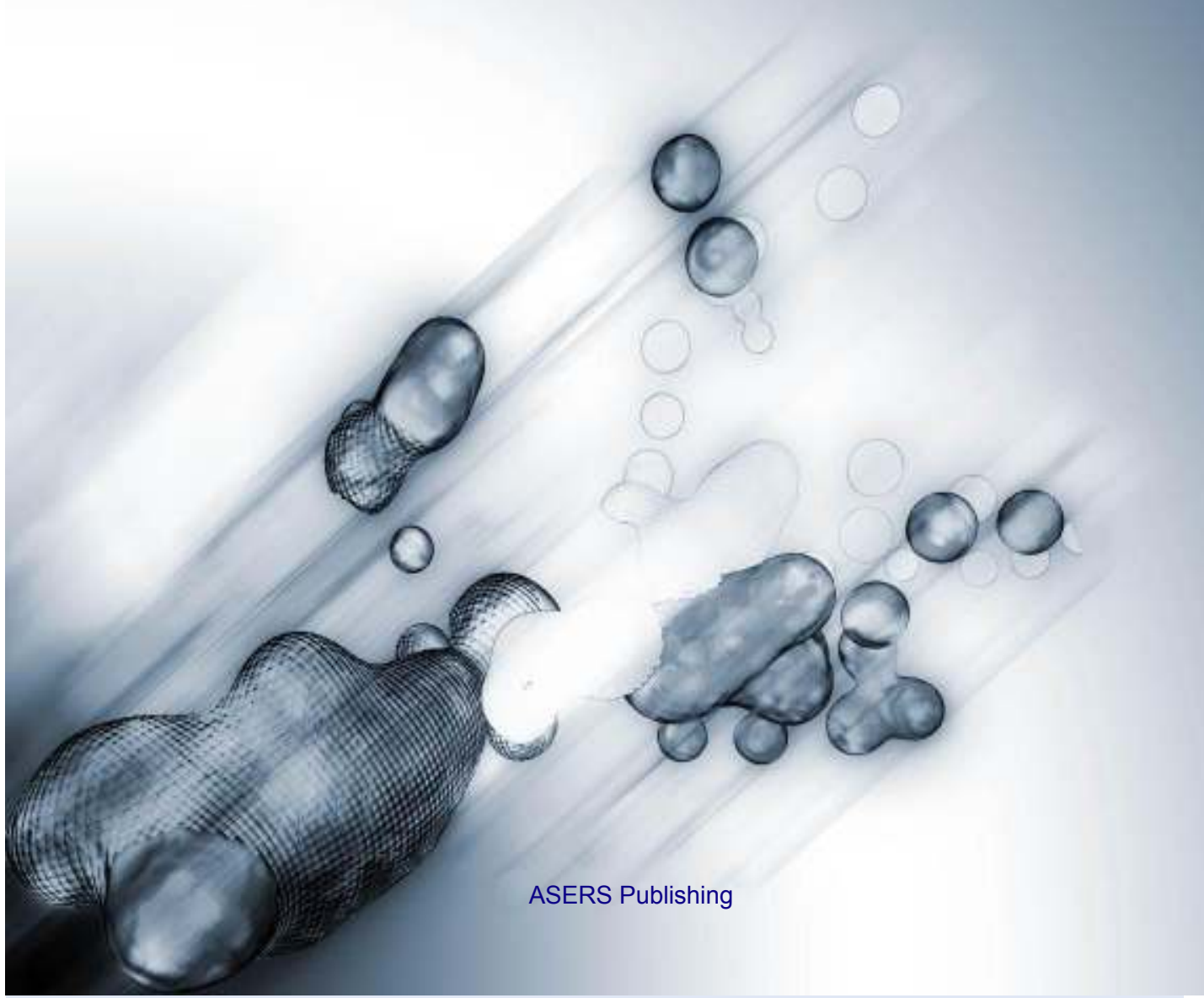


**COMPETITIVENESS AND ECONOMIC DEVELOPMENT:
CHALLENGES, GOALS AND MEANS
IN A KNOWLEDGE BASED SOCIETY**

Proceedings of the ASERS Second on-line Conference on

***Competitiveness and Economic Development:
Challenges, Goals and Means
in a Knowledge based Society***



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Contents:

- 1 **Creative Management as a Knowledge
Management Tool: The Case of Kosovo**
Berim Ramosaj
- 2 **Innovations as a Business Growth Tool**
Izet Zeqiri
Brikend Aziri
- 3 **The use of Internet and Enterprise
Competition**
Jahja Lataj
Ariana Xhemajli
Mimoza Luta
- 4 **Will the Implementation of Basel III Impact
Global Competitiveness of Emerging
Economies? An Application to Egypt and
Ukraine**
Monal Abdel-Baki
- 5 **Some E-Learning Tools for Knowledge-
based Society**
Florica Paragină
Silviu Paragină
Alexandru Jipa
- 6 **Building a Knowledge-based Society: The
Case of the Republic of Macedonia**
Snezana Hristova
- 7 **Sustainable development and
competitiveness through foreign direct
investments. The case of central and
eastern european countries**
Ramona Frunză

A KNOWLEDGE MANAGEMENT TOOL: THE CASE OF KOSOVO

Berim Ramosaj
Faculty of Economy/University of Prishtina, **Kosovo**
b_ramosaj@hotmail.com

Abstract:

Creative Management has a meaning of innovative management, which always requires changes in terms of searching for the new paths of development in this area. Therefore, the aim of this paperwork is to present a relatively original model of managerial approach which will serve to the professional managers in their efforts to manage with changes. These changes appear as a result of the social and political change dynamics, namely globalization, as a European and worldwide processes.

The meaning of creative management takes on many different meanings e.g. Entrepreneur management, innovative management, change management and so on. The essence of the content of these expressions is the same or similar, if we accept the situational approach, where in the last instance, true understanding that any tendency for the exact definition of creative management is in fact averting from the rational approach. A creative manager has the meaning of that person who is never satisfied with current situation, but in a permanent search for the new paths for action.

