

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

Proceedings of the ASERS Second on-line Conference on

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Challenges, Goals and Means
in a Knowledge based Society***



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A KNOWLEDGE MANAGEMENT TOOL: THE CASE OF KOSOVO

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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

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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.

2. Classic or creative management

We are beginning this lesson with the premise that all what was characteristic for many years for a leader or manager, nowadays it is under question mark. Obsolete leaders, as well as traditional chiefs, who behave as traditional parents, who do not trust us much, but they supervise us, have increasingly become today barriers to motivation in a dynamic environment, in leading or governing of the dynamic processes.

While the classic manager acts as a supervisor, officer, judge, follower, leader or account supervisor, creative manager today, plays the role of coach, conductor, team leaders, coordinators, assistants, friends or a visionary.

The authority of classical manager was created on the basis of strict hierarchical control, which is more like 'domestic animal domestication', which evokes the best term, 'pick it came from heaven.' Behavior orientation of managers as supervisors, judges, or something similar, says the report levels of hierarchy built on the basis of 'inhuman observers'.

Self-confidence of classical managers on strictness, formal authority, obedience, makes the managers undesirable for their co-workers and other subordinates in the organizational hierarchy. Creative manager according to the model of behavior as a coach, conductor, team leader, coordinator or friend, gives a new approach to receiving orders - giving orders, what is acceptable for dynamic systems and the environment.

Manager of a kind of person who is aggressive and who breaks all the barriers in front of himself is Machiavelli, because they 'do not choose a tool for the realization of objectives' (Srica 2004). Manager of bionomical type 'pig-fox', is also a person who achieves results through fraud and deceiving games 'under the counter' slander, obstruction, using the legal vacuum and other formal methods.

Creative manager, in contrast to the above mentioned features, fits mostly to the understanding and definition of wisdom, elegance and successful runner. Acceptance of the approaches to learning, from the creative manager, in a constant manner, with elements of wisdom and knowledge includes basic activities and mode of action of these persons, as individuals or participants in the group (Billick 2001).

Request and aim to win, without underestimating the opponents, and not using dirty methods for moves in motion, looking for space to act in the clear waters, without a doubt is the behavior of the mirror 'manager Dolphin', which best fits the definition of the creative manager.

The idea to build or create a creative manager is not new, it dates back to ancient times, during the approach and philosophy of human and male leaders, who have pointed to elements of

creativity, development and humanity. Therefore, creating a kind of creative managers continue building a modern approach, based on the classic lessons of interpersonal relations, which were given during the historic period of development, whether during war or peace.

3. Creative management as success factor

Based on the understanding of management as well as success factors and organizational development, it appears that entrepreneurial activity in the modern organization contains elements of an integrated management; therefore, it requires that successful managers are able entrepreneurs (Ramosaj 2007). Management concept expresses a complex and multi-dimensional significance, considered from different aspects and different levels.

In the literature, management is often used as synonym for the organization, administration, management (leadership), or governing. The quality of the organization, in most cases is determined on the basis of the quality management, namely the organizational processes and activities that are oriented towards the realization of goals and specific tasks.

While management is a process that coordinates the financial and human resources in order to achieve certain objectives, the managers are the holders, which exploit (used) their experience and knowledge, and knowledge of others in achieving goals? Modern organizations are distinguished with a lot of complex relationships and processes, whether at the level of the company or to the environment, and require that manager's think and act like entrepreneurs.

The entrepreneurial manager is seeking permanent opportunities for change and correct business and organizational conditions. This commitment manager is expressed not only in the top management of the pyramid, but also in all other operational levels with the aim of the entire organizational network acts as an entrepreneur (Ramosaj 2006). Providing entrepreneurial spirit at all organizational and managerial levels, expressed entrepreneurial ability, operational or strategic, for permanent changes, as that of modern management.

The modern manager becomes an entrepreneur because of the very complex environment, due to the wider field of action. The main task of enterprise managers is to implement new organizational changes, namely, mastery of new changes in the form of provocation, which created a new group of people, resources and ideas with new opportunities for action.

P. Drucker was the first author who compared the similarities in terms of management and entrepreneurship, and the two concepts are intersected with so-called entrepreneurial economy.

According to Drucker, there are three entrepreneurial tasks of management (Drucker 1996):

- Increasing success of existing business;
- Use/Exploitation of commercial potential and;
- Ensuring the future of business.

Permanent orientation towards change and innovation strategies, namely, the answer to any provocation coming from outside or inside, presents the base of enterprise management, entrepreneurship as transitional or permanent activity behavior.

Request for enterprise development, particularly entrepreneurial activities, either at the level of individuals, companies, or beyond, is also a requirement for survival. The best example we can describe the dinosaurs, which disappeared, not because it was great in shape, but because it has remained where it was, instead of going to the energetic place and time where he could live.

4. Entrepreneurial behavior and creative spirit of managers

Understanding of entrepreneurial behavior is quite broad, so that in reality studying of similar concepts requires not only an interdisciplinary approach, but perhaps multidisciplinary. The

entrepreneurial concept, the entrepreneur, will crossbreed the psychological and physiological elements, namely physiological predisposition to mobilize individuals to use the intellectual or psychological features and capabilities.

Any precise definition of the entrepreneurial concept is in contradiction with the very much comprehensible and universal possibilities of expression (Ramosaj 2004). Many authors have attempted to explain entrepreneurial behavior, or enterprise, beginning with Weber the physiological theory of the Protestant ethic, or Joseph Schumpeter, who stands out with a lot of contradictory theories from the time when it is created, and similar.

Schumpeter, unlike other economists of the time, starts from the idea that the economy is an open system which is taking place within the evolutionary process of transformation from the old to the new, with the help of several factors which he calls 'creative destructive'.

Within this scope of economy, the entrepreneur plays a fundamental role, and in that respect he is the holder of the greatest responsibility for the growth, and decline the economic trends of the system, starting all the way to prosperity, recession or crisis. The conception of entrepreneurial behavior which has elements of explanation of some essential components of entrepreneurial behavior relies only on the dependence of movable components inside and the inner current system.

The overcoming of similar concepts, we find at Americans: D. Milled and R. Noise, who put the relationship economic growth and personal success, particularly educational uplift. This relationship can be seen outside of the main elements that influence the behavior of the system.

American, R. Noise went further, pointed out that the natural feature of people request or effort to succeed.

From the very fact of business success connecting with business risk shall result a range of activities and experiences in the last instance is associated with new and creative elements that take one to overcome many of the existing difficulties. Here are included: dynamics, imagination, fantasy, insecurity, Utopia, instability, mobility, fear (of the risk or success), experience, ability, tradition, morale, motivation, ability, confidence, overtaking requirements, creativity and more.

American, R. Noise went further, and pointed out that the natural feature of people is request or effort to succeed. From the very fact of business success connecting with business risk, resulting a range of activities and experiences which in the last instance are associated with new and creative elements that an individual takes, to overcome many of the existing difficulties. Here are included: dynamics, imagination, fantasy, insecurity, Utopia, instability, mobility, fear (of the risk or success), experience, ability, tradition, morale, motivation, ability, confidence, overtaking requirements, creativity and more.

An understanding of the entrepreneurial concept stems from the individual entrepreneur. Entrepreneurial behavior is characteristic of man businesses, which basically has the understanding of skills, resourcefulness, values, creativity and quickness, ambitious, open eyes, etc. However, entrepreneurial behavior can identify elements of openness, namely coordination and cooperation with the environment, which we understand that the entrepreneurial behavior in the properties of individual items or groups of businesses, particularly entrepreneurial collectivity.

From the concept of entrepreneurial behavior, as it can be seen, it appears that entrepreneurial activity does not submit any closure or administrative barriers or political entities. An individual with entrepreneurial behavior, beyond the specific barriers seek new paths, either within the environment or groups, specifically within the system. In this regard, for overcoming the present situation stands out of the entrepreneurial behavior.

Individual efforts to overcome the current situation are born as a result of internal and external connectivity components. In truth, these efforts have imagination and reason for change of personal

status of the individual in the social level. The desire for success is accompanied with a lot of troubles, ranging from business ethics and all the other forms that are expressed in the degree of success or failure.

In the group of external or internal factors, the impact is quite large of modern techniques and technologies based on the information.

Entrepreneurial behavior in the economy is really moving element of action and work. The movable component for change of situation is performed with the aim of achieving a particular goal, profit. Determination targets enterprises can contain elements of entrepreneurial behavior. Determination of companies target for the realization of general need, the more it meant drowning or disappearance of internal individual requirements, and aim to achieve maximum benefit provides new, creative and dynamic characteristics of permanent collective or individual, or more precisely characterized by the so-called elements of entrepreneurial behaviors.

5. Creative Manager (self confidence)

Self-confident manager wins, because he trusts himself (Ramosaj 2006). Starting with this concept we can explain the essence of knowledge itself and the environment where people live and work, particularly the relationship between the source of the failure-success of the manager or outside.

The dilemma of knowledge itself or the environment indicates 'strong and weak' sides of managers in a dynamic environment. In reality, it often happens that entrepreneurs understand the world around him, but it can happen that it sometimes does not understand. This is because self-suggestion that he has, either for them or for the environment. Autosuggestion can be expressed as a contrast between 'fixed ideas' and rational and understandable opinions.

On the one hand, the desire, opportunities and attitudes towards the process, on the other side, best express the communication process between themselves and the working environment.

Reliance on others is a strong theme in terms of dynamic and turbulent environment. However, for creative managers, it is important to know PERMIS 'every man is what he thinks about himself', so it is important to have a positive approach and emotions of this nature for themselves and for others.

The fact that we install in 'our heads', as prejudice, whether positive or negative, does not mean we should deny or condemn as unreal, after all, a man is building its future looking 'dreams open eyes. He who predicts the future, your future, it would surely be achieved. While, once that does not provide, can make it, but as a coincidence, or luck 'as if it fell from the sky.'

Creative manager sees the results of their work each day, advancing, so gets feed every day, consciously or unconsciously, positive energy during the growth and development.

Understanding of metaphor that compares the creative communications manager, subordinates, and his associates, it takes a tool for dialogue and effective communication for example, when talking about time as money, as well as the ability of the technology and domination, and the business as a race. There is skepticism with regard to communication and self-suggestion as a rate or premises of the future, but either way, theoretical research or practical it showed the importance of the role of confidence in communicating with others, or in creating a personal future, particularly managers. Empirical experience has shown that a person is creative, courageous and successful if it believes in itself, as something natural and possible.

In the history of biography bright 'mind' of art and science we find the elements of self-suggestion of self-government for the realization of acts of epochal importance. The last example of this creative biography shows Bill Gates.

'Everything is possible when you want, its premise event 'post festoon ', achieved the results of man's creativity as a business entrepreneur or the other. Premise of 'the best control is self-control' and 'the strongest motive is self-motivation' means 'strong' side of creative managers against imposition acts or acts dictated by others, either as a disciplinary or business and social norm in a given environment.

If we accept the premise, 'nothing is impossible', then it shows that we are on the good way to create a creative manager.

Modern management theory teaches management skills to overcome the 'ordinary' and 'daily' so that we will look to turn toward the horizon and not towards the line.

6. Development and advancement of creative manager

The process of developing managers, as well as implemented a program throughout the working life and the lives of creative managers known as 'Executive Development Program, has been synonym with the process of continual learning and continual improvement managers in the 21st century.

Research has shown that a manager who works in the developed parts of Western Europe, as a professional and who is trying to keep up with the times, nearly 50% of work time spent in learning. Learning done in several ways: training, seminars, scientific conferences, doing research within the company and more. The percentage of time learning different in different places, for example, in Japan about 50% of the time manager learns, in Germany 20%, France 20%, in the USA 20%.

Based on this, as stated, it appears that the learning and progress are integral part of the work of professional and creative managers. This phenomenon is the best indicator for the development of the profession in relation to other professions, the imposing urban development in the 21st century. Large US companies such as Microsoft, Motorola, IBM, GM and others, created the schools as a college for teaching and study of various areas of practical knowledge in management, psychology, organizational behavior, programming and projects, and more.

Maintenance courses and seminars within the company is a form of strategic investment capital. In this form, investing in people is considered a strategic field development capital a society. The life cycle of professional managers is dependent on several indicators of creative experience and knowledge in the field of management. Intellectual capital, knowledge as a product of creative management, includes the total knowledge that is transformed into value, whether individual or collective, which eventually manifest themselves as business value and gain.

Intellectual capital is divided into three parts: human capital, structural capital and client capital. In fact, this is the total value system created as a result of ability and behavior in relation to people, organizations or clients as potential customers and achieved results.

7. The ethics of creative manager

Departing from the approach that the behavior of Kosovo managers is a behavior that corresponds to a relatively hybrid model where a lot of residual elements and new, it appears that our community still accepts the behavior of political or business guide, what we have today.

Acceptance of the behavior of managers and political leaders as people who violate or exceed laws, ignore moral norms, stealing, appropriating, lying and so on, talking about the level of Kosovo's environment, either social or business environment.

Acceptance of such premises, the date or imposed, talks about the level of development of urban life 'democratic' or 'in harmony' with other countries in the region.

Creative Manager is in constant war with the changes, except that he don't agrees with that reality and proclaims the moral and ethical sustainable norms, which are approaching those created as a traditional civil behavior good behavior with good position. Whether a similar behavior is in accordance with the development or the development of economic efficiency and the realization of the objectives of modern society, there remains a prejudice.

The creation of interpersonal relations among people as well as friendly relations and interpersonal relationships based on trust verbal institutional relations, unwritten, which tend to replace the institution of the contract or agreement between the parties.

The existence of many objects in the field of human disputed relations between parties, on the one hand, and friendly relations of full mouth (verbally), speaks of the existing patriarchal environment, which in the last instance has nothing in common with the processes of modern management.

When the two major modern European-level managers entering into the agreement and tighten the hand to one another, they both accept this as a moral responsibility and the formal and legal obligation.

Lending hands, toast or something similar to this nature, is an act of good beliefs, which is the final signed agreement. There is no room for deception, empty promises, which is typical of the patriarchal society. Managers in the environment of Kosovo (not quite all) like to defined combination of 'pig-fox. The final act of agreement and possible misunderstandings began squeezing his hand as: delays in delivery of goods, lack of understanding of the exchange rate unsustainable, or because of the quality and late payments.

Our environment is quite specific, as well as political and business environment, because the hybrid models and other combinations occur as a result of many social and economic factors.

Starter extreme, of moral and immoral, comes as a result of combining the traditional with modernism, namely, the transition that is performed during different periods of tribal relations, feudal relations in the industrial and urban, without crossing the natural processes of birth, development and maturity of capital relations.

'Tie the horse where the boss says', 'my street, my world', 'well we're cleaning up now', 'this is my father and grandfather lived', 'Why I have to change' (Ramosaj 2004) and others. Those are some phrases that best demonstrate the characteristics of our social and business environment.

Social and economic characteristics with people responsible for themselves and others, which are committed not only to legal but a moral responsibility, civilized, give space, opportunities and chances for economic efficiency and social development. This environment reduces the cost, risk and impact on the cost of capital. This economic and social environment is attraction for all potential investors, internal and external. States in these conditions assume the role of supporting infrastructure for the development of business processes.

In order to understand different things, what's good and what is not good, not just the language lexicon, but the legal approach to the environment where they live and work, the following questions appear: Is it legal or not? Is it legal when everybody wins? And, do you feel responsible to act and similar acts? No doubt, some things are fairly demanding answers, which really create a framework of moral and ethical aspects of socio-economic relations. Moral norms of the business man or politician are more combinations of lines and characters, particularly the logic of micro-social environment. These relations are so complicated to the environment and just get different content.

The answer to the first question is: should reject those decisions that lead managers in an illegal position, regardless of business efficiency and effectiveness.

The answer to the second question is quite complicated, because the sense of understanding where all win, 'win-win' is pretty relative in different times and moments. Manager who has experience and is creative in their work, normally it is satisfied with the results, then, when all parties are satisfied.

