurée, même si la perspective d'adhésion le concerne aussi. La suppression des visas pour les ressortissants de la Serbie, du Monténégro et de l'ex- République yougoslave de Macédoine – bientôt étendue à l'Albanie et à la Bosnie-Herzégovine – est une étape importante qui rapproche un peu plus les Balkans occidentaux de l'Union européenne. La criminalité organisée et la corruption sont probablement les problèmes les plus graves que les pays concernés aient à combattre. L'UE met tout en œuvre pour les aider à parcourir le difficile chemin qui les mènera à l'édification d'institutions, mais le gros de ces efforts devra être fourni par les pays eux-mêmes.

Pour conclure, il semble juste de dire que tous les pays des Balkans occidentaux ont progressé sur la voie de l'intégration dans les institutions européennes, même s'il y a des différences entre eux. Il faut en tout cas les encourager à mettre en œuvre toutes les politiques et les mesures de convergence nécessaires. Et chaque pays sera jugé à l'aune de ses réalisations propres. L'UE est déterminée à les aider, mais s'ils veulent réussir, il

leur faudra faire des efforts complémentaires soutenus afin de satisfaire aux critères de l'Union.

Dans le même temps, il est essentiel que l'Union européenne délivre des messages positifs et clairs concernant sa réelle volonté d'intégrer les pays des Balkans occidentaux. Et la conférence de Sarajevo a délivré un message clair et encourageant. L'objectif d'une paix, d'une stabilité et d'une prospérité durables ne pourra être atteint que par la démocratie, l'Etat de droit et le respect des droits de l'homme.

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DIRECTIVE BOLKESTEIN ET LA LIBRE CIRCULATION DES TRAVAILLEURS

RESUME

La directive Bolkestein (directive 123/2006) vise à la suppression des restrictions à la libre circulation des services et l'harmonisation des questions spécifiques. L'accent a été mis sur la règle du pays d'origine, ce qui est dû à une modification à cause de l'opposition de l'Allemagne et de la France. Aujourd'hui, la règle d'origine donne aux entreprises la possibilité de la liberté d'offre des services dans d'autres Etats membres dans le respect des normes des droits des travailleurs, la protection de l'environnement, de la santé et de la sécurité. Unique accroître la coopération et l'échange de point de contact des fournisseurs d'information et les destinataires de services.

Services, qui sont essentiellement nature immatérielle, nous considérons que tous les services fournis contre rémunération et ne sont pas couverts par les dispositions relatives à la libre circulation des marchandises, des capitaux et des personnes. Libre circulation des services est considérée comme une des libertés fondamentales de l'UE. Libre prestation des services, qui comprennent les services temporaires dans un autre Etat membre doit être séparée de la liberté d'établissement – un règlement permanent dans le pays pour mener à bien une industrie particulière. Libertés énoncés s'applique à l'établissement secondaire que la création de filiales et sociétés affiliées. Restrictions à la liberté d'établissement sont autorisées dans les cas où ils servent les intérêts des droits reconnus par l'Union, soit directement ou indirectement discriminatoires à l'encontre des non pays de l'UE et à l'étranger, permettant d'atteindre l'objectif énoncé et quand ils sont nécessaires.

La libéralisation des services a entraîné une baisse des prix des services, la croissance de l'emploi et de l'augmentation du commerce des services. Abolition des restrictions sur la qualité de service et plus de choix pour les consommateurs et réduire les coûts. Ces effets sont évidents dans le secteur bancaire, les télécommunications sekoru, du tourisme et de l'énergie. Créer de meilleurs emplois, d'accroître l'emploi, une plus grande proportion de l'emploi féminin et d'un interrupteur vers une société de la connaissance, en montrant les progrès de l'UE dans la réalisation des objectifs de la stratégie de Lisbonne. La plupart de la population active dans les économies européennes les plus avancées sont employées dans le secteur des services, en mettant l'accent sur les connaissances des services: services aux entreprises, la santé et l'éducation. Le secteur des services, qui est la plus lente ouverture, atteint 70% du PIB, et les services commerciaux représentant 20% du commerce intra-européen. Les services sont généralement localisées et les soumissionnaires doivent être à proximité

de demandeurs. Ce qu'il faut, c'est plus de concurrence et d'exploiter le nouveau potentiel du marché intérieur des services.

Mots-clés: Directive Bolkestein, la liberté de fournir des services, la libre circulation des services, libéralisation, mise en œuvre

JEL classification : L8

1. INTRODUCTION

Libre prestation des services est l'une des libertés fondamentales dans la réalisation économique du marché intérieur de l'UE. Alors que la liberté de circulation des personnes, des biens et des capitaux se déroule sans trop de difficulté, pour autant que la libre prestation de services en raison de divergences de vues et les intérêts particuliers des Etats membres ne sont pas encore s'écouler vers l'application intégrale de l'UE-27. Compte tenu de la baisse de la croissance économique dans la directive européenne sur les services devrait contribuer à éliminer les obstacles à la prestation des services au sein de l'UE, ce qui contribuerait à accroître l'emploi et la croissance de l'économie de l'UE, d'autant plus que les 70% de la population de l'UE sont employées dans le secteur des services. La croissance économique et le développement durable sont les piliers de la stratégie de Lisbonne dans lequel le plus grand poids avec les services seulement.

Marché intérieur de l'UE, sur la base des principes de non-discrimination reconnaissance mutuelle, permet la libre circulation des biens, des services, des capitaux et des personnes. Libre circulation des services et liberté d'établissement sont souvent des périodes perçues comme une liberté. Cependant, la nature temporaire qui les distingue de continuité des activités et la nécessité de s'établir dans un autre État membre. La libéralisation des échanges de services dans l'Acte unique sur l'UE commence.