Creating an environment for new ideas and initiatives, namely the construction of systems that stimulate and motivate people to take something in the field of business is the essence of social relations and capital for the development of specific entrepreneurial mentality. Experience has shown that the mentality and entrepreneurial behavior of individuals or groups to develop, either as a result of the struggle for existence, (the case of Kosovo during the 90's) or as a goal to get, that together build the basic objective of every business.

Keywords: creative management, knowledge management, innovative management, leadership development

JEL Classification: M12, M13, M14, M54

1. Introduction

Creative Management has a meaning of innovative management, which always requires changes in terms of searching for the new paths of development in this area. Therefore, the aim of this paperwork is to present a relatively original model of managerial approach which will serve to the professional managers in their efforts to manage with changes. These changes appear as a result of the social and political change dynamics, namely globalization, as a European and worldwide processes.

The meaning of the creative management takes on many different meanings e.g. Entrepreneur management, innovative management, change management and so on. The essence of the content of these expressions is the same or similar, if we accept the situational approach, where in the last instance, true understanding that any tendency for the exact definition of creative management is in fact averting from the rational approach. A creative manager has the meaning of that person who is never satisfied with current situation, but in a permanent search for the new paths for action.

This paperwork has several aspects and print model, relying on the situational approach and socio-psychological aspects of modern management. These aspects are collected in the form of a model from my experience as a professor of management at the University of Prishtina.

- Meaning transformations of the creative management in the enterprise environment;
- Dilemma (if it exists) between a creative and traditional manager;
- How the creative mentality is developing in the entrepreneurial environment in Kosovo;
- Is there a managing and business ethics in the Kosovo area, etc.

These are just a few issues which we are aiming to consider in this paperwork. Specifics of the Kosovo environment make relatively difficult the implementation of these new approaches in the field of management in for-profit companies in Kosovo. This is proved by the results of this paperwork. Kosovo, a small place, with a quite strategic position in South-East Europe, belongs to a group of countries that go through a comprehensive political and social transition. This position for Kosovo means acceptance of the rather complex, turbulent and dynamic environment, which requires creative management. Therefore, this paperwork aims to help as much as possible and to positively affect the management process.

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INNOVATIONS AS A BUSINESS GROWTH TOOL

Izet Zeqiri
South East European University, **Macedonia**
Faculty of Business and Economics
i.zeqiri@seeu.edu.mk
Brikend Aziri
South East European University, **Macedonia**
Faculty of Business and Economics
b.aziri@seeu.edu.mk

Abstract:

The study of the influence of innovations on business growth is relatively new. But in general it seems that a consensus that innovations can lead to business growth in particular, and economic growth in general exists. The relations between innovations and business growth are a constantly changing and developing topic.

Innovations can be seen as the process that renews something that already exists while growth is usually considered to be an increase of a certain quantity over time. The most simplified approach is that growth can be the result of an increase in sales and/or a decrease in costs.

The goal of this paper is to provide a review of the main theoretical approaches regarding the correlation of innovations with business growth. The focus of the paper will be placed more on the nature, role and importance of innovations than on business growth models.

Keywords: innovations, inventions, business, growth, strategies

JEL Classification: O30, O31, O32, O40

1. Introduction

New technology changes our lives relentlessly. Innovations are a pervasive force in our organizations and in society. Innovation won't go away - it is not the next big thing - it is always there. Every new model car is different, every computer release challenges current knowledge, and new medical treatments are announced almost daily. Technology-induced changes in the workplace have profound impacts on organizational effectiveness, careers, and workplace comfort. Some companies leverage technology to sustain success, others do not. Either way, there is no place to hide. That is, there are three primary reasons why attention to the issue of technological change is critical. First, technology-driven change is everywhere and always present. Second, in the world of work, competitors use technology as part of major success strategies. Third, value-capture from new technology is challenging and never guaranteed (Ettlie 2006).

In spite of its obvious importance, innovation has not always received the scholarly attention it deserves. For instance, students of long-run economic change used to focus on factors such as capital accumulation of the working of markets, rather than on innovation. This is now changing. Research on the role of innovation in economic and social change has proliferated in recent years, particularly within the social sciences, and with a bent towards cross-disciplinarity. In fact, in recent years the number of social-science publications focusing on innovation has increased much faster than the total number of such publications. As a result our knowledge about innovation processes, their determinants and social and economic impact has greatly enhanced (Fagerberg, Mowery, and Nelson 2007).

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THE USE OF INTERNET AND ENTERPRISE COMPETITION

Jahja Lataj

Faculty of Business in Peja-University of Prishtina, **Kosovo**

jahja_lataj@yahoo.com

Ariana Xhemajli

Faculty of Business in Peja-University of Prishtina, **Kosovo**

arianaxhemajli@gmail.com

Mimoza Luta

Faculty of Business in Peja-University of Prishtina, Kosovo

mimoza.luta@gmail.com

Abstract:

The Internet has changed our world. Gathering information, buying goods and services, finding people, making travel reservations, and more can now be done from the comfort of your own chair. Businesspeople need to be aware of the new ways consumers do business in order to compete in the new economy. Whether you are starting a new business or just getting around to putting your existing business on the World Wide Web, you will probably have many questions about how to legally and practically reach the consumers who use the Internet to buy or research goods and services, or to find a business's name, address, and phone number. People discover various benefits of the Internet for business. Unlike grassroots companies that don't use the Internet, firms that do have the potential to grow their business, earn greater revenue and save money by opting to do a large percentage of their business online. New businesses and established companies also increase their visibility because of the accessibility of the web. One of the benefits of the Internet for small businesses is that the Internet creates a competitive marketplace in which small businesses have the opportunity to grow as much as larger companies. Creating a website benefits businesses because people can market their products and services without using traditional marketing techniques such as fliers, mailings and newspaper ads. Online marketing saves the company money that would otherwise be spent on traditional means of advertising. A key benefit of the Internet for business is the potential for customer growth. A small business without a website may be able to compete only with other local businesses. However, people conducting business on the Internet have the potential to gain customers from around the world because Internet companies are open 24 hours a day. Another benefit of the Internet for business includes the availability to network with other businesspeople and organizations. Many Internet businesspeople have created organizations with others in their field in which they can talk about the challenges and rewards of Internet business. This interchange of encouragement often helps new businesses experience growth. Businesses that use the Internet for transactions save money on paper and other office supplies. Instead of mailing or faxing multiple letters to clients and other businesses, they can correspond via email or set up paperless eFax accounts. Internet businesses that participate in affiliate programs gain extra income by marketing the products and services of other companies on their websites. Many companies that regularly do business with certain companies join these programs, which help both companies gain more customers and revenue. The purpose of this paper is to describe and explore the use of internet by enterprises and to point competition between enterprises that use the Internet and those who do not use Internet.