Answer the third question is related more to micro-social environment. Related to this, what is considered as an asset and the value, and what lack is and without value? Therefore, social norms are somewhat more valuable than those from the ethics of business, which in the last instance, it should not change.

'Equality' in front of God and social peace is categories that can be implemented, but requires the understanding and working either in front of the absolute values or those created in micro-social environment with ethical business standards.

The feeling of individual responsibility and collective responsibility, a good experience as individual or social norms and regulations, gives the manager an excuse for creative mental and psychic peace in plenty of dynamic conditions, proactive actions in development processes.

8. Manager, vendor or consultant of new ideas

Sales of new ideas are often accepted as the main activity of creative managers. This premise is understood both by lay management or daily traders. Sale of vision, strategy, goals or ideas the members of the team understand the equipment with new ideas and visions in the process of accountability to the organizational policies.

Foster emotions, positive-motivation and willingness to give their best to support the success are the characteristics of the creative manager (Beilby 2002).

We have accepting the premise that 'sales' and 'consultation' is a rational understanding of the learning of new skills to help to succeed, giving us new ideas, models, concepts and experiences, an obstacle 'way of selling'. This creates the content of this entire philosophy of accepting ideas for new goals or vision.

The behavior of managers as a seller of ideas for the vision and strategy, losing the latter sense of creative knowledge management for dynamic environments. Seller's belief is different than believing the consultant. The first makes all efforts to market, without taking into account the quality. Whereas, others not only to seek buyers who are willing to pay, but they who are ready to implement new ideas in the processes and actions.

Is creative manager should look like the seller? The question of misleading customer's access to ideas and vision. Similarly, the gift or sale of a book to a potential buyer. Those who accept such a simple purchase from a retailer, it is better not to read, because it is only for the decor in their library. Those who accept this book as advice or a new idea in the field of management, who are willing to pay for it are justified 'customers' and expensive.

Phrase that 'as author of this book, I am the seller and consultant for the customers', best shows the relationship between these two concepts. In the end, I think that access to 'win-win,' and here in these relationships can provide results because in the end to get all parties, either as buyers or sellers. Changes in this ratio may not be a long term. The relationship between the one who gives new ideas (consultant or seller), and those who accept them, as an opportunity for new motives and ambitions as the buyer. Such communication is in fact the essence of the relationship between these two concepts.

Acceptance of new ideas and vision as well as challenges or opportunities, in fact, represents the utility value of goods sold, regardless of the circumstances of communication between the parties in the process of buying and selling. Method of selling new ideas, need to be significantly

different than the old one, because the odds are still with the old idea, taking into account the mentality of resistance to change and new ideas.

The role of managers in the process of creative transformation 'resistance' or 'acceptance', management of change, is high. In the end, and perspectives of development based on building access to new elements that are expected to be implemented, such as: ideas, visions, strategies or objectives (Benton 1998).

9. Creating a creative culture of the organization

Described the situation with a bad mood when preparing for a job, is the best indicator of the level of adaptation to the environment with the culture of business in the company.

Culture business (Drena 1992), namely managers, based on the theory of 'catching the bug' and not the rewards for success, emphasizes the need to access the creative manager in the working environment.

Creating a positive work environment for emotions, expressing the good mood to go to work or preparation for work, on the one hand, and negative emotions, like bad mood, on the other hand, is in fact mirror the organizational and managerial culture with the two parties.

How important capturing subordinates or associates of the manager error during setup or poor performance on the one hand, or catching subordinates or associates of the manager in the case of good work, on the other hand, best reflects the character of the manager, whether it's classic or creative. Predisposition to look at the benefits of more than mistakes, express the best approach and style of the manager.

Creative management is preoccupied with building the organizational culture that develops entrepreneurial mentality, positive emotions and creating a personal ambition for the elevation and the elevation of the entire organization. It is not the same situation as in the case of expression of satisfaction or dissatisfaction of workers before going to work.

The event behavior of workers: 'Oh, I cannot see what jackasses giving me orders' (Srica 2008) or monotony that comes from the same work that expresses a lack of ambition for the activities, are consequences of management culture and working environment. The feeling of discontent in the working environment creates negative emotions and produces aggressive, whereas warm environment, a sense of satisfaction from the work creates a healthy ambition, agility for success and other positive effects, which are reflected in the final results of the organization.

Constructive criticism and conflict breaking out of the ordinary, as something superfluous, is the expression of creative behavior of managers (Conger 1998). Construction of rules that affirm positive aspects of the process, enabling and spending time with those better, more accurately allows not only affirmative behavior values, but also to exchange ideas and supporting group of collaborators. From this result the condition that the creative manager as a person surrounded by a staff capable than himself, as opposed to the traditional manager, surrounded by poor co-workers and servants. Fear of the best, is a component of traditional managers, but not the creative manager. In contrast, creative manager seeks to constantly be challenged by the best and challenge them to new requirements for the new ways.

This is manifested by the issue of the creative manager: 'Why to pay contributors who are not productive in terms of new ideas' or 'I'm not so rich to pay unable contributors. The application managers to have co-workers without payment, is his ability to be found in the area, which can create.

10. The development of the creative mentality of the entrepreneurial environment of Kosovo

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.

The most recent example in the development of entrepreneurial behavior in the field of business and private initiative is the behavior of Albanians in Kosovo during the 1990-2000 year, which reflects the best entrepreneurial initiatives, either for survival or profit in terms of lack of rule of law and ethnic segregation under the Serbian regime.

Relying on a premise that the conceptual principles of economic and social development show that (Ramosaj 2006):

- There's no more rational methods of use of resources from the private property
- There's no better way to harmonize supply and demand than the market
- There's no better way of regulating interpersonal relations than in terms of democracy and
- There is no better mechanism of development initiatives from the entrepreneurial environment.

Then, with full right, we can confirm that the creative management and is developing an enabling environment for the expansion only in terms of the entrepreneurial economy, the conditions that ultimately developed the mentality and the management of research and development of new ideas.

'New Economy', has been synonymous with the concept of modern economy that is based and developed in the enterprise environment. The participation of people relays on (participation) in the organizations they create.

The most common questions that are asked now are: Where is it? What kind of profit mean? Why it is in this environment? And so on. All this shows clearly the role of environment in economic and social development, individual or group.

Experience has shown that in many cases we are unable to build an environment where we work and live. Therefore, an adjustment needs, and this depends a lot on how much we are great. Adaptation to the environment or changing environment, as our 'capabilities', is in fact, the process of managing change. However, this depends on our approach to change, on the one hand, and power to change the environment, on the other side. Management changes, (either as acceptance or resistance), depends on the rational approach, which includes the identification of mechanisms of change, which come from the environment, and to build a strategy towards a dynamic environment. Environment that characterizes the current period is more dynamic and turbulent.

The dynamics arises as a result of changes in all aspects (technological, economic, social, political, ethical, cultural, etc.), while the turbulence characteristics upset by the change of environment targets and levels (Tushman 1997).

The combination of dynamic and turbulent environment provides special complicated features that are expressed as indices that cannot be measured and uncertain for the future. The question is: who can resist such an environment?

Creative manager is someone who knows to swim in the sea that turns disturbingly lacks an advantage, namely the crisis in the way, using them 'uneasy waves of the sea and the wind blow the sail towards the goal.'

Access Manager is a creative one that sees problems and dilemmas of the time, so it will try to overcome, circumvent them, or to skip. The possibility of transforming and transformation of risk into opportunities best demonstrates a creative approach to management. Such an environment 'anxious' is accepted as an entrepreneurial environment that has many advantages that developing creative mentality, which makes a variety of creative managers than classic.

11. Challenges as opportunities for creative managers in the Kosovo environment (Instead of a conclusion)

'Intelligence mass of the Earth globe is relatively constant, which can increase marks, but more slowly than the population growth in the world.' Based on this statement, it appears that there is much to be said in the field of creativity. As the first 'big fools' created the crisis, they produce great challenges; perhaps they are 'too creative.'

Shumpeter written statement for creativity in chaos and allows us to realize that the crisis produced challenges, while the latter 'may' and opportunities.

Acceptance or rejection of disciplinary behavior micro social environment is often put under suspicion and aspect of the success of the organizational structures accepted as a formal scheme of the organization.

Crisis produces challenges, while the challenge is something that brings a creative manager in a dilemma: to be or not to be. While the manager uses the classic norm, rule or organizational scheme as something legitimate, something which should be formally adapt, creative manager see this component as well as opportunities for different management compared to traditional. So, using the scheme or norms as sources to create business advantages, rather than expressing 'absolute respect', he sees it as something to be overcome, finishing or developing.

Accept the challenge of the crisis as a risk or chance, this approach depends on the kind of manager to maintain the position in relation to reality. Understanding the crisis only as a change manager provides creative 'correct' a positive approach to it. He wants to see the glass half full or half empty, it shows the best approach to the crisis, and inability to change.

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INNOVATIONS AS A BUSINESS GROWTH TOOL

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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).

2. The nature of innovations

The reason we use mobile phones or personal computers isn't because they're necessarily better in the long run than smoke signals or cave paintings, or that they're at the top of an unshakable technology pyramid. We've adopted them gradually and intuitively as part of the experiment that is life. Simply because one thing has replaced another doesn't mean that it improves on it in every respect, and as conditions change, the notion of *improved* does as well. This hypothesis is easy to test: study the history of any innovation - from catapults to telegraphs to laser beams and nanotechnology - and you'll find its invention and adoption is based on ordinary, selfish, and mostly short-term motivations. Mistakes and complexities are everywhere, and while some of what goes on could be called progress, rendering a straight line of progress through history is a kind of invention itself (Berkun 2010).

When analyzing innovations a distinction can be made between open innovations and closed innovations.

Open innovation describes a process by which companies actively pursue externally generated knowledge and bring it into the business, and allow internally generated knowledge to flow outwards, in order to increase the rate of innovation in the business. This is in distinct contrast to older, closed models of innovation in which new technological knowledge was developed internally, in corporate research and development (RandD) laboratories and retained within the business (Jolly 2008).

Not surprisingly, the literature on innovation contains a wide array of definitions. A few different approaches to defining motivation are presented in Table 1.

Table 1. Strategic advantages through innovation

Author	Definition
Webster's New World Dictionary	Innovation: the act or process of innovating; something newly introduced, new method, custom, device, etc; change in the way of doing things; renew, alter.
Christofer Freeman	An invention is an idea, a sketch or model for a new or improved device, product, process or system...An innovation in the economic sense is accompanied with the first commercial transaction involving the new product, process, system or device, although the word is used to describe the whole process.
George Land, Beth Jarman	Innovators can hold a situation in chaos for long periods of time without having to reach a resolution...won't give up...have a long term commitment to their dream...innovators introduce a maximum of tension into the thinking process, unifying concepts that often appear to be opposed, solving problems which appear impossible.

<p>James Botkin, Dan Dimancescu, Ray Stata</p>	<p>Innovation cuts across a broad range of activities, institutions and time spans. If any part of the pipeline is broken or constricted, the flow of benefits is slowed. This is felt ultimately in lower productivity and lowered standards of living. In this sense, the cost of capital is crucial not only at the early stages of research and product development but also at the later stages when high-technology products are installed in production processes, in both manufacturing and service industries, as new tools to improve worker effectiveness.</p>
<p>Peter Drucker</p>	<p>To be effective, an innovation has to be simple, and it has to be focused. It should only do one thing; otherwise it confuses people.</p>

Innovations are considered to be a positive phenomenon leading to the development of new products, services, and ways of getting the job done. In general they are considered to be the fuelling energy of the development of particular business and industries in particular and the development of the human race in general.

Still the fact remains that throughout history a wide variety of 'negative, dark innovations' have been created. Bryntenson (2010) presents a list of negative, dark innovations:

- The Romans cut the Achilles tendon of conquered soldiers. These soldiers would never be able to fight Rome again.
- The Nazis created innovative ways of killing thousands of people at the same time by burning them.
- Catholic priests in the middle Ages innovated and made them wealthy by selling indulgences. Such money making would make contemporary fundraisers green with envy.
- The Spanish conquistador Cortez landed near Veracruz, Mexico and after a short time of finding no riches but many mosquitoes; his men started grumbling and wanted to go home. To stop this line of thought, Cortez burned their five ships. 'There is no going home, boys....' That innovation increased the level of commitment among his men.
- Napalm helped to burn the forests in Vietnam so the Viet Cong could not hide from American forces. It also burned people in the forests.
- The atom bomb saved a half a million American lives by bringing Japan to its knees. Many medical breakthroughs occur through testing of monkeys and other animals. Many monkeys died.
- And of course there are efficient lobotomies, which remove dangerous brains.

Innovations are considered to be one of the main elements that can lead to the creation of strategic advantages of business organizations as shown in Table 2

Table 2. Strategic advantages through innovation

Mechanism	Strategic advantage
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Novelty in product or service offering	Offering something no one else can
Novelty in process	Offering it in ways others cannot match-faster, lower cost, more customized etc.
Complexity	Offering something which others find difficult to master
Legal protection of intellectual property	Offering something which others can not do unless they pay a licence or other fee
Add/extend range of competitive factors	More basis of competition- e.g. from price of product to price and quality or price, quality, choice etc.
Timing	First mover advantage and fast follower advantage
Robust/platform design	Offering something which provides the platform on which other variations and generations can be built
Rewriting the rules	Offering something which represents a completely new product or process concept-a different way of doing things-and makes the old ones redundant
Reconfiguring the part of the process	Rethinking the way in which bits of the system work together-e.g. building more effective networks, outsourcing and co-ordination of a virtual company etc.
Transferring across different applications context	Recombining established elements for different markets
Others	Innovation is all about finding new ways to do things ad to obtain strategic advantage-so there will be room for new ways of gaining and retaining advantage

Source: Tidd J, Bessant J, Pavitt K (2005), *Managing Innovation: Integrating Technological, Market and Organizational Change*, Third Edition, John Wiley and Sons Ltd, Chichester, p.8

Bessant and Pavitt (2005) have determined dimensions of innovation depending on the level of innovation and type of innovation, Figure 1.

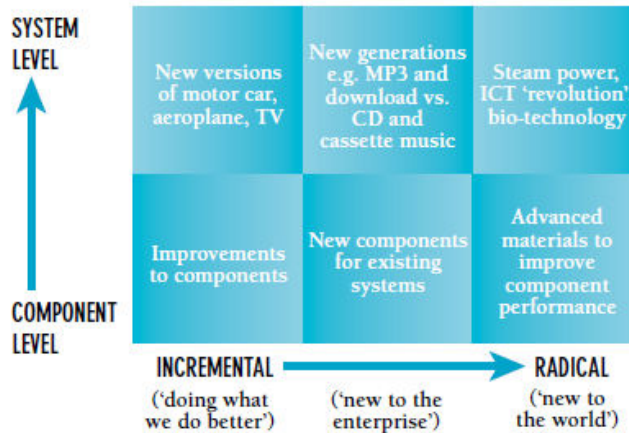


Figure 1. Dimensions of Innovation

Source: Tidd J, Bessant J, Pavitt K (2005), *Managing Innovation: Integrating Technological, Market and Organizational Change*, Third Edition, John Wiley and Sons Ltd, Chichester, p.12

2. The process of innovations

Little is known about how innovations emerge, develop, grow, or terminate over time. Not only has little systematic research been conducted to examine how innovations develop over time, but few process theories adequately explain the sequence of events in the innovating process. Yet an appreciation of temporal processes is fundamental to managing innovations. Four requirements are necessary to study the process of innovation: **1.** A clear set of concepts for selecting and describing the objects to be studied; **2.** Systematic methods for observing change in the objects over time; **3.** Methods for representing raw data to identify process patterns; **4.** A motor or theory to make sense of the process pattern and a means of determining whether the theory fits the observed patterns (Van de Ven *et al.* 2000, 31).

Dundon considers that the innovation process has nine steps as presented in Table 3.