Le processus de levée des obstacles à l'exercice libre et services de l'établissement régi par les articles 50 et 59 du traité de l'UE. Interdiction de la discrimination dans la prestation des services est introduite par le cas des services introduits par Bisbergen. Directive adoptée par la suite (Lisbonne et Bolkestein) régir la reconnaissance mutuelle des qualifications professionnelles et la suppression des restrictions à la libre circulation des services dans le but d'accroître la compétitivité.

2. ASPECTS JURIDIQUES DE LA LIBRE PRESTATION DE SERVICES DANS LE MARCHE INTERIEUR

Marché intérieur de l'Union européenne permet la libre circulation des biens, des services, des capitaux et des personnes dans l'espace européen que dans un seul pays et est basé sur deux principes: le principe de non-discrimination et le principe de la reconnaissance mutuelle. Le principe de non-discrimination en raison du chapitre 2, art.

18, et interdit toute discrimination fondée sur la nationalité, c'est à dire un traitement différent dans les mêmes circonstances sur la base de la nationalité. Le principe de la reconnaissance mutuelle est étroitement lié au principe de non-discrimination et exige que la législation d'un autre État membre à un droit d'effet équivalent national. Le principe a été établi par la décision de la Cour de justice en 1979 dans le magazine de l'événement de Dijon. Puisque le principe de la reconnaissance mutuelle ne suffit pas, il était censé et des mesures visant à harmoniser les législations nationales.

Libre prestation des services comprend les services temporaires ou occasionnels à travers les frontières, tandis que l'article 57 du traité sur le fonctionnement de l'Union européenne, le terme de services, les services qui sont normalement chargés, et il n'y avait pas de dispositions relatives à la libre circulation des marchandises, des capitaux et des personnes. Ceci s'applique en particulier aux activités de caractère industriel, artisanat commercial, et de la profession. Le droit d'établissement comporte résidence permanente dans un autre État membre pour y exercer une activité économique et la liberté de faire des représentations, agences et succursales dans d'autres pays. Services et activités dans lequel la libre circulation des services ne devraient pas être soumis à des mesures discriminatoires ou restrictives, autres que celles qui peuvent être justifiées par l'intérêt public. Bien que la jurisprudence de la CJCE dans le milieu des 1970 créé le droit à la libre circulation des services et droit d'établissement dans un autre État membre, que l'Acte unique européen est une étape importante pour la libéralisation des marchés de services dans l'UE.

2.1. Sources du droit

Le Conseil des ministres le 18 Décembre 1961. adopté le programme général de suppression réciproque des restrictions à la liberté d'établissement et de libre prestation de services pour certains produits. L'impact direct de ces deux libertés permis 1.1. 1970e Les arrêts de la CJCE. Cas van Binsbergen introduit interdiction de la discrimination dans l'exécution des services - Article 56 du traité sur le fonctionnement de l'UE a approuvé des entités indépendantes, qui sont régulièrement résidant dans le pays d'origine, le droit de fournir des services dans un autre État membre. Cas de Reyners, la CJCE a estimé que tous les individus issus d'autres États membres de l'UE peuvent nécessiter un traitement égal à ceux qui sont citoyens des pays membres de l'établissement.

L'article 50 TFUE apporte des mesures pour garantir la liberté d'établissement: traitement préférentiel aux services qui peuvent contribuer de manière significative au développement de l'agriculture et du commerce; encourager la coopération des autorités compétentes des États membres; l'abolition restrictives procédures et pratiques administratives, assurer la possibilité de demeurer des travailleurs dans un autre pays pour faire une activité non salariée; suppression des restrictions à toutes les activités, y compris la mise en place d'agences, de succursales, de coordonner les mesures de protection dans les États membres pour les entreprises d'autres pays. Le développement d'un système général de reconnaissance progressé très lentement, en trois étapes:

1. Premier Directive 89/48/CEE du 21.12.1990 - Reconnaissance des diplômes d'éducation supérieure et la formation professionnelle d'au moins 3 ans;

2. Deuxième Directive 92/51/CE du 18.6.1992 - Développe le système pour un court ou un programme d'études diplôme professionnel postsecondaires et secondaires;
3. Troisième directives 99/42/CE 7.6.1999 - Présente la reconnaissance de certaines professions commerciales, industrielles et artisanales qui n'ont pas été incluses dans les directives précédentes.

Un nouvel élan a été donné par la libéralisation des services par la Stratégie de Lisbonne. Des directives spécifiques relatives à la reconnaissance mutuelle du droit de l'éducation formelle dans la prestation de services et liberté d'établissement: pour les architectes (85/384/CEE) pour les dentistes (78/686/CEE) pour les médecins (93/16/CEE) pour sages-femmes (80/154/CEE) pour les infirmières (77/452/CEE) pour les pharmaciens (85/433/CEE) pour les vétérinaires (78/1026/CEE).

Directive de Bolkestein de l'année 2006 vise à assurer une plus grande compétitivité et l'emploi dans le marché des services en supprimant les nombreuses barrières administratives et les mesures protectionnistes dans la fourniture transfrontalière de services ou établi dans un autre État membre. Les tâches prioritaires incluent processus sélectif d'abolir les restrictions dès que possible et l'harmonisation des questions spécifiques. Impose la nécessité d'une harmonisation ciblée, à la coopération administrative, et des codes de conduite relatives à certaines questions. Harmonisation des législations nationales doit assurer un degré élevé d'intégration juridique dans l'UE et un niveau élevé de protection de l'intérêt général. Les États membres sont encouragés à établir des points de contact pour simplifier les procédures administratives par lesquelles les prestataires de services publics peuvent exécuter la procédure et les formalités. Parce que le but de réaliser l'échange d'informations pertinentes et les vérifications de performance, des inspections et des enquêtes, établi électronique spécifique d'échange d'informations IMI.