Keywords: Internet, competition, New Economy, World Wide Web

JEL Classification: L8, L86

1. Introduction

A new revolution had begun at the end of 20th century and with the start of 21st century, which was so called Information revolution. This revolution was a result of the convergence between information and communication technologies, thus with the help of this convergence, it is now possible to access and process business activities even from remote locations. The Internet now affects every part of the human life, ranging from business to education. For most companies, developing a satisfying customer experience has a direct impact on their future revenue streams. With the advent of the Internet, they now have to consider creating such 'experiences' online, as well as offline.

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WILL THE IMPLEMENTATION OF BASEL III IMPACT GLOBAL COMPETITIVENESS OF EMERGING ECONOMIES? AN APPLICATION TO EGYPT AND UKRAINE

Monal Abdel-Baki
The American University in Cairo, **Egypt**
monalbak@aucegypt.edu

Abstract:

In the wake of the Global Financial Crisis (GFC) it was apparent that in spite of compliance with Basel II, many banks were responsible both for triggering the crisis and for the consequent contagion effects. A unified proposed reform package and a set of global regulation codes required the collaborative force of regulators, financial analysts and bankers round the globe. After a one-year public consultation throughout 2010, the Basel Committee on Banking Supervision outlined the shape of the new global banking regulatory regime needed to avoid future financial crises. The proposed regulatory framework, known as Basel III, is not solely a risk-based regulatory regime, but also focuses on capital risk management and governance underpinning a robust financial sector. In light of the framework now agreed, and in spite of the expected implementation in 2018, many regulatory institutions and banking organizations have already begun the process of assessing their capital and risk management strategy. The calibrated impact and higher costs of these requirements have alerted bankers that they face a significant challenge of reduced competitiveness. It is asserted that the short and medium-term costs are immense for the banking units as well as for the economy at large and that banking institutions must retain flexibility to accommodate years of fine tuning and future reforms. Also, the pre-implementation requirements imply that central banks will exert pressure on weaker banks that find it more difficult to rebuild capital. This research utilizes a small-scale dynamic stochastic general equilibrium (DSGE) model to simulate the effect of the impending Basel III on emerging economies and to report the effect on competitiveness.

Keywords: DSGE model, economic forecasting, corporate governance in banks, competitiveness

JEL Classification: C32; E17; G32; G38

1. Introduction

The recent financial turmoil and the contagion effects transmitted through global markets alerted the international community for the dire need to draft internationally binding and uniform parameters for banks. Regulators and policymakers may be familiar with their own economy and financial sector, but lack essential details about others. Given the level of global economic integration and the enormous flow of funds ex post analysis of the crisis is quite unproblematic, but the main difficulty is ex ante forecast of financial troubles. Egypt held up well during the global financial crisis thanks to its reformed banking sector, strict restrictions on trading in high-risk and sophisticated financial products and low integration into the global financial market. Its economy did not start to slightly recede till 2009, where GDP expansion temporarily slowed down to 4.7% from the previous high of 7%. As a result, Egypt's economic outlook and sovereign rating rose from negative to stable in 2010. Moreover, the Egyptian ranking advanced by 10 ranks to currently stand at 106 out of 183 grades according to the World Bank's *Doing Business 2010*, while Ukraine is at the 146th position and showed progress to the 142nd rank for the same period (WB 2010). The aim of this paper is to assess the costs and benefits for both individual countries and the economies of

emerging markets. The overall final impact is expected to change the competitiveness of the banking units as well as that of the national economy. Hence, the effect on competitiveness will be studied.

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SOME ELEARNING TOOLS FOR KNOWLEDGE-BASED SOCIETY

Florica Paragină
Doctoral School of Physics, Faculty of Physics, University of Bucharest, **Romania**
floricaparagina@yahoo.com
Silviu Paragină
National Centre for Staff Training In Pre-University Education
Doctoral School of Physics, Faculty of Physics, University of Bucharest, **Romania**
silviuparagina@yahoo.com
Alexandru Jipa
Faculty of Physics, University of Bucharest, **Romania**
alexandru.jipa@gmail.com

Abstract:

Now, there are developed many eLearning platforms, but, this system is at the beginning, yet. Till now, a lot of methodological and didactical compounds were developed similar with the classical system of education. The utilisation of an eLearning platform is not easy for all and there are big differences of the results obtained in this kind of education system, between the young students and the older one. Many universities developed their own eLearning system but they had to surpass a lot of problems due to the technical requirements for the server and, also, for the software used for providing the students access into system. The introduction of the SCORM requirements had provided a modality for measurement of the education's quality obtained using this kind of education at distance.

Another problem was to ensure a personalized access to the platform, for every student, 24 h per day and 7 days per week and also for a large number of students. But, now, this was resolved due to technical innovation in the computers manufacturing process. From our point of view, the payment for the stuff involved in this kind of education is not yet very well defined.

In this paper, we shall present our experiences as students and as non-editing teacher in using MOODLE platform and the second Life Environment, compared with the traditional education systems for students and adult persons.