Table 3. The nine-step innovation process

Step	Exploration	Concentration
Gathering Information	Choose the team that will address the problem. Explore the dynamics behind what the team thinks is the problem. Gather facts, opinions, and details from different perspectives. Apply 'who/ what/ where/ why/how/ when' to the problem. Explore the external marketplace for more information.	Analyze the problem and choose the best information, which helps you and your team to understand the problem better.

Clarifying the real problem	Broaden awareness and clarification of the problem. Identify and list the likely causes of the problem. Draft options for the 'problem statements.'	Choose the 'problem statement' that best describes what is believed to be the most significant or real problem.
Setting innovation goalposts	Explore the range of acceptability for options and solutions for this particular problem and explore important decision-making criteria.	Set the Innovation Goalposts.
Seeking stimuli	Explore the environment for signals and other information. Research past, present and future. Explore multiple perspectives. Explore the marketplace.	Analyze and narrow down the stimuli.
Uncovering insights	Use your chosen stimuli and imagination to identify potential insights and discoveries. Suspend judgment while you are uncovering these insights. Use the Creative-Connections Power tools.	Choose the high-priority insights for further reflection.
Identifying ideas	Explore these high-priority insights for potential ideas to solve your real problem.	Compare and select the best ideas based on the previously discussed Innovation Goalposts. Build these ideas into fuller concepts.
Developing the innovation roadmap	Take these concepts and build them into fuller plans. Investigate resource needs, timing, and responsibilities. Identify alternative plans.	Choose the optimal plan based on the Innovation Goalposts and predetermined criteria. Consider the impact this plan will have on the rest of the organization.
Gaining commitment	Explore commitment to the optimal plan. Identify who will support the plan. Prepare the plan for presentation.	Present the plan. Readjust the plan. Test elements of the plan if desired. Readjust the plan. Finalize commitment to the final plan.
Implementing the innovation roadmap	Release the final plan into action. Adjust the plan where needed.	Review the entire process and results, and share this learning.

Source: Dundon E. (2002), *The Seeds of Innovation: Cultivating the Synergy that Fosters New Ideas*, AMACOM, p. 197

4. Conclusion

Innovations are the main moving force of technical-technological development. Without innovations it would be very difficult to imagine how the world would look today. Innovations are an element of great importance for the total development of the human race. Contemporary organizations tend to rely more and more on innovations to foster their growth and development. Innovations are probably the main force fostering the development of knowledge, knowledge management and knowledge based economy.

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THE USE OF INTERNET AND ENTERPRISE COMPETITION

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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.

2. The use of Internet

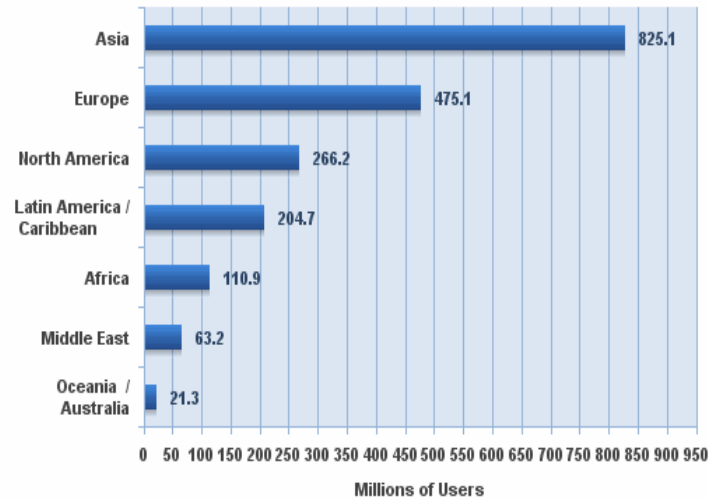
'Internet World Stats' has published a number of users who have permanent Internet connection; down will present some statistics about Internet use at the World and Europe.

Table 1. Internet Usage and World Population Statistics are for June 30, 2010;

WORLD INTERNET USAGE AND POPULATION STATISTICS						
World Regions	Population (2010 Est.)	Internet Users Dec. 31, 2000	Internet Users Latest Data	Penetration (% Population)	Growth 2000-2010	Users % of Table
Africa	1,013,779,050	4,514,400	110,931,700	10.9 %	2,357.3 %	5.6 %
Asia	3,834,792,852	114,304,000	825,094,396	21.5 %	621.8 %	42.0 %
Europe	813,319,511	105,096,093	475,069,448	58.4 %	352.0 %	24.2 %
Middle East	212,336,924	3,284,800	63,240,946	29.8 %	1,825.3 %	3.2 %
North America	344,124,450	108,096,800	266,224,500	77.4 %	146.3 %	13.5 %
Latin America/Caribbean	592,556,972	18,068,919	204,689,836	34.5 %	1,032.8 %	10.4 %
Oceania / Australia	34,700,201	7,620,480	21,263,990	61.3 %	179.0 %	1.1 %
WORLD TOTAL	6,845,609,960	360,985,492	1,966,514,816	28.7 %	444.8 %	100.0 %

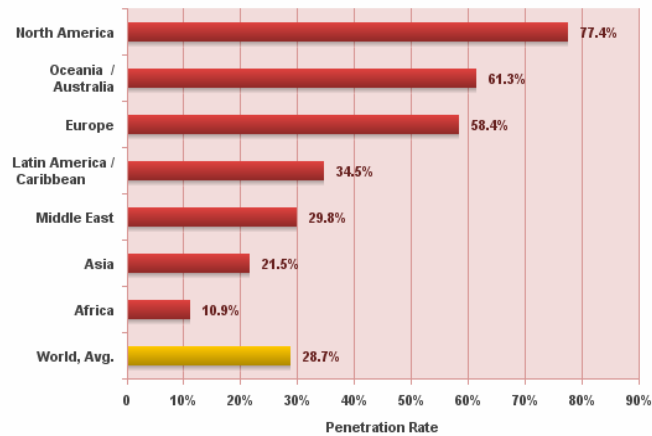
Source: Internet World Stats, <http://www.internetworldstats.com/stats.htm>

Table 2. Internet Users in the World by Geographic Regions – 2010



Source: Internet World Stats, <http://www.internetworldstats.com/stats.htm>

Table 3. World Internet Penetration Rates by Geographic Regions – 2010



Source: Internet World Stats, <http://www.internetworldstats.com/stats.htm>

As we can see according to Internet World Stats research there will be 1,966, 514,816 internet users worldwide by the June, year 2010. Especially in Europe 475,1 million internet users. In total included 28,7 % of world population. By taking this into account the companies have to adapt to the culture of the Internet and it should also provide the feature to interact with one another. The Internet also provides opportunities for companies to build strong and profitable relationships with their customers (Kotha 1998). Rao Srinidhi (2000) observed growth of the Internet is a result of a 'virtual circle' whereby the Internet users spend increasing amounts of time on the Internet, which makes them more receptive to superior content, which attracts more companies to create websites. The Internet, which began as a messaging and recreational tool has now emerged as a powerful information medium and has evolved into the basic carrier of this new phenomenon of e-commerce. (ibid)

3. E-commerce stage model

Stage model of e-commerce development which has been proposed by Rao *et al.* (2003) describes the logical evolution of e-commerce by involving different stages of development. A stage is a set of descriptors that characterize the evolutionary nature of e-commerce. Such descriptors are for example, brochure ware, online catalogues, contact information, one-way and two-way communication, linking information, on-line financial transactions, etc. Their model proposes that ecommerce development takes place in four stages: presence, portals, transactions integration and enterprise integration. It is important to note that in later stages of the model cost, technological demands, and complexity increase. Though the stage model as proposed appears sequential, it is not necessary that a company begins at the presence stage and then progresses through subsequent stages. The model allows for a company to enter at any stage. As technology and ecommerce awareness increases it can be anticipated that a given company may enter a later stage, leapfrogging earlier stages in order to accelerate its development process. When a company does this, it is anticipated that all previous stage issues must be addressed (Rao *et al.* 2003). Each of the stages and their characteristics are described in the following paragraphs.

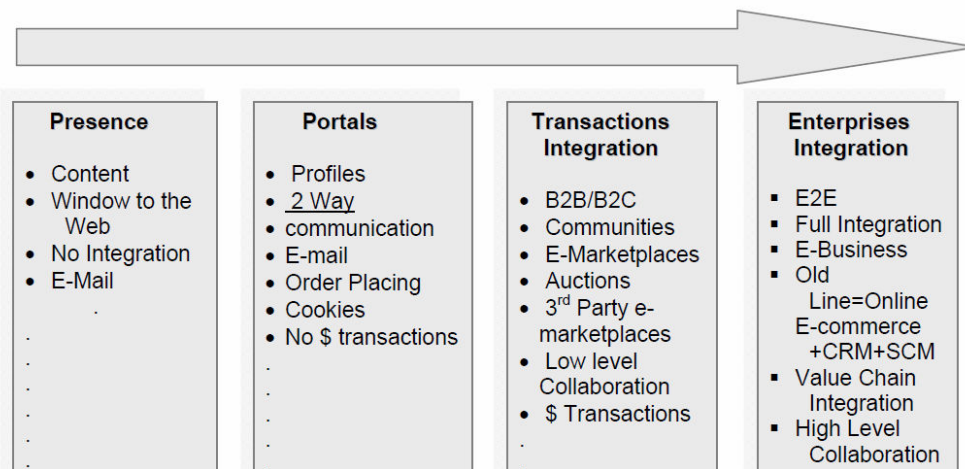


Figure 1. Stages of E-Commerce Development and their characteristics

Source: Rao *et al.*, 2003

Presence – most companies make their first steps in electronic commerce by displaying their company brochure and product offer on a Web site. The presence stage involves the initial steps that organizations do to get involved in a digital environment. This stage is characterized by an organization having a ‘window to the Web’ (Barry 2000). At this stage the Website provides information and primarily one-way communication to any potential user. This stage is best represented by a company having a Web site that provides information about the company’s products and services, contact information, and other relevant information in a static manner. Another important characteristic of this stage is that there is no integration with internal and/or external processes, and the presence is primarily used to attract new customers (Rao *et al.* 2003).

Portals – the portals stage is viewed as the introduction of two-way communication, customer or supplier order placing, the use of profiles and cookies. The main difference between this stage

and the presence stage is the capability of two-way communication between the business and customers (B2C) and/or between businesses (B2B). The information provided in the presence stage can be coupled with facilities for ordering, product feedback, and product and/or quality surveys. This allows not only the attraction of new customers, but it also allows the company to engage and retain visitors, and relate them to their individual preferences for customization purposes. Another advantage of this stage is the ability to link information displayed with inventory data, and search capabilities for the users (Rao *et al.* 2003). It is important to note that although there is two-way communication at this stage, it is not possible to process financial transactions.

Transactions integration (TI) - the transactions integration stage is differentiated from portals stage mainly by the presence of financial transactions between partners. This in turn will require higher technical capabilities and IT infrastructure and, thus, SMEs will face new challenges to overcome (Rao *et al.* 2003). Integration at this stage is viewed as the integration of internal processes, which allows for the optimization of all the operations of the organization. Also, the level of collaboration and sharing of information between partners is considered to be low.

Enterprises integration (EI) - enterprises integration refers to complete integration of business processes to the extent that old-line business is indistinguishable from online business. This level of integration involves high levels of collaboration between customers and suppliers. This level of integration utilizes the e-commerce systems to manage customer relationships (CRM) and the supply chain (SCM). This stage is somewhat of an idea concept for the 'e-world' environment. (Rao *et al.* 2003)

5. Advantage for the Internet marketers over traditional offline marketers

Chen and Chang (2003) views that the distinctive advantage for the Internet marketers over traditional offline marketers, The Internet is able to reach large number of consumers scattered around various geographic locations including those areas where it is hard to reach within fractions of seconds. Another advantage is that they are able to reach out to younger generations who are heavily sought by the marketers. Kotha (1998) also emphasizes that companies should strive to build strong online communities, which would in turn, build loyal customers and result in high economic returns. According to Mashari (2002) for many business organizations The Internet and e-commerce have become necessities. Many companies have started to use e-commerce as a tool at various levels of their business in order to improve the customer's experience, aid with decision-making, and to lower overall costs. (ibid)

According to McIvor *et al.* (2000) e-Commerce involves automation of the various us in essto-business and business-to-consumer transactions, as well as a process of doing business electronically. It further involves reducing clerical procedures and eliminating paper handling. Burress (2000) further explains that pure e-commerce companies are also seeking to implement the latest website technologies so that customers have an option for communicating with them that fulfills the customer's expectations and using it to learn if the customer chooses to communicate via a particular medium; the customer expects the response to be with the same medium.

With the help of the Internet, firms also have the scope of transferring goods and services not only through the traditional retail outlets, but also through an online virtual store. At the same time, the Internet also allows the consumer to effectively search for lower prices on the net, using its tools and to decide on alternatives, compare the prices and decide on the best alternative (Hauble, and Trifts 2000). Retailing has changed its trend and now people have been shifting from traditional shopping channels to e-commerce, as we can see in Figure 2.



Figure 2. B2C E-Commerce Sales in Europe, 2006-2011

Source: <http://www.zeald.com/Resources/Ebusiness+Statistics++Benchmarks.html>

Further Choi *et al.* (2006) believe that with the arrival of the Internet customers have become more powerful. It helps the end user's customized information at a relatively very lower cost, and if they don't like the product or information they are just one click away from leaving. Buying on the web is altogether different from physical shopping because the customer cannot touch or see the product physically. Furthermore, the quality of the product is difficult to judge online. It is up to the online retailers to use IT for handling out the information in a very effective way for their customers. (ibid)

Websites are becoming increasingly import to customers, and the company CDnow.com has stated their vision as: '*Make every visit to the site, whether for browsing or buying, a valuable and rewarding experience*' (Jones 2002). A website plays a vital role in building online experience between the producers and consumers. It can also help companies to replace 800 numbers (help lines), paper based documents and investment made easy for hosting in the websites to save time and pleases the customers at as well (Chaudhury 2001). Choi *et al.* (2006) confirm that a website should be developed in a way so that it creates a match between the available information and its design. It is also important to note that perspectives of the online buyers should be taken into consideration when developing online strategies to attract online consumers. A study by Kim and Eom (2002) suggests that companies should provide the webpage that is easy to access, making the customers happy. This in turn leads to business success. For online shoppers, shopping should be convenient as much as possible; it should also provide some convenient features such as E-wallet. Also the website should be designed from the customer's perspective and should see that there are no dead or broken links. (ibid)

Ellinger *et al.* (2003) believes that Internet presence provides firms with opportunities to enhance business offerings in a cost effective and practical manner. It can help companies increase profitability, reach new markets, improve customer experience, distribute products faster and communicate more effectively with supply chain partners.

6. Conclusion

We are living in a globalized era and a rapid development of information technology. Enterprises to be present in this globalized world should exploit a major opportunity that is ecommerce. If we use this option, enterprises will come from expansion and local restrictions and will have an international scope. To develop presence in internet enterprise owners and management to be successful need to develop the platform according to these characteristics: presence - most companies make their first steps in electronic commerce by displaying their company and product brochure offer on a web site. The presence involves the initial stage steps that

organizations will to get involved in a digital environment. This stage is characterized by an organization having a 'window to the web'. Portals - the portals stage is viewed as the introduction of two-way communication, customer or supplier order placing, the use of profiles and cookies. The main difference between this stage and the stage presence is the capability of two-way communication between the business and customers (B2C) and / or between businesses (B2B). Transactions integration (TI) - the transactions integration is differentiated from stage portals mainly by the presence of financial transactions between partners. This in turn will require higher technical capabilities and it infrastructure and, thus, enterprises will face new challenges to overcome. Enterprises integration (EI) - integration enterprises refers to complete integration of business processes to the extent that old-line business is indistinguishable from online business. This involves high level of integration between levels of collaboration customers and suppliers. This level of integration utilizes the e-commerce systems to manage customer relationships (CRM) and the supply chain (SCM). Stage this is somewhat of an idea concept for the 'e-world' environment.

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

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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.