2.2. Droit dérivé

L'objectif de l'UE dans le domaine des services financiers est de créer un marché unique intégré et le marché européen dont les services financiers peuvent offrir, et au-delà pour atteindre la libre circulation des capitaux et des services. L'UE met l'accent sur deux types de services financiers: marchés de gros (entreprises et capital) et le marché de détail (consommateurs) et les services de base tels que les paiements d'intégration de systèmes. Pour le développement ambitieux des services financiers, c'est un processus important législative initiée en 2002, appelé processus Lamfalussy (qui contenait un certain nombre de mesures visant à réformer l'approche basée sur le marché des valeurs mobilières avec quatre niveaux, ce qui devrait accélérer la libéralisation des services financiers en conformité avec le Plan d'action pour les services financiers.

Droit bancaire est réglementé par les directives européennes suivantes: Directive 2000/12/CE du principal lié à l'initiation et la poursuite de l'activité des établissements de crédit, la directive 2001/24/CE concernant la réhabilitation et la liquidation des établissements de crédit, la directive 86/635/CEE concernant les comptes annuels et consolidés comptes des banques et autres établissements financiers; 89/117/CEE directive relatives aux succursales de banques étrangères; directive 93/6/CEE, qui

réglemente l'adéquation des fonds propres; la directive 94/19/CE pour l'assurance-dépôts; directive 78/660/CEE et 83/349/CEE régissant le domaine de la comptabilité (comptes annuels et consolidés) du règlement 4064/89 relatif au contrôle des concentrations.

En plus de ces directives sont utilisées et certaines des dispositions des directives relatives aux fonds d'investissement, compagnies d'assurance, de consommation et d'affaires des cabinets d'audit dans les parties qui se rapportent à l'activité bancaire et ils sont: la directive 85/611/CEE, la directive 93/22 / la directive CEE 87/102/CEE, la directive 93/13/CEE et de la directive 84/253/CEE.

2.3. Querelles nationales dans le liberté de fournir des services

Application et une meilleure application du marché intérieur et de la libéralisation encore plus grande du secteur des services, il est possible de mettre pleinement en œuvre la directive européenne sur les services, qui vise à accroître et moderniser le cadre administratif et de surveillance pour les États membres, afin de renforcer les droits des consommateurs et de générer un potentiel de croissance des services. La mise en œuvre de la directive Services requiert les efforts des États membres doivent prendre modifications administratives et législatives, qui comprennent un examen approfondi du cadre réglementaire qui s'applique à un large éventail d'activités économiques au niveau national, régional et local. Ces réformes doivent être mises en œuvre dans le délai le plus court possible. Les réformes nationales devraient mettre l'accent sur les domaines suivants: les États membres qui ne disposent pas d'une projection de finalisation et de l'harmonisation de la législation avec les exigences de l'UE, l'adoption de règlements d'application, ce qui accélère le processus d'ajustement et d'accroître l'efficacité de l'utilisation de l'information du marché intérieur.

2.4. Effets de mouvement des fondations juridiques sur libre prestation de services

Les règles du marché intérieur peut avoir un effet significatif et positif que si elles sont correctement et le système transpose échéance législative dans un pays membre. Les États membres ont fixé une limite de déficit de transposition de 1%. Déficit de transposition montre le pourcentage de directives qui n'ont pas encore été notifiées à la Commission en ce qui concerne le nombre total qui aurait été signalés dans un certain délai. La situation dans la seconde moitié de l'année 2011 montre que valeur indique un déficit de 1,2% du pessimisme provoque car elle exprime les valeurs qui étaient en 2007. L'optimisme se fonde sur le fait que l'augmentation du nombre de directives et les États membres ont réussi à augmenter le pourcentage de leur exécution conformément à la directive de la tolérance zéro.

La mise en œuvre de la directive européenne sur les services va générer et augmenter le commerce intra-européen, aussi d'investissements étrangers dans le secteur des services et la baisse des prix des services. La croissance du PIB devrait être d'environ 1% en moyenne pour l'ensemble de l'Europe. Libéralisation accrue des services de contribuer à la croissance de l'emploi de 0,3% (dans les services industriels 0,5%) et la valeur ajoutée de croissance de 1,1%. Étude sur l'exemption du pays d'origine, commandé par le gouvernement britannique, montre que 10% des gains totaux (2-4 - milliards de

dollars par an) s'élève pour les détenteurs de dispositions relatives aux déchets. Ce montant doit être considéré comme une limite inférieure sur l'impact des règles de retrait du pays d'origine. La libéralisation des services apprentis, vu à travers le commerce et l'investissement direct étranger, pourrait conduire à une augmentation du PIB de 0,5% à 1,5%. Meilleur accès au marché encouragera un plus grand choix pour les consommateurs, accroîtra la productivité et une meilleure compatibilité. Les retombées du commerce, de l'investissement et de la connaissance affecteront la croissance et le développement des innovations.

3. LIBRE PRESTATION DES SERVICES DE L'ASPECT DE 123/2006

3.1. Domaines d'application, définition du service

Le terme service au sens de l'article 57 du TFUE croise que ces services sont fournis contre rémunération, pour autant qu'ils ne sont pas couverts par les dispositions relatives à la libre circulation des marchandises, des capitaux et des personnes. Directive 123/2006 comprend un certain nombre de services tels que: commerce de distribution (y compris les foires commerciales), les activités des professions réglementées (experts-comptables, conseillers juridiques, architectes, ingénieurs), de l'artisanat et de la construction, les services aux entreprises (conseil en gestion, la publicité, la gestion et l'entretien des installations), les voyages agences et autres services touristiques et d'accueil, les services liés aux loisirs, le sport, la culture, l'installation et la maintenance des équipements), les services de la société de l'information, services immobiliers, de formation, de soutien, services aux ménages, l'aide à l'agriculture et la sylviculture.