We are not able to identify a general perception of the eLearning Education System, because its evaluation differs in function of the age of the teachers, students involve or not in this kind of education, and of the mass-media representative or of the researchers in education who develop studies in this field.

Keywords: e-Learning for Knowledge-based Society, competitiveness based on quality and innovation, the Moodle platform, Second Life, e-Didactics,

JEL Classification: O20, Z00

1. Introduction

The activity in a knowledge-based society requires a continuous training of the adults, because the technological, social and economic environments are changing very fast. The educational needs of the adult are different from those of a young student, because the adults have to respond in the same time to their social and economic duties, to do their homework, to pass the exams and to realize important, significant improvements in their job activities. Also, the adults involved in a learning activity have problems with their time schedules and they are looking for distance learning courses or for an eLearning training system.

The free software for MOODLE eLearning platforms and Second Life Environment are, maybe, the most known eLearning systems.

In this paper, we shall realize a comparative presentation of the learning experiences between traditional system, MOODLE platform and Second Life Environment. This presentation is due to our experiences: as students and as non-editing teacher in using MOODLE platform, as students in the Second Life Environment, and as adult tutors in training programs for Romanian teachers.

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BUILDING A KNOWLEDGE-BASED SOCIETY: THE CASE OF REPUBLIC OF MACEDONIA

Snezana Hristova
University American College, Skopje, **Republic of Macedonia**
Faculty of Business Administration
shristova@uacs.edu.mk

Abstract:

Creation, dissemination and use of knowledge together with appropriate human capital development have become important competitive factors for businesses and economic growth. At the end of the 20th century, knowledge production has been radically transformed. It has boosted the so-called 'second university revolution', urging policy makers to shape the environment in such way that science promote innovation, education increase human capital and both are becoming more active economic players.

The actualization of the 'knowledge factor' as a solution to the general problems of economic growth is a very important and controversial subject of economic policy in Macedonia. Global Competitiveness Index indicates weak points of Macedonia in human capital development and innovation. Macedonia needs faster economic growth, which is impossible to achieve without sufficient investments in education and innovation.

This paper begins with theoretical analyses of issues relating to creation and use of knowledge in the knowledge-based economy. Then, recent EU policy, aimed at improving incentives for developing a knowledge-based economy and achieving growth and competitiveness is discussed. The paper concludes with overview of the recent economic growth and competitiveness and evaluation of the knowledge-based policy in Macedonia and suggests what can be learned for the future.

Keywords: knowledge creation, innovation, economic growth, Global Competitiveness Index, GDP, EU, Macedonia

JEL Classification: M20, M29,D8

1. Introduction

When a society becomes knowledge-based, it faces challenges on a variety of levels. How and why knowledge is produced and shared, where it is produced, how knowledge spillovers affect new knowledge creation and parameters of use, changes in strategic decision making in knowledge-based environments and how public policy can and should adapt all are crucial issues. Today, we are living in a chaotic transition period to a new age defined by global competition, rampant change, faster flow of information and communication, increasing business complexity, and pervasive globalization. The pace of change has become so rapid that it took a different type of firms to be dominant and marked entirely new era of business. The rapid development of the knowledge sphere of the rich countries today is one of the most notable mega-trends in the evolution of human civilization. In the new economy, the knowledge component of products and services has increased dramatically in importance and has become the dominant component of customer value. The shift to knowledge as the primary source of value, makes the new economy led by those who manage knowledge effectively – who create find, and combine knowledge into new products and services faster than their competitors.

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SUSTAINABLE DEVELOPMENT AND COMPETITIVENESS THROUGH FOREIGN DIRECT INVESTMENTS. THE CASE OF CENTRAL AND EASTERN EUROPEAN COUNTRIES

Ramona Frunză
Alexandru Ioan Cuza University of Iași, **Romania**
ramona.frunza@uaic.ro

Abstract:

After a long period of transition to market economy, Central and Eastern European Countries (CEEC) have made great efforts regarding the attraction of foreign direct investments (FDI), which are considered as the main engine of economic restructuring and dissemination of technology, know-now, capital etc. However, the results of our research revealed that there is still a gap with the rest of the European Union member states and this is due mainly to deficient measures that were taken. For example, agonizing transition in Romania has been attributed to institutional fragility and incoherence or inconsistency of the state in the imposition of pro-market institutional framework.

Considering these aspects and the fact that attraction of FDI contributes to increasing the development level of a country or region, in this paper we attempt to analyze the investment flows in CEEC before and during crisis, as a share in GDP, which is the distribution of FDI stock by main economic activity in Romania, within the eight development regions, and in the last part of the paper, we will try to highlight some of FDI projections in CEEC until 2014 year.

Key words: sustainable development, competitiveness, foreign direct investments, Central and Eastern European Countries, economic crisis, projections

JEL classification: E22, O16, O40, O47

1. Introduction

Nowadays, the term “sustainable development” have become an increasingly widely used element and reaches, gradually, the status of label for social sciences (Nath, B., Hens, L., Devuyt, D., 1996). Even if the definition of sustainable development has generated an impressive volume of ideas and interdisciplinary controversies argued, there are consensuses of opinion that sustainable development is based on three principles, which are interrelated. The first principle refers to social equity, understood as intra- and inter-generational equity between the North and South side of the world. The second principle regards environmental protection, understood as safeguarding and preserving natural resources and environmental quality. The last principle is the economic competitiveness, translated by the ability of economic systems to create wealth for all citizens, respecting the environment (Mironiuc, M., 2005). The third principle is the base of the foreign direct investments, which generate economic competitiveness.