2. Main text

The rankings for both nations are quite close in the World Economic Forum's Global Competitiveness Report 2009-10, where Ukraine is on 89th position and Egypt on 81st out of 133 countries on the World Economic Forum's *Global Competitiveness Report 2010-11* (WEF 2010). In spite of this upgrading Ukraine was one of the nations whose economies were severely affected.

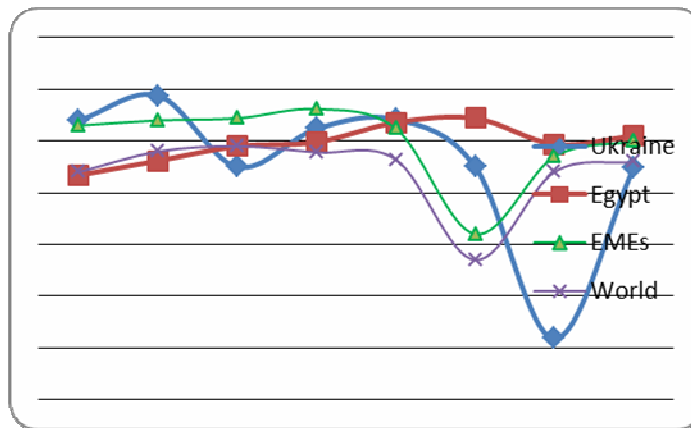
Table 1. Comparison of Global Competitiveness Index

Pillars	Egypt	Ukraine
Basic requirements	4.52	4.15
Efficiency enhancers	3.61	3.69
Innovation factors	3.63	3.47

Source: World Economic Forum (2010) Global Competitiveness Report.

As elucidated by Figure (1), Ukrainian GDP contracted by 14.1 percent, yet started to show signs of recovery in 2010. This is mainly blamed on the massive contraction in the machine building and metallurgy sectors and the abrupt halt of Russian energy supply to Ukraine. Authors are encouraged to have their contribution checked for grammar. The text is to be typeset in 11 pt Arial Narrow, single spaced, align justify.

Figure 1. Comparison of Real GDP Growth Rates (2003-Aug 2010)



Source: World Bank and International Monetary Fund databases.

2. Banking Sector Dynamics

Among the harshest hit by the GFC were Ukrainian banks, many of which endured destructive losses and suffered from insolvencies. Those that were most ruthlessly hurt were banks with foreign capital, which prior to the crisis, enjoyed ready access to quite cheap and usually short-term loans by foreign subsidiaries. This had previously advantaged these banks as it provided them with ample opportunities to reap profits through issuing more expensive loans. Yet, this trend was abruptly reversed as soon as the early signs of the crisis emanated from the US. The sudden shortage of funds did not only cause a surge in interest rates, especially for loans in foreign currencies, but lead to the intricate situation where consumer loans became almost absent by the end of 2008. Moreover, in 2008 Ukrainian banks experienced problems with liquidity, risk management and bad loans (NBU 2009). Panic expectations by savers, warmed with bad news of world financial corporation bankruptcies, lead to massive deposit runs. In 2009 the local currency deposit hemorrhage amounted to 15 percent of total deposits, while foreign currency deposits declined by 13 percent (Kums *et al.* 2009). The ultimate aftermath was that Ukrainian banks reported substantial losses of USD 1.31 billion in 2009, accounting for 1.12 percent of GDP, in comparison to profits exceeding USD 1 billion in 2008. Additionally, the non-performing loan (NPL) portfolio increased by twofold over the same period (Andreeva 2009). The situation was dangerous with regard to customer loans in foreign currency, out of which more than a quarter were bad debts at the beginning of 2009. Table (1) details the performance of both banking sectors.

Table 2. Banking Indicators

	Ukraine					Egypt				
	2006	2007	2008	2009	2010	2006	2007	2008	2009	2010
Number of banks	186	193	198	198	194	41	40	39	39	39
Regulatory capital ratio	14.95	14.19	13.92	14.01	19.97	14.9	14.6	14.6	14.3	14.3
Loan-deposit ratio	1.17	1.47	1.76	2.22	1.94	57.7	54.5	55.9	51	50.9
Liquidity ratio	16.4	12.7	10.3	8.2	10.8	34.3	27.2	37.8	44.1	44.4
Loans to private sector/Total loans	0.70	0.62	0.57	0.60	0.66	84.8	82.3	83.7	79.9	80.4
ROE	10.39	13.52	12.67	8.51	11.89	14.6	15	14.4	13.5	13.1
ROA	1.31	1.61	1.5	1.03	-1.69	0.8	0.8	0.8	0.8	0.8

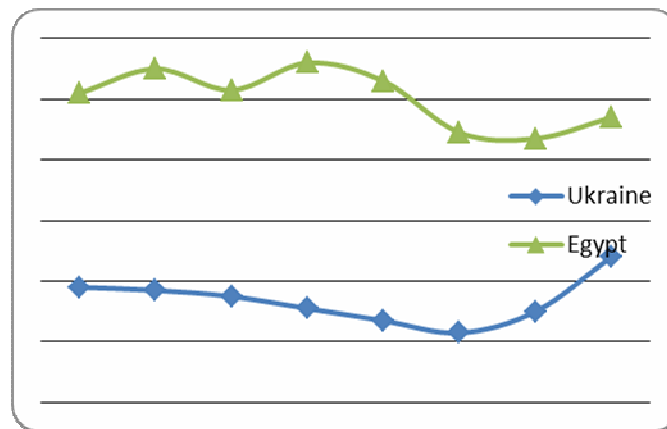
Sources: National Bank of Ukraine (2010) *Main Indicators of Ukrainian Banking Activities*. http://bank.gov.ua/Engl/Bank_supervision/dynamics_e.htm, Accessed on September 23, 2010, Central Bank of Egypt (2010) *Monthly Statistical Bulletin*, pp. 46-7.

The Egyptian banking system was isolated from global turbulence as domestic banks had very limited exposure to failed global financial institutions. The exposure of banks to risky assets was marginal since the Central Bank of Egypt prohibits domestic banks from holding structured credit instruments or other derivative products. Moreover, Banking Law No. 88/2003 sets the minimum issued and paid-in capital for domestic banks at EGP 500 million (USD 90 million). Prudent regulatory surveillance and effective banking supervision were further strengthened under the

banking sector reform program launched in 2004, which has indisputably ensured the stability of the banking sector. The reform program has also resulted in a fairly liquid and well capitalized Egyptian banking sector. Amidst the global recession, deposits increased by 8.4 percent while loans rose by 7.1 percent. However, the only pitfall is that the overall loan-to-deposit ratio was equal to 52.7 percent in 2009, with a high portion of assets being short term and liquid (CBE 2009). If anything, this could be explained by the reluctance of banks to extend loans till the meltdown starts to turn around. Another plausible explanation could be the escalation of bank holdings of high-yield Treasury Bonds, which account for a weighty 33% of total assets, up brusquely from 17 percent in late 2007 (BMI 2010). These were primarily launched to finance the ambitious LE 15.5 billion (US\$4.5 billion) fiscal stimulus package.

While the Egyptian economy moderately weathered the GFC, the Ukrainian economy was seriously impacted. Figure (2) displays the drastic rise in unemployment levels in both of Egypt and Ukraine. The problem in Egypt is far more intense, where the young are the most seriously impacted. The huge population growth is behind the expansion of the labour force at a more rapid pace compared to the growth of job opportunities.

Figure 2. Unemployment Rates



Source: Worldbank Online Database.

Even though both economies suffer from inflation, their fiscal and monetary agents adopted expansionary policies, especially that slow domestic demand does not yet pose a threat to deepen inflation. While the excessive expenditure by the Ukrainian government has resulted in its exceeding its fiscal budget deficit target of 5.5% of GDP by more than 3%, the Egyptian \$4.5 billion fiscal stimulus package resulted in its shooting up to % of GDP. In true fact, due to the adherence to the nominal anchor of inflation targeting, by August 2010 both nations have managed to reduce the previous hyperinflation to 8.5% in Ukraine and 10.7% in Egypt as displayed by Figure 3. However, one must enter the caveat that future price hikes are expected in both nations; the overdependence of Ukraine on Russia for oil and natural gas supplies poses monopsonistic threats, while the huge wheat demands by Egypt's bursting population increases its vulnerability to future price rises.

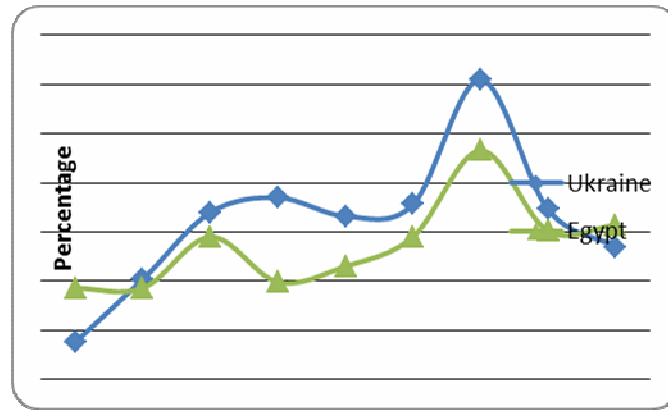


Figure 3. Consumer Price Index

Source: World Bank Online Database.

3. The Model

Dynamic equilibrium theory took off in the seventies when Friedman and Schwartz (1971) combined DSGE models with the importance of money documented by empirical studies. It was Kydland and Prescott (1982) who built a small and coherent dynamic model of the economy from first principles with optimizing agents, rational expectations, and market clearing in a manner that resembled observed variables to a remarkable degree. Other solution methods for DSGE models, such as projection algorithms and value function iteration, are described and compared in Judd (1998). Christiano (1990) substituted a problem by a linear quadratic approximation to it. Greenwood *et al.* (1997) used the DSGE model to show how the investment-specific technological shock accounts for the fall in the relative price of capital observed in the US economy since the Second World War. Time-varying volatility in the shocks helps to understand the changing volatility in the economy over the last decades that have been named the 'Great Moderation' by Stock and Watson (2003). Then recently it traveled to handling complex issues to the extent that many central banks round the world use it as a forecasting tool (Christiano *et al.* 2005).

3.1. DSGE Model

This paper uses a small-scale DSGE model for Egypt and Ukraine to forecast the effects of the three proposed reforms of Basel III: capital requirements, liquidity ratios and corporate governance practices on real GDP growth, employment, inflation and interest rates. The study extends over the period 2000:01-2010:03. The economy is divided into three agents: utility maximizing households, firms that seek to maximize profits, and monetary authorities with the explicit nominal anchor of price stability and the implicit goal of output growth and financial stability. The IS curve, the forward looking Phillips curve and the monetary policy rule further elucidate the model. The system is put into motion by structural demand, supply and monetary shocks.

The model assumes that there are (*i*) households that aspire to maximize utility (U_i). Households decide on consumption expenditure (C_i) and saving instruments (S_i), which could be resold at the discount rate ($1/R_i$). The decision leads to the following dynamic IS-curve:

$$\left(\frac{H_t^i}{A_t}\right)^{-\sigma} = \beta U_t \left\{ \left(\frac{\varepsilon_{t+1}^D}{\varepsilon_t^D}\right) \left(\frac{R_t}{\Pi_{t+1}}\right) \left(\frac{A_t}{A_{t+1}}\right) \left(\frac{H_{t+1}^i}{A_{t+1}}\right)^{-\sigma} \right\} \quad (1)$$

where, β is a time-invariant discount factor. The individual household habit H_t^i is adjusted for the growth rate of technology g_t . Present consumption C_t is a fraction of past consumption C_{t-1} .

$$H_t^i = C_t^i - \lambda(1 + g_t)C_{t-1} \quad (2)$$

A_t is a deterministic trend in technology, such that

$$\ln A_t = g_t \quad (3)$$

ε_t^D is a demand shock affecting the household's decisions of the levels of consumption and savings. It follows an AR(1) process with η_t^D being an i.i.d. white noise disturbance as follows:

$$\varepsilon_t^D = (1 - \rho^D)\varepsilon^D + \rho^D \varepsilon_{t-1}^D \eta_t^D \quad (4)$$

and Π_t is the change in the inflation measured by the consumer price index (CPI),

$$\Pi_t = \frac{\text{CPI}_t - \text{CPI}_{t-1}}{\text{CPI}_{t-1}} \quad (5)$$

The following is the labour supply curve:

$$\frac{W_t}{P_t A_t} = v_L \left(\frac{H_t^i}{A_t}\right)^\sigma (L_t^i)^\phi \quad (6)$$

The model is assumed to operate with monopolistically competitive (j) firms of mass 1 producing differentiated intermediate goods (Y_t^j) and firms producing final goods (Y_t); $\theta > 1$ is the elasticity of substitution between the goods.

$$Y_t = \left[\int_0^1 (Y_t^j)^{\frac{\theta-1}{\theta}} dj \right]^{\frac{\theta}{\theta-1}} \quad (7)$$

Producers of final goods minimize costs, but take the price of intermediate goods as given. The consumer price of the final product is denoted as:

$$P_t = \left[\int_0^1 (P_t^j)^{1-\theta} dj \right]^{\frac{1}{1-\theta}} \quad (8)$$

Firms face a downward sloping demand curve, i.e. quantity demanded of (j) is inverse to price.

$$Y_t^j = \left(\frac{P_t^j}{P_t} \right)^{-\theta} Y_t \quad (9)$$

The expected discounted profit (π_t^j) for a firm that can re-optimize its price is given by:

$$\pi_t^j = (P_t^j - MC_t^N) \left(\frac{P_t^j}{P_t} \right)^{-\theta} \left[Y_t - \frac{P_t Y_t}{\theta} \right] \quad (10)$$

where, the nominal marginal cost (MC_t^N) per unit is given by:

$$MC_t^N = \frac{W_t}{A_t \varepsilon_t^s} \quad (11)$$

$$\text{and } Y_t^j = A_t \varepsilon_t^s L_t^j - \frac{Y_t}{\theta} \quad (12)$$

$$\text{The supply shock } \varepsilon_t^s = (1 - \rho^s) \varepsilon^s + \rho^s \varepsilon_{t-1}^s \eta_t^s \quad (13)$$

and η_t^s is an i.d.d. white noise disturbance.

As mentioned earlier, the nominal anchor of both the NBU and the CBE is inflation targeting, while the implicit targets are GDP growth and financial stability. Again, the higher costs of production are simulated for the period of the study and the monetary agents are expected to use the overnight interest rate as the operational target to offset the effects of these higher costs that are apt to affect both the implicit and explicit targets. In accordance with Rudebusch (2002) interest rate smoothing (γ) is introduced into the monetary policy reaction function.

$$\frac{R_t}{\bar{R}} = \left(\frac{R_{t-1}}{\bar{R}} \right)^\gamma \left[\left(\frac{\Pi_t}{\bar{\Pi}} \right)^{\gamma \cdot \Pi} \left[\frac{Y_t}{Y_{t-1}(1+g)} \right]^{\gamma \Delta y} \right]^{(1-\gamma)} e^{\eta_t^M} \quad (14)$$

where, η^M is an i.d.d. white noise disturbance.

The market clearing condition for the domestic economy requires that:

$$Y_t = C_t + C_t^f \quad (15)$$

where, the left-hand-side is the supply of domestic goods and the right-hand-side comprises of domestic demand (C_t) and export demand from the rest of the world(C_t^f).

$$C_t^f = \kappa \left(\frac{P_t^j}{P_t} \right)^{-\eta^f} Y_t^f \quad (16)$$

and, (κ) represents the share of foreign imports to total foreign output.

4. Results

Table (3) reports the DSGE parameter estimates for prior and recursive posterior distributions. Parameters are estimated with a 1 and up to 4 lag length, and with a rather tight prior distribution for a grid of values: $\lambda \in \{0.67, 0.8, 1, 1.5, 2, 3, 5, 10, 100\}$. Also, in accordance with Justiniano and Preston (2008) the model is estimated without accounting for misspecification. The value of the discount factor (β) was calibrated at 0.995 as per Hansen (1985). While habit formation plays a very small role, inflation indexation is quite prominent, which is in accordance with Christiano *et al.* (2005). The parameter for price stickiness takes a particularly high value, which means that prices adjust quite sluggishly. These findings regarding prices are especially important due to the stubborn inflation in both countries. The supply shock persistence is higher than that for demand.