Directive 123/2006 ne comprend pas: les services non économiques d'intérêt général, les services audiovisuels, les jeux, les services de sécurité, les notaires et les procureurs et les services de travail temporaire. La directive ne comprend pas non plus toute législation sur la circulation routière, l'exploitation du pays, de l'urbanisme et de construction. Les services financiers, les transports et les services de communications électroniques englobent les actes juridiques spéciaux de l'UE.

3.2. Le fardeau administratif pour les fournisseurs et destinataires de services

A la lumière de la directive établit une distinction entre plusieurs modes de livraison: Premier ACTIVE liberté de fournir des services dans la prestation de services dans un autre pays - dans ce cas, le fournisseur de services hors de leur pays afin de fournir des services dans un autre État membre. Fournir des services n'est pas lié à la réalisation préalable de la liberté d'établissement et la liberté de réaliser ces deux coïncident.

1. Deuxième PASSIF liberté de fournir des services liés au receveur par le bénéficiaire du service dans un autre État membre.
2. Limitez-delà du simple - fournir des services ne nécessitent pas un changement de résidence ou de l'établissement d'un service ou le destinataire du service dans un autre État membre. Ceci s'applique en particulier à la réception et la transmission d'émissions de télévision et de radio. Le service traverse la frontière comme un type spécial de la marchandise et payer une redevance pour ce service.

3. Impact de la réalisation du marché intérieur de l'UE. Un accent important est placé sous la directive de gouverner le pays d'origine. La proposition initiale de la directive en 2004. Le but était d'introduire une règle qu'une entreprise peut fournir des services dans un autre État membre ainsi que les lois et normes du pays où elle est enregistrée, et non celui dans lequel le service est exécuté. Les effets des directives favorables aux pays les moins développés qui sont abondants travail pas cher, mais aussi tout le marché intérieur en raison de la plus grande efficacité de l'allocation des ressources. Principe du pays d'origine, en raison de l'opposition de la France et de l'Allemagne, a été remplacé par les dispositions relatives à la libre prestation de services, selon laquelle les entreprises sont libres d'offrir des services dans d'autres États membres, mais doivent respecter les normes du pays d'accueil en ce qui concerne les droits des travailleurs, la santé, la sécurité et l'environnement. Des critiques ont été principalement axées sur la menace de dumping social sociétés de relocation, dans les États les moins réglementés et l'érosion des droits des travailleurs. Mise à jour des lignes directrices adoptées en 2006, mais sous une forme atténuée que ce qui était prévu à l'origine. Le sens des lignes directrices est d'encourager le développement des services sur le marché, et pas seulement des activités transfrontalières. Il est nécessaire d'encourager le réexamen des dispositions qui sont de caractère discriminatoire, éliminer les obstacles à l'utilisation des services dans un autre État membre et d'encourager la qualité du service et de la coopération administrative entre les États membres

La prestation transfrontalière de services a des effets positifs de la création d'emplois, et donc de la possible concurrence négative entre les États membres. Le fonctionnement du marché unique n'est pas seulement justifiée sur le plan économique, mais aussi d'un point de vue juridique. Entrée sur le marché et la concurrence qu'elle remet en question constitue le fondement de l'intégration européenne et le modèle européen. Le bien-être des consommateurs, c'est à dire l'utilisateur du service est un concept plus large de la protection des consommateurs et de la concurrence veille à son profit les mécanismes des consommateurs.

Influences principales de la directive de Bolkestein peut être réduite à: délimitation de la zone planification générale des services gratuits dans le marché unique des services sectoriels spécifiques; codification de la pratique actuelle de la décision de la Cour européenne interprétant les dispositions pertinentes du traité CEE de l'époque, de créer l'engagement de simplifier les procédures administratives dans le domaine de la libre prestation de services et une plus grande transparence; prescrire des conditions pour l'introduction de laissez-passer nationaux pour la prestation de services; listes noires introduites des interdits exigences nationales (règlements) qui limitent la libre prestation de services; prescrire les méthodes ainsi que leur évaluation de la situation, dans lesquelles les États membres peuvent restreindre la libre prestation des services et l'édition et des conditions administratives coopération entre l'Union et les États membres dans le domaine des services.

Les États membres peuvent limiter la fourniture de services sur son territoire pour protéger l'ordre public, la sécurité publique, la santé publique et de protection de l'environnement. Ces mesures ne doivent pas être discriminatoires (par exemple, fondée sur la nationalité) doivent être tenus (ordre public, sécurité publique) et doit être

proportionnelle à (doit répondre aux exigences des objectifs fixés). Une nouvelle fonctionnalité et points de contact - un point de contact unique qui établira les autorités compétentes des États membres, ce qui se fait plus facile de contacter le donneur et le receveur. Les points de contact sont les lieux dans lesquels ils seront en mesure de recevoir toutes les informations nécessaires et d'effectuer les formalités administratives. Toutes les activités sont planifiées et électronique temps de travail et des économies substantielles.

4. EFFETS DE LA RÉALISATION DE LA STRATÉGIE DE LISBONNE

Lors de la réunion du Conseil européen, qui s'est tenu en Mars 2000. à Lisbonne, les chefs d'État et de gouvernement de l'Union européenne sont parvenus à un accord sur un objectif stratégique commun selon lequel l'UE d'ici 2010 pour devenir l'économie la plus compétitive et dynamique fondée sur la connaissance, capable d'une croissance économique durable, avec le plus haut taux d'emploi et une forte cohésion économique et sociale. Afin d'atteindre cet objectif a été adopté ainsi. La stratégie de Lisbonne et de l'Agenda de Lisbonne, un programme qui se connecte initiatives politiques actuelles, et à moyen et à long terme de réforme économique.