2. Literature review

In the literature of specialty, the subject of FDI is largely debated. Therefore, we mention in this direction just a few views of the authors who have studied the investments:

- a. One of the main reasons for regional disparities in FDI allocation and performance was the inadequate state policy. In general, the governments of CEE countries set quantitative

- objectives towards FDI, doing too little to attract or support quality FDI to accelerate the development (Kolev, K., 2010);
- b. EU enlargement should have considerable effects on FDI flows to CEECs, because the market potential of the entrants will increase considerably due both to the likely increase in their GDP and to the reduction in the economically relevant distance to the EU, i.e., transportation costs (Carstensen, K., Toubal, F., 2004);
 - c. Beyond its contribution to financial resources, investment, technology and providing access to markets, inward FDI in economies in transition has also played a role in the strengthening of the private sector and the emergence of market-economy behaviour, as well as the elimination of macroeconomic distortions inherited from earlier centrally planned systems (Kalotay, K., 2001);
 - d. Since the beginning of transition, various countries of Central and Eastern Europe have undergone important structural changes, linked with the entry of FDI. In the early phases of transition, these structural changes were linked with the adjustment of enterprises to the requirements of the new, market-based macroeconomic framework. It was followed by a phase of structural changes determined by the demand and supply factors of the newly established market economies and their integration into the international division of labour. Already in this phase, structural change proceeded unevenly, with future EU members advancing faster than other countries in transition (Szanyi, M., 2004);
 - e. Poor institutional quality leads to potentially higher costs of investments and, thus, reduces FDI activity. In addition, poor legal structures increase the probability of expropriation of firms' assets which, in turn, make investment activity less likely in the host country (Blonigen, B.A., 2005; Bénassy-Quéré et al., 2007);
 - f. From the mid-1990s onwards, inward FDI has gained importance in the restructuring of an increasing number of Central and Eastern European countries (UNCTAD, 2003).

3. The dynamic of FDI in Central and Eastern European countries

According to a study realized by Ernst & Young in 2009, the regions including the Czech Republic, Hungary, Poland, Slovakia, together with Estonia, Latvia, Lithuania and Slovenia are considered as second place in terms of FDI attractiveness after Western Europe, being the most favored place for investments in industrial production (30%), followed by China (23%) and only 16% for countries in Western Europe. The CEE region has increased by five times in attracting foreign direct investment between 2003 and 2008, reaching from 30 billion to 155 billion dollars.

We consider that FDI attraction by emerging economies from Central and Eastern Europe was determined by the following factors:

- domestic market size and access to EU export markets;
- reducing production costs, especially for labor force;
- access to large natural resources.

But this rapid growth in FDI has occurred until 2008, and then began to feel the effects of economic crisis that has sharply reduced investment flows, especially in emerging markets, vulnerable to external shocks and fluctuations in currency exchange rates. The effects of "the longer, deeper and comprehensive economic recession in EU history", characterized by the European Commission in its economic forecast in the autumn of 2009 year, have resulted in a decline of the cross border transactions carried out at intra-EU and extra-EU, both in goods and services domains.

Thus the current global crisis, which caused a crash of the FDI inflows in CEE countries, determining a 50% decline in FDI in 2009, compared with the previous year. The real estate sector,

which has attracted a quarter of investment flows in the region of CEE countries since 2003, has influenced largely the foreign investment in the region; they decreased by 71% in 2009 compared with 2008 year. In Figure 1 it can be seen this fall.

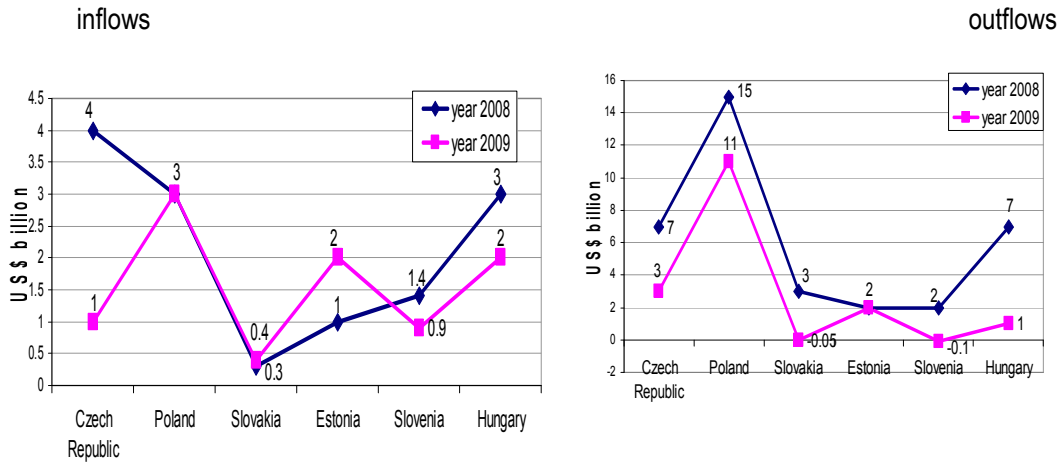


Figure 1. FDI inflows and outflows, 2008-2009 (US\$ billion)
 Source: data offered by OECD

We can observe that investment flows in CEEC, both FDI inflows and outflows, have declined in 2009 compared with the previous year, excepting Estonia, which through its governmental policies has succeeded to maintain it in a high level. The performances of CEE countries in attracting FDI result from the interest of multinational companies in expanding sales markets and the relocation of production due to lower costs, the expansion of privatization and infrastructure development.

In Figure 2, we present the situation of FDI inflows in the period 1997-2008:

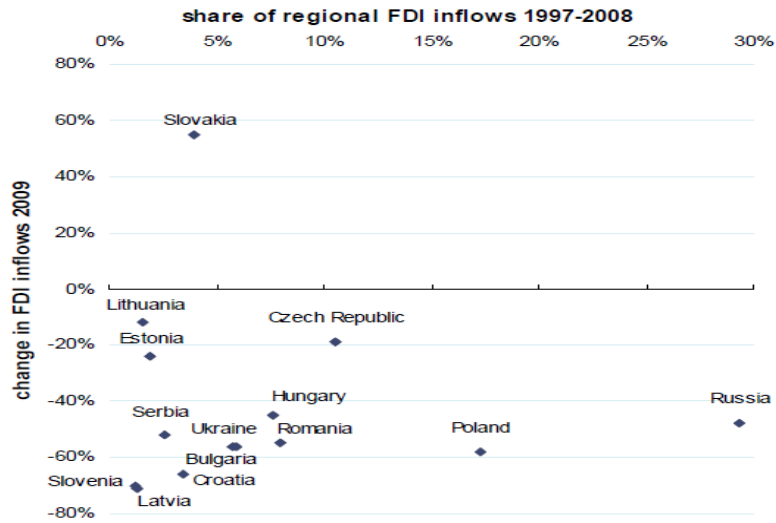


Figure 2. FDI by country
 Source: UNCTAD

Analyzing the structure of investment flows we observe a discrepancy between the Baltic countries and Central Europe. Concerning the share of FDI inflows by country of destination, we see that the only country that registered during 1997 - 2008 period a share of 57% was Slovakia, the rest recorded negative shares, and Romania has recorded a share of - 55%.