Table 3. Structural Parameters

	Prior Distribution Mean	Recursive Mode of Posterior SD	Median	Mean	Min.	Max.
Discount factor (β)	0.995					
Habit formation (H)*	0.49	0.10	0.51	0.52	0.42	0.64
Labour supply elasticity (ν)◆	1.68	0.67	1.45	1.5	1.41	1.62
Elasticity of substitution (θ)◆	0.98	0.41	0.69	0.68	0.55	1.21
Calvo prices (ξ)*	0.84	0.19	0.69	0.69	0.51	0.65
Inflation indexation (δ)*	0.83	0.15	0.37	0.38	0.30	0.45
Int. rate smoothing (γ)*	0.79	0.19	0.65	0.65	0.55	0.71
Inflation response (γ/π)◆	1.71	0.41	1.65	1.78	1.58	1.71
GDP growth response ($\gamma/\Delta y$)◆	0.29	0.1	0.21	0.23	0.23	0.25
Demand shock persistence ρ^D *	0.78	0.1	0.61	0.6	0.56	0.64
Supply shock persistence ρ^S *	0.88	0.09	0.98	0.99	0.88	0.99
Supply shock SD (σ^S)●	0.41	2	0.81	1.08	1.07	1.25
Demand shock (σ^D)●	0.22	2	0.85	1.34	1.22	1.97
Monetary shock (σ^M)●	0.12	2	0.09	1.17	1.11	1.79

- *Beta distribution
- ◆ Normal distribution
- Inverse gamma distribution

The stylized facts of the data are compared to the baseline model in Table (2). The baseline model properly emulates most of the stylized facts. There are two noticeable problems, the first is that the baseline model underestimates the variability of inflation for both nations; the standard deviation (SD) of inflation is 3.33% in the baseline model, while it amounts to 10.11% for Egypt and 9.03% for Ukraine. Secondly, the model underestimates the variability of the interest rate. Also, in regard to the interest rate, the model records 97% correlation with output, in comparison to 11% for Egypt and only 1% for Ukraine. All other results appear to be consistent with previous research. For example, output is more variable than consumption. Moreover, the high volatility of investment in relation to output is in line with the previous literature, since there are more important determining factors of investment such as contagion effects of financial crises, foreign direct investment, interest rates and financial stability (Moguillansky 2002). The DSGE model is able to replicate both the negative correlation between inflation one to two years in the past and current output and the positive correlation between current output and inflation one year ahead. Moreover, a positive productivity shock leads to an expansion of aggregate demand and output. The monetary policy reaction function shows a fall in interest rates, but not enough to prevent the opening up of an output gap and a fall in inflation.

4. Conclusion

This paper attempted to study the costs of conforming to Basel III for Egypt and Ukraine when macroeconomic performance is appraised in terms of output growth, stabilizing prices and job creation. The DSGE model was utilized to forecast the expected impact of the adoption of Basel III requirements of capital adequacy, liquidity constraints and CG in both nations. The study used historical real-time data to explore the effects of demand, supply and monetary shocks on the set of macroeconomic variables. A subset in the DSGE model was employed as policy parameters to allow their values to be chosen. Both the DSGE and the BVAR models were re-simulated and output growth was re-evaluated.

The results reveal that the collective impacts of meeting capital adequacy, liquidity and corporate governance requirements are better weathered by the Egyptian economy. Ukrainian GDP shows a slowdown throughout the period 2013-18, after which recovery is realized. This is a very important result that shows that the vigilance of Egyptian supervisory agents was a pertinent source of enhancing and sustaining macroeconomic performance and the competitiveness of the Egyptian banking sector as well as the overall level of national competitiveness. Also, the costs of the proposed regulatory reforms will be quite detrimental for Ukraine, but are forecasted to be better sustained by the Egyptian economy, implying that emerging nations that were well geared up through meeting Basel II requirements will show more resilience to the costliness of future reforms. The general recommendation to enhance the competitiveness of the Ukrainian banking sector is to expedite bank regulatory reforms and complement them with proper corporate governance practices.

This study opens the door to more exhaustive research in order to better assess the overall macroeconomic impacts and costs of the impending Basel III. Some of the variables that were exogenously set need to be calibrated and made endogenous to allow feedback mechanisms and interactions to develop. For example, while the expected monetary shock and the changes in the policy rate were examined, the forecasted changes and interactions of the government bond yield were ignored. Also, given the relative levels of immaturity of financial markets in EMEs, the informal non-bank credit channels need to be examined in more detail.

Furthermore, this research may have taken account of the estimated costs of the reforms, but it has totally ignored the expected benefits of introducing financial stability. Amongst these benefits

are enhanced national savings and investment expenditure as well as avoiding the usage of public funds to finance unconventional tools of monetary policy. If these are taken into consideration, the capital buffers, liquidity requirements and internal corporate governance costs may be found to be loss bearing in the long run.

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SOME ELEARNING TOOLS FOR KNOWLEDGE-BASED SOCIETY

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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.

2. Review of the Literature

There are many studies regarding the eLearning systems and their learning environments. We only list a number of the papers in this field:

- Anderson, T. and Elloumi F., (edited by), Theory and practice of online Learning, 2004, Athabasca;
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3. Findings and data – The differences between the traditional learning system, MOODLE platform and Second Life Environment

Both the traditional learning system and the eLearning systems are in a continuous change due the new media communications possibilities which had been developed once with the software programs for the office.

In the last decade, after the introduction of the SCORM requirements, the eLearning systems had a rapid development because they offers: the asynchronous learning modality for their students, the advanced tests that can be taken in any moment of the day and the teachers may receive more useful data about the learning activities of their students.

In the Table 1 we present some of the differences between traditional system of education (face to face), MOODLE platform and Second Life Environment regarding the communications pathways.

Table 1. The communications pathways and the differences between traditional system of education (face to face), MOODLE platform and Second Life Environment.

The communications pathways	Face to face education	MOODLE platform	Second Life Environment
The verbal communication	The most used method of training	It isn't possible	Depends on the computer's function for the microphone activation and sometimes may produce technical problems (unpleasant noises for the ears).
The paraverbal communication	Very useful in adult training programs	It isn't possible	Not very good, because you can not command all the avatar's movements and expressions
The communication using a media product (the photos, the power point presentation, an audio clip, an video clip, a movie or a virtual experience, etc.)	It can be used if you have access to technical resources	It can be used if you have access to technical resources	It can be used if you have access to technical resources
The synchronous communication	It is possible	It is possible	It is possible
The communication using text message:			
synchronous	It is possible	It is possible	It is possible
asynchronous	It is possible	It is possible	It is possible
The communication improvement due to classroom organization (the positions of the furniture objects and of the materials from the walls)	It is very a important aspect of the training	It isn't possible	It is possible

If you conduct a training session, your activity may be influenced by several factors. Some of those are presented in the Table 2.

Table 2. The importance of the communication disturbances that occurs during the training sessions - the differences between traditional system of education (face to face), MOODLE platform and Second Life Environment

The importance of the communication disturbances that occurs during the lessons	Face to face education	MOODLE platform	Second Life Environment
the external noises	Very important	There are not this kind of problems	Important
the verbal communication between students during the teacher's explanation	Very disturbing	There are not this kind of problems	Important, but not disturbing for the others students
the delayed entry of the students in classroom	Very disturbing	There are not this kind of problems	Very disturbing
the quality of the Internet connection	Not Important, the tutor can replace the activity on the Internet with another	Discontinue the training for the persons who have this problem, but everyone can access later the platform and find all messages between participants	Discontinue the training for the persons who have this problem and they can not to recover the events which they missed
The access to the classroom	It depends on the travel possibilities of the students and teachers	It depends on the quality of the Internet connection and the password for access	It depends on the quality of the Internet connection and the password for access

But, for older people, engaging in a distance eLearning program is often difficult because they have not enough competencies for using computers or of the Internet communication tools. For elders, the most important exam in the eLearning systems is to surpass the problems concerning the access to the eLearning platform, after this, the next exams are: the accessibility of the scientific and didactic information, the homework upload, to solve the quizzes and finally to pass the final evaluation. The differences regarding the evaluation methods are given in the Table 3.

Table 3. The evaluation methods -the differences between traditional system of education (face to face), MOODLE platform and Second Life Environment.

The evaluation methods	Face to face education	MOODLE platform	Second Life Environment
the tests with unique choice	They are used	They are used	They are used
the tests with multiple choice	They are used	They are used	They are used
the role play	It is used	It isn't used.	Difficult to use due the impossibility to control all the avatar's movements and gestures
the essay	It is used	It is used	It is used
the project	It is used	It is used	It is used
the quizzes	They are used	They are used	They are used
the thinking hats	It is used	It isn't used	It can be used
the automatic checking of the tests solved	It is possible only in an informatics laboratory	It is used	It isn't possible
The time schedule registration for the tests solved	It is possible only in an informatics laboratory	It is used	It isn't possible

Using computers the teachers are able to identify their students name and learning activities very well in the case of an eLearning platform such as MOODLE, but they can identify only the students name in the Second Life Environment. In the traditional learning system, the teachers have to have a very good visual memory for identify the name of a student when they look at him. In the figure 1 and 2, we present pictures from a training activity in the Second Life Environment. Here, the

images of the students do not provide good information about the attentiveness of the students, due to the impossibility to control very well their avatars.



Figure 1. A snapshot from a training activity in the Second Life Environment

1



Figure 2. Another snapshot from the training activity in the Second Life Environment

1

3. Conclusion

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.

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

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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.

2. Methodology

For the purpose of this paper, a desk research of secondary sources was conducted to screen publicly available national and international sources related to the performance of the education and training systems and innovation policy across Europe and in Macedonia. This involved compilation of a list and collection of core primary and secondary data sources to be assessed, including: Commission's progress reports on implementing the Education and Training 2010 Work programme; Ministry of Education and Science of the Republic of Macedonia website; Ministry of Economy of the Republic of Macedonia website; National Program for Development of Education website; OECD and World Bank websites;

Wide range of publicly available national and international reports, studies and researches (the reference list summarizes all the documents examined); World Bank and OECD database; National Statistical Office websites and statistical reviews; National legislation on education and training. The analysis instigated the overall trends and the underlying reasons for the trends.

This paper experienced limitations mainly because of the partial and /or very limited amount of publicly available national education data, as well as because of the prevailing tendency to collect and present information in diverse and/or inconsistent manner by different public authorities and or/institutions.

5. Knowledge-Based Economy – How and Why?

A brief definition of the word development states: an economic state of growth with rising profits and full employment. Today the prosperity of a given country's economy is, as a rule, seen as closely correlated to its competitiveness. Competitiveness, in turn, can be defined as firm-level productivity. Businesses are, in fact, the key driving forces of economic growth. Their capability for innovation, together with investment in human capital, ensures that they can satisfy their customers demands, thus achieving better market positioning and capturing a growing share in the markets. These define their level of competitiveness and ultimately the level of competitiveness of the national economy.

However, during the 20th century, economists thought that the ultimate force driving economic growth was investment in physical capital and infrastructures. This belief underlay the many plans that governed the economies of the countries and it was also the foundation upon which the international aid packages of institutions such as the World Bank operated for decades. The idea was that the growth rate of a country depended only on the fraction of its GDP that it invested. If the savings generated by its citizens were not enough to finance the investment required to achieve the desired growth rate, the World Bank would finance the difference (this is why this line of thought was, and still is, called the 'financing gap'). The failure of many developing countries to grow, despite the aid of the Bretton Woods institutions, showed economists that investing in physical capital was not enough to improve the growth opportunities of a country. It was time to look for other mechanisms. Knowledge (or 'human capital,' as modern economists call it) became the center of economic research for a couple of decades, becoming a significant factor of production, along with capital, labor, land, and other factors in determining economic growth. Moreover, many economists nowadays argue that it has become the most important factor of productivity. Drawing on many reports and studies, it can be said that there is a unanimous view among politicians and researchers

that knowledge is becoming an increasingly important driving force for prosperity and well-being.¹ 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. This represents the era of knowledge-based economy which on the other hand, has created a new discipline of economics. As represented by neo-classical production function, production in the old economy resulted from the inputs of land, labor and capital. While these traditional inputs still plays a role in 'new economy', knowledge has emerged as the most important factor of production. Under old economy, the traditional factors of land, labor and capital are predominant as source of comparative advantage. In the 'new knowledge-based economy' the comparative advantage is based on innovative activity whose source is knowledge spillover that cannot *be* easily diffused across geographical space.

The terms 'knowledge-based economy' and 'knowledge society' have become recognized and very popular globally. Not only in theory, but within most relevant international organizations, numerous studies have been implemented confirming the significance of these concepts. There is practically not a single economically developed country of today's world which does not have a specific policy or strategy to promote knowledge-based economy. According to OECD, 'these are economies which are directly based on the production, distribution and use of knowledge and information.'² World Bank defines it on this way 'the knowledge based economy (KBE) is one that encourages its organisations and people to acquire, create, disseminate and use (codified and tacit) knowledge more effectively for greater economic and social development'³ However, the qualitative novelty of the KBE comes significantly from the opportunities offered by the integration of ICTs into already established technologies and their subsequent transformation into 'information intensive production systems'. Information and communications technology speeds up access and return to knowledge. Continuous technological improvements now characterize nearly every product produced by man. The result is improved quality, reduced cost, better adaptation to consumer needs, as well as totally new products.

5.1. Knowledge framework for development

A country's or community's ability to benefit from the knowledge revolution was studied comprehensively by the World Bank in its 1998 World Development Report Knowledge for Development, and more recently by the OECD.⁴ The World Bank Institute subsequently developed a framework for analyzing the various policies and institutions required to develop a knowledge economy. It found that there are four critical requisites for a country to be able to fully participate: ⁵

1. An institutional and economic environment that enables the free flow of knowledge, investment in Information and Communications Technology (ICT), and encourages entrepreneurship;

¹ The Global Competitiveness Report 2001-2002, Michael E. Porter, Jeffrey D. Sachs, Peter K. Cornelius, John W., McArthur, Klaus Schwab. World Economic Forum, and Harvard Center for International Development, New York/Oxford, Oxford University Press, 2002.

² OECD, 2004. Learning for Tomorrow's World – First Results from PISA 2003, <http://www.oecd.org/dataoecd/1/60/34002216.pdf>.

³ OECD and the World Bank.

⁴ World Bank, 2002. Europe and Central Asia Region environmentally and Socially Sustainable Development, A Preliminary Strategy to Develop a Knowledge Economy in European Accession Countries, Working Paper, January 2002.

⁵ See also World Bank, 2002.

2. An educated and skilled population to create, share and use knowledge;
3. A dynamic information infrastructure ranging from radio to the internet, in order to facilitate the effective communication, dissemination and processing of information;
4. A network of research centers, universities, think tanks, private enterprises and community groups to tap into the growing stock of global knowledge, assimilate and adapt it to local needs, and create new knowledge.