Cette stratégie, qui a été développé lors des réunions ultérieures du Conseil européen, repose sur trois segments:

- Premier Segment économique - préparer la transition vers une économie compétitive, dynamique et fondée sur la connaissance;
- Deuxième Segment social - axé sur la modernisation du modèle social européen. Ce résultat est obtenu en investissant dans les ressources humaines et la lutte contre l'exclusion sociale. Les Etats membres sont appelés à investir dans l'éducation et la formation, et de mener une politique active de l'emploi, pour aplanir le chemin vers une économie fondée sur la connaissance;
- Secteur écologique - a ensuite été adopté lors du Conseil européen de Göteborg en Juin 2001. et l'attention sur le fait que la croissance économique devrait être alignée sur l'utilisation rationnelle des ressources naturelles.

Selon la stratégie de Lisbonne, de renforcer la compétitivité de l'Union se fonde sur les objectifs suivants:

- Premier l'utilisation plus large et plus efficace des technologies de l'information;
- Deuxième pour créer un européen de la recherche et de l'innovation;
- l'achèvement du marché intérieur unique;
- la création de services efficaces et intégration des marchés financiers;
- de renforcer l'esprit d'entreprise par l'amélioration et la simplification de l'environnement réglementaire des entreprises;
- le renforcement de la cohésion sociale, basée sur la promotion de l'emploi;
- à améliorer les compétences et moderniser les systèmes de protection sociale;
- sur le développement durable qui garantisse à long terme la qualité de vie.

Appartenaient à des objectifs spécifiques et d'augmenter le taux d'emploi à 70% d'ici 2010 (ce qui signifie que 20 millions d'emplois nouveaux), ainsi que d'augmenter le

taux annuel de croissance réelle de 3%, ce qui est supérieur à la moyenne de 2,1% au cours des dix dernières années. Les contrôles effectués pour atteindre ces objectifs en 2005. Le soi-disant, rapport de Kook, qui montre la lenteur des progrès dans la réalisation des objectifs. Les raisons en sont les objectifs trop largement définis, le programme trop vaste, le manque de coordination et des priorités contradictoires et un manque de volonté politique.

La stratégie révisée de Lisbonne a changé les priorités sur la croissance et l'emploi, et de mettre l'accent sur trois domaines clés:

- Faire de l'Europe un lieu plus attrayant pour investir et travailler;
- La connaissance et l'innovation pour la croissance;
- Créer plus d'emplois et de meilleurs emplois.

4.1. Effets des services de réduction de prix

Le marché intérieur à partir de sa création, a créé plusieurs million de nouveaux emplois et plus de 800 millions d'euros de ressources supplémentaires. Les effets des réductions de prix sont évidents dans de nombreux domaines: les appels téléphoniques coûtent seulement une partie du prix d'il ya 10 ans, les compagnies aériennes ont baissé leurs prix et d'ouvrir de nombreuses nouvelles connexions. Les ménages et les entreprises à travers l'Europe, en raison de la mise en place d'une concurrence effective, peuvent choisir librement l'électricité et du gaz. Cette situation se traduit par des prix plus bas et un plus grand choix pour les consommateurs.

L'Union européenne a mis un accent particulier sur le secteur postal (directive 2008/6/CE). L'intention est d'offrir un service plus service postal, de meilleure qualité et de choix et des prix plus bas pour les entreprises et les citoyens. Le cas spécifique impliquant le secteur audiovisuel, que la radiodiffusion de service public à l'égard de la croissance des marchés des médias et du secteur association spécifique avec les besoins démocratiques, sociaux et culturels de la société, que la nécessité de préserver le pluralisme des médias dans l'Union européenne.

Lignes directrices en matière de télécommunications (directives 2002/21/CE) définit la nécessité de réglementer et d'assurer le maximum d'avantages en termes de choix, de prix et de qualité et à encourager les investissements dans les infrastructures et l'innovation et des conditions assurant sans discrimination.

Obligation de service universel implique que l'Etat impose à certains opérateurs de réseaux de communications électroniques ou de services, qui offrent un ensemble minimal de services à tous les utilisateurs, indépendamment de leur emplacement géographique, au sein d'un territoire national, à un prix abordable. Les utilisateurs des services de télécommunications ont le droit de conventions de souscription adéquats et des informations transparentes sur les prix. Les nouveaux progrès technologiques permettent le développement rapide de la téléphonie mobile en raison du bas prix devient abordable pour tout le monde.

La libéralisation des services bancaires au secteur s'efforce également de réduire les coûts et de réduire les obstacles. Licence bancaire unique représente une extension

d'une banque d'État membre donné d'ouvrir une succursale dans le pays partenaire, sans formalisme excessif et de l'administration. D'orientation sur le rôle de fournir la garantie du système bancaire réglementaire couvrant tous les rôles à 50000 euros par investisseur, soit 100.000 euros après 2010. Il ya eu les lignes directrices qui régissent les comptes annuels et consolidés des banques et des documents comptables annuels dans les bureaux de l'UE. Unique système de paiement européen simplifie l'utilisation des cartes de crédit et de débit à l'étranger et simplifie le transfert de l'argent dans un autre pays. Les frais bancaires pour les paiements transfrontaliers sont réduits.