The sectors that recorded the highest shares was real estate sector, followed by coal industry, oil and gas, transport, alternative energy, automotive equipment, metals, food industry, the tobacco, on the last places being the investments in tourist and communications services (Figure 3).

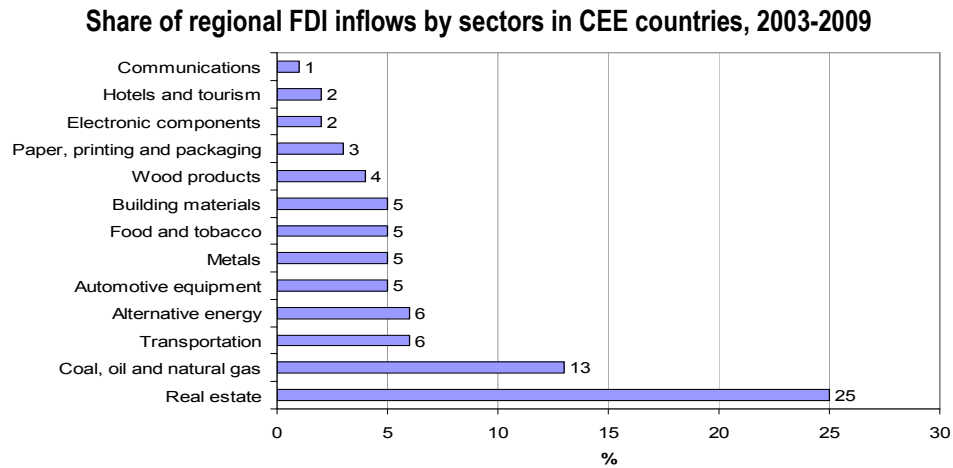


Figure 3. Share of regional FDI inflows by sectors in CEE countries, 2003-2009
 Source: data offered by OECD

To make us a better view on FDI, in Figure 4 we present its share in GDP in the Central and Eastern European countries, in the period 1997-2008.

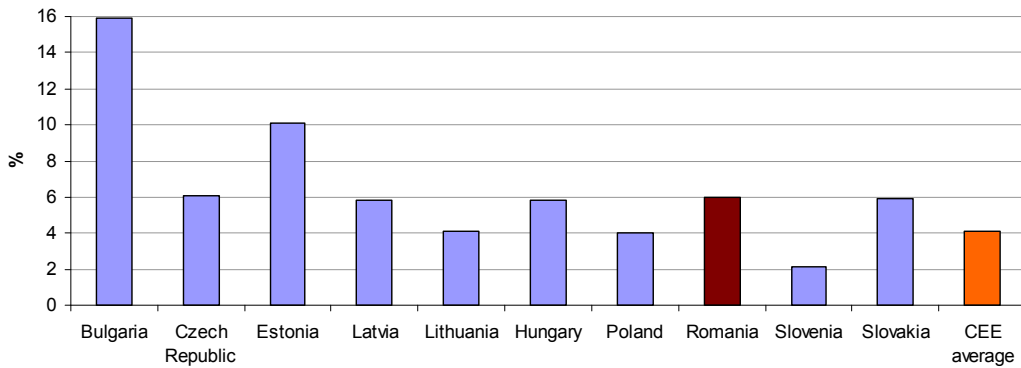


Figure 4. Average level of FDI as a share in GDP in CEE countries (1997-2008)
 Source: data offered by OECD

Analyzing the data of Figure 4, we see that Bulgaria has the largest share in GDP (16%), in the mentioned period, followed by Estonia with 10% and in Romania the share of FDI in GDP is 6%. Principal components analysis allowed us to see where it ranks CEEC in terms of the relationship between GDP per capita and the percentage of FDI in GDP (Figure 5).

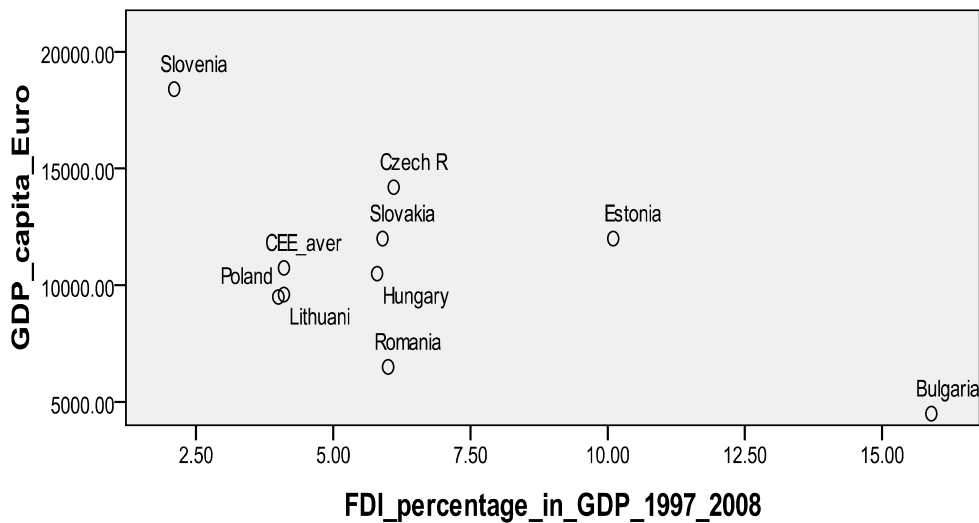


Figure 5. Principal components analysis
 Source: own calculations, based on Eurostat data

The histograms emphasize that at the Central and Eastern European Countries level, the average of FDI as a percentage of GDP, in 1997-2008 period, was 6.41%, reaching in 2008 the GDP per capita in the CEECs to be 10,794 Euro (Figure 6).