A broadly similar conceptual framework is proposed in The Global Competitiveness Report, completed for the World Economic Forum.⁶ Here, the Global Competitiveness Index (GCI) has been used to examine the knowledge factor in enabling national economies to achieve sustained economic growth and long-term prosperity. The Global Competitiveness Index (GCI), represents a highly comprehensive index for measuring national competitiveness, which captures many microeconomic and macroeconomic foundations of national competitiveness. The concept of competitiveness involves static and dynamic components like: 1) institutions (their quality) 2) infrastructure (its quality) 3) macro economy (the extent to which the macro-economic stability contributes to the development of an economy's competitiveness) 4) health and primary education 5) higher education and training 6) market efficiency 7) technological readiness. The report states that the challenge of many middle income countries is to attract high flows of foreign direct investment, which brings new products, new technologies, new markets and capital. To move out of middle income status is a difficult jump, requiring high rates of innovation and commercialization of new technologies. To achieve this requires good economic policy, good governance, social capacity to improve its technological capacity, institutional changes, higher education, RandD, improved capital markets, and regulatory systems.⁷

Beyond the divergences that exist concerning the concept of the KBE per se, there can be reached a broad consensus regarding some of its basic characteristics, both at a economic level and from the perspective of social sciences, such as:

- The large-scale diffusion and use of new information and communication technologies (ICT);
- The intensification of innovation (organisational as well as technological) within all kinds of organisation;
- The development of service economies, where service sectors not only dominate economic activity and employment but knowledge-intensive services also play a major role;
- The trend towards higher educational attainments, training and more intense life-long learning.

Taking this into account, in this paper, we identify and investigate two key pillars in order to analyse the changes influenced by the transition of countries towards the KBE:

1. Higher education system and training
2. Technological innovation and RandD

Higher educational system, training and more intense life-long learning. In the KBE, the human competence is at the core of economic development and the state takes on the responsibility of establishing incentives for firms and individuals to engage in upgrading the learning capability of the adult population to reduce their risk of unemployment.⁸

⁶ The Global Competitiveness Report, 2001-2002, op. cit.

⁷ The Global Competitiveness Report, 2001-2002, op. cit.

⁸ D. Foray and B. Lundwall 1996

One of the most important determinants of the competitiveness of the workforce is the country's education system. Education allows the country to shift the scale of development and transfer the production of simple products to complex ones. Educated workers more easily accept the new technologies and also develop their own ones. Thus, quality of higher education and training is crucial for economies that want to move up the value chain beyond simple production processes and products. In particular, today's globalizing economy requires countries to nurture pools of well-educated workers who are able to adapt rapidly to their changing environment and the evolving needs of the production system. This pillar measures secondary and tertiary enrollment rates as well as the quality of education as evaluated by the business community. The extent of staff training is also taken into consideration because of the importance of vocational and continuous on-the-job training, which is neglected in many economies - for ensuring a constant upgrading of workers' skills. Barro, SalaandMartin, ⁹ have shown that the level of education of the workforce (measured by years of schooling) and public sector allocation for education is closely linked to the growth rate of real income per capita. High- competence of the workforce depend from the quality of the educational system. Bassani and Scarpetta, have found a high level of cohesion between the increased level of education and economic growth of the country. According to their research, any additional year of education of the population allows individual countries to increase production per capita for 4-7%.¹⁰ However, the value of formal education should not be overestimated. Most of the researchers agree that human capital is an important determinant of competitiveness and economic development (return on investment in education is higher than the return of any other investment), but not a guarantee of development as the country with the best human capital does not necessarily achieve the best development results. In general, a large number of people with (outdated) academic education is not a true indicator of the competitiveness of the workforce. Workforce can easily be under-educated or inappropriate-educated or some employees may not possess the knowledge necessary for successful economic competition. In the conditions of rapid technological development, school diplomas and academic degrees do not guarantee economic success of individuals or even society as a whole. So, the company can not rely only on those who have completed the educational process or on the labor market as the most important source of new knowledge and skills. It is therefore important to develop long- term educational and training programs and adult education, and ensure the participation of the entire population in it.

In many developing and as well in transition countries, existing systems of education are costly and ineffective, but unfortunately, there is no simple way of improving them. Today employees must be able to create, analyze and transform information, effectively communicate, organize and coordinate business activities. They should develop communication skills and information knowledge as well as ability and willingness to further teaching and training. The biggest challenge for these countries is not only a question of how to gain the hardware, but to provide knowledge and know to use modern technology. Educational systems must not only encourage the acquisition of knowledge and skills related to specific tasks, but rather should be focused on developing the skills of decision making and problem solving, and training for future self-teaching and participation in the education system. The pursuit of competitiveness of the workforce is particularly important to tertiary education because it directly affects the productivity and competitiveness of the national economy and

⁹ Barro, J. R. and Sala&Martin, X., 1995. *Economic Growth*. New York: McGraw-Hill, 1995.

¹⁰ Bassani, A. and Scarpetta, S., 2001. "*Links between Policy and Growth: Evidence from OECD Countries*". OECD Economics Department Working Paper. Paris: OECD.

improving life standards.¹¹ In short, the educational structure of population and employees conformity with the economic needs, is becoming a crucial determinant of competitiveness and economic development.

Technological innovation and RandD. In the KBE, technological innovation and the development of high-tech industries and knowledge-intensive sectors are largely seen as factors of increasing importance for competitiveness. Although substantial gains can be obtained by improving institutions, building infrastructure, reducing macroeconomic instability, or improving human capital, all these factors eventually seem to run into diminishing returns. The same is true for the efficiency of the labor, financial, and goods markets. In the long run, standards of living can be enhanced only by technological innovation. Innovation is particularly important for economies as they approach the frontiers of knowledge and the possibility of integrating and adapting exogenous technologies tends to disappear. Although less-advanced countries can still improve their productivity by adopting existing technologies or making incremental improvements in other areas, for those that have reached the innovation stage of development, this is no longer sufficient for increasing productivity. Firms in these countries must design and develop cutting-edge products and processes to maintain a competitive edge. This requires an environment that is conducive to innovative activity, supported by both the public and the private sectors. In particular, it means sufficient investment in research and development (RandD), especially by the private sector; the presence of high quality scientific research institutions; extensive collaboration in research between universities and industry; and the protection of intellectual property. Amid the present economic uncertainty, it will be important to resist pressures to cut back on RandD spending - both at the private and public levels - that will be so critical for sustainable growth going into the future.

The role of innovation in the competitiveness of the nation and the industry is best introduced and expressed by the famous economist Michael Porter. Porter used a diamond shaped diagram as the basis of a framework to illustrate the determinants of national advantage.¹² Porter argues that competition takes place around the creation and assimilation of knowledge and insists that the nation's competitiveness depends on the potential of national industry to innovating and developing. Porter also argues that national success of different countries may be a combination of many factors. He flatly rejects the widespread belief that government policy would like an active exchange rate policy and antimonopoly stimulation of the economy. Instead, he refers to the examples of industries that have succeeded in global level and argues that companies achieve their competitive advantages by innovation activities¹³ According to him, the innovation is not only the introduction of new technology (which results in new products), but also it relates to innovation processes and innovation in organizations (eg, new processes within companies). However, he emphasizes that the international dimension - effects of innovation (eg, innovated products) must be placed on the international market. Porter believes that the successful innovations arise when companies are under strong competitive pressures and despite the fact that their innovation activities can run into criticism and great obstacles. The maintenance of competitive advantage is a continuous process of improvement and upgrading because competitors are able to imitate any competitive advantage.

While we report the results of the pillars of KBE separately, it is important to keep in mind that they are not independent: they tend to reinforce each other, and a weakness in one area often has a negative impact on other areas. For example, innovation will be very difficult without a well-educated

¹¹ World Bank, 2002

¹² Porter 1990, p.73

¹³ Porter 1990, p.74

and trained workforce that are adept at absorbing new technologies, and without sufficient financing for RandD.

6. Knowledge and Innovation Policy as EU Main Strategic Tools for Achieving Growth and Competitiveness

The strategic goal for the European Union set by the Lisbon European Council in March 2000 and reaffirmed by the Stockholm European Council a year later (March 2001) is to make Europe 'the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion'. The countries transition to knowledge-based society is the way to join the world of EU global competitors. EU has attempted to integrate both the individualistic notion of solidarity in the KBE and the social solidarity of the welfare societies into a knowledge based welfare model that promotes investment in people and combats social exclusion.¹⁴ Therefore, the EU designed about 50 specific measures and policies whose implementation would lead to the achievement of the said target.

The European Union has no 'common policy' on education but it has specific ways of promoting cooperation in this field through policy cooperation with the Member States, action programmes, recommendations, communications, working documents, pilot projects etc. Once included in EC Treaty signed in Maastricht in 1992, the Education and Training (EandT) 2010 Work Programme was set up in 2002 as an over-arching policy cooperation framework aiming to make the EU's education and training systems a world reference by the end of the decade. Implemented through the 'Open method of coordination', EandT 2010 is making a vital contribution towards achieving the main objectives of the Lisbon Strategy in terms of quality, accessibility and openness of education and training systems¹⁵. The adopted Work Program was aimed to improve education and workforce competitiveness. This program has set the core indicators cover a wide spectrum of learning, starting from pre-school to adult education, as well as teachers' professional development and investment in education and training. The indicators are structured under the 8 strategic areas which reflect the political priorities of the EandT2010:¹⁶

- Making lifelong learning a reality;
- Developing school education;
- Developing vocational education and training;
- Developing higher education;
- Key competences among young people;
- Improving equity in education and training;
- Employability;
- Investment in education and training.

¹⁴ Lisbon European Council. Presidency conclusion 24.03.2000. nr199/1/00

¹⁵ The Lisbon Conclusions defined the open method of coordination as " means of spreading best practice and achieving greater convergence towards the main EU goals and indicated that it would be a fully decentralized approach using variable forms of partnerships, designed to help Member States develop their own policies progressively...". European Council (2002), Detailed Work Program on the follow-up objectives of the Education and Training systems in Europe, Official Journal (2002/C 142/01), <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2002:142:0001:0022:EN:PDF>

¹⁶ Pecakovska, S& Lazarevska,S.,. Long Way to Knowledge Based Society, Macedonian Education in the Light of the EC Foundation Open Society Macedonia, 2009;

These challenges are extremely important for new EU and candidate countries (such as Macedonia) and their governments are called to expand and improve investment in human capital and adapt education and training systems in accordance with the new competence requirements

The EU approach to the innovation policy also has more aspects. During the Lisbon summit, it was expressed a strong view that innovation should be the basic mechanism of the transition to a knowledge-based society.¹⁷ The elements of innovation policy refer to the industrial policy and company policy development, where the emphasis is on small and medium-sized enterprises. This position can be seen in the Lisbon strategy (the Official Document Lisbon Summit of the Council of Ministers), in which it is proposed establishment of a European areas of research and innovation, creating a friendly atmosphere for the establishment and development of innovative enterprises. Likewise, the small and medium-sized enterprises should be the key drivers of the innovation. As a mean of achieving these goals, EU proposes key link by the creation of the innovation network between companies and financial market, research and development, research and education institutions, advisory services and technological market. The important determinant of the strategic opportunity to strengthen innovation in the EU is evident in the next events. During the summit in Barcelona in 2002, the European Council reviewed progress on the basis of the Lisbon strategy, confirmed the commitment to encouraging innovation and called for research activities which has made a significant stimulation of research and development and innovation activities in the EU.¹⁸ In conclusion, the Council has expanded the requirements for the expenditure dedicated to exploring the formulation and development (goal is for 2010, reach about 3% of GDP, with 2 / 3 of investment should come from the private sector). Furthermore, EU sent a call for strengthening research business research and development through an integrated strategy that covers the increase in competition, better access to capital for more risky ventures, as well as better protection of intellectual property rights and dissemination of technology. The statement of the Commission on innovation policy in 2003, was also an extension based on the conclusions of the Lisbon strategy. The statement calls for a wider definition of the concept of innovation, with the aim that the policy does not omit the less obvious or less well-known forms of innovation activities. It is also required interaction of innovation policy with other policy areas, eg industrial policy, which should increase the success of the innovation policy. The key factor for industrial competitiveness is actually stated in the 'Industrial policy of innovation in the enlarged Europe' and is highlighted together with the knowledge and entrepreneurship.¹⁹ It was declared that the European industry must become more innovative by ongoing installation, training and improving their products, processes and services. It is emphasized that the entrepreneurs need to develop innovations. And therefore Green Paper on entrepreneurship innovation is considered to be one of the key challenges.

7. The Macedonian Economy- Knowledge-Based Sustainability

The current Macedonian economy functions on the basis of a still unfavourable economic structure with the given natural and financial resources, technology and the human capital. All of these resources are relatively weak. A part of the limitations results from the weak natural, technological and financial basis. Macedonia with its population of 2.5 million and the gross domestic product of about USD 9.2 billion is not a country of a significant market or major economic potential at the global or European level.

¹⁷ Council of European Union, 2002

¹⁸ European Commission, 2003

¹⁹ European Commission, 2003, 2004

In terms of WEF GCI, Macedonia is at 82.1% of EU27 average in 2008-09 (see table 1). Compared to EU27, Macedonia is the best in 'basic requirements' (84.6%) and somehow less successful in terms of 'efficiency enhancers' (76.2%) and 'innovation and sophistication factors' (73.1%). Thus, the more we go from basic requirements to more sophisticated factors of competitiveness, the more country lags behind the EU27. The lag is the most considerable in terms of infrastructure (61.3%), market size (61.7%), technological readiness (63.0%), innovation (72.8%), business sophistication (73.0%), institutions (75.5%) and higher education and training (76.6%). Apart from market size, where one cannot do much about it, all other areas request a lot of investment, human resource development and well defined and implemented policies.²⁰

Table 1. Selected indicators of Macedonia' competitiveness as compared to EU 27 average

Table 2: Selected indicators of Macedonia's competitiveness as compared to EU27 average

	Macedonia's score; current year	Index: current/previous year	EU27=100
GDP per capita in PPS			
GDP per capita in PPS 2007, USD	8829	111.4	29.9
A. WEF – Global Competitiveness Index (GCI) – 2008-2009			
GCI – Overall	3,9	105,4	82,1
Basic requirements	4,4	104,8	84,6
1 st pillar: Institutions	3,6	109,1	75,5
2 nd pillar: Infrastructure	2,9	100,0	61,3
3 rd pillar: Macroeconomic stability	5,5	110,0	104,9
4 th pillar: Health and primary education	5,7	100,0	93,8
Efficiency enhancers	3,6	105,9	76,2
5 th pillar: Higher education and training	3,8	100,0	76,6
6 th pillar: Goods market efficiency	3,9	102,6	81,4
7 th pillar: Labor market efficiency	3,9	100,0	87,0
8 th pillar: Financial market sophistication	4	100,0	80,4
9 th pillar: Technological readiness	3	107,1	63,0
10 th pillar: Market size	2,7	108,0	61,7
Innovation and sophistication factors	3,2	103,2	73,1
11 th pillar: Business sophistication	3,5	106,1	73,0
12 th pillar: Innovation	2,9	100,0	72,8

WEF – Global Competitiveness Index (GCI)

Source: World Economic Forum (WEF): The Global Competitiveness Report; annual editions.- Scores rank for 1 = the lowest possible to 7 = the highest possible. The higher the score, the better for comparison with EU27, average score for EU27 countries is calculated

Comparison of Macedonia with EU countries in fact reveals the main weaknesses/lags of the country as far as the factors of competitiveness are concerned:²¹

- Low expenditures for RandD, low innovation and RandD activity, low level of technological readiness and high tech exports, low level of business sophistication;
- Deficiencies of infrastructure, network industries, including low level of ICT and information society;
- Non-sufficient and inadequate higher education and training, low proportion of science/technology graduates;

What kind of economy does Macedonia need?

The issue of the development of the national economy today, at the beginning of the 21st century, has gone far beyond the theoretical considerations prevailing during the second half of the

²⁰ World Economic Forum (WEF): The Global Competitiveness Report, 2008/09

²¹ Ministry of Economy of Republic of Macedonia, Industrial Policy of RM, 2009 – 2020, Final Draft June 2009

preceding century. Namely, the earlier concept of development theories based on natural limitations and potentials of achieving high growth rates over a long period of time, at the beginning of the last decade of the preceding century there appeared the currently prevailing concept of development – the concept of sustainable development. The theoretical basis for the concept of sustainable development comes from the change towards the development concept based on a new theory of growth, with materialized knowledge and a complex of scientific technological development in the centre of the impetus of modern development. Instead of the old concept of natural comparative advantages, the modern understanding of development is dominated by used comparative advantages; instead of natural resources as the decisive factor determining the speed of growth and the development of national economy, the focus is on the speed of creating innovations and the ability of an economy to translate the acquired theoretical knowledge into inventions and new technologies. The old notion of wealth was measured in physical terms and by financial capital, whereas today the key indicator of national wealth is the ability to generate new knowledge, ideas, innovations and technologies, which is to say to create and use the human capital.