Le coût moyen de l'utilisation des ordinateurs et de la tablette/Smartphone lorsqu'ils voyagent dans l'Union européenne au cours des ans a plus que diminué de moitié. Rechercher sur Internet ou recevoir des e-mail, tout en restant en dehors de leur pays d'origine, ne coûtera pas plus de 90 cents par mégaoctet, à partir de Juillet 2012, l'abaissant à 50 cents en 2014. Cette nouvelle règle signifie que les utilisateurs seront en mesure de bénéficier de la baisse des contrats d'itinérance de ceux qui fournissent les entreprises locales. Dans le secteur des services touristiques, les directives de l'UE exigent l'application d'un taux différenciés, de la TVA, ce qui augmente la compétitivité du tourisme dans les différents pays et fournit des professionnels de mieux se préparer pour la saison.

Réduire le prix des services est à atteindre dans le secteur de l'énergie grâce à de nouvelles initiatives qui émergent chaque jour. Parmi ceux-ci est intéressant: plusieurs compagnies énergétiques européennes et les organisations ont publié une déclaration demandant aux dirigeants européens à l'action qui établirait réseau électrique transfrontalier, ce qui serait conforme avec les règles communautaires sur la libre circulation des biens et des services en Europe. Les signataires affirment que le réseau unique pour assurer la livraison de l'électricité et la baisse des prix due à la concurrence, mais aussi d'ouvrir l'accès aux sources d'énergie renouvelables. Selon ces règles, les prix sont déterminés sur la seule base de l'offre et de la demande. Si le gouvernement intervient dans la régulation des prix pour les utilisateurs finaux, c'est cet acte soulève la barrière à l'entrée pour les nouveaux participants au marché, ce qui empêche les consommateurs et les entreprises le meilleur choix possible de services dans le marché.

4.2. Effets de l'augmentation de l'emploi

Dans l'UE-27, plus de 66% de la population active travaille dans le secteur des services. L'emploi en Europe est un personnage très dynamique. Une conséquence de la restructuration et l'ouverture de nombreux emplois. Au deuxième trimestre de 2008. Les plupart des nouveaux emplois en Pologne, près de 38 000ème Le plus grand nombre était dans les services de l'industrie, des mines et financière automobiles. La Pologne à cet égard est très en avance sur le prochain pays sur la liste des emplois - République tchèque - avec 6 000 nouveaux emplois.

La plupart de la main-d'œuvre, en particulier dans les économies européennes les plus avancées, le travail dans le secteur des services. L'emploi dans le secteur des services continue de croître. Dans l'UE-15 en 1995. Les services sont représentaient 66% de l'emploi en 2006, le pourcentage est passé à 70%. L'accent a été mis sur les services

basés sur la connaissance tels que les services aux entreprises, la santé et l'éducation. Croissance de l'emploi dans ce secteur est principalement attribuable à la croissance de l'emploi dans les économies européennes avancées au cours des 11 dernières années. Dans ces générés plus d'emplois que toute autre activité économique. Dans le même temps, il est ouvert et un grand nombre d'emplois faiblement rémunérés dans les services. Transfert d'emplois de l'Europe à meilleur marché emplacements a suscité des préoccupations majeures de citoyens et dirigeants politiques. Environ un quart de tous les emplois se trouvaient dans le secteur des services, ce qui est beaucoup moins que la perte globale d'emplois dues à des restructurations. Une plus faible proportion est présente dans les services de niveau inférieur qui impliquent un contact direct avec les clients, comme la coiffure. Ils sont beaucoup plus exposés étaient des emplois dans le secteur des services basés sur la connaissance.

Créer de meilleurs emplois, d'accroître l'emploi, une plus grande proportion de l'emploi féminin et d'un interrupteur vers une société de la connaissance, en montrant les progrès de l'UE dans la réalisation des objectifs de la stratégie de Lisbonne. Ces motifs peuvent conduire à des problèmes de grands groupes particuliers de travailleurs qui sont encore répandus sur les marchés du travail européens, et ceci est particulièrement vrai pour les travailleurs peu qualifiés et les travailleurs déplacés à l'emploi dans les industries tertiaire. Croissance de l'emploi dans les emplois faiblement rémunérés signifie moins de possibilités d'emploi pour ces travailleurs, et l'absence de nouveaux emplois dans le milieu n'est certainement pas favorable tendance à la hausse dans la structure de l'emploi.

4.3. Effets de commerce pour augmentation des services

Le secteur des services dans le marché intérieur de l'UE l'emporte comme un moteur clé de la croissance et la création d'emplois. 2007e prestations sont réalisées à 70% du PIB, 68% des emplois et de générer 96% des nouveaux emplois créés dans l'UE. Le commerce des services est encore faible, et représente 20% des échanges au sein de l'UE. La raison doit être recherchée dans le fait que les services sont généralement localisés, de sorte que les fournisseurs de la négociation difficile et l'entretien doivent être à proximité des services demandeurs. Le secteur des services est le plus lent d'ouverture. Impose la nécessité d'une plus grande concurrence et d'exploiter le potentiel des nouveaux services dans le marché intérieur.

L'augmentation des échanges de services entre les pays membres s'élevait à 5% en 2007 et a eu une tendance de croissance constante. Il crée une fondation pour la poursuite de l'intégration des marchés de services et d'accélérer l'élimination des obstacles existants dans ce secteur. Le commerce des services avec les pays tiers est également en constante augmentation et s'élève à 3,4% du PIB. Par rapport au commerce des biens et services conduit à des faits: le commerce des biens dans les comptes pour 17% du PIB de l'UE, tandis que le commerce des services est limitée à 5%. La raison réside dans le fait que la plupart des services ne peuvent être fournis de manière efficace à de grandes distances du consommateur. Le commerce des services avec les pays tiers est plus élevé que le commerce dans le marché intérieur. Les exportations de services vers des pays tiers n'a cessé de croître et s'élève à 4,1% du

PIB, tandis que les importations en provenance de pays tiers vers l'UE s'est élevé à 3,4% du PIB.