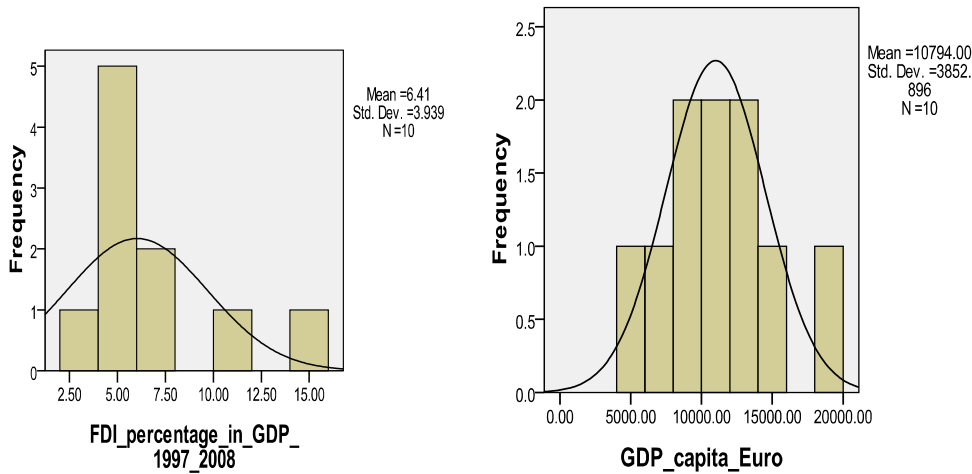


Figure 6. The histograms

Source: own calculations, based on Eurostat data

Customizing and delivering analysis on Romania, we find that the FDI attracted by Romania during January-July 2009 were 3.097million Euro, covering Romania's current account deficit and the distribution of FDI stock by main economic activity was as in Figure 7.

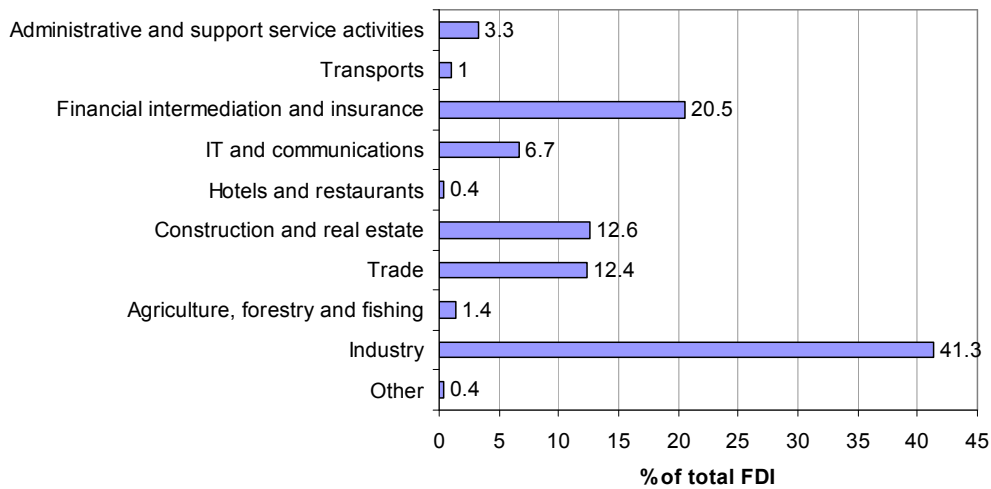


Figure 7. Distribution of FDI stock by main economic activity (EUR million) – end of 2009 year

Source: data offered by The National Bank of Romania and The National Institute of Statistics

Therefore, we conclude that at the end of 2009 year, the main area of activity, which has attracted FDI, was industry (41.3%), followed by financial intermediation and insurance (20.5%), construction and real estate (12.6%).

In the development regions of Romania, FDI situation is shown in Figure 8.

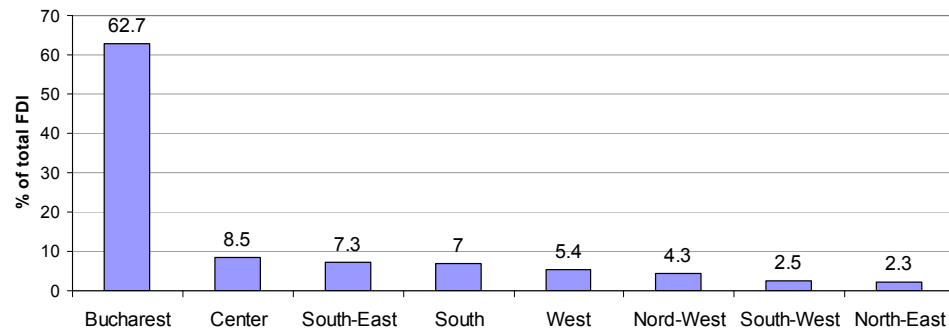


Figure 8. FDI distribution by development regions – end of 2009 year
Source: data offered by The National Bank of Romania and The National Institute of Statistics

We see, analyzing the data of Figure 8, that in Bucharest were concentrated most FDI (62.7%) in 2009, the regions that have followed is Centre (8.5%), South-East (7.3%). Lower position in attracting FDI has North-East region (2.3%).