In general terms, sustainable economic development should enable for Macedonia a continued long-term economic growth which would not be based on excessive use of natural resources nor on unacceptable environmental impacts which would question its sustainability, and which would not compromise the economic prospects of future generations. Specifically, this means that the development of the Macedonian economy in the direction of sustainability may be seen only through generating economic growth based primarily on factors such as knowledge, information, human capital, education and quality of links between the people and the institutions.

Macedonia today is not in a position to choose whether it wants to join the world of globalized economies and new technologies and to continue with the initiated market and political reforms. Macedonia has already decided that it is dedicated to EU membership, with all the economic-legal, political, administrative and environmental implications of such a choice. Macedonia, however, can and should choose, and carefully set the strategic coordinates of its economic, technological, and social-cultural development, adjusted to the currently prevailing situation and to the needs of future generations. Since global changes in the structure of factors of production indicate an increasing dominance and superiority of the so-called non-material factors of economic growth, such as knowledge, information, organization, culture, education, the legal system, Macedonia has no other choice but to accept the strategy of relying on the development of human capital. It is this that, in the experience of the economically-technologically most developed countries, brings the greatest yield of added value by unit of input invested. Therefore the choice of Macedonia today is to opt for a knowledge-based economy which will dominate its economic activity in the future. Macedonia needs a broad use of knowledge in all aspects of life. This knowledge should come primarily from the market economy, meaning financing from private funds and especially from the competitive service sector, but it also needs the incentives of the state.

7.1. Education for sustainable development

Knowledge, which is the basis of economy and society, is generated by people who through their education are made capable of creative and critical thinking, resolving problems and cooperating and who will be capable of creating a new economy, a stable social system and sustainable development. In case of Macedonia, a new economic system and a modern structure of economic factors require educated people who learn fast and adjust their capacities in line with the technological progress and global development trends.

Unfortunately, the education policy of Macedonia is not sufficiently focused on creating human resources. The education system is not efficient enough, does not cover all children and young people and does not generate sufficiently good performance at any level. Achievements of primary education measured either through linguistic, mathematical or scientific literacy is far below the European average. Development of education and training system is a paramount for economic growth, more jobs and knowledge-based economy with well functioning knowledge triangle (education-research -innovation) as key means to creating the demand for and capacity to sustain social change. Therefore, education should become one of the key priorities of the Government as the essential driving force for other sector reforms and for the transformation of Macedonian society in the years ahead.²²

As a candidate-country, the Republic of Macedonia is called to expand and improve investment in human capital and adapt education and training systems in accordance with the new competence requirements. EC pre-accession assistance to the Republic of Macedonia is aiming to support the country's efforts to comply with the Copenhagen criteria and attain the main objectives of the Lisbon Strategy. As defined by the EC with the Multi-Annual Indicative Planning Document 2007-2009 (MIPD), the 'activities of the country related to education and training should aim at modernizing education and training systems, provide access to education for ethnic communities and develop adult education'. Modernization of the Macedonian universities, through their interlinked roles of education, research and innovation is a core condition for successful shift towards knowledge based society.²³

The National Program for Development of Education 2005-2015²⁴ indicates that only 88.47% of the generation 1997/98 completed primary education on time. NPDE also recognizes that only 69.03% of the generation (1997/8) which started their primary education 12 years ago, completed secondary education. Vertical mobility is alarming, with the biggest dropout of 16.65% being documented at the threshold point from primary to secondary education. The annual % of early drop-outs in primary education is 1.71 %²⁵ and almost double in secondary education with 2.84%. These adverse trends result in 32.2% of early school leavers (most of them women) in Macedonia in 2002. The comparable data show that Macedonia stands below the EU-27 average of 14.8% and much below the average of all countries from the SEE region: Bulgaria with 16.6% and Slovenia with 4.3% of early school leavers ESL in 2007 (EU Member States) as well as from Croatia (EU Accession country) with 3.9%. Slovenia and Croatia are at the same time the best performing countries on ESL benchmark in Europe.²⁶

In terms of measuring progress of Macedonia towards meeting the EU education benchmarks and EU27 average, Macedonia has alarmingly low pre-school enrolment rate with serious barriers for expanding pre-school coverage; very high early school leaving (ESL) rates with poor vertical and horizontal transition from one to another education subsystem and ill competence- based curricula reform; disturbingly high percentage of low achievers in reading and low percentage of people with

²² Pecakovska, S& Lazarevska,S., Long Way to Knowledge Based Society, Macedonian Education in the Light of the EC Foundation Open Society Macedonia, 2009;

²³ European Commission (2006), Multi-annual Indicative Planning Document 2007-2009 (MIPD) The Former Yugoslav Republic of Macedonia, p.3, 4 September 2006.

²⁴ Ministry of Education and Science of the Republic of Macedonia (2006), *Nacionalna programa za razvoj 2015* (National Program for Development of Education 2005- 2015) <http://www.npro.edu.mk/dokumenti/strategija-mk.pdf>

²⁵ See also NPDE 2006, p.37

²⁶ See NPDE 2006, p.105

upper secondary education; insufficient tertiary education participation rate with low, but increasing number of math, science and technology graduates and very low level of participation of adults in continuous education and training. These attributes suggest continuously poor performance of Macedonian education and training system in the process of accession. They are clear signals that the increasing investments in education are not efficient and spent effectively, thus do not bring about the desired effects for improving quality of education and availability of educational opportunities in the context of lifelong learning;²⁷

In Macedonia's transition period, numerous economic, social and security aspects have overshadowed the strategic role of education. To overcome this situation, some reforms were initiated within the general policy aimed at faster adjustment of the education system to the European standards and at achievement of various education goals. The WEF Report results and the comparison with education systems of other countries in the region and in the EU indicate insufficient communication between the various degrees in the education system and insufficient communication and cooperation approach to education that would elevate the level of importance of this factor in the efforts towards improved competitiveness. In addition, human resources skills, on-the-job training and professional upgrading in Macedonia compares poorly with the region and EU. Macedonia also ranks lower in this index even in comparison with the majority of the countries undergoing transition. More precisely, in the group of South East Europe (SEE) economies undergoing transition, Macedonia ranks higher only than Bosnia and Herzegovina and Albania, but lower than Serbia and Montenegro and much lower than Bulgaria and Croatia in 2009/10 (see table 2). However, in terms of SEE average, the difference is small as shown in the figure 1 down. This is due to the inadequacy of the education and training systems, as well as to the employees' outdated knowledge and skills. All this means that Macedonia does not have adequate human resources able to create and absorb the innovations required for new technological development. The most important role in turning these obstacles into new possibilities of development is to be played by reforms in the education system and by the implementation of the already adopted.

²⁷ Pecakovska, S& Lazarevska,S., Long Way to Knowledge Based Society, Macedonian Education in the Light of the EC Foundation Open Society Macedonia, 2009

Table 2. Global Competitiveness Index-ranking SEE and CEE countries according to performance in education and innovation

Country	Overall ranking		Higher education and training ranking		Innovation ranking	
	2007-08	2009-10	2007-08	2009-10	2007-08	2009-10
Albania	109	96	103	90	131	126
Bosnia and Herzegovina	106	109	98	86	121	131
Croatia	57	72	46	56	50	61
Macedonia, FYR	94	84	75	70	92	92
Montenegro	82	62	79	57	104	56
Serbia	91	93	82	76	78	80
<hr/>						
Bulgaria	79	76	66	60	88	91
Romania	74	64	54	52	76	70
Slovenia	39	37	24	19	30	29

Source: The Global Competitiveness Report 2009-2010, and 2007-2008, World Economic Forum

Note: Global Competitiveness Report 2007-2008 is based on survey and data of 131 countries, while for 2009-2010, N=133.

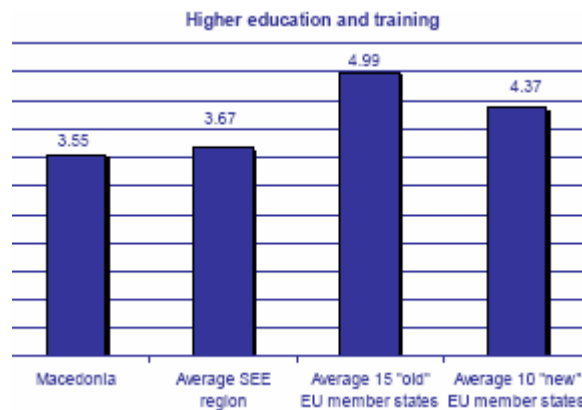


Figure 1

Also, the existing organization of curricula and the way the educational process is placed on provides only passive knowledge and teaching that does not allow Macedonia to acquire highly technical, technological and social knowledge, expertise and skills required in a competitive economy. There is a huge number of compulsory subjects, and a sufficient number of elective as well. Also there is a serious lack of flexibility and low level of local influence on the development of curricula. The similar is the problem with primary and secondary education, because there is a lack of differentiation. Instructional programs are designed to make the young population to continue their education in high school, and not to continue their education in the craft expert and schools.

Teaching programs are inadequate. Therefore, for the most capable and motivated students, most of the subjects are too easy, and for those less capable and less motivated quite difficult.

An important part of the competitiveness of national economies is actually the level of knowledge and expertise of workers. Macedonia does not have the necessary workforce skills and abilities that must have one modern competitive economy and the education and training systems have not implemented yet the necessary measures to reduce the inefficiencies. Macedonian workforce must be redirected to the industry and business knowledge-based economic growth and to stimulate innovation, and employees should be able to quickly change jobs, manage them and work environment and to participate in life learning process. Students and employees need to learn to work together, building team spirit, proper social behaviour and personal development while allowing inclinations and talents.

Number of people who graduated in the last decade increased with 4404 in 2003 year to almost 7835 in 2007 year. The largest increase in the number of graduates was recorded in economic and social sciences. However, still there is a great lack of competent managers, macroeconomists, financial analysts, modern, educated leaders and entrepreneurs, experts on international commodity and financial market, experts on public administration, specialized lawyers for work and social law, tax system, international law. The reason for these problems is probably the lack (or weak) connectivity between the market demand and content of educational programs.²⁸ In the category of quality and quantity of education, domestic business leaders believe that Macedonia lags most in the quality of managerial education. Both indexes relating to on-the-job training are low, which is due to the absence of world renowned research and training institutions as well as to the low level of private companies' investments in training. Then, Macedonian educational system slowly moves from a system with classical discipline and teaching methods to a system that meets the needs of democracy with a globally integrated free market. The new system should include the concepts like problem solving skills, creativity, communication skills and flexibility. The relevant Macedonian educational institutions must perform specific analysis and implement many changes to their educational system.

Economic development requires education that produces creative individuals ready for 'life-long learning processes.' This workforce would be the bearer of changes aimed at future development of a knowledge-based economy. In this context recommendations include:

1. Adequate regulations on life-long education are required for on-the-job training and professional skills and capabilities improvement;

2. A process to develop education programs that will provide a workforce to meet the needs of the businesses. This would mean private schools in secondary and tertiary education, increased number of students, resulting in an increased offer of workforce in the area of information processing and technology transfers. This workforce is of particular importance in the establishment of technology-based companies, i.e. for the structural shift to areas essential to the future development of a knowledge-based economy.

To achieve all this it is necessary to implement the European credit-transfer system of adjusted education, develop pro-active curricula and high-quality teaching staff with international experience, scholarships, students' benefits that will raise their standard etc.

3. Introducing farmers and cattle-breeders to new technologies and international standards through training and counseling.

²⁸ State Statistical Office, 2007. Annual report

4. The idea of life-long education should be promoted through public campaigns directed at business and aimed at raising the companies' awareness of the need and importance of permanent training in acquiring and upgrading of labor skills and knowledge.

7.2. Innovation and RandD

Low RandD and innovation has been mentioned by WEF sources as one of the weak points of Macedonian competitiveness. Indeed, hard data confirm that this is definitely one of the main shortcomings of the Macedonian economy. In terms of gross domestic expenditure on RandD as a share of GDP, in 2006 Macedonia was only at 10.9% of EU27 average with decrease from the previous year. In terms of business enterprise RandD expenditure as a share of GDP it is even lower, i.e. at 2.6%. It is therefore not surprising that Macedonia's share of high tech exports in total exports is only at 4.7% of EU27 average. The country is somewhat better, but still very low, in terms of science and technology graduates (33.1%) and total ICT expenditure as a share of GDP (31.0%).²⁹

Due to this, it is not surprising that the low expenditure for RandD (in accordance to the SEF index of the Lisbon Review 2008, Republic of Macedonia is at 66.5% of the EU 27 average, as far as the sub-index for innovation and research and development is concerned), low level of technological preparation (where, according to SEF GIK, Republic of Macedonia is at a level of 63.0% of the EU 27 average in 2008-2009) and the export of high technology, low level of business sophistication (where according to SEF GIK, Republic of Macedonia is at a level of 73.0% of the EU27 average in 2008-2009) are considered the main deficiencies of Macedonian competitiveness shown in different international competitiveness indicators. In the field of applied RandD and innovations, Macedonian industry has weaknesses from the aspect of technical understanding, low technological absorption power, lack of oportunities in this field, as well as insufficient cooperation and connection among the key actors in innovation and RandD (industry, universities and other education/scientific institutions) that lack mutual confidence and capital.³⁰

To sum up, overview of the most relevant regularly available international analyses of country competitiveness (presented in Table 2) suggests that Macedonia has Macedonia ranks higher only than Bosnia and Herzegovina and Albania, but lower than Serbia and Montenegro and much lower than Bulgaria and Croatia in 2009/10.

In Macedonia's transition period, institutionalized research and development has been significantly decreased due to declining share of public sector expenditure for research and development in GDP because of the lack of technological improvement in businesses. Funding research and development of the industry varied from region to region, while the intensity of co-operation was given by the industrial structure of the country. Non-industrialization was quite sudden, while there was the increased share of services in the economic structure, crossing the average growth of industrial activities. In general, partial loss of government funds, with weak demand caused the neglect of modernization and restructuring of research and development.

In order to overcome this unfavourable condition, future economic development of the Republic of Macedonia will have to be based increasingly on organized RandD activities which should generate continued technological development in the form of improving the existing and

²⁹ WEF – Global Competitiveness Index (GCI), 2008/09. R&D, Innovation and technology related indicators Source: (i) Eurostat for EU27, (ii) Macedonian statistical data for Macedonia.

³⁰ Ministry of Economy of Republic of Macedonia. 2009. Industrial Policy of RM, 2009 – 2020, Final Draft June

creating new technologies, but also new products, processes and services. In contrast with most developed countries which can develop fundamental, applied and development research, Macedonia has to focus its RandD activities to a greater extent on applied research and development activity. Progress in this field is not possible without improving and reforming the overall RandD system. Macedonia has inherited a highly centralized, bureaucratic system of financing of scientific research units, not according to their scientific-research efficiency and results on the market, but according to social and other criteria. The Macedonian economy oriented towards a knowledge-based economy will have to change completely its attitude towards scientific-research and development work. The emphasis is put on the need of providing infrastructure for support of activities for RandD and innovation, access to specialised research capacities, cooperation among the industry and science, adequacy of business environment for stimulating activities for RandD by the Government and support of innovation activities and technological development with legal framework.