Trois types de services ont le plus grand avantage concurrentiel: services financiers, services d'information et de services de construction. La croissance et la prospérité dans ces services est réalisée depuis 2004 lorsque le rendement à l'exportation a créé un excédent de leur solde.

Les exportations de services d'assurance dans les pays non membres est également en augmentation depuis 2007. Écart de compétitivité dans le domaine du droit d'auteur, les frais, les services, les loisirs, les services culturels et du tourisme, selon la dépendance de l'UE sur les technologies étrangères. Les principaux importateurs de services d'autres États membres sont: l'Irlande, le Danemark, les pays du Benelux, l'Autriche et les nouveaux États membres, Malte, Chypre, l'Estonie et la Bulgarie. Tous les États membres, sauf l'Irlande et la France, sont plus orientés vers les fournisseurs de services dans le marché intérieur, mais ceux des pays tiers. Toutefois, il existe encore des différences entre les pays des membres anciens et nouveaux. Les nouveaux États membres sont plus ouverts et d'accroître leur commerce des services est 2 fois plus grand que les anciens pays du noyau dur. L'impact le plus important de l'élargissement et de l'exercice de la libre prestation de services est une combinaison de détournement des échanges du commerce interne et externe création. Les nouveaux États membres ont été remplacés par des prestataires de services de pays tiers avec les fournisseurs de services des États membres (sauf Malte, la Slovaquie et la Roumanie, qui ont augmenté le volume des échanges commerciaux avec ses partenaires de l'Union, mais aussi avec ceux de l'extérieur). Un cas particulier du commerce des services est le Luxembourg: une petite économie avec une grande importance du secteur financier dans lequel les services d'exportation dans d'autres pays de l'UE est de 97,7% du PIB. Marché intérieur des services est très important pour les économies des pays tels que Malte et Chypre, dont les exportations de services vers le reste de l'UE a atteint 30% du PIB. Les exportations de services a enregistré plus petits Roumanie et la Finlande.

5. LA LIBÉRALISATION DES SERVICES DANS LA LUMIÈRE DE DIRECTIVE 123/2006

Le cadre juridique de la libre prestation de services et liberté d'établissement en Croatie est régi par les services (NN 80/11), qui a transposé la directive 2006/123/CE relative aux services dans le marché intérieur. Semblable à l'UE, la Croatie est aussi un accent important sur la libéralisation des services postaux. L'objectif de la nouvelle loi sur les services postaux est terminée la libéralisation du marché postal au 1 janvier 2013. La libéralisation des services postaux a débuté en 2003, a confirmé la stratégie du gouvernement pour le développement des services postaux en 2008, avec l'objectif de libéralisation totale du marché. La nouvelle loi est pleinement mise en œuvre de la troisième directive postale de l'UE. Le but d'introduire une nouvelle législation pour abolir le monopole de la fourniture de services postaux universels. Depuis qu'il est devenue la seule condition pour la fourniture de ces services dans la République de la Croatie, il est prévu qu'il fournit services 15 prochaines années avec un examen tous les cinq ans. La nouveauté de la loi est d'assurer le fonctionnement du mécanisme par le

biais d'un fonds d'indemnisation, dans laquelle des cotisations ont été versées aux prestataires de services postaux de substitution d'un montant de 5% des recettes provenant de la prestation de ces services. Dans le cas où cela n'est pas suffisant, la loi prévoit le financement par le budget de l'Etat. Une autre nouveauté de cette nouvelle organisation est d'effectuer des inspections des services d'affaires.

Les opposants à la loi n'estiment que les pouvoirs de donner une seule entreprise pour la fourniture de services postaux dans la période de 15 ans en arrière pas à pas, qui ne permet pas l'entrée de nouveaux concurrents sur le marché. Considérez également que la loi ne définit pas adéquatement les services universels et les autres.

L'entrée croate à l'UE affectera également la libéralisation des institutions d'assurance des soins de santé, ce qui peut conduire à des changements dans la position du système de soins de santé primaires. Assurance santé actuel, le coût élevé et où les utilisateurs finaux ne reçoivent pas le niveau de service que vous attendez, nécessite un changement. Il est nécessaire de se connecter avec d'autres organisations du système des soins de santé et d'identifier les thèmes et les intérêts communs.

L'harmonisation de la Croatie avec les normes européennes d'améliorer le fonctionnement du trafic du système de transport dans toutes les formes et de créer un cadre juridique qui permet une augmentation de la sécurité routière, la performance technique et social des termes de trafic et de mieux protéger les droits des passagers que les utilisateurs de services de transport. Les avantages de l'adhésion de l'UE dans ce domaine aura des hommes d'affaires, les transporteurs et les usagers des services de transport. La République de Croatie a introduit un tachygraphe numériques - appareils de mesure numérique du temps de conduite et de repos, ce qui permet un contrôle facile des heures de travail, une concurrence plus équitable car elle élimine la concurrence déloyale entre les transporteurs et contribue à renforcer la sécurité de tous les usagers de la route sur la route. Respecter les engagements pris lors des négociations, et grâce aux fonds de l'Union européenne de préadhésion, la Croatie est un complexe de suivi technique du système d'information et de gestion du transport maritime (VTMIS système). Ce système utilise le radar à un endroit à surveiller, gérer et organiser l'ensemble du trafic maritime dans l'Adriatique, ce qui permet de mieux comprendre les circonstances de la navigation en mer, réalise l'interaction avec le transport maritime contribue à la sécurité de la navigation et de l'efficacité de l'exécution des opérations portuaires. Ce système contribue également à une meilleure protection de la mer Adriatique à la pollution car il fournit à tout moment, surveiller et gérer la circulation des pétroliers dans la mer Adriatique. Pour plus de surveillance efficace, la gestion et l'organisation du transport par voies navigables, et en conformité avec les obligations des négociations, de la navigation intérieure sont introduits services d'information fluviale (SIF), c'est à dire, l'uniforme des services d'informations standard pour soutenir la gestion du trafic dans les eaux intérieures et le Système d'identification automatique (SIA) - système de communication radio internationale pour l'identification automatique des navires en trafic fluvial. Ainsi, la situation actuelle de la navigation intérieure et des données nautiques disponibles en temps réel pour les utilisateurs sur le plan administratif et commercial.