So, in Romania the share of FDI in GDP not reached levels registered in other countries that passed through the transition process and which, in essence, have left after '90 years from relatively similar institutional bases. However, the most significant in the type and the orientation of the adopted reforms or which follow to be adopted are the recent policy and economic history of the pre-transition process. Hence, the difference between Romania and Bulgaria, on the one hand, and Poland, Hungary, Czech Republic, on the other side, The partial reforms before 1989 year, equally explain the degree of disorganization during the change of regime. Slovenia, Hungary, former Czechoslovakia and Poland had a considerable advance in starting the transition process. Naturally, all these countries fared better than others with their stabilization programs, although their prescriptions were not identical.

In these circumstances, after all these years of transition, the question is: why to invest in Romania? In our opinion, the main reasons are: Romania is EU, NATO and WTO membership. Also, it is one of the largest markets in Central and Eastern Europe (ranking 7th, with over 21 million inhabitants); it has an attractive geographical position, high potential for tourism; highly skilled labor force at competitive prices; sound fiscal policy (16% flat tax).

4. Perspectives of FDI inflows in CEECs

The specialists consider:

- FDI is projected to recover only modestly from 2010 onwards, comparing with US\$155 billion in 2008 and US\$77 billion in 2009;
- By 2014, the value of FDI to the CEE region will be US\$ 172 billion (see Figure 9);

The Economist Intelligence Unit:

- It is estimate in the future years the change from predominantly greenfield and brownfield investment to more existing foreign investors reinvesting profits in CEE.

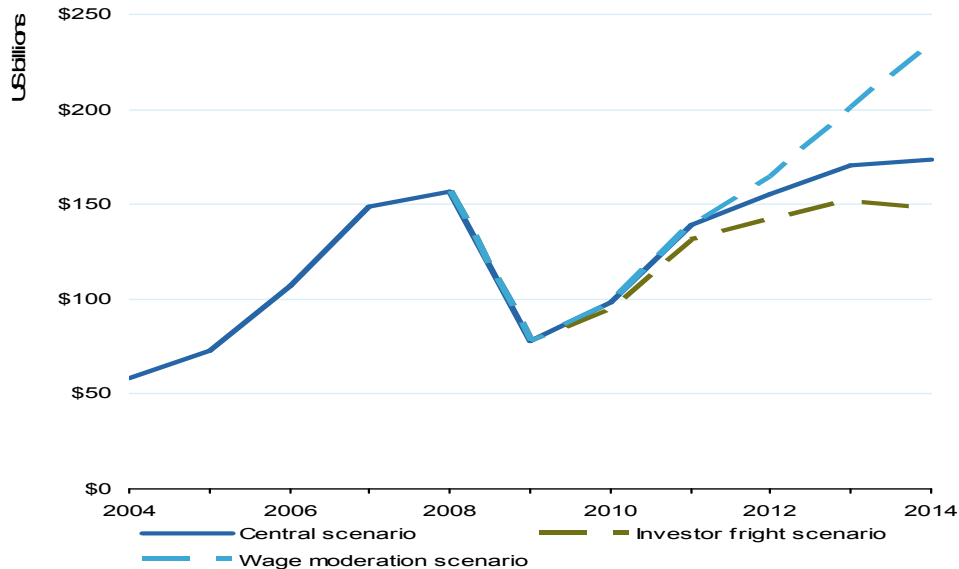


Figure 9. FDI inflows and projections

Source: after UNCTAD and PriceWaterHouse Coopers

Under investor fright scenario the recovery in FDI is weaker;

the wage moderation scenario differs from the central scenario as wages in the CEE region are projected to grow only at the rate of inflation.

In the Figure 9, we see that in the next years the scenarios of FDI inflows are optimistic ones and probably the market size, low relative unit labor costs, a skilled workforce, will be the driving forces behind investments in the CEE region. At the same time, we hope in a better attraction of European funds in infrastructure for determine the coming of investors and a more favorable business climate through macroeconomic measures taken at national level.

5. Acknowledgements

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6. Concluding remarks

Our analysis allows us to conclude that:

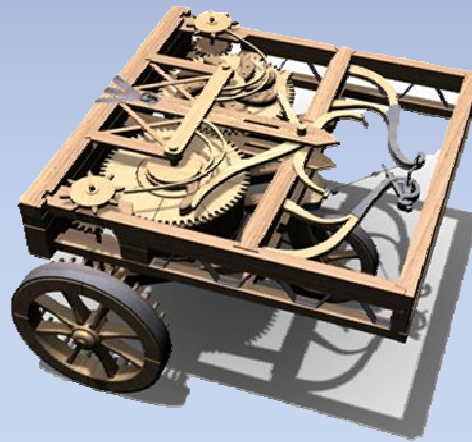
1. In 2009 year, the recession was not uniform across the CEE region: Estonia, Latvia and Lithuania have had experienced double-digit rates of contraction in economic output; Bulgaria, Czech Republic had know a decline of less than 5% of FDI output;
2. In the context of economic crisis, in Romania, the FDI have had a low level, the region Bucharest attracting 62,7% of total FDI of our country;

3. Improvements in the investment climate will mean higher gross fixed capital formation, which in turn leads to greater economic growth. It seems that in Romania, as well in CEE region, FDI inflows will not immediately bounce back to previous levels.

FDI is an important source of financing for transition economies, helping to cover the current account deficit, facilitates transfer of technology, know-how and skills, and helps local enterprises to expand into foreign markets. Also, FDI play a major role in the process of convergence, CEEC benefiting from the transfer of advanced technology, management and marketing knowledge. Finally, FDI has contributed to the upgrading of production and export structures, and raised the prospective medium-term growth rate. In the process of making investment decisions, the firms can not ignore the special role that returns to income tax. Thus, must take into account the fact that over a certain level, it limits the possibilities for investment, which can have adverse effects on growth. Economic theory and practice recognize a close correlation between economic activity and taxes, including the plan of financial investment decisions. Thus, in terms of the relationship between economic activity-income-tax, a tax system is appropriate when it provides dynamic economic processes and increase efficiency.

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Website: www.asers.eu
E-mail: asers@asers.eu

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