8. Conclusion

To make use of the advantages of the concept of knowledge-based economy at the national level, it is not sufficient to achieve the effects of market valuation of new production factors and have spontaneous restructuring of the economy in the direction of greater domination of the sector with greatest share of knowledge. To achieve this concept, based on the experiences of the most highly developed world economies, Macedonia should stress its economic policy on the following most significant factors:

Modern education and continued learning. To achieve this, it is needed:

- Initiating a process that focuses on building a workforce that is educated and trained to meet the needs of Macedonia's businesses, in other words, integration of education with business needs.
- Implementing in full the European credit-transfer system of adjusted higher education; developing proactive curricula; and providing high-quality teachers with international experience and scholarships that contribute to a higher standard for students.
- Promoting the idea of life-long education through public campaigns directed at business and aimed at raising the companies' awareness of the need and importance of permanent training in acquiring and upgrading of labor skills and knowledge.
- Enacting regulations that are needed for life-long education that promotes on-the-job training and upgrading professional skills and capabilities.

Sustainability of innovation policy. In this context recommendations include:

- Implementing the principles of the Republic of Macedonia Technology Development Policy that are market oriented and focused on firms' innovativeness;
- Creating conditions for promotion of research and development as the superior generator and instigator of innovation and technology;
- Strengthening the institutional infrastructure for development of and support to a business environment favoring innovation, providing tax incentives and other benefits to investors that apply new technology and innovation.
- Supporting transfers of technology and setting up 'learning companies';
- Establishing an annual national innovations award for companies or individuals;

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

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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-how, 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.

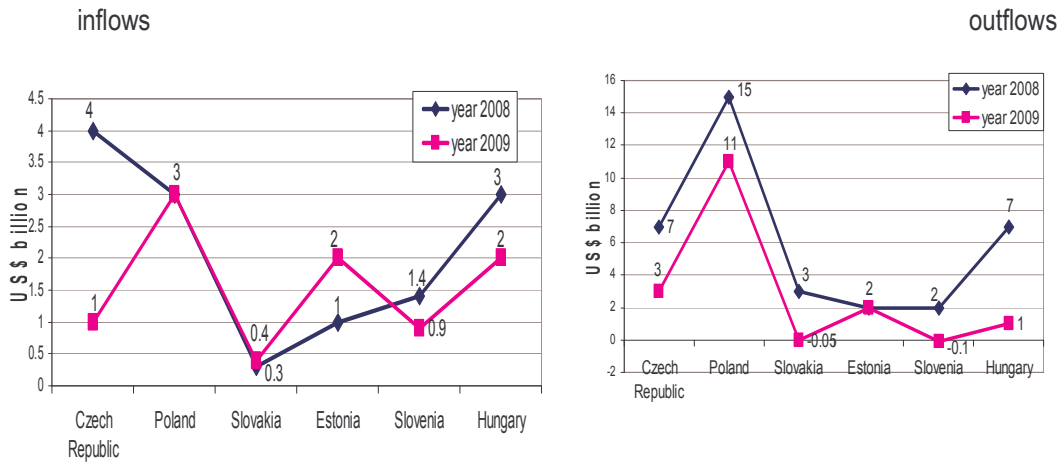


Figure 1. FDI inflows and outflows, 2008-2009 (US\$ billion)
 Source: data offered by OECD

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:

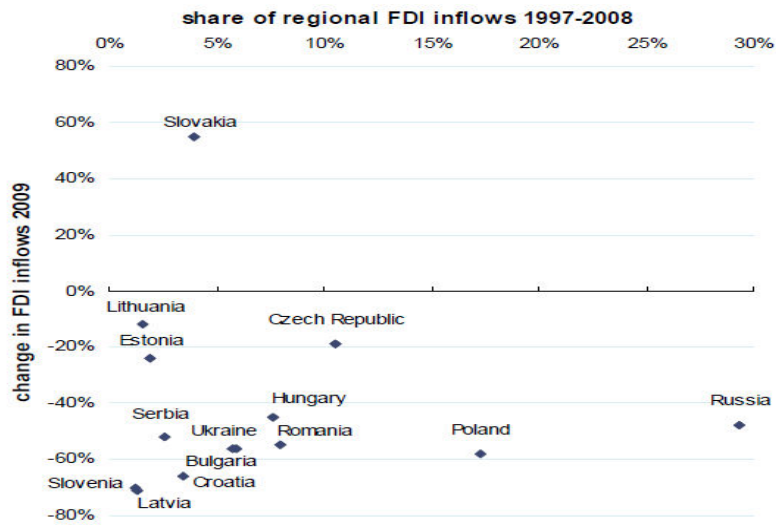


Figure 2. FDI by country
 Source: UNCTAD

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).

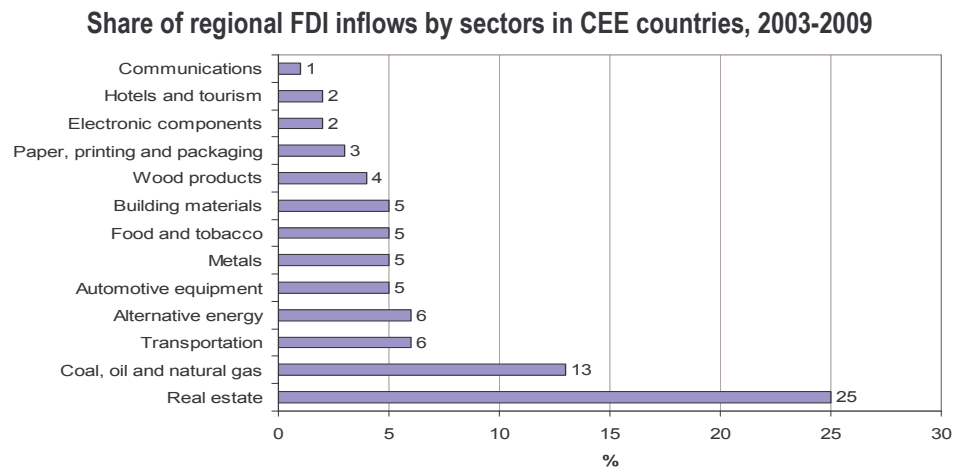


Figure 3. Share of regional FDI inflows by sectors in CEE countries, 2003-2009
 Source: data offered by OECD

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.

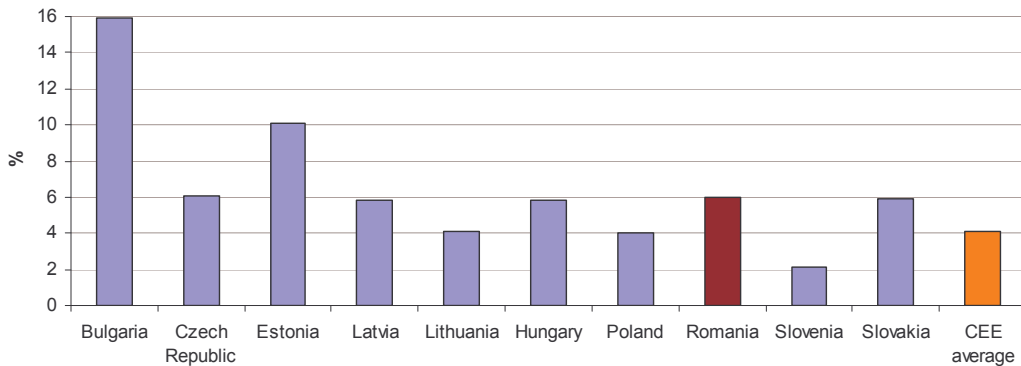


Figure 4. Average level of FDI as a share in GDP in CEE countries (1997-2008)
 Source: data offered by OECD

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).

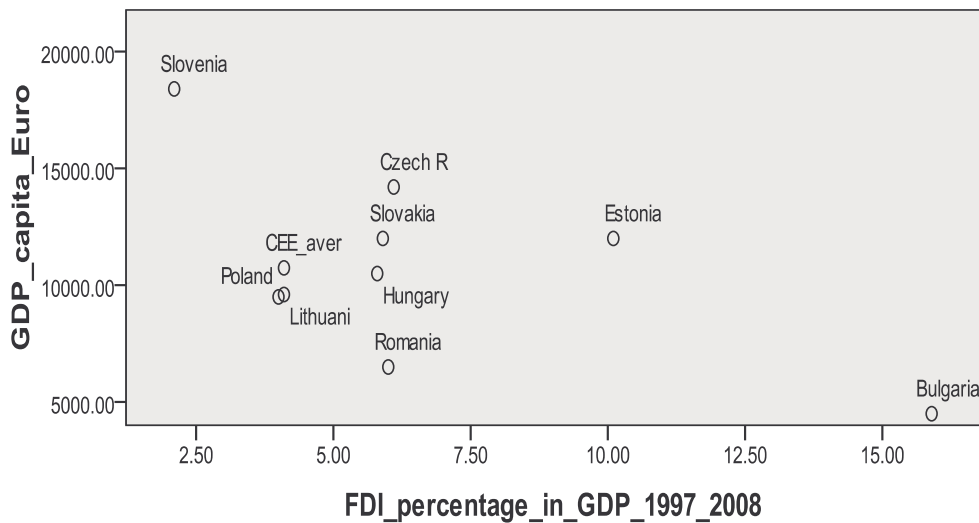


Figure 5. Principal components analysis
 Source: own calculations, based on Eurostat data

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).

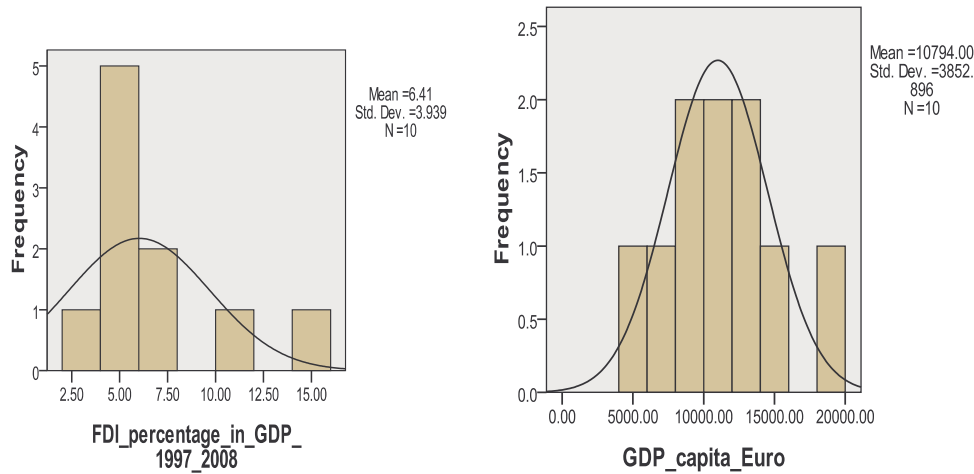


Figure 6. The histograms

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.

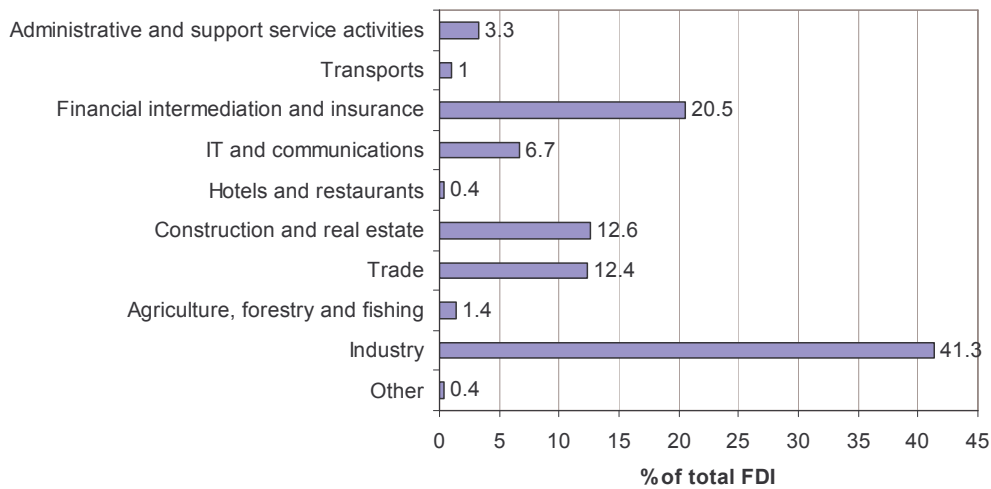


Figure 7. Distribution of FDI stock by main economic activity (EUR million) – end of 2009 year

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.

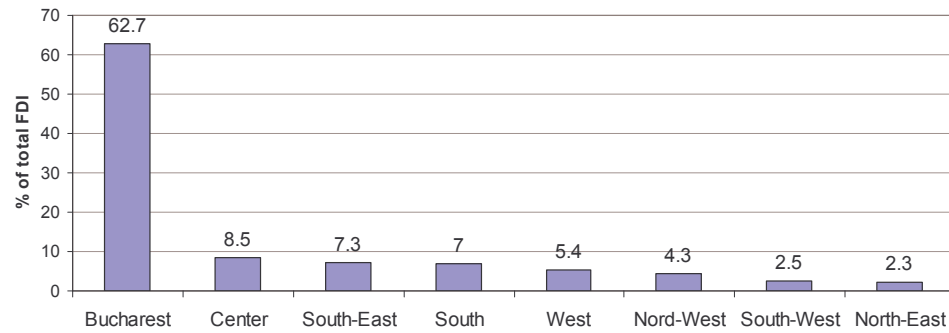


Figure 8. FDI distribution by development regions – end of 2009 year
Source: data offered by The National Bank of Romania and The National Institute of Statistics

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.

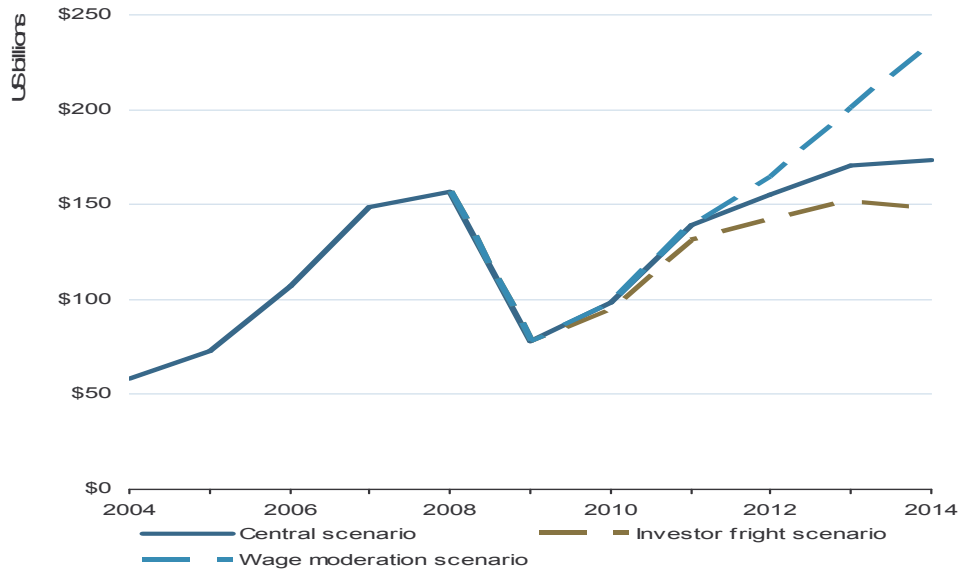


Figure 9. FDI inflows and projections

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:

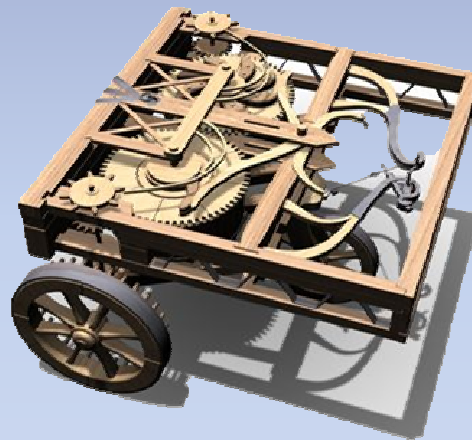
1. In 2009 year, the recession was not uniform across the CEE region: Estonia, Latvia and Lithuania have had experienced double-digit rates of contraction in economic output; Bulgaria, Czech Republic had know a decline of less than 5% of FDI output;
2. In the context of economic crisis, in Romania, the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