Dans la synchronisation de l'air avec les règles européennes a introduit les nouvelles pour protéger les droits des passagers en cas de retard de vol plus long (le transporteur doit fournir des abris, de la nourriture, des rafraîchissements) et annulation de voyage, en protégeant davantage les droits des personnes handicapées lors de la réservation et à l'embarquement sur un vol, définit clairement les obligations soulignant le tarif et les taxes d'aéroport spéciales, etc Depuis le marché du transport de chaque État membre de l'Union européenne est ouverte à des fournisseurs d'autres États membres, le marché du transport croate sera également libéralisé. Hôte local se joint à la concurrence de l'Union européenne, mais elle a aussi ouvert des opportunités d'affaires dans les nouveaux marchés. Les utilisateurs finaux, les voyageurs et les hommes d'affaires, plus l'offre de services de transport en Croatie ne permettra encore plus de choix, qui comprend la baisse des prix et des services de qualité supérieure.

La Croatie a entamé des négociations avec l'Union européenne a cherché à différer l'application de certaines règles de l'UE sur la libéralisation des marchés dans les deux segments du trafic maritime vers d'autres transporteurs nationaux puisse se préparer à faire face à la concurrence européenne. Par conséquent, certaines règles communautaires en vigueur jusqu'à l'expiration de la Croatie a demandé des périodes de transition (début 2017e 2015e et au début du transport maritime). Pendant deux ans suivant l'adhésion des transporteurs croates ne sera pas en mesure d'assurer des services nationaux de transport routier (cabotage) dans les autres États membres de l'Union, mais le principe européen de réciprocité ou transporteurs des autres États membres pendant cette période ne sera pas en mesure d'effectuer le même service sur le territoire croate.

6. CONCLUSION

Directive Bolkestein (directive 123/2006) vise à la suppression des restrictions à la libre circulation des services et l'harmonisation des questions spécifiques. L'accent a été mis sur la règle du pays d'origine, ce qui est dû à l'opposition de l'Allemagne et la France. Aujourd'hui, la règle d'origine donne aux entreprises la possibilité de la liberté offre des services dans d'autres États membres dans le respect des normes des droits des travailleurs, la protection de l'environnement, de la santé et de la sécurité. Unique accroître la coopération et l'échange de point de contact des fournisseurs d'information et les destinataires de services.

Services, qui sont essentiellement nature immatérielle, nous considérons que tous les services fournis contre rémunération et ne sont pas couverts par les dispositions relatives à la libre circulation des marchandises, des capitaux et des personnes. Libre circulation des services est considérée comme une des libertés fondamentales de l'UE. Libre prestation des services, qui comprennent les services temporaires dans un autre État membre doit être séparée de la liberté d'établissement - un règlement permanent dans le pays pour mener à bien une industrie particulière. Libertés énoncés s'applique à l'établissement secondaire que la création de filiales et sociétés affiliées. Restrictions à la liberté d'établissement sont autorisées dans les cas où ils servent les intérêts des droits reconnus par l'Union, soit directement ou indirectement discriminatoires à

l'encontre des non pays de l'UE et à l'étranger, permettant d'atteindre l'objectif énoncé et quand ils sont nécessaires.

La libéralisation des services a entraîné une baisse des prix des services, la croissance de l'emploi et de l'augmentation du commerce des services. Abolition des restrictions sur la qualité de service et plus de choix pour les consommateurs et réduire les coûts. Ces effets sont évidents dans le secteur bancaire, le secteur de la télécommunication, du tourisme et de l'énergie. Créer de meilleurs emplois, d'accroître l'emploi, une plus grande proportion de l'emploi féminin et d'un interrupteur vers une société de la connaissance, en montrant les progrès de l'UE dans la réalisation des objectifs de la stratégie de Lisbonne. La plupart de la population active dans les économies européennes les plus avancées sont employées dans le secteur des services, en mettant l'accent sur les connaissances des services: services aux entreprises, la santé et l'éducation. Le secteur des services, qui est la plus lente ouverture, atteint 70% du PIB, et les services commerciaux représentant 20% du commerce intra-européen. Les services sont généralement localisés et les soumissionnaires doivent être à proximité de demandeurs. Ce qu'il faut, c'est plus de concurrence et d'exploiter le nouveau potentiel du marché intérieur des services.

Directive 123/2006/EZ mis en œuvre, la législation croate Loi sur les services, qui introduit des changements sur le marché du service. L'un des changements introduits par le point de contact unique qui fournit des informations et de l'échange d'informations entre les entrepreneurs. L'accent a été mis, comme dans l'UE dans le secteur postal. Les réformes dans les services postaux ont été axées sur l'abolition du monopole sur la prestation de services postaux. Le nouveau cadre législatif permet l'amélioration du trafic de la concurrence, les avantages pour tous les usagers de la route et d'augmenter la compétitivité des transporteurs croates.

Conforme à la législation de l'UE et d'accroître la compétitivité des services, il est possible d'atteindre le long chemin du redressement et de l'économie croate sortir de la crise.